Auditor's Report on Naturgy Energy Group, S.A. and subsidiaries

(Together with the consolidated annual accounts and consolidated directors' report of Naturgy Energy Group, S.A. and subsidiaries for the year ended 31 December 2021)

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

KPMG Auditores, S.L.
Paseo de la Castellana, 259C
28046 Madrid

Independent Auditor's Report on the Consolidated Annual Accounts

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

To the shareholders of Naturgy Energy Group, S.A.:

REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

Opinion

We have audited the consolidated annual accounts of Naturgy Energy Group, S.A. (the "Parent") and subsidiaries (together the "Group"), which comprise the consolidated balance sheet at 31 December 2021, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and consolidated notes.

In our opinion, the accompanying consolidated annual accounts give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of the Group at 31 December 2021 and of its consolidated financial performance and its consolidated cash flows for the period then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for Opinion

We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Annual Accounts* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those regarding independence, that are relevant to our audit of the consolidated annual accounts pursuant to the legislation regulating the audit of accounts in Spain. We have not provided any non-audit services, nor have any situations or circumstances arisen which, under the aforementioned regulations, have affected the required independence such that this has been compromised.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the consolidated annual accounts of the current period. These matters were addressed in the context of our audit of the consolidated annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition: Supplied energy not yet billed

See notes 2.4.23, 2.4.25 and 10 to the consolidated annual accounts

Key audit matter	*How the matter was addressed in our audit*
The Group's businesses that carry out electricity supply activities must make estimates of unbilled supplies to end customers in the period between the last meter reading and the end of the fiscal year. At 31 December 2021, estimated electricity supplied and not billed amounts to Euros 1,785 million. Unbilled electricity supplied is estimated based on internal and external information that is compared with the measurements contained in the management systems used by the businesses. Revenue is calculated by multiplying the volume of estimated unbilled use by the tariff agreed for each customer, a process that is subject to a high degree of uncertainty. Determining unbilled energy supplied requires the use of estimates by Group management with the application of criteria, judgements and assumptions in its calculations, so the recognition of revenue from unbilled energy supplied has been considered a key audit matter.	Our audit procedures included the following: - Analysing the design and implementation and operating effectiveness of the key controls related to the calculation of the unbilled energy supplied. - Evaluating the reasonableness of the calculation model used by comparing the estimates made at the close of the previous period and actual invoicing data (retrospective analysis); - Assessing the reasonableness of the volume of unbilled electricity through an analysis of historical information and other available internal and external data. - Evaluating a selected sample of the tariffs applied by comparing them with the data contained in the customer contract databases. We also assessed whether the disclosures in the consolidated annual accounts meet the requirements of the financial reporting framework applicable to the Group.

Recoverability of non-current assets See notes 2.4.25 and 4 to the consolidated annual accounts	
Key audit matter	*How the matter was addressed in our audit*
At 31 December 2021 the Group has recognised intangible assets, including goodwill, and property, plant and equipment for amounts of Euros 5,734 million and Euros 16,587 million, respectively, allocated to the cash-generating units (CGUs) detailed in note 4 to the accompanying consolidated annual accounts. IFRS-EU determine the need to carry out an analysis of the recoverable amounts of assets in those cases in which indications of impairment were identified. Goodwill and intangible assets with indefinite useful lives are not amortised, but are instead tested for impairment at least on an annual basis. The calculation of the recoverable amount of non-current assets indicated in the preceding paragraphs is determined through the use of methodologies based on discounted cash flows, the estimation of which requires the use of a high degree of judgement by management and the use of assumptions and estimates. Due to the judgement required, uncertainty associated with these estimates and the significance of the value of non-current assets, this has been considered a key audit matter.	Our audit procedures included the following: - Evaluating the design and implementation of key controls related to process of estimating the recoverable amount. - Assessing the appropriateness of the composition of the CGUs based on our understanding of management of the business. - Analysing the reasonableness and consistency of the assumptions and cash flows included in the valuation models with those included in the business plans approved by the governing bodies. - Evaluating the reasonableness of the methodology used to calculate value in use and the main assumptions considered, with the involvement of our valuation specialists. - Comparing the cash flow forecasts estimated in prior years with the actual cash flows obtained. - Evaluating the sensitivity of the recoverable amount to changes in certain assumptions that can be considered reasonable. We also assessed whether the disclosures in the consolidated annual accounts meet the requirements of the financial reporting framework applicable to the Group.

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

<table>
<tr><th colspan="2">Commitments for the purchase of natural gas and liquified natural gas for own use
See notes 2.4.8 and 36 to the consolidated annual accounts</th></tr>
<tr><td>Key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>At 31 December 2021 the Group has long-term contractual commitments for the purchase of natural gas and liquified natural gas amounting to Euros 64,710 million. These contracts are signed and held to meet the Group's expected need for receiving or delivering gas in accordance with periodical purchase and sale estimates. Consequently, the Group classifies these contracts as for "own use" and they are therefore excluded from the scope of IFRS 9 Financial Instruments.

The assessment of the long-term gas supply contracts to determine whether they are classified as for "own use" requires management to exercise judgement regarding the estimated short-, mid- and long-term demand and supply of gas and compliance with the clauses included in the contracts. For this reason, this has been considered a key audit matter.</td><td>Our audit procedures included the following:
- Evaluating the design and implementation of the key controls linked to the process of assessing the requirements for classifying these contracts as for "own use";
- Reading and analysing a significant sample of natural gas and liquified natural gas supply contracts signed by the Group.
- Analysing whether these supply contracts meet the definition of "own use" stipulated in the applicable financial reporting framework based on an analysis of the conditions set out therein, the quantities acquired during the year, minimum contract quantities and the Group's gas sale forecasts.

We also assessed whether the disclosures in the consolidated annual accounts meet the requirements of the financial reporting framework applicable to the Group.</td></tr>
</table>

Other Information: Consolidated Directors' Report

Other information solely comprises the 2021 consolidated directors' report, the preparation of which is the responsibility of the Parent's Directors and which does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not encompass the consolidated directors' report. Our responsibility regarding the information contained in the consolidated directors' report is defined in the legislation regulating the audit of accounts, as follows:

a) Determine, solely, whether the consolidated non-financial information statement and certain information included in the Annual Corporate Governance Report and the Annual Report on Directors' Remuneration, as specified in the Spanish Audit Law, have been provided in the manner stipulated in the applicable legislation, and if not, to report on this matter.

b) Assess and report on the consistency of the rest of the information included in the consolidated directors' report with the consolidated annual accounts, based on knowledge of the Group obtained during the audit of the aforementioned consolidated annual accounts. Also, assess and report on whether the content and presentation of this part of the consolidated directors' report are in accordance with applicable legislation. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report them.

Based on the work carried out, as described above, we have observed that the information mentioned in section a) above has been provided in the manner stipulated in the applicable legislation, that the rest of the information contained in the consolidated directors' report is consistent with that disclosed in the consolidated annual accounts for 2021, and that the content and presentation of the report are in accordance with applicable legislation.

Directors' and Audit and Control Committee's Responsibilities for the Consolidated Annual Accounts

The Parent's Directors are responsible for the preparation of the accompanying consolidated annual accounts in such a way that they give a true and fair view of the consolidated equity, consolidated financial position and consolidated financial performance of the Group in accordance with IFRS-EU and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual accounts, the Parent's Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Parent's Audit and Control Committee is responsible for overseeing the preparation and presentation of the consolidated annual accounts.

Auditor's Responsibilities for the Audit of the Consolidated Annual Accounts

Our objectives are to obtain reasonable assurance about whether the consolidated annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing legislation regulating the audit of accounts in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated annual accounts.

As part of an audit in accordance with prevailing legislation regulating the audit of accounts in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's Directors.

– Conclude on the appropriateness of the Parent's Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves a true and fair view.

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Control Committee of the Parent regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Parent's Audit and Control Committee with a statement that we have complied with the applicable ethical requirements, including those regarding independence, and to communicate with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Audit and Control Committee of the Parent, we determine those that were of most significance in the audit of the consolidated annual accounts of the current period and which are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

European Single Electronic Format

We have examined the digital files of Naturgy Energy Group, S.A. and its subsidiaries for 2021 in European Single Electronic Format (ESEF), which comprise the XHTML file that includes the consolidated annual accounts for the aforementioned year and the XBRL files tagged by the Company, which will form part of the annual financial report.

The Directors of Naturgy Energy Group, S.A. are responsible for the presentation of the 2021 annual financial report in accordance with the format and mark-up requirements stipulated in Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 (hereinafter the "ESEF Regulation").

Our responsibility consists of examining the digital files prepared by the Directors of the Parent, in accordance with prevailing legislation regulating the audit of accounts in Spain. This legislation requires that we plan and perform our audit procedures to determine whether the content of the consolidated annual accounts included in the aforementioned digital files fully corresponds to the consolidated annual accounts we have audited, and whether the consolidated annual accounts and the aforementioned files have been formatted and marked up, in all material respects, in accordance with the requirements of the ESEF Regulation.

In our opinion, the digital files examined fully correspond to the audited consolidated annual accounts, and these are presented and marked up, in all material respects, in accordance with the requirements of the ESEF Regulation.

Additional Report to the Audit and Control Committee of the Parent

The opinion expressed in this report is consistent with our additional report to the Parent's Audit and Control Committee dated 3 February 2022.

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Contract Period

We were appointed as auditor of the Group by the shareholders at the ordinary general meeting on 9 March 2021 for a period of three years, from the year ended 31 December 2021.

KPMG Auditores, S.L.
On the Spanish Official Register of
Auditors ("ROAC") with No. S0702

(Signed on original in Spanish)

Eduardo González Fernández
On the Spanish Official Register of Auditors ("ROAC") with No. 20,435

3 February 2022

Annual Consolidated Financial Report **2021**

Naturgy

CONSOLIDATED ANNUAL ACCOUNTS

Consolidated Balance Sheet
Consolidated Income Statement
Consolidates Statement of Comprehensive Income
Statement of Changes in Consolidated Equity
Consolidated cash flow statement
Notes to the consolidated annual accounts

This 2021 Annual Report is a translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish language version prevails.

Naturgy
Consolidated Balance Sheet (million euro)

	Note	31.12.2021	31.12.2020
ASSETS			
Intangible assets	5	5,734	5,575
Goodwill		2,950	2,892
Other intangible assets		2,784	2,683
Property, plant and equipment	6	16,587	16,128
Right-of-use assets	7	1,229	1,388
Investments recorded using the equity method	8	630	813
Non-current financial assets	9	394	361
Other non-current assets	10	416	691
Derivatives		126	352
Other assets		290	339
Deferred tax assets	21	2,267	1,635
NON-CURRENT ASSETS		**27,257**	**26,591**
Non-current assets held for sale	11	40	4,835
Inventories	12	878	519
Trade and other receivables	10	5,714	3,115
Trade receivables for sales and services		4,780	2,688
Other receivables		339	296
Derivatives		454	94
Current tax assets		141	37
Other current financial assets	9	395	558
Cash and cash equivalents	13	3,965	3,927
CURRENT ASSETS		**10,992**	**12,954**
TOTAL ASSETS		**38,249**	**39,545**
EQUITY AND LIABILITIES			
Capital		970	970
Share premium		3,808	3,808
Treasury shares		(204)	(201)
Reserves		4,757	6,480
Profit for the period attributed to the parent company		1,214	(347)
Interim dividend		(679)	(785)
Other equity items		(3,977)	(1,897)
Equity attributed to the parent company		**5,889**	**8,028**
Non-controlling interests		**2,984**	**3,237**
EQUITY	**14**	**8,873**	**11,265**
Deferred income	15	889	871
Non-current provisions	16	1,146	1,052
Non-current financial liabilities	17	15,114	14,968
Borrowings		13,786	13,641
Lease liabilities		1,325	1,325
Other financial liabilities		3	2
Deferred tax liabilities	21	1,787	1,793
Other non-current liabilities	19	1,118	346
Derivatives		730	47
Other liabilities		388	299
NON-CURRENT LIABILITIES		**20,054**	**19,030**
Liabilities related to non-current assets held for sale	11	26	2,840
Current provisions	16	589	246
Current financial liabilities	17	1,698	2,571
Borrowings		1,493	2,351
Lease liabilities		196	212
Other financial liabilities		9	8
Trade and other payables	20	6,803	3,230
Trade payables		3,407	2,518
Other payables		559	462
Derivatives		2,704	68
Current tax liabilities		133	182
Other current liabilities	19	206	363
CURRENT LIABILITIES		**9,322**	**9,250**
TOTAL EQUITY AND LIABILITIES		**38,249**	**39,545**

The accompanying Notes 1 to 39 and Appendices are an integral part of the consolidated balance sheet at 31 December 2021 and 2020.

Naturgy
Consolidated Income Statement

	Note	2021	2020
		(million euro)	
Net sales	22	22,140	15,345
Procurements	23	(16,529)	(10,138)
Other operating income	24	119	162
Personnel expenses, net	25	(940)	(798)
Other operating expenses	26	(1,315)	(1,180)
Gain/(loss) on disposals of fixed assets	27	5	9
Release of fixed asset grants to income and other	15	49	49
GROSS OPERATING PROFIT		**3,529**	**3,449**
Depreciation, amortisation and impairment losses	4, 5, 6, 7, 12 & 28	(1,462)	(2,839)
Impairment due to credit losses	10	(99)	(156)
Other results	29	133	12
OPERATING PROFIT/(LOSS)		**2,101**	**466**
Financial income		200	96
Financial expenses		(598)	(622)
Variations in fair value of financial instruments		14	(4)
Net exchange differences		(10)	(8)
NET FINANCIAL INCOME /(EXPENSE)	**30**	**(394)**	**(538)**
Profit/(loss) of entities recorded by equity method	8	90	36
PROFIT/(LOSS) BEFORE TAXES		**1,797**	**(36)**
Corporate income tax	21	(358)	(19)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		**1,439**	**(55)**
Profit for the year from discontinued operations, net of taxes	11	117	24
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR		**1,556**	**(31)**
Attributable to:			
The parent company		1,214	(347)
From continuing operations		1,101	(365)
From discontinued operations		113	18
Non-controlling interests	14	342	316
Basic and diluted earnings per share in euros from continuing operations attributable to the equity holders of the parent company (Note 15)		1.14	(0.38)
Basic and diluted earnings per share in euros from discontinued operations attributable to the equity holders of the parent company (Note 15)		0.12	0.02
Basic and diluted earnings per share in euros attributable to the equity holders of the parent company (Note 15)		1.26	(0.36)

The accompanying Notes 1 to 39 and Appendices are an integral part of the consolidated income statement for the years ended 31 December 2021 and 2020.

Naturgy
Consolidated Statement of Comprehensive Income

(million euro)	Note	2021	2020
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR		**1,556**	**(31)**
OTHER COMPREHENSIVE INCOME RECOGNISED DIRECTLY IN EQUITY			
Items that will not be transferred to profit/(loss):		**128**	**2**
Financial assets at fair value through other comprehensive income	9	(17)	(3)
Actuarial gains and losses and other adjustments	16	51	6
Tax effect	21	94	(1)
Items that will subsequently be transferred to profit/(loss):		**(2,238)**	**(756)**
Cash flow hedges	18	(3,031)	(168)
Gains / (Losses) per valuation		*(4,053)*	*271*
Releases to income statement		*1,022*	*(439)*
Currency translation differences		285	(540)
Gains / (Losses) per valuation		*(50)*	*(540)*
Releases to income statement		*335*	*—*
Equity-consolidated companies	8	31	(46)
Currency translation differences - Gains / (Losses) per valuation		*22*	*(46)*
Currency translation differences - Releases to income statement		*9*	*—*
Tax effect		477	(2)
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**(2,110)**	**(754)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(554)**	**(785)**
Attributable to:			
The parent company		(827)	(987)
From continuing operations		(1,283)	(947)
From discontinued operations		456	(40)
Non-controlling interests		273	202

The accompanying Notes 1 to 39 and Appendices are an integral part of the consolidated statement of comprehensive income for the years ended 31 December 2021 and 2020.

Naturgy
Statement of Changes in Consolidated Equity

(million euro)

	Equity attributed to the parent company (Nota 14)											
	Share capital	**Share premium**	**Treasury shares**	**Reserves and retained earnings**	**Profit/ (loss) for the year**	Currency translation differences	Cash flow hedges	Financial assets at fair value	**Other equity items**	**Subtotal**	**Non-controlling interests (Note 14)**	**Equity**
Balance at 01.01.2020	**984**	**3,808**	**(321)**	**5,933**	**1,401**	**(1,111)**	**304**	**(447)**	**(1,254)**	**10,551**	**3,425**	**13,976**
Total comprehensive income for the year	—	—	—	3	(347)	(450)	(190)	(3)	(643)	**(987)**	202	**(785)**
Operations with shareholders or owners	**(14)**	**—**	**120**	**(248)**	**(1,401)**	**—**	**—**	**—**	**—**	**(1,543)**	**(340)**	**(1,883)**
Dividend distribution	—	—	—	31	(1,401)	—	—	—	—	**(1,370)**	(340)	**(1,710)**
Capital reduction	(14)	—	298	(284)	—	—	—	—	—	**—**	—	**—**
Trading in treasury shares	—	—	(178)	—	—	—	—	—	—	**(178)**	—	**(178)**
Share-based payments	—	—	—	5	—	—	—	—	—	**5**	—	**5**
Other transactions with shareholders or owners	—	—	—	—	—	—	—	—	—	**—**	—	**—**
Other changes in equity	**—**	**—**	**—**	**7**	**—**	**—**	**—**	**—**	**—**	**7**	**(50)**	**(43)**
Other changes	—	—	—	7	—	—	—	—	—	7	(50)	**(43)**
Balance at 31.12.2020	**970**	**3,808**	**(201)**	**5,695**	**(347)**	**(1,561)**	**114**	**(450)**	**(1,897)**	**8,028**	**3,237**	**11,265**
Total comprehensive income for the year	—	—	—	39	1,214	324	(2,492)	88	(2,080)	**(827)**	273	**(554)**
Operations with shareholders or owners	**—**	**—**	**(3)**	**(1,633)**	**347**	**—**	**—**	**—**	**—**	**(1,289)**	**(371)**	**(1,660)**
Dividend distribution	**—**	—	—	(1,637)	347	—	—	—	—	**(1,290)**	(371)	**(1,661)**
Capital reduction	—	—	—	—	—	—	—	—	—	**—**	—	**—**
Trading in treasury shares	—	—	(3)	—	—	—	—	—	—	**(3)**	—	**(3)**
Share-based payments	**—**	—	—	4	—	—	—	—	—	**4**	**—**	**4**
Other transactions with shareholders or owners	**—**	—	—	—	—	—	—	—	—	—	—	**—**
Other changes in equity	**—**	**—**	**—**	**(23)**	**—**	**—**	**—**	**—**	**—**	**(23)**	**(155)**	**(178)**
Other changes	—	—	—	(23)	—	—	—	—	—	(23)	(155)	**(178)**
Balance at 31.12.2021	**970**	**3,808**	**(204)**	**4,078**	**1,214**	**(1,237)**	**(2,378)**	**(362)**	**(3,977)**	**5,889**	**2,984**	**8,873**

The accompanying Notes 1 to 39 and Appendices are an integral part of the statement of changes in equity for the years ended 31 December 2021 and 2020.

Naturgy
Consolidated cash flow statement

	Note	2021	2020
		(million euro)	
Profit/(loss) before tax		**1,797**	**(36)**
Adjustments to income:	31	**1,520**	**3,345**
Depreciation, amortisation and impairment losses	4, 5, 6, 7, 12 & 28	1,462	2,839
Other adjustments to net profit	31	58	506
Changes in working capital	31	**(1,117)**	**788**
Other cash flow generated from operations:	31	**(1,199)**	**(665)**
Interest paid		(488)	(562)
Interest collected		32	27
Dividends collected		121	84
Income tax paid		(864)	(214)
CASH FLOW GENERATED FROM OPERATING ACTIVITIES (1)		**1,001**	**3,432**
Cash flows into investing activities:		**(1,056)**	**(1,553)**
Group companies, associates and business units	31	317	(4)
Property, plant and equipment and intangible assets		(1,204)	(1,474)
Other financial assets		(169)	(75)
Proceeds from divestitures:		**2,891**	**360**
Group companies, associates and business units	31	2,650	263
Property, plant and equipment and intangible assets		207	27
Other financial assets		34	70
Other cash flows from investing activities:		**61**	**51**
Other proceeds from investing activities	15	61	51
CASH FLOWS FROM INVESTING ACTIVITIES (1)		**1,896**	**(1,142)**
Receipts/(payments) on equity instruments:		**(29)**	**(171)**
Issue/ Disposal	31	—	—
Acquisition	31	(29)	(171)
Receipts and payments on financial liability instruments:		**(1,103)**	**1,633**
Issue	31	1,632	4,816
Repayment and amortisation	31	(2,735)	(3,183)
Dividends paid (and remuneration on other equity instruments)	14	**(1,707)**	**(1,802)**
Other cash flows from financing activities		**(12)**	**(48)**
CASH FLOW GENERATED FROM FINANCING ACTIVITIES (1)		**(2,851)**	**(388)**
Other changes in cash and cash equivalents	31	**(57)**	**(525)**
Effect of fluctuations in exchange rates		**49**	**(135)**
VARIATION IN CASH AND CASH EQUIVALENTS		**38**	**1,242**
Cash and cash equivalents at beginning of the year	13	3,927	2,685
Cash and cash equivalents at year end	13	3,965	3,927

(1) Includes cash flows from continuing and discontinued operations (Note 11).

The accompanying Notes 1 to 39 and Appendices are an integral part of the consolidated cash flow statement for the years ended 31 December 2021 and 2020.

Contents of the notes to the consolidated annual accounts for 2021

Notes to the consolidated annual accounts of Naturgy for 2021

Note 1. General information

Naturgy Energy Group, S.A. is a public limited company that was incorporated in 1843. Its registered office is located at Avenida de Avenida de America 38, Madrid. On 27 June 2018, the shareholders, in general meeting, agreed to change the company's business name to Naturgy Energy Group, S.A., formerly Gas Natural SDG, S.A.

Naturgy Energy Group, S.A. and subsidiaries ("Naturgy") form a group that is mainly engaged in the business of gas (supply, liquefaction, regasification, transport, storage, distribution and sale), electricity (generation, transport, distribution and sale) and any other existing source of energy. It may also act as a holding company and in this respect may incorporate or hold shares in other entities, no matter what their corporate objects or nature, by subscribing, acquiring or holding shares, participation units or any other securities deriving from the same.

Naturgy operates mainly in Spain and, outside Spain, in Latin America, Australia, the USA and the rest of Europe.

Note 3 includes financial information by operating segment.

Appendix I lists the investee companies of Naturgy at the reporting date.

The shares of Naturgy Energy Group, S.A. are listed on the four official Spanish stock exchanges, are traded on the continuous market and form part of the Ibex35.

On 26 January 2021, Global InfraCo O (2), S.à.r.l., wholly owned by the Australian fund IFM (IFM GIF), announced the terms and conditions of the partial voluntary offer to acquire shares in Naturgy Energy Group, S.A. for a maximum of 220 million shares, equivalent to 22.689% of Naturgy's share capital ("the Offer"). On 18 February 2021, it was admitted for processing by the Spanish National Securities Market Commission (CNMV).

The Offer price of 23 €/share was adjusted to 22.37 €/share due to the supplementary dividend of 0.63 €/share paid by Naturgy on 17 March 2021 and finally to 22.07 €/share due to the supplementary dividend of 0.30 €/share paid by Naturgy on 4 August 2021.

On 18 March 2021, the Mexican Federal Competition Commission (COFECE) unanimously and unconditionally authorised the business concentration that would result from the Offer, thus fulfilling one of the conditions to which the Offer was subject.

On 8 September 2021, the CNMV authorised the partial voluntary offer. Previously, on 3 August 2021 the offeror obtained authorisation from the Council of Ministers for the foreign direct investment in Spain, subject to certain conditions which were accepted by the offeror.

On 14 October 2021 the acceptance level of the offer was released, consisting of 105,021,887 shares which represented 10.83% of Naturgy's share capital, and the offeror decided to waive the 17% minimum acceptance condition. The offer was settled on 19 October 2021 and IFM GIF became a significant shareholder of Naturgy.

Note 2. Basis of presentation and accounting policies

2.1. Basis of presentation

The consolidated annual accounts of Naturgy Energy Group, S.A. for 2020 were approved by the shareholders at a General Meeting held on 9 March 2021.

The consolidated annual accounts for 2021, which were authorised by the Board of Directors of Naturgy Energy Group, S.A. on 3 February 2022, will be submitted, along with those of the subsidiaries, for the approval of the respective General Meetings. It is expected that they will be adopted without any change.

The consolidated annual accounts of Naturgy for 2021, have been prepared on the basis of the accounting records of Naturgy Energy Group, S.A. and the other companies in the Group, in accordance with the provisions of International Financial Reporting Standards adopted by the European Union (hereinafter “IFRS-EU”), as per Regulation (EC) No 1606/2002 of the European Parliament and of the Council.

These consolidated annual accounts were drawn up using the historical cost method and, as appropriate, the criteria for fair value recognition of financial assets at fair value through profit or loss and through other comprehensive income, derivative financial instruments, business combinations, the application of inflation to the historical cost of assets in economies classified as hyperinflationary, and defined -benefit pension plans.

These consolidated annual accounts fairly present the consolidated equity and consolidated financial situation of Naturgy at 31 December 2021, and the consolidated results of its operations, the changes in the consolidated statement of comprehensive income, changes in consolidated equity and the consolidated cash flows of Naturgy for the year then ended.

The figures set out in these consolidated annual accounts are stated in million euro, unless indicated otherwise.

2.2. New IFRS-EU and IFRIC interpretations

Standards that came into force on 1 January 2021

As a result of their approval, publication and entry into force on 1 January 2021, the following standards, interpretations and amendments adopted by the European Union have been applied:

Standards adopted by the European Union		Entry into force for annual periods commencing
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (amendments) "Interest Rate Benchmark Reform: Phase 2"	Assists entities in providing useful information about the transition to alternative benchmark rates.	1 January 2021
IFRS 4 (amendments) "Extension of the temporary exemption from applying IFRS 9”	Overcomes the temporary accounting consequences of the different dates of entry into force of IFRS 9 Financial Instruments and the forthcoming IFRS 17 Insurance Contracts.	1 January 2021

None of these standards, interpretations or amendments has been applied early. The application of those standards, amendments and interpretations did not have a material impact on this consolidated annual accounts.

IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (amendments) "Interest Rate Benchmark Reform: Phase 2" address the uncertainties related to the reform of interbank rates (IBOR indices) by avoiding disruption of existing hedging relationships through temporary exceptions to the application of certain specific hedge accounting requirements. Naturgy adopted the temporary exceptions established as a result of the Benchmark Interest Rate Reform (hereinafter, IBOR reform) to the application of the specific hedge accounting requirements for hedging relationships that were in place at 1 January 2021 or those designated subsequently that are directly affected by the IBOR reform (Note 18).

In particular, a hedging relationship is considered to be directly affected by the IBOR reform if the reform creates uncertainty about:

- The benchmark interest rate designated as the hedged risk of the hedging relationship (whether specified contractually or otherwise), or
- The term or the amount of the flows associated with the benchmark interest rate of the hedged item or hedging instrument.

The main amendments resulting from the adoption of the new IFRS refer essentially to the amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, as detailed below:

Specific policies relating to the benchmark interest rate reform

In order to assess whether there is an economic relationship between the hedging instrument and hedged item at 31 December 2021, Naturgy assumes that the benchmark variable interest rate has not been altered as a result of the IBOR (Interbank Offered Rates) reform.

Naturgy will cease to apply those temporary exceptions in the assessment of the economic relationship between the hedging instrument and the hedged item when the uncertainty arising from the IBOR reform with respect to the benchmark interest rate, the term or the amount of its interest settlements disappears, or when the hedging relationship is discontinued.

The overall reform of benchmark interest rates is a material issue that is monitored continuously by Naturgy since interbank interest rates (IBOR) are used as a reference in the group's funding contracts and derivative financial instruments.

Naturgy uses interest rate derivatives (mainly interest rate swaps) to hedge cash flows. Some derivative financial instruments are indexed to floating interest rates that have been affected by the IBOR reform, mainly Euribor and Dollar Libor.

Moreover, part of Naturgy's bank funding at 31 December 2021 is indexed to one or more of those indices.

With respect to Euribor, a new hybrid calculation methodology was developed and approved by the authorities in 2019. Consequently, it is not necessary to amend existing contracts and, likewise, it is understood that those financial instruments indexed to Euribor are not exposed to a high degree of uncertainty at 31 December 2021.

In the case of the Dollar Libor index, in order to ensure a non-disruptive transition of contracts referenced to this index that were signed prior to that date, the cessation of publication for most of the index's maturities has been postponed to June 2023. For this reason, the main market players (regulators, central banks, banks, institutions, etc.) are working on defining the equivalences between these indices and the new benchmark RFR (risk-free rates). This situation generates a degree of uncertainty regarding the benchmark rates for bank financing and interest rate derivatives held by Naturgy. For the hedging transactions arranged with these derivatives, Naturgy has applied the temporary exceptions introduced by IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (amendments) "Interest Rate Benchmark Reform".

Given the uncertainty during the transition period, Naturgy is continuously monitoring the IBOR reform and has implemented an action plan to minimise any potential negative impact, by identifying the affected transactions, quantifying their notional amount and reviewing the contract language with the counterparties. In this context, at 31 December 2021, the nominal amount of hedging instruments indexed to IBOR indexes, excluding Euribor, is as follows:

	Currency	Notional a 31.12.2021 (million USD)
Interest rate swaps indexed to Dollar Libor	USD	946

The derivative financial instruments are governed by the Master Agreements of the International Swaps and Derivatives Association (ISDA). The "ISDA 2020 IBOR fallbacks protocol", published by the ISDA on 23 October 2020, came into force on 25 January 2021. The Naturgy Group companies that had derivative positions indexed to any IBOR at 31 December 2021 are considering the adoption of that protocol.

At 31 December 2021, the nominal amount of debts with credit institutions and debt or other marketable securities indexed to IBOR indexes, excluding Euribor, is as follows:

	Currency	Notional a 31.12.2021 (million USD)
Bank funding indexed to Dollar Libor	USD	2,349

The funding and hedging contracts signed in 2021 (corresponding to the Chilean subsidiaries Ibereólica Cabo Leones II, S.A. and Global Power Generation Solar Chile 2017, S.p.A.) contain clauses to guarantee the same switch to the new benchmark interest rate when LIBOR ceases to be published. For the rest of the financing and hedging contracts, work is being done to incorporate clauses to replace the reference interest rate along the same lines.

In the event of any official developments in connection with the IBOR indexes, Naturgy will make the appropriate contractual modifications in order to incorporate the new market replacement benchmark interest rate into its financing agreements..

Standards that will enter force on or after 1 January 2022

The standards, amendments and interpretations that will come into force for annual periods commencing on or after 1 January 2022 are described below.

Standards adopted by the European Union		**Entry into force for annual periods commencing**
IFRS 16 (amendment) "COVID-19-related rent concessions beyond 30 June 2021"	Continue to provide lessees with a practical exemption as a result of the Covid-19 pandemic while allowing them to continue to provide useful information about their leases to users of the financial statements	1 April 2021
IAS 37 (amendment) "Provisions, Contingent Liabilities and Contingent Assets: Onerous contracts"	Specifies that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling the contract and an allocation of other costs that are directly related to fulfilling the contract.	1 January 2022
IAS 16 (amendment) " Property, Plant and Equipment: Consideration prior to intended use	It prohibits deducting from the cost of property, plant and equipment any income obtained from the sale of goods produced while the entity is preparing the asset for its intended use.	1 January 2022
Annual Improvements project 2018-2020	Different minor amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41.	1 January 2022
IFRS 3 (amendment) "Conceptual framework reference"	Aligns the definitions of assets and liabilities in a business combination with those contained in the conceptual framework.	1 January 2022
IFRS 17 "Insurance contracts"	New standard that replaces IFRS 4	1 January 2023

Standards issued by the IASB and yet to be adopted by the European Union		**Entry into force for annual periods commencing**
IAS 1 Presentation of Financial Statements (amendment)	Classification of liabilities as current and non-current.	1 January 2023
IAS 1 (amendment) "Disclosure of accounting policies"	Elaborates on the criteria for disclosing material accounting policies.	1 January 2023
IAS 8 (amendment) "Definition of accounting estimates"	New definition of accounting estimates	1 January 2023
IAS 12 (amendment) "Deferred Tax related to Assets and Liabilities arising from a Single Transaction"	Limits the exemption on initial recognition for deferred tax assets and liabilities for certain one-time transactions	1 January 2023
IFRS 17 (amendment) "Initial application of IFRS 17 and IFRS 9—Comparative Information"	Transitional option relating to comparative information on financial assets presented upon initial application of IFRS 17	1 January 2023

None of these standards or amendments was applied early. No significant impact is expected from the implementation of these amendments.

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2.3. Comparative information

The year 2021 includes the information relating to the year 2020 for comparative purposes. No events that might affect the comparability of the information took place in 2021.

2.4. Accounting policies

The main accounting policies used in the preparation of these consolidated annual accounts are as follows:

2.4.1. Consolidation

a. Subsidiaries

Subsidiaries are consolidated as from the date on which control is transferred to Naturgy and are deconsolidated on the date on which this control ceases.

Subsidiaries are companies controlled by Naturgy. Naturgy controls an entity when, as a result of its involvement, it is exposed or entitled to variable returns and has the capacity to influence those returns through the power exercised in the entity.

The profit or loss of subsidiaries acquired or disposed of during the year are included in the Consolidated Income Statement from the effective date of acquisition or until the effective date of disposal.

Transactions, balances and unrealised gains between Naturgy subsidiaries are eliminated in the consolidation process. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the transferred asset.

Non-controlling interests in the equity and profit or loss of subsidiaries are disclosed under “Non-controlling interests” in the consolidated balance sheet and “Profit attributable to non-controlling interests” in the consolidated income statement.

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of acquisition is the fair value of the assets delivered, of the equity instruments issued and of the liabilities incurred or assumed on the date of the exchange, and of any additional consideration that depends on future events (provided that they are likely to occur and can be reliably measured).

In business combinations with acquisition dates subsequent to 1 January 2020, Naturgy applies the definition of "Business" when assessing whether it acquired a business or a group of assets. A business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.

Naturgy also has the option of applying a "concentration test" that, if met, eliminates the need for further assessment, by determining whether or not an acquired set of activities or assets constitutes a business. The test is met if substantially all of the fair value of gross assets acquired is concentrated in a single identifiable asset (or a group of similar identifiable assets), in which case the assets acquired would not represent a business.

Intangible assets acquired through a business combination must be recognised separately from goodwill if they meet the criteria for asset recognition, i.e. if they are separable or arise from legal or contractual rights and their fair value can be reliably measured.

Identifiable assets acquired and liabilities or contingent liabilities incurred or assumed as a result of the transaction are stated initially at acquisition date fair value.

For each business combination, Naturgy may opt to recognise any non-controlling interest in the acquiree at fair value or as the non-controlling interest's proportional part of the recognised values of the acquiree's net identifiable assets.

Acquisition costs are expensed in the year when they are incurred.

The amount by which the acquisition cost exceeds the fair value of Naturgy’s shareholding in the net identifiable assets acquired is recognised as goodwill. If, after measuring the amount of the consideration delivered and the net assets acquired, the acquisition cost is less than the fair value of the net assets of the acquired subsidiary, the difference is recognised directly in the consolidated income statement.

The measurement period for business combinations begins on the acquisition date and ends when Naturgy concludes that it cannot obtain further information on the events and circumstances that existed at the acquisition date. This period may not in any case exceed one year as from the acquisition date. During the measurement period, the business combination is treated as provisional and any adjustments to the provisional amount will be recognised as if the business combination had been fully recognised on the acquisition date.

In a business combination achieved in stages, Naturgy values its prior interest in the acquiree's equity at the fair value on the control date, recognising resulting gains or losses in the consolidated income statement.

In relation to the acquisition or sale of shareholdings without loss of control, the difference between the price paid or received and the net carrying amount is recognised in equity and not as goodwill or profit or loss.

When an investment is deconsolidated due to a loss of control, any interest retained in the entity is re-measured at fair value and the change in the carrying amount is recognised in the consolidated income statement. This fair value then becomes the initial carrying amount for the purposes of the subsequent recognition of the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amount previously recognised in other comprehensive income in relation to the entity concerned is recognised as if the Group had disposed of the related assets or liabilities directly.

Put options given to minority shareholders of subsidiaries in relation to shareholdings in those companies are stated at the present value of the amount to be paid, i.e. their strike price, and recognised under "Other liabilities".

The subsidiaries' accounting policies have been adapted to Naturgy's accounting policies for transactions and other events that, being similar, took place in similar circumstances.

The subsidiaries' financial statements that are used in the consolidation process are as of the same reporting date and for the same period as those of Naturgy.

b. *Joint arrangements*

In a joint arrangement, the parties are bound by a contractual agreement that grants joint control to two or more of the parties. Joint control exists when the decisions about material activities require the unanimous consent of all the parties sharing control.

A joint arrangement is classed as a joint operation if the parties hold rights to its assets and have obligations in respect of its liabilities, or as a joint venture if the partners hold rights only to the investees' net assets.

Joint operations

Holdings in joint operations are proportionately consolidated, so that the assets and liabilities assigned to joint operations are recognised in the consolidated balance sheet in accordance with their specific nature and in proportion to Naturgy's percentage interest. Revenues and expenses from joint operations are reflected in the consolidated income statement in accordance with their nature and in proportion to Naturgy's percentage interest.

Jointly-controlled entities

Holdings in jointly-controlled entities are recognised by the equity method.

Under the equity method, interests in joint ventures are recognised initially at cost and are adjusted thereafter to reflect Naturgy's interest in post-acquisition gains and losses and movements in other comprehensive income.

At each reporting date, Naturgy determines if there is objective evidence of impairment of its investment in a jointly-controlled entity. If impairment is disclosed, Naturgy calculates the amount of the impairment loss as the difference between the jointly-controlled entity's recoverable amount and its carrying amount, and recognises it under "Profit/(loss) from equity-accounted companies" in the consolidated income statement.

c. *Associates*

Associates are all entities over which Naturgy has significant influence, and the ability to participate in financial and operational decisions, but not control, i.e. generally a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for under the equity method.

d. *Consolidation scope*

Appendix I lists the investee companies directly and indirectly owned by Naturgy that have been included in the consolidation scope.

Appendix II lists the main consolidation scope changes in 2021 and 2020, the most salient of which are detailed below.

2021

On 15 January 2021, Naturgy, through its wholly-owned subsidiary Naturgy Solar USA, LLC, acquired the entire equity of US company Hamel Renewables, LLC, which owns a portfolio of 8 GW of solar projects together with 4.6 GW of energy storage projects located in 9 US states (Note 32).

In February 2021, Naturgy completed the sale of 60% stakes in the companies Lean Corporate Services, S.L., Lean Customer Services, S.L., Lean Grids Services, S.L. and Naturgy IT, S.L. Previously, in 2020, it had disposed of an initial 25%, which enabled strategic partners to participate in the delivery of the related services. Therefore, after the sale of 60%, Naturgy retains a 15% stake in those companies, meaning that it has ceased to control those companies; this did not have a material impact on the consolidated annual accounts.

In March 2021, Naturgy, Eni and the Arab Republic of Egypt completed the agreement reached on 1 December 2020 to amicably resolve the disputes affecting Unión Fenosa Gas (UFG). As a result, UFG received a number of cash payments and the majority of the assets located outside Egypt, excluding UFG's supply business in Spain. This also entailed the end of the gas procurement contract for approximately 3.5 bcm per year to supply combined cycle plants in Spain, which was due to end in 2029, while the contract with Oman expiring in 2025 is maintained. At the same time, Naturgy acquired the remaining 50% of UFG for Euros 466 million with the result that it now owns 100%, having gained control and fully consolidated it as a subsidiary (Note 32). The transaction produced a capital gain of Euros 127 million, recognised under "Other results" in the consolidated income statement (Note 29), as it was classified as a business combination carried out in stages.

The 40% interest in Cogeneración del Noroeste, S.L. was disposed of in June 2021 (Note 8).

On 13 July 2021, Mobiligaz S.A.S., the French company that had previously received the assets corresponding to the natural gas for vehicle fuel business from Gas Natural Europe, S.A.S., was sold for an amount of Euros 11 million. This transaction produced capital gain of Euros 7 million which was recognized under "Other results" in the consolidated income statement (Note 29).

The 96.04% stake in Compañía General de Electricidad S.A. (CGE) in Chile, the company that engages in the electricity network business in Chile, was sold to State Grid International Development Limited (SGID) for a total purchase price (equity value) of Euros 2,570 million on 26 July 2021. This transaction generated a capital gain of Euros 64 million, which was recognised under "Profit from discontinued operations" in the consolidated income statement (Note 11).

The sale of 100% of Irish company Naturgy Ltd., which engages in gas and electricity supply in Ireland, was completed for Euros 38 million on 20 December 2021. This transaction resulted in a capital loss of Euros 8 million, recognised under "Other results" in the consolidated income statement (Note 29).

Naturgy acquired 100% of Parque Eólico El Almendro, S.L.U. on 23 December 2021, conditional upon the date of commercial operation of the 44 MW of wind power capacity generation it owns (Note 32).

As a result of Naturgy's corporate reorganisation process to restructure the business into a series of companies belonging to the same group of companies while minimising and diversifying risks, and simplifying and adapting the current corporate structure so as to provide a simpler, clearer view of each activity, in October 2021, Naturgy Generación, S.L.U. spun off the CCGT power generation business into Naturgy Ciclos Combinados, S.L.U. and the nuclear, coal-fired and oil-fired power generation business into Naturgy Térmica, S.L.U., with accounting effects as of 1 January 2021. These transactions did not have an impact on the consolidated annual accounts.

2020

The sale of 47.9% of Ghesa Ingeniería y Tecnología, S.A. was completed on 20 January 2020 (Note 29).

The sale of Iberafrica Power Limited was completed on 3 April 2020, without a material impact on the consolidated income statement.

The transaction related to the acquisition of Medgaz that commenced in 2019 was completed in July 2020. Naturgy had reached an agreement to acquire 34.05% of Medgaz from CEPSA Holding LLC for Euros 445 million through group company Medina Partnership, S.A.U. (Medina) so that, combined with the pre-existing 14.95% holding, Medina attained a 49% stake following that transaction.

Additionally, Naturgy had signed an agreement with BlackRock Global Energy & Power Infrastructure Fund (GEPIF) under which, at Naturgy's option, GEPIF would acquire 50% of Medina Partnership, S.A.U. at the same price as agreed for the acquisition of the Medgaz stake.

On 1 April 2020, once authorisation had been received from the CNMC for the acquisition of the 34.05% stake in Medgaz, Naturgy exercised the option it had arranged with GEPIF, entailing the entry into force of the agreement establishing joint control over that company. Following the acquisition of that stake on 30 April 2020 (Note 8) and fulfilment of the other conditions, the transaction was completed in July 2020.

The sale of 49% of Montouto 2000, S.A. was completed on 15 September 2020.

On 15 December 2020, Naturgy acquired the remaining 34.2% of Eólica Tramuntana, S.L. and attained 100% of that company. Subsequently, that company acquired 100% of Infraestructures Electriques de la Terra Alta, S.L.U. These acquisitions did not have a material impact.

2.4.2. Transactions in foreign currency

Items reported in the consolidated annual accounts of each of Naturgy's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated annual accounts are presented in Euros, which is dominant company's presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

The results and financial position of all Naturgy entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities on each balance sheet are translated at the closing rate on the balance sheet date.

- Revenues and expenses in each income statement are translated at monthly average exchange rates, unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case revenues and expenses are translated at the rate prevailing on the transaction dates.

- All currency translation differences are recognised in the consolidated statement of comprehensive Income, and the accumulated amount under "Currency translation differences" in equity.

Before being converted to euros, the financial statements of Group companies whose functional currency is that of a hyperinflationary economy are adjusted for inflation following the procedure described below. Once restated, all items in the financial statements are translated to euros applying the year-end exchange rate. The figures for previous periods, which are given for comparative purposes, are not altered.

To determine whether there is hyperinflation, the Group assesses the qualitative characteristics of the economic environment, as well fluctuations in inflation rates in the last three years. The annual accounts of companies whose functional currency is that of an economy considered to be highly inflationary are adjusted to reflect changes in the local currency's purchasing power, such that all items on the balance sheet that are not expressed in current terms (non-monetary items) are restated on the basis of a representative price index at year-end and all revenues, expenses, gains and losses are restated on a monthly basis applying appropriate correction factors. The difference between the initial amounts and the adjusted figures is taken to profit and loss.

Adjustments to goodwill and the fair value arising from the acquisition of a foreign company are treated as assets and liabilities of that company and are translated at the closing exchange rate.

With effect from 1 July 2018, applying the criteria established by IAS 29 "Reporting in Hyperinflationary Economies", the Argentinian economy has been treated as hyperinflationary with effects backdated to 1 January 2018.

The inflation rates used were the domestic wholesale price index (IPIM) until 31 December 2016 and the consumer price index (CPI) from 1 January 2017 onwards.

With effects backdated to 1 January 2018, an increase in equity was recognised as a result of applying the change in inflation to the historical cost of non-monetary assets from the date of their acquisition or consolidation, recognising the corresponding deferred tax liability. This effect was reflected in currency translation differences at the beginning of 2018.

From 1 January 2018:

– An adjustment to revenue and expense items was made to apply the variation in inflation from the date they were recongnised in the income statement, and to reflect the losses derived from the net monetary position.

– The figures thus adjusted are translated to euros in the consolidated annual accounts applying the closing peso/euro exchange rate.

The exchange rates against the euro (EUR) of the main currencies of Naturgy companies at 31 December 2021 and 2020 were as follows:

	31.12.2021		31.12.2020	
	Closing Rate	Average accumulated Rate (1)	Closing Rate	Average accumulated Rate (1)
US Dollar (USD)	1.13	1.18	1.23	1.14
Argentinian Peso (ARS)	116.94	116.94	102.85	102.85
Brazilian Real (BRL)	6.31	6.38	6.37	5.86
Chilean Peso (CLP)	968.99	898.36	868.06	900.34
Mexican Peso (MXN)	23.14	23.98	24.42	24.41
Australian Dollar (AUD)	1.56	1.57	1.59	1.65

[1] In Argentina, the closing exchange rate was used because Argentina is classified as a hyperinflationary economy

2.4.3. Intangible assets

a. Goodwill

Goodwill represents the amount by which the acquisition cost exceeds the acquisition date fair value of the share in the net identifiable assets of the acquired subsidiary, joint arrangement or associate. Goodwill on acquisitions of subsidiaries is recognised under Intangible assets while goodwill related to acquisitions of associates or joint arrangements is recognised using the equity method.

Goodwill is not amortised and it is tested for impairment annually. It is recognised in the consolidated balance sheet at cost less cumulative impairment losses.

Impairment of goodwill cannot be reversed.

b. Concessions under IFRIC 12 and other similar concessions

This heading refers to the acquisition cost of concessions if they are acquired directly from a public entity or similar, the fair value attributed to concessions acquired as part of a business combination, or the cost of infrastructure construction and improvements assigned to concessions, in accordance with IFRIC 12 “Service concession agreements”.

Assets affected by IFRIC 12, which are those in which the licensor controls the services that Naturgy (operator) must provide, and any material residual interest in the infrastructure at the end of the concession term are recognised as financial assets if the operator holds an unconditional right to receive cash from the licensor and as intangible assets if the operator does not hold such a right but is entitled to charge users for the service. Revenues and expenses on construction services or infrastructure improvements are recognised at their gross amount. Given that concession agreements do not specify the remuneration pertaining to these items, their value is estimated based on the expenses incurred, without any margin.

Assets under this heading are depreciated using the straight-line method over the duration of the concession.

The concessions for electricity distribution in Spain and the concessions for gas distribution in Chile, all acquired basically as part of a business combination, are not subject to any legal or other limit. Accordingly, as these are intangible assets with an indefinite life, they are not amortised, although they are tested for impairment annually, as discussed in Note 2.4.6.

c. *Computer software*

Costs associated directly with the production of computer software programs that are likely to generate economic profit greater than the costs related to their production are recognised as intangible assets. The direct costs include the personnel costs of the employees involved in developing the programs.

Computer software development costs recognised as assets are amortised on a straight–line basis over a period of five years as from the time the assets are ready to be brought into use.

d. *Research costs*

Research activities are expensed in the consolidated income statement as incurred.

e. *Customer acquisition costs*

The incremental costs incurred directly to obtain customer contracts, which reflect the commissions paid to obtain energy supply contracts with such customers and which are expected to be recovered over the projected duration of the contract, are recognised as intangible assets.

Customer acquisition costs recognised as assets are amortised systematically in the consolidated income statement over the average expected useful life of the contracts with customers, which ranges from two to eight years.

f. *Other intangible assets*

Other intangible assets mainly include the following:

- The costs of licences for renewable generation facilities, mainly acquired as part of a business combination, which are amortised over their remaining useful lives.
- Gas supply contracts and other contractual rights purchased as part of a business combination, which are carried at fair value and amortised on a straight-line basis over the contract term, which does not differ significantly from the expected consumption pattern.

There are no intangible assets with an indefinite useful life apart from goodwill and the aforementioned electricity distribution and gas distribution concessions.

2.4.4. Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and any impairment.

a. *Cost*

All property, plant and equipment are presented at acquisition or production cost or, if acquired as part of a business combination, at the value attributed to the asset in the combination.

The cost of financing technical installations until the asset is ready to be brought into use forms part of property, plant and equipment.

Renewal, extension or improvement costs are capitalised as an increase in an asset's value only if they entail an increase in capacity, productivity or useful life. Major maintenance expenditures are capitalised and amortised over their estimated useful life (generally 2 to 6 years) recurring maintenance is expensed as incurred.

Own work capitalised under Property, plant and equipment relates to the direct cost of production.

The non-extractable gas necessary as a cushion for the exploitation of underground natural gas storage units (“cushion gas”) is recognised as Property, plant and equipment, and depreciated over the useful life of the underground store.

Expenses arising from actions designed to protect and improve the environment are expensed in the year they are incurred.

When such costs entail additions to property, plant and equipment the purpose of which is to minimise the environmental impact and to protect and improve the environment, they are accounted for as an increase in the value of property, plant and equipment.

The future costs which Naturgy must meet in relation to the closure and decommissioning of certain facilities are included in the value of the assets at their discounted present value by means of the corresponding provision (Note 2.4.19).

Gains and losses on disposals are determined by comparing the sale price with the carrying amount, and are recognised in the consolidated income statement.

b. Depreciation and amortisation

Assets are depreciated using the straight-line method over their estimated useful lives, or over the duration of the concession agreement, if shorter. Estimated useful lives are as follows:

	Estimated useful life (years)
Buildings	33-50
Gas tankers	25-30
Gas transportation and distribution network	20-40
Hydroelectric plants	14-65
Combined cycle gas turbine: (CCGT)	35-40
Nuclear energy plants	44-47
Wind farms	25-30
Photovoltaic farms	25-30
Electricity transmission network	30-40
Electricity distribution network	18-40
Computer hardware	4
Vehicles	6
Other	3-20

The hydroelectric plants are covered by temporary administrative concessions. Upon conclusion of the terms established for the administrative concessions, the plants must revert to the State in good working order, which is achieved by maintenance programmes. The calculation of the depreciation charge for the hydroelectric plants distinguishes between the different types of assets of which they are composed, i.e. between investments in civil works (which are depreciated over the concession period), electro-mechanical equipment (40 years) and the other fixed assets (14 years), taking into account, in any event, the use of the plant and the maximum term of the concessions (expiring between 2022 and 2063).

Naturgy depreciates its nuclear power plants over a useful life of between 44 and 47 years, which corresponds to the life determined in the protocol signed in 2019 with Enresa and the other owners of such facilities. Operating licences for these plants usually have 10-year terms and renewal can not be requested until shortly before the expiration of each licence. Nonetheless, in view of the optimal performance of these facilities and the related maintenance programmes, the permits are expected to be renewed at least until the end of their useful lives.

In July 2021, Naturgy completed technical surveys to estimate the useful lives of the wind and photovoltaic farms and it modified their useful lives prospectively from 25 to 30 years effective 1 July 2021. The effect of this change in estimated useful lives on the "Depreciation/amortisation and impairment losses" account in the 2021 consolidated income statement was a reduction of depreciation by Euros 15 million. It is also estimated that, from 2021 onwards, this change of useful life will lower annual depreciation by approximately Euros 30 million.

In December 2020, Naturgy completed technical studies to estimate the useful lives of the combined cycle plants and, in line with the practices adopted by the leading players in the industry, it modified the useful lives of the combined cycle plants prospectively from 35 to 40 years as of 1 December 2020. The effect of this change in the estimated useful lives on the "Depreciation/amortisation and impairment losses" account in the 2020 consolidated income statement was a reduction of depreciation by Euros 1 million. This change in the useful life reduced depreciation and amortisation by approximately Euros 15 million in 2021.

In 2020, Naturgy completed technical studies to estimate the useful lives of the gas meters in Spain and modified their useful lives prospectively from 10 to 20 years. The effect of this re-estimation of the useful lives on the "Depreciation/amortisation and impairment losses" account in the 2020 consolidated income statement was a reduction of depreciation by Euros 4 million. This change in the useful life reduced depreciation and amortisation by approximately Euros 4 million in 2021.

Assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset is written down immediately to its recoverable amount when its carrying amount exceeds its estimated recoverable amount or it ceases to be useful, e.g. due to rerouting of the distribution network (Note 2.4.6.).

2.4.5. Right-of-use assets

Naturgy recognises a right-of-use asset on the lease commencement date (Note 2.4.20). The cost of the right-of-use asset includes the initial amount of the lease liability, any initial direct cost, lease payments made before or on the commencement date, and an estimated of any decommissioning costs to be incurred in relation to the asset. The right-of-use asset is recognised subsequently for the cost less accumulated amortisation and any impairment, and is adjusted to reflect any subsequent re-measurement of the liability or amendment of the lease.

Naturgy applies the exemption for short-term leases (defined as 12 months or less) and leases of low-value assets. In those cases, Naturgy recognises the lease payments as an operating expense on a straight-line basis over the lease term unless another systematic basis is more representative of the pattern of the economic benefit from the leased asset.

Right-of-use assets are amortised on a straight-line basis over the lease term or the underlying asset's useful life, whichever is shorter. If a lease transfers ownership of the underlying asset or if the cost of the right-of-use asset reflects that Naturgy expects to exercise a purchase option, the right-of-use asset is amortised over the useful life of the underlying asset. Amortisation begins on the lease commencement date.

2.4.6. Non-financial asset impairment losses

Non-financial assets are tested for impairment whenever an event or change in circumstances indicates that their carrying amount might not be recoverable. Additionally, regardless of whether or not there is any sign of impairment, goodwill and intangible assets not in use or with indefinite useful lives are tested for impairment at least annually.

When the recoverable amount is lower than the asset's carrying amount, an impairment loss is recognised in the consolidated income statement for the difference. The recoverable amount is calculated as the higher of fair value less selling costs and the value in use, using the discounted future cash flows method. Naturgy considers value in use, calculated as described below, to be the recoverable amount.

For the purposes of assessing impairment losses, assets are grouped together at the lowest level for which there are separately identifiable cash flows. Assets, including assets with an indefinite useful life, and goodwill are assigned to these cash-generating units (CGUs).

For those CGUs that required an impairment analysis, the cash flows were based on the best available prospective information for the next five years, extended by an additional five years, or for the remaining useful life in the case of certain assets and concessions, on the basis of regulations and expected market evolution, drawing on available industry forecasts and past experience of price trends and production volumes.

The extension of the cash flow projections by five years or for the remaining useful life of the assets and concessions is due to the fact that, in many cases, long-term energy sales contracts have been signed, long-term estimated price curves are available and are used in the group's normal operations (for contracts, hedging, etc.), the electricity and gas supply business is influenced by long-term government policies and is based on stable relationships with customers, there are long regulatory periods, and, in the case of electricity and gas transmission and distribution concessions, because the mechanism for calculating the new tariff that the corresponding regulator will use at the beginning of the new regulatory period can be predicted.

Naturgy believes that its projections are reliable and that it can reliably predict additional cash flows beyond the initial five-year period.

The cash flows after the ten-year projection period are extrapolated using the growth rates estimated for each CGU, which in no case exceed the average long-term growth rate for the business and country in which they operate. In all cases, they are lower than the growth rates projected for the next ten years. In order to estimate future cash flows for the calculation of residual values, all maintenance investments are taken into account as well as any renovation investments needed to maintain the CGUs' production capacity.

The parameters taken into account to determine the growth rates, which represent the long-term growth of each line of business, are in line with the long-term growth of the country, obtained from inflation estimates provided by several sources: analysts consensus (Bloomberg), International Monetary Fund (IMF), Organisation for Economic Cooperation and Development (OECD), Central Banks and other government agencies and the European Commission for the period 2021-2025, and the Economist Intelligence Unit (EIU), from 2026 onwards.

The parameters taken into account for the composition of the discount rates before taxes are as follows:

- Risk-free rate: Taking the benchmark sovereign bond of the market of reference for the CGU as well as surveys and other sources of information (Damodaran, EIU, etc.).
- Market risk premium: Premium based on surveys and other sources of information (IESE Business School: Pablo Fernández, Damodaran, etc.).
- Unlevered beta: Based on betas estimated for each CGU using comparables (Bloomberg).
- Local currency interest rate swaps: Swap between 10 and 30 years, as a function of the CGU's business (Bloomberg).
- Equity-debt ratio: Based on industry comparables.

Impairment of an asset, individually considered, is recognised in the consolidated income statement by reducing the carrying amount of the asset to its recoverable amount. The asset's depreciation charges are adjusted in future periods in order to apportion the revised carrying amount of the asset, less any residual value, systematically over its remaining useful life.

Impairment is recognised for a CGU if its recoverable amount is less than the carrying amount. This loss is allocated firstly to goodwill and then to the CGU's other assets in proportion to their respective carrying amounts. These reductions are treated as impairment losses on individual assets. The carrying amount of an asset is not reduced below its recoverable amount or zero, whichever is higher, and this undistributed loss is allocated on a pro-rata basis among the other assets of the CGU.

Impairment adjustments to an asset, other than goodwill, that were recognised in previous periods may be reversed if and only if there was a change in the estimates used to determine the recoverable amount since the most recent impairment loss was recognised.

2.4.7. Financial assets and liabilities

<u>Financial assets</u>

Naturgy classifies its financial assets based on their valuation category, which is determined on the basis of the business model and the characteristics of the contractual cash flows, and reclassifies financial assets if and only if it changes its business model for managing such assets.

Purchases and sales of investments are recognised on the trade date, which is the date on which Naturgy undertakes to purchase or sell the asset.

Upon initial recognition, they are classified in the following categories:

a. Financial assets at amortised cost

These are debt instruments which are held to collect contractual cash flows when those cash flows consist only of principal and interest payments. They are classified as current assets, except for those maturing after twelve months from the balance sheet date, which are classified as non-current assets.

They are recorded initially at fair value and then at amortised cost using the effective interest rate method. Interest revenues from these financial assets are included in financial revenues. Any gain or loss that arises when they are derecognised is recognised directly in consolidated profit or loss, and any impairment losses are recognised as a separate item in the consolidated income statement for the year.

b. Financial assets at fair value through profit or loss

These are assets acquired for short-term sale. Derivatives form part of this category unless they are designated as hedges. These financial assets are recognised at fair value both initially and in subsequent re-measurements, and fair value changes are recognised in consolidated profit or loss.

Equity instruments classified in this category are recognised at fair value and any gain or loss arising from fair value changes and the proceeds from their sale are recognised in consolidated profit or loss.

The fair values of listed investments are based on their listed prices (Level 1). In the case of shareholdings in unlisted companies, fair value is determined using valuation techniques that include the use of recent transactions between willing knowledgeable parties, references to substantially similar instruments, and the analysis of discounted future cash flows (Levels 2 and 3). If recent available information is insufficient to determine fair value, or if there is a range of possible fair value measurements and the cost is the best estimate within that range, the investments are recognised at acquisition cost less any impairment.

c. Equity instruments at fair value through other comprehensive income

These are equity instruments with respect to which Naturgy has made an irrevocable decision at the time of initial recognition to record them in this category. They are recognised at fair value and any increases or reductions arising from fair value fluctuations are recorded under other comprehensive income, except for dividends derived from these investments, which are recognised in profit or loss. Therefore, no impairment losses are recognised in the income statement and, at the time of sale, no gains or losses are reclassified to consolidated profit or loss.

Fair value measurements recognised in these consolidated annual accounts are classified using a fair value hierarchy that reflects the importance of the variables employed to perform the measurement. This ranking has three levels:

- Level 1: Valuations based on the listed price of identical instruments in an active market. Fair value is based on listed market prices at the balance sheet date.

- Level 2: Valuations based on variables that are observable for the asset or liability. The fair value of financial assets in this category is determined using measurement techniques. These measurement techniques maximise the use of available observable market data inputs and rely as little as possible on specific estimates made by Naturgy. If all significant inputs required to calculate the fair value are observable, the instrument is classified as Level 2. If one or more of the significant inputs are not based on observable market data, the instrument is classified as Level 3.

- Level 3: Measurements where any of the significant variables is not based on variables that are not based on observable market information.

Financial assets are derecognised when the contractual rights to the asset's cash flows have expired or have been transferred; in the latter case, the risks and rewards of ownership must have been substantially transferred. In asset assignments where the risks and rewards of ownership are retained, the financial assets are not derecognised and a liability is recognised in the same amount as the payment received.

Receivables assignment agreements are treated as factoring without recourse provided that the risks and rewards inherent in ownership of the assigned financial assets are transferred.

The impairment of financial assets is based on an expected loss model. Naturgy accounts for the expected loss, and of changes to the latter at each reporting date to reflect the changes in credit risk from the date of initial recognition, without waiting for an impairment event to occur.

Naturgy applies the general expected loss model for financial assets with the exception of trade and other receivables without a significant financial component, for which the simplified expected loss model is used.

The general model requires the recognition of the expected loss resulting from a default event in the coming 12 months or over the duration of the contract, depending on the evolution of the financial asset's credit risk since initial recognition in the balance sheet. In the simplified model, credit losses expected over the duration of the contract are recognised from the outset, taking into account available information on past events (such as customer payment behaviour), current conditions and forward-looking factors (macroeconomic factors such as GDP, unemployment, inflation, interest rates, etc.) that might impact the credit risk of Naturgy's debtors.

Financial liabilities

Upon initial recognition, they are classified in the following categories:

a. Financial assets at amortised cost

Borrowings are initially recognised at fair value, net of any transaction costs incurred. Any difference between the amount received and the repayment value is recognised in consolidated profit or loss over the repayment period using the effective interest rate method.

In the event of contractual modifications of a liability at amortised cost that do not result in derecognition, the modified contractual flows of the refinanced debt are discounted at the original effective interest rate, and the resulting difference with respect to the original carrying amount is recognised in profit or loss on the date of the modification.
The difference between the carrying amount of a derecognised financial liability and the consideration paid is recognised in profit or loss.

Borrowings are classified as current liabilities unless they mature in more than twelve months as from the balance sheet date, or include tacit renewal clauses at Naturgy's option.

In addition, trade and other current payables are financial liabilities that fall due in less than twelve months; they are initially recognised at fair value, do not accrue explicit interest, and are carried at their nominal value.

b. Financial liabilities at fair value through profit or loss

These are liabilities acquired for short-term sale. Derivatives form part of this category unless they are designated as hedges. These financial liabilities are stated at fair value both initially and subsequently, and changes in this value are taken to consolidated profit or loss.

2.4.8. Derivatives and other financial instruments

Financial derivatives are recognised initially at fair value on the contract date and are subsequently re-measured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the asset being hedged.

Naturgy aligns its accounting with its management of financial risk. Risk management objectives and the hedging strategy are reviewed periodically and a description is given of the risk management objective pursued.

In order for a hedge to be considered effective, Naturgy documents that the economic relationship between the hedging instrument and the hedged asset is aligned with its risk management objectives.

The market value of financial instruments is calculated using the following procedures:

- Derivatives listed on an organised market are calculated on the basis of their year-end listed price (Level 1).

- Derivatives that are not traded on organised markets are calculated by discounting cash flows based on year-end market conditions or, in the case of non-financial items, on the best estimate of the forward price curves of such items (Level 2 and 3).

Fair values are adjusted for the expected impact of observable counterparty credit risk in positive valuation scenarios and the impact of observable credit risk in negative valuation scenarios.

As described in Note 2.2., Naturgy adopted the temporary exceptions, established as a result of the Interest Rate Benchmark Reform, from the application of specific hedge accounting requirements to hedging relationships existing at 1 January 2021 or those designated subsequently that are directly affected by the IBOR reform.

Derivatives embedded in other financial instruments or in other host contracts are recognised separately as derivatives only when their financial characteristics and inherent risks are not strictly related to the instruments in which they are embedded and the whole item is not being carried at fair value through consolidated profit or loss.

For accounting purposes, the transactions are classified as follows:

1. Derivatives eligible for hedge accounting

a. Fair value hedges

Fair value changes in designated derivatives that qualify as fair value hedges are recognised in consolidated profit or loss together with any fair value changes in the hedged item.

b. Cash flow hedges

The portion identified as an effective hedge of fair value changes in derivatives that are designated and qualify as cash flow hedges is recognised in equity. under other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in consolidated profit or loss.

When options contracts are used to hedge planned transactions, the Group designates only the intrinsic value of the option contract as hedging instrument.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. However, if this amount is a loss, and it is not expected to be recovered, it will be reclassified immediately to consolidated profit or loss as a reclassification adjustment.

Amounts accumulated in equity are transferred to consolidated profit and loss in the period in which the hedged item affects profit or loss, as follows:

- The gain or loss relating to the effective portion of interest rate swaps is recognised as a financial expense at the same time as the interest expense on the hedged loans.
- When a hedging instrument covers a planned transaction, the accumulated amounts remain in equity until the planned transaction takes place. If the planned transaction does not take place, the amount accumulated in equity is immediately reclassified to profit or loss.

If the hedged item subsequently results in the recognition of an asset, the amount accumulated in equity will be recognised in the initial cost of the asset.

c. *Hedges of net foreign investments*

The accounting treatment is similar to cash flow hedges. Variations in value of the effective part of the hedging instrument are carried on the consolidated balance sheet under “Currency translation differences”. The gain or loss from the ineffective part is recognised immediately under “Exchange differences” in the consolidated income statement. The accumulated amount of the valuation recorded under “Currency translation differences” is released to the consolidated income statement as the foreign investment that gave rise to it is sold.

2. Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Fair value changes in derivative instruments that do not qualify for hedge accounting are recognised immediately in consolidated profit or loss.

Additionally, commodity derivatives not classified as hedges for accounting purposes are recognised inside the operating profit since they essentially constitute an economic hedge because the critical terms of the derivative coincide with those of its hedged item.

3. Energy purchase and sale agreements

In the normal course of business, Naturgy enters into energy purchase and sale agreements which in most cases include “take or pay” clauses by virtue of which the buyer takes on the obligation to pay the value of the energy contracted irrespective of whether the buyer receives it or not. These agreements are executed and maintained in order to meet the needs to receive or take physical delivery of energy that are projected by Naturgy in accordance with periodic energy purchase and sale estimates, which are monitored systematically and adjusted in all cases through physical delivery. Consequently, these are contracts for “own use” and, therefore, fall outside the scope of IFRS 9.

2.4.9. Non-current assets held for sale and discontinued operations

Naturgy classifies as held for sale all the assets and related liabilities for which active measures have been taken to sell them, they are available for sale in their current situation, and the sale is highly likely to take place within the following twelve months.

These assets are stated at the lower of their carrying amount or fair value minus the costs necessary for their sale and are not depreciated from the date they are classified as non-current assets held for sale.

In the event of delays caused by events or circumstances beyond Naturgy's control and if there is sufficient evidence that the commitment to the plan to sell the assets classified as held for sale is maintained, the classification is maintained even if the period to complete the sale extends beyond one year.

Non-current assets held for sale are presented in the consolidated balance sheet as follows: under a single account called “Non-current assets held for sale” and the liabilities are also carried under a single account called “Liabilities related to non-current assets held for sale”.

Additionally, Naturgy classifies as discontinued operations the components (cash generating units or groups of cash generating units) that make up a business line or geographic area of operations which are material and be considered separately from the rest and which have been sold or otherwise disposed of or which meet the conditions to be classified as held-for-sale. Entities acquired solely for resale are also classed as discontinued operations.

The profit or loss from discontinued activities is presented in a single line on the consolidated income statement called “Profit for the year from discontinued operations net of taxes”.

2.4.10. Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined as weighted average cost.

Costs of inventories include the cost of raw materials and those that are directly attributable to acquisition and/or production, including the costs of transporting inventories to their current location.

Nuclear fuel is measured on the basis of the costs actually incurred in its acquisition and preparation. The consumption of nuclear fuel is charged to the profit or loss on the basis of the energy capacity consumed.

Emission allowances are stated at the lower of weighted average acquisition price and net realisable value. When the allowances are delivered, they are derecognised against the provision recorded when the CO2 emissions took place (Note 2.4.19).

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. For raw materials, the Group assesses whether or not the net realisable value of finished goods is greater than their production cost.

2.4.11. Share capital

Share capital is represented by ordinary shares.

Incremental costs directly attributable to the issuance of new shares or options, net of tax, are deducted from equity as a reduction in reserves.

Dividends on ordinary shares are recognised as a deduction from equity in the year they are declared.

Acquisitions of own shares are recognised at acquisition cost, and deducted from equity until disposal. Gains and losses on disposal of own shares are recognised under "Reserves" in the consolidated balance sheet.

2.4.12. Share-based payments

Share-based payments settled in shares are valued on the basis of the grant date fair value of the equity instruments granted. The effects of modifications that increase the fair value of share-based payment arrangements are also recognised.

The resulting cost is recognised under Personnel expenses in the consolidated income statement as services are rendered by the employees during the relevant vesting period, with a balancing entry in “Reserves” in the consolidated balance sheet.

The amounts recognised in consolidated equity are not subsequently re-measured as a result of trends in external market conditions.

2.4.13. Earnings per share

Basic earnings per share are calculated as the quotient between consolidated profit for the year attributable to equity holders of the Parent Company and the weighted average number of ordinary shares outstanding during this period, excluding the average number of shares of the Parent Company held by the Group.

Diluted earnings per share are calculated as the quotient between consolidated profit for the year attributable to the ordinary equity holders of the company adjusted by the effect attributable to potential ordinary shares with a dilutive effect and the weighted average number of ordinary shares outstanding during this period, adjusted by the weighted average number of ordinary shares that would be issued if all the potential ordinary shares were converted into ordinary shares of the Parent Company. For the purposes, the conversion is considered to take place at the beginning of the period or at the time of issue of the potential ordinary shares, if they were issued during the reporting period.

2.4.14. Borrowings and equity instruments

Borrowings and equity instruments issued by Naturgy are classified based on the nature of the issue.

Naturgy treats all contracts that represent a residual share in its net assets as equity instruments.

Equity instrument issuance costs are presented as a deduction from equity.

2.4.15. Preference shares and subordinated perpetual debentures

Preference shares and subordinated perpetual debentures are classified as equity instruments if and only if:

- They do not include a contractual obligation for the issuer to repurchase them for amounts and at dates that are determined or determinable, or a right of the holder to demand their redemption.
- The payment of interest is at the discretion of the issuer.

In the case of issues of preference shares made by a subsidiary of the Group that fulfil the foregoing conditions, the amount received is classified in the consolidated balance sheet under “Non-controlling interests”.

2.4.16. Deferred income

This heading mainly includes:

- Capital grants received, relating basically to agreements with regional governments for the gasification or electrification of municipalities and other investments in gas or electricity infrastructure for which Naturgy has met all the conditions established, are stated at the amount granted. The amounts allocated are recognised in profit or loss systematically over the useful life of the subsidised asset, offsetting the amortisation expense.
- Revenue received for the construction of facilities for connecting to the gas or electricity distribution network (connections), which is recognised for the cash amount received, as well as such facilities received under assignment, which are recognised at fair value. The allocated amounts are recognised systematically in profit or loss over the useful life of the facilities.

2.4.17 Value of adjustments for deviations in the market price in accordance with article 22 of RD 413/2014

On 22 October 2021, the CNMV issued a communiqué establishing the criteria for recognising the value of adjustments for deviations in the market price in accordance with Article 22 of Royal Decree 413/2014, of 6 June, which regulates electricity generation from renewable energy sources, cogeneration and waste (RD 413/2014).

The value of the adjustments for deviations in the market price includes the differences arising each year between the revenue from energy sales at the price estimated by the regulator at the beginning of each regulatory semi-period and the actual average market price in that year.

Following the approach established by the CNMV, Naturgy generally recognises each market deviation, whether positive and negative, arising under RD 413/2014 as assets and liabilities in the consolidated balance sheet.

However, if, according to our best estimates of the future evolution of energy market prices, it would be highly probable that market returns in excess of those established in RD 413/2014 would be obtained over the residual regulatory life of the facilities and, consequently, abandoning this remuneration regime would not have significantly more adverse economic consequences than remaining in it, only assets in that situation are recognised.

In the case of a facility that is in the last semi-period of its regulatory life, or where Naturgy has given notice of early abandonment of the remuneration regime established in RD 413/2014, an asset or liability will be recognised in each year for the net accumulated amount of the positive and negative deviations generated in that semi-period up to the closing date of that fiscal year.

The retroactive application of this new accounting approach published by the CNMV would not result in material changes in the comparative information for 2020 (impact on equity at 31 December 2020 of Euros 1 million) and, consequently, Naturgy did not restate the comparative information for 2020 and it applied the new approach in 2021.

2.4.18. Provisions for employee obligations

a. Post-employment obligations and similar

- Defined contribution plans

Naturgy Energy Group, S.A., together with other group companies, is the promoter of a joint occupational pension plan, which is a defined contribution plan for retirement and a defined benefit plan for the so-called risk contingencies, which are insured.

Additionally, there is a defined contribution plan for a group of executives, for which Naturgy undertakes to make certain contributions to an insurance policy, guaranteeing this group a yield of 125% of the CPI on the contributions made to the policy. All the risks have been transferred to the insurance company, since it also insures the guarantee indicated above.

The contributions made have been recognised under Personnel expenses in the consolidated income statement.

- Defined benefit plans

For certain groups there are defined benefit commitments relating to the payment of supplementary retirement, death and disability pensions, in accordance with the benefits agreed by the entity and which have been externalised in Spain through single premium insurance policies under Royal Decree 1588/1999 of 15 October, which adopted the Regulations on the arrangement of company pension commitments.

The liability recognised for the defined benefit pension plans is the present value of the liability at the balance sheet date less the fair value of the plan-related assets. Defined-benefit liabilities are calculated annually by independent actuaries using the projected unit credit method. The present value of the liability is determined by discounting the estimated future cash flows at the yields on bonds denominated in the currency in which the benefits will be paid at maturities similar to those of the respective liabilities.

Actuarial losses and gains arising from changes in actuarial assumptions or from differences between assumptions and reality are recognised in full directly in "Other comprehensive income" under equity in the period in which they arise.

Past service costs are recognised immediately in the profit or loss under "Personnel expenses".

b. Other post-employment obligations

Some of Naturgy's companies provide post-employment benefits to their employees. Entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and completing a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that used for defined-benefit pension plans. Actuarial gains and losses arising from changes in actuarial assumptions are charged or credited directly to Other comprehensive income.

c. *Termination benefits*

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts termination voluntarily in exchange for these benefits. Naturgy recognises these benefits when it has undertaken demonstrably to terminate current employees according to a detailed formal plan without possibility of withdrawal, or to provide termination benefits. In the event that mutual agreement is required, the provision is only recognised in those situations in which Naturgy has decided to give its consent to voluntary terminations once they have been requested by the employees.

2.4.19. Provisions

Provisions are recognised when Naturgy has a legal or implicit present obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the best estimate available at the balance sheet date of the present value of the amount required to settle the obligation.

When it is expected that part of the disbursement needed to settle the provision will be paid by a third party, the receipt is recognised as a separate asset, provided that its receipt is practically assured.

Naturgy must incur a series of costs for the dismantling of its production facilities, including the cost of the work required to prepare the land on which they are located. In the case of the nuclear power plants, all of which are located in Spain, it covers the costs incurred by the plant operator from the end of their useful life until the state-owned enterprise Empresa Nacional de Residuos Radiactivos, S.A. (ENRESA) takes charge of decommissioning and waste management.

For this purpose, the estimated present value of these costs is recognised as an increase in the value of the asset, with a credit to "Provisions" at the beginning of the asset's operation. This estimate is reviewed regularly to ensure that the provision reflects the present value of all the estimated future costs. The asset value is adjusted only for deviations with respect to the initial estimate.

Naturgy applies a risk-free rate for discounting the provision since the future cash flows estimated to meet this obligation reflect the risks specific to the related liability. The risk-free rate that is used corresponds to the yield, at the end of the reporting period, on government bonds with sufficient depth and creditworthiness, in the same currency and with similar maturity to the obligation. The variation in the provision arising from discounting is recognised against “Financial expenses” in consolidated profit or loss.

In contracts in which the obligations undertaken include unavoidable costs greater than the economic benefits expected to be received from them, the expenses and respective provisions are recognised in the amount of the present value of the existing difference. The unavoidable costs of the contract will reflect the lower net costs of terminating the contract or, in other words, the lower of the cost of complying with its clauses and the amount of the penalty for non-compliance.

In order to cover the obligation concerning the delivery of CO_2 emission allowances for emissions made during the year, the CO_2 allowances to be delivered are recognised under Current provisions at acquisition cost, in the case of purchased allowances recognised under Inventories, or at fair value, in the case of allowances pending purchase if not all necessary emission allowances are held.

2.4.20. Leases

At the commencement of a contract, Naturgy evaluates whether the contract is or contains a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for a consideration.

The lease term is the non-cancellable period, considering the initial term of each contract, unless Naturgy has a unilateral option to extend or terminate and there is reasonable certainty that this option will be exercised, in which case the corresponding extension term or early termination date will be taken into account.

Naturgy re-assesses to determine whether a contract is, or contains, a lease only if the terms and conditions of the contract change.

Lessee

In contracts where Naturgy is the lessee, it recognises an asset for the right-of-use and a financial liability for the lease (Notes 2.4.5 and 2.4.21).

Lessor

Naturgy classifies leases in which it is the lessor as operating leases or finance leases.

A lease where Naturgy transfers to the client substantially all the risks and rewards of ownership of the underlying asset is classified as a finance lease. A lease where substantially all the risks and rewards of ownership of the underlying asset are not transferred is classified as an operating lease.

- *Operating leases:* Operating lease payments are recognised as revenue in the lessor's income statement on a straight-line basis over the term of the contract unless another basis is more representative of the pattern of the benefit from the underlying asset.

- Finance leases: Naturgy will recognise an account receivable in its balance sheet for an amount equal to the present value of lease receipts, plus the non-assured residual value, discounted using the interest rate implicit in the lease agreement.

Subsequently, the lessor will recognise the financial revenues over the lease term so as to obtain in each period a constant interest rate on the outstanding net financial investment in the lease (leased asset). And it will charge the lease payments against the gross investment to reduce both the principal and the accrued financial revenues.

When a contract includes lease and non-lease components, Naturgy applies IFRS 15 to allocate the consideration under the contract between the components.

2.4.21. Lease liabilities

On the lease commencement date, Naturgy recognises the lease liability for the present value of the lease payments to be made over the lease term, discounted using the interest rate implicit in the lease or, if this can not be readily determined, the incremental borrowing rate.

Naturgy uses different incremental borrowing rates for homogeneous portfolios of leases, countries and contract terms. The weighted average incremental borrowing rate for 2021 was 2.9% in Spain and 6.1% in Latin America.

The lease payments to be made will include the fixed payments less any lease incentives, variable payments that depend on an index or a rate, as well as residual value guarantees expected to be incurred, the strike price of a purchase option, if such option is expected to be exercised, and penalty payments for terminating the lease, if the term of the lease reflects that the lessee will exercise an option to terminate.

All other variable payments are excluded from the measurement of the lease liability and the right-of-use asset.

The financial liability under the lease is subsequently incremented by the interest on the lease liability, less payments already made. The liability is re-measured if there are changes in the amounts to be paid and in the lease term.

2.4.22. Income tax

Corporate income tax expense includes the deferred tax expense and the current tax expense, the latter being the amount payable (or refundable) in connection with taxable income for the year.

Naturgy considers the effect of uncertainty in tax treatment when determining taxable earnings, tax bases, unused tax losses, unused tax credits and tax rates.

Deferred taxes are recognised by applying to the timing differences that arise between the tax base of assets and liabilities and their respective carrying amounts in the consolidated annual accounts, the tax rates that are expected to be in force when the assets and liabilities are realised. No deferred taxes are recognised for profits not distributed by subsidiaries when Naturgy can control the reversal of the timing differences and it is likely that they will not reverse in the foreseeable future.

Deferred taxes arising from direct charges or credits to equity accounts are also charged or credited to equity.

Deferred tax assets and tax credits are recognised only to the extent that it is probable that future taxable income will be available against which to offset the timing differences and apply the tax credits.

If tax rates change, deferred tax assets and liabilities are re-measured. These amounts are charged or credited to consolidated profit or loss or to "Other comprehensive income for the year" in the consolidated statement of comprehensive income, depending on the account to which the original amount was charged or credited.

When there is uncertainty regarding income tax treatments, Naturgy assesses whether a tax authority is likely to accept an uncertain tax treatment. If it concludes that the tax authority is unlikely to accept an uncertain tax treatment, the effect of the uncertainty on taxable income, tax bases and unused tax losses and credits is recognised. The effect of the uncertainty is recognised using the method that, in each case, best reflects the outcome of the uncertainty: the most likely outcome or the expected value. In each case, Naturgy assesses whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments, depending on the approach that best reflects the projected resolution of the uncertainty.

2.4.23. Recognition of income and expenses

a. General

Revenue derived from contracts with customers is recognised on the basis of fulfilment of the performance obligations to customers.

Revenue reflects the transfer of goods or services to customers at an amount that reflects the consideration to which Naturgy expects to be entitled in exchange for such goods or services.

Five steps are established for the recognition of revenue:

1. Identify the customer contracts.
2. Identify the performance obligations.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations.
5. Recognise the revenue on the basis of fulfilment of each obligation.

Based on this recognition model, sales of goods are recognised when products are delivered to the customer and have been accepted by them, even if they have not been invoiced, or when services are rendered, and there is a reasonable assurance that the related accounts receivable will be collected. Net revenues for the year include the estimate of the energy supplied that has not yet been invoiced.

Expenses are recognised on an accruals basis, immediately in the case of disbursements that are not going to generate future economic profits or when the requirements for recognising them as assets are not met.

Sales are stated net of tax and discounts, and transactions between Naturgy companies are eliminated.

b. Gas transmission and distribution network access revenue

National Commission for Markets and Competition (CNMC) Circular 4/2020, of 31 March, established the methodology for determining the remuneration for natural gas distribution applicable from 1 January 2021.

The remuneration for the regulated gas distribution activity is established annually for each distribution company based on the customers connected to them and the volume of gas supplied.

CNMC Circular 9/2019, of 12 December 2019, establishes the methodology for determining the remuneration of natural gas transportation facilities and liquefied natural gas plants applicable from 1 January 2021.

The annual remuneration for regulated gas transportation is set on the basis of account the investment and operating costs of these assets.

The regulatory framework of the natural gas sector in Spain (Annex IV.) regulates a settlement procedure for redistributing, among the companies in the sector, the net revenues obtained by application of the tolls, so that each company receives the remuneration recognised for its regulated activities.

Royal Decree 1184/2020, of 29 December, establishing the methodologies for calculating the gas system charges, the regulated remuneration for basic underground storage facilities and the fees for their use, establishes that, from 1 October 2021, the settlements will be performed per gas year and per business, distinguishing between revenues obtain from tolls, levies and charges.

Subsequently, to implement that Royal Decree, Order TED/1022/2021, of 27 September 2021, regulates the procedures for settling the remuneration for regulated activities, charges and specific fees in the gas sector.

At the date of authorisation of these consolidated annual accounts, no final settlements from prior years are outstanding.

CNMC Resolution of 11 February 2021, published in the Official State Gazette on 23 February 2021, established the remuneration for regulated gas transportation and distribution activities for the 2021 gas year (from 1 January to 30 September 2021).

CNMC Resolution of 20 May 2021, published in the Official State Gazette on 3 June 2021, established the remuneration for regulated gas transportation and distribution activities for the 2022 gas year (1 October 2021 to 30 September 2022).

Both remunerations are funded with the revenues from tolls and fees established for the use of the networks. Those tolls and fees are set each year in accordance with CNMC Circular 6/2020, establishing the methodology for calculating transportation, local grid and regasification tolls for natural gas, which was published in July 2020.

CNMC Resolution of 18 December 2019, published in the Official State Gazette on 30 December 2019, established the remuneration for the regulated gas transportation and distribution activities applied during 2020, at the end of which the regulatory period that was in force between 5 July 2014 and 31 December 2020 concluded.

The 2020 gas system remuneration year concluded in 2021 with a surplus, according to the final settlement for that year approved by the CNMC on 25 November 2021, which was applied as a partial early repayment of the deficit corresponding to 2014, in accordance with the provisions of Law 18/2014.

The commissioning of distribution facilities to deliver gas to supply points is considered to be a single performance obligation and, therefore, the remuneration for the regulated gas transportation and distribution activity is recognised as revenue on a straight-line basis since the service provided is similar over time.

c. Revenues from gas sales

Revenue includes the amount of both last-resort gas sales and free market sales, since the last-resort supplier and the free-market supplier are deemed to be principals and not commission agents in those supplies.

Royal Decree Law 17/2021, of 14 September, on urgent measures to mitigate the impact of the escalation of natural gas prices on retail gas and electricity markets, caps the increase in the raw material price that can be passed on in the last resort tariff for natural gas applicable from 1 October 2021 at 35% of the value that was in force (Annex IV). In the review corresponding to 1 January 2022, the maximum increase in the cost of raw material with respect to that in force in the revision dated 1 October 2021 was set at 15%.

The difference between the increase in the raw material cost and the increase passed on via the tariff will be recovered in the revisions that take place from 1 January 2022, with the raw material price increase capped at 15%.

The procedure for the recovery of the amounts owed cannot be terminated until the last resort supply companies have recovered the full amount owed, including any applicable interest. These payments will be covered out of billings under the last resort tariff and, failing that, they will be classified as a mismatch between revenues and costs of the gas system, in accordance with the provisions of Article 61 of Law 18/2014, of 15 October, approving urgent measures for growth, competitiveness and efficiency (as introduced by Royal Decree Law 27/2021).

Under that regulation, Naturgy recognises as a revenue any deviations in the cost of raw materials not passed on in the last resort tariff from 1 October 2021 (Note 10).

Exchanges of gas that do not have a different value and do not entail costs giving rise to differences in value are not classified as revenue-generating transactions and, consequently, are not reported as revenues.

The amount of gas sales is recognised as revenue at the time of delivery to customers, based on the quantities supplied and including an estimate of energy supplied but not yet read on customers' meters (Note 2.4.25).

d. Electricity distribution and transmission network access revenue

The remuneration for electricity distribution and transmission is established annually by the Ministry of the Ecological Transition (through 2019) and by the CNMC (since 2020), applying the approved methodology, which recognises remuneration for the investment and for operation and maintenance of those assets.

The commissioning of distribution facilities to deliver electricity to supply points is considered to be a single performance obligation and, therefore, the remuneration for the regulated electricity transmission and distribution activity is recognised as revenue on a straight-line basis since the service provided is similar over time.

The regulatory framework of the electricity sector in Spain (Appendix IV) regulates a payment procedure for the redistribution among companies in the sector of the net revenues obtained, so that each company receives the remuneration recognised for its regulated activities.

The remuneration for electricity distribution is settled provisionally by applying the 2016 figures until publication of the respective Ministerial Orders that definitively determine the remuneration for 2017, 2018 and 2019 and of the CNMC Circulars that determine the remuneration for 2020 and the remuneration that would apply to date in 2021.

At the date of authorisation of these consolidated annual accounts, the final settlements for the period 2017 to 2021 have not been published, although it is not expected that the final settlements will lead to significant differences in relation to the estimates made.

Following the enactment of Electricity Sector Law 24/2013, of 26 December, temporary mismatches between electricity system revenues and costs are funded by the companies that are subject to the settlement system, including Naturgy, and they are entitled to recover the corresponding amount over the following five years, including interest at a market rate. Consequently, the electricity system revenue shortfall is recognised as a financial asset since, on the basis of this regulation, Naturgy is entitled to reimbursement and there are no contingent future factors.

A revenue shortfall arose again in the sector in 2019, which was covered by transferring from the specific account an equivalent amount against prior years' surpluses, as established in the Third Additional Provision of Royal Decree-Law 23/2020, of 23 June 2020, and Order TED/952/2020, of 5 October 2020. Another deficit arose in the sector in 2020, which, as in 2019, was covered with unused surpluses from prior years.

e. Revenue from the sale of electricity

Revenue includes the amount of electricity sold in both the PVPC market and the free market, since the last-resort supplier and the free-market supplier are deemed to be principals and not commission agents in those supplies. Consequently, electricity purchases and sales are recognised for the total amount. Nonetheless, electricity purchases from and sales to the pool by the Group's generation and supply companies in the same time band are eliminated during the consolidation process.

The amount of electricity sales is recognised as revenue at the time of delivery to customers, based on the quantities supplied and including an estimate of energy supplied but not yet read on customers' meters (Note 2.4.25).

In accordance with the provisions of Royal Decree 413/2014 (RD 413/2014), renewable energy generation facilities in Spain receive certain incentives (specific remuneration regime). RD 413/2014 establishes that certain remuneration parameters will be updated by ministerial order in each regulatory semi-period. In this regard, Order TED/171/2020 established the remuneration parameters for estimating these incentives for the 2020-2022 regulatory period.

RD 413/2014 regulates the procedure to be followed in the event that actual market prices in the semi-periods of the regulatory useful life of the asset prove to be lower (positive adjustments) or higher (negative adjustments) than the prices estimated by the regulator at the beginning of the regulatory semi-period and which were used to determine the incentives to be received for the investments under the scope of the regulation.

The accounting treatment for market price deviations applied by Naturgy conforms to "Criterio para contabilizar el "Valor de los ajustes por desviaciones en el precio del mercado",, in accordance with Article 22 of RD 413/2014", published by the CNMV on 22 October 2021 (Note 2.4.17.), whereby:

- In general, each market deviation, whether positive or negative, arising under the scope of RD 413/2014 is recognised in the consolidated balance sheet, with a balancing entry in net turnover.
- However, if, according to Naturgy's best estimates of the future evolution of energy market prices, it would be highly probable that market returns in excess of those established in RD 413/2014 would be obtained over the residual regulatory life of the facilities and, consequently, abandoning this remuneration regime would not have significantly more adverse economic consequences than remaining in it, the general approach is not followed and only the asset is recognised in the event of positive market deviations. The following facilities are in this situation:

  a. Facilities for which, at the date of authorisation of these consolidated annual accounts, considering the estimated market prices for 2022 and subsequent years, inclusion in the premium regime is indifferent either because the NAV (as defined in RD 413/2014) has already been fully recovered or because it is estimated that the observable prices will not give rise to the supplementary remuneration for investment (Rinv) from 2023 onwards. In either case, these facilities would have achieved the reasonable returns established by RD 413/2014 before the end of their regulatory useful life.

  b. Facilities which, at the date of authorisation of these consolidated annual accounts, will need to be supplemented by Rinv until the end of their regulatory useful life but for which abandoning the remuneration system would not have significantly more adverse economic consequences than remaining in it. The threshold established by the Group to determine whether the economic consequences are not materially adverse was calculated as the difference between the present value of the cash flows of these facilities if they remain in the specific remuneration regime or they abandon it, where this difference is less than or equal to 5%.

The Group regularly reviews the foreseeable future evolution of market prices and determines whether abandoning the remuneration system would have significantly more adverse economic consequences than remaining in the system and whether the facility remains within the aforementioned threshold. Otherwise, the general approach is applied.

At the end of the asset's regulatory life, positive adjustments net of negative adjustments arising in the last regulatory semi-period are recognised, based on their balance, in asset or liability accounts with a balancing entry in revenue. At the date of authorisation of these consolidated annual accounts, there were no facilities in the last semi-period of their regulatory useful life.

Although for some facilities it is estimated that abandoning the remuneration system would not have significantly more adverse economic consequences than remaining in it, they have not abandoned it nor are there any plans to do so in the short term, mainly because it does not generate material additional obligations other than those inherent to efficiently managing the facilities and power generation.

Naturgy has estimated market prices over the remaining regulatory useful lives of the facilities based on internal estimates used in the Naturgy's normal budgeting operations, which are in line with the market consensus.

Estimated future market prices for the next few years are as follows:

	2022	2023	2024	2025	2026
Price Euro/MWh	152,2	80,9	75,7	69,5	58,1

f. Other revenues

Naturgy has power generation capacity assignment contracts with the Comisión Federal de Electricidad (CFE) for its combined-cycle plants in Mexico, with a 25-year term from their entry into commercial operation. These contracts stipulate a pre-established payment schedule for the assignment of the power generation capacity. As Naturgy has the capacity to operate and manage the plants and retains the risks and rewards of operation, and it takes material decisions that will affect future cash flows, these contracts represent a delivery of services and are therefore recognised on a percentage-of-completion basis over time.

Revenue from new customer connections, which consist of coupling the gas reception facility to the network, as well as revenue from facility verifications, are recognised at the time these actions are carried out since it is at that time that the customer obtains the benefits of the service provided and there is no associated future obligation.

Revenue from the rental of meters and facilities is recognised over the period of the rental service that constitutes the performance obligation.

Revenues from contracts for the provision of services are recognised on a percentage-of-completion basis under which, when the revenues can be reliably estimated, they are recognised over time based on the progress of contract execution at year-end, calculated as the proportion of costs incurred to date over the estimated total costs necessary to execute the contract.

If the contract revenues cannot be estimated reliably, revenues are only recognised for an amount equivalent to the costs incurred in the period, provided that those costs can be recovered. The contract margin is not recognised until there is certainty that it will materialise based on cost and revenue planning.

2.4.24. Cash-flow statement

The consolidated cash flow statement was drawn up using the indirect method and contains the following terms, with their respective meanings:

a. Operating activities: activities that provide the group's ordinary revenues, as well as other activities that cannot be classified as investing or financing.

b. Investing activities: acquisition and disposal of non-current assets and other investments not included in cash and cash equivalents.

c. Financing activities: activities that result in changes in the size and composition of equity and liabilities and are not operating activities.

2.4.25. Significant accounting estimates and judgments

The preparation of annual accounts requires the use of estimates and judgements. The measurement standards that require a large number of estimates are set out below:

a. Intangible assets and property, plant and equipment (Notes 2.4.3. and 2.4.4.)

The useful lives of intangible assets and property, plant and equipment are determined using estimates of the degree of use of the assets and of expected technological progress. The assumptions regarding the degree of use, technological framework and future development involve a significant degree of judgement, insofar as the timing and nature of future events are difficult to foresee.

b. Impairment of non-financial assets (Note 2.4.6)

The estimated recoverable value of the CGUs that is used in impairment tests has been determined using discounted cash flows based on projections made by Naturgy, which have been substantially met in the past.

Note 4 details the main assumptions used to determine the recoverable value of non-financial assets.

c. Derivatives and other financial instruments (Note 2.4.8)

The fair value of financial instruments traded in active markets is based on quoted market prices at the consolidated balance sheet date. The quoted market price used for financial assets is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using measurement techniques. Naturgy uses a variety of methods and makes assumptions that are based on market conditions existing at each consolidated balance sheet date.

- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates quoted in the market at the consolidated balance sheet date.

– The fair value of commodity derivatives is calculated by using the curves of forward prices quoted in the market at the consolidated balance sheet date.

For disclosure purposes, it is assumed that the carrying amount of trade and other receivables less expected impairment losses approximates their fair value. The fair value of other financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to Naturgy for similar financial instruments.

d. Provisions for employee benefits (Note 2.4.18)

The calculation of the pension expense, other post-employment benefit expenses and other post-employment liabilities requires number of assumptions to be made. At year-end, Naturgy estimates the provision required to cover pension commitments and similar obligations, based on advice from independent actuaries. Changes that affect these assumptions could give rise to the recognition of different amounts of expenses and liabilities. The most significant assumptions for the measurement of pension or post-retirement benefit liabilities are energy consumption by beneficiaries during retirement, retirement age, inflation and the discount rate employed. Moreover, the assumption as to social security coverage is essential in determining other post-employment benefits. Future changes in these assumptions will have an impact on the future pension expenses and liabilities.

e. Provisions (Note 2.4.19)

Naturgy makes an estimate of the amounts to be settled in the future, including amounts relating to contractual obligations, onerous contracts arising from them, future costs of dismantling and decommissioning certain facilities, land restoration costs, and other liabilities. These estimates depend on the interpretation of current events and circumstances, projections of future events and estimates of their financial effects, and on the outcome of negotiations in connection with gas procurement contracts.

f. Corporate income tax (Note 2.4.22)

The calculation of the income tax expense requires interpretations of tax legislation in the jurisdictions in which Naturgy operates. The decision as to whether the tax authority will accept a given uncertain tax treatment and the expected outcome of outstanding litigation requires material estimates and judgements to be made. Naturgy evaluates the recoverability of deferred tax assets based on estimates of future taxable income and the capacity to generate sufficient income in the periods in which such deferred taxes are deductible. Deferred tax liabilities are recognised based on estimates of the net assets that will not be tax deductible in the future.

g. Revenue recognition (Note 2.4.23)

Revenues from the sale of energy are recognised when the good is delivered to the customer based on regular meter readings. They also include an estimate of the energy supplied but not yet billed at the closing date, due to the fact that it has not been measured in the normal course of the meter reading cycle.

Energy accrued but not yet billed is estimated differently in each of the group's business segments, based on their characteristics. The main variables involved in estimating revenues are the price and the volumes consumed and purchased.

– Prices: determined as a function of the prices for different customer types based on the estimated consumption curves.
– Consumption: based on estimated daily consumption derived from seasonally-adjusted historical profiles for the various customer types and other factors than can be measured and affect consumption.
– The volume of energy acquired by the group's supply companies to meet demand.

Naturgy has experience and sufficiently developed information systems to ensure the accuracy of the estimates recognised in this connection under revenue in consolidated profit or loss and compliance with the requirements established in the accounting standards. No material adjustments have been made in the past relating to the amounts recognised as unbilled revenues and none are expected in the future.

Historically, no material adjustments have been made relating to the amounts recognised as unbilled revenues and none are expected in the future.

Certain aggregates for the electricity and gas system, including those relating to other companies which make it possible to estimate the overall settlement for the electricity system that will result in the final payments, could affect the calculation of the shortfall in the settlements of regulated electricity and gas activities in Spain.

h. Determination of lease terms (Note 2.4.20)

In determining the lease term, Naturgy considers all material facts and circumstances that create a significant economic incentive for the lessee to exercise the renewal option or not to exercise the cancellation option. Renewal or termination options are only used to determine the lease term if it is reasonably certain that the lease will be extended or not terminated. Where there is a significant event or a significant change in circumstances that might affect the determination of the term, Naturgy reviews the valuations made in determining the lease term.

i. COVID-19

The COVID-19 pandemic raised major challenges to commercial activities and introduced a high degree of uncertainty as to economic performance and world energy demand.

In 2020, the confinement of a large proportion of the world population depressed economic activity and triggered widespread declines in macroeconomic indicators, energy demand and prices of the main energy variables.

In 2021, the effects of the COVID-19 pandemic increased the uncertainty about the outlook for individual companies and for the economy in general, and there was a supply and demand shock in the international markets for energy commodities that commenced in the third quarter of 2021, consisting of a sharp recovery in demand while supply lagged behind.

The Group monitors the evolution of the economic cycle in the short and long term, as a result of the impact of COVID-19 or other factors, with the objective of minimising the likelihood that further deteriorations or sharp recoveries in the current economic situation in the markets in which it operates might have material adverse effects on the Group's business, prospects, financial position and the results of its operations.

The prospects set out in the corresponding notes were considered when making the estimates and assumptions that are necessary to draw up the consolidated annual accounts.

j. Climate change and the Paris Agreement

Naturgy's strategy takes into consideration the objectives of the Paris Agreement to keep the global temperature increase below 2ºC and achieve climate neutrality by 2050, and they have been taken into account in the preparing the consolidated annual accounts for 2021.

In this regard, the effect of the commitments assumed by Naturgy on the estimates of the useful lives of the assets, on the costs of decommissioning and dismantling electric power facilities and on the impairment of non-financial assets was considered in drafting these consolidated annual accounts.

As detailed in Note 2.4.6, the projections used in the impairment tests of non-financial assets were based on the best available prospective information and reflect the investment plans existing in each CGU at that time. These plans are in line with Naturgy's strategy, which takes account of the objectives of the Paris Agreement. Those projections also took into account the expected effect on wholesale and retail electricity market prices of the entry into operation of new renewable generation facilities and the possible evolution of gas, oil and emission rights prices.

Note 3. Segment financial information

Continuing with its transformation process and in order to further ensure transparency and accountability, in 2020 Naturgy reorganised its business around three strategic areas: Energy and Network Management, Renewables and New Business, and Marketing. This new organisation improves the visibility of development in the lines of business and has allowed the operating segments to be redefined based on the following criteria:

- Energy and Network Management:

  - Iberian Networks:

    - Gas networks Spain: encompasses the regulated gas distribution business in Spain.
    - Electricity networks Spain: encompasses the regulated electricity distribution business in Spain.

  - Latin American networks:

    - Gas and electricity networks in Argentina.
    - Gas networks in Brazil.
    - Gas and electricity networks and marketing in Chile (the latter considered as a discontinued activity until its sale in July 2021, see Note 11).
    - Gas networks in Mexico.
    - Electricity networks in Panama.
    - Gas networks in Peru (discontinued activity, see Note 11).

  - Energy Management:

    - International LNG: includes both the sale of liquefied natural gas and the sea transport business.
    - Markets and supplies: includes supply management and sales to high energy-intensive consumers. Also includes the activity of Unión Fenosa Gas (consolidated by the equity method until March 2021 and then globally integrated (see Note 2.4.1.), and other gas infrastructures.
    - Gas pipelines: Manages the Maghreb-Europe gas pipelines (until the end of the concession in October 2021) and the Medgaz pipeline (accounted for using the equity method).
    - Thermal generation Spain: includes the management of conventional thermal generation (which uses fuel for heat generation and which is not covered by a special regime) in Spain (nuclear, combined cycle and discontinued coal-fired plants) (Note 11).
    - Thermal generation Latin America: includes management of conventional thermal generation facilities of Global Power Generation (GPG) in Mexico, Dominican Republic and Puerto Rico, the latter accounted for using the equity method through EcoEléctrica LP.

- Renewables and New Business:

  - Renewables Spain and the United States: includes the management of facilities and generation projects for wind energy, mini hydro, solar and cogeneration, additionally incorporating hydroelectric power generation after the redefinition of this segment in 2020. The activities included in this segment are mainly carried out in Spain, although following the acquisition in January 2021 of the Hamel Renewables project portfolio (Note 2.4.1.) this activity has started being carried out in the United States.
  - Renewables Latin America: includes the management of the facilities and renewable electricity generation projects of GPG located in Latin America (Brazil, Chile, Costa Rica, Mexico and Panama).
  - Renewables Australia: includes the management of the facilities and the renewable electricity generation projects of GPG in Australia.

- Supply: its objective is to manage the commercial model for end customers for gas, electricity and services, incorporating new technologies and services and developing the full potential of the brand.

- Rest. Basically includes the corporation's operating expenses, as well as, in 2020, the expenses defined in the Lean project (non core areas outsourcing).

Segment results and investments for the periods of reference are as follows:

Segment financial information – Income statement

2021	Networks and Energy management																Renewables and New businesses				Supply	Rest	Eli.	Total
	Networks Spain			Networks Latam						Energy management														
	Gas net.	Electr. net.	**Total**	Argentina	Brazil	Chile	Mexico	Panama	**Total**	Markets and Procurem.	LNG	Pipelines (EMPL)	Europe CG	Latam CG	**Total**	**Total**	Spain & USA	Latam	Australia	**Total**				
Consolidated Net sales	1,129	802	**1,931**	515	1,288	620	776	727	**3,926**	3,681	2,880	69	1,892	1,013	**9,535**	**15,392**	128	141	21	**290**	**6,457**	**1**	**—**	**22,140**
Net sales between segments	77	38	**115**	—	—	—	—	—	**—**	1,143	2	142	199	—	**1,486**	**1,601**	379	9	—	**388**	**1,486**	**56**	**(3,531)**	**—**
Intersegment Net sales	—	—	**—**	—	—	—	—	—	**—**	3,405	534	—	—	—	**3,939**	**3,939**	—	—	—	**—**	**—**	**—**	**(3,939)**	**—**
Net sales (by segment)	**1,206**	**840**	**2,046**	**515**	**1,288**	**620**	**776**	**727**	**3,926**	**8,229**	**3,416**	**211**	**2,091**	**1,013**	**14,960**	**20,932**	**507**	**150**	**21**	**678**	**7,943**	**57**	**(7,470)**	**22,140**
Procurements (by segment)	(87)	—	**(87)**	(311)	(995)	(380)	(508)	(560)	**(2,754)**	(8,040)	(3,005)	—	(1,695)	(723)	**(13,463)**	**(16,304)**	(90)	(39)	—	**(129)**	**(7,506)**	**(7)**	**7,417**	**(16,529)**
Personnel expenses, net	(144)	(136)	**(280)**	(46)	(19)	(26)	(20)	(10)	**(121)**	(39)	(25)	(9)	(86)	(16)	**(175)**	**(576)**	(82)	(20)	(2)	**(104)**	**(141)**	**(119)**	**—**	**(940)**
Other operating income/expenses	(118)	(113)	**(231)**	(95)	(43)	(23)	(30)	(32)	**(223)**	(60)	(13)	(11)	(219)	(29)	**(332)**	**(786)**	73	(20)	(10)	**43**	**(392)**	**(60)**	**53**	**(1,142)**
EBITDA	**857**	**591**	**1,448**	**63**	**231**	**191**	**218**	**125**	**828**	**90**	**373**	**191**	**91**	**245**	**990**	**3,266**	**408**	**71**	**9**	**488**	**(96)**	**(129)**	**—**	**3,529**
Depreciation, amortisation & impairment losses	(291)	(248)	**(539)**	(5)	(46)	(59)	(52)	(46)	**(208)**	(17)	(181)	(47)	(84)	(63)	**(392)**	**(1,139)**	(152)	(29)	(10)	**(191)**	**(80)**	**(52)**	**—**	**(1,462)**
Impairment due to credit losses	(3)	(7)	**(10)**	(12)	(13)	(6)	(5)	(5)	**(41)**	1	—	—	1	—	**2**	**(49)**	—	—	—	**—**	**(50)**	**—**	**—**	**(99)**
Other results	—	—	**—**	—	—	—	4	—	**4**	127	(7)	—	—	—	**120**	**124**	2	—	—	**2**	**7**	**—**	**—**	**133**
Operating profit/(loss)	**563**	**336**	**899**	**46**	**172**	**126**	**165**	**74**	**583**	**201**	**185**	**144**	**8**	**182**	**720**	**2,202**	**258**	**42**	**(1)**	**299**	**(219)**	**(181)**	**—**	**2,101**
Profit/(loss) of entities recorded by equity method	**—**	**1**	**1**	**—**	**—**	**9**	**1**	**—**	**10**	**(2)**	**—**	**12**	**—**	**54**	**64**	**75**	**15**	**—**	**—**	**15**	**—**	**—**		**90**

2020	Networks and Energy management																Renewables and New businesses				Supply	Rest	Eli.	Total
	Networks Spain			Networks Latam						Energy management														
	Gas net.	Electr. net.	**Total**	Argentina	Brazil	Chile	Mexico	Panama	**Total**	Markets and Procurem.	LNG	Pipelines (EMPL)	Europe CG	Latam CG	**Total**	**Total**	Spain & USA	Latam	Australia	**Total**				
Consolidated Net sales	1,102	803	**1,905**	522	1,001	521	579	759	**3,382**	1,627	2,046	80	602	610	**4,961**	**10,248**	304	89	20	**413**	**4,664**	**20**		**15,345**
Net sales between segments	75	39	**114**	—	—	—	—	—	**—**	714	16	180	408	2	**1,324**	**1,438**	212	15	—	**227**	**1,638**	**155**	**(3,458)**	**—**
Intersegment Net sales	—	—	**—**	—	—	—	—	—	**—**	1,881	723	—	—	—	**2,604**	**2,604**	—	—	—	**—**	**—**	**—**	**(2,604)**	**—**
Net sales (by segment)	**1,177**	**842**	**2,019**	**522**	**1,001**	**521**	**579**	**759**	**3,382**	**4,222**	**2,785**	**260**	**1,010**	**612**	**8,889**	**14,290**	**516**	**104**	**20**	**640**	**6,302**	**175**	**(6,062)**	**15,345**
Procurements (by segment)	(70)	—	**(70)**	(328)	(729)	(256)	(316)	(586)	**(2,215)**	(4,407)	(2,626)	—	(638)	(333)	**(8,004)**	**(10,289)**	(59)	(4)	—	**(63)**	**(5,686)**	**(6)**	**5,906**	**(10,138)**
Personnel expenses, net	(107)	(83)	**(190)**	(35)	(21)	(26)	(20)	(9)	**(111)**	(27)	(21)	(7)	(70)	(14)	**(139)**	**(440)**	(49)	(16)	(1)	**(66)**	**(106)**	**(186)**	**—**	**(798)**
Other operating income/expenses	(109)	(112)	**(221)**	(86)	(48)	(33)	(21)	(34)	**(222)**	(11)	(9)	(13)	(198)	(28)	**(259)**	**(702)**	(136)	(18)	(5)	**(159)**	**(184)**	**(71)**	**156**	**(960)**
EBITDA	**891**	**647**	**1,538**	**73**	**203**	**206**	**222**	**130**	**834**	**(223)**	**129**	**240**	**104**	**237**	**487**	**2,859**	**272**	**66**	**14**	**352**	**326**	**(88)**	**—**	**3,449**
Depreciation, amortisation & impairment losses	(294)	(249)	**(543)**	(212)	(50)	(58)	(48)	(45)	**(413)**	(27)	(135)	(56)	(1,083)	(85)	**(1,386)**	**(2,342)**	(361)	(17)	(5)	**(383)**	**(63)**	**(51)**	**—**	**(2,839)**
Impairment due to credit losses	(3)	(2)	**(5)**	(13)	(14)	(5)	(9)	(18)	**(59)**	—	—	—	2	—	**2**	**(62)**	—	—	—	**—**	**(93)**	**(1)**	**—**	**(156)**
Other results	—	—	**—**	—	—	—	—	—	**—**	1	—	—	—	—	**1**	**1**	(3)	—	—	**(3)**	**—**	**14**	**—**	**12**
Operating profit/(loss)	**594**	**396**	**990**	**(152)**	**139**	**143**	**165**	**67**	**362**	**(249)**	**(6)**	**184**	**(977)**	**152**	**(896)**	**456**	**(92)**	**49**	**9**	**(34)**	**170**	**(126)**	**—**	**466**
Profit/(loss) of entities recorded by equity method	**—**	**1**	**1**	**—**	**—**	**8**	**1**	**—**	**9**	**(30)**	**—**	**6**	**—**	**51**	**27**	**37**	**(2)**	**—**	**—**	**(2)**	**—**	**1**		**36**

Segmental financial information – Assets, liabilities and investments

2021	Networks and Energy management																Renewables and New businesses							
	Networks Spain			Networks Latam						Energy management														
	Gas net.	Electr. net.	**Total**	Argentina	Brazil	Chile	Mexico	Panama	**Total**	Markets and Procurem.	LNG	Pipelines (EMPL)	Europe CG	Latam CG	**Total**	**Total**	Spain & USA	Latam	Australia	**Total**	**Supply**	**Rest**	**Eli.**	**Total**
Operating assets (a)	3,373	5,077	**8,450**	269	845	1,878	773	1,300	**5,065**	2,741	1,546	3	1,636	1,199	**7,125**	**20,640**	3,515	720	787	**5,022**	**2,673**	**312**	**(1,925)**	**26,722**
Investments under equity method	—	7	**7**	—	—	23	3	1	**27**	40	—	192	13	263	**508**	**542**	82	—	—	**82**	**—**	**6**		**630**
Operating liabilities (a)	635	903	**1,538**	168	316	56	110	263	**913**	1,284	337	7	1,512	174	**3,314**	**5,765**	358	265	110	**733**	**1,693**	**454**	**(1,925)**	**6,720**
Investment in intangible assets (b)	18	29	**47**	31	28	1	11	2	**73**	5	1	—	5	—	**11**	**131**	7	1	1	**9**	**136**	**12**		**288**
Invest. in property, plant & equipment (c)	98	229	**327**	1	—	37	38	97	**173**	2	9	—	50	26	**87**	**587**	231	39	327	**597**	**—**	**12**		**1,196**
Business combinations (Note 33)	—	—	**—**	—	—	—	—	—	**—**	860	—	—	—	—	**860**	**860**	93	—	—	**93**	**—**	**—**	**—**	**953**

2020	Networks and Energy management																Renewables and New businesses							
	Networks Spain			Networks Latam						Energy management														
	Gas net.	**Electr. net.**	**Total**	Argentina	Brazil	Chile	Mexico	Panama	**Total**	Markets and Procurem.	LNG	Pipelines (EMPL)	Europe CG	Latam CG	**Total**	**Total**	Spain & USA	Latam	Australia	**Total**	**Supply**	**Rest**	**Eli.**	**Total**
Operating assets (a)	3,597	5,008	**8,605**	217	708	2,053	748	1,191	**4,917**	1,047	1,428	71	1,574	1,110	**5,230**	**18,752**	3,069	665	373	**4,107**	**1,470**	**436**	**(813)**	**23,952**
Investments under equity method	—	6	**6**	—	—	18	1	—	**19**	262	—	188	13	252	**715**	**740**	68	—	—	**68**	**—**	**5**		**813**
Operating liabilities (a)	714	960	**1,674**	170	177	59	78	268	**752**	813	297	10	715	146	**1,981**	**4,407**	138	74	9	**221**	**777**	**697**	**(813)**	**5,289**
Investment in intangible assets (b)	10	26	**36**	20	33	6	6	2	**67**	—	7	2	3	—	**12**	**115**	4	1		**5**	**51**	**16**		**187**
Invest. in property, plant & equipment (c)	86	199	**285**	2	—	150	31	92	**275**	1	8	1	48	23	**81**	**641**	136	188	100	**424**	**4**	**23**		**1,092**
Business combinations (Note 33)	—	—	**—**	—	—	—	—	—	**—**	—	—	—	—	—	**—**	**—**	—	—	—	**—**	**—**	**—**	**—**	**—**

(a) There follows a breakdown of the reconciliation of “Operating assets” and “Operating liabilities” with consolidated “Total assets” and “Total liabilities”:

	2021	2020
Operating assets	**26,722**	**23,952**
Goodwill	2,950	2,892
Investments carried under the equity method	630	813
Non-current financial assets	394	361
Deferred tax assets	2,267	1,635
Non-current assets held for sale (Note 11)	40	4,835
Derivative financial instruments (Note 9 and 10)	580	446
Public administrations (Note 10)	165	89
Current tax assets	141	37
Other current financial assets	395	558
Cash and cash equivalents	3,965	3,927
Total assets	**38,249**	**39,545**

	2021	2020
Operating liabilities	**(6,720)**	**(5,289)**
Equity	(8,873)	(11,265)
Non-current financial liabilities	(15,114)	(14,968)
Deferred tax liabilities	(1,787)	(1,793)
Liabilities related to non-current assets held for sale (Note 11)	(26)	(2,840)
Current financial liabilities	(1,698)	(2,571)
Derivative financial instruments (Notes 19 and 20)	(3,434)	(237)
Dividend payable (Note 19)	(25)	(25)
Public administrations (Note 20)	(439)	(375)
Current tax liabilities (Note 20)	(133)	(182)
Total Net Equity and liabilities	**(38,249)**	**(39,545)**

(b) Includes the investment in "Intangible assets" (Note 5), broken down by operating segment
(c) Includes the investment in "Property, plant and equipment" (Note 6), broken down by operating segment.

Reporting by geographic area

Naturgy's assets, which include the operating assets described above, and the investments recorded using the equity method, are as follows based on their location:

	31.12.2021	31.12.2020
Spain	17,624	16,747
Latin American	7,274	6,963
Argentina	269	217
Brazil	958	819
Chile	2,316	2,385
Mexico	2,146	2,040
Panama	1,342	1,232
Latam Rest	243	270
Rest of Europe	1,385	404
Other	1069	632
Total	**27,352**	**24,746**

The investments in property, plant and equipment and other intangible assets of Naturgy, as described above, assigned according to the location of the assets are as follows:

	31.12.2021	31.12.2020
Spain	842	621
Latin American	312	554
Argentina	32	22
Brazil	28	34
Chile	75	342
Mexico	74	59
Panama	99	94
Latam Rest	4	3
Rest of Europe	2	1
Other	328	103
Total	**1,484**	**1,279**

The revenue by geographical area is detailed on Note 22.

Note 4. Asset impairment losses

Definition of Cash Generating Unit

At 31 December 2021 and 2020, the Cash Generating Units (CGUs) are renamed and grouped following the business structure reorganisation carried out by Naturgy in 2020.

- **Energy and Network Management:**
  - Iberian Networks:
    - Gas networks Spain: Is a single CGU as the development, operation and maintenance of the gas distribution network is managed jointly.
    - Electricity networks Spain: This makes up a single CGU since the network comprises a group of interrelated assets the development, operation and maintenance of which is managed jointly.
  - Latin American networks: A CGU is understood to exist for each business and country in which there are operations since the businesses are subject to different regulatory frameworks. Includes the regulated gas distribution business in Argentina, Brazil, Chile, Mexico and Peru (until the resolution agreement with the Peruvian government in December 2020) and the regulated electricity distribution business in Argentina, Panama and Chile (until July 2021).
  - Energy Management:
    - International LNG sales: There is considered to be a single CGU, since the supply of liquefied natural gas and the maritime transport activity are managed on a global level.
    - Markets and supplies: A CGU is considered to exist since it manages supply and other gas infrastructures, as well as sales to major energy-intensive consumers. It also includes Unión Fenosa Gas following the transaction described in Note 2.4.1.).
    - Gas pipelines: Includes the CGU which manages the Maghreb-Europe gas pipeline (until October 2021), as well as the CGU for the Medgaz gas pipeline.
    - Thermal generation Spain: A single CGU is considered to exist for thermal power generation in Spain (nuclear, combined cycle and others).
    - Thermal generation Latin America: A thermal power generation CGU is understood to exist in each country in which there are operations (Mexico, Dominican Republic and Puerto Rico) since the businesses are subject to different regulatory frameworks and are managed independently.
- **Renewables and New Business:**
  - Spain: One CGU is considered for renewable electricity generation (wind, mini-hydro, solar and cogeneration) and another CGU for hydroelectric power generation.
  - USA: One CGU is considered which encompasses all projects in the country.
  - Latin American: A renewable power generation CGU is understood to exist in each country in which there are operations (Brazil, Costa Rica, Mexico, Panama and Chile) since the businesses are subject to different regulatory frameworks and are managed independently.
  - Australia: One CGU is considered which encompasses all projects in the country.

– **Supply:**

  The commercial management of natural gas, electricity and services is carried out on a comprehensive basis, maximising the value of the portfolio by focusing on customers and with high potential for growth in services and solutions, for which there is a single CGU.

The grouping of assets considered in the above CGUs has not changed since the previous estimate of their recoverable amount done in 2020.

Information on recognised impairments

Naturgy has evaluated the recoverable value of the CGUs based on the Strategic Plan 2021-2025 approved by the Council of Ministers and presented on 28 July 2021, taking into account the investment plans that maintain the productive capacity of the businesses involved and the market conditions in which they operate. As indicated in Note 2.4.6., the projection period has been extended by an additional five years or by the remaining useful life for certain assets and concessions. Various potential future scenarios have also been considered when estimating cash flows, if they provide more relevant information to reflect possible future economic developments.

In general, and in accordance with the new Strategic Plan 2021-2025, the flows reflect Naturgy's new positioning to drive the energy transition and decarbonisation with a focus on digital transformation, with increasing investments in networks and renewables located in stable geographies and regulatory frameworks.

Cash flows have taken into account short-term volatility in international gas markets and transitory high electricity prices. In particular, the regulatory measures approved in Spain for generation, distribution and supply have been estimated, together with the commercial proposals for avoiding high pool prices.

Furthermore, although in 2021 the effects of the pandemic continued to generate considerable uncertainty in the wider economy and the final extent and timing of recovery from the COVID-19 health crisis is still uncertain, the estimated cash flows broadly envisage a recovery path to pre-pandemic levels and a limited impact on energy demand.

Aspects of the projections used

The most sensitive aspects included in the projections used are as follows:

– Gas and Electricity Networks Spain:

  - Remuneration. Amount and growth of remuneration. In relation to the regulatory framework, the future cash flows of these business lines have been reviewed taking into account the publications by the regulator in 2021 and 2020 described in Appendix IV on the remuneration methodology for the regulated electricity and gas distribution activity.
  - Operation and maintenance costs. Estimated on the basis of the historical cost of the network managed.
  - Investments. Considering the investments required to maintain the regular use of the network and the quality of supply, as well as the digitalisation of electricity networks and the estimated investment in line with sector requirements and the digital transition in the operation of gas networks.Operation and maintenance costs. Estimated on the basis of the historical cost of the network managed..

– Latin American networks: for gas network CGUs in Brazil, Chile, Argentina and Mexico and electricity network CGUs in Argentina and Panama:

  - Variations in rates. Valuation of rates in each country, based on existing regulatory conditions and rate reviews, current and planned, taking into account the experience gained from previous rate reviews in each country.
  - Cost of raw materials and consumables. Estimated on the basis of predictive modelling based on an understanding of energy markets in each country.
  - Operation and maintenance costs. Estimated on the basis of the historical cost of the network managed.

- Investments. Taking into account the necessary investments to maintain the regular use of the network and quality of supply.

– Thermal generation Spain:

The assumptions and projections affecting this CGU have been based on the best forward-looking information available to date, generally considering the possible effects on generation of the transition expected due to the increase in renewable energy sources set out in the rules on the first NECP in the Climate Change and Energy Transition Bill detailed in Appendix IV. The above-mentioned projections envisage a production path, consider the NECP forecasts which envisage the need for all the installed power of combined cycle generation units in the projection horizon (2030).

The assumptions taken into consideration are the following:

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Evolution of Spanish GNP	4.8%	5.7%	3.6%	2.3%	2.1%	1.8%	1.3%	0.9%	0.6%	0.4%
Pool price €/ MWh	111.4	152.2	80.9	75.7	69.5	58.1	56.3	57.0	59.6	60.7
Brent (USD/ bbl)	70.7	66.7	71.6	67.3	64.6	63.7	65.1	66.6	68.3	70.1
Gas Henry Hub (USD/MMBtu)	3.8	3.9	3.5	3.2	3.0	3.3	3.4	3.6	3.9	4.1
Coal API2 (USD/t)	119.9	110.4	85.8	80.6	80.5	79.0	81.2	83.5	85.9	88.3
CO_2 €/t	53.2	77.1	60.2	61.0	62.0	67.6	71.7	75.8	80.1	84.6

The most sensitive aspects that are included in the estimate of the recoverable amount determined according to the value in use and applying the methodology detailed in Note 2.4.6 are the following:

- Electricity generated. Demand evolution has been estimated based on CNMC and analyst projections. The share has been estimated on the basis of Naturgy's market share in each technology and the expected performance of each technology's share in the total market, in line with the expected future evolution of the generation mix, maintaining the forecast decline in thermal production, offset by a mechanism that remunerates the firm capacity provided, which is expected to be established to make the NECP forecasts viable.
- Electricity price. Market electricity prices used have been calculated using models that cross expected demand with supply forecasts, taking into account the foreseeable evolution of generation capacity in Spain, based on sector forecasts, the development of the energy scenario on the basis of futures curves, and analysts' forecasts.
  The projected flows take into account the extraordinary regulatory changes (Appendix IV) derived from the increase in electricity prices in the wholesale market, the most relevant being as follows:
    - The allocation of energy produced by nuclear production facilities to the new auctions for long-term energy purchases, aimed at industrial customers and independent supply companies.
    - The estimated impact of the reduction in the remuneration of non-emitting installations for an amount proportional to the gas price quotation, as well as the reduction in the remuneration for CO_2 not emitted in the electricity market in the pipeline.
- Fuel costs. Estimated on the basis of market prices.
- Operation and maintenance costs. Estimated from historical costs of the managed park.
- Taxes established by Law 15/2012 and extraordinary temporary suspensions.

– Thermal generation Latin America:

For thermal electricity generation CGUs in Mexico and the Dominican Republic:

- Thermal generation in Mexico is carried out over most of its useful life under energy sale-purchase contracts through stable business models and which are not subject to fluctuation risks on the basis of market variables. In the Dominican Republic and Mexico, upon termination of the contracts energy prices are set based on the market and are estimated on the basis of developments in the country's energy scenario, including the foreseeable evolution of the generation pool and taking into account expected supply and demand, and production costs.
- Operation and maintenance costs. Estimated from historical costs of managed park.

In the case of the Puerto Rico Generation CGU:

The main estimates considered in the flows generated relate to the contract with Puerto Rico Electric Power Authority (PREPA), which has been extended until the end of 2032.

– Renewables Spain:

The assumptions and projections affecting the Renewable power generation and Hydroelectric power generation CGUs are based on the best forward-looking information available to date.

The assumptions concerning changes in GDP and the pool price coincide with those considered in the Thermal Generation Spain CGU.

The most sensitive matters included in the impairment test are as follows:

- Electricity generated.

  For the renewable electricity generation CGU, projections of hours of operation of each park consistent with their historical output and predictions based on historical records of similar parks have been used when there were no historical data.

  For the hydroelectricity generation CGU, production has been estimated considering an average hydraulic year and in addition compensation has been considered through a mechanism that remunerates the firm capacity contributed that is expected to be implemented to make the NECP forecasts viable.

- Electricity price. Market electricity prices used have been calculated using models that cross expected demand with supply forecasts, taking into account the foreseeable evolution of generation capacity in Spain, based on sector forecasts, the development of the energy scenario on the basis of futures curves, and analysts' forecasts.

  The projected flows take into account the extraordinary regulatory changes (Appendix IV) derived from the increase in electricity prices in the wholesale market, the most relevant being as follows:
  - The allocation of energy produced by renewable facilities to the new auctions for long-term energy purchases, aimed at industrial customers and independent supply companies.
  - The estimated impact of the reduction in the remuneration of non-emitting installations for an amount proportional to the gas price quotation, as well as the reduction in the remuneration for CO2 not emitted from the electricity market in the pipeline.
  - The measures envisaged to regulate water impounded for hydroelectric use.

- Remuneration. For the renewable generation CGU facilities entitled to specific remuneration, the remuneration has been estimated on the basis of the remuneration parameters for the established regulated income period, maintaining these values for the following regulatory period.

- Operation and maintenance costs. Estimated from historical costs of managed park.

- Taxes established by Law 15/2012 and extraordinary temporary suspensions.

- Investments. The investments required to maintain the regular use of the facilities are taken into account.

– Renewables USA: as the acquisition was made in 2021, the main assumptions used in the business plan considered in the acquisition of the portfolio of 8 GW of solar projects together with 4.6 GW of energy storage projects (Note 32) are considered unchanged.

– Renewables Latin America: includes the Brazil, Costa Rica, Mexico, Panama and Chile electricity generation CGUs

  - Renewable electricity generation in Latin America is managed under energy sale-purchase contracts through stable business models and which are not subject to fluctuation risks on the basis of market variables.
  - Operation and maintenance costs. Estimated on the basis of historical costs and on the basis of best forecasts when no historical data are available.

– Renewables Australia:

- Electricity generation in Australia is carried out over most of its useful life under energy sale-purchase contracts through stable business models which are not subject to fluctuation risks on the basis of market variables. Upon termination of the contracts, energy prices are set based on the market and are estimated on the basis of developments in the country's energy scenario, including the foreseeable evolution of the generation pool and taking into account expected supply and demand, and production costs.
- Operation and maintenance costs. Estimated on the basis of historical costs and on the basis of best forecasts when no historical data are available.

– Supply:

- Supply margin. Projections have been used on the evolution of the number of customers and unitary margins based on existing contracts and the knowledge of the markets in which it operates.

Discount rates and growth rates used

The pre-tax discount rates used in the impairment tests carried out in 2021 and 2020 are as follows:

Discount rate	**2021**	2020
Energy and network management		
Gas and electricity distribution Spain	4,7 %-5,4 %	5,2 %-5,9
Gas and electricity distribution Latin America (1)	7,7 % - 18,1	7,9 %-15,8
Gas distribution Argentina (2)	18.1 %	15.1 %
Thermal generation Spain	7.1 %	7.4 %
Thermal Generation Latin America (Mexico and Dominican Republic)	9 %-12,5 %	9 %-13,2
Renewables and new business		
Spain renewable electricity generation	5.4 %	5.7 %
Hydroelectric generation Spain	6.0 %	6.2 %
Latin America Renewables	8,4 %-14,6	8,6 %-15
Australia Renewables	7.7 %	7.4 %
Supply	6.5 %	6.8 %

(1) Gas network in Chile discount rate modified due to USD currency homogenization

(2) Rate determined in USD

The growth rates in the impairment tests carried out in 2021 and 2020 were as follows:

Growth rate	**2021**	2020
Energy and network management		
Gas and electricity distribution Spain	0,5 %-2,0 %	0,5 %-1,9 %
Gas and electricity distribution Latin America	2,0 %-8,8 %	2,5 %-11,4 %
Gas distribution Argentina	8.8 %	11.4 %
Thermal generation Spain	2.0 %	2.1 %
Thermal Generation Latin America	2.0 %	1.8 %
Renewables and new business		
Spain renewable electricity generation	2.0 %	2.1 %
Hydroelectric generation Spain	2.0 %	2.1 %
Latin America Renewables	2,0 %-3,3 %	1,9 %-3,2 %
Australia Renewables	2.8 %	2.7 %
Supply	0.5 %	0.5 %

Results of the tests performed

As a result of the impairment tests carried out in 2021 and 2020, the recoverable amounts, calculated according to the methodology described in Note 2.4.6, have been higher than the carrying values recorded in these consolidated annual accounts except for:

2021

An impairment of Euros 22 million has been recorded under "Depreciation and impairment losses" in Property, plant and equipment (Note 6) relating to the impairment of projects in progress due to their lack of viability.

In addition, an impairment reversal of Euros 13 million was recorded under "Depreciation and impairment losses" relating to the thermal generation assets in the Dominican Republic.

2020

An impairment loss of Euros 1,363 million has been recorded under "Depreciation and impairment losses", with the following breakdown by CGU:

- Thermal generation in Spain: an impairment of Euros 951 million recorded under "Depreciation and impairment losses", of which Euros 177 million relates to Intangible assets (Note 5) and Euros 774 million to Property, plant and equipment (Note 6).

  The recoverable amount calculated as the value in use of the Thermal generation Spain CGU, considering the impairment recorded in 2020 which is equivalent to its carrying value, is Euros 1,152 million.

- Hydroelectricity generation Spain: impairment of Euros 194 million recognised under "Depreciation and impairment losses" in Property, plant and equipment (Note 6).

  The recoverable amount calculated as the value in use of the Hydroelectricity generation Spain CGU, considering the impairment recorded in 2020, which is equivalent to its carrying value, is Euros 967 million.

- Gas networks Argentina: impairment of Euros 198 million recorded under "Depreciation and impairment losses" in Intangible assets (Note 5).

  The recoverable amount calculated as the value in use of the Gas generation Argentina CGU, which is equivalent to its carrying value, is Euros 62 million.

- Other assets: impairment of Euros 20 million recorded under "Depreciation and impairment losses" in Property, plant and equipment (Note 6) relating to the impairment of land and assets in various projects due to their lack of viability.

In addition, in Thermal generation Puerto Rico Euros 7 million was recorded with respect to the reversal of the impairment of the 50% interest in EcoEléctrica LP, recorded under the heading “Profit/(loss) from companies accounted for using the equity method” (Note 8).

Sensitivity analysis

A sensitivity analysis has been carried out for the results of the impairment test described. The following variations in the key assumptions for each of them have been separately considered, with the following result:

2021

<u>Thermal electricity generation Spain</u>: the outcome of the sensitivity analysis is as follows:

- an increase in the discount rate of 50 basis points would entail an impairment of Euros 40 million.
- a decrease in the growth rate of 50 basis points would not entail an impairment.
- a decrease in electricity output of 5% would entail an impairment of Euros 94 million.
- a decrease in the electricity price of 1 €/MWh together with the related variation in the cost of gas would entail an impairment of Euros 74 million.

<u>Hydroelectric electricity generation Spain</u>: the outcome of the sensitivity analysis is as follows:

- an increase in the discount rate of 50 basis points would entail an impairment by Euros 61 million.

- a decrease in the growth rate of 50 basis points would entail an impairment by Euros 18 million.
- a decrease in electricity output of 5% would entail an impairment by Euros 94 million.
- a decrease in electricity prices of 1€/MW would entail an impairment by Euros 28 million.

Gas distribution Argentina: the outcome of the sensitivity analysis is as follows:

- an increase in the discount rate of 50 basis points would entail an impairment of Euros 3 million.
- a decrease in the growth rate of 50 basis points would equalise the value in use with the carrying amount.
- a decrease in the rate/remuneration trend of 5% would entail an impairment of Euros 13 million.
- an increase in operating and maintenance costs of 5% would entail an impairment of Euros 7 million.
- an increase in investments of 5% would entail an impairment of Euros 4 million.

Electricity generation Dominican Republic: The result of the sensitivity analysis carried out as follow:

- an increase in the discount rate of 50 basis points would maintained the recognised reversal unchanged.

Electricity generation Panama: The result of the sensitivity analysis carried out as follow:

- an increase in the discount rate of 50 basis points would not entail an impairment.

Electricity generation Costa Rica: The result of the sensitivity analysis carried out as follow:

- an increase in the discount rate of 50 basis points would entail an impairment by Euros 2 million.

2020

Thermal electricity generation Spain: the outcome of the sensitivity analysis is as follows:

- an increase in the discount rate of 50 basis points would increase impairment by Euros 55 million.
- a decrease in the growth rate of 50 basis points would increase impairment by Euros 21 million.
- a decrease in electricity output of 5% would increase impairment by Euros 74 million.
- a decrease in electricity prices of 1€/MW together with a variation in the cost of the gas would increase impairment by Euros 125 million.

Hydroelectric electricity generation Spain: the outcome of the sensitivity analysis is as follows:

- an increase in the discount rate of 50 basis points would increase impairment by Euros 61 million.
- a decrease in the growth rate of 50 basis points would increase impairment by Euros 37 million.
- a decrease in electricity output of 5% would increase impairment by Euros 76 million.
- a decrease in electricity prices of 1€/MW would increase impairment by Euros 32 million.

Gas distribution Argentina: the outcome of the sensitivity analysis is as follows:

- an increase in the discount rate of 50 basis points would increase impairment by Euros 3 million.
- a decrease in the growth rate of 50 basis points would increase impairment by Euros 3 million.
- a decrease in the rate/remuneration trend of 5% would increase impairment by Euros 10 million.
- an increase in operating and maintenance costs of 5% would increase impairment by Euros 13 million.
- an increase in investments of 5% would increase impairment by Euros 6 million.

Electricity generation Dominican Republic: The result of the sensitivity analysis carried out is:

- an increase in the discount rate of 50 basis points would not increase impairment.

Electricity generation Panama: The result of the sensitivity analysis carried out is:

- an increase in the discount rate of 50 basis points would increase impairment by Euros 1 million.

Electricity generation Costa Rica: The result of the sensitivity analysis carried out is:

- an increase in the discount rate of 50 basis points would increase impairment by Euros 1 million.

<u>Other CGUs</u>

For the remaining CGUs, Naturgy has carried out a sensitivity analysis for 2021 and 2020 of the unfavourable variations which, drawing on historical experience, may reasonably impact on the aforementioned sensitive parameters on which the recoverable amounts have been determined. Specifically, the most relevant sensitivity analyses performed are as follows:

	Increase	Decrease
Discount rate	50 basis points	—
Growth rate	—	50 basis points
Electricity generated	—	5%
Electricity price	—	5%
Fuel supply costs	5%	—
Tariff/remuneration performance	—	5%
Operating and maintenance costs	5%	—
Investments	5%	—

These sensitivity analyses performed separately for each basic assumption would not affect the conclusions drawn to the effect that the recoverable amount exceeds the carrying amount for each of these CGUs.

Note 5. Intangible assets

The movement in 2021 and 2020 in intangible assets is as follows:

	Concessions IFRIC 12	Other concessions and similar	Computer software	Other intangible assets	Subtotal	Goodwill	Total
Gross cost	1,900	3,269	1,313	1,310	7,792	3,202	10,994
Amortisation fund and impairment losses	(779)	(792)	(1,020)	(690)	(3,281)	—	(3,281)
Carrying amount at 31.12.2019	1,121	2,477	293	620	4,511	3,202	7,713
Investment (Note 3)	51	3	93	40	187	—	187
Amortisation charge	(59)	(57)	(101)	(89)	(306)	—	(306)
Impairment losses (Note 4)	(198)	—	—	(177)	(375)	—	(375)
Currency translation differences (1)	(276)	(49)	(5)	(16)	(346)	(75)	(421)
Business combinations (Note 32)	—	—	—	—	—	—	—
Reclassifications and other(2)	1	(938)	(22)	(29)	(988)	(235)	(1,223)
Carrying amount at 31.12.2020	640	1,436	258	349	2,683	2,892	5,575
Gross cost	1,434	2,216	1,176	1,200	6,026	2,892	8,918
Amortisation fund and impairment losses	(794)	(780)	(918)	(851)	(3,343)	—	(3,343)
Carrying amount at 31.12.2020	640	1,436	258	349	2,683	2,892	5,575
Investment (Note 3)	58	—	115	115	288	—	288
Divestment	(2)	—	(1)	—	(3)	—	(3)
Amortisation charge	(48)	(45)	(101)	(90)	(284)	—	(284)
Currency translation differences (1)	28	(70)	—	5	(37)	39	2
Business combinations (Note 32)	—	—	—	127	127	35	162
Reclassifications and other (2)	7	—	1	2	10	(16)	(6)
Carrying amount at 31.12.2021	683	1,321	272	508	2,784	2,950	5,734
Gross cost	1,614	1,342	1,290	976	5,222	2,950	8,172
Amortisation fund and impairment losses	(931)	(21)	(1,018)	(468)	(2,438)	—	(2,438)
Carrying amount at 31.12.2021	683	1,321	272	508	2,784	2,950	5,734

(1) Includes effect of inflation in Argentina (Note 2.4.2).
(2) Mainly includes transfers to "Non-current assets held for sale" at the date on which this classification is applied (Note 11) and the disposal due to the sale of Naturgy Ltd.. (Note 2.4.1.).

Note 3 includes a breakdown of investments in intangible assets by segment.

As detailed in Note 4, as a result of the impairment tests performed in 2021 no impairment losses were recognised in 2021, whereas in 2020 impairment losses of Euros 375 million were recognised for intangible assets (Note 28).

“Concessions IFRIC 12” includes concessions regarded as intangible assets under IFRIC 12 “Serice concession agreements” (Note 33).

The heading “Other concessions and similar” includes principally:

– Indefinite useful life concessions, recorded as a result of business combinations, per the following breakdown:

	31.12.2021	31.12.2020
Electricity distribution Spain	684	684
Gas distribution Chile	617	689

– At 31 December 2020, the Maghreb-Europe gas pipeline concession for an amount of Euros 45 million, which finalised on 31 October 2021 (Note 33).

The heading "Other intangible assets" mainly includes:

- Licences to renewable generation farms totalling Euros 198 million at 31 December 2021 (Euros 144 million at 31 December 2020). Includes Euros 42 million for Hamel Renewables, Euros 21 million for Ibereólica Cabo Leones II S.A. (Euros 22 million at 31 December 2020) and Euros18 million for Guimaranias (Euros 18 million at 31 December 2020) (Note 32).

- The value of customer acquisition costs recognised as assets under IFRS 15 amounting to Euros 116 million at 31 December 2021 (Euros 49 million at 31 December 2020).

- The value of gas supply contracts and other contractual rights acquired as a result of the business combinations involving CGE for an amount of Euros 77 million at 31 December 2021 (Euros 87 million at 31 December 2020), an amount of Euros 78 million from UFG (Euros 0 million at 31 December 2021) and at 31 December 2020 Naturgy Energy (UK) Ltd for an amount of Euros 10 million.

Movements in and the composition of goodwill by CGU or aggregations of CGUs in 2021 and 2020 are set out below:

	01.01.2021	Currency translation differences	Transfer held for sale	Business Combination	31.12.2021
Networks and Energy management	1,694	39	—	19	1,752
Markets and Procurem.	—	—	—	19	19
Electricity networks Spain	1,070	—	—	—	1,070
Thermal generation Mexico	410	34	—	—	444
Brazil gas networks	12	—	—	—	12
Chile gas networks	62	(6)	—	—	56
Chile electricity	—	—	—	—	—
Mexico gas networks	18	1	—	—	19
Panama Electricity networks	122	10	—	—	132
Renewables and New businesses	755	—	—	16	771
Renewables and New businesses	743	—	—	16	759
GPG	12	—	—	—	12
Supply	443	—	(16)	—	427
Total	**2,892**	**39**	**(16)**	**35**	**2,950**

	01.01.2020	Currency translation differences	Transfer held for sale	Business Combination	31.12.2020
Networks and Energy management	2,003	(74)	(235)	—	1,694
Electricity networks Spain	1,070	—	—	—	1,070
Thermal generation Mexico	448	(38)	—	—	410
Brazil gas networks	17	(5)	—	—	12
Chile gas networks	63	(1)	—	—	62
Chile electricity	251	(16)	(235)	—	—
Mexico gas networks	21	(3)	—	—	18
Panama Electricity networks	133	(11)	—	—	122
Renewables and New businesses	756	(1)	—	—	755
Renewables and New businesses	743	—	—	—	743
GPG	13	(1)	—	—	12
Supply	443	—	—	—	443
Total	**3,202**	**(75)**	**(235)**	**—**	**2,892**

At 31 December 2021, Naturgy records investment commitments totalling Euros 14 million (Euros 18 million at 31 December 2020) relating basically to the development of the gas distribution network with concessions regarded as intangible assets under IFRIC 12.

The intangible assets include, at 31 December 2021, fully amortised assets still in use totalling Euros 572 million (Euros 543 million at 31 December 2020).

Note 6. Property, plant and equipment

The movements in the accounts in 2021 and 2020 under property, plant and equipment and their respective accumulated depreciation and provisions have been as follows:

	Land and buildings	Gas installations	Electricity generation plants	Plant for electricity transmission and distribution	Other Property, plant and equipment	PPE under construction	Total
Gross cost	563	11,534	13,757	8,999	634	934	36,421
Depreciation fund and impairment losses	(156)	(6,314)	(7,594)	(2,391)	(319)	—	(16,774)
Carrying amount at 31.12.2019	**407**	**5,220**	**6,163**	**6,608**	**315**	**934**	**19,647**
Investment (Note 3)	17	115	79	150	34	697	1,092
Divestment	(3)	(1)	—	—	(4)	(6)	(14)
Depreciation charge	(19)	(369)	(354)	(309)	(37)	—	(1,088)
Impairment losses (Note 4)	(6)	—	(966)	—	(16)	—	(988)
Currency translation differences(1)	(9)	(116)	(146)	(115)	(14)	(35)	(435)
Business combinations (Note 32)	—	—	—	—	—	—	—
Reclassifications and other (2)	(105)	48	166	(1,468)	(86)	(641)	(2,086)
Carrying amount at 31.12.2020	**282**	**4,897**	**4,942**	**4,866**	**192**	**949**	**16,128**
Gross cost	439	11,477	13,640	7,222	467	949	34,194
Depreciation fund and impairment losses	(157)	(6,580)	(8,698)	(2,356)	(275)	—	(18,066)
Carrying amount at 31.12.2020	**282**	**4,897**	**4,942**	**4,866**	**192**	**949**	**16,128**
Investment (Note 3)	12	139	30	136	18	861	1,196
Divestment	(2)	(22)	(2)	—	(1)	(5)	(32)
Depreciation charge	(17)	(348)	(334)	(248)	(18)	(1)	(966)
Impairment losses (Note 4)	—	(8)	(9)	—	—	—	(17)
Currency translation differences (1)	2	(70)	93	66	(3)	15	103
Business combinations (Note 32)	2	—	63	—	5	—	70
Reclassifications and other (2)	2	(17)	693	228	(29)	(772)	105
Carrying amount at 31.12.2021	**281**	**4,571**	**5,476**	**5,048**	**164**	**1,047**	**16,587**
Gross cost	440	11,274	14,566	7,668	450	1,047	35,445
Depreciation fund and impairment losses	(159)	(6,703)	(9,090)	(2,620)	(286)	—	(18,858)
Carrying amount at 31.12.2021	**281**	**4,571**	**5,476**	**5,048**	**164**	**1,047**	**16,587**

(1) Includes effect of inflation in Argentina (Note 2.4.2)
(2) Mainly includes:
- transfers to "Non-current assets held for sale" at the date on which this classification is applied (Note 11).
- transfer to operation of fixed assets under construction.
- the asset for plant decommissioning costs (Note 16).

Note 3 include a breakdown of investments in property, plant and equipment by segment.

As detailed in Note 4, as a result of the impairment tests performed in 2021, an impairment loss of Euros 22 million was recognised in respect of projects in progress due to their lack of viability and impairment losses of Euros 13 million were reversed corresponding to the Thermal generation business in Dominican Republic, while in 2020 impairment losses totalling Euros 988 million were recognised for tangible assets (Note 28). On the other hand, as a result of the transfer of the LPG assets to held for sale, their value has been impaired by Euros 8 million (Note 11).

In September 2021, the natural gas distribution permits in the areas of Northwest Mexico and Sinaloa were sold for Euros 24 million. The carrying amount of the assets sold was Euros 20 million, generating a pre-tax gain of Euros 4 million (Note 29).

Set out below is a breakdown of fixed assets in course of construction by business area:

	31.12.2021	31.12.2020
Energy management and Networks	**397**	**402**
Energy management	215	213
Networks Spain	92	94
Networks Latam	90	95
Renewables and New business	**648**	**540**
Spain & USA	235	75
Latam	33	231
New businesses	3	—
Australia	377	234
Supply	**2**	**7**
Total	**1047**	**949**

The decrease in fixed assets under construction in Renewables Latin America is due to the commencement of operations of Chile. In addition, there is an increase in Australia and Spain due to investments in generation parks under development.

At 31 December 2021 and 2020, Naturgy had no significant real estate investments.

At 31 December 2021, property, plant and equipment include fully-depreciated assets still in use totalling Euros 2.523 million (Euros 2,561 million at 31 December 2020).

It is Naturgy's policy to take out insurance where deemed necessary to cover risks that could affect its fixed assets.

At 31 December 2021, Naturgy records investment commitments totalling Euros 314 million (Euros 423 million at 31 December 2020) relating basically to the construction of new renewable generation facilities and the development of the gas and electricity distribution network.

The financial expenses capitalised in 2021 in fixed asset projects during their construction total Euros 7 million (Euros 10 million in 2020). The financial expenses capitalised in 2021 account for 1.3% of total financial costs on net borrowings (1.9% in 2020). The average capitalisation rate for 2021 and 2020 was 2.9% and 3.9%, respectively.

Note 7. Right-of-use assets

Movements in 2021 in right-of-use asset accounts and the related accumulated depreciation and provisions are as follows:

	Land and buildings	Gas tankers	Vehicles	Other Property, plant and equipment	Total
Gross cost	326	1,576	19	22	1,943
Depreciation fund and impairment losses	(30)	(487)	(9)	(1)	(527)
Carrying amount at 31.12.2019	**296**	**1,089**	**10**	**21**	**1,416**
Additions	32	90	6	41	169
Divestments	(12)	—	—	—	(12)
Depreciation charge	(32)	(127)	(6)	(1)	(166)
Currency translation differences	(5)	—	(1)	—	(6)
Reclassifications and other (1)	1	—	(4)	(10)	(13)
Carrying amount at 31.12.2020	**280**	**1,052**	**5**	**51**	**1,388**
Gross cost	334	1,639	16	52	2,041
Depreciation fund and impairment losses	(54)	(587)	(11)	(1)	(653)
Carrying amount at 31.12.2020	**280**	**1,052**	**5**	**51**	**1,388**
Additions	76	39	8	6	129
Depreciation charge	(31)	(157)	(5)	(2)	(195)
Currency translation differences	3	—	—	3	6
Business combination	—	45	—	—	45
Reclassifications and other (1)	(2)	(139)	(2)	(1)	(144)
Carrying amount at 31.12.2021	**326**	**840**	**6**	**57**	**1,229**
Gross cost	404	1,358	18	59	1,839
Depreciation fund and impairment losses	(78)	(518)	(12)	(2)	(610)
Carrying amount at 31.12.2021	**326**	**840**	**6**	**57**	**1,229**

(1) In 2021 mainly includes the remeasurement of the lease liability for two vessels as a result of not considering the exercise of existing purchase options.

In 2020 mainly included transfers to "Non-current assets held for sale" at the date on which this classification is applied (Note 11).

Naturgy has concluded lease agreements in which it is the lessee for the following category of underlying assets:

- Land for energy use for combined cycle plants, wind farms, photovoltaic farms, transformer station facilities, propane gas (LPG) and liquefied natural gas (LNG) facilities.
- Buildings (offices, commercial premises, warehouses, parking spaces, etc.).
- Long and medium term gas tanker charters.
- Vehicles.

At 31 December 2021, gas tankers include eight vessels under long-term finance lease arrangements and four vessels under medium-term leases.

Note 8. Investments in companies

Associates and joint ventures

Set out below is a breakdown of investments accounted for using the equity method:

	31.12.2021	31.12.2020
Associates	60	52
Joint ventures	570	761
Total	**630**	**813**

Appendix I lists all the associates and joint ventures in which Naturgy holds an interest, stating their activity and the percentage of the shareholding and equity interest.

The most significant shareholdings correspond to EcoEléctrica L.P., the interest in Medgaz through Medina (Notes 2.4.1. and 9) and, until March 2021, Unión Fenosa Gas (Note 2.4.1.).

Movements during 2021 and 2020 in equity-accounted investments, including a breakdown of the most significant shareholdings, are as follows:

	Unión Fenosa Gas	EcoEléctrica, L.P.	Medina/ Medgaz	Other joint ventures	Total joint ventures	Associates	Total
Value of shareholding 01.01.2020	309	294	—	74	677	54	731
Investment	—	—	—	—	—	—	—
Divestment	—	—	—	(11)	(11)	—	(11)
Shares of profits/(losses)	(30)	51	6.00	11	38	(2)	36
Dividends received	—	(65)	—	(14)	(79)	—	(79)
Currency translation differences	(18)	(28)	—	—	(46)	—	(46)
Other comprehensive income	1	—	—	—	1	—	1
Reclassifications and other	—	—	182.00	(1)	181	—	181
Value of shareholding 31.12.2020	262	252	188.00	59	761	52	813
Investment	—	—	—	2	2	—	2
Divestment	—	—	—	(8)	(8)	—	(8)
Shares of profits/(losses)	(5)	54	12	21	82	8	90
Dividends received	—	(64)	(8)	(6)	(78)	—	(78)
Business combination (Note 32)	(258)	—	—	41	(217)	—	(217)
Currency translation differences	1	21	—	—	22	—	22
Other comprehensive income	—	—	—	1	1	—	1
Reclassifications and other	—	—	—	5	5	—	5
Value of shareholding 31.12.2021	—	263	192	115	570	60	630

In 2021, the main change in Investments accounted for using the equity method relates to the derecognition of the 50% interest in Unión Fenosa Gas, S.A. (UFG) derived from the purchase, in March 2021, of the additional 50% following the agreement reached with ENI and the Arab Republic of Egypt to amicably resolve the dispute (Note 2.4.1.), thereby achieving 100% ownership. This acquisition has been treated as a business combination achieved in stages (Note 32).

The value of the derecognised UFG shareholding amounted to Euros 258 million. At 31 December 2020, as a result of the impairment recognised in prior years, the recoverable amount calculated as the value in use of UFG, equivalent to its carrying value, was Euros 262 million. The accumulated impairment at 31 December 2020 is Euros 1,166 million.

In addition, in June 2021 the 40% interest in Cogeneración del Noroeste, S.L. was sold for Euros 7 million, generating a pre-tax gain of Euros 2 million recognised under "Other results" (Note 29).

In 2020, the main change in investments accounted for using the equity method related to the agreement to sell 50% of the shareholding in Medina Partnership, S.A.U., the holding company of Medgaz, S.A., to GEPIF (Note 2.4.1.), which resulted in joint control of Medina by the two shareholders and led to it being accounted for under the equity method, including its interest in Medgaz.

Subsequently, on 30 April 2020 Medina completed the purchase of 34.05% of Medgaz, S.A. for Euros 420 million, after adjusting the initial price for the dividends received, which increased its interest from 14.95% to 49%, Naturgy's effective interest being 24.5%.

In 2018, an impairment was recorded on the shareholding in Ecoelectrica, L.P. of Euros 34 million of which Euros 7 million was reversed in 2020 (Note 4), accumulated impairment being zero.

There follows a breakdown of assets, liabilities, revenue and results of Naturgy's main interests in joint ventures (by shareholding percentage):

	31.12.2021		31.12.2020		
	EcoEléctrica, L.P. (50 %)	Medina/Medgaz (50 %)	Unión Fenosa Gas (50%)	EcoEléctrica, L.P. (50 %)	Medina/Medgaz (50 %)
Non-current assets	232	478	637	220	496
Current assets	43	22	145	42	15
Cash and cash equivalents	6	10	33	4	7
Non-current liabilities	(7)	(290)	(338)	(7)	(307)
Non-current financial liabilities	—	(219)	(248)	—	(233)
Current liabilities	(5)	(18)	(182)	(3)	(16)
Current financial liabilities	—	(13)	(59)	—	(13)
Net assets	263	192	262	252	188
Net borrowings (1)	(6)	222	274	(4)	239

(1) Net borrowings: Non-current financial liabilities+Current financial liabilities-Cash and cash equivalents.

	2021			2020		
	Unión Fenosa Gas (50%)	EcoEléctrica, L.P. (50 %)	Medina/ Medgaz (50 %)	Unión Fenosa Gas (50%)	EcoEléctrica, L.P. (50 %)	Medina/ Medgaz (50 %)
Revenue	108	83	61	480	138	38
Raw materials and consumables	(99)	—	—	(403)	(61)	—
Personnel expenses	(2)	(5)	(1)	(10)	(5)	—
Other operating income/expenses	(5)	(13)	(4)	(22)	(13)	(3)
Gross operating results	**2**	**65**	**56**	**45**	**59**	**35**
Depreciation, amortisation and impairment losses	(7)	(10)	(27)	(44)	(15)	(18)
Impairment due to credit losses	—	1	—	(20)	2	—
Operating profit	**(5)**	**56**	**29**	**(19)**	**46**	**17**
Net financial income/(expense)	(2)	—	(11)	(17)	—	(8)
Results of equity-consolidated companies	1	—	—	2	—	—
Profit/(loss) before tax	**(6)**	**56**	**18**	**(34)**	**46**	**9**
Corporate income tax	—	(2)	(6)	2	(2)	(3)
Attributed to non-controlling interests	1	—	—	2	—	—
Profit/(loss) attributed for the year from continuing operations	**(5)**	**54**	**12**	**(30)**	**44**	**6**
Shareholding impairment (Note 4)	—	—	—	—	7	—
Share of profits	**(5)**	**54**	**12**	**(30)**	**51**	**6**

There are no contingent liabilities affecting interests in joint ventures.

The contractual commitments for the acquisition and sale of interests in joint ventures at 31 December 2021 and 31 December 2020 are as follows:

Acquisition	**31.12.2021**	**31.12.2020**
Energy purchases (1)	—	2,251
Energy transmission (2)	—	109
Total contractual obligations	**—**	**2,360**

Sale	**31.12.2021**	**31.12.2020**
Energy sales (3)	—	759
Energy transmission (4)	689	749
Provision of capacity assignment services (5)	866	866
Total contractual obligations	**1,555**	**2,374**

(1) At 31 December 2020 it reflected long-term commitments to purchase natural gas from Unión Fenosa Gas.
(2) At 31 December 2020 it included operating costs associated with gas tanker chartering agreements with Unión Fenosa Gas under a financial lease arrangement.
(3) Reflects long-term commitments to sell natural gas of Unión Fenosa Gas at 31 December 2020.
(4) Includes Medgaz's long-term gas transport commitments.

(5) Reflects service provision commitments under power generation capacity assignment contracts from EcoEléctrica L.P. to Puerto Rico Electricity Power Authority

Certain investment projects related to interests in joint ventures have been financed by means of specific structures (project finance) which include pledges on the shares in the project companies. At 31 December 2021, the outstanding balance of this type of financing totals Euros 6 million (Euros 208 million at 31 December 2020).

Joint operations

Naturgy participates in various joint operations that meet the conditions indicated in Note 2.4.1.b and which are described in Appendix I, section 3. The relevant interests in joint operations at 31 December 2021 and 2020 are as follows:

	2021	2020
Comunidad de Bienes Central Nuclear de Almaraz	11.30%	11.30%
Comunidad de Bienes Central Nuclear de Trillo	34.50%	34.50%
Comunidad de Bienes Central Térmica de Anllares	66.70%	66.70%

The contribution from the joint operations to Naturgy's assets, liabilities, revenue and results is analysed below:

	31.12.2021	31.12.2020
Non-current assets	88	90
Current assets	69	73
Cash and cash equivalents	—	—
Non-current liabilities	(108)	(112)
Non-current financial liabilities	—	—
Current liabilities	(45)	(14)
Current financial liabilities	(14)	(12)
Net assets	**4**	**37**
Net borrowings (1)	**14**	**12**

(1) Net borrowings: Non-current financial liabilities+Current financial liabilities-Cash and cash equivalents.

	2021	2020
Revenue	201	158
Operating expenses	(161)	(114)
Gross operating results	**40**	44
Depreciation, amortisation and impairment losses (1)	(21)	(88)
Operating profit	19	(44)
Net financial income/(expense)	—	—
Profit/(loss) before tax	**19**	(44)
Corporate income tax	(5)	11
Profit/(loss) attributed for the year from continuing operations	**14**	(33)

(1) Includes generation asset reversal/impairment (Note 4).

Note 9. Financial assets

Financial assets classified by nature and category break down as follows at 31 December 2021 and 2020:

31.12.2021	**Fair value through other comprehensive income**	**Fair value through profit or loss**	**Amortised cost**	**Total**
Equity instruments	14	—	—	14
Derivatives (Note 18)	16	37	—	53
Other financial assets	—	—	327	327
Non-current financial assets	**30**	**37**	**327**	**394**
Derivatives (Note 18)	—	—	—	—
Other financial assets	—	—	395	395
Current financial assets	**—**	**—**	**395**	**395**
Total	**30**	**37**	**722**	**789**

31.12.2020	**Fair value through other comprehensive income**	**Fair value through profit or loss**	**Amortised cost**	**Total**
Equity instruments	35	—	—	35
Derivatives (Note 18)	—	—	—	—
Other financial assets	—	—	326	326
Non-current financial assets	**35**	**—**	**326**	**361**
Derivatives (Note 18)	—	—	—	—
Other financial assets	—	120	438	558
Current financial assets	**—**	**120**	**438**	**558**
Total	**35**	**120**	**764**	**919**

Financial assets recognised at fair value at 31 December 2021 and at 31 December 2020 are classified as follows:

	31.12.2021				31.12.2020			
Financial assets	Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	Total	Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	Total
Fair value through other comprehensive income	—	16	14	30	—	—	35	35
Fair value through profit or loss	—	37	—	37	120	—	—	120
Total	**—**	**53**	**14**	**67**	**120**	**—**	**35**	**155**

The movement in equity instruments in 2021 and 2020, based on the method applied for calculating their fair value, is as follows:

	2021				2020			
	Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	Total	Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	Total
At 1 January	120	—	35	155	—	224	35	259
Additions	—	—	—	—	—	—	—	—
Changes recognised directly in equity	—	16	(25)	(9)	—	—	(3)	(3)
Changes recognised in income statement (1)	—	18	—	18	120	(7)	—	113
Business combination (Note 32)	—	19	—	19	—	—	—	—
Currency translation differences	—	—	—	—	—	—	—	—
Transfers and other (2)	(120)	—	4	(116)	—	(217)	3	(214)
At 31 December	**—**	**53**	**14**	**67**	**120**	**—**	**35**	**155**

(1) In 2021, it corresponds entirely to Derivatives. In 2020, Euros 120 million correspond to other financial assets, Euros -34 million to derivatives and Euros 27 million to equity instruments.

(2) Mainly includes the transfer of the stake in Medgaz to “Investments in companies accounted for using the equity method” (Note 8) and transfers to "Non-current assets held for sale" at the date on which this classification is applied (Note 11).

Fair value through other comprehensive income

– Equity instruments:

Mainly includes the 85.4% interest in Electrificadora del Caribe, S.A. ESP (Electricaribe). On 14 November 2016 the Superintendence for Residential Public Services of the Republic of Colombia (“the Superintendence”) reported the government take-over of Electricaribe, a Naturgy investee, as well as the separation of the members of the governing body and the general manager, and their replacement by a special agent appointed by the Superintendence. On 14 March 2017 the Superintendence announced the decision to liquidate Electricaribe. On 22 March 2017 Naturgy initiated arbitration proceedings before the Court of the United Nations Commission for International Trade Law (UNCITRAL) and on 15 June 2018 it lodged a complaint in which it claimed approximately 1,600 million USD. On 4 December 2018 the Republic of Colombia submitted its answer to the complaint and filed a counterclaim for approximately 500 million USD, the viability of which is considered remote. In December 2019, the main hearings were held and, in March 2021 an arbitral award was rendered dismissing the claims of both Naturgy and the Colombian State.

In addition, on 24 March 2021 the Superintendence for Residential Public Services of the Republic of Colombia ordered the commencement of the company's liquidation process. This fact, together with the finalisation of the claim process against the insurers which has resulted in the receipt of Euros 8 million, means that at 31 December 2021, 85.4% of the holding in Electricaribe has been valued at zero euros (Euros 25 million at 31 December 2020). Following commencement of the liquidation process, a deferred tax asset of Euros 105 million has also been recorded for the tax loss that will be deductible once the liquidation materialises. Both the decrease in fair value and the tax effect have been recorded in "Other accumulated comprehensive income".

In addition, it includes the 15% holding in Lean Corporate Services, S.L., Lean Customer Services, S.L., Lean Grids Services, S.L. and Naturgy IT, S.L. (Note 2.4.1.).

Fair value through profit or loss

- Derivatives: In the context of the agreement reached in relation to Unión Fenosa Gas (Note 32), the latter is entitled to collect a contingent amount for the sale of a gas supply contract whose fair value on the completion date was estimated at Euros 19 million. The aforementioned price adjustment will be collected in January 2024 based on the average TTF price until settlement. As of 31 December 2021, the fair value recognised for this item was Euros 37 million; the change in value was recognised under financial results for the year 2021.

- Equity instruments: At 31 December 2019 this heading included the value of the 14.95% interest in Medgaz, S.A., the company which operates the underwater gas pipeline between Algeria and Spain, amounting to Euros 190 million at December 2019, the fair value of which was determined based on the price of the 34.05% purchase agreement referred to in Note 8. As detailed in Note 2.4.1., in April 2020 an agreement was reached for the sale of 50% of Medina Partnership, S.A.U. (the company that held the interest), establishing joint control over this company. As a result, it is now accounted for by the equity method, including its interest in Medgaz.

- Other financial assets: At 31 December 2020 this included the valuation of the year-end deposits amounting to Euros 120 million.

Amortised cost

The breakdown at 31 December 2021 and 2020 is as follows:

	31.12.2021	31.12.2020
Commercial loans	16	22
Deposits and guarantees deposits	108	102
Other loans	203	202
Other non-current financial assets	**327**	**326**
Commercial loans	7	22
Electricity system income deficit	64	106
Gas system income deficit	23	116
Dividend receivable	2	20
Other loans	113	106
Other current financial assets	**395**	**438**
Total	**722**	**764**

The breakdown by maturities at 31 December 2021 and 2020 is as follows:

Maturities	**31.12.2021**	31.12.2020
No later than 1 year	395	438
Between 1 year and 5 years	67	64
More than 5 years	260	262
Total	**722**	**764**

The fair values and carrying amounts of these assets do not differ significantly.

The heading “Gas system revenue deficit financing” includes temporary mismatches between gas system revenues and costs funded by Naturgy pursuant to Law 18/2014 of 17 October, amounting to Euros 23 million (Euros 116 million at 31 December 2020). This amount will be recovered through the gas system settlements. The amount pending receipt following the settlements for the year generates a recovery right in the following five years for the remaining amount financed, plus interest at a market rate. The amount of this financing has been recognised entirely as a short-term item on the understanding that it is a temporary mismatch that will be recovered through system settlements within one year.

The heading “Electricity system revenue deficit financing” includes temporary mismatches between electricity system revenues and costs funded by Naturgy pursuant to Law 24/2013 of 26 December, amounting to Euros 64 million (Euros 106 million at 31 December 2020). This amount will be recovered through the electricity system settlements. The amount pending receipt following the settlements for the year generates a recovery right in the following five years, plus interest at a market rate. The amount of this financing has been entirely recognised as a short-term item on the understanding that it is a temporary mismatch that will be recovered through system settlements within one year.

“Commercial loans” mainly include the credits for the sale of gas and electricity installations. The respective interest rates (between 5% and 11% for loans from 1 to 5 years) are adjusted to market interest rates for this type of loans and duration.

The item “Deposits and guarantees deposits” basically include amounts deposited with the competent Public Administrations, under applicable legislation, in respect of guarantees and deposits received from customers when contracts are concluded to secure the supply of electricity and natural gas (Note 19) as well as deposits related with derivatives positions.

“Other loans” includes, basically:

- The value of generation concessions in Costa Rica that are deemed to be credits, pursuant to IFRIC 12 “Service concession arrangements” (Note 2.4.3. band Note 33), in the amount of Euros 121 million (Euros 126 million at 31 December 2020), of which Euros 16 million is classified in current assets (Euros 15 million in 2020). These credits are classified under this heading as they represent an unconditional right to receive cash in fixed or determinable amounts.
- 39 million in respect of the guaranteed deferred payments under the agreement with the Egyptian government described in Note 32.
- At 31 December 2020, a loan of Euros 19 million for financing ContourGlobal La Rioja. S.L. in the sale of the Arrúbal combined cycle plant (La Rioja) which took place on 28 July 2011, and which at 31 December 2020 was fully classified under current assets. This loan accrued annual interest at market rates and matured in 2021, which led to the recognition of financial income of Euros 62 million in the consolidated income statement (Note 30) as it was impaired.

Derivatives

The variables upon which the valuation of the derivatives reflected under this heading are based and observable in an active market (Level 2).

Note 18 shows the details of the derivative financial instruments.

Note 10. Other non-current assets and trade and other receivables

The headings “Other non-current assets” and “Trade and other receivables” at 31 December 2021 and 31 December 2020 and 2020, classified by nature and category, are as follows:

31.12.2021	**Fair value through other comprehensive income**	**Fair value through profit or loss**	**Amortised cost**	**Total**
Derivatives (Note 18)	126	—	—	126
Other assets	—	—	290	290
Other non-current assets	**126**	**—**	**290**	**416**
Derivatives (Note 18)	392	62	—	454
Other assets	—	—	5,260	5,260
Trade and other receivables	**392**	**62**	**5,260**	**5,714**
Total	**518**	**62**	**5,550**	**6,130**

31.12.2020	**Fair value through other comprehensive income**	**Fair value through profit or loss**	**Amortised cost**	**Total**
Derivatives (Note 18)	352	—	—	352
Other assets	—	—	339	339
Other non-current assets	**352**	**—**	**339**	**691**
Derivatives (Note 18)	94	—	—	94
Other assets	—	—	3,021	3,021
Trade and other receivables	**94**	**—**	**3,021**	**3,115**
Total	**446**	**—**	**3,360**	**3,806**

Financial assets recognised at fair value at 31 December 2021 and at 31 December 2020 are classified as follows:

	31.12.2021				31.12.2020			
Financial assets	Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	Total	Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	Total
Fair value through other comprehensive income	58	460	—	518	15	431	—	446
Fair value through profit or loss	29	33	—	62	—	—	—	—
Total	**87**	**493**	**—**	**580**	**15**	**431**	**—**	**446**

Fair value through other comprehensive income

Non-current derivative financial assets at fair value through other comprehensive income includes the market value of the power purchase agreements of the Australian subsidiaries engaging in the wind renewable generation business amounting to Euros 60 million (31 December 2020: Euros 279 million) of which Euros 47 million is classified as non-current (31 December 2020: Euros 264 million). These agreements are concluded with the state in which they operate or with private corporations, and allow them to hedge the forward selling price of electricity for a given volume of MW for the agreed period. They have been accounted for as a cash flow hedging financial instrument (Note 18).

Also included are gas price operating hedging derivatives amounting to Euros 386 million (31 December 2020: Euros 151 million), of which Euros 66 million is classified as non-current (31 December 2020: Euros 88 million) (Note 18).

Amortised cost

	31.12.2021	31.12.2020
Receivable, revenue from capacity services	166	151
Other receivables	124	188
Other non-current assets	**290**	**339**
Trade receivables	5,570	3,444
Receivables with related companies (Note 34)	10	19
Provision for impairment due to debtor credit losses	(800)	(775)
Trade receivables for sales and services	4,780	2,688
Public Administrations	165	89
Prepayments	100	94
Sundry receivables	74	113
Other receivables	339	296
Current income tax asset	141	37
Trade and other receivables	**5,260**	**3,021**
Other non-current assets and trade and other receivables	**5,550**	**3,360**

The fair values and carrying amounts of these assets do not differ significantly.

The heading “Receivable, revenue from capacity services” relates to revenue yet to be billed in respect of the levelling of the term of the service contracts for electricity generation capacity assignment with the Mexican Federal Electricity Commission (Appendix IV 2.4.1).

In May 2021, the Brazilian Federal Supreme Court issued a decision in favour of CEG and CEG Rio in which it recognised their entitlement to collect the amounts paid unduly due to the inclusion of the Imposto sobre Operações relativas à Circulação de Mercadorias e Prestação de Serviços de Transporte Interestadual e Intermunicipal e de Comunicação (ICMS) in the calculation base of the Programas de Integração Social (PIS) and the Contribuição para Financiamento da Seguridade Social (COFINS).

Consequently, Naturgy recognised a non-current asset in the amount of Euros 85 million for the exclusion of the ICMS from the tax base, with a credit to an account payable under "Other non-current liabilities" in the Consolidated Balance Sheet (Note 19) based on the understanding that the tax credit will be passed on to end customers through tariff revisions, although it will not be disbursed in the short term.

In 2020, as a result of the decline in demand for gas and electricity, use was made of the flexibility mechanisms available under the supply contracts that give rise to rights for undelivered volumes, recorded at 31 December 2020 under "Other receivables" with respect to the non-current portion, and payment obligations, recorded under "Suppliers".

In general, the outstanding invoices do not accrue interest as they fall due in an average period of 23 days.

At 31 December 2021 the accumulated balances for electricity and gas sales yet to be invoiced are included under “Trade receivables” and amount to Euros 1,785 million (Euros 1,002 million at 31 December 2020). The forecasts for sales yet to be invoiced include the amount relating to the increase in the cost of raw materials included in the last resort tariff for natural gas yet to be passed on in the tariff, which amounts to Euros 36 million, as a result of the difference between the cost of raw materials calculated in accordance with the current methodology and that resulting from the application of Royal Decree-Law 17/2021 of 14 September, which will be recoverable in subsequent quarters by virtue of Royal Decree-Law 27/2021 of 23 November (Note 2.4.23).

The movement in the impairment provision for debtor credit losses is as follows:

	2021	2020
At 1 January	**(775)**	**(785)**
Provision for impairment due to credit losses	(99)	(194)
Write offs	81	96
Currency translation differences	(7)	49
Transfers and other (1)	—	59
At 31 December	**(800)**	**(775)**

(1) Mainly includes transfers to "Non-current assets held for sale" at the date on which this classification is applied (Note 11).

Note 11. Non-current assets and disposal groups of assets held for sale and discontinued operations

At 31 December 2021, non-current assets held for sale relate to the gas distribution business in Peru, the value of the Marisamas assets of Naturgy Almacenamientos Andalucía, S.A. and Petroleum Oil&Gas España, S.A. and the carrying value of 14,450 LPG supply points.

At 31 December 2020, non-current assets held for sale, in addition to the Peru gas distribution business, related to the electricity distribution business in Chile.

Gas distribution in Peru

On 27 April 2020, the general shareholders' meeting of Naturgy Perú S.A., the gas distribution subsidiary in Peru, approved the financial statements for 2019 which indicated that equity was less than one third of share capital. The shareholders resolved not to increase capital, leading to the initiation of the procedure to apply for insolvency proceedings. In December 2020, an agreement was reached with the Peruvian government under which both parties agreed to terminate the concession agreement and therefore decree the expiration of the natural gas distribution concession in the regions of Arequipa, Tacna and Moquegua. It was also decided that the Peruvian government would take over the operation of the concession from 18 December 2020. In this situation, the company was expected to commence a liquidation process which involved the distribution of assets to their owners and therefore, in accordance with IFRS 5, they were classified to "Non-current assets and liabilities held for sale". At the time of transfer, the assets were measured at expected fair value on liquidation, which did not have a significant impact on the consolidated income statement. Additionally, as this is a significant and separate business line or geographical area of operations it was treated as a discontinued operation and therefore all income and expenses relating to this line of business for 2021 and 2020 (Note 2.3) are disclosed under "Profit for the year from discontinued operations net of taxes".

Electricity distribution in Chile

On 13 November 2020 Naturgy reached an agreement to sell its 96.04% holding in Compañía General de Electricidad S.A. in Chile (CGE), a company engaging in the electricity network business in Chile, to State Grid International Development Limited (SGID) for a total purchase price (equity value) of Euro 2,570 million, set in euros and payable in cash upon completion of the transaction. Since this figure was higher than the carrying amount, no valuation impact was recognised under IFRS 5. On 26 July 2021, the sale of the investment was completed, generating a gain of Euros 64 million recorded under "Profit from discontinued operations" in the consolidated income statement (Note 29).

As Naturgy had a firm commitment to sell these assets that were clearly identified, the process was under way and it was considered that the sale was highly probable, the accounting balances of these assets and liabilities in November 2020 were transferred to "Non-current assets held for sale" and "Liabilities related to non-current assets held for sale", in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations". In addition, it was considered that these were discontinued operations as they are components classified as held for sale which represented a significant and separate line of business or geographical area of operations. The income and expenses pertaining to this line of business in 2021 and 2020 are disclosed under "Profit for the year from discontinued operations net of taxes".

Assets Marismas (Naturgy Almacenamientos Andalucía, S.A. and Petroleum Oil & Gas España, S.A.)

In November 2021 Naturgy reached an agreement to sell 100% of its interest in Naturgy Almacenamientos Andalucía, S.A., a company engaging in the regulated activity of underground gas storage and certain assets of Petroleum Oil & Gas España, S.A. located in Marismas (Huelva). This agreement will materialise once certain suspensive conditions are met, which is expected to occur in the first quarter of 2022.

As Naturgy has a firm commitment to sell these assets that are clearly identified, the process is under way and it is considered that the sale is highly probable, the accounting balances of these assets were transferred to "Non-current assets held for sale" in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations". At the time of the transfer, the assets were measured at fair value determined on the basis of the selling price less costs to sell and as this value is higher than the carrying amount, no impact from the IFRS 5 valuation has been recorded. In addition, as it does not represent a significant business line or geographical area of operation which is separate from the rest, this was not treated as a discontinued operation.

LPG supply points

In December 2021 Naturgy reached an agreement to sell 14,450 liquefied petroleum gas (LPG) supply points in Spain to Redexis. The agreement with Naturgy also includes the transfer of the activity of Nedgia Balears, S.A., the company awarded the contract for the execution and operation of natural gas distribution facilities on the island of Menorca.

As Naturgy has a firm commitment to sell these assets that are clearly identified, the process is under way and it is considered that the sale is highly probable, the accounting balances of these assets were transferred to "Non-current assets held for sale" in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations". At the time of the transfer, the assets were measured at fair value determined on the basis of the selling price less costs to sell, which resulted in a loss of Euros 8 million being recognised in the consolidated income statement under "Depreciation and impairment losses on non-financial assets" (Note 28). In addition, as it does not represent a significant business line or geographical area of operation which is separate from the rest, this was not treated as a discontinued operation.

Coal-fired generation plants in Spain

In addition, on 30 June 2020 Naturgy's coal-fired generation facilities in Spain ceased to operate because no remuneration mechanism existed that could make the necessary investments to reduce emissions viable, and therefore they did not comply with the new emission limits. As this group of assets was to be abandoned and as it formed part of a coordinated closure plan and represented a significant and separate line of business in accordance with IFRS 5, it was treated as a discontinued operation and all income and expenses relating to this line of business for 2020 were disclosed under "Profit for the year from discontinued operations net of taxes".

The breakdown by nature of assets classified as held for sale and the associated liabilities is as follows at 31 December 2021 and 2020:

2021	**Almacenamientos Andalucía**	**GLP Assets Nedgia**	**Gas Distribution Peru**	**Total**
Intangible assets	—	—	—	—
Property, plant and equipment	13	20	—	33
Right-of-use assets	—	—	—	—
Non-current financial assets	—	—	—	—
Other non-current assets	—	—	—	—
Deferred tax assets	4	—	—	4
NON-CURRENT ASSETS	**17**	**20**	**—**	**37**
Inventories		—	—	—
Trade and other receivables	3	—	—	3
Other current financial assets	—	—	—	—
Cash and cash equivalents	—	—	—	—
CURRENT ASSETS	**3**	**—**	**—**	**3**
TOTAL ASSETS	**20**	**20**	**—**	**40**
				—
Grants	—	—	—	—
Non-current provisions	—	—	—	—
Non-current financial liabilities	24	—	—	24
Deferred tax liabilities	—	—	—	—
Other non-current liabilities	—	—	—	—
NON-CURRENT LIABILITIES	**24**	**—**	**—**	**24**
Current financial liabilities	—	—	—	—
Trade and other payables	1	—	1	2
Other current liabilities	—	—	—	—
CURRENT LIABILITIES	**1**	**—**	**1**	**2**
TOTAL LIABILITIES	**25**	**—**	**1**	**26**

2020	**Electricity distribution Chile**	**Gas Distribution Peru**	**Total**
Intangible assets	1,233	—	1,233
Property, plant and equipment	2,126	—	2,126
Right-of-use assets	9	—	9
Non-current financial assets	55	—	55
Other non-current assets	359	—	359
Deferred tax assets	155	—	155
NON-CURRENT ASSETS	**3,937**	**—**	**3,937**
Inventories	6	—	6
Trade and other receivables	505	—	505
Other current financial assets	2	—	2
Cash and cash equivalents	385	—	385
CURRENT ASSETS	**898**	**—**	**898**
TOTAL ASSETS	**4,835**	**—**	**4,835**
			—
Grants	17	—	17
Non-current provisions	66	—	66
Non-current financial liabilities	1,516	—	1,516
Deferred tax liabilities	288	—	288
Other non-current liabilities	386	—	386
NON-CURRENT LIABILITIES	**2,273**	**—**	**2,273**
Current financial liabilities	255	—	255
Trade and other payables	261	8	269
Other current liabilities	43	—	43
CURRENT LIABILITIES	**559**	**8**	**567**
TOTAL LIABILITIES	**2,832**	**8**	**2,840**

Breakdowns by nature of the heading “Profit for the year from discontinued operations net of taxes” in the consolidated income statement for 2021 and 2020 are as follows:

2021	**Electricity distribution Chile**	**Gas Distribution Peru**	**Coal generation Spain**	**Total**
Revenue	908	—	—	908
Procurements	(687)	—	—	(687)
Other operating income	17	2	—	19
Personnel expenses	(34)	—	—	(34)
Other operating expenses	(100)	—	—	(100)
GROSS OPERATING RESULTS	**104**	**2**	**—**	**106**
Impairment due to credit losses	(10)	—	—	(10)
Other results	64	—	—	64
OPERATING PROFIT/(LOSS)	**158**	**2**	**—**	**160**
Financial income	1	—	—	1
Financial expenses	(36)	—	—	(36)
NET FINANCIAL INCOME/(EXPENSE)	**(35)**	**—**	**—**	**(35)**
Profit/(loss) on equity method companies	—	—	—	—
PROFIT/(LOSS) BEFORE TAXES	**123**	**2**	**—**	**125**
Corporate income tax	(8)	—	—	(8)
PROFIT FOR THE YEAR AFTER TAXES FROM DISCONTINUED OPERATIONS	**115**	**2**	**—**	**117**
Attributable to:				
The parent company	111	2	—	113
Non-controlling interests	4	—	—	4

2020	**Electricity distribution Chile**	**Gas Distribution Peru**	**Coal generation Spain**	**Total**
Revenue	1,918	6	71	1,995
Procurements	(1,474)	(4)	(75)	(1,553)
Other operating income	22	—	1	23
Personnel expenses	(64)	(1)	(29)	(94)
Other operating expenses	(162)	(2)	(18)	(182)
Gain/(loss) on disposals of fixed assets	2	—	—	2
Release of fixed asset grants to income and other	1	—	—	1
GROSS OPERATING RESULTS	**243**	**(1)**	**(50)**	**192**
Fixed asset depreciation/amortisation	(78)	(1)	—	(79)
Impairment due to credit losses	(47)	—	—	(47)
Other results	—	—	—	—
OPERATING PROFIT/(LOSS)	**118**	**(2)**	**(50)**	**66**
Financial income	4	—	—	4
Financial expenses	(75)	(1)	—	(76)
Exchange differences	1	(1)	—	—
NET FINANCIAL INCOME/(EXPENSE)	**(70)**	**(2)**	**—**	**(72)**
Profit/(loss) on equity method companies	—	—	12	12
PROFIT/(LOSS) BEFORE TAXES	**48**	**(4)**	**(38)**	**6**
Corporate income tax	26	(8)		18
PROFIT FOR THE YEAR AFTER TAXES FROM DISCONTINUED OPERATIONS	**74**	**(12)**	**(38)**	**24**
Attributable to:				
The parent company	68	(12)	(38)	18
Non-controlling interests	6	—	—	6

The total comprehensive income from this activity in the years ended 31 December 2021 and 31 December 2020 breaks down as follows:

2021	**Electricity distribution Chile**	**Gas Distribution Peru**	**Coal generation Spain**	**Total**
Consolidated profit/(loss) for the year	**115**	**2**	**—**	**117**
Other comprehensive income recognised directly in equity:				
Financial assets at fair value through other comprehensive income	—	—	—	—
Currency translation differences	4	—	—	4
Transfer to the income statement:				
Currency translation differences	335	—	—	335
Total comprehensive income for the year	**454**	**2**	**—**	**456**

2020	**Electricity distribution Chile**	**Gas Distribution Peru**	**Coal generation Spain**	**Total**
Consolidated profit/(loss) for the year	**74**	**(12)**	**(38)**	**24**
Other comprehensive income recognised directly in equity:				
Financial assets at fair value through other comprehensive income	—	—	—	—
Currency translation differences	(64)	—	—	(64)
Transfer to the income statement:				
Currency translation differences	—	—	—	—
Total comprehensive income for the year	**10**	**(12)**	**(38)**	**(40)**

The cash flows from discontinued operations included in the consolidated cash flow statements are:

2021 **Cash flow from:**	**Electricity distribution Chile**	**Gas Distribution Peru**	**Coal generation Spain**	**Total**
Operation	57	—	—	**57**
Investment	(81)	2	—	**(79)**
Financing	(110)	—	—	**(110)**

2020 **Cash flow from:**	**Electricity distribution Chile**	**Gas Distribution Peru**	**Coal generation Spain**	**Total**
Operation	167	(1)	(50)	116
Investment	(139)	—	—	(139)
Financing	273	(66)	—	207

Transactions between the companies making up the discontinued business with other group companies are not significant. Therefore, intragroup cash flows with the discontinued business are not significant.

Note 12. Inventories

The breakdown of Inventories is as follows:

	31.12.2021	31.12.2020
Natural gas and liquefied gas	504	265
Coal and fuel oil	3	6
Nuclear fuel	52	53
CO2 emission allowances	256	148
Raw materials and other inventories	63	47
Total	**878**	**519**

At 31 December 2021 Naturgy has commitments for the acquisition of inventories amounting to Euros 31 million (Euros 35 million at 31 December 2020) corresponding to nuclear fuel.

Gas inventories basically include the inventories of gas deposited in underground storage units, sea transport, plants and pipelines.

Accumulated inventory impairment at 31 December 2021 amounts to Euros 64 million (Euros 67 million at 31 December 2020).

Note 13. Cash and cash equivalents

Cash and cash equivalents breaks down as follows:

	31.12.2021	31.12.2020
Cash at banks and in hand	2,236	1,986
Short term investments (Spain and rest of Europe)	1,556	1676
Short term investments (International)	173	265
Total	**3,965**	**3,927**

The investments in cash equivalents have contractual maturities of less than three months and a weighted effective interest rate of 0.13% at 31 December 2021 (0.37% at 31 December 2020). It includes short-term financial investments in deposits associated with CO2 emission allowances with a maturity of less than three months and an assured return.

At 31 December 2021 and 2020 there are no investments in sovereign debt, nor are there any significant restrictions on cash withdrawals.

All investments in "Cash and cash equivalents" are valued at amortised cost.

Note 14. Net Equity

The main net equity items are analysed below:

Share capital and share premium

The variations in 2021 and 2020 in the number of shares and share capital and share premium accounts have been as follows:

	Number of shares	Share capital	Share premium	**Total**
01.01.2020	**984,122,146**	**984**	**3,808**	**4,792**
Capital reduction	(14,508,345)	(14)	—	(14)
31.12.2020	**969,613,801**	**970**	**3,808**	**4,778**
Variation	—	—	—	—
31.12.2021	**969,613,801**	**970**	**3,808**	**4,778**

All issued shares are fully paid up and carry equal voting and dividend rights.

On 10 August 2020, capital was reduced through the redemption of 14,508,345 treasury shares with a par value of 1 euro each, representing approximately 1.47% of the Company's share capital at the time of adoption of the relevant resolution (see paragraph on treasury shares in this Note). Following the capital reduction share capital stood at Euros 970 million, made up 969,613,801 shares with a par value of 1 euro each.

There were no movements in the number of shares or in the accounts "Share capital" and "Share premium" during 2021.

The Company's Board of Directors, for a maximum term of five years as from 20 April 2017, is empowered to increase share capital by Euros 500,344,670 through one or more cash payments at the time and in the amount that it deems fit, issuing ordinary, privileged or redeemable shares with or without voting rights, with or without a share premium, without requiring any further authorisation from the shareholders, with the possibility of agreeing, as appropriate, the full or partial exclusion of preferential subscription rights up to a limit of 20% of share capital at the date of this authorisation, and to alter the By-laws as required due to the capital increase or increases performed by virtue of said authorisation, with provision for an incomplete subscription, in accordance with the provisions of Article 297.1.b) of the Spanish Companies Act.

The Spanish Companies Act specifically allows the use of the Share premium balance to increase capital and imposes no specific restrictions on its use.

The most representative holdings in the share capital of Naturgy Energy Group at 31 December 2021 and 31 December 2020, in accordance with the public information available or the information released by the Company itself, are as follows:

	Interest in share capital %	
	2021	2020
- Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona,“la Caixa” (1)	26.7	24.8
- Global Infrastructure Partners III (2)	20.6	20.6
- CVC Capital Partners SICAV-FIS, S.A. (3)	20.7	20.7
- IFM Global Infrastructure Fund	12.2	—
- Sonatrach	4.1	4.1

(1) Holding through Criteria Caixa S.A.U.
(2) Global Infrastructure Partners III, whose investment manager is Global Infrastructure Management LLC, holds its interest indirectly through GIP III Canary 1, S.à.r.l.
(3) Through Rioja Acquisitions S.à.r.l..

All Naturgy shares are traded on the four official Spanish Stock Exchanges and the continuous market, and form part of Spain’s Ibex 35 stock index.

Naturgy's share price at the end of 2021 is Euros 28.63 (Euros 18.96 at 31 December 2020).

Reserves and retained earnings

“Reserves” includes the following reserves:

	2021	2020
Legal reserve	200	200
Statutory reserve	100	100
Goodwill reserve	—	—
Capital Redemption Reserve	31	31
Other reserves and retained earnings	4,426	6,149
Voluntary reserve Naturgy Energy Group, S.A.	10,702	10,702
Other reserves and retained earnings	(6,276)	(4,553)
	4,757	**6,480**

Legal reserve

Appropriations to the legal reserve are made in compliance with the Spanish Capital Companies Act, which stipulates that 10% of the profits must be transferred to this reserve until it represents at least 20% of share capital. The legal reserve can be used to increase capital in the part that exceeds 10% of the capital increased.

Except for the use mentioned above, and as long as it does not exceed 20% of share capital, the legal reserve can only be used to offset losses in the event of no other reserves being available.

Statutory reserve

Under the articles of association of Naturgy Energy Group, S.A., 2% of net income for the year must be allocated to the statutory reserves until it reaches at least 10% of share capital.

Goodwill reserve

Law 22/2015 on Auditing eliminated the requirement to record annually the restricted reserve for at least 5% of the goodwill figuring under assets on the balance sheet, stipulating that in periods commencing as from 1 January 2016, the goodwill reserve is to be reclassified to voluntary reserves and will be available in the amount that exceeds the goodwill recognised under assets on the parent company's balance sheet.

At the annual general meeting held on 26 May 2020, the shareholders agreed to the transfer to Voluntary reserves of Euros 27 million from the Goodwill reserve. At 31 December 2020 the entire goodwill reserve has been reclassified in full to voluntary reserves.

Capital redemption reserve

Following approval at the ordinary general meeting of shareholders held on 26 May 2020, in 2020 a capital reduction was made during the year through the redemption of treasury shares with a reduction of Euros 14 million in capital and 284 million in voluntary reserves.

In addition, pursuant to Article 335 c) of the Spanish Companies Act a restricted Capital redemption reserve was created for an amount equal to the par value of the redeemed shares. The total accumulated capital redemption reserve amounts to Euros 31 million at 31 December 2021 and 2020.

Other reserves and retained earnings

Relates basically to voluntary reserves for retained earnings.

Share-based payments

Within the framework of the Strategic Plan 2018-2022, on 31 July 2018 the Board of Directors approved a long term variable incentive (LTI) plan involving the Executive Chairman and 25 other executives. The main characteristics of the plan were approved by the general meeting of shareholders on 5 March 2019.

The incentive covers the duration of the Strategic Plan 2018-2022, and scheduled to expire in July 2023. It is directly related to the total yield obtained by the shareholders of Naturgy Energy Group S.A. in the period concerned.

It is arranged through the acquisition of shares in Naturgy Energy Group, S.A. by an investee company that may generate a surplus. This surplus, if any, is the incentive that will be handed over to the participants. At the expiration of the plan, this company will obtain a profit derived from the collection of dividends on its shares, changes in the share price and other income and expenses, mainly financial in character. At that time it will sell the shares required to return all the resources received for the acquisition of the shares and after settling its obligations it will distribute any surplus among its members in the form of shares.

The surplus will be received only if a minimum profitability threshold has been surpassed, which implies a share price of Euros 19.15 when the LTI expires and assuming that all the dividends foreseen in the Strategic Plan 2018-2022 are paid.

If they leave the Company, the beneficiaries will only be entitled, in certain cases, to receive a part of the final incentive calculated in proportion to their length of service in the Company with respect to the duration of the plan.

The fair value of the equity instruments granted has been determined at the grant date using a Monte Carlo simulation valuation model based on the share price on the grant date, with the following assumptions:

Forecast share price volatility (1)	17.73%
Plan duration (years)	5
Expected dividends	6.26%
Risk-free interest rate	0.34%

(1) Forecast volatility has been determined based on the historical volatility of the daily share price in the last year.

As a result of the time apportionment of the fair value estimate of the equity instruments granted over the term of the plan, an amount of Euros 4.2 million (Euros 4.5 million in 2020) has been recorded in the consolidated income statement for 2021 under Personnel expenses, credited to Reserves in the consolidated balance.

Furthermore, in view of the new objectives set out in the Strategic Plan 2021-2025 approved on 28 July 2021, the Board of Directors of Naturgy has decided, at the proposal of the Nomination, Remuneration and Corporate Governance Committee, to temporarily extend the current ILP, in order to contribute to the achievement of the aforementioned Strategic Plan. The entry into force of the temporary extension of the ILP is conditional on the approval of the Naturgy Shareholders' Meeting.

Treasury shares

Movements during 2021 and 2020 involving the treasury shares of Naturgy Energy Group, S.A. are as follows:

	Number of shares	Amount (million euro)	% Capital
01.01.2020	**13,823,485**	**321**	**1.4**
Share acquisition plan	470,000	8	—
Delivered to employees	(455,797)	(8)	—
2019 buyback programme	9,346,025	178	0.9
Capital reduction	(14,508,345)	(298)	(1.6)
31.12.2020	**8,675,368**	**201**	**0.9**
Share acquisition plan	127,453	3	—
31.12.2021	**8,802,821**	**204**	**0.9**

In 2021 and 2020, no gains or losses were made on transactions involving treasury shares.

On 5 March 2019, the shareholders in general meeting authorised the Board of Directors to purchase, within five years, in one or more operations, fully paid Company shares; the nominal value of the shares directly or indirectly acquired, added to those already held by the Company and its subsidiaries, must not exceed 10% of share capital or any other limit established by law. The price or value of the consideration may not be lower than the par value of the shares or higher than their quoted price.

The minimum and maximum acquisition price will be the share price on the continuous market of the Spanish stock exchanges, within an upper or lower fluctuation of 5%.

Transactions involving the treasury shares of Naturgy Energy Group, S.A. relate to:

2021

– Share Acquisition Plan: In accordance with the resolutions adopted by the shareholders of Naturgy Energy Group, S.A. at the general meeting held on 5 March 2019, within the Share Acquisition Plan 2020-2023, the one relating to 2021 addressed to Naturgy employees in Spain who decide voluntarily to take part in the Plan was set in motion. The Plan enables participants to receive part of their remuneration in the form of shares in Naturgy Energy Group, S.A., subject to an annual limit of Euros 12,000. During 2021, 127,453 of the Company's own shares were acquired for Euros 3 million to be handed over to the employees taking part in the Plan. The shares will be delivered in January 2022.

2020

- Share Acquisition Plan: In accordance with the resolutions adopted by the shareholders of Naturgy Energy Group, S.A. at the general meeting held on 5 March 2019, within the Share Acquisition Plan 2020-2023, the one relating to 2020 addressed to Naturgy employees in Spain who decide voluntarily to take part in the Plan was set in motion. The Plan enables participants to receive part of their remuneration in the form of shares in Naturgy Energy Group, S.A., subject to an annual limit of Euros 12,000. During 2020, 470,000 treasury shares were acquired for Euros 8 million to be handed over to the employees taking part in the Plan and 455,797 shares have been delivered, leaving a surplus of 14,203 shares. In addition, there is an additional surplus of 21,570 shares from 2019.

- 2019 share buyback programme: The Board of Directors of Naturgy Energy Group, S.A. approved a treasury share buyback programme, which was published on 24 July 2019, with a maximum investment of Euros 400 million to 30 June 2020 representing approximately 2.1% of share capital on the date of notification, the redemption of which was ratified by the shareholders at the annual general meeting held on 26 May 2020. At 30 June 2020, a total of 14,508,345 treasury shares had been acquired under this programme at an average price of 20.6 euros per share, representing a total cost of Euros 299 million (5,162,320 treasury shares at an average price of 23.3 euros per share with a total cost of Euros 121 million at 31 December 2019), which were applied to reduce capital.

- Capital reduction: At a meeting held on 21 July 2020, the Board of Directors of Naturgy Energy Group, S.A. resolved to implement the capital reduction resolution approved at the annual general meeting of shareholders held on 26 May 2020, whereby it approved a reduction in the share capital of Naturgy Energy Group, S.A. to a maximum of Euros 21,465,000, relating to:

    a. the 465,000 treasury shares held by the Company at close of trading on 24 July 2019.

    b. the 21,000,000 additional shares with a par value of one euro each which were acquired and may continue to be acquired for redemption by the Company under the treasury share buyback programme (the “Buyback Programme”) approved by the Company under Regulation (EU) No. 596/2014 on market abuse and disclosed as price-sensitive information on 24 July 2019 (registration number 280517). The time limit for acquiring these shares was 30 June 2020.

In this respect, as Naturgy Energy Group, S.A. had acquired a total of 14,043,345 shares at 30 June 2020 under the approved buyback programme referred to in paragraph (b) above, the Board of Directors set the figure for the capital reduction at Euros 14 million (the "Capital Reduction") and agreed to implement this reduction. The Capital Reduction was carried out through the redemption of 14,508,345 treasury shares with a par value of 1 euro each, representing approximately 1.47% of the Company's share capital at the time of adoption of the resolution in question. Following the Capital Reduction share capital stood at Euros 970 million, made up 969,613,801 shares with a par value of 1 euro each.

At 31 December 2021 and 2020 it also includes 8,639,595 treasury shares to cover the potential delivery of shares resulting from the increase in the value of the shares relating to the long-term variable incentive plan (see paragraph on share-based remuneration in this note).

Earnings per share

The earnings per share are calculated by dividing the net income attributable to the equity holders of the parent Company by the average weighted number of ordinary shares in circulation during the year.

	31.12.2021	31/12/2020
Profit attributable to equity holders of the parent company	1,214	(347)
Weighted average number of ordinary shares in issue	960,934,956	962,554,727
Earnings per share from continuing operations (in euro):		
- Basic	1.14	(0.38)
- Diluted	1.14	(0.38)
Earnings per share from discontinued activities (in euro):		
- Basic	0.12	0.02
- Diluted	0.12	0.02

The average weighted number of ordinary shares used in the calculation of earnings per share in 2021 and 2020 is as follows:

	2021	2020
Weighted average number of ordinary shares	969,613,801	978,453,585
Weighted average number of treasury shares	(8,678,845)	(15,898,858)
Weighted average number of shares in issue	960,934,956	962,554,727

Basic earnings per share are the same as diluted earnings per share as there were no instruments that could be converted into ordinary shares during those years and at the 2021 year-end the conditions for considering the shares pertaining to the incentive described in the paragraph on Share-based remuneration in the calculation of diluted earnings are not met.

Dividends

Set out below is a breakdown of the payments of dividends made in 2021 and 2020:

	31.12.2021			31.12.2020		
	% of Nominal	Euros per share	Amount	% of Nominal	Euros per share	Amount
Ordinary shares	133 %	1.33	1,290	141 %	1.41	1,370
Other shares (without voting rights, redeemable, etc.)	—	—	—	—	—	—
Total dividends paid	**133 %**	**1.33**	**1,290**	**141 %**	**1.41**	**1,370**
a) Dividends charged to income statement	133 %	1.33	1,290	141 %	1.41	1,370
b) Dividends charged to reserves or share premium account	—	—	—	—	—	—
c) Dividends in kind	—	—	—	—	—	—

In addition, dividends paid to non-controlling interests in 2021 amounted to Euros 417 million (Euros 432 million in 2020) (see "Non-controlling interests" paragraph in this note), bringing dividend payments to Euros 1,707 million (Euros 1,802 million in 2020).

2021

On 2 February 2021, the Board of Directors approved the following proposal for the distribution of the dominant Company's net profit for 2020 and retained earnings, for submission to the annual general meeting:

AVAILABLE FOR DISTRIBUTION

Profit.. 98
Retained earnings.. 3,076
Distribution base.. 3,174

DISTRIBUTION:

TO DIVIDENDS: The gross aggregate amount will be equal to the sum of the following quantities (the “Dividend”):

i. Euros 785 million (“Total Interim Dividend”) relating to the two interim dividends for 2020 paid by Naturgy Energy Group, S.A., equivalent jointly to Euros 0.810 per share by the number of shares that were not direct treasury shares on the relevant dates as approved by the Board of Directors in accordance with the interim accounting statements prepared and in accordance with the legal requirements, which revealed the existence of sufficient liquidity for the distribution of these interim dividends out of the profit for 2020, and

ii. the amount obtained by multiplying 0.63 euros per share by the number of shares that are not direct treasury shares on the date on which the registered shareholders entitled to receive the supplementary dividend (the “Supplementary Dividend”) are determined.

The supplementary dividend proposal is consistent with the commitments of the previous Strategic Plan, reaffirmed in market presentations during the year 2020. However, by suspending the share buyback programme, the company has shown caution in the face of uncertainties during 2020.

Euros 785 million of said dividend had already been paid on 29 July and 11 November 2020. The Supplementary Dividend will be paid in the amount per share indicated above through the entities that are members of Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear). The dividend will be paid to shareholders as from 16 March 2021.

TO RETAINED EARNINGS: Determinable amount obtained by subtracting the dividend amount from the distribution base.

TOTAL DISTRIBUTED.. 3,174

This proposal for the distribution of profits and retained earnings prepared by the Board for approval by the annual general meeting included a supplementary payment of Euros 0.63 per share for each qualifying share outstanding at the proposed date of payment, 16 March 2021.

Finally, the general meeting of shareholders held on 09 March 2021 approved a supplementary dividend of 0.63 euros per share for shares not directly held as treasury stock on the payment date, which was fully paid in cash on 17 March 2021.

Following payment of the supplementary dividend, the amount allocated to Retained earnings was Euros 1,778 million.

On 27 July 2021, the Company's Board of Directors resolved to pay an interim dividend of 0.30 euros per share out of 2021 results, for shares not classified as direct treasury shares on the date on which the dividend was paid, this being 4 August 2021.

The Company had sufficient liquidity to pay out the dividend at the approval date, with the necessary liquidity to proceed to payment pursuant to the Spanish Companies Act. The provisional liquidity statement at 30 June 2021 drawn up by the Directors on 27 July 2021 is as follows:

Profit after tax		468
Reserves to be replenished		-
Maximum amount distributable		468
Forecast maximum interim dividend payment (1)		291
Cash resources	2,341	
Undrawn credit facilities	5,460	
Total liquidity		7,801

1) Amount considering total shares issued

On 3 November 2021, the Board of Directors of Naturgy Energy Group, S.A. resolved to pay a second interim dividend of 0.40 euros per share out of 2021 results, paid on 15 November 2021, for shares not classified as direct treasury shares on the date on which the dividend was paid.

The Company had sufficient liquidity to pay out the dividend at the approval date, with the necessary liquidity to proceed to payment pursuant to the Spanish Companies Act. The provisional liquidity statement at 30 September 2021 drawn up by the Directors on 2 November 2021 is as follows:

Profit after tax		705
Reserves to be replenished		—
Maximum amount distributable		705
Interim dividend 2020 profits		291
Forecast maximum interim dividend payment (1)		388
Cash resources	1,942	
Undrawn credit facilities	5,465	
Total liquidity		7,407

1) Amount considering total shares issued

On 3 February 2022, the Board of Directors approved the following proposal for the distribution of the Company's net profit for 2021 and retained earnings, for submission to the annual general meeting:

AVAILABLE FOR DISTRIBUTION

Profit.. 1,706
Retained earnings.. 1,778
Distribution base.. 3,484

DISTRIBUTION:

TO DIVIDENDS: The gross aggregate amount will be equal to the sum of the following quantities (the "Dividend"):

i. Euros 679 million ("Total Interim Dividend") relating to the two interim dividends for 2021 paid by Naturgy Energy Group, S.A., equivalent jointly to Euros 0.70 per share by the number of shares that were not direct treasury shares on the relevant dates as approved by the Board of Directors in accordance with the interim accounting statements prepared and in accordance with the legal requirements, which revealed the existence of sufficient liquidity for the distribution of these interim dividends out of the profit for 2021, and

ii. the amount obtained by multiplying 0.50 euros per share by the number of shares that are not direct treasury shares on the date on which the registered shareholders entitled to receive the supplementary dividend (the "Supplementary Dividend") are determined.

Euros 679 million of said dividend had already been paid on 4 July and 15 November 2021. The Supplementary Dividend will be paid in the amount per share indicated above through the entities that are members of Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear). The dividend will be paid to shareholders as from 22 March 2022.

The Board of Directors is expressly empowered to delegate its powers to the director(s) it deems fit so that they may perform all the actions required to carry out the distribution and, in particular, without limitation, so that they may designate the entity that is to act as payment agent.

TO RETAINED EARNINGS: Determinable amount obtained by subtracting the Dividend amount from the distribution base.

TOTAL DISTRIBUTED... 3,484

This proposal for the distribution of profits and retained earnings prepared by the Board for approval by the annual general meeting includes a supplementary payment of Euros 0.50 per share for each qualifying share outstanding at the proposed date of payment, 22 March 2022. In this respect, in the event that at the time of distribution of the third and last payment of the proposed 2021 dividend (Euros 0.50 per share) the same number of treasury shares is maintained as at the 2021 year end (163,.226 treasury shares, see section on Treasury shares), the amount applied to retained earnings would be Euros 2,320 million.

2020

At a meeting held on 4 February 2020, the Board of Directors of Naturgy Energy Group, S.A. agreed to the proposed distribution of profits described in Note 15 to the consolidated annual accounts for the year ended 31 December 2019. Following the declaration of a "state of alarm" and with the aim of safeguarding the health and safety of all shareholders, employees and collaborators, the company decided to postpone the Annual General Meeting scheduled for 17 March 2020.

To prevent this deferral having a detrimental effect on its shareholders and particularly on the over 70,000 minority shareholders, on 16 March 2020 the Board of Directors of Naturgy Energy Group, S.A. resolved to pay a third interim dividend of 0.593 euros per share out of 2019 profits, for shares not classified as direct treasury shares on the date on which the dividend was paid, this being 25 March 2020.

Subsequently, the general meeting of shareholders held on 26 May 2020 approved a supplementary dividend of 0.010 euros per share for shares not directly held as treasury stock on the payment date, which was fully paid in cash on 03 June 2020. Following payment of the supplementary dividend, the amount allocated to Retained earnings was Euros 3,076 million.

On 21 July 2020, the Board of Directors of Naturgy Energy Group, S.A. resolved to pay a first interim dividend of 0.31 euros per share out of 2020 results, for shares not classified as direct treasury shares on the date on which the dividend was paid, this being 29 July 2020.

Finally, on 27 October 2020, the Board of Directors of Naturgy Energy Group, S.A. resolved to pay a second interim dividend of 0.50 euros per share out of 2020 results, for shares not classified as direct treasury shares on the date on which the dividend was paid, this being 11 November 2020.

The trend in the profits of Naturgy Energy Group, S.A. in the last quarter of 2020, basically due to the impairment of holdings in Group companies, meant that at the end of 2020 profits were insufficient to be able to pay an interim dividend. At the annual general meeting, therefore, the Board of Directors proposed that they should be taken to retained earnings.

Other equity items

Movements in other equity items break down as follows:

	Financial assets at fair value	Hedging operations	Tax effect	Total asset and liability revaluation reserves	Currency translation differences	Total
31.12.2019	(447)	362	(58)	(143)	(1,111)	**(1,254)**
Change in value	(4)	242	(39)	199	(450)	(251)
Taken to income statement	—	(439)	47	(392)	—	(392)
Other	—	—	—	—	—	—
31.12.2020	(451)	165	(50)	(336)	(1,561)	**(1,897)**
Change in value	(17)	(3,966)	735	(3,248)	(11)	(3,259)
Taken to income statement	—	1,022	(178)	844	335	1,179
Other	—	—	—	—	—	—
31.12.2021	(468)	(2,779)	507	(2,740)	(1,237)	**(3,977)**

The heading "Translation differences" includes the exchange differences described in Note 2.4.2 as a result of the euro's fluctuation against the main currencies of Naturgy's foreign companies. This heading also includes the effect of the restatement of the financial statements of companies in hyperinflationary economies.

Non-controlling interests

	Non-controlling interests
Balance at 01.01.2020	**3,425**
Total comprehensive income for the year	202
Distribution of dividends	(340)
Payments return on other equity instruments	(58)
Other changes	8
Balance at 31.12.2020	**3,237**
Total comprehensive income for the year	273
Distribution of dividends	(371)
Payments return on other equity instruments	(58)
Non-controlling interest derecognition due to sale Chile electricity	(98)
Other changes	1
Balance at 31.12.2021	**2,984**

The main change in 2021 corresponds to the derecognition of the non-controlling interest in the electricity network business in Chile due to its sale in July 2021 (Note 11).

Set out below is a breakdown of the most significant non-controlling interests:

	2021			2020		
Company	Attributed equity	Consolidated profit/(loss) for the year	Dividends and other reumerations	Attributed equity	Consolidated profit/(loss) for the year	Dividends and other reumerations
Metrogas, S.A.	425	23	30	484	24	25
Companhia Distribuidora de Gás do Río de Janeiro, S.A.	82	33	46	95	26	7
Fuerza y Energía de Tuxpan S.A. de C.V.	101	14	20	100	11	—
Empresa de Distribución Eléctrica Metro Oeste, S.A.	99	8	3	95	5	—
Ecoelectrica L.P.	72	16	—	72	15	19
Europe Maghreb Pipeline, Ltd.	7	32	39	13	41	65
Gas Natural Mexico, S.A. de C.V.	74	11	22	83	14	24
Ceg Río, S.A.	36	10	3	29	8	6
Aprovisionadora global de energía, S.A.	28	7	11	31	13	24
Nedgia Catalunya, S.A.	145	41	—	169	43	—
Nedgia Madrid, S.A.	39	16	—	50	16	—
Other companies (1)	264	72	196	404	41	170
Subtotal	**1,372**	**283**	**370**	**1,625**	**257**	**340**
Preference shares	110	1	1	110	1	1
Subordinated perpetual debentures	1,502	58	58	1,502	58	58
Other equity instruments	1,612	59	59	1,612	59	59
Total	**2,984**	**342**	**429**	**3,237**	**316**	**399**

(1) 2021, includes accrued dividends amounting to Euros 119 million distributed by Holding Negocios de Gas, S.A. (Euros 53 million in 2020), in addition in 2020 Euros 24 million distributed by Global Power Generation.

Dividends paid to non-controlling interests in 2021 amounted to Euros 417 million (Euros 432 million in 2020).

Set out below is the financial information relating to the most significant non-controlling shareholdings (amounts at 100%):

	31 december 2021			31 december 2020		
Company	Total assets	Non-current liabilities	Current liabilities	Total assets	Non-current liabilities	Current liabilities
Metrogas, S.A.	1,705	(620)	(75)	1,934	(685)	(101)
Companhia Distribuidora de Gás do Río de Janeiro, S.A.	619	(218)	(214)	569	(206)	(148)
Fuerza y Energía de Tuxpan S.A. de C.V.	640	(144)	(38)	999	(123)	(67)
Empresa de Distribución Eléctrica Metro Oeste, S.A.	1,223	(632)	(257)	1,186	(319)	(571)
Ecoelectrica L.P.	273	(7)	(5)	260	(7)	(3)
Europe Maghreb Pipeline, Ltd.	30	—	(1)	58	—	(1)
Gas Natural Mexico, S.A. de CV	697	(357)	(85)	601	(201)	(202)
Ceg Río, S.A.	254	(77)	(84)	187	(64)	(49)
Aprovisionadora global de energía, S.A.	152	(48)	(48)	135	(48)	(25)
Nedgia Catalunya, S.A.	1,006	(109)	(122)	1,146	(112)	(139)
Nedgia Madrid, S.A.	307	(41)	(53)	386	(42)	(74)

Appendix I contains a breakdown of Naturgy's investee companies, stating their activity and the percentage of the shareholding and equity interest.

The analysis performed to determine that Naturgy exercises control over the consolidated entities identified no cases requiring a complex judgement, since Naturgy is entitled to variable returns from its involvement in the investee and has the capacity to influence those returns through its power in the investee, based on Naturgy's representatives on the Board of Directors and its participation in significant decisions. Additionally, in general terms, there are no significant restrictions, such as protective rights, on Naturgy's capacity to access or utilise assets, or to settle liabilities.

Perpetual subordinated debentures

In previous years, Naturgy Finance, B.V. issued the following perpetual subordinated debentures for an aggregate amount of Euros 1,500 million:

Issuance	Nominal	Early redemption option	Coupon
Nov 2014 (1)	500	2022	4.125%
Apr 2015	500	2024	3.375%
Nov 2021	500	2027	2.374%

(1) Nominal amount issued Euros 1,000 million

In November 2021, Naturgy issued a subordinated perpetual bond for an amount of 500 million euros, redeemable at the issuer's option from February 2027 and with an annual return of 2.374%. As part of the transaction, a repurchase of € 500 million of the amortized subordinated perpetual bonds was repurchased from November 2022. The repurchase price was 104.211% and was determined on the basis of the purchase yield up to the first optional purchase date based on a settlement date of November 24, 2021. The spread between the repurchase price and the repurchased carrying amount, together with the costs associated with the repurchase, have been recorded under " Reserves "of the consolidated net worth and have amounted to 25 million euros.

Interest accrued on these debentures is not payable but rather is cumulative. Nonetheless, Naturgy must pay it if dividends are paid out or the decision to exercise the early redemption option is taken.

Although no contractual maturity has been established for these debentures, Naturgy Finance, B .V. has the option to redeem them early on the early redemption option date and subsequently, on every interest payment date.

Naturgy recognises the cash received in "Non-controlling interests" under equity in the consolidated balance sheet on the understanding that the issues do not meet the conditions to be considered as a financial liability, because Naturgy Finance B.V. does not have a contractual commitment to hand over cash or any other financial asset nor any obligation to exchange financial assets or liabilities; the circumstances whereby it would be obligated in this respect are entirely at the discretion of Naturgy Finance, B.V.

The interest accrued during 2021 and 2020 amounts to Euros 58 million and has been recognised in "Non-controlling interests" in the consolidated income statement for 2021 and 2020.

Preference shares

In 2005 Union Fenosa Preferentes, S.A. carried out a preference share issue for a nominal amount of Euros 750 million, of which Euros 640 million was repurchased in 2015, the remainder still being in circulation.

Dividends are variable and non-cumulative, accruing interest at the 3-month Euribor plus a 1.65% spread. The dividend is paid per calendar quarter in arrears, subject to the existence of distributable profits in Naturgy, (considering as such the lower between the declared net profit of Naturgy and the net profit of Naturgy Energy Group, S.A. as guarantor) and the payment of a dividend by Naturgy Energy Group, S.A. In addition, Unión Fenosa Preferentes, S.A.U. has the option, but not the obligation, to pay the holders of the preference shares a benefit in kind by increasing their nominal value.

The shares are perpetual, with the option for the issuer to redeem them at nominal value.

Naturgy recognised the cash received in "Non-controlling interests" under equity in the consolidated balance sheet on the understanding that the issue did not meet the conditions to be considered as a financial liability, because Unión Fenosa Preferentes, S.A.U. does not have a contractual commitment to hand over cash or any other financial asset nor any obligation to exchange financial assets or liabilities; the circumstances whereby it would be obligated in this respect are entirely at the discretion of Unión Fenosa Preferentes, S.A.U.

Note 15. Deferred income

The breakdown and the movements under this heading in 2021 and 2020 have been as follows:

	Capital grants	Revenues from pipeline networks and branch lines	Other	Total
01.01.2020	**129**	**678**	**91**	**898**
Amount received	—	46	5	51
Release to income	(11)	(31)	(8)	(50)
Currency translation differences (1)	(1)	(4)	(1)	(6)
Transfers and other	(15)	(5)	(2)	(22)
31.12.2020	**102**	**684**	**85**	**871**
Amount received	1	52	8	61
Release to income	(5)	(34)	(10)	(49)
Currency translation differences (1)	—	3	—	3
Transfers and other (2)	4	—	(1)	3
31.12.2021	**102**	**705**	**82**	**889**

(1) Others includes the impact of hyperinflation in Argentina.
(2) Mainly includes transfers to "Non-current assets held for sale" at the date on which this classification is applied (Note 11).

This heading mainly includes:

- Capital grants relating basically to agreements with the Regional Governments or other entities for the gasification or electrification of municipalities and other investments in gas infrastructure, for which Naturgy has met all the conditions established, are stated at the amount granted (Note 2.4.16).
- Income received for the construction of connection facilities for the gas or electricity distribution network (undertaken), which are recorded for the cash received, as well as assignments received for these facilities, which are recorded at fair value (Note 2.4.16).
-

Note 16. Provisions

The breakdown of provisions at 31 December 2021 and 2020 is as follows:

	31.12.2021	31.12.2020
Provisions for employee obligations	430	473
Other provisions	716	579
Non-current provisions	**1,146**	**1,052**
Current provisions	**589**	**246**
Total	**1,735**	**1,298**

Provisions for employee obligations

A breakdown of the provisions related to employee obligations is as follows:

	2021			2020		
	Pensions and other similar obligations	Other obligations with personnel	Total	Pensions and other similar obligations	Other obligations with personnel	Total
At 1 January	**459**	**14**	**473**	**525**	**12**	**537**
Appropriations/reversals charged to income statement	14	5	19	21	4	25
Payments during the year	(14)	—	(14)	(23)	(2)	(25)
Currency translation differences	1	—	1	(21)	—	(21)
Changes recognised directly in equity	(47)	—	(47)	(6)	—	(6)
Transfers and other applications (1)	(2)	—	(2)	(37)	—	(37)
At 31 December	**411**	**19**	**430**	**459**	**14**	**473**

(1) In 2020 it mainly included transfers to "Non-current assets held for sale" at the date on which this classification is applied (Note 11).

Pensions and other similar obligations

The breakdown of the provisions for post-employment pension obligations by country is as follows:

Breakdown by country	**31.12.2021**	31.12.2020	01.01.2020
Spain (1)	346	398	404
Brazil (2)	43	39	62
Chile (3)	4	7	44
Mexico (4)	14	13	13
Rest	4	2	2
Total	**411**	**459**	**525**

1. *Pension plans and other post-employment benefits in Spain*

Most of Naturgy's post-employment obligations in Spain consist of the contribution of defined amounts to occupational pension plan systems. Nevertheless, at 31 December 2021 and 31 December 2020, it held the following defined benefit obligations for certain groups of workers:

- Pensions to retired workers, the disabled, widows and orphans and other related groups.
- Defined benefit supplement obligations with retired personnel of the legacy Unión Fenosa Group who retired before November 2002 and a residual part of current personnel.
- Coverage of retirement and death for certain employees.
- Gas subsidy for current and retired personnel.
- Electricity for current and retired personnel.
- Obligations with employees that took early retirement until they reach official retirement age and early retirement plans.
- Salary supplements and contributions to social security for a group of employees taking early retirement until they can access ordinary retirement.
- Health care and other benefits.

2. *Pension Plans and Other post-employment benefits in Brazil*

At 31 December 2021 and at 31 December 2020, the following benefits payable by Naturgy for certain employees in Brazil were still in effect:

- Defined post-employment benefits plan, covering retirement, death on the job and disability pensions and overall amounts.
- Post-employment healthcare plan.
- Other defined post-employment benefit plans that guarantee temporary pensions, life-time pensions and overall amounts depending on seniority.

3. Pension plans and Other post-employment benefits in Chile

At 31 December 2021 and at 31 December 2020, the following benefits payable by Naturgy for certain employees in Chile were still in effect:

- Termination benefits for employees due to retirement, dismissal or death, calculated based on length of service.
- Length-of-service awards payable at 5, 10, 15, 20, 25 and 30 years of service.

4. Pension Plans and Other post-employment benefits in Mexico

At 31 December 2021 and at 31 December 2020, the following benefits payable by Naturgy for certain employees in Mexico were still in effect:

- Length-of-service award payable after 15 years of service
- Severance indemnity for employees without the service requirement, payable in the event of death at work, incapacity or redundancy.
- Severance indemnity equivalent to three months' salary plus 20 days' salary per year of service.
- Additional compensation only in the event of retirement equal to 1% of the base salary per year of service.

The breakdown of the provisions for pensions and liabilities, by country, recognised in the consolidated balance sheet and the fair value of the plan-related assets is as follows:

	2021				2020			
	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
Present value of obligations								
At 1 January	**1,068**	**111**	**7**	**15**	**1,111**	**167**	**44**	**15**
Service cost for the year	5	—	—	1	5	—	4	1
Interest cost	5	7	—	1	10	8	1	1
Changes recognised in equity	(65)	(5)	(1)	1	6	(7)	1	(1)
Benefits paid	(57)	(8)	(1)	—	(64)	(8)	(5)	—
Currency translation differences	—	1	(1)	—	—	(49)	(1)	(1)
Transfers and other	—	—	—	(2)	—	—	(37)	—
At 31 December	**956**	**106**	**4**	**16**	**1,068**	**111**	**7**	**15**
Fair value of plan assets								
At 1 January	670	72	—	2	707	105	—	2
Expected yield	2	5	—	—	5	5	—	—
Contributions	—	2	—	—	4	—	—	—
Changes recognised in equity	(16)	(8)	—	—	6	(1)	—	—
Benefits paid	(46)	(8)	—	—	(52)	(6)	—	—
Currency translation differences	—	—	—	—	—	(31)	—	—
Transfers and other	—	—	—	—	—	—	—	—
At 31 December	**610**	**63**	**—**	**2**	**670**	**72**	**—**	**2**
Provisions for pensions and similar obligations	**346**	**43**	**4**	**14**	**398**	**39**	**7**	**13**

The amounts recognised in the consolidated income statement for the above-mentioned pension plans are as follows:

	2021				2020			
	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
Service cost for the year	5	—	—	1	5	—	4	1
Past service cost	—	—	—	—	—	—	—	—
Interest cost	5	7	—	1	10	8	1	1
Expected return on plan assets	(2)	(5)	—	—	(5)	(5)	—	—
Total charge to the income statement	**8**	**2**	**—**	**2**	**10**	**3**	**5**	**2**

Benefits to be paid, depending on the duration of the previous commitments, are as follows:

	2021				2020			
	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
1 to 5 years	—	—	—	—	—	—	—	—
5 to 10 years	23	43	4	3	26	39	5	2
More than 10 years	323	—	—	11	372	—	2	11
Provisions for pensions and similar obligations	**346**	**43**	**4**	**14**	**398**	**39**	**7**	**13**

The weighted average term of defined benefit commitments is as follows:

	2021				2020			
Years	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
Weighted average term of pension commitments	12.1	9.4	8.1	15.7	12.4	9.4	9.2	17.4

Movements in the liability recognised in the consolidated balance sheet are as follows:

	2021				2020			
	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
At 1 January	**398**	**39**	**7**	**13**	**404**	**62**	**44**	**13**
Charge against the income statement	8	2	—	2	10	3	5	2
Contributions paid	(11)	(2)	(1)	—	(16)	(2)	(5)	—
Changes recognised in equity	(49)	3	(1)	1	—	(6)	1	(1)
Transfers	—	—	—	—	—	—	—	—
Currency translation differences	—	1	(1)	—	—	(18)	(1)	(1)
Other	—	—	—	(2)	—	—	—	—
Business Combinations	—	—	—	—	—	—	—	—
Discontinued operations					—	—	(37)	—
At 31 December	**346**	**43**	**4**	**14**	**398**	**39**	**7**	**13**

The amount of cumulative actuarial gains and losses recognised directly in equity is negative by Euros 159 million at 31 December 2021 (Spain: negative by Euros 74 million, Brazil: negative by Euros 67 million, Chile: negative by Euros 13 million, and Mexico: negative by Euros 5 million). At 31 December 2020, the cumulative negative figure was Euros 193 million (Spain: negative by Euros 111 million, Brazil: negative by Euros 65 million, Chile: negative by Euros 13 million, and Mexico: negative by Euros 4 million)

The change recognised in equity relates to actuarial losses and gains derived basically from adjustments to:

	2021				2020			
	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
Financial assumptions	(60)	(21)	(1)	—	54	7	—	(1)
Demographic assumptions	44	—	—	—	(6)	(5)	—	—
Experience	(33)	18	—	2	(48)	—	1	—
Limits on assets	—	6	—	—	—	(8)	—	—
At 31 December	**(49)**	**3**	**(1)**	**2**	**—**	**(6)**	**1**	**(1)**

The main categories of assets, expressed as a percentage of the total fair value of the assets are as:

	2021				2020			
% of total	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
Shares	— %	15 %	— %	— %	— %	18 %	— %	— %
Bonds	100 %	79 %	— %	100 %	100 %	76 %	— %	100 %
Real estate and other assets	— %	6 %	— %	— %	— %	6 %	— %	— %

Real yields on the plan-related assets in 2021, relating basically to Spain and Brazil, have been Euros 7 million (Euros 10 million in 2020).

The main annual actuarial assumptions used were as follows:

	31.12.2021				31.12.2020			
	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
Discount rate (1)	0,0 a 1,28%	9.07%	3.13%	8% - 8.25%	0,0 a 0,78%	6.56%	0.30%	7.25%
Expected return on plan assets (1)	0,0 a 1,28%	9.07%	0.00	8.00%	0,0 a 0,78%	6.56%	0.00	7.25%
Future salary increases (1)	2.00%	4.43%	2.00%	5.50%	2.00%	4.23%	2.00%	5.50%
Future pension increases (1)	2.00%	3.40%	n/a	5.00%	2.00%	3.20%	n/a	3.40%
Inflation rate (1)	2.00%	3.40%	4.90%	4.00%	2.00%	3.20%	2.80%	4.00%
Mortality table	PER2020 Col 1st order	AT-2000	RV-2014	EMSSA 2009	PERMF 2020	AT-2000	RV-2014	EMSSA 2009
Life expectancy:								
Men								
Retired in the current year	24.64	20.95	19.39	22.85	23.5	20.5	18.6	22.8
Retiring within 20 years	45.59	38.44	36.95	40.04	43.8	38	36	39.9
Women								
Retired in the current year	28.37	23.52	24.05	25.24	27.3	23.1	23.2	25.2
Retiring within 20 years	49.82	41.94	42.77	45.09	48.3	41.5	41.8	45

(1) Annual

These assumptions are equally applicable to all the obligations, irrespective of the origin of their collective bargaining agreements.

The interest rates used to discount post-employment commitments are applied based on the period of each commitment and the reference curve is calculated applying observable rates for high-credit-quality corporate bonds (AA) issued in the Eurozone.

Benefits payable and estimated contributions to be made for 2021 in million euros are as follows:

	Benefits				**Contributions**			
	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
Post-employment	45	9	—	—	18	—	—	—
Post-employment medical	—	—	—	—	3	3	—	—
At 31 December	**45**	**9**	**—**	**—**	**21**	**3**	**—**	**—**

The following table includes the effect of a 1% variation in the inflation rate, a 1% change in the discount rate and a 1% change in the cost of healthcare over the provisions and actuarial costs:

	Inflation 1%	**Discount +1%**	**Healthcare +1%**
Present value of obligations	73	(114)	9
Fair value of plan assets	27	(52)	—
Asset ceiling	—	5	—
Provision for pensions	46	(57)	9
Service cost for the year	1	(1)	—
Interest cost	2	8	—
Expected return on plan assets	—	4	—

Other obligations with personnel

Within the framework of the Strategic Plan 2018-2022, a new long-term incentive plan was implemented for Naturgy executives not included in the plan referred to in Note 14, the aim of which is to align the shareholders' interests, the materialization of the Strategic Plan and the executives' multi-year variable remuneration. This programme replaces the previous scheme, called PREMP, and is linked to the total return earned by the shareholders over the duration of the Strategic Plan, generating a collection right once the annual accounts for 2022 have been approved by the General Meeting, which will be collected in cash. The provision for this commitment at 31 December 2021 totals Euros 19 million (Euros 14 million at 31 December 2020).

Other current and non-current provisions

Movements in current and non-current provisions are as follows:

	Non-current provisions			Current provisions	Total
	Due to facility closure costs	Other provisions	Total		
01.01.2020	**387**	**245**	**632**	**291**	**923**
Appropriations/reversals charged to income statement:					
– Appropriations due to financial update	4	4	8	—	8
– Appropriations charged to other results	6	25	31	165	196
– Reversals	—	(3)	(3)	—	(3)
Appropriations/reversals charged to fixed assets	48	—	48	—	48
Payments	(5)	(12)	(17)	(208)	(225)
Currency translation differences	—	(19)	(19)	(9)	(28)
Transfers and other (1)	(57)	(44)	(101)	7	(94)
31.12.2020	**383**	**196**	**579**	**246**	**825**
Appropriations/reversals charged to income statement:					
– Appropriations due to financial update	3	—	3	—	3
– Appropriations charged to other results	—	57	57	560	617
– Reversals	—	(7)	(7)	—	(7)
Appropriations/reversals charged to fixed assets	132	—	132	—	132
Payments	(9)	(24)	(33)	(256)	(289)
Business combinations	—	3	3	12	15
Currency translation differences	1	4	5	5	10
Transfers and other (1)	(9)	(14)	(23)	22	(1)
31.12.2021	**501**	**215**	**716**	**589**	**1,305**

(1) In 2020 it mainly included transfers to "Non-current assets held for sale" at the date on which this classification is applied (Note 11).

The heading "Provisions due to facility closure costs" includes provisions for obligations arising from decommissioning, restoration and other costs related basically to electricity generation facilities.

During 2021, Naturgy recorded provisions for the closing costs of renewable facilities amounting to 132 million euros. As a result of the elaboration of the New Strategic Plan 2021-2025, Naturgy is committed to being a key player in the energy transition by reviewing its Global Environment Policy and strengthening the commitments made, including the protection of biodiversity and the preservation of ecosystems. In this sense, with the revision of this Policy, Naturgy has assumed before third parties the commitment to dismantle these renewable facilities by registering the corresponding provisions.

The heading "Other provisions" mainly includes provisions recorded to cover obligations derived principally from tax claims, lawsuits and arbitration, insurance and other liabilities. Provisions have been recorded during the year due to the development of certain civil, administrative and tax-related claims existing in various Group companies.

The item "Current provisions" relates mainly to CO_2 emissions estimated for the year in the amount of Euros 258 million at 31 December 2021 (Euros 148 million in 2020).

As indicated in Note 2.4.19., an onerous contract is one where the unavoidable costs of fulfilling the obligations exceed the economic benefits expected to be received from the contract. For these purposes, the unavoidable costs of the contract are considered to be the lower of the cost of complying with the contract terms and the amount of compensation or penalties resulting from non-compliance. At 31 December 2021, as a result of the increase in the cost of gas forecast for 2022 due to the evolution of the energy scenario and its impact on the price revisions of the existing supply contracts, Naturgy has recorded withdrawal costs for onerous contracts for gas sales to customers amounting to Euros 234 million (Note 26). No provision for business contracts was deemed necessary at 31 December 2020.

The estimated payment periods for the non-current obligations provisioned in this item are Euros 353 million in between one and five years (Euros 298 million at 31 December 2020), Euros147 million in between five and 10 years (Euros 155 million at 31 December 2020) and Euros 215 million after more than 10 years (Euros 126 million at 31 December 2020).

Note 17. Financial liabilities

The breakdown of borrowings at 31 December 2021 and 2020 is as follows:

	31.12.2021	31.12.2020
Issuing of debentures and other negotiable obligations	8,014	8,206
Borrowings from financial institutions	5,702	5,293
Derivative financial instruments (Note 18)	70	142
Lease liabilities (Note 2.4.21)	1,325	1,325
Other financial liabilities	3	2
Non-current borrowings	**15,114**	**14,968**
Issuing of debentures and other negotiable obligations	572	1,035
Borrowings from financial institutions	884	1,278
Derivative financial instruments (Note 18)	37	38
Lease liabilities (Note 2.4.21)	196	212
Other financial liabilities	9	8
Current borrowings	**1,698**	**2,571**
Total	**16,812**	**17,539**

Financial liabilities recognised at fair value at 31 December 2021 and at 31 December 2020 are classified as follows:

	31.12.2021				31.12.2020			
Financial liabilities	Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	**Total**	Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	**Total**
Fair value through profit or loss	—	—	—	**—**	—	—	—	**—**
Hedging derivatives	—	107	—	**107**	—	180	—	**180**
Total	**—**	**107**	**—**	**107**	**—**	**180**	**—**	**180**

Financial liabilities not included are valued at amortised cost.

The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amount		**Fair value**	
	31.12.2021	31.12.2020	**31.12.2021**	31.12.2020
Issuing of debentures and other negotiable securities	8,014	8,206	8,572	9,010
Loans from financial institutions and other financial liabilities	5,705	5,295	5,739	5,355

Bonds and other marketable securities are quoted and therefore their fair value is estimated on the basis of their quoted price (Level 1). In loans from financial institutions and other financial liabilities, the fair value of loans with fixed interest rates is estimated on the basis of the discounted cash flows over the remaining terms of such debt. The discount rates were determined based on market rates available at 31 December 202 and 31 December 2020 on borrowings with similar credit and maturity characteristics. These valuations are based on the quotation price of similar financial instruments in an official market or on observable information in an official market (Level 2).

The following tables describe consolidated gross borrowings by instrument at 31 December 2021 and 31 December 2020 and their maturity profile, taking into account the impact of the derivative hedges.

	2022	2023	2024	2025	2026	2027 and later years	Total
31.12.2021							
Issuing of debentures and other negotiable securities							
Fixed	563	651	1,123	1,310	1,723	3,044	**8,414**
Floating	9	6	128	3	3	23	**172**
Institutional Banks and other financial institutions							
Fixed	101	80	91	91	91	870	**1,324**
Floating	161	29	18	17	3	24	**252**
Lease liabilities							
Fixed	196	127	126	105	115	852	**1,521**
Floating	—	—	—	—	—	—	**—**
Commercial Banks and other financial liabilities							
Fixed	321	427	350	207	1,111	205	**2,621**
Floating	347	495	674	271	676	45	**2,508**
Total Fixed	1,181	1,285	1,690	1,713	3,040	4,971	**13,880**
Total Floating	517	530	820	291	682	92	**2,932**
Total	**1,698**	**1,815**	**2,510**	**2,004**	**3,722**	**5,063**	**16,812**

	2021	2022	2023	2024	2025	2026 and later years	Total
31.12.2020							
Issuing of debentures and other negotiable securities							
Fixed	947	461	642	1,102	1,301	4,660	**9,113**
Floating	88	2	3	3	3	29	**128**
Institutional Banks and other financial institutions							
Fixed	108	117	91	91	91	961	**1,459**
Floating	142	79	38	17	17	23	**316**
Lease liabilities							
Fixed	213	130	252	72	78	792	**1,537**
Floating	—	—	—	—	—	—	**—**
Commercial Banks and other financial liabilities							
Fixed	451	299	426	144	824	237	**2,381**
Floating	622	1,038	357	14	519	55	**2,605**
Total Fixed	1,719	1,007	1,411	1,409	2,294	6,650	**14,490**
Total Floating	852	1,119	398	34	539	107	**3,049**
Total	**2,571**	**2,126**	**1,809**	**1,443**	**2,833**	**6,757**	**17,539**

Had the impact of the derivatives on borrowings been excluded, fixed-rate financial debt would amount to Euros 11,114 million at 31 December 2021 (Euros 11,858 million at 31 December 2020) and, at floating rates, Euros 5,591 million at 31 December 2021 (Euros 5,321 million at 31 December 2020).

The following table describes consolidated gross financial debt denominated by currency at 31 December 2021 and 31 December 2020 and its maturity profile, taking into account the impact of the derivative hedges:

	2022	2023	2024	2025	2026	2027 and later years	Total
31.12.2021							
Euro debt	1,145	1,410	1,894	1,564	1,934	3,976	11,923
Foreign Currency Debt:							
US Dollar	303	105	320	282	1,258	917	3,185
Chilean peso	52	132	68	21	126	—	399
Mexican peso	53	90	129	121	154	114	661
Brazilian real	125	66	88	5	5	50	339
Australian dollar	13	10	11	11	245	6	296
Argentinian peso	7	2	—	—	—	—	9
Total	**1,698**	**1,815**	**2,510**	**2,004**	**3,722**	**5,063**	**16,812**

	2021	2022	2023	2024	2025	2026 and later years	Total
31.12.2020							
Euro debt	1,317	1,496	1,535	1,291	1,526	5,827	12,292
Foreign Currency Debt:							
US Dollar	729	195	92	136	1,043	654	2,849
Chilean peso	92	106	109	9	—	131	447
Mexican peso	172	161	22	2	260	8	625
Brazilian real	77	142	51	5	4	51	330
Australian dollar	183	26	—	—	—	86	295
Argentinian peso	—	—	—	—	—	—	—
Total	**2,571**	**2,126**	**1,809**	**1,443**	**2,833**	**6,757**	**17,539**

Borrowings in euros in 2021 have borne an effective average interest rate of 1.70% (1.78% in 2020) while borrowings in foreign currency have borne an effective average interest rate of 5.01% in 2021 (5.14% in 2020) including derivative instruments assigned to each transaction.

At 31 December 2021, Naturgy has credit facilities totalling Euros 5,542 million (Euros 5,797 million at 31 December 2020), of which Euros 5,459 million has not been drawn down (Euros 5,548 million at 31 December 2020).

Bank borrowings totalling Euros 3,944 million (Euros 3,516 million at 31 December 2020) and issued bonds amounting to Euros 46 million are subject to the fulfilment of certain financial ratios.

Most of the outstanding financial debt carries a change-of-control clause referring to acquisition of over 50% of the voting stock or of the right to appoint a majority of members of the Board of Directors of Naturgy Energy Group, S.A. Those clauses carry additional conditions so that triggering them depends on some of the following events occurring simultaneously: a significant downgrade of the credit rating due to a change of control, or loss of an investment grade rating; inability to fulfil the financial obligations under the contract; material impairment for the creditor, or a material adverse change in solvency. These clauses would entail repayment of the outstanding debt, although the time period would normally be longer than in the event of early termination.

Specifically, the bonds issued, in a volume of Euros 8,110 million (Euros 8,941 million at 31 December 2020), as usual in the Euromarket, could be redeemed in advance provided that such a change in control triggers a downgrade of more than two full notches in at least two of the three ratings that it had obtained, and all the ratings fall below investment grade, and provided that the rating agency states that the rating downgrade results from the change in control.

There are also loans for an amount of Euros 1,536 million that could be subject to early repayment in the event of a change in control (Euros 1,764 million at 31 December 2020). Most of this amount is linked to infrastructure financing with funds from the European Investment Bank that require a rating downgrade in addition to the change in control, and have special repayment terms that are longer than those relating to early termination events.

At the preparation date of these consolidated annual accounts, Naturgy is not in breach of its financial obligations or of any type of obligation that could give rise to the early maturity of its financial commitments.

Naturgy in the process of optimising the financing assigned to each of the business units to increase visibility in the accounts, and their financial autonomy, and to obtain financing in the same currency as that in which the cash flows originate, in order to achieve greater flexibility.

The most relevant financial instruments are as follows:

Issuing of debentures and other negotiable securities

In 2021 and 2020 the evolution of the issues of debt securities has been as follows:

	At 1.1.2021	Issues	Buy-backs or redemptions	Adjustments, exch. rates & other	**At 31.12.2021**
Issued in a European Union Member State which required the filing of a prospectus	8,738	280	(1,111)	32	7,939
Issued in a European Union Member State which did not require the filing of a prospectus	—	—	—	—	—
Issued outside a European Union Member State	503	220	(94)	18	647
Total	**9,241**	**500**	**(1,205)**	**50**	**8,586**

	At 1.1.2020	Issues	Buy-backs or redemptions	Adjustments, exch. rates & other (1)	**At 31.12.2020**
Issued in a European Union Member State which required the filing of a prospectus	8,542	2,050	(1,834)	(20)	8,738
Issued in a European Union Member State which did not require the filing of a prospectus	—	—	—	—	—
Issued outside a European Union Member State	1,238	136	(8)	(863)	503
Total	**9,780**	**2,186**	**(1,842)**	**(883)**	**9,241**

(1) Mainly includes transfers to "Non-current assets held for sale" at the date on which this classification is applied (Note 11).

An analysis of the most relevant characteristics of the main issuance programmes for debentures and other negotiable securities by Naturgy is as follows, excluding the impact of accrued unpaid interest:

31.12.2021

Programme/Company	Country	Year formalised	Currency	Programme limit	Drawn-down nominal amount	Available	Issuances per year
Euro Commercial Paper (ECP) programme							
Naturgy Finance B.V.	Netherlands	2010	Euros	1,000	—	1,000	280
European Medium Term Notes (EMTN) programme							
Gas Natural Capital Markets, S.A. and Naturgy Finance B.V.	Netherlands/ Spain	1999	Euros	12,000	8,110	3,890	—
Negotiable bonds and Certificates Programme							
Guimarania I solar SPE Ltda Guimarania II Solar II SPE Ltda	Brazil	2020	Brazilian real	9	9	—	—
Sobral I Solar Energia SPE Ltda.	Brazil	2018	Brazilian real	18	18	—	—
Sertao I Solar Energia SPE Ltda	Brazil	2018	Brazilian real	18	18	—	—
Gas Natural México S.A. de C.V.	Mexico	2011	Mexican peso	462	346	116	220
Gas Natural BAN, S.A.	Argentina	2015	Argentinian peso	74	—	74	—
Grupo CGE	Chile	2015	Chilean peso	151	151	—	—

31.12.2020

Programme/Company	Country	Year formalised	Currency	Programme limit	Drawn-down nominal amount	Available	Issuances per year
Euro Commercial Paper (ECP) programme							
Naturgy Finance B.V.	Netherlands	2010	Euros	1,000	—	1,000	900
European Medium Term Notes (EMTN) programme							
Gas Natural Capital Markets, S.A. and Naturgy Finance B.V.	Netherlands/ Spain	1999	Euros	12,000	8,941	3,059	1,150
Negotiable bonds and Certificates Programme							
Guimarania I solar SPE Ltda Guimarania II Solar II SPE Ltda	Brazil	2020	Brazilian real	7	7	—	7
Sobral I Solar Energia SPE Ltda.	Brazil	2018	Brazilian real	18	18	—	—
Sertao I Solar Energia SPE Ltda	Brazil	2018	Brazilian real	18	18	—	—
Gas Natural México S.A. de C.V.	Mexico	2011	Mexican peso	471	196	275	—
Gas Natural BAN, S.A.	Argentina	2015	Argentinian peso	74	0	74	—
Grupo CGE	Chile	2015	Chilean peso	165	165	—	—

The breakdown of the nominal balance issued under the EMTN programme is as follows:

Issuance	Drawn-down nominal amount		Maturity	Coupon %
	31.12.2021	31.12.2020		
November 2009	—	555	2021	5.13
January 2013	396	396	2023	3.88
April 2013	454	454	2022	3.88
July 2013 (1)	101	101	2023	3.97
October 2013	—	276	2021	3.50
March 2014	412	412	2024	2.88
May 2014	154	154	2023	2.63
January 2015	401	401	2025	1.38
April 2016	600	600	2026	1.25
January 2017	1,000	1,000	2027	1.38
April 2017	742	742	2024	1.13
October 2017	300	300	2029	1.88
November 2017	800	800	2025	0.88
January 2018	850	850	2028	1.50
November 2019	900	900	2029	0.75
April 2020	1,000	1,000	2026	1.25
Total	**8,110**	8,941		

(1) NOK 800 million as nominal value.

<u>2021</u>

During 2021, no issuances were made under this programme.

In 2021 two bonds have matured for a total amount of Euros 831 million and with an average coupon of 4.58%.

In 2021, issues under the Euro Commercial Paper (ECP) programme totalling Euros 280 million (Euros 900 million in 2020) were carried out. There were no outstanding issues at 31 December 2021 or 31 December 2020.

<u>2020</u>

Issuances in 2020 under this programme were as follows:

Issuance	Value	Maturity	Coupon
April 2020	1,000	2026	1.25
May 2020(*)	150	2029	0.75

(*) Issue extension November 2019

In 2020 two bonds have matured for a total amount of Euros 934 million and with an average coupon of 5.07%.

During 2020, issues were made under the Euro Commercial Paper (ECP) programme for a total amount of Euros 900 million (Euros 4,444 million in 2019), with no outstanding issues as at 31 December 2020 and 31 December 2019.

Borrowings from financial institutions

Loans from European credit institutions (commercial / institutional banks)

As at 31 December 2021, borrowing from financial institutions (commercial banks) include credit facilities for an amount of Euros 2,852 million.

The group continues to work on strengthening its financial profile; in this line during the financial year 2021, financing and refinancing operations have been carried out with credit institutions for Euros 4,661 million, corresponding mainly to:

- Refinancing of the syndicated credit facility, undrawn, increasing the limit from Euros 1,750 million to Euros 2,000 million, with a 3-year maturity (and an option to extend to 2026) at Euribor +0.30%, the price being adjusted for ESG metrics. Additionally, revolving credit lines for an amount of Euros 983 million were renegotiated. This financing has not resulted in a material modification of the financing conditions in accordance with IFRS 9 with no significant impact on the Income Statement.

- Global Power Generation (GPG) arranged a one-year extension of its USD 1.4 billion syndicated loan; following the extension, USD 1.4 billion mature in June 2026 and the other USD 100 million mature in June 2025. In accordance with the loan terms, GPG increased interest rate hedging by arranging two forward starting swaps. The extension has not resulted in a material modification of the financing conditions in accordance with IFRS 9 with no significant impact on the Income Statement.

Concerning borrowings from institutional credit entities, the European Investment Bank (EIB) has granted financing to Naturgy in the amount of Euros 1,336 million which had been fully utilised at 31 December 2021, maturing between 2022 and 2037 (Euros 1,564 million drawn down at 31 December 2020). In addition, a loan is recorded from the Official Credit Institute (ICO) totalling Euros 160 million maturing in 2029 at the latest (Euros 180 million at 31 December 2020).

Loans from Latin American credit institutions (commercial / institutional banks)

At 31 December 2021 borrowings from various Latin American financial institutions totalled Euros 1,902 million (Euros 2,043 million at 31 December 2020). The geographic breakdown of these loans is as follows:

Country	**31.12.2021**	31.12.2020
Chile	562	349
Panama	754	754
Brazil	290	283
Mexico	287	657
Other	9	—
	1,902	2,043

All borrowings from credit institutions in Latin America at 31 December 2021 and 31 December 2020 relate to commercial banks.

Bank borrowings in other countries (commercial/institutional banks)

At 31 December 2021, debt with credit institutions in other countries amounted to Euros 265 million, mainly in Australia.

Lease liabilities

The main finance lease liabilities recognised under this heading at 31 December 2021 and 31 December 2020 are as follows:

– Gas transport tankers to transport liquefied natural gas through finance lease agreements as the following detail:

Acquisition year	Capacity (m^3)	Duration (year)	Maturity	Ampliation option
2003	138,000	20	2023	—
2003	138,000	20	2023	—
2009	138,000	25	2029	5 years
2014	173,000	18	2032	—
2016	176,300	20	2036	—
2016	176,300	20	2036	—
2018	176,000	20	2037	—
2018	176,000	20	2037	—
2021 (1)	138,000	25	2029	5 years

(1) Acquired in the UFGAS business combination (Note 32).

– Medium-term charter leases of gas tankers are also considered as finance leases under IFRS 16.

– Other relevant financial liabilities associated with lease contracts, which relate to the leases on office buildings and land for energy use linked to generation facilities. (Note 7).

Naturgy's activity as a lessor in contracts that qualify as finance leases is of little relevance, the main item being commercial collection rights for the assignment of the right to use gas and electricity facilities.

The effective average interest rate on the liabilities for finance lease agreements at 31 December 2021 is 6.3% (6.8% at 31 December 2020).

Note 18. Risk management and derivative financial instruments

Risk management

Naturgy has a number of standards, procedures and systems for identifying, measuring and managing different types of risk which are made up of the following basic action principles:

– Guaranteeing that the most relevant risks are correctly identified, evaluated and managed.

– Segregation at the operating level of the risk management functions.

– Assuring that the level of risk exposure assumed by Naturgy in its business is in line with the objective global risk profile and with the achievement of its annual and strategic objectives.

– Ensuring the appropriate determination and review of the risk profile by the Risk Committee, proposing global limits by risk category, and assigning them to the Business Units.

Interest rate risk

The fluctuations in interest rates modify the fair value of the assets and liabilities that accrue a fixed interest rate and the cash flows from assets and liabilities pegged to a floating interest rate, and, accordingly, affect equity and profit, respectively.

The purpose of interest rate risk management is to balance floating and fixed borrowings in order to reduce borrowing costs within the established risk parameters.

Naturgy employs financial swaps to manage exposure to interest rate fluctuations, swapping floating rates for fixed rates.

The financial debt structure at 31 December 2021 and 2020 (Note 17), after taking into account the hedges arranged through derivatives, is as follows:

	31.12.2021	31.12.2020
Fixed interest rate	13,880	14,490
Floating interest rate	2,932	3,049
Total	16,812	17,539

The floating interest rate is mainly subject to the fluctuations of the EURIBOR, the LIBOR and the indexed rates of Mexico, Brazil, Argentina and Chile.

The sensitivity of results and equity (Other equity items) to interest rate fluctuations is as follows:

	Increase/decrease in interest rates (basis points)	Effect on profit before tax	Effect on equity before tax
2021	+50	(15)	78
	-50	15	(78)
2020	+50	(15)	63
	-50	15	(63)

Exchange rate risk

The variations in the exchange rates can affect the fair value of:

- Counter value of cash flows related to the purchase-sale of raw materials denominated in currencies other than local or functional currencies.
- Debt denominated in currencies other than local or functional currencies.
- Operations and investments in non-Euro currencies, and, accordingly, the counter value of equity contributed and results.

In order to mitigate these risks Naturgy finances, to the extent possible, its investments in local currency. Furthermore, it tries to match, whenever possible, costs and revenues indexed in the same currency, as well as amounts and maturities of assets and liabilities arising from operations denominated in non-Euro currencies.

For open positions, the risks in investments in non-functional currencies are managed through financial swaps and foreign exchange fluctuation insurance within the limits approved for hedging instruments.

The non-Euro currency with which Naturgy operates most is the US Dollar. The sensitivity of Naturgy's profits and equity (Other equity items) to a 5% variation (increase or decrease) in the US dollar/euro exchange rate on derivative financial instruments contracted is as follows:

		Effect on profit before tax	**Effect on equity before tax**
2021	+5%	—	—
	-5%	—	—
2020	+5%	—	8
	-5%	—	(9)

Additionally, net assets of foreign companies that have a non-euro functional currency are subject to foreign exchange risk when their financial statements are translated to euros during the consolidation process. Exposure to risk countries where there is more than one exchange rate is immaterial.

At 31 December 2021 Naturgy's equity denominated in Argentinian pesos totals Euros 116 million (Euros 85 million at 31 December 2020) representing a pre-tax impact on equity of Euros 6 million at 5% sensitivity (Euros 4 million at 31 December 2020).

Commodity price risk

A significant part of Naturgy's operating results is linked to the purchase of gas to supply a diversified portfolio of customers.

These gas supply contracts are typically concluded on a long-term basis with purchase prices based on a combination of different commodity prices, basically crude oil and its derivatives and natural gas hubs .

However, selling prices to final customers are generally agreed on a short/medium term basis and selling prices are conditioned by the supply/demand balance existing at a given time in the gas market. This may imply a decoupling with gas supply prices.

Therefore, Naturgy is exposed to the risk of gas price fluctuations with respect to the selling price to end customers. The exposure to these risks is managed and mitigated by natural hedging, trying to balance purchase and supply obligations and selling prices. In addition, some supply contracts allow this exposure to be managed through volume flexibility and repricing mechanisms.

When it is not possible to achieve a natural hedge the position is managed, within reasonable risk parameters, through derivatives to reduce exposure to price decoupling risk, generally through hedging instruments.

In electricity and CO_2 emission allowances trading by Naturgy, risk is insignificant due to the low volume of transactions and the established limits placed, both on the amount and maturity date.

The sensitivity of results and equity (Other equity items) to changes in the fair value of derivatives contracted to hedge commodity prices and derivatives used for trading purposes is analysed below:

	Increase/decrease in gas price	**Effect on profit before tax**	**Effect on equity before tax**
2021	+10%	2	(327)
	-10%	(2)	327
2020	+10%	—	(46)
	-10%	—	46

	Increase/decrease in electricity price	**Effect on profit before tax**	**Effect on equity before tax**
2021	+10%	(1)	(102)
	-10%	3	106
2020	+10%	(1)	(66)
	-10%	—	66

Naturgy does not have any material investments in upstream businesses or raw materials production.

Business segment sensitivity to the prices of oil, gas, coal and electricity is explained below:

- Gas and electricity distribution. It is a regulated activity with revenue and profit margins are linked to distribution infrastructure management services rendered, irrespective of the prices of the commodities distributed. In any event, a fall in the price of gas could increase consumption, having a favourable impact on revenue and thus contributing to the stability of Naturgy's results.

- Gas and electricity. Profit margins on gas and electricity supply activities are directly affected by commodity prices. In this regard, Naturgy has a risk policy that stipulates the tolerance range, based on applicable risk limits, among other aspects. Measures employed to keep risk within the stipulated limits include active supply management, balanced acquisitions and sales formulae, and specific hedging so as to maximise the risk-profit relationship. Supplementary to the above-mentioned policy, Naturgy has mechanisms for ordinary and extraordinary price reviews, by means of the relevant clauses, with a large part of its supply portfolio. These clauses allow, in the medium term, the modulation of impacts in the event of any decoupling between Naturgy's selling prices in its markets and the evolution of prices in its supply portfolio.

Credit risk

Credit risk is defined as the potential loss resulting from the possible nonfulfillment of the contractual obligations of counterparties with which the Group does business.

Naturgy performs solvency analyses on the basis of which credit limits are assigned and any necessary provisions are determined. Based on these models, the probability of customer default can be measured and the expected commercial loss can be kept under control. In addition, credit quality and portfolio exposure are monitored on a recurring basis to ensure that potential losses are within the limits provided for by internal regulations. This allows a certain capacity to anticipate events in credit risk management.

With regard to credit risk in relation to trade receivables, these are reflected in the consolidated balance sheet net of provisions for impairment due to expected credit losses (Note 10) estimated by Naturgy on the basis of available information on past events (such as customer payment behaviour), current conditions and forward-looking factors(e.g. macroeconomic factors such as GDP, unemployment, inflation, interest rates, etc.) that might impact the credit risk of Naturgy's debtors in accordance with the prior segregation of customer portfolios.

Credit risk relating to trade accounts receivable is historically limited given the short collection periods of customers that do not individually accumulate significant amounts before supply can be suspended due to non-payment, in accordance with applicable regulations.

With respect to other exposures to counterparties in transactions involving financial derivatives and the investment of cash surpluses, credit risk is mitigated by carrying out such operations with reputable financial institutions in line with internal requirements. No significant defaults or losses arose in 2021 or 2020.

The main guarantees negotiated are bank guarantees, guarantees and deposits. At 31 December 2021, Naturgy had received guarantees totalling Euros 576 million to cover the risk of large industrial customers (Euros 189 million at 31 December 2020). In 2021, bank guarantees amounting to Euros 2 million were enforced (Euros 4 million at 31 December 2020).

At 31 December 2021 and 2020 Naturgy did not have significant concentrations of credit risk. The risk of concentration is minimised through diversification, managing and combining various areas of impact. Firstly, by having a customer base that is broadly distributed on an international scale; secondly, a diverse product range, from energy supply to the implementation of tailored energy solutions; thirdly, there are different customer types, such as residential customers, self-employed entrepreneurs and small and large businesses in both the public and private sectors and in different segments of the economy.

An ageing analysis of financial assets and related expected losses at 31 December 2021 and 31 December 2020 is set out below:

31.12.2021	**Total**	**Current**	**0-180 days**	**180-360 days**	**More than 360 days**
Expected loss ratio	14.3%	0.6%	5.7%	65.3%	90.5%
Trade receivables for sales and provisions of services	5,580	3,958	782	117	723
Expected loss	800	25	44	77	654

31.12.2020	**Total**	**Current**	**0-180 days**	**180-360 days**	**More than 360 days**
Expected loss ratio	22.4%	0.9%	10.8%	43.2%	96.8%
Trade receivables for sales and provisions of services	3,462	2,121	493	220	628
Expected loss	776	19	53	95	609

The impaired financial assets are broken down in Note 10.

Concerning supplier credit risk, the solvency of each supplier of products and services is guaranteed through the recurring analysis of their financial information, particularly prior to new engagements. To this end, the relevant assessment criteria are applied depending on the supplier's criticality in terms of service or concentration. This procedure is supported by control mechanisms and systems and supplier management.

Liquidity risk

Naturgy has liquidity policies that ensure compliance with its payment commitments, diversifying the coverage of financing needs and debt maturities. A prudent management of the liquidity risk includes maintaining sufficient cash and realisable assets and the availability of sufficient funds to cover credit obligations.

Available cash resources at 31 December 2021 and 2020 are analysed below:

Liquidity source	**Availability 2021**	Availability 2020
Undrawn credit facilities (Note 17)	5,459	5,548
Undrawn loans	—	—
Cash and cash equivalents (Note 13)	3,965	3,927
Total	**9,424**	**9,475**

There is also additional capacity to issue debt in the capital markets unused for Euros 5,080 million (Note 17).

The breakdown of the maturities of the financial liabilities at 31 December 2021 and 2020 is as follows:

	2022	**2023**	**2024**	**2025**	**2026**	**2027 and later years**	**Total**
31.12.2021							
Trade and other payables (Note 20)	(6,803)	—	—	—	—	—	(6,803)
Loans and other financial payables (1)	(2,110)	(2,209)	(2,875)	(2,338)	(4,030)	(7,353)	(20,915)
Financial derivatives	(37)	(23)	(5)	(11)	—	(31)	(107)
Total (2)	**(8,950)**	**(2,232)**	**(2,880)**	**(2,349)**	**(4,030)**	**(7,384)**	**(27,825)**

	2021	**2022**	**2023**	**2024**	**2025**	**2026 and later years**	**Total**
31.12.2020							
Trade and other payables (Note 20)	(3,230)	—	—	—	—	—	(3,230)
Loans and other financial payables (1)	(3,043)	(2,560)	(2,215)	(1,822)	(3,182)	(8,898)	(21,720)
Financial derivatives	(37)	(1)	(30)	(28)	(25)	(58)	(179)
Total (2)	**(6,310)**	**(2,561)**	**(2,245)**	**(1,850)**	**(3,207)**	**(8,956)**	**(25,129)**

(1) Does not include financial derivatives.
(2) The amounts are undiscounted contractual cash flows and, accordingly, differ from the amounts included in the balance sheet and in Note 17.

Capital management

The main purpose of Naturgy's capital management is to ensure a financial structure that can optimise capital cost and maintain a solid financial position, in order to combine value creation for the shareholder with the access to the financial markets at a competitive cost to cover financing needs.

Naturgy considers the following to be indicators of the objectives set for capital management: maintaining, after the acquisition of Unión Fenosa, a long-term leverage ratio of approximately 50%.

Naturgy's long-term credit rating is as follows:

	2021	2020
Standard & Poor's	BBB	BBB
Fitch	BBB	BBB

The leverage ratio is as follows:

	2021	2020
Net borrowings:	**12,831**	**13,612**
Non-current borrowings (Note 17)	15,114	14,968
Current borrowings (Note 17)	1,698	2,571
Cash and cash equivalents (Note 13)	(3,965)	(3,927)
Derivatives (Note 18)	(16)	—
Equity:	**8,873**	**11,265**
Equity holders of the Company (Note 14)	5,889	8,028
Non-controlling interests (Note 14)	2,984	3,237
Leverage (Net borrowings / (Net borrowings + Net equity))	**59.1%**	**54.7%**

Other considerations

On 23 June 2016 UK voters supported the departure of their country from the European Union in a national referendum (“Brexit”). On 31 January 2020 the United Kingdom left the European Union and a transitional period to 31 December 2020 commenced.

On 30 December 2020 the European Union and the United Kingdom signed a Trade and Cooperation Agreement with provisional entry into force on 1 January 2021.

The Brexit process has had and may continue to have adverse effects on the economic and political situation in the EU and the stability of global financial markets. Without considering the above impact on an international level, Naturgy's exposure to the risk derived from the Brexit is not considered significant.

Derivative financial instruments

The breakdown of derivative financial instruments by category and maturity is as follows:

	31.12.2021		31.12.2020	
	Assets	Liabilities	Assets	Liabilities
Hedging derivative financial instruments	**142**	**800**	**352**	**189**
Cash flow hedge				
- Interest rate	13	47	—	112
- Interest rate and foreign exchange rate	—	23	—	27
- Foreign exchange rate	3	—	—	3
- Price of commodities	126	730	352	47
Fair value hedge				
Other financial instruments	37	—	—	—
Derivative financial instruments – non current	**179**	**800**	**352**	**189**
Hedging derivative financial instruments	**392**	**2,696**	**93**	**227**
Cash flow hedge				
- Interest rate	—	37	—	38
- Exchange rate	4	—	—	4
- Price of commodities	388	2,659	92	185
Fair value hedge				
- Exchange rate	—	—	1	—
Other financial instruments	**62**	**45**	**1**	**—**
- Price of commodities	62	45	1	—
Derivative financial instruments current	**454**	**2,741**	**94**	**227**
Total	**633**	**3,541**	**446**	**416**

The fair value of derivatives is determined based on the quoted price in an active market (level 1) and on observable variables in an active market (Level 2).

"Other financial instruments" includes the derivatives not qualifying for hedge accounting.

The impact on the consolidated income statement of derivative financial instruments is as follows:

	2021		2020	
	Operating results	Financial results	Operating results	Financial results
Cash flow hedge	(999)	(35)	451	(25)
Fair value hedge	(6)	(3)	—	(9)
Other financial instruments	34	37	4	(1)
Total	(971)	(1)	455	(35)

The breakdown of derivatives at 31 December 2021 and 2020, their fair value and maturities of their notional values is as follows:

								31.12.2021
	Fair value	Notional value						
(million euros)	**2022**	**2023**	**2024**	**2025**	**2026**	**2025**	**Subsequent years**	**Total**
INTEREST RATE HEDGES:								
Cash flow hedges:								
Financial swaps (EUR)	(59)	146	196	77	505	55	558	1,537
Financial swaps (USD)	(16)	3	5	5	7	638	179	837
Financial swaps (MXN)	1	—	—	—	—	77	—	77
Financial swaps (AUD)	3	3	4	4	4	3	197	215
Options (EUR)	—	—	40	—	—	—	—	40
EXCHANGE RATE HEDGES:								—
Cash flow hedges:								—
Foreign exchange insurance (USD)	4	195	—	—	—	—	—	195
Foreign exchange insurance (AUD)	3	—	125	—	—	—	—	125
Fair value hedges:								—
Foreign exchange insurance (BRL)	—	9	—	—	—	—	—	9
Foreign exchange insurance (EUR) (1)	—	41	—	—	—	—	—	41
Foreign exchange insurance (USD)	—	121	—	—	—	—	—	121
INTEREST RATE AND FOREIGN EXCHANGE RATE HEDGES:								—
Cash flow hedges:								—
Financial swaps (NOK)	(23)	—	101	—	—	—	—	101
COMMODITIES HEDGES:								—
Cash flow hedges:								—
Commodities price derivatives (EUR)	62	348	27	19	3	—	—	397
Commodities price derivatives (USD)	(2,844)	506	267	182	37	7	80	1,079
Commodities price derivatives (AUD)	(93)	44	68	92	112	113	1,249	1,678
OTHER:								—
Commodities price derivatives (EUR)	(1)	13	—	—	—	—	—	13
Commodities price derivatives (USD)	55	44	2	37	—	—	—	83
Total	**(2,908)**	**1,473**	**835**	**416**	**668**	**893**	**2,263**	**6,548**

		31.12.2020						
	Fair value	Notional value						
		2021	**2022**	**2023**	**2024**	**2025**	**Subsequent years**	**Total**
INTEREST RATE HEDGES:								
Cash flow hedges:								
Financial swaps (EUR)	(103)	63	141	191	70	498	576	1,539
Financial swaps (USD)	(35)	—	—	—	—	581	—	581
Financial swaps (MXN)	(7)	—	—	—	—	73	—	73
Financial swaps (AUD)	(4)	—	—	—	—	—	80	80
Options (EUR)	—	—	—	40	—		—	40
EXCHANGE RATE HEDGES:								—
Cash flow hedges:								—
Foreign exchange insurance (USD)	(4)	213	—	—	—	—	—	213
Foreign exchange insurance (BRL)	(3)	—	—	35	—	—	—	35
Fair value hedges:								—
Foreign exchange insurance (BRL)	—	14	—	—	—	—	—	14
Foreign exchange insurance (USD)	1	59	—	—	—	—	—	59
Foreign exchange insurance (DHN)	—	7	—	—	—	—	—	7
INTEREST RATE AND FOREIGN EXCHANGE RATE HEDGES:								—
Cash flow hedges:								—
Financial swaps (NOK)	(27)	—	—	101	—	—	—	101
COMMODITIES HEDGES:								—
Cash flow hedges:								—
Commodities price derivatives (EUR)	(94)	1,522	20	2	—	—	—	1,544
Commodities price derivatives (USD)	28	543	245	105	—	—	—	893
Commodities price derivatives (AUD)	278	29	43	62	82	83	978	1,277
OTHER:								—
Commodities price derivatives (EUR)	—	2	—	—	—	—	—	2
Commodities price derivatives (USD)	—	—	—	—	—	—	—	—
Foreign exchange derivatives (GBP)	—	3	1	—	—	—	—	4
Total	**30**	**2,485**	**450**	**536**	**152**	**1,235**	**1,634**	**6,492**

(1) Arranged by companies using a functional currency other than the euro.

Note 19. Other current and non-current liabilities

The breakdown of this heading at 31 December 2021 and 2020 is as follows:

	31.12.2021	31.12.2020
Deposits and guarantees deposits (1)	217	213
Derivative financial instruments (Note 18)	730	47
Other liabilities (2)	171	86
Other non-current liabilities	**1,118**	**346**
Dividend payable	25	25
Expenses accrued pending payment	143	164
Derivative financial instruments (Note 18)	—	121
Other liabilities (2)	38	53
Other current liabilities	**206**	**363**
Total other liabilities	**1,324**	**709**

There are no significant differences between the carrying values and the fair values of the items in the account "Other non-current liabilities".

(1) Deposits and guarantees deposits

The item "deposits and guarantees deposits" basically includes amounts received from customers under contracts for the supply of electricity and natural gas, deposited with the competent Public Administrations (Note 9) as stipulated by law, and amounts received from customers to secure supplies of liquefied natural gas.

(2) Other liabilities

At 31 December 2021 includes the offsetting entry for the amounts receivable in Brazil for PIS and COFINS described in Note 10 amounting to Euros 85 million.

At 31 December 2020, the balances of long-term trade payables relating to the price stabilisation mechanisms in Chile were included under this heading (Note 2.4.2). The electricity distribution business in Chile has been considered a discontinued activity since October 2020 (Note 11, "Non-current assets and disposal groups held for sale and discontinued operations")

Note 20. Trade and other payables

The breakdown at 31 December 2021 and 2020 is as follows:

	31.12.2021	31.12.2020
Trade payables	3,397	2,495
Trade payables with related parties (Note 34)	10	23
Trade payables	**3,407**	**2,518**
Derivative financial instruments (Note 18)	**2,704**	**68**
Public Administrations	439	375
Accrued wages and salaries	111	76
Other payables	9	11
Other payables	**559**	**462**
Current tax liabilities	**133**	**182**
Total	**6,803**	**3,230**

The fair value and carrying value of these liabilities do not differ significantly.

Disclosure of deferrals of payment to suppliers. Additional Provision 3 "Duty of disclosure" of Law 15/2010/5 July

The total amount of payments made during the year, with details of periods of payments, according to the maximum legal limit under Law 15/2010 of 5 July, which laid down measures against slow payers in Spain, is as follows:

	2021	2020
Total payments (million euro)	14,463	8,681
Total outstanding payments (million euro)	398	243
Average supplier payment period (days) (1)	19	22
Transactions paid ratio (days) (2)	20	22
Transactions pending payment ratio (days) (3)	16	22

(1) Calculated on the basis of amounts paid and pending payment
(2) Average payment period in transactions paid during the year
(3) Average age, suppliers pending payment balance

Note 21. Tax situation

Naturgy Energy Group, S.A. is the parent of Tax Consolidated Group 59/93, which includes all the companies resident in Spain that are at least 75% directly or indirectly owned by the parent company and that fulfil certain requirements, entailing the overall calculation of the group's taxable income, deductions and tax credits. The Tax Consolidated Group for 2021 is indicated in Appendix III.

The remaining Naturgy companies pay their taxes individually, in accordance with the schemes applicable to them.

Set out below is the reconciliation between corporate income tax recognised and the amount that would be obtained by applying the nominal tax rate in force in the parent company's country (Spain) to “Profit/(loss) before taxes" for 2021 and 2020:

	2021	%	2020	%
Profit/(loss) before tax	**1,797**		**(36)**	
Statutory tax	**449**	**25.0%**	**(9)**	**25.0%**
Effect of net results under equity method	(23)	(1.3%)	(9)	25.0%
Application of tax rates of foreign companies	(30)	(1.7%)	(9)	(1.4%)
Tax deductions	(36)	(2.0%)	(10)	27.8%
Other items	(2)	(0.1%)	56	(155.6%)
Corporate income tax	**358**	**19.9%**	**19**	**(52.8%)**
Breakdown of current/deferred expense:				
Current-year tax	398		247	
Deferred tax	(40)		(228)	
Corporate income tax	**358**		**19**	

Part of the asset impairments and write-downs recorded in 2021 (Note 4) will be tax deductible in future periods and, accordingly, temporary differences have been identified, recognising deferred tax revenue in the amount of Euros 290 million. The part that is not tax deductible is listed under Other items in the foregoing reconciliation.

Income qualifying for the tax scheme for transfers of assets made in compliance with competition law (Additional Provision 4 of the revised CIT Act) and the investments in which it has been used in prior years are explained below:

Year of the sale	**Amount obtained on the sale**	**Amount reinvested**	**Capital gain**	**Capital gain included in tax base**	**Capital gain pending inclusion in tax base**
2002	917	917	462	20	442
2003	141	141	79	—	79
2004	292	292	177	9	168
2005	432	432	300	2	298
2006	310	310	226	—	226
2007	105	105	93	—	93
2009	161	161	87	—	87
2010	790	790	556	—	556
2011	468	468	394	1	393
2012	38	38	32	—	32
Total	**3,654**	**3,654**	**2,406**	**32**	**2,374**

The reinvestment was made in fixed assets related to economic activities carried out by the transferring Company or any other company included in the Consolidated Tax Group. by virtue of the provisions of article 75 of the Corporate Income Tax Act.

The breakdown of the tax effect relating to each component of “Other comprehensive income” of the Consolidated Statement of Comprehensive Income for the year is as follows:

		31.12.2021			31.12.2020	
	Gross	Tax effect	Net	Gross	Tax effect	Net
Fair value measurement of assets through other comprehensive income	(17)	105	88	(3)	—	(3)
Cash flow hedges	(3,031)	477	(2,554)	(168)	(2)	(170)
Currency translation differences	463	—	463	(586)	—	(586)
Actuarial gains and loss (Note 17)	51	(11)	40	6	(1)	5
Total	**(2,534)**	**571**	**(1,963)**	**(751)**	**(3)**	**(754)**

Set out below is an analysis of and movements in deferred taxes:

Deferred income tax assets	Provisions for employee benefit obligations	Provision for bad debts and other provisions	Tax credits (1)	Amortisation differences	Financial instrument and asset valuation	Other	Total
01.01.2020	**243**	**519**	**14**	**530**	**77**	**142**	**875**
Charged/(credited) to income statement (2)	19	220	(4)	(30)	—	(11)	194
Movements related to equity adjustments	(1)	—	—	—	24	—	23
Currency translation differences	(8)	(33)	—	(14)	(3)	6	(52)
Transfers and other (3)	(11)	(20)	42	(34)	(18)	(14)	(55)
31.12.2020	**242**	**686**	**52**	**452**	**80**	**123**	**1,635**
Charged/(credited) to income statement (2)	49	(32)	32	(21)	—	(6)	22
Movements related to equity adjustments	(11)	105	—	—	471	—	565
Currency translation differences	1	1	(1)	7	17	(1)	24
Transfers and other (3)	(4)	(18)	21	(19)	—	(25)	(45)
31.12.2021	**277**	**785**	**120**	**419**	**568**	**98**	**2,267**

(1) At 31 December 2021 and 2020 the tax credits mainly relate to unused deductions. The recover of these credits is reasonably assured as they are not subject to any time limit and pertain to companies that historically generate recurring profits.

(2) In 2020, it includes an increase in deferred tax assets due to impairment recognised in the year.

(3) In 2021 and 2020 it includes transfers to "held for sale" at the date on which this classification is applied (Note 11).

Deferred income tax liabilities	Amortisation differences	Deferred gains	Business combination valuation (1)	Financial instrument and asset valuation	Other	Total
01.01.2020	**641**	**208**	**1,028**	**103**	**269**	**2,249**
Charged/(credited) to income statement (2)	10	(1)	(54)	—	11	(34)
Business combinations (Note 32)	—	—	—	—	—	—
Movements related to equity adjustments	—	—	—	27	—	27
Currency translation differences	(32)	—	(33)	(4)	(14)	(83)
Transfers and other (3)	(46)	—	(321)	(16)	17	(366)
31.12.2020	**573**	**207**	**620**	**110**	**283**	**1,793**
Charged/(credited) to income statement (2)	(4)	—	(23)	—	9	(18)
Business combinations (Note 32)	—	—	35	—	37	72
Movements related to equity adjustments	—	—	—	(6)	—	(6)
Currency translation differences	(20)	—	(14)	4	11	(19)
Transfers and other (3)	(29)	—	1	—	(7)	(35)
31.12.2021	**520**	**207**	**619**	**108**	**333**	**1,787**

(1) The heading “Business combination valuation” mainly includes the tax effect of the portion of the merger difference resulting from the absorption of Unión Fenosa, S.A. by Naturgy Energy Group, S.A. in 2009, allocated to net assets acquired, which will not have tax effects. It also includes the tax effect of the allocation of the acquisition price of CGE by Naturgy in 2014 and of various prior acquisitions completed by CGE.

(2) In 2021 and 2020 it mainly includes transfers to "held for sale" at the date on which this classification is applied (Note 11).

At 31 December 2021 the tax credits that have not been recorded totalled Euros 49 million (Euros 18 million at 31 December 2020).

The tax inspection proceedings initiated against the Company in July 2018 as the parent company of Group 59/93 in relation to corporate income tax and as the parent company of Group 273/08 with respect to VAT concluded at the end of 2020. The periods under inspection for corporate income tax purposes (tax consolidation regime) were from 2011 to 2015 and for VAT purposes (corporate group regime) from June 2014 to December 2015.

The assessments raised on the conclusion of the proceedings did not have a material impact on the Naturgy companies as the resulting liability had already been provisioned.

As a result of the agreed tax assessments, a current tax liability was recognised under "Trade and other payables" (Note 20), as the voluntary settlement period ended in 2021.

The assessments relating to the adjustment to the international double taxation credit were contested, as the company considers that its approach is supported by legal doctrine and case law on this matter. This amount has been recorded under "Provisions" (Note 16).

In July 2021, tax inspection proceedings were instigated against nine companies as part of Corporate Income Tax Group 59/93 and against the same companies as part of VAT Group 273/08. These proceedings are partial in nature in both taxes, the object of the verification being limited to certain aspects of the tax obligation. The years under audit are 2016 to 2019 for corporate income tax (tax consolidation regime), and from September 2017 to December 2020 for VAT (Group of entities regime).

The companies notified of the tax audit are: Naturgy Energy Group, S.A., Naturgy Informática, S.A., UFD Distribución de Electricidad, S.A., Naturgy Iberia, S.A, Gas Natural Comercializadora, S.A., Naturgy Generación, S.L., Naturgy Renovables, S.L., GPG Ingeniería y Desarrollo de Generación, S.L. and Naturgy Engineering, S.L. However, that notice suspended the statute of limitations period in connection with the aforementioned items and periods for the entire Corporate Income Tax Group and the VAT Group of entities.

In addition, within the framework of the same audit procedure, the Company was notified of the commencement of an audit, also of a partial nature, in respect of personal income tax and tax withholdings and prepayments on salary income. The audit covers from September 2017 to December 2020.

Concerning tax-related appeals, on 30 September 2020 the Spanish National Court handed down a ruling on an appeal against the tax assessments resulting from an inspection on corporate income tax for the periods 2006-2008, which were contested and which basically regularised the tax deduction for export activities. This ruling has yet to be implemented and the resulting liability is recorded under "Provisions" (Note 16).

In accordance with Spanish tax legislation, at the date of preparation of these annual accounts, the Spanish Group's returns for the last four year for the principal taxes to which it is subject and which are not involved in the above-mentioned tax inspection are open to inspection.

In general, the other Naturgy companies are open to inspection for the following periods:

Country	Period
Argentina	2016-2021
Brazil	2017-2021
Colombia	2018-2021
Chile	2016-2021
Mexico	2017-2021
Panama	2015-2021

As a result, among other things, of the different interpretations to which current tax legislation lends itself, additional liabilities could arise as a result of an inspection. Naturgy considers, however, that any liabilities that might arise would not significantly affect these annual accounts.

Naturgy assesses uncertain tax treatments and reflects the effect of uncertainty on taxable income (losses), tax bases, and unused tax losses or tax credits. Naturgy has adequate coverage for possible obligations deriving from a number of tax claims. There are no lawsuits or uncertain tax treatments which are individually significant.

The General State Budget Law for 2022 approved the modification of Law 27/2014 on Corporation Tax, establishing a minimum taxation of 15% of the tax base. Naturgy does not anticipate that this modification will have an impact on the Group as the deductions applied do not imply a reduction in the effective rate below this percentage.

On 31 December 2020, Law 11/2020 on the General State Budget for 2021 was published under which, among other measures, certain articles of Law 27/2014 on Corporate Income Tax were amended. The most relevant amendments relate to the limitation of the exemption of dividends and capital gains such that, with effect from 1 January 2021, only those derived from holdings of more than 5% of share capital will be exempt at 95%, thus eliminating those relating to holdings with an acquisition cost exceeding Euros 20 million (although a transitional arrangement is established for such holdings).

At the same time, the tax consolidation regime was modified by establishing the non-elimination of dividends distributed between companies in the same Tax Consolidation Group, which entails an effective tax rate of 1.25% for dividends received or capital gains generated in Spanish companies receiving dividends from companies in which a percentage of 5% or more is held, without prejudice to whether the distributing company and the receiving company belong to the same Tax Consolidation Group.

Related to this measure, and for the purposes of calculating the limitation on the deductibility of financial expenses in the case of holding companies in which dividends form part of operating profit, only dividends from entities in which the holding is equal to or greater than 5% will be considered, eliminating from the calculation those dividends from holdings in which the acquisition value of the holding was greater than Euros 20 million.

Note 22. Net sales

The breakdown of this heading in the consolidated income statement for 2021 and 2020 is as follows, by category with the relevant operating segment reporting structure:

2021	Markets and Procurement	Networks Spain	Networks Latam	**Energy management and Networks**	Spain & USA	Latam	Australia	**Renewables and New businesses**	**Supply**	**Rest**	**Total**
Sales of gas and access to distribution networks	3,299	1,071	3,057	7,427	—	—	—	—	3,067	—	10,494
Sales of electricity and access to distribution networks	3,122	775	819	4,716	54	114	21	189	2,943	—	7,848
LNG sales	2,795	—	—	2,795	—	—	—	—	—	—	2,795
Registrations and facility checks	—	—	4	4	—	—	—	—	35	—	39
Assignment power generation capacity	307	—	—	307	—	—	—	—	—	—	307
Rentals meters and facilities	—	—	4	4	—	—	—	—	299	—	303
Other income	12	85	42	139	74	27	—	101	113	1	354
Total	**9,535**	**1,931**	**3,926**	**15,392**	**128**	**141**	**21**	**290**	**6,457**	**1**	**22,140**

2020	Markets and Procurement	Networks Spain	Networks Latam	**Energy management and Networks**	Spain & USA	Latam	Australia	**Renewables and New businesses**	**Supply**	**Rest**	**Total**
Sales of gas and access to distribution networks	1,706	1,051	2,473	5,230	—	—	—	—	1,925	—	7,155
Sales of electricity and access to distribution networks	960	779	857	2,596	253	65	20	338	2,267	—	5,197
LNG sales	1,985	—	—	1,985	—	—	—	—	—	—	1,985
Registrations and facility checks	—	20	8	28	—	—	—	—	33	—	61
Assignment power generation capacity	307	—	—	307	—	—	—	—	—	—	307
Rentals meters and facilities	—	40	5	45	—	—	—	—	306	—	351
Other income	3	15	39	57	51	24	—	75	133	20	289
Total	**4,961**	**1,905**	**3,382**	**10,248**	**304**	**89**	**20**	**413**	**4,664**	**20**	**15,345**

Reporting by geographic area

Naturgy's Net sales by country of destination is analysed below:

	2021	2020
Spain	11,428	7,986
Rest of Europe	3,272	1,965
France	1,808	1,087
Portugal	523	380
Ireland	180	193
United Kingdom	330	86
Other Europe	328	106
Latin American	5,892	4,417
Chile	890	722
Brazil	1,409	1,034
Mexico	1,768	1,172
Panama	725	760
Argentina	507	478
Dominican Republic	88	64
Other Latin America	15	21
Other	1,548	977
China	665	126
India	145	222
USA	382	211
Japan	45	30
Taiwan	18	112
Pakistan	94	79
Other countries	199	197
Total	**22,140**	**15,345**

In accordance with the treatment described in Note 2.4.17., "Revenue" includes a negative adjustment of Euros 8 million for variations in market price in accordance with Article 22 of Royal Decree 413/2014, recognised under "Other non-current financial liabilities" in the consolidated balance sheet.

Note 23. Procurements

The breakdown of this heading for 2021 and 2020 is as follows:

	2021	2020
Energy purchases	14,686	8,497
Access to transmission networks	1,309	1,345
Other purchases and changes in inventories	534	296
Total	**16,529**	**10,138**

Note 24. Other operating income

The breakdown of this heading for 2021 and 2020 is as follows:

	2021	2020
Other management income	117	161
Operating grants	2	1
Total	**119**	**162**

The item “Other management income” includes income from services relating to the construction or improvement of concession infrastructures under IFRIC 12 in the amount of Euros 45 million (Euros 42 million in 2020); whose fair value is estimated by reference to the expenses incurred (Note 26), with no margin.

Note 25. Personnel expenses

The breakdown of this heading for 2021 and 2020 is as follows:

	2021	2020
Wages and salaries	457	507
Termination benefits	410	197
Social security costs	87	101
Defined contribution plans	28	26
Defined benefit plans (Note 16)	6	6
Share-based payments (Note 14)	4	5
Own work capitalised	(77)	(77)
Other	25	33
Total	**940**	**798**

In May 2021 the employees’ trade union representatives and the company’s management representatives reached an "Agreement on the Naturgy Group Voluntary Redundancy Scheme" to be implemented by 31 December 2021. Termination benefits include the costs associated with the Voluntary Redundancy Scheme relating to the actual terminations and confirmed agreements between the parties until 31 December 2021 which make the commitment irrevocable.

The average number of Naturgy employees was 8,872 in 2021 and 9,580 in 2020, analysed by category as follows:

	2021	2020
Executives	115	112
Middle management	1,932	2,722
Specialists	4,101	3,443
Operational staff	2,724	3,303
Total	**8,872**	**9,580**

The average number of employees in the year with disability equal to or greater than 33% is as follows, by category:

	2021	2020
Executives	—	3
Middle management	10	18
Specialists	53	60
Operational staff	47	68
Total	**110**	**149**

The number of Naturgy employees at the end of 2021 and 2020 broken down by category, gender and geographical area, is as follows:

	2021			2020		
	Men	Women	Total	Men	Women	Total
Executives	89	22	111	85	24	109
Middle management	1,220	379	1,599	1,919	733	2,652
Specialists	2,107	1,371	3,478	1,961	1,394	3,355
Operational staff	1,596	582	2,178	2,202	1,017	3,219
Total	**5,012**	**2,354**	**7,366**	**6,167**	**3,168**	**9,335**

	2021	2020
Spain	3,993	5,422
Rest of Europe	28	95
Latin American	3,152	3,627
Rest	193	191
Total	**7,366**	**9,335**

Both the calculation of the average number of employees and the calculation of the number of employees at the end of Naturgy's financial year include the number of employees in the joint venture entities pro-rated by the percentage interest. At 31 December 2021, the number of employees at the year end of these entities stood at 158 (187 at 31 December 2020) and the average number of employees was 167 (189 at 31 December 2020).

In both the calculation of the number of employees at the year end and the calculation of the average number of employees, the employees of companies classified as discontinued operations (Note 11) and the employees of companies consolidated using the equity method have not been taken into account, in accordance with the following breakdown:

	2021		2020	
	Number of employees at year end	Average number of employees	Number of employees at year end	Average number of employees
Discontinued operations	1	2	1,392	1,471
Equity-consolidated companies	56	88	198	132

Note 26. Other operating expenses

The breakdown of this heading for 2021 and 2020 is as follows:

	2021	2020
Taxes (1)	161	373
Withdrawal costs of onerous contracts with gas customers (Note 16)	234	—
Operation and maintenance	254	273
Advertising and other commercial services	101	96
Professional services and insurance	101	104
Concession construction or improvements services (IFRIC 12) (Note 24)	45	42
Supplies	54	54
Services to customers	46	43
Lean services (2)	150	—
Other	169	195
Total	**1,315**	**1,180**

(1) In April 2021, the Spanish Supreme Court ruled on the application of the hydroelectric levy derived from Law 15/20212, declaring the second transitional provision of that Law and the first paragraph of the first additional provision of Royal Decree 198/2015 to be null and void as a result of being counter to the law. The annulment of those transitional provisions resulted in the recognition in 2021 of an amount of Euros 191 million as a reduction in the "Taxes" caption in the consolidated statement of income, corresponding to the amounts paid as royalties in 2013 and 2020, and Euros 30 million of default interest (Note 30). Euros 204 million had been collected as of 31 December 2021.
(2) In 2021 it includes an impact of Euros 39 million for transformation costs.

Note 27. Profit/(loss) on disposals of fixed assets

In 2021 this basically relates to the sale of the turbine at the Arrúbal combined cycle plant for Euros 6 million, resulting in a gain on the disposal of fixed assets of Euros 6 million.

In 2020 this heading includes minor sales, basically made in Spain.

Note 28. Amortisation and impairment loses of non financial assets

The breakdown of this heading for 2021 and 2020 is as follows:

	2021	2020
Amortisation intangible assets (Note 5)	284	296
Depreciation PPE (Note 6)	966	1,017
Depreciation right-of-use assets (Note 7)	195	163
Intangible asset impairment (Notes 4 and 5)	—	375
PPE impairment (Notes 4 and 6)	17	988
Total	**1,462**	**2,839**

Note 29. Other results

In 2021 this consolidated income statement heading mainly included:

- the profit from the agreement reached with respect to the UF Gas holding (Notes 2.4.1. and 32) amounting to Euros 127 million (including Euros -9 million for translation differences and valuation reserves transferred to income).
- pre-tax capital gain of Euros 2 million on the sale of the 40% holding in Cogeneración Noroeste, S.L. (Note 8).
- pre-tax capital gain of Euros 4 million on the sale of the natural gas distribution permits in the North-West Mexico and Sinaloa areas for Euros 24 million (Note 6).

- pre-tax capital gain of Euros 7 million on the sale of Mobiligaz, S.A.S. in France, a company that had previously received the assets pertaining to the vehicle natural gas business from Gas Natural Europe, S.A.S. (Note 2.4.1.).
- pre-tax capital loss of Euros 8 million on the sale of Naturgy Ltd. in Ireland, a gas and electricity supply company in Ireland (Note 2.4.1.).

In 2020, this consolidated income statement heading mainly includes the pre-tax capital gain of Euro 15 million on the sale of the 47.9% holding in Ghesa Ingeniería y Tecnología, S.A. (Ghesa) (Note 11).

Note 30 . Net financial income

The breakdown of this heading for 2021 and 2020 is as follows:

	2021	2020
Dividends	2	5
Interest income	19	17
Other financial income (1)	179	74
Total financial income	**200**	**96**
Cost of borrowings (2)	(510)	(515)
Interest expenses pension plans	(6)	(9)
Other financial expense (3)	(82)	(98)
Total financial expense	**(598)**	**(622)**
Variations in the fair value of financial instruments (4)	14	(4)
Net exchange differences	(10)	(8)
Net financial income/(expense)	**(394)**	**(538)**

(1) In 2021 this heading includes a financial asset impairment reversal amounting to Euros 62 million . It also includes late payment interest of Euros 30 million relating to the ruling on the 2013-2020 water royalty mentioned in Note 26.

(2) Includes cost of financial lease liabilities (92 million euros in 2021 and 96 million euros in 2020).

(3) In 2020 it included financial asset impairment amounting to Euros 37 million.

(4) Includes changes in the fair value of equity instruments (Note 9) and changes in the value of derivative financial instruments (Note 17).

Note 31. Cash generated from operating activities and other cash-flow details

The breakdown of cash generated from operations in 2021 and 2020 is as follows:

	2021	2020
Profit/(loss) before tax	**1,797**	**(36)**
Adjustments to profit/(loss):	**1,520**	**3,345**
Depreciation, amortisation and impairment expenses (Notes 4, 5, 6 and 7)	1,462	2,839
Other adjustments to net income:	58	506
Net financial income (Note 11 and 30)	394	538
Profit of entities recorded by equity method (Note 8 and 11)	(90)	(36)
Transfer of deferred income (Note 15)	(49)	(49)
Net variation in Provisions	(30)	(55)
Pre-tax profit/(loss) from discontinued activities net of capital gains and impairment (Note 11)	—	146
Other results	(167)	(38)
Changes in working capital (excluding the effects of adjustments in consolidation scope and exchange differences):	**(1,117)**	**788**
Inventories	(243)	249
Trade and other receivables	(2,105)	649
Trade and other payables	1,231	(110)
Other cash flows from operating activities:	**(1,199)**	**(665)**
Interest paid	(488)	(562)
Interest collected	32	27
Dividends received	121	84
Income tax paid	(864)	(214)
CASH FLOWS GENERATED FROM OPERATING ACTIVITIES	**1,001**	**3,432**

Payments on investments in Group companies, associates and business units at 31 December 2021 and 2020 break down as follows:

	2021	2020
Acquisition UFGAS (Note 32)	395	—
Acquisition Renewables USA (Note 32)	(49)	—
Acquisition El Almendro (Note 32)	(29)	—
Acquisition Terra Alta	—	4
Total	**317**	**4**

Receipts due to divestment in Group companies, associates and business units at 31 December 2021 and 2020 break down as follows:

	2021	2020
Sale Chile electricity	2,591	—
Sale Mobiligaz	11	—
Sale Cogeneración del Noroeste	7	—
Sale Naturgy Ltd	38	—
Sale Lean companies	—	—
Sale 50% Medina	—	190
Sale Kenya	—	35
Sale Ghesa	—	24
Sale Montouto	—	8
Other	3	6
Total	**2,650**	**263**

The breakdown of payments for the acquisition of equity instruments at 31 December 2021 and 2020 is as follows:

	2021	2020
Naturgy Energy Group, S.A. treasury shares (Note 15)	—	(184)
Cost of hybrid debentures buy-back	(22)	—
Other	(7)	13
Total	**(29)**	**(171)**

Movements in borrowings in 2021 2020 are set out below, disclosing separately the changes that generate cash flows form those that do not:

		Generate cash flow		**Do not generate cash flow**		
	01.01.2021	Increase	Decrease	Currency translation differences	Transfers and other (1)	**31.12.2021**
Issuing of debentures and other negotiable obligations	9,241	500	(1,205)	3	47	8,586
Borrowings from financial institutions	6,571	1,132	(1,313)	150	46	6,586
Derivative financial instruments	180	—	—	3	(76)	107
Lease liabilities	1,537	—	(184)	85	83	1,521
Other financial liabilities	10	—	(33)	(6)	41	12
Total	**17,539**	**1,632**	**(2,735)**	**235**	**141**	**16,812**

		Generate cash flow		**Do not generate cash flow**		
	01.01.2020	Increase	Decrease	Currency translation differences	Transfers and other	31.12.2020
Issuing of debentures and other negotiable obligations	9,780	2,186	(1,842)	(91)	(792)	9,241
Borrowings from financial institutions	6,426	2,626	(1,188)	(358)	(935)	6,571
Derivative financial instruments	127	—	—	(2)	55	180
Lease liabilities	1,644	—	(152)	(99)	144	1,537
Other financial liabilities	10	4	(1)	(13)	10	10
Total	**17,987**	**4,816**	**(3,183)**	**(563)**	**(1,518)**	**17,539**

"Other changes in cash and cash equivalents" includes:

	2021	2020
Consolidation perimeter changes	(57)	(192)
Held for sale transfers	—	(333)
Total	**(57)**	**(525)**

Nota 32. Business combinations

2021

Hamel Renewables

In January 2021, Naturgy, through its subsidiary Naturgy Solar USA, LLC, acquired 100% of Hamel Renewables Holdco, LLC, a vehicle company that owns a portfolio of 8 GW solar projects along with 4.6 GW of energy storage projects located in 9 US states and represents Naturgy's first investment in the US renewable energy market.

Additionally, as part of the transaction, Naturgy concluded a 5-year development agreement with Candela Renewables which has 20 years' experience in developing solar and energy storage projects in the US, including several of the projects in the portfolio acquired by Naturgy.

The transaction represents an enterprise value of USD 57 million for 100% of the vehicle company. Naturgy plans to invest up to USD 1,800 million over the next five years to achieve an operational capacity of 1.6 GW by 2025, while maintaining the possibility of developing the remaining projects of the acquired vehicle company up to a total of 8 GW of PV power by 2030.

The cost of the business combination amounted to Euros 62 million. Goodwill was calculated at Euros 8 million as the difference between the acquisition cost and interest in the fair value of the identifiable assets and liabilities existing at the transaction date.

The net assets acquired in January 2021 and goodwill break down as follows:

Acquisition cost	62
Fair value of the net assets	54
Goodwill (Note 5)	**8**

	Fair value	**Carrying amount**
Intangible assets (Note 5)	42	3
Property, plant and equipment (Note 6)	7	7
Non-current financial assets (Note 9)	1	1
Cash and cash equivalents	13	13
TOTAL ASSETS	**63**	**24**
Non-current financial liabilities (Note 17)	1	1
Deferred tax liabilities (Note 21)	8	—
TOTAL LIABILITIES	**9**	**1**
Fair value of the net assets acquired	**54**	

Acquisition cost	62
Cash and cash equivalents in the acquired company	13
Net acquisition cost	**49**

In the purchase price allocation process, assets susceptible of revaluation were identified from the balance sheet of Hamel Renewables Holdco, LLC and subsidiaries at the acquisition date, corresponding to intangible assets represented by the value of 39 million euros relating to the generation of value of the project portfolio acquired. Deferred tax liabilities were also recorded for the revaluation performed, whose balancing entry was the recognised goodwill which is not expected to be deductible.

The valuation of these net assets of Hamel Renewables Holdco, LLC and subsidiaries was basically carried out in accordance with the following methodology:

- The projects with the highest degree of development were valued following the revenue approach and in particular, through the discounted cash flow method, based on Level 3 inputs as the data were not observable on the market.
- The valuation was performed on the basis of the projects according to the required return on investment and flow projections based on revenue per MW of solar or storage capacity.
- The rest of the projects at a less advanced stage were appraised on the basis of the development bonuses considered in the valuation of the development platform, which were checked with the developer.

A consolidated loss of Euros 2 million for the period has been contributed since the acquisition date. If the acquisition had taken place on 1 January 2021, the impact on consolidated revenue, EBITDA and consolidated profit attributable to equity holders of the Parent company for the period would have been immaterial.

Unión Fenosa Gas

In March 2021, Naturgy, ENI and the Arab Republic of Egypt completed the agreement reached on 1 December 2020 to amicably resolve the disputes affecting Unión Fenosa Gas (UFG). As a result, UFG received a number of cash payments for the sale of the assets in Egypt, UFG's business activities in Spain and one of its vessels, as well as the receipt of compensation agreed with the Egyptian government. The agreement with the Egyptian government includes a four-year deferred amount, with the last maturity in September 2024, which has been recognised at the guaranteed amount. The USD 90 million of the remaining instalments will be recognised upon collection. Simultaneously, Naturgy completed the acquisition of the remaining 50% holding in UFG for Euros 466 million, bringing Naturgy's holding to 100% and enabling it to obtain control. It now consolidates using the full consolidated method. This also entailed the termination of the annual gas supply contract of around 3.5 bcm for supplying combined cycle plants in Spain that was due to end in 2029, while maintaining the contract with Oman which expires in 2025.

The net assets acquired in January 2021 and goodwill break down as follows:

Acquisition cost	860
Fair value of the net assets	840
Goodwill (Note 5)	**20**

	Fair value	**Carrying amount**
Intangible assets (Note 5)	78	—
Right-of-use assets (Note 7)	45	45
Investments recorded using the equity method (Note 8)	41	9
Non-current financial assets (Note 9)	56	56
Deferred tax assets (Note 21)	66	66
Other current assets	172	172
Cash and cash equivalents	861	861
TOTAL ASSETS	**1,319**	**1,209**
Provisions (Note 16)	3	3
Non-current financial liabilities (Note 17)	106	106
Deferred tax liabilities (Note 21)	57	37
Current financial liabilities (Note 17)	77	77
Other current liabilities	236	236
TOTAL LIABILITIES	**479**	**459**
Fair value of the net assets acquired	**840**	

Acquisition cost (1)	860
Acquisition price for the aditional 50%	(466)
Net carrying amount of the equity method value	(258)
Currency transaltion diferences and other value adjustments	(9)
Transaction value (Note 29)	**127**

(1) Including the fair value of the previous participation

Based on the balance sheet of Unión Fenosa Gas, S.A. and subsidiaries at 10 March 2021, assets susceptible of revaluation were identified, consisting of intangible assets amounting to Euros 78 million representing the value of the supply contracts acquired and the value of the shareholding in Qalhat LNG S.A.O.C. Deferred tax liabilities were also recorded for the revaluation performed, whose balancing entry was the recorded goodwill which is not expected to be deductible.

The accounting treatment of this business combination has been determined on a provisional basis until one of the valuations of the assets involved in the transaction is finalised.

The consolidated profit for the period contributed since the acquisition date amounts to Euros 104 million. If the acquisition had taken place on 1 January 2021, the consolidated revenue, EBITDA and consolidated profit attributable to equity holders of the parent company for the period would have changed by Euros 197 million, Euros -14 million and Euros -16 million, respectively.

El Almendro Wind Farm

In December 2021, Naturgy, through its subsidiary Naturgy Renovables, S.L.U., acquired 100% of Parque Eólico El Almendro, S.L.U., owner of a 44 MW wind farm in commercial operation located in Huelva (Spain) and a 40 MW solar hybridisation project.

The transaction represents an enterprise value of Euros 69 million for 100% of the company. The acquisition cost of the business combination amounted to Euros 31 million and includes Euros 7 million of contingent consideration conditional on the achievement of certain contract milestones. Goodwill was calculated at Euros 7 million as the difference between the acquisition cost and interest in the fair value of the identifiable assets and liabilities existing at the transaction date.

The net assets acquired in December 2021 and goodwill break down as follows:

Acquisition cost	31
Fair value of the net assets	24
Goodwill (Note 5)	**7**

	Fair value	Carrying amount
Intangible assets (Note 5)	7	—
Property, plant and equipment (Note 6)	62	39
Trade and other receivables	1	1
Cash and cash equivalents	2	2
TOTAL ASSETS	**72**	**42**
Non-current financial liabilities (Note 17)	40	40
Deferred tax liabilities (Note 21)	7	—
Trade and other payables	1	1
TOTAL LIABILITIES	**48**	**41**
Fair value of the net assets acquired	**24**	
Acquisition cost	31	
Cash and cash equivalents in the acquired company	2	
Net acquisition cost	**29**	

In the purchase price allocation process, assets susceptible of revaluation were identified from the balance sheet of Parque Eólico El Almendro, S.L.U. at the acquisition date, consisting of intangible assets amounting to Euros 7 million which represents the solar hybridisation project acquired, and tangible assets amounting to Euros 22 million, representing the value of the wind farm acquired. Deferred tax liabilities were also recorded for the revaluation performed, whose balancing entry was the recorded goodwill which is not expected to be deductible.

These net assets of Parque Eólico El Almendro, S.L.U. were basically valued using the following methodology:

- The operating wind farm and the hybridisation project were valued following the revenue approach and in particular, through the discounted cash flow method, based on Level 3 inputs as the data were not observable on the market.
- The main parameters used in the valuation were an IRR of 10% as the return required on the investment, and cash-flow projections based on income at estimated market price and the forecast operating and maintenance costs.

The accounting treatment of this business combination has been determined on a provisional basis until one of the valuations of the assets involved in the transaction is finalised.

There has been no contribution to net consolidated results since the date of acquisition; if the acquisition had taken place on 1 January 2021, the impact on consolidated revenue, EBITDA and consolidated profit attributable to equity holders of the Parent company for the period would have been immaterial.

2020

There were no material business combinations in 2020.

Note 33. Service concession agreements

Naturgy manages a number of concessions containing provisions for the construction, operation and maintenance of facilities, as well as connection and power supply obligations during the concession period, in accordance with applicable regulations (Appendix IV). There follow details of the concession period and the period remaining to the expiration of concessions that are not indefinite:

Company	Activity	Country	Concession period	Initial remaining period
Gas Natural BAN, S.A.	Gas distribution	Argentina	35 (extendable 10)	6
Gasnor, S.A.	Gas distribution	Argentina	35 (extendable 10)	6
Energía San Juan S.A.	Electricity distribution	Argentina	60	35
Companhia Distribuidora de Gás do Río de Janeiro, S.A, Ceg Rio, S.A. and Gas Natural Sao Paulo Sul, S.A.	Gas distribution	Brazil	30 (extendable 20/30)	6-9
Unión Fenosa Generadora La Joya, S.A. and Unión Fenosa Generadora Torito, S.A.	Electricity generation	Costa Rica	20	1-9
Naturgy Generación S.L.U., S.A. and Naturgy Renovables, S.L.	Hydraulic power generation	Spain	14-65	1-42
Naturgy México S.A. de C.V. and Comercializadora Metrogas S.A. de C.V.	Gas distribution	Mexico	30 (extendable 15)	6-17
Empresa Distribuidora de Electricidad Metro Oeste, S.A. and Empresa Distribuidora de Electricidad Chiriqui, S.A.	Electricity distribution	Panama	15	7

Under the terms of the Convention signed in 1992 with the Government of Morocco, the concession for the exclusive use of the Moroccan section of the Maghreb-Europe Gas Pipeline ended on 31 October 2021 and ownership of the assets reverted to Morocco.

As indicated in Note 2.4.3.b, Naturgy applies IFRIC 12 “Service concession arrangements”, the intangible asset model being applicable basically to the gas distribution activities in Argentina, Brazil and Peru, and to the electricity distribution activity in Argentina, while the financial asset model applies to the electricity generation business in Costa Rica.

The hydraulic power plant concessions in Spain (Note 2.4.4.) fall outside the scope of IFRIC 12, due among other reasons to the fact that power selling prices are set in the market. The other international concessions fall outside the scope of IFRIC 12 because the grantor does not control a significant residual interest in the infrastructure at the concession end date and simultaneously determines the service price. Concession assets are still recognised in “Property, plant and equipment”.

Note 34. Related party disclosures

Related parties are as follows:

- Significant Naturgy shareholders, i.e. those directly or indirectly owning an interest of 5% or more, and those who, though not significant, have exercised the power to propose the appointment of a member of the Board of Directors.

Based on this definition, the significant shareholders of Naturgy are Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona ("la Caixa"), Global Infrastructure Partners III (GIP) and related companies, CVC Capital Partners SICAV-FIS, S.A. (through Rioja Acquisitions S.à.r.l.) and IFM Global Infrastructure Fund (IFM) through IFMGlobal InfraCo O, S.à.r.l.

– Directors and executives of the company, and their close relatives. The term "director" means a member of the Board of Directors and the term "senior management personnel" refers to personnel reporting directly to the Executive President and the Internal Audit Manager. Operations with directors and executives are disclosed in Note 35.

– Transactions between Group companies form part of ordinary activities and are effected at arm's length. Group company balances include the amount that reflects Naturgy's share of the balances and transactions with companies consolidated under the equity method.

Aggregate transactions with related parties are as follows:

2021	**Significant shareholders**					
Expense and Income (thousand euro)	"la Caixa" group	CVC group	GIP group	IFM	DIrectors	Group companies
Financial expenses	—	—	—	—	—	—
Leases	—	—	—	—	—	3
Receipt of services	—	—	—	—	—	2,607
Purchase of goods (1)	—	—	1,690	—	—	105,762
Other expenses	—	—	—	—	—	—
Total expenses	**—**	**—**	**1,690**	**—**	**—**	**108,372**
Financial income	—	—	—	—	—	1,224
Leases	—	—	—	—	—	—
Provision of services	—	—	—	—	—	3,446
Sale of goods (1)	2,298	1,689	—	—	225	89,702
Other income	—	—	—	—	—	1,154
Total income	**2,298**	**1,689**	**—**	**—**	**225**	**95,526**

	Significant shareholders					
Other transactions (thousand euro)	"la Caixa" group	CVC group	GIP group	IFM	DIrectors	Group companies
Acquisition of property, plant and equipment, intangible assets or other assets (2)	—	—	—	—	—	—
Financing agreements: loans and capital contributions (lender)	—	—	—	—	—	—
Dividends and other profits distributed (2)	319,676	267,142	266,183	42,743	—	—

	Significant shareholders					
Trade debtors and creditors (thousand euros)	"la Caixa" group	CVC group	GIP group	IFM	DIrectors	Group companies
Trade and other receivables	244	454	—	—	—	9,401
Trade and other payables	—	—	—	—	—	9,638

2020	**Significant shareholders**				
Expense and Income (thousand euro)	"la Caixa" group (*)	CVC group	GIP group	**DIrectors**	**Group companies**
Financial expenses	—	—	—	—	—
Leases	—	—	—	—	5
Receipt of services	23	—	—	—	11,515
Purchase of goods (1)	—	—	9,085	—	236,599
Other expenses (2)	—	—	—	—	—
Total expenses	**23**	**—**	**9,085**	**—**	**248,119**
Financial income	—	—	—	—	52
Leases	—	—	—	—	—
Provision of services	—	—	—	—	23,041
Sale of goods (1)	2,362	19,951	—	178	40,062
Other income	—	—	—	—	1,046
Total income	**2,362**	**19,951**	**—**	**178**	**64,201**

Other transactions (thousand euro)	Significant shareholders			Directors	Group companies
	"la Caixa" group (*)	CVC group	GIP group		
Acquisition of property, plant and equipment, intangible assets or other assets (3)	—	—	—	—	—
Financing agreements, loans and capital contributions(lender)	—	—	—	—	1,702
Dividends and other profits distributed (2)	**339,625**	**283,813**	**282,795**	**—**	**—**

Trade debtors and creditors (thousand euros)	Significant shareholders			Directors	Group companies
	"la Caixa" group (*)	CVC group	GIP group		
Trade and other receivables	274	3,359	—	40	16,026
Trade and other payables	—	—	457	—	22,958

(1) Basically includes energy purchase and sale. In the case of group companies, basically corresponds to operations with Unión Fenosa Gas.
(2) At 31 December 2019, the "la Caixa" dividend included Euros 60,257 thousand relating to 100% of the amount paid to Energía Boreal 2018, S.A. (allocable amount of Euros 43,230 thousand).

Note 35. Information on Board members and Management Committee

Remuneration of the members of the Board of Directors

The remuneration policy for the members of the Board of Directors was approved at the General Shareholders' Meeting held on 9 March 2021 and is periodically reviewed by the Board of Directors following a report from the Appointments and Remuneration Committee, in order to keep it aligned with the best practices in the reference market and with the objectives indicated in the By-laws.

The amount accrued by the members the Board of Directors of Naturgy Energy Group, S.A., for belonging to the Board of Directors, Executive Committee (EC), Audit and Control Committee (ACC), Appointments and Remuneration Committee (ARC) and Sustainability Committee, totalled Euros 3,955 thousand. There is no increase compared to 2020, as the creation of the Sustainability Committee has been compensated by a reduction in the unit amounts of the different committees. The amount for 2021 is detailed below (expressed in euros):

	Office	Board	AC	ARC	SC	Total
Mr. Francisco Reynés Massanet	Executive Chairman	1,100,000	—	—	—	1,100,000
Mr. Ramón Adell Ramón	Coordinating Director	205,000	44,000	66,000	—	315,000
Mr. Enrique Alcántara-García Irazoqui (1)	Director	111,022	—	27,914	—	138,936
Mr. Marcelino Armenter Vidal (2)	Director	62,567	—	15,731	—	78,298
Mr. Francisco Belil Creixell	Director	175,000	66,000	44,000	—	285,000
Ms. Lucy Chadwick	Director	175,000	44,000	—	44,000	263,000
Ms. Helena Herrero Starkie	Director	175,000	44,000	—	66,000	285,000
Ms. Isabel Estapé Tous	Director	175,000	44,000	—	44,000	263,000
Mr. Rajaram Rao	Director	175,000	—	44,000	—	219,000
Rioja S.à.r.l, Mr. Javier de Jaime Guijarro	Director	175,000	—	44,000	—	219,000
Mr. Pedro Sainz de Baranda Riva	Director	175,000	44,000	44,000	—	263,000
Mr. Claudi Santiago Ponsa	Director	175,000	—	44,000	44,000	263,000
Theatre Directorship Services Beta, S.à.r.l., Mr. José Antonio Torre de Silva López de Letona	Director	175,000	44,000	—	44,000	263,000
		3,053,589	**330,000**	**329,645**	**242,000**	**3,955,234**

(1) From 13 May 2021
(2) To 9 May 2020

In 2021, as in 2020, no amounts were received for other items.

At 31 December 2021, the Board of Directors was still formed of 12 members, the Audit Committee of 7 members, the Appointments and Remuneration Committee of 7 members and the Sustainability Committee of 5 members.

The members of the Board of Directors of the Company, except of the CEO, have not received remuneration from profit sharing, bonuses or indemnities, and have not been given loans or advances. Neither have they received shares or share options during the year, nor have they exercised options or have options to be exercised.

The members of the Board of Directors are covered with the same liability policy that insures all managers and directors of Naturgy. The premium paid in 2021 by Naturgy Energy Group, S.A. amounted to Euros 614 thousand (Euros 316 thousand in 2020).

Management Committee remuneration

For the sole purposes of the information contained in this section, the Management Committee is considered to consist of the Executive Chairman, in respect of his executive functions, the executives who report directly to the Executive Chairman, and to the Internal Audit Director.

At 31 December 2021, 9 people make up this group, without taking into account the Internal Audit Director (9 people at 31 December 2020). During 2021 there have been no moves in the Management Committee.

Amounts accrued to executives in respect of fixed remuneration, variable remuneration and other items totalled Euros 10,311 thousand in 2021 (Euros 5,106 thousand, Euros 4,997 thousand and Euros 208 thousand, respectively) and Euros 11,408 thousand in 2020 (Euros 6,130 thousand, Euros 4,752 thousand and Euros 526 thousand, respectively). As in 2020, the amount corresponding to the annual variable remuneration of the Executive Chairman will be paid as a voluntary contribution to the social security plan of which he is the beneficiary, in accordance with the provisions of the contract.

As at 31 December 2021, the Management Committee has perceived for the extension of the current ILP incentive plan described in Note 14 an amount of 831 thousand euros (as of December 31, 2020, the Committee did not receive any amount for this concept).

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled Euros 1,458 thousand in 2021 (Euros 1,601 thousand in 2020). Funds accumulated due to these contributions including in the case of the Executive Chairman the amounts contributed voluntarily since 2018 together with the variable annual remuneration accrued in 2021 which will be settled as a contribution to pension schemes,amount to Euros 16,916 thousand at 31 December 2021 (Euros 13,112 thousand at 31 December 2020).

At 31 December 2021, same as in 2020, Naturgy had not granted any new guarantees on loans to management personnel. No compensation has been received for leaving the Management Committee in 2021 (14,261 thousand euros in 2020).

The Chairman's contract was approved by the Board of Directors on 6 February 2018 and provides for a fixed remuneration component, an annual variable component and a long-term incentive plan, as well as other welfare benefits.

At a meeting held on 31 July 2018 the Board of Directors approved a long-term variable incentive plan (LTI) in which the Executive Chairman and other senior executives take part described in Note 14.

The Chairman's contract provides for an indemnity for termination or non-renewal as a director of two annual payments of the combined amount of total remuneration: fixed remuneration, annual variable remuneration and the annualized part of the long term remuneration (equivalent to 1.25 times total fixed remuneration). The indemnity will not be payable in the event of the serious and culpable nonfulfillment of his professional obligations causing significant harm to Naturgy's interests. In addition, as consideration for a post-contractual no-competition agreement of one year, an indemnity equivalent to one year's full fixed remuneration is provided for.

The contracts concluded with the members of the Management Committee (9) contain a clause providing for termination benefits equivalent to the legally established severance payment, which varies, depending on seniority, between two and three and a half years' salary. This clause applies to cases of unfair dismissal, as well as those referred to in Articles 40, 41 or 50 of the Workers' Statute and in one of the contracts for certain situations of change of control . In addition, the 9 contracts contain a clause providing for compensation equivalent to one year's fixed remuneration for a post-contractual non-competition commitment lasting up to two years.

Transactions with Directors

The Directors have the obligation to avoid conflicts of interest as established by the Board Regulations of Naturgy Energy Group, S.A. and Articles 228 and 229 of the Spanish Companies Law. Additionally, these articles require that conflicts of interest incurred by the board shall be reported in the annual accounts.

In 2021 the Directors of Naturgy Energy Group, S.A. they have not communicated to the Board of Directors any general situation of conflict of interest.

During 2020, in two sessions of the Board of Directors, two directors abstained from participating as inorganic investments were examined in which there was a conflict of interest with Naturgy. Except for these cases, the Directors of Naturgy had not reported any general conflict of interest to the Board of Directors.

In transactions with related parties (significant shareholders) that have been submitted for approval by the Board, subject to a favourable report of the Audit Committee, any directors linked to the related party involved have abstained.

During the years 2021 and 2020, the members of the Board have not carried out related transactions outside the ordinary course or transactions that are not conducted under normal market conditions with Naturgy Energy Group, S.A or Group companies.

Note 36. Litigation, arbitration, guarantees and commitments

Litigation and arbitration

The companies in the Naturgy Group are involved in certain judicial and extrajudicial disputes within the ordinary course of their activities. At the date of preparation of these consolidated annual accounts, the main litigation or arbitration in which Naturgy companies are involved are the following:

Claims for PIS and COFINS taxes in Brazil

In September 2005, the Río de Janeiro Tax Administration rendered ineffective the recognition that it had previously issued, in April 2003, for the offset of receivables in respect of PIS and COFINS sales taxes paid by Companhia Distribuidora de Gás do Rio de Janeiro - CEG, in which Naturgy holds an interest of 54.2%. The administrative court confirmed that ruling in March 2007 and the company filed an appeal at a contentious-administrative court (Justicia Federal do Rio de Janeiro). Subsequently, notification of a public civil action against CEG relating to the same events was received on 26 January 2009. The total amount of this disputed tax liability at that date, including interest, was BRL 386 million (Euros 61 million), which updated to the current exchange rate would amount to BRL 470 million (Euros 74 million). In November 2015 the Rio de Janeiro Federal Justice Department issued a first instance ruling partially upholding CEG's appeal, ordering the refund and the payment of the tax debt plus costs in the amount of BRL 105 million (Euros 17 million) and rejecting the imposition of default interest (updated) and fines. The ruling was appealed by the Federal Treasury of Brazil and by CEG before the Federal Court of Rio de Janeiro (Chamber of Appeal).

Qatar Gas arbitration

In 2021, the arbitration on prices for gas supplies for the period 2015-2017 was settled and an agreement was reached on the arbitration procedure that had been initiated for the period 2018-2020.

Claim against Metrogas, S.A.

Transportadora de Gas del Norte S.A. lodged various complaints against Metrogas, S.A., a Chilean company 55.6% owned by Naturgy, before the civil and commercial courts of first instance in Argentina for alleged breach of contract in the transport of Argentinian gas to Chile during the Argentina gas crisis. In April 2017, Metrogas, S.A. received a judicial notice declaring a joinder of claims, meaning that the total amount stands at USD 227 million (Euros 200 million) plus interest. The matter is pending judgement in the first instance.

Environmental incentive to coal plants in Spain

In 2007, the Spanish authorities introduced an environmental incentive to support the installation of new sulphur oxide filters in existing coal plants. In November 2017, the European Commission opened an investigation to determine whether this incentive complied with the European Union's state aid rules. In the event of an unfavourable result, the risk estimated in the consolidated financial statements, which does not include the period in which the plants were subject to the economic regime of Royal Decree 134/2010, could be as much as Euros 67 million.

Unión Fenosa Gas

In 2014, Egyptian Natural Gas Holding (EGAS), an Egyptian public company, ceased to supply gas to Unión Fenosa Gas (UFG), a company 50% owned at that time by Naturgy, and stopped paying the utilisation fee for the Damietta liquefaction plant. This led to Unión Fenosa Gas instigating arbitration proceedings at various locations (Madrid, El Cairo and the CIADI) against this supplier, which requested the nullity of the contract, and against the Arab Republic of Egypt. In December 2017 the arbitration proceedings against EGAS conducted in Cairo concluded with a decision that confirmed the position of Unión Fenosa Gas concerning the nonfulfillment of obligations. In August 2018 a decision was made in the investment protection arbitration proceedings (ICSID) against the Arab Republic of Egypt, ordering it to pay USD 2,013 million after taxes and before interest. A decision has yet to be issued in the arbitration being conducted in Madrid. On 21 December 2018, the Arab Republic of Egypt submitted an appeal to the ICSID against the award and requested its suspension while the appeal proceedings last. In January 2020, as Egypt had not provided the guarantees established by ICSID, the suspension that had been provisionally decreed was lifted and enforcement actions were resumed, with the award having been approved in the United Kingdom and the Netherlands.

In December 2020 Naturgy announced an agreement with ENI and the Arab Republic of Egypt to amicably resolve the disputes affecting Unión Fenosa Gas, and the execution of the arbitration award was suspended while those conditions were met.

As described in Notes 2.4.1. and 32, in March 2021, Naturgy, Eni and the Arab Republic of Egypt completed the agreement reached on 1 December 2020 to amicably resolve the disputes affecting Unión Fenosa Gas (UFG). As a result, UFG received a number of cash payments and the majority of the assets located outside Egypt., excluding UFG's supply business in Spain. This also entailed the end of the gas procurement contract for approximately 3.5 bcm per year to supply combined cycle plants in Spain, which was due to end in 2029, while the contract with Oman expiring in 2025 is maintained. As a result of the agreement, Naturgy acquired an additional 50% of UFG, with the result that it now owns 100%, and has gained control and fully consolidated it as a subsidiary (Note 32). This transaction produced capital gain of Euros 128 million which was recognized under "Other results" in the consolidated income statement (Note 29).

Bono social energy subsidy

The Supreme Court ordered in 2016 the reimbursement of the amounts contributed by Naturgy Energy Group, S.A. to the "bono social" energy subsidy for 2014 to 2016 (Euros 74 million) in accordance with Royal Decree-Law 9/2013. However, this decision was appealed against by the government before the Constitutional Court. Following a ruling by the Constitutional Court in 2020 and another by the Court of Justice of the European Union in 2021, the Supreme Court confirmed its initial ruling.

Renewable power generation

There are some permits granted to some renewable generation facilities that have been built or are under construction have been appealed in court; if such appeals are successful, this might affect the facilities' viability. In particular, the environmental authorisation of the Puerto del Rosario wind farm in Fuerteventura is under appeal, as well as the award, administrative and environmental authorisation of the Catalonia wind farms of Eólica Tramuntana S.L. For both cases, the materialisation of the risk is not considered probable, although their possible impacts have been estimated at Euros 39 million and Euros 57 million, respectively.

Electricaribe

On 14 November 2016 the Superintendence for Residential Public Services of the Republic of Colombia ("the Superintendence") reported the government take-over of Electricaribe, a Naturgy investee, as well as the removal of the members of the governing body and the general manager, and their replacement by a special agent appointed by the Superintendence. On 14 March 2017 the Superintendence announced the decision to liquidate Electricaribe. On 22 March 2017 Naturgy initiated arbitration proceedings before the Court of the United Nations Commission for International Trade Law (UNCITRAL) and on 15 June 2018 it lodged a complaint in which it claimed approximately 1,600 MUSD. On 4 December 2018 the Republic of Colombia submitted its answer to the complaint and filed a counterclaim for approximately USD 500 million. In March 2021, an arbitration decision was issued that rejected the claims of both Naturgy and the Colombian State (Note 9).

Several Columbian government agencies have brought administrative and judicial procedures against the Naturgy group or its employees on behalf of Electricaribe, including the Public Prosecutor's Office, the Superintendence for Public Services and the Superintendence for Companies.

Naturgy Peru

Naturgy Peru reached an agreement with the Peruvian government under which both parties agreed to terminate the concession agreement and therefore decree the expiration of the natural gas distribution concession in the regions of Arequipa, Tacna and Moquegua. The Peruvian government also took over operation of the concession in December 2020. In 2021, the Peruvian government called the bond of Euros 6 million that had been posted. Naturgy objected.

Naturgy's consolidated balance sheet at 31 December 2021 includes provisions for litigation, based on the best estimate made using the information available at the date of preparation of these consolidated annual accounts on their progress and ongoing negotiations, which cover the estimated risks. Naturgy therefore considers that no significant liabilities will be derived from the risks described in the relevant section of this Note.

Guarantees

Guarantees furnished by Naturgy at 31 December 2021 and 2020 are as follows:

- Guarantees provided to third parties, basically for investment commitments, construction and distribution network expansion, tenders, bids and business contracts amounting to Euros 2,535 million (Euros 1,535 million at 31 December 2020).

- Guarantees relating to the economic obligations resulting from its participation in the Spanish gas system (MIBGAS) and the Spanish electricity system (MEFF and OMIE) for Euros 513 million (Euros 487 million at 31 December 2020).

- Guarantees for debt issues by group companies Gas Natural Capital Markets, S.A., Gas Natural Finance, B.V. and Unión Fenosa Preferentes, S.A.U. totalling Euros 9,720 million (Euros 10,551 million at 31 December 2020).

- Guarantees for obligations under gas purchase and transport contracts and the chartering of gas tankers of group companies Naturgy Aprovisionamientos, S.A. and Gas Natural Europe, S.A.S.

As the above guarantees are basically granted in order to guarantee the fulfilment of contractual obligations or investment commitments, the events that would lead to their execution, and therefore a cash disbursement, would be the nonfulfillment by Naturgy of its obligations in the ordinary course of its business, the probability of which is considered limited. Naturgy estimates that the liabilities not foreseen at 31 December 2021 if any, that could arise from guarantees furnished, would not be significant.

Contractual commitments

The following tables present the contractual commitments for purchases and sales at 31 December 2021 (in euros million):

				31.12.2021			
Acquisition	Total	2022	2023	2024	2025	2026	and later years
Energy purchases (1)	64,710	9,292	7,242	5,770	5,072	3,984	33,350
Energy transmission (2)	3,613	573	574	553	467	388	1,058
Investment (3)	329	293	33	2	1	—	—
Operating leases (4)	16	16	—	—	—	—	—
Nuclear fuel purchases	31	17	14	—	—	—	—
Total contractual obligations	**68,699**	**10,191**	**7,863**	**6,325**	**5,540**	**4,372**	**34,408**

Sale	Total	**31.12.2021** 2022	2023	2024	2025	2026	and later years
Energy sales (5)	18,480	3,980	2,056	1,350	1,256	1,120	8,718
Provision of capacity assignment services (6)	2,465	282	294	283	367	311	928
Total contractual obligations	**20,945**	**4,262**	**2,350**	**1,633**	**1,623**	**1,431**	**9,646**

1. Reflects the long-term commitments for natural gas purchases under gas supply contracts with take or pay clauses negotiated and held for “own use” (Note 2.4.8). Normally, these contracts are for 20-25 years, a minimum amount of gas to be purchased and revision mechanisms for prices indexed to international natural gas prices and regulated prices of natural gas in the countries of origin. The commitments according to these contracts have been calculated on the basis of natural gas prices at 31 December 2021.

2. Reflects the long-term commitments (20 to 25 years) for gas transport and electricity transmission calculated on the basis of prices at 31 December 2021. It also reflects operating costs identified for charter contracts for gas tankers under finance leases for the tankers currently in operation.

3. It reflects investment commitments basically for the construction of renewable generation plants in Spain and Australia, the development of the distribution network and other gas infrastructures and the development of the electricity distribution network. (Note 6).

4. This mainly reflects commitments for short-term operating leases on vessels (expiring in 2021) or leases with variable instalments, as well as commitments for short-term leases on buildings, land tied to generation facilities with variable lease instalments, and other low-value leases.

The cost of these operating leases amounted to Euros 41 million in 2021 (Euros 41 million for 2020).

5. It basically reflects long-term commitments to sell natural gas under gas sale contracts, containing take-or-pay clauses, negotiated and held for “own use” (Note 2.4.8). The commitments have been calculated based on natural gas prices at 31 December 2021.

This also includes long-term commitments to sell electricity, calculated based on prices at 31 December 2021.

6. It reflects service provision commitments under power generation capacity assignment contracts in Mexico (Note 2.4.23). The commitments made in these contracts have been calculated based on prices at 31 December 2021.

Note 37. Auditors' fees

Total fees for auditing and related services and other services in 2021 amounted to Euros 4,235 thousand (Euros 4,347 thousand in 2020).

The fees accrued in thousand euro by the different companies trading under the KPMG brand in 2021 (Ernst & Young -EY- in 2020) are as follows:

	Thousand Euros					
	2021			2020		
	KPMG Auditores, S.L.	Rest KPMG network	**Total**	Ernst & Young, S.L.	Rest EY network	**Total**
Auditing services	1,468	1,350	**2,818**	1,738	2,148	**3,886**
Assurance services and services related to the audit (1)	131	378	**509**	88	132	**220**
Tax services (2)	—	392	**392**	0	13	**13**
Other services (2)	15	380	**395**	132	92	**224**
Total fees	**1,614**	**2,500**	**4,114**	**1,958**	**2,385**	**4,343**

(1) Include in 2021 the limited review of the Interim financial statements and the fees related with the emissions of debentures given by KPMG Auditores, S.L. and Rest of KPMG network.
(2) The 2020' tax services have been changed by comparative purposes.

These headings include verification reports on non-financial information, comfort letters and advice on sustainability.

Additionally, other audit firms have provided various Group companies with audit services amounting to Euros 121 thousand in 2021 (Euros 4 thousand in 2020).

The calculation of the auditor' fees for the current period and in the comparative analysis with the previous year does not take into account the fees relating to companies that have been reclassified to discontinued operations.

Note 38. Environment

Environmental actions

Naturgy is aware of its activities' environmental impacts and, consequently, pays particular attention to the protection of the environment and the efficient use of natural resources to meet energy demand.

As established in the Corporate Responsibility Policy, Naturgy is committed to promoting the sustainable development of society by ensuring the supply of competitive, safe energy with the maximum respect for the environment.

Naturgy only understands its business in the context of a commitment to sustainability, materialized in the company's Sustainability Plan in the form of specific, ambitious and measurable targets. This plan, whose main lines contribute to the SDGs established by the United Nations, is the backbone of the new Strategic Plan 2021-2025.

Climate change is the great global challenge of the 21st century; to face it, it is vital to transform the energy sector. Naturgy views the energy transition as a real opportunity, as reflected in the new Strategic Plan. This is evident in the company's commitment to achieving carbon neutrality by 2050, at the latest, by reducing total scope 1, 2 and 3 GHG emissions in accordance with the 1.5ºC - 2ºC pathways under the Paris Agreement, in line with the principles of a just transition. To this end, the bulk of investments will be concentrated in activities that are eligible under the EU Taxonomy:

- New renewable generation facilities, with the objective of reaching close to 60% of installed capacity by 2025.
- Carbon-neutral renewable gases, driving new projects with a target of injecting at least 1 TWh into the gas grids by 2025.
- Smart adapted energy grids to play a key role in the energy transition.

Protecting biodiversity, as part of the climate change problem, is another strategic priority of the new Plan. Although the "The Opportunity of Environmental Challenges" chapter in the Sustainability Report and Non-Financial Information Statement 2021 contains detailed information on the company's environmental management performance and results, the main milestones are summarized below.

Governance and environmental management

- Approval of a new Sustainability Plan 2021-2025 that reinforces the company's ambition in the transformation towards sustainability and contains more ambitious environmental targets.
- Continuous improvement and environmental performance metrics are based on concrete, ambitious targets that are measured and audited within the framework of the ISO 14001-certified environmental management system and are made public to meet the organisation's commitment to transparency. In 2021, 93.1% of EBITDA came from industrial activities whose environmental management is certified under the ISO 14001 standard, which involves passing external audits each year.
- Naturgy was recognized by CDP as part of its A-list for water management, and received an A- rating for its climate management, in 2021, placing it in the top range in both indexes.
- “Ejemplos Empresariales de Acciones #PorElClima2020” diploma from the #PorElClima Community for the company's initiative on Biomethane, circular energy for the climate and demographic challenge.
- The renewable gas project at the Butarque WWTP was a finalist in the 'Green Generation' category in the first edition of the Retina ECO Awards, organized by El País and Capgemini.

Climate change and energy transition

- In the new Strategic Plan through 2025, Naturgy announced a commitment to achieve climate neutrality by 2050 (net zero emissions).
- In 2021, 562 MW of new renewable plant (wind and photovoltaic) were commissioned worldwide, increasing renewable installed capacity to 33%. These new facilities contribute to the decarbonization of Naturgy's generation mix.
- Renewable gases (biomethane and hydrogen) are the key lever for decarbonizing Naturgy's gas business. In 2021, the company participated in biomethane projects and attained a production or grid injection capacity of 0.14 TW.
- Improved gas grid management (better monitoring, maintenance, improved materials, etc.) resulted in a 2% reduction in the methane leakage rate compared to the previous year.
- Commercialization of ECO tariffs and products in Spain, based on guarantees of origin, to provide customers with energy from renewable sources. In 2021, this represented 34% of the electricity supplied in the free market. Additionally, in 2021, the Gas Neutro product, i.e. natural gas whose CO2 emissions have been offset, was applied to all new gas customers.

Circular economy

- The process of replacing hazardous chemicals with others that are more environmentally friendly is ongoing. An example is the replacement, at Spanish hydroelectric power plants, of mineral oils with other biodegradable and environmentally friendly oils.
- Encouragement to customers to opt for electronic invoicing to eliminate paper consumption and the pollution associated with its life cycle. Naturgy's online invoicing expanded considerably; at the end of 2021, 4.2 million contracts in Spain had online invoicing, i.e. 41% of the total, which represents an estimated saving of more than 390 tons of paper per year. The measure is also being implemented in Chile, where more than 200,000 paper invoices were eliminated between January and October.

- Worldwide water consumption was reduced by 24% in 2021. The largest reduction (75%) was in the use of inland fresh water, mainly because the coal-fired power plants that were decommissioned in 2020 used mostly river water. This improvement means a reduction of negative environmental impacts, due to reduced use of the most sensitive resource (fresh water). This trend is replicated in areas of high water stress, where there is greater competition for fresh water and where fresh water uptake was cut by 67%.

- Total waste production was cut by 38% year-on-year, mainly in the category of non-hazardous waste due to the non-operation of the coal-fired power plants (which produce ash and slag). Hazardous waste production was reduced by 7%. As for the final destination of the waste, 57% was reused or recycled.

Biodiversity and natural capital

- In 2021, Naturgy undertook numerous actions in the area of natural capital and biodiversity, all with the aim of preventing, reducing or offsetting our impacts so as to advance with our commitment to no net loss of biodiversity and the enhancement of the value of the natural surroundings. Specifically, 302 biodiversity initiatives were implemented worldwide, 25% of them voluntary.

- A total of 145 surveys of the natural environment were carried out, especially in the area of generation (thermal, hydroelectric and wind farms) and electricity distribution facilities, in order to ascertain and monitor the environmental and ecological status of the surroundings. Sampling campaigns were conducted in the environs of thermal and hydroelectric power plants to determine the physicochemical and biological quality of the aquatic environment (rivers, reservoirs, etc.). The most recent surveys confirm that the situation is normal, as it has been over the time series, and conclude that the environmental impact of the facilities that were surveyed is acceptable.

- Environmental restoration actions were taken on 635 hectares of land in 2021. 29% of that area relates to protected areas, habitats or species.

Environmental investment and expenditure

Environmental activities undertaken in 2021 amounted to Euros 758.7 million (Euros 685.3 million in 2020), of which Euros 599.0 million relate to environmental investments and Euros 159.7 million to expenditure on environmental management of facilities, excluding those relating to the carbon market. The investments included notably new renewable projects, which will contribute to the energy transition and to reducing specific emissions of CO2 and other atmospheric pollutants.

The company has arranged third-party liability insurance policies to cover environmental contingencies, indemnities and other risks.

Emissions

In 2021, total consolidated CO2 emissions from Naturgy's combined cycle and cogeneration plants subject to the regulations governing the European emissions trading system totalled 4.9 million tonnes of CO2 (6 million tonnes of CO2 in 2020).

Naturgy devises a strategy each year for managing transfers to its CO_2 emission allowance coverage portfolio, acquiring them through its active participation in both the primary and secondary markets.

Note 39. Events after the reporting date

On 3 February 2022, the Board of Directors adopted the proposal for the distribution of the Company's net profit for 2021 and prior years' retained earnings, which will be referred to the annual general meeting as described in Note 14.

No other material events took place after the reporting date.

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Appendix I Naturgy companies

1. Subsidiaries

Company	Country	Activity	Method of Consolidation (1)	Total % interest % Controlling interest (2)	 % Equity interest
Naturgy BAN, S.A.	Argentina	Gas distribution	F.C.	70.0	70.0
Gascart S.A.	Argentina	Gas distribution	F.C.	100.0	94.2
Gasnor S.A.	Argentina	Gas distribution	F.C.	100.0	94.2
Gasmarket S.A.	Argentina	Gas distribution	F.C.	100.0	94.2
Ceg Río, S.A.	Brazil	Gas distribution	F.C.	59.6	59.6
Companhia Distribuidora de Gás do Río de Janeiro, S.A.	Brazil	Gas distribution	F.C.	54.2	54.2
Gas Natural Sao Paulo Sul, S.A.	Brazil	Gas distribution	F.C.	100.0	100.0
Gas Natural Redes GLP, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Gas Natural Transporte SDG, S.L.	Spain	Gas distribution	F.C.	100.0	80.0
Nedgia Andalucía, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Nedgia Aragón, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Nedgia Balears, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Nedgia Castilla La-Mancha, S.A.	Spain	Gas distribution	F.C.	95.0	76.0
Nedgia Castilla y León, S.A.	Spain	Gas distribution	F.C.	90.1	72.1
Nedgia Catalunya, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Nedgia Cegas, S.A.	Spain	Gas distribution	F.C.	99.7	79.8
Nedgia Galicia, S.A.	Spain	Gas distribution	F.C.	68.5	54.8
Nedgia Madrid, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Nedgia Navarra, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Nedgia, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Nedgia Rioja, S.A.	Spain	Gas distribution	F.C.	87.5	70.0
Comercializadora Metrogas, S.A. de CV	Mexico	Gas distribution	F.C.	100.0	70.9
Naturgy México, S.A. de C.V.	Mexico	Gas distribution	F.C.	70.9	70.9
Naturgy Perú, S.A. En Liquidación (3)	Peru	Gas distribution	F.C.	100.0	100.0
UFD Distribución Electricidad, S.A.	Spain	Electricity distribution	F.C.	100.0	100.0
Empresa de Distribución Electrica Chiriqui, S.A.	Panama	Electricity distribution	F.C.	51.0	51.0
Empresa de Distribución Electrica Metro Oeste, S.A.	Panama	Electricity distribution	F.C.	51.0	51.0

Company	Country	Activity	Method of Consolidation (1)	Total % interest % Controlling interest (2)	% Equity interest
Gas Natural Exploración, S.L.	Spain	Gas infrastructures	F.C.	100.0	100.0
Naturgy Almacenamientos Andalucía, S.A.	Spain	Gas infrastructures	F.C.	100.0	100.0
Nueva Electricidad del Gas, S.A.U, En Liquidación	Spain	Gas infrastructures	F.C.	100.0	100.0
Petroleum Oil & Gas España, S.A.	Spain	Gas infrastructures	F.C.	100.0	100.0
Unión Fenosa Gas Exploración y Producción, S.A.U.	Spain	Gas infrastructures	F.C.	100.0	100.0
Metragaz, S.A.	Morocco	Gas infrastructures	F.C.	76.7	76.7
Europe Maghreb Pipeline, Ltd.	United Kingdom	Gas infrastructures	F.C.	77.2	77.2
Natural Energy, S.A.	Argentina	Gas supply	F.C.	100.0	100.0
Gas Natural Serviços, S.A.	Brazil	Gas supply	F.C.	100.0	100.0
Naturgy Aprovisionamientos, S.A.	Spain	Gas supply	F.C.	100.0	100.0
Naturgy LNG, S.L.	Spain	Gas supply	F.C.	100.0	100.0
Sagane, S.A.	Spain	Gas supply	F.C.	100.0	100.0
Unión Fenosa Gas, S.A.	Spain	Gas supply	F.C.	100.0	100.0
Gas Natural Europe, S.A.S.	France	Gas supply	F.C.	100.0	100.0
Naturgy LNG GOM Limited	Ireland	Gas supply	F.C.	100.0	100.0
Naturgy LNG Marketing Ltd	Ireland	Gas supply	F.C.	100.0	100.0
Naturgy Servicios, S.A. de C.V.	Mexico	Gas supply	F.C.	100.0	70.9
Naturgy LNG Singapore Pte. Ltd	Singapore	Gas supply	F.C.	100.0	100.0
Gas Natural Puerto Rico, Inc	Puerto Rico	Gas supply	F.C.	100.0	100.0
Naturgy LNG GOM, S.L.	Spain	Gas and electricity supply	F.C.	100.0	100.0
Comercializadora Regulada Gas & Power, S.A.	Spain	Gas and electricity supply	F.C.	100.0	100.0
Gas Natural Comercializadora, S.A.	Spain	Gas and electricity supply	F.C.	100.0	100.0
Naturgy Commodities Trading, S.A.	Spain	Gas and electricity supply	F.C.	100.0	100.0
Naturgy Iberia, S.A.	Spain	Gas and electricity supply	F.C.	100.0	100.0
Naturgy Clientes, S.A.	Spain	Gas and electricity supply	F.C.	100.0	100.0
Naturgy Energy (UK), Ltd	United Kingdom	Gas and electricity supply	F.C.	100.0	100.0
Berrybank 2 Asset Pty Ltd	Australia	Electricity generation	F.C.	100.0	74.0
Berrybank 2 Asset Trust	Australia	Electricity generation	F.C.	100.0	74.0
Berrybank Development Pty, Ltd	Australia	Electricity generation	F.C.	100.0	74.0
Crookwell 3 Development Pty Ltd.	Australia	Electricity generation	F.C.	100.0	74.0
Crookwell Development Pty, Ltd	Australia	Electricity generation	F.C.	100.0	74.0

Company	Country	Activity	Method of Consolidation (1)	Total % interest % Controlling interest (2)	% Equity interest
Hawkesdale Asset Pty Ltd	Australia	Electricity generation	F.C.	100.0	74.0
Hawkesdale Asset Trust	Australia	Electricity generation	F.C.	100.0	74.0
Ryan Corner Development Pty, Ltd	Australia	Electricity generation	F.C.	100.0	74.0
Global Power Generation Brasil Geracao de Energía Ltda	Brazil	Electricity generation	F.C.	100.0	75.0
Guimarania I Solar Spe Ltda.	Brazil	Electricity generation	F.C.	100.0	75.0
Guimarania II Solar Spe Ltda.	Brazil	Electricity generation	F.C.	100.0	75.0
Sertao i Solar Energía, SPE, Ltda	Brazil	Electricity generation	F.C.	85.0	63.8
Sobral i Solar Energía, SPE, Ltda	Brazil	Electricity generation	F.C.	85.0	63.8
Gestión y Servicios Cabo Leones II	Chile	Electricity generation	F.C.	51.0	38.3
GPG Generación Distribuida, S.p.A.	Chile	Electricity generation	F.C.	100.0	75.0
GPG Solar Chile 2017 SpA	Chile	Electricity generation	F.C.	100.0	75.0
Iberéolica Cabo Leones II, S.A.	Chile	Electricity generation	F.C.	51.0	38.3
Inca de Varas I	Chile	Electricity generation	F.C.	100.0	75.0
Inca de Varas II	Chile	Electricity generation	F.C.	100.0	75.0
Parque Eólico Vientos del Pacífico, S.p.A	Chile	Electricity generation	F.C.	100.0	75.0
Almar Ccs, S.A.	Costa Rica	Electricity generation	F.C.	100.0	75.0
Unión Fenosa Generadora La Joya, S.A.	Costa Rica	Electricity generation	F.C.	65.0	48.8
Unión Fenosa Generadora Torito, S.A.	Costa Rica	Electricity generation	F.C.	65.0	48.8
Boreas Eólica 2, S.A.	Spain	Electricity generation	F.C.	89.6	89.6
Corporación Eólica de Zaragoza, S.L	Spain	Electricity generation	F.C.	68.0	68.0
Energías Ambientales de Somozas, S.A.	Spain	Electricity generation	F.C.	97.0	97.0
Energías Especiales Alcoholeras, S.A., En Liquidación	Spain	Electricity generation	F.C.	82.3	82.3
Eólica Tramuntana, S.L.	Spain	Electricity generation	F.C.	100.0	100.0
Explotaciones Eólicas Sierra de Utrera, S.L.	Spain	Electricity generation	F.C.	75.0	75.0
Global Power Generation, S.A.	Spain	Electricity generation	F.C.	75.0	75.0
J.G.C. Cogeneración Daimiel, S.L.	Spain	Electricity generation	F.C.	97.6	97.6
Infraestuctures Electriques de la Terra Alta, S.A.U	Spain	Electricity generation	F.C.	100.0	100.0
Naturgy Ciclos Combinados, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
Naturgy Future, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
Naturgy Generación, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
Naturgy Generación Térmica S.L.	Spain	Electricity generation	F.C.	100.0	100.0
Naturgy Renovables Canarias, S.L.	Spain	Electricity generation	F.C.	100.0	100.0
Naturgy Renovables Ruralia, S.L.	Spain	Electricity generation	F.C.	75.0	75.0

Company	Country	Activity	Method of Consolidation (1)	**Total % interest** % Controlling interest (2)	% Equity interest
Naturgy Renovables, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
P.E. Nerea, S.L.	Spain	Electricity generation	F.C.	95.0	95.0
P.E. Peñarroldana, S.L.	Spain	Electricity generation	F.C.	95.0	95.0
Societat Eòlica de l´Enderrocada, S.A.	Spain	Electricity generation	F.C.	76.2	76.2
Tratamiento Cinca Medio, S.L.	Spain	Electricity generation	F.C.	90.0	90.0
ROBLA HUB, S.L.	Spain	Electricity generation	F.C.	50.8	50.8
El Almendro, S.L.	Spain	Electricity generation	F.C.	100.0	100.0
7V Solar Ranch, LLC.	USA	Electricity generation	F.C.	100.0	100.0
Auglaize County Solar Project, LLC.	USA	Electricity generation	F.C.	100.0	100.0
Bar C Solar, LLC	USA	Electricity generation	F.C.	100.0	100.0
Stonefield Solar, LLC	USA	Electricity generation	F.C.	100.0	100.0
Candela Renewables Hamel DevCo LLC.	USA	Electricity generation	F.C.	100.0	100.0
Canoe Creek Solar Project, LLC.	USA	Electricity generation	F.C.	100.0	100.0
Defiance County Solar Project, LLC	USA	Electricity generation	F.C.	100.0	100.0
Dugas Solar, LLC	USA	Electricity generation	F.C.	100.0	100.0
Front Range Midway Solar Project, LLC.	USA	Electricity generation	F.C.	100.0	100.0
Ft. Meade Solar, LLC	USA	Electricity generation	F.C.	100.0	100.0
Grimes County Solar Project, LLC.	USA	Electricity generation	F.C.	100.0	100.0
Half Moon Solar Project, LLC	USA	Electricity generation	F.C.	100.0	100.0
Hayden Run Solar Project, LLC.	USA	Electricity generation	F.C.	100.0	100.0
Knickerbocker Solar Project, LLC	USA	Electricity generation	F.C.	100.0	100.0
Lonesome Camp Solar Project, LLC.	USA	Electricity generation	F.C.	100.0	100.0
Mark Center Solar Project, LLC.	USA	Electricity generation	F.C.	100.0	100.0
Marshville Solar, LLC	USA	Electricity generation	F.C.	100.0	100.0
Yeager Solar, LLC	USA	Electricity generation	F.C.	100.0	100.0
Naturgy Candela Devco LLC	USA	Electricity generation	F.C.	100.0	100.0
Naturgy Solar Operation USA LLC	USA	Electricity generation	F.C.	100.0	100.0
Rough Hat 2 Solar, LLC	USA	Electricity generation	F.C.	100.0	100.0
Rough Hat Solar, LLC	USA	Electricity generation	F.C.	100.0	100.0
Saguache County Solar Project, LLC.	USA	Electricity generation	F.C.	100.0	100.0
Scioto Farms Solar Project, LLC.	USA	Electricity generation	F.C.	100.0	100.0

Company	Country	Activity	Method of Consolidation (1)	Total % interest % Controlling interest (2)	% Equity interest
Stone Mill Solar, LLC	USA	Electricity generation	F.C.	100.0	100.0
Summer Shade Solar, LLC	USA	Electricity generation	F.C.	100.0	100.0
Vulcan Solar Project, LLC	USA	Electricity generation	F.C.	100.0	100.0
Spanish Israeli Operation and Maintenance Company, Ltd.	Israel	Electricity generation	F.C.	100.0	100.0
El Gritón Solar S.A. de C.V.	Mexico	Electricity generation	F.C.	80.0	60.0
Fuerza y Energía Bii Hioxo, S.A. de C.V.	Mexico	Electricity generation	F.C.	100.0	75.0
Fuerza y Energía de Hermosillo, S.A. de C.V.	Mexico	Electricity generation	F.C.	100.0	75.0
Fuerza y Energía de Naco Nogales, S.A. de C.V.	Mexico	Electricity generation	F.C.	100.0	75.0
Fuerza y Energía de Norte Durango, S.A de C.V	Mexico	Electricity generation	F.C.	100.0	75.0
Fuerza y Energía de Tuxpan, S.A. de C.V.	Mexico	Electricity generation	F.C.	100.0	75.0
GPG Energía México, S.A. de C.V.	Mexico	Electricity generation	F.C.	100.0	75.0
Energía y Servicios de Panamá, S.A.	Panama	Electricity generation	F.C.	51.0	38.3
Generadora Palamara La Vega, S.A.	Dominican Rep.	Electricity generation	F.C.	100.0	75.0
Naturgy Rinnovabili Italia, SRL	Italy	Electricity generation	F.C.	100.0	100.0
Naturgy Renouvelables France SAS	France	Electricity generation	F.C.	100.0	100.0
Lignitos de Meirama, S.A.	Spain	Mining	F.C.	100.0	100.0
Naturgy Informática, S.A.	Spain	IT services	F.C.	100.0	100.0
United Saudi Spanish Power and Gas Services, LLC	Saudi Arabia	Engineering services	F.C.	100.0	78.8
Gas Natural Fenosa Engineering Brasil , S.A., En Liquidaçao	Brazil	Engineering services	F.C.	100.0	100.0
Operación y Mantenimiento Energy Costa Rica, S.A.	Costa Rica	Engineering services	F.C.	100.0	75.0
Naturgy Engineering, S.L.	Spain	Engineering services	F.C.	100.0	100.0
Naturgy Ingeniería Nuclear, S.L.	Spain	Engineering services	F.C.	100.0	100.0
GPG Ingeniería y Desarrollo de Generación, S.L.	Spain	Engineering services	F.C.	100.0	75.0
Operación y Mantenimiento Energy, S.A.	Spain	Engineering services	F.C.	100.0	75.0
Proyectos Balmes México, S.A. de C.V.	Mexico	Engineering services	F.C.	100.0	75.0
Gas Natural Fenosa Ingenieria México, S.A. de C.V., En Liquidación	Mexico	Electricity generation	F.C.	100.0	100.0
Unión Fenosa Operación México S.A. de C.V.	Mexico	Engineering services	F.C.	100.0	75.0
Operations & Maintenance Energy Uganda Ltd	Uganda	Engineering services	F.C.	100.0	75.0

			Method of	**Total % interest**	
Company	Country	Activity	Consolidation (1)	% Controlling interest (2)	% Equity interest
Natural Re, S.A.	Luxembourg	Insurance	F.C.	100.0	100.0
Naturgy Alfa Investments, S.A.U	Spain	Financial services	F.C.	100.0	100.0
Naturgy Capital Markets, S.A.	Spain	Financial services	F.C.	100.0	100.0
Naturgy Participaciones, S.A.U.	Spain	Financial services	F.C.	100.0	100.0
Unión Fenosa Preferentes, S.A.U.	Spain	Financial services	F.C.	100.0	100.0
Naturgy Finance B.V.	Netherlands	Financial services	F.C.	100.0	100.0
Natural Servicios, S.A.	Argentina	Services	F.C.	100.0	100.0
Gas Natural do Brasil, S.A.	Brazil	Services	F.C.	100.0	100.0
Lean Grids Services Mexico, S.R.L.	Mexico	Services	F.C.	100.0	100.0
Gas Natural Servicios Económicos, S.A.S.	Colombia	Services	F.C.	100.0	100.0
Gas Natural Servicios Integrales, S.A.S.	Colombia	Services	F.C.	100.0	100.0
General de Edificios y Solares, S.L.	Spain	Services	F.C.	100.0	100.0
Naturgy Nuevas Energías, S.L.U.	Spain	Services	F.C.	100.0	100.0
Administración y Servicios ECAP, S.A. de C.V.	Mexico	Services	F.C.	100.0	100.0
Administradora de Servicios de Energía México, S.A. de CV	Mexico	Services	F.C.	100.0	70.9
Energía y Confort Administración de Personal, S.A. de C.V.	Mexico	Services		100.0	71.5
Sistemas de Administración y Servicios, S.A. de C.V.	Mexico	Services	F.C.	71.0	71.0
Naturgy Services, S.A.	Panama	Services	F.C.	100.0	100.0
Inversiones Hermill, S.A.	Dominican Rep.	Services	F.C.	100.0	100.0
Naturgy Argentina, S.A.	Argentina	Holding company	F.C.	100.0	100.0
Invergás, S.A.	Argentina	Holding company	F.C.	100.0	100.0
Global Power Generation Australia Pty, Ltd.	Australia	Holding company	F.C.	98.7	74.0
Berrybank 2 Hold Pty Ltd	Australia	Holding company	F.C.	100.0	74.0
Berrybank 2 Hold Trust	Australia	Holding company	F.C.	100.0	74.0
Berrybank Development Finco Pty Ltd.	Australia	Holding company	F.C.	100.0	74.0
Crookwell 3 Development Finco Pty Ltd.	Australia	Holding company	F.C.	100.0	74.0
Crookwell Development Finco Pty Ltd.	Australia	Holding company	F.C.	100.0	74.0
Hawkesdale Hold Pty Ltd	Australia	Holding company	F.C.	100.0	74.0
Hawkesdale Hold Trust	Australia	Holding company	F.C.	100.0	74.0
Ryan Corner Development Finco Pty Ltd	Australia	Holding company	F.C.	100.0	74.0

Company	Country	Activity	Method of Consolidation (1)	**Total % interest** % Controlling interest (2)	% Equity interest
Paling Yards Development Finco Pty Ltd (PYDF)	Australia	Holding company	F.C.	100.0	74.0
Paling Yards Development Pty Ltd	Australia	Holding company	F.C.	100.0	74.0
Global Power Generation Chile, S.p.A.	Chile	Holding company	F.C.	100.0	75.0
GPG México Wind, S.L.U.	Spain	Holding company	F.C.	100.0	75.0
GPG México, S.L.U.	Spain	Holding company	F.C.	100.0	75.0
Holding de Negocios de Gas, S.A.	Spain	Holding company	F.C.	80.0	80.0
Holding Negocios Electricidad, S.A.	Spain	Holding company	F.C.	100.0	100.0
La Propagadora del Gas, S.A.	Spain	Holding company	F.C.	100.0	100.0
Naturgy Acciones, S.L.U.	Spain	Holding company	F.C.	100.0	100.0
Naturgy Distribución Latinoamerica, S.A.	Spain	Holding company	F.C.	100.0	100.0
Naturgy Electricidad Colombia, S.L.	Spain	Holding company	F.C.	100	100
Naturgy Infraestructuras EMEA, S.L.	Spain	Holding company	F.C.	100	100
Naturgy Inversiones Internacionales, S.A.	Spain	Holding company	F.C.	100	100
Hamel Renewables Holdco LLC	USA	Holding company	F.C.	100	100
Naturgy Renewables USA Corp	USA	Holding company	F.C.	100	100
Naturgy Solar USA LLC	USA	Holding company	F.C.	100	100
First Independent Power (Kenya), Ltd.	Kenya	Holding company	F.C.	100	75
Unión Fenosa México, S.A. de C.V.	Mexico	Holding company	F.C.	100	75
Distribuidora Eléctrica de Caribe, S.A.	Panama	Holding company	F.C.	100	100
Generación Eléctrica del Caribe , S.A.	Panama	Holding company	F.C.	100	75
Buenergía Gas &Power, LLC	Puerto Rico	Holding company	F.C.	95	71.3
CGE Group:					
Agua Negra S.A.	Argentina	Electricity distribution	F.C.	100	100
Energía San Juan S.A.	Argentina	Electricity distribution	F.C.	100	100
CGE Argentina S.A.	Chile	Electricity distribution	F.C.	100	100
CGE Gas Natural, S.A.	Chile	Holding company	F.C.	92.3	92.3
Aprovisionadora Global de Energía, S.A.	Chile	Gas distribution	F.C.	60.2	55.6

Company	Country	Activity	Method of Consolidation (1)	**Total % interest** % Controlling interest (2)	% Equity interest
Gas Sur S.A.	Chile	Gas distribution	F.C.	100	92.3
Innergy Holdings S.A.	Chile	Gas distribution	F.C.	60	55.4
Innergy Soluciones Energéticas S.A.	Chile	Gas distribution	F.C.	100	55.4
Innergy Transportes S.A.	Chile	Gas distribution	F.C.	100	55.4
Metrogas S.A.	Chile	Gas distribution	F.C.	60.2	55.6
Gasoducto del Pacífico (Argentina) S.A.	Argentina	Gas infrastructures	F.C.	56.7	52.4
Gasoducto del Pacífico S.A.	Chile	Gas infrastructures	F.C.	60	55.4
Centrogas S.A.	Chile	Services	F.C.	100	55.6
Empresa Chilena de Gas Natural S.A.	Chile	Services	F.C.	100	55.6
Financiamiento Doméstico S.A.	Chile	Services	F.C.	99.9	55.5
GN Holding Argentina Comercializadora, S.A.	Argentina	Holding company	F.C.	100	92.3
GN Holding Argentina, S.A.	Chile	Holding company	F.C.	100	92.3

(1) Consolidation method: F.C. Full Consolidation, P.C. Proportionate Consolidation, E.M. Equity Method
(2) Parent company's interest in the subsidiary
(3) Companies registered as Held for sale

2. Joint ventures

Company	Country	Activity	Method of Consolidation (1)	**Total % interest** % Controlling interest (2)	% Equity interest
Medgaz, S.A.	Spain	Gas infrastructures	E.M.	49	24.5
Medina Partnership, S.A.	Spain	Holding company	E.M.	50	50
Gas Natural Vehicular del Norte Asociación en Participación	Mexico	Gas distribution	E.M.	51.3	36.4
Eléctrica Conquense, S.A.	Spain	Electricity distribution	E.M.	46.4	46.4
Eléctrica Conquense de Distribución, S.A.	Spain	Electricity distribution	E.M.	100	46.4
CH4 Energía S.A. de C.V.	Mexico	Gas supply	E.M.	50	35.4
ENER RENOVA, S.A.	Chile	Electricity generation	E.M.	40	40
Colectora la Serrata, S.L.	Spain	Electricity generation	E.M.	35.7	35.7
Desarrollo de Energías Renovables de Navarra, S.A.	Spain	Electricity generation	E.M.	50	50
Infraestructuras Eléctricas La Mudarra, S.L	Spain	Electricity generation	E.M.	39.6	36.6
Nueva Generadora del Sur, S.A.	Spain	Electricity generation	E.M.	50	50
P.E. Cinseiro, S.L.	Spain	Electricity generation	E.M.	50	50
Toledo PV, A.E.I.E	Spain	Electricity generation	E.M.	33.3	33.3
EcoEléctrica Holding, LLC.	Puerto Rico	Holding company	E.M.	50	35.6
EcoEléctrica, L.P.	Puerto Rico	Electricity generation	E.M.	100	35.6
EcoEléctrica LLC	Puerto Rico	Holding company	E.M.	100	35.6
CGE Group:					
Gasoducto GasAndes, S.A. (Argentina)	Argentina	Gas infrastructures	E.M.	47	26.1
Andes Operaciones y Servicios S.A.	Chile	Gas infrastructures	E.M.	50	27.8
Gas Natural Producción, S.A.	Chile	Gas infrastructures	E.M.	36.2	33.4
Gasoducto GasAndes, S.A. (Chile)	Chile	Gas infrastructures	E.M.	47	26.1
GNL Chile S.A.	Chile	Gas infrastructures	E.M.	33.3	18.5

(1) Consolidation method: F.C. Full Consolidation, P.C. Proportionate Consolidation, E.M. Equity Method
(2) Parent company's interest in the subsidiary

3. Jointly-controlled assets and operations

Company	Country	Activity	Method of Consolidation (1)	Total % interest	
				% Controlling interest (2)	% Equity interest
Bezana / Beguenzo	Spain	Gas infrastructures	P.C.	55.6	55.6
Boquerón	Spain	Gas infrastructures	P.C.	4.5	4.5
Casablanca	Spain	Gas infrastructures	P.C.	9.5	9.5
Chipirón	Spain	Gas infrastructures	P.C.	2.0	2.0
Montanazo	Spain	Gas infrastructures	P.C.	17.7	17.7
Rodaballo	Spain	Gas infrastructures	P.C.	4.0	4.0
Central Térmica de Anllares, A.I.E.	Spain	Electricity generation	P.C.	66.7	66.7
Centrales Nucleares Almaraz-Trillo, A.I.E	Spain	Electricity generation	P.C.	19.1	19.1
Comunidad de bienes Central Nuclear de Almaraz (Grupo I y II)	Spain	Electricity generation	P.C.	11.3	11.3
Comunidad de bienes Central Nuclear de Trillo (Grupo I)	Spain	Electricity generation	P.C.	34.5	34.5
Comunidad de bienes Central Térmica de Aceca	Spain	Electricity generation	P.C.	50.0	50.0
Comunidad de bienes Central Térmica de Anllares	Spain	Electricity generation	P.C.	66.7	66.7
UTE ESE Clece - Gas Natural	Spain	Services	P.C.	50.0	50.0

(1) Consolidation method: F.C. Full Consolidation, P.C. Proportionate Consolidation, E.M. Equity Method.
(2) Parent company's interest in the subsidiary.

4. Associates

Company	Country	Activity	Method of Consolidation (1)	Total % interest % Controlling interest (2)	 % Equity interest
Qalhat LNG S.A.O.C. (Grupo Unión Fenosa Gas)	Oman	Gas infrastructures	E.M.	7.4	7.4
Sistemas Energéticos La Muela, S.A.	Spain	Electricity generation	E.M.	20	20
Sistemas Energéticos Mas Garullo, S.A.	Spain	Electricity generation	E.M.	18	18
Sociedade Galega do Medio Ambiente, S.A.	Spain	Electricity generation	E.M.	49	49
Bluemobility System, S.L. En Liquidación	Spain	Services	E.M.	20	20
Kromschroeder, S.A.	Spain	Services	E.M.	44.5	44.5

(1) Consolidation method: F.C. Full Consolidation, P.C. Proportionate Consolidation, E.M. Equity Method.
(2) Parent company's interest in the subsidiary.

Appendix II Variations in consolidation scope

The main consolidation scope changes during 2021 were as follows:

Company name	Operation category	Effective date of operation	Voting rights acquired / eliminated (%)	Voting rights after the operation (%)	Consolidation method after the operation
Naturgy Renewables USA Corp	Incorporation	14 January	100.0	100.0	Full
Naturgy Solar USA LLC	Incorporation	14 January	100.0	100.0	Full
Hamel Renewables Holdco LLC	Acquisition	14 January	100.0	100.0	Full
Hamel Renewables LLC	Acquisition	14 January	100.0	100.0	Full
Candela Renewables Hamel DevCo LLC.	Acquisition	14 January	100.0	100.0	Full
7V Solar Ranch, LLC.	Acquisition	14 January	100.0	100.0	Full
Mark Center Solar Project, LLC.	Acquisition	14 January	100.0	100.0	Full
Front Range Midway Solar Project, LLC.	Acquisition	14 January	100.0	100.0	Full
Grimes County Solar Project, LLC.	Acquisition	14 January	100.0	100.0	Full
Hayden Run Solar Project, LLC.	Acquisition	14 January	100.0	100.0	Full
Saguache County Solar Project, LLC.	Acquisition	14 January	100.0	100.0	Full
Scioto Farms Solar Project, LLC.	Acquisition	14 January	100.0	100.0	Full
Defiance County Solar Project, LLC	Acquisition	14 January	100.0	100.0	Full
Lonesome Camp Solar Project, LLC.	Acquisition	14 January	100.0	100.0	Full
Canoe Creek Solar Project, LLC.	Acquisition	14 January	100.0	100.0	Full
Auglaize County Solar Project, LLC.	Acquisition	14 January	100.0	100.0	Full
Yeager Solar, LLC	Acquisition	14 January	100.0	100.0	Full
Naturgy Ciclos Combinados, S.L.U.	Incorporation	26 January	100.0	100.0	Full
Naturgy IT, SL	Disposal	1 february	60.0	15.0	—
Lean Corporate Services, S.L..	Disposal	1 february	60.0	15.0	—
Lean Customer Services, S.L.	Disposal	1 february	60.0	15.0	—
Lean Grids Services, S.L.	Disposal	1 february	60.0	15.0	—
Lean Grids Services Chile SpA	Disposal	1 february	60.0	15.0	—
CGE Comercializadora SpA	Incorporation	11 february	96.0	96.0	Full
Unión Fenosa Gas, S.A.	Acquisition	10 february	50.0	100.0	Full
Nueva Electricidad del Gas, S.A.U, En Liquidación	Acquisition	10 march	50.0	100.0	Full
Unión Fenosa Gas Exploración y Producción, S.A.U.	Acquisition	10 march	50.0	100.0	Full
Unión Fenosa Gas Infraestructures B.V.	Acquisition	10 march	50.0	100.0	Full
Qalhat LNG S.A.O.C.	Acquisition	10 march	3.7	7.4	Equity
Unión Fenosa Gas Comercializadora, S.A.	Disposal	10 march	50.0	—	—
Segas Services, S.A.E.	Disposal	10 march	40.7	—	—
Spanish Egyptian Gas Company S.A.E.	Disposal	10 march	40.0	—	—
Colectora la Serrata, S.L.	Acquisition	10 march	35.7	35.7	Equity
Naturgy Generación Termica, S.L.	Incorporation	7 april	100.0	100.0	Full
Naturgy Solar Operation USA LLC	Incorporation	17 may	100.0	100.0	Full
Mobiligaz, SAS	Incorporation	1 june	100.0	100.0	Full
Cogeneración del Noroeste, S.L	Disposal	3 june	40.0	40.0	—
Gas Natural Fenosa Engineering, S.A.S. (colombia)	Liquidation	17 june	100.0	100.0	—
Stonefield Solar, LLC	Incorporation	30 june	100.0	100.0	Full
Rough Hat Solar, LLC	Incorporation	30 june	100.0	100.0	Full
Rough Hat 2 Solar, LLC	Incorporation	30 june	100.0	100.0	Full
Dugas Solar, LLC	Incorporation	30 june	100.0	100.0	Full
Summer Shade Solar, LLC	Incorporation	30 june	100.0	100.0	Full
Ft. Meade Solar, LLC	Incorporation	30 june	100.0	100.0	Full
Knickerbocker Solar Project, LLC	Incorporation	30 june	100.0	100.0	Full
Marshville Solar, LLC	Incorporation	30 june	100.0	100.0	Full
Stone Mill Solar, LLC	Incorporation	30 june	100.0	100.0	Full
Half Moon Solar Project, LLC	Incorporation	30 june	100.0	100.0	Full
Vulcan Solar Project, LLC	Incorporation	30 june	100.0	100.0	Full
Bar C Solar, LLC	Incorporation	30 june	100.0	100.0	Full
Mobiligaz, SAS	Disposal	13 july	100.0	—	—
Compañía General de Electricidad, S.A.	Disposal	28 july	96.0	—	—
CGE Servicios, S.A.	Disposal	28 july	100.0	—	—
CGE Magallanes S.A.	Disposal	28 july	95.9	—	—
Empresa Eléctrica de Magallanes S.A.	Disposal	28 july	53.0	—	—
Energy Sur Ingeniería, S.A.	Disposal	28 july	52.8	—	—
Transformadores Tusan S.A.	Disposal	28 july	96.0	—	—
TV Red S.A.	Disposal	28 july	47.7	—	—
CGE Comercializadora SpA	Disposal	28 july	96.0	—	—

Company name	Operation category	Effective date of operation	Voting rights acquired / eliminated (%)	Voting rights after the operation (%)	Consolidation method after the operation
ROBLA HUB, S.L.	Incorporation	28 july	50.8	50.8	Equity
Paling Yards Development Finco Pty Ltd (PYDF)	Incorporation	21 september	100.0	100.0	Full
Paling Yards Development Pty Ltd	Incorporation	21 september	100.0	100.0	Full
Naturgy Rinnovabili Italia, SRL	Incorporation	27 july	100.0	100.0	Full
Naturgy Renouvelables France SAS	Incorporation	22 july	100.0	100.0	Full
UFG Infrastructures, BV.	Liquidation	28 october	100.0	100.0	Full
Naturgy Clientes, S.A.	Incorporation	28 october	100.0	100.0	Full
Naturgy LGN GOM	Incorporation	10 december	100.0	100.0	Full
El Almendro, SL	Acquisition	23 december	100.0	100.0	Full
Naturgy LTD	Disposal	20 december	100.0	—	—
Sociedad Gestora de Parques de Andalucía, S.A	Liquidation	29 december	21.0	—	—

The main consolidation scope changes during 2020 were as follows:

Company name	Operation category	Effective date of operation	Voting rights acquired / eliminated (%)	Voting rights after the operation (%)	Consolidation method after the operation
CER's Commercial Corp (Panama)	Disposal	2 January	25.0	—	—
Eólica Tramuntana 21, S.L.	Liquidation	7 January	60.0	—	—
Eólica Tramuntana 22, S.L.	Liquidation	7 January	60.0	—	—
Eólica Tramuntana 23, S.L.	Liquidation	7 January	60.0	—	—
Gas Natural Fenosa LNG International Ltd	Liquidation	15 January	100.0	—	—
Ghesa Ingeniería y Tecnología, S.A.	Disposal	20 January	47.9	—	—
Clover Financial and Treasury Services, DAC.	Liquidation	7 February	100.0	—	—
Lean Corporate Services, S.L..	Disposal	9 March	25.0	75.0	Full
Lean Customer Services, S.L.	Disposal	9 March	25.0	75.0	Full
Lean Grids Services, S.L.	Disposal	30 March	25.0	75.0	Full
Mataró Energía Sostenible, S.A.	Disposal	2 April	51.1	—	—
Iberafrica power LTD	Disposal	3 April	100.0	—	—
Gas Natural West Africa	Liquidation	21 April	40.0	—	—
Medgaz, S.A	Acquisition	30 April	34.1	49.0	Equity
Medina Partnership, S.A.U.	Disposal	15 July	50.0	50.0	Equity
Berrybank 2 Hold Pty Ltd	Incorporation	8 July	100.0	100.0	Full
Berrybank 2 Asset Pty Ltd	Incorporation	17 July	100.0	100.0	Full
Berrybank 2 Hold Trust	Incorporation	13 July	100.0	100.0	Full
Berrybank 2 Asset Trust	Incorporation	20 July	100.0	100.0	Full
Hawkesdale Hold Pty Ltd	Incorporation	7 August	100.0	100.0	Full
Hawkesdale Asset Pty Ltd	Incorporation	25 August	100.0	100.0	Full
Hawkesdale Hold Trust	Incorporation	10 August	100.0	100.0	Full
Hawkesdale Asset Trust	Incorporation	26 August	100.0	100.0	Full
Gestión y Servicios Cabo Leones II	Incorporation	9 September	51.0	51.0	Full
Montouto 200, S.A.	Disposal	15 September	49.0	—	—
Hidroeléctrica Rio San Juan SAS ESP, en liquidación	Liquidation	9 October	100.0	—	—
Unión Fenosa Minería, S.A.	Liquidation	21 October	100.0	—	—
GPG Generacion Distribuida SpA	Incorporation	3 November	100.0	100.0	Full
Eólica Tramuntana, S.L.	Acquisition	15 December	34.2	100.0	Full
Infraestructures Electriques de la Terra Alta, S.L.U.	Acquisition	15 December	100.0	100.0	Full
Gas Natural Fenosa Engineering Panamá, S.A.	Liquidation	20 December	100.0	—	—

Appendix III Naturgy tax group companies

The companies in the Naturgy tax group are as follows:

Naturgy Energy Group, S.A.	Naturgy Future, S.L.U.
Boreas Eólica 2, S.A.	Naturgy Generación Térmica, S.L.U.
Comercializadora Regulada, Gas & Power, S.A.	Naturgy Generación, S.L.U.
Energías Ambientales de Somozas, S.A.	Naturgy Iberia, S.A.
Eólica Tramuntana, S.L.	Naturgy Informática, S.A.
Europe Maghreb Pipeline, Ltd.	Naturgy Infraestructuras EMEA, S.L.
Explotaciones Eólicas Sierra de Utrera, S.L.	Naturgy Ingeniería Nuclear, S.L.
Fenosa, S.L.U.	Naturgy Inversiones Internacionales, S.A.
Gas Natural Comercializadora, S.A.	Naturgy LNG, S.L.
Gas Natural Exploración, S.L.	Naturgy LNG GOM, S.L.
Gas Natural Redes GLP, S.A.	Naturgy Nuevas Energías, S.L.U.
Gas Natural Transporte SDG, S.L.	Naturgy Participaciones, S.A.
General de Edificios y Solares, S.L.	Naturgy Renovables Canarias, S.L.U.
Global Power Generation, S.A.	Naturgy Renovables Ruralia, S.L.U.
GPG Ingeniería y Desarrollo de Generación, S.L.U.	Naturgy Renovables, S.L.U.
GPG México Wind, S.L.U.	Naturgy Wind, S.L.U.
GPG México, S.L.U.	Nedgia Andalucía, S.A.
Holding de Negocios de Gas, S.A.U.	Nedgia Aragón, S.A.
Holding de Negocios Electricidad, S.A.	Nedgia Balears, S.A.
Infraestructures eléctriques de la Tierra Alta, S.L.U.	Nedgia Castilla La-Mancha, S.A.
J.G.C. Cogeneración Daimiel, S.L.	Nedgia Catalunya, S.A.
La Propagadora del Gas, S.A.	Nedgia Cegas, S.A.
Lignitos de Meirama, S.A.	Nedgia Madrid, S.A.
Naturgy Acciones, S.L.U.	Nedgia Navarra, S.A.
Naturgy Alfa Investments, S.A.U	Nedgia, S.A.
Naturgy Almacenamientos Andalucía, S.A.	Operación y Mantenimiento Energy, S.A.
Naturgy Aprovisionamientos, S.A.	P.E. Nerea, S.L.
Naturgy Capital Markets, S.A.	P.E. Peñarroldana, S.L.
Naturgy Ciclos Combinados, S.L.U.	Petroleum Oil & Gas España, S.A.
Naturgy Clientes, S.A.U.	Sagane, S.A.
Naturgy Commodities Trading, S.A.	Societat Eòlica de l´Enderrocada, S.A.
Naturgy Distribución Latinoamérica, S.A.	Tratamiento Cinca Medio, S.L.
Naturgy Electricidad Colombia, S.L.	UFD Distribución Electricidad, S.A.
Naturgy Engineering, S.L.	Unión Fenosa Preferentes, S.A.U.

Appendix IV Regulatory framework

1. European Regulatory Environment

Following market opening efforts that commenced with the first gas and electricity directives in 1997 and 1996, the European Union (EU) is currently focusing on the energy transition and has adopted a set of rules to fight for a more secure, competitive and sustainable energy system with which to address the challenge of climate change. Referred to as the "Clean energy for all Europeans" package, it provides a stable legal framework to promote the necessary investment.

Since 2018, much of Europe's energy legislation has been revised and agreements have been concluded that will define EU energy regulation through 2030 and 2050. A comprehensive regulatory framework has been adopted to advance the energy transition, achieve the objectives of the Paris Agreement, make the EU a world leader in renewable energies, enshrine the "energy efficiency first" principle, and help modernise the European economy and European industry.

The legislation covers, among other aspects, the reform of the emissions trading market, the distribution of national efforts to reduce diffuse emissions, the development of renewable energies and energy efficiency measures, the adoption of Integrated National Energy and Climate Plans, internal electricity market regulations and CO2 emission standards for vehicle manufacturers:

Within this package, the following items are of particular importance because of their content:

– Regulation (EU) 2018/1999 of the European Parliament and of the Council on the Governance of the Energy Union and Climate Action, which delimits the content of the Integrated National Energy and Climate Plans (NECP) and the process of their adoption at European level.

– Directive (EU) 2019/944 on common rules for the internal market for electricity and amending Directive 2012/27/EU, whose deadline for transposition into Spanish law was 31 December 2020.

– Regulation 2019/943 on the internal market for electricity.

– Directive (EU) 2018/2001 of the European Parliament and of the Council on the promotion of the use of energy from renewable sources, whose deadline for transposition into domestic law by 31 June 2021.

– Directive (EU) 2018/2002 of the European Parliament and of the Council amending Directive 2012/27/EU on energy efficiency.

– Directive (EU) 2018/844 amending Directive 2010/31/EU on the energy performance of buildings.

– Directive (EU) 2019/692 amending Directive 2009/73/EC concerning common rules for the internal market in natural gas.

– The European Green Deal, presented by the European Commission on 11 December, set out the European Commission's new growth strategy for the coming years, focused on sustainability and on combating climate change, and proposed an increase of at least 55% in the emission reduction targets for 2030.

As part of the European Green Deal, Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 ('European Climate Law') was published on 9 July 2021. Among other matters, that Regulation set a new target for a net emission reduction of 55% by 2030 with respect to the 1990 baseline (vs. the previous 40%) and a goal of climate neutrality in emissions by 2050, both binding on the European Union.

In order to achieve the new, more ambitious targets, on 14 July 2021, the European Commission presented the "Fit for 55" package, a set of legislative proposals for adjustments to European climate, energy, land use, transport and taxation policies that contribute to achieving the European targets adopted in the European Climate Law in line with the European Green Deal.

This package included measures such as: revision of the EU Emissions Trading Scheme and the CO2 Market Stability Reserve mechanism; revision of the Emission Reduction Effort Sharing Regulation for diffuse sectors; the Carbon Border Adjustment Mechanism; and proposals for the revision of the Renewable Energy Directive, the Energy Efficiency Directive, the Regulation on the use of renewable and low-carbon fuels in maritime transport, the Directive on Alternative Fuels Infrastructure, the Regulation on CO2 Emission Standards for Cars and Vans, and the Energy Taxation Directive.

Subsequently, on 15 December 2021, the European Commission published the second block of the "Fit for 55" legislative package on energy. This second block comprised: (1) the Directive and Regulations on the internal markets in renewable and natural gases and in hydrogen; (2) Methane Emissions Regulation; (3) the Directive on the energy performance of buildings; and (4) Communication on Sustainable Carbon Cycles.

These legislative proposals from the Commission are now undergoing the formal process for adoption by the European Parliament and Council, which may take 18-24 months.

2. Regulation of the energy sector in Spain

2.1. Regulation of the natural gas sector in Spain

2.1.1. Main characteristics of the natural gas sector in Spain

The Spanish gas industry is regulated by Law 34/1998 of 7 October on the hydrocarbons sector, as amended by Law 12/2007, Royal Decree-Law 13/2012, Law 18/2014, Law 18/2015, and Royal Decree-Law 1/2019, and their enabling regulations.

In general, the Spanish gas industry is characterised by the following factors:

- It is an industry in which regulated and unregulated activities coexist. The regulated activities consist of transport, regasification, storage and distribution of natural gas. The unregulated activities comprise production, procurement and supply of natural gas by supply companies.

- The natural gas sector is almost entirely dependent on foreign supplies of natural gas, which represent almost 99.9% of the natural gas supplied in Spain.

- Under EU legislation (Directives 2003/55/EC, of 26 June, and 2009/73/EU), the supply of natural gas in Spain is totally deregulated and all Spanish consumers have been free to choose their natural gas supplier since 1 January 2003. The procedure for deregulating the industry was substantially reinforced by the elimination as from 1 July 2008 of the bundled tariff for distribution companies, consequently entitling all consumers to participate in the deregulated market (although, as indicated below, a tariff of last resort is maintained for consumers with lower consumption volumes).

2.1.2. Regulated activities in the natural gas sector

The main features of the regulated activities are: i) the need for prior administrative authorisation, which is regulated, ii) the allocation of remuneration by regulation, iii) specific obligations to allow third-party access to the network, and iv) specific rules governing unbundling.

Following the approval of Royal Decree-Law 1/2019, which grants new functions to the National Commission for Markets and Competition (CNMC), that Commission is responsible for establishing the methodology and the remuneration for the distribution, transportation and regasification of natural gas. Since then, the CNMC is also responsible for establishing the methodology and conditions for access and capacity assignment in the gas system.

2.1.2.1. Transportation

The transportation activity includes regasification, storage and transport of gas in the strict sense through the basic high pressure gas grid:

- *Regasification*: Natural gas is imported to Spain through pipelines (in gaseous form) and by gas tankers (in liquid form, referred to as liquefied natural gas). Regasification consists of converting natural gas in the liquid phase, stored in cryogenic tanks generally at regasification plants, into a gaseous state, and then injecting it into the national gas grid.

- *Transportation*: once the natural gas is imported or produced and, if necessary, regasified, it is injected in gas form into the high pressure gas transportation grid. The transportation grid crosses most regions in Spain and transports the natural gas to the major consumers, such as electricity plants, industrial customers and local distributors.

  The transport network is owned mainly by Enagás, S.A., although other companies, including various Naturgy investees, own a small proportion of it.

- *Storage*: storage facilities consist basically of underground stores, which are necessary to ensure a constant supply of natural gas unaffected by seasonal changes and other demand peaks. These facilities also serve to fulfil the obligation to maintain minimum security reserves in accordance with Royal Decree 1766/2007, of 28 December. Current legislation allows unregulated underground storage facilities with negotiated third-party access, subject to prior authorisation by the Spanish Government, although there are currently no such facilities.

2.1.2.2. Distribution

Natural gas is transported from the high pressure transport grid to the final consumer through the medium and low pressure grid.

The distribution business is based on a system of administrative authorisations that do not grant exclusive use rights. A distributor in a given zone has preference in obtaining authorisations for adjacent zones.

Distribution companies are confined to expanding and managing distribution networks; they cannot supply energy; supply companies are specifically authorised to supply energy.

2.1.2.3. LPG supply

As well as natural gas distribution, Naturgy supplies liquefied petroleum gas (LPG), as regulated by Law 34/1998 on the Hydrocarbons Sector. The Ministry for the Ecological Transition and Demographic Challenge (MITERD) establishes the tariffs for selling piped LPG to end consumers and the assignment prices of LPG at which it is purchased by piped LPG distributors, laying down the specific rates or a system for automatically calculating and updating them. These prices are published in monthly resolutions.

2.1.3. Economic regime applicable to regulated activities

Law 18/2014 of 17 October established certain principles and regulations designed mainly to guarantee the gas system's economic and financial sustainability:

- It established the principle of the gas system's economic and financial sustainability, whereby any regulation relating to the sector that entails an increase in costs or a reduction in revenue for the gas system must also provide an equivalent reduction in other cost items or an equivalent increase in revenue such as to ensure a balance in the system.

- Annual mismatches between system costs and revenues are limited and may not exceed 10% of revenue payable for the period; the sum of the annual mismatch and recognised outstanding payments for the year may not exceed 15%.

Following the approval of Royal Decree-Law 1/2019 on the adaptation of the CNMC's powers to the requirements derived from European Union law, the CNMC was entrusted with approving the remuneration methodologies in the natural gas sector, which will be applicable from the end of the regulatory period ending 31 December 2020, and it was empowered to establish the methodology for access and capacity assignment in the gas system.

Based on these powers, the CNMC approved the following Circulars that determine, inter alia, the methodologies for remunerating gas activities that are applicable in the 2021-2026 regulatory period:

- Circular 2/2019, of 12 November 2019, which established the methodology for calculating the financial yield on the regasification, transportation and distribution of natural gas.

- Circular 8/2019 of 12 December 2019 which establishes the access and allocation methods and conditions in the natural gas system and proposes a new joint management system for regasification and storage capacity at LNG plants with the aim of simplifying logistics and favouring the movement of LNG among market players irrespective of the plant where the gas was unloaded.

- Circular 9/2019, of 12 December 2019, which establishes the methodology for determining the remuneration of natural gas transportation facilities and liquefied natural gas plants. It established the methodology for setting the annual remuneration for the owners of natural gas transportation facilities and liquefied natural gas plants, taking into account the investment and operating costs of such facilities, financed using the revenues from the tolls and fees established for their use. It is applicable in the period from 1 January 2021 to 31 December 2026.

- Circular 4/2020, of 31 March, establishing the methodology for determining the remuneration for natural gas distribution, applicable for the next regulatory period, i.e. from 1 January 2021 to 31 December 2026. This Circular updated the remuneration model while maintaining the remuneration principles set out in Law 34/1998 of 7 October, and Law 18/2014, of 15 October, and their enabling regulations. The methodology applies a reduction of the base remuneration on the grounds that the supply points and energy of the baseline year (2000) will be remunerated under the current parameters applicable to new supply points.

- Circular 6/2020, of 22 July, establishing the methodology for calculating local grid transportation and regasification tolls for natural gas.

- Circular 8/2020, of 2 December 2020, establishing the unit values of reference for investment and for operation and maintenance for 2021-2026 and the minimum requirements for auditing investments and costs in natural gas transportation facilities and LNG plants.

- Circular 7/2021, of 28 July, establishing the methodology for calculating, overseeing, measuring and settling losses in the gas system.

Applying the methodologies established in the aforementioned Circulars, the CNMC issued the following decisions:

- Resolution of 17 December 2020, which determined the adjustment to remuneration for distribution applicable to companies engaged in distribution in the 2021-2026 period.

- Resolution of 11 February 2021 establishing the remuneration for 2021 (from 1 January to 30 September 2021) for companies engaging in regulated activities related to liquefied natural gas plants, transportation and distribution.

- Resolution of 20 May 2021 establishing the remuneration for the 2022 gas year (1 October 2021 to 30 September 2022) for companies carrying out regulated activities related to liquefied natural gas plants, transportation and distribution of natural gas.

- Resolution of 27 May 2021 establishing the access tolls for the transportation networks, local networks and regasification for the 2022 gas year, which will be applicable as of 1 October 2021, in accordance with the methodology established in Circular 6/2020.

By virtue of the powers attributed under Royal Decree-Law 1/2019, the Ministry issued the following decisions:

- Royal Decree 1184/2020, of 29 December, establishing the methodologies for calculating the gas system charges, the regulated remuneration for basic underground storage facilities and the fees for their use.

- Order TED/1286/2020, of 29 December, establishing the remuneration and access fees for basic underground storage facilities for the year 2021.

- Order TED/1023/2021, of 27 September, establishing the gas system charges and the remuneration and fees for basic underground storage facilities for the 2022 gas year, effective 1 October 2021.

2.1.4. Unregulated activities in the gas sector

2.1.4.1. Procurement

Since Spain produces very little natural gas, natural gas procurement in Spain — whether as gas or as LNG — is mainly conducted by gas operators such as Naturgy under long-term contracts with gas producers in other countries or by spot purchases of LNG cargoes. Although such procurement is not regulated, it is subject to two types of limits, basically to ensure supply diversification and competition in the market: 1) no single country can supply more than 60% of the gas imported into Spain; and 2) no party or business group as a whole can supply natural gas for consumption in Spain in excess of 70% of national consumption, excluding self-consumption.

Order TED/740/2021 and Order TED/741/2021, both dated 5 July, that extend the exemptions for the Medgaz and Maghreb-Europe gas pipelines from compliance with certain provisions regarding third-party access, were published on 14 July.

2.1.4.2. Supply

The Law recognises that consumers connected at less than 4 bars who do not exceed a certain consumption threshold (50 MWh/year) are entitled to be supplied at a capped price referred to as the last-resort tariff (TUR).

Order TEC/1368/2018, of 20 December, amending Order ITC/1660/2009, of 22 June, establishing the methodology for calculating the TUR and updating the calculation formula to incorporate as additive components the raw material costs, access tolls, supply costs and supply security costs, was published on 22 December 2018. Specifically, it updated the parameters of the base gas formula used to determine the raw material cost.

In application of the methodology set out in Order ITC/1660/2009, the TUR has been updated on a quarterly basis whenever required by cost variations.

However, in view of the exceptional rise in international natural gas prices, Royal Decree Law 17/2021, of 14 September, on urgent measures to mitigate the impact of the escalation of natural gas prices on retail gas and electricity markets, introduced an exceptional limitation on increases in the cost of the raw material to be passed on to the TUR during the last quarter of 2021 and the first quarter of 2022. The difference between the cost of the raw material calculated in accordance with the methodology in force and that resulting from the application of the aforementioned limit will be recovered in subsequent reviews of the last resort tariff as from 1 January 2022.

Organised gas market

The organised gas market was established by Law 8/2015 and subsequently implemented by Royal Decree 984/2015 and other enabling regulations. The organised gas market managed by MIBGAS began operating in December 2015 with a view to encompassing the entire Iberian Peninsula, although only products with delivery on the Spanish side have been traded to date.

Proposal for a National Fund

On 15 December 2020, the Spanish Cabinet approved, and released for consultation, a Draft Act for the creation of the National Fund for the Sustainability of the Electricity System (FNSSE) to fund the cost of renewable energy that is remunerated specifically (RECORE). The RECORE is currently paid for (within the tolls) by electricity consumers as part of the regulated tariff.

Under the Draft Act, the FNSSE would collect an amount per MWh from all suppliers of energy (electricity, gas, LPG and fuel) to fund the RECORE. The volume is projected to rise steadily to Euros 4,756 million by 2025, with Euros 1,181 million corresponding to the gas sector. This Draft Act is currently in process through parliament and the wording that will be finally approved is not known.

Vulnerability

Royal Decree-Law 15/2018 published on 6 October 2018 established the Thermal Subsidy ("bono social térmico"), consisting of a single annual payment as direct assistance to pay for heating, hot water and cooking, for consumers that had availed themselves of the electricity subsidy at 31 December the previous year, irrespective of the fuel they use, or support for energy savings or energy efficiency improvements. The amount to be received will depend on the degree of vulnerability and the climate zone. It is funded out of the Central Government Budget.

In view of the exceptional increase in natural gas prices, the amount and the budget allocation for this aid was increased in 2021, and some of the measures adopted during the COVID-19 pandemic were extended, such as the prohibition on cutting off supplies to vulnerable consumers until 28 February 2022 (Royal Decree-Law 23/2021), and the flexibility measures for amendments to the conditions of access contracts (Royal Decree-Law 29/2021).

2.2. Regulation of the electricity sector in Spain

2.2.1. Main characteristics of the electricity sector in Spain

The regulation of the electricity sector in Spain underwent a major reform process in 2013 through the publication of Law 24/2013, of 26 December, on the Electricity Sector, which adapted the previous law (Law 54/1997 of 27 November) to the circumstances of both the economy and the electricity and energy sector in Spain.

The main characteristics of the electricity sector are as follows:

- It is a sector in which regulated and non-regulated activities coexist. The regulated activities consist of electricity transmission and distribution (as well as the operation of the system). The non-regulated activities comprise electricity generation and supply.

- The electricity system must be economically and financially sustainable, and action by the Government and other players must respect that principle, under which any regulation relating to the sector that entails an increase in costs or a reduction in revenue for the electricity system must be accompanied by an equivalent reduction in other cost items or an equivalent increase in revenue to ensure a balance in the system.

- Mismatches due to a shortfall in revenues are capped to the extent that they may not exceed 2% of revenues estimated for the period in question, and cumulative liabilities due to mismatches may not exceed 5% of those revenues.

- Revenues in the electricity sector derive from access tolls and other regulated prices, specific tax measures and, exceptionally, certain items in the Central Government Budget.

2.2.2. Regulated activities in the electricity sector

Regulated electricity transmission and distribution activities are characterised by the fact that access to them requires administrative authorisation, their remuneration is established by regulation, engagement in those activities is subject to certain specific obligations, and functional unbundling is also required, which entails not only unbundling for accounting purposes in order to avoid cross-subsidies and to increase transparency in the calculation of tariffs and tolls, but also unbundling in legal terms, through separate companies, and the requirement that regulated subsidiaries operate independently of the other companies in the group to which they belong, as well as the separation of the brand and brand image, as in the case of the natural gas sector.

2.2.2.1. Transport

Electricity transmission links the power generation plants with the distribution networks and specific end customers. The transmission grid is owned mainly by REE, although Naturgy subsidiary UF Distribución de Electricidad, S.A. owns a small part of the secondary transmission network.

2.2.2.2. Distribution

Electricity distribution includes all activities that bring electricity from the high tension grid to the final consumer.

2.2.3. Remuneration framework for regulated activities

Royal Decree 1047/2013, of 27 December, and Royal Decree 1048/2013, of 27 December, established the remuneration approaches applicable to transmission and distribution so as to ensure adequate remuneration for these activities and network development. The remuneration receivable for these activities was updated each year by means of a Ministerial Order until the approval of Royal Decree 1/2019, which updated the powers attributed to the CNMC.

The CNMC is now the body entrusted with establishing the methodologies for calculating the remuneration for electricity transmission and distribution. These methodologies for the 2020-2025 regulatory period were adopted by Circulars 5/2019, 6/2019 and 7/2019 issued in December 2019. In addition, CNMC Circular 2/2019, of 12 November, established the method for calculating the financial yield on electricity transmission and distribution activities, based on WACC and in line with most European regulators.

The CNMC is also the body entrusted with setting the annual remuneration for the above activities as from 2020. The Ministry retains the power to approve the pending orders setting the annual remuneration for transmission and distribution for the years 2017 through 2019, based on the remuneration methodologies established in the Royal Decrees in force in those years.

- Pending approval of the pending orders by the Ministry, the CNMC provisionally approved, as it had done the previous year, the Resolutions of 28 January 2021 that provisionally established the remuneration for electricity distribution companies and the remuneration for companies owning electricity transmission facilities, both for the year 2021.

- Based on its new powers, the CNMC also approved Circular 3/2020, of 15 January, establishing the methodology for calculating the tolls for electricity transmission and distribution, which was subsequently amended by Circular 7/2020. and by Circular 3/2021 to delay its date of application. The new values for access tolls resulting from this methodology were finally applied through the CNMC Resolution of 18 March 2021, establishing the values of the tolls for access to the electricity transmission and distribution networks for application from 1 June 2021.

Additionally, in accordance with the distribution of powers established in the aforementioned Royal Decree-Law 1/2019, the Government approved Royal Decree 148/2021, of 9 March, which establishes the methodology for the calculation of electricity system charges, which maintained the toll structure of CNMC Circular 3/2020. The combination of the new tolls, calculated in accordance with that Circular, and the new charges established by this Royal Decree and by the ministerial order that set their amount (Order TED/371/2021), came into force on 1 June 2021. Subsequently, Royal Decree Law 17/2021, of 14 September, on urgent measures to mitigate the impact of the escalation of natural gas prices on retail gas and electricity markets, implemented an exceptional reduction in the values of the charges from 16 September to 31 December 2021.

The values of the tolls and electricity system charges applicable as from 1 January 2022 were approved, respectively, by the CNMC Resolution of 16 December 2021, establishing the values of the tolls for access to the electricity transmission and distribution networks applicable as from 1 January 2022, and by Order TED/1484/2021, of 28 December, establishing the prices of the electricity system charges applicable as from 1 January 2022 and establishing various regulated costs of the electricity system for the year 2022.

2.2.4. Unregulated activities in the electricity sector

2.2.4.1. Electricity generation

Law 24/2013, of 26 December, on the Electricity Sector provides that the production of electrical energy is to be subject to the rules of free competition, although the commissioning, modification, temporary closure, transfer and final closure of facilities requires prior administrative authorisation. The remuneration for this activity derives from its participation in the electricity production market, made up of the forward, daily and intraday markets, unorganised markets and other services related to the security of the electricity system, such as adjustment and balancing services.

The Law also provides for the possibility of establishing capacity mechanisms. These have been governed by provisions that provide for an incentive for investment, an incentive for environmental investment, and the availability service, which was abolished in 2019. Any capacity mechanisms that are implemented must conform to the provisions of Regulation 2019/943 on the Internal Market in Electricity. In order to implement capacity mechanisms, it is necessary that the system be shown to be inadequate on the basis of a European coverage analysis that may be complemented by an analysis at national level.

Additionally, since 2013, electricity generation has been subject to a number of taxes created by Law 15/2012, of 27 December, on fiscal measures for energy sustainability. During 2021, in view of the exceptional rise in prices in the electricity market, the application of the 7% tax on the value of electricity production was suspended during the second half of 2021 through various Royal Decree-Laws (RDL 12/2021, RDL 17/2021); that suspension was extended until 31 March 2022 by Royal Decree-Law 29/2021.

Also, on an exceptional and temporary basis, Royal Decree-Law 17/2021 on urgent measures to mitigate the impact of the escalation of natural gas prices in the retail gas and electricity markets (elaborated upon by Royal Decree-Law 23/2021) introduced a reduction in the remuneration for the gas price internalised in the wholesale electricity market. That reduction will be applicable from 16 September 2021 to 31 March 2022, although it does not apply to electricity covered by physical and financial forward contracts. That Royal Decree-Law also contemplates the arrangement of auctions to purchase electricity for allocating manageable non-emitting infra-marginal energy, although this measure has not yet been implemented.

In the same line, a draft law is currently being process through Parliament to act upon the remuneration for CO2 not emitted in the electricity market by non-emitting plant commissioned before 2003.

2.2.4.2. Renewable, high-efficiency cogeneration, and waste-to-power facilities

On an exceptional basis, the Electricity Sector Law provides for the implementation of a specific remuneration system by means of a competitive tender procedure to encourage production based on renewable energy sources, high-efficiency cogeneration, and waste-to-energy, when there exists an obligation to fulfil energy objectives derived from Directives or other European Union legislation, or where introducing them entails a reduction of energy costs and of dependence on external energy sources. Within this framework, during 2016 and 2017 the Ministry of Energy, Tourism and the Digital Agenda arranged a number of auctions to grant the specific remuneration regime to new renewable generation facilities.

For facilities existing prior to the publication of Royal Decree-Law 9/2013, the Law establishes a remuneration system which is additional to the remuneration for the sale of electricity in the production market, the objective being to cover the costs that cannot be recovered in the market plus a reasonable yield, which enables these technologies to compete on an equal footing with other technologies. Royal Decree 413/2014 provided detailed regulations for this system, establishing that the remuneration parameters are to be reviewed every three years, or every six months in the case of parameters associated with the remuneration for the operation of certain technologies.

Royal Decree-Law 17/2019, of 22 November, established the reasonable return for renewables, cogeneration and waste-to-energy and the financial yield for production in offshore and island territories for the period 2020-2025. It also incorporates a mechanism for facilities that had been granted a premium when Royal Decree-Law 9/2013 came into force, the goal being to reduce the tendency towards litigation triggered by that legal text and provide a message of certainty going forward by allowing owners of such facilities to maintain a reasonable return on their facilities until 2031.

Royal Decree 960/2020, of 3 November, regulating the economic regime for renewable energy installations producing electricity, was approved by application of Royal Decree-Law 23/2020 as an alternative remuneration framework to the specific remuneration regime. It establishes the scope of the auctions for the installation of renewable energy facilities, the system for remunerating them, and the requirements and necessary guarantees.

As a result of that Royal Decree, Order TED/1161/2020, of 4 December, was approved, regulating the first auction mechanism for allocating the remuneration regime to renewable energy and establishing an indicative calendar for the period 2020-2025. Two auctions were held in 2021 (in January and October) by application of that legal text.

Additionally, Royal Decree-Law 23/2020, of 23 June, established measures in connection with the regulations on grid access and connection for power generation facilities, with the goal of encouraging orderly development of renewable energies. It provides for milestones in project development to ensure that the capacity is actually commissioned with access and connection permits, which expire if the plant owners fail to meet the milestones; it also allows hybridation of facilities with renewables or storage.

Access and connection of power generation facilities to the electricity grids is regulated by the following instruments:

- Royal Decree 1183/2020, of 29 December 2020, on access and connection to the electricity transmission and distribution networks.
- CNMC Circular 1/2021, of 20 January, establishing the methodology and conditions for access and connection of electricity generating facilities to the transmission and distribution grids.

2.2.4.3. Electricity supply

Supply is fully deregulated and customers are free to choose their supplier. As a deregulated activity, supply is remunerated at a price freely agreed by the parties.

However, consumers whose supply is 10 kW or less can choose between the free market and a regulated price (PVPC). The criteria for setting the PVPC have been regulated by successive legal instruments; in any event, the PVPC must incorporate all additive costs, including the cost of generation, access tolls and supply costs.

<u>Vulnerability</u>

Vulnerable consumers of electricity can avail themselves of a subsidy ("bono social") that is regulated by Royal Decree-Law 7/2016, amending article 45.4 of Law 24/2013 and Royal Decree 897/2017, which regulated the definition of vulnerable consumers, the energy subsidy and other forms of protection for residential consumers of electricity.

The subsidy consists of a discount of 25% on the electricity bill for vulnerable consumers and of 40% for very vulnerable consumers, subject to a cap on the amount of electricity consumed; both subsidies are means-tested on the basis of the household's total income and number of children. The regulation also specifies the specific conditions for consumers at risk of social exclusion (the pool of potential beneficiaries has also been expanded because of the COVID-19 pandemic).

Additionally, in view of the escalation of prices in the wholesale electricity market, a number of Royal Decree-Laws were approved during 2021 that include a range of temporary measures to protect vulnerable consumers (RDL 21/2021, RDL 23/2021 and RDL 29/2021). They include notably: an increase in the discounts applicable to beneficiaries of the "bono social" energy subsidy (from 25% to 60%, and from 40% to 70% for the severely vulnerable), and a reduction in the VAT (from 21% to 10%) and in the electricity tax (from 5.1% to 0.5%, respecting the maximum limits of the Directive) for all consumers of >10 kW, all of which is applicable until 30 April 2022, and the establishment of a Minimum Vital Supply that prohibits cutting off energy supplies for non-payment by the beneficiaries of the electricity subsidy (Bono Social Eléctrico) for six months on top of the pre-existing four-month period, while capping wattage for this purpose.

The social protection measures established during the pandemic, such as the guarantee of supply and the new categories of beneficiaries of the energy subsidy (bono social), were also extended until 28 February 2022.

Royal Decree-Law 7/2016 implemented a new subsidy scheme where electricity supply companies must fund this public service obligation: specifically, the parent companies of the groups of companies that engage in electricity supply, or the supply companies themselves if they are not part of a group. The percentage distribution is calculated in proportion to the share of customers and is calculated each year by the CNMC.

2.2.4.4. Energy efficiency

Spanish Law 18/2014 established a national system of energy efficiency obligations under which an annual energy saving quota (saving obligation) is assigned to gas and electricity supply companies, oil product wholesalers and liquefied petroleum gas wholesalers. The aggregate saving obligations will be equal to the target allocated to Spain in Directive 2012/27/EU.

Each year a ministerial order stipulates each liable party's obligations to make contributions to the National Energy Efficiency Fund.

2.3. Other regulations in Spain

On 13 May 2021, the Congress of Deputies approved the Climate Change and Energy Transition Law (LCCYTE), which aims to achieve climate neutrality by 2050, and in any case, in the shortest possible time. It also establishes targets to be achieved by 2030:

- A 23% reduction in emissions with respect to 1990.
- Renewable energy to account for 42% of final energy consumption.
- 74% of power generation in the electricity system to be from renewable sources.
- A 39.5% increase in energy efficiency with respect to the baseline.

3. Regulation of the energy sector in Latin America

3.1. Regulation of the natural gas sector in Latin America

In Brazil, Mexico, Argentina and Chile, the tariffs and remuneration for natural gas distribution companies are determined by the regulatory authorities. There are stable regulatory and tariff frameworks in place that establish the procedures and formalities for the regular review of tariffs and distribution margins. This tariff review is carried out every four or five years in the form of rate cases filed with the regulators.

In Mexico, all the distribution territories operated by Naturgy (Monterrey, Nuevo Laredo, Toluca, Saltillo, CDMX and Bajio) have tariffs in place for the 2016-2020 period and are awaiting approval of the new tariffs (delayed by the pandemic). The Mexico Valley permit has a tariff in place through 31 July 2022 and the business plan for the second five-year period of operations is due to be filed on 31 January. The Tabasco, Campeche and Merida distribution concessions expire in December 2023 and the Peninsula concession in June 2024. The regulatory framework in Mexico has been undergoing adaptation to the energy reform launched at the end of 2013 and to the 2021 amendment, which entailed the liberalisation of natural gas supply and marketing activities.

The Noroeste and Sinaloa concessions were sold in 2021, and the concession for piped distribution in Sistema Ixtlahuaca was granted.

The company has three separate concessions in Brazil, two in the state of Rio de Janeiro, and one in the state of São Paulo. Regulation in Brazil is based on a price cap model, where the regulator sets the maximum tariffs that a distributor can charge its customers; those tariffs cover asset remuneration and depreciation, and operating expenses. A distribution company's revenues depend on consumption by customers. The price of natural gas charged to distribution companies by procurement companies is passed on to customers in their invoices. Adjustments are made each year to reflect the variations in the price of gas, inflation and the exchange rate. The tariffs in Brazil for 2018-2020 are those originally set for the previous regulatory period (2013-2017) although the tariffs for 2018-2020 are currently being negotiated.

On 24 March 2021, the State of Rio de Janeiro regulator (AGENERSA) released Resolutions 4198/2021 and 4199/2021 with the outcome of the 4th Tariff review for CEG and CEG RIO, respectively. Then, on 29 March 2021, AGENERSA suspended the validity and enforcement of the Resolutions for the 4th Tariff Review of CEG and CEG RIO to enable the Granting Power to issue its position on the Third Addendum. On 14 June 2021, AGENERSA published its decision to maintain the effects of the aforementioned Resolution that had been suspended, and reset the clock on the decisions contained in it. On 21 June 2021, the Concessionaire filed a motion for clarification against the content of the aforementioned Resolution. To date, AGENERSA has not defined the content of the Amendments.

In May 2021, the State of São Paulo regulator issued Deliberations 1160/2021 and 1161/2021 containing the outcome of the 3rd and 4th Tariff Reviews, respectively, for São Paulo Sul.

At federal level, Law 14.134/2021 (Gas Law) was published in April 2021, and Decree 10.712/2021, implementing Law 14.134, was published in June.

On 30 December 2021, Resolution 4263/21 was issued recognising the right to the deferred inflation pass-through, retroactive from 1 January 2022, but making its applicability contingent upon the conclusion of the 4th Five-Year Review, which is expected to occur during 2022.

The company has two gas distribution concessions in Argentina, Naturgy BAN, S.A. (part of the province of Buenos Aires.) and Gasnor, S.A. (provinces of Tucumán, Salta, Jujuy and Santiago del Estero). The regulatory model in Argentina is based on a price cap set by the regulator and is very similar to that of Mexico and Brazil.

The Decree of Necessity and Urgency (DNU) no. 1020 by the National Executive Power (PEN) dated 16 December 2020 commenced renegotiation of the comprehensive tariff review (RTI) that was in force. The regulation recognises the advisability of establishing a transitional tariff regime within the framework of the renegotiation as an appropriate temporary solution for the benefit of users and also of licensees, based on the premise that the public services of natural gas transportation and distribution must be conducted in secure conditions and that it is necessary to guarantee the supply and also the continuity and affordability of those essential public services. Within the framework of that Decree, on 21 May 2021, Naturgy BAN, S.A. and Gasnor, S.A. signed a Transitory Renegotiation Agreement, ratified by Decree 354/2021, which approves the tariff tables and the rates and charges in force from 2 June 2021, without this entailing a waiver of rights over the current RTI that is being renegotiated.

Continuing with exceptional measures in the context of the pandemic and the new outbreak this year, the Secretariat of Energy issued Resolution No. 375/2021 which, as a temporary measure within the framework of the extension of the health emergency until 31 December 2021, allows category "P" service users to access full distributor services directly from Integradora Energética S.A., without affecting the demand guaranteed under the Gas AR Plan. This option must be exercised before that date. In connection with this option, ENARGAS issued Resolution No. 130/2021 which establishes, among other procedural issues, that users who exercise this option must remain for a minimum term of one year.

Law No. 27.637 (the "Cold Zone" law) extended the period of the subsidy regime for gas consumption established in Article 75 of Law No. 25.565 to 31 December 2031 and expanded the scope of the benefit to new zones. In the case of Naturgy BAN, S.A., this covers eight districts of the concession area, while in the case of Gasnor, S.A. it includes another four municipalities. With regard to the tariff structure, it maintained the 50% discount for users already covered by the previous regulation and established a 30% discount for users in the newly-added regions. Naturgy BAN, S.A. presented a filing to ENARGAS on a timely basis so that the necessary measures are taken in the regulation to ensure the neutrality of the subsidy in accordance with the Regulatory Framework of the activity. Subsequently, through Resolution No. 263 of 11 August 2021, ENARGAS established a surcharge to be added to user invoices which, it is understood, will make it impossible to comply with that objective; this resulted in Naturgy BAN, S.A. filing an administrative appeal.

On 27 December 2021, ENARGAS notified Naturgy BAN, S.A. and Gasnor, S.A. of ENARGAS Resolution No. 518, which establishes Public Consultation No. 102 for the purpose of considering: 1) Temporary adjustment of the tariff for the public service of natural gas transportation (in accordance with Decree No. 1020/20); and 2) Temporary adjustment of the tariff for the public service of piped gas distribution (in accordance with Decree No. 1020/20). The consultation was held on 19 January 2022 and, based on the presentations made by the companies and other organisations that participated in the hearing, ENARGAS must determine the transitory tariff and the time of implementation until the completion of the RTI process within the framework of the provisions of Article 5 of Law No. 27.541 and Decree 1020/20.

In Chile, tariffs may be set freely subject to a cap on returns. Tariffs are therefore set by the distributor, which is also the supply company. Annual profitability may not exceed the rate of return established in the recent law governing the industry. The rate of return consists of the discount rate at which the present value of the flows associated with the business margin (sales revenue less operating costs) matches the value of the assets. In the event that the rate of return exceeds the established rate, the Law requires the Regulator to set mandatory rates for small customers. In October 2019, the Comisión Nacional de Energía (CNE) published the preliminary results of the 2018 profitability check, and determined the profitability of the companies Metrogas, S.A. and Gas Sur, S.A., calculated in accordance with the new Gas Law for each concession area. The results were below the maximum permitted rate of return (the average three-yearly limit established in the Law is 9%) and, therefore, the companies will continue operating within the supervised free tariff system.

On 5 January 2021 and 22 May 2021, the Ministry of Energy published Law 21.301 and Law 21.340, respectively, to extend the effects of Law 21.249 of 8 August 2020, which provides, on an exceptional basis, measures in favour of end users of healthcare services, electricity and piped gas. These measures include a prohibition on cutting off supplies to certain users due to late payment; such users may apply to pay their debt in up to 48 instalments from January 2022.

On 7 January 2022, the President of the Republic sent a Bill to the Chamber of Deputies aimed at improving the liquefied gas and natural gas market. In the area of natural gas, the Second Transitory Article of the Bill establishes that distribution concession companies with gas purchase contracts signed with companies of the same business group or with related persons or entities must include the costs and revenues associated with the gas supply by their related supplier in their profitability test. This is intended to ensure that the resulting profitability of the concessionaire is that of the vertically integrated business group. The Bill would annul transitory article 12 of Law No. 20.999, which to date has enabled the CNE to review the efficiency of the supply contract that Metrogas has with its related company Aprovisionadora Global de Energía S.A. and recognise it as efficient. The Bill also obliges distribution networks to provide open access to customers with monthly average consumption of more than 2,000 gigajoules and the obligation of open access to gas pipelines and LNG terminals.

3.2. Regulation of the international electricity sector

3.2.1. Generation

Naturgy, through subsidiary Global Power Generation (GPG), operates as a power generator in Mexico, Panama, Costa Rica, the Dominican Republic, Puerto Rico and, more recently, in Chile, Brazil and Australia.

In Costa Rica and Puerto Rico, the Group generates electricity under Power Purchase Agreements (PPA) with Instituto Costarricense de Electricidad (ICE) and Puerto Rico Electric Power Authority (PREPA), respectively, which are vertically integrated state-owned companies with exclusive responsibility for transmission, distribution and supply.

It also operates under PPAs in Mexico, with the electricity being sold to the Comisión Federal de Electricidad (CFE). Surplus energy is sold partly to end-customers under bilateral contracts and partly on the market created under the energy reform carried out in 2015 and 2016. Additionally, the Bii Hioxo wind farm, which became operational during 2014, sells its production to end customers under bilateral contracts.

The energy sector in Mexico is undergoing a process of redefinition following the publication of a new energy policy promoted by the President of Mexico with the aim of strengthening the country's productive industries as provided in the National Development Plan 2019-2024.

Within this context, important measures in the area of electricity generation were promulgated in 2019, such as the creation of a pilot emissions trading system for 2020-2022, the cancellation of long- and medium-term electricity auctions, and the merger of the CFE's power generation subsidiaries back into the CFE.

The Reform of the Electricity Industry Law (LIE) was published on 9 March 2021; its main effects are the modification of the order of dispatch by technologies, the revision of IPP contracts, the creation of Physical Delivery of Energy and Capacity contracts between Basic Service Suppliers - CFE (Comisión Federal de Electricidad) and Generation - CFE, and the granting of Clean Energy Certificates regardless of the dates of entry into operation. On 11 March 2021, Fuerza y Energía de Tuxpan, among other companies, was granted a provisional suspension of that reform; the suspension became definitive some weeks later.

The Reform to the Hydrocarbons Law was published on 4 May 2021; the main implications refer to the granting of permits that are contingent upon accreditation of the storage capacity determined by the Ministry of Energy (SENER), the revocation of permits in the event of repeat violations and fuel smuggling, and the possibility of suspension of permits due to imminent danger to national security, energy security or the national economy, establishing the procedure for the suspension of permits. That reform was suspended on 26 May.

The Reform of the Thirteenth transitory provision of the Hydrocarbons Law was published on 19 May 2021; it suspends the power granted to the Energy Regulatory Commission (CRE) to subject to asymmetric regulation principles the first-hand sales of hydrocarbons, petroleum and petrochemicals, as well as commercialisation carried out by persons controlled by PEMEX or its subsidiaries. It also established that sales by Petróleos Mexicanos, its production subsidiaries, or a legal entity, on behalf and by order of the State, will be considered to be commercialisation in the terms of the provisions of the Hydrocarbons Law and its Regulations and, consequently, the principles of generality and non-discrimination provided therein must be observed. That reform was suspended on 21 June.

In Panama, electricity generated is sold under bilateral contracts with the distributors and on the market, in the Dominican Republic it is sold on the market.

In Chile, GPG won a tender in August 2016 to supply electricity to regulated customers under a long-term Power Purchase Agreement (PPA) with distributors with a duration of 20 years.. To meet this commitment, GPG has developed and built two projects (wind and solar) which entered into commercial operation in 2021 with a total installed capacity of approximately 330 MW. GPG is also developing and constructing a number of small distributed power generation facilities (PMGD) with up to 9 MW of maximum capacity, which, in accordance with current regulations, have access to a regulated Stabilised Node Price for a term of up to 14 years; the total accumulated capacity of these projects is about 70 MW and they are expected to enter commercial operation in 2022.

In Australia, GPG built and, since November 2018, operates a 96 MW wind generation project under a 20-year contract, with regulated tariffs for energy fed to the system. In 2018, GPG was awarded 180 MW of generation capacity in a wind project that became operational in April 2021. In this case, the contract consists of a 15-year bilateral Power Purchase Agreement at a regulated tariff. In 2020, 361 MW of generation capacity in 3 wind projects was awarded, with commissioning dates estimated between August 2022 and December 2024, implemented through three new PPAs with terms between 10 and 15 years at a regulated tariff. In 2021, a new wind power project with 58 MW of installed capacity was awarded with a 12-year PPA and a regulated tariff.

GPG also operates in Brazil through four photovoltaic generation plants with a total capacity of 153 MW that came into operation in 2017 and 2018 and have 20-year contracts for the sale of reserve energy to Câmara de Comercialização de Energia Elétrica (CCEE).

In all these countries, electricity industry regulations are well-established and stable, and are implemented and administered by independent regulators.

3.2.2. Electricity distribution

Electricity distribution is regulated in the countries in which Naturgy operates as a distributor: Argentina and Panama. The distributors convey electricity from the transmission grid to customer connections and also supply electricity at regulated tariffs to regulated customers, who, based on their consumption volumes, are not free to choose supplier. Unregulated customers that choose to purchase electricity from another supplier must pay the toll or regulated distribution tariff for the use of the networks.

The tariffs are reviewed periodically to reflect the variations in energy purchase prices and the transmission tariffs, as well as the variation in economic indicators.

Those countries have regulatory and tariff frameworks that establish the procedures and processes for the regular review of tariffs and distribution margins. Tariff reviews are carried out every four or five years.

In Panama, Resolution of the Autoridad Nacional de los Servicios Públicos number 13040, published on 28 December 2018, approved the tariffs for Empresa de Distribución Eléctrica de Chiriqui, S.A. and Empresa de Distribución Eléctrica Metro Oeste, S.A. Previously, ASEP Resolutions No. 12959 of 27 November 2018 and No. 13004 of 12 December 2018 had established the Maximum Permitted Revenue (IMP) for the period January 2019 - June 2022.

In addition to the ordinary Tariff Stabilisation Funds (FET), whose validity has been extended until December 2022, Resolution No. 108, dated 29 December 2020, and Resolution No. 35, dated 6 April 2021, authorised the extension during the first and second quarters of 2021 of the extraordinary contribution to the Tariff Stabilisation Fund (FET) to be paid by the State, in order to mitigate the cost of billing end customers. From the second quarter of 2021, the contributions were confined to users with low voltage tariffs and consumption of up to 750 kWh in order to maintain the price paid in the first quarter of 2021.

On 6 July 2021, the State ordered another extension of those contributions for the third quarter of 2021 for the purpose of implementing the tariff update corresponding to the six-month period from July to December 2021.

In this regard, Cabinet Resolutions No. 75, dated 29 June 2021, and No. 105, dated 30 September 2021, authorised the Ministry of Economy and Finance to seek the necessary funds and identify the total amounts for the extraordinary contributions to the extraordinary COVID-19 FET for the months of July to September 2021 and for the months of October to December 2021, respectively, in order to fulfil the commitments to the electricity distribution companies.

Through ASEP Resolutions No. 17368 and No. 17367 of 29 December 2021, Empresa de Distribución Eléctrica Metro-Oeste, S.A. (EDEMET) and Empresa de Distribución Eléctrica Chiriquí, S.A. (EDEMET), respectively, were notified of the proceeding to cancel the balance of the partial monthly adjustments of the electricity tariffs for the second half of 2020 and the first half of 2021 through the semi-annual tariff update corresponding to the period January to June 2022.

In Argentina, each provincial jurisdiction has its own regulation to establish the Distribution Added Value (VAD). That is, each province is in charge of allocating the public electricity distribution service in its area. However, the energy purchase, capacity and transmission costs, which are subject to regulation at national level, are passed through to end customers.

The tariff scheme in the province of San Juan, where Naturgy operates, consists of five-yearly Ordinary Tariff Reviews (RTO) and half-yearly Extraordinary Tariff Reviews (RTE). The latter modify the variables contained in the VAD, update market estimates and make adjustments (between projected and actual figures) to taxes, levies and non-explicit contributions in the service invoices.

The RTO process envisaged in the Concession Agreement, which defined the tariffs for the five-year period from 2021 to 2025, was completed early in 2021. The RTE was completed at mid-year.

CONSOLIDATED DIRECTORS' REPORT

Consolidated Directors' Report for the year ended 31 December 2021

Contents

1. Company situation

Naturgy Energy Group, S.A. was incorporated in 1843. Its registered office is located at Avenida de América 38, Madrid.

Naturgy Energy Group, S.A. and subsidiaries (hereinafter, Naturgy) is a group engaged in the production, distribution and supply of energy and services. Our business model, focused on value creation, is committed to the sustainable development of society by ensuring a supply of competitive safe energy with maximum respect for the environment.

Naturgy operates in over 20 countries, supplies gas and electricity to more than 16 million customers, and has 15.9 GW of diversified generating installed capacity.

It operates in regulated and liberalized gas and electricity markets, and international activities are making a growing contribution, mainly in the following areas:

- Gas and electricity distribution
- Electricity generation and supply
- Infrastructure, procurement and supply of natural gas

Naturgy's **mission** is:

- To respond to the energy needs of society by offering quality and environmentally-friendly products and services.
- To respond to the needs of our shareholders by offering increasing and sustainable profitability.
- To respond to the needs of our employees by offering them the opportunity to develop their professional skills.

Meet the needs of ...	With a vision of ...	Based on our values
Our shareholders	Offering increasing sustainable profitability	– Customer focus – Commitment to results – Sustainability – Interest in people – Social responsibility – Integrity
Our customers	Being leaders in continuous growth and with a multinational presence, offering high-quality products that respect the environment	
Our employees	Offering opportunities for professional and personal development	
Society	Contributing positively through a commitment to global citizenship	

While not forgetting our roots and our more than 175 years of history, our vision for the future aims to transform the current business model and lay the foundations to continue creating value through the energy transition, focusing on renewable energy, developing renewable gas (hydrogen and biomethane) by leveraging the leading position in the conventional natural gas market, and promoting energy efficiency and the circular economy.

Transforming together

We are transforming the world through energy by resolutely tackling the challenges of the energy transition and the demands of society and our customers, and working with excellence, transparency and the talent of a committed team. And we aim to do this together: with our employees, customers, shareholders and partners. Based on the four values that constitute the company's DNA:

Forward Vision: innovating for a better tomorrow

We are transforming the world through innovation, proactivity and adaptability, addressing the challenges and seizing the opportunities of the energy transition, new business models and digitalisation.

Excellence Driven: excellence in what we do

We are transforming the world through leadership, determination and continuous improvement, committed to generating value from each of our businesses and markets, and responding rigorously to the expectations of all stakeholders.

People Oriented: from the human side

We are transforming the world through proximity, transparency and trust, through a firm commitment to people – employees, customers, shareholders and partners – and leveraging talent and passion to have a positive impact.

One Planet: for a more sustainable society

We are transforming the world through sustainability, respect and commitment to the environment, society and corporate governance, evidencing that we are a responsible company that contributes significantly to the progress, welfare and future of the planet.

1.2. Business model and organisation structure

Naturgy's business model is implemented through a large number of companies, mainly in Spain, Latin America (Argentina, Chile, Brazil, Mexico and Panama) and Australia.

Naturgy organizes its business around three strategic areas (Energy and Network Management, Renewables and New Businesses, and Commercialization) that lend visibility to business performance and serve as the basis for defining the following operational segments:

- Energy and Networks:
  - Iberia Networks: covers the gas and electricity network businesses in Spain.
  - Latin America Networks: covers the gas network businesses in Argentina, Chile, Brazil and Mexico and the electricity network businesses in Argentina and Panama.
  - Energy: covers LNG supply on an international scale, Markets and procurement, Gas pipelines, Thermal power generation in Spain, and Thermal power generation in Latin America (Mexico, Dominican Republic and Puerto Rico).

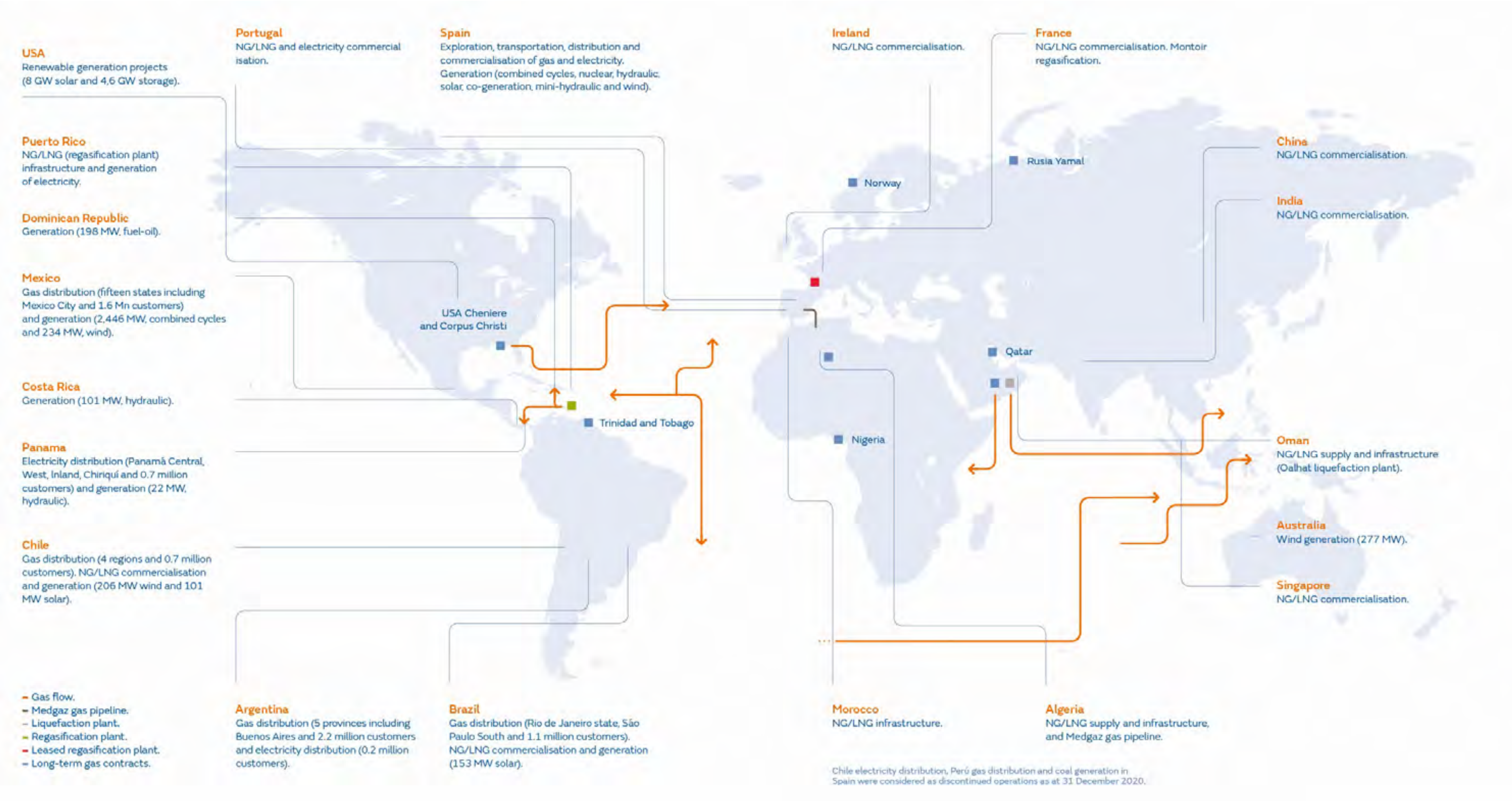
- Renewables and New Business:
  - Renewables Spain and USA: includes the existing fleet and pipeline of power generation plants using hydroelectric, wind, small hydro, solar and cogeneration. Until 2020, the businesses in this segment were conducted exclusively in Spain. In 2021, Naturgy acquired a portfolio of 8 GW of solar projects in the United States along with 4.6 GW of energy storage projects, of which 25 projects totaling 3.2 GW of solar and 2 GW of storage could be operational by 2026.
  - Renewables Latin America: includes the existing fleet and pipeline of power generation plants owned by Global Power Generation (GPG) in Latin America (Brazil, Chile, Costa Rica, Mexico and Panama).
  - Renewables Australia: includes the existing fleet and pipeline of renewable power generation plants owned by GPG in Australia.

- Supply: deals with the supply to end customers of gas, electricity and services, by adopting new technologies and services and exploiting the brand's full potential.

Throughout the value chain, Naturgy's business model stands apart as a leader in the gas sector and a key player in the electricity sector, in both cases guaranteeing the continuity of supply, which is essential to providing a quality service and fulfilling the company's social mission; providing a broad range of value-added services and fostering sustainable innovation to drive development.

Appendix I to the Consolidated Annual Accounts details the companies that form part of Naturgy and the activities in which they engage.

Geographic footprint



Business areas

Leadership in the gas business

	Networks	Gas		
	Gas distribution	**Infrastructure**	**Procurement**	**Supply**
	11 million distribution connections 135,640 km of network	LNG carriers on long-term lease Medgaz transportation pipeline	A supply portfolio totalling ~ 29 bcm	372 TWh of gas supplied
Our positioning	**Spain** Leader in Spain with a 68% market share, distributing natural gas to 5.4 million customers in more than 1,100 municipalities in nine autonomous regions. **Latin America** Latin America's top distributor, catering for more than 5.6 million customers. Presence in Argentina, Brazil, Chile, Mexico and in five of the largest cities in Latin America.	Nine LNG carriers (1.43 Mm3). 24.5% interest in Medgaz gas pipeline. Stake in the Ecoeléctrica regasification plant and Qalhat liquefaction plant. 0.8 bcm of company-owned storage capacity and 0.8 bcm of leased capacity.	Business model based on diversification and flexibility that has made Naturgy a global operator with a strong international profile. Naturgy has procurement contracts with suppliers worldwide, both in a gaseous state (NG) and in the form of liquefied natural gas (LNG).	Unique access to markets: 11 million customers and LNG sales in numerous countries worldwide. A global operator with the flexibility to tap markets offering attractive margins. 23% market share in Spain. Competitive supply to combined cycle plants (CCGT).
Our strength	Naturgy is a leader in the markets where it operates, affording it an excellent platform for organic growth, in terms both of attracting new customers in municipalities with gas and of expanding networks to areas without gas.	Naturgy has an integrated gas infrastructure that affords it considerable stability, making its operations more flexible and enabling it to transport gas to the best business opportunities.	A diversified, flexible portfolio of procurement contracts, with price adjustment mechanisms.	Naturgy has a diversified portfolio of end customers, and supplies gas both in Spain and internationally. Naturgy is a leader in dual fuel supply and it offers a broad range of value-added services.

A key player in the electricity business

	Networks	Electricity		
	Electricity distribution	**Thermal generation**	**Renewable generation**	**Supply**
	4.7 million supply connections 153,981 km of network	10.6 GW of generating capacity	5.2 GW of generating capacity	23.9 TWh supplied
Our positioning	**Spain** The third-largest operator in the Spanish market, where it distributes electricity to 3.8 million customers. **Latin America** Presence in Argentina and Panama (0.9 million customers). Naturgy has a leadership position in the markets where it operates.	**Spain** 8.0 GW of capacity (7.4 GW CCGT and 0.6 GW nuclear). Coal-fired power generation was discontinued in June 2020. Naturgy's market share is 17.5%. **International** 2.6 GW of capacity: 2.4 GW CCGT (Mexico) and 0.2 GW oil-fired (Dominican Republic).	**Spain** 4.1 GW of capacity (2.0 GW hydroelectric, 1.8 GW wind, 0.2 GW solar and 0.1 GW cogeneration). Naturgy's market share is 6.1%. **International** 1.1 GW of capacity: 0.1 GW hydroelectric (Costa Rica and Panama), 0.7 GW wind (Mexico, Chile and Australia), and 0.3 GW solar (Brazil).	Leader in the mainstream consumer and residential segments, with a total market share of 10% in Spain. One of the main traders in the Spanish market. A dual fuel supply and a broad range of value-added services.
Our strength	Naturgy is efficient in terms of operation and maintenance costs in the electricity distribution business. In July 2021, the electricity distribution business in Chile was sold, an activity classified as held for sale.	The company has considerable know-how in the power generation technologies it operates and its infrastructure can adapt to the needs of each energy model and to the reality of each country.	Naturgy's good positioning growth oriented in Spain and Australia will enable it to make the best of investment opportunities in generation in these geographies. Naturgy's good positioning growth oriented in Spain and Australia will enable it to make the best of investment opportunities in generation in these geographies.	Being a leader in the combined supply of natural gas and electricity affords the company major advantages, such as lower service costs, integrated customer care and lower acquisition costs, not to mention greater customer loyalty.

1.3. Corporate governance model

Attached as an Appendix and forming an integral part of this Directors' Report is the Annual Report on Corporate Governance 2021 and the Annual Report on Director Remuneration 2021, as required by article 538 of the Capital Companies Act.

Corporate governance model

Naturgy is governed in accordance with the principles of efficiency and transparency in line with the main international recommendations and standards in this area.

The corporate governance terms of reference comprise basically:

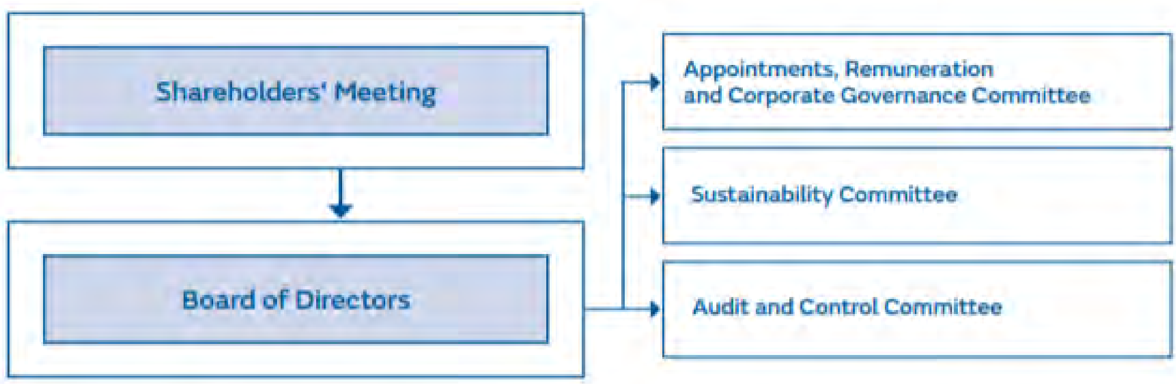
- Articles of Association (adopted in 2018, updated in 2021).
- Regulations of the Board of Directors and its committees (updated in 2021).
- Regulations of the General Meeting of Shareholders (adopted in 2018, updated in 2020).
- Human Rights Policy (updated in 2019).
- qqCode of Ethics (updated in 2021)

The main shareholders of Naturgy as of 31 December 2021 and 2020 are as follows:

	Interest in share capital %	
	2021	2019 (4)
- Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona,"la Caixa" (1)	**26.71**	24.8
- Global Infrastructure Partners III (2)	**20.6**	20.6
- CVC Capital Partners SICAV-FIS, S.A. (3)	**20.7**	20.7
- IFM Global Infrastructure Fund	**12.15**	—
- Sonatrach	**4.1**	4.1

1. Held through Criteria Caixa S.A.U.
2. Global Infrastructure Partners III, which is managed by Global Infrastructure Management LLC, holds its stake indirectly via GIP III Canary 1, S.à.r.l.
3. Through Rioja Acquisitions S.à.r.l.
4. Capital Research and Management Company, which owned 3.0% of capital as of 31 December 2019, is not included on the grounds that it is floating capital as the stake occasionally rises above or falls below the 3% threshold.

Naturgy's governance structure is as follows:



Shareholders' Meeting

Any person who is a shareholder of record five days before the Shareholders' Meeting is entitled to attend the Meeting.

Board of Directors

The Board of Directors of Naturgy operates via plenary meetings and committees, in accordance with the requirements of the Capital Companies Act. For this reason, the Board of Directors of Naturgy has an Audit and Control Committee, an Appointments, Remuneration and Corporate Governance Committee, and a Sustainability Committee, which, in addition to the functions entrusted to them by law, also discharge the duties assigned to them by the Board of Directors. Independent directors comprise a majority of both the Audit and Control Committee and the Appointments, Remuneration and Corporate Governance Committee, and all committees are chaired by independent directors.

Risk prevention and corporate responsibility are within the remit of the Board of Directors and its committees. The Board of Directors is the most senior body with responsibility for approving corporate governance and corporate responsibility policies. Each year, by drafting the respective reports, it reviews and approves disclosures of the risks and opportunities in those areas.

The main issues addressed by the Board of Directors in 2021 are as follows:

- Approval of a new Strategic Plan 2021-2025.
- Production of the mandatory report in connection with the voluntary tender offer by Global InfraCo O (2) S.à.r.l.
- Amendment of the Regulations of the Board of Directors and its committees.
- Amendment of the Code of Ethics.s
- Review of the powers of the Audit Committee.
- Grant of powers to the Executive Chairman to approve related-party transactions in the terms set out in the Capital Companies Act.
- Approval of the internal procedure for reporting and regular oversight of related-party transactions that are approved by the Chairman in exercise of his delegated powers.
- External audit of the separate and consolidated annual accounts.
- Oversight of the production of the financial reporting.
- Tax and litigation situation.
- Auditor independence.
- Related-party transactions.
- Verification of the crime prevention system.
- Oversight of the risk control system and analysis of specific risks.
- Oversight of the internal control and internal audit systems.
- Naturgy insurance programme.
- Oversight of transactions with own shares.
- Compliance action plan.

The Board of Directors of Naturgy has 12 members, the Audit and Control Committee has 7 members, the Appointments, Remuneration and Corporate Governance Committee has 7 members, and the Sustainability Committee has 5 members.

The composition of the Board of Directors and its sub-committees on 31 December 2021 is as follows:

Board of Directors		Audit and Control Committee	Appointments, Remuneration and Corporate Governance Committee	Sustainability Committee	Category of director	Seniority on Board
Executive Chairman	Mr. Francisco Reynés Massanet				Executive	6/02/2018
Lead director	Mr. Ramón Adell Ramón	Director	Chairman		Independent	18/06/2010
Director	Mr. Enrique Alcántara-García Irazoqui		Director		Proprietary	13/05/2021
Director	Mr. Francisco Belil Creixell	Chairman	Director		Independent	14/05/2015
Director	Ms. Lucy Chadwick	Director		Director	Proprietary	16/03/2020
Director	Ms. Isabel Estapé Tous	Director		Director	Proprietary	16/03/2020
Director	Ms. Helena Herrero Starkie	Director		Chairman	Independent	04/05/2016
Director	Mr. Rajaram Rao		Director		Proprietary	21/09/2016
Director	Rioja S.à.r.l, Mr. Javier de Jaime Guijarro		Director		Proprietary	01/08/2019
Director	Mr. Pedro Sáinz de Baranda Riva	Director	Director		Independent	27/06/2018
Director	Mr. Claudio Santiago Ponsa		Director	Director	Independent	27/06/2018
Director	Theatre Directorship Services Beta, S.à.r.l., Mr. José Antonio Torre de Silva López de Letona	Director		Director	Proprietary	18/05/2018
Secretary (not a director)	Mr. Manuel García Cobaleda	Secretary (not a director)	Secretary (not a director)	Secretary (not a director)	N/A	29/10/2010

Management structure

Naturgy's management structure consists of three business units (Energy and Networks, Renewables and New Businesses, and Supply) as well as corporate units to ensure centralized control.

The Executive Committee is deemed to comprise the Executive Chairman, Mr. Francisco Reynés Massanet, in connection with his executive functions, and the executives who report directly to him. As of 31 December 2021, it comprised the following departments:

Business units

Energy and Networks, managed by Mr. Pedro Larrea Paguaga
Renewables and New Businesses, managed by Mr. Jorge Barredo López
Supply, managed by Mr. Carlos Francisco Vecino Montalvo

Corporate Units

Information Systems, managed by Mr. Rafael Blesa Martínez
Capital Markets, managed by Mr. Steven Fernández Fernández

Planning, Control and Administration, managed by Mr. Jon Ganuza Fernández de Arroyabe
Company and Board Secretariat, managed by Mr. Manuel García Cobaleda
Sustainability, Reputation and Institutional Relations, managed by Mr. Jordi García Tabernero
People and Organization, managed by Mr. Enrique Tapia López

1.4. Regulatory environment

Appendix IV. Regulatory Environment of the consolidated annual accounts contains a description of the regulations governing the industry and the electricity and gas system in the markets in which Naturgy operates.

2. Business performance and results

Notes on financial disclosures

- Naturgy's financial disclosures contain magnitudes drafted in accordance with International Financial Reporting Standards (IFRS), and Alternative Performance Metrics (APM), which are viewed as adjusted figures with respect to those presented in accordance with IFRS. The attached appendix contains a definition of the APMs.

2.1. Main aggregates

Main financial aggregates

	2021	2020	%
Net sales [(1)]	22,140	15,345	44.3
Ebitda [(1)]	3,529	3,449	2.3
Ebit [(1)]	2,101	466	350.9
Income attributable to equity holders of the parent [(1)]	1,214	(347)	(449.9)
Capital expenditure	1,484	1,279	16.1
Net borrowings (at 31/12)	12,831	13,612	(5.7)
Free cash flow after non-controlling interests	2,113	1,626	30.0

[(1)] The consolidated income statement for 2019 has been re-stated due to the discontinuation in application of IFRS 5 (Notes 2.2 and 11).

Key financials & metrics

	2021	2020
Leverage	59.1%	54.7%
Ebitda/Cost of net borrowings	7,2x	6,9x
Net borrowings/Ebitda	3,6x	3,9x

Main stock market ratios and shareholder remuneration

	2,021	2,020
Total no. of shares ('000)	969,614	969,614
Average no. of shares ('000) [1]	960,935	962,555
Share price at 31/12 (Euros)	28.63	18.9
Market capitalisation at 31/12 (Euros million)	27,760	18,384
Earnings per share (Euros) [1]	1.26	(0.36)
Dividend paid	1,290	1,370

[1] Calculated using the weighted average number of outstanding shares in the year (weighted average number of ordinary shares minus weighted average number of treasury shares).

Operational performance

Distribution	**2021**	2020
Gas distribution (GWh)	459,878	403,910
Electricity distribution (GWh)	36,411	35,536
Gas supply points ('000)	11,037	11,052
Electricity supply points ('000)	4,776	4,727
Gas distribution network (km)	135,640	134,802
Length of electricity transmission and distribution network (km)	153,981	151,495

Gas	**2021**	2020
Supply (GWh)	239,780	181,738
International LNG (GWh)	141,748	133,979
Total gas supply (GWh)	**381,528**	**315,717**

Electricity	**2021**	2020
Thermal installed capacity (MW)	10,674	10,674
Renewable installed capacity (MW)	5,221	4,659
Total installed capacity (MW)	**15,895**	**15,333**
Thermal net production (GWh)	30,891	31,501
Renewable net production (GWh)	10,862	9,513
Total net production (GWh)	**41,753**	**41,014**

Environmental and social performance

Environment	**2021**	2020
Power generation emission factor (t CO2/GWh)	261	297
Greenhouse gas (GHG) emissions (M tCO2 eq)[1]	13.5	15.5
Emissions-free installed capacity (%)	33	29.0
Emissions-free net production (%)	35.4	32.4

Interest in people	**2021**	2020
No. of employees at year-end [2]	7,366	9,335
Training hours per employee	28.8	26.6
Men/women (%) [3]	68/32	67/33

Health and safety	**2021**	2020
No. of accidents leading to time lost	8	4
Frequency of accidents with time lost	0.1	0.04

Commitment to society and integrity	**2021**	2020
Economic value distributed (Euros million)	22,494	16,235
No. of complaints received by the Ethics Committee	61	80

[1] GHG: greenhouse gases, measured as tCO2 equivalent (scope 1).
[2] Does not include the number of employees at discontinued operations (1 person in 2021 and 1,392 persons in 2020).
[3] Including employees at discontinued operations.

2.2. Executive summary

- The year 2021 has been marked by the gradual recovery of energy demand and the significant rise of commodity prices, impacting both gas and electricity. This trend has intensified during the second half of the year as we approached the winter season.

- Naturgy ordinary EBITDA reached Euros 3,983 million in the full year 2021, up 7% vs. previous year, and above its guidance, mainly supported by the gradual recovery of energy demand and the rising commodity prices, particularly gas.

- Ordinary Net Income reached Euros 1,231 million in 2021, up 41% vs. 2020. On a reported basis, Net income reached Euros 1,214m. The restructuring costs linked to the employee voluntary departure plan in Spain, and the breakup penalties associated to the cease of certain gas contracts in the last quarter of the year, were almost fully compensated by the net gains from the disposal of CGE Chile, the agreement in UFG, and the 2013-2020 hydro canon provision reverted during the last quarter of 2021

- Total capex amounted to Euros 1,484 million in 2021, up 16% vs. the previous year. This increase was mainly explained by greater investments in renewable developments in Australia, Spain & the USA, as well as by higher investments in supply (commercial efforts and digitization).

- Net debt at the end of 2021 stood at Euros 12,831m, implying a Net debt / LTM reported EBITDA of 3.6x compared to 3.9x as of 31 December 2020. The significant net debt reduction and deleveraging was mainly driven by the disposal of Naturgy's Chilean electricity networks subsidiary in Chile and the cash payments resulting from the agreement to exit UFG. On the other hand, the surge and volatility in gas prices had a temporary negative impact on working capital consumption, notably in 4Q21, which has partially offset the expected reduction in net debt. Such impact however is deemed as transitory and WC consumption is expected to normalize in the forthcoming quarters.

- During 2021, the company paid out a total dividend of 1.33 €/share in cash, including the final dividend of 2020 (0.63 €/share) paid in March as well as the first and second interim dividends for 2021 corresponding to 0.3 €/share and 0.4 €/share, paid in August and November 2021, respectively. The company will be proposing a 2021 final dividend of 0.5€/share in its upcoming AGM, in line with its dividend policy of 1.2€/share per year.

2021 review

Macroeconomic growth and energy demand

Energy demand experienced a gradual recovery during the year in the regions where the Group operates. Electricity and gas demand in Spain compared on average 2.4% and 5.4% above 2020 respectively. Similarly, electricity and gas demand across the Latin American regions where the Group operates experienced an increase on average of 4.8% and 22.5% respectively during 2021 and compared to 2020.

During 2021, LatAm currencies depreciated against EUR with a negative effect of Euros -42 million and Euros -8 million on the Group's ordinary EBITDA and Net Income respectively. The depreciation pace has moderated in 2021 compared to prior years, albeit Brazil and Argentina continued to show a notable depreciation in the year.

Evolution of commodity prices

The year 2021 has been marked by the volatile energy scenario and the surge of gas and electricity prices, most notably during the second half of the year.
Brent prices increased by 69.5% on average when compared to 2020 while gas prices on major gas hubs show as well significant increases vs. 2020 (HH increased by 71.4% and NBP multiplied by 4.9x on average). Wholesale electricity prices for their part multiplied by 3.3x on average vs. 2020, exceeding all- time highs Said increases resulted in significant regulatory changes and uncertainty in Spain during the year.

Corporate activity

During 2021 Naturgy continued to progress on its business simplification and de-risking, reducing risk concentration in Chile and reaching a solution to its lingering disputes in Egypt, reinforcing the company's balance sheet and strength to pursue more ambitious renewable growth.

On 10 March 2021, Naturgy, ENI and The Arab Republic of Egypt completed the agreement to amicably resolve the disputes affecting Union Fenosa Gas (UFG), the 50%/50% partnership between Naturgy and ENI. Naturgy received a series of cash payments adding up to approximately US$0.6bn, as well as most of the assets outside of Egypt, excluding UFG's commercial activities in Spain.

Furthermore during 2021, Naturgy completed the disposal of its 96.04% equity shareholding in its Chilean electricity networks subsidiary, Compañía General de Electricidad S.A in Chile (CGE), to State Grid International Development Limited (SGID) for a total purchase price (equity value) of Euros 2,570m.

COVID-19 update

Naturgy continues to support and protect the interests of all its stakeholders, including measures to preserve employee health, safety and wellbeing, resources to guarantee effective remote work, or individual protection and support by Naturgy's medical services.

Relevant measures remain in place to support society as well as customers and suppliers, including the reinforcement of key infrastructures to ensure the stability and quality of electricity and gas supply. Moreover, and in light of the significant rise in electricity prices and the impact it might have on its industrial and SME/retail clients, Naturgy announced at the beginning of September, its Commitment Initiative, consisting on offering a fixed price of €60/MWh for electricity in Spain for 2 years without conditions. Further to this, Naturgy extended its offering with a fixed price of 65 € / MWh for three years, which allows clients to get a stable price not linked to the volatility of the pool for a longer horizon.

Naturgy reiterates the importance and value of its commitment to society and reaffirms its willingness to maintain its support for its clients with measures within the company's reach.

2.3. Key comparability factors and non-ordinary items

Reporting structure

2021 results follow the new organizational structure i) Energy management and networks, ii) Renewables and new businesses, and iii) Supply. Accordingly:

- Networks includes all networks businesses including Spain gas and electricity networks as well as networks LatAm, including Chile Gas, Brazil gas, Mexico gas, Panama electricity and Argentina gas and electricity.
- Energy management is composed of: i) markets & procurements, ii) International LNG, iii) pipelines (EMPL), iv) Spain thermal generation and (v) Latin America thermal generation.
- Markets and procurements includes all gas procurement and internal and external sales (except from International LNG and gas sales to end customers <500 GWh in Spain)
- Renewables and new businesses includes all renewable generation activities (including hydro) previously reported as part of European power generation and International power generation, together with new businesses.
- Supply includes all power sales to end customers in Spain as well as gas sales to end customers < 500GWh in Spain.

Perimeter changes

The main transactions completed in 2021 with an impact in comparability in the 2021 vs. 2020 results are the following:

- On March 2021, Naturgy, ENI and the Arab Republic of Egypt completed the agreement reached on 1 December 2020 to amicably resolve the disputes affecting Union Fenosa Gas (UFG). As a result, a positive impact of Euros 127 million has been recognized in 2021, while UFG assets assigned to Naturgy have been fully consolidated..
- On September 2021, Naturgy completed the disposal of its 96.04% equity shareholding in its Chilean electricity networks subsidiary, Compañía General de Electricidad S.A in Chile (CGE), to State Grid International Development Limited (SGID), translating into Euros 64 million net capital gains

The main transactions completed in 2020 with an impact in comparability in the 2021 vs. 2020 results are the following:

- On April 2020, Naturgy completed the sale of its assets in Kenya
- On July 2020, Naturgy completed the transaction to acquire a 34.05% stake in Medgaz
- On November 2020, Naturgy reached an agreement to sell its 96.04% equity shareholding in its Chilean electricity networks subsidiary, Compañía General de Electricidad S.A. Following this agreement the activity was classified as "Non-current assets available for sale" and results reported as "discontinued operations" for comparative purposes.
- In addition, gas distribution activity in Peru and coal generation in Spain were reported as discontinued operations since April and June 2020 respectively. These activities have not contributed to FY21 consolidated results

Non-ordinary items

Non-ordinary items are summarized below:

	Ebitda		Net income	
Euros million	**2021**	2020	**2021**	2020
Restructuring costs	(410)	(197)	(291)	(144)
Asset write-down	—	—	(11)	(1,019)
Interest sales and corporate transactions	—	—	4	10
Chile mergers tax effect	—	—	—	—
Regulatory fines	—	(1)	—	—
Provisions reversal	6	37	4	28
Sales of land and buildings	5	7	3	5
Procurement agreement	36	(94)	28	(76)
Lean transformation costs	(39)	—	(27)	—
Taxes	188	—	164	—
UFGas agreement	—	—	127	—
Withdrawal costs of onerous contracts with gas customers	(234)	—	(176)	—
Discontinued operations	—	—	113	17
Other	**(6)**	**(17)**	**45**	**(40)**
Total	**(454)**	**(265)**	**(17)**	**(1,219)**

- At the EBITDA level, non-ordinary impacts in 2021 amounted to Euros -454 million, corresponding mostly to restructuring costs (Euros -410 million) in Spain, notably in networks and supply activities, and gas supply contracts break-up costs (Euros -234 million),which have been partially offset by taxes reverted, mostly as a consequence of the hydro canon sentence (Euros +191 million), and other less relevant positive items.
- At the Net income level, non-ordinary items in 2021 amounted to Euros -17 million. The aforementioned items and its corresponding impact at Net income level were offset by the agreement in UFG, which had a positive impact of Euros 127 million and the contribution from discontinued operations, with a positive impact of Euros 113 million, of which CGE Electricidad Euros 111 million.

Foreign exchange impact

Exchange rate fluctuations in the period are summarized below:

	Average exchange rate	Change (%)	EBITDA	Net income
USD/€	1.18	3.5 %	(16)	(1)
MXN/€	23.99	(1.7)%	1	—
BRL/€	6.38	8.9 %	(19)	(4)
ARS/€ (1)	116.94	13.7 %	(9)	(3)
CLP/€	898.05	(0.3)%	1	—
Others	—	—	—	—
Total	**—**	**—**	**(42)**	**(8)**

[1] Exchange rate as at 31 December 2020 as a consequence of considering Argentina as an hyperinflationary economy.

2.4. Consolidated results

	Reported			Ordinary		
	2021	2020	**Change (%)**	**2021**	2020	**Change (%)**
Net sales	22,140	15,345	44.3	22,130	15,345	44.2
Ebitda	**3,529**	**3,449**	**2.3**	**3,983**	**3,714**	**7.2**
Depreciation, amortisation and	(1,462)	(2,839)	(48.5)	(1,446)	(1,478)	(2.2)
Impairment of credit losses	(99)	(156)	(36.5)	(99)	(156)	(36.5)
Other results	133	12	1008.3	—	—	—
Ebit	**2,101**	**466**	**350.9**	**2,438**	**2,080**	**17.2**
Financial result	(394)	(538)	(26.8)	(486)	(502)	(3.2)
Profit/(loss) of companies measured	90	36	150.0	90	29	210.3
Income tax	(358)	(19)	1784.2	(459)	(374)	22.7
Income from discontinued operations	117	24	387.5	—	—	—
Non-controlling interest	(342)	(316)	8.2	(352)	(361)	(2.5)
Net income	**1,214**	**(347)**	**(449.9)**	**1,231**	**872**	**41.2**

Net sales

Ordinary Net sales totaled Euros 22,130 million in 2021, 44.2% above 2020, mainly as a result of higher demand and energy prices in the period, with a particularly positive impact in Energy management activities..

Ebitda

Consolidated ordinary EBITDA reached Euros 3,983 million in 2021, up 7.2% vs. 2020, mainly supported by the gradual recovery of energy demand, rising energy prices and the positive impact of open positions in energy markets, positively affecting energy management and merchant activities. . Networks businesses remained resilient, while renewables were affected by some specific events and adjustments in Spain. The Supply activity in Spain was impacted by higher gas procurement costs and pool prices, notably during the second half of the year.

Ebitda breakdown by activity is as follows:

	Reported			Ordinary		
	2021	2020	**Change**	**2021**	2020	**Change**
Energy management and networks	3,266	2,859	14.2%	3,560	3,046	16.9%
Renewables and New businesses	488	352	38.6%	340	362	(6.1%)
Supply	(96)	326	(129.4%)	153	359	(57.4%)
Rest	(129)	(88)	46.6%	(70)	(53)	32.1%
EBITDA	**3,529**	**3,449**	**2.3%**	**3,983**	**3,714**	**7.2%**

EBIT

Depreciation, amortization and impairment losses reached in the quarter Euros -1,462m, 48.5% lower than in 2020. This reduction is explained by the impairment made in 2020 in certain assets for a total amount of Euros -1,363m, mainly affecting Spain conventional generation (Euros -1,145 million), and gas activities in Argentina (Euros -198 million).

Impairment and credit losses reached Euros -99 million in 2021, 36.5% lower than in 2020, recovering from the significant increase in 2020 as a result of the COVID-19 crisis.

EBIT of the exercise 2021 amounted to Euros 2.101 million.

Financial result

Euros million	**2021**	2020	**Change (%)**
Cost of net financial debt	(491)	(498)	(1.4)
Other financial expenses/income	97	(40)	(342.5)
Financial result	(394)	(538)	(26.8)

Financial result amounted to Euros -394m, down 26.8% vs 2020, following lower net debt in the period, an improvement in the average cost of gross financial debt1 for 2021, reaching 2.5%, in line with 2020 (cost of net financial debt decreased 1.4% in the period), and non-ordinary positive impacts due to the reversal of certain financial provisions. As of 31 December 2021, 83% of gross debt is at fixed rates and 29% is denominated in foreign currency.

Equity-accounted affiliates

Equity-accounted affiliates contributed Euros 90 million in 2021 mostly as a result of the contributions from Ecoeléctrica (Euros 54 million), Renewables (Euros 15 million), Medgaz (Euros 12 million).and the UF Gas subgroup (Euros -3 million).

Income tax

The ordinary effective tax rate for 2021 stood at 22.5%, vs. 23.3% in 2020.

Discontinued operations

Contribution from discontinued operations stood at Euros 117 million in 2021, mostly reflecting the contribution of electricity distribution activities in Chile, as shown below:

	2021	2020	**Change**
Gas distribution Peru	2	(12)	(116.7)
Coal generation Spain	—	(38)	(100.0)
Electricity distribution Chile	115	74	55.4
Total	117	24	387.5

Non-controlling interests

The non-controlling interest breakdown is as follows:

	2021	2020	**Change (%)**
EMPL	(32)	(41)	(22.0)
Nedgia	(72)	(76)	(5.3)
Other interest [(1)]	(179)	(139)	28.8
Other equity instruments	(59)	(60)	(1.7)
Total	(342)	(316)	8.2

[(1)] Includes GPG, gas distribution in Chile, Mexico and Argentina and electricity distribution in Chile and Panama.

The decrease of EMPL contribution and other affiliates follow the capacity step down in EMPL effective since February 2020, as well as the termination of the concession in October 2021, and the lower contribution from LatAm activities respectively.

The other equity instruments caption includes the accrued interest on perpetual subordinated notes (hybrids).

Net income

Net ordinary income in 2021 amounted to Euros1,231m, up 41.2% vs. 2020.

2.5. Results by business unit

2.5.1. Energy management and Networks

	Reported			Ordinary		
	2021	2020	**Change (%)**	**2021**	2020	**Change (%)**
Energy management and Networks	3,266	2,859	14.2	3,560	3,046	16.9
Networks Spain	1,448	1,538	(5.9)	1,657	1,627	1.8
Gas networks	857	891	(3.8)	961	940	2.2
Electricity networks	591	647	(8.7)	696	687	1.3
Networks Latin America	828	834	(0.7)	829	840	(1.3)
Chile gas	191	206	(7.3)	186	207	(10.1)
Brazil gas	231	203	13.8	233	204	14.2
Mexico gas	218	222	(1.8)	219	224	(2.2)
Panama electricity	125	130	(3.8)	127	132	(3.8)
Argentina gas	40	52	(23.1)	41	52	(21.2)
Argentina electricity	23	21	9.5	23	21	9.5
Energy management	990	487	103.3	1,074	579	85.5
Markets & Procurement	90	(223)	(140.4)	167	(170)	(198.2)
International LNG	373	129	189.1	357	198	80.3
Pipelines (EMPL)	191	240	(20.4)	194	240	(19.2)
Spain thermal generation	91	104	(12.5)	111	74	50.0
Latin America thermal generation	245	237	3.4	245	237	3.4

Ordinary EBITDA increased 16.9% to Euros 3,560 million during the period, driven by resilient Spanish networks and the positive impact of the current energy scenario in the Company’s gas balance, which together with the optimization of open positions, supported the improvement in Markets & procurement and International LNG activities. These have been partially offset by the negative FX evolution in LatAm and the already anticipated lower contribution from EMPL.

According to the criteria established by IAS 29 "Financial Information in Hyperinflationary Economies", the Argentine economy should be considered as hyperinflationary. As a result, FX differences arising during the year have been applied to 2021 results, which have been as well updated by inflation rates.

2.5.1.1. Networks Spain

Spain gas networks

Results

	2021	2020	**Change (%)**
Net sales	1,206	1,177	2.5
Procurements	(87)	(70)	24.3
Gross margin	**1,119**	**1,107**	**1.1**
Other operating income	37	38	(2.6)
Personnel expenses, net	(144)	(107)	34.6
Taxes	(28)	(25)	12.0
Other operating expenses	(127)	(122)	4.1
EBITDA	**857**	**891**	**(3.8)**
Depreciation, provisions and other results	(294)	(297)	(1.0)
EBIT	**563**	**594**	**(5.2)**

Ordinary EBITDA reached Euros 961 million, up 2.2% vs. 2020. Higher distributed sales supported by demand recovery, as well as operational improvements, allow to compensate the lower base remuneration under the new regulatory framework.

Main aggregates

The key figures of Naturgy's gas distribution business in Spain are as follows:

	2021	2020	**Change (%)**
TPA - Sales (GWh)	193,819	185,445	4.5
LPG Sales (tn)	80,238	74,053	8.4
Distribution network (km)	56,963	56,878	0.1
Increase in connection points, thousand	(30)	6	(580.4)
Connection points (thousand) (at 31/12)	5,382	5,412	(0.6)

Gas sales (excluding LPG) increased by 4.5%, while connection points remained stable vs. 2020 (-0.6%).

Spain electricity networks

Results

	2021	**2020**	**Change (%)**
Net sales	840	842	(0.2)
Procurements	—	—	—
Gross margin	**840**	**842**	**(0.2)**
Other operating income	19	18	5.6
Personnel expenses, net	(136)	(83)	63.9
Taxes	(29)	(30)	(3.3)
Other operating expenses	(103)	(100)	3.0
EBITDA	**591**	**647**	**(8.7)**
Depreciation, provisions and other results	(255)	(251)	1.6
EBIT	**336**	**396**	**(15.2)**

2021 Ordinary EBITDA amounted to Euros 696 million, a 1.3% increase vs. 2020 as a result of investments and additional efficiencies, offsetting the lower financial remuneration under the regulatory framework 2020-25.

Main aggregates

The key figures of Naturgy's electricity distribution business in Spain are as follows:

	2021	2020	**Change (%)**
Sales - TPA (GWh)	29,393	28,838	1.9
Connection points (thousand)(at 31/12)	3,797	3,774	0.6
ICEIT (minutes)	36	40	(9.4)

Connection points increased by 0.6% during the period, while electricity sales increased by 1.9%.

Unitary opex per km of installed network decreased by 7.1% vs. 2020.

2.5.1.2. LatAm Networks

Gas Chile

Includes the activities of gas distribution and supply.

Results

	2021	2020	**Change (%)**
Net sales	620	521	19.0
Procurements	(380)	(256)	48.4
Gross margin	**240**	**265**	**(9.4)**
Other operating income	9	4	125.0
Personnel expenses, net	(26)	(26)	—
Taxes	(3)	(3)	—
Other operating expenses	(29)	(34)	(14.7)
EBITDA	**191**	**206**	**(7.3)**
Depreciation, provisions and other results	(65)	(63)	3.2
EBIT	**126**	**143**	**(11.9)**

Ordinary EBITDA totaled Euros 186 million, 10.1% lower than in 2020. Higher distribution sales and efficiencies were offset by lower sales and margins in gas supply.

Main aggregates

	2021	2020	**Change (%)**
Gas activity sales (GWh)	10,442	9,857	5.9
Gas sales (GWh)	784	1,699	(53.8)
TPA (GWh)	23,366	20,491	14.0
Distribution network (km)	8,160	7,873	3.6
Increase in connection points (thousand)	11	10	13.8
Connection points (thousand)(at 31/12)	666	654	1.7

Total gas sales increased by 7.9% as a result of higher TPA and distributed sales (+14.0% and+5.9% respectively), while supply sales decreased by 53.8%.

Connection points increased by 1.7%.

Gas Networks Brazil

Results

	2021	2020	**Change (%)**
Net sales	1,288	1,001	28.7
Procurements	(995)	(729)	36.5
Gross margin	**293**	**272**	**7.7**
Other operating income	18	23	(21.7)
Personnel expenses, net	(19)	(21)	(9.5)
Taxes	(2)	(4)	(50.0)
Other operating expenses	(59)	(67)	(11.9)
EBITDA	**231**	**203**	**13.8**
Depreciation, provisions and other results	(59)	(64)	(7.8)
EBIT	**172**	**139**	**23.7**

Ordinary EBITDA totaled Euros 233 million, 14.2% higher than in 2020. Sales growth, notably in the Generation + TPA segment, tariff updates and positive opex evolution outweighed the negative FX impact (Euros -18 million).

Main aggregates

The main aggregates in this area are as follows:

	2021	2020	**Change (%)**
Gas activity sales (GWh)	**91,783**	**61,030**	**50.4**
Gas sales	42,921	37,670	13.9
TPA	48,862	23,360	109.2
Distribution network (km)	8,223	8,156	0.8
Increase in connection points (thousand)	16	11	43.0
Connection points (thousand)(at 31/12)	1,162	1,146	1.4

Overall gas sales increased 50.4%, notably in Generation + TPA (+82.9% vs 2020). Commercial, NGV and industrial segments have also shown strong growth (+17.4%, +14.9% and +8.4% respectively), with retail being the only laggard segment (-1.1%).

Connection points grew 1.4% in the period.

Gas Networks Mexico

Results

	2021	2020	**Change (%)**
Net sales	776	579	34.0
Procurements	(508)	(316)	60.8
Gross margin	**268**	**263**	**1.9**
Other operating income	10	24	(58.3)
Personnel expenses, net	(20)	(20)	—
Taxes	—	(1)	(100.0)
Other operating expenses	(40)	(44)	(9.1)
EBITDA	**218**	**222**	**(1.8)**
Depreciation, provisions and other results	(53)	(57)	(7.0)
EBIT	**165**	**165**	**—**

2021 Ordinary EBITDA decreased 2.2% to Euros 219 million.

Higher sales in the Generation + TPA, industrial and NGV segments, as well as higher margins in the supply activity, were offset by lower contribution from energy services and delayed tariff updates.

Main aggregates

The main aggregates in this area are as follows:

	2021	2020	**Change (%)**
Gas activity sales (GWh)	**53,660**	**48,536**	**10.6**
Gas sales	23,684	21,866	8.3
TPA	29,976	26,670	12.4
Distribution network (km)	22,910	22,807	0.4
Increase in connection points (thousand)	(16)	(72)	(78.3)
Connection points (thousand)(at 31/12)	1,573	1,589	(1.0)

Gas sales increased by 10.6%, with every segment growing above 12% except for retail (- 6.6%). Connection points decreased by 1.0%.

Electricity Networks Panama

Results

	2021	2020	Change (%)
Net sales	727	759	(4.2)
Procurements	(560)	(586)	(4.4)
Gross margin	**167**	**173**	**(3.5)**
Other operating income	5	4	25.0
Personnel expenses, net	(10)	(9)	11.1
Taxes	(4)	(4)	—
Other operating expenses	(33)	(34)	(2.9)
EBITDA	**125**	**130**	**(3.8)**
Depreciation, provisions and other results	(51)	(63)	(19.0)
EBIT	**74**	**67**	**10.4**

2021 Ordinary EBITDA amounted to Euros 127 million, down 3.8% vs. 2020, driven by negative FX impact (Euros -4 million), which offset sales growth from economic recovery amid mild temperatures

Main aggregates

The main aggregates in this area are as follows:

	2021	2020	Change (%)
Electricity business sales (GWh)	**5,089**	**4,798**	**6.1**
Electricity sales	4,213	4,118	2.3
TPA	876	680	28.8
Distribution network (km)	29,201	27,314	6.9
Connection points (thousand)(at 31/12)	730	710	2.8

Electricity sales increased by 6.1%, while connection points grew by 2.8%.

Gas Networks Argentina

Results

	2021	2020	Change (%)
Net sales	415	418	(0.7)
Procurements	(261)	(278)	(6.1)
Gross margin	**154**	**140**	**10.0**
Other operating income	19	17	11.8
Personnel expenses, net	(35)	(27)	29.6
Taxes	(32)	(26)	23.1
Other operating expenses	(66)	(52)	26.9
EBITDA	**40**	**52**	**(23.1)**
Depreciation, provisions and other results	(14)	(223)	(93.7)
EBIT	**26**	**(171)**	**(115.2)**

2021 Ordinary EBITDA amounted to Euros 41million, down 21.2% vs. 2020. Higher sales in all segments - except industrial - and tariff updates were not sufficient to compensate higher opex associated to inflation and negative FX evolution (Euros -6 million).

Main aggregates

The main aggregates in this area are as follows:

	2021	2020	**Change (%)**
Gas activity sales (GWh)	86,024	76,853	11.9
Gas sales	49,664	38,208	30.0
TPA	36,360	38,645	(5.9)
Distribution network (km)	39,384	39,088	0.8
Increase in connection points (thousand)	3	22	(88.3)
Connection points (thousand)(at 31/12)	2,253	2,251	0.1

Gas sales increased by 11.9%, while connection points remained stable (+0.1%) vs. 2020.

Electricity Networks Argentina

Results

	2021	2020	**Change (%)**
Net sales	100	104	(3.8)
Procurements	(50)	(50)	—
Gross margin	**50**	**54**	**(7.4)**
Other operating income	11	4	175.0
Personnel expenses, net	(11)	(8)	37.5
Taxes	(2)	(12)	(83.3)
Other operating expenses	(25)	(17)	47.1
EBITDA	**23**	**21**	**9.5**
Depreciation, provisions and other results	(3)	(2)	50.0
EBIT	**20**	**19**	**5.3**

2021 Ordinary EBITDA amounted to Euros 23 million, 9.5% higher than in 2020, driven by sales and connection points growth (+1.5% and +2.6% respectively), and despite the negative FX impact (Euros -3 million).

Main aggregates

The main aggregates in this area are as follows:

	2021	2020	**Change (%)**
Electricity business sales (GWh)	1,929	1,901	1.5
Distribution network (km)	9,949	9,877	0.7
Connection points (thousand)(at 31/12)	249	243	2.6

2.5.1.3. Energy management

Markets and Procurement

Results

	2021	2020	**Change (%)**
Net sales	8,229	4,222	94.9
Procurements	(8,040)	(4,407)	82.4
Gross margin	**189**	**(185)**	**(202.2)**
Other operating income	23	22	4.5
Personnel expenses, net	(39)	(27)	44.4
Taxes	(1)	(1)	—
Other operating expenses	(82)	(32)	156.3
EBITDA	**90**	**(223)**	**(140.4)**
Depreciation, provisions and other results	111	(26)	(526.9)
EBIT	**201**	**(249)**	**(180.7)**

Markets and procurement includes all gas procurement and internal and external sales (except from International LNG and gas sales to end customers <500GWh in Spain).

2021 Ordinary EBITDA reached Euros 167 million vs. Euros -170 million in 2020. Open positions selling into CCGTs and hub resulted in a transitory margin increase during the second half of the year, which came on top of higher sales during the year (+53,6%).

Main aggregates

The main aggregates in this area are as follows:

	2021	2020	**Change (%)**
Gas supply (GWh)	134,674	87,686	53.6
CCGT	27,835	19,834	40.3
Third parties	106,839	67,852	57.5
Electricity sales (GWh)	1,725	1,627	6.0

International LNG

Results

	2021	2020	**Change (%)**
Net sales	3,416	2,785	22.7
Procurements	(3,005)	(2,626)	14.4
Gross margin	**411**	**159**	**158.5**
Other operating income	(3)	—	—
Personnel expenses, net	(25)	(21)	19.0
Taxes	(2)	—	—
Other operating expenses	(8)	(9)	(11.1)
EBITDA	**373**	**129**	**189.1**
Depreciation, provisions and other results	(188)	(135)	39.3
EBIT	**185**	**(6)**	**-**

2021 Ordinary EBITDA reached Euros 357 million, up 80.3% vs. 2020. The scenario of high prices and management capabilities to optimize our portfolio, has allowed for higher margins during the second half of the year, most notably in Q421, which coupled with higher sales have resulted in significant EBITDA growth.

As of 31 December 2021,contracted sales for 2022 and 2023-24 stood at 80% and 76% respectively.

Main aggregates

The main aggregates in this area are as follows:

	2021	2020	**Change (%)**
Gas sales (GWh)	141,748	133,979	5.8%
Shipping fleet capacity (m3)	2,264,528	1,989,121	13.8%

Pipelines

Results

	2021	2020	**Change (%)**
Net sales	211	260	(18.8)
Procurements	—	—	—
Gross margin	**211**	**260**	**(18.8)**
Other operating income	2	1	100.0
Personnel expenses, net	(9)	(7)	28.6
Taxes	—	—	—
Other operating expenses	(13)	(14)	(7.1)
EBITDA	**191**	**240**	**(20.4)**
Depreciation, provisions and other results	(47)	(56)	(16.1)
EBIT	**144**	**184**	**(21.7)**

2021 Ordinary EBITDA decreased by 19.2% to Euros 194 million, as a result of the capacity step down and US$ depreciation (Euros -10 million).
This asset ended its activity on October 31, 2021, thus not contributing to Naturgy's consolidated EBITDA from that date..

Main aggregates

The main aggregates in this area are as follows:

	2021	2020	**Change (%)**
Gas transport - EMPL (GWh)	74,241	49,383	50.3
Portugal-Morocco	32,112	22,952	39.9
Spain (Naturgy)	42,129	26,431	59.4

Spain thermal generation

Results

	2021	2020	**Change (%)**
Net sales	2,091	1,010	107.0
Procurements	(1,695)	(638)	165.7
Gross margin	**396**	**372**	**6.5**
Other operating income	11	48	(77.1)
Personnel expenses, net	(86)	(70)	22.9
Taxes	(147)	(164)	(10.4)
Other operating expenses	(83)	(82)	1.2
EBITDA	**91**	**104**	**(12.5)**
Depreciation, provisions and other results	(83)	(1,081)	(92.3)
EBIT	**8**	**(977)**	**(100.8)**

2021 Ordinary EBITDA amounted to Euros 111 million, up 50.0% vs 2020 on the back of higher margins, following higher pool prices and lower taxes in 4Q21, which have been partially offset by the higher costs of gas, notably in 2H21..

Pool prices multiplied by 3.3x vs. 2020, averaging €111.9/MWh in the period, as a result of higher gas and CO2 prices, particularly acute in the second half of the year.

Main aggregates

The main aggregates in this area are as follows:

	2021	2020	**Change (%)**
Total MW	**8,031**	**8,031**	**—**
Nuclear	604	604	—
CCGTs	7,427	7,427	—

	2021	2020	**Change (%)**
Electric energy produced (GWh)	**16,948**	**17,243**	**(1.7)**
Nuclear	4,274	4,387	(2.6)
CCGTs	12,675	12,856	(1.4)

Total production suffered a slight decrease (- 1.7%) with CCGTs and nuclear production decreasing by 1.4% and 2.6% respectively in the year.

Latin America thermal generation

Results

	2021	2020	Change (%)
Net sales	1,013	612	65.5
Procurements	(723)	(333)	117.1
Gross margin	**290**	**279**	**3.9**
Other operating income	4	3	33.3
Personnel expenses, net	(16)	(14)	14.3
Taxes	(1)	(1)	—
Other operating expenses	(32)	(30)	6.7
EBITDA	**245**	**237**	**3.4**
Depreciation, provisions and other results	(63)	(85)	(25.9)
EBIT	**182**	**152**	**19.7**

Ordinary EBITDA in the period reached Euros 245 million, up 3.4% vs. 2020, following higher margins in Mexico as a result of PPAs and higher electricity prices, offset by US$ depreciation (Euros -8 million).

Main aggregates

The main aggregates in this area are as follows:

	2021	2020	Change (%)
Total MW	**2,643**	**2,643**	**—**
Mexico (CCGT)	2,446	2,446	—
Dominican Republic (Fuel)	198	198	—

	2021	2020	Change (%)
Electric energy produced (GWh)	13,942	14,258	(2.2)
Mexico (CCGT)	13,305	13,778	(3.4)
Dominican Republic (Fuel)	637	481	32.6

Total production decreased by 2.2%, with CCGTs production decreasing 3.4% while other thermal increased 32.6%.

2.5.2. Renewables and new business

	Reported			Ordinary		
	2021	2020	Change (%)	2021	2020	Change (%)
Renovables y nuevos negocios	**488**	**352**	**38.6**	**340**	**362**	**(6.1)**
España y USA	408	272	50.0	252	281	(10.3)
Australia	9	14	(35.7)	9	14	(35.7)
LatAm	71	66	7.6	79	67	17.9

Renewables and new businesses includes all renewable generation activities (including hydro) previously reported as part of European power generation and International power generation, together with new businesses.

Ordinary EBITDA reached Euros 340 million (-6.1%) in 2021. Higher wind production in Spain and new installed capacity in Chile have been offset by lower bilateral prices and regulatory adjustments in Spain, lower margins in Australia, and lower wind resource in Mexico as well as a slightly negative FX impact in LatAm (Euros -2 million). Naturgy currently operates 5,221 MW of renewable capacity.

Spain and USA

Results

	2021	2020	**Change (%)**
Net sales	507	516	(1.7)
Procurements	(90)	(59)	52.5
Gross margin	**417**	**457**	**(8.8)**
Other operating income	16	15	6.7
Personnel expenses, net	(82)	(49)	67.3
Taxes	145	(72)	(301.4)
Other operating expenses	(88)	(79)	11.4
EBITDA	**408**	**272**	**50.0**
Depreciation, provisions and other results	(150)	(364)	(58.8)
EBIT	**258**	**(92)**	**(380.4)**

2021 Ordinary EBITDA amounted to Euros 252 million, down 10.3% vs. 2020 negatively impacted by sector changes to the accounting treatment of regulatory revenues, as well as a reduction in the bilateral sale price to our supply business.

Main aggregates

The main aggregates in this area are as follows:

	2021	2020	**Change (%)**
Total MW	**4,127**	**4,053**	**1.8**
Hydroelectric	2,062	2,062	—
Wind	1,764	1,691	4.3
Solar	250	249	0.4
Cogeneration and others	51	51	—

	2021	2020	**Change (%)**
Electric energy produced (GWh)	**7,971**	**7,715**	**3.3**
Hydroelectric	3,498	3,534	(1.0)
Wind	3,863	3,546	8.9
Solar	268	320	(16.1)
Cogeneration and others	342	315	8.4
Market share of generation	**5.3**	**5.5**	**-0,2 pp**

Installed capacity as of end 2021 reached 4,127MW, 74MW higher compared to 2020, 73MW wind capacity and the remaining 1MW solar.

Australia

Results

	2021	2020	**Change (%)**
Net sales	21	20	5.0
Procurements	—	—	—
Gross margin	**21**	**20**	**5.0**
Other operating income	—	—	—
Personnel expenses, net	(2)	(1)	100.0
Taxes	—	—	—
Other operating expenses	(10)	(5)	100.0
EBITDA	**9**	**14**	**(35.7)**
Depreciation, provisions and other results	(10)	(5)	100.0
EBIT	**(1)**	**9**	**(111.1)**

Ordinary EBITDA in the period was Euros 9 million vs. Euros 14 million in 2020.

The reduction is mainly explained by lower margins following the quarterly mark to market valuation of existing PPAs under contracts for differences regime.

Main aggregates

The main aggregates in this area are as follows:

	2021	2020	**Change (%)**
Total MW	277	96	188.1
Wind	277	96	188.1

	2021	2020	**Change (%)**
Electric energy produced (GWh)	769	287	167.7
Wind	769	287	167.7

Naturgy continued to progress developing renewable assets in Australia. Accordingly, Installed capacity as of end 2021 reached 277MW, 181MW higher compared to 2020, all of them wind.

Latin America

Results

	2021	2020	**Change (%)**
Net sales	150	104	44.2
Procurements	(39)	(4)	875.0
Gross margin	**111**	**100**	**11.0**
Other operating income	11	7	57.1
Personnel expenses, net	(20)	(16)	25.0
Taxes	(2)	(2)	—
Other operating expenses	(29)	(23)	26.1
EBITDA	**71**	**66**	**7.6**
Depreciation, provisions and other results	(29)	(17)	70.6
EBIT	**42**	**49**	**(14.3)**

Ordinary EBITDA in the period reached Euros 79 million, 17.9% higher than in 2020, mainly driven by new capacity coming into operation in Chile, which has been partially offset by FX impact (Euros -2 million).

Main aggregates

The main aggregates in this area are as follows:

	2021	2020	**Change (%)**
Total MW	**818**	**511**	**60.1**
Mexico (Wind)	234	234	—
Brazil (Solar)	153	153	—
Chile (Solar)	101	—	100.0
Chile (Wind)	206	—	100.0
Costa Rica (Hydroelectric)	101	101	—
Panama (Hydroelectric)	22	22	—

	2021	2020	**Change (%)**
Electric energy produced (GWh)	**2,123**	**1,510**	**40.6**
Mexico (Wind)	694	754	(7.9)
Brazil (Solar)	290	295	(1.9)
Chile (Solar)	246	—	100.0
Chile (Wind)	327	—	100.0
Costa Rica (Hydroelectric)	462	367	25.9
Panama (Hydroelectric)	104	94	10.1

Installed capacity in LatAm as of end 2021 reached 818MW, 307MW higher compared to 2020, of which 206MW wind and 101MW solar.

2.5.3. Supply

Supply includes all power sales to end customers in Spain as well as gas sales to end customers < 500GWh in Spain.

Supply in Spain was impacted by contracts with end customers not reflecting the increase of gas and electricity prices in mayor hubs.

Accordingly, Ordinary EBITDA amounted to Euros 153 million in the period, -57.4% lower than 2020, primarily driven by lower margins in power and gas supply due to higher procurement costs, as well as lower contribution from services and solutions activities.

Results

	2021	2020	**Change (%)**
Net sales	7,943	6,302	26.0
Procurements	(7,506)	(5,686)	32.0
Gross margin	**437**	**616**	**(29.1)**
Other operating income	8	7	14.3
Personnel expenses, net	(141)	(106)	33.0
Taxes	(50)	(25)	100.0
Other operating expenses	(350)	(166)	110.8
EBITDA	**(96)**	**326**	**(129.4)**
Depreciation, provisions and other results	(123)	(156)	(21.2)
EBIT	**(219)**	**170**	**(228.8)**

Ordinary EBITDA reached Euros 153 million in 2021, -57.4% vs. 2020, driven by challenging conditions in power supply, affected by lower sales in the retail segment as well as lower margins due to rising pool prices, notably affecting the industrial segment.

Gas supply for its part, benefited from growth in industrial sales and higher retail margins, which nevertheless were more than offset by lower industrial margins, consequence of higher procurement costs.

Main aggregates

The main aggregates in this area are as follows:

	2021	2020	**Change (%)**
Gas sales (GWh)	**105,106**	**94,052**	**11.8**
Residential Spain	20,588	19,786	4.1
Industrial clients	82,337	71,841	14.6
SM&E	2,181	2,425	(10.1)
By segment	105,106	94,052	11.8
Liberalised	99,043	88,445	12.0
Regulated	6,063	5,607	8.1
Electricity sales (GWh):	**22,196**	**22,267**	**(0.3)**
Residential Spain	8,784	9,524	(7.8)
Industrial clients	10,495	9,659	8.7
SM&E	2,918	3,084	(5.4)
By segment	22,196	22,267	(0.3)
Liberalised	17,574	17,248	1.9
Regulated	4,622	5,019	(7.9)
Retail contracts (thousand)	**10,615**	**10,664**	**(0.5)**
Gas	3,669	3,813	(3.8)
Electricity	4,041	4,026	0.4
Services	2,905	2,825	2.8
Contracts per customer (Spain)	1.56	1.55	0,0 pp
Gas contract market share (Spain)	45.9	47.9	-2,0 pp

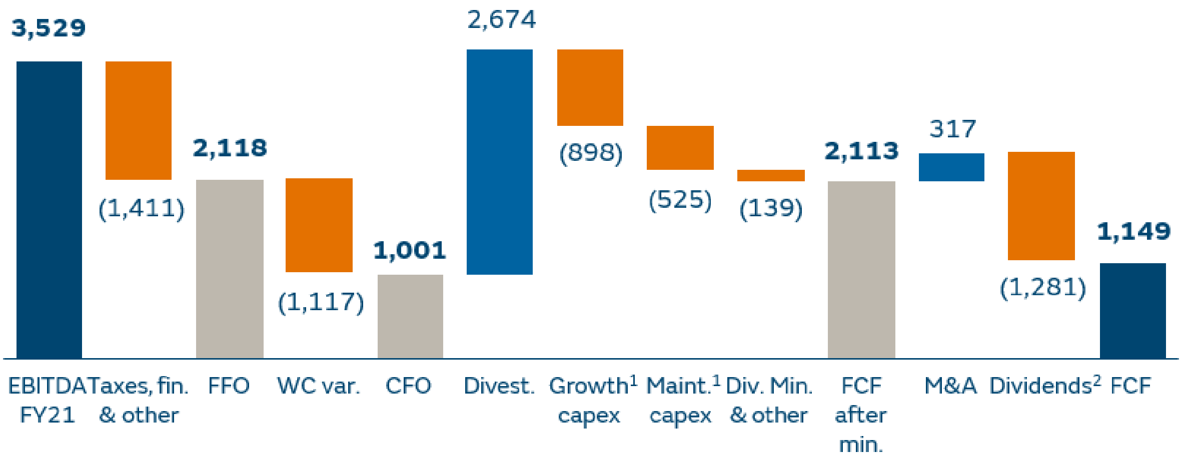
Gas sales increased by 11,8% in 2021, notably in the industrial segment (+14.6%) as a consequence of COVID-19 impact in 2020.

Power sales remained stable (-0.3%) in 2021 as a result of higher sales in the industrial segment (+8.7%), which compensated for the decrease in retail and SME sales (-7.8% and -5.4% respectively).

Finally, the number of contracts remained stable vs 2020 (-0.5%).

2.6. Cash flow

The evolution of cash flow in the year 2021 is as follows:



1 Net of cessions and contributions
2 Net of dividends received by the group companies.Includes €3m of own shares repurchase for the 2021 employee share program.

2021 free cash flow after minorities amounted to Euros 2,113 million driven by cash from operations and cash collections from the disposal of CGE and the agreement to exit UFG, and after the Euros 1,423 million Capex in the period. On the other hand, the surge and volatility in gas prices had a temporary negative impact on working capital consumption, notably in 4Q21, which has partially offset the expected reduction in net debt. Such impact however is deemed as transitory and WC consumption is expected to normalize in the forthcoming quarters

Net debt amounted to Euros 12,831 million while Net debt / LTM EBITDA stood at 3.6x compared to 3.9x as of 31 December 2020.

Capex

The capex breakdown is as follows:

	2021	2020	**%**
Investments in property, plant and equipment and intangible assets (Capex)	1,484	1,279	16.1
Other investment receipts/payments	(61)	(51)	19.6
Total gross investments	**1,423**	**1,228**	**15.9**

Investments in property, plant and equipment and intangible assets amounted to Euros 1,423 million in 2021, a 15,9% increase with respect to the previous year.

The breakdown of investments in property, plant and equipment and intangible assets is as follows:

	2021	2020	**Change (%)**
Energy management and Networks	**718**	**756**	**(5.0)**
Networks Spain	**374**	**321**	**16.5**
Gas networks	116	96	20.8
Electricity networks	258	225	14.7
Networks Latin America	**246**	**342**	**(28.0)**
Chile gas	38	37	2.7
Chile electricity	—	119	(100.0)
Brazil gas	28	33	(15.2)
Mexico gas	49	37	32.4
Panama electricity	99	94	5.3
Argentina gas	19	17	11.8
Argentina electricity	13	5	160.0
Energy management	**98**	**93**	**5.4**
Markets and Procurement	7	1	600.0
International LNG	10	15	(33.3)
Pipelines (EMPL)	—	3	(100.0)
Europe thermal generation	55	51	7.8
Latin America thermal generation	26	23	13.0
Renewables and New businesses	**606**	**429**	**41.3**
Spain & USA	238	140	70.0
Australia	328	100	228.0
Latam	40	189	(78.8)
Supply	**136**	**55**	**147.3**
Rest	**24**	**39**	**(38.5)**
TOTAL Capex	**1,484**	**1,279**	**16.1**

Maintenance capex in 2021 amounted to Euros 532 million, compared to Euros 546 million in 2020, a 2.6% reduction

Growth capex in the period was close to 65% of total capex and amounted to Euros 952 million in 2021.

Growth capex in 2021 included:

- A total of Euros 579 million invested in the construction of different renewable projects ,of which Euros 213 million in Spain, Euros 328 million in Australia and Euros 38 million in Latam.
- Euros 249 million invested in the development of networks, of which Euros 127 million in Spain and Euros 122 million in Latam.
- Euros 113 million in the supply activity

In addition, Naturgy has reached several agreements that confirm its commitment to renewable growth

- Naturgy reached several agreements in Australia which will increase its presence in the country to over 750MW by 2022
- On 15 January 2021, Naturgy, through its 100% owned subsidiary Naturgy Solar USA, LLC, acquired 100% of the economic interests of a pipeline holding a portfolio of 8GW solar projects together with 4.6GW of co-located energy storage projects spanning 9 states in the U.S., of which 25 projects totaling 3.2GW of solar and 2GW storage could be operational before 2026. As part of the transaction, Naturgy also entered into a 5 year development agreement with Candela Renewables, a first in class team holding over 20 years of experience in the field, with a proven track record in the development of solar and energy storage projects in the U.S.

- On 15 March 2021, Naturgy was awarded with 45MW of solar capacity in the Canary Islands, which will allow the Group to double its current installed capacity in the region.
- Lastly, on 26 January and 19 October 2021, Naturgy was awarded with a total of 235MW and 221MW respectively of wind and solar projects as part of the Spanish renewable auctions.

Divestments

- On 10 March 2021, Naturgy, ENI and The Arab Republic of Egypt completed the agreement reached on 1 December 2020, to amicably resolve the disputes affecting Union Fenosa Gas (UFG). As a result, capital gains for a total amount of Euros 127 million have been registered in the "Other results" caption, and UFG assets assigned to Naturgy have been fully consolidated (100%).
- As already stated, on 26 July 2021 the sale of Naturgy's entire equity shareholding (96.04%) in CGE Electricidad to State Grid International Development Limited (SGID) was completed, with receiving proceeds of Euros 2,591 million in 3Q21.

2.7. Financial position

As of 31 December 2021, net debt amounted to Euros 12,831m, significantly below year-end 2020 figure, and despite the already mentioned temporary increase in working capital, reflecting the cash generation capacity of the group as well as the pre-tax proceeds from the disposal of CGE Electricidad. Net debt / LTM EBITDA stood at 3.6x compared to 3.9x as of 31 December 2020. BBB rating has been confirmed by rating agencies with stable outlook.

During 2021, the most relevant transactions and refinancing included:

- Issue of two bonds in Mexico for Euros 120 million with a maturity of 3 years with a TIIE + 0.49% coupon and for Euros 100 million with a maturity of 9 years with a 8.21% coupon.
- Mini-Perm loans for projects of Cabo Leones II and San Pedro for a total of Euros 273 million which include a revolving credit line with 7 years tenor at Libor + 2.27% and a partial floating interest rate hedge.
- Mini-Perm loan for wind projects of Berrybank for a total of Euros 175 million with a tenor of 5 years. The transaction has hedged the 75% of floating rate risk (BBSY + 1,30%).
- Revolving credit line in Panamá for Euros 297 million with a tenor of 4.6 years at Libor + 4.25% to reduce the refinance risk of short-term credit lines.
- Project Finance in Parque Eólico Peñarroldana S.L. for Euros 60 million of 8.5 years at Euribor + 1.35% and other in Naturgy Renovables Ruralia S.L. for Euros 24 million of 16 years at Euribor + 2.32%.
- Refinancing of loans and revolving credit lines in Spain and international businesses for a total of Euros 4,661 million and an equivalent of Euros 541 million respectively, including:
  - Refinancing of a syndicated revolving credit facility increasing the limit from Euros 1,750 million to Euros 2,000 million with maturity of 3 years at Euribor + 0,30%. ESG metrics were included in the pricing mechanism. Additionally, at parent company, revolving credit facilities for a total amount of Euros 983 million have been refinanced, with ESG targets introduced in some of them as well.
  - GPG has obtained the extension of its syndicated loan of Euros 1,400 million for an additional year, maturing in 2026 ($100 million remain in 2025). In addition, GPG has increased the hedge of floating rates exposure with two forward starting swaps.
- On 16 November, Naturgy completed the issuance of subordinated perpetual securities for an amount of Euros 500 million, redeemable from February 2027, with an annual yield of 2.375%. As part of the transaction, the company made a tender offer, limited to Euros 500 million, for the outstanding subordinated perpetual securities redeemable from November 2022.

Liquidity (Euros million)

Liquidity as of 31 December 2021 stood at Euros 9,424 million, including Euros 3,965 million in cash and equivalents and Euros 5,459 million in undrawn and fully committed credit lines. In addition, the ECP program is completely undrawn as of 31 December 2021.

The detail of the group's current liquidity is as follows:

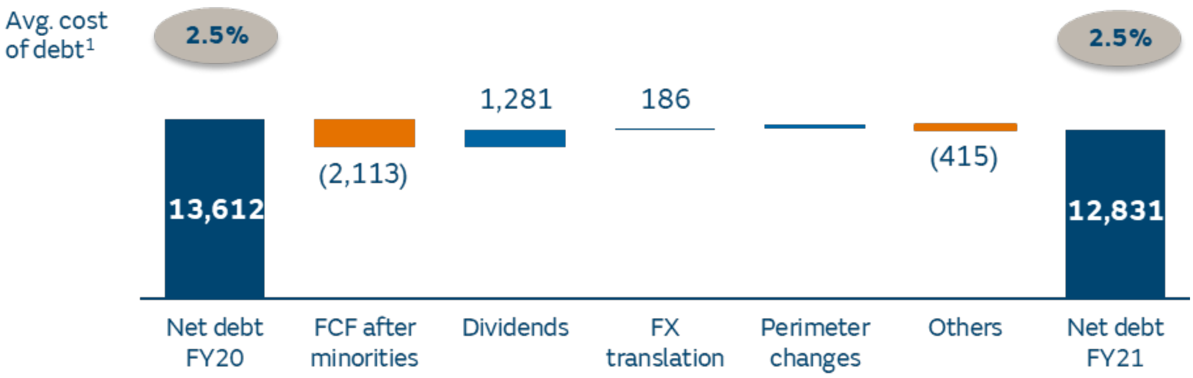
	Consolidated		Chile		Brasil	Argentina	Mexico	Panama	Holding & others
	Dec'21	**Dec'20**	**CLP**	**USD**	**BRL**	**ARS**	**MXN**	**USD**	**EUR/ Others**
Cash and equivalents	3,965	3,927	54	52	114	52	135	33	3,525
Undrawn commited credit lines	5,459	5,548	—	—	22	—	—	49	5,388
Total	9,424	9,475	54	52	136	52	135	82	8,913

The weighted average maturity of the undrawn credit lines stands over 2 years, according to the following detail:

	2022	2023	2024	2025	2026	2027+
Undrawn commited credit lines	483	1,992	2,874	—	110	—

Net debt evolution (Euros million)

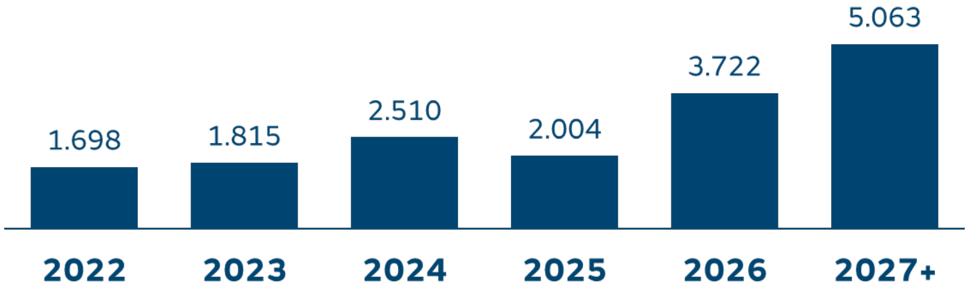
The net debt evolution from 31 December 2020 to 31 December 2021 is as follows:



The average cost of debt, excluding the cost of lease liabilities under IFRS 16, is 2.5%, in line with the level in 2020 (2,5%).

Gross debt maturities (Euros million)

The gross debt maturities are as follows:



The evolution of the principal ratios applied referent to the Net financial debt is as follows:

		2021	2020
Ebitda/Net financial cost	Times	7.2	6.9
Net financial debt / Ebitda	Times	3.6	3.9

The detail of the net financial debt, the average financial cost of the gross debt and the % of fixed gross debt for country and currency is as follows:

		Consolidated		Chile		Brasil	Argentina	Mexico	Panama	Holding & others
		Dec'21	Dec'20	CLP	USD	BRL	ARS	MXN	USD	EUR/ USD
Net financial debt	Euros m	12,831	13,612	345	29	147	(43)	362	707	11,284
Average cost of gross debt [1]	%	2.5	2.5	6.9	3.5	5.9	41.8	6.9	4.5	1.7
% Fixed (Gross debt)	%	83	83	85	23	1	1	56	55	89

[1] Does not include cost from IFRS 16.

3. Liquidity and capital

Capital management

The main purpose of Naturgy's capital management is to ensure a financial structure that can optimise the cost of capital and maintain a solid financial position, in order to combine value creation for the shareholder with access to the financial markets at a competitive cost to cover financing needs.

Naturgy considers the following to be indicators of the objectives set for capital management maintaining a long-term leverage ratio of approximately 50%.

Naturgy's long-term credit rating is as follows:

	2021	2020
Standard & Poor's	BBB	BBB
Fitch	BBB	BBB

As of 31 December 2021, net interest-bearing debt amounted to Euros 12,831 million and leverage stood at 54.70% (Euros 13,612 million and 52.20%, respectively, as of 31 December 2020).

Liquidity

Naturgy has liquidity policies that ensure compliance with its payment commitments, diversifying the coverage of financing needs and debt maturities. Prudent management of liquidity risk includes maintaining sufficient cash and realisable assets and the availability of sufficient funds to cover credit obligations.

Available cash resources at 31 December 2020 and 2019 are analysed below:

Liquidity source	Availability 2021	Availability 2020
Undrawn credit facilities (Note 17)	5,548	5,352
Undrawn loans	—	—
Cash and cash equivalents (Note 13)	3,927	2,685
Total	**9,475**	**8,037**

There is also additional available capacity to issue debt in the capital markets for Euros 4.408 million.

4. Main risks and opportunities

4.1. Risk management model

Naturgy's risk management model seeks to ensure that the company's performance is predictable within an acceptable bounded range. The model quantifies the variability of performance and ensures that it is in line with strategically defined target levels in all aspects that are of importance to its stakeholders.

Core goals of the risk measurement and management model include ensuring that material risk factors are correctly identified, assessed and managed. The final objective is to ensure that the level of risk exposure assumed by Naturgy in the course of its business is consistent with the company's defined overall risk profile and the attainment of annual and strategic objectives.

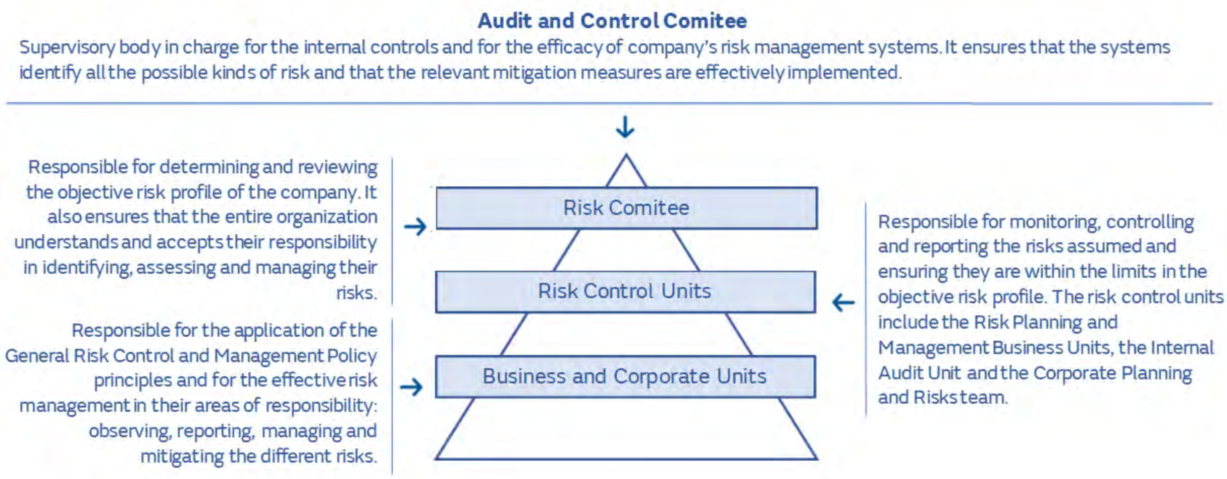
The Integrated Risk Management and Control System is structured as follows:

- Risk Appetite: definition of risk tolerance by setting limits for the main risk categories, by risk type and by business, as a function of the targets.
- Risk Assessment: methodology, procedure and process for identifying, assessing and measuring risks.
- Risk Governance & Management: risk governance and management mechanism for all risk classes and all businesses.
- Risk Reporting: regular systematic reporting and monitoring of risk at the various levels of management: Business, Business Units, Chairman's Office and Board of Directors.

Risk management bodies

Naturgy has a framework integrating the vision of governance, risks and compliance so as to provide a 360º view of the group's processes, existing controls and the associated risks.

To this end, it has a number of bodies with clearly identified areas of responsibility, making it possible to ensure the predictability and sustainability of the company's operational and financial performance.



The Risk Control units exercise oversight to ensure that results are recurrent and sustainable. A key task is modelling the annual accounts to identify their main sensitivities and anticipate possible impacts and mitigating actions.

Additionally, each business unit has specific information on the main types of risk that may affect it. The goal is to facilitate decision-making, which is positive for the company since it enhances profitability, predictability and efficiency.

Comprehensive management

Naturgy analyses its overall risk profile on the basis of the potential impact on its annual accounts. In this way, it determines the maximum accepted level of risk exposure and the admissible limits.

The tools that enable Naturgy to achieve continuous improvement in the process of identifying, characterizing and determining its risk profile are:

- Global Risk Control and Management Policy: updated and approved by the Board of Directors of Naturgy in November 2020. Its purpose is to establish the general principles and standards of behavior required to ensure proper identification, reporting, assessment and management of Naturgy's exposure to risk.
- Corporate Risk Map: identifies and quantifies the risks which might affect Naturgy's performance, considering the characteristics of the risk position (impact variables, potential severity in quantitative and qualitative terms, likelihood of occurrence, and degree of management and control). It is updated and submitted to the Audit and Control Committee every year.
- Other risk maps: these are developed by Naturgy's Business and Corporate units at their discretion following a common methodology, and they serve as the basis for the Corporate Risk Map.
- Risk Measurement System: serves to quantify, on a recurring probabilistic basis, the risk position assumed overall in each market risk category. To this end, it analyses correlated risks and performs sensitivity analyses and stress tests for the main identified risks.

Risk categories

In the 2021 Risk Map, Naturgy defined four risk types: Economic, Financial, Operational, and Reputational/ Sustainability.

Types of economic and financial risk

For the types of economic and financial risk, a risk assessment is applied through quantitative modelling.

Categories of economic risk

Risk factors with an impact on the businesses' EBITDA

- **Market/commodity risk**, the uncertainty caused by price variability of energy and other commodities that the company uses.
- **Exchange rate risk**, the uncertainty associated with changes in the exchange rates of the currencies in which Naturgy's businesses are denominated during the year.
- **Regulatory risk**, the risk associated with reviews of the remuneration frameworks for the regulated businesses and/or updates to the specific remuneration parameters under which Naturgy businesses operate.
- **Volume risk**, risk associated with the variation of volumes produced, distributed and/or supplied due to variations in temperature and the macroeconomic or competitive environment with respect to the base scenario considered in the projections.
- **Margin/Price Risk**, understood as the price risk not contemplated under market/commodity risk created by changes in competitive pressure or unachieved margin optimization scenarios.
- **Legal risk,** related to the eventual outcome of litigation, arbitration or legal claims against Naturgy in the year of analysis.
- **Operational risk**, associated with events of force majeure or accidents affecting persons, and with accidents, damage or non-availability of the company's operating assets, after coverage by Naturgy's insurance programme.

Financial risk categories

Risk factors impacting the company's cash flow and balance sheet.

- **Credit risk**, unexpected loss due to uncertainty associated with the probability of non-payment of monetary obligations and/or deterioration of the credit quality of the end customers and counterparties with which Naturgy operates.
- **Interest rate risk**, variability of the company's financial expenses caused by interest rate movements in the currencies in which Naturgy's debt is denominated.
- **Tax risk**, associated with the proper application of tax regulations, the complexity of their interpretation, and possible amendments, with a potential economic impact on the company's accounts.
- **Liquidity,** risk associated with a potential increase in the financing needs required to maintain the company's target rating.
- **Rating**, risk of a downgrade of the company's credit rating, considering that the company targets an anchor BBB rating.
- **Provisions**, risk of maintaining an excessive volume of provisions on the balance sheet, resulting in the risk that they may materialize and their effect on cash outflows.

Types of operational and reputational/sustainability risk

For the operational and reputational/sustainability risk typologies, an assessment of the risk position using heat maps is generally applied.

Operational risk categories

Risk factors derived from operating the company's human and material assets.

- **Security risk**, understood as the residual risk associated with personal injury or material damage to critical facilities caused intentionally by a third party.
- **Process risk**, understood as a loss resulting from a shortcoming or failure in processes, systems or personnel performance with an impact on the company's efficiency or other risks.
- **Fraud risk**, derived from any intentional breach of the law by an employee or a third party to benefit themselves or the company, directly or indirectly, through the improper use of Naturgy resources or assets.
- **Cybersecurity risk**, arising from malicious attacks or accidental events with an operational impact that affect data, computer networks or technology.
- **Data protection risk**, understood as the risk associated with breach of data protection obligations that may result in an administrative sanction or civil judgement.
- **Environmental risk**, associated with the possibility that natural phenomena or human action may result in regulatory environmental limits being exceeded or in damage to ecosystems and biodiversity.
- **Customer satisfaction risk**, understood as the risk of not offering the customer a distinctive value proposition that places the company in a privileged position to define new relationship models and address the digital transformation by maximizing the value of new technologies.
- **Health and safety risk,** understood as the risk of injury and health impairment for professionals of Naturgy or partner companies in connection with the business.

Sustainability and Reputational risk categories

Risk factors associated with behaviors that constitute a departure from good practices in the area of reputation, ESG commitment, compliance, people and climate change.

- **Reputational and ESG risk,** uncertainty in the evolution of stakeholders' perception of the company's reputation and its capacity to engage in business sustainably from an environmental, social and governance point of view.
- **Compliance risk,** understood as the risk of sanctions, financial losses or loss of reputation that Naturgy could suffer as a result of non-compliance with both legal obligations and standards, policies and other internal regulations applicable to its activities.
- **Energy transition and climate change risk**, arising from the energy transition (regulation, markets, technologies, etc.) and the physical impacts of climate change (acute and chronic).

4.2. Main risks

There are horizontal risks, such as the uncertainty in the macroeconomic context and geopolitical exposure, which materialize and have an impact on many of the risk types described in the previous section.

Uncertainty in the macroeconomic context

During the last decade the global economy has been growing at moderate rates marked by the stagnation of economic activity in Europe and the economic contraction of various emerging countries. As of 2020, the macroeconomic scenario was profoundly altered by the lockdowns derived from the outbreak of the COVID-19 pandemic and, specifically in the energy sector, this translated into lower demands for gas and electricity and a significant depreciation of the currencies in key regions of Latin America.

In 2021, the effects of the pandemic have continued to generate strong uncertainty in the economy which, as of the third quarter of 2021, has implied instability between supply and demand in the international markets for energy commodities. At the date of publication of this report, the final extent and timing of the definitive recovery from the COVID-19 health crisis, and the final extent and evolution of geopolitical tensions in Europe, are not known with certainty.

In any case, the Group continuously monitors the evolution of the economic cycle in the short, medium and long term, with the aim of minimizing the negative effects that the context could generate.

External geopolitical exposure

Naturgy has interests in countries with varied political, economic and social environments. It is exposed to two main geographies outside the European Union:

- Latin America
  Among the risk factors linked to investment and business in Latin America, it is worth mentioning the influence on the economy by local governments, the fluctuation in the rate of economic growth, high levels of inflation and devaluation, depreciation or overvaluation of currencies. local, changing environment of interest rates, as well as social tensions and political instability.

- Middle East and Maghreb
  Naturgy has assets and major gas procurement contracts in several countries of the Maghreb and the Middle East. Political instability in the zone may result in physical damage to the assets of Naturgy's investee companies or the obstruction of the operations of those or other companies, interrupting the Group's gas supply.

Table of main risks and trends

Risk type		Description	Management approach	Metric		Trend
Market/commodity risk						
Commodity prices	Gas	Volatility in the international markets that determine the gas price.	Physical and financial hedges. Portfolio management	Stochastic	↑	Mismatch between long-term contracts and hub prices.
	Electricity	Volatility in electricity markets.	Physical and financial hedges. Optimisation of the generation fleet.	Stochastic	↑	Penetration by renewables with zero marginal cost and intermittent production.
Exchange rate risk						
Exchange rate		Volatility in international currency markets.	Geographic diversification. Hedging via local-currency funding and derivatives. Monitoring the net position.	Stochastic	↑	Uncertainty about growth prospects in Latin America.
Regulatory risk						
Regulatory		Exposure to reviews of criteria and returns recognised for regulated activities.	Step up communication with regulators. Adjust efficiency and capital expenditure to recognised rates.	Scenarios	↑	Pressure from regulators, as a function of the situation of the country/industry.
Volume risks						
Volume	Gas	Mismatch between gas supply and demand.	Optimisation of contracts and assets worldwide.	Deterministic / Stochastic	↑	Aggregate demand pressure.
	Electricity	Reduction of the available thermal gap. Uncertainty as to renewable production volume.	Optimisation of the supply-generation balance.	Stochastic	↑	Aggregate demand pressure.
Margin/price risk						
Margin/price		Risk created by changes in competitive pressure or unachieved margin optimisation scenarios.	Portfolio management by adapting long-term purchase and sale formulas.	Scenarios	↑	Reviews of long-term gas contracts
Legal risk						
Legal		Uncertainty as to the eventual outcome of litigation, arbitration or legal claims.	Analysis and mitigation of legal risk affecting the company's operations and corporate governance. Engagement of top-level law firms. Recognition of provisions on a prudential basis.	Scenarios	⇆	Different business units are affected by different laws in each country.

Risk type	Description	Management approach	Metric		Trend
Operational risk					
Insurable risks	Accidents, damage or non-availability of Naturgy assets.	Continuous improvement plans. Optimisation of the total cost of risk and hedges.	Stochastic	↑	Growing tension in the insurance market in the face of the rising frequency of extreme weather events.
Credit risk					
Credit	Uncertainty associated with the probability of non-payment of monetary obligations and/or deterioration of the credit quality of the end customers and counterparties with which Naturgy operates.	Analysis of customer solvency in order to define specific contractual conditions. Debt collection process.	Stochastic	↑	Transitory effect of the post-COVID-19 recovery.
Interest rate risk					
Interest rates and credit spreads.	Volatility in funding rates.	Financial hedges. Diversification of funding sources.	Stochastic	⇆	Uncertainty about interest rate scenarios.
Tax risk					
Tax	Ambiguity or subjectivity in the interpretation of current tax regulations, or material amendments to same.	Queries to independent expert bodies. Engagement of top-level advisory firms. Adoption of the Code of Good Tax Practices. Recognition of provisions on a prudential basis.	Scenarios	⇆	Different business units are affected by different taxes.
Liquidity, rating and provision risks					
Liquidity, rating and provision risks	Financial risks associated with maintaining the company's rating, derived from liquidity conditions or other causes. Risks associated with excessive use of resources due to maintaining provisions.	Establishment of a target rating and ensuring sufficient liquidity to maintain it in the event of a potential adverse scenario.	Scenarios	⇆	Ratification of the target of an investment grade rating in the Business Plan 2021-2025

Risk type	Description	Management approach	Metric	Trend
Security risk				
Security	Residual risk associated with personal injury or material damage to critical facilities caused intentionally by a third party.	Corporate positioning through the Security Policy, defining a specific protection model for Critical Infrastructures (CI). Engagement with the businesses, Centro Nacional para la Protección de Infraestructuras Críticas (CNPIC), Instituto Nacional de Ciberseguridad (INCIBE-CERT) and other public- and private-sector bodies involved in CI security.	Heatmap/ Scenarios	⇆ Certification audits by the regulator (CNPIC) of critical operators, in which technology is of great importance.
Process risk				
Processes	Uncertainty resulting from a shortcoming or failure in processes, systems or personnel performance with an impact on the company's efficiency or other risks.	Annual internal audit plan Weakness detection. Implementation of improvement actions (recommendations). Audit and Control Committee.	Heatmap/ Scenarios	⇆ Increase in the percentage of material recommendations that are implemented.
Fraud risk				
Fraud	Risk derived from any intentional breach of the law by an employee or a third party to benefit themselves or the company, directly or indirectly, through the improper use of Naturgy resources or assets.	Control mechanisms through the Global Policy of the Internal Control System for Financial Information. Arrangement of hedges in the insurance market	Scenarios	⇆ Maintain low levels of fraud at Naturgy
Cybersecurity risk:				
Cybersecurity	Malicious attacks or accidental events that affect data, computer networks or technology.	Implementation of security measures; Event analysis and remediation measures; Training.	Scenarios/ Heatmaps	↑ The cybernetic situation is becoming more demanding.Threat protection plan to mitigate the likelihood of these risks and their associated impact.

Risk type	Description	Management approach	Metric		Trend
Data protection risk					
Data protection	Uncertainty associated with breaches of data protection obligations that may result in an administrative sanction or civil judgement.	Action Plan by business area to mitigate the risk associated with each obligation based on priority and criticality. The company conforms to the requirements of the General Data Protection Regulation (GDPR).Internal audit plan for periodic review of compliance.	Heatmap/ Scenarios	↑	Uncertainty and tightening regulatory requirements.
Environmental risk					
Environment	Possibility that natural phenomena or human action may result in regulatory environmental limits being exceeded or in damage to ecosystems or biodiversity.	Emergency plans at facilities with risk of environmental accident. Specific insurance policies. End-to-end environmental management.	Scenarios/ Heatmaps	⇆	Implementation of an Integrated Management System certified and audited each year by AENOR.
Health and safety risk					
Health and safety	Risk of injury and health impairment for professionals of Naturgy or partner companies in connection with the business.	Health and safety management system. Safety plan aimed at controlling the six most critical risk factors in terms of accident frequency and severity: confined spaces, work at heights, electrical risk, tree felling and pruning, cargo handling, and road safety.	Heatmap/ Scenarios	⇆	Accident rates at partner firms.
Reputation and ESG risk					
Image and reputation	Impairment of stakeholders' perception of Naturgy.	Identification and tracking of potential reputation events. Transparency.	Scenarios/ Heatmaps	⇆	Stabilisation of MERCO index score.
Compliance risk					
Reputational and criminal risk	Administrative and criminal sanctions. Deterioration of Naturgy's reputational image.	Criminal prevention model, Code of Ethics and Anticorruption Policy.	Heatmap/ Scenarios	↑	Commission of criminal offenses, sanctions, financial, reputational, contract and client losses.
Counterparty risk	Administrative and criminal sanctions. Damage arising from breach of contract.	Counterparty Due Diligence Procedure.			

Risk type	Description	Management approach	Metric		Trend
Climate change risk					
Climate change and energy transition	Uncertainty arising from the energy transition (regulation, markets, technologies, etc.) and the physical impacts of climate change.	Corporate positioning via the Global Environmental Policy and Environment Plan, which strengthen governance in climate issues and set emission reduction targets.	Stochastic/ Scenarios/ Heatmaps	↑	Regulatory uncertainty.

Metrics used:
- Stochastic: production of trend lines for the main magnitudes, taking the maximum deviation from the benchmark scenario to be the risk, within a pre-set confidence interval. Those magnitudes are generally EBITDA, earnings after taxes, cash flow and value.
- Scenarios: analysis of the impact, with respect to the benchmark scenario, of a limited number of possible incidents.
- Heatmap: the main risk factors for each risk category are assessed to quantify the impact and probability of the identified risks.

Market/commodity risk

Electricity and gas price volatility

An important part of Naturgy's operating results is linked to the purchase of gas to supply a diversified portfolio of customers.

Most of these gas supply contracts are signed in the long term with purchase prices based on a combination of different commodity prices, basically prices of crude oil and its derivatives, and natural gas hubs.

However, sales prices to end customers are generally agreed in the short/medium term and are conditioned by the supply-demand balance that exists at any given time in the gas market. This may imply a decoupling with gas supply prices.

Therefore, Naturgy is exposed to the risk of variations in the price of gas supply with respect to the sale price of end customers. The exposure to this risk is managed and mitigated by natural coverage, trying to balance the exposures to commodities of both prices. Additionally, some supply contracts allow this exposure to be managed through volume flexibility and price review mechanisms.

When it is not possible to achieve a natural hedge, the position is managed, within reasonable risk parameters, contracting derivatives to reduce exposure to price decoupling risk, generally designated as hedging instruments.

In the integrated electricity businesses, the company's aggregate exposure is determined by the generation/ commercial strategic positioning and by the final sales pricing policies in electricity commercialization.

Finally, the company is exposed to the evolution of the price of CO2 emission rights, destined for generation in its combined cycles. Conjuncturally, Naturgy invests part of its cash surpluses in notes linked to CO2.

Exchange rate risks

Naturgy has interests in various countries and is exposed to the exchange rate in each of its currencies, as well as to the dollar currency.

Exchange rate risk is largely mitigated by financing investments in local currency. Likewise, efforts are made to match the costs and revenues of the activities referenced to the same currency, as well as the amounts and maturities of assets and liabilities arising from operations denominated in currencies other than the euro.

Additionally, the exchange rate risk is managed by contracting financial derivatives, within the limits approved for hedging instruments, the level of exposure and the risk appetite approved in each year.

Margin/price risk

The liberalization processes both in Spain and in other relevant markets have had a significant impact in terms of competitive pressure on the final prices of the markets and on the definition of market shares.

In the electricity industry, liberalization in the European Union has increased competition with the entry of new agents, affecting the Spanish market, and may have an impact on the development of electricity generation and marketing businesses.

Naturgy monitors and quantifies the sales margins of all its businesses, identifies the relevant deviations in the margin spread assumptions and mitigates its risk by adapting sales and purchase formulas to all terms.

Gas and electricity volume risk

Part of the purchases of natural gas and liquefied natural gas (LNG) is made through long-term contracts, which include take-or-pay clauses under which Naturgy is obliged to purchase certain volumes of gas annually. Any downward deviation in gas demand may contractually obligate the payment of the minimum amount committed in accordance with said clauses.

On the other hand, in a scenario of gas shortage or excess demand, short-term supply extra costs may have a material adverse effect on the group's operating costs.

All volume risks are measured, monitored and quantified annually, evaluating the suitability of coverage for those linked to the weather (temperature, hydraulicity, etc.) whose management follows the policies and the approved risk appetite.

In the field of electricity generation, Naturgy's results are exposed to the variability of volumes, conditioned by the evolution of electricity demand and the generation mix in the market, which is being particularly affected by the growing weight relative to generation with renewable energies.

Naturgy manages its contracts and assets in an integrated manner, optimizing the energy balance.

Regulatory risk

Regulated and unregulated activities coexist in the gas and electricity distribution businesses. The legal regulations applicable to the gas and electricity sectors are typically subject to periodic reviews by the competent authorities, which may have an impact on the current remuneration scheme for regulated activities, affecting the operation of the business, as well as the economic situation of Naturgy.

All the specific legislation governing the establishment of the methodological frameworks for setting the remuneration for gas and electricity distribution and transportation/transmission in each of the countries and sectors is set out in the Regulatory Framework appendix 4 to the consolidated annual accounts.

As a consequence of the COVID-19 crisis, most of the authorities in the countries where Naturgy operates have established temporary regulatory measures that may affect regulated businesses.

Naturgy manages regulatory risk on the basis of regular communication with the regulators. In addition, in its regulated activities, Naturgy adjusts its costs and investments to the allowed rates of return for each business.

Operational risk

Naturgy's activities are exposed to various operational risks, such as breakdowns in the distribution network, accidents in power generation facilities LNG tankers accidents, explosions, pollutant emissions, toxic spills, fires, adverse weather conditions, contractual breaches, among others.

Additionally, claims might be brought against Naturgy for personal injury and/or other damage arising in the ordinary course of its operations. Such claims could result in the payment of indemnities under the legislation applicable in the countries in which Naturgy operates.

Naturgy has an extensive insurance programme that covers its operational exposure.

Cybersecurity risk

Naturgy is exposed to threats in connection with the availability, confidentiality, integrity and privacy of the information and technology that support business processes as well as the risk of non-compliance with regulations related to cybersecurity.

Such threats include, unauthorized access and the use, disruption, modification or destruction of information as a result of terrorist acts, malicious attacks, sabotage and other intentional acts.

Naturgy has contingency and security plans and insurance policies that cover such exposure

Environmental risk

Risk associated with the possibility that, naturally or by human action, environmental limits set by the regulator are exceeded, ecosystems or biodiversity are damaged. Naturgy pays special attention to the protection of the environment and the efficient use of natural resources, acting beyond compliance with legal requirements and involving suppliers, interest groups and promoting the responsible use of energy both in its own facilities and on clients.

Naturgy has identified the environmental risks at its facilities using the reference standard –UNE 150008 in Spain– as a basis. For its prevention, it has implemented an integrated management system that includes the operational control and environmental management procedures. Additionally, Naturgy has implemented emergency plans in facilities and warehouses at risk of environmental accidents, including an action plan, means of containment and regular drills. Naturgy takes out specific insurance policies to cover this type of risk.

The environmental risk is developed in detail in chapter 5 “The opportunity of environmental challenges” of the Sustainability Report and Statement of Non-Financial Information.

Reputational and ESG risk

Naturgy has identified its stakeholder groups and subgroups and defines reputational risk as the gap between those groups' expectations and the Company's performance in the environmental, social and governance dimensions.

Naturgy has drawn up a Sustainability Plan that determines the 2021-2025 commitments and lines of action, which accompanies the company's transformation process and is aligned with the 2021-2025 Strategic Plan, with the commitments of the Corporate Responsibility Policy and the Sustainable Development Goals (SDG).

In environmental aspects, the commitments under the Corporate Responsibility Policy are expanded upon the Global Environment Policy, which applies to all geographies and businesses, which establishes four strategic environmental axes:

1. Environmental governance and management
2. Climate change and energy transition
3. Circular economy and eco-efficiency
4. Natural capital and biodiversity

Climate change and energy transition risk

With the aim of integrating the climate variable into Naturgy's strategic planning, the identification, measurement and management of climate change risks and opportunities is carried out in accordance with the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD). The most outstanding result of this process in 2021 is the incorporation of the risks and opportunities of climate change in the new Strategic Plan 2021-2025, aligned with the international climate agenda.

Following the taxonomy of the TCFD, climate risk derives from two risk factors: from the energy transition, in regulation, market and technology risks and from the physical impacts of climate change, in acute climate risks (increase in extreme weather events) and chronic risks (sustained increase in average temperatures and rise in sea level).

Additionally, Naturgy is a member of a number of working groups at European level, which will enable it to adapt its strategy to new regulatory developments in advance. It is involved in clean development projects aimed at reducing CO_2 emissions.

The risk of climate change and energy transition is developed in detail in chapter 5 "The opportunity of environmental challenges" of the Sustainability Report and Statement of Non-Financial Information.

Other risks

Financial risks (interest rate, credit risk, liquidity risk and rating) and Legal are developed in Notes 18 and 36 of the Consolidated Annual Report, respectively.

The Tax, Compliance, Data Protection, Processes, Security and Fraud risks are developed in chapter 4 “Integrity and Trust” of the Sustainability Report and Non-Financial Information Statement. Likewise, the Health and Safety and Customer Satisfaction risks are developed in chapter 7 “Commitment and Talent” and chapter 6 “Customer Experience” of the same report, respectively.

4.3. Main opportunities

At Naturgy, the energy transition is seen as an opportunity to transform the business and promote the necessary changes to achieve a low-carbon economy. Naturgy's main opportunities are as follows:

- **Focus on stable geographical areas**, with low risk and strong currency, which allow capture energy demand growth and maximize business opportunities in new markets.
- **Renewable generation**: increase renewable generation capacity aligned with the global energy transition.
- **Operation and growth in Networks,** based on solid regulatory frameworks with long-term visibility and focused on continuous improvement, digitization and automation.
- **Technological developments and innovation**: development of innovation projects in hydrogen and its blending in gas networks, renewable gas, energy efficiency, sustainable mobility and fair transition.
- **Natural gas and LNG supply portfolio**: continuous review and optimization of supply contracts, transition in the indexation of oil prices to hub, continuous risk management to guarantee predictable cash flows and adequacy of the fleet of LNG ships putting value its flexibility.

5. Subsequent events

Events subsequent to the end of the period are described in Note 39 of the Notes to the Consolidated Annual Accounts.

6. Forecast Group performance

6.1. Vision

Strategic pillars

On July 28, 2021, Naturgy presented the 2021-2025 Strategic Plan, which addresses a new stage that aims to promote our industrial growth while maintaining financial discipline and taking advantage of the opportunities of the energy transition; and to become a best-in-class reference operator through the digitization of processes.

The new plan is based on five solid pillars to promote Naturgy's transformation:

1. Growth
2. Focus
3. *Best-in-class*
4. ESG (environment, society and governance)
5. Culture

Growth

Our growth aims to be mainly organic, consistent with the energy transition and capable of taking advantage of asset rotation to accelerate the transformation.

- Mainly organic, maintaining capital discipline.
- Consistent with the energy transition.
- Opportunistic asset rotation to accelerate transformation.

Focus

We focus on renewable projects in early stages of development and stable geographies; also in network projects, with a prominent role of digitization and a stable regulatory framework.

- Renewables and networks.
- Stable geographies and regulatory frameworks.
- Volatility reduction in procurement commitments.

Best-in-class

We are committed to continuous improvement, increasing the digital footprint and reinventing relationships with our customers.

- Continuous improvement.
- Increasing digital footprint.
- Reinventing customer relationships.

ESG

We have a firm commitment to environmental and social matters. Our roadmap includes a Sustainability Plan with solid objectives in the environmental, social and governance fields, thus integrating ESG into the core of the company.

- Embedded at the core
- Aligned with SDG.
- Tangible targets to meet commitments.

Culture

Our corporate culture must intensify the passion of our professionals, allow us to establish our values and be aligned with our stakeholders.

- Fueling passion on our employees.
- Solidifaying core values.
- Aligned with stakeholders..

Key investment objectives

In economic matters, our Strategic Plan pursues ambitious investment objectives, setting an estimated investment for this period of **14,000 million euros.**

This investment is established by maintaining financial discipline as a pillar and focusing on projects with predictable returns. On the other hand, 80% of the planned investment will be eligible according to the EU taxonomy of sustainable finance, thus being aligned with the energy transition.

The investment is distributed as follows:

Renewables

Euros 8,700 million

- Proven generation technologies.
- Focus on attractive geographies.
- Commitment to innovation.
  - Distributed generation.
  - Biogas and hydrogen.
  - Sustainable mobility.

Networks

Euros 4,100 million

- Focus on solid frameworks with proactive regulatory management.
- Ongoing projects to achieve full automation and remote operation.
- Adapting existing infrastructures to play a key role in energy transition.

ESG at the core of our vision

The Strategic Plan is part of Naturgy's commitments to the environment, society and governance (ESG). Placing sustainability as the backbone of our strategy on our roadmap allows us to reduce our environmental impact, increase the involvement and commitment of all our stakeholders and endorse ourselves as a responsible company with the energy transition.

Our 2025 objectives in ESG are the following:

Environment

Net Zero by 2050

- Reduce total CO2 emissions by 24% (2025 vs 2017).
- Protect Biodiversity, reaching a figure of more than 350 projects to preserve ecosystems.

Social

Gender parity by 2030

- Enhace diversity, reaching more than 40% of women in management positions.
- Extending ESG throughout supply chain up to 95%.

Governance

Management compensation aligned with ESG

- Variable pay of 10% linked with ESG objectives.
- Implement climate change risk reporting and taxonomy to maintain leadership positions in the sustainability indices.

6.2. Roadmap

Based on these strategic pillars, a roadmap is developed that is specified in economic objectives for each of the businesses.

Renewables

It is defined for the renewable business a growth strategy based on:

1. Stable geographies

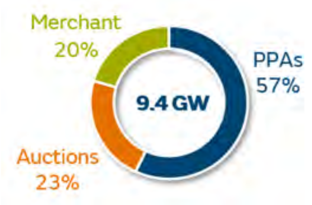
- Low risk and hard currency
- Solid regulatory frameworks
- Long-term visibility

2. Proven technologies

- Solar PV, onshore wind and storage
- 14 GW in operation by 2025
- Tangible pipeline with visibility

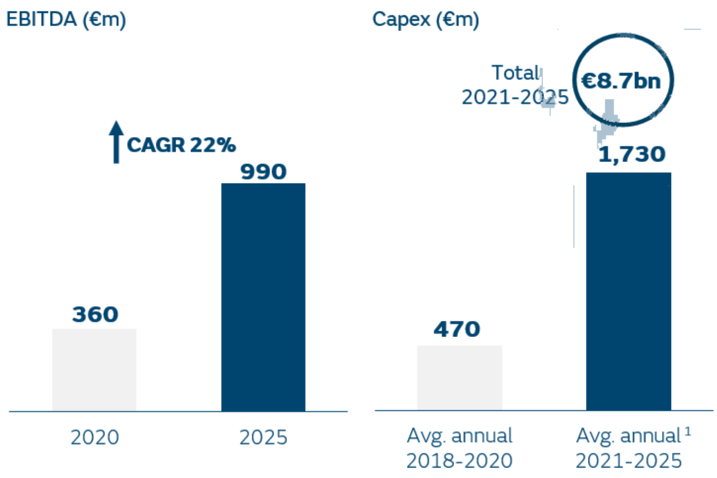
3. Customer base as a natural hedge

Balancing risks with new capacity (4.6 GW in 2020 to 14.0 GW in 2025)



New installed capacity

Financial estimates



Networks

The following key transformation initiatives are defined for the network business:

1. Spain Electricity networks

- At the forefront of electricity networks digitalization
- Increasing investment commitments in line with sector requirements

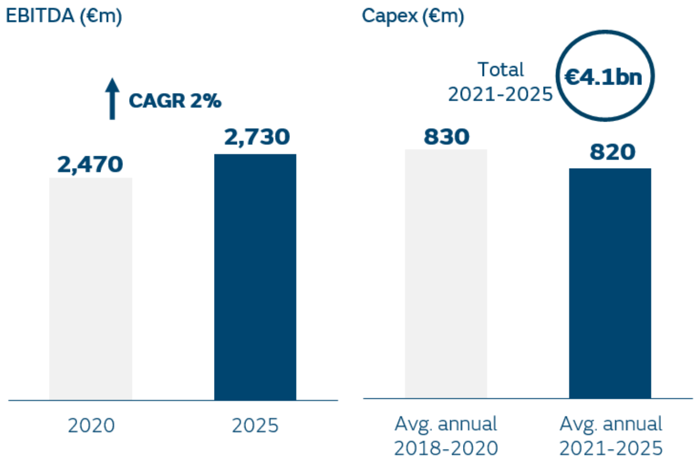
2. Spain gas networks

- Networks digital transition to ensure bes-in-class operations
- Commercial repositioning
- Accelerating contribution to decarbonization

3. LatAm networks

- portfolio management
- Investments to guarantee maintenance and safety standards

Financial estimates



Energy management

The following key transformation initiatives are defined for the energy management business:

1. Markets and procurements

- Progressive downsizing of procurements commitments
- Ongoing review and optimization of procurement contracts (oil to hub indexation transition)

2. International LNG

- Risk management to ensure predictable cash flows
- Downsizing of LNG tanker fleet under time charter
- Exploring value alternatives

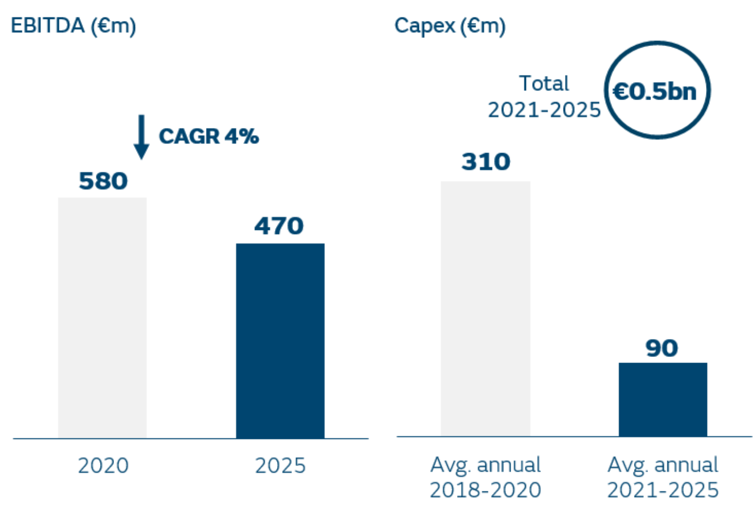
3. Spain thermal generation

- Remote operation and bottom-up process review of CCGT fleet
- Mothballing of non-performing CCGTs
- Working on hybridization alternatives
- Proactive regulatory management (system back-up)

4. LatAm thermal generation

- New opportunities for excess capacity over PPAs
- Cost and investments efficiency
- Exploring value alternatives for Mexico CCGTs

Financial estimates



Supply

The following key transformation initiatives are defined for the marketing business:

1. Boost competitiveness

- Market repositioning
- Integrated energy offering
- Refocusing of distribution channel strategy, including additional third party agreements
- Enhance profitability

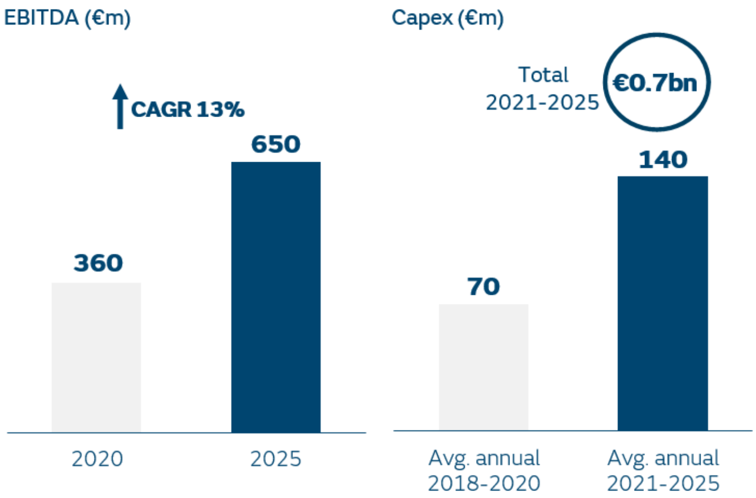
2. Reinvent customer relationships

- Redefined customer service
- Enhanced data analysis and customer segmentation
- Increased loyalty through customer value management

3. Accelerate digital transformation

- Transition to a new, simpler and integrated digital platform
- Enhanced efficiency in every single operating process

Financial estimates



6.3. Summary

Dividend policy and capital allocation

The dividend policy is set with the aim of maintaining a solid BBB rating throughout the period. In this way, a dividend of 1.20 euros per share per year is established, which will be reassessed in 2023 depending on the performance and execution of the transformation.

The allocation of capital for the period 2021-2025 detailed between origins and uses is as follows:

Key figures

The 2025 objectives for the main economic magnitudes are detailed below:

Key figures	**2020**	**2025**	
Ordinary EBITDA	~3.700	~4.800	TACC 5,1%
Ordinary Net income	~900	~1.500	TACC 12,0%
Leverage (FFO/DN)	17.1 %	20.7 %	Rating BBB
Net debt	~13.600	~16.800	
	PE 2018-22	**PE 2021-25**	
Capex	~8.400	~14.000	x 1,7
Dividends (*Pay-out* on ordinary Net Income)	120 %	85 %	1,20 €/share

7. Sustainable innovation

Management vision and approach

The ecological transition to a carbon neutral economy is an opportunity in environmental, social and economic terms. It allows us to reduce our dependence on foreign energy, improve our trade balance and move towards a prosperous, modern economy. In this global context, meeting the challenge of climate neutrality requires a transformation of the energy system. Achieving this objective requires a horizontal vision that abandons the classic approach of analyzing and managing the main energy uses (electricity, heating, industrial heat, transportation) individually and adopts a smart sectoral integration that flexibly combines renewable generation, storage, demand-side management and the production of renewable fuels to optimize energy resources. This new energy model must be supported by:

- **Innovation**, which is a key lever for growth as it enables the adoption of new or better practices, new business models and technological solutions that contribute to process digitalization, automation and optimization, guaranteeing safety and operational improvement and facilitating access to information for better decision making, aimed at creating value and ensuring the company's competitiveness in the long term. Always to the fore, putting the customer at the center of what it does.
- **Optimization of renewable energy generation** through innovative systems because of their improved energy efficiency, their capacity for integration in the environment, in buildings or in business, their lower costs or greater reliability, and models that allow new players into the system and cover part of the energy needs of homes, SMEs and governments.

- Harnessing energy directly through new **manageable electricity demand applications that lend flexibility**, e.g. in climate control and mobility, and through storage for subsequent use as electricity or heat, in daily or seasonal storage systems.
- Production of **renewable gases**, particularly hydrogen, for end users where electrification is not technically feasible or economically viable. This is an efficient solution providing immediate decarbonization in hydrogen-intensive industries that currently use natural gas reforming and high temperature processes; also in heavy goods transport, maritime transport, rail transport and aviation. The fact that it is an energy vector gives it great potential for energy storage and integration into industry.

On this basis, Naturgy is developing an extensive programme of investment in renewable energies as a result of the Strategic Plan 2021-2025 and developing new lines of business in areas such as renewable gases (hydrogen and biomethane), storage and sustainable mobility; all of this to provide a broad range of value-added services and promote sustainable innovation as a driver of development. Examples include the additional investment opportunities under the Next Generation EU programme, focusing on renewable gases by developing projects such as La Robla and Meirama (green hydrogen plants), a network of hydrogen stations along the Spain's main heavy goods transport routes, and combining hydrogen and natural gas in turbines and cogeneration engines.

Investment in innovation (million euro)

In 2021, a total of Euros 59 million were spent on innovation (Euros 37 million in 2020), as indicated below:

	2021	2020
Investment in innovation	59	37

Main lines of innovation

The main lines of innovation on which Naturgy is working are described below:

Renewable gases

Basing decarbonization of the economy predominantly on a high level of electrification with renewable energies faces technical limitations in certain energy-intensive sectors, such as manufacturing and transportation. Since electrification cannot cover all energy demand, further integration of electricity and gas is an effective solution to achieve the decarbonization goals by taking advantage of the complementarity of renewable gases, gas infrastructure and electricity. The gas grid currently has a high storage capacity, and a level of reach and capillarity that make it possible to transport large amounts of energy to where it is to be consumed; these are essential factors for the use of renewable gases to decarbonize the end-use of energy at all points where natural gas is currently used. The development of renewable gases, biomethane and hydrogen, is part of the Just Transition Strategy and one of the areas of the energy transition that represents the greatest opportunities for job creation. They are identified as a way to decarbonize and generate employment in transportation and manufacturing while placing special emphasis on the creation of green jobs in rural areas, in line with Spain's strategy against depopulation.

As one of the main operators of basic natural gas infrastructures, Naturgy accepts its leading role as a driver of the development of the renewable gas value chain.

Biomethane

The production of biomethane, a renewable gas, from livestock, agricultural or industrial organic waste, or from landfills and wastewater plants, is an excellent example of the circular economy in the energy sector, providing significant environmental benefits and a supplementary source of income for rural areas.

Naturgy is working both on the development of projects with the integrated value chain (including waste management, biogas production and biomethane production and marketing), and on projects where biogas is available and the scope is focused on biomethane production and marketing.

Naturgy has experience in the development of renewable gas on a commercial scale, acquired in projects launched in recent years such as Methamorphosis, in Vilasana (Lleida), as well as the one located at the Bens (A Coruña) wastewater treatment plant (WWTP).

Naturgy also has 32 projects under development for biogas production and upgrading to biomethane for injection into the natural gas grid:

- 8 projects using livestock waste (1,408 GWh/year).
- 4 projects using WWTP sludge (170 GWh/year).
- 16 projects using industrial waste (595 GWh/year).
- 3 projects using the organic fraction of municipal solid waste (109 GWh/year).
- 1 project using agricultural waste (85 GWh/year).

Hydrogen

The renewable hydrogen value chain is at an incipient stage of development, with pilot projects that use hydrogen in place of fossil or other fuels.

Not all sectors of the economy will adopt hydrogen at the same pace because of differences in uses and availability, as well as the cost of the final equipment. In the short term, renewable hydrogen penetration can leverage sectors that already consume grey hydrogen, such as refineries and fertilizer plants.

Green hydrogen has a promising future provided that it receives the necessary boost from governments and the private sector to implement large-scale projects in line with the projected technology roadmap.

Spain's Hydrogen Roadmap set a target of 4 GW of installed electrolysis capacity by 2030, which is 10% of the target set by the European Union in its Hydrogen Strategy for that same year.

Naturgy has long been researching hydrogen development, because the renewable resource, the existing infrastructure and Spain's geostrategic position mean that the country has all the potential to become a hydrogen exporter in the future. This new energy could be exported through the current gas infrastructure, which would enable integration between the electricity and gas grids to create a more efficient and resilient energy system.

Also, like LNG, hydrogen can also be transported over long distances in liquid form. In a context in which there is global trading of hydrogen, this form of transport and distribution can be vital and Naturgy could play an essential role by contributing its international capacity and knowledge throughout the value chain.

During 2021, the company worked on the development of large renewable hydrogen production hubs linked to just transition zones, especially in areas affected by the closure of the group's thermal power plants. The objective of developing multi-demand hubs is to promote the development of new markets for direct consumption in industry, injection into the gas network for commercialization with guarantees of origin, mobility, and production of H2 derivatives: ammonia, methanol, etc.

Storage

Renewables penetration is growing steadily. According to Spain's National Integrated Energy and Climate Plan (PNIEC), by 2030, 74% of the energy mix will be made up of renewable energies, principally wind and photovoltaic. This presents the energy system with the challenge of equipping itself with flexible tools to manage production, match generation and consumption, avoid sudden drops in production, and provide firm capacity to the system. In this scenario, storage is key to the security and quality of supply.

During 2021, Naturgy worked on several initiatives:

- **Hybridization projects in its generation fleet**, mainly in wind and photovoltaic farms. The hybridization of storage with generation will make grid-connected renewable capacity manageable, providing flexibility and firm capacity to the system.

- Deployment of **stand-alone storage** in key areas where there is either grid congestion or loss of firm capacity due to the closure of thermal power plants. In technology terms, the challenges are similar to those of hybridization projects in wind farms — mainly managing the control system to achieve optimal operation.
- Development of a **new storage model** to optimize, in both economic and technical terms, the implementation of hybridized systems with storage in small generating facilities that are close to each other. Since there is currently no regulatory framework for this, it will be developed as a regulatory test case.

These projects are being developed with Spanish technology partners and research centers, with the aim of generating employment and strengthening the business fabric throughout the project value chain.

Sustainable mobility

In 2021, the company continued to focus on the nationwide roll-out of a network of natural gas filling stations open to the public.

The most notable initiatives in 2021 were as follows:

- Signature of the first **biomethane for vehicles** contract. Naturgy agreed to supply up to 2GW/year of biomethane for the last-mile delivery fleet of Aquaservice, a water distributor. This fuel substitution will contribute to reducing emissions by up to 350 tCO2/year, which is equivalent to taking 53,000 vehicles in a city off the road for one day. The biomethane is from Naturgy's production plant at the Elena landfill.
- Supply of **renewable gas to the first bus** in Zaragoza. In partnership with Consorcio de Transportes del Área de Zaragoza, Automóviles Zaragoza, Scania and Calvera, Naturgy supplied 150 MWh of biomethane from the company's plant in Vilasana (Lleida) for the purification of biogas obtained from slurry digestion. This biomethane was used to propel a city bus, which ran for three months between Zaragoza and Villamayor de Gállego.
- Alliance for the development of **hydrogen mobility**. Signature of an agreement with Enagás, through its subsidiary Scale Gas, and Exolum, to jointly study and develop infrastructures for the production, distribution and supply of green hydrogen in the mobility sector nationwide. This is the first major alliance for hydrogen in mobility corridors. The project will be called Win4H2. The agreement covers the development of a network of 50 hydrogen service stations, which will offer homogeneous penetration of this energy vector in Spain, enabling any user to choose the green hydrogen solution with guaranteed supply in 100% of mainland Spain.

8. Annual corporate governance report

Attached as an Appendix and forming an integral part of this Directors' Report is the Annual Report on Corporate Governance 2021, as required by article 538 of the Capital Companies Act.

9. Annual Board Remunerations report

Attached as an Appendix and forming an integral part of this Directors' Report is the Annual Board Remunerations Report 2021, as required by article 538 of the Capital Companies Act.

10. Additional information

10.1. Treasury shares

Movements during 2021 and 2020 involving treasury shares of Naturgy Energy Group, S.A. are as follows:

	Number of shares	Amount (million euro)	% Capital
01.01.2020	**13,823,485**	**321**	**1.4**
Share acquisition plan	470,000	8	—
Delivered to employees	(455,797)	(8)	—
2019 buyback programme	9,346,025	178	0.9
Capital reduction	(14,508,345)	(298)	(1.6)
31.12.2020	**8,675,368**	**201**	**0.9**
Share acquisition plan	127,453	3	—
31.12.2021	**8,802,821**	**204**	**0.9**

In 2021 and 2020, no gains or losses were made on transactions involving treasury shares.

On 5 March 2019, the shareholders in general meeting authorised the Board of Directors to purchase, within five years, in one or more operations, fully paid Company shares; the nominal value of the shares directly or indirectly acquired, added to those already held by the Company and its subsidiaries, must not exceed 10% of share capital or any other limit established by law. The price or value of the consideration may not be lower than the par value of the shares or higher than their quoted price.

The minimum and maximum acquisition price will be the share price on the continuous market of the Spanish stock exchanges, within an upper or lower fluctuation of 5%.

Transactions involving the treasury shares of Naturgy Energy Group, S.A. relate to:

2021

- Share Acquisition Plan: In accordance with the resolutions adopted by the shareholders of Naturgy Energy Group, S.A. at the general meeting held on 5 March 2019, within the Share Acquisition Plan 2020-2023, the one relating to 2021 addressed to Naturgy employees in Spain who decide voluntarily to take part in the Plan was set in motion. The Plan enables participants to receive part of their remuneration in the form of shares in Naturgy Energy Group, S.A., subject to an annual limit of Euros 12,000. During 2021, 127,453 of the Company's own shares were acquired for Euros 3 million to be handed over to the employees taking part in the Plan. The shares will be delivered in January 2022.

2020

- Share Acquisition Plan: In accordance with the resolutions adopted by the shareholders of Naturgy Energy Group, S.A. at the general meeting held on 5 March 2019, within the Share Acquisition Plan 2020-2023, the one relating to 2020 addressed to Naturgy employees in Spain who decide voluntarily to take part in the Plan was set in motion. The Plan enables participants to receive part of their remuneration in the form of shares in Naturgy Energy Group, S.A., subject to an annual limit of Euros 12,000. During 2020, 470,000 treasury shares were acquired for Euros 8 million to be handed over to the employees taking part in the Plan and 455,797 shares have been delivered, leaving a surplus of 14,203 shares. In addition, there is an additional surplus of 21,570 shares from 2019.

- 2019 share buyback programme: The Board of Directors of Naturgy Energy Group, S.A. approved a treasury share buyback programme, which was published on 24 July 2019, with a maximum investment of Euros 400 million to 30 June 2020 representing approximately 2.1% of share capital on the date of notification, the redemption of which was ratified by the shareholders at the annual general meeting held on 26 May 2020. At 30 June 2020, a total of 14,508,345 treasury shares had been acquired under this programme at an average price of 20.6 euros per share, representing a total cost of Euros 299 million (5,162,320 treasury shares at an average price of 23.3 euros per share with a total cost of Euros 121 million at 31 December 2019), which were applied to reduce capital.

- Capital reduction: At a meeting held on 21 July 2020, the Board of Directors of Naturgy Energy Group, S.A. resolved to implement the capital reduction resolution approved at the annual general meeting of shareholders held on 26 May 2020, whereby it approved a reduction in the share capital of Naturgy Energy Group, S.A. to a maximum of Euros 21,465,000, relating to:

    a. the 465,000 treasury shares held by the Company at close of trading on 24 July 2019.

    b. the 21,000,000 additional shares with a par value of one euro each which were acquired and may continue to be acquired for redemption by the Company under the treasury share buyback programme (the “Buyback Programme”) approved by the Company under Regulation (EU) No. 596/2014 on market abuse and disclosed as price-sensitive information on 24 July 2019 (registration number 280517). The time limit for acquiring these shares was 30 June 2020.

In this respect, as Naturgy Energy Group, S.A. had acquired a total of 14,043,345 shares at 30 June 2020 under the approved buyback programme referred to in paragraph (b) above, the Board of Directors set the figure for the capital reduction at Euros 14 million (the "Capital Reduction") and agreed to implement this reduction. The Capital Reduction was carried out through the redemption of 14,508,345 treasury shares with a par value of 1 euro each, representing approximately 1.47% of the Company's share capital at the time of adoption of the resolution in question. Following the Capital Reduction share capital stood at Euros 970 million, made up 969,613,801 shares with a par value of 1 euro each.

Note 14 of the Notes to the Consolidated Annual Accounts contains full information on treasury shares.

10.2. Disclosure of delays in payment to suppliers. Additional Provision 3 “Duty of disclosure” of Law 15/2010 of 5 July

The total amount of payments made to suppliers during the year, with details of payment periods, according to the maximum legal limit under Law 15/2010 of 5 July, which laid down measures against late payment in Spain, is as follows:

	2021	2020
Total payments (million euro)	14,463	8,681
Total outstanding payments (million euro)	398	243
Average supplier payment period (days) (1)	19	22
Transactions paid ratio (days) (2)	20	22
Transactions pending payment ratio (days) (3)	16	22

(1)+Calculated on the basis of amounts paid and pending payment.
(2) Average payment period in transactions paid during the year.
(3) Average age of supplier accounts payable.

Appendix I. Alternative performance metrics

Naturgy's financial disclosures contain magnitudes and metrics drafted in accordance with International Financial Reporting Standards (IFRS) and others that are based on the Group's disclosure model, referred to as Alternative Performance Metrics (APM), which are viewed as adjusted figures with respect to those presented in accordance with IFRS.

The chosen APMs are useful for persons consulting the financial information as they allow an analysis of the financial performance, cash flows and financial situation of Naturgy, and a comparison with other companies.

Below is a glossary of terms with the definition of the APMs. Generally, the APM terms are directly traceable to the relevant items of the consolidated balance sheet, consolidated income statement, consolidated statement of cash flows or notes to the annual accounts of Naturgy. To enhance the traceability, a reconciliation is presented of the calculated values.

Alternative performance metrics	Definition and terms	Reconciliation of values at 31.12.2021	Reconciliation of values at 31.12.2020	Relevance
EBITDA	EBITDA = Revenue (2)– Procurements (2) + Other operating income (4)– Personnel expenses (4)– Other operating expenses (4) + Own work capitalised (4)	Euros 3.529 million	Euros 3,449 million	Measure of operating income before interest, taxes, depreciation and amortisation and impairment
Ordinary EBITDA	EBITDA - Non-ordinary items (7)	Euros 3.983 million = 3.529 + 454	Euros 3,714 million = 3,449 + 265	EBITDA corrected for impacts related to restructuring costs and other non-ordinary items considered material for a better understanding of the Group's underlying results
OPEX	Personnel expenses (4)+ Own work capitalised (4)+ Other operating expenses (excl. taxes) (4)	Euros 2.171 million =940 + 77 + 1.315 – 161	Euros 1,682 million =798 + 77 + 1,180 – 373	Operating expenses recognises in profit or loss, excluding taxes
Ordinary profit	Attributable income for the year - Non-ordinary items(8)	Euros 1.231 million = 1.214 + 17	Euros 872 million = -347 + 1,219	Attributable income corrected for impacts of impairment, divestments and discontinued operations and other non-ordinary items that are considered to be material for a better understanding of the Group's underlying results
Capital expenditure (CAPEX)	Investment in intangible assets (4) + Investment in property, plant and equipment (4)	Euros 1.484 million = 288 + 1.196	Euros 1,279 million = 187 + 1,092	Investment in intangible assets and property, plant and equipment
Net capital expenditure (Net CAPEX)	CAPEX (5) - Other investment receipts/(payments)	Euros 1.423 million = 1.484 – 61	Euros 1,228 million = 1,279 – 51	Total investments (CAPEX) net of the cash received from divestments and other investing receipts
Gross borrowings	"Non-current financial liabilities"(1) + "Current financial liabilities"(1)	Euros 16.812 million = 15.114 + 1.698	Euros 17,539 million = 14,968 + 2,571	Current and non-current borrowings
Net borrowings	Gross borrowings(5)– "Cash and cash equivalents"(1) – "Derivative financial assets"(4) (Note 18)	Euros 12.831 million = 16.812 - 3.965 – 16	Euros 13,612 million = 17,539 - 3,927 – 0	Current and non-current borrowings less cash and cash equivalents and derivative financial assets
Leverage (%)	Net borrowings(5) / (Net borrowings(5) + "Net equity"(1))	59,1% = 12.831 / (12.831 + 8.873)	54.7% = 13.612 / (13,612 + 11,265)	The ratio of external funds over total funds
Cost of net borrowings	"Cost of borrowings"(4) (Note 30) – "Interest"(4) (Note 30)	Euros 491 million = 510 - 19	Euros 498 million = 515 - 17	Amount of expense relative to the cost of borrowings less interest revenue
EBITDA/Cost of net borrowings	EBITDA(5)/ Cost of net borrowings(5)	7,2x = 3.529 /491	6.9x = 3,449 /498	Ratio between EBITDA and net borrowings
Net borrowings/EBITDA	Net borrowings(5) / EBITDA(5)	3,6x = 12.831/ 3.529	3.9x = 13,612/ 3,449	Ratio between net borrowings and EBITDA
Net borrowings / Ordinary EBITDA	Net borrowings(5) / Ordinary EBITDA(5)	3,2x = 12.831 / 3.983	3.7x = 13,612 / 3,714	Ratio between net borrowings and Ordinary EBITDA.
Market capitalisation	No. of shares ('000) outstanding at end of period(6) * Market price at end of period(6)	Euros 27.760 million = 969.614 * 28,63 euros	Euros 18,384 million = 969,614 * 18.96 euros	Measure of the company's total value based on its share price
Free cash flow after non-controlling interests	Free cash flow (5)+ Parent company dividends (4)+ Purchase of treasury shares (4)+ Inorganic investment payments (4)	Euros 2.113 million = 1.149 + 1.278 + 3 - 317	Euros 1,626 million = 79 + 1,359 + 184 + 4	Net cash generated by the company that is available for distribution to shareholders (via dividends or buybacks), inorganic investment payments and debt payments
Net free cash flow	Cash flow generated from operating activities (3) + Cash flows from investing activities(3) - Other receipts GC divestments (4) + Cash flows from financing activities(3) – Receipts/payments from financial liability instruments(3)	Euros 1.149 million = 1.001 + 1.896 + 0 – 2.851 + 1.103	Euros 79 million = 3,432 – 1,142 -190 – 388 - 1,633	Net cash generated by the company that is available for payment of debt

(1) Consolidated balance sheet line item.

(2) Consolidated income statement line item.

(3) Consolidated statement of cash flows line item.

(4) Figure detailed in the Notes to the consolidated annual accounts.

(5) Figure detailed in the APMs.

(6) Figure detailed in the Directors' Report.

(7) The non ordinary items are summarized bellow:

	Ebitda		**Net income**	
Euros million	**2021**	2020	**2021**	2020
Restructuring costs	(410)	(197)	(291)	(144)
Asset write-down	—	—	(11)	(1,019)
Interest sales and corporate transactions	—	—	4	10
Chile mergers tax effect	—	—	—	—
Regulatory fines	—	(1)	—	—
Provisions reversal	6	37	4	28
Sales of land and buildings	5	7	3	5
Procurement agreement	36	(94)	28	(76)
Lean transformation costs	(39)	—	(27)	—
Taxes	188	—	164	—
UFGas agreement	—	—	127	—
Withdrawal costs of onerous contracts with gas customers	(234)	—	(176)	—
Discontinued operations	—	—	113	17
Other	(6)	(17)	45	(40)
Total	**(454)**	**(265)**	**(17)**	**(1,219)**

Appendix II. Non-financial information statement

Naturgy

Sustainability Report and Non-Financial Information Statement 2021

Summary

01. Letter from the Chairman

[102-1] and [102-14]

Dear readers,

During 2021 we have witnessed how the world tried to heal the human, social and economic damage caused by the health crisis and to recover the usual pace of pre-COVID-19 times in a context of great uncertainty about the evolution of the pandemic.

These last few years have shown us that there is a global will to accelerate recovery and the commitment to move towards a truly sustainable development model. Governments, regulators, markets, companies and, in short, individuals are increasingly united in the face of challenges such as climate change, the circular economy and inequality.

The commitment to the fight against climate change is increasing at regulatory level, as demonstrated by the European Union's goal of becoming the first climate-neutral continent by 2050, which will lead to a sweeping transformation of all productive sectors, with an especially significant impact on the energy sector.

A company that transforms

In this context, at Naturgy we continue to work on the company's future, adapting to the changing environment. Our answer is the Strategic Plan 2021-2025, unanimously approved by the Board of Directors, which will boost our role in the energy transition and decarbonisation. It is a challenging roadmap aligned with the transformation that Naturgy has been introducing over the last four years.

This Strategic Plan, with an investment of Euros 14 billion, has growth as its primary objective, while maintaining financial discipline, consistent with the energy transition and which should help us to accelerate this transformation.

In addition, the company has also presented investment opportunities worth a further Euros 14 billion, for the Next Gen EU programme. in six strategic areas: renewable gases, renewable electric energy, sustainable mobility, Just Transition, energy efficiency and digitalisation.

Additionally, at Naturgy we want to consolidate our position as a best-in-class operator in all the businesses in which we operate - generation, distribution and commercialisation of energy - and we want to achieve this through the continuous improvement of our operations, relying on greater digitalisation and reinventing our relationship with our customers.
This ambitious Plan is supported by two more fundamental pillars: the commitment to Environmental, Social and Governance (ESG) aspects and the consolidation of a corporate culture driven by a transformational purpose that puts people at the forefront of all our goals.

We have structured this firm commitment in our Sustainability Plan 2021-2025, which defines 6 drivers with 21 lines of action and 74 objectives committed to and aligned with the Sustainable Development Goals of the 2030 Agenda.

We are aware that executing this strategy requires a cultural evolution, which mainly involves strengthening employee passion for the project, consolidating core values and aligning everyone with our stakeholders. To this end, we have defined our purpose: "Transforming together".

"Transforming together" means that at Naturgy we are convinced that together we can transform the world through energy, tackling with determination the challenges of the energy transition and the demands of society and our customers, working with excellence, transparency and the talent of a committed team.

At Naturgy, we want to address this transformation collectively and under four fundamental values: from an innovative, proactive and adaptive vision, facing the challenges and driving the opportunities of the energy transition, new business models and digitalisation (Forward Vision); through leadership, determination and continuous improvement, focused on generating value from each of the businesses and markets, and responding rigorously to the expectations of all stakeholders (Excellence Driven); from the most human side, taking into account the needs of people (People Oriented) and to contribute to a more sustainable world (One Planet).

A company that grows

During 2021, Naturgy has made progress in the fulfilment of its roadmap.

Although the year was marked, especially in the second part of the year, by volatility in the international gas markets and regulatory uncertainty, Naturgy experienced a recovery in demand and ended the year with a net ordinary profit of Euros 1,231 million.

The most important ordinary performance measures showed:

- Net turnover amounted to Euros 22,130 million.
- Gross operating profit was Euros 3,983 million.
- Cash-flow generation stood at Euros 2,113 million.
- Total net debt came to Euros 12,831 million.
- Growth Capex amounted to Euros 952 million.
- We paid Euros 1,140 million in direct taxes, and Euros 1,120 million in mainly VAT.

A company focused on climate neutrality

In 2021, we learnt from the IPCC's Sixth Assessment Report that human activity has unequivocally warmed the global climate since pre-industrial times. Naturgy, as a company present in multiple regions, is increasingly committed to the fight against climate change, which we also see as a strategic opportunity. That is why we want to play a leading role in this transformation of the energy sector. Proof of this is that more than 60% of the estimated investment in the strategic plan will be used to triple the company's installed renewable generation capacity to 14 GW by 2025.

In addition, we are committed to the promotion of renewable gases such as biogas or green hydrogen as a way to decarbonisation. During the second quarter of 2021, Naturgy became the first company in Spain to inject renewable gas into the gas distribution network, placing us at the forefront of innovation in the development of this new energy vector, which will contribute significantly to decarbonisation of the energy system and, consequently, to the reduction of carbon emissions and the promotion of the circular economy. In our strategy we estimate the injection of more than 1 TWh of renewable gas into the gas grid in Spain by 2025. Presently, 95% of Naturgy's gas distribution networks are already prepared for renewable gas and hydrogen.

Naturgy looks to be a key player in the energy transition, so it is committed to becoming carbon neutral by 2050, reducing total emissions, scopes 1, 2 and 3, by 24% in 2025 compared to the base year 2017, as reflected in the Strategic Plan and our Sustainability Plan.

In this regard, during 2021 we have continued to take firm strides towards achieving our goals. Proof of this is the evolution of direct Scope 1 emissions, which were 13 $MtCO_2eq$, representing 37% less than in 2017, our base year, or the total carbon footprint, which also incorporates indirect emissions, which was 150 $MtCO_2$, 9% lower than in 2017.

One notable milestone in the regulatory field has been the final approval at the end of 2021 of the Delegated Regulations with the technical criteria for the selection of sustainable economic activities in accordance with the EU Taxonomy and the contents, presentation and methodology for their disclosure.

This year Naturgy has undertaken the classification of its activities in accordance with the Taxonomy in a rigorous and uniform way, to determine the company's level of contribution to the defined environmental objectives and, at the same time, to provide shareholders and investors with security in the face of greenwashing.

In this way and in anticipation of the 2022 disclosure requirements, the company has conducted a preliminary analysis of the proportion of eligible and aligned activities in accordance with the European Taxonomy. Eligibility results for turnover, Opex and Capex indicators are 10%, 37% and 61% respectively. Additionally, 10 of the 11 eligible activities are 100% aligned.

However, the company's environmental commitment is not limited to climate change. Biodiversity protection is also closely linked to the climate challenge and requires urgent action by everybody. Naturgy allocates resources and collaborates with entities and experts with the aim of minimising the impact on biodiversity and achieving no net loss of biodiversity, promoting the net creation of natural capital whenever possible. By 2025, we are committed to more than 350 activities per year. We are on track to achieve this goal, as by 2021 the company has carried out 302 biodiversity actions.

A company focused on excellence

In an increasingly demanding environment, with high competitiveness and in a challenging context, we are unable to comprehend transformation without excellence. Excellence that implies leadership, determination and continuous improvement.

Leadership, because in a year in which the price of electricity has broken records on a daily basis, Naturgy has thought about people and has taken a step forward by launching the Commitment initiative. The initiative allocates all available infra-marginal installed capacity to supply electricity at a competitive price of Euros 65/MWh, which will be held for three years and will be applied automatically for current and new customers. Thus, the company wants to help households, companies and SMEs to cope with a situation never seen before.

During 2021, the company has continued to adapt its products, processes and channels to suit customer needs, making them more digital, simple, understandable and sustainable. Good examples of these premises are our Zen tariff, a flat rate that provides peace of mind to residential customers; or our Naturgy Solar product, which provides customers with a worry-free self-consumption installation. We are aware that there is still a long way to go, but we are making steady progress with our customers always in mind.

The excellent service that Naturgy provides to its customers would not be possible without a supply chain that is committed and aligned with our business values and purpose. During 2021, Naturgy worked with more than 6,000 suppliers and contractors. We have audited more than 70% of our purchase volume with high ESG risk and are working to increase this percentage to 95% by 2025.

A socially responsible company

The energy transition has also an impact on the changes that need to be undertaken to change our energy model. Although they represent an opportunity, they may also generate short-term collateral effects in some communities that are impacted by the changes in the economy and employability of their territories.

The closure of our coal-fired power stations is one example. To address this, Naturgy is implementing plans that seek to foster economic activity in these locations, consistent with the historical link the company has in these territories, as reflected in our Just Transition report published in July 2021. In this regard, I would like to highlight the project we are developing at the site where La Robla power station was located, in León, where we are planning to develop a project to produce renewable hydrogen from a photovoltaic plant and an electrolyser to cover local consumption and injection into the gas grid.

These are just examples of our commitment to society. This commitment is a fundamental part of the development of new infrastructure projects. Our vocation of permanence and rootedness in the territories means we accompany our developments with social impact assessments and maintain a constant dialogue and relationship with the communities affected by the company's activities.

In addition, during 2021, Naturgy, through its Foundation, has continued to implement the Energy Vulnerability Plan throughout Spain. The Plan has been consolidated as a priority and the core of the activities developed by the Foundation to alleviate the situation of vulnerability and energy poverty in Spain. This past year, we have collaborated with 18 entities and 769 rehabilitations have been carried out based on donations from individuals and contributions from the Foundation.

A people-focused company

We want to develop our transformative purpose together, working for and on behalf of people. That's why in 2021 we have committed to boosting young talent and gender parity, through new recruitment drives such as Flex & Lead and talent development initiatives such as Internal Lead Talent, with the goal of reaching 40% of women in management positions by 2025 and attracting young people under 30. We have also implemented a new model for measuring satisfaction and commitment among our professionals through the Happy Force platform.

In health and safety, we have approved the Health and Safety Action Plan 2021-2023; based on six transversal drivers and more than 30 action lines that have already had the first internal results, as reflected in the reduction of mortality in collaborating companies during 2021.

A company with integrity, reliability and transparency

As a responsible company with a deep conviction in ethics and integrity, in 2021 we amended the Code of Ethics to add explicit reference to the new policies and social concerns such as conflicts of interest and digital rights. The requirements and approval of these policies and other corporate governance regulations, as well as the impeccable performance of our business, comes from the Board of Directors. A body that not only demonstrates compliance with the highest standards of good governance, but also corroborates the commitment of the company's shareholders to sustainability as a fundamental driver for long-term value creation. Along these lines, part of the management team's variable compensation is linked to ESG aspects as a sign of everyone's commitment to sustainability.

The year 2021 has confirmed that digitisation is an essential element in the company's day-to-day business. The ability to adapt to the digital environment and to respond to cybersecurity incidents or attacks is a sine qua non condition for maintaining a competitive position in the market. Thus, the company has completed the implementation of the Cyberincident Response Plan in the group's global security operations centre.

And in terms of accountability, while Naturgy diligently complies with current non-financial disclosure obligations, during 2021 it has undertaken an exercise to prepare for future requirements by adopting the Sustainability Accounting Standards Board (SASB). With this work, the company adds a new reporting framework to the GRI Standards, the requirements of Law 11/2018, the United Nations Guiding Principles Reporting Framework and the recommendations of the TCFD regarding climate risks, and thus increases information transparency and responsible, truthful, effective and complete communication of financial and non-financial information on the company's actions. In addition, the report also includes our contribution to the Paris Agreement and to the United Nations Sustainable Development Goals, with our renewed commitment to sustainability for yet another year through the Global Compact.

A recognised company

The profound transformation we are carrying out as a company, under principles that contribute to constructing a fairer society, respectful of the planet and with people at the forefront, merits international recognition.

Naturgy has been recognised globally as the best energy company of the year in the 2021 edition of the Platts Global Energy Awards; a success that must be attributed to the entire Naturgy's human team.

Likewise, and once again, Naturgy has been valued for its environmental, social and good governance performance in the most relevant international sustainability indices and rankings. As examples of this, the company has continued to be awarded AAA by the MSCI index and is the only Spanish company included in the A-List of the Carbon Disclosure Project (CDP) for its water management -the highest distinction awarded to companies worldwide for their management of water resources- and, for the eleventh consecutive time, it is a world leader in the climate category for its action against climate change.

Lastly, I would like to take this opportunity to thank the trust, work and effort of all those people who make this company project possible. The support of our shareholders, the loyalty of our customers and suppliers, their trust and commitment and, especially, all the professionals involved in the Naturgy project. I am aware of the difficult situations that many of them have had to face, or are facing, on a personal level and the effort they have had to make to ensure continuity of operations and the level of excellence in service to which our customers are accustomed. All the achievements I mention in this letter, and those that appear throughout the report, belong to all of them. None of the results achieved would have been possible without everyone's individual contribution. To all of them, thank you very much for your commitment and your dedication.

I now invite you all to read this report in more detail about our business model, our strategy and our commitments, and to judge for yourselves the results of the 2021 financial year that has just ended.

Thank you all very much,

Francisco Reynés

02. Our objectives and commitments

Sustainability Plan 2021-2025

In July 2021 Naturgy launched a new Strategic Plan for 2021-2025 and one of the main pillars of the Plan is sustainability or, in other words, Environmental, Social and Governance (ESG) aspects.

As a result, a Sustainability Plan 2025 has been defined with quantifiable goals that allow the Sustainability Committee to monitor the achievement of the company's sustainable strategy. It is structured in six drivers with 21 action lines and 74 objectives committed to and aligned with the Sustainable Development Goals of the 2030 Agenda.

The key objectives of the Sustainability Plan are shown below and explained in the different sections of this report:

	Target 2025 [(1)]	2021	2020
Sustainability Plan Indicators - Driver 1. Integrity and trust			
Naturgy Energy Group BitSight International Index	790	690	680
Coverage level of ESG audits over purchase volume with high ESG risk (%)	95.0	72.2	69.6
Maintain and renew ISO37001 and UNE19601 Certification (anti-bribery and criminal compliance management)	Renew	Yes	Certification obtained
Sustainability Plan Indicators - Driver 2. The opportunity of environmental challenges			
Absolute GHG emissions Scope 1 and Scope 2 (million tCO_2eq)	11.4	13.5	15.5
Absolute GHG emissions Scope 3 (million tCO_2eq)	114.1	136.5	123.2
CO_2 intensity in electricity generation (tCO_2/GWh)	171	261	297
Generation mix from renewable sources measured in installed capacity over the total of the group (%)	56	33	29
Sustainability Plan Indicators - Driver 3. Customer experience			
Global satisfaction with service quality (1-10)	8.0	7.5	7.7
Interaction with digital channels (%)	53.8	48.7	41.4
Sustainability Plan Indicators - Driver 4. Commitment and talent			
Women in management posts (%)	>40	21.2	22.6
Employee satisfaction (eNPS) - 0 to 100. Number of actions with an impact on overall satisfaction (%)	40	24	Not available
Own staff lost time accidents frequency rate (OSHA criterion)	*0,12	0.10	0.04
Own personal lost time accident severity rate (OSHA criterion)	*6,15	2.61	4.14
Sustainability Plan Indicators - Driver 5. Innovation and new business development			
Renewable gas projects in service (number)	>30	2	2
Challenges and proofs of concept with start-ups in open innovation programmes (number)	>100	5	12
Sustainability Plan Indicators - Driver 6. Social responsibility			
Total social investment [(2)] (million euro)	*>8	10	10

[(1)] The objectives marked with an asterisk (*) are objectives under review, since less information was available at the time of their definition than is currently available, which means that their level of ambition should be reconsidered.

[(2)] Includes social investment in the local community and philanthropic investment. It is estimated that when a methodology for assessing social impact is available, these figures will vary and definitive objectives will be established.

03. Business model and sustainable strategy

1. Business model resilience

[102-6], [102-10], [103-1], [103-2] and [103-3]

(Business model resilience)

Naturgy's history of more than 175 years shows that the company's permanence is the result of having been able to adapt its business model to the social, technological and economic changes that the world has experienced throughout this time, taking advantage at every moment of the opportunities that the environment has provided.

Once again, faced with a paradigm shift in the energy sector as a result of the global challenge posed by the fight against climate change, Naturgy is transforming itself and refocusing its business model towards the energy transition.

Achieving success in adapting to the challenges and opportunities of the environment is possible because the company has a solid and robust management model, which has been proven throughout history in different contexts, as well as a characteristic transformative culture.

Today, Naturgy faces the global challenges surrounding the energy transition and those that society must face in the coming decades, through a transformative strategy and a business model that is sustainable and resilient to social and environmental challenges.

1. Organisational structure and businesses in which it operates

[102-2], [102-3] and [EU3]

Naturgy Energy Group, S.A. was incorporated in 1843 and its registered office is at Avenida America, number 38, Madrid.

Naturgy Energy Group, S.A. and its subsidiaries (hereinafter Naturgy) is a group dedicated to the generation, distribution and commercialisation of energy and services. The group's business model of the group, focused on value creation, is committed to the sustainable development of society, guaranteeing the supply of competitive and safe energy with maximum respect for the environment.

Naturgy operates in over 20 countries, where it supplies gas and electricity to 16 million customers. Our installed power is 15.9 GW and we offer a diversified mix of electricity generation.

Naturgy is a relevant actor in the regulated and liberalised gas and electricity markets and operates chiefly in the following areas:

- Gas and electricity distribution.
- Electricity generation and commercialisation.
- Gas infrastructure, procurement and commercialisation.

Our vision of the future—without overlooking our roots and over 175 years of history—aims to transform the current business model and lay the foundations to continue creating value, committing to renewable energies, developing renewable gas (hydrogen and biomethane) thanks to the leadership position in the conventional natural gas market, and promoting energy efficiency and the circular economy.

With this vision, the company's **new purpose**, developed during the process of preparing the Strategic Plan 2021-2025, has been designed to respond to the need to build a sustainable growth model that will enable us to meet the challenges of the energy transition.

Transforming together

We transform the world through energy, tackling with determination the challenges of the energy transition and the demands of society and our customers, working with excellence, transparency and the talent of a committed team. And we want to do it together with our employees, customers, shareholders and partners, based on four values that build the company's DNA:

Forward Vision: innovating for a better future

We transform the world through innovation, proactivity and adaptability, facing the challenges and promoting the opportunities of the energy transition, new business models and digitalisation.

Excellence Driven: working with excellence

We transform the world through leadership, determination and continuous improvement, committed to generating value from each of its businesses and markets, and responding rigorously to stakeholders' expectations.

People Oriented: transforming from the most human side

We transform the world through proximity, transparency and trust, activating its firm commitment to people, employees, customers, shareholders and collaborators, transforming talent and passion into positive impact.

One Planet: for a more sustainable society

We transform the world through sustainability, respect and commitment to the environment, society and corporate governance, demonstrating that it is a responsible company that contributes significantly to the progress, well-being and future of the planet.

In a challenging environment, Naturgy's goal is to maintain a sound an sustainable financial and business profile. The company 's business model is committed to sustainability and pursues a balance between regulated and unregulated activities, while applying a strict finance policy.

For this reason, Naturgy's **new Strategic Plan 2021-2025** focuses its efforts on the following pillars:

- Grow: pursue organic growth consistent with the energy transition and deploy opportunistic asset rotation to speed up the transformation.
- Focus on: Renewables and Networks activities in stable geographies and regulatory frameworks and reduce volatility in supply commitments.
- To be a best-in-class company: to carry out continuous improvement processes, increasing the digital footprint and reinventing the relationship with customers.
- Continue to incorporate ESG aspects: rooted in the essence of the company, aligned with the SDGs and guided by tangible goals to meet commitments.
- Change the culture: drive passion in employees through core values and be aligned with different stakeholders.

Business model

Naturgy's business model is implemented through a large number of companies mainly in Spain, Latin America (Argentina, Chile, Brazil, Mexico and Panama) and Australia.

Naturgy organises its businesses around three strategic areas (Energy and Network Management, Renewables and New Businesses and Commercialisation), which provide visibility for the evolution of the businesses and on the basis of which the following operating segments are defined:

- Energy Management and Networks:
  - Iberia Networks: comprises the gas and electricity network businesses in Spain.
  - Latin America Networks: includes the gas network business in Argentina, Chile, Brazil and Mexico and the electricity network business in Argentina and Panama.
  - Energy Management: includes the businesses of International LNG Commercialisation, Markets and Supplies, Pipeline Management, Thermal Generation Spain and Thermal Generation Latin America (Mexico, Dominican Republic and Puerto Rico).

- Renewables and New Businesses:
  - Renewables Spain and the United States: includes the management of the facilities and projects for the generation of hydraulic, wind, mini-hydraulic, solar and cogeneration energy sources. Until 2020, the activities included in this segment were carried out exclusively in Spain. In 2021, Naturgy acquired a portfolio of 8 GW solar projects in the United States along with 4.6 GW of energy storage projects, of which 25 projects for a total of 3.2 GW of solar and 2 GW of storage could be operational by 2026.
  - Renewables Latin America: includes the management of renewable electricity generation facilities and projects of Global Power Generation (GPG) located in Latin America (Brazil, Chile, Costa Rica, Mexico and Panama).
  - Renewables Australia: includes the management of the renewable electricity generation facilities projects for GPG located in Australia.

- Commercialisation: the goal is to manage the business model for end customers for gas, electricity and services, incorporating new technologies and services and developing the full potential of the brand.

Throughout the value chain, Naturgy's Business Model stands apart as a leader in the gas sector and a key player in the electricity sector, in both cases ensuring the continuity of supply, which is essential to providing a quality service and fulfilling the company's social mission; providing a broad range of value-added services and fostering sustainable innovation to drive development.

Annex I to the Consolidated Annual Accounts has detailed information on the companies that form part of Naturgy and the activities they carry out.

Businesses in which it operates

Leadership in the gas business

[EU3], [EU4], [IF-GU-000.B] and [IF-GU-000.C]

	Networks	Gas		
	Gas distribution	**Infrastructure**	**Procurement**	**Commercialisation**
	11 million supply connections. 135,640 km of network.	Long term methane tankers.	~ **29 bcm** supply portfolio.	**327 TWh** of gas supplied.
Our positioning	**Spain** Leader in Spain with a 68% market share, distributing natural gas to more than 1,100 municipalities in nine autonomous regions and 5.4 million customers. **Latin America** Latin America's top distributor, catering for more than 5.6 million customers. Presence in Argentina, Brazil, Chile and Mexico and in five of the largest Latin American cities.	Nine methane tankers (1.43 Mm^3). 24.5% stake in the Medgaz gas pipeline. Stake in the Ecoeléctrica regasification plant and the liquefaction plant of Qalhat. 0.8 bcm of company-owned storage capacity and 0.8 bcm of leased capacity.	Business Model based on diversification and flexibility that have made Naturgy a global operator with a strong international profile. Naturgy has procurement contracts with suppliers worldwide, both in a gaseous state (NG) and in the form of liquefied natural gas (LNG).	Access to **11 million** customers and LNG sales in numerous countries worldwide. A global operator with the flexibility to tap markets offering attractive margins. 45,9% market share of gas contracts in Spain. Competitive supply to combined-cycle plants (CCGT).
Our strengths	Naturgy is a leader in the markets where it operates, affording it an excellent platform for organic growth, in terms both of attracting new customers in municipalities with gas and of expanding networks to areas without gas. Investment and development of projects in new renewable, CO_2-neutral or even CO_2-negative gas technologies.	Naturgy has an integrated gas infrastructure that affords it considerable stability, making its operations more flexible and enabling it to transport gas to the best business opportunities.	A diversified and flexible portfolio of procurement contracts, with review mechanisms in the event of price mismatches.	Naturgy has a diversified portfolio of end customers, and supplies gas both in Spain and internationally. Naturgy is a leader in dual fuel supply and it offers a broad range of value-added services

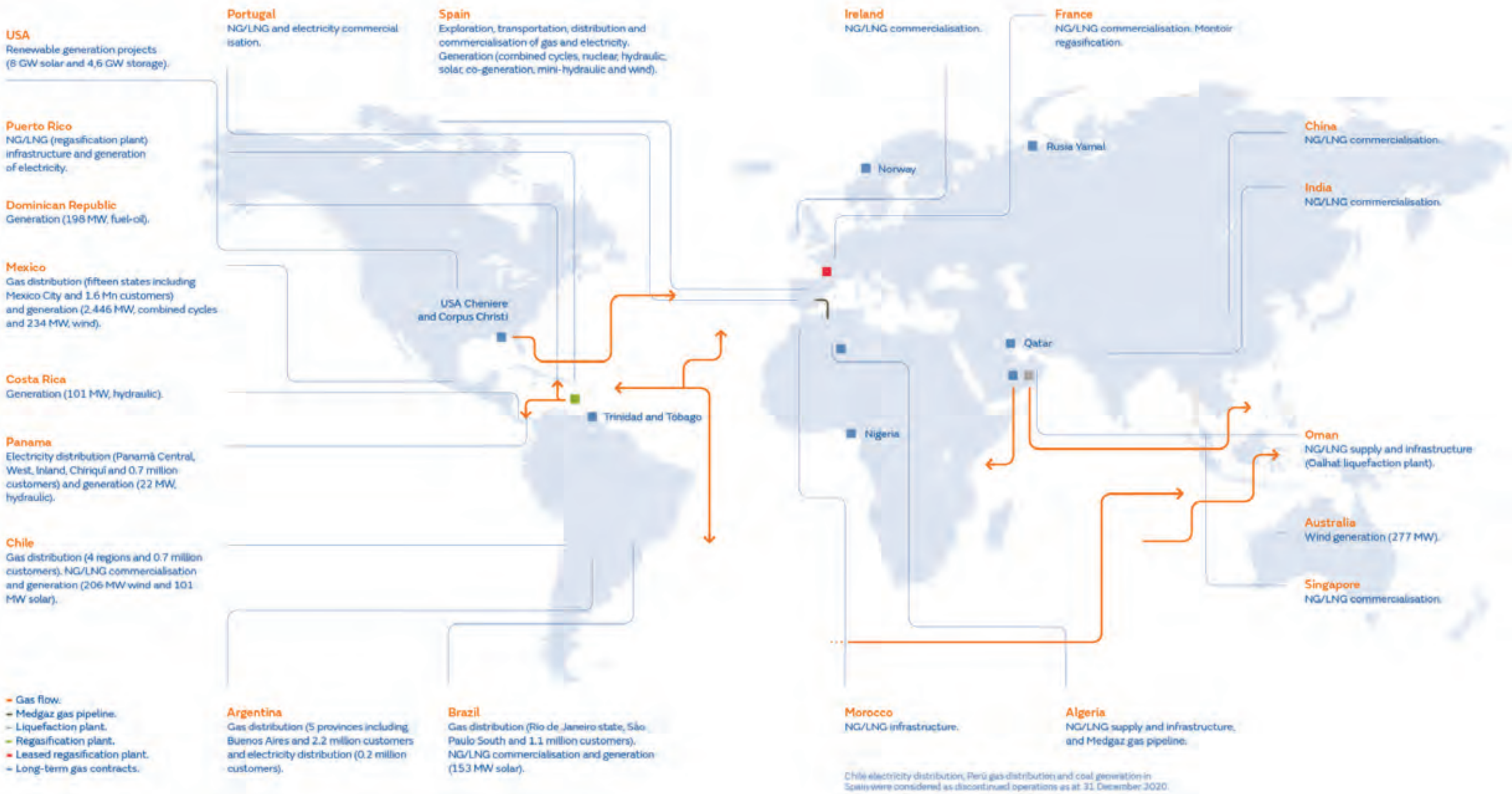
A key player in the electricity business

[EU3], [EU4], [IF-EU-000.B] and [IF-EU-000.C]

	Networks	Electricity		
	Electricity distribution	**Thermal generation**	**Renewable generation**	**Commercialisation**
	4,7 million supply connections. 153,981 km of network.	**10.6 GW** of generation capacity.	**5,2 GW** of generation capacity.	**23,9 TWh** supplied.
Our positioning	**Spain** The third-largest operator in the Spanish market, where it distributes electricity to **3.8** million customers. **Latin America** Presence in Argentina and Panama (**0.9** million customers). Naturgy is a leader in the markets where it operates.	**Spain** Capacity of **8.0 GW** (7.4 GW combined cycle plants and 0.6 GW nuclear). In June 2020, the group abandoned the coal generation business. Naturgy's market share is **17.5%**. **International** Capacity of **2.6 GW**: 2.4 GW combined cycle plants (Mexico) and 0.2 GW oil-fired (Dominican Republic).	**Spain** Capacity of **4.1 GW** (2.0 GW hydro, 1.8 GW wind, 0.2 GW solar and 0.1 GW cogeneration). Naturgy's market share excluding cogeneration is **6.1%**. **International** Capacity of **1.1 GW**: 0.1 GW hydroelectric (Costa Rica and Panama), 0.7 GW wind (Mexico, Chile and Australia) and 0.3 GW solar (Brazil and Chile).	Leader in the mainstream consumer and residential segments, with a total market share of **10%** in Spain. One of the main traders in the Spanish market. A dual fuel supply and a broad range of value-added services.
Our strengths	Naturgy is an efficient operator in terms of operation and maintenance costs in the electricity distribution business. In July 2021, the sale of the electricity distribution business in Chile, an activity classified as held for sale, was completed.	The company has far-reaching knowledge in all generation technologies in which it operates and provides an infrastructure which is able to adjust to the needs of each energy model and the real situation in each particular country. Investment and development of projects in new renewable, CO_2-neutral or even CO_2-negative gas technologies.	Naturgy maintains a good growth-oriented positioning in Spain and Australia, which will allow it to take advantage of investment opportunities in generation in these geographies. In 2021, Naturgy acquired a portfolio of 8 GW solar projects in the United States along with 4.6 GW energy storage projects.	Being a leader in the combined commercialisation of natural gas and electricity affords the company major advantages, such as lower service costs, integrated customer care and lower acquisition costs, not to mention greater customer loyalty.

2. Geographical presence

[102-4]



3. Company situation

[102-6]

Evolution and results 2021

Overall results

Net turnover	Net revenues for 2021 amounted to Euros 22,140 million, an increase of 44.3% compared to 2020, mainly as a result of higher energy demand and prices in the period, with a particularly positive impact on energy management activities.
Ebitda performance	Ebitda for 2021 amounted to Euros 3,529 million, including non-core items. Ordinary Ebitda reached Euros 3,983 million in 2021, 7.2% higher than in 2020, mainly supported by the gradual recovery of energy demand, higher energy prices and the positive impact of open positions in the energy markets, positively affecting energy management and trading activities. . The networks business remained resilient, while renewable energies were affected by some specific events and adjustments in Spain. Commercialisation activity in Spain was impacted by higher gas supply costs and pool prices, especially during the second half of the year.
Debt ratio	Net debt amounted to Euros 12,831 million while Net financial debt/Ebitda stood at 3.6 times compared to 3.9 times at 31 December 2020.
Cash-flow	Free cash-flow for 2021 after minorities amounted to Euros 2,113 million, driven by cash from operations and cash receipts from the sale of CGE and the agreement to exit UFG, and after Capex of Euros 1,423 million in the period. On the other hand, the spike and volatility in gas prices had a temporary negative impact on working capital consumption, especially in the fourth quarter of 2021, which has partially offset the expected reduction in net debt. However, this impact is considered transitory and WC consumption is expected to normalise in the coming quarters.
Completed transactions	– Naturgy, ENI and the Arab Republic of Egypt completed the agreement reached in 2020 to amicably resolve the conflicts affecting Unión Fenosa Gas (UFG) with capital gains for a total amount of Euros 127 million and have consolidated globally (100%) the UFG assets transferred to Naturgy. – The sale of Naturgy's entire shareholding (96.04%) in CGE Electricidad to State Grid International Development Limited (SGID) was completed. – proceeds of Euros 2,591 million. – Refinancing of loans and revolving credit lines in Spain and international businesses for a total of Euros 3,771 million and Euros 299 million, respectively, which include: ▪ Refinancing of a syndicated revolving credit line by increasing the limit from Euros 1.75 billion to Euros 2 billion with ESG metrics in the pricing mechanism. ▪ GPG has obtained the extension of its USD 1.4 billion syndicated loan for an additional year. Naturgy completed the issuance of Euros 500 million and Euros 66of subordinated perpetual securities, redeemable as of February 2027, with an annual yield of 2.375%. As part of the transaction, the company made a public offering, limited to Euros 500 million respectively, for the outstanding subordinated perpetual securities redeemable as of November 2022.

Investments

The tangible and intangible investments for the 2021 totalled Euros 1,484 billion, with an increase of 16.0% year-on-year.

Maintenance Capex in 2021 amounted to Euros 532 million, compared to Euros 546 million in 2020, a reduction of 2.6%.

Growth Capex in 2021 represented approximately 65% of total Capex and amounted to Euros 952 million. Growth Capex in 2021 includes the following:

- A total of Euros 579 million invested in the construction of different renewable projects, of which Euros 213 million in Spain, Euros 328 million in Australia and Euros 38 million in Latin America.
- Euros 249 million invested in network development, of which Euros 127 million in Spain and Euros 122 million in Latin America.
- Euros 113 million in procurement activity.

In addition, Naturgy has reached several agreements that confirm its commitment to renewable growth:

- Naturgy reached several agreements in Australia that will increase its presence in the country to more than 750 MW by 2022.
- On 15 January, 2021, Naturgy, through its wholly owned subsidiary Naturgy Solar USA, LLC, acquired 100% of an 8 GW solar project portfolio along with 4.6 GW of energy storage projects spanning 9 U.S. states. 25 of these projects amount to 3.2 GW of solar and 2 GW of storage and could be operational by 2026. As part of the transaction, Naturgy also signed a 5-year development agreement with Candela Renewables, a world-class team with more than 20 years' experience in the field, with a proven track record in the development of solar and energy storage projects in the United States.
- On 15 March 2021, Naturgy was awarded 45 MW of solar capacity in the Canary Islands, which will allow the Group to double its current installed capacity in the region.
- Finally, on 26 January and 19 October 2021, Naturgy was awarded a total of 235 MW and 221 MW of wind and solar projects, respectively through Spanish renewable auctions.

Stock market performance and profitability

Naturgy shares closed 2021 at a price of Euros 28.63 and stock market capitalisation of Euros 27,760 million, which represents a 51.0% decrease versus the previous year-end.

▪ Key financial figures of Naturgy

[102-7]

	2021	2020
Net turnover (million euro)	22,140	15,345
Gross operating profit or Ebitda (million euro)	3,529	3,449
Total investments (million euro)	1,484	1,279
Net profit (million euro)	1,214	(347)
Dividend paid (million euro)	1,290	1,370
Share price as at 31 December (euros)	28.63	18,96
Earnings per share (euros)	1.26	(0,36)

NB: generalized improvement of the indicators in 2021 due to the impact in 2020 of the COVID effect and asset impairment of €1,019 million (after tax).

▪ Contribution to Ebitda by activity (%)

	2021	2020
Renewables, New Business and Innovation	13.8	10.4
Commercialisation	(2,7)	9.5
Energy and Network Management	92.6	82.6
Other	(3.7)	(2,5)

▪ Stock market indicators

[102-7]

	2021	2020
No. of shareholders (in thousands)	60	75
Share prices at 31/12 (euros)	28.63	18,96
Earnings per share (euros)	1.26	(0,36)
Share capital (No. of shares)	969,613,801	969,613,801
Stock market capitalisation (million euro)	27,760	18,384

▪ Financial ratios

	2021	2020
Debt (%) (1)	59.1	54,7
Ebitda / Cost of net financial debt	7,2x	6,9x
Net debt/Ebitda	3,6x	3,9x

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

▪ Profit by country (million euro)

	2021	2020
Spain	512	(642)
Argentina	15	(126)
Brazil	62	48
Chile	151	117
Mexico	141	144
Panama	17	11
Rest of Latin America	56	24
Total Latin America	442	218
Rest of the world	260	77
Total	**1,214**	**(347)**

NB: an asset write-down of Euros 1,019 million (after tax) was made in 2020.

▪ Main operational figures of Naturgy

[102-7], [EU4], [IF-EU-000.A] and [IF-GU-000.A]

	2021	2020
Gas distribution sales (GWh)	449,435	403,910
Gas transportation/EMPL (GWh)	74,241	49,383
Gas distribution supply points (in thousands)	11,037	11,052
Electricity distribution supply points (in thousands)	4,776	4,727
Gas distribution network (km)	135,640	134,802
Length of electricity distribution and transportation lines (km)	153,981	151,495
Electricity generated (GWh) (1)	41,754	41,977

(1) 2020 includes coal-fired electricity in Spain.

Gas supply and transportation (%)

	2021	2020
Others (LNG)	9.4	15.5
Nigeria	5.2	5.6
Trinidad and Tobago	6.7	10.3
USA	21.3	17.5
Others (NG)	6.5	14.1
Algeria	22.8	15
Oman/Egypt/Others (1)	11.9	4
Qatar	5.1	3.8
Norway	0.6	3.2
Russia	10.5	11

(1) In 2020 gas from Unión Fenosa Gas.

During 2020, the reduction in demand due to the pandemic was addressed by putting into action existing flexibility tools in some of the supply contracts, such as those of the USA and Algeria. In 2021, the LNG supply contract from Corpus Christi (USA), which began operations in the second quarter of 2020, already supplied 100% of its contractual volume. As for the supply of NG from Algeria, the contract that supplied gas through the Maghreb ended in October, leaving only the contracts that are supplied through the Medgaz gas pipeline.

Renewable gas

	2021	2020
Renewable gas projects in service (number)	2	2
Renewable gas production or injection capacity (TWh)	0.14	0

Renewable gases, including biomethane and hydrogen, are a key driver for the decarbonisation of Naturgy's gas business. Therefore, new projects are being promoted to increase its generation and injection into the networks. More detailed information is provided in the chapters "The opportunity of environmental challenges" and "Innovation and new business development".

Energy mix of Naturgy (%)

	2021	2020
Thermal	1.2	4.6
Hydroelectric	13.1	13.1
Wind	15.6	12.8
Nuclear	3.8	3.8
Small hydro	0.7	0.7
Solar	3.2	2.5
Cogeneration	0.3	0.3
Combined-cycle	62.1	62.2

NB: in 2020, coal-fired power stations were completely shut down.

▪ Installed capacity by source of energy (MW)

[EU1]

	2021	2020
Nuclear	604	604
Coal	0	530
Combined-cycle	7,427	7,427
Cogeneration	51	51
Thermal production. Spain	**8,082**	**8,612**
Hydroelectric	1,951	1,951
Wind	1,764	1,691
Solar	250	249
Small hydro	111	111
Renewable production. Spain	**4,076**	**4,002**
Total installed capacity. Spain	**12,158**	**12,614**
Fuel-oil	198	198
Combined-cycle	2,446	2,446
Thermal production. International	**2,644**	**2,644**
Hydroelectric	123	123
Wind	717	330
Solar	254	153
Renewable production. International	**1,094**	**606**
Total installed capacity. International	**3,738**	**3,250**
Total installed capacity	**15,896**	**15,864**

2020 includes coal activity despite being presented as discontinued operations in the Consolidated Income Statement.

▪ Net production by energy source (GWh)

[EU2], [OG3] and [IF-EU-000.D]

	2021	%	2020	%
Nuclear	4,274	10 %	4,387	10 %
Coal	0	0 %	958	2 %
Combined-cycle	12,675	30 %	12,856	31 %
Cogeneration	342	1 %	315	1 %
Thermal production. Spain	**17,291**	**41 %**	**18,516**	**44 %**
Hydroelectric	2,991	7 %	3,011	7 %
Wind	3,856	9 %	3,546	8 %
Solar	268	1 %	320	1 %
Small hydro	507	1 %	524	1 %
Renewable production. Spain	**7,622**	**18 %**	**7,401**	**18 %**
Total production. Spain	**24,913**	**60 %**	**25,917**	**62 %**
Fuel-oil	637	2 %	481	1 %
Combined-cycle	13,305	32 %	13,778	33 %
Thermal production. International	**13,942**	**33 %**	**14,259**	**34 %**
Hydroelectric	566	1 %	465	1 %
Wind	1,790	4 %	1,041	2 %
Solar	536	1 %	295	1 %
Renewable production. International	**2,892**	**7 %**	**1,801**	**4 %**
Total production. International	**16,834**	**40 %**	**16,060**	**38 %**
Total production	**41,747**	**100 %**	**41,977**	**100 %**

2020 includes coal activity despite being presented as discontinued operations in the Consolidated Income Statement.

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

	2021	2020
Chile	573	0
Costa Rica	462	371
Spain [1]	7,622	7,715
Mexico	694	754
Panama	104	94
Brazil	290	295
Australia	769	287
Total	**10,514**	**9,516**

[1] In 2020, cogeneration is included.

Average efficiency by technology and regulatory system (%)

	2021	2020
Combined-cycle (Spain)	52.8	52.8
Coal thermal (Spain)	0.0	31.2
Combined-cycle (International)	55.1	55.3
Fuel-oil (International)	40.5	40.5

[EU-30]

Average availability factor by technology (%)

	2021	2020
Hydroelectric (Spain)	87.3	85.7
Coal thermal (Spain)	0.0	48.9
Nuclear (Spain)	87.3	90.5
Combined-cycle (Spain)	82.2	87.3
Wind (Spain)	98.5	98.5
Solar (Spain)	99.1	99.0
Small hydro (Spain)	96.9	96.5
Cogeneration (Spain)	91.4	87.0
Hydroelectric (international)	95.5	94.7
Wind (international)	92.8	93.0
Solar (international)	96.3	98.5
Fuel-oil (international)	87.0	83.8
Combined-cycle (international)	96.5	90.4

Electrical energy losses in transport and distribution (%)

	2021	2020
Spain	8.5	8.3
Argentina	13.3	13.2
Chile [1]		9.7
Panama	14.5	14.4

[1] Business sold in July 2021.

2. Naturgy's Strategy

The ecological transition to a carbon neutral economy is an opportunity in environmental, social and economic terms. It allows us to reduce our dependence on foreign energy, improve our trade balance and move towards a modern and prosperous economy. In this global context, meeting the challenge of climate neutrality requires a transformation of the energy system. Achieving this objective requires a cross-cutting vision that moves from the classic consideration in which the main energy uses (electricity, heating, industrial thermal uses, transportation) were analysed and managed individually to an integrated intelligent management that flexibly combines renewable generation, storage, demand management and the generation of renewable fuels to optimise energy resources.

It is this vision that inspires the company's strategic lines and business plan for the next five years.

1. Strategic Plan 2021-2025

Strategic pillars

Main investment objectives

In economic terms, our Strategic Plan pursues ambitious investment objectives, setting an estimated investment for this period of **Euros 14 billion**.

This investment is established by maintaining financial discipline as a pillar and focusing on projects with predictable return. Moreover, 80% of the planned investment will be eligible according to the EU taxonomy of sustainable finance and therefore aligned with the energy transition.

The investment is distributed as follows:

Renewables

Euros 8,700 million

- Proven generation technologies.
- Focus on attractive geographies.
- Commitment to innovation.
  - Distributed generation.
  - Biogas and hydrogen.
  - Sustainable mobility.

Networks

Euros 4,100 million

- Focus on solid frameworks with proactive regulatory management.
- Ongoing projects to achieve full automation and remote operation.
- Adaptation of existing infrastructures to play a key role in the energy transition.

ESG at the core of our vision

The Strategic Plan is part of Naturgy's commitment to the environment, society and governance (ESG). Placing sustainability as the backbone of our strategy on our roadmap allows us to reduce our environmental impact, increase the involvement and commitment of all our stakeholders and endorse us as a responsible company in energy transition.

Our 2025 ESG objectives are as follows:

E Environment

Zero net emissions by 2050

- Reduce total CO_2 emissions by 24% (2025 vs 2017).
- Protecting diversity, reaching a total of more than 350 projects to preserve ecosystems.

S Social

Gender parity by 2030

- Promote diversity, reaching more than 40% of women in management positions.
- Extend ESG policies in the supply chain to 95%.

G Governance

ESG-aligned management remuneration

- Establish a 10% remuneration aligned with ESG objectives.
- Implement climate change risk reporting and taxonomy to maintain leading positions in sustainability indices.

2. Commitment to sustainability

Naturgy's sustainable purpose

Represented by its new "Transforming together" proposal and its four values that identify Naturgy's culture, the company is focused on this through its Corporate Responsibility Policy and its Sustainability Plan 2021-2025, setting out a series of commitments that guarantee the well-being -current and future- of the people and the environments with which it relates.

Corporate Responsibility Policy

Naturgy's Corporate Responsibility Policy —last updated and approved by the Board of Directors in 2019— defines the commitment to long-term value creation and sustainable management through a common framework of action, which guides the company's socially responsible behaviour.

The main purpose of this policy is to introduce the action 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.

As well as applying to all group companies, 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.

Naturgy's commitments

The eight commitments of the Corporate Responsibility Policy with its stakeholders are:

1. Service excellence.
2. Commitment to results.
3. Responsible environmental management.
4. Interest in people.
5. Health and safety.
6. Responsible supply chain.
7. Commitment to society.
8. Integrity and transparency.

These commitments are horizontal and are present throughout the company's business process, based on the generation of economic, social and environmental wealth.

3. Sustainability Plan

To support the development of the strategy, Naturgy has defined a Sustainability Plan for the period 2021-2025 which, through 6 drivers, 21 lines of action and 74 objectives, aims to contribute to the achievement of the Sustainable Development Goals (SDGs) of the 2030 Agenda.

Contribution to the SDGs

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

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

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

Naturgy is committed to actively contributing to the overall achievement of the 17 goals. However, through its business activity it contributes directly to:

- **Goal 7**. Ensure universal access to affordable, reliable and modern energy, increase the use of renewable energy and promote energy efficiency. In 2021, Naturgy increased its installed capacity in renewable energies by 10% and works actively to offer society and its customers alternative forms of environmentally-friendly energy such as renewable gas.
- **Goal 11**. Make cities and human settlements inclusive, safe, resilient and sustainable. Naturgy works actively to offer products and services to its customers that help improve energy efficiency and air quality in cities by making them healthier.
- **Goal 13**. Take urgent action to combat climate change and its effects. In 2021, Naturgy prevented the emission into the atmosphere of 142 $MtCO_2eq$.

Listed below are the main drivers and lines of action defined in the Sustainability Plan, their alignment with the commitments of the Corporate Responsibility Policy and the main SDGs to which they will contribute, both directly and indirectly.

Driver	Line of action	SDG	CR Policy commitment
Integrity and trust	Governance and reporting Risk management Compliance	8, 10, 12, 16, 17	Integrity and transparency Responsible supply chain
The opportunity of environmental challenges	Climate change and energy transition Circular economy and eco-efficiency Natural capital and biodiversity Governance and environmental management	3, 6, 7, 9, 11, 12, 13, 14, 15	Responsible environmental management
Customer experience	Customer experience Digitalisation Services with value-added Service quality	7, 9, 11, 12, 17	Service excellence
Commitment and Talent	Transformation Talent management Diversity Health and safety	3, 4, 5, 8, 9, 10	Interest in people Health and safety
Innovation and new business development	New business Optimisation Innovation	7, 8, 9, 11, 12, 13, 15, 17	Commitment to results Service excellence
Social responsibility	Energy vulnerability Social contribution Just Transition	1, 3, 7, 8, 10, 11, 12, 17	Social commitment Responsible supply chain Integrity and transparency

In addition, the Sustainability Plan helps to facilitate supervision of the Corporate Responsibility Policy and performance of the sustainable strategy within the Sustainability Committee, defines a roadmap to continue to occupy leading positions in the management of environmental, social and good governance (ESG) aspects; promotes compliance with the 2030 Agenda and allows Naturgy to define its medium-term ambition in ESG aspects; all this in response to the expectations of Naturgy's stakeholders.

Definition of the sustainability plan and its associated indicators

For preparation of the Sustainability Plan, a materiality analysis was carried out, including an internal analysis, which took into consideration:

- The company's strategy.
- Risk map.
- Annual Reports.
- Corporate Responsibility Policy.
- Code of Ethics.
- Other internal policies and internally developed documentation on ESG performance.

An external analysis was also carried out, which took into consideration:

- Regulatory and industry trends.
- Analyst and investor requirements.
- Competitor analysis.
- News from different media.
- The change of context resulting from the COVID-19 crisis.

The analysis identified the key issues for the company and its stakeholders.

The Plan focuses on, and is oriented towards, enhancing those facets of the industry transformation where the company is lagging.

The 74 monitoring indicators that have been defined are as follows:

	Target 2025 [1]	2021	2020
Driver 1. Integrity and trust			
Sustainable financing and/or financing compatible with energy transitions (green finance, transition bonds...) (million euro)	*5.492	6,337	3,155
Meetings held with ESG investors (number)	50	16	15
Implementation of the ESG risk quantification methodology	1.9	2.1	Not available
Cost of resolving cybersecurity incidents (direct, indirect and reputational cost) (€) / IT disbursement (%)	*30	0.0	50.0
Cybersecurity incidents / Millions of attacks (%)	4.30	3.7	10.3
Naturgy Energy Group BitSight International Index	790	690	680
Coverage level of ESG audits over purchase volume with high ESG risk (%)	95.0	72.2	69.6
Purchase volume with acceptance of the Code of Ethics (%)	95.0	94.2	89.2
Implementation of the Social Media Management and Use Policy	Implanted	No	No
Maintain and renew ISO37001 and UNE19601 Certification (anti-bribery and criminal compliance management)	Renew	Yes	Certification obtained
Criminal indictments for corruption-related offences (number)	0	0	0
Annual external audit of the Crime Prevention Model in accordance with article 31 bis of the Criminal Code	Favourable outcome in all subject countries	Favourable outcome in all subject countries	Favourable outcome in all subject countries
Infrastructure projects (counterparties and new investors) with human rights due diligence (%)	100	Not available	Not available

Non-financial indicators with qualifications (number)	0	0	0
Publish the Tax Transparency Report	Publish the Tax Transparency Report	In process	Not available
Degree of compliance with the new recommendations of the CNMV' Good Governance Code (%)	Absorb all modifications to the CNMV's recommendations that may arise and undertake to comply with any others that are not related to the composition of the shareholding structure and the right to proportional representation, or related to previously acquired commitments	81	81
Compliance with the critical infrastructure governance model (%)	95	40	20
Driver 2. The opportunity of environmental challenges			
Absolute GHG emissions Scope 1 and Scope 2 (million tCO_2eq)	11.4	13.5	15.5
Absolute GHG emissions Scope 3 (million tCO_2eq)	114.1	136.5	123.2
CO_2 intensity in electricity generation (tCO_2/GWh)	171	261	297
Generation mix from renewable sources measured in installed capacity over the total of the group (%)	56	33	29
Renewable gas production or injection capacity (TWh)	1.0	0.1	0
Total water consumption (hm^3)	15.6	15.2	20.3
Total waste production (hazardous + non-hazardous) (kt)	110.0	98.0	159.2
Total waste recycled and recovered (hazardous + non-hazardous) (%)	75	57	61
Initiatives to improve biodiversity throughout the life cycle of the facilities (construction, operation, dismantling) (number)	350	302	265
Environmentally restored cumulative area (ha)	Pending definition	In progress	In progress
ISO 14001-certified industrial Ebitda (%)	95.0	93.1	92.2
Implementation of a methodology for the decentralised determination of climate risks according to TCFD	Implanted	In progress	Not available
Capex eligible and aligned with European Taxonomy (%)	80.0	61.2	Not available
Driver 3. Customer experience			
Net Promoter Score (NPS) Spain marketing (global) (%)	40.0	18.5	23.8
Net Promoter Score (NPS) Spain electricity networks (customer service) (%)	30.0	22.3	28.5
Net Promoter Score (NPS) Spain gas networks (customer service) (%)	39.0	18.9	24.7
Net Promoter Score (NPS) Argentina (global) (%)	55.0	34.0	32.0
Net Promoter Score (NPS) Brazil (global) (%)	68.0	56.5	60.2
Net Promoter Score (NPS) Chile gas (global) (%)	70.0	64.3	68.2
Net Promoter Score (NPS) Mexico (global) (%)	27.0	11.8	22.0
Net Promoter Score (NPS) Panama (customer service) (%)	24.0	3.0	1.7

Global satisfaction with service quality (1-10)	8.0	7.5	7.7
No. of complaints registered / No. of contacts (%)	<3	4.8	2.2
Customers with online billing. Spain (%)	>50	41.0	35.0
Contracts per customer. Spain (number)	>1,75	1.56	1.56
Units with Crisis Management Plans prepared and tested (years/actual case), with respect to the total number of units/countries that should have one (%)	90	15	15
Partnerships with third parties providing value-added solutions for customers. Spain (number)	*5	5	1
Interaction with digital channels (%)	53.8	48.7	41.4
Driver 4. Commitment and talent			
People trained out of the total number of employees included in talent transformation programmes (%)	*>50	69.94	61.73
Training per employee (hours)	>35,0	28.8	26.6
Unwanted rotation in key positions (structural positions) (%)	<0,5	0.90	1.00
Employees subscribed to the benefits platform (%)	49.7	8.9	6.5
Women in management posts (%)	>40	21.2	22.6
Geographic diversity in executive and managerial positions (of total) (%)	14	15	14
Diversity of skills (out of total) (%)	2.5	1.1	1.4
Diversity of profiles. Different qualifications (number)	Pending definition	150	Not available
Employee satisfaction (eNPS) - 0 to 100. Number of actions with an impact on overall satisfaction (%)	40	24	Not available
Own staff lost time accidents frequency rate (OSHA criterion)	*0,12	0.10	0.04
Own personal lost time accident severity rate (OSHA criterion)	*6,15	2.61	4.14
Absenteeism rate due to common contingency (%)	*≤3,0	2.0	2.4
Response time to test (PCR or antigens) in response to a possible contagion alert (hours)	*<72	<72	<72
Response time vs. notification in app/SAE (hours/days)	*<72	<72	<72
Staff working from home (%)	40	21	15
Weekly working hours carried out remotely (%)	30	20	20
Staff eligible for the efficient vehicle leasing service. Spain (%)	36	19	17
Driver 5. Innovation and new business development			
Energy billed for mobility services (GWh)	*>500	939	822
Managed recharging points for NG-LNG vehicles (number)	19	12	11
Recharging points for electricity vehicles (number)	5,000	352	1
Customers acquired for self-consumption products (number)	2,886	560	77
Amount of stored energy (GWh)	>82	0	0
Energy storage solution projects (number)	>6	0	0
Renewable gas projects in service (number)	>30	2	2

Signals remotely monitored / MW installed renewable technologies (number)	240	123	95
ICEIT	*36,4	35.8	39.5
Spending and investment in innovation over Ebitda (%)	>2	1.7	1.1
Challenges and proofs of concept with start-ups in open innovation programmes (number)	>100	5	12
Driver 6. Social responsibility			
Attendees at energy efficiency workshops in Spain (number)	7,900	3,861	3,939
Energy rehabilitations. Spain (number)	>5.000	769	721
Volunteers (number)	1,000	477	418
Collaborating social entities (number)	20	18	14
Initiatives with impact assessment (%)	100	0	0
Develop and implement a methodology for measuring natural and social capital	Measurement in 2021 with targets for improvement from first measurement	In process	Not available
Total social investment [2] (million euro)	*>8	10	10
Purchase volume assigned to local suppliers (%)	*> 85,0	92.2	95.2

[1] The objectives marked with an asterisk (*) are objectives under review, since less information was available at the time of their definition than is currently available, which means that their level of ambition should be reconsidered.

[2] Includes social investment in the local community and philanthropic investment. It is estimated that when a methodology for assessing social impact is available, these figures will vary and definitive objectives will be established.

3. Value creation

Naturgy's transformative purpose represents a commitment to creating long-term value for all its stakeholders.

The commitments made with stakeholders in the Corporate Responsibility Policy are implemented through a business strategy structured by the actions and objectives defined in the Sustainability Plan.

At the same time, constant dialogue with them allows us to know their expectations and to adapt the responses that the company can give.

Providing a response that meets the expectations and needs of stakeholders requires that the company has management and control systems and a culture of excellence that enable it to achieve its business objectives, fulfil its commitments and meet the demands of society.

As a result of this notion, Naturgy, during its long track record, has implemented its vision and understanding of corporate governance and demonstrated the ability to create value for both its shareholders and society by providing reliable energy solutions, creating stable and quality jobs, meeting social needs with a special focus on disadvantaged groups, and working every day to reduce its environmental impact and contribute to a just energy transition.

For decades, the company has been recognised by various analysts, agencies and rankings that acknowledge its good performance both economically and in terms of its contribution to creating a more sustainable society.

1. Stakeholders of Naturgy

[102-40]

Naturgy considers it essential for value creation and the building of trust to maintain an integrated and responsible conduct with its stakeholders, as well as to enhance the sustainability and long-term vision of the company; these being the fundamental and intrinsic pillars of its values and corporate culture.

The global scenario lays down a raft of challenges that within the framework of the crisis produced by COVID-19, have only seen their relevance grow. Climate change, energy transition, scarcity of natural resources, technological and digital disruption, or population growth and town planning, are 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.

Dialogue with other stakeholders

[102-42], [102-43], [102-44] and [207-3]

Naturgy has identified the following as its main stakeholders:

- Shareholders and investors.
- Suppliers.
- Business partners.
- Employees.
- Analysts.
- Market agents.
- Society.
- Public administration.
- Regulatory bodies.
- Financing groups.
- Customers.
- Insurance and reinsurance agencies.

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.
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.

Communication channels adapted to the needs of stakeholders 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 the corporate website. It also offers the shareholder's office, a meeting point and service for minority investors.
Naturgy 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 2021 representatives of the company's management team and the Rating and Capital Market Department held 152 meetings with institutional investors.

- **Communication channel indicators**

	2021	2020
Meetings with shareholders and analysts [1]	152	169

[1] The reduction in 2021 compared to 2020 is due to the negative impact of the pandemic, coupled with IFM's takeover bid of Naturgy, which lasted from February to October, reducing the attention of fundamental investors on the share price.

Dialogue actions with “Customers” and “Related groups” carried out in 2021

	Frequency
Consultancy actions	
Development of focus groups with customers to collect opinions and opportunities for improvement	Ongoing
Consumer surveys and monitoring of Internet users to find out the degree of digitalisation of the company and companies in the sector	Ongoing
Surveys on the customers’ opinion in general and following contact	Ongoing
Surveys of reasons for abandonment (of energy and services)	Ongoing
Concept, price and product testing between customers in different markets	Occasional
Co-creation with specialists and consumers	Occasional
Active participation in forums related to energy vulnerability	Ongoing
Meetings with installer associations	Periodic
Proactive digital communications to customers and installers about progress in gas registration status. Both parties have visibility on milestones reached and next steps and become active subjects that contribute to shortening time frames	Occasional
Informative actions	
Regular meetings with public administrations (social services, energy poverty committees, etc.) and working groups with the administration	Ongoing
Regular meetings with officials and consumer protection agencies	Ongoing
Webinars with installers and associations to publicise the new services and features available on the website	Occasional
Sending of informative contents about the new functionalities and services offered on the website, as well as advice and news of interest	Periodic
Sending communications about the registration and contracting processes to improve the new customer’s joining experience	Occasional
Sending informative content about agreements with third party companies that offer advantages and benefits to customers	Periodic

Dialogue actions with “Employees” carried out in 2021

	Frequency
Consultancy actions	
Meetings with the management team	Periodic
Virtual meetings between teams	Ongoing
Climate and mood survey through HappyForce	Ongoing
Surveys of reasons for abandonment (of energy and services)	Ongoing
Incident and occupational accident reporting	Periodic
Informative actions	
Information in corporate communication channels	Ongoing
Direct informative e-mail to each employee	Periodic
Specific space on the Strategic Plan 21-25	Periodic

Dialogue actions with “Society” carried out in 2021

	Frequency
Informative actions	
Energy Prospectives: a series of conversations that brings together figures recognised internationally for their experience, vision and knowledge of the energy sector and entrepreneurs, regulators, managers and academics	Periodic
Foundation publications on various subjects	Ongoing
Participation in forums and round tables related to the energy sector in particular and ESG issues in general	Ongoing

Stakeholder perception. Reputation

At Naturgy, reputation has been incorporated as another indicator that allows to measure the perceptions that society has about the company's performance at a general level. The indicator is based on four concepts: esteem, admiration, good impression and trust (Reptrak Pulse Model).

In 2021, Naturgy consolidates its position as the sector reputational leader with a value of 60.3 points on a scale of 100 points. This result is above the average for the electric utilities sector in Spain, which is 57.2 points. This confirms the good perception of the company's performance by customers and non-customers in a year with a challenging backdrop.

Presence in trade's associations

[102-13]

As part of Naturgy's permanent work with its stakeholders, the participation of the company in several trade associations is fundamental for the contribution to social dialogue and to the construction of better public policies.

Since 2019, Naturgy has had an Institutional Relations policy which, among other matters, regulates these initiatives. At the end of 2021 Naturgy was involved in 120 major partnerships with an investment of more than Euros 3 million per year.

In the area of sustainability, Naturgy is a member of Forética and the Spanish Association of the United Nations Global Compact. The company is also actively involved in the Spanish Green Growth Group and the Foundation for Energy and Environmental Sustainability (FUNSEAM).

Given Naturgy's involvement and its strict commitment to sustainability and the fight against climate change, in 2020 it was decided to review and analyse the position in these areas of the main entities in which the company participates. The analysis made it possible to identify a group of entities with relevant actions in these matters[1] and another group with an uneven degree of formalisation of these commitments. We also ruled out that none of these associations is not aligned with the commitment that Naturgy has in the fight against climate change, in the many ways it can manifest itself.

As a way of systematising this analysis, during 2021 Naturgy has been working on updating its Institutional Relations Policy, which, once approved, will incorporate verification requirements regarding positioning in the fight against climate change, as a prior step to joining new associative entities. This requirement responds to one of the climate action principles reflected in the latest revision of the Environment Policy approved in December, whereby participation in entities or alliances with third parties is conditional upon their alignment with the climate policies emanating from the Paris Agreement.

In terms of tax, Naturgy's action consists of participating in the main business associations and the working groups or committees in charge of analysing the initiatives introduced by public bodies in tax matters, contributing its experience and attempting to transmit the concerns and initiatives of the company's different stakeholders.

2. Integrated and responsible management

Integrated management system

For years, Naturgy has had an integrated quality, environment, health and safety management system (IMS), certified according to the requirements of the ISO 9001:2015, ISO 14001:2015 and ISO 45001:2018 standards. This system is audited externally every year. In 2021 this audit was conducted by AENOR for all businesses.
The scope certified by this system is the management of:

- Extraction and injection of natural gas.
- Transport and operation of the Maghreb-Europe gas pipeline.

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[1] Some of the entities, with current membership, identified are: Asociación Empresarial Eólica, Asociación Empresarial para el Desarrollo del Vehículo Eléctrico (AEDIVE), Asociación Española de Gas Natural para la Movilidad (GASNAM), Asociación Mexicana de Energía Eólica, Spanish Chamber of Commerce, Círculo de Economía, Círculo de Empresarios, Club Español de la Energía, Confederación Española de Empresarios (CEOE), Eurogas, European Biogas Association (EBA), Forética, Foment del Treball, Fundación COTEC para la Innovación, Fundación de la Energía de la Comunidad de Madrid (FENERCOM), FUNSEAM, Global Compact, Global Reporting Initiative, Groupe International des Importateurs du Gas Natural Liquefié (GIIGNL), International Gas Union (IGU), Plataforma Tecnológica Española de Redes Eléctricas (FUTURED), Real Instituto Elcano, Sedigas, Unión Española Fotovoltaica (UNEF), World Economic Forum.

- Electricity generation (thermal, hydraulic and renewable sources origin).
- Distribution of natural gas and electricity.
- Gas and electricity transmission.
- Wholesale and retail commercialisation of natural gas and electricity.
- Development and execution of engineering projects.
- Energy management in organised Iberian electricity markets.
- Corporate activities involving training, customer service, billing and collection.

As part of the IMS, the Healthy Company Integrated Management System is also audited and certified annually in the units in Spain, Argentina, Brazil, Chile, Morocco, Mexico and the Dominican Republic, in accordance with the Healthy Company Model.

In addition, the energy services activity included in the marketing of natural gas and electricity in Spain is certified in the energy management system pursuant to the ISO 50001 standard, and the commercial offices open to the public in Spain are certified in the "COVID-19 action measures" protocol.

▪ Quality, environment and health and safety certifications chart

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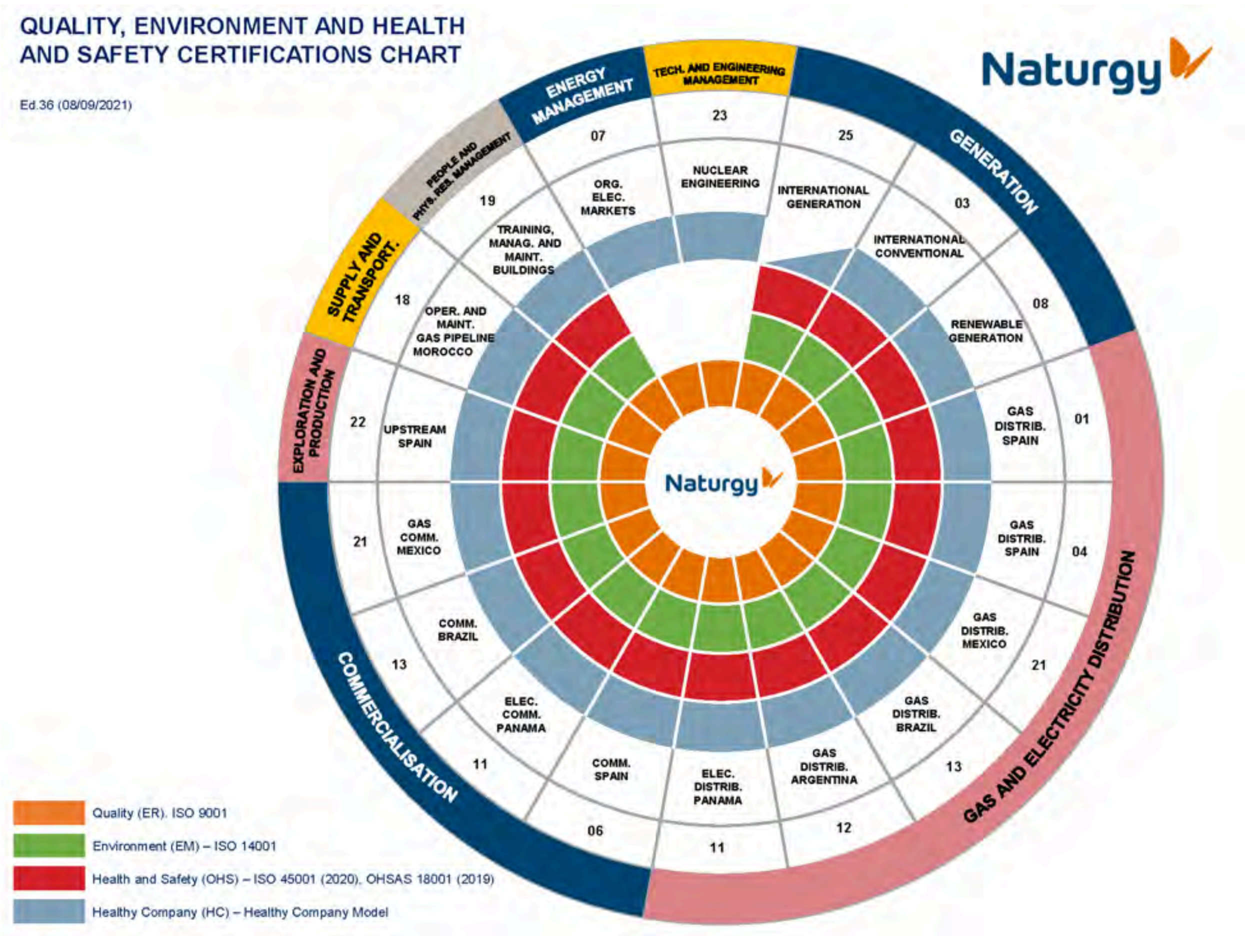


3. Indices and acknowledgements

Presence in sustainability indices

Various analysts and rating agencies regularly assess Naturgy's performance in environmental, social and good governance matters. In the sustainability assessment conducted by S&P Global in 2021, the company received a rating of 77 points out of 100. This score is significantly lower than the one obtained in previous years and, as a result, the company is no longer included in the Dow Jones Sustainability Index. Although the 2020 financial year, on which the assessment was made, was strongly impacted by COVID-19, Naturgy has understood this circumstance as an opportunity to identify potential areas of improvement on which it is already working to regain the leadership position it has traditionally held in the index. Nevertheless, the company continues to hold benchmark positions in other major sustainability indices.

Naturgy has been part of FTSE4GOOD since its creation in 2001. Likewise, during 2021, Naturgy has been evaluated by rating agencies such as MSCI, in which it has once again achieved the highest rating (AAA), and Sustainalytics, in which it maintains a low risk profile compared to the 673 utilities evaluated and has been recognised with the Top-Industry seal. As for ISS ESG, it remains in the top 10% of companies in the sector. Naturgy continues to be part of the three variants of Euronext Vigeo, World 120, Europe 120 and Eurozone 120, based on the evaluation carried out by the Vigeo Eiris agency every two years. Ecovadis, a global provider of corporate sustainability ratings, also awarded Naturgy the gold medal for its performance in environmental, social and governance issues.

In 2021, Naturgy was recognised as a world leader for its management in the use of water resources, as was included in CDP Water's A List 2021 index. It also continues to occupy leadership positions in climate management by being part of the CDP Climate A-List .

The presence of Naturgy on these sustainability 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.

Acknowledgements

In the 2021 edition of the Platts Global Energy Awards, Naturgy has been recognised as energy company of the year, and its Executive Chairman, Francisco Reynés, as CEO of the year.

The evaluation criteria in the category of best company focused on the cultural and business transformation that Naturgy has undergone over the last year, while in the category of best CEO the panel valued the strategic vision, leadership, integrity and capacity for continuous improvement, as well as the demonstration of clarity of vision, judgment and motivation to transform organisations.

Likewise, the prestigious magazine Forbes Spain has also awarded the work of Francisco Reynés, who was recognised as BEST CEO 2020.

On the other hand, “The Community” campaign received the First Control 2020-2021 Award for the best magazine advertisement. The awards of this specialised media in marketing, advertising and communication have rewarded the work and creative effort that has been made throughout this year to publicise how Naturgy moves towards the future and always transforms itself alongside people.

In Spain, the Association of Communication Directors (Dircom) has given us the Ramón del Corral Award for the communication strategy developed by Naturgy during the COVID-19 crisis.

In addition, the company’s annual report, which in 2020 presented financial and non-financial performance together, was a finalist in the European Excellence Awards.

4. Sustainable finance and taxonomy

Sustainable financing and investor activities that take ESG criteria into account

[102-12]

Since 2012, Naturgy has been holding meetings with investors focused specifically on evaluating the group’s ESG policies. Throughout 2021, Naturgy has continued with this activity, participating in various events, including the ESG conferences organised by Société Générale. The most relevant investors with whom these meetings were held during the year included Blackrock, Axa IM, Allianz and LGT.

Throughout 2017 and in line with its sustainability commitment, Naturgy introduced a framework for the emission of Green Bonds targeted at financing renewable energies. Under this framework, on 15 November 2017, Naturgy issued a Green Bond for an amount of Euros 800 million, maturing in May 2025. The issue pays an annual coupon of 0.875%. At the close of December 2021, all the funds from the issue have been invested in the planned renewable projects. The Green Bond was approved by the Oekom rating agency, obtaining a B+ rating.

In the banking market, in 2021, Naturgy signed green loans totalling Euros 2,880 million, in addition to the Euros 2,355 million signed until 2020. Of the loans signed in 2021, Euros 2 billion correspond to a syndicated loan that introduces an annual contribution to social projects destined for the Naturgy Foundation. This is the first time that the company has agreed to link its financing with a direct benefit for social projects, specifically the rehabilitation and energy adaptation of vulnerable families’ homes.

It should be noted that, with the loans signed in 2021, the sustainable financing target set for 2025 has already been exceeded, another example of the company’s commitment to sustainability and the energy transition.

The following table shows the evolution of ESG indicators (environmental, social and governance) to which these sustainable financing instruments are linked.

ESG indicators of sustainable financing

	2021	2020
Direct GHG emissions: three-year average reduction ($MtCO_2$ eq)	14.2	16.0
CO_2 intensity of electricity generation: three-year average reduction (tCO_2/GWh)	286.6	313.7
Water consumption: three-year average reduction (hm^3)	18.4	22.3
Percentage of female managers (%)	21.2	22.6

Report on the Green Bond

Indicators of use of funds

As at 31 December 2021, the total number of projects assigned to Green Bonds issued on 15 November 2017 was 35, representing a total investment of Euros 800 million. These assigned funds represent 100% of the total amount obtained through the issuance of Green Bonds.

Technology	Location	Name of the project	Year put into practice	Status	Green Bond Financing 2021 (million €)	% Financed with Green Bond	Emissions prevented (tCO_2)
Photovoltaic	Spain	C.F. CARPIO DE TAJO	2019	Operation	30.06	99%	46,919
Photovoltaic	Spain	C.F. LA NAVA	2019	Operation	30.18	99%	54,747
Wind	Spain	P.E. AMPLIACION EL HIERRO	2019	Operation	38.29	96%	65,604
Wind	Spain	P.E. BALCÓN DE BALOS	2018	Operation	6.21	50%	24,969
Wind	Spain	P.E. BARASOAIN	2019	Operation	43.22	89%	60,851
Wind	Spain	P.E. DORAMÁS	2018	Operation	1.88	49%	5,809
Wind	Spain	P.E. FUERTEVENTURA II	2018	Operation	2.96	50%	6,080
Wind	Spain	P.E. LA HARÍA	2018	Operation	2.00	50%	5,474
Wind	Spain	P.E. LA VAQUERÍA	2018	Operation	1.96	50%	5,141
Wind	Spain	P.E. MERENGUE	2019	Operation	42.71	99%	71,358
Wind	Spain	P.E. MIRABEL	2020	Operation	23.80	98%	43,230
Wind	Spain	P.E. MONCIRO	2019-20	Operation	36.37	96%	65,657
Wind	Spain	P.E. MONTAÑA PERROS	2018	Operation	1.92	50%	6,022
Wind	Spain	P.E. PEÑAFORCADA - CATASOL II	2019	Operation	11.01	98%	12,516
Wind	Spain	P.E. PILETAS I	2020	Operation	10.43	50%	29,979
Wind	Spain	P.E. SAN BLAS	2019-20	Operation	34.15	98%	59,040
Wind	Spain	P.E. TESO PARDO	2019	Operation	30.52	98%	49,438
Wind	Spain	P.E. TESORILLO	2019	Operation	30.12	98%	43,784
Wind	Spain	P.E. TIRAPU	2020	Operation	16.65	90%	20,855
Wind	Spain	P.E. TRIQUIVIJATE	2018	Operation	3.46	50%	9,901
Wind	Spain	P.E. VIENTOS DEL ROQUE	2018	Operation	3.52	50%	11,940
Wind	Spain	P.E. MONTEJO DE BRICIA (AMPLIACIÓN)	2019	Operation	6.87	88%	10,559
Wind	Spain	P.E. FRÉSCANO	2019	Operation	21.74	96%	34,681
Wind	Spain	P.E. SAN AGUSTÍN	2019	Operation	27.22	95%	56,807
Wind	Spain	P.E. MONTE TOURADO - EIXE	2019	Operation	41.79	98%	70,675
Wind	Spain	P.E. PASTORIZA - RODEIRO	2019	Operation	32.75	96%	79,909
Wind	Spain	P.E. SERRA DO PUNAGO - VACARIZA	2019-20	Operation	28.70	96%	56,540
Photovoltaic	Spain	C.F. PICON I	2019	Operation	33.65	97%	15,972
Photovoltaic	Spain	C.F. PICON II	2019	Operation	31.70	97%	16,733
Photovoltaic	Spain	C.F. PICON III	2019	Operation	30.46	95%	18,623
Wind	Spain	P.E. TOROZOS A	2019	Operation	36.98	97%	66,011
Wind	Spain	P.E. TOROZOS B	2019	Operation	30.32	96%	56,336
Wind	Spain	P.E. TOROZOS C	2019	Operation	35.71	96%	67,241
Wind	Spain	P.E. MOURIÑOS	2019	Operation	10.21	98%	20,572
Wind	Spain	INFRAESTRUCTURAS COMUNES	2019	Operation	30.48	73%	0
					800.00		**1,269,972**

Green Bond funds as reported at 31 December 2021 have been allocated in full to investments in eligible assets in accordance with the requirements of the Green Bond Framework, remaining unchanged from the projects included in the report at 31 December 2020.

The net funds of the bond issue were managed within the liquidity portfolio of Naturgy's treasury, in cash or other short-term liquidity instruments that did not include intensive greenhouse gas or other controversial activities. At year-end, Naturgy 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 total 1,269,972 tCO_2/year in emissions prevented, based on a total of approximately 920.8 MW of installed capacity financed by the green bond, with associated production of 2,191 GWh/year.

The United Nations methodology ACM0002 for Clean Development Mechanisms has been used to calculate the emissions prevented in 2020: "Consolidated Methodology for Generation with Renewable Energy Sources Connected to the Grid", through calculation according to option b) of the Adjusted OM Simple. This method is an improvement over the OM Simple method used in previous years in which the Operating Margin Emission Factor of low operating cost sources is weighted along with base load and other sources depending on the number of hours each is marginal. This improvement in the measurement method used justifies the difference in emissions prevented compared to previous years.

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 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 the company's impacts.

Glossary of indicators

Indicators for use of funds	
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 year-end.
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 euros million) at year-end.
% Financed with Green Bonds	Percentage of project investment attributable to Green Bonds at year-end.
Number of projects	Number of projects with financing attributable to funds from Green Bonds at year-end.
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 year-end.
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 year-end, in accordance with the “Naturgy Green Bond Framework”.
Environmental benefit indicators	
Prevented greenhouse gas emissions (GHG)	CO_2 emissions (tonnes of CO_2/year) expected to be prevented 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 allow 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.

EU Taxonomy Report (Regulation 2020/852)

Introduction

To achieve the goals set out in the European Green Deal, the European Commission has committed to mobilise at least Euros 1 trillion for sustainable investment over the next ten years. The active participation of financial markets in financing the sustainable economy is essential for the European Union’s plans towards a low-carbon economy. To this end, the European Commission is driving forward a package of measures to help improve the flow of money into sustainable activities across the EU. One of these measures is the Taxonomy Regulation, Regulation (EU) 2020/852, a classification system for sustainable economic activities that defines what is sustainable and what is not, based on objective criteria. It provides a common language for investors and businesses to channel investments into more sustainable technologies and businesses that have a significant positive impact on the climate and the environment, and to promote compliance with the EU’s climate targets, the Paris Agreement and the UN Sustainable Development Goals.

In particular, it pursues the following environmental objectives:

- **Mitigation of climate change**: An activity is considered to make a significant contribution to mitigating climate change if that activity makes a substantial contribution to stabilising greenhouse gas concentrations in the atmosphere.

- **Adaptation to climate change**: Adaptation solutions that either significantly reduce the risk of adverse impacts of the current climate or provide for adaptation solutions that help avoid the risk of adverse impacts on people, nature or other assets.
- **Sustainability and protection of water and marine resources**: Contribute to the development of good status of waters, including surface waters and groundwater, or prevent their deterioration where they are already in a good condition.
- **Transition to a circular economy**: More efficient use of natural resources, in particular sustainable bio-based materials and other raw materials, in production by increasing the durability and accountability of products.
- **Pollution prevention and control**: By reducing emissions of pollutants into the atmosphere, improving air quality, eliminating waste, etc.
- **Protect and restore biodiversity and ecosystems**: Achieve favourable conservation status of natural and semi-natural habitats and species or prevent their deterioration where their conservation status is already favourable.

So far, the European Union has published delegated acts on climate change mitigation and adaptation. The remaining targets are expected to be published in the course of 2022.

The taxonomy provides for two levels:

- Eligibility: an activity is eligible if it is one of the 72 activities listed in the regulation itself.
- Alignment: subset of eligible activities that are not only listed but also meet the criteria of a significant positive contribution to the climate criteria (mitigation and adaptation) and do not cause significant negative harm to the other criteria (water protection, circular economy, pollution prevention and biodiversity).

The regulation stipulates that three economic indicators must be reported: the percentage of eligible or adapted activities in the company's total turnover, Capex and Opex.

Due to the delay in the publication of the Delegated Acts on Climate Change Mitigation and Adaptation, it has been determined for the financial year 2021 that mandatory reporting will be reduced to the scope of eligibility. However, in anticipation of the disclosure requirements for the 2022 financial year, Naturgy has decided to go a step further and has conducted a preliminary alignment analysis.

This analysis was conducted in a rigorous and consistent manner to determine the company's level of contribution to the defined environmental objectives and, at the same time, to provide shareholders and investors with security in the face of greenwashing. The technical requirements for the classification of activities were set out in Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives.

Scope of the report

All the companies that make up the consolidation scope of the Naturgy Group have been considered in the analysis carried out to establish the eligible activities under the criteria of the European Commission for the Taxonomy.

Results

The proportion of eligible and ineligible activities according to the European Taxonomy is shown below. The results have shown different degrees of eligibility according to the indicator.

The turnover indicator shows 10% eligibility, the Opex indicator rises to 37% eligibility and the Capex indicator reaches 61% eligibility. The result obtained for Capex demonstrates the solvency of a sustainable business model and the creation of long-term value in favour of the planet and people.

In terms of alignment, we observe that 10 of the 11 eligible activities are 100% aligned with the EU Taxonomy after performing the analysis of the environmental criteria (make a substantial contribution, not cause significant damage to the rest of the environmental objectives and comply with the minimum guarantees), the exception is the activity of electricity generation from hydroelectric power with a percentage ranging between 93% of turnover and 76% of Capex.

▪ Turnover

				Substantial contribution criteria	Absence of significant damage criteria							
		Absolute turnover	Proportion of turnover	Climate change mitigation	Adaptation to climate change	Sustainability and protection of water and marine resources	Transition to a circular economy	Pollution prevention and control	Protection and restoration of biodiversity and ecosystems	Minimum guarantees	Proportion of turnover that conforms to the taxonomy	Category *
Economic activity	Code	€	%	%	Yes/ No	Yes/ No	Yes/ No	Yes/ No	Yes/ No	Yes/ No	%	
A. ELIGIBLE ACTIVITIES ACCORDING TO THE TAXONOMY												
A.1 Environmentally sustainable activities (conforming to the taxonomy)												
Manufacture of hydrogen	C20.11	0	0	100	Yes	Yes		Yes	Yes	Yes	100	
Electricity generation using solar photovoltaic technology	D35.11	60,248,680	0	100	Yes		Yes		Yes	Yes	100	
Electricity generation from wind power	D35.11	306,148,798	1	100	Yes	Yes	Yes		Yes	Yes	100	
Electricity generation from hydroelectric power	D35.11	192,616,315	1	93	Yes	Yes			Yes	Yes	93	
Electricity distribution and transportation	D35.12	1,562,299,354	7	100	Yes		Yes	Yes	Yes	Yes	100	F
Storage of electricity		0	0	100	Yes	Yes	Yes		Yes	Yes	100	F
Anaerobic digestion of sewage sludge	E37	0	0	100	Yes	Yes		Yes	Yes	Yes	100	
Landfill gas capture and utilisation	E38.21	73,443	0	100	Yes			Yes	Yes	Yes	100	

Infrastructure enabling low-carbon road transport and public transport	F42.11	0	0	100	Yes	Yes	Yes	Yes	Yes	Yes	100	F
Installation, maintenance and repair of charging stations for electric vehicles in buildings (and in parking spaces attached to buildings)	F42	102,714	0	100	Yes					Yes	100	F
Installation, maintenance and repair of renewable energy technologies	F42	1,001,138	0	100	Yes					Yes	100	F
Turnover from environmentally sustainable activities (conforming to the taxonomy) (A.1)		2,122,490,441	10									
A.2 Taxonomy-eligible but not environmentally sustainable activities (activities that do not conform to the taxonomy)												
Electricity generation from hydroelectric power	D35.11	13,392,327	0	0							0 %	F
Turnover from taxonomy-eligible but not environmentally sustainable activities (activities that do not conform to the taxonomy) (A.2)		13,392,327	0									
Total A.1 + A.2		2,135,882,768	10									
B. INELIGIBLE ACTIVITIES ACCORDING TO THE TAXONOMY												
Turnover from ineligible activities according to the taxonomy (B)		20,004,026,117	90									
TOTAL A + B		22,139,908,885	100									

* F = Facilitator

Capex

				Substantial contribution criteria	Absence of significant damage criteria							
Economic activity	Code	Absolute Capex	Capex ratio	Climate change mitigation	Adaptation to climate change	Sustainability and protection of water and marine resources	Transition to a circular economy	Pollution prevention and control	Protection and restoration of biodiversity and ecosystems	Minimum guarantees	Proportion of Capex volume that conforms to the taxonomy	Category *
		€	%	%	Yes/ No	Yes/ No	Yes/ No	Yes/No	Yes/No	Yes/No	%	
A. ELIGIBLE ACTIVITIES ACCORDING TO THE TAXONOMY												
A.1 Environmentally sustainable activities (conforming to the taxonomy)												
Manufacture of hydrogen	C20.11	273,350	0	100	Yes	Yes		Yes	Yes	Yes	100	
Electricity generation using solar photovoltaic technology	D35.11	112,811,605	8	100	Yes		Yes		Yes	Yes	100	
Electricity generation from wind power	D35.11	436,885,943	29	100	Yes	Yes	Yes		Yes	Yes	100	
Electricity generation from hydroelectric power	D35.11	7,399,415	0	76	Yes	Yes			Yes	Yes	76	
Electricity distribution and transportation	D35.12	350,909,974	24	100	Yes		Yes	Yes	Yes	Yes	100	F
Storage of electricity		0	0	100	Yes	Yes	Yes		Yes	Yes	100	F
Anaerobic digestion of sewage sludge	E37	0	0	100	Yes	Yes		Yes	Yes	Yes	100	
Landfill gas capture and utilisation	E38.21	0	0	100	Yes			Yes	Yes	Yes	100	
Infrastructure enabling low-carbon road transport and public transport	F42.11	0	0	100	Yes	Yes	Yes	Yes	Yes	Yes	100	F

Installation, maintenance and repair of charging stations for electric vehicles in buildings (and in parking spaces attached to buildings)	F42	28,701	0	100	Yes	Yes	100	F
Installation, maintenance and repair of renewable energy technologies	F42	150,431	0	100	Yes	Yes	100	F
Capex of environmentally sustainable activities (conforming to the taxonomy) (A.1)		908,459,419	61					
A.2 Taxonomy-eligible but not environmentally sustainable activities (activities that do not conform to the taxonomy)								
Electricity generation from hydroelectric power	D35.11	2,340,297	0				0%	F
Capex of eligible activities conforming to the taxonomy but not environmentally sustainable (activities that do not comply with the taxonomy) (A.2)		2,340,297	0					
Total A.1 + A.2		910,799,715	61					
B. INELIGIBLE ACTIVITIES ACCORDING TO THE TAXONOMY								
Capex of ineligible activities according to the taxonomy (B)		573,359,690	39					
TOTAL A + B		1,484,159,406	100					

* F = Facilitator

Opex

				Substantial contribution criteria	Absence of significant damage criteria							
Economic activity	Code	Absolute Opex €	Opex ratio %	Climate change mitigation %	Adaptation to climate change Yes/No	Sustainability and protection of water and marine resources Yes/No	Transition to a circular economy Yes/No	Pollution prevention and control Yes/No	Protection and restoration of biodiversity and ecosystems Yes/No	Minimum guarantees Yes/No	Proportion of Opex volume that conforms to the taxonomy %	Category *
A. ELIGIBLE ACTIVITIES ACCORDING TO THE TAXONOMY												
A.1 Environmentally sustainable activities (conforming to the taxonomy)												
Manufacture of hydrogen	C20.11	196,459	0	100	Yes	Yes		Yes	Yes	Yes	100	
Electricity generation using solar photovoltaic technology	D35.11	2,386,543	1	100	Yes		Yes		Yes	Yes	100	
Electricity generation from wind power	D35.11	38,551,669	15	100	Yes	Yes	Yes		Yes	Yes	100	
Electricity generation from hydroelectric power	D35.11	7,457,707	3	83	Yes	Yes			Yes	Yes	83	
Electricity distribution and transportation	D35.12	46,200,496	18	100	Yes		Yes	Yes	Yes	Yes	100	F
Storage of electricity		95,165	0	100	Yes	Yes	Yes		Yes	Yes	100	F
Anaerobic digestion of sewage sludge	E37	178,127	0	100	Yes	Yes		Yes	Yes	Yes	100	
Landfill gas capture and utilisation	E38.21	0	0	100	Yes			Yes	Yes	Yes	100	
Infrastructure enabling low-carbon road transport and public transport	F42.11	8,100	0	100	Yes	Yes	Yes	Yes	Yes	Yes	100	F

Installation, maintenance and repair of charging stations for electric vehicles in buildings (and in parking spaces attached to buildings)	F42	0	0	100	Yes	Yes	100	F
Installation, maintenance and repair of renewable energy technologies	F42	0	0	100	Yes	Yes	100	F
Opex of environmentally sustainable activities (conforming to the taxonomy) (A.1)		95,074,265	36					
A.2 Taxonomy-eligible but not environmentally sustainable activities (activities that do not conform to the taxonomy)								
Electricity generation from hydroelectric power	D35.11	1,570,628	1				0%	F
Opex of eligible activities conforming to the taxonomy but not environmentally sustainable (activities that do not comply with the taxonomy) (A.2)		1,570,628	1					
Total A.1 + A.2		96,644,893	37					
B. INELIGIBLE ACTIVITIES ACCORDING TO THE TAXONOMY								
Opex of ineligible activities according to the taxonomy (B)		166,616,974	63					
TOTAL A + B		263,261,867	100					

* F = Facilitator

Eligibility analysis

From the analysis carried out by a transversal work team made up of people from different units, both from business and corporate areas, it is established that according to the Delegated Regulation (EU) 2020/852, the eligible activities within Naturgy's portfolio are the following:

- Manufacture of hydrogen.
- Electricity generation using solar photovoltaic technology.
- Electricity generation from wind power.
- Electricity generation from hydroelectric power.
- Electricity distribution and transportation.
- Storage of electricity.
- Anaerobic digestion of sewage sludge.
- Landfill gas capture and utilisation.
- Infrastructure enabling low-carbon road transport and public transport.
- Installation, maintenance and repair of charging stations for electric vehicles in buildings (and in parking spaces attached to buildings).
- Installation, maintenance and repair of renewable energy technologies.

These activities are integrated into the following businesses:

- Electricity Distribution Spain (UFD).
- Electricity distribution Panama.
- Renewables Spain and the United States.
- Renewables International (GPG).
- New Business and Innovation.
- Commercialisation.

Calculation of the main indicators

Calculation of turnover %

The proportion of turnover referred to in Article 8(2)(a) of Regulation (EU) 2020/852 shall be calculated as the share of net turnover derived from products or services, including intangibles, associated with economic activities that comply with the taxonomy (numerator), divided by net turnover (denominator) as defined in Article 2(5) of Directive 2013/34/EU. Turnover shall include revenue recognised in accordance with International Accounting Standard (IAS) 1, paragraph 82(a), adopted by Commission Regulation (EC) No. 1126/2008.

In the case of Naturgy, the numerator includes the sum of the turnover (Group 70 accounts) of the eleven activities mentioned above that are eligible according to the Taxonomy.
The denominator corresponds to the total balance of the Naturgy Group of the turnover figure.

Calculation of the Capex %

The proportion of Capex referred to in Article 8(2)(b) of Regulation (EU) 2020/852 shall be calculated as the numerator divided by the denominator; the denominator being the additions to tangible and intangible assets during the relevant financial year before depreciation, amortisation and any new valuations, including those resulting from revaluations and impairments, for the relevant financial year, excluding changes in fair value. The denominator will also include additions to tangible and intangible assets resulting from business combinations.

For non-financial companies applying International Financial Reporting Standards (IFRS) as adopted by Regulation (EC) No. 1126/2008, Capex will cover costs that are accounted for in accordance with:

a. IAS 16 Property, plant and equipment, paragraph 73 (e) (i) and (iii);
b. IAS 38 Intangible Assets, paragraph 118 (e) (i);
c. IAS 40 Investment Property, paragraph 76 (a) and (b) (for the fair value model);
d. IAS 40 Investment Property, paragraph 79, (d), (i) and (ii), (for the cost model);
e. IAS 41 Agriculture, paragraph 50 (b) and (e);
f. IFRS 16 Leases, paragraph 53, (h).

For non-financial companies applying national generally accepted accounting principles (GAAP), Capex will integrate costs accounted for under applicable GAAP that correspond to costs included in capital expenditures by non-financial companies applying IFRS.

Leases that do not result in the recognition of a right to use the asset are not accounted for as Capex.
On the other hand, the numerator will be equal to the portion of fixed asset investments included in the denominator which:

a. is related to assets or processes that are associated with economic activities that conform to the taxonomy;
b. is part of a plan to expand the economic activities that conform to the taxonomy or to allow economic activities eligible under the taxonomy to conform to the taxonomy ("Capex plan") under the conditions specified in the second paragraph of this section 1.1.2.2 (on the "Capex plan");
c. is related to the purchase of production from economic activities that comply with the taxonomy and individual measures that enable the targeted activities to become low-carbon or lead to greenhouse gas reductions, in particular the activities listed in sections 7.3 to 7.6 of Annex I of the delegated act on climate, as well as other economic activities listed in delegated acts adopted pursuant to Articles 10(3), 11(3), 12(2), 13(2), 14(2) and 15(2) of Regulation (EU) 2020/852, and provided that those measures are implemented and operational within eighteen months.

In the case of Naturgy, the denominating data will be the total Capex of the Naturgy Group, as this is the same definition used to monitor this magnitude. In relation to the numerator, it will only be the aggregation of the Capex of the activities considered as taxonomically eligible.

Calculation of Opex %

The Opex ratio referred to in Article 8(2)(b) of Regulation (EU) 2020/852 shall be calculated as the numerator divided by the denominator; including the latter to direct non-capitalised costs related to research and development, building renovation measures, short-term leases, maintenance and repairs, as well as other direct expenses related to the daily maintenance of property, plant and equipment by the company or a third party to whom activities are outsourced and which are necessary to ensure the continued effective operation of such assets.

Additionally, non-financial companies that apply national GAAP and do not capitalise right-of-use assets will include leasing costs in Opex.

On the other hand, the numerator will include the portion of operating expenses included in the denominator that:

a. relates to assets or processes associated with economic activities that conform to the taxonomy, including training and other human resource adaptation needs, and direct non-capitalised costs representing research and development;
b. the Capex plan shall form part of the Capex plan to expand the economic activities that conform to the taxonomy or to allow taxonomy-eligible economic activities to conform to the taxonomy within a predefined time frame, as set forth in the second paragraph of this section 1.1.3.2 (on the “Capex plan”);
c. is related to the purchase of production from economic activities that comply with the taxonomy and individual measures that enable the targeted activities to become low-carbon or lead to greenhouse gas reductions, as well as individual building renovation measures, as identified in delegated acts adopted pursuant to Articles 10(3), 11(3), 12(2), 13(2), 14(2) or 15(2) of Regulation (EU) 2020/852, and provided that those measures are implemented and operational within eighteen months.

In the case of Naturgy, the Opex indicator only considers non-capitalised direct costs related to research and development, short-term leases and maintenance and repairs . Due to limitations in the identification within the Opex concepts used in Naturgy’s internal accounting, other direct expenses related to the daily maintenance of tangible fixed assets, by the company or a third party to whom activities are subcontracted, and which are necessary to guarantee the continued and efficient operation of such assets, have been left out of the indicator. Thus, the denominator will include the expenditure of these three Opex items for the entire Naturgy Group, while the numerator will be made up of the same items, but only for the activities recognised as eligible.

Alignment analysis

Naturgy, for its part, as mentioned above, has decided to anticipate the regulation and has carried out the analysis of the alignment of Annex 1 of the environmental objective of climate change mitigation with the data for the closing of financial year 2021. This analysis consisted of applying the relevant technical criteria of EU Taxonomy and determining their alignment with each of its three requirements:

- Substantial Contribution technical criterion: under this criterion, the eleven activities detected as eligible were also aligned with the Taxonomy; however, one of them, Generation of electricity from hydroelectric power, is only partially aligned, since a portion of the facilities do not meet the criterion of power density of the electricity generation facility is greater than 5 W/m^2.
- No significant harm criterion: after analysing the criteria required for each of the environmental objectives of the taxonomy for each activity, we can conclude that the eleven activities are aligned under this criterion. The eleven activities have a total of 36 no significant harm criteria (across all environmental objectives) applicable to them and are assessed as aligned.
- Minimum guarantees: Naturgy relies on the company’s Global Human Rights Policy, as well as on compliance with the regulatory framework of the different countries in which it operates to conclude that the minimum safeguard requirements are met.

Calculation of the main indicators

The calculation of the % of alignment varies significantly with respect to the calculation of the % of eligibility. In this case, the % is calculated individually per activity, with the denominator being the eligible amount (the numerator in the eligibility calculation), while the numerator will be the aggregate amount of the different facilities, projects, services or products of the indicator that are considered as aligned within EU taxonomy.

In the case of Naturgy, as mentioned above, ten of the eleven eligible activities meet the three technical criteria , and are therefore 100% aligned.

Information consolidation process

The information consolidation process was subject to analysis and control by the business units in charge of reporting data by activities (eligibility) or by facilities, projects, services or products (alignment), and by the corporate Consolidation units (in charge of reporting the Group's consolidated indicators) and by the Sustainability and Social Responsibility Unit (in charge of coordinating and preparing the Taxonomy Report) to ensure consistency in the criteria adopted for reporting the indicators, the treatment of intra-group operations and the breakdown of the indicators by business activity segment or sub-segment.

04. Integrity and trust

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

(Business integrity, compliance and transparency)

Naturgy's contribution to the SDG

What does this mean for Naturgy? Risks and management approach

[205-1]

Naturgy strives to be a responsible, trustworthy, integrity-driven and transparent company committed to its stakeholders. To ensure this, Naturgy has various policies, procedures and governing bodies, mainly:

- To address the risks associated with integrity and trust, Naturgy has a set of rules, the cornerstone of which is the **Code of Ethics**, which is developed and supplemented by a set of policies that govern the conduct and management of the company by its directors and employees.
- **Corporate governance** is carried out in accordance with the principles of efficiency and transparency set out in the main national and international recommendations and standards.
- 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. In this regard, Naturgy's **Risk Management Model** seeks to ensure predictability of the company's performance in all relevant aspects for its stakeholders.
- 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.
- The current scenario, in which digitalisation is becoming increasingly important and threats and risks related to information systems are on the rise, makes cybersecurity management a priority issue. For this reason, Naturgy has a **global cybersecurity governance system** for the entire organisation.
- However, risks related to integrity extend beyond the company's activity, as it can be severely impacted by the inadequate performance of its suppliers and contractors in terms of the environment, health and safety, human rights, labour practices or corruption. The company has systems in place to analyse and select suppliers, ensuring that the supply chain adheres to the principles set forth in the company's Code of Ethics through the **Supplier Code of Ethics**, in order to minimise and ensure effective management of its value chain.

What is our commitment?

- Reject corruption, fraud and bribery in business dealings and establish measures to prevent and combat them, developing internal channels allowing communication of irregularities while preserving anonymity.
- Comply with the group's internal regulations and with national and international laws and standards in force in the countries in which the company operates, in particular, abiding by the principles expressed in the United Nations Universal Declaration of Human Rights, in the Declaration of the International Labour Organisation (ILO), in the United Nations Global Compact, in the United Nations Guiding Principles on Business & Human Rights, and the OECD Principles of Corporate Governance.
- Act with responsibility in management and comply with fiscal obligations in all jurisdictions in which the company operates, undertaking to act transparently and collaborate with tax authorities.
- Compete fairly on the market and prevent misleading, fraudulent or malicious conduct through which the company could obtain an unfair advantage.
- Promote transparency in information and responsible, truthful, efficient, complete and timely reporting, with regular publication of financial and non-financial information to measure the company's activities.
- Maintain, at all times, permanent dialogue with stakeholders through adequate and accessible channels.

Evolution and results 2021

Integrity and transparency

[102-34] and [102-33]

	2021	2020
Communications received by the Ethics and Compliance Committee	96	141
No. of notifications received per 200 employees	1.7	1.5
Average time for resolving notifications (days)	74.12	42
Audit projects analysed on the basis of the risk of fraud	97	110
Notifications received in the area of human rights	0	0
Number of persons trained on the Human Rights Policy	6,948	6,827

Code of Ethics notifications

	2021	2020
Queries	35	61
Complaints	61	80
Total	**96**	**141**
No. of notifications received per 200 employees	**1.7**	**1.5**

Code of Ethics chapter to which complaints refer

	2021	2020
Respect for the individual	16	17
Corruption and bribery	21	26
Loyalty to the company and conflict of interest	8	9
Occupational health and safety	5	8
Environment and asset protection	2	2
Other	9	18
Total	**61**	**80**

NB: more information in the Reporting channel section of this chapter.

1. Compliance

Naturgy faces challenges regarding integrity through a management approach based on various policies and procedures and specific tools, within the framework of the company's Code of Ethics and of the compliance management model.

The regulatory framework is underpinned by the Code of Ethics and complemented by, among others, the Supplier Code of Ethics, the Compliance Policy, the Crime Prevention Model, the Anti-Corruption Policy, tax policies, the Human Rights Policy and other control standards and models that ensure the efficiency of operations, the mitigation of key risks in each area of the business and the continuity of operations. The internal audit function, designed as an independent and objective assessment function, ensures and protects the company's control system and compliance with external and internal regulations.

Part of being a company of integrity is observing and strictly complying with tax obligations. For this reason, Naturgy has a tax strategy and a Tax Risks Control and Management Policy that governs the basic principles for Naturgy's tax function and the main lines of action to mitigate and adequately control tax risks.
On the other hand, a commitment to integrity means not only understanding and managing one's own risks, but also taking into account the potential risks that the company's activities may have on people and including them in decision-making. Against this backdrop, Naturgy's Human Rights Policy is of particular importance. The policy's ten commitments take into account the stakeholders who may be affected by the company's activities, particularly those who are most at risk.

The following sections detail each of the elements that Naturgy considers essential to meet the expectations of a responsible company.

1. Compliance management model

[102-16], [102-17] and [205-3]

Naturgy has a compliance management model based on a number of policy commitments, oversight bodies and safeguards.

Code of Ethics and related policies

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 the company, in their daily work, with regard to relationships and interactions with all its stakeholders. 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.

Since 2005, when it was adopted, the code has been regularly renewed to adapt it to the new situations that affect the company.

In addition, the company has developed a set of rules with various guidelines that reinforce and extend the principles formulated in the Code of Ethics.

The most important policies are:

- **Compliance policy**: in force since 2019, it sets out roles and responsibilities in relation to the compliance management system and aims to:
  - Promote a culture of compliance and zero tolerance of non-compliance;
  - Ensure, through prevention, detection, monitoring, training and response measures, that the organisation complies with all applicable regulations in all its activities and operations, both external regulations and the internal regulatory system, thus avoiding possible sanctions, financial losses and reputational damage.
- **Anti-corruption policy**: this is an extension of chapter 4.7. “Corruption and bribery” of the Code of Ethics, which deals with these issues. It establishes the principles which must be used to guide the conduct of all employees and directors of the companies of Naturgy with regard to the prevention, detection, investigation and correction of any corrupt practice within the organisation. This complies with national and international legislation in this matter.
- **Corporate Hospitality Policy**: its purpose is to regulate the conditions in which Naturgy directors 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, the Compliance Policy and the Anti-Corruption Policy of Naturgy and thus avoid improperly influencing their commercial, professional or administrative relationships, both with public and private entities. Each December, in the run-up to Christmas, all employees are reminded of the principles of this policy.

In 2021, the Board of Directors approved the amendment of the Code of Ethics to include an explicit reference to two new corporate policies on conflicts of interest and digital rights, which were approved in May and July 2021 respectively.

Finally, it is also worthy of particular attention that the Code of Ethics expressly prohibits any contribution to political parties and/or representatives in its section 4.9 “Corporate Image and Reputation”: “Naturgy does not finance political parties or their representatives or candidates in those countries where it carries out its activities”.

Supervisory bodies

The Ethics and Compliance Committee works to disseminate the Code of Ethics and it also functions as advisor in the event of any doubt or conflict concerning the same. The Ethics Committee is supported by the Compliance Department by monitoring compliance with external regulations and the policies and procedures implemented in the group to mitigate the main risks in this area, including legal risks, corruption and fraud.

Also, the Compliance Unit takes charge of the dissemination of the Code of Ethics of Naturgy by overseeing compliance with its provisions and the Anti-Corruption Policy. This department regularly informs the Ethics and Compliance Committee and the Audit and Control Committee - a delegated committee of the Board of Directors - of the activities carried out within the scope of its duties and submits regular reports addressing the main issues related to the dissemination of and compliance with the Code of Ethics and the Anti-Corruption Policy and monitoring the main indicators.

In 2021, the Ethics and Compliance Committee held five working meetings, including the following:

- September 2021, the resignation of the former group Compliance Officer, Ms. Teresa Olivié, previously accepted by the Audit and Control Committee, and Ms. Isabel González Alfaro, who had previously been appointed by the Audit and Control Committee as the new Head of Compliance in July 2021, was appointed as the new Chair of the Ethics and Compliance Committee.
- October 2021, approval of the amendment of the Code of Ethics to include explicit references to the new Conflict of Interest and Digital Rights policies, prior to approval by Naturgy's Board of Directors.

In addition to a robust set of rules and specific oversight bodies, the compliance management model is complemented by various safeguards to help minimise the potential risks from possible breaches. These mechanisms are:

- Crime Prevention Model.
- Channels for reporting possible non-compliances.
- Counterparty Due Diligence Procedure.
- Dissemination and training actions.

Crime Prevention Model

The company has an international Crime Prevention Model which is updated annually. Thus, in 2021, the model has continued to be adapted to the new organisational structure operated within Naturgy.

From an organisational standpoint, the Board of Directors 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 supervision of the operation of and compliance with the Crime Prevention Model.

In this regard, the Compliance Unit is in charge of managing the Crime Prevention Model and, in collaboration with the different units affected, assesses the risks in the models it develops.

Given the importance of having a tool that ensures proper management control of the Crime Prevention Model, a SAP GRC Process Control is administered and used for comprehensive management of the documentation, assessment and supervision of the model.

Each year, this model is assessed by an independent third party. In 2021, this assessment process was completed in December and the report issued on the design and effectiveness of the model was satisfactory.

Furthermore, in 2021, the model has been subject to the certification renewal process in accordance with the AENOR UNE 19601 standards (criminal compliance management systems) and ISO 37001 (Anti-bribery management systems), obtaining both renewals in November 2021. Worldwide, Naturgy also deploys crime prevention models gradually in countries with laws governing the civil liability of legal persons.

While the crime prevention model identifies various criminal risks, the fight against fraud and corruption and the criminal risks related to money laundering are the most important ones, on which more information is provided below.

Anti-fraud and anti-corruption plans

[102-33] and [102-34]

Naturgy has a range of mechanisms to ensure the proper implementation of the Anti-Corruption Policy, as well as to prevent, detect, investigate and punish cases of corruption, including:

- Monitoring of the operation and assessment of the effectiveness of the organisation, control and compliance models implemented in the different corporate and business areas of Naturgy, especially the Crime Prevention Model.
- In addition, Naturgy provides both its employees as well as stakeholders with channels so they can report to the Ethics and Compliance Committee concerning any breach or irregular or suspicious conduct in this area. Thus, they may use the web channel of the Naturgy Code of Ethics (www.naturgy.ethicspoint.com) to make such communications.
- Counterparty Due Diligence Procedure, to know and analyse the counterparties with whom Naturgy operates and thus evaluate the associated corruption and reputation risks.
- Regular declaration by all employees, in which it is formally stated that they know and comply with the principles established in the Code of Ethics, the Compliance Policy and the Anti-Corruption Policy.
- Regular training initiatives based on the programme with the aim of raising awareness of the importance of fighting against corruption and ensuring that directors, employees and suppliers are given enough and appropriate information to act accordingly. Some of these regular initiatives include the following:
    - Update of the Naturgynet space dedicated to compliance.
    - Periodic report to the Board of Directors on the activities of the Ethics and Compliance Committee (notifications received, activities carried out, etc.).
    - Training course on Crime Prevention Model, Code of Ethics and Anti-Corruption Policy.
    - Specific training in relation to the Crime Prevention Model and Anti-Corruption Policy for new employees and directors.
    - Presentations in Boards of Directors and Management Committees of the Crime Prevention Model.

In 2021, a programme of specific face-to-face training sessions was held for executives, which included, among other points, the Crime Prevention Model, Counterparty Due Diligence Procedure and various competence issues.

Prevention of money laundering

Naturgy has the mechanisms, procedures and policies that seek to prevent and, where appropriate, detect and react to those possible breaches in the area of prevention of money laundering that are detected in the performance of its activity.

The Naturgy Crime Prevention Model includes the one related to money laundering, introducing the necessary controls to prevent the perpetration of said crime.

- **Measures adopted to prevent money laundering**

Prevention	Detection	Reaction and response
Code of Ethics. Anti-Corruption Policy. Counterparty Due Diligence Procedure. General standard for hiring external advisors. Procedure for granting signature levels. Internal Control Procedure for processing payments and cash movements PE.00004. GN-EF.	Review and auditing of the Crime Prevention Model by an independent third party. Reviews of the Internal Audit Area. Internal control system on financial reporting. Reporting channel.	Code of Ethics Channel operating regulations. Disciplinary regime. Collaboration with competent authorities in each country when faced with suspicious situations.

There are three control levels that seek to prevent, detect and, if appropriate, react to money laundering:

- **Prevention**: both the Naturgy Code of Ethics and its Anti-Corruption Policy have specific sections that expressly establish the prevention of money laundering as one of the principles that govern the operations of the company and of all its employees. All Naturgy employees receive regular training on the content of the Code of Ethics, the Anti-Corruption Policy and the conduct guidelines that they must heed.
  In addition, Naturgy has other more specific policies and procedures that establish a full series of controls in its daily operations and in the operations it performs, which encompass the prevention of money laundering. Key among these are the Counterparty Due Diligence Procedure; the Global Outsourcing Policy; the Procedure on granting the Signing Level, and the Internal Control Procedure for the processing of payments and cash movements, among others.
- **Detection**: some of the foregoing policies and procedures also allow the risk of money laundering to be detected.
  Every year, those in charge of controls at Naturgy are subject to a self-assessment in the Crime Prevention Model on compliance with the same, including those where there is a risk of potential money laundering. In addition, to ensure efficiency of this model, it is reviewed regularly and audited every year by an independent expert.
  The Internal Auditing Unit periodically reviews the different processes of Naturgy to detect possible breaches that may have occurred in the different operational risks. These reviews include checks of revenue and payments that may be subject to the risk of money laundering.
  Naturgy also has an Internal Control System on Financial Reporting that is audited every year by an independent expert.
- **Reaction and response**: Naturgy has an internal disciplinary regime and collaborates with the competent authorities of each country in the fight against money laundering and the financing of terrorism, furnishing all the information they request in accordance with prevailing regulations. The company also reports any suspicious transactions.

Reporting channel

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 disciplinary 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 2021:

- 26,22% (21% in 2020) of the notifications were related to the principle of respect for people, and they were all solved appropriately.
- No notifications were reported related to labour or child exploitation or in relation to the rights of local communities and human rights.

During 2021, 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.

During 2021, a total of two minor, one serious and four very serious offences were dealt with, all of which resulted in dismissal.

In 2021, it was not necessary to repair damages relating to impacts caused by human rights cases.

2. Internal auditing

Assurance function of Internal Audit

For Naturgy, Internal Audit is an independent and objective assessment activity. For this reason, the Internal Audit Unit reports to the Audit and Control Committee of the Naturgy Group.

Its mission is to guarantee the ongoing review and improvement of the group's internal control system, and to ensure compliance with external and internal regulations and the established control models. Its purpose is to safeguard the effectiveness and efficiency of operations and to mitigate the main risks in each of the company's areas. Likewise, it is responsible for drawing up the report on the internal audit activity to the Audit and Control Committee.

In the performance of its activity, Internal Auditing methodically reviews the internal control system of the group's processes in all areas, and also assesses the risks and controls associated with these processes, through definition and introduction of the Annual Internal Audit Plan. It also provides support to the divisions in achieving their objectives.

The methodology for the assessment of 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 2021, 128 (137 in 2020) internal audit projects were carried out, 97 (110 in 2020) of which corresponded to the review of processes associated with the main risks of the general service and business departments at Naturgy. The analyses carried out reached 100% of the general service and business departments. In the projects performed in 2021, no significant incidents related to corruption were detected.

3. Taxation

Tax policy

[207-1], [207-2] and [207-3]

Tax Strategy and Tax Risks Control and Management Policy

Through the Audit Committee, the Board of Directors is responsible for overseeing compliance with the group's tax strategy. At a meeting on 26 January 2019, the Board of Directors approved the Tax Strategy and Tax Risks Control and Management Policy, which sets out the basic principles governing Naturgy's tax function and the main lines of action to mitigate and guide proper control of tax risks. The basic principles governing Naturgy's Tax Strategy are as follows:

- Responsible compliance with tax obligations.
- A low tax risk profile.
- Adoption of tax treatments based on economic reasons.
- Transparency of tax information.
- Co-operation with the Tax Authorities.

The main lines of the Tax Risks Control and Management Policy are as follows:

- Clearly defined tax governance.
- Procedures for controlling the tax risk arising from Compliance.
- Procedures for assessing and controlling tax approaches where there is uncertainty.
- Oversight of the performance of the Tax Control Framework.
- Regular reporting of the tax situation to the Board of Directors.

All of Naturgy's tax policies are aligned with:

- The **Naturgy Corporate Responsibility Policy**, in which one of the commitments and principles of action is to "adopt responsible business management practices and comply with all tax obligations in all jurisdictions in which the company operates, accepting the commitment to accountability and collaboration with the corresponding tax agencies."

- The **Naturgy's Code of Ethics** establishes that "all employees of the group must comply with the laws in force in the countries where they conduct their activities, thereby heeding the spirit and objectives of the laws and behaving ethically in all their actions".
- The **Code of Best Tax Practices (CBTP)**, approved on 20 July 2010 by the Plenary session of the Large Companies Forum, a body established by the Spanish National Tax Agency with Spain's largest companies, including Naturgy Energy Group, S.A. The CBTP contains recommendations by the tax authorities, which Naturgy has adopted voluntarily, that are aimed at improving the application of the tax system by enhancing legal certainty, reducing litigation, fostering mutual co-operation based on good faith and legitimate trust, and the application of responsible tax policies.

Organisational principles ensure that the tax function is carried out in a global (with responsibility for all the group's tax matters in the various management areas), integrated (with a single criterion) and professional (expert teams) manner.

The global and integrated responsibility for the tax function is centralised in the Tax Unit, through the preparation of common tax policies for the entire group, which allow the functions of the Tax Units of the businesses (filing of tax returns and compliance with tax obligations; advice and definition of tax criteria, management and coordination of inspection activities; communication with Tax Administrations; as well as management of tax litigation procedures) to be carried out under a single and common criterion, without prejudice to the peculiarities of each business and jurisdiction.

In order to perform these functions correctly, both the Tax Unit and the individual Tax Units have teams with academic and practical training in accounting, financial and tax matters that enable them to carry out their tasks satisfactorily.

On the other hand, the business and corporate units are responsible for informing and involving its Tax units or the Corporate Tax Unit, of the existence of any function or operation that may affect taxation in order to establish the corresponding interrelationships to ensure the correct identification of all tax risks.

The businesses' Tax Units are responsible for informing the Corporate Tax Unit of any transaction or business whose tax treatment cannot be included in the group's tax policies in order to analyse the operation or business and, if required, adapt the affected tax policy or dictate a new tax policy that allows the tax qualification of the business or operation in accordance with the group's tax strategy.

To align Naturgy's tax policies with these principles, the group has a General Regulation governing the Tax Control Framework, designed in accordance with the guidelines of the Organisation for Economic Co-operation and Development (OECD) for multinational enterprises, and for the design and implementation of a Tax Control Framework.

Naturgy also has a risk map that specifically identifies the tax risks and issues regarding the interpretation or application of tax law. The main matters with a tax impact are detailed in Note 21 "Tax situation" in the notes to the Consolidated Annual Accounts.

Regarding the approach to tax risks, it is worth mentioning that all uncertain tax processes (adopted or those planned to be adopted in tax returns) (which the tax authorities may not accept), are assessed by applying a predefined methodology. Based on the assessments obtained and the defined risk tolerance level, a mitigation, communication and, if applicable, approval plan is established in accordance with the procedures and authorisation levels documented in the General Regulation governing the Tax Control Framework.

Additionally, in the case of transactions that must be submitted to the Board for approval and other transactions with special tax risk, the Company and Board Secretary will inform the Board of Directors of the tax consequences before they are approved by the Board of Directors. The practical implementation of this section of the general standard is carried out by applying the provisions of Naturgy's General Procedure of the Tax Control Framework.

The compliance assessment of the fiscal governance and control framework takes place at year-end and prior to the preparation of the consolidated financial statements. The Secretary General and Secretary of the Board, presents to the Board of Directors the fiscal situation of Naturgy, which includes, among other matters: (i) the tax policies applied during the year, (ii) the information related to taxes by country and that included in the annual financial report, (iii) tax audits, litigation and the tax risk map, (iv) compliance with the obligations assumed by adherence to the Code of Good Tax Practices and (v) the most relevant results of the supervision of the operation of the Tax Control Framework.

On the other hand, periodically, at least once a year, the Tax Unit tests the design and effectiveness of the Tax Control Framework, in order to conclude that tax risks are adequately identified, evaluated and controlled. In the event that significant control deficiencies are detected, the corresponding improvement plans will be incorporated into the Tax Control Framework.

Finally, with regard to the mechanisms for reporting concerns, through the Code of Ethics, queries and/or complaints may be made regarding behaviour contrary to the rules of conduct published by the company or which, without being expressly regulated, any employee may consider that certain actions are contrary to the code of good tax practices approved by the Board of Directors.

Tax havens

The incorporation or acquisition of undertakings domiciled in countries or territories designated as tax havens must be reported to the Board of Directors via the Audit Committee.

At 2021 year-end, the Naturgy Group did not have any company in a territory designated as a tax haven under the related Spanish regulations (Royal Decree 1080/1991, of 5 July, and Royal Decree 116/2003, of 31 January). Nor did it have any companies at the end of 2020.

Tax contribution

Naturgy attaches priority to its obligation to pay any taxes that are due under each territory's rules.

Naturgy's tax contribution in 2021 amounted to Euros 2,769 million (Euros 2,324 million in 2020). The following table shows the taxes actually paid by Naturgy in each country, distinguishing between those that involve an actual expense for the group ("own taxes"), and those that it withholds or that it passes on to the final taxpayer ("third-party taxes"):

	Own taxes						**Third-party taxes**									
	Income tax [1]		Others [2]		Total		VAT		Hydrocarbons tax and Electricity tax		Others [3]		Total		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Spain	380	65	218	310	598	375	903	843	206	223	206	205	1,315	1,271	1,913	1,646
Argentina	18	11	6	12	24	23	2	7	0	0	14	13	16	20	40	43
Brazil	61	38	38	35	99	73	59	56	0	0	6	8	65	64	164	137
Chile	174	2	4	23	178	25	17	102	0	0	2	14	19	116	197	141
Mexico	145	73	0	1	145	74	22	72	0	0	2	5	24	77	169	151
Panama	11	6	6	6	17	12	2	2	0	0	0	0	2	2	19	14
Rest of LatAm	10	9	1	3	11	12	6	5	0	0	1	0	7	5	18	17
Total LatAm	419	139	55	80	474	219	108	244	0	0	25	40	133	284	607	503
Rest	65	10	3	3	68	13	109	85	70	75	2	2	181	162	249	175
Total	**864**	**214**	**276**	**393**	**1,140**	**607**	**1,120**	**1,172**	**276**	**298**	**233**	**247**	**1,629**	**1,717**	**2,769**	**2,324**

(1) Refers to income tax actually paid in the year as per 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 "Tax Situation" of the Consolidated Annual Accounts.

(2) Includes energy taxes, which in Spain, due to the return of almost all of the inland water use tax paid since its implementation (176 million euros), results in an overall income of 0 euros (144 million euros in 2020), local taxes, social security payable by the company and other specific taxes of each country.

(3) Basically includes tax withholdings from employees and employee social security contributions.

Information on revenues from sales to third parties and revenues from intra-group transactions with other tax jurisdictions in 2021 is not available on a country-by-country basis on completion of this report. The information will be available for the country-by-country statement submitted in December next year.

Subsidies

The changes in capital subsidies received are detailed in Note 15 to the Consolidated Annual Accounts. Capital grants were received in 2021 in the amount of Euros 1 million (no capital grants were received in 2020). Operating subsidies received are detailed in Note 24 to the Consolidated Annual Accounts; Euros 2 million were received in 2021 (Euros 1 million in 2020).

4. Global Human Rights Policy

The company's commitment to respecting and protecting human rights is set out in the Global Human Rights Policy, first approved in 2011. The policy is aligned with and accepts the UN Guiding Principles on Business and Human Rights. It was last updated and approved by the Board of Directors in 2019, and details the commitment made by Naturgy in both the Corporate Responsibility Policy and the Code of Ethics.

The ten commitments set out in the policy were defined on the basis of a human rights risk analysis, in which 33 risks were identified. This evaluation was carried out for all the countries where the company carries out some type of activity and with those responsible for each business or country the degree of exposure to this risk and the internal mechanisms available for its management were validated. Based on the risks identified, the commitments that Naturgy should establish to ensure adequate management to minimise the materialisation of these risks were defined.

These commitments include stakeholders that may be affected by the company's activities and, in particular, employees who work for Naturgy through third parties, indigenous peoples, communities surrounding its projects, children and, in general, vulnerable groups.

To monitor these risks, the company carries out regular evaluations of the risks identified. In order to make this assessment, those responsible for each business or country are asked to evaluate each of the risks identified, depending on the level of perceived risk and the degree of management of each issue by the company.

- **Human Rights Policy Principles and risks identified**

Commitment 1. Avoiding any practices which are discriminatory or which might compromise people's dignity	
Risk 1. Failure to respect people	Failure to provide the necessary conditions to enable people to work in an environment where their dignity and rights are respected in the centres and activities of the group.
Risk 2. Discrimination	Failure to avoid discriminatory practices on grounds of gender, ethnic origin, creed, religion, age, disability, political affinity, sexual orientation, nationality, citizenship, civil status or socio-economic status in the processes and practices of the company regarding human resources issues.
Risk 3. Abuse, intimidation and violence	Failure to avoid cases of abuse, intimidation or violence among group employees.
Risk 4. Forced and compulsory labour	Failure to avoid resorting to forced labour or that company employees are unable to freely choose their job position.
Risk 5. Unjust detention	That employees can be detained on unjust or unfair grounds by the authorities or other organisations that use intimidation and violence.
Commitment 2. Eradication of child labour	
Risk 6. Child labour	That the activities and operations of the group breach children's rights.
Risk 7. Minimum working age	The company does not ensure that the ages of all its employees exceeds the minimum working age.
Commitment 3. Ensure freedom of association and collective bargaining	
Risk 8. Freedom of association	In those places where the institutional framework does not guarantee freedom of association and the right to collective bargaining, failure by the company to provide its employees with the conditions for them to meet and freely discuss issues related to their working or employment conditions.

Risk 9. Collective bargaining	Failure to ensure that its employees have the right to freedom of association, trade union membership and collective bargaining.
Commitment 4. Protecting employee health	
Risk 10. Health and safety of employees	Failure by the group's centres and activities to provide the right conditions for people to work in a safe and healthy environment.
Risk 11. Health and safety of third parties	The assets of the company damage the health or physical integrity of third parties through negligence by the group or the injured party.
Commitment 5. Ensure adequate employment and salary	
Risk 12. Dignified wage	Employees do not receive a dignified wage.
Risk 13. Working hours	Within the company, the limits regarding the number of hours worked per week and employees' right to rest are breached.
Risk 14. Rest	In those places where the institutional framework does not establish remuneration conditions or a right for people to take breaks, the company has not established measures in this regard.
Risk 15. Work-life balance	Failure by the company to facilitate conditions that enable people to maintain a proper balance between their personal and professional life.
Risk 16. Privacy	The company does not respect the right to privacy of its employees.
Commitment 6. Commitment towards people linked to suppliers, contractors and collaborating companies	
Risk 17. Suppliers, contractors and collaborating companies	The company works with suppliers, contractors and collaborating companies whose practices do not respect human rights.
Commitment 7: Respecting indigenous communities and traditional ways of life	
Risk 18. Rights of indigenous communities	The company violates the human rights and fundamental freedoms of the indigenous communities in the areas where it operates.
Risk 19. Indigenous territories	Failure by the company to recognise the right of indigenous communities to maintain their customs and social practices, as well as ownership of those territories that have been given to them legally, according to the provisions of ILO Convention 169.
Risk 20. Land procurement	During the procurement of land and other transactions or trade agreements with communities, the company fails to adequately inform them in advance or compensate them according to local law and practice and, in any case, in an objectively fair manner.
Risk 21. Assessing impacts	Failure by the company to have the necessary mechanisms to assess the potential impact and risk to the rights of communities in its projects.
Risk 22. Environmental impact	The activities of the group generate an unjustified negative impact on the environment.
Commitment 8. Protecting facilities and people on the basis of respect for human rights	
Risk 23. Background on security staff	The staff who protect the security of the facilities and operations of the group have been involved in the abuse of human rights.
Risk 24. Bad practices of security staff	The staff who protect the security of the facilities and operations of the group are involved in injustices and in the inhumane or degrading treatment of people.
Risk 25. Disproportionate use of force	The staff who protect the security of the facilities and operations make disproportionate or unjustified use of force.
Risk 26. Misuse of company assets	The resources and assets of the company are used to violate human rights as a consequence of security staff practices.
Risk 27. Involvement in abuse	The company is involved in the abuse of human rights committed by governmental security forces.
Commitment 9. Support and promote respect for human rights in the wider community	

Risk 28. Public commitment	That the commitment made by the company to human rights issues is not known publicly.
Risk 29. Freedom of opinion and expression	The company does not respect or promote the right to freedom of thought, conscience and religion and the freedom of opinion and expression within its field of activity.
Risk 30. Social rights of the community	Failure by the company to undertake actions or foster plans and/or activities in benefit of social rights, as a part of human rights, in the community where it operates.
Risk 31. Investment analysis	Failure by the company to have the necessary mechanisms to assess the potential impact on and risk to human rights of investment projects.
Risk 32. Partner analysis	The due diligence processes prior to the execution of collaboration agreements with third parties do not analyse the human rights policies and practices of partners.
Commitment 10. Helping to fight corruption and protect privacy	
Risk 33. Corruption	The activities of the company provide incentives for or foster public-private corruption.

The Human Rights Policy is the company's response to growing demands in this field and 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 on its business.

Compliance with the policy is the responsibility of each of the business and corporate areas. The company encourages the policy to be known and to be complied with using a communication and training plan, which includes a compulsory online course for all employees, seminars based around explaining principles of the policy and conflicts which could arise, and guidance sessions about the policy and its role in business activity. By the end of 2021, 6,948 people have taken the online human rights course.

Naturgy undertakes to engage the resources necessary to guarantee the effective implementation of this policy. In this regard, the company regularly analyses the human rights issues that are applicable to its activity and will introduce mechanisms that enable it to assess the risk of breach of these in the environments in which it operates.

The company introduces specific measures for management of potential impacts and risks to human rights from the projects and investments, and will ensure that sufficient resources are targeted at the implementation of the corrective measures identified.

In the due diligence processes prior to formalisation of collaboration agreements, also with governmental agencies, the company undertakes to assess the human rights policies and practices of its counterparts and to act in accordance with the principles laid out in the policy.

Furthermore, as part of the usual assessment of suppliers process, the company includes issues related to human rights practices among the aspects to be evaluated and as a cause for exclusion in the event of an unsatisfactory response from the supplier. Furthermore, by accepting the Supplier's Code of Ethics, they undertake to observe and ensure compliance with human rights at all times, in particular those related to the elimination of all forms or modalities of forced or compulsory labour; child labour; respect for indigenous communities and traditional ways of life; and respect for individuals in general.

In this way, based on the commitments expressed in the Human Rights policy, the company establishes prevention mechanisms with respect to third parties with whom it establishes commercial relations that offer guarantees in relation to the extension of its own principles to the supply chain.

To ensure respect for human rights in the area of protection of facilities and individuals, existing best practices are adopted, such as the UN Basic Principles on the Use of Force and Firearms for personnel belonging to security companies that the company hires.

Any breaches of human rights are studied in accordance with the internal procedures, legal regulations and the prevailing agreements, and could give rise to disciplinary or employment measures as determined in the internal regulations and legislation.

Employees of Naturgy are obliged to report any breach of the undertakings set out in this policy to the company, confidentially and without fear of reprisals. In this regard, those people who, without being company employees, witness potential malpractice in this area may also report this.

Contents Index in accordance with the United Nations Guiding Principles Reporting Framework (UNGPRF)

Indicator	Reference	Level of fulfilment
System of respect for Human Rights (A)		
A1. Policy commitment.	SRNFIS 2021. Global Human Rights Policy. Code of Ethics – pages 8-9.	Complete.
A1.1 Development of public commitment.	SRNFIS 2021. Global Human Rights Policy – pages 4-7.	Complete.
A1.2 Extent and scope of application of commitment.	SRNFIS 2021. Global Human Rights Policy – pages 3-4.	Complete.
A1.3 Form of communication of commitment.	SRNFIS 2021. Global Human Rights Policy – pages 7-9.	Complete.
A2. Embedding respect for Human Rights.	SRNFIS 2021. Global Human Rights Policy, page 8. Code of Ethics – pages 8-9. 2021 Annual Report on Remuneration.	Complete.
A2.1 Organisation of responsibility in the field of human rights.	SRNFIS 2021. Global Human Rights Policy, page 7.	Complete.
A2.2 Human rights issues escalated to the senior management and the governing board.	SRNFIS 2021. Global Human Rights Policy, page 8. 2021 Annual Report on Remuneration.	Partially.
A2.3 Raising employees' awareness about human rights issues.	SRNFIS 2021. Global Human Rights Policy, page 7. 2021 Annual Report on Remuneration.	Complete.
A2.4 Company's form of stating its commitment towards human rights in commercial relations.	SRNFIS 2021. Global Human Rights Policy, page 5 and 8.	Complete.
A2.5 Lessons learnt about human rights and consequences which have arisen as a result.	SRNFIS 2021.	Partially.
Defining a focus of reporting (B).		
B1. Statement of salient issues.	SRNFIS 2021.	Complete.
B2. Determination of salient issues.	SRNFIS 2021.	Complete.
B3. Choice of focal geographies.	SRNFIS 2021.	Complete.
B4. Additional negative impacts.	SRNFIS 2021. 2021 Internal Audit Report.	Complete.
Management of salient human rights issues (C).		
C1. Specific policies.	SRNFIS 2021.	Complete.
C1.1 Importance of human rights policy for persons responsible for implementing it.	SRNFIS 2021. Global Human Rights Policy, page 3.	Complete.
C2. Stakeholders commitment.	SRNFIS 2021.	Complete.
C2.1 Identification of stakeholders to take part in salient human rights issues.	SRNFIS 2021.	Partially.
C2.2 Stakeholders which have had relations with the company in connection to human rights.	SRNFIS 2021.	Complete.
C2.3 Influence of the stakeholders' vision regarding human rights issues.	SRNFIS 2021.	Partially.

C3. Assessing impacts.	SRNFIS 2021.	Complete.
C3.1 Patterns or trends in human rights impacts.	SRNFIS 2021.	Partially.
C3.2 Severe impacts on human rights.	SRNFIS 2021.	Complete.
C4. Integrating findings and taking action.	SRNFIS 2021.	Partially.
C4.1 Involvement by the company's parties in applying solutions and taking decisions regarding salient human rights issues.	SRNFIS 2021.	Complete.
C4.2 Tensions of human rights impacts.	SRNFIS 2021. Global Human Rights Policy, Commitment 6.	Partially.
C4.3 Actions taken to prevent or mitigate potential impacts on human rights.	SRNFIS 2021.	Complete.
C5. Tracking performance.	SRNFIS 2021.	Complete.
C5.1 Effective management of human rights issues.	SRNFIS 2021.	Complete.
C6. Remediation	SRNFIS 2021.	Partially.
C6.1 Means of claiming regarding human rights issues.	SRNFIS 2021. Global Human Rights Policy, page 8. Code of Ethics – pages 22-23.	Complete.
C6.2 People's capacity to make claims or complaints.	SRNFIS 2021. Global Human Rights Policy, page 8. Code of Ethics – pages 22-23.	Complete.
C6.3 Processing of claims and evaluation of effectiveness of results.	SRNFIS 2021. Global Human Rights Policy, page 8. Code of Ethics – pages 22-23. 2021 Audit and Control Report.	Complete.
C6.4 Patterns and trends in claims or complaints.	SRNFIS 2021.	Partially.
C6.5 Repairs in relation to any impact relating to human rights.	SRNFIS 2021.	Complete.

5. Non-compliances and fines

[206-1] and [417-2]

The penalties imposed on Naturgy with a value of more than Euros 10,000 and considered final in administrative proceedings during 2021 are detailed below. This is without prejudice to any legal action that may be taken against them and which could lead to their annulment.

In Brazil, the company has received two sanctions amounting to 48,980 euros for non-compliance with regulations in relation to the offer and use of the organization's products and services.

In Panama, the company has received two penalties, one for Euros 1,059,322 for deficiencies in the electricity service and the other for Euros 3,094,548 for deficiencies in the quality of service of the electricity network.

In terms of Spain and the electricity distributor (UFD), the company has received three penalties amounting to Euros 175,000 in total, for delays in the provision of service and in the delivery of reports required by the competent authority. In relation to the commercialisation business, Naturgy has received two fines for a total amount of Euros 39,000 for incorrect invoicing, a fine of Euros 36,000 for inadequate management of the complaints service, one fine for a total amount of 10,000 euros for improper activation of the supply contract and four fines for the inclusion of abusive clauses in contracts, in the amount of Euros 335,500.

In 2021, the company registered no fines for monopolistic practices.

2. Corporate governance

Good governance for efficient and transparent management

[102-18], [103-1], [103-2] and [103-3]

(Good corporate governance)

Corporate governance, in constant evolution

Governance at Naturgy is based on the principles of efficiency and transparency established in accordance with the main existing recommendations and standards at national and international level.

The set of governance rules comprise basically:

- Articles of Association (updated in 2021).
- Regulations of the Board of Directors and its Committees (updated in 2021).
- Regulations of the General Meeting of Shareholders (updated in 2020).
- Human Rights Policy (updated in 2019).
- Code of Ethics (updated in 2021).

The main shareholders of Naturgy as of 31 December 2021 and 2020 are as follows:

- **Stake (%)**

	2021	**2020**
Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona, "la Caixa" (1)	26.7	24.8
Global Infrastructure Partners III (2)	20.6	20.6
CVC Capital Partners SICAV-FIS, S.A. (3)	20.7	20.7
IFM Global Infrastructure Fund (4)	12.15	0.0
Sonatrach	4.1	4.1

(1) Stake through Criteria Caixa S.A.U.

(2) Global Infrastructure Partners III, which is managed by Global Infrastructure Management LLC, holds its stake indirectly via GIP III Canary 1, S.à.r.l.

(3) Through Rioja Acquisition S.à.r.l.

(4) Through Global InfraCo O (2) S.à. r.l.

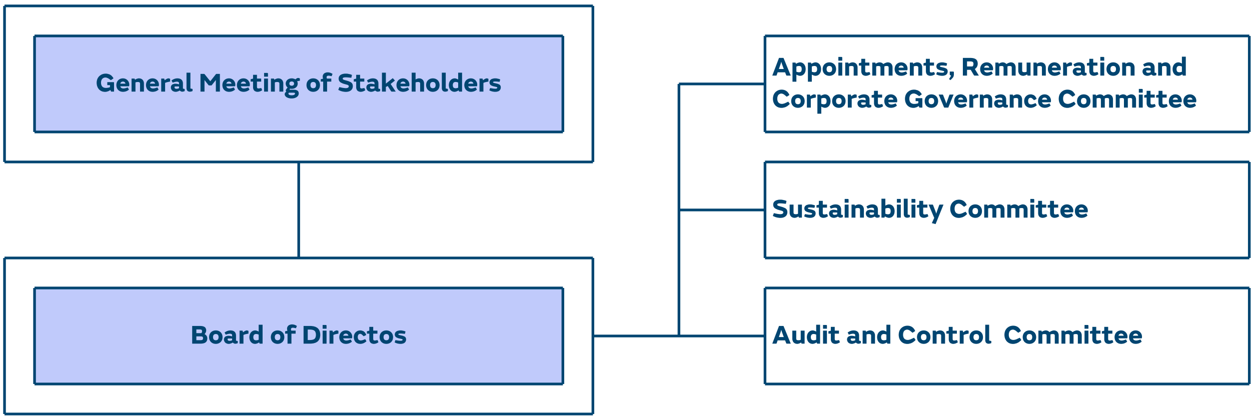
Good governance actions are instrumented through the Board of Directors, mainly through the annual analysis and approval of the company's risk profile, including ethical, social and environmental issues in the planning of activities. To this end, the company frequently reviews its internal audit and 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 2021, the approval of an amendment to the Corporate Enterprises Act made it necessary to make a number of changes to the company's policies and procedures. Specifically, the following actions have been undertaken to adapt the company's corporate governance to the new system for approving related-party transactions:

- Modification of the Regulations of the Board of Directors and its Committees.
- Review of the Audit and Control Committee's competences
- Approval of an internal reporting and periodic control procedure to be applied in cases of approval of related-party transactions delegated by the Board of Directors.

Specifically, with regard to the Regulations of the Board of Directors, in 2021, Articles 3 and 7 were amended to bring the system for authorising related-party transactions into line with the CEA (Corporate Enterprises Act) and to modify the materiality threshold for matters for which the Board of Directors is responsible for approving.

Governing structure of Naturgy



Functions and composition of the Board of Directors

Risk prevention management and consideration of aspects tied to corporate social responsibility rank very highly on the Board of Directors' activity, 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.

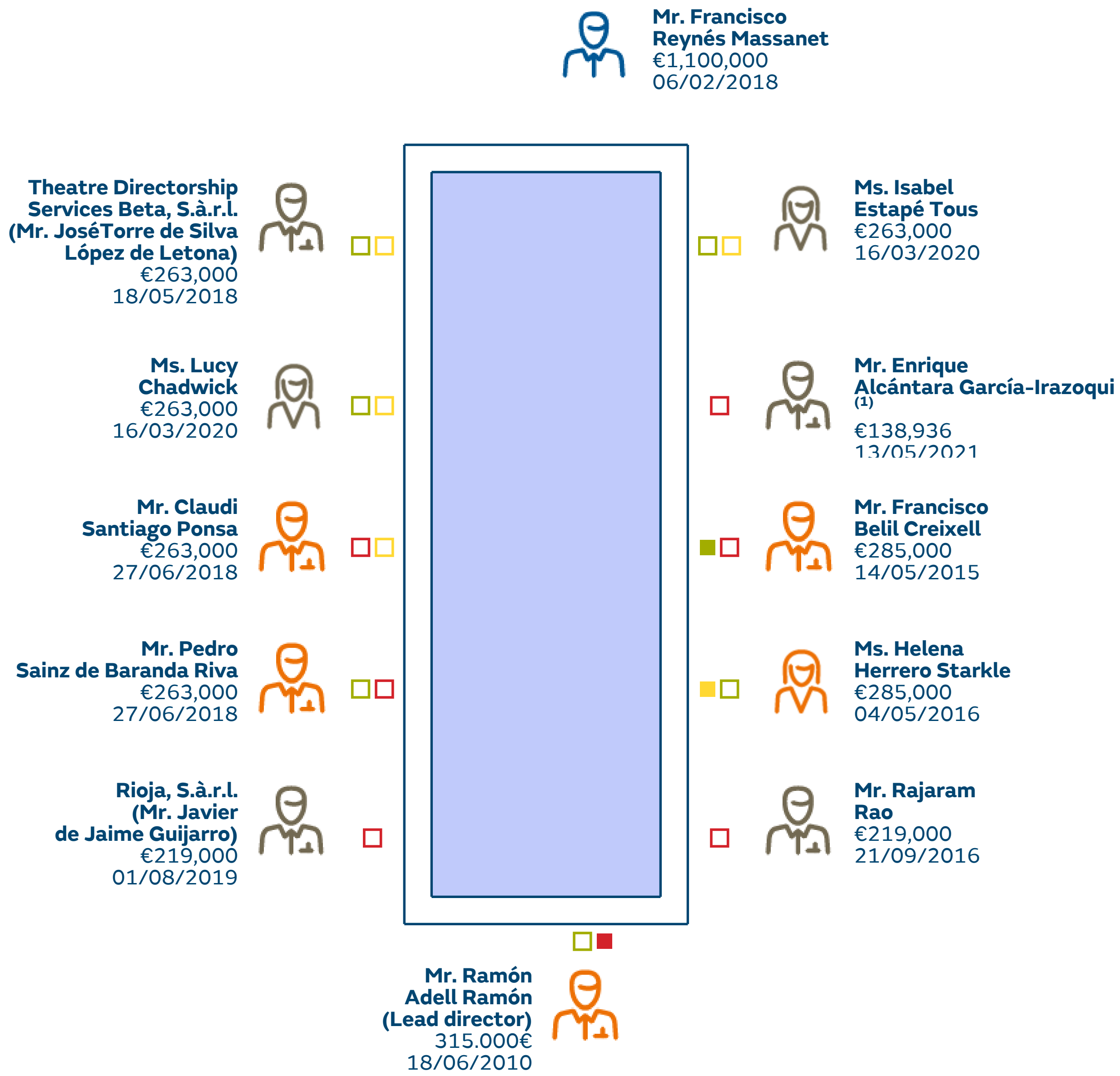
The Board of Directors exercises the powers attributed to it through the Law, the Articles of Association and the Regulations for the Organisation and Functioning of the Board. Specifically, the following general powers correspond exclusively to the Board of Directors, according to Article 3 of the Regulations:

- 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 senior managers 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.
    - The matters subject to an enhanced majority contemplated in section 4 of Article 7 of the Regulations.
    - The approval of those related-party transactions whose competence has not been attributed by law to the General Meeting of Shareholders.
- 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, the corporate social responsibility policy.

- The determination of the company's corporate governance policies, of the risk control and management policy, including tax risks, 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.

Composition of the Board of Directors and its committees (at 31 December 2021)

[102-22] and [102-23]



Type of director

- Executive
- Proprietary
- Independent
- N/A

Type of committee

- Audit and Control Committee
- Sustainability Committee
- Appointments and Remuneration Committee

- Chairperson of the Committee
- Member of the Committee

(1) Mr. Enrique Alcántara-García Irazoqui replaced Mr. Marcelino Armenter Vidal on 13 May 2021. D. Marcelino Armenter Vidal for the exercise of his functions until that date, received: €78,298..

Management structure

Naturgy's management structure consists of three business units (Energy and Network Management, Renewables and New Businesses, and Commercialisation) as well as corporate units to ensure centralised control.

Senior management is defined as those senior managers who report directly to the Executive Chairman, Mr. Francisco Reynés Massanet. As of 31 December 2021, it comprises the following senior managers:

Business Units:

- Energy and Network Management Department managed by Mr. Pedro Larrea Paguaga.
- Renewables and New Business Department managed by Mr. Jorge Barredo López.
- Commercialisation Department managed by Mr. Carlos Francisco Vecino Montalvo.

Corporate Units:

- Information Systems Department managed by Mr. Rafael Blesa Martínez.
- Capital Markets Department managed by Mr. Steven Fernández Fernández.
- Planning, Controlling and Administration Department managed by Mr. Jon Ganuza Fernández de Arroyabe.
- Company and Board Secretariat, managed by Mr. Manuel García Cobaleda.
- Sustainability, Reputation and Institutional Relations Department managed by Mr. Jordi García Tabernero.
- People and Organisation Department managed by Mr. Enrique Tapia López.

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.

In 2021, a self-assessment process was carried out on the functioning of both the Board of Directors and the Audit and Control, Appointments, Remuneration and Corporate Governance, and Sustainability Committees, from which the high degree of contributions through qualitative comments stands out, agreeing to address the suggestions made by the directors regarding a) improvements in the risk management framework in view of the new disclosure requirements and always in accordance with best practices, ii) reduction in the number of board meetings, iii) progress in the execution of the Strategic Plan linked to renewable-energy targets, and iv) an increase in the capacities of the Executive Director and its management team.

In relation to the training of the members of the Board, it should be noted that in 2021 the Sustainability Committee received a specific training session on ESG issues given by the entity Forética, with extensive experience in this area.

Diversity in the process of appointments and renewal of directors

[405-1]

The Naturgy Board of Directors comprises 12 members, of whom three are female. Among the Board members there is a diversity of professional experience and academic knowledge (engineers, lawyers, economists, among others), as identified in the Board's Competence.

Diversity and competence matrix

	Mr. Ramón Adell	Ms. Isabel Estapé	Mr. Enrique Alcántara	Mr. Francisco Belil	Ms. Helena Herrero	Mr. Javier de Jaime	Mr. Rajaram Rao	Mr. Francisco Reynés	Mr. Pedro Sainz de Baranda	Mr. Claudio Santiago	Ms. Lucy Chadwick	Mr. José Antonio Torre de Silva
Type of director	Independent	Proprietary	Proprietary	Independent	Independent	Proprietary	Proprietary	Executive	Independent	Independent	Proprietary	Proprietary
Energy global trends / strategy / technology	Director		Director	Director			Professional	Professional		Professional	Director	
Infrastructure (investments in regulated environments)	Director	Director	Director	Director		Professional	Professional	Professional		Director	Professional	Professional
B2C (customer experience and new services)	Director				Professional	Director			Director			Director
Operational excellence and processes optimisation	Director			Professional	Professional			Professional	Professional	Professional		
Regulators / other public stakeholders relations	Professional	Professional	Professional				Director	Professional			Professional	
International experience	Director	Director		Professional	Director	Director	Professional	Professional	Professional	Professional	Director	Director
Top management experience				Professional	Professional			Professional	Professional	Professional	Professional	
Accounting / Audit / Risk management	Professional	Director	Director	Director	Director	Director	Professional	Director	Director	Director	Director	Professional
Corporate finance	Director	Professional			Director	Professional	Professional	Professional	Director	Director		Professional
Industrial and Energy technologies (Industrial Tech)				Professional				Professional	Professional	Professional	Director	
Industrial and Energy technologies (Information Tech)					Professional			Director	Professional	Professional	Professional	
Talent management and remuneration	Director	Director		Director	Professional	Director	Director	Professional	Professional	Professional	Professional	Director
Corporate governance and sustainability (ESG)	Director	Professional	Professional	Director	Director	Director	Director	Professional	Director	Director	Professional	Director
Climate change		Director			Professional			Director		Director	Professional	Director

Type of director

Executive. Independent. Proprietary.

Experience

Professional executive experience.

Experience as a director or indirect executive experience.

The company, in its Director Selection Policy, expressly states that the Appointments and Remuneration Committee will ensure that the selection procedures do not suffer from implicit biases that could imply any discrimination, and that measures are introduced to encourage the appointment of a significant number of female senior managers.

Regarding the selection of candidates for the post of director, the process is based on an assessment 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]

	2021	2020
Under 55 years of age (%)	25	25
Between the ages of 55 and 60 years (%)	25	25
Over 60 years of age (%)	50	50
Total (%)	**100**	**100**

▪ Average remuneration of Directors

[405-2]

	2021		2020	
	Men	Women	Men	Women
Executive [1]	1,100	-	1,100	-
Independent/Proprietary	256	270	269	235

[1] It does not include remuneration for executive functions.

Remuneration model o the Board of Directors

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-making 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 system of remuneration established must be targeted at promoting profitability and the 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 2021 Ordinary General Meeting of Shareholders, the Annual Report on Remuneration of Board Members for 2020 was approved by a majority vote, as follows:

Number of shares that have cast valid votes	790,325,783
Total number of valid votes cast	790,325,783
Proportion of the share capital represented by valid votes	81.51
Votes in favour	88.452
Votes against	11.455
Abstentions	0.092
Quorum of attendance at the General Meeting of Shareholders	82.40

Issues dealt with at the General Meeting of Shareholders

The quorum of attendance at the meeting represented 82.4% of all shares in Naturgy.

Issue	Nature of the issue (economic, social or environmental)	Conclusions drawn
Approval of the Annual Accounts and Directors' Report of Naturgy Energy Group S.A. for the year ended 31 December 2020.	Economic	Approved by a majority
Approval of the Consolidated Annual Accounts and Directors' Report of the Consolidated Group for the year ended 31 December 2020.	Economic	Approved by a majority
Approval of the Consolidated Non-Financial Information Statement, included in the Consolidated Directors' Report of Naturgy Energy Group, S.A.	Social/Environmental	Approved by a majority
Approval of the allocation of profits for the year that closed on 31 December 2020.	Economic	Approved by a majority
Approval of management performed by the Board of Directors in 2020.	Economic/Social/ Environmental	Approved by a majority
Approval of the Director Remuneration Policy for 2021-2023.	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
Appointment of the Auditor of the accounts of the company and its group for the financial years 2021-2022.	Social	Approved by a majority
Information on the modification of the Board Regulations.	Social	
Delegation of powers to supplement resolutions of the General Meeting of Shareholders.	Social	Approved by a majority

3. Risk management

[102-15], [103-1], [103-2] and [103-3]

(Business continuity)

Risk management at Naturgy

A model that anticipates the developing situation

Naturgy's risk management model seeks to guarantee the predictability of the company's performance within a limited and acceptable range. The model quantifies the variability of performance and ensures that it is in line with strategically defined target levels in aspects relevant to its stakeholders.

Essential elements of the risk measurement and management model include ensuring that relevant risk factors are correctly identified, assessed and managed. The ultimate aim is to ensure that the level of risk exposure assumed by Naturgy in the performance of its activities is consistent with the overall objective risk profile defined and with the achievement of the annual and strategic objectives.

The Integrated Risk Management and Control System is structured in the following sections:

- Risk Appetite: definition of risk tolerance through the setting of limits for the most relevant risk categories, by nature of risk and by business according to objectives.
- Risk Assessment: methodology, procedure and process for identifying, evaluating and measuring risks.
- Risk Governance & Management: risk governance and management mechanism for all types of risks and for all businesses.
- Risk Reporting: systematic and periodic reporting and monitoring of risk at different management levels -Business, Business Units, Presidency and Board-.

Risk management bodies

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

To this end, it has different bodies, with clearly identified areas of responsibility, which ensures predictability and sustainability in the company's operational and financial performance.

The Risk Control Units seek to oversee the regularity 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 impacts and mitigation actions.

In addition, each business unit has specific information on the main types of risks that may affect it. The goal is to facilitate decision-making, which is positive for the company since it enhances profitability, predictability and efficiency.

An integrated management

[102-11]

Naturgy analyses its global risk profile through its potential impact on its 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:

General Risk Control and Management Policy

The General Risk Management and Control Policy was updated and approved by the Naturgy Board of Directors in November 2020. Its aim is to lay down the general principles and guidelines on behaviour 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 to Naturgy's performance 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 presented on a yearly basis to the Audit and Control Committee.

Other risk maps

At their discretion, the Naturgy Business Units and Corporate Units promote the creation of 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.

Main risks

Description of main risks

Naturgy has defined four risk typologies in the 2021 risk map: economic, financial, operational and reputational/ sustainability.

The economic and financial risk typologies are specified in the categories of market/commodity, exchange rate, interest rate, credit, operational, regulatory, volume, margin/price, legal and tax risks. Quantitative modelling is applied for all of them.

Operational and reputational/sustainability risk typologies are defined in the categories of security, process, fraud, cybersecurity, data protection, environment, customer satisfaction, health and safety, reputation, ESG, climate change and energy transition, compliance and people risks. For these, it generally applies a risk position assessment using heat maps.

Economic	Financial	Operative	Sustainability Reputation
Market (Commodity)	Credit	Security (Critical facilities)	Reputational / Sustainability
Exchange rate	Legal Provisions	Processes	Environmental (E)
Regulation	Interest rate	Fraud against the Company	Social Responsibility (S)
Volume	Taxation	Cybersecurity	Governance (G)
Margin/Price	Liquidity and solvency	Data protection	Compliance
Legal	Rating	Environment	People
Operational	Provisions	Customer satisfaction	Climate Change and Energy Transition
		Health and safety	

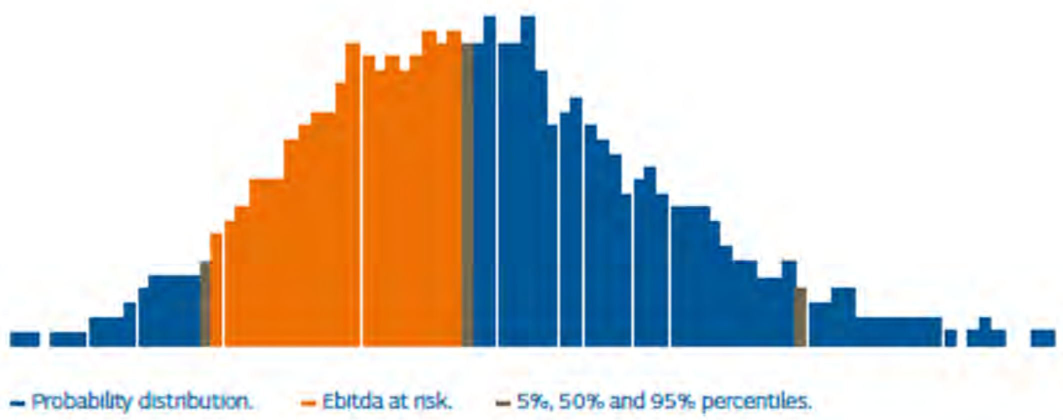
Risk groupings with economic and financial impact

Risk factors with an impact on the ebitda of the businesses and/or impact on the cash flow and balance sheet of the company.

Market/commodity, exchange rate and interest rate risk categories

Stochastic measure of the company's risk, taking as risk the maximum deviation of the market variables to which Naturgy is exposed (gas prices, electricity prices, exchange rates and interest rates) with respect to the reference scenario, according to a predetermined confidence level. Those magnitudes are generally Ebitda, earnings after taxes, cash-flow and value.

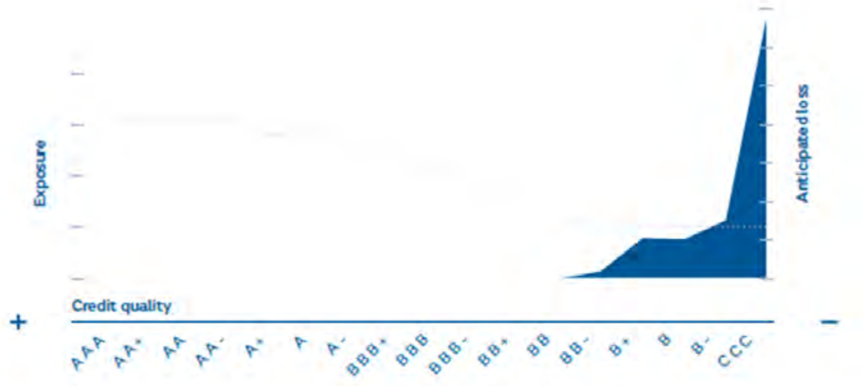
Graphical representation of the distribution of the company's annual Ebitda, its expected value and associated risk



Credit risk

The minimum amount of capital required to be held by an entity as a proportion of its asset base to meet the potential for default and depreciation of assets, in accordance with regulatory agency standards. In Naturgy, the target credit risk profile and the target expected loss are objective. Worse 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.

Distribution of the anticipated loss, which increases with the deterioration of customer credit quality

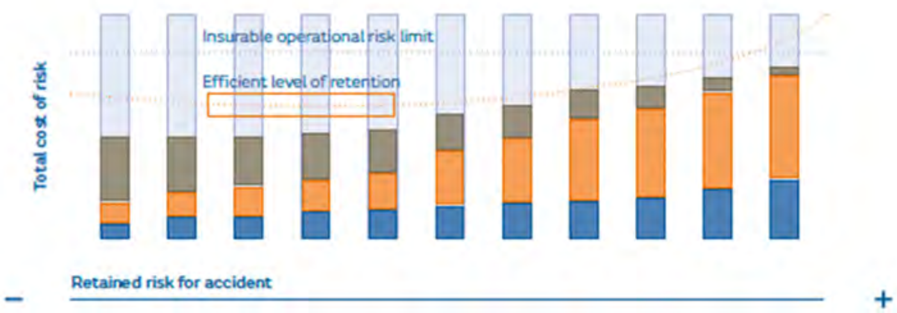


Insurable operational risk

Risk associated with accidents or fortuitous events affecting people and accidents, damage or unavailability of the company's operating assets, after the coverage by Naturgy's insurance program.

Its fundamental magnitudes with regard to management are the level of retention and the breakdown of overall costs associated with the risk: premium, expected loss and unexpected 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 has an impact on the equity of Naturgy. The quantification of such exposure is likely to be objectified by estimating the total cost of risk.



Regulatory, volume, margin/price, legal and tax risk categories

Deterministic measure of the company's risk, defined as the potential variation in Ebitda due to various factors: adverse evolution of demand because of changes in temperature and/or macroeconomic worsening of a country, adverse revision of the regulatory framework of a business, impact on taxes due to uncertainty regarding the acceptance of the tax treatment adopted in the tax returns filed or expected to be filed and uncertainty regarding the probable potential outcome of litigation, arbitration or legal claims filed against Naturgy.

Risk groupings with operational and reputational/sustainability impact

Environmental risk

Risk associated with the possibility that environmental limits set by the regulator may be exceeded naturally or by human action, or that ecosystems or biodiversity may be damaged.

Naturgy has identified the environmental risks in its facilities by using the reference standard—UNE 150008 in Spain—as its basis. To prevent these risks, the company has introduced an integrated system of management which sets out the operational control and environmental management procedures. This system is audited in-house and certified and audited annually by AENOR. In addition, Naturgy has introduced emergency plans at facilities and storage premises at risk of an environmental accident, including an action plan, containment measures and regular drills.

The environmental risk is developed in detail in chapter “05. The opportunity of environmental challenges”.

Climate change and energy transition risk
[201-2]

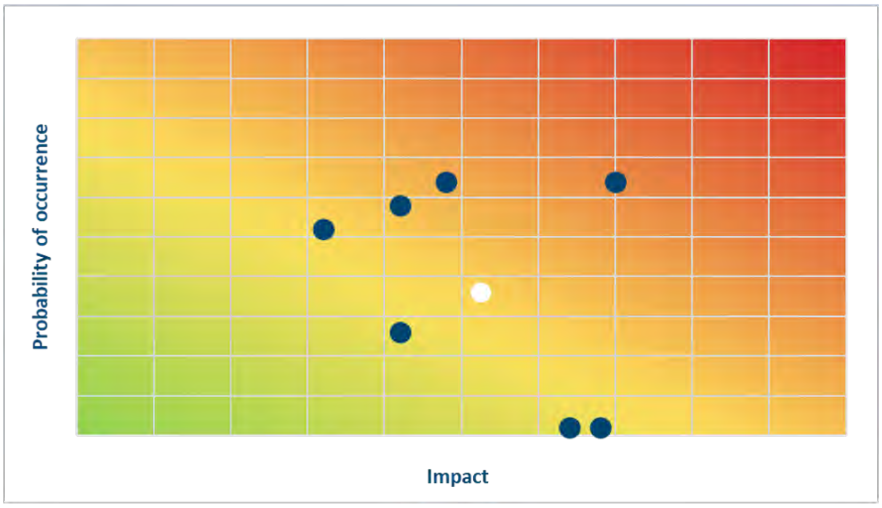
Risk derived from energy transition (regulation, market, technologies) and the physical impacts of climate change (acute and chronic).

In order to integrate the climate variable into Naturgy’s risk and opportunity management and strategic planning, the identification, measurement and management of climate change risks and opportunities are conducted in accordance with the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD). The most outstanding result of this process in 2021 is the incorporation of climate change risks and opportunities in the strategic reflection process that has resulted in the new Strategic Plan 2021-2025, aligned with the international climate agenda.

The risk of climate change and energy transition is developed in detail in chapter “05. The opportunity of environmental challenges”.

Risk categories of security, processes, fraud, cybersecurity, data protection, environment, customer satisfaction, health and safety, reputation, ESG, climate change and energy transition, compliance and people.

The risk position is evaluated by means of heat maps, defining critical factors for each risk category, quantifying both the likelihood of occurrence and the impact of each factor, guaranteeing the homogeneity of the criteria used in their measurement.



Description of emerging risks

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 current 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 renewable profile.

The identified emerging risks that continued to be particularly significant for the company in 2021 were:

- Cybersecurity risk or digital information security.
- ESG (Environmental, Social and Governance) risks or responsible investment.

Cybersecurity risk or digital information security

Cybersecurity emerges as a consequence of an increasingly technological environment and a focus on progressive digitalisation. The increase in networked devices has forced organisations to establish new defence mechanisms to prevent attacks on the security of their information.

Potential impact on business if not managed properly:

- Loss of information due to theft of files vital to business operations.
- Phishing.
- Loss of trust.
- Loss of customers.
- Reputational damage.
- Stoppage of activity.
- Economic losses.

Mitigation actions carried out by Naturgy: see the Cybersecurity section in the Security and Privacy section.

ESG (Environmental, Social and Governance) investment risk or responsible investing

The consideration of ESG factors and sustainability criteria in decision-making, from an investment perspective, has taken on particular relevance in recent years. Its aim is to achieve profit without environmental, social and governance-related damage. This can be attributed to different trends:

- Increasing attention to the effects of climate change and other anthropogenic environmental impacts, especially due to the increased frequency and severity of extreme weather events.
- Change in the profile of the global investor (gender, age, interest in ESG factors, etc.).

Potential impact on business if not managed properly:

- Lower profitability, both in terms of business and investment, in the medium and long-term.
- Lower shareholder value.
- Less sustainable development.
- Negative social and environmental impact, along with a negative financial return.
- Worsening competitiveness.
- Worse assessment by analysts and investors.
- Increased costs of funding.

If properly managed, the impact would be the opposite, becoming an opportunity for the business.

Mitigation actions carried out by Naturgy:

- Promote renewable energies, renewable gas and energy savings and efficiency as key elements towards a low-carbon model.
- Offering solutions for cities and land and maritime transport that reduce emissions and improve air quality.
- Innovate in technologies and business models that help reduce greenhouse gas emissions.
- Supporting international climate change negotiations and market mechanisms that foster the development of the most appropriate technologies at each stage of the energy transition.

The environmental and climate risk is developed in detail in chapter “05. The opportunity of environmental challenges”.

Main opportunities

At Naturgy we see the energy transition as an opportunity to transform the business and promote the changes needed to achieve a low-carbon economy. Naturgy’s main opportunities are as follows:

- **Focus on stable, low-risk, strong-currency geographies** to capture growth in energy demand and maximize business opportunities in new markets.
- **Renewable generation**: increase in renewable generation capacity in line with the global energy transition.
- **Network operation and growth**: leveraged on solid regulatory frameworks and focused on continuous improvement, digitalisation and automation.
- **Technological development and innovation:** Naturgy is committed to innovation and development projects related to hydrogen, renewable gas, energy efficiency, sustainability, mobility and just transition, as a means of generating a reliable and sustainable energy supply.

- **Natural gas and LNG supply portfolio** Natural gas and LNG supply portfolio: continuous review and optimization of supply contracts, transition from oil price indexation to hub-based pricing, continuous risk management to ensure predictable cash flows, and adaptation of the LNG carrier fleet to enhance its flexibility.

4. Supply chain

What does this mean for Naturgy? Risks and management approach

Suppliers and collaborating companies are key players in the optimum performance of the value chain of Naturgy, and the company therefore promotes relations based on trust, that are stable, sound and of mutual benefit, under the principles of transparency and risk management.

Naturgy establishes objective and impartial mechanisms of assessment and selection of suppliers, ensuring that the supply chain complies with the principles set out in the Supplier Code of Ethics, to which all suppliers have to adhere and the content of which comes from the Code of Ethics of Naturgy, from the Human Rights Policy, from the Health and Safety Policy, from the Environmental Policy, from the Anti-Corruption Policy, as well as the internationally acknowledged good governance principles.

The risks to the company extend beyond its activity, as it can be severely impacted by the inadequate performance of its suppliers and contractors in terms of the environment, health and safety, human rights, labour practices or corruption. The management of these risks is included in the global supply chain management model which is based on the assessment of the risk factors intrinsic to the outsourcing of a service or the 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. This Risk Management Model is implemented globally and is discussed in more detail later in this chapter.

What is our commitment?

- Extending the culture of Naturgy to the supply chain, passing on the target of excellence in service, efficient use of resources and the company's principles of acting responsibly, and encouraging the incorporation of sustainability criteria in their daily management.
- Fostering compliance with the codes and policies of Naturgy in the supply chain, in particular in the area of human rights, ethics, health and safety and the environment.
- Encouraging the hiring of suppliers from the country or region where the company performs its activities against similar competitiveness in other locations, supporting the generation of a positive social impact.
- Fostering practices that encourage traceability and fair trade of raw materials at source.

Evolution and results 2021

[102-9]

	2021	2020
Total number of suppliers (1) (2)	5,995	6,553
Total purchase volume awarded (2) (3) (million euro)	2,470	1,955
Assessment of ESG suppliers (4) (number)	6,101	7,780
Number of critical suppliers (5)	1,247	1,458
Official-approval suspended suppliers (number)	0	2

(1) The decrease in the total number of suppliers is due to a decrease in activity as a result of the pandemic and the company's optimisation of resources.

(2) These data include information from Argentina, Australia, Brazil, Colombia, Costa Rica, Chile, Spain, Morocco, Mexico, Panama and the Dominican Republic. The rest of the supply chain indicators in the report do not include information from Australia as detailed information is not available.

(3) There has been a considerable increase in the volume of purchases awarded in Renewables and New Businesses and Innovation, in line with the company's 2021-2025 strategic plan.

(4) Environmental, Social and Governance (ESG). The ESG assessment of suppliers is carried out in the main subsidiaries of the group where the Achilles tool is implemented, through which the business classification of suppliers is performed. The number of ESG evaluated suppliers includes both awarded suppliers and potential suppliers that complete the classification in order to be able to participate in a Naturgy bidding process. The number of suppliers evaluated as ESG suppliers has decreased compared to previous years due to the disassociation of Chile CGE.

(5) Data from Australia and the Dominican Republic are not included.

	Target 2021	2021	2020
Purchase volume assigned to local suppliers (1)	>85%	92.22 %	95.22 %
Coverage level of ESG audits over purchase volume with high ESG risk	>65%	72.21 %	69.57 %
Percentage of purchase volume with acceptance of the Code of Ethics	>90%	94.22 %	89.21 %

(1) Local supplier: supplier located in the same geographical area where the purchases are made.

1. The supply chain of Naturgy

The company 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 its policies, rules and procedures, as well as internationally recognised principles of good governance, ensuring a uniform, efficient and sustainable model that goes beyond regulatory compliance with legislation. In 2021, Naturgy set up trade relations with a total of 5,995 suppliers which accounted for a total expenditure of Euros 2,470 million. These data include information from Argentina, Australia, Brazil, Colombia, Costa Rica, Chile, Spain, Morocco, Mexico, Panama and the Dominican Republic. The remaining supply chain indicators in the report do not include information from Australia, which represents 18% of the total procurement volume awarded, as detailed information is not available.

Naturgy suppliers according to the nature of their activity

Approximately 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.
- Construction, operation and maintenance 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. This activity was carried out mainly in Argentina, Australia, Brazil, Chile, Spain, Mexico and Panama, and to a lesser extent in Colombia, Costa Rica, Morocco and the Dominican Republic.

2. 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. Key processes of the purchasing and supplier management functions are centralised, carrying out a global coordination that makes it possible to identify improvement opportunities.

The generation of positive social impact is supported by promoting the contracting of suppliers from the country or region where the activities are carried out, preserving the group's reputation and ensuring Naturgy's sustainable principles of action in the purchasing and procurement processes. In particular, in environmental, social and good governance matters, we guarantee ethical behaviour and human and labour rights, transparency, full and fair opportunity, respect for the interests of stakeholders, respect for the principle of legality and international standards of behaviour, focus on needs, integration and continuous improvement, among others.

The drivers and measures that activate Naturgy's purchasing model are the following:

Activators
Naturgy's policies and codes
- Corporate Responsibility Policy.
- Human Rights Policy.
- Anti-Corruption Policy.
- Purchase Policy.
- Suppliers Policy.
- Code of Ethics.
- Supplier Code of Ethics.

Preventive
Naturgy Standards and Procedures
- Supplier tree according to risk level.
- ESG risks matrix.
- Supplier classification.
- Approval of suppliers.
- CSR Scoring.
- Reputational and economic-financial analysis.
- ESG audits.
- Environmental questionnaires.
- Performance monitoring.
- Development of suppliers.

Corrective
Naturgy Standards and Procedures
- Audit corrective action plan.
- Performance monitoring corrective action plan.
- Revoke classification or approval of suppliers.
- Termination of contracts or reduction of suppliers' workload.

Elements to be highlighted in the management of the Naturgy supply chain

Corporate Responsibility Policy	It lays out the company's commitments, actions and indicators 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. In this way Naturgy promotes the extension of the company culture to the supply chain.
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 2021, no breach of human rights at suppliers was detected.
Transparency in purchases and communication with suppliers	In terms of procurement, Naturgy is committed to ensuring free competition, objectivity, impartiality, transparency and traceability throughout the procurement process: – The use of secure electronic means for management of all tenders brings greater transparency to the procurement process and ensures information traceability. – Communication channels have been established with the supplier that facilitate access to all the information necessary for their participation in the procurement processes: ▪ A specific section for suppliers on the Naturgy website. ▪ The Supplier Portal, an online platform for transferring technical regulations to the supplier, notifying updates and managing orders. ▪ The Supplier Channel is the online tool available to the supplier to sort out any doubts or incidents or for any queries or suggestions.
Reporting channel	All suppliers, contractors and external collaborating companies can contact the Ethics and Compliance Committee of the company through the web channel published in the Naturgy Supplier Code of Ethics.

Supply chain management process

In order to promote responsible management in the supply chain, Naturgy establishes a procurement process that aims to meet the needs of goods and services efficiently. It covers all stages of procurement from identification of the need for a good or service to the follow-up of the management of contracts or orders. Procurement will be based on unified and universal contractual conditions for the entire scope of the group's activities, which include, among others, social and environmental clauses, anti-corruption clauses and ethical practices. The general terms and conditions of contracting and the country specific conditions are published on the relevant group websites.

Policies and procedures for supervising the management of subcontracted activities

Lines of action	Description
Global Outsourcing Policy	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.
Global Suppliers Policy	It represents the principles of the processes of assessment, approval, monitoring and development of suppliers. It guarantees sustainable management of the supply chain, identifying and assessing risk factors, evaluating suppliers and ensuring compliance with Naturgy's corporate social responsibility commitments. General principles include promoting responsible supply chain management and ensuring the group's sustainability principles in purchasing and contracting processes. In particular, in environmental, social and good governance matters, we guarantee ethical behaviour and human and labour rights, transparency, full and fair opportunity, respect for the interests of stakeholders, respect for the principle of legality and international standards of behaviour, focus on needs, integration and continuous improvement, among others.
Counterparty Due Diligence Procedure	It is designed to cover the main legal and reputation 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.

The risk factors considered are:

- Health and Safety Risk: assesses the potential risk of incorrect performance or failure of the service/product and the impact it would have on the life or physical integrity of people.
- Quality Risk: impact on Naturgy if the supplier fails to comply with the expected or agreed quality levels, which could lead to service/product failures, delays in execution or delivery times, increased costs or low customer satisfaction.
- ESG Risk: assesses the existing risk of acquiring products and/or contracting services that are not environmentally friendly, are manufactured or generated in socially unfair conditions, or with ethically incorrect labour practices, and that could generate undesired consequences such as unsuitable spills or emissions and a negative impact on the environment or people.
- Legal Risk: possibility of infringements and breaches by suppliers of laws, rules and practices that apply to them. To contract a supplier and for the contractual term, it is compulsory to prove compliance with the remuneration, tax and workers' rights obligations, as well as to provide the civil liability coverage required in accordance with the product or service contracted for which vicarious liability may be claimed.
- Reputational Risk (Compliance): refers to the potential reputational damage that could result from the perpetration of a fraudulent or anti-competitive act by a supplier, contravening the ethical standard of compliance established in the Naturgy Supplier Code of Ethics. The impact on reputation is a consequence of collusive actions and behaviour or fraudulent competition (including the duty to inform the contracting authority of the existence of conflicts of interest) that fail to respect the principles of equality, free competition, transparency and integrity, and may lead to undesirable consequences such as exploitative labour practices, negative publicity, cost overruns in the construction and maintenance of facilities.
- Financial Risk: assesses the economic impact on operations that may be incurred by the group in its service to customers as a result of a lack of continuity in supply or the deterioration of a good or service by suppliers that have been awarded contracts.
- Cybersecurity Risk: assessment of the risk inherent in the processing of information assets, knowledge or data that are of value to the group and that could result in the failure of strategic infrastructures, leakage of confidential information, or technological and telecommunications interruptions.
- Data Protection Risk: this is the risk to the rights and freedoms of natural persons arising from the processing of personal data and which may cause physical, material or immaterial damage.

Risk Map
↓

- Quality Risk
- Operational Risk
- ESG Risk — Reputational Risk (Compliance) — Cybersecurity Risk — Data Protection Risk
- Health and Safety Risk

High level | Medium level | Low level

Legal Risk

With the risk assessment of the 323 purchase categories that are managed worldwide, and after 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.

The company considers as critical suppliers those suppliers with a high level of risk in any of the assessed risk factors associated with the purchase categories they supply (Operational, ESG, Health and Safety, and Quality).

In 2021, the number of suppliers with a valid contract in critical activities was 1,247, representing 59.5%[1] of the purchase volume. In addition, the company has identified 55[1] non-tier 1 critical suppliers, mainly corresponding to purchase categories of critical products that represent 1.6%[1] of the overall purchase volume.

Naturgy assesses the ESG risk using a matrix that takes into account 20 environmental, social and good governance aspects of each of the purchasing categories and countries in which it operates.

Process map and sustainability criteria included in the ESG risk matrix

Risk Factors Environment	Risk Factors Good Governance	Risk Factors Social
Climate change.	Fraud.	Community well-being.
Pollution.	Corruption.	Human Rights.
Biodiversity.	Competition.	Employee rights.
Water.	Terrorism.	Data protection.
Soil.	Professional ethics.	Safety and quality of products.
Landscape · Territory · Heritage.	Regulatory compliance.	Freedom.
Consumption of resources.		
Waste.		

→ ↓ ←

ESG Risk Map (activity/country)

High level | Medium level | Low level

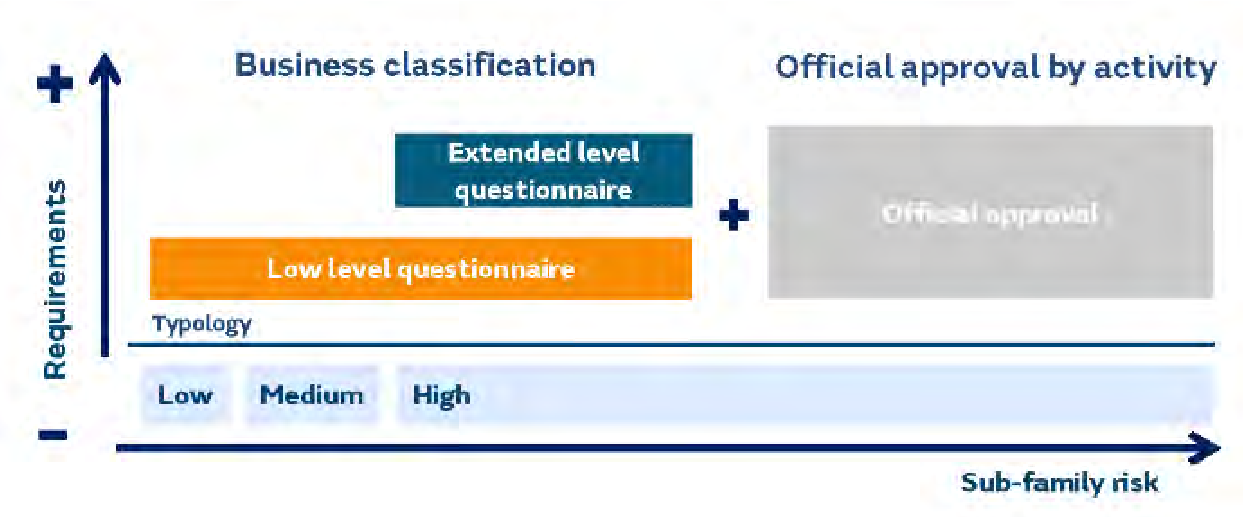
[1] Does not include data from Australia and the Dominican Republic.

In this way, Naturgy 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 2021 the number of suppliers in this category was 451[2], representing 43.9%[2] of the total purchase volume. 96%[2] of these suppliers present a high Health and Safety risk as this is the predominant factor due to the nature of the activity carried out by Naturgy, construction, operation and maintenance of natural gas networks, electricity networks and power stations.

Assessment of suppliers

Supplier assessment consists of business classification and approval processes by activity. Both processes are set out in the risk map by purchase category.

Risk map by purchase category



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 business classification model of suppliers establishes a basic level for suppliers with medium and low risk that ensures their adherence to the Naturgy's Supplier Code of Ethics and the declaration of compliance with the main legal, tax, organisational, environmental, social, health and safety, cybersecurity, compliance, quality and personal data processing criteria required by Naturgy. The extended level, for high-risk suppliers, additionally requires an extended questionnaire and evidence of financial, sustainability, health and safety, and compliance information. The classification is managed by registering on the Achilles platform - supplier classification system - and critical suppliers are required to register in the RePro Community of the energy sector in Southern Europe and South America.

Suppliers who do not answer satisfactorily to the minimum requirements will be considered unsuitable to work with Naturgy.

In 2021 Naturgy has conducted the ESG assessment of 6,101 suppliers, including potential and active ones, which have to be assessed on an annual basis. The number of suppliers assessed has increased due to the modification of the business classification process for suppliers, which has favoured the agility and completion of this process by suppliers and the company's promotion of this classification in countries with low-registration percentages. The result of the process shapes a suppliers tree in which they are classified in accordance with the categories 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. The weight of sustainability issues raised to high-risk level suppliers during the business classification process represents 60.7% of the total and compliance issues represent an additional 23.4%.

[2] Does not include data from Australia and the Dominican Republic.

For high-risk suppliers, Repro has a specific sustainability and compliance module and an objective scoring system that classifies suppliers into five categories -excellent, high, medium-high, medium-low and low-. Suppliers in the last two categories receive customised reports with recommendations for improvement. In 2021, in addition to Spain, it has been implemented in Mexico and Panama, and deployment has begun for its implementation in Argentina and Brazil.

The high risk rating process also includes the assessment of criminal, privacy and cybersecurity compliance issues through a compliance rating and corresponding customised recommendation report for each supplier.

In accordance with the company's Health and Safety Commitment, specific regulations have been introduced to classify the health and safety risk of suppliers, by defining objective aspects and assessment criteria, requirements for classification, selection and evaluation of bids in award processes.

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 2021, 757 audits were performed on suppliers and sub-suppliers, of which 81 were conducted at the supplier's facilities (17 audits of approval and 64 inspections at source). If anomalies arise in the approval process, this may lead to a plan of corrective actions, or to the non-approval of the supplier, which would prevent such supplier from performing this activity for Naturgy.

82% of the approval audits carried out at the suppliers' premises has resulted in the need to submit a corrective action plan. On the other hand, in 2021, no supplier's approval has been suspended or withdrawn for non-compliance with safety, quality and other requirements.

Monitoring, follow-up and development of suppliers

Monitoring of suppliers

- **Criteria considered in monitoring**

Corporate image and reputation	Since 2019 Naturgy has been monitoring online the reputation risks of the portfolio of suppliers with whom it maintains commercial relations. A screening tool has been used to detect exposure to counterparty reputational risk and to make decisions based on the risk detected in coordination with the Compliance Unit. The monitored supplier base amounts to 9,087 at the end of 2021. In no case has there been evidence of an impact that has placed these suppliers at high or very high risk. In addition, reputational due diligence is performed on suppliers to analyse the alignment with Naturgy's corporate responsibility commitments. Based on the findings, the risk and the actions to be carried out are assessed. In 2021, no supplier was disqualified on the grounds of fraud or unethical practices.
Economic-financial information	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. In addition, in the assessment 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.

Monitoring of suppliers

- **Monitoring mechanisms**

Environmental specifications	Naturgy has developed specific environmental specifications for suppliers and contractors that are attached to the corresponding contracts, based on the purchase category supplied and which include minimum environmental management requirements for application and monitoring during procurement. 46.7% of the purchase volume from critical suppliers has an environmental management system with external certification.[3]
Performance	This is carried out with the most relevant suppliers and involves carrying out performance assessments to measure the operating units' level of satisfaction with suppliers and detailed aspects concerning quality, health and safety, operations and ESG. For those suppliers who perform activities classified as high risk, health and safety performance is measured using objective metrics and the method set out in Naturgy's "Health and Safety Standard: Assessment of performance of collaborating companies in health and safety issues". Thus, corrective actions are carried out on those suppliers whose assessment does not reach the standard set by the company. In 2021, 954 performance assessments were conducted on suppliers from Argentina, Brazil, Chile, Mexico, Spain, Panama and the Dominican Republic, with a total of 649 suppliers being assessed. 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 2021, action plans have been agreed with 85 suppliers whose score in the performance measurement proved insufficient.
ESG audits	For suppliers classified as having a high level of risk, documentary evidence is required, and for those whose assessments of financial risk, occupational risk prevention, reputation, compliance and corporate social responsibility criteria do not exceed the objective parameters established by the RePro Community, audits are carried out from the point of view of corporate responsibility. In 2021, ESG on-site audits were carried out on 66[3] of the group's suppliers. In addition, Naturgy carries out ESG audits on the suppliers classified as having a high ESG risk with the highest purchase volume. In 2021, 72.2%[3] of high ESG risk purchase volume was audited. NB: due to the situation caused by COVID-19, some of the audits that were carried out on site before were performed remotely.

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 the same through accreditations or identification.

The products corresponding to critical categories are also subjected to inspections, technical acceptance and Factory Acceptance Test (FAT) at the production centres.

Development of suppliers

Naturgy's Corporate University, through its Extended Academy (EA), offers a wide range of training to external collaborating companies, customers and suppliers of Naturgy, both technical as well as management, enabling companies to improve their operating efficiency, incorporate innovative methodologies and develop skills focused on excellence in operations and service.

The EA thus contributes to the establishment of a common planning and management model, favouring the professionalisation of companies that participate in the Naturgy value chain, with a recurrent activity of more than 9,000 annual participants and 15,000 hours of training.

Likewise, the relationship with strategic suppliers is managed in order to strengthen partnerships, in an environment of collaboration and efficiency, sharing information, aligning strategies, seeking continuous improvement and promoting innovation. The number of unique participants in 2021 was 5,694.

[3] Does not include data from Australia and the Dominican Republic.

5. Security and privacy

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

(Cybersecurity and information security)

Privacy and security of 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 with the customer 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 and 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.

Naturgy complies with the provisions of Regulation (EU) 2016/679 of the European Parliament and the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and the free movement of such data, and with the provisions of Organic Law 3/2018, of 5 December, on the Protection of Personal Data and the guarantee of digital rights, as well as with the other provisions on data protection, to guarantee the protection of data of a personal nature of its directors, employees, customers, suppliers, shareholders, investors and other stakeholders.

Naturgy, when it is the data controller, performs as many actions as necessary to comply with the legislation on data protection, which include the following, for merely illustrative purposes:

- It processes personal data in a lawful, sincere and transparent manner.
- It collects data for specific, explicit and legitimate purposes.
- It minimises the data subject to processing.
- It updates the data, providing data subjects with simple systems for this update.
- It limits the data storage periods.
- It applies appropriate technical and organisational measures to guarantee the security, integrity and confidentiality of the data.
- It obtains the consent of the data subject for processing whenever necessary.
- It introduces simple and adequate mechanisms so that the data subject, directly or through their legal or voluntary representation, can exercise their rights pursuant to prevailing legislation.
- It chooses data processors that offer sufficient guarantees to apply appropriate technical and organisational measures so that data processing is carried out in compliance with the requirements of relevant legislation. In addition, it signs agreement with these data processes through which the data processor will only process data in accordance with the instructions given by the data controller, and will not apply the data or use them for any purpose other than the one set out in this agreement, and will not disclose them, even for safeguarding purposes, to third parties.
- It keeps a record of data-processing activity.
- It carries out the impact assessments it deems appropriate.
- It has a collegiate body that acts as Data Protection Officer.
- It makes the appropriate queries with the Spanish Data Protection Agency (AEPD) in issues of international transfers of personal data.
- It performs audits to guarantee compliance with data protection regulations.

In 2021, Naturgy received 37 requests from the Spanish Data Protection Agency which, after being duly answered, were finally rejected by the administration.

	2021	2020
Requirements received from the Spanish Data Protection Agency (AEPD)	37	14

Pursuant to Article 32 of the GDPR, which addresses security measures and technology, Naturgy adopts the technical measures designed to safeguard the security of personal data and to prevent them from being altered, lost, or being processes or accessed in an unauthorised way to guarantee the confidentiality, integrity and availability of the data.

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

Cybersecurity Governance/IT Security

The increase in risks and threats, as well as the fact that, in Spain, the infrastructures managed by the company are considered critical, make cybersecurity management a priority issue. In this regard, Naturgy has a global cybersecurity governance system for the entire organisation.

This matter is supervised by the Board of Directors, whose directors have profiles and knowledge in the information technology sector, which favours an overall view of these matters.
Cybersecurity is managed transversally throughout the organisation through the corporate function (Global Head Chief Information Security Officer), responsible for ensuring the correct strategic alignment of the policies and regulations applicable in each of the businesses, which in turn have specific cybersecurity officers (Business Information Security Officers). The corporate cybersecurity function is spearheaded by the Chief Information Officer, who is part of Naturgy's Management Committee.

Naturgy uses the BitSight Index, which allows organisations to examine their cybersecurity and compare it with that of other companies to determine the level of performance in this area. This indicator is changing the way organisations manage their information security by providing objective, verifiable and actionable security scores. Naturgy achieves an average score of 690 on this index, which is based on a scale of 250 to 900, with 250 being the most basic and 900 the most advanced.

Finally, Naturgy maintains relations with third parties in the field of cybersecurity, such as the National Institute of Cybersecurity or the European Commission, participates in sectoral forums and collaborates with companies in the sector or others engaged in providing cybersecurity services.

Cybersecurity measures

Naturgy has an updated Cybersecurity Plan in accordance with the latest requirements and threats in this area. This plan seeks to increase the prevention, protection and investigation of cyber-attacks and, accordingly, to strengthen the company's resilience in digital environments in order to ensure the protection of all Naturgy's information assets. The plan is globally applicable and is based on three fundamental pillars: people, processes and technology.

In order to align its own requirements with regulatory requirements, Naturgy has a body of regulations that establishes the basic lines of action that must be complied with by employees in terms of information security. These regulations are updated periodically and a series of international standards and good practices, such as ISO 27001, NIST SP 500-53 or ISA 62441, are used as a control framework.

In order to integrate cybersecurity into projects from the early stages, Naturgy has a technical office of security projects that helps to include cybersecurity from the conceptualisation and design of projects. In this way, security baselines are defined based on international standards and best practices, such as ISO 27001, NIST SP 500-53, ISA 62441 or CCSA (Cloud Certification).

In relation to cyber-intelligence tasks, during 2021 the capabilities of the CyberSOC (Security Operations Centre) have been expanded, integrating new sources of cyber-intelligence and new use cases to ensure early detection of potential incidents and minimisation of potential damage with optimal responses. In addition, roles and responsibilities have been assigned in a global incident response plan—aligned with the crisis management plan—and end-user protection tools have been deployed. The capabilities of the threat hunting team, which analyses the environment, identifies new attack trends and thus enriches SOC's capabilities, have also been expanded.

In addition, Naturgy proactively performs, with the support of leading third parties in cybersecurity, periodic attack simulation exercises to prevent and resolve potential vulnerabilities and certify the robustness of the company's processes and systems.

On the people side, training and awareness is a critical factor in embedding a deep culture of cybersecurity in the organisation. This is why in 2021 we have continued with the mandatory training in cybersecurity through renewed and updated content. In addition, three simulated phishing campaigns have been carried out to assess the level of awareness of employees and through personalised feedback to each participant, help to increase it.

Regarding the extension of the principles to the supply chain, Naturgy establishes cybersecurity criteria that are required in the processes of procurement or contracting third party services, and a qualification evaluation system is being implemented for the main suppliers that process company information.

Cybersecurity process and infrastructure

Naturgy has an incident response procedure that determines how to execute the global coordination of cybersecurity incidents based on the nature and criticality of the incidents that are managed, both locally and globally.

In the event of a cyber incident, and depending on its level of criticality, Naturgy mobilises and executes the appropriate levels of response, thus limiting its impact on the group, the value of the share, service provision and customer confidence.

The procedure is based on the incident management documentation developed by NIST(National Institute for Standard and Technology - Special Publication (SP) 800-61).

In addition, the company has a Contingency and Business Continuity Plan, which regulates the mechanisms to be implemented in the event of a serious security incident. These mechanisms help maintain the service level within predefined limits, establishing a minimum recovery period, analysing the results and reasons for the incident, and thus avoiding the interruption of corporate activities. The plan mitigates the financial impact and loss of critical information, as well as the reputational aspect.

Every year, Naturgy conducts cybersecurity incident response simulation exercises for each of the geographies and businesses.

It should be noted that the information systems infrastructure and information security management systems of the Naturgy Group are audited annually by external auditors during the auditing process. Additionally, we carry out an annual cyberassessment (for each business and geography), which allows us to evolve our maturity level year after year, proposing and executing new lines of improvement.

Protection of strategic assets at Naturgy

[IF-EU-550a.1], [IF-EU-540a.2], [103-1], [103-2] and [103-3]

(Safety of facilities and operations)

In compliance with Law 8/2011, Naturgy was designated in 2014 as a critical operator, defining a specific protection model for its Critical Infrastructures (CI). In addition, and in compliance with Royal Decree Law 12/2018, it was designated in 2018 as an essential services operator, as its Critical Infrastructures depend on information networks and systems, integrating the requirements established in that Decree Law into the protection model.

Throughout 2021, the corporate Security and Cybersecurity units have monitored and supervised the processes established to protect their critical infrastructures, performing actions for the review/updating of applicable documentation, managing the incidents detected and maintaining dialogue with businesses, with the National Centre for the Protection of Critical Infrastructures (CNPIC), with the National Institute of Cybersecurity (INCIBE-CERT) and with other public and private bodies involved in Critical Infrastructures.

During 2021 there have been no incidents of non-compliance in the group.

Integrity of gas supply infrastructure

[IF-GU-540a.2], [IF-GU-540a.3] and [IF-GU-540a.4]

	2021					2020				
	Spain	Argentina	Brazil	Chile	Mexico	Spain	Argentina	Brazil	Chile	Mexico
Cast iron or puddled iron distribution pipes (%)	2	0	2		0	2	0	2		0
Unprotected steel distribution pipes (%)	0	0	5		15	0	0	5		14
Gas transmission pipelines inspected (%)	100	100	20		N/A	100	100	43		N/A
Gas distribution pipelines inspected (%)	51	67	80		92	49	68	61		90

NB: no data available for Chile.

Among the efforts made by the company to manage the integrity of the gas supply infrastructure, the actions carried out in Brazil and Mexico in recent years stand out:

- Creation of an instrumented inspection plan in transmission networks.
- Creation of maintenance plans for analysis of coatings in transmission and distribution networks.
- Creation of leak detection plans in distribution and transmission networks.
- Periodic monitoring of the cathodic protection system through a remote management system.
- Follow-up of maintenance indicators through periodic meetings.

Naturgy owns 100% of the site of the José Cabrera nuclear power station, a facility that operated between 1968 and 2006 with excellent results in the areas of nuclear safety, radiation protection and waste management. Since February 2010, the facility has been run by ENRESA, a Spanish public company that is proceeding, in accordance with national standards, to dismantle it.

In addition, Naturgy has the following ownership in the Almaraz I and II nuclear power stations and the Trillo nuclear power stations:

Unit	Thermal power (MWt)	Ownership (%)
Trillo	3,010	34.5
Almaraz I	2,947	11.3
Almaraz II	2,947	11.3

In November 1999, the companies owning the Almaraz and Trillo nuclear power stations set up the Economic Interest Group known as Centrales Nucleares Almaraz-Trillo, A.I.E. (CNAT), for the integrated operation, management and administration of both plants, maintaining unchanged their ownership stakes in each of them.

The production of electricity in nuclear power stations is a highly regulated activity. There are numerous national and international bodies working together with operators to define and implement effective management models that make this form of energy production a benchmark in terms of safety, reliability and respect for people and the environment.

Naturgy participates, either directly or indirectly through the coordination organisation of Spanish nuclear operators in the Nuclear Energy Committee, in international organisations of recognised prestige in the nuclear field, as well as in various national forums related to nuclear R&D, in order to ensure excellence in the operation of these assets and to guarantee the production of electricity with high levels of safety.

No other considerations should compromise the security of the company's facilities. This premise demands a commitment to a "safety culture" where safety issues are given the maximum attention they deserve because of their significance. Safety, understood in its broadest sense, encompasses aspects such as operational safety, radiation protection, respect for people and the environment, occupational risk prevention, maintenance of the physical safety of the facilities, safety and risk assessments and on-going worker training.

CNAT has safety policies, supported by Naturgy, based on a "safety culture" that ensures:

- All the people who work at CNAT are true protagonists of prevention, and it is up to the management and middle management to take the lead.
- The health of all employees and the continuous improvement of the quality of their working life are guaranteed.
- All accidents can and must be avoided. Risk control is always a good investment.
- Training, information, consultation and participation of workers are essential elements of the company's prevention policy.
- Prevention forms part of all the activities of the organisation.
- The coordination of business activities is established and included in the corresponding procedures.
- Every accident and incident needs to be investigated and used as a source of learning. Any unsafe action or unsafe practice must be recognised, analysed and corrected.
- Compliance with prevailing legislation is ensured, both with regard to our own staff and that of contractors, subcontractors and suppliers.

In terms of quality, CNAT's commitment has been recognised by the Spanish Association for Standardisation (AENOR) through the awarding of the official certificate proving that the quality management system complies with the UNE EN ISO 9001:2015 standard for the production of electricity from nuclear energy. In 2020, AENOR carried out a follow-up audit of the certification with a satisfactory result. Furthermore, CNAT complies with the quality standard of reference in the nuclear sector, the UNE 73401 on quality assurance at nuclear facilities, which is the basis of the quality assurance manual, the requirements of which are permanently audited by the Nuclear Safety Council (CSN).

CNAT has had its environmental management system certified by AENOR since 2005, in accordance with the international standard UNE-EN-ISO-14001:2015. In 2021, the follow-up audit of the certification of the environmental management system of AENOR INTERNACIONAL S.A.U. was carried out. This certificate was renewed for the last time in 2020 and is valid until 2023.

05. The opportunity of environmental challenges

Naturgy's contribution to the SDG

What does this mean for Naturgy? Risks and management approach

At Naturgy, business management is only understood to be linked to a commitment to sustainability, materialised in specific, ambitious and measurable objectives in the company's Sustainability Plan. This plan, whose guidelines contribute to the United Nation SDGs, is the backbone of the new Strategic Plan 2021-2025.

Climate change is the great global challenge of the 21st century, and to face it, the transformation of the energy sector is essential. Energy transition is seen as a real opportunity for Naturgy, as reflected in the new Plan. Proof of this is the company's commitment to achieve carbon neutrality by 2050 at the latest, reducing total GHG emissions, scope 1, 2 and 3, in accordance with the 1.5ºC - 2ºC pathways of the Paris Agreement, under the principles of a just transition. To this end, the bulk of investments will be concentrated on activities eligible under the EU Taxonomy:

- New renewable generation facilities, with the objective of reaching an installed capacity of almost 60% by 2025.
- Carbon-neutral renewable gases, driving new projects with a target of injecting into the gas networks at least 1 TWh by 2025.
- Smart and adapted energy grids to play a key role in the energy transition.

Similarly, biodiversity protection, as part of the climate change problem, is another strategic priority of the new Plan.

What is our commitment?

Naturgy has policies for sustainable environmental development. The Corporate Responsibility Policy is the highest ranking policy and sets out the commitment to contribute to sustainable development through eco-efficiency, the rational use of natural and energy resources, minimising environmental impact, encouraging innovation and using the best available technologies and processes.

- Contributing to the mitigation and adaptation of climate change through low-carbon and renewable sources of energy, encouraging savings and energy efficiency and the application of new technologies.
- Integrate environmental criteria in business processes, new projects, activities, products and services, as well as in the selection and evaluation of suppliers.
- Minimise the adverse effects on ecosystems and promote the conservation of biodiversity.
- Promote the efficient and responsible use of energy and natural resources, establishing activities to improve their management in the framework of the circular economy.
- Guarantee the prevention of pollution through continuous improvement of technologies and using the best techniques available as well as analysing, controlling and minimising environmental risks.

The foregoing commitments are developed and detailed in the Global Environmental Policy, applicable to all geographies and businesses, in which Naturgy voluntarily assumes the commitment to be a key player in the energy transition towards a circular and decarbonised economy model, in line with the objectives of the Paris Agreement.

In 2021, this policy was revised to reinforce the commitments made in the Strategic Plan, especially in climate action and biodiversity protection. To this end, four strategic environmental drivers are established:

- Governance and environmental management.
- Climate change and energy transition.
- Circular economy and eco-efficiency.
- Natural capital and biodiversity.

And some basic operating principles in each of these drivers are:

Governance and environmental management

1. Ensure compliance with environmental legislation and more stringent voluntary requirements, in readiness for new regulations.
2. Prevent pollution and reduce environmental impacts along the value chain by encouraging the involvement of employees, collaborating companies and stakeholders.
3. Integrate the environment into management of risks and opportunities, and on strategic decisions, as well as into mergers and acquisitions of assets through the performance of environmental due diligence.
4. Establish targets that drive continuous improvement in environmental performance.
5. Have an externally audited and certified environmental management system, in accordance with the criteria of the Global Policy of the Integrated Management System.
6. Promote transparency, in line with international reporting standards, to facilitate communication with the company's stakeholders.
7. Support the dissemination of knowledge and awareness on energy and environmental issues and to promote constructive dialogue with public administrations, NGOs, universities, customers and other stakeholders.

Climate change and energy transition

8. Achieve climate neutrality by 2050 at the latest through the reduction of total Scope 1, 2 and 3 emissions, setting intermediate targets aligned with the 1.5ºC - 2ºC reduction pathways of the Paris Agreement.
9. Align new investments with the goals of the Paris Agreement, promoting renewable and decarbonised energy, energy savings and efficiency, and climate adaptation.
10. Publish each year the carbon footprint in all its scopes, verified by an independent third party, establishing systems for monitoring and reducing emissions.
11. Integrate the climate variable into risk and opportunity management and strategic planning, in accordance with the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD).
12. Supporting international climate change negotiations and market mechanisms that foster the development of the most appropriate technologies at each stage of the energy transition.
13. Promote directly and through alliances with other players, climate policies aligned with the Paris Agreement, ensuring the permanence only in entities that meet this criterion and each year publishing the list of these entities.
14. Promote decarbonisation in line with the principles of just transition and involve the supply chain, promoting actions that reduce the carbon footprint of collaborating companies.

Circular economy and eco-efficiency

15. Boost the circular economy through the efficient use of resources (energy, water, etc.) and waste management to reduce environmental impacts.
16. Promoting renewable gas as an energy and storage vector that facilitates the transition to a circular and carbon neutral economic model.

Biodiversity and natural capital

17. Respect natural capital, biodiversity and cultural heritage in the areas where the group operates, identifying, assessing and monitoring impacts and dependencies on biodiversity during the life cycle of the facilities.
18. Integrate biodiversity in the design and operation of projects to progressively reduce negative environmental impacts, avoiding the impact on protected areas, implementing a preventive approach based on the hierarchy of impact mitigation (avoid, mitigate, restore and compensate) and promoting the development of nature-based solutions.
19. Achieve no net loss of biodiversity, promoting the net creation of natural capital whenever possible.

In addition to the aforementioned principles of action, the Policy establishes the roles and responsibilities of the different areas in the company's environmental management.

In addition, in 2021 the Sustainability Plan 2021-2025 was approved, establishing the lines of action that emanate from the aforementioned principles and from the objectives of the Strategic Plan 2021-2025. The following table summarises the environmental objectives:

Action	Indicator	Target 2025
Strengthening governance in environment and climate change	Percentage of industrial Ebitda certified under ISO 14001.	95% of industrial Ebitda certified under ISO 14001.
	Implementation of a methodology for the decentralised determination of climate risks according to TCFD	Improvement of the climate risk management methodology in accordance with the TCFD, decentralising its application in the different business areas.
	Capex eligible and aligned with European Taxonomy (%)	80% of the investments are eligible and aligned with European taxonomy.
Climate change and energy transition [1]	Absolute GHG emissions Scope 1 and Scope 2.	Reduce emissions by 48% in 2025 compared to 2017 to 11.4 million tCO_2eq.
	Absolute GHG emissions Scope 3.	Reduce emissions by 20% in 2025 compared to 2017 to 114.1 million tCO_2eq.
	CO_2 intensity in power generation.	Reduce CO_2 emissions from power generation by 56% in 2025 compared to 2017 to 171 tCO_2/GWh.
	Percentage of the generation mix from renewable sources measured in installed power over the total of the group.	>56% of renewable power in electricity generation.
Renewable gas and boosting the circular economy	Renewable gas.	At least 1 TWh of renewable gas production or injection by 2025.
	Total water consumption.	Reduce water consumption by 44% in 2025 compared to 2017 to 15.6 hm^3.
	Total waste (hazardous and non-hazardous).	Reduce waste by 87% in 2025 compared to 2017 to 110 kt.
	Percentage of total waste recycled and recovered (hazardous + non-hazardous).	Achieve 75% of recycled or recovered waste by 2025.
Protection of biodiversity and development of natural capital	Initiatives to improve biodiversity throughout the life cycle of the facilities (construction, operation, dismantling).	Conduct at least 350 biodiversity initiatives per year.
	Environmentally restored cumulative area (ha).	Pending definition.

[1] The GHG absolute emissions and intensity targets are aligned with the global objective of keeping temperature below 1.5ºC for Scopes 1 and 2 and with 2ºC for Scope 3.

Evolution and results 2021

As mentioned above, the continuous improvement and measurement of environmental performance are based on concrete and ambitious objectives, measured and audited within the framework of the certified environmental management system (ISO 14001), and which are made public to respond to the organisation's commitment to transparency.

During the first half of the year, the objectives of the 2022 Environment Plan were in effect. In July 2021, the new Strategic Plan 2021-2025 was published, in which existing environmental commitments were revised upwards, setting more ambitious objectives in the Sustainability Plan for 2025. The degree of compliance with the Environmental Plan 2018-2022 has been very high, with most of the objectives having been more than met ahead of schedule in 2021. The company's good environmental performance has made it possible to raise its ambition for 2025.

The following table shows the evolution of the indicators and the objectives for 2025, outlining the company's positive evolution and good environmental performance.

Responsible environmental management

	Target 2025	2021	2020	Base year 2017	Variation 2021 vs 2017
Activity with ISO 14001 environmental certification [1] (%)	95	93.1	92.2	87.7	6 %
Implementation of a methodology for the decentralised determination of climate risks according to TCFD	Implanted	In progress	-	-	n.a.
Capex eligible and aligned with European Taxonomy (%)	80	61	-	-	n.a.
Absolute greenhouse gas (GHG) emissions - Scopes 1 and 2 ($MtCO_2eq$)	11.4	13.5	15.5	21.8	(38)%
Absolute greenhouse gas emissions (GHG) Scope 3 ($MtCO_2eq$)	114.1	136.5	123.0	142.6	(4)%
CO_2 intensity in electricity generation (tCO_2/GWh)	171.0	261.5	297.0	388.0	(33)%
Renewable installed capacity (%)	56	33	29	22	50 %
Renewable gas production or injection capacity (TWh)	1	0.14	0	-	n.a.
Water consumption (hm^3)	15.6	15.2	20.3	28.0	(46)%
Waste produced (kt)	110	98	159	824	(88)%
Recycled or recovered waste (%)	75	57	61	33	73 %
Initiatives to improve biodiversity (No.)	350	302	265	-	n.a.
Environmental restored cumulative area (ha)	Pending definition	In progress	In progress	-	n.a.

[1] Percentage of Ebitda certified. The Ebitda used to calculate this percentage corresponds to the end of November.

In addition to the objectives established in the Sustainability Plan for 2025 above, 2021 target value paths have been defined for the main environmental indicators.

	2021 target value path	2021	2020
Direct GHG emissions Scope 1 (MtCO2eq/year)	13.3	13.0	14.3
Indirect GHG emissions Scope 2 (MtCO2eq/year)	0.5	0.5	1.2
Indirect GHG emissions Scope 3 (MtCO2eq/year)	135.0	136.5	123.2
Intensity of emissions in electricity generation (tCO_2/GWh)	263.0	261.5	297.3
Emissions by leaks in gas networks (tCH_4/km network)	0.231	0.223	0.2
Total volume of water captured from the environment (hm^3)	825.0	872.4	928.0
Total water consumption (hm^3)	15.0	15.2	20.0
Total discharged volume (hm^3)	810.0	857.6	909.0
SO_2 atmospheric emissions (kt)	1.2	1.2	3.4
NO_x atmospheric emissions (kt)	10.0	7.9	10.6
Atmospheric particulate emissions (kt)	0.5	0.2	0.3
Total waste (kt)	91.5	98.0	159.2
Non-hazardous waste (kt)	86.5	94.0	153.8
Hazardous waste (kt)	5.0	5.0	5.4
Recovery and recycling rate	65 %	57 %	61 %

The targets set in 2021 for the following indicators have not been met:

- Scope 3 indirect GHG emissions: the forecast has been exceeded mainly due to the increase in gas demand as a result of the favourable evolution of the pandemic, and to the updating of the emission factors calculation for natural gas extraction in some producers and the global warming potential of methane. The Climate change and energy transition section analyses the topic in more detail.
- Water indicators (intake, consumption and discharge): are above the target mainly due to the higher than expected operation of combined-cycle and cogeneration plants in Spain.
- Non-hazardous waste and total waste increase in waste generated in electricity distribution in Spain compared to the projections made resulting from the digitalisation of the calculation process, which has made it possible to better account for this resource.
- Recovery and recycling rate: the closure of the coal-fired power stations has resulted in a reduction in the ash and slag produced, with high recovery rates, this has had a negative impact on the total recovery and recycling rate.

1. Governance and environmental management

Governance

The governance of Naturgy in the environmental area falls to the Board of Directors through the Sustainability Committee, which regularly monitors the management of environmental risks and opportunities and the evolution of environmental performance, by following up on the main indicators and objectives.

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

- The Management Committee, led by the Chairman and senior management of the company, regularly analyses proposals, monitors performance and validates sustainability action plans.
- An organisational structure that defines the environmental responsibilities of the different areas of the company. At corporate level, the function falls to the Environment and Social Responsibility Unit, which reports to the Sustainability, Reputation and Institutional Relations Department, and reports directly to the Chairman. This corporate unit defines the policies and standards to be followed and carries out high-level monitoring of the evolution and results of the action plans, indicators and environmental objectives. In turn, the different businesses and areas have specific environmental management units to ensure daily operations, compliance with standards and continuous improvement of processes.
- The Sustainability Committee, with representation from all areas of the company, monitors indicators and defines and promotes the projects and actions necessary to ensure compliance with the objectives of the Sustainability Plan, including environmental objectives.
- The Environmental Operating Committee, involving all businesses and geographies, coordinate the activities carried out by the different units, and guarantee the uniform implementation of criteria and the dissemination of good environmental management practices.
- The integration of the environment into business processes, in all phases, from strategic decision making to risk and opportunity management, planning, design and execution of activities.
- An externally audited environmental management system certified under ISO 14001, based on environmental indicators and objectives for detailed 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 products and models that are eco-efficient and less intensive in CO_2.
- Responsible supply chain that integrates environmental criteria into the purchasing process.
- Communication, awareness and training of employees, collaborating companies and stakeholders on environmental issues.
- Preparation of regular reports on environmental performance and participation in international sustainability indices to ensure transparency and dissemination of results.

Environmental management

To make the satisfaction of society's energy demand compatible with environmental protection, Naturgy makes a special effort to understand, prevent, reduce and control the environmental impacts of its activities and improve the efficient use of natural resources. Naturgy goes beyond compliance with legal requirements with respect to the environment, adopting more ambitious environmental requirements, involving suppliers, working with the different stakeholders and promoting the responsible use of energy.

The most significant effects of the company's activities on the environment are the following:

- Impact on climate change.
- Pollution of air, water and soil.
- Consumption of non-renewable raw materials [1].
- Biodiversity affected by habitat and species loss [2].

Naturgy's environmental management is based on application of the principle of prevention and a 360º approach, considering the entire business value chain. For years, Naturgy has had an integrated quality, environment, health and safety management system (IMS), certified in the environmental component according to the requirements of the ISO 14001 standard. This system is audited externally every year. The environmental management system is aimed at preventing pollution and reducing environmental impacts throughout the value chain, involving employees, suppliers and other stakeholders. The processes certified through this system are:

- Electricity generation (thermal, hydraulic and renewable sources origin).
- Distribution of natural gas and electricity.
- Gas and electricity transmission.
- Wholesale and retail commercialisation of natural gas and electricity.
- Transport and operation of the Maghreb-Europe gas pipeline.
- Extraction and injection of natural gas.
- Development and execution of engineering projects.
- Energy management in organised Iberian electricity markets.
- Corporate activities involving customer service, billing and collection and training.
- Building maintenance.

The following table shows the processes by country with environmental management certified under the ISO 14001 standard.

▪ Processes by country with certified environmental management

	Electricity generation	Gas and electricity distribution	Gas procuremen t and	Commercial isation	Technology and engineering managemen	Managemen t of office buildings	Gas exploration and production
Argentina		■					
Brazil		■		■			
Chile		■		■			
Costa Rica	■						
Spain	■	■		■	■	■	■
Morocco			■				
Mexico	■	■					
Panama	■	■		■			
Dominican Republic	■						

■ Certified.

[1] The impacts of water management are detailed in the section on circular economy and eco-efficiency.
[2] The section on biodiversity and natural capital details the main impacts on biodiversity.

In addition to the ISO 14001 certificates, the commercialisation activity in Spain has an ISO 50001 certificate, which certifies its energy management system and that this. This activity has an adequate energy policy and management, which translates into real and quantifiable savings in energy consumption.

In 2021, 93.1% of Ebitda comes from industrial activities with ISO 14001 environmental certification. This certification has been obtained after passing the external audits carried out by AENOR.

To ensure consistency and uniformity in the key environmental management processes, there are global methodologies and tools that are used in the company's different businesses and geographies, including the following:

- Themis, for the identification, registration, monitoring and management of compliance with legal requirements.
- Prosafety, for recording and management of the findings, nonconformities, observations incidents, accidents and opportunities to improve environmental management. The system is also used to monitor environmental objectives and action plans.
- Damas, to identify and assess the direct and indirect environmental aspects of the company, allowing us to establish the most relevant aspects to take into account both in the environmental management of these as well as the environmental targets defined each year.
- Environmental planning, through which action lines are defined, introduced and monitored to reduce environmental impact and for continuous improvement.
- Enablon, for the registration and centralised management of environmental indicators related to atmospheric emissions, discharges, waste, consumption of raw materials, water and other resources.
- Carbon footprint, to determine greenhouse gas emissions throughout the entire value chain, including indirect emissions produced by third parties upstream and downstream of group activities.
- Geographical information system of biodiversity, showing the protected natural areas, the group's facilities and the initiatives carried out to protect and improve natural capital.

Supply chain

With regard to the supply chain, suppliers, providers and external partners are fundamental in management of sustainability and the environment. Accordingly, the global purchasing and supplier management model takes into account environmental criteria, including climate change, atmosphere, water, soil, landscape, territory, heritage, resource consumption, waste production and biodiversity. A detailed description of this model can be found in the chapter "Supply Chain".

Additionally, the integration of climate change issues into the supply chain has been strengthened through CDP Supply Chain. The initiative allows the group's suppliers to help protect the environment by requesting key environmental indicators and integrating and analysing the data.

Legal requirements and penalties

[307-1]

With regards to environmental regulations, 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.

In 2021, there was only one significant penalty (amount over Euros 10,000) in environmental matters. It was originated by a fire in 2018 in the municipality of Villar del Pozo (Ciudad Real), due to branches coming into contact with the conductors of a low voltage power line. An amount of Euros 21,444 was paid, without admitting guilt, of which Euros 4,080 corresponds to a fine and Euros 17,364 corresponds to compensation for the fire extinguishing work.

Environmental risks

[102-11], [201-2], [103-3] and [306-3]

Environmental and climate change risks are integrated into the overall model described in the "Risk Management" chapter. This is followed by a more detailed discussion of environmental risks, the latter being described in detail in the chapter on climate change.

Naturgy has identified the environmental risks in its facilities by using the reference standard as its basis (UNE 150008 in Spain). To prevent this, it has introduced an integrated management system that includes environmental management and operational control procedures. In addition, emergency plans have been put in place at facilities and warehouses at risk of environmental accidents, which include action plans for eventualities, the availability of the necessary means of containment and the performance of periodic drills. This system is audited and certified each year by AENOR.

One of the tools used in risk management is Prosafety, where events occurring in any activity or geography that may result in damage to the environment are reported. It allows us to analyse not only accidents, but also environmental incidents of lesser importance that do not generate significant damage but are a source of learning and prevention of larger events. In addition to ensuring adequate and homogeneous monitoring of environmental events, Prosafety facilitates the identification, analysis, development, implementation and exchange of preventive measures and best practices in risk management at a global level among all areas.

On the other hand, the company makes financial provisions to cover the appearance of possible environmental risks and has guarantees to cover the occurrence of these risks in the insurance policies it has taken out. Specifically, the insurance policies with environmental coverages are:

- Environmental liability insurance: limit contracted for a value of Euros 150 million per loss event and in the annual aggregate.
- Liability coverage for sudden and accidental pollution in the general public liability policy: limit of Euros 485 million per loss event.
- Protection and indemnity insurance: maximum limit of US Dollars 500 million per loss event, in accordance with the Rules of the UK P&I CLUB 2018 (Charterers), to cover the liabilities for pollution arising from chartering vessels.

With regard to environmental events, the following table includes data with the main spillages that occurred in 2021. In all cases, the environmental incident procedure was activated and the spill was collected and the area cleaned. There have been no significant impacts on the environment. Most spillages were contained in Naturgy's facilities and there has been no deterioration of water courses or damage to biodiversity. It is worth noting the 76% reduction in the area of natural land affected compared to 159 m^2 in 2020.

Spill table

[306-3]

2021

Activity	No. of events	Nature of spill (no. of events)	Spill volume (m^3)	Surface area of natural soil affected (m^2)	Country (No. of events)
Renewable electricity generation	7	Oil (6) Fuel (1)	0.2	20	Spain (6) Costa Rica (1)
Gas and electricity distribution	21	Oil (18) Oily waters (1) Fuel (1)	4.4	18	Spain (17) Panama (4)
Total	28	-	4.6	38	-

2020

Activity	No. of events	Nature of spill (no. of events)	Spill volume (m^3)	Surface area of natural soil affected (m^2)	Country (No. of events)
Renewable electricity generation	7	Oil (5) Fuel (1) Sulfuric acid (1)	0.6	25	Spain (6) Mexico (1)
Gas and electricity distribution	20	Oil (18) Fuel (2)	0.3	134	Chile (15) Spain (5)
Total	27	-	0.9	159	-

Environmental training

Environmental training is a basic tool for preventing and reducing environmental impacts and improving environmental operational control in activities. Naturgy therefore pays special attention to identify and ensure that all employees possess the necessary environmental knowledge.

In 2021, a total of 2,114 hours were given to 1,137 participants, with 72.9% and 80.5% of the hours and participants performing as planned.

Environmental communication and awareness: dialogue with stakeholders

The transparency, awareness and dissemination of knowledge on energy and the environment and constructive dialogue with stakeholders are some of the principles of action defined in Naturgy's Global Environmental Policy.

The activities developed in 2021 included the following:

- Participation in collaborative initiatives to improve the environment, including:
  - Sustainable Development and Environment Commission of the Confederation of Employers and Industries of Spain (CEOE).
  - Communication and Sustainability Commission of the Spanish Chamber of Commerce.
  - Circular Economy Commission of the Spanish Chamber of Commerce.
  - Forética's Business Council for Sustainable Development.
  - Forética's Climate Change, Circular Economy, and Sustainable Cities 2030 clusters.
  - Robeco's Climate Change Mentoring Programme.
  - Working Group on Circular Economy of the Junta de Comunidades de Castilla-La Mancha.
  - Spanish Green Growth Group, of which Naturgy is a founding partner.
  - Working Group on Natural Capital and Energy, together with other companies in the sector (Cepsa, EDP Spain, Enagás, Endesa, Red Eléctrica Group, Iberdrola and Repsol) to implement a standardised framework for assessing the natural capital impact of the Spanish energy sector.
- Inclusion in pacts and initiatives for the environment:
  - Biodiversity pact and participation in the Spanish Business and Biodiversity Initiative.
  - Pact for a Circular Economy of the Ministry for the Ecological Transition and the Demographic Challenge of Spain.
- Participation in congresses, round tables and media publications disseminating experiences and knowledge in the fields of climate change, energy transition, just transition, the circular economy and biodiversity. The sponsorship of the National Environmental Congress (CONAMA) held in Spain in 2021 is also worthy of mention.
- Organisation of webinars for internal and external dissemination on environmental issues.
- Messages to encourage energy saving and efficiency measures sent to customers on bills.

The Naturgy Foundation has also carried out numerous initiatives to disseminate, train, inform and raise awareness in society on energy and environmental issues. The activities and results achieved can be consulted in the chapter on "Social responsibility".

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. During 2021, 603 environmental complaints or claims were registered, 526 of which were resolved during the year, the rest being in the process of resolution.

Environmental investments and expenses

Naturgy makes a significant effort in environmental protection, providing the necessary means and financial resources. Although the Delegated Regulation for the Taxonomy was approved in 2021, in which common criteria has been defined, for years Naturgy has been reporting its annual environmental investments and expenses, according to its own methodology. Economic information has been included in this report in accordance with the provisions of the above-mentioned Delegated Regulation for the Taxonomy, which can be consulted in chapter "Sustainable Finance and Taxonomy". However, as the Taxonomy is not fully developed, it has been considered convenient to include the metrics of environmental investments and expenses in line with what has been done over the last few years, since it allows to have a history to analyse trends.

The environmental actions carried out in 2021 have reached a total of Euros 758.7 million (Euros 685.3 million in 2020), of which Euros 599.0 million correspond to environmental investments and Euros 159.7 million to expenses incurred in the environmental management of the facilities, excluding those resulting from the carbon market. Of specific note are the investments in new renewable energy projects, which will contribute to the energy transition and reduce specific emissions of CO_2 and other atmospheric pollutants.

The table below provides a breakdown of environmental investments and expenditures.

- **Environmental investments (million euro)**

	2021	2020
Governance and environmental management	0.1	1.6
Climate change and energy transition	590.2	521.3
Circular economy and eco-efficiency	6.4	7.3
Biodiversity and natural capital	2.3	1.9
Total	599.0	532.1

- **Environmental expenditure (million euro)**

	2021	2020
Governance and environmental management	48.4	70.1
Climate change and energy transition	103.4	74.6
Circular economy and eco-efficiency	4.4	3.8
Biodiversity and natural capital	3.5	4.7
Total	159.7	153.2

Environmental governance and management: achievement and highlights in 2021

Lines of action	Achievements and highlights in 2021
Governance	Early compliance in 2021 with most of the environmental goals defined for 2022 in the Strategic Plan 2018-2022. Approval of a new Sustainability Plan 2021-2025 that strengthens the company's ambition in its transformation towards sustainability and includes more ambitious environmental objectives.
Environmental management	93.1% of Ebitda comes from industrial activities certified in environmental management by ISO 14001. Increase in environmental actions (environmental investments and expenses) by 11% in 2021 compared to 2020, reaching a total of Euros 758.7 million.
Awards and recognition	Naturgy was externally recognised by CDP with the highest A-list rating for its water management and also for its climate management, obtaining an A- rating in 2021. Diploma "Business Examples of #ForClimate2021 Actions" of the #ForClimate Community on the initiative Biomethane, circular energy for the climate and the demographic challenge. The renewable gas project at the Butarque WWTP was a finalist in the 'Green Generation' category in the first edition of the Retina ECO Awards, organised by El País and Capgemini. The awards seek to recognise the merit of companies and organisations with a strong commitment to sustainability, innovation and the fight against climate change.

2. Climate change and energy transition

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

(Climate change and energy transition)

Climate strategy

Climate change is a global environmental challenge and Naturgy is committed to being a key player in the energy transition to a circular and decarbonised economy model, with the objective of achieving net zero greenhouse gas (GHG) emissions by 2050 at the latest. With this target, Naturgy will continue to improve the eco-efficiency of the energy products and services it offers its customers to make them eco-efficient and carbon neutral.

In the Strategic Plan 2021-2025, in line with contributing to the commitment acquired to achieve net zero GHG emissions by 2050, carbon footprint reduction targets have been set according to science-based targets (SBT), for all scopes (scope 1, 2 and 3) and aligned with the 1.5ºC - 2ºC temperature scenarios of the Paris Agreement.

Similarly, the identification, measurement and management of climate risks and opportunities in accordance with the Task Force on Climate-related Financial Disclosures (TCFD) are used to prepare and review the company's strategic planning, ensuring its alignment with the international climate agenda. The result of this is the new Strategic Plan 2021-2025, which is committed to:

- Promote renewable energies and encourage their integration through the development of smart networks.
- Developing renewable gases as a lever for decarbonisation of natural gas and the promotion of circular economy, through: biomethane from organic waste and green hydrogen produced with surplus renewable electricity.
- Promote energy eco-efficiency in own and customers' facilities.
- Promote sustainable mobility that reduces GHG emissions and also air pollution, helping to improve air quality.

The commitment to transparency and dissemination of information related to climate change is materialised in our participation in international reference indices on climate change. It should be noted that Naturgy has been recognised by the CDP Climate index for its climate management, obtaining the A- list rating and remaining since 2011 in the leadership band.

Moreover, Naturgy has voluntarily undertaken commitments to the fight against climate change by joining climate-related initiatives such as the Carbon Pricing Leadership Coalition (CPLC), Caring for Climate, the Climate Change Trust and Disclosure Statement, the Statement of Support for the Task Force on Climate-related Financial Disclosures (TCFD) and participation in the SBT initiative.

The carbon footprint at a glance

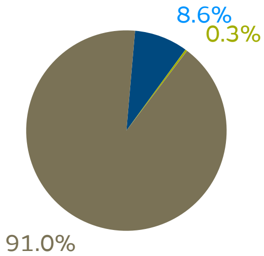
The following shows the carbon footprint at 2021 and the reduction achieved with respect to the base year 2017 in the three scopes, as a sign of the company's commitment and good performance in the fight against climate change:

- **Naturgy carbon footprint**

Footprint 2021

149.9 million

tCO_2 eq



Carbon footprint reduction between 2017 and 2021

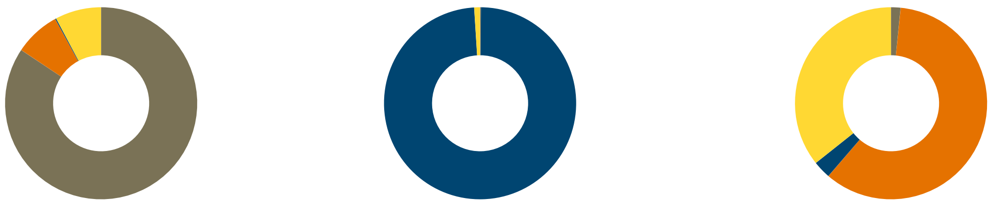
↓ **37%** Emissiones scopes 1 and 2

↓ **9%** Total carbon footprint (scopes 1, 2 and 3)

Scope 1
Direct emissions
13.0 $MtCO_2$ eq

Scope 2
Indirect emissions
0.5 $MtCO_2$ eq

Scope 3
Other indirect emissions
136.5 $MtCO_2$ eq



84% fossil fuel power stations

99% losses in electricity distribution networks

95% customer emissions from gas distributed and commercialised

- Electricity generation
- Electricity distribution
- Gas distribution
- Procurement, LNG and gas commercialisation

Climate change governance

The supreme body responsible for climate change governance in Naturgy is the Board of Directors through the Sustainability Committee, which oversees the company's performance in environmental, social and corporate governance policies. This Committee evaluates the performance of important indicators, as well as the management of risks and opportunities, in respect to climate change.

Climate governance involves all of the company's businesses, operating areas, geographies and projects through the Management Committee and the Sustainability Committee. Environmental and climate change risks are integrated into the global risk management model. Ensuring the resilience and sustainability of the business is one of the key aspects of risk management at Naturgy.

Governance agencies and responsibilities in climate change

Board of Directors

Sustainability Committee (1)

Audit and Control Committee (2)

Committees

Management Committee (3)

Risk Committee (4)

Sustainability Committee(5)

Business and Corporate Units

Environmental and Corporate Responsibility Corporate Unit (6)

Business and Corporate Units (7)

(1) Oversees sustainability policies, focusing in particular on environmental, social and corporate governance policies. Ensures that the company's actions are aligned with the energy transition and the SDGs.

(2) Monitors the management and exposure to risk of the different businesses, including climate change related risks.

(3) Ensures the application and monitoring of business and sustainability policies, strategies, plans and objectives, proposing measures in the areas of energy transition, climate change and sustainable development.

(4) Determines and reviews the target risk profile and monitors its management by the units, including physical and transitory climate risks.

(5) Ensures, through monitoring and action proposals, the performance, implementation and improvement of policies, commitments and the Sustainability Plan, and, more specifically, environmental and climate change plans and objectives.

(6) Establishes the policy, indicators and objectives for the environment and climate change in coordination with the businesses, monitors the evolution, consolidates the information and centralises reporting for the management committees and Board of Directors.

(7) They apply general principles and strategies and develop plans, projects and activities to achieve climate change objectives.

In accordance with the Organisation and Operation Regulations of the Board of Directors and its Committees of November 2020, the Sustainability Committee meets at least three times a year. At these meetings, the company monitors performance on climate change and the energy transition, using a high-level indicator scorecard.

This commitment made by shareholders and senior management is transferred to all business and corporate units through the Global Environmental Policy, which establishes climate change and energy transition as one of its strategic environmental areas, defining the basic principles of action listed above. Likewise, specific improvement objectives are defined in the Strategic Plan 2021-2025 and are included in the Sustainability Plan, which can be consulted at the beginning of this chapter.

Management of climate change risks and opportunities according to TCFD

[201-2]

Risk management

Naturgy identifies and assesses the impact of the main risk factors through the risk management model, which seeks to ensure the predictability of the company's performance in all aspects relevant to its stakeholders. The elements that allow for continuous improvement in the process of identifying, characterising and determining Naturgy's risk profile are: the Risk Control and Management Policy, the corporate map and the risk measurement system.

The corporate risk map identifies and quantifies the risks that may affect the company's performance, including those related to the environment, climate change and energy transition. Their measurement allows them to be integrated within the corporate strategy and to set targets with the aim of keeping risks to a minimum and maximising opportunities.

Naturgy uses the TCFD recommendations for climate risk assessment. According to the classification foreseen by this standard, the following are determined: physical risks (acute and chronic) and transition risks (regulatory, technological, market and reputation).

The risk assessment analyses the probability of occurrence, the time horizon and the impact in different temperature scenarios. The section "Scenarios considered" below gives details of these scenarios. The time horizons are: short term in reference to the Strategic Plan 2021-2025, medium term until 2030 and long term 2030-2050, although the intermediate milestones are adapted to the evolution of the emission reduction objectives.

Main risks linked to climate change at Naturgy

Identification			Evaluation				Risk management
Type	**Risk**	**Description**	**Probability**	**Time horizon**	**2ºC impact**	**5ºC impact**	**Management and mitigation**
Acute physical risks	Damage from extreme weather events	Damage to facilities, loss of production and/or interruption of energy supplies (gas or electricity)	Possible	Medium	Low	Very low	Policies for: property damage/loss of profit, environmental liability and land liability. All facilities are designed to operate under extreme weather conditions.
	Increased frequency and severity of fires	Damage to facilities and risk of increased fire frequency on electricity distribution lines with possible damage to third parties	Possible	Short	Medium	Low	Policies for: property damage/loss of profit, environmental liability and land liability. Innovation projects for the improvement of felling and pruning work for the maintenance of power line safety corridors.
Chronic physical risks	Effects of increased temperature	Drop in demand for natural gas for heating (residential and commercial). Decrease in the performance of combined-cycle power stations	Possible	Medium	Low	Very low	Increase the contribution of electricity businesses vs. gas businesses. Operational efficiency plan that establishes objectives to improve specific consumption in thermal power stations, compensating for efficiency losses due to temperature increases.
	Impacts of changes in rainfall patterns and extreme variability of weather patterns	Changes in the generation dispatch	Possible	Long	Low	Very low	Hydroelectric power station repowering programme. Study of the impact of climate change on hydroelectric power stations. Dominant position in combined-cycle power stations to support the production of electricity from renewable sources.
		Wholesale electricity market price changes					
	Effects of rising sea levels	Floods	Possible	Long	Medium	Low	Plans for self-protection and periodic assessment of emergency environmental issues.
		Loss of production and/or interruption of supplies					

Identification			Evaluation				Risk management
Type	**Risk**	**Description**	**Probability**	**mehorizon**	**Cimpact**	**Cimpact**	**Management and mitigation**
Transition:policies and regulation	Regulatory changes of energy and climate policies to mitigate climate change	More demanding GHG emission reduction paths Accelerated transition to decarbonisation Variations in the carbon markets Changes in environmental taxation Electrification to the detriment of natural gas	Likely	Medium	Low - Medium	Medium - High	Measures to reduce the company's carbon intensity: divestment of high carbon intensity assets (coal mine in South Africa, fuel oil power generation in Kenya), coal plants closure, development of new renewable power, increasing the weight of electricity in the company's portfolio and boosting renewable gases. Positioning natural gas as support for renewables and as a substitute for high-emission fossil fuels (coal and/or oil derivatives) in the energy transition.
Transition:technological	Technological disruption in the energy transition	Technological improvements, cost reductions or innovations that support the transition to a more efficient and low-carbon economic system. For example, implementation of large-scale electricity storage systems	Likely	Medium	Medium - High	High	Increase up to14 GWh of installed renewable capacity by 2025. Promote the development of renewable gases (biomethane and green hydrogen), energy storage and other technologies for energy transition to a decarbonised economy.
Transition: market	Changes in traditional energy business models	Demand for new low-carbon products and services Financing difficulties for projects not aligned with the reduction of greenhouse gas emissions. Loss in asset valuation (stranded assets)	Likely	Medium	Medium	Medium - High	Accounting adjustment of the book value of conventional electricity generation assets. Closure of coal-fired power stations. Development of new services (self-consumption, commercialisation of renewable electricity, PPAs) and low-carbon or carbon neutral products (Neutral Gas, neutral LNG, GoOs in the gas sector). Increase the contribution of regulated vs. liberalised businesses and increased weight of electricity in the company's portfolio.
Transition: reputation	Increased demand for transparency and climate action by stakeholders	Loss of relevance in climate change and sustainability indices due to failure to achieve the expected standard of climate management or reputational damage resulting from climate change impacts, which may negatively affect the valuation of company intangibles by stakeholders (shareholders, customers or employees)	Remote	Short	Medium - High	High	Corporate positioning on climate change including net zero target by 2050 and emission reduction pathways aligned with 1.5-2ºC scenarios of the Paris Agreement. Presence in the main sustainability indices such as CDP Climate or Sustainalytics.

The analyses carried out show, as can be seen on the table, that the sensitivity of the business is greater to transition risks than to physical ones, since the latter represent a much smaller impact on the company and are properly covered.

Climate risk assessment methodology

The climate change risk model is based on a tool developed by Ms Excel and @Risk that allows the company's risk exposure to be estimated.

The temperature increase scenarios considered in the methodology are as follows:

- Intergovernmental Panel on Climate Change (IPCC):
  - SRES A2 (2ºC): 2ºC scenario.
  - SR1.5 (1.5ºC): 1.5ºC scenario used by SBT.
- International Energy Agency (IEA):
  - 2DS ETP (2ºC): 50% probability of not exceeding 2ºC in 2100 (central scenario).
  - B2DS ETP (well below 2ºC): 66% probability of limiting peak warming between now and 2100.

The exposure to the risks of the different scenarios can be broken down into the following areas:

- Temporary: the impacts are analysed over various time horizons (2021-2050) and the risks are classified according to their relevance in the short, medium and long-term.
- Nature of the business: the impacts that could be caused in the company's different businesses (generation, commercialisation and distribution of electricity and gas and operation in markets of CO_2 emission rights) are analysed.
- Geography: the impacts are analysed in the various countries in which Naturgy operates.

The model allows the parameters related to energy markets (penetration of renewables, energy efficiency, CO_2 and energy prices) to be modified in order to carry out sensitivity and regulatory analyses and stress tests. In addition, impact assessment scenarios based on new products and services or R&D&I actions can be simulated.

The tool uses a Monte Carlo simulation with the most relevant parameters for risk assessment:

- Long-term development of demand.
- Energy mix to meet demand.
- Necessary investments in renewable technologies.
- International energy interconnections and energy efficiency scenarios.

In order to carry out the evaluation, the scenarios for different hypotheses of the above parameters are combined, resulting in the optimal costs to achieve GHG reductions (abatement costs) in the European Union. Based on these costs and the reductions achieved, an intermediate unit price of CO_2 of around 40€/tCO_2 is obtained. This price is used internally for:

- Strategic decision-making.
- Investment analysis.
- Identifying opportunities according to the degree of maturity in low-carbon technologies.
- Climate change and energy transition risk analysis, and stress testing.
- Analysis of climate change and GHG regulation.

Along with all of this, the tool allows us to calculate the impact on Ebitda and the Value at Risk for the different combinations used, which is used for the company's strategic planning.

Additionally, in 2021, a risk analysis by business and type of facility was performed in collaboration with MSCI, in order to assess the detailed risk of the company's infrastructure and business portfolio for the different temperature scenarios mentioned above. In 2022, the first results that will improve climate risk assessment will be obtained.

Opportunity management

In the same way that climate risks are assessed, opportunities are also identified. The opportunities linked to climate change considered in the Strategic Plan 2021-2025 are detailed below:

Main opportunities linked to climate change at Naturgy

Opportunity	Opportunity management
Development of new renewable installed capacity (solar and wind)	Development of new renewable projects for the gradual decarbonisation of the generation mix. Reduced investment and operating costs compared to other technologies and the possibility of financing through instruments such as Green Bonds. Positioning in a growing market linked to renewable energies (Power Purchase Agreement, Guarantees of Origin, etc.). In the medium-term, combined-cycle power stations represent the best possible back-up for renewable energy.
Promotion and development of renewable gases	The drive and innovation for the development of renewable gas (biomethane and hydrogen) will provide a new energy product, which can replace natural gas, but with neutral CO_2 emissions in a circular economy model. Renewable gas will maintain the value of distribution network assets in the long-term and allow customers to decarbonise the energy they use with minimal changes to their facilities, in an economically efficient manner thanks to existing gas infrastructures.
Smart and integrated networks (gas and electricity)	The digitisation and integration of electricity and gas networks will enable dynamic demand management, cost reduction, increased security of supply and the development of new services associated with big data. In addition, smart networks, coupled with renewable gas generation from surplus electricity generated on wind or solar farms, will enable energy storage by taking advantage of existing infrastructures, without the need for additional batteries, and on the scale required to meet seasonal variations in demand.
Natural gas as energy for the energy transition	Penetration of natural gas and LNG (liquefied natural gas) in carbon-intensive markets, to replace high-emission fossil fuels (coal, oil) in an efficient and rapid manner, in line with the pace of the international climate agenda. Commercialisation of new products, such as neutral LNG or Neutral Gas, to offer customers a decarbonised alternative.
Self-consumption	Development of new services to promote renewable self-consumption by customers.
Energy efficiency	Promotion of energy efficiency in both internal and customer processes, with a commitment to business models of energy service companies (ESCOs). Energy efficiency provides economic competitiveness and makes possible synergies with other sectors, as in the case of cogeneration.
Strengthening the position in the electricity business	Growth in the electricity distribution business associated with the growing trend towards electrification of the economy.
Digitalisation to provide new customer services	The use of technologies such as the Internet of Things (IoT) and artificial intelligence makes it possible to develop the figure of the active customer, who has tools for monitoring and controlling their facilities in order to consume energy more efficiently and integrate new services such as distributed renewable generation or electrical mobility.
Sustainable mobility	Penetration in the road and maritime mobility sector through the development of electric and gas solutions, which allow the reduction of CO_2 emissions, the improvement of air quality and economic savings for users. In the case of maritime transport, LNG (liquefied natural gas) is the most eco-efficient alternative in terms of GHG emissions.
Positioning, governance and transparency	Strengthening governance and policies on sustainability and climate change to meet the expectations of customers, investors and society in general. Transparency and good performance make it possible to improve the position with ESG investors and access to improved conditions of funding.

Adaptation to climate change

Even if GHG emissions are reduced, climate change is already a reality. Global temperatures have increased compared to the pre-industrial period and their effects are being felt, for example, in the increased frequency of extreme weather events. Even if emissions are reduced and the rise in temperatures is stopped, this trend will continue in the coming decades due to the inertia of the climate system. In this context, adaptation to climate change takes on special importance.

Climate change adaptation measures are aimed at limiting impacts, reducing vulnerabilities and increasing the resilience to climate change of human and natural systems, including biodiversity, forests, coasts, cities, agriculture, industry, etc.

As explained above, Naturgy's risk map considers the physical risks derived from climate change. Several studies have been carried out for its evaluation, which conclude that the risk is low. Nevertheless, the company has rolled out various adaptation measures to minimise negative impacts and increase resilience, including the following:

- The bases of design of the facilities consider safety margins, establishing in the calculations ample and adequate return periods to guarantee the protection of the facilities in the face of variations in rainfall, etc. An example of this is the performance of flood risk studies, dam safety, etc.
- One of the most significant climate risks is that which the increase in large fires could cause on power lines. In order to reduce it, the electricity distribution business in Spain has developed the GALA project, which consists of creating a digital model of the networks, using drone images to detect the areas of vegetation proximity and scheduling felling and clearing for the maintenance of the safety corridor.
- In some infrastructures, protection elements have been built to protect against adverse weather events. This is the case of the Torito hydroelectric power station in Costa Rica, where a dam has been built to prevent damage from possible flooding of the Reventazón river.
- Procedures have been improved in the event of adverse weather conditions (storms, hurricanes, etc.) at various facilities, such as combined-cycle power stations or the gas distribution network in Mexico.

Carbon footprint inventory

[305-1], [305-2] and [305-3]

▪ Total GHG emissions (tCO_2eq)

[IF-EU-110a.1]

	2021	2020
Scope 1	**12,965,240**	**14,301,874**
Scope 2	**487,067**	**1,153,608**
Market	0	0
Location	487,067	1,153,608
Scope 3	**136,450,026**	**123,217,903**
Goods and services purchased		
Capital goods		
Activities associated with upstream fuels and energy	33,167,755	30,638,299
Coal	0	107,120
Natural gas	28,780,916	20,137,098
Oil	282,272	185,822
Electricity	4,104,567	10,208,259
Transport and distribution of goods		
Waste produced in the operation		
Business trips	362	621
Mobilisation of employees	5,685	8,286
Upstream leased goods		
Downstream transport and distribution		
Procedure for products sold		
Use of products sold: natural gas	103,276,224	92,462,851
End-of-life processing of products sold		
Downstream leased goods		
Franchises		
Investments	0	107,846
Total	**149,902,333**	**138,673,385**

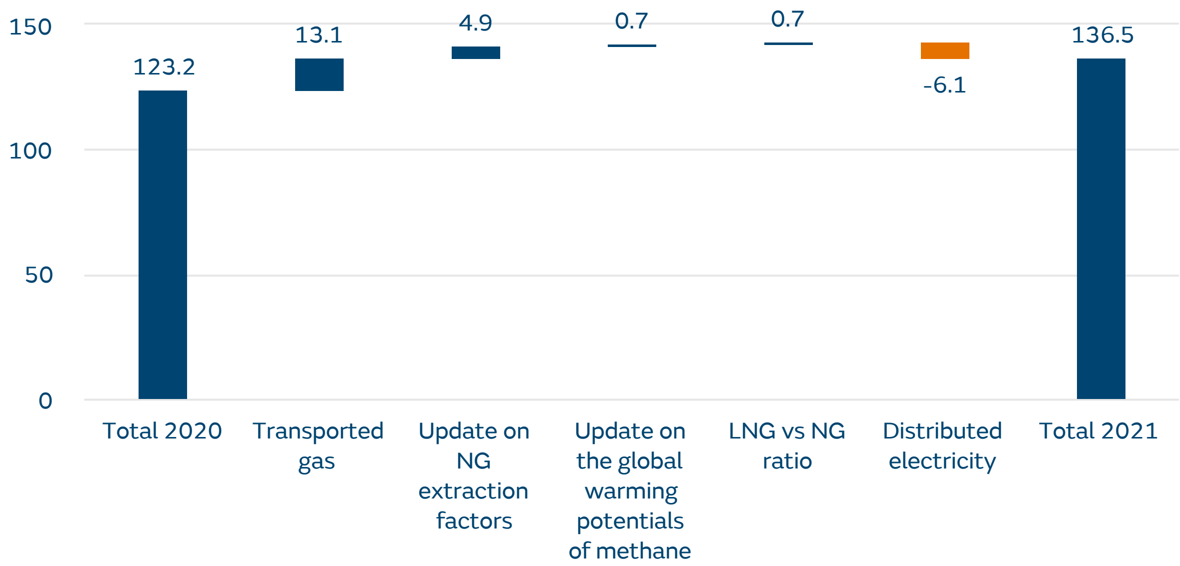
NB: for Scope 3 emissions, within the categories defined by the GHG Protocol, those weighing less than 1% have been excluded, as long as the sum of all of them does not exceed 5%.

Scope 1 emissions have decreased by 9% in the last year mainly due to the non-operation of the coal-fired power stations closed in mid-2020. Scope 2 emissions have also decreased by 58% as a result of the reduction in electricity distribution.

Scope 3 emissions have increased with respect to 2020 due to a number of factors:

1. A greater amount of natural gas has been transported, both in distribution activities, as well as in commercialisation and LNG supply as a result of the increase in demand due to the favourable evolution of the pandemic.
2. The emission factors for natural gas extraction in the main producer countries of Naturgy's supply mix have been updated, replacing bibliographic values used in previous years with actual values.
3. Update of the global warming potential of methane (GWP) according to the IPCC 6th Assessment Report, from 25 (2020 value) to 28. That is, in 2020 calculations, one tonne of CH4 was 25 tCO_2eq while in 2021, the same amount of methane was 28 tCO_2eq, an increase of 12%.
4. There has been an increase in the proportion of LNG supply by ship versus natural gas transported by pipeline, which has resulted in an increase in emissions. This is because LNG has higher emissions in the upstream value chain than natural gas transported by pipeline.
5. Reduction of indirect emissions associated with the generation of electricity supplied.

Evolution of the scope 3 carbon footprint



Inventory of GHG emissions scopes 1, 2 and 3 by country (tCO_2eq)

Country	Scope 1	Scope 2	Scope 3
Spain	6,097,691	253,486	39,937,188
Mexico	5,703,109	669	6,255,823
Chile	116,121	1,091	5,593,512
Dominican Republic	427,487	0	177,213
Argentina	351,986	93,563	18,968,066
Morocco	148,586	1,344	1,101,965
Brazil	117,328	385	18,990,283
Panama	2,186	135,862	800,099
Costa Rica	18	0	19
Australia	729	667	14
Rest	0	0	44,625,843
Total	**12,965,240**	**487,067**	**136,450,026**

Inventory of GHG emissions Scopes 1, 2 and 3 by business area (tCO_2eq)

	Scope 1	Scope 2	Scope 3
Generation Spain	5,010,912	0	912,491
International generation (GPG)	5,920,764	666.8	1,276,115
Supply, LNG and Commercialisation	997,692	0	81,476,776
Gas distribution Spain	63,587	0	1,895,436
Electricity distribution Spain	21,315	253,486	2,715,831
EMPL&Up/mid	148,349	1,246	1,101,844
Gas distribution Argentina	351,180	1,822	18,252,950
Electricity distribution Argentina	24	91,211	589,116
Gas distribution Brazil	116,601	385	17,798,871
Gas distribution Chile	115,698	1,091	4,466,364
Gas distribution Mexico	209,313	181	5,155,787
Electricity distribution Panama	1,645	135,862	799,621
Corporate	8,160	1,115	8,825
Total	**12,965,240**	**487,067**	**136,450,026**

GHG emissions intensity ratio

[305-4]

2021	Electricity generation	Gas distribution	Electricity distribution	Gas infrastructure	Commercialisation	Corporate	Total
CO_2 (tCO_2eq)	10,917,161	12,251	-	1,119,606	14,533	7,549	12,071,100
CH_4 (tCO_2eq)	6,196	844,124	-	6,696	36	73	857,124
N_2O (tCO_2eq)	5,987	6	-	5,155	8	99	11,255
SF_6 (tCO_2eq)	1,355	-	22,983	-	8	-	24,346
HFC (tCO_2eq)	978	-	-	-	-	438	1,416
PFC (tCO_2eq)	-	-	-	-	-	-	-
Total group	10,931,676	856,380	22,983	1,131,456	14,584	8,160	12,965,240
Net turnover (€M)							22,132
Ratio (tCO_2eq/€M)							**586**

2020

	Electricity generation	Gas distribution	Electricity distribution	Gas infrastructure	Commercialisation	Corporate	Total
CO_2 (tCO_2eq)	12,481,522	8,570	229,194	717,252	29,730	8,873	13,475,140
CH_4 (tCO_2eq)	5,822	774,663	116	4,304	66	75	785,046
N_2O (tCO_2eq)	9,660	5	151	3,383	16	115	13,331
SF_6 (tCO_2eq)	914	-	26,288	-	6	-	27,208
HFC (tCO_2eq)	713	-	-	-	-	437	1,150
PFC (tCO_2eq)	-	-	-	-	-	-	-
Total group	12,498,631	783,238	255,749	724,939	29,818	9,500	14,301,875
Net turnover (€M)							15,345
Ratio (tCO_2eq/€M)							**932**

The improvement experienced in 2021 in relation to the emissions intensity ratio, which has been reduced by 37% with respect to the previous year, is noteworthy. This fact supports the company's ongoing transformation to make its business and economic results compatible with decarbonisation and reflects the fact that net sales are increasingly decoupled from GHG emissions.

Other climate change indicators

[305-1], [IF-EU-110a.2]

	2021	2020
Emission intensity in electricity generation (tCO_2/GWh) (*)	261.5	297.3
Emissions associated with electric power supplies (**) ($MtCO_2eq$)	9.1	16.3
Installed emission-free electricity generation capacity (%)	36	33
Net electricity production free of emissions (%)	35	32
Total installed capacity in renewable electricity generation (MW)	5,170	4,609
Increase in installed capacity in renewable electricity generation compared to the previous year (%)	12 %	10 %
Emissions by leaks in gas networks (tCH_4/km network)	0.223	0.228
Emissions by leaks in gas networks (tCO_2eq/km network)	6.3	5.7

(*)This ratio corresponds to direct CO2 emissions from electricity generation (Scope 1) divided by electricity produced.
(**) Emissions associated with electricity supplies include both retail and wholesale customers.

As can be seen, emissions from gas leaks have been reduced in absolute terms by 2% tCH_4/km. However, when expressing this ratio in CO_2eq/km, this trend is reversed due to the update of the global warming potential of methane (in 2021 a value of 28 was considered, established in the IPCC 6th Assessment Report, compared to the value of 25 used in the 2020 calculation), and this increase does not reflect the efforts and results obtained in the reduction of leaks in gas networks.

On the other hand, emission intensity in electricity generation has improved with respect to the previous year and is below the 2021 target value path (263 tCO_2/GWh).

Coverage of facilities regulated by CO_2 emissions trading systems

In Spain, most of Naturgy's thermal power generation facilities are regulated by the European Emissions Trading Directive. Naturgy performs comprehensive portfolio management for the acquisition of emission allowances equivalent to the verified emissions of its combined-cycle and cogeneration facilities, regulated by the European Emissions Trading Directive (Phase IV 2021-2030). For this procurement, Naturgy actively participates both in the primary market, through auctions, and in the secondary market. These emissions correspond mainly to the combined-cycle gas-fired power stations in Spain and account for 38% of Naturgy's direct emissions (Scope 1) in 2021. It is important to remember that the operation of these plants is included in the integrated National Energy and Climate Plan (PNIEC), which is in line with the European goal of climate neutrality by 2050, and that they are a fundamental element to ensure the growth of renewable energies in the national electricity system, as they are the back-up to maintain electricity supply in situations where wind, sun or water are absent.

In Mexico, the Emissions Trading System (ETS) Test Program is being implemented, which includes emissions from combined-cycle power stations. This test phase began in 2020 and will end in 2022. Installations registered in the ETS must submit emission allowances equivalent to the tons of CO_2 they emit. Currently, Naturgy's combined-cycle power stations in Mexico are registered in the ETS and have received emission allowances from the authority for the years 2020 and 2021.

Thus, total emissions under market schemes, aligned with the INECPs of the countries where they take place, amount to 80% of Scope 1 emissions. They therefore meet the objective of these markets, which is to reduce emissions in a cost-efficient manner in line with international climate agreements. In fact, as indicated above, gas-fired combined-cycle power stations currently represent the most eco-efficient generation technology available to provide the necessary back-up for renewables and enable their widespread penetration, which is key to the energy transition.

▪ CO_2 emissions covered by regulations or trading systems

[EU5] and [IF-EU-110a.1]

	2021	2020
Total CO_2 emissions affected by the regulations governing the European Emissions Trading System ($MtCO_2$)	4.9	6.0
Scope 1 emissions covered by emission limitation regulations ($MtCO_2$)	10.4	11.4
Scope 1 emissions covered by emission reporting regulations ($MtCO_2eq$)	13.0	14.3

Climate balance sheet 2021

The climate balance sheet shows the relationship between the emissions produced by Naturgy (direct and indirect) and the emissions prevented by its assets, products and services. This balance marks a trend that shows whether the group is in line with the global goal of climate neutrality introduced in the Paris Agreement.

The criteria for the quantification of emissions prevented are as follows:

- During the reporting period, projects and activities must produce quantifiable reductions in GHG emissions and energy with respect to a baseline, which is defined on a case-by-case basis.
- The emissions prevented are calculated as the difference between the emissions of the "with project" and "without project" scenarios. The emissions of the "with project" scenario represent the actual level of GHG emissions. Emissions from the "without project" scenario represent the GHG emission levels that would have been achieved with other more emitting sources if the project had not been implemented.
- The emission factors used for the "with project" and "without project" scenarios have been obtained following the 2006 Intergovernmental Panel on Climate Change (IPCC) guidelines for the preparation of national GHG inventories.
- Calculations have been made in accordance with the United Nations Framework Convention on Climate Change (UNFCCC) methodologies and tools for the Clean Development Mechanism (CDM) projects.

Climate balance sheet in figures

	2021	2020
Total emissions Scopes 1, 2 and 3 ($MtCO_2eq$)	150	139
Emissions prevented ($MtCO_2$)	142	129
Climate balance sheet: emissions prevented/total emissions Scopes 1, 2 and 3 (%)	95	93

In 2021, the balance was 95% higher than in 2020, which shows that the company's activity is increasingly contributing to preventing GHG emissions at a global level. The table below provides a breakdown of the associated emission reductions and energy savings.

Initiatives for reducing GHG emissions and associated energy savings

[302-4], [302-5] and [305-5]

Emissions prevented [(1)]	Emissions prevented 2021 (tCO_2eq)	Energy savings 2021 (GWh)	Emissions prevented 2020 (tCO_2eq)	Energy savings 2020 (GWh)
Natural gas: reduction of CO_2 emissions by displacement of coal and oil derivatives, of higher emissions	**131,921,464**	**180,198**	**120,304,618**	**161,636**
Electricity production	86,212,063	150,327	76,787,895	133,522
Industry	22,576,604	10,183	22,497,930	10,353
Residential/Commercial	11,349,138	12,043	10,906,893	11,461
Transport	3,523,373	3,529	2,801,792	2,807
Cogeneration	8,260,286	4,116	7,310,108	3,493
Renewable energies: displacement of fossil fuel generation	**6,295,866**	**22,959**	**5,001,239**	**19,592**
Wind farms	3,411,485	12,387	2,494,745	9,723
Hydroelectric production	2,446,882	8,941	2,179,056	8,616
Photovoltaic production	437,499	1,631	327,438	1,253
Energy savings and efficiency in own and customers' facilities	**1,128,579**	**2,197**	**1,058,309**	**2,197**
Own facilities: Energy Efficiency Operations Plan				
Renewal of gas transmission and distribution networks	819,569	530	746,958	545
Actions in electricity distribution	9	0	1,109	4
CCGTs	69,359	358	47,361	242
Coal-fired power stations	0	0	7,952	24
Fuel oil-fired power stations	4,428	16	12,680	46
Customer facilities				
Energy services	235,213	1,293	242,249	1,336
Other				
Nuclear production	2,446,339	-4,270	2,309,669	-4,574
Total	**141,792,248**	**201,084**	**128,673,835**	**178,851**

[(1)] The emissions prevented are calculated as the difference between the emissions of the "with project" and "without project" scenarios. Using the 2006 IPCC emission factors for the development of national GHG inventories and UNFCCC methodologies and tools for Clean Development Mechanism (CDM) projects.

Naturgy, in line with the renewable and energy efficiency requirements established at European and national level, carries out various activities to increase energy efficiency in its facilities and increase renewable generation.

Naturgy's emissions offsetting

Emission offsetting is a voluntary instrument in the fight against climate change, which consists of the acquisition on the secondary market of emission credits from projects that reduce, avoid or eliminate greenhouse gas (GHG) emissions into the atmosphere (CERs, VERs, etc.). The projects are implemented in developing countries and can be of multiple technologies, ranging from renewable energies (wind farms, biomass, hydropower) to climate change mitigation projects, such as methane elimination in landfills, energy efficiency initiatives or forestry projects.

Emissions offsets are a form of crowdfunding for climate action, as the purchase of emission credits allows projects to continue to reduce emissions while benefiting local communities.

Naturgy conducts several initiatives to offset emissions that go beyond legal requirements. Among these actions being carried out, Neutral Gas and Neutral LNG, which offset the emissions linked to the fuel supplied to customers, stand out.

The new commercialised residential gas contracts (Zen Tariff, Tariff by Use and Online), have the eco attribute implicit, and therefore offer customers an emission-neutral consumption.

With regard to Neutral LNG, in September 2021 the company's first neutral LNG cargo, destined for Spain, was carried out. It offset the CO_2eq emissions corresponding to the extraction, pipeline transport, liquefaction and maritime transport of the ship Castillo de Mérida originating in Qatar and unloading at the Port of Barcelona.

In addition, through the Compensa2 initiative, emissions from work centres and company travel are offset. The following table shows the amount of offset emissions.

▪ Emissions offsetting

	Emissions offset in 2021 (tCO_2eq)
Neutral Gas	196,238
Neutral LNG	36,712
Compensa2 Initiative	9,634
Scope 1 emissions from fuel use in workplaces (fixed sources and fleet)	8,160
Scope 2 emissions from electricity consumption in workplaces	1,112
Scope 3 emissions from business trips (air and train)	362
Total	**252,218**

Objectives and metrics

[IF-EU-110a.3]

With the Strategic Plan 2021-2025, the objectives set out in the previous strategic plan have been updated as they have been amply fulfilled and ambition has been increased.

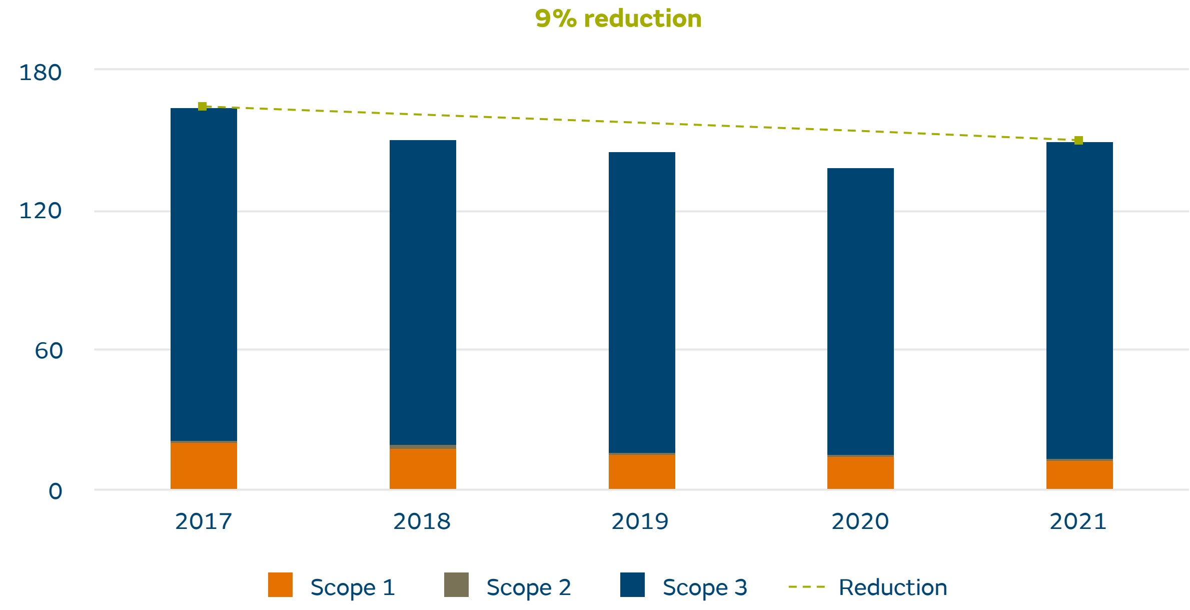
Climate neutrality target by 2050

In the Strategic Plan 2021-2025, Naturgy has committed to achieving climate neutrality, net zero GHG emissions, by 2050. This target includes all scopes 1, 2 and 3 of the carbon footprint, all greenhouse gases and applies to all of the company's activities and geographies, with no exclusions. The priority is to reduce emissions as much as possible, considering, if necessary, the use of GHG emission absorption mechanisms to offset residual emissions.

To reach this target, emission reduction pathways are calculated in the three scopes with the aim of establishing intermediate milestones to be achieved in 2030 and 2040 to achieve net zero in 2050, according to the temperature scenarios of the Paris Agreement.

	Emissions	Approval year	Base year	Target (% reduction)	Target ($MtCO_2$ eq)	2021 ($MtCO_2$ eq)	2021 (% compliance)	Base year ($MtCO_2$ eq)
Neutrality 2050 (net zero)	$MtCO_2e$	2021	2017	↓100%	0.00	149.9	9 %	164.5

Evolution of the carbon footprint ($MtCO_2eq$)



Intermediate absolute emissions targets for 2025 and 2030

In 2015 Naturgy set targets to 2025 and 2030 taking 2012 as the base year to meet the requirements of the Science Based Target Initiative (SBTI) Tool v.8. These objectives have been reformulated with the new values of the Strategic Plan 2025, increasing the ambition of reductions:

- To reduce GHG Scope 1 and 2 emissions by 56% in 2025 compared to the base year 2012.
- To reduce GHG Scope 1 and 2 emissions by 4.5% in 2030 compared to the base year 2012.

In 2021, with the approval of the Strategic Plan 2025, Naturgy has approved short-term emission reduction targets that are included in the Sustainability Plan:

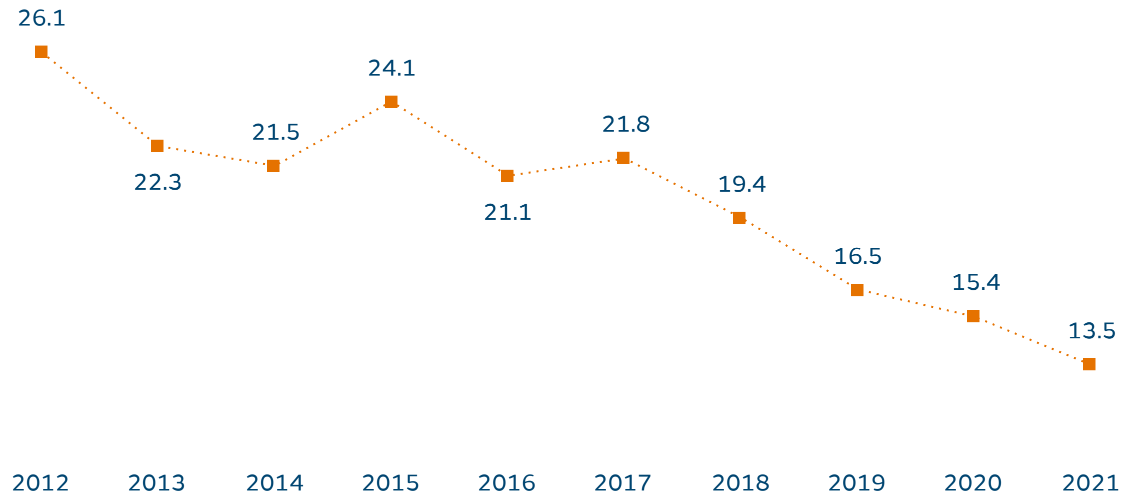
- To reduce GHG Scope 1 and 2 emissions by 48% in 2025 compared to the base year 2017.
- To reduce GHG Scope 3 emissions by 20% in 2025 compared to the base year 2017.

The targets are aligned with the overall average reduction required under SBTI for a 1.5ºC increase scenario for Scopes 1 and 2 and WB2DS for Scope 3.

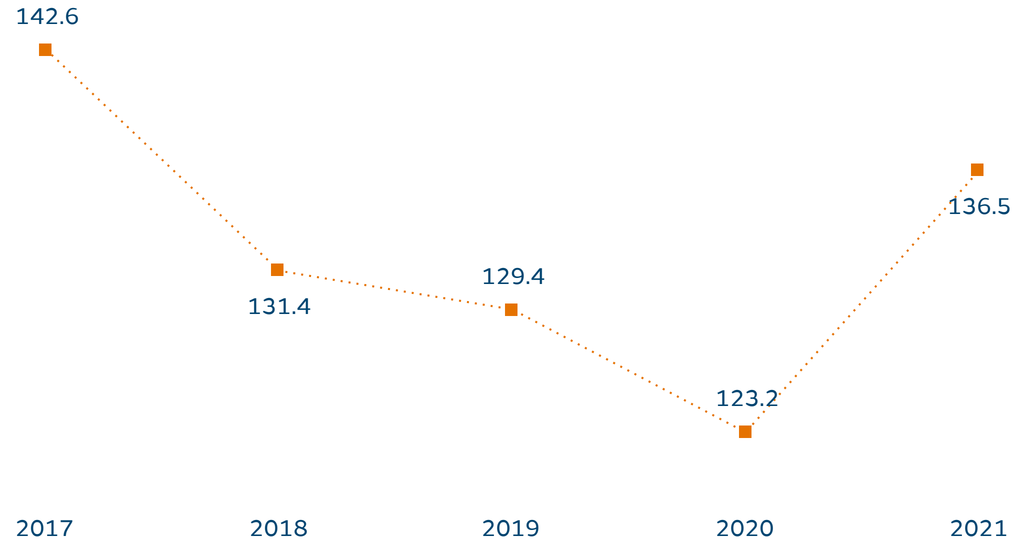
	Scope	Approval year	Base year	Target (% reduction)	Target ($MtCO_2$ eq)	2021 ($MtCO_2$ eq)	2021 (% compliance)	Base year ($MtCO_2$ eq)
Strategic Plan 2025	A1+A2	2021	2017	↓48%	11.4	13.5	80 %	21.8
Strategic Plan 2025	A3	2021	2017	↓20%	114.1	136.5	22 %	142.6
2025 SBTI (*)	A1+A2	2016	2012	↓56%	11.4	13.5	86 %	26.1
2030 SBTI (*)	A1+A2	2015	2012	↓4,5% anual	11.4	13.5	86 %	26.1

(*) Objective reformulated in 2021 with values from the Strategic Plan 2025.

▪ GHG Emissions scopes 1 & 2 ($MtCO_2eq$)



▪ GHG Emissions scopes 3 ($MtCO_2eq$)



Intermediate emissions intensity targets for 2025 and 2030

These emissions intensity targets are expressed as the amount of CO_2 emitted per electrical energy produced (tCO_2/GWh) and cover the activity of generation, which is responsible for nearly 90% of the group's direct emissions.

In 2015, Naturgy set emissions intensity targets to 2025 and 2030 taking 2012 as the base year to meet the requirements of the Science Based Target Initiative (SBTI) tool v.8. These objectives have been reformulated with the new values of the Strategic Plan 2025, increasing the ambition of reductions:

- Reduce the GHG emissions intensity of electricity generation by 59% by 2025 compared to the base year 2012.
- Reduce the GHG emissions intensity of electricity generation by 4.8% per year by 2030 compared to the base year 2012.

In 2021, with the approval of the Strategic Plan 2025, Naturgy adopted short-term emission intensity reduction targets that are included in the Sustainability Plan:

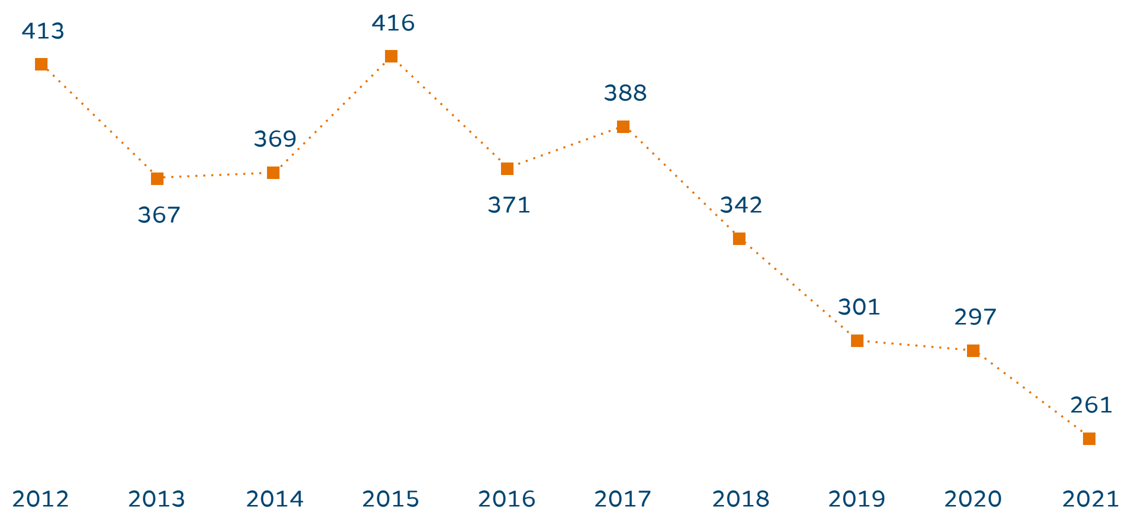
- Reduce the GHG emissions intensity of electricity generation by 56% by 2025 compared to the base year 2017.

The targets are aligned with the SBTI for a 1.5ºC scenario.

	Approval year	Base year	Target (% reduction)	Target ($MtCO_2eq$)	2021 ($MtCO_2eq$)	2021 (% compliance)	Base year ($MtCO_2eq$)
Strategic Plan 2025	2021	2017	↓56%	171	261	58 %	388
2025 SBTI (*)	2016	2012	↓59%	171	261	63 %	413
2030 SBTI (*)	2015	2012	↓4,8% anual	171	261	63 %	413

(*) Objective reformulated in 2021 with values from the Strategic Plan 2025.

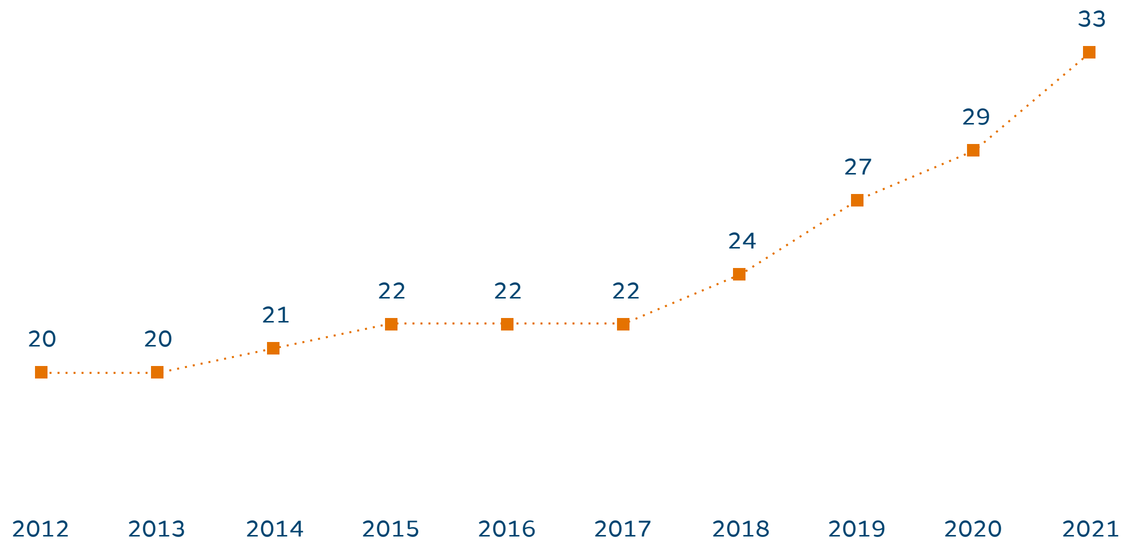
Electricity generation carbon intensity (tCO_2/GWh)



Renewable energy target

One of the strategic lines to achieve emissions reduction is the commitment to renewable energies. One of the targets of the Strategic Plan is that of reaching a percentage of renewable installed power in the generation mix greater than 56% by 2025.

Renewable power (%)



Climate change and energy transition: achievement and highlights in 2021

[201-2] and [IF-EU-110a.3]

Lines of action	Achievements and highlights in 2021
Climate management	Naturgy has announced its commitment to achieve climate neutrality by 2050 (net zero emissions) in the new Strategic Plan by 2025. Naturgy was externally recognised for its climate management, obtaining the A-rating from the CDP Climate, and has been present in the leadership band since 2011. Diploma "Business Examples of #ForClimate2021 Actions" of the #ForClimate Community on the initiative Biomethane, circular energy for the climate and the demographic challenge.
Reducing direct CO_2 emissions	In 2021, there was no coal-fired electricity generation due to the closure of all Naturgy coal-fired power stations in the first half of 2020. This means a significant reduction in CO_2 emissions and other atmospheric pollutants. Improved start-up procedures for combustion equipment to reduce emissions.
Promoting renewable electricity	Implementation of new renewable projects (562 MW worldwide), which have led to an increase in installed renewable capacity to 33% and an increase in electricity produced from water, wind and solar. The fact that Naturgy has over 9,800 MW of installed capacity in combined-cycle plants, the most eco-efficient conventional thermal technology that acts as a backup for renewable generation in times of lack of water, wind or sun, has spurred the penetration of renewable energies in the system.

Reducing fugitive GHG emissions in gas networks	Renovation of gas networks, replacing cast iron pipes with polyethylene, materials with lower methane leaks. Sectorisation of gas networks by means of shut-off valves that allow the isolation of areas where leaks are detected in order to reduce methane emissions during the work of locating and repairing the incident. Improved control and remote monitoring equipment for distribution systems to facilitate operation, detection and reduction of leaks. Reduction of methane leaks by monitoring the gas network (regular routine inspections to identify undetected leaks), reducing pressure during off-peak consumption and improving leakage response plans to reduce response times. Improvement in the operation and maintenance of gas transport infrastructures to reduce venting.
Reduction of SF_6 emissions	Replacement of SF_6 (greenhouse gas) equipment with new models with a lower leakage rate. Participation of electricity distribution in the Voluntary Agreement for the reduction of SF_6 emissions promoted by the Ministry for Ecological Transition and the Demographic Challenge.
Displace carbon intensive fuels	The distribution and commercialisation of natural gas to replace more carbon-intensive fuels (coal, petroleum derivatives) led to the reduction of 131,921,464 tCO_2eq, and other air pollutants (SO_2, particulate matter, NO_x).
Sustainable mobility for customers	19 LNG bunkering operations have been carried out from a tanker to a tugboat, replacing oil-based fuels with liquefied natural gas, which is the most eco-efficient alternative in maritime transport in terms of both GHG emissions and other pollutants. Implementation of comprehensive and personalised electric mobility solutions that allow customers to enjoy their electric vehicle charging point. Commissioning of 2 new vehicular natural gas stations in Spain.
Sustainable mobility	Increase of the electric fleet replacing combustion vehicles. Commissioning of recharging points at our own facilities to promote electric mobility, for example at the Avenida de América office in Madrid. Digitisation of processes and increase of remote work.
Increasing energy efficiency at our own facilities and those of our customers	Energy Efficiency Operations Plan in own facilities, preventing the emission of 1,128,579 tCO_2eq. To this end, several actions have been carried out to reduce energy consumption: replacement of equipment with more efficient ones, installation of renewable self-consumption systems, etc. Renewal of boilers, conversion of customers to replace the consumption of oil derivatives with natural gas, personalised self-consumption solutions, cogeneration projects, installation of photovoltaics in homes and businesses, efficient lighting and air conditioning solutions.
Innovation in low-carbon energy products and services	Commercialisation of ECO tariffs and products in Spain, based on guarantees of origin, to provide customers with energy from renewable sources. It currently represents approximately 6,500 GWh, 34% of the electricity sold in the free market. With respect to gas, the Gas Neutral product, a natural gas supply service compensated by neutralising its CO_2 emissions, was applied to all new gas customers in 2021.
Collaborations and alliances	Participation in the Wetlands4Climate project, which aims to establish management guidelines for Mediterranean wetlands so that they function as carbon sinks, maintaining their ecological integrity and functionality.

3. Circular economy and eco-efficiency

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

(Circular economy and eco-efficiency)

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

- Improving eco-efficiency in the use of resources, energy, water and raw materials, reducing consumption, pollution, waste and its impact on the environment, and promoting initiatives based on circular economy.
- To develop renewable gas (biomethane and hydrogen) as an energy and storage vector that facilitates the transition to a circular and decarbonised economy model, so that it can be injected into gas infrastructures, to replace conventional natural gas.

Energy and materials

Within the framework of the integrated management system, Naturgy implements management and control procedures aimed at minimising the consumption of energy and material resources.

As far as energy consumption is concerned, Naturgy's commitment to renewables and the promotion of energy savings and efficiency, both at its own facilities and at its customers, contributes to reducing the environmental impact of unconsumed energy. The figures regarding energy consumption both inside and outside the organisation are given below [1].

▪ Total energy consumption within the organisation (GWh)

[302-1], [IF-EU-000.E]

	2021	2020
Non-renewable fuels	78,820.77	85,750
Natural gas	64,289	68,060
Coal	0	2,929
Petroleum derivatives	2,493	1,641
Uranium	12,039	13,120
Renewable fuels	0	0
Electricity acquired for consumption	1,618	3,181
Renewable electricity generated (not included in the consumption of fuels)	10,521	9,202
Electricity and steam sold	-41,940	-42,140
Total	49,019.77	55,993

The above table reflects that in 2021 no coal-fired thermal power stations have operated, which were closed in 2020, so there has been no consumption of this fuel.

The following table shows the ratio of energy consumption to net turnover..

▪ Energy intensity within the organisation

[302-3]

	2021			2020		
	Energy consumption within the organisation (GWh)	Net turnover (million euro)	Ratio (GWh / net turnover)	Energy consumption within the organisation (GWh)	Net turnover (million euro)	Ratio (GWh / net turnover)
Total	49,019.77	22,132	2.21	55,993	15,345	3.65

[1] The lower calorific values (LCV) and higher calorific values (HCV) of the different fuels defined by the Spanish Office for Climate Change were used to calculate energy consumption.

▪ Energy consumption outside the organisation (GWh)

[302-2]

	2021	2020
Final use of the natural gas commercialised	564,493	509,289
Electricity	23,048	56,610
Total	587,541	565,899

In 2021, consumption of energy resources decreased by 12% within the organisation. With respect to energy consumption outside the organization, there has been an increase of 4%, due to the increase derived from the natural gas marketed.

▪ Materials used, by weight or volume (Mt)

[301-1]

Fuels	2021	2020
Natural gas	4.3	4.6
Coal	0.0	0.5
Petroleum derivatives	0.2	0.2
Uranium	0.00001	0.00001
Total fuels	4.5	5.2

▪ Materials used, by weight or volume (kt)

[301-1]

Other materials (non-combustible)	2021	2020
Calcium carbonate	0.0	9.3
Lubricant/hydraulic oil	0.7	0.6
Sulphuric acid	1.4	1.7
Nitrogen	2.0	1.1
Sodium hypochlorite	0.5	0.6
Calcium hydroxide	0.7	1.0
Sodium hydroxide	0.9	0.7
Rest of other materials (*)	1.8	1.8
Total other materials	7.9	16.7

(*) Includes paper and toner consumption, which in 2021 amounted to 53 t and 0.6 t respectively, much lower than in 2020 (61 t and 1.9 t respectively).

In terms of the materials used, there was a decrease in consumption, both of fuels (13% reduction) and other non-combustible materials (53% reduction) compared to 2020. This is mainly due to the closure of coal-fired power stations, which has led to a reduction in both the consumption of this fuel and of the chemical reagents used in these facilities and the calcium carbonate used in the desulfurisation plants.

Water

[303-1], [303-2] and [IF-EU-140a.3]

Water is one of the natural resources used in the processes and its proper management is one of Naturgy's strategic lines. Risks related to water management are analysed with different methodologies and considered in the Corporate Risk Map. In particular, special attention is paid to water consumption, water quality control in discharges, ecological management of reservoirs, and priority is given to eco-efficiency and water reuse in the processes, even integrating waste water from other activities.

The main potential impacts that Naturgy's activities can have on this resource are listed below:

Potential impacts on water		Transmission and distribution		Electricity generation			
	Upstream	Natural gas	Electricity	Thermal	Hydroelectric	Wind	Solar
The construction and dismantling of facilities can cause temporary impairment of water quality in nearby water masses during the construction phase. The main causes of these impacts are: local removal of vegetation, land being dragged by runoff, accidental spills and uncontrolled dumping.	■ Low impact	■ Low impact	■ Low impact	■ Low impact	■ Significant impact	■ Low impact	■ Low impact
During the operation phase, there is a risk of water quality impairment due to accidental spillage of liquids, waste or materials into bodies of water in the vicinity of the facilities.	■ Low impact	■ No significant impact	■ Low impact	■ Medium impact	■ Low impact	■ Low impact	■ Low impact
Modification of physicochemical parameters downstream of the facilities due to the liquid discharges produced.	■ Low impact	■ No significant impact	■ Low impact	■ Medium impact	■ Low impact	■ Low impact	■ Low impact
Water consumption or drawdowns and/or scarcity of water both for the ecosystems present in the environment and for the populations and socio-economic activities.	■ No significant impact	■ No significant impact	■ No significant impact	■ Medium impact	■ Significant impact	■ Low impact	■ Low impact

Type of impact

■ Low impact. ■ Medium impact. ■ Significant impact. ■ No significant impact.

Naturgy is committed to the proper management of water around its facilities in order to reduce potential negative impacts, and therefore applies the precautionary principle. In the design phase of the facilities likely to generate significant impacts on the environment, environmental impact studies are conducted, in which project alternatives and the natural environment are studied, paying special attention to water and its availability, both for the ecosystems and for the affected population. Consequently, all necessary measures are included in the project design to ensure that the environmental and social impacts associated with water use are minimised.

In the environmental impact assessment process, both the project and the environmental impact study are subject to public information, whereby stakeholders participate in the procedure by submitting the arguments and proposals they deem appropriate, many of which end up being integrated into the end solution. The result of this process is an environmental authorisation which gives the specific conditions applicable to each project, and which guarantees that water management is adjusted both to the local context of availability of the resource and to the applicable public policies. Occasionally, where facilities are located in areas without local discharge requirements, internationally recognised standards, such as those established by the World Bank guidelines, are taken as a reference.

Once the facilities enter into construction or operation, the monitoring and analyses set out in the environmental studies and in the authorisation are carried out to ensure that the quality of the environment and the availability of this shared resource are maintained. This is guaranteed by the externally audited environmental management system certified by ISO 14001. In addition, strict operational control and risk management procedures (environmental emergency plans, drills, etc.) are implemented to prevent incidents before they occur or minimise any damage. In fact, 145 studies were conducted in 2021, especially in the field of power generation facilities (thermal, hydroelectric) to monitor the water impacts of the environment. In the case of thermal and hydroelectric power stations, sampling campaigns have been carried out to determine the physical, chemical and biological characteristics of the aquatic environment (rivers, reservoirs, etc.). Recent studies confirmed the normal situation observed in recent years, and concluded that the facilities studied had an acceptable impact.

The water risks in Naturgy's supply chain are the result of the combination of activity risk (water risk inherent to the supplier's activity) and country risk (water risk inherent to the country or location of a given facility). Thus, this combination makes it possible to assign a risk level to each category of purchases: high, medium or low, considering high risk as critical. In addition, a life cycle analysis methodology has been developed to analyse the impact associated with the products and services that have the greatest impact on water in its value chain. It should also be noted that we work with our main suppliers through the CDP supply chain initiative in order to improve water management.

Water collection, consumption and discharge (hm^3)

[303-3]

	2021	2020
Total volume of water captured from the environment	872	928
Total water consumption	15	20
Total volume discharged	858	909

NB: the discrepancy in the water balance (capture-consumption=discharge) is due to the fact that the discharge includes rainwater collected by the drainage networks of the facilities. This rainwater, which is the rainwater that falls on the facility, is recorded in the discharge but not in the water captured from the environment.

Most of the total water collected by the company is returned to the environment, with consumption representing a very small percentage of the total, just 1.7%. However, the existence and magnitude of impacts will depend on both the source of water used and the amount of the resource consumed. In the case of Naturgy, the main source of water used globally is seawater, which in 2021 accounts for 98% of the total.

Next is the wastewater from other industries or from urban sources, which is treated to be reused in the company's processes, thus avoiding the consumption of fresh water, especially in areas of scarcity.

Water collection by source (hm^3)

[303-3], [IF-EU-140a.1]

	2021	2020
Surface water captured (sea [(1)])	858.7	901.3
Surface water captured (rest [(2)])	1.5	6.1
Groundwater captured [(2)]	0.5	0.4
Wastewater used from another organisation [(1)]	11.5	19.8
Water captured from the supply network [(2)]	0.2	0.3
Total volume of water captured from the environment	872.4	927.9

[(1)] Total dissolved solids (TDS) > 1,000 mg/l.

[(2)] Total dissolved solids (TDS) ≤ 1,000 mg/l.

Water collection by salinity (hm^3)

[303-3]

	2021	2020
Volume of water with TSD > 1,000 mg/l	870.2	921.1
Volume of water with TSD ≤ 1,000 mg/l	2.2	6.8
Total volume of water captured from the environment	872.4	927.9

▪ Water consumption (hm^3)

[303-5], [IF-EU-140a.1]

	2021	2020
Consumption of cooling water	11.8	17.1
Consumption of water in water/steam cycle	0.3	0.4
Consumption of water in other processes	2.7	2.3
Consumption of water in ancillary services and buildings	0.4	0.5
Total	15.2	20.3

Most of the water consumption occurs in thermal power generation plants, specifically in the cooling towers, where it evaporates to enable cooling and is released into the atmosphere, reintegrating into the natural water cycle.

Once used, the different water flows are segregated according to their nature and those that require it are treated at the effluent treatment plants, eliminating the contaminants they contain (particles, oils, organic contamination, pH outside the range, etc.) until the appropriate conditions are reached for their discharge. Each facility has its own discharge limits, set according to the nature and carrying capacity of the receiving water body. Prior to discharge, effluents are analysed to ensure that the permissible limits are complied with and that there are no negative impacts on the aquatic ecosystem. This analysis and monitoring is not limited to the effluents alone; the plants also monitor the water in the environment receiving the discharges to ensure that there are no negative effects on the aquatic environment.

The treatment equipment and systems worked as planned in 2021, complying with environmental permits. In addition, studies of the receiving environment reveal that no significant impacts were generated in the aquatic ecosystems where the effluent discharges are made. Most discharges are into the sea, followed by rivers and the public sewerage system.

▪ Water discharge (hm^3)

[303-4]

	2021	2020
Water discharged into the sea	855.90	904.70
Water discharged into waterways	1.40	4.42
Water discharged into the public sewerage system	0.30	0.32
Water discharged into septic tanks	0.00	0.01
Water discharged for use by an aquifer	0.03	0.02
Total volume discharged	857.63	909.47

NB: all discharges had a TDS concentration > 1,000 mg/l.

To adequately manage this resource in the facilities with the greatest potential impact, Naturgy also carries out a global assessment of the risk associated with water management, which analyses the use of water by the facilities and the characteristics of the environment in which they are located according to their water stress category. The result of this study states that Naturgy, aware of the situation of water stress or scarcity in the surroundings of some of its thermal plants, implements systems for the use of seawater or the reuse of waste water from cities or other industries in these facilities, which avoids fresh water being consumed and removes the pressure on this scarce resource. In fact, in 2021, fresh water captured (TDS ≤ 1,000 mg/l) in areas of high water stress amounted to only 0.05 hm^3, which represents 0.01% of total water captured.

Water collection in high water stress areas

[303-3], [IF-EU-140a.1]

	Volume (hm^3)		Percentage of total water collected	
	2021	2020	2021	2020
Total water captured in high water stress areas	236.245	225.519	27 %	24 %
Seawater [(1)]	224.800	205.626	26 %	22 %
Fresh surface water [(2)]	0.030	0.092	0 %	0 %
Fresh groundwater [(2)]	0.005	0.004	0 %	0 %
Water from another organisation (reuse) [(1)]	11.400	19.784	1 %	2 %
Water captured from the supply network [(2)]	0.010	0.013	0 %	0 %
Water collection [(2)] in high water stress areas	0.045	0.109	0 %	0 %

[(1)] Total dissolved solids (TDS) > 1,000 mg/l.

[(2)] Total dissolved solids (TDS) ≤ 1,000 mg/l.

Water collection in high water stress areas by salinity (hm^3)

[303-3]

	2021	2020
Volume of water with TSD > 1,000 mg/l	236.20	225.41
Volume of water with TSD ≤ 1,000 mg/l	0.05	0.11
Total volume of water captured from the environment	236.2	225.5

The following tables show consumption and discharge in these areas.

Water consumption in areas of high water stress (hm^3)

[303-5]

	2021	2020
Consumption of cooling water	7.600	10.338
Consumption of water in water/steam cycle	0.200	0.237
Consumption of water in other processes	0.000	0.002
Consumption of water in ancillary services and buildings	0.300	0.261
Total	8.100	10.838

Water discharge in areas of high water stress (hm^3)

[303-4]

	2021	2020
Water discharged into the sea	227.900	214.388
Water discharged into waterways	0.600	0.711
Water discharged into the public sewerage system	0.010	0.030
Water discharged into septic tanks	0.000	-
Water discharged for use by an aquifer	0.000	-
Total volume discharged	228.510	215.129

Number of incidents of non-compliance related to water quantity or quality permits, standards and regulations

[IF-EU-140a.2]

	2021	2020
Number of incidents	1	2

Globally, in 2021, there has been a 6% reduction in both water intake and discharge, mainly due to the non-operation of the coal-fired power stations that closed in mid-2020. In relation to consumption, a 24% reduction was achieved. Considering the quality of the water used, the greatest reduction (75%) has occurred in inland fresh water, mainly due to the fact that the decommissioned coal-fired power stations mainly captured and consumed river water. This improvement means a lessening of negative environmental impacts owing to the reduced use of the most sensitive resource (fresh water). This trend was replicated in areas of high water stress, where there is greater competition for fresh water, with a 67% reduction in freshwater capture in those areas.

Atmospheric emissions

[305-6], [305-7], [IF-EU-120a.1]

- **Total specific atmospheric emissions: Nitrogen oxides (NOx), sulphur oxides (SO2) and other significant air emissions (kt)**

[305-7], [IF-EU-120a.1]

	Total (kt)		Specific (g/kWh)	
	2021	2020	2021	2020
SO_2	1.2	3.4	0.0	0.1
NO_x	7.9	10.6	0.2	0.3
Particles	0.2	0.3	0.0	0.0
Mercury	0.0000100	0.0000200	0.0000002	0.0000006
Lead*	n.a.	n.a.	n.a.	n.a.

(*) This pollutant does not apply since natural gas, which is mostly used as fuel, lacks this element and, since it is not formed in the combustion process, it is not emitted in the combustion gases.

The above data correspond to direct measurements made at the facilities. As can be seen, there has been a marked decrease in SO_2 emissions, mainly due to the closure of coal-fired power stations, as these plants have the highest emissions of this atmospheric pollutant due to the sulphur in the fuel.

- **Emissions of ozone-depleting substances (ODS) (t)**

[305-6]

	2021	2020
HCFC	0.0900	0.0001
Freon R22	0.22	0.26

The above data correspond to direct measurements of filling operations performed on equipment using these substances.

With regard to light and noise pollution, following the materiality analysis carried out, these issues have not been of relevance which is why no information is included in this regard. However, noise-producing facilities are equipped with silencers, insulation and other acoustic measures to ensure compliance with legal limits and reduce disturbance to the surrounding population and fauna, as well as monitoring and measurement programmes to ensure compliance with these requirements.

Residuos

[306-2]

Within the framework of the integrated management system, Naturgy has procedures for the control and management of waste, through which it defines the systems for its adequate minimisation, segregation, storage, control and final management. In relation to the waste managed by collaborating companies, they are required to adequately manage such waste in the environmental specifications of the contract and are supervised throughout the duration of their services.

In accordance with the waste hierarchy, the company prioritises management aimed at prevention, reuse and recycling over other less sustainable alternatives such as incineration without energy recovery or landfill. This strategy is clearly defined in the Sustainability Plan, which includes two waste-related objectives for 2025: reducing waste by 87% from 2017 and achieving 75% of waste recovered or recycled.

▪ Waste managed (kt)

	2021	2020
Total waste (kt)	98	159
Non-hazardous waste (kt)	94	154
Hazardous waste (kt)	5	5
Recovery and recycling rate	57 %	61 %

▪ Non-hazardous waste managed (kt)

	2021	2020
Soil and rubble	76.2	48.5
Ashes	0.0	60.1
Gypsum	0.0	19.5
Sludge	12.0	8.8
Cinders	0.0	6.8
Vegetable waste	1.1	3.8
Rest	4.2	6.3
Total	93.5	153.8

▪ Hazardous waste managed (kt)

	2021	2020
Hydrocarbons plus water	1.1	1.2
Sludge from oil and fuels	0.9	1.1
Solid waste contaminated with hydrocarbons	1.0	0.8
Used oil	0.5	1.1
Hydrocarbon-contaminated soils	0.4	0.2
Electronic waste	0.0	0.5
Rest	0.7	0.5
Total	4.6	5.4

▪ Products sold for reuse (kt)

	2021	2020
Ashes	0.0	91.9
Cinders	0.0	12.9
Sludge from oil and fuels	0.9	0.8
Total	0.9	105.6

In 2021, the total amount of waste generated decreased by 38%, mainly accounted for by non-hazardous waste from the lack of operation of coal-fired power stations that produced the ash and slag. The generation of hazardous waste decreased as well, by 7%. With regard to recycling, there has been a slight deterioration, with 57% of waste being recovered or recycled. It is also worth noting the significant reduction in the sale of products, due to the fact that there is no ash and slag to recover since the coal-fired power stations are no longer operating.

In 2021, Naturgy continued with the removal of polychlorinated biphenyls (PCB). Currently, 75 tonnes of dielectric oils with PCBs still have to be removed.

With regard to food waste, after the materiality analysis carried out, this aspect has not been among the relevant issues, which is why no information is included in this regard.

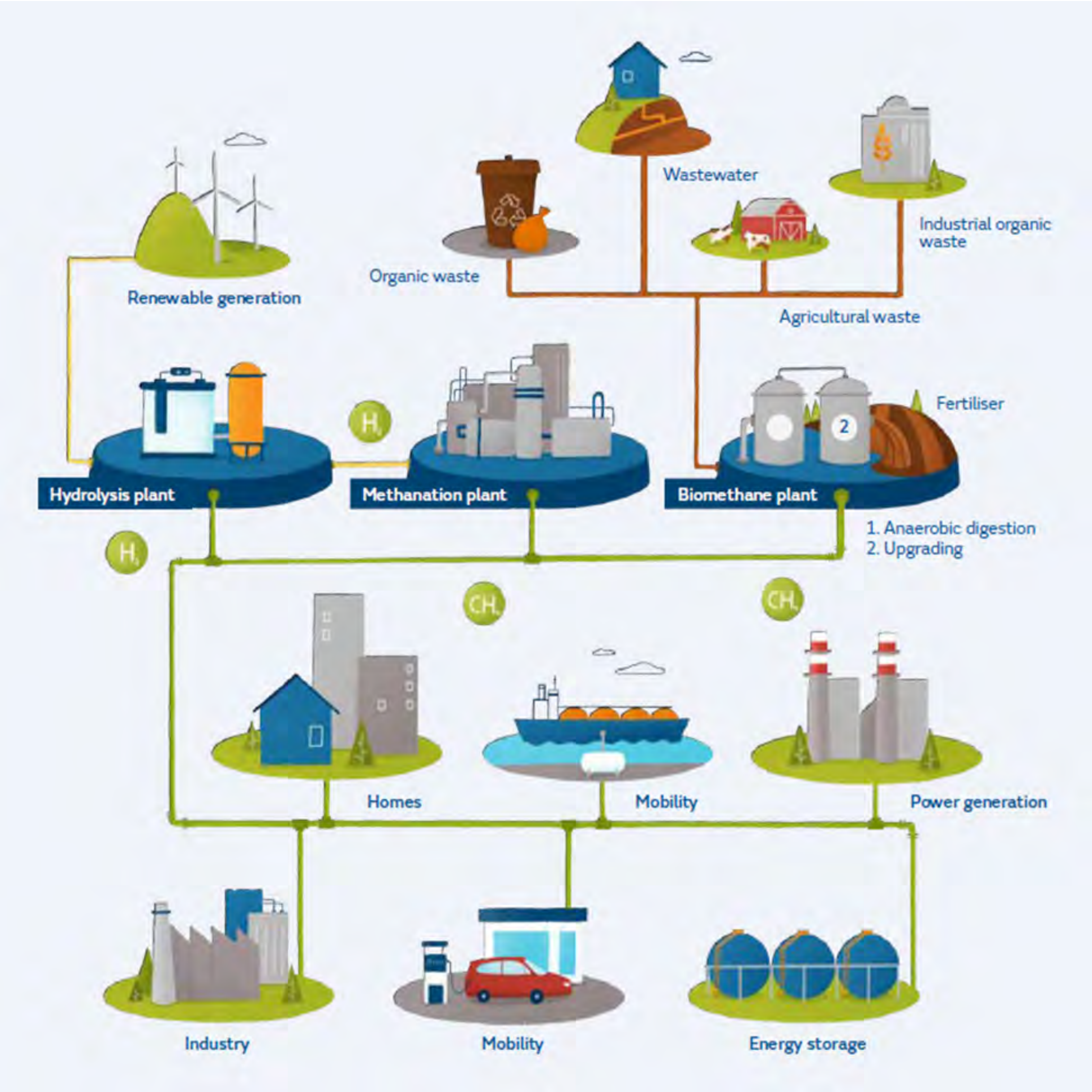
Renewable gas

Another strategic line of action in the circular economy is the numerous initiatives being conducted in the field of renewable gases, with the aim of promoting this new energy vector.

Moreover, this circular model has other advantages, such as improving the environmental management of such conflicting organic waste as: livestock waste, slurry, manure, poultry manure, sewage sludge or organic fraction of domestic waste, also avoiding the undesirable effects that these have on people and biodiversity through water pollution, unpleasant odours, etc. From the social point of view, it supports local rural development and the establishment of employment and population in agricultural and livestock environments, reducing external energy dependence and, with it, the country's energy bill.

These gases are obtained from raw materials or renewable sources, and there are three types:

- Biogas: from the anaerobic digestion of organic waste, such as household waste, industrial organic waste, sewage sludge or livestock waste. A by-product is generated in the process that is an excellent fertiliser, in circular economy logic.
- Synthetic gas or syngas: obtained by thermal gasification of lignocellulosic organic matter, such as forest and agricultural waste, which helps prevent fires.
- Green hydrogen: produced from renewable electricity by electrolysis of water, it allows the storage of this energy in the existing gas networks (in Spain, the gas system has the capacity to store the equivalent of the country's electricity consumption of 2 months). This alternative avoids the consumption of materials, energy and waste associated with batteries and, unlike the latter, allows energy storage for lengthy periods to cover seasonal differences in national energy demand. The natural gas transport and distribution infrastructure existing today in Spain can be used in the short term to transport hydrogen in the form of blending up to approximately 10% without the need for investment and, in the medium term, to transport pure hydrogen or in blends of more than 10% by adapting the compressor stations and other minor elements. In addition, green H_2 can also be transformed into methane through a methanation process, joining captured CO_2 from industry or generation, in which case it could be injected into the gas system in an unlimited way.



All renewable gases contribute to reduce greenhouse gas (GHG) emissions and are key to the decarbonisation of the energy system by avoiding CO_2eq emissions from substituted natural gas. The potential for reducing GHG emissions could reach 35 MtCO_2eq/year [2], i.e. more than 15% of the total emission forecast for 2030 in Spain according to the Integrated National Energy and Climate Plan (PNIEC).

Renewable gases produced from organic waste are not only carbon neutral but can even have negative CO_2eq emissions, acting as a sink and removing greenhouse gases from the atmosphere. This is the case of biomethane from livestock waste, the current management of which presents GHG emissions. The transformation of this waste into renewable gas can avoid emitting 200% of the CO_2 emissions corresponding to the substituted fossil fuel into the atmosphere [3].

Since 2014, Naturgy has been developing innovative projects to understand and reduce production costs and to promote the injection of renewable gases into the gas network. Detailed information on the projects developed can be found in the chapter on innovation and new business development.

[2] Source: Renewable gases, an emerging energy vector (Álvaro Feliu Jofre and Xavier Flotats Ripoll). Naturgy Foundation.
[3] Source: Renewable gases, an emerging energy vector (Álvaro Feliu Jofre and Xavier Flotats Ripoll). Naturgy Foundation.

Circular economy and eco-efficiency: achievements and highlights in 2021

Lines of action	Achievements and highlights in 2021
Digitalisation of waste management	In the electricity distribution business in Spain, waste management has been digitalised by implementing a computer system shared with contractors.
Reduction in consumption of raw materials and toxic products	Promotion of electronic invoicing among customers to eliminate paper consumption and the pollution associated with the paper life cycle. Naturgy's online invoicing has experienced considerable growth; at the end of 2021, there were 4.2 million contracts with online invoicing in Spain, 41% of the total, which represents an estimated reduction of more than 390 tonnes of paper per year, with a CO2 emissions saving of approximately 1,180 tonnes of CO_2. The measure is also being implemented in Chile, reducing the printing of paper invoices by more than 200,000 between January and October. Recovery of more than 20,000 gas meters in Argentina and Brazil. We continue to replace hazardous chemical substances with others that are more environmentally friendly. An example of this is the replacement in Spain of mineral oils in hydroelectric power stations with other biodegradable oils that are not toxic to the environment, or the installation of a washing system in combined-cycle power stations, eliminating the use of non-halogenated solvents and the production of hazardous waste.
Reduction of water consumption	In six of Naturgy's combined-cycle plants, a total of 11.5 hm^3 of recycled water from urban discharges or other industrial activities has been reused. Two of the plants reuse the discharge of vaporisation water from regasification plants (combined-cycle power stations of the Port of Barcelona and Cartagena, in Spain). The other four (Hermosillo, Naco and Durango combined-cycle power stations in Mexico and Málaga in Spain) reuse urban waste water, avoiding the use of 3.7 hm^3 of fresh water in high water stress areas.
Promoting renewable gas	Injection of biomethane generated at the Elena and Biogasnalia landfill plants into the Spanish gas distribution network. In 2021, the biomethane production capacity in Naturgy's own plants and for injection into gas networks amounted to 140 GWh. The gas distribution business in Spain (Nedgia) joins Ready4H2, a European initiative that promotes the development of hydrogen through gas networks.

4. Biodiversity and natural capital

[102-11], [103-1], [103-2] and [103-3]

(Biodiversity)

Naturgy is committed to the conservation of biodiversity, natural capital and cultural heritage in the areas surrounding its facilities, with a special focus on protected areas and species, and its principles of action are as follows:

- Respect natural capital, biodiversity and cultural heritage in the areas where the group operates, identifying, assessing and monitoring impacts and dependencies on biodiversity during the life cycle of the facilities.
- Integrate biodiversity in the design and operation of projects to progressively reduce negative environmental impacts, avoiding the impact on protected areas, implementing a preventive approach based on the hierarchy of impact mitigation (avoid, mitigate, restore and compensate) and promoting the development of nature-based solutions.
- Achieve no net loss of biodiversity, promoting the net creation of natural capital whenever possible.

To this end, Naturgy has a preventive approach, considering biodiversity in the design of new facilities and implementing operational controls throughout the service life and in the decommissioning of assets. In addition, Naturgy is working on defining its biodiversity and climate strategy, which will focus on the restoration of ecosystems to maximize CO_2 capture and neutralization of emissions, while ensuring the protection of native fauna and flora.

To conduct its activities, Naturgy needs a number of services provided by nature, also called ecosystem services. The identification of these dependencies at corporate level is highly relevant as it enables operations that are vulnerable to changes in the quantity and quality of these services to be identified with the implementation of actions aimed at their protection and conservation. The following table identifies the main dependencies identified:

		Distribution and transportation		Electricity generation			
Dependencies	**Upstream**	**Natural gas**	**Electricity**	**Thermal**	**Hydroelectric**	**Wind**	**Solar**
Provision of non-mineral resources as fuel (natural gas)	■	■		■			
Supply of minerals and materials for the construction and operation of facilities	■	■	■	■	■	■	■
Wind energy supply						■	
Solar energy supply							■
Water supply		■		■	■		
Climate regulation: carbon sequestration in the seas, soil and biomass	■	■		■			
Regulation of the chemical composition of the atmosphere: processes of diffusion of pollutants				■			
Regulation and maintenance of the flow rate and the physical, chemical and biological conditions of the water, including dilution processes				■	■		
Flood control and protection	■		■	■	■	■	■
Soil erosion protection and soil stabilisation	■	■	■	■	■	■	■

Naturgy carries out an efficient management of natural capital based on reducing the impact on ecosystems by performing preliminary studies for new facilities, reducing emissions, resource consumption or waste production, and on developing direct actions on biodiversity.

With regard to new facilities, the precautionary principle is applied, carrying out preliminary environmental studies during the design phase. These studies analyse the environment of the sites, looking carefully at protected areas of high ecological value, adapting the location and components of the project to avoid or minimise negative impacts on biodiversity. In those cases in which it is not possible to completely avoid the impact, the required remedial or compensatory measures are introduced. The establishment of additional voluntary measures contributes to the knowledge and mitigation of the impacts caused by the facilities. The company also takes into consideration the opinion of the stakeholders present in the places where it operates.

The following table summarises the main impacts on biodiversity that may arise from the company's operation at the sites and in adjacent areas:

Potential impacts on biodiversity

[304-2]

		Transmission and distribution		Electricity generation			
	Upstream	Natural gas	Electricity	Thermal	Hydroelectric	Wind	Solar
Construction and dismantling of facilities The construction and decommissioning of facilities can affect the vegetation and fauna present in the environment. The main causes of these impacts are the local removal of vegetation, lower air quality, increased noise levels, accidental spills and the presence of personnel during the work period.	Low impact	Low impact	Low impact	Low impact	Significant impact	Low impact	Low impact
Air pollution, radiation and noise Atmospheric emissions (mainly from the operation of thermal power stations), noise and electromagnetic fields from power lines and substations can affect the abiotic and biotic environment around the facilities.	Low impact	Low impact	Low impact	Medium impact	Low impact	Low impact	Low impact
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.	No significant impact	No significant impact	No significant impact	No significant impact	Low impact	No significant impact	No significant impact
Species reduction The construction and operation of plants and infrastructures can affect certain species, although not to such a degree that they totally disappear. The most affected species are birds and bats around power lines and wind farms, aquatic fauna in the case of hydroelectric plants and steppe birds in photovoltaic facilities.	No significant impact	No significant impact	Medium impact	Low impact	Medium impact	Low impact	Low impact
Habitat transformation Changes in the use of land and the permanent presence of facilities in the natural areas may cause impacts on the affected habitats. The reservoirs associated with hydroelectric power stations can cause the most significant transformations with regard to biodiversity, which may be both negative or positive.	Low impact	Low impact	Low impact	Low impact	Significant impact	Medium impact	Medium impact
Changes in ecological processes outside of their natural range of variation The consumption of water or liquid discharges caused mainly by the operation of thermal generation plants, and changes of natural river systems in hydroelectric plants can induce changes in the variables of the environment that affect the aquatic ecosystem.	Low impact	Low impact	Low impact	Significant impact	Significant impact	No significant impact	No significant impact
Accidental events Although there are environmental control systems that mitigate the risk, there may be accidental adverse negative events that may cause negative impacts on the environment, such as fires, spills, failure of water treatment systems.	No significant impact	No significant impact	Low impact	Low impact	Low impact	No significant impact	No significant impact

Type of impact

■ Low impact. ■ Medium impact. ■ Significant impact. ■ No significant impact.

To minimise these effects, the company applies operational control procedures and, at those facilities where there can be greater potential risk, we carry out environmental assessment studies and define environmental emergency plans to prevent the incident before it occurs, or to minimise any damage. We also regularly perform environmental emergency drills to test the procedures that have been defined.

In addition, there is a Geographic Information System, which integrates both the natural protected areas in each country and the facilities and biodiversity initiatives carried out. This tool allows the identification, quantification, management and monitoring of impacts on biodiversity.

As a cross-cutting measure, a specific working group, in which all businesses and geographical areas participate, coordinates activities related to biodiversity and natural capital, to promote the dissemination of good practices. Likewise, company employees and their families are invited to participate in environmental volunteer programmes that encourage the development of individual attitudes and behaviour of respect and protection of the natural environment.

Innovation projects are also carried out in nature-based solutions. This is a new concept that involves harnessing the power of nature to tackle different challenges. For example, a pilot was conducted in 2021 to replace the use of machinery in the maintenance of the power line safety corridor with traditional livestock farming.

In terms of awareness, we collaborate with public administrations, universities, conservation associations, other companies in the sector and various entities in protection initiatives, as well as in the creation and dissemination of technical knowledge to improve the protection of biodiversity and the development of natural capital.

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]

- **Operations centres owned, leased or managed located within or adjacent to protected areas or zones of great value for biodiversity outside protected areas**

Business	Type of operation	Location with regard to the protected area	Area (ha) 2021	Area (ha) 2020	Value of biodiversity 2021
Gas	Exploration	Within the area	510	494	RAMSAR, MAB, LIC, IBA, ENP, ZEPA
	Transmission and distribution	Within the area and next to the area	9,892.15	6,229	PN, APA, PNAM, MNA, ARIE, RVS, RE, PE, RAMSAR, ZEPVN, ZH, ZREEN, ZIC, ZECIC, RNP, RN, PEIN, PR, PPU, PNA, PJNM, PJN, PPG, HP, MAB, ZEPA, IBA, OSPAR, RAMPE, ZEPIM, M, ZEC, PJNIN, RNC, EN, SIBE, ANP, ZPHE, PU, ZPECP, ZSCE
Electricity	Generation	Within the area and next to the area	20,630	20,695	PNA, MAB, LIC, ZEPA, IBA, ZEPVN, MNA, RN, RF, PPG, ZREEN, PEIN, CE
	Transmission and distribution	Within the area and next to the area	21,522	28,666	RAMSAR, ZIC(LIC/ZEC), ZEPA, ZEPVN, RN, RF, PR, PNA, MNA, M, MAB, IBA, HP, PPG, LIC, OSPAR, RAMPE, PN, RVS, RH, RFS, ARM, BP, AR, AUM

ACR: Regional Aquifers, Chile; AICA: Areas of Importance for Bird Conservation, Mexico; ANP: Protected Natural Area, Mexico; APA: Environmental Protection Area, Brazil; RA: Recreation Area, Panama; ARM: Managed Resources Area, Panama; ASP: Protected wildlife area, Chile; ASPP: Private protected wildlife area, Chile; AUM: Multi-use Area, Panama; BNP: Protected National Assets, Chile; PF: Protected Forest, Panama; CB: Biological corridor, Chile; CC: Contrafuerte Cordillerano, Chile; CE: Ecological Corridor, Dominican Republic; EN: Natural Enclave, Spain; NPA: Batuco Wetland, Chile; HP: Protected Wetland, Spain; IBA: Important Bird Area (important areas for bird and biodiversity conservation) (International); SCI: Site of Community importance, Spain; M: Microreserve, Spain; MAB: Biosphere Reserve, Spain, Chile; MNA: Natural monument, Chile, Panama, Spain, Mexico; PE: State Park (Mexico/Brazil); PEIN: Special Protection Plan, Spain; PI: International Park, Panama; PJN: Natural Site, Spain; PJNIN: Natural Site of National Interest, Spain; PJNM: Natural Municipal Site, Spain; PN: National Park, Brazil, Mexico, Spain, Panama, Argentina; PNA: Natural Park, Panama, Spain; PNAM: Municipal Natural Park, Argentina, Brazil; PPG: Protected Landscape, Panama, Spain; PPU: Periurban Park, Spain; PR: Regional Park, Spain; RAMPE: Spanish Network of Marine Protected Areas,Spain; RAMSAR: Wetlands of international importance especially as waterbird habitat (International); RB: Biological reserve, Brazil; RE: Mining Reserve, Brazil; RF: River Reserve, Spain; RFS: Forest Reserve, Panama; RH: Water Reserve, Panama; RNA: Natural Reserve, Chile; RN: Nature Reserve, Morocco, Spain; RNC: Partial Nature Reserve, Spain; RNP: Partial Nature Reserve, Spain; RNPV: Private Nature Reserve, Chile; RVS: Wildlife refuge, Panama, Brazil; SE: Strategic site, Chile; SN: Nature Sanctuary, Chile; SP: Priority Site, Chile; WET: Panoramic route, Dominican Republic; ZECIC: Special Conservation Areas, Spain; ZECIC: Special Conservation Area of Community Importance, Spain; SPA: Special Protection Areas for birds, Spain; ZEPVN: Special Area for the Protection of Natural Values, Spain; WET: Wetlands, Spain; ZIC: Area of Community Importance, Spain; ZPECP: Zone of Ecological Preservation of Population Centres, Mexico; ZPHE: Hydrological and Ecological Protection Zone, Mexico; ZREEN: Natura 2000 European Ecological Network Area, Spain; ZSCE: Zone Subject to Ecological Conservation, Mexico; ARIE: Relevant Area of Ecological Interest (Brazil); PU: Urban Park (Mexico).

The variation in the areas affected is due both to the construction of new infrastructure and to changes in the boundaries and extension of areas of protected natural spaces. When analysing the table above, it is also important to consider that 19,374 ha, i.e. over a third of the surface area within or next to protected areas, refers to hydroelectric power stations in Spain that were built after 1910 and before the protection regimes for these areas existed. In fact, many of these reservoirs, previous to the protection figure, constitute natural highly valuable aquatic spaces, which have created the natural wealth in biodiversity and caused the area to be subsequently granted environmental protection.

Another indicator used is the number of protected species that potentially have their habitat in the areas affected by the operations.

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

▪ IUCN Red List species and national conservation list species with habitats in areas affected by operations

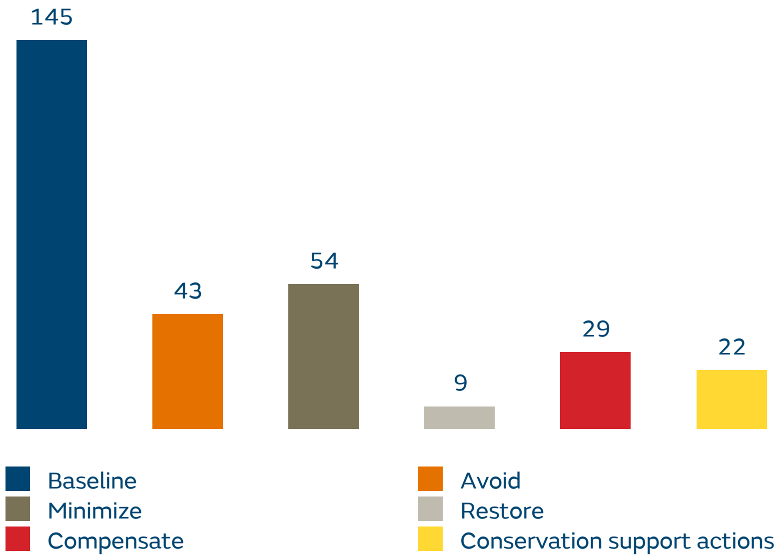
	2021			
	Critically endangered species	Endangered species	Vulnerable species	Almost threatened species
Mammals	2	15	32	17
Birds	6	22	46	41
Reptiles	4	18	15	16
Amphibians	20	22	20	10
Fish	7	37	28	16

The International Union for Conservation of Nature (IUCN) conducts ongoing reviews of species listings. It should be noted that in 2021 there has been a significant increase in the number of species listed by IUCN compared to the previous year.

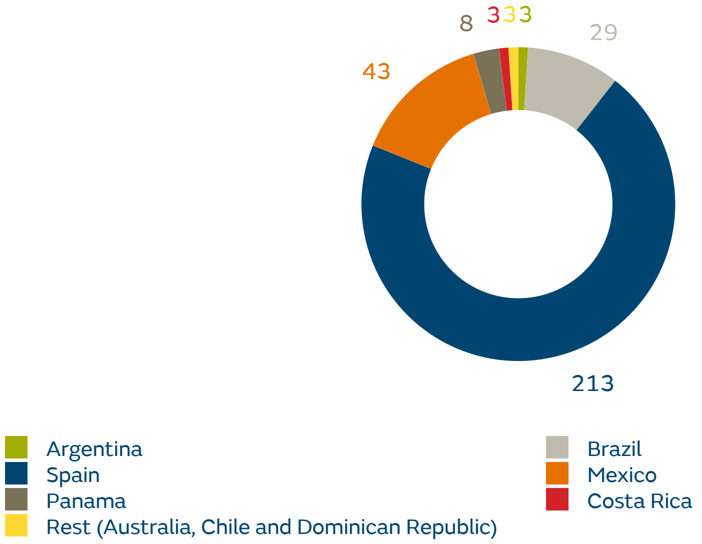
Biodiversity initiatives
[304-3]

In order to reduce and compensate the negative impacts on biodiversity, Naturgy is developing various actions.

▪ Biodiversity initiatives by type



Biodiversity initiatives by country



The following are examples of initiatives that are being put into place to compensate or reduce the negative impacts on biodiversity:

- The regular capture of salmon, shad, eel and lamprey reaching the Frieira hydroelectric power station was continued in collaboration with the Xunta de Galicia. The captured specimens are used to restock the tributaries of the lower course of the River Miño that lie within a protected area, from where they will be able to return to the sea.
- The systematic removal of carrion (dead livestock, etc.) is carried out in and around wind farms in order to prevent bird collisions, particularly of certain birds of prey such as vultures, which, precisely, are drawn to the carcasses to feed.
- Actions are being taken to reintroduce the bearded vulture (an endangered species) into the protected natural spaces of the Alto Tajo and Serranía de Cuenca. The project, which involves such activities as conducting prior studies and the installation of feeding points, is being carried out in coordination with the General Directorate on Biodiversity and Environmental Quality of the Ministry for the Ecological Transition and the Demographic Challenge, the provincial authorities of Guadalajara and Cuenca, and the representatives of the protected areas.
- A study was conducted in and around wind farms located in the province of Guadalajara to reduce collisions involving birds of prey. Among the actions taken were the colour-marking, biometric study and ringing of griffon vultures (an endangered species) and subsequent monitoring using GPS equipment.
- Installation of the DT Bird, a bird monitoring and mortality mitigation system that has three functions: it automatically detects the presence of birds in real time by means of artificial vision; it emits warning sounds to scare off birds at potential risk of collision; and, finally, it automatically stops and restarts the wind turbine according to the risk of collision.
- We have collaborated with FIEB and GREFA through donations to support the reconstruction of the facilities dedicated to the care and recovery of fauna damaged by the snowstorm Filomena that affected Spain in the beginning of 2021.

Recovery of the lesser kestrel

The lesser kestrel is a migratory bird of prey whose populations have been reduced by the transformations suffered in the countryside in recent decades, and it is considered vulnerable. Together with Grefa and in collaboration with the environmental authorities, Naturgy has built several enclosures with nest boxes to house 70 chicks. They are bred in captivity and fed using the hacking technique (without detecting human presence) until they are mature enough to be released.
The monitoring of results and the evolution of the birds is carried out by means of a video surveillance camera powered by solar panels in order to be able to see the evolution of these birds.

Nature-based solutions: grazing for vegetation control under power lines

UFD, the electricity distributor of the Naturgy Group, has carried out a pioneering initiative to control vegetation in areas located under power lines in collaboration with the Ourense Institute of Economic Development (INORDE). The reduction of vegetation under power lines is necessary to ensure safety and is usually done by mechanical means. The project used innovating solutions based on nature, replacing the use of machinery with indigenous livestock, with less impact on the environment and promoting traditional pastoralism and rural development. Work is underway to implement this measure in other geographies.

Different environmental restoration actions have also been carried out. The following table is a summary of the most important actions taken in 2021:

Habitats protected or restored

[304-3]

Country	Activity	Actions and objectives	Result: restored area (ha)	Benefits protected space or species
Spain	Corporate	Collaboration with the Fundación Oso Pardo in the LIFE Project Oso Courel in which trees and shrubs resilient to climate change have been restored and planted to favour the feeding of the brown bear (in danger of extinction) and to promote the protection of the species.	145.00	YES
Spain	Renewable generation	Continuation of the project for the reintroduction of the grey partridge in the Lago de Sanabria Natural Park in partnership with Fundación Patrimonio Natural. The project consists of the creation of a mosaic of grassland and scrubland in difficult-to-reach alpine areas and cleaning of water points to make them available to the species.	139.00	YES
Spain	Renewable generation	Continued actions to improve the habitat of the capercaillie (an endangered species) in the Lago de Sanabria Natural Park, in partnership with Fundación Patrimonio Natural: planting, actions on the tree and shrub layers and fire prevention measures.	124.77	YES
Spain	Renewable generation	Maintenance and expansion of the area planted with hybrid lavender for the protection of the Dupont's lark (an endangered species) in collaboration with the Global Nature and Patrimonio Natural Foundations.	110.00	YES
Spain	Renewable generation	In the surroundings of new wind farms, silvicultural actions have been carried out to encourage the recovery of vegetation.	53.00	
Spain	Renewable generation	Reforestation, maintenance and environmental restoration in the surroundings of the new photovoltaic plants, including the construction of ponds and troughs to promote biodiversity (amphibians and reptiles) and also as a water point for birds and livestock.	47.06	
Spain	Environmental restoration of the former Limeixa mine	Maintenance of the wooded area of the restored Meirama Lake (former mine), currently the largest artificial lake in Europe. Thanks to restoration and the almost half a million trees planted, it has become a prime area for biodiversity. According to the inventory made by the University of Santiago de Compostela, a total of 839 animal and plant species have been identified, 5% of which are endemic. Maintenance and clearing work has been carried out.	2.00	
Brazil	Gas distribution	Regular maintenance to ensure the establishment of the specimens planted in the region of São Paulo for the recovery of the Atlantic Forest.	0.74	YES
Chile	Renewable generation	Rescue of valuable plant specimens, relocation and environmental restoration in the surroundings of new wind farms.	6.32	YES
Costa Rica	Renewable generation	Reforestation around hydroelectric power stations.	0.03	
Mexico	Generation (combined cycle)	Nursery production and planting of native trees around combined-cycle power stations.	0.07	YES
Panama	Electricity distribution	Reforestation in areas near water sources and restoration of mangrove areas.	7.00	YES
Total restored area 2021 (ha)			**634.99**	
Target area restored 2021 (ha)			**600.00**	

Biodiversity and natural capital: achievements and highlights in 2021

Lines of action	Achievements and highlights in 2021
Protection of biodiversity	302 biodiversity initiatives in course on an international level, 25% of which are voluntary.
Environmental studies [EU13]	145 studies have been conducted, particularly in the area of electricity generation facilities (thermal, hydro-electric and wind farms) and electric distribution in order to learn about and monitor the environmental and ecological status of the surrounding areas. In the case of thermal and hydraulic power stations, sampling campaigns have been carried out to determine the physical-chemical and biological quality of the aquatic environment (rivers, reservoirs, etc.). Recent studies confirmed the situation of normality observed in recent years, and concluded that the studied facilities had an acceptable impact on their environment.
Progress towards no net loss of biodiversity [304-3]	In 2021, environmental restoration actions were carried out on 635 ha. 29% of this area corresponds to protected areas, habitats or species.

06. Customer experience

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

(Customer service and satisfaction)

[416-1]

Naturgy's contribution to the SDG

What does this mean for Naturgy? Risks and management approach

The customer is the centre of Naturgy's operations and, together with employees, the most relevant stakeholder group. Through active dialogue, the company provides speedy and efficient service which, as well as complying with the legal and profitability requirements, meets the customer's needs.

If the company fails to provide quality products and services, the customer service cannot be improved, and lacks communicative fluidity with the customer, it runs the risk of the customer requesting to terminate the contract or filing complaints.

The failure to adapt or lack of flexibility in light of the current context of sector decarbonisation and digitalisation could lead to inefficiencies and losses of market share.

Loss of service quality, for example as a result of poor network maintenance, can lead to increased supply cuts, efficiency losses, financial penalties by the regulator and increased complaints and claims by consumers, while at the same time it can worsen the company's image and reputation in the eyes of society.

What is our commitment?

- Working towards ongoing improvement of safety, ease and competitiveness of all products and services, offering the highest possible level of quality in accordance with the best available techniques.
- To work alongside customers in difficult times, providing measures that help them to alleviate adverse situations in the energy transition.
- Fostering active and two-way communication that allows us to understand the expectations and opinions of customers and to adapt the responses of Naturgy to their needs.
- Facilitating relationships with customers through simple and efficient operations.
- Providing innovative products and services that encourage energy efficiency and which contribute towards the sustainability of society.
- Furnishing the customer with a differential value proposition through products and services that adapt to each segment and to their needs.
- Applying technological innovation and the technical enhancements available as a means of maintaining an efficient, safe and sustainable supply.

1. Digitalisation and value-added services

Customer at the centre of all decisions

2021 has been marked by the health and economic crisis and by a complex international energy scenario. Since the beginning of the crisis, Naturgy has spearheaded measures to provide service to all its customers with the aim of mitigating the impact of the pandemic on domestic economies and contributing to the management of this health crisis.

During the first nine months of the year, Naturgy has strengthened the management of its business portfolio and has promoted organisational changes to continue with the transformation of the company. It has become a simpler and more efficient company in its organisation.

Naturgy is currently working on the definition of key corporate energy projects, with which it seeks to contribute to spearheading the energy transition with a distinguishing value proposal.

Products and services adapted to customers' requirements and priorities

[IF-EU-420a.3], [IF-GU-420a.2]

Innovative products and services in the home

[102-2]

Commitment Tariff	In our desire to support consumers in the most difficult times and after the first months of rising prices in the wholesale electricity market in 2021, in September Naturgy launched the Commitment Tariff for residential customers. This is the electricity tariff that ensures a fixed electricity price for 24 months and is constructed using an energy cost signal of €60/MWh, much lower than the wholesale market price in the fourth quarter of 2021. With no minimum adherence or penalties, it has revolutionised the market.
Commitment Initiative	Following the launch of the Commitment Tariff, and with the worsening of the energy market situation, in November 2021 the Naturgy Group announced its commitment to allocate all available infra-marginal energy to supply electricity, through all its tariffs at a competitive price that will be maintained for three years (the price will take an energy cost signal of €65/MWh, much lower than at the time of the announcement). It will only pass on the CPI variations (upwards or downwards) and the variation of regulated costs. With this, the company seeks to help consumers (households and businesses) to cope with a situation never before seen.
Flat rate electricity and gas	New Naturgy energy star product (available for electricity customers in tariff 2.0TD and gas in access tariffs RL1, RL2 and RL3), available from March 2021. This is an all-inclusive, personalised fixed monthly fee, offering the customer the possibility of not worrying about when and how much they consume. The fee is worked out using a calculator available on the web and other channels. In addition, the quota allows the customer to exceed the agreed annual consumption by up to 30% in electricity and 50% in gas. It is a product without penalty for permanence or standardisations at the end of the year. The product has been well received in the market and the company already has a portfolio of 130,000 electricity contracts and 80,000 gas contracts.
Digital rates for electricity and gas	Energy product (electricity and gas) designed for the most digital customers, especially those who want to maintain a mainly online relationship with their supplier. This is the most competitive tariff, without additional discounts and without permanence.
Recharge and Solar Rates	Products with prices adjusted to the needs of customers with photovoltaic installations or electric vehicle charging points.
Solution for installation of equipment in homes	Comprehensive offer for the installation of boilers, air conditioning equipment, heaters and water heaters that includes advice, installation, annual preventive maintenance and emergencies, extension of the manufacturer's warranty to five years and the possibility of financing.
EasyGo Services	The portfolio of home coverage has been expanded, as well as the channels for customers to access these. EasyGo is an on-demand home repair service for customers and non-customers.
Value-added services family	From 2021, in addition to the maintenance + repair service, Naturgy will offset the CO2 emissions of all home service callouts.
Naturgy Recharge	Comprehensive and personalised electric mobility solution that allows customers to enjoy their electric vehicle charging point.
Naturgy Solar	Integral service that offers to all those people interested in the environment and savings a "turnkey" solution, taking advantage of the sun's resources, without worries and at an optimal cost. It is marketed in its version of individual and collective self-consumption to the internal network of communities of neighbours.
Innovative products and services for businesses	
Fixed price plans	Stable price for a year adapted to the consumption of each customer, regardless of fluctuations in the market price of gas and electricity, ensuring control and forecasting of annual expenditure. 100% ECO energy, when requested by the customer.
Variable price plans	Monthly/quarterly plan that adapts to the wholesale electricity/gas market, for those who want to save while assuming a certain risk. 100% ECO energy, when requested by the customer.

Value-added services family	Maintenance services + repair of business equipment. Customisable based on the customers' needs.
Innovative energy solutions for businesses	
Gascomfort	Gascomfort is a production plant optimisation service through the renewal of equipment, or the transformation of the room and comprehensive management throughout the life of the contract. Equipment financing service, maintenance, 24x7 customer service.
Climatecomfort	Electric air conditioning service, which allows the customer to renew their old air conditioning equipment with the best systems on the market. Equipment financing service, maintenance, 24x7 customer service.
Distribution solutions	Gas & distribution (gas commercialisation and hot water cost sharing service of the owners' association without room management). The delivery service includes supply of equipment, reading, reports and replacement insurance in case of malfunction.
LNG option	A service that enables natural gas to be taken to customers that are some distance from the distribution network. It includes LNG supply, transport and logistics.
Naturgy Solar	Integral service of photovoltaic self-consumption, from design and installation to maintenance and management of the surplus.
Equipment solutions	Financing service that allows the customer to equip themselves with technological equipment to improve the efficiency of their facilities.

The ease of access to information makes customers increasingly demanding on companies. In addition, their preferences evolve faster, in line with trends and social movements. Aware of this, Naturgy's commercial strategy focuses on monitoring, identifying and satisfying the main needs of customers, responding to their expectations with simple and innovative value proposals, with approaches that clearly set the company apart.

In recent years Naturgy's strategy has focused on helping to solve the home-related needs of customers. To this end, new value-added proposals based on simplicity and digitalisation have been developed, to facilitate a simpler and more complete experience, especially following the COVID-19 pandemic.

To this end, Naturgy has promoted specific market research plans and has developed tools designed to find out the customer's needs and priorities, in order to adapt the products and services to their expectations. All this, through incorporation of those customer-relevant attributes, refocusing the way to market products already on the market or by incorporating new ones.

The vision is to be leaders and to actively participate in the energy transition, offering a portfolio of products and services for the residential and business segment for major impact on customers.

This impact is achieved, for example, by investing in the development of digital and environmentally friendly products: green electricity through the allocation of guarantees of origin equivalent to the previous year's consumption, managed by the CNMC, and zero net emissions gas as it neutralises its impact with CERs -a process certified by AENOR-.

Following the implementation of the new electricity access tariffs, Naturgy continues to offer simple products for customers that allow them to choose what best suits their needs (fixed price per kWh, with and without time discrimination or fixed monthly rate). In addition, it has improved the online power optimisation process to encourage customers to assess whether they can make any adjustments to save on their bill.

In services and equipment, the company retains its unswerving commitment to continuing to be by the customer's side in their moments of need, with an undertaking to provide assistance in less than 3 hours anywhere in the territory, 24 hours a day, 365 days a year.

As far as businesses are concerned, Naturgy continues to drive their growth and development by being the partner that takes care of the planning and installation, as well as optimal maintenance during the entire contract: financing the whole project, offering the most appropriate maintenance plan to obtain the maximum efficiency of the business, total guarantee of the installation, service availability 24 hours a day, 365 days a year, digital platform for the management of consumption and renewal of the installation, etc.

Naturgy continues to work on innovative solutions linked to the energy transition, such as self-consumption and electric vehicle recharging. Likewise, on the household front it continues to help improve comfort and savings with solutions such as the renovation of equipment in the home, including financing options, warranty extension and maintenance.

Specifically, the Marketing and Distributed Generation units are committed to promoting Naturgy's value proposition with a vision of the future that seeks a better society. Its purpose is to implement new business models to adapt them to the new energy environment.

In this line, the company's value drivers are as follows:

- Development of new green, sustainable and socially responsible products.
- Transformation through technology and innovation.
- Pioneering new, simple and scalable ideas.
- Transformation linked to cost reduction for customers.

In short, the ultimate goal of all these initiatives is to achieve customer satisfaction with simple deals and models in which the Naturgy brand is always associated with green energy and service in accordance with the values of a socially responsible company.

Customer service

Naturgy offers its current and potential customers a service model adapted to the needs of each and every one of them. It offers solutions that are designed with availability, comfort and ease of use in mind, with the customer always in mind.

The company offers a friendly customer service model, which covers the entire range of communication channels that the customer may need: telephone, email and letter, online customer service and social networks, chatbot and WhatsApp, as well as face-to-face customer service. It also continues to support customers in their digitalisation process, providing greater usability and functionalities in their private digital space, and giving greater importance to the virtual assistant Pepe.

2021 has seen a great deal of customer service activity, with the improvement in the health situation and the recovery of commercial activity. It has been a year with many regulatory changes, an uncertain environment due to instability in the price of energy and a much more demanding customer that has led to a high demand in Naturgy's customer services. In this regard, the company has worked in two areas: the ease and simplicity of management - seeking improvements in processes and solutions - and the promotion of self-management and digitalisation of its customers. To this end, Naturgy continues to develop and improve digital tools and promote the use of digital communications that have a positive influence on the environment.

During 2021, Naturgy started the transformation of the global customer service model. This evolution of the customer service empowers and provides greater tools and capabilities to the Naturgy agent to be able to resolve the query in a single call. The model means that if the client's query cannot be resolved in a single call, the same agent will follow it through until resolution and final communication.

This model seeks to achieve the challenge of differentiating Naturgy from the competition by leveraging an excellent customer service that ensures the customer resolves their requests in a timely manner (empowerment of the agent "I'll take care of it", full service model).

- **Naturgy customer service model**

Operating and training model
Seeks to anticipate needs that customers raise through predictive models and data analysis.

Technological model
Committed to a technological revolution that boosts self-management of customers.

Procurement and financial model
Building a model of partnerships with suppliers and an alignment of win-win targets.

- **Provision of customer experience**

Telephone channel ▪ Digital channel ▪ Face-to-face channel ▪ Personal management ▪ Face-to-face channel ▪ Stores ▪ Guarantee office management

For management of value-added services (maintenance services and home assistance) during 2021, Naturgy has invested and implemented a new system for the management of customers and their value-added services (salesforce), in order to perform a much closer operation and in a digital environment.

The new system automates communication mechanisms with customers and facilitates service requests from the different service channels (app, web, telephone, etc.).

Functionalities such as video-assistance are included, which allow a better diagnosis of customer breakdowns, facilitating a more efficient solution to problems.

Communication, transparency and customer protection

New channels of communication

Naturgy has simplified its digital range offering both a new product showcase on the web and a completely overhauled new customer area and app.

In 2021, Naturgy's online business in Spain multiplied its digital sales by 3.5 times, which meant an increase of 10.4% with 120,119 new contracts for electricity, gas and value-added services. Likewise, a new omnichannel sales platform has been consolidated both for the end customer and for collaborators, platforms and installers -making it possible to provide 4,206,923 online and paperless contracts through digital channels-, also integrating the digital experience and simplicity in remote and face-to-face sales channels -being able to contract any tariff from the data of the postal address and without requiring more complex data from the customer-.

In addition, the simplicity of the website has made it possible to independently calculate the electricity or gas quota directly on the web for Zen flat rate products.

During the year, the increase in online billing was once again noteworthy, with a sustained growth of half a point per month thanks to the digitalisation measures promoted by the company. Similarly noteworthy are the increase in digital channels, the proposal of services such as an optimal power recommender, payment by cryptocurrencies, selection of the payment day, WhatsApp as a communication channel, chatbot boost and a new, far more intuitive bill summary for customers -available from the app and the Naturgy Iberia website-.

The number of contracts registered in the customer area has increased from 1,706,569 in 2020 to 1,935,700 customers in 2021, including Naturgy Iberia and Regulated Marketer.

Additionally, it is woth noting that www.naturgy.es has recorded more than 20.9 million sessions during 2021, www.comercializadoraregulada.es more than 6.9 million sessions and 5.6 million sessions in their apps. With regard to online services, a total of 7.3 million customers have used the digital platforms enabled by the company.

Regarding social media, more than 168,000 fans/followers have been reached on Facebook, Twitter, Instagram and LinkedIn, generating more than 50 million content impressions and 150,000 interactions. In total, more than 260,000 online applications have been handled via chatbot during this period.

Since October 2021, there has been a new customer area and app for customers of Naturgy Iberia with a completely overhauled environment.

The bill as a channel of communication

Relevant messages have been sent to customers through the invoice with different commercial and informative purposes:

- Focus on the move to e-billing because of the environmental benefits it brings.
- Dissemination work on energy efficiency measures.
- Information on different commercial promotions that add value to the customer experience.

In addition, different customer focus groups have taken place in Spain to get customers' opinion on improvements to the reading, billing and payment service.

Lastly, in the fourth quarter, the "Interactive bill" project was launched with the aim of making it available next year as a complement to the current bill, allowing customers to interact with it to obtain historical, comparative and detailed information on the items billed to them.

Digitalisation of processes

The 2021 turnaround has driven the company's digitalisation. The main processes have been subjected to a thorough analysis to evolve them in line with the technological tools currently available. This evolutionary process has been carried out following the principles of agility, flexibility and efficiency; aware that the future brings disruptive technological tools and that the company has to be prepared to incorporate them into its processes.

Together with the development of the processes, an automated Leads management model and a new omni-channel procurement application (Darwin) has been incorporated into the sales funnel that will allow for far more personal relationships with potential customers and users.

In short, this year the technological and process bases have been established to change how Naturgy relates to its customers in a disruptive way in 2021, allowing the company to provide a far more personalised service.

▪ Electricity load supplied with smart grid technology (%/MWh)

[IF-EU-420a.2]

	2021	2020
% electrical load from smart grids	99.4	98.8

2. Customer relations

Evolution and results 2021

▪ Global satisfaction with service quality (on a scale of 0-10)

	2021	2020
Spain (retail)	7.3	7.5
Spain (customised)	7.7	7.8
Argentina	8.4	7.8
Brazil	8.4	8.5
Chile (gas) (1)	5.9	6.0
Mexico	6.6	7.2
Panama	7.3	7.3

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

NB: in Spain the year was marked by various aspects which influenced satisfaction:
1. The changes in charges, both electricity and gas, which have led to billing problems and corresponding complaints.
2. The impact of the market situation in energy prices, which has a significant impact on the perception of the image of energy companies and consequently on the satisfaction rating.

In 2021, both the satisfaction index and the Net Promoter Score (NPS) experienced more or less significant declines in all segments except in Argentina. These decreases are explained by the change experienced in the provision of face-to-face services in some geographies. Such was the case of Mexico, with the closure of the face-to-face service channel due to the situation derived from the pandemic, which has a relevant influence on the perception of service by customers. In the case of Chile, the publication of several reports questioning the use of gas in the industry has had a negative impact on the perception of the service provided by the company. This indicator is also very sensitive to the media, regulatory changes and the price. In this regard, the increase in electricity supply prices that has taken place in the second half of the year in Spain, together with regulatory changes associated with changes in tolls that have generated operational incidents that have led to delays in the issuance of invoices to customers, explain the drop in the indicator for 2021.

Customer's satisfaction experience

As an evolution of the Customer eXperience (CeX) programme that started in 2015, Naturgy has placed the customer at the centre of its industrial model, as a key factor in the company's sustainability, in order to meet their expectations and anticipate their needs. In accordance with the Corporate Responsibility Policy and the commitment to service excellence, the CeX vision is set out in the following principles for the group:

- "Customers are at the centre of everything we do".
- "We treat our customers the way we would like to be treated".
- "We like to innovate to make everyday life easier for our customers".

During 2021, the Naturgy Group has made progress in consolidating the Global Customer Experience Policy through different actions:

- **Development and launch of the Corporate Application Form**. Specialised computer application for reporting, which allows qualitative and quantitative data to be collected and consistency checks to be added to the data provided. It also provides a data repository for stakeholder consultation and facilitates subsequent reporting. This tool was launched in 2020 and the progress of countries/businesses in CeX during the year was made through it. This has strengthened monitoring of the Customer Experience Policy, as it has become a half-yearly policy in 2021, thus ensuring more solid compliance.

- Consolidation of a new customer relationship model. During 2021, work has continued on a more proactive model of communication towards the customer, such as:
  - Development and implementation of the Close the Loop project, which aims to keep the client informed from start to finish of the progress of their requests, as well as knowing the next steps.
  - Redesign of both digital and paper bills to make them easier to understand.

- Evolution of the customer's private areas in both desktop and mobile versions to improve usability and experience and increase functionality and information.
- Growth of the Pepe virtual assistant, extending its presence from the public website to the private desktop and app areas, providing greater knowledge and personalisation with the aim of giving the customer greater autonomy.
- Opening of the new communication channel for digital customers through WhatsApp as a further sign of the clear commitment to the digitalisation of the Naturgy group with channels of high social penetration.
- Introduction of a scale-up to a specialised customer service group for highly sensitive customers to expedite the resolution of their cases and to strengthen their relationship with the Naturgy group.

CeX action plan

Spain (commercialisation)

Customer Journey: improving the customer experience by exploiting and extracting data from their feedback (surveys, social media posting) and their voice (speech analytics, text analytics) to reconstruct and adjust trips.

Journeys worked this year:

- Easy Reading: to make the customer journey more understandable when they want to facilitate reading, accompanying, guiding and giving feedback when it facilitates reading, in any of the enabled channels: IVR readings, app or private web area.
- Contact by telephone: revision of the contact telephone map to simplify and unify existing telephones. Guiding and accompanying customers in the calls they make. Initiating a service protocol for customers passed from one operator to another. Transferring calls instead of providing a telephone number. Improving support in connections and telephone number search. The mobile phone has been added as an additional header to the 900 existing to date.
- Payments by phone or web: we have enabled the payment of bills both by phone and through the customer's private area or app, adapting to the new PCI regulations.
- Change of holder: to speed up and facilitate the management of the change of holder for the customer.
- Tree of contact typologies: work has also been done on simplifying and organising the current tree of contact typology and classification in order to improve management and identify more quickly the reasons for contact with greater volume in order to work on root causes.
- Help and contact space on the website/app: the help and contact space on the website and app has been restructured to improve the experience, the level of information and customer self-management. Also to make it more uniform with the other customer service channels (omnichannel vision), we have worked on improving the registration in the private area to simplify it.
- Process and management of the Guarantee Office: this customer service channel is the second instance level for consumer bodies and consumer representatives of the different autonomous communities, at the same time as it constitutes a channel of relationship and communication with consumers through their representatives. It also handles requests received through the GDRP rights mailbox (for the exercise of ARCO rights). Work has been done to review the level of escalations and to redefine the entire global management to ensure the timely resolution, in the appropriate form and manner, of the complaints that consumers make to Naturgy through these official bodies and that otherwise could result in penalties.

Spain (gas distribution)

- Availability of the supply cessation arrangement through the transfer of the customer's call by the marketers, which allows the on-line arrangement, meeting the customer's expectations by providing in a single contact a date on which the meter removal work will be carried out.
- Improved customer self-management and digitisation of home operations thanks to the new Work&Track tool, which allows the customer to confirm or modify the work schedule online and the availability of the associated documentation at the time and in digital format, improving the effectiveness and attention of field operations.
- Implementation of actions that increase autonomy in the management of complaints by the back office, improving resolution time and increasing customer satisfaction and recommendation.

- Optimisation of internal operations to improve the time taken to manage customer requests, such as the new operations for the change of account holder and the new operations for updating bank details. In both cases, the sending of physical documentation, its reception in the back office and its processing prior to the management of applications is eliminated, reducing processing times by up to 80 days.

Spain (electricity distribution)

- Implementation of the second phase of the new private area in the digital services platform user relationship digitalisation initiative.
- Implementation of ININ (new contact centre tool: Interactive Intelligence) that will allow:
  - Work on improving FCR (First Contact Resolution) and NPS (Net Promoter Score) and further develop quality audits.
  - Service in English.
  - Simultaneous telephone and e-mail service.
- Development of the claims management model:
  - Extension of the standard response catalogue.
  - Implementation of a new claims root cause tree.
  - Robotics and automatic closing of service requests.
  - Usability improvements to the service request management tool.

Chile gas

- Working groups for complaints management: initiatives were carried out with each of the business areas to structure the management of complaint response, all with the purpose of having responses in the shortest possible time and to carry out an escalation in the event of deviations from the defined SLAs.
- Internal Customer Experience: the employee congratulations program to recognise and highlight CeX principles was continued. CeX principles are disseminated through visual aids on tables and in meeting rooms . In addition, the content of "WikiCex ", a web platform with all the relevant information on the CeX program, was reinforced.
- The means of remote contact with the customer, were strengthened in order to be always available, making remote channels available as an alternative to the commercial offices, continuing with remote customer service and incorporating new functionalities in the online help centre.

Argentina

- Launch of the Naturgy PIC application, which allows better interaction with registered gas companies and customers for the submission of new service registrations. Since its launch on 1 April, 2021 until 31 December of the same year, 2,170 registered gas customers and 18,334 pre-customers have registered with the company. A total of 24,027 applications have been generated in different states, and 4,754 have been put into service. Of the total number of clients in 2021 (12,288), 39% joined through the application.
- During 2021, the Virtual Office has been renewed, with a new, more user-friendly design and new features and functionalities have been incorporated. In addition, the self-management of payment plans has been included, simplifying and speeding up the process for users.

Mexico

- Transformation driver: consolidation of the Naturgy APP platform 'contigo' in its mobile and web version. The project was continued by incorporating new functionalities in the APP related to customer service to improve the customer experience. The built-in functionalities are: customer service module within the app that incorporates procedures such as: 1) Change of owner; 2) Attention to readings claims whereby the customer is now able to add a photograph of the meter; 3) Schedule of technical visits (reconnections, reading verifications, tightness tests); 4) Request for change of RFC (Federal Taxpayers Registry); 5) Chatbot to interact with the customer in quick procedures; 6) Frequently asked questions.
- Salesforce: the customer service system was replaced by the Salesforce Service platform for all customer service channels in order to homogenise customer service.
- Customer experience centres: in 2020, the CeX customer journey project with face-to-face service was implemented to develop the configuration and design of the centres, to ensure that these spaces are not only focused on customer service, but also that the company positions its brand and shows the diverse businesses and services it offers. During 2021, this project materialised, opening 13 service spaces, two flagship service centres in the main cities (Monterrey and Mexico City) and 11 service modules.

- Listening to customers: the service of an integral communication agency was consolidated in 2021, which basically carries out three activities:
  - Development of content for communication to customers on social networks, updated at all times.
  - Systematic campaign of digital listening of customers and the whole environment.
  - Development of digital marketing campaigns.
- Front Único Project: Consolidation of the entire call centre service in Mexico. In 2021, the telephone number was changed, simplifying the customer experience by changing from nine different telephone numbers to a single number, thus improving the customer experience. The service of the different rings (Commercial, Valuable Services, SME and GGCC Service, Digital Service, claims department) that were distributed in Mexico among different suppliers were put out to bid and the service was centralised in a single one. This project was completed in November 2021. We are working on this project to integrate the customer service call centre ring based in Colombia.

Customer complaint management

The company manages claims and complaints from three different areas: commercialisation (residential, commercial and industrial) and gas and electricity distribution in Spain, Chile, Brazil, Argentina, Panama and Mexico. In the rest of the countries where the company is present, no complaints are handled as there are no end customers.

During 2021, the company managed a total volume of 1,657,131 complaints and claims, representing 480.00%% of total customer contacts. The average global response time was 12.51 days.

In Spain, customers have multiple service channels through which they can voice their complaints to the marketers (telephone, centres, web, social media, WhatsApp, written notice and email).
During 2021, Naturgy has joined the Consumer Arbitration System, a voluntary and free public service to resolve disputes between consumers and companies without having to go to the ordinary courts. Finally, customers can choose the public bodies or consumer organisations to deal with their complaints.

In the event of complaints involving distributors, because they are related to their area of responsibility (readings, quality of supply, new registrations, etc.), both for gas and electricity, the marketers channel them through the Third Party Access Unit (TPA). Most claims are related to billing, contracting and collection.

In the remaining countries, different channels are also set up for customers to file their complaints, although the commercialisation and distribution management is integrated into the same company.

The organisation not only serves end customers, but also any natural or legal person who may have a claim or complaint about action or inaction caused by its distribution assets (works in progress, technical elements on public roads, etc.).

▪ Complaint management indicators

	2021	2020
Total complaints received in the year	1,657,131	1,404,644
No. of claims in portfolio	104,569	46,674
No. of complaints received /No. of contacts (%)	4.8	2.2
Mean Time to Resolve MTTR (days)	12.5	9.8

The 2021 data does not include data from Brazil, Argentina, Mexico and Panama because they were not available at the date of publication of the report.
The variation with respect to 2020 is mainly due to the increase in electricity supply prices that has taken place in the second half of the year in Spain, together with regulatory modifications associated with changes in tolls that have led to a higher number of claims and delays in their resolution.

3. Quality and reliability of the service

For Naturgy, the maintenance of gas and electricity facilities and networks is essential to achieve a satisfactory level of quality, safety and reliability of service, allowing it to meet the most demanding industry standards and regulatory requirements of the countries in which it operates.

Naturgy employs modern and innovative methods and work equipment that are included in safe and efficient work and operation procedures. The company also encourages close collaboration with contractor companies in the permanent quest to achieve best practices in the development of its activity.

A set of inspection and assessment actions are carried out, which help to define the corresponding preventive and mitigation measures to ensure a safe and ongoing supply, maximising the useful life of assets. These measures are included in the maintenance plan for each type of facility.

The preventive maintenance actions and processes - reviewed periodically - coupled with the increase in automation and digitalisation of the network, are reflected in a notable improvement in recent years of the main quality and service indicators. These indicators measure, inter alia, response times to a notification of a malfunction or anomaly, the stoppage time per customer or installed capacity, the kilometres of the grid and facilities inspected, and the number of incidents per kilometre of grid. These indicators include the average response time for top priority emergencies in the gas network, which is less than half an hour.

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, Naturgy partakes in several R&D&I projects for storage of energy in batteries, the digitalisation of the grid, the application of drones in the maintenance of facilities using artificial intelligence and the implementation of advanced analytical models in order to define the actions that encompass the predictive maintenance tasks of the main grid equipment.

▪ ICEIT: Installed capacity equivalent interrupt time (hours)

[EU29]

	2021	2020
Spain	0.60	0,66
Panama	42.37	45,78

▪ SAIFI: Frequency of electrical power cuts (no. of interruptions by customer)

[EU28] and [IF-EU-550a.2]

	2021	2020
Spain	1.1	0,98
Panama	22.07	24,01

▪ SAIDI: Average duration of electrical power cuts (hours)

[EU29] and [IF-EU-550a.2]

	2021	2020
Spain	1.04	1,04
Panama	1.09	1.24

▪ ASIFI: No. of equivalent interruptions per installed capacity

[EU29]

	2021	2020
Spain	0.84	0,72
Panama	20.65	18,72

▪ CAIDI: Average customer outage duration (minutes)

[IF-EU-550a.2]

	2021	2020
Spain	56.46	63.67
Panama	2.95	3.10

The following shows the customer disconnections, by business and country, due to non-payment of supply.

Disconnected customers due to non-payment classified by the total duration between disconnection for non-payment and payment of debt. Spain

[IF-EU-240a.3] and [IF-GU-240a.3]

			2021	2020
Argentina	Gas business	Fewer than 48 hours	43,210	42,217
		Between 48 hours and 1 week	20,121	22,112
		Between 1 week and 1 month	10,925	11,925
		Between 1 month and 1 year	15,320	17,709
		Over 1 year	1,522	1,003
	Electrical business [(1)]	Fewer than 48 hours		
		Between 48 hours and 1 week		
		Between 1 week and 1 month		
		Between 1 month and 1 year		
		Over 1 year		
Brazil	Gas business	Fewer than 48 hours		0
		Between 48 hours and 1 week		0
		Between 1 week and 1 month		0
		Between 1 month and 1 year		0
		Over 1 year		0
Chile	Gas business	Fewer than 48 hours	37	
		Between 48 hours and 1 week	8	
		Between 1 week and 1 month	16	
		Between 1 month and 1 year	30	
		Over 1 year	37	
Spain	Gas business	Fewer than 48 hours	900	1,032
		Between 48 hours and 1 week	1,039	234
		Between 1 week and 1 month	1,431	201
		Between 1 month and 1 year	1,034	332
		Over 1 year	0	78
	Electricity business	Fewer than 48 hours	10,470	11,786
		Between 48 hours and 1 week	5,385	785
		Between 1 week and 1 month	3,399	982
		Between 1 month and 1 year	2,518	354
		Over 1 year	0	0
Mexico	Gas business [(1)]	Fewer than 48 hours		
		Between 48 hours and 1 week		
		Between 1 week and 1 month		
		Between 1 month and 1 year		
		Over 1 year		
Panama	Electrical business	Fewer than 48 hours	28,775	10,905
		Between 48 hours and 1 week	20,744	1,199
		Between 1 week and 1 month	9,736	1,999
		Between 1 month and 1 year	1,376	588
		Over 1 year	0	0

(1) No information is provided as the systems do not allow it to be obtained.

Disconnected customers due to non-payment classified by the total duration between debt payment and reconnection

[IF-EU-240a.3] and [IF-GU-240a.3]

			2021	2020
Argentina	Gas business	Fewer than 24 hours	12,550	13,869
		Between 24 hours and 1 week	79,750	80,938
		Over 1 week	215	129
		% reconnected within 30 days		
	Electrical business (1)	Fewer than 24 hours		
		Between 24 hours and 1 week		
		Over 1 week		
		% reconnected within 30 days		
Brazil	Gas business (2)	Fewer than 24 hours		0
		Between 24 hours and 1 week		0
		Over 1 week		0
		% reconnected within 30 days		91.00
Chile	Gas business (1)	Fewer than 24 hours	74	
		Between 24 hours and 1 week	7	
		Over 1 week	5	
		% reconnected within 30 days		
Spain	Gas business	Fewer than 24 hours	1,023	247
		Between 24 hours and 1 week	1,358	1,430
		Over 1 week	2,023	200
		% reconnected within 30 days	76.52	78.16
	Electricity business	Fewer than 24 hours	12,018	13,185
		Between 24 hours and 1 week	5,003	651
		Over 1 week	4,751	71
		% reconnected within 30 days	88.43	97.45
Mexico	Gas business	Fewer than 24 hours	134,507	153,600
		Between 24 hours and 1 week	23,002	19,944
		Over 1 week	253	270
		% reconnected within 30 days		
Panama	Electrical business	Fewer than 24 hours	39,973	13,551
		Between 24 hours and 1 week	476	1,139
		Over 1 week	13	1
		% reconnected after 30 days	99.79	99.29

(1) No information is provided as the systems do not allow it to be obtained.

(2) There were no supply cuts in Brazil during 2020 due to government regulations resulting from COVID-19.

▪ Energy affordability

[IF-EU-240a.1], [IF-GU-240a.1], [IF-EU-240a.2], [IF-GU-240a.2], [IF-EU-240a.4] and [IF-GU-240a.4]

			2021	2020
Spain	Gas business	Average retail rate (retail customers)	17.40	18.20
		Average retail rate (personalised customers)	8.80	6.40
		Typical bill for 50 MMBTU (retail)	869	911
		Typical bill for 100 MMBTU (retail)	1,737	1,822
	Electricity business	Average retail rate (retail customers)	0.20	0.18
		Average retail rate (personalised customers)	0.12	0.08
		Typical bill for 500 kWh (retail)	100	89
		Typical bill for 1000 kWh (retail)	199	179
Panama	Electricity business	Average retail rate (retail customers)	0.14	0.14
		Average retail rate (personalised customers)	0.03	0.03
		Typical bill for 500 kWh (retail)	16	14
		Typical bill for 1000 kWh (retail)	336	272

In Spain, calculation of average gas and electricity business rates:
- 2020: actual billing data January 2020 - December 2020.
- 2021: actual billing data January 2021 - October 2021 (as of the date of extraction, no real data is available for November 2021 - December 2021).
- The power and energy term is included (excluding VAT and other items).

At the date of publication of this report, the data for Argentina, Brazil, Chile and Mexico were not published.

Naturgy proposes to carry out an ad hoc study at group level in the next financial year, which will allow a more in-depth analysis of the external factors that have been identified as influencing the affordability of electricity and gas. Examples of these factors are: Network availability (accessibility of electricity and gas connections), customer energy needs (climate, quality of buildings, type of appliances, etc.), energy costs (international product market, group generation mix, weather, etc.), disposable income of the population (GDP per capita, employment rate, energy poverty indicators, etc.), and energy policy and the regulatory environment. More information on the latter can be found in Annex IV. Regulatory framework of the Consolidated Management Report.

Action against energy fraud

Energy fraud, aside from the economic impact it can cause the company, also implies:

- Reduced tax collection.
- Higher energy costs for end users.
- Unfair competition between companies.
- Risk for public safety from illegal connections.
- Discontinuities in supply due to network overload caused by illegal connections.

Among the energy investigation and anti-fraud actions carried out by Naturgy in collaboration with the law enforcement agencies during 2021 in Spain, the interventions practised by electricity fraud in illegal marijuana plantations (indoor) continue to stand out: 491 actions, a figure that significantly exceed those carried out in 2020. In addition, in cooperation with the law enforcement, 18 anti-fraud operations were carried out for illegal connections in occupied dwellings, resulting in the termination of 238 connections.

These actions are an example of Naturgy's commitment to security of supply, people's safety and attention to vulnerable groups. In this sense, it is relevant to mention the situation in the area called Cañada Real (Madrid, Spain), where the company is working in coordination with the Commissioner of Cañada Real, the Security Forces and Bodies and in collaboration with all social actors and administrations, such as the High Commissioner for Child Poverty of the Government of Spain, to resolves service interruptions caused by network overload due to non-located consumptions registered during last year.

07. Commitment and talent

Naturgy's contribution to the SDG

People strategy

Naturgy's "360º Commitment" people strategy puts the team experience at the centre of the company's decisions and actions. This means that Naturgy is committed to developing and improving the professional experience of its people, with a shared vision of the future through four specific drivers:

1. Diverse and transformative talent
- Diverse and inclusive leadership that provides a global and strategic vision.
- Promoting young and female talent.
- Evolution of the digital profile and new professional roles.
- New collaborative, flexible and open workspaces and work models.

2. Flexible employee experience
- Labour framework permeable to the company's evolution.
- Full and flexible compensation.
- Safety, health, with vision and integral commitment.
- Work-life balance.

3. Dynamic organisational framework
- Simpler, more flexible and less hierarchical structure.
- Contribution-oriented job classification model.
- Internalisation of valuable activities.
- Process simplification and efficiency.

4. Naturgy Culture
- Talent management and career development focused on strategic priorities.
- Recognition linked to group values and transformative behaviours.
- Work climate and employee engagement.
- Focused on business purpose.

Risks and management approach

For Naturgy it is essential to promote a quality and safe working environment, prioritising the personal and professional development of its employees. Consistent with this view, 97.5 % of their contracts are of an indefinite nature. In addition, Naturgy also promotes a working environment based on respect, dialogue, appreciation of diversity and, of course, responsible behaviour. In this regard, Naturgy's Code of Ethics, which is compulsory throughout the company, sets out the guidelines governing the ethical behaviour of all employees in their daily work and, specifically, with regard to the relations and interactions it maintains with all its stakeholders.

Within this framework, one of the main risks related to staff issues is that of suffering any type of discrimination or inequality, on grounds of gender, ethnic origin, age, professional profile, or others. In this sense, Naturgy's commitment to people is reinforced with:

- **Gender Equality Policy and Protocol for the Prevention of Workplace, Sexual and Gender-Based Harassment**: these set out the principles on which labour relations must be developed, as well as defining safe channels for the detection of situations that may not be in accordance with the principles of respect for difference, equality and inclusion. These measures include preventive and operational actions, with formal procedures and deadlines that at all times provide guarantees of protection and support for employees.

- **Integrated diversity management**: Naturgy firmly believes in the exponential value of diversity. The more diverse people are and the more the value of this difference in teams is recognised, the better the company will be able to anticipate and adapt to each new challenge. In this context, the diversity strategy is a commitment to the organisation and people to invest in and promote diverse and transformative talent through programmes of integration, recognition and promotion of gender, age, disability and functional diversity.

  In 2021, Naturgy's diverse talent management strategy has focused on advancing the balance of talent by generational brackets and on gender parity. Young talent plays a key role in the company's transformation through hiring programmes (Flex & Lead) and talent development (Internal Lead Talent).

  Likewise, during this period, Naturgy has incorporated the redefinition of a more attractive value proposition, more in tune with the new generations and the company's business plan, through a more flexible, rotational and experiential employee journey.

- **Awareness-raising**: Naturgy raises awareness of the value of diversity. Internally, through the communication of policies and programmes and the adoption of new work-life balance measures, and externally, by launching publications and holding events. Diversity is positioned as a key factor in talent management and sustainability, as evidenced by the awards obtained in the areas of diversity and equality.

- **Inclusive training**: training in Naturgy is a driver of the business strategy. The Transformational Leadership Academy integrates the vision of diversity into online awareness modules, specialised training and development programmes, providing professionals with the knowledge and tools for deployment in dynamic and inclusive contexts. The programmes focus on:
  - Female leadership, through specialised training in networking, personal branding and visibility for the company's female managers.
  - Raising awareness of diversity and sustainability through online training cycles aimed at the global staff.
  - Cross-training in unconscious bias and inclusive vision.
  - Inclusive leadership and connection of intergenerational talent through mentoring and mentoring reserve programmes, involved in talent acceleration and generational change programmes.
  - Technical training that allows the development of new skills and increases the versatility and employability of professionals.

What is our commitment?

- To apply best practices in identifying, attracting and retaining the talent necessary for the development of the businesses, ensuring the principles of fairness and non-discrimination on any grounds whatsoever (disability, age, gender, ethnic origin, work history, etc.).
- To encourage the professional development of people as part of the talent management model, ensuring that all professionals have the means, programmes and tools necessary to foster their skills and expertise.
- To promote a motivational work setting that guarantees internal recognition of the culture of effort, the autonomy required to be able to create, develop and innovate, and an overall framework of compensation that is commensurate with this.
- To promote the introduction of flexibility mechanisms that facilitate the balance between professional and personal life, and which favour the human and social development of people.
- To promote diversity and equal opportunities in an environment of respect, understanding and ongoing dialogue, with a special focus on the inclusion of disabled persons and extending this commitment to suppliers and collaborating companies.
- To foster constant liaison between the company and workers' representatives that enables feedback in order to take decisions.

Evolution and results 2021

▪ Main indicators

	2021	2020
Number of employees at 31/12/2021	7,231	10,540
Men/Women (%)	68/32	67/33
Women in management posts (%) (*)	21.2	22.6
Personnel costs (million euro)	940	798
Annual investment in training (million euro)	5.0	5.0
Employees in collective bargaining agreement (%)	70.0	74.5

(*) In Spain, the percentage of women in executive and management positions is 32.35%, in line with Naturgy's Sustainability Plan target of 40% by 2025.

The transformation process in which Naturgy is currently immersed in to meet the challenges of the energy transition, entails structural changes in the staff, such as the incorporation of diverse profiles to integrate new skills and ensure gender and generational balance, the digitalisation of processes and the optimisation of the business portfolio. In this regard, two important milestones explain the evolution of the most relevant data in this section in 2021: the Voluntary Leaving Plan in Spain and the separation from the perimeter of the Chile electricity, as well as Ireland and France businesses.

1. Interest in people

Summary of awards obtained in 2021

Seals and certifications

Global FRC Certification

Since 2013 Naturgy has been the first company worldwide to obtain the global FRC Certificate, which recognises the achievements made in balancing the personal and professional life of its employees, enabling their human and social development.

Equality in Employment Seal (DIE)

Obtained in recognition of the development of equal opportunities policies in Naturgy, through comprehensive, measurable and specific equality plans.

Top Employer Spain 2021 Certification

Naturgy continues to be part of the group of leading companies in Spain because of the excellent conditions and environment offered to its employees and because of its special commitment and interest in people and their development.

CLIP certification

In 2018, the CLIP (Corporate Learning Improvement Process) accreditation, awarded by the European Foundation for Management Development (EFMD), which recognises the quality of learning and people development processes in business education organisations, was renewed for a period of 5 years.

Code of Generational Diversity Principle Certificate

In recognition of Naturgy's strategic focus on people management, based on equal opportunities, non-discrimination and respect for generational diversity.

Bequal Certification

In recognition of the management of excellence in diversity in different capabilities.

Healthy Company

Certificate that substantiates the implementation of a management system that promotes and protects the health, welfare and safety of employees.

Rankings y monitors

MERCO TALENTO Ranking

In 2021, the 15th edition of Merco Talento Spain was published, a monitor of the 100 companies with the best capacity to attract and retain talent in the country. In this version, Naturgy was positioned in 26th place in the overall ranking, up nine positions compared to the previous year's assessment. The company once again ranked among the top three companies in the energy and gas sector in Spain.

Actualidad Económica Ranking

Annual ranking of the 100 best companies in Spain to work for, in which Naturgy is ranked number 53. The areas of assessment include Talent Management, Compensation and Remuneration, Environment, CSR and Training.

Top30 companies in Spain committed to Diversity and Equality

Naturgy is part of the Top30 companies in Spain committed to Diversity and Equality in the "VariableD 2022" study, which includes the best practices for promoting the value of "difference" to achieve diverse and innovative teams with adequate diversity management.

Universum Ranking

In 2021, Naturgy ranks 15th among the most attractive companies for students of Natural Sciences and in the top 44 among engineering students in Spain.

Awards

My Company Is Healthy (MEES)

In 2021 Naturgy received the "My Company Is Healthy" (MEES) award in the global category for its strategic vision and comprehensive management of the health and well-being of its professionals, with special recognition for the deployment of prevention and care measures and programmes in the COVID-19 context.

1.1. Our team

Naturgy offers its employees stable, quality employment together with a solid, structured and attractive professional career. 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 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 countries and all businesses.

People Analytics

During 2021, the People Analytics function was created, whose responsibility it is to centralise and enhance the exploitation of information, contributing to optimal and agile processes for decision making in the area of people.

Naturgy is currently incorporating People Analytics concepts and tools applied to organisational aspects. An example is the Zero-based Transformation Project, where through the review of processes with zero-based methodologies (which incorporate concepts such as digitalisation, automation, introduction of new technologies, simplification...) a new map of functions and profiles is designed and subsequently compared with the current staff. This allows to have a clear roadmap of the actions to be taken to achieve the new objectives, both in the processes (technological transformation) and in the identification of the new talent needed, training, reskilling, etc.

In the different systems of the company there is a multitude of data that can be exploited, crossed or treated for purposes or visions other than the usual ones. Naturgy is aware of the great potential of this information and is therefore working on pilot projects so that it can create a new analytics through simple and accessible business intelligence tools, a new way of having useful information to monitor, predict and contribute to decision making. For example, pilot projects for the detailed monitoring and reporting of the company’s various hiring/termination plans.

Number of employees by country

[102-7]

	2021	2020
Argentina	1,028	1,118
Australia	18	11
Brazil	375	423
Chile	638	2,193
Colombia	4	7
Costa Rica	15	19
Spain (1)	3,870	5,318
France	12	43
Netherlands	1	1
Ireland (2)	0	30
Israel	18	16
Luxembourg	1	1
Morocco	84	90
Mexico	697	783
Panama	315	327
Portugal	14	15
Puerto Rico	3	4
Dominican Republic	72	74
Singapore	6	7
Uganda	60	60
Total (3)	7,231	10,540

(1) Managed staff: 3,870 people + 158 people in Spain from companies consolidated by the equity method = 4,028 consolidated staff.

(2) Ireland has been deconsolidated from the perimeter in 2021.

(3) Managed staff: 7,231 people + 158 people in Spain from companies consolidated by the equity method = 7,389 consolidated staff.

Distribution of employees by age and country (%)

[405-1]

	2021			2020		
	<30	30-50	>50	18-35	36-50	>50
Argentina	4.5	50.0	45.5	20.8	38.2	41.1
Australia	0.0	94.4	5.6	36.4	54.5	9.1
Brazil	2.9	81.3	15.7	18.0	67.6	14.4
Chile	1.9	63.3	34.8	17.3	50.1	32.6
Colombia	0.0	75.0	25.0	0.0	57.1	42.9
Costa Rica	6.7	53.3	40.0	15.8	52.6	31.6
Spain	2.8	77.3	19.8	7.8	64.7	27.5
USA	0.0	0.0	0.0	0.0	0.0	0.0
France	0.0	100.0	0.0	48.8	51.2	0.0
Netherlands	100.0	0.0	0.0	100.0	0.0	0.0
Ireland	0.0	0.0	0.0	36.7	50.0	13.3
Israel	33.3	55.6	11.1	62.5	31.3	6.3
Luxembourg	0.0	0.0	100.0	0.0	0.0	100.0
Morocco	1.2	34.5	64.3	5.6	35.6	58.9
Mexico	5.3	82.4	12.3	29.1	60.0	10.9
Panama	7.6	67.3	25.1	35.5	40.1	24.5
Portugal	0.0	92.9	7.1	20.0	73.3	6.7
Puerto Rico	0.0	66.7	33.3	25.0	25.0	50.0
Dominican Republic	2.8	68.1	29.2	12.2	60.8	27.0
Singapore	0.0	100.0	0.0	71.4	28.6	0.0
Uganda	38.3	56.7	5.0	66.7	28.3	5.0
Total	**3.8**	**71.7**	**24.5**	**14.8**	**57.1**	**28.1**

NB: Ireland has been deconsolidated from the perimeter in 2021.

Distribution of employees by country, gender and professional category (%)

[405-1]

	2021							
	Management team		Middle managers		Technicians		Operators	
	Men	Women	Men	Women	Men	Women	Men	Women
Argentina	0.2	0.0	13.9	3.7	15.9	7.8	43.3	15.3
Australia	0.0	0.0	11.1	16.7	38.9	5.6	27.8	0.0
Brazil	0.0	0.5	5.3	4.3	29.9	22.7	25.6	11.7
Chile	0.5	0.0	15.0	5.3	25.5	12.4	26.5	14.7
Colombia	0.0	0.0	0.0	25.0	0.0	75.0	0.0	0.0
Costa Rica	0.0	0.0	0.0	0.0	20.0	0.0	73.3	6.7
Spain	1.9	0.5	19.4	6.0	29.1	22.9	14.8	5.5
USA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
France	0.0	0.0	25.0	0.0	25.0	33.3	0.0	16.7
Netherlands	0.0	0.0	0.0	0.0	0.0	100.0	0.0	0.0
Ireland	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Israel	0.0	0.0	11.1	0.0	61.1	0.0	27.8	0.0
Luxembourg	0.0	0.0	0.0	0.0	0.0	100.0	0.0	0.0
Morocco	0.0	0.0	38.1	1.2	22.6	7.1	21.4	9.5
Mexico	0.4	0.0	12.2	4.2	44.0	18.4	16.8	4.0
Panama	0.3	0.0	16.2	5.7	31.7	20.6	18.1	7.3
Portugal	0.0	0.0	0.0	7.1	28.6	64.3	0.0	0.0
Puerto Rico	0.0	0.0	0.0	0.0	66.7	0.0	0.0	33.3
Dominican Republic	0.0	0.0	20.8	1.4	9.7	18.1	47.2	2.8
Singapore	0.0	0.0	0.0	0.0	66.7	33.3	0.0	0.0
Uganda	0.0	0.0	0.0	1.7	41.7	6.7	43.3	6.7
Total	**1.1**	**0.3**	**16.6**	**5.2**	**28.4**	**18.9**	**21.5**	**8.0**

NB: Ireland has been deconsolidated from the perimeter in 2021.

	2020							
	Management team		Middle managers		Technicians		Operators	
	Men	Women	Men	Women	Men	Women	Men	Women
Argentina	0.2	0.0	16.3	4.6	14.8	7.3	42.1	14.8
Australia	0.0	0.0	45.5	0.0	9.1	0.0	45.5	0.0
Brazil	0.0	0.5	13.2	10.6	20.6	15.8	27.4	11.8
Chile	0.3	0.0	16.6	4.6	33.0	11.7	22.2	11.7
Colombia	0.0	0.0	28.6	71.4	0.0	0.0	0.0	0.0
Costa Rica	0.0	0.0	5.3	0.0	10.5	0.0	78.9	5.3
Spain	1.3	0.4	20.8	8.6	22.6	18.6	18.1	9.5
USA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
France	0.0	0.0	27.9	9.3	16.3	41.9	0.0	4.7
Netherlands	0.0	0.0	0.0	100.0	0.0	0.0	0.0	0.0
Ireland	0.0	0.0	23.3	6.7	43.3	23.3	3.3	0.0
Israel	0.0	0.0	25.0	0.0	50.0	6.3	18.8	0.0
Luxembourg	0.0	0.0	0.0	100.0	0.0	0.0	0.0	0.0
Morocco	0.0	0.0	47.8	3.3	11.1	3.3	24.4	10.0
Mexico	0.3	0.0	26.6	7.0	24.5	10.9	21.3	9.5
Panama	0.0	0.0	30.0	15.0	15.6	12.5	19.9	7.0
Portugal	0.0	0.0	0.0	6.7	26.7	66.7	0.0	0.0
Puerto Rico	0.0	0.0	50.0	0.0	0.0	0.0	0.0	50.0
Dominican Republic	0.0	0.0	25.7	12.2	2.7	8.1	48.6	2.7
Singapore	0.0	0.0	42.9	0.0	28.6	28.6	0.0	0.0
Uganda	0.0	0.0	38.3	6.7	5.0	0.0	45.0	5.0
Total	**0.8**	**0.2**	**20.3**	**7.5**	**23.5**	**14.8**	**22.5**	**10.4**

Working methods

[102-8]

▪ Breakdown of staff by contract type (%)

	2021				2020			
	Permanent contracts		Temporary contracts		Permanent contracts		Temporary contracts	
	Men	Women	Men	Women	Men	Women	Men	Women
Argentina	73.2	26.8	0.0	0.0	73.3	26.7	0.0	0.0
Australia	77.8	22.2	0.0	0.0	100.0	0.0	0.0	0.0
Brazil	60.8	39.2	0.0	0.0	61.2	38.8	0.0	0.0
Chile	67.6	32.4	0.0	0.0	72.0	28.0	0.0	0.0
Colombia	0.0	100.0	0.0	0.0	28.6	71.4	0.0	0.0
Costa Rica	93.3	6.7	0.0	0.0	94.7	5.3	0.0	0.0
Spain	64.8	34.4	0.3	0.5	62.9	37.1	0.0	0.0
USA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
France	50.0	50.0	0.0	0.0	44.2	55.8	0.0	0.0
Netherlands	0.0	100.0	0.0	0.0	0.0	100.0	0.0	0.0
Ireland	0.0	0.0	0.0	0.0	70.0	30.0	0.0	0.0
Israel	100.0	0.0	0.0	0.0	93.7	6.3	0.0	0.0
Luxembourg	0.0	100.0	0.0	0.0	0.0	100.0	0.0	0.0
Morocco	81.0	17.9	1.2	0.0	82.2	16.7	1.1	0.0
Mexico	60.4	18.8	13.1	7.7	61.6	21.5	11.0	5.9
Panama	66.3	33.7	0.0	0.0	65.4	34.6	0.0	0.0
Portugal	28.6	71.4	0.0	0.0	26.7	73.3	0.0	0.0
Puerto Rico	66.7	33.3	0.0	0.0	50.0	50.0	0.0	0.0
Dominican Rep.	77.8	22.2	0.0	0.0	77.0	23.0	0.0	0.0
Singapore	66.7	33.3	0.0	0.0	71.4	28.6	0.0	0.0
Uganda	85.0	13.3	0.0	1.7	88.3	10.0	0.0	1.7
Total	**66.2**	**31.3**	**1.4**	**1.0**	**66.2**	**32.5**	**0.8**	**0.5**

NB: information on temporary contracts is only available in those countries where there are employees under such contracts. Ireland has been deconsolidated from the perimeter in 2021.

Naturgy is committed to promoting a safe and quality work environment. Consistent with this vision, 97.5% of the company's contracts are permanent, and only occasionally are temporary contracts used for "accumulation of tasks and work/service".

▪ Number of contracts by gender and type at 31 December

	2021			2020		
	Men	Women	Total employees	Men	Women	Total employees
Indefinite full-time	4,787	2,265	7,052	6,981	3,424	10,405
Indefinite part-time	0	0	0	0	0	0
Total indefinite	**4,787**	**2,265**	**7,052**	**6,981**	**3,424**	**10,405**
Temporary full-time	104	75	179	88	47	135
Temporary part-time	0	0	0	0	0	0
Total temporary	**104**	**75**	**179**	**88**	**47**	**135**
Total full-time	**4,891**	**2,340**	**7,231**	**7,069**	**3,471**	**10,540**
Total part-time	**0**	**0**	**0**	**0**	**0**	**0**

Annual average of contracts by gender and type

	2021			2020		
	Men	Women	Total employees	Men	Women	Total employees
Indefinite full-time	5,864	2,739	8,603	7,205	3,502	10,707
Indefinite part-time	0	0	0	0	0	0
Total indefinite	**5,864**	**2,739**	**8,603**	**7,205**	**3,502**	**10,707**
Temporary full-time	91	52	142	99	55	154
Temporary part-time	0	0	0	0	0	0
Total temporary	**91**	**52**	**142**	**99**	**55**	**154**
Total full-time	**5,955**	**2,790**	**8,745**	**7,304**	**3,557**	**10,861**
Total part-time	**0**	**0**	**0**	**0**	**0**	**0**

Number of contracts by age and type at 31 December

	2021				2020			
	< 30 years	30-50 years	> 50 years	Total employees	18-35 years	36-50 years	> 50 years	Total employees
Indefinite full-time	219	5,063	1,770	7,052	1,497	5,952	2,956	10,405
Indefinite part-time	0	0	0	0	0	0	0	0
Total indefinite	**219**	**5,063**	**1,770**	**7,052**	**1,497**	**5,952**	**2,956**	**10,405**
Temporary full-time	55	121	3	179	62	70	3	135
Temporary part-time	0	0	0	0	0	0	0	0
Total temporary	**55**	**121**	**3**	**179**	**62**	**70**	**3**	**135**
Total full-time	**274**	**5,184**	**1,773**	**7,231**	**1,559**	**6,022**	**2,959**	**10,540**
Total part-time	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Annual average of contracts by age and type

	2021				2020			
	< 30 years	30-50 years	> 50 years	Total employees	18-35 years	36-50 years	> 50 years	Total employees
Indefinite full-time	246	6,023	2,334	8,603	1,671	6,094	2,942	10,707
Indefinite part-time	0	0	0	0	0	0	0	0
Total indefinite	**246**	**6,023**	**2,334**	**8,603**	**1,671**	**6,094**	**2,942**	**10,707**
Temporary full-time	24	115	3	142	79	72	3	154
Temporary part-time	0	0	0	0	0	0	0	0
Total temporary	**24**	**115**	**3**	**142**	**79**	**72**	**3**	**154**
Total full-time	**270**	**6,138**	**2,337**	**8,745**	**1,750**	**6,166**	**2,945**	**10,861**
Total part-time	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Number of contracts by professional category and type at 31 December

2021

	Management team	Middle managers	Technicians	Operators	Total employees
Indefinite full-time	104	1,547	3,300	2,101	7,052
Indefinite part-time	0	0	0	0	0
Total indefinite	**104**	**1,547**	**3,300**	**2,101**	**7,052**
Temporary full-time	0	25	123	31	179
Temporary part-time	0	0	0	0	0
Total temporary	**0**	**25**	**123**	**31**	**179**
Total full-time	**104**	**1,572**	**3,423**	**2,132**	**7,231**
Total part-time	**0**	**0**	**0**	**0**	**0**

2020

	Management team	Middle managers	Technicians	Operators	Total employees
Indefinite full-time	106	2,894	3,971	3,434	10,405
Indefinite part-time	0	0	0	0	0
Total indefinite	**106**	**2,894**	**3,971**	**3,434**	**10,405**
Temporary full-time	0	30	67	38	135
Temporary part-time	0	0	0	0	0
Total temporary	**0**	**30**	**67**	**38**	**135**
Total full-time	**106**	**2,924**	**4,038**	**3,472**	**10,540**
Total part-time	**0**	**0**	**0**	**0**	**0**

Annual average of contracts by professional category and type

2021

	Management team	Middle managers	Technicians	Operators	Total employees
Indefinite full-time	108	1,892	3,950	2,652	8,603
Indefinite part-time	0	0	0	0	0
Total indefinite	**108**	**1,892**	**3,950**	**2,652**	**8,603**
Temporary full-time	0	18	97	27	142
Temporary part-time	0	0	0	0	0
Total temporary	**0**	**18**	**97**	**27**	**142**
Total full-time	**108**	**1,910**	**4,047**	**2,680**	**8,745**
Total part-time	**0**	**0**	**0**	**0**	**0**

2020

	Management team	Middle managers	Technicians	Operators	Total employees
Indefinite full-time	109	2,978	4,086	3,534	10,707
Indefinite part-time	0	0	0	0	0
Total indefinite	**109**	**2,978**	**4,086**	**3,534**	**10,707**
Temporary full-time	0	34	77	43	154
Temporary part-time	0	0	0	0	0
Total temporary	**0**	**34**	**77**	**43**	**154**
Total full-time	**109**	**3,012**	**4,163**	**3,577**	**10,861**
Total part-time	**0**	**0**	**0**	**0**	**0**

New employee hires and employee rotation

[401-1]

Consideration is given to:

- Rotation index: layoffs/average staff.
- Voluntary rotation index: voluntary layoffs/average staff.

Rotation indices

	2021	2020
Rotation (%)	40.9	10.9
Voluntary rotation (%)	1.9	1.4

NB: the Voluntary Leaving Plan implemented in Spain in 2021 mainly explains the variation in this index with respect to the previous year.

Rotation index by gender and age group (%)

2021			2020		
<30	Men	26.0 %	18-35	Men	11.6 %
	Women	31.0 %		Women	11.3 %
30-50	Men	30.0 %	36-50	Men	5.7 %
	Women	36.8 %		Women	4.7 %
>50	Men	60.0 %	>50	Men	21.8 %
	Women	81.9 %		Women	22.6 %

Voluntary rotation index by gender and age group (%)

2021			2020		
<30	Men	5.2 %	18-35	Men	4.2 %
	Women	9.3 %		Women	3.5 %
30-50	Men	1.9 %	36-50	Men	1.2 %
	Women	2.2 %		Women	1.0 %
>50	Men	1.0 %	>50	Men	0.6 %
	Women	1.1 %		Women	0.4 %

Rotation index by country (%)

	2021		2020	
	Rotation index	Voluntary rotation index	Rotation index	Voluntary rotation index
Argentina	8.6	3.4	4.8	1.2
Australia	0.0	0.0	32.2	32.2
Brazil	17.2	3.0	7.6	1.8
Chile	100.0	1.2	12.3	1.4
Colombia	18.6	0.0	100.0	12.5
Costa Rica	27.4	27.4	0.0	0.0
Spain	36.2	1.0	10.5	0.7
USA	0.0	0.0	0.0	0.0
France	100.0	23.5	25.0	18.7
Netherlands	0.0	0.0	100.0	100.0
Ireland	100.0	16.0	6.5	6.5
Israel	11.8	11.8	30.8	30.8
Luxembourg	0.0	0.0	0.0	0.0
Morocco	6.9	6.9	3.3	3.3
Mexico	19.3	2.4	11.9	2.2
Panama	6.6	1.9	9.4	2.4
Portugal	6.9	6.9	12.6	6.3
Puerto Rico	31.7	0.0	0.0	0.0
Dominican Republic	2.8	2.8	1.3	0.0
Singapore	14.8	14.8	14.1	14.1
Uganda	5.0	5.0	12.2	12.2
Total	**40.9**	**1.9**	**10.9**	**11.7**

NB: 100% is reported when more people left than remained on the staff. It affects Colombia and the Netherlands in 2020, and Chile, France and Ireland in 2021 for the sale of the business.

Rotation by professional category and gender

	2021														
	Management team			Middle managers			Technicians			Operators			Total employees		
	M	W	Total	M	W	Total	M	W	Total	M	W	Total	M	W	Total
Argentina	0	0	0	14	2	16	31	12	43	25	8	33	70	22	92
Australia	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Brazil	0	0	0	4	2	6	21	13	34	19	9	28	44	24	68
Chile	4	0	4	261	68	329	588	193	781	313	154	467	1166	415	1581
Colombia	0	0	0	0	0	0	0	1	1	0	0	0	0	1	1
Costa Rica	0	0	0	0	0	0	0	0	0	5	0	5	5	0	5
Spain	4	2	6	249	126	375	360	317	677	278	262	540	891	707	1598
USA	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
France	0	0	0	5	1	6	8	17	25	0	0	0	13	18	31
Netherlands	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Ireland	0	0	0	6	0	6	13	7	20	1	0	1	20	7	27
Israel	0	0	0	1	0	1	0	1	1	0	0	0	1	1	2
Luxembourg	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Morocco	0	0	0	2	0	2	2	0	2	2	0	2	6	0	6
Mexico	0	0	0	13	6	19	49	19	68	28	24	52	90	49	139
Panama	0	0	0	2	4	6	4	5	9	5	1	6	11	10	21
Portugal	0	0	0	0	0	0	0	1	1	0	0	0	0	1	1
Puerto Rico	0	0	0	0	0	0	0	0	0	0	1	1	0	1	1
Dominican Rep.	0	0	0	0	1	1	0	0	0	1	0	1	1	1	2
Singapore	0	0	0	1	0	1	0	0	0	0	0	0	1	0	1
Uganda	0	0	0	1	0	1	0	0	0	2	0	2	3	0	3
Total	8	2	10	559	210	769	1,076	586	1,662	679	459	1,138	2,322	1,257	3,579
% Total	80	20		72.7	27.3		64.7	35.3		59.7	40.3		64.9	35.1	

New employees

	2021	2020
Argentina	2	0
Australia	7	5
Brazil	20	1
Chile	26	6
Colombia	0	0
Costa Rica	1	0
Spain	147	35
USA	0	0
France	0	2
Netherlands	0	2
Ireland	1	0
Israel	4	6
Luxembourg	0	0
Morocco	0	0
Mexico	51	15
Panama	8	5
Portugal	0	0
Puerto Rico	0	0
Dominican Republic	0	0
Singapore	0	0
Uganda	3	10
Total	**270**	**87**

NB: only countries where new hirings were made in the last two years are reported.

New employees by gender and age group

		2021			2020
<30	Men	48	18-35	Men	34
	Women	68		Women	13
30-50	Men	80	36-50	Men	19
	Women	58		Women	14
>50	Men	11	>50	Men	5
	Women	5		Women	2
Total	**Men**	**139**	**Total**	**Men**	**58**
	Women	**131**		**Women**	**29**
	Total	**270**		**Total**	**87**

New employees by gender and business

	2021					
	Men	% Men	Women	% Women	Total employees	% Total employees
Commercialisation	3	21.43	11	78.57	14	100.00
Corporate	3	37.50	5	62.50	8	100.00
Energy Management and Networks	106	54.08	90	45.92	196	100.00
Renewables and New Businesses	27	51.92	25	48.08	52	100.00
Total	139	51.48	131	48.52	270	100.00

New employees by gender, corporation and business

	2021					
	Men	% Men	Women	% Women	Total employees	% Total employees
Corporate	3	37.50	5	62.50	8	100.00
Business	136	51.91	126	48.09	262	100.00
Total	139	51.48	131	48.52	270	100.00

Number of dismissals by gender and professional category

2021	Management team	Middle managers	Technicians	Operators	Total
Men	0	16	69	41	126
Women	0	8	34	35	77
Total	**0**	**24**	**103**	**76**	**203**

2020	Management team	Middle managers	Technicians	Operators	Total
Men	1	22	45	96	164
Women	0	8	15	32	55
Total	**1**	**30**	**60**	**128**	**219**

▪ **Number of dismissals by age and gender**

	2021				2020			
	<30	30-50	>50	Total	18-35	36-50	>50	Total
Men	6	97	23	126	39	79	46	164
Women	4	66	7	77	19	25	11	55
Total	**10**	**163**	**30**	**203**	**58**	**104**	**57**	**219**

1.2. Talent management

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

(Talent and development)

Naturgy's Strategic Plan 2021-2025 establishes as its cornerstones continuous improvement, excellence in operations, digital transformation and reinvention of customer relations. All of them leveraged in a transforming, motivating and inclusive culture. In other words, it is people and their “360º Commitment” that drive Naturgy's vision and business project.

In this context, and in line with the people strategy, talent management in 2021 has boosted Naturgy's leadership and its strategic role through the transversal adoption of the Leadership Model based on six competencies: continuous learning, courage, communication, collaboration, action and transformation; for better alignment with the business challenges, as well as with the values and cultural keys. Specifically, the company has made progress in the communication and global awareness of these competencies as a key part of its identity, and by 2022 it plans to consolidate their integration through actions to assess and develop this model.

Attracting and developing diverse talent

[404-2]

This year, Naturgy has launched the Flex & Lead programme, which integrates recruitment and career development actions focused on offering intergenerational and gender balance, in line with a diverse society and with the transformational and cultural goals in which the company is immersed. Naturgy focuses on the acquisition of talent with a vision for the future, identifying and promoting the new roles that the business project will need tomorrow.

The recruitment target by 2025 is 284 young people with a skills profile marked by agility, flexibility and collaboration, with digital skills and a data-oriented mindset. The target for hiring women through the Flex programme (which targets young professionals with no previous experience) is 60%, and in the case of Lead (which connects young people with some professional experience) it is 70%.

Likewise, both programmes aim to hire 60% of STEM profiles.

Flex & Lead deployment in 2021:
- Total additions: 80.
- Total female additions: 83%.

Flex & Lead 2021 recruitment professional profiles:

- Business Administration/Law: 14.
- Data Science: 9.
- Industrial/Energy: 40
- Marketing: 5
- Other engineering: 6
- Other: 6

To ensure a professional experience connected to the business project, Naturgy has designed a customised training offer for the Flex & Lead group, occupying positions linked to the business and participating in major projects. The journey of new talent also includes internal mobility between business areas and participation in career acceleration processes.

Through the set of initiatives integrated into Flex & Lead, Naturgy develops the commitment to diversity acquired in the Strategic Plan 2021-2025. The company has set the following objectives for the same period:

- 40% female presence at the executive and middle management levels of the company's structure (starting from 23% in 2020 in Spain).
- 10% staff < 30 years of age (starting from 2.3% in 2020).

By virtue of the direct relationship of these goals with the focuses of the Strategic Plan, the progress of the Flex & Lead programmes is regularly reported to Naturgy's Management Committee through a scorecard integrated by all businesses and corporate areas. These indicators are also reported to the Board's Sustainability Committee.

Development of internal talent

Naturgy's internal talent development programme is called "Internal Lead Talent", and its deployment is in sync with the actions of Flex & Lead, sharing the connection with the strategic objectives and the adaptation of a tailored journey. The programme seeks to ensure the company's management pool, while guaranteeing gender and professional diversity.

Specifically, in this first edition, professionals from the company's different businesses were invited, with a gender balance of 60%. The professionals under 40 years old and with transformative vision and high potential, have been invited to participate in a process of self-assessment of skills, specific training and networking with senior managers, professionals from Naturgy and other companies, accelerating the development of their profiles and motivating them towards a professional management career.

Internal Lead Talent Programme:

- Participants: 175.
- Female participants: 59%.

Training model

The present Model and the Global Training Policy have strengthened the governance and transversal management role of the Corporate University, while providing greater accountability to the different businesses of the company, giving them more responsibility in the definition and execution of their training plans and budget, in direct line with the particular requirements of each business. The connection between both levels of management is modelled on the same Global Training Policy, guaranteeing synchronicity through monthly monitoring committees, where visions, proposals and practices are exchanged, facilitating the influence and integration of training into key processes.

Corporate University
[404-1]

Corporate University's figures

	2021	2020
Annual investment in training (million euro)	4.97	5.02
Annual investment in training per person (euro)	741	514
Training hours	193,416	259,703
Trained staff (%)	97.5	92.6

Satisfaction

	2021	2020
Satisfaction surveys answered	55,864	62,208
Participants' average satisfaction (0-10)	8.8	8.6
Average degree of application of knowledge and on-the-job skills (%)	78.1	83.0
No. of programmes with assessment of application (courses)	115	98
Average perception index (0-10)	7.8	7.6

NB: the measurement model is not implemented in Chile.

Staff trained (%)

	2021				2020			
	Managem ent team	Middle managers	Technicia ns	Operators	Managem ent team	Middle managers	Technicia ns	Operators
Men	87.2	84.2	80.3	73.0	73.7	94.7	93.7	87.7
Women	90.0	85.7	81.5	70.4	83.3	95.2	94.6	92.1
Total	**88.1**	**84.5**	**80.8**	**72.3**	**75.5**	**94.8**	**94.0**	**89.2**

During 2021, the strong deployment of distance training continued, from the Transformational Leadership Academy (TLA), focused on the transformation of leadership and management development in the company. However, the health crisis caused by COVID-19 has prevented the training courses from being conducted, which as per methodology require 100% attendance, which explains the deviation between the different groups.

Training hours per employee

	2021	2020
Management team	31.5	22.6
Middle managers	37.3	29.9
Technicians	26.0	25.7
Operators	25.1	24.8
Total	**28.8**	**26.6**

NB: training data only includes companies that have access to SuccessFactors. These companies represent 93% of the total staff.

Training by age (%)

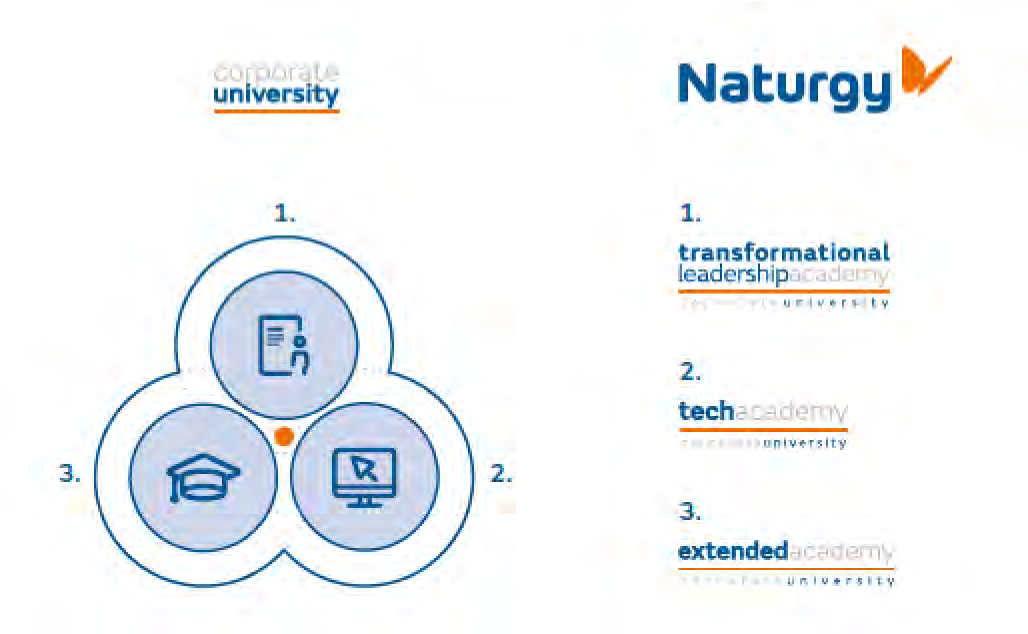
	2021			
	Management team	Middle managers	Technicians	Operators
<30	-	95.1	75.3	75.4
31-44	90.2	86.0	79.7	76.9
45-54	89.9	83.5	85.0	74.3
>55	74.0	80.4	69.9	60.1
Total	88.1	84.5	80.8	72.3

Training hours

	2021	2020
Management team	26,577	2,391
Middle managers	53,214	82,982
Technicians	66,786	99,426
Operators	46,840	74,904
Total	**193,416**	**259,703**

In 2021, training in Naturgy continues to be a strategic driver for transformation, promoting the development and empowerment of people in line with the challenges of competitiveness, innovation and sustainability of the company. In this context, the Corporate University (CU) continues to be a representative and backbone element of the training experience, guaranteeing the adequacy between the position and the person through the delivery of key knowledge, the connection with the latest trends, technologies and with the development of skills and competencies linked to Naturgy's leadership and culture models.

The CU training model is deployed through three academies which, in a supplementary and synergistic way, allow the company to face the training challenges of the present and future: Transformational Leadership Academy (TLA), Tech Academy (TA), Extended Academy (EA).



Based on a vision of the future and linked to the company's Strategic Plan, in 2021 the TLA continues its training deployment to ensure the leading role of its leaders in the transformation and achievement of business objectives, through its three drivers:

1. **Digital Academy:** its objective is to transform the professional profile in Naturgy towards a digital employee.
2. **New Energy**: with the vision to develop managers and high potentials to face future challenges and be aware of market trends.
3. **Naturgy Leadership**: its aim is promoting the role of the leader as a promoter of organisational and cultural change.

The Tech Academy, in turn, transfers technical knowledge for the development, quality and standardisation of the expert knowledge needed to deal with the current and future challenges in each of the company's businesses.

The CU, through its Extended Academy (EA), offers a wide range of training to external collaborating companies, customers and suppliers of Naturgy, both technical as well as management, enabling companies to improve their operating efficiency, incorporate innovative methodologies and develop skills focused on excellence in operations and service.

The Extended Academy thus contributes to the establishment of a common planning and management model, favouring the professionalisation of companies that participate in the Naturgy value chain, with a recurrent activity of 9,063 participants and 13,944 hours of training. Likewise, the relationship with strategic suppliers is managed in order to strengthen partnerships, in an environment of collaboration and efficiency, sharing information and aligning strategies.

Training catalogue

While in 2020 the adoption of an online training model was accelerated by the context of COVID-19, in 2021 the evolution of this format has been supported by the introduction of new and diverse hybrid methodologies, to better respond to the needs of the business and provide professionals with interesting content that would contribute to their connection and engagement.

This challenge has served to consolidate the training catalogue that promotes the agile and digital connection of knowledge, simultaneously reinforcing the identity and commitment of the professionals. In this way, the 2021 programmes have been organised in the following areas:

- **Transversal programmes, with high impact on the commitment to the culture and values of the company:**
  - Transformation and value: "The third energy".
  - People's well-being: health and safety, emotional fitness, efr modules.
  - Sustainability: "Sustainability Week: SDG commitments".
  - Cybersecurity: "Day-to-day security" and "Week: Ultraviolet code".
  - Diversity: "Women's week", "Game Of Diversity", "The future is all of us", "First understand", "Only goals not limits".
- **Programmes to boost the company's digital profile:**
  - Digital culture: Digital Gap online actions.
  - Digital skills: programming languages (SQL, Python...) and platforms (AWS and Azure). Development of Data Analyst, Data Science and governance oriented training and Data Quality positions.
- **Programmes to connect with future challenges and market trends:**
  - Future Insight.
  - Naturgy Leadership Toolbox.
  - Innovation strategies.
  - Power BI and other data visualisation tools.
  - SCRUM, SaFe, agile methodologies and new forms of work organisation.
- **Leadership programmes, as a driver for the group's transformation and strategic vision:**
  - Corporate Mentoring: through the "Mentor Club" we connect the talent and influence from different visions and experiences of Naturgy professionals, fostering the development of the competences of the Naturgy Leadership Model.
  - "Make yourself visible": focused on female and inclusive leadership, personal branding and networking.
  - Transformational leadership: "Leadership Innovation", "Communicating with Impact", and IMD programmes.

Likewise, in 2021 the Corporate University has reinforced the learning experience through the integration of "*lifelong learning*" platforms, such as PHAROS and COURSERA, which widely disseminate content and which adapt the training offer to the demand of the employees and the specific needs of the different businesses.

- **Cross-cutting employee development programmes:** within TLA, a key chapter in 2021 has been programmes that reinforce new work models. These programmes are focused on transversal, multidisciplinary and lean structures, as well as new work habits and global and innovative perspectives. They facilitate collaborative, diverse and healthy environments. In this context, the most significant cross-cutting programmes in 2021 were:
  - Agile: Naturgy's transformation requires projects to be managed in a different way; more flexible, adaptive and agile. The adoption of agile methodologies (mainly SCRUM), training and certification of professionals in all businesses is facilitating faster responses and adapted to the demands and/or requirements of the markets.
  - Power BI: a programme focused on a tool that is quick and relatively simple to use, but with the power to connect different data sources in order to analyse reality in greater depth and reduce time in data analysis. The face-to-face actions are reinforced through the DataHUB community, which not only functions as a centre of excellence and best practices in data analysis, but also offers consultation and reinforcement sessions to new Power BI users through corners.
  - Python Programming: a practical 3-month programme, with construction of real cases, on a programming language whose philosophy emphasises the readability of its code. It is a multi-paradigm and multi-platform programming language, which favours the rapid adoption of technologies and platforms.

- The third energy: synchronous training experience that puts employees first. A journey towards the rediscovery of personal energy, transforming it into a valuable resource to improve the organisation and its environment. With different teaching elements (micro-pills, infographics, webinars, videos...), it is specially aimed to develop positive behaviours and attitudes in professionals.
- Futurinsight: a cross-cutting programme, which offers an environment from which to reflect and share in order to build a reality. A window through which you can look at disruptive international benchmarks, through nine webinars and for four months. The programme covers different topics that directly affect the group's ecosystem: digital humanisation, talent ecosystems, gig worker, the relationship between the machine and the human, the new conceptualisation of space, critical thinking and the diverse world.
- Digital Mindset: a five-week programme that uses webinars and online supplementary material to address the processes of digital transformation and work the digital impact on business models in the energy sector and its direct application in Naturgy. The main goal is to get an overview of the digital landscape and a clearer idea of the basic elements of digitisation and to question the basic assumptions of the business model.

Quality certifications

The excellence in management of the Corporate University is supported by a Quality Management System based on ISO 9001:2015, renewed in 2020 for another three years. Likewise, since 2003, Naturgy has also had the CLIP (Corporate Learning Improvement Process) accreditation, awarded by the European Foundation for Management Development (EFMD), which recognises the quality of learning and people development processes in business education organisations. The last CLIP renewal was in 2018 for a five-year period.

1.3. Diversity and equality

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

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

Naturgy promotes an inclusive culture, where there is awareness and action to integrate and connect diversity. This vision of interest in people guides the way we work and achieve the company's objectives. We also share this vision with the entire value chain in the different businesses where we operate.
This commitment is confirmed, with a global vision, in the sustainability and people strategy, as well as in the Corporate Responsibility Policy, the Code of Ethics, the Gender Equality Policy, and the Protocol for the Prevention of Workplace Harassment.

The Naturgy's Corporate Equality Plan in Spain was approved together with the Trade Union Representative and published in the Official State Gazette (BOE) under Registration No. 90100073112013. It identifies the strengths to be maintained and shows weaknesses to be corrected identified by outsourced experts, giving rise to actions in issues of communication and raising awareness, culture and leadership, development and promotion, remuneration, flexible employment and work-life balance, selection, prevention of harassment, measurement and monitoring.

Aware of the need to continue working on equality and adaptation to the new environment and regulatory development, Naturgy is currently negotiating a renewal of the Equality Plan to continue advancing in equal opportunities between men and women, detecting new needs and developing proposals for action.

Protocols

The creation and activation of a specific protocol against harassment; the best practices protocol in the selection processes, or the communication guide for business professionals that need to intervene for some reason in the selection process, are just some of the measures introduced which have propitiated major advances in diversity and equal opportunities within the company.

Specifically, the Naturgy's Protocol Against Harassment lays out some preventive actions to avoid situations of harassment that include informing all employees about the protocol; training the entire staff in the issue, and in particular employees with personnel under their charge; the obligatory nature and responsibility of each individual to establish their relationships with respect and dignity and for each professional to report any case of harassment to their superior.

The protocol offers a number of guarantees, such as the total anonymity of the complainant, that the process will be completed as expeditiously as possible, and that the intervention of workers' representatives may be requested. Similarly, a fair hearing and treatment of all persons affected is guaranteed, no reprisals will be accepted, and the identity of informants, among others, will be protected.

The action procedure in the event of detecting any situation of harassment sets out two channels:

- Informal procedure: through which the affected party informs the alleged aggressor that this behaviour is not welcome, that it is offensive and interferes with their work. And if the situation is not resolved, then the formal procedure will be instigated.
- Formal procedure: through which the harassment situation is reported, following these steps:
    - Notification to the Code of Ethics Committee or reporting to their superior or to the Human Resources Department, who will decide whether to accept it for processing.
    - Investigation, gathering information and conducting interviews with the affected parties and witnesses, if there are any.
    - Possibility of introducing precautionary measures.

Once either procedure has been followed, a report will be drawn up on the conclusions and resolution of the procedure, which will include the corrective measures and the adoption of one of the following solutions: either the complaint will be closed or disciplinary proceedings will be initiated depending on the seriousness of the offence.

In another field of action, the Naturgy protocol of good practices in selection processes aims to avoid discrimination in selection processes, thus expanding the options of employability, through the following measures:

- Recruitment: open up the spectrum of recruitment sources to associations and foundations to guarantee equal job opportunities at the company.
- In the publication of job offers: do not use discriminatory terminology. Use of the third person plural is recommended. Gender separation will always be carried out with slashes. Do not use any notation as a requisite that does not offer equal conditions to the different candidates on the grounds of gender, appearance, disability, age, religion or personal beliefs of any kind. Only specify the need for a driving licence when the job requires this. Do not use possession of own vehicle as a requirement. Do not use the need to reside near the place of work as a requirement.
- In the selection process: ensure that disabled candidates have the necessary accessibility to get to the interview. Avoid prejudices and stereotypes associated to gender, appearance, ethnic origin, disability, age, religion, religious beliefs of any kind. Avoid personal questions and, if necessary, justify them. Avoid preferential treatment.
- On joining the company: Inform about equality and social benefit policies without discrimination. Career opportunities based on merits and capabilities.

Commitment to equality

[401-3]

In 2021, the General Sub-Directorate for Entrepreneurship, Equality in the Company and Collective Negotiation of Women, belonging to the Institute of Women of the Spanish Ministry of Equality, approved the II Annual Report for the maintenance of the "Equality in employment" (DIE) seal, awarded to Naturgy in November 2018.

The company's commitment to equality has been recognised with this seal by virtue of the development of equal opportunity policies through comprehensive, measurable equality plans with specific results. This certification is granted following a thorough process of verification of the activities related to equality, with the aim of confirming the level of excellence and mainstreaming in management.

Diversity management

The strategic vision of diversity is a commitment to the organisation and people to invest in and promote diverse and transforming talent, and is in turn part of Naturgy's commitment to a sustainable business project, advancing in its management through three drivers:

- **Culture focused on diversity**: Naturgy fosters plural environments and teams with respect for different experiences, where listening and dialogue enrich the work and the way to achieve business objectives in the company, promoting the commitment of people.
- **Alignment with the talent strategy**: with a clear commitment to equal opportunities and development for all of Naturgy's professionals, promoting the connection and recognition of diverse and inclusive leaders and teams. The organisation's talent strategy includes annual diversity targets for the different professional profiles.
- **SDG Social Priority - Enhance Diversity:** Naturgy understands diversity as a guarantee of the future, sustainability and growth of the business project. The more diverse, the better the performance and the more agile, flexible and innovative people are in meeting business challenges and expanding value solutions for customers and society.

In addition to progress in these areas, Naturgy's efforts in the field of diversity are materialised through specific initiatives in four areas: gender, generational, disability and functional diversity.

Within this framework, the professional role of women in Naturgy, their visibility and networking is enhanced, moving towards gender parity at different levels of the company through specific training actions, career development programmes and promotion of diverse leadership, as well as the prioritisation of this group in internal mobility plans and organisational evolutions.

The company is also committed to generational balance through recruitment and development programmes for young professionals and intergenerational talent development programmes such as the Flex & Lead programme (see Attracting and developing diverse talent).

The Flex & Lead programme has been highlighted in INTRAMA's Variable D 2021 Report, which recognises the 30 Spanish companies most committed to diversity by virtue of the strategic and sustainable vision with which the company is promoting diversity in its staff, thanks to an inclusive culture and leadership, together with its recruitment and development programme for young talent. The Variable D Report is a study by the Human Resources consultancy INTRAMA, which includes more than 18 sectors of activity and covers a total of more than 450,000 workers at national level and more than 2,500,000 employees worldwide, through the more than 30 companies in Spain covered in the study.

In terms of disability, Naturgy continues its focus on the management of inclusive practices and awareness, as well as staff representation. In this context, various actions such as "Plan Familia", "Plan Capacitas", or "Plan Aflora" are promoted. This commitment has been recognised by the Bequal Certification, awarded by the Bequal Foundation for excellence in diversity management in terms of different abilities.

And lastly, in the more functional area, the versatility and continuous learning of professionals is promoted through training, internal mobility and the performance of new professional roles.

This transversal commitment to diverse talent is reflected in the Sustainability Plan with a 2025 horizon, and is regularly monitored by the Sustainability Committee, where indices are reported on the progress made in terms of global female presence and their promotion to management levels; geographic diversity, professional profiles and different skills. In addition to the Committee, these indicators and their evolution are reported in different monitors and certifications, such as the Dow Jones Sustainability Index and the Global Certification efr.

Women in management posts (%)

[405-1]

	2021	2020
Argentina	0.0	0.0
Australia	0.0	0.0
Brazil	100.0	100.0
Chile	0.0	0.0
Colombia	0.0	0.0
Costa Rica	0.0	0.0
Spain (*)	21.5	23.7
USA	0.0	0.0
France	0.0	0.0
Netherlands	0.0	0.0
Ireland	0.0	0.0
Israel	0.0	0.0
Luxembourg	0.0	0.0
Morocco	0.0	0.0
Mexico	0.0	0.0
Panama	0.0	0.0
Portugal	0.0	0.0
Puerto Rico	0.0	0.0
Dominican Republic	0.0	0.0
Singapore	0.0	0.0
Uganda	0.0	0.0
Total	**21.2**	**22.6**

(*) In Spain, the percentage of women in executive and management positions is 32.35%, in line with Naturgy's Sustainability Plan target of 40% by 2025.

Employees with disabilities

[405-1]

	2021		2020	
	Number	(%)	Number	(%)
Argentina	0	0.0	6	0.5
Australia	0	0.0	0	0.0
Brazil	11	2.9	12	2.8
Chile	3	0.5	4	0.2
Colombia	0	0.0	0	0.0
Costa Rica	0	0.0	0	0.0
Spain	61	1.6	121	2.3
USA	0	0.0	0	0.0
France	0	0.0	0	0.0
Netherlands	0	0.0	0	0.0
Ireland	0	0.0	0	0.0
Israel	0	0.0	0	0.0
Luxembourg	0	0.0	0	0.0
Morocco	2	2.4	1	1.1
Mexico	0	0.0	0	0.0
Panama	6	1.9	5	1.5
Portugal	0	0.0	0	0.0
Puerto Rico	0	0.0	0	0.0
Dominican Republic	0	0.0	0	0.0
Singapore	0	0.0	0	0.0
Uganda	0	0.0	0	0.0

NB: employees have the option of not disclosing their disability in all countries. The number of employees with disabilities is only reported in those countries where employees chose to exercise their right to share this information.

No. of employees entitled to leave for childbirth and child care

[401-3]

	2021			2020		
	Men	Women	Total	Men	Women	Total
Argentina	2	5	7	26	16	42
Australia	0	0	0	0	0	0
Brazil	2	6	8	9	5	14
Chile	6	11	17	34	36	70
Colombia	0	0	0	0	0	0
Costa Rica	0	1	1	0	0	0
Spain	83	18	101	119	58	177
USA	0	0	0	0	0	0
France	0	0	0	1	3	4
Netherlands	0	0	0	0	0	0
Ireland	0	0	0	2	2	4
Israel	1	0	1	1	0	1
Luxembourg	0	0	0	0	0	0
Morocco	3	1	4	4	0	4
Mexico	0	0	0	13	13	26
Panama	6	3	9	2	3	5
Portugal	0	0	0	0	1	1
Puerto Rico	0	0	0	0	1	1
Dominican Republic	0	0	0	1	1	2
Singapore	0	0	0	0	0	0
Uganda	8	0	8	6	2	8
Total	**111**	**45**	**156**	**218**	**141**	**359**

No. of employees who availed themselves of their right to childbirth and childcare leave

	2021			2020		
	Men	Women	Total	Men	Women	Total
Argentina	2	5	7	20	16	36
Australia	0	0	0	0	0	0
Brazil	2	6	8	9	5	14
Chile	6	11	17	19	36	55
Colombia	0	0	0	0	0	0
Costa Rica	0	0	0	0	0	0
Spain	82	18	100	117	57	174
USA	0	0	0	0	0	0
France	0	0	0	1	3	4
Netherlands	0	0	0	0	0	0
Ireland	0	0	0	2	2	4
Israel	1	0	1	1	0	1
Luxembourg	0	0	0	0	0	0
Morocco	3	1	4	4	0	4
Mexico	0	0	0	13	13	26
Panama	6	3	9	2	3	5
Portugal	0	0	0	0	1	1
Puerto Rico	0	0	0	0	1	1
Dominican Republic	0	0	0	0	1	1
Singapore	0	0	0	0	0	0
Uganda	8	0	8	6	2	8
Total	**110**	**44**	**154**	**194**	**140**	**334**

Comparison of employees entitled to childbirth and childcare leave and those who took this entitlement

[401-3]

	2021		2020	
	Men	Women	Men	Women
With right	111	45	212	141
That took it	110	44	194	140

Ratio of employees who returned to their position following childbirth and childcare leave and continue in the company one year after their leave

[401-3]

	2021		2020	
	Men	Women	Men	Women
Argentina	100.0	100.0	100.0	100.0
Australia	0.0	0.0	0.0	0.0
Brazil	0.0	50.0	88.9	100.0
Chile	77.8	66.7	78.9	91.1
Colombia	0.0	0.0	0.0	0.0
Costa Rica	0.0	0.0	0.0	0.0
Spain	98.3	94.7	95.5	100.0
USA	0.0	0.0	0.0	0.0
France	0.0	0.0	66.7	50.0
Netherlands	0.0	0.0	0.0	0.0
Ireland	0.0	0.0	100.0	0.0
Israel	100.0	0.0	0.0	100.0
Luxembourg	0.0	0.0	0.0	0.0
Morocco	100.0	0.0	100.0	0.0
Mexico	100.0	100.0	100.0	66.7
Panama	0.0	0.0	0.0	100.0
Portugal	0.0	0.0	0.0	100.0
Puerto Rico	0.0	0.0	0.0	0.0
Dominican Republic	100.0	100.0	0.0	100.0
Singapore	0.0	0.0	0.0	0.0
Uganda	85.7	100.0	100.0	0.0
Total	**88.6**	**87.5**	**93.9**	**99.4**

No. of employees who did not return to work once their childbirth and childcare leave was complete

[401-3]

	2021			2020		
	Men	Women	Total	Men	Women	Total
Argentina	0	0	0	0	0	0
Australia	0	0	0	0	0	0
Brazil	1	0	1	0	2	2
Chile	0	7	7	0	13	13
Colombia	0	0	0	0	1	1
Costa Rica	0	0	0	0	0	0
Spain	2	3	5	5	0	5
USA	0	0	0	0	0	0
France	0	0	0	0	0	0
Netherlands	0	0	0	0	0	0
Ireland	0	0	0	0	0	0
Israel	0	0	0	0	0	0
Luxembourg	0	0	0	0	0	0
Morocco	0	0	0	0	0	0
Mexico	0	0	0	2	1	3
Panama	0	0	0	0	1	1
Portugal	0	0	0	0	0	0
Puerto Rico	0	0	0	0	0	0
Dominican Republic	0	0	0	0	0	0
Singapore	0	0	0	0	0	0
Uganda	0	0	0	0	0	0
Total	**3**	**10**	**13**	**7**	**18**	**25**

1.4. Employee satisfaction and experience

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

(Attraction and quality of employment)

Knowing employees' satisfaction and the value they place on the actions, services and programmes that the company makes available to them is a key element of Naturgy's commitment of improving their experience.

Employee's experience

To continuously monitor the employee experience, Naturgy measures, analyses and acts on the different factors that make up the climate survey, as well as the mood of the company.
The group uses Happyforce as a tool, enabling us to obtain the opinion and perception of people in a 100% online, transparent and anonymous way.

The functionalities of this multichannel tool also allow for social recognition among peers (related to the competencies of the Leadership Model), and to formulate suggestions or ideas. This model provides global indices of commitment, recommendation (promoters) and happiness, and allows greater agility in the monitoring of indicators, evolving those that hitherto responded to a previous model of climate survey.

The metrics are analysed monthly by an agile and transversal work group - made up of the business and corporate people teams - who take on a proactive role in the design and implementation of concrete actions to improve the employee experience.

In this context, in 2021 the indicator for monitoring employee satisfaction and engagement in Naturgy corresponds to the percentage of promoters (ratings of 9 and 10) on the question: “On a scale of 1 to 10, how likely is it that you would recommend Naturgy as a good place to work?” Its target rate - by 2025 - is 40% and currently stands at 24%.

In 2021, Naturgy has materialised one of the key milestones of impact in improving the experience of its employees, with a new model for measuring satisfaction and commitment, and promoting recognition as drivers of motivation.

Flexibility and work-life balance

[401-2]

Naturgy is committed to promoting and encouraging the work-life balance of its employees, as well as co-responsibility, as permanent goals.

The Naturgy Group’s Collective Bargaining Agreement contains a broad chapter on social responsibility, equality and work-life balance, including measures aimed at achieving actual and effective equality between men and women. These measures, which go beyond legal requirements, allow a greater and better work-life balance and highlights the company’s commitment to this matter: By way of example, some of the measures in force in Spain include:

- Flexibility in start and finish times, as well as in the meal break period.
- Continuous working day from June to September (four months) and every Friday of the year.
- More extensive paid leave due to marriage, illness and death of family members.
- Paid leave not covered by legislation such as separation or divorce, marriage of children or leave for expectant mothers from the 38th week of pregnancy.
- Possibility of taking paid leave not necessarily on consecutive days.
- Reductions in working hours for personal reasons in cases other than those provided for by law.
- Possibility of accumulating breast-feeding periods.
- Adaptation of the weekly working day by one hour, as a measure to promote conciliation.
- Working from home.

In 2021 in Spain, the exceptional labour measures agreed with employee representatives in the previous year continued to be applied, measures that have made it possible to extend and improve the work-life balance of employees throughout the healthcare crisis.

Specifically, and together with other complementary labour measures, the following has been provided for:

- The extension of time flexibility measures at the entrance and exit.
- The possibility of working remotely to care for children and adults who cannot attend school or care centres.
- The possibility of reducing the working day without a proportional reduction in salary.

The take-up of these measures has gone hand in hand with the deployment of computer resources and tools, such as laptops, in order to be able to work from home.

Global FRC Certification

Naturgy is the first and only company in the world to have the Global FRC Certification (Family Responsible Company) awarded in 2013 by the Másfamilia Foundation, after undergoing an exhaustive audit by AENOR. This certification substantiates the existence of a culture based on flexibility, respect and mutual commitment of Naturgy with its professionals, generating options that allow them to develop both personally and professionally, always within the framework of the business objectives.

In 2021, the management of the model has been deployed through 429 local measures, distributed in the different countries where the company operates, and also 22 measures of global application, all of them integrated into five groups of action, defined by the global efr Standard 1000/23: quality in employment, temporary and spatial flexibility, support for employees’ families, support for the personal and professional environment and equal opportunities.

Time Bank (Spain only)

Naturgy provides employees with a space, both physical and virtual, where they can delegate the performance of daily tasks in order to increase the free time they can spend on other aspects of their personal life.

The range of services offered is structured in four blocks:

- Administrative tasks: advisory and assistance services for frequent administrative tasks.
- Advantage Club: exclusive virtual space with offers.
- Easylife space: outreach services and acquisition of products.
- Services available on a quotation basis.

The Naturgy Time Bank also has an Easybox that allows you to manage different services through an interactive window office and a website. Access to these services is built into the My Benefits platform, on the corporate Intranet of Naturgy.

In 2021, in harmony with the previous year, and in the COVID-19 context, once the process of returning to work centres in Spain has begun, the Time Bank's on-site service areas are operational, thanks to the adoption of all the prevention and safety measures introduced by the company, to guarantee the health and well-being of employees.

Employee Care Service (SAE)

The service, introduced in Spain and Latin America, has celebrated its ninth anniversary in 2021, 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.

As a novelty, in 2021 an "Employee Care Service Assistant" was launched to attend to and resolve employee queries in real time on subjects such as: social benefits, payroll and remuneration, leave and time off, recruitment and mobility, health and safety, personal services, training, personal procedures and "my customer channel".

In addition to the management of the usual services, this year the Employee Care Service (SAE) has also had an important informative and guiding function in the context of the transfer of Naturgy professionals to the new offices in Barcelona (Avenida Diagonal 525) and Madrid (Avenida de América 38). Likewise, and in the context of the global health pandemic, this service has provided direct assistance for the management of preventive measures, flexible working hours and conciliation arranged by the company.

Currently, the Net Promoter Score (NPS) of the service is 52.93%, 62,915 requests from employees have been answered and 85.70% of them have been resolved within the deadline.

Culture and Employee Experience

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.

With the strategic vision of a sustainable company, Naturgy continues to focus on redesigning its spaces and ways of working, digitising its employees' jobs, and promoting a transformational culture, through three key concepts:

01

Team
Cohesion.
Leadership.
Enthusiasm.

02

Innovation
Evolution.
Digitalization.
Agility.

03

Working methods
Flexibility.
Collaboration.
Simplicity.

ImaginaT project

During 2021, the plan to return to offices in Spain was implemented in a staggered manner and the alternation plan, which also coincided with the corporate milestone of the opening of new workspaces within the framework of the IMAGINAT programme in Madrid and Barcelona, with the provision of open, fully connected, digital, sustainable and flexible environments that promote collaboration, well-being and people's health.

Thanks to its sustainable design and a comprehensive environmental quality management plan, all design and construction requirements have been incorporated to achieve LEED Gold Certification, a verification that guarantees the highest standards of eco-efficiency and sustainability. The teams' experience in the new spaces is integrated with internal listening. In the first consultation, a rating of 4 out of 5 was obtained.

1.5. Compensation and remuneration

[405-2]

Breakdown of personnel costs (€M)

	2021	2020
Wages and salaries	457	507
Social Security costs	87	101
Definitive contribution plans	28	26
Definitive benefit plans	6	6
Work carried out for the company's fixed assets	(77)	(77)
Share-based compensation	4	5
Other	435	230
Total	**940**	**798**

Reward

The Naturgy's reward drivers aims to provide a framework for classification, compensation, benefits and work environment, which drives and aligns professional performance with the strategy of Naturgy. In the 2021 financial year, the job assessment, which started in 2020, was completed, reaching all staff excluded and exempt from the collective bargaining agreement.

IN this framework, 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.

The annual variable remuneration is based on 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 above-mentioned metrics include:

- Economic and financial targets.
- ESG objectives:
  - Safety and quality issues.
  - Diversity and gender goals.
- In addition, a qualitative objective that measures the “how” in achieving the targets is valued.

The management by objectives for senior management teams and staff not included in the agreement, and variable remuneration for sales agents, are methods in place at Naturgy as incentives for people involvement in achieving the company’s targets and a direct share in the profits.

The goals of the management team are aligned and linked to those of the company through, among others, the implementation of a long-term incentive programme (LTI). Through this programme, they can benefit from the perception of a variable bonus, provided that the return on the value of Naturgy in a specific period of five years is optimal for any shareholder of the company in the same period. The valuation of these returns has been set in considerably ambitious terms with respect to those existing in the market.

Additionally, the remuneration package is supplemented with a social benefits system, which includes a pension plan and other social benefits.

Specifically, employees in Spain have a flexible compensation system that allows them to design the composition of the remuneration package using the existing product offer, optimising this package for tax purposes. Along these lines, the Total Compensation Plan, which allows employees to customise the composition and perception of the remuneration package offered by the company, continued to be in force in 2021. The plan is compatible with the flexible remuneration system, facilitating decisions on the composition of their remuneration package, and they may choose to monetise the benefits, maintain the corresponding benefit or allocate the amount to other benefits.

“My Benefits” Platform

This platform offers a unique and integrated solution to manage and communicate the compensation and benefits programmes, allowing Naturgy to contribute to the well-being of people from a 360º perspective (financial, emotional, physical and social) and to promote their engagement. It is a technological platform that evolves by adapting to the various benefits and compensation strategies of the company. It has the following modules:

- **Flexible Compensation**: Flexible Compensation Plans (PCF) are voluntary and customised compensation systems that allow each employee to decide how to receive part of their annual compensation. Through this tool, employees have access to their compensation data and can consult, simulate and contract a Flexible Compensation Plan. All in an environment of maximum usability and clarity of presentation.
- **Social Benefits System**: Naturgy offers services, within its remuneration strategies and through the My Benefits platform, that help the people understand their retirement and find out about existing internal plans. This service provides personalised information on Naturgy’s social benefits initiatives.
- **Savings in personal insurance**: through this tool, employees can take out personal insurance (home, life, car, death, etc.) with an excellent price-cover-service ratio and guaranteed by leading insurance companies. Furthermore, the tool makes it easy to compare prices and choose the insurance that best suits each individual.
- **Health Insurance**: the company has health insurance, which is one of the benefits most valued by employees.

Average remuneration by age group, gender, and professional category

In relation to the information relating to remuneration, in the 2021 financial year the professional categories will continue to be unified with those used for the rest of the people indicators (Management Team, Middle Management, Technical and Operational Staff). All remuneration indicators are expressed in euros.

Fixed remuneration

	2021			
	Management team	Middle managers	Technicians	Operators
Argentina	131,606	45,001	25,336	20,269
Australia				
Brazil	115,458	39,295	21,024	13,262
Chile	225,621	56,069	27,329	16,515
Colombia				
Costa Rica				
Spain	212,729	63,653	49,616	35,943
USA				
France		117,538	50,226	
Netherlands				
Ireland				
Israel				
Luxembourg				
Morocco		33,535	45,437	14,893
Mexico	104,150	39,171	16,616	8,706
Panama	198,521	41,459	24,038	21,279
Portugal		80,882	33,988	
Puerto Rico				
Dominican Republic		17,698	27,200	11,281
Singapore				
Uganda				

NB: blank data are not published because there are no employees in that category or for confidentiality reasons.
In relation to the information for Spain, the company UFG Exploration and Production, which consists of three employees, has been excluded.
The differences with respect to the previous year are due to the impact of the Voluntary Leaving Plan and the organisational changes in these groups. In addition, the collective bargaining agreement is currently under negotiation.

Information is not comparable with 2020, due to the fact that the Job Assessment methodology has been modified.

The exchange rate used is at the end of December 2021.

2020

	Management team	Middle managers	Technicians	Operators
Argentina	95,308	18,262	16,580	12,415
Australia				
Brazil	110,119	30,282	14,668	10,782
Chile	223,342	64,109	34,752	20,857
Colombia		69,752		
Costa Rica				
Spain	201,209	64,665	48,930	37,230
USA				
France		81,841	40,636	34,142
Netherlands				
Ireland		133,148	44,849	
Israel				
Luxembourg				
Morocco		40,066	44,328	16,959
Mexico	81,304	23,856	14,770	9,247
Panama		28,296	18,147	13,901
Portugal			33,715	
Puerto Rico				
Dominican Republic	0	24,451	14,155	
Singapore				
Uganda				

NB: blank data are not published because there are no employees in that category or for confidentiality reasons.
In relation to the information for Spain, the company UFG Exploration and Production, which consists of three employees, has been excluded.
The differences with respect to the previous year are due to the impact of the Voluntary Leaving Plan and the organisational changes in these groups. In addition, the collective bargaining agreement is currently under negotiation.

Fixed remuneration by gender

	2021		
	Men	Women	Gap
Argentina	26,575	28,626	-7.72%
Australia			-
Brazil	19,950	21,057	-5.55%
Chile	31,448	25,532	18.81%
Colombia			-
Costa Rica			-
Spain	55,686	51,544	7.44%
USA			-
France	79,547	48,047	39.60%
Netherlands			-
Ireland			-
Israel			-
Luxembourg			-
Morocco	30,664	34,266	-11.75%
Mexico	18,809	19,033	-1.19%
Panama	31,076	23,292	25.05%
Portugal	39,344	36,535	7.14%
Puerto Rico			-
Dominican Republic	15,568	21,402	-37.47%
Singapore			-
Uganda			-

NB: blank data are not published because there are no employees in that category or only men or women
In relation to the information for Spain, the company UFG Exploration and Production, which consists of three employees, has been excluded.

The exchange rate used is at the end of December 2021.

	2020		
	Men	Women	Gap
Argentina	16,225	15,365	5.30%
Australia			-
Brazil	18,801	19,118	-1.69%
Chile	38,477	32,276	16.12%
Colombia	103,929	56,081	46.04%
Costa Rica			-
Spain	54,825	49,767	9.23%
USA			-
France	70,421	43,985	37.54%
Netherlands			-
Ireland	50,515	41,569	17.71%
Israel			-
Luxembourg			-
Morocco	32,711	34,251	-4.71%
Mexico	15,764	16,594	-5.27%
Panama	22,406	20,545	8.31%
Portugal	39,344	35,956	8.61%
Puerto Rico			-
Dominican Republic	13,745	23,601	-71.71%
Singapore			-
Uganda			-

NB: blank data are not published because there are no employees in that category or only men or women
In relation to the information for Spain, the company UFG Exploration and Production, which consists of three employees, has been excluded.

Fixed remuneration by age range

			2021
	<30 years	30-50 years	>50 years
Argentina	19,914	22,185	28,404
Australia			
Brazil	13,160	19,523	24,572
Chile	14,533	29,298	30,707
Colombia			
Costa Rica			
Spain	29,927	50,141	73,749
USA			
France	51,000	63,650	
Netherlands			
Ireland			
Israel			
Luxembourg			
Morocco	7,706	22,933	34,705
Mexico	14,389	19,133	30,707
Panama	14,978	26,437	36,232
Portugal		33,988	80,882
Puerto Rico			
Dominican Republic	9,223	17,272	17,626
Singapore			
Uganda			

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The exchange rate used is at the end of December 2021.

	2020		
	18-35 years	36-50 years	>50 years
Argentina	12,589	15,632	17,728
Australia			
Brazil	12,789	19,699	22,935
Chile	27,711	38,002	40,563
Colombia		48,982	97,445
Costa Rica			
Spain	34,805	50,463	63,931
USA			
France	43,254	67,514	
Netherlands			
Ireland	32,535	67,460	76,552
Israel			
Luxembourg			
Morocco	13,838	30,549	36,144
Mexico	13,947	16,432	19,643
Panama	16,339	23,025	27,231
Portugal	33,638	30,920	
Puerto Rico			
Dominican Republic	9,560	15,659	19,579
Singapore			
Uganda			

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Variable remuneration was considered to be the amount received by employees under the Management by Objectives, Performance Management and Commercial Variable Remuneration programmes.

Average fixed and variable remuneration by professional category

	2021			
	Management team	Middle managers	Technicians	Operators
Argentina	184,248	52,248	27,339	20,567
Australia				
Brazil	164,006	46,509	23,045	14,679
Chile	324,230	63,020	31,129	16,571
Colombia				
Costa Rica				
Spain	311,668	74,046	52,543	36,025
USA				
France		150,452	58,449	
Netherlands				
Ireland				
Israel				
Luxembourg				
Morocco		43,969	52,465	19,552
Mexico	149,505	47,485	20,305	9,525
Panama	254,717	47,551	26,161	22,120
Portugal		80,882	34,746	
Puerto Rico				
Dominican Republic		19,246	29,895	11,922
Singapore				
Uganda				

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In relation to the information for Spain, the company UFG Exploration and Production, which consists of three employees, has been excluded.

Information is not comparable with 2020, due to the fact that the Job Assessment methodology has been modified.
The exchange rate used is at the end of December 2021.

				2020
	Management team	Middle managers	Technicians	Operators
Argentina	133,431	20,405	17,916	12,604
Australia				
Brazil	167,244	36,252	16,213	11,573
Chile	322,482	71,988	36,814	22,302
Colombia		86,555		
Costa Rica				
Spain	290,484	74,878	50,840	37,392
USA				
France		100,003	47,281	36,222
Netherlands				
Ireland		211,573	57,163	
Israel				
Luxembourg				
Morocco		44,827	47,450	18,865
Mexico	113,826	29,246	18,499	11,792
Panama		33,346	19,940	15,044
Portugal			34,888	
Puerto Rico				
Dominican Republic		27,540	15,558	10,805
Singapore				
Uganda				

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In relation to the information for Spain, the company UFG Exploration and Production, which consists of three employees, has been excluded.

▪ Average fixed and variable remuneration by gender

	2021	
	Men	Women
Argentina	22,063	23,593
Australia		
Brazil	22,262	23,956
Chile	35,293	27,767
Colombia		
Costa Rica		
Spain	62,817	56,878
USA		
France	96,792	57,048
Netherlands		
Ireland		
Israel		
Luxembourg		
Morocco	38,807	39,553
Mexico	23,048	22,909
Panama	34,110	25,964
Portugal	39,344	37,521
Puerto Rico		
Dominican Republic	16,726	25,047
Singapore		
Uganda		

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In relation to the information for Spain, the company UFG Exploration and Production, which consists of three employees, has been excluded.

The exchange rate used is at the end of December 2021.

	2020	
	Men	Women
Argentina	17,645	16,492
Australia		
Brazil	21,569	22,310
Chile	42,820	35,502
Colombia	137,014	66,372
Costa Rica		
Spain	60,884	53,989
USA		
France	86,051	50,815
Netherlands		
Ireland	69,195	48,361
Israel		
Luxembourg		
Morocco	36,214	38,262
Mexico	19,842	20,316
Panama	25,715	23,478
Portugal	39,344	37,448
Puerto Rico		
Dominican Republic	14,915	26,824
Singapore		
Uganda		

NB: blank data are not published because there are no employees in that category or only men or women
In relation to the information for Spain, the company UFG Exploration and Production, which consists of three employees, has been excluded.

Average fixed and variable remuneration by age range

	2021		
	<30 years	30-50 years	>50 years
Argentina	20,145	23,428	30,988
Australia			
Brazil	13,621	21,907	27,965
Chile	14,533	32,455	34,481
Colombia			
Costa Rica			
Spain	31,589	54,977	87,467
USA			
France	63,212	76,612	
Netherlands			
Ireland			
Israel			
Luxembourg			
Morocco	13,096	29,370	43,139
Mexico	17,485	23,570	36,990
Panama	16,013	28,862	40,717
Portugal		34,746	80,882
Puerto Rico			
Dominican Republic	9,661	18,675	19,146
Singapore			
Uganda			

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In relation to the information for Spain, the company UFG Exploration and Production, which consists of three employees, has been excluded.

The exchange rate used is at the end of December 2021.

	2020		
	18-35 years	36-50 years	>50 years
Argentina	13,031	16,970	19,467
Australia			
Brazil	14,453	22,872	26,313
Chile	30,014	42,127	45,552
Colombia		57,945	124,702
Costa Rica			
Spain	36,175	55,118	72,144
USA			
France	51,339	80,745	
Netherlands			
Ireland	37,212	95,062	107,253
Israel			
Luxembourg			
Morocco	14,588	33,318	40,476
Mexico	17,729	20,543	23,390
Panama	17,974	26,457	31,977
Portugal	38,347	33,944	
Puerto Rico			
Dominican Republic	10,319	17,144	21,330
Singapore			
Uganda			

NB: blank data are not published because there are no employees in that category or for confidentiality reasons.
In relation to the information for Spain, the company UFG Exploration and Production, which consists of three employees, has been excluded.

Salary gap

The calculation of the salary gap has been done as follows:

$$Salary\ gap = \frac{Men's\ average\ remuneration - Women's\ average\ remuneration}{Men's\ average\ remuneration}\ x\ 100$$

A percentage greater than zero represents the percentage of salary that women are paid less than men. The following tables show the most relevant data for Naturgy. The difference in salary shown by the results is in line with the context of the sector and can be attributed to the company's past gender make-up, which means greater average seniority of men in comparison with women.

Salary gap (fixed)

	Management team	Middle managers	Technicians	Operators
				2021
Argentina		1.8%	4.0%	14.7%
Australia				
Brazil		6.7%	9.3%	3.0%
Chile		15.2%	7.7%	-0.3%
Colombia				
Costa Rica				
Spain	24.1%	-14.1%	6.0%	2.7%
USA				
France			11.4%	
Netherlands				
Ireland				
Israel				
Luxembourg				
Morocco		-206.7%	-2.0%	-32.0%
Mexico		20.9%	1.7%	-86.3%
Panama		-1.5%	25.1%	44.1%
Portugal			19.7%	
Puerto Rico				
Dominican Republic		-25.2%	21.5%	21.9%
Singapore				
Uganda				

NB: blank data are not published because there are no employees in that category or only men or women.
Information is not comparable with 2020, due to the fact that the Job Assessment methodology has been modified.

	2020			
	Management team	Middle managers	Technicians	Operators
Argentina		0.3%	-5.8%	35.0%
Australia				
Brazil		9.4%	14.0%	-8.6%
Chile		15.0%	10.0%	-4.0%
Colombia		46.0%		
Costa Rica				
Spain	23.8%	-3.1%	5.9%	5.6%
USA				
France		30.6%	-4.9%	
Netherlands				
Ireland		100.0%	36.6%	
Israel				
Luxembourg				
Morocco		-102.0%	23.7%	-17.8%
Mexico	100.0%	-20.6%	-7.7%	-23.2%
Panama		11.8%	2.3%	2.6%
Portugal			31.5%	
Puerto Rico				
Dominican Republic		-73.9%	32.5%	21.9%
Singapore				
Uganda				

NB: blank data are not published because there are no employees in that category or only men or women.

Salary gap (fixed and variable)

					2021
	Management team	Middle managers	Technicians	Operators	Gap
Argentina		1.5%	2.5%	13.5%	-6.93%
Australia					-
Brazil		6.7%	10.0%	2.2%	-7.61%
Chile		18.2%	6.5%	0.1%	21.32%
Colombia					-
Costa Rica					-
Spain	27.5%	-18.9%	6.0%	1.9%	9.45%
USA					-
France			11.6%		41.06%
Netherlands					-
Ireland					-
Israel					-
Luxembourg					-
Morocco		-163.1%	0.2%	-11.7%	-1.9%
Mexico		23.4%	2.8%	-112.9%	0.6%
Panama		-4.0%	24.1%	43.4%	23.9%
Portugal			16.9%		4.6%
Puerto Rico					-
Dominican Republic		-30.2%	20.8%	22.7%	-49.8%
Singapore					-
Uganda					-

NB: blank data are not published because there are no employees in that category or only men or women.

Information is not comparable with 2020, due to the fact that the Job Assessment methodology has been modified.

					2020
	Management team	Middle managers	Technicians	Operators	Gap
Argentina		-2.5%	-8.3%	40.7%	6.5%
Australia					-
Brazil		11.0%	14.8%	-8.0%	-3.4%
Chile		17.0%	9.8%	-5.9%	17.1%
Colombia		51.6%			51.6%
Costa Rica					-
Spain	27.7%	-2.3%	5.8%	5.7%	11.3%
USA					-
France		30.6%	-0.8%		40.9%
Netherlands					-
Ireland		100.0%	45.2%		30.1%
Israel					-
Luxembourg					-
Morocco		-107.1%	25.0%	-21.8%	-5.7%
Mexico	100.0%	-17.8%	0.0%	-30.4%	-2.4%
Panama		12.6%	0.4%	0.1%	8.7%
Portugal			15.9%		4.8%
Puerto Rico					-
Dominican Republic		-71.9%	34.1%	22.8%	-79.8%
Singapore					-
Uganda					-

NB: blank data are not published because there are no employees in that category or only men or women.

- **Salary gap (fixed and variable) vs median (Spain)**

				2021
	Management team	Middle managers	Technicians	Operators
Average fixed remuneration	24.1%	-14.1%	6.0%	2.7%
Average fixed + variable remuneration	27.5%	-18.9%	6.0%	1.9%
Median fixed remuneration	11.1%	-23.9%	5.1%	6.4%
Median fixed + variable remuneration	13.8%	-34.1%	2.1%	6.4%

Pension plans

[201-3]

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 more than Euros 507.1 million, which is distributed among approximately 3,855 active employees, and more than 4,897 beneficiaries and suspended participants.

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.

1.6. Labour relations

[102-41], [407-1]

Respect for the freedom to join a union; fundamental rights, collective bargaining, and the agreement culture represent key principles for Naturgy. The company respects workers' representatives freely elected in all countries where it operates, and has introduced communication channels with these representatives as a major part of the corporate action principles.

The collective bargaining agreements include several communications channels with representatives, under the form of committees to deal with the many and varied aspects of general interest.

Article 78 of the collective agreement applicable in the Naturgy Group sets out the constitution of a joint group union table for all companies that make up the scope of the collective agreement. The above-mentioned table is specifically equipped with the same competences regulated in Article 64 of the Workers' Statute, detailing the competences related to information, negotiation, prior hearing, coordination, representation, participation and oversight.

Mainstreaming and collaborative work promote the commitment of the entire organisation in matters of health, safety and the environment and are a key driver for the development of projects and actions aimed at transformation, innovation and improvement of activities and processes and, of course, the achievement of optimal results. Within this framework, it is essential that workers are consulted and take part in the regular health and safety meetings held at all levels of the company, in order to establish, implement and maintain the specific processes and bodies at all levels of the organisation, facilitating the appointment of representatives and their participation in these. This means that all employees have a channel of direct participation available to them through the joint meetings between management and employees, and 100% of the staff is represented at these meetings.

The main issues formally discussed with the workers' representatives during 2021 are summarised as follows:

- Health and safety commitment.
- Analysis of accidents.
- Launch of new regulations.
- Integral health.
- Quarterly monitoring of preventive measures.
- Negotiation meetings for the new collective bargaining agreement.
- Negotiation meetings of the Voluntary Leaving Plan.
- Equality Plan negotiation meetings.

In addition, several extraordinary committees were set up in 2021 to participate in, inform and consult on all kinds of aspects and protocols arising from the COVID-19 health crisis situation.

In line with Naturgy's commitment to information, consultation and participation, any change that affects or which could affect labour relations is passed on to the social agents in full compliance with the deadlines established in prevailing legislation. In communications to employees, when there are no longer legally established deadlines, a minimum of two weeks' notice is observed. Likewise, Naturgy has permanent open channels for the resolution of doubts and the transfer of information, beyond the established formal channels.

▪ Employees excluded and included in the agreement

	2021		2020	
	% Excluded	% Included	% Excluded	% Included
Argentina	26.9	73.1	28.9	71.1
Australia	11.1	88.9	0.0	100.0
Brazil	29.3	70.7	28.1	71.9
Chile	2.0	98.0	0.5	99.5
Colombia	100.0	0.0	100.0	0.0
Costa Rica	0.0	100.0	0.0	100.0
Spain	36.0	64.0	33.5	66.5
France	75.0	25.0	65.1	34.9
Netherlands	0.0	100.0	0.0	100.0
Ireland	0.0	0.0	100.0	0.0
Israel	0.0	100.0	0.0	100.0
Luxembourg	0.0	100.0	0.0	100.0
Morocco	39.3	60.7	37.8	62.2
Mexico	21.1	78.9	20.3	79.7
Panama	55.6	44.4	56.0	44.0
Portugal	0.0	100.0	0.0	100.0
Puerto Rico	100.0	0.0	75.0	25.0
Dominican Republic	2.8	97.2	4.1	95.9
Singapore	0.0	100.0	0.0	100.0
Uganda	0.0	100.0	0.0	100.0
Total	**30.0**	**70.0**	**25.5**	**74.5**

The composition/proportion of unsubscribers from the Voluntary Leaving Plan carried out in Spain in 2021 did not have the same relation as in the previous year in the staff (personnel not covered by the collective bargaining agreement vs. the entire country), which is reflected in the variation of this indicator.

1.7. Internal communication

[402-1]

In the post-pandemic context that has characterised 2021, Naturgy's internal communication model has become a fundamental driver of transparency and cohesion among all the teams, while it has promoted organisational alignment, evolved towards new online actions and support, as well as the recovery of some face-to-face meetings, specified (especially during the second half) in the coffee-breaks with Senior Management, a programme in which 11 meetings have been held in which more than 200 people have participated.

During the year, thirty meetings have been held between employees and the company's management, where those attending have received first-hand key messages from the company, having the opportunity to express their concerns and opinions at each level. Specifically, through the "Team" programme, meetings with management in digital format have been encouraged, promoting a close and direct conversation on issues of interest to the organisation. In addition, especially in 2021, the focus has been placed on the Strategic Plan 2021-2025 presented in July and on Naturgy's new purpose launched in November 2021.

Regarding online media, Naturgy has different channels for communication with its employees, such as Naturgynews (Naturgy's digital newspaper), NaturgyNet (corporate intranet) and Teams. During 2021, the first two channels have been integrated into the Teams environment, a new immediate, fresh and dynamic communication channel, NaturgyTeam (which reports milestones of special relevance), has been generated, and a new employee portal specifically dedicated to the Strategic Plan has been implemented. This portal was launched at the end of October 2021 and by the end of the year had over 2,000 users. In a complementary manner, some businesses have their own internal communication channels, where corporate messages and focus points are reinforced from a local perspective.

All this has enabled the implementation of new programmes that promote progress in the company's strategic lines and cultural transformation, through the communication of organisational, business and project milestones.

2. Health and safety

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

(Occupational safety)

What does this means for Naturgy? Risks and management approach

Naturgy plans and carries out its activities with the firm belief that nothing is more important than health, safety and well-being of people. In this regard, the company's actions are not limited to simply complying with legal obligations and other requirements which it chooses to adopt of its own free will; in fact, it continuously seeks to improve working conditions and management of safety, health and well-being. It therefore involves not only the people who are part of Naturgy, but also suppliers, collaborating companies, customers and other stakeholders with the aim of preventing and avoiding accidents and damage to health, creating a safe and healthy environment and promoting their health and well-being.

The implemented health and safety management system articulates different tools developed around the main health and safety vectors and that guarantee adequate integration at all organisational levels, from decision-making to any activity that is carried out or commissioned. It includes several lines of action aimed at controlling the six most critical risk factors for accident frequency and severity: confined spaces, work at heights, electrical risk, tree felling and pruning, load handling and road safety. For each of these six factors, "red lines" have been defined, the non-compliance of which is subject to special supervision and the application of sanctions.

What is our commitment?

- Guarantee that health and safety are non-delegable individual duties, and that they are taken on by senior management through a visible collective commitment, proactively accepted and implemented by the entire organisation, and by our suppliers and collaborating companies.
- Establish health and safety as an individual responsibility and as a condition of employment at Naturgy and of the activity of its collaborating companies.
- Ensure that any potential risk situations that may affect employees, suppliers, customers, the general public and the safety of facilities are brought to attention, assessed and managed in an appropriate manner.
- Work to maintain a risk-free working environment by integrating prevention of occupational risks, and the protection and promotion of health and well-being into business management.
- Establish learning as the driver of a safety culture, by means of ongoing training, accident and incident analysis, the dissemination of lessons learnt, education and the promotion of health.
- Incorporate health and safety criteria into business processes, new projects, activities, facilities, products and services, and in the selection and assessment of suppliers and collaborating companies, non-compliance with which will condition the commencement or continuity of their activity.
- Invest in new strategies of health education and health promotion, which allow the workplace to become the vector of transmission of healthy conduct for workers and their environment.
- Implement measures targeted at improving the quality of life, well-being and health of people within the communities where the company operates.
- Provide the resources and necessary means to enable compliance with established safety standards at all times.
- In order to convey this commitment to stakeholders, the units identify their stakeholders, needs and expectations and what the current or potential legal or other requirements could be, in order to adapt safety management to the different realities in which they operate.
- To this end, active policies are promoted to encourage the organisation's leadership and commitment and multidisciplinary competence centres are set up to promote participation and the identification of proposals to improve conditions in terms of safety and well-being.

Health and safety context 2021

Covid-19

In 2020, the health and safety context of Naturgy was marked by pandemic, which led to the need to refocus preventive activities to meet the requirements associated with this situation. To this end, Naturgy adapted its procedures and implemented measures to maintain the activity, while prioritising safety and well-being, and minimising risks, both for its staff and its partners.

In 2021, the change of scenario following mass vaccination has made it possible to relax the prevention measures put in place during the height of the pandemic. In this regard, and to the extent that the positive evolution of the global situation has allowed it, Naturgy has implemented a plan for a gradual recovery of normality, reviewing the restrictions and measures to enable a gradual return to work centres, combining the face-to-face activity with remote work.

To this end, all COVID protocols applied to date have been reviewed, maintaining all those prevention measures that have proven to be effective and making more flexible or even eliminating those that the vaccination process makes unnecessary in this new stage.

Naturgy continues to permanently monitor the evolution of the pandemic in each of the regions where it operates, in order to adapt in an expeditious and flexible way the measures to be applied in each area.

During the year, the ambitious pandemic response campaign continued by maintaining the personalised, daily and global surveillance started in February 2020, facilitating telephone medical support for staff and promoting teleworking as an effective isolation measure. New channels of communication have also been established through the employee helpdesk.

Health and Safety Action Plan 2021-2023

In 2020, Naturgy's accident rates were below the average for the sector, but the fatal accident rate associated with the operational activities carried out by its collaborating companies increased significantly.

To reverse this situation, in the first quarter of 2021, Naturgy's Management Committee approved an ambitious safety plan with a three-year timeframe (2021-2023), whose chief goal is to drastically reduce the fatal accident rate of collaborating companies and its consolidation over time.

This action plan, which covers all geographies and businesses where the group operates, affects the entire safety management model, and identifies six transversal drivers that are considered essential to consolidate Naturgy's safety culture. The goal is also to achieve the company's Vision Zero, focusing on those management tools that have a more direct impact on reducing the accident rate associated with outsourced activities.

The 6 cross-cutting lines of action

1. Visible leadership and safety culture: strengthening leadership and awareness actions, fundamental pillars of Naturgy's safety culture.
2. Collaborating companies (CCs): to improve control over CCs and reduce the associated fatal accident rate.
3. Digitalisation and reporting: improving safety through innovation and technology.
4. Operational discipline and effort metrics: ensure compliance with legal requirements and the goals defined in the safety management model.
5. Safety in large works and projects: guarantee the integration of safety in all phases of the decommissioning works of thermal power stations, and in new renewable energy generation projects from the design phase.
6. COVID-19: to ensure the availability of COVID-19 protocols in all the company's areas of activity.

These six transversal drivers are materialised in more than 30 specific lines of action, and are aimed at reinforcing the safety model in all businesses and improving the level of safety performance of CCs.

Evolution and results 2021

[403-9], [403-10] and [IF-EU-320a.1]

	2021			2020		
	Total	Men	Women	Total	Men	Women
No. of lost time accidents (No. of employees)	8	7	1	4	3	1
No. of recordable accidents (No. of employees)	9	8	1	11	10	1
No. of accidents with serious consequences (No. of employees)	0	0	0	1	1	0
Days lost due to lost time accidents	201	188	13	438	380	58
Mortality rate	0	0	0	0.00	0.00	0
Deaths	0	0	0	0	0	0
Lost time accidents frequency rate	0.10	0.13	0.04	0.04	0.03	0.04
Recordable accident frequency rate	0.12	0.15	0.04	0.10	0.14	0.03
Total recordable incident rate (TRIR)	0.12	0.15	0.04	0.10	0.14	0.03
Near miss frequency rate (NMFR)	4.74	-	-	4.93	-	-
Frequency rate of accidents with serious consequences	0	0	0	0.01	0.01	0
Death frequency rate	0	0	0	0	0	0
Lost time accidents severity rate	2.61	3.61	0.52	4.14	5.34	1.67
No. of hours worked (1)	15,411,970	10,412,663	4,999,307	21,157,180	14,221,393	6,935,787
Occupational illnesses	2	2	0	1	1	0

(1) The international criteria of the American Gas Association has been used to calculate hours worked, which establishes 1960 hours per employee per year.

NB: 2020 includes data from Chile electricity.

As a result of the implementation of the Health and Safety Action Plan 2021-2023, there has been a significant decrease in the fatal accident rate in collaborating companies, from four fatal accidents in 2020 to one in 2021, without including data from the Chilean company CGE, as it was deconsolidated at the end of the year). The objective for the coming years is to consolidate this decrease and reach the goal of zero fatal accidents in Naturgy's activities.

The fatal accident in 2021 occurred during recovery work for damage caused by a snowstorm that severely affected the electricity distribution network. While carrying out mechanical work to repair the electrical wiring, an electrical contact was made on a part of the installation that had accidentally been energised. As a result of this investigation conducted, a safety protocol applicable to emergency situations has been developed, which includes additional safety measures to those applicable to programmed work carried out under controlled conditions and environment.

In 2021, two cases of occupational illness, derived from occupational accidents, have been reported in Spain.

1. Health and safety management strategy and system

[403-1] and [403-8]

Naturgy's safety strategy, developed in collaboration with the business units, is structured through the following elements:

- A stable health and safety culture throughout the organisation.
- A relational and governance model, integrated at the highest level and with a structure of Environmental Health and Safety (EHS) committees of a transversal nature and specific to the business units, which guarantees the uniform implementation of criteria.
- The integration of health and safety in the value chain, including procurement, design and planning of activities and facilities, implementation and all elements that support control and monitoring.
- An integrated occupational health and safety management system audited and certified by a third party, with scope for all businesses.

- Action plans to address the most critical aspects, ensuring the implementation of preventive and/or corrective measures and strategic lines of work.
- Training itineraries and requirements adjusted to the job, and training and awareness to achieve the commitment of the group and its CCs.
- Uniform supervisory tools for the assessment and monitoring of risks, legal requirements, accidents and lessons learnt and their dissemination.
- Periodic reporting of health and safety performance, adjusted to the needs of the different stakeholders, with transparent and clear communication.

Five lines of action on which the management system pivots:

01 **Leadership**

02 **Employees**

03 **Collaborating companies**

04 **Management of process security and facilities**

05 **Society**

The occupational health and safety management system is integrated with the quality and environmental management systems, where it forms an integrated system applicable to all Naturgy processes and activities, including all businesses and countries.

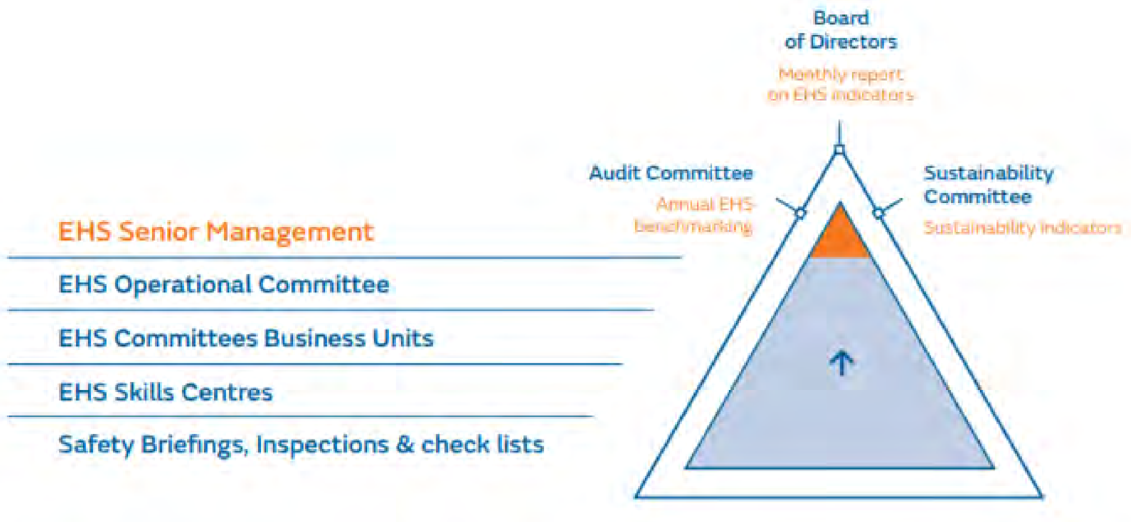
Specifically, the scope of the management system includes all Naturgy companies with a majority shareholding, as well as those companies or entities over which the group has responsibility for their operation and/or management, and which execute one or more of the processes defined in the Global Policy on Standards.

In addition, it has been verified that the scope of the system includes all the groups identified in the definition of "worker" contained in the new standard 45001, which extends beyond the existence of an employment relationship, and the universalisation of the concept of the workplace and the degree of control over it.

Health and safety leadership

The Global Health and Safety Policy, approved in 2019, reinforces safety as a key factor of business leadership and ensures compliance with the commitments made in the Naturgy's Corporate Responsibility Policy. It places the focus on governance and links directly to Senior Management, enhancing its leadership in safety to ensure application of the model in all businesses and activities, both in-house and outsourced. In addition, the Policy is linked to monitoring the evolution of indicators and action plans arising from incidents and accidents.

With this vision, the EHS governance model is consolidated, with a top-down health and safety committee structure, which is adapted to the new business structures and guarantees that criteria are implemented uniformly throughout the organisation.



Common health and safety regulatory framework

Health and safety standards guarantee that activities are carried out under the same safety conditions in different areas and countries. The implementation of competence centres to collectively address the main safety processes and risk factors has enabled the alignment of corporate standards and the maintenance of a common regulatory framework adapted to a changing organisational environment. This work promotes the commitment of the entire organisation towards improving safety and achieving optimal results, while ensuring ongoing adaptation and review.

The common regulatory framework established is complemented by technical and safety procedures and instructions by type of activity and through a system for managing work permits for risk activities.

Vision Zero

[102-12] and [102-13]

Naturgy has adopted Vision Zero, a transformative approach to prevention promoted by the International Social Security Association (ISSA) and which is designed to foster a culture of prevention in organisations through the implementation and development of seven golden rules that promote a generalised commitment by the organisation and a sustained and global effort as a safeguard against any damages to health in the workplace.

7 golden rules

Assume leadership - demonstrate commitment I Identify hazards - assess risks I Define goals - develop programmes I Ensure a safe and healthy system - be well organised I Ensure health and safety in machines, equipment and workplaces I Improve qualifications - develop skills I Invest in people - motivate through participation.

This vision is complemented by the assumption of five health and safety management principles that regulate all activities and are shared and extended to all CCs.

Five principles of health and safety

01	Nothing is more important than health and safety	...not production, not sales, not profits.
02	All accidents can be avoided	... there are no inevitable accidents.
03	Safety is Management's responsibility	... and it must be managed as such.
04	Safety is an individual responsibility	... and a condition of employment, and of procurement for collaborating companies.
05	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.

2. Risk management

[403-2] and [403-7]

For the assessment and control of health and safety risks, Naturgy has technical procedures and standards of a transversal nature that apply to the whole group. The business units, which now have greater autonomy and responsibility in health and safety management, guarantee the dissemination and implementation of these procedures and standards and ensure an adequate level of operational discipline in the way they are applied.

Naturgy has an occupational health and safety management system (OHSMS), whose main risks and opportunities have been duly identified and evaluated, to take action to prevent the materialisation of risks and to take advantage of the opportunities that can help improve its performance.

Risk	**Causes**	**Assessment (*)**	**Actions to address it**
Loss of homogeneity of the criteria supported in the Occupational Health and Safety Management System (OHSMS).	Organisational model with greater business autonomy.	Moderate	– Enhance the activity and contents of the H&S operating committee. – Consolidate the organisational model of prevention based on competence centres coordinated by corporate prevention governance and sponsored by the heads of the business areas.
Inadequate maintenance of the OHSMS (non-compliance with action plans, failure to follow up on corrective actions, inadequate management review).	Lack of resources.	Tolerable	– Annual monitoring of compliance with the actions of the OHSMS, with issuance of a report.
Loss of preventive culture, ineffectiveness in achieving goals.	De-motivation, excessive information, high number of contracts.	Moderate	– Introduce annual safety plans that include awareness and training actions. – Meetings with contractors, transmission of Naturgy values.
Major differences in the implementation and monitoring of EHS in the group.	Greater business autonomy in Occupational Health and Safety.	Moderate	– Provide the businesses with the necessary resources for the development of their activity and with hierarchical dependence on the business management.
Inadequate reporting (accuracy of data, roles and responsibilities, etc.).	Organisational changes.	Tolerable	– Reinforce the EHS governance model, with training and tools that facilitate reporting.
Non-compliance with any legal requirement on OHS.	High volume of applicable legal requirements.	Moderate	– Keeping the Themis tool up-to-date. – Performing the legal compliance verification reports. – Compliance controls and Crime Prevention Model.
Accident rate increase.	Lower level of demand and safety monitoring at collaborating companies.	Moderate	– Regular monitoring of indicators. – Red safety lines and disciplinary regime. – Coordination meetings. – Health and Safety Action Plan 2021-2023.
COVID-19.	Global impact on Naturgy's activity in all geographies and businesses.	Moderate	– COVID-19 lifting of lockdown plan and crisis committee to monitor it. Business-specific contingency plans. – Ability to rapidly adapt COVID-19 protocols and countermeasures to the evolution of the pandemic.

(*) Risk assessment criteria as set out in the corporate standard of identification, evaluation and control of occupational risks.

Opportunity	Assessment (*)	Actions to address it
Consolidation of the safety model based on ISO 45001, certified in 2020, promoting greater coordination and synergy between businesses.	Optimum	– Development and maintenance of an effective and efficient management system. – Enhance the activity and contents of the H&S operating committee. – Consolidate the organisational model of prevention based on competence centres.
Collaborative work model based on competence centres comprising personnel from the different business areas.	Optimum	Evaluate performance and maintain the instance in the next months of OHS action.
Reinforcement of the preventive culture based on new ways of working (digitalisation, risk perception, organisation-based safety etc.).	Normal	Digital pre-control tool, innovation applied to reduce risk exposure.
Enhance the model of self-diagnosis of the level of implementation of the IMS based on objective criteria (accountability of the business units).	Optimum	Development of a tool that facilitates self-diagnosis of the level of compliance by business units.
Consolidation of centralised tools for the management of core safety processes.	Optimum	– Centralised corporate tools (Prosafety, Control A, Themis). – Design, evolution and efficient use of a single system.
Maintaining a certified, third-party audited management system supports compliance and the Crime Prevention Model.	Optimum	– Maintain a robust integrated management system team. – Keep certifications up-to-date.
Unified list of root causes for a homogeneous analysis of accident rates in all countries and business units.	Optimum	Updating the Prosafety tool to include the new root causes and performing homogeneous analysis.
COVID-19. Review of all implemented measures.	Optimum	Review of all COVID-19 measures and protocols implemented and verification of their suitability to the criteria set out in ISO 45005.

(*) Opportunity assessment criteria:
Optimum: the opportunity can clearly help improve the performance of the OHMS.
Normal: the opportunity and its impact on the performance of the OHSMS must be analysed and actions implemented considering the costs, level of effectiveness and the scope of the measures of the organisation.
Small: the opportunity may be rejected until the probability of performance improvement in the OHMS improves.

Beyond legislative compliance, which requires the stoppage of work when professionals may be exposed to a serious and imminent risk, Naturgy's health and safety management system incorporates the tool of preventive stoppage of work and activities. This tool empowers any worker, whether they belong to us or to any of our CCs, to stop or not carry out any activity in which they have detected risk situations not foreseen in the established risk identification procedures.

In the case of CCs, as a fundamental part of Naturgy's Health and Safety Commitment, proactive work stoppage is included in the safety performance indicators of the contractor companies with positive evaluation.

Risk assessment and management mechanisms

[403-2]

Naturgy focuses its strategy on avoiding risks and minimising those that cannot be eliminated. For the latter, it has instruments for operational control that guarantee that the activity of its workers and collaborators is carried out in the most adequate conditions and in compliance with the contractual, voluntary or legal requirements.

Within Naturgy's OHSMS, and as one of its key processes, the system used for identification of occupational hazards and risk assessment for the organisation's employees has been defined through the corporate standard of identification, assessment and control of occupational risks. Among other issues, it establishes the guidelines for the identification of the risks to which workers may be exposed, the risk assessment methodology, the responsibilities associated with the execution of these processes and the competencies of the personnel taking part in them, the participation of workers' representatives, the frequency of their performance, the criteria for transferring the resulting information to the employees and the criteria for the review processes that guarantee their effectiveness.

To ensure that all information identified in this context is also appropriately shared with the rest of the 'workers' (contractors, suppliers, visitors, etc.), there is a coordination process that is used with contractors to ensure that these workers receive and are aware of relevant information on hazards and risks. There are also health and safety measures to be applied in the development of the activity to minimise the risks associated with the contracted activities and to ensure that their level of safety is equivalent to that of their own staff. This process considers different actions that are applied depending on the type of contract, the activity contracted and the work centre where it is carried out, such as:

- Definition of health and safety contracting prerequisites.
- Setting up the corresponding means of coordination according to the type of activity contracted (documentary exchanges, coordination meetings, etc.).
- Control and supervision of the safety conditions in the performance of the works where necessary.

Similarly, in the case of workers recruited under a temporary employment agency service provision scheme, a process is applied to ensure that, before the worker is actually hired, he or she receives information on the risks associated with the work to be carried out and the work centre where it will be performed, as well as the protection and prevention measures to be taken against such risks.

Naturgy has developed and implemented operational controls that ensure effective management of occupational risks, in accordance with the standards. The performance in 2021 of these inspection, monitoring and control mechanisms implemented in all business units was as follows:

6,819 Preventive safety **observations**	**26,196** Documented occupational safety **inspections**	**2,380** Zero Tolerance **records** and preventive stoppages of work
100% **Investigation** of accidents and incidents that occured	**Lessons** learnt	Safety **contacts**

In addition, and to facilitate notification of deviations in safety and risk conditions and to redress these, without this being of a disciplinary nature, Naturgy has introduced the "Zero Tolerance" tool. The tool's purpose is to demonstrate that unsafe behaviours are not tolerated at Naturgy and that, if they are detected, the company gets involved in resolving them. Accordingly, all Naturgy personnel are responsible for detecting, resolving and reporting deviations as part of their commitment to safety. The development and application of this tool is done according to the Health and Safety Standard NT.00041.GN-SP.ESS Zero Tolerance with deviations (0 Tolerance).

Ultimately, all workers have the Code of Ethics channel where they can make complaints about important safety breaches that have to be treated confidentially, impartially and without fear of reprisal.

Any findings that arise from Naturgy's monitoring mechanisms and periodic review of hazards and risks are duly incorporated into the integrated management system, to ensure that it remains effective, efficient, and valid in achieving the intended objectives and goals. In this way, the various conclusions and proposals, together with other relevant information, are brought together in a global Naturgy-level system review report. All this is set out in the Integrated Management System Review Procedure, which defines the methodology and responsibilities.

Risk map and process safety management

[403-2]

Process safety is a necessary complement to occupational and industrial safety in order to manage all risks associated with the facilities and their operation. The maintenance and verification programmes for regulatory compliance of facilities are supplemented by process safety management standards aimed at ensuring the mechanical integrity of assets, management of changes - both in personnel and in technology and facilities - and adequate management of possible emergencies.

Each business unit has an updated view of the risk levels of its main facilities, which allows it to focus on higher risk situations in a standardised way and thus to be able to prioritise actions aimed at:

- Maintaining:
  - Facilities in good condition.
  - A reliable service.
  - Operating license.
  - Good relations with authorities and community.
  - Reputation.
  - Creating value and employment.
  - An image of lower risk for investors.
  - Improving competitiveness, efficiency and costs.
- Avoiding:
  - Serious accidents and their consequences.
  - Material and equipment losses.
  - Environmental damage.
  - Interruptions in business operations.
  - Fines, penalties and compensation.
  - Costs of accident investigation and remedial action.

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

The Naturgy's Group commitment and its extension to CCs requires strict control of the critical factors that have the greatest influence on the most serious accidents. To this end, specific management mechanisms are applied to ensure this level of demand, promote continuous improvement and significantly reduce the accident rate in the CCs:

- They are not invited to the selection process if they do not meet the health and safety requirements.
- They can be disqualified if they do not meet the contractual safety and health requirements.
- Priority for employee training: demand of individual training certificate, verification of legal accreditations when required.
- Application of a sanctions regime if non-compliance is detected.

With the aim of eliminating accidents in collaborating companies on the road to Vision Zero and, specifically as part of the Health and Safety Action Plan 2021-2023 , Naturgy has reviewed the safety performance process, including positive metrics tools that improve safety proactivity in these companies. The two main tools that have been reinforced are as follows:

- Proposals for improvement of health and safety (HSP): these are initiatives or improvement actions proposed by any person of Naturgy or its CCs to improve the safety of any process or activity. They are subjected to a process of analysis, assessment and implementation, and can be considered positively for the assessment of the health and safety performance of the CCs.
- Safety work stoppages tool: empowers any worker, whether they work at the company or at one of our CCs, to stop or not complete any activity in which they have detected situations of risk not foreseen in the established risk identification procedures. Its communication is included in the positive metric that recognises the safety proactivity of the collaborating companies.

Accident indicators of contractors

	2021	2020 (1)
No. of lost time accidents	75	66
Days lost due to lost time accidents	1,941	2,624
Deaths	1	5
Lost time accidents frequency rate	0.37	0.26
Lost time accidents severity rate	9.50	9.60

(1) 2020 figures include data from the electricity company CGE Chile, which was separated from the perimeter at the end of the year.

Management and investigation of accidents and incidents

[403-2]

Investigation and analysis of events are essential for the identification of actions aimed at minimising risk situations, improving the safety of operations and reducing accident rates. In 2021, 2,796 incidents and accidents have been analysed and investigated and proactively reported throughout the organisation.

The basic action criteria for identification, processing and investigation of the causes of accidents and incidents are defined in the standard Process for the communication, investigation and monitoring of accidents and incidents or in the procedure for the management of findings of the Integrated Management System in the case of deviations identified in the processes, or when non-conforming products and/or services are detected.

The investigation process begins as soon as the incident becomes known, by going to the scene (if applicable). The persons carrying out the investigation, in order to know "in situ" the circumstances in which it occurred, collect physical evidence and gather information (photographs, diagrams, measurements, operation records, etc.). This information is then supplemented with the interviews, review of procedures, trials or analyses deemed necessary.

The purpose of the investigation throughout the process is:

- To identify the primary and underlying causes, as well as the factors that contributed to the accident/ incident: Why?
- To identify, if necessary, measures to prevent or reduce the risk of the event repeating itself, establishing the appropriate improvements: learning.

The processes of investigation involve participation by the workers' line managers, those responsible for the activity, process or facility affected, workers involved, workers' representatives and any other person who can provide relevant information to determine the causes that produced the event.

To facilitate the first purpose, Naturgy has a unified incident investigation system whose model is based on root cause analysis and optimised according to existing best practises and the HFACS (Human Factor Analysis Classification Scheme) methodology. The model pivots on the following action areas:

Organisational context	Monitoring	Previous conditions	Unsafe Acts Operations
Resources management. Organisation and processes.	Inadequate supervision. Inadequate planning. Prevention management.	Worker conditions. Technical means and materials. Physical environmental conditions. Environmental conditions.	Errors. Breaches.

This change helps in reporting and investigating accidents in the following ways:

- Optimising analysis and comparing between business units.
- Helping in the process of capturing information and disseminating lessons learnt.
- Shedding light on root causes through gradual reflection.
- It discriminates between responsibilities and analyses the hierarchical levels at which to act.
- Helping in adopting short and medium-term measures including the review of processes, activities and applicable standards.

In relation to the second purpose any finding arising from the research feeds into the risk assessment, so if the need is detected, a review of the risk assessment is carried out, recording the reason. It also opens the corresponding non-conformity, corrective and preventive actions of the integrated management system of quality, environment, health and safety, to restore compliance as soon as possible in order to minimise consequences and avoid a repetition.

The idea of Serious and Fatal Injury Precursors (PLGF), which contributes to both accident investigation and improvement implementation, is new to the Health and Safety Action Plan 2021-2023. This concept identifies a condition or behaviour that, if not corrected, may result in serious or fatal injury, as well as a high-risk situation in which safety measures are absent, ineffective or not followed, and which, if maintained, may result in serious or fatal injury.

It involves a change of focus in the analysis and monitoring of accidents and incidents, paying special attention to those identified in this PSFI category, carrying out an even more exhaustive investigation process and a rapid implementation of those control measures that act on these “precursors” eliminating them or reducing their impact.

Analysis approach and follow-up of accidents and incidents: PSFI

The process followed for the implementation of this methodology throughout the organisation is as follows:

- To train the group in the PSFI analysis methodology.
- Identify events with a high potential to cause serious or fatal harm (PSFI).
- Review processes to identify and eliminate precursors, and define golden rules of safety.
- Integrate the results of this Plan into the health and safety management system.
- Establish golden rules or “life-saving rules” to prevent the most important risks.

Safety among 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, CCs, customers and other stakeholders. The duty involves identifying the safety risks to which people are exposed in their work and travel, and the necessary measures or actions with which to mitigate them.

- **Protocols for actions at home and at customers' facilities**, aimed at passing on to Naturgy staff the safety standards issued by the competent health authorities in order to work safely in the face of the COVID-19 pandemic. Within the operational protocols, the protocol for action in home operations has also been reviewed to adapt it to the lockdown easing phase.
- **Security protocols at Naturgy stores**, with the aim of passing on to collaborators the instructions given by the competent authorities and protecting the employees of the stores and the customers. These documents have been updated based on publication of new regulations and generating an action protocol for each lockdown easing phase with the prevention measures and permitted capacities.

Naturgy establishes and maintains effective communication channels with customers regarding to:

- Information concerning the product/service, and its safety.
- Service Level Agreements (SLA).
- The consultations, contracts, handling registrations, cancellations and modifications.
- Customer feedback, including complaints.
- Incident management.
- Protocols for action in emergency situations/contingency actions.

The information obtained, especially complaints or claims, is used as an opportunity for improvement to increase the levels of customer satisfaction in their dealings with Naturgy.

As for the dangers and risks of the product or service, before its commercialisation or provision, all applicable requirements are clearly determined. This is to develop products and services that respond to demand and improve the level of safety and satisfaction. Requirements can be defined by the customer (needs and expectations), regulations, standards (internal and external) or be intrinsic to the service.

This means that purchased products and/or contracted processes that may have implications on quality, safety, health and welfare of people, safety of facilities or have a significant environmental impact, are verified to ensure they meet the requirements set out in the purchase documents. The verifications to be carried out in each case are defined in the regulations or specifications associated with the product or service in question.

In addition, whenever necessary each Unit establishes the necessary mechanisms for the preservation and control of the product during the internal process and delivery to the intended destination, to maintain compliance with application, identification, handling, packaging, storage and protection requirements. Furthermore, changes in production or service delivery, whether planned or unplanned, that may affect compliance with requirements are also reviewed and controlled, and action is taken to mitigate any adverse effects as necessary.

Below are the accidents, injuries and casualties, among the public, that occurred during 2020 and 2021 that have been investigated for their possible relation to the company's activities, classified by country and business type.

[EU25] Injuries and fatalities to the public involving company assets		2021 Accidents (No.)	2021 Injuries (No.)	2021 Deaths (No.)	2021 Legal actions (No.)	2020 Accidents (No.)	2020 Injuries (No.)	2020 Deaths (No.)	2020 Legal actions (No.)
Argentina	Gas business	16	5	2	5	12	10	4	0
	Electricity business	0	0	0	0	0	0	0	0
	Total	**16**	**5**	**2**	**5**	**12**	**10**	**4**	**0**
Brazil	Gas business	2	2	0	0	0	0	0	0
	Total	**2**	**2**	**0**	**0**	**0**	**0**	**0**	**0**
Chile	Gas business	0	0	0	0	0	0	0	0
	Electricity business	N/A	N/A	N/A	N/A	24	23	4	2
	Total	**0**	**0**	**0**	**0**	**24**	**23**	**4**	**2**
Spain	Gas business	28	90	7	25	24	84	1	2
	Electricity business	7	4	0	0	1	0	0	0
	Total	**35**	**94**	**7**	**25**	**25**	**84**	**1**	**2**
Panama	Electricity business	1	1	0	6	1	1	0	1
	Total	**1**	**1**	**0**	**6**	**1**	**1**	**0**	**1**
Mexico	Gas business	0	0	0	0	2	4	1	1
	Total	**0**	**0**	**0**	**0**	**2**	**4**	**1**	**1**
Total	**Gas business**	**46**	**97**	**9**	**30**	**38**	**98**	**6**	**3**
	Electricity business	**8**	**5**	**0**	**6**	**26**	**24**	**4**	**3**
	Total	**54**	**102**	**9**	**36**	**64**	**122**	**10**	**6**

3. Communication to employees and action plans

Every year, Naturgy publishes the group's health and safety performance to inform all its stakeholders. It regularly carries out in-house communication actions aimed at the entire organisation. In all communications, it takes into account diversity issues and the views of stakeholders, including suppliers and visitors. The company has a specific channel on the intranet to guarantee global dissemination of health and safety content.

In relation to the COVID-19 crisis, a specific communication plan has been implemented since its appearance to disseminate the action protocols applicable at all times, using the different channels available.
The approval of the Health and Safety Action Plan 2021-2023 by the Management Committee was followed by a communication campaign throughout the organisation to publicise the main lines and actions set out in the plan, and to achieve maximum commitment from all employees in achieving the goals set.

Consultation and participation
[403-2] and [403-4]

The ambitious project of cultural change that began in 2012 would not have been possible without the involvement and collaboration of Naturgy's workers at all levels. Empowering people through consultation and participation in safety, health and well-being is a priority in order to identify, correct and eliminate situations of potential risk and optimise results.

Through the procedure of internal and external communication, consultation and participation of the integrated management system of quality, environment, health and safety, Naturgy establishes, implements and maintains specific processes and bodies for consultation, participation and two-way communication with employees:

- Health and Safety Committees, a joint and collegiate body representing workers.
- Various channels for participation and consultation—notice board, personalised letters, intranet, suggestion boxes, Employee Care Service (SAE)—through which anyone can propose ideas, comments, complaints or improvements, without barriers or obstacles.
- Regular health and safety meetings are also held to ensure smooth communication between unit managers and their teams in accordance with the Health and Safety Standard. These enable us to keep the commitment in this area alive and to promote awareness and participation of all employees, also responding to their information needs through their lines of command.
- Individual commitment is enhanced through tools such as "Zero Tolerance", preventive safety observations and documented safety inspections.
- Ultimately, all workers have the Code of Ethics channel where they can make complaints about important safety breaches that have to be treated confidentially and impartially.

As required by ISO 45001, Naturgy guarantees disclosure of the results of the management system review by Management to the workers' representatives, encouraging their collaboration in the review and continuous improvement of the management system.

The Health and Safety Committee has the following competences:

- To take part in the elaboration, implementation and assessment of risk prevention plans and programmes.
- To discuss projects in the field of planning, organisation and development of work and protection and prevention activities, including training in preventive matters.
- To promote initiatives on methods and procedures for the effective prevention of risks, proposing to the company the improvement of conditions or the correction of existing deficiencies.
- To be directly aware of the situation regarding occupational risk prevention, making the visits it deems appropriate for this purpose.
- To be aware of the documents and reports relating to working conditions that are necessary for the performance of its duties.
- To be aware of and analyse the damage caused to the health or physical integrity of workers, in order to assess its causes and propose appropriate preventive measures.
- Provide suggestions and concerns in order to contribute to the proposal of secondary prevention and health promotion campaigns, as well as to promote the dissemination of information about what has been planned and agreed in this regard.
- To be aware of and disclose the annual report and programming of prevention services.

These Health and Safety Committees meet on an ordinary basis at least once every quarter, and on an extraordinary basis when very relevant events occur or at the request of any of the parties.

Due to the COVID-19 crisis, extraordinary meetings were held to monitor its development in the staff, to present the status of the application of the ad-hoc plans to address this crisis and to contrast the measures to be applied in the different areas of activity of Naturgy (offices, stores, critical facilities, home care, etc.).

Divulgation

[403-4]

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 businesses.

At the same time, Naturgy promotes actions aimed at improving the safety of the environment in which it carries out its activity, where the following activities are particularly important:

- Participation and leadership in national and international sector-specific and safety forums.
- Participation in a research project for the creation of a new psychosocial assessment instrument together with entities of the competent administration and 40 companies of recognised prestige.
- Collaboration with public administrations in safety awareness campaigns.
- Active sponsorship of safety conferences in the gas and electricity sectors.
- Promotion of sectorial accreditation models.
- Promotion of forums for the exchange and dissemination of best practices with collaborating companies.
- Carrying out joint safety meetings with collaborating companies.

In 2021, the group's intranet was renewed and updated, giving prominence to the dissemination of the most relevant health content, in order to provide employees with access to the many health campaigns available to them, which, in addition to being offered during medical check-ups, can be easily consulted and requested. The health area is currently working to create a web portal in 2022, which will allow secure access for workers to consult individual information derived from both medical examinations and tests carried out in the context of health campaigns.

4. Training and awareness

[403-5]

In 2021, this issue has been the area of knowledge on which most hours have been spent, training a total of 20,045 participants over 888 sessions, which translates into 43,004 training hours.

By carrying out health and safety training and awareness actions, people are encouraged to get more involved in the organisation. As a result of the cultural change implemented years ago, Naturgy has a variety of consolidated learning and improvement tools and relies on the Occupational Risk Prevention Classroom, —a tool of the Corporate University— to meet the established objectives.

The training itineraries defined are aimed at training employees in the risks and safety measures to be applied when carrying out their activities. These itineraries highlight training associated with the most critical risk factors such as electrical risk, working at height, working in confined spaces, cargo handling, road safety, etc., as well as other activities aimed at improving the level of risk perception and health and safety leadership.

Health-related training courses have been aimed at empowering employees and building their resilience against day-to-day stress and the psychological effects of the pandemic, and promoting mental health care. Modular distance learning courses, already implemented in previous years, on the management of emotions or mindfulness have been very useful in the promotion of well-being, as well as in raising awareness of the emergency of mental health disorders.

Training of collaborating companies

Within the integral health and safety management model for collaborating companies, work is being done to extend the culture of health and safety to suppliers, collaborating companies and their employees, promoting a change in culture through the dissemination, awareness and increased sensitivity about health and safety, and by making the lessons learnt by Naturgy available to collaborating companies.

The main courses are made available through the Extended University specifically aimed at CCs and the rest of the informative contents such as “lessons learnt”, “safety contacts”, etc., are exchanged and disseminated through a two-way document management platform to which the collaborating companies have direct access, or in safety meetings and briefings.

Internal rules of global application have also been established in which coordination between operational business units and their CCs is promoted.

5. Certifications, safety audits and process diagnostics

[403-1] and [403-8]

Naturgy has an occupational health and safety management system, audited and certified by a third party in accordance with the ISO 45001 specification and whose scope is global, including all businesses and countries. Beyond being a requirement in force as of 2021, it constitutes a strategic and operational decision for the company in order to take advantage of the benefits that this new standard brings, not only in terms of safety, but also in its better integration with the quality and environmental management systems that already exist at Naturgy.

In order to verify compliance with current legislation and the effectiveness of the system, an annual audit plan (internal and external) and safety diagnostics are carried out, focusing on the most critical risk processes. All the external audits carried out by AENOR concluded with a positive assessment of the level of implementation and integration of the management system in all the processes audited, which is effectively maintained and which complies with the obligations established by the legislation in force with a focus on improving performance in the area of occupational health and safety.

Recognising a job well done

As health and safety management is a material area for Naturgy, it is not an option but an obligation and a key factor of business leadership that cuts across all decisions and actions taken, both internally and in CCs. This excellence in safety, stable over the years, has been recognised on a global scale in the form of various initiatives, awards and prizes:

(1) Best company in safety in EMEA (Europe, Middle East and Africa).
(2) Safety Achievement Award for excellence in employee. I Safety Achievements Award for excellence in safety fleet.
(3) Business Monitor Award in excellence in Prevention, Health and Safety.
(4) “Best occupational road safety initiative” Award.
(5) Commitment to Occupational well-being and Improvement in ORP.
(6) Award for the promotion of physical activity and healthy habits.
(7) Juan Godoy Award, company with best management in OHS material.
(8) National Security Council Award. I Excellence in Risk Prevention Award. I Effort award.

6. Comprehensive health
[403-7]

Naturgy is firmly committed to offering its employees a healthy working environment and well-being. The Comprehensive Medical and Health Assistance Unit is based on excellence and ongoing innovation to make available to employees, their relatives, CCs, customers and the social environment in which the company operates, a global, health and welfare strategy that encompasses everything necessary for their benefit, both with regard to prevention, promotion and healthcare, in a customised way, as well as training and information with regard to healthy habits, taking into account both individual needs as well as the particular circumstances of each country.

Master Health Plan

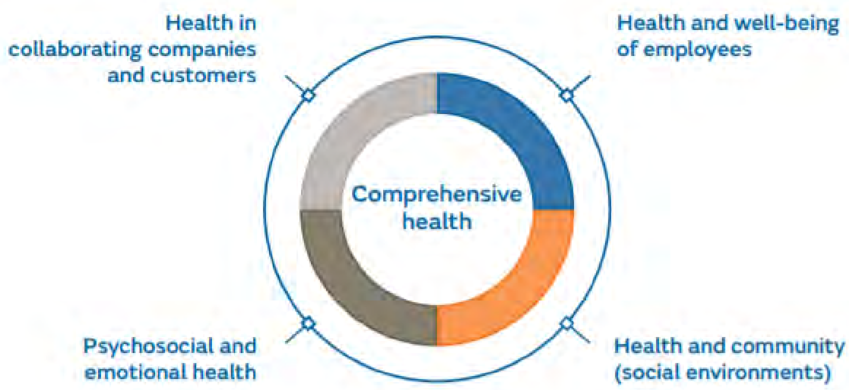
This plan defines the strategic guidelines and establishes the general framework for action of Naturgy in the field of health care, ergonomics and psychosociology. The responsibilities under the plan correspond to each and every one of the business areas and countries within the group. In addition, comprehensive medical and health assistance services act as advisors for the development, monitoring and control of the plan in each of the areas.

Master Health Plan	
Standardised actions	Ensuring the health of workers, developing standardised actions and respecting differences inherent in each country.
Compliance with regulations	Monitoring compliance with the relevant regulations to each area in the field of health.
Development of activities by external collaborators	Coordinating the development of activities by external collaborators and establishing monitoring and control measurements.
Definition of indicators	Defining the indicators necessary to assess the implementation and development of the Master Health Plan, as well as all of the involved activities.
Continuous training	Ensuring continuous training of professionals in the activity, information about the latest technological developments and promoting creativity for innovation.

Actions for employees' health

Occupational health services for employees
[403-3]

The Comprehensive Medical and Health Assistance Unit is formed by a multidisciplinary team, whose function is to guarantee the health and physical, psychological and social well-being of all workers, carrying out a set of activities related to health monitoring, ergonomics and applied psychosociology and the promotion of health beyond the workplace.



Every year, this unit defines lines of action and sets out the general framework for Naturgy's activities in the field of health, which it applies to all business areas at national and international level and ensures that processes and actions are carried out in a uniform way, respecting the inherent differences of each country.

This plan is implemented through the following lines of action:

- **Integral health care in the workplace.**
- **Support for persons suffering from common illness and accidents.**
- **Medical care.**
- **Management of individual aspects of person-position interrelationship considering both the special sensitivities of the workers and the ergonomic needs.**
- **Prevention of psychosocial conflicts and promotion of psychological well-being.**

As well as in three support or transversal drivers that are:

- **National and international coordination.**
- **Integrated management.**
- **Training and communication.**

To guarantee the organisation and quality of Naturgy's employees health services, the company's objectives to improve the standards of occupational health services are reviewed each year and an action plan is drawn up. This plan is followed up on the basis of the established indicators.

The Medical Assistance and Integral Health Unit systematically proceeds to the identification and analysis of any health-related aspect that may be susceptible to being taken into account.

Likewise, these activities are included in the annual process of internal and external audits of the integrated management system, as well as the audit of the Healthy Company certification (Healthy Organisation from 2022 onwards). This is in addition to the company's own audits for accreditation with official bodies.

The integrated management system undergoes an annual review, so as to ensure its validity and maintain its compliance with Naturgy's Corporate Responsibility Policy. It also takes into account other documentation for updating, such as the results of internal and external audits, the results of the performance of the processes and the monitoring of the area's objectives.

The integrated management system is reviewed each year to ensure it remains valid and is compliant with the Naturgy's Corporate Responsibility Policy, also taking into account other documentation such as the results of internal and external audits, the results of process performance and the monitoring of the area's objectives.

In addition, the Medical Assistance and Integral Health area monitors activity and evaluates the results and impact achieved using several quantitative and qualitative methods and indicators. Among other things, the number of medical examinations, the number of injuries that are precursors to serious illnesses detected in time, staff participation in the campaigns, absenteeism rates, the number of psychosocially evaluated posts, the interventions carried out in this regard, the number of posts with ergonomic evaluation, ergonomic actions carried out at the request of workers, etc., are counted and evaluated.

Psychosocial risk assessment

For the prevention of psychosocial conflicts and promotion of psychological well-being, in April 2020 Naturgy renewed the implementation of a survey with all employees of the group in which nine basic psychosocial factors (working time, autonomy, workload, psychological demands, variety and content of the job, participation, interest in the worker, role performance and relationships and social support) are monitored in an evolving way. The questionnaire used and distributed follows the F-PSICO guidelines of the National Institute for Occupational Safety and Health (INSST), so it is a standardised and scientifically tested model. The results of the survey showed similar results to those of previous editions, and very similar in the different businesses and countries, highlighting the interest aroused by this type of issues on the part of workers, as there was a significant increase in participation.

The cycle of assessment of psychosocial factors, which began in December 2020 with the sending of surveys to detect these factors in all employees in Spain, was completed in 2021 with the presentation of the findings. As a next step, we are working on a contingency plan in collaboration with the social representation, through the convening of specific tables to deal with this very important issue of enormous impact on the organisation.

During 2021, and as a result of the data obtained from the survey, an action plan 2021-2022 has been drawn up, which is structured in two large, differentiated blocks, both aimed at improving the health and well-being of employees.

In Spain, since 2015 the health and safety area has been promoting emotional and stress management activities. Specifically, in 2020, and as a result of the pandemic, a psychological helpline was set up and webinars were given for the emotional support of workers. All these actions contribute to strengthening the emotional resilience of the staff as demonstrated by the results of the 2020 survey.

A large block of measures aimed at enhancing the positive results obtained in the assessment and other preventive/ corrective measures to control the risks detected are differentiated:

- Develop a communication plan and information campaigns in order to promote awareness and sensitisation on psychosocial risks at all levels of the organisation.
- Develop a training plan on psychosocial risks.
- Use tools to measure initial exposure and follow-up.
- Encourage the participation and consultation of workers for the coordination of joint actions.
- Create multidisciplinary groups to seek synergies and facilitate the approach of the project from an integral perspective, increasing creativity and innovation.

A second block is also differentiated where specific interventions associated with the aspects with more room for improvement are designed.

Healthy Company Model

[403-1] and [403-8]

It should be noted that Naturgy is certified as a “Healthy Company” according to the Healthy Company Model inspired by the World Health Organization model and implemented by AENOR. This means that, during the certificate validity period, AENOR carries out annual audits to monitor the Healthy Company management system, to check whether it is being effectively implemented and whether the conditions that led to its concession are being maintained.

Naturgy was the first energy company in Spain to obtain certification, a commitment that was renewed in 2019 when the company achieved recertification that drives a new cycle of continuous improvement for the coming years.

In 2022, we intend to expand the scope of certification with the necessary adaptations to achieve the Healthy Organisation certification. 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 employees and sustainability of the working environment of their employees, their families and the community in which the business operates, after consulting with representatives on their actions in this area.

The scope of the international implementation of this model extends to Argentina, Brazil, Chile, Morocco, Mexico and the Dominican Republic. 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 Enablon tool and the Management Review Report to manage its activity.

Naturgy facilitates access by workers to all information about health in the company and follows a policy of personalised and committed attention to those health and wellness issues that need to be handled by the health professionals and the individual awareness of the workers, achieving a healthy and committed company with the communities where it operates.

To facilitate this access, several communication channels are placed at the employees' disposal:

- **Employee Care Service (SAE)**. Employees access health services directly after the appointment request that is given through the employee care service. In addition, this service serves to directly resolve questions and requests in this area.
- **Communication**. An important effort is underway to deepen the company's health culture through awareness and communication. Since 2013 to date, the campaign "Your health always on your agenda" has aimed to educate people working at the company and their families about the importance of protecting their health and prevention to ensure future quality of life, under the view that the welfare of the employees is also the welfare of those around them. During 2020 and 2021, due to the pandemic, this channel has been used on a daily/weekly basis in order to convey to employees the most relevant aspects.
- **Training**. The health model implemented has led Naturgy to promote the contents as part of the group's Corporate University, incorporating and developing the key training itineraries for this purpose.
- **Intranet**. Employees can access the comprehensive contents of the intranet on different subjects to care for their health: nutrition, mindfulness, or prevention of musculoskeletal injuries, among others. This section was updated in 2020 with information, protocols and health contacts related to COVID-19.
- **My Benefits Portal**. From this portal, which is accessible from different devices (PC, tablet and smartphone), employees access different health-related services such as their health insurance and policies, as well as informative content (videos / health contacts).
- **Consultation and participation**. All the actions and campaigns set out in the Annual Health Plan are submitted to the Health and Safety Committee so that the workers' representatives can express their opinion on the proposals of the health team and consult their doubts, as well as propose health campaigns that may be of interest to them.

Promotion of workers' health

[403-6]

The health model approach, described in the previous point, is supplemented by a series of additional campaigns and actions, going beyond mere legal compliance and work-related health, and directly impacting on individual aspects of workers that could pose a risk to their health.

These campaigns and actions seek to increase personal, physical and emotional well-being, and to combat risk factors and health stressors, resulting from a contemporary lifestyle and habits, encouraging Naturgy workers to enjoy an active and healthy ageing. All information relating to these campaigns is updated and available to all employees on the new internal network that has been completely renewed in 2021. The information is also disclosed together with the Annual Health Plan at the first Health and Safety Committee of this year, which is drawn up in consultation with the workers' representatives. This information can be consulted on the organisation's prevention portal.

The most relevant actions carried out in this area are:

- Promoting greater awareness and encouraging self-responsibility as a pillar of living a healthy life.
- Raise awareness of positive habits and behaviours for the health of all people.
- Training workers to take care of themselves and their families' health.

In relation to employees and workers who are not employees but whose work or workplace is controlled by the organisation, Naturgy transfers its own protocols and procedures to outsourced prevention services in order to provide suppliers with lines of action in the event of health problems. Evidence of these actions can be seen in the transfer of procedures for action against the pandemic, in order to minimise the impact on both own and external workers, as well as in the community in which the Naturgy group operates in different countries.

Prevention campaigns and health promotion

Naturgy offers its employees a series of voluntary health promotion programmes through voluntary prevention and health promotion campaigns by the medical services. These campaigns are offered during medical examinations and are aimed at the most relevant health problems in the areas where Naturgy operates.

Campaigns as important as secondary prevention of cardiovascular risk, or campaigns for the detection of pre-cancerous lesions (colon, prostate, gynaecological, or lung, in which Naturgy is pioneer, etc.), haematological or ocular diseases, are made available to employees. Primary prevention is also present through vaccination campaigns (flu and communicable diseases such as tetanus or hepatitis), anti-smoking and addiction campaigns, management of overweight and obesity, etc., in order to reduce the presence of risk factors for foreseeable diseases.

The actions of the health services in prevention campaigns and comprehensive health promotion activities consist of:

- Designing, coordinating and disseminating actions aimed at avoiding the appearance of disease (primary prevention) and/or detecting it at an early stage in order to reduce its consequences and improve its prognosis (secondary prevention).
- Design of informative campaigns on healthy lifestyles, in order to train workers to improve their health and that of their families, as well as that of the communities where they live.
- Promoting campaigns aimed at supporting the communities in which the group operates.
- Assess the effectiveness of these campaigns with the results obtained annually.
- Furthermore, professionals in the health area collaborate with the social benefits function in the optimisation of employee health insurance (review of health coverage and advice on updating the medical directory).

The campaigns are adapted to the health needs of the moment, therefore, the pandemic has been the protagonist of these actions in the last two years, and this is expected to be the case also in 2022.

From the health area, apart from medical management of the pandemic and monitoring of the company's employees, the psychological problems arising from it have also been dealt with in a pioneering way. At the beginning of 2020, a psychological support service was launched in Spain, through a specialized telephone hotline run by the Unit of Trauma, Crisis and Conflict of the UAB Faculty of Psychology. While during January and February this service was accessed exclusively by prescription, it is in March, after the irruption of the confinement, when Naturgy gave free access to any employee (or family member) who required it. In the 2021 financial year, and with the continuity of the pandemic, this coverage has been extended, apart from the psychological problems generated by COVID-19, to those people with psychological problems of readjustment to the return to the offices.

From the health area, apart from medical management of the pandemic and monitoring of the company's employees, the psychological problems arising from it have also been dealt with in a pioneering way. At the start of 2020 a psychological support service was set up in Spain, through the specialised telephone line in charge of the Trauma, Crisis and Conflicts unit of the UAB Psychology Faculty; although during January and February this service was accessed exclusively under medical prescription. It was in March, after the lockdown started, that Naturgy gave free access to any employee (or family member) requiring it. In the 2021 financial year, and with the continuity of the pandemic, this coverage has been extended, apart from the psychological problems generated by COVID-19, to those people with psychological problems of readjustment to the return to the offices.

Absenteeism

Total lost hours

	2021	2020
Spain	200,250	285,434
Chile	69,503	165,736
Argentina	36,032	32,488
Brazil	10,114	7,825
Costa Rica	264	248
France	728	3,136
Morocco	1,971	1,474
Mexico	11,952	6,072
Panama	4,935	3,232
Peru	0	256
Dominican Republic	2,571	3,424
Uganda	2,193	632
Total	**340,513**	**509,957**

NB: The 2020 figures include data from the electricity company CGE Chile, which was separated from the perimeter at the end of the year.

08. Innovation and new business development

Naturgy's contribution to the SDG

Management outlook and focus

The ecological transition entails a new energy model in which innovation and the development of new businesses are a cornerstone for achieving climate neutrality. This must be supported by:

- **Innovation,** which is presented as a key driver for growth as it enables the incorporation of new or better practices, new business models and technological solutions that contribute towards digitalisation, automation and optimisation of processes, guaranteeing safety, operational improvement and facilitating access to information for better decision making, aimed at creating value and guaranteeing the company's competitiveness in the long term. It permits the company to remain at the forefront and centre all its efforts on its customers.
- **The optimisation of renewable energy generation** through innovative systems due to their improved energy efficiency; their capacity for integration in the environment, in buildings or in economic sectors; their lower costs or greater reliability; as well as models that allow the entry of new agents into the system and the coverage of part of the energy needs of homes, SMEs or public administrations.
- The direct use of energy through new **manageable electricity consumption that provides flexibility**, for example, in air conditioning or mobility, as well as through storage for later use as electricity or heat, in daily or seasonal storage systems.
- The generation of **renewable gases**, in particular renewable hydrogen or biomethane, for end uses where electrification is neither technically nor economically feasible. Hydrogen is an efficient and immediate decarbonisation solution in the hydrogen intensive industry that currently comes from natural gas reforming and high temperature processes; in heavy road transport, maritime transport, rail transport or aviation. In addition, its quality as an energy vector gives it great potential as an instrument for energy storage and sector integration.

Under these premises, Naturgy is developing an extensive investment programme in renewable energies as a result of the Strategic Plan 2021-2025 and introducing new lines of business in areas such as renewable gases, hydrogen and biomethane, storage and sustainable mobility; all of this by providing a wide range of value-added services and promoting sustainable innovation as a driver of development. An example of this is the additional investment opportunities under the EU's NextGen programme, which focuses on renewable gases by developing projects such as La Robla and Meirama (green hydrogen plants), a network of hydrogen refuelling stations along Spain's main heavy-duty transport routes, and the blending of hydrogen and natural gas in turbines and CHP engines.

Innovation

▪ Investment in innovation

Investment in innovation by type (€M)	2021	%	2020	%
Process innovation	**39**	**66.10**	26	71.97
Product innovation	**11**	**18.64**	6	15.84
Marketing innovation	**4**	**6.78**	0	1.09
Organisational innovation	**5**	**8.47**	2	5.74
Social innovation	**0**	**0.00**	2	5.36
Total R&D&I	**59**	**100.00**	**37**	**100.00**

Featured projects

DALI (Drone AI Line Inspection)

The project consists of the technological and regulatory development of the use of long-range drones for the inspection of overhead lines and the development of artificial intelligence algorithms for the automatic analysis of the images captured by the drones. The automation of inspections will help make them more sustainable and with a smaller environmental footprint, eliminating unnecessary trips to field installations.

Earth monitoring in transformer stations

As part of the project to optimise the periodic regulatory verification of medium voltage, an innovative device has been developed and piloted to monitor the impedance of the transformer station earths, which allows continuous control of their condition, facilitating early detection of faults and greater accuracy in their identification.

Darwin

The Darwin project is a new unified sales front end that aims to have a new digital platform for selling energy and services that can be used by all sales channels, including the end customer. Through the website and for all the group's marketers, it allows to complete the entire sales process from contracting to the digital signature of the contract.

Hybridisation of a storage system with other generation technologies

The project is based on analysis of the impact that the incorporation of a storage system in hybridisation with other technologies would have. The impact on secondary regulation and other adjustment markets has been evaluated, the competitive advantages of the hybrid system in current and future market operating conditions have been studied, considering its impact on the European balancing markets.

Integration of technologies in residential buildings

The project consisted of the installation of an absorption heat pump to support the operation of the thermal power station consisting of four natural gas condensing boilers, four inertia storage tanks, a solar storage tank and 48 solar thermal panels to generate domestic hot water in a residential building of 210 homes in a neighbourhood in the city of Santiago. This project is the first in Latin America and Chile to integrate the four technologies, and has enabled the generation of centralised hot water at low cost. The facility is currently one of the most efficient in the city of Santiago.

SM@RT

The SM@RT project involves the transformation of Naturgy's corporate and business processes in order to simplify, standardise and digitise them. The processes on which action is being taken are: budgeting, monitoring of investments and expenses, treasury, general accounting, periodic closing and consolidation.

The project involves the implementation of the SAP HANA standard package, SAP Ariba, SAP Analytics Cloud and Group Reporting.

This will bring the following advantages:

- Elimination of paper-based administrative processes.
- Automation of analytical reporting, eliminating manual calculations.
- Automation and digitisation of the purchasing process.
- Access to the company's financial and accounting information from any digital platform and device.

The implementation of the project has followed an agile format that ensures partial deliveries and with execution aligned to the Cloud Only strategy.

Innovation planning and technology monitoring

Technology Observatories

Monitoring takes place through observatories, involving over 200 people from the various business units and corporate areas. These groups have a particular collaborative nature and share and analyse information from an end-to-end perspective: technology, commercial, regulatory, social and market aspects. Insights are generated that guide the innovation activity and contribute to the evolution and transformation of the business. They facilitate the take-up of new technologies and best practices, awakening ideas and facilitating the development of new opportunities.

Incubating startups

During 2021 Naturgy has launched a four-month start-up incubation programme. The programme enables Naturgy to make the knowledge and talent of its employees available to the entrepreneurial community, promoting the creation of new companies. Eight projects are currently taking part, with the support of a team of about 30 Naturgy professionals, including mentors and specialists. Incubation allows Naturgy to participate in the development of new business models and knowledge of new technologies, strengthening ties with the entrepreneurial ecosystem.

Renewable gases

Basing the decarbonisation of the economy predominantly on high electrification with renewable energies presents technical limitations in certain energy-intensive sectors, such as industry or transportation. Given that electrification cannot cover the total energy demand, further integration of the electricity and gas sectors is an effective solution to achieve decarbonisation goals through the complementarity of renewable gases, gas infrastructure and electricity. The gas network currently has a high storage capacity, an extension and a capillarity that allow large amounts of energy to be transported to where they are consumed, essential aspects for using renewable gases to decarbonise the final use of energy in all those points where natural gas is currently consumed.

The development of renewable gases, biomethane and hydrogen are included in the Just Transition Strategy as one of the areas of the energy transition that represents the greatest opportunities for job creation. They are identified as a way to decarbonise and generate employment in transportation and industry, and place special emphasis on the creation of green jobs in rural areas, in line with the Spanish strategy against depopulation.

Naturgy, as one of the main operators of basic natural gas infrastructures, assumes its leading role as a driving agent for the development of the renewable gas value chain.

The biomethane opportunity

The production of biomethane, or renewable gas, from livestock, agricultural or industrial organic waste, or from landfills and wastewater plants, is an excellent example of the circular economy in the energy sector, providing significant environmental benefits and a complementary source of income for rural areas.

Environmental benefits

- It promotes the development of a productive process based on the use of renewable biological resources, which guarantees the efficient use of natural resources and reduces the generation of organic waste, promoting the conservation of biodiversity and ecosystems.
- It facilitates the decarbonisation of all those sectors that consume natural gas by replacing it with a fuel of biogenic origin and therefore neutral in CO_2 emissions. It also reduces emissions in sectors such as livestock, agriculture, waste management and water treatment through the recovery of organic waste, thus reducing their negative impact on ecosystems and the population.
- It contributes to the improvement of air quality by avoiding the combustion of these wastes, and reduces the environmental impact of chemical fertilisers by substituting them with the high quality fertiliser obtained: digestate.

Social and economic advantages

- Generation of employment, especially in rural areas, providing solutions to the demographic challenge and the depopulation of rural Spain.
- The livestock and food industry sectors have a significant weight in the Spanish economy, and the management of their organic waste offers a renewable and highly available resource.
- Obtaining a high quality organic fertiliser that favours keeping waste within the productive cycle.
- First-rate national technology and engineering for obtaining biomethane, with R&D potential to take advantage of opportunities such as digitisation of the tracking of waste used and certification of the guarantee of origin.

Advantages related to the energy transition

- Sustainable and renewable energy that contributes to the energy transition and security of supply.
- Reduction of external energy dependence.
- Manageable for continuous generation.
- Versatile energy source, valid for domestic, industrial, commercial and transportation uses.
- Exploitation of the existing natural gas infrastructure that allows universal consumption of a renewable and bio-based fuel that is produced in a distributed manner.

Lines of action in biomethane

Naturgy is working on both the development of projects with the entire integrated value chain (including waste management, biogas production and biomethane production and commercialisation), and on projects where biogas is available and the scope is focused on biomethane production and marketing.

Naturgy has experience in the development of renewable gas on a commercial scale, acquired in projects launched in recent years such as Methamorphosis, in Vilasana (Lleida), as well as the one located in the wastewater treatment plant (WWTP) of Bens, in A Coruña.

In addition, Naturgy has 32 projects under development for the production of biogas and upgrading to biomethane for injection into the natural gas grid:

- 8 livestock waste projects (1,408 GWh/year).
- 4 WWTP sludge projects (170 GWh/year).
- 16 industrial waste projects (595 GWh/year).
- 3 urban solid waste organic fraction projects (109 GWh/year).
- 1 agricultural waste project (85 GWh/year).

Below is more detailed information on some of the most interesting projects developed during 2021:

Elena project

As a milestone in 2021, the first facility to inject renewable landfill gas into the gas distribution network, located in Parc de l'Alba in Cerdanyola del Vallés (Barcelona), next to the Elena waste landfill, has been commissioned. It has involved an investment of Euros 2.2 million and will produce 12 GWh/year of biomethane that will be injected into the grid, equivalent to the annual consumption of 3,200 homes, and will prevent the emission of 2,400 tonnes of CO_2/year into the atmosphere.

Second phase of the renewable gas mixed unit project

Development of the second phase of the renewable gas mixed unit. This is a research project developed by Naturgy, the EnergyLab Technology Centre and Edar Bens (A Coruña). Funded by the Galician Innovation Agency (GAIN), it is financed by the European Union within the framework of the Galicia ERDF Operational Programme 2014-2020.

This new stage will complete the work done so far by the mixed unit for biogas and biomethane research, which has achieved notable results such as the commissioning of a membrane filtration plant and the first biological methanation plant in Spain at the Bens wastewater treatment facility. In addition, research will be conducted into other renewable gases such as green hydrogen and bio-syngas, which will make it possible to assess their impact on current infrastructure and end consumers.

Five new lines of research will be developed within the project:

- Improved biogas production through co-digestion and nutrient recovery.
- Green hydrogen generation: thanks to the energetic use of the treated water flow, which will be turbined, hydrogen will be generated through water electrolysis.
- Biohydrogen production: through dark fermentation (initial stages of anaerobic digestion), a biological process through which hydrogen is generated from the degradation of organic matter.
- Gasification of sewage sludge to obtain bio-syngas (synthesis biogas).
- Study of the impact of the use of different renewable gases and their mixtures, from the point of view of injection into the gas network and their use in stationary and mobile applications (vehicles).

Valencia Rice Straw Project

During 2021, a protocol has been signed, together with Enagás, Genia Bioenergy and Nedgia with the Regional Ministry of Agriculture, Rural Development, Climate Emergency and Ecological Transition of the Generalitat Valenciana to promote a circular economy project. From rice straw, 87 GWh per year of renewable gas will be produced, equivalent to more than 15% of the natural gas consumption of the city of Valencia. This fully decarbonised gas will be purified and injected into the gas infrastructure, thus eliminating the emission of 150,000 tonnes of CO_2 into the atmosphere.

The hydrogen opportunity

The development of the renewable hydrogen value chain is at an incipient stage, with pilot projects to substitute hydrogen from fossil fuels or other fuels.

The speed with which hydrogen is adopted will not be the same in all economic sectors, due to the differences between uses and availability, as well as the cost of the final equipment. In the short term, the penetration of renewable hydrogen can be supported by sectors that already consume grey hydrogen, such as refineries and fertiliser production.

Green hydrogen has a promising future, as long as it receives the necessary impetus from administrations and the private sector for the implementation of large-scale projects to meet the expected technological roadmap. The Hydrogen Roadmap in Spain establishes a target of 4 GW of installed electrolysis power by 2030, which is 10% of the target set by the European Union in its Hydrogen Strategy for the same year.

Green hydrogen constitutes an energy vector capable of:

- Channelling large amounts of renewable energy from power generation to sectors where electrification is not a feasible option (chemical industry, high temperature industrial heat, heavy transport...).
- Storing and managing energy massively and over long periods of time, matching energy supply and demand.

The natural gas transport and distribution infrastructure existing today in Spain can be used in the short term to transport hydrogen in the form of blending without the need for investment, and in the medium term to transport pure hydrogen or in blends of more than 10%, by adapting the compressor stations and other minor elements.

To promote the penetration of hydrogen as a renewable energy vector, it is necessary to develop its entire value chain, from its production to its use in the final demand sectors.

Lines of action in hydrogen

Naturgy has been researching the development of hydrogen for years, as the renewable resource, the existing infrastructure and Spain's geostrategic position mean that the country has all the potential to become a hydrogen exporter in the future. The export of this new energy can be carried out through the current gas infrastructure, which would allow integration between the electricity and gas grids, resulting in a more efficient and resilient energy system.

Hydrogen can also be transported over long distances in liquid form, as is the case with LNG. In a context in which there is a global commercialisation of hydrogen, this form of transport and distribution can be key and Naturgy can be an essential agent to contribute its global capacity and knowledge throughout the value chain.

During 2021, we worked on the development of large renewable hydrogen production hubs linked to just transition zones, especially in areas affected by the closure of the group's thermal power stations. The aim of the development of multi-demand hubs is to promote the development of new markets for direct consumption in industry, injection into the gas network for its commercialisation with guarantees of origin, mobility or production of H_2 derivatives: ammonia, methanol, etc.

For example, it is working with Enagás on the development of a hydrogen plant in La Robla (León), in the vicinity of the thermal power station that Naturgy closed in 2020 in line with its commitment to achieve a more sustainable energy mix. The aim of the project is to produce renewable hydrogen from a photovoltaic plant and an electrolyser to cover local consumption, inject it into the gas grid and enable future export to northwest Europe. It will reduce CO_2 emissions by being based on the production and use of green hydrogen and, therefore, favour greater penetration of renewable energies in sectors that are difficult to electrify. The project has been presented in the framework of the application for projects of common European interest.

Similar projects for hydrogen production from renewable energy are also being considered in the area where the Meirama (Galicia) and Narcea (Asturias) thermal power stations were located, linked in this case to wind power stations.

In parallel, during 2021, work has also been carried out on the development of onsite H_2 production projects linked to the electro-intensive industry, which due to its characteristics is difficult to electrify. As an example, a project is being developed near a cement plant, where the capture of part of the CO_2 from its process is proposed, which would be mixed with green hydrogen for the production of methanol.

Storage

The penetration of renewables is currently on the increase. The integrated National Energy and Climate Plan (PNIEC) forecasts that by 2030, 74% of the energy mix will be made up of renewable energies, with wind and photovoltaic energies being the most relevant. This situation presents the energy system with the challenge of equipping itself with flexible tools to manage production, match generation and consumption, avoid sudden drops in production and provide firm capacity to the system. In this scenario, storage is key to the security and quality of supply.

The development of storage systems, in particular batteries, although constantly improving, is now mature enough to support the development of renewables. Among battery technologies, lithium-ion (Li-Ion) batteries are currently one of the most efficient technologies, both technically and economically, and these are expected to grow the most. Even so, its main limitation is the price, so in energy markets that are not very mature in the use of this type of storage, it is necessary for projects to have public support for their development in the short term.

Although in recent years Naturgy has carried out Ion-Li and redox flow battery projects that have allowed the technology to be tested, the lack of regulation has not made it possible to test its operation in the Spanish electricity system. This is currently the main challenge: to achieve the management and integration of storage in the energy and balancing markets. This requires the development of new operating systems that will be key to the optimisation and economic viability of these projects.

Lines of action in storage

During 2021 we have worked on the development of several initiatives:

- **Hybridisation projects in generation**, mainly in wind and photovoltaic parks. The hybridisation of storage with generation will allow the renewable energy that is incorporated into the Spanish electricity system to be manageable, providing flexibility and firm capacity to the system.
- Deployment of **stand-alone** storage in key locations in areas of grid congestion or loss of firm capacity due to the closure of thermal power stations. At the technological level, the challenges are similar to those of hybridisation projects in wind farms, mainly the management of the control system to achieve optimal operation.
- Development of a **new storage model** to optimise economically and technically the implementation of hybridised systems with storage in small and geographically close farms. Since there is currently no regulatory framework to rely on, it will be developed within the context of a regulatory test bed.

These projects have been developed with Spanish technology partners and research centres, to generate jobs and strengthen the business fabric throughout the value chain of the projects.

Given this situation and the fact that the energy transition is one of the pillars of the Recovery Funds, significant support is expected for this type of project. The grants are an opportunity to speed up the implementation of this new technology. A stable and favourable regulatory framework, together with the expected cost reduction, suggest that in the next 10 years the technology will be viable in the medium term without aid.

Sustainable mobility

In 2021, the company has continued its commitment to the nationwide deployment of an infrastructure of natural gas vehicle (NGV) refuelling stations for public use.

Since natural gas has lower emissions than other fossil fuels, it can contribute to the decarbonisation of transport, especially in heavy transport, where electrification is not foreseeable in the short and medium term.

In addition, existing natural gas vehicle refuelling station infrastructures can be used both for biomethane, thus favouring its development, and for hydrogen, either through blending with natural gas, or through synergies due to the similarity of their business model, which allows them to share sites and their development. This is why NGV continues to be a growth vector for the energy transition in heavy transport.

Among the initiatives highlighted in 2021, the following are noteworthy:

- Signing of the first **biomethane contract for vehicles**. Naturgy has agreed to supply up to 2GW/year of biomethane for the last-mile delivery fleet of Aquaservice, a water distributor. This fuel substitution will contribute to an emissions reduction of up to 350 tCO_2/year, which is equivalent to taking 53,000 vehicles off the road in a city for one day. The biomethane comes from Naturgy's production facilities at the Elena landfill.
- Supply of **renewable gas to Zaragoza's first bus**. Through a consortium with the Zaragoza Area Transport Consortium, Automóviles Zaragoza, Scania and Calvera, Naturgy has supplied 150 MWh of biomethane from the company's plant in Vilasana (Lleida) for the purification of biogas, obtained from the digestion of slurry. This biomethane was used to propel a city bus, which ran for three months between Zaragoza and Villamayor de Gállego.
- Alliance for the development of **hydrogen mobility**. Signing of an agreement with Enagás, through its subsidiary Scale Gas, and Exolum, to jointly study and develop infrastructures for the production, distribution and supply of green hydrogen in the mobility sector throughout the country. This is the first major hydrogen alliance for mobility corridors. The project will be called Win4H_2. This agreement includes the development of a network of 50 hydrogen plants, which will offer a homogeneous penetration of this energy vector in Spain, so that any user can opt for the green hydrogen solution with guaranteed supply in 100% of mainland Spain.

09. Social responsibility

Naturgy's contribution to the SDG

What does this mean for Naturgy? Risks and management approach

Naturgy is committed to the economic and social development of the regions where it operates, providing knowledge and management capacity, and allocating part of the profits to social investment in the territories.

As a company committed to society and supplier of a basic good such as energy, our commitment is to offer a quality and continuous supply, as well as to understand and contribute to confront and solve challenges associated with access to energy such as those affecting vulnerable groups; or to minimise the effects that the energy transition has on some territories through just transition initiatives. In addressing these challenges, the role of the Naturgy Foundation is key.

Likewise, a fluid and permanent dialogue with society allows the company to know the expectations and interests of the local communities, facilitating their involvement and participation and thus ensuring the company's acceptance in the environment and the promotion of the collaboration of all agents.

In addition to understanding and contributing through its business activity to those challenges most directly related to its activity, the company, through its sponsorship activity, maintains a commitment to collaborate with society and allocates resources to cultural, social, sustainability and environmental programmes.

In short, Naturgy understands that its social responsibility involves the creation of wealth and well-being in those places where it is present through the following priority lines of action:

- Energy vulnerability.
- Just energy transition.
- Relationship with communities.
- Sponsorship, patronage and social action.
- Naturgy Foundation.

What is our commitment?

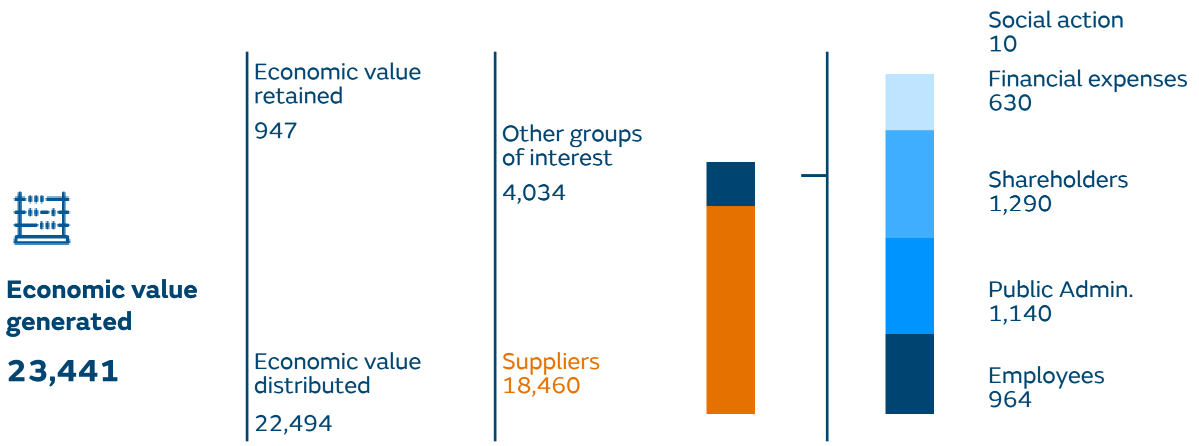
- Guarantee fluid and two-way dialogue and encourage involvement in local communities, respecting the culture, rules and the environment, so that their concerns are responded to appropriately and expeditiously.
- Assess the social impact that the company's activity could cause, to avoid or mitigate the adverse effects these could generate and to foster positive effects.
- Develop initiatives to create shared value and to have a positive social impact in energy projects.
- Promotion of education, cultural wealth, health, research and the inclusion of the more underprivileged collectives through social investment.
- Transfer knowledge and values to society through partnership agreements with the academic community and the supply chain.

– Promote public-private and third sector collaboration to mitigate the impact of energy poverty on the most vulnerable groups.

Evolution and results 2021

[201-1]

▪ Economic value distributed. Detail by group of interest (million euro)



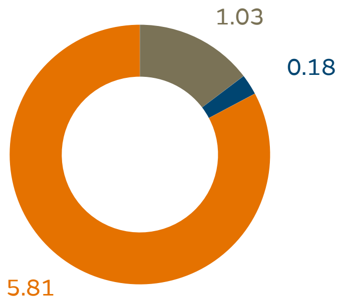
The aim of the contributions to social programmes is to increase the company's commitment to society. The programmes to which these resources are therefore allocated form part of the business development strategy. In 2021, they totalled Euros 7.02 million. Naturgy aims to generate a higher corporate commitment to the society in which it operates that goes beyond its business activity.

▪ Total social investment (million euro) in 2021

	2021	2020
Philanthropic investment (million euro)	7.02	7
Breakdown by type of action (%)		
Social	76.5	82
Environmental	3.7	2
Cultural	19.8	16
Sponsorship and social action activities (No.)	90	106
Social investment in the local community (million euro)	3	3
Total social investment (million euro)	10	10

N.B: The exchange rate used is at the end of December 2021.

Philanthropic investment (million euro)



Amount for Donations
Financial contributions to foundations and non-profit organisations for which the company receives no compensation.

Amount for Partnerships
Financial contributions to foundations and non-profit organisations for which the company receives some compensation.

Amount for Sponsorships
Amount allocated to other types of entities, not necessarily non-profit making and for which the company receives some compensation.

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 2021 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.

1. Energy vulnerability

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 of energy. 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 developed a proactive policy against energy vulnerability, protecting its vulnerable customers in Spain by complying with current legislation and promoting and encouraging collaboration agreements with various public and private bodies. In 2021, in Spain, Naturgy continued signing agreements to protect vulnerable customers with different administrations to prevent cutting off customers.

Naturgy closed the year with 145,291 customers with a discount rate –a reduction on electricity bills regulated by the Government for households considered vulnerable due to their socio-economic conditions, i.e. vulnerable, severely vulnerable and at risk of social exclusion–, it received 62,342 calls from vulnerable customers, handled 84,583 mails and 1,333 telephone calls from social services. In addition, 411 calls from the Third Sector were handled.

Energy Vulnerability Plan in Spain

During 2021, Naturgy, through its Foundation, has continued to implement the Energy Vulnerability Plan throughout Spain. The Plan has been consolidated as a priority and the core of the activities developed by the Foundation to alleviate the situation of vulnerability and energy poverty in Spain. The targets are:

- Improving management and customer relations in cases of energy vulnerability.
- Streamlining the exchange of information with town and city councils for better identification of situations of energy vulnerability.
- Implementing activities with entities that work to alleviate energy poverty cases and to detect vulnerabilities. The following activities have been introduced during this year:
  - Awarding of the prize of the I Edition of the Award for the Best Social Initiative in the Energy Field, through which the Foundation pursues a twin objective; on the one hand, to make visible the initiatives that other entities are carrying out to fight against energy vulnerability, and on the other hand, to provide resources to other social energy projects. 59 entities have participated by submitting their projects. A first prize and a second prize were awarded.
  - Consolidation of the Energy Rehabilitation Solidarity Fund, with the aim of financing energy efficiency improvements in vulnerable households. In 2021, the signing of agreements with 18 entities (1) has enabled the rehabilitation of 769 homes based on donations from individuals and contributions from the Foundation.
  - Continuity of energy volunteering with informative workshops on energy efficiency and advisory reports to improve comfort conditions in the home and achieve economic savings in the bill. During 2021, 2,110 vulnerable families have been assisted.
  - Continuation of the workshops at the Energy School to support public administrations and the third sector in the fight against energy poverty. Training has been provided to specialists and families in a situation of vulnerability on the optimisation of bills, energy management, discount rate, energy efficiency and other consumption habits. Webinars have been launched by the Energy School for the teaching of these subjects as a result of the pandemic. In 2021, 236 workshops have been held for 3,861 attendees. Webinars on current topics related to energy vulnerability have continued to be held. Among the results for fiscal year 2021: 46% of vulnerable families trained and 54% of professionals trained.
  - Continued participation in two European projects, Social Watt and EPIU (Energy Poverty Intelligence Unit), funded by the EU and aimed at identifying energy poverty, defining indicators and developing and implementing measures against energy vulnerability.
  - Active participation in the advisory board of the Energy and Poverty Chair at Comillas University.

(1) Incorporates the rehabilitation, volunteering, innovation and employment generation agreements.

2. Just energy transition

The energy transition that society is currently undergoing is such a profound and urgent change that it may have unfavourable consequences for communities and especially for workers in the short term. For example, it means the closure of fossil fuel power generation plants such as coal.

To maximise the benefits of the transition to a low-carbon economy and minimise the negative impacts on business, workers and their communities, the International Labour Organisation proposed a framework that, under the concept of "just transition", was agreed between governments, employers and trade unions.

Just transition agreements

In Spain, the just transition of the territories affected by the closure of thermal power stations is articulated under the "Agreement for a Just Energy Transition for thermal power stations undergoing closure".

The agreement is an alliance that includes the commitment of the government of Spain, companies -Naturgy among them-, and trade unions to ensure employment and economic recovery of the areas affected by the closure of thermal power stations located in Aragon, Andalusia, Principality of Asturias, Castilla y León and Galicia.

The agreement's priority areas of action are:

- Maintaining employment in the territories.
- Economic and industrial revitalisation.

In addition, through this agreement, the parties undertake to work on the development of Just Transition Agreements that include a participatory process of mobilisation and consultation for its development.

Closure of plants and accompanying plans

Linked to the Agreement for a Just Energy Transition, Naturgy has drawn up accompanying plans for each of the closed plants.

These plans detail the commitments acquired, which translate into:

- Proposals for new investments in the same territories.
- Outplacement plans for our own personnel.
- Prioritisation of workers from auxiliary companies.
- Search for investors.
- Collaboration in support plans to improve employability in new activities, including specific training plans.

Decommissioning evolution

In 2021, having obtained the necessary administrative authorisations, Naturgy has completed the process of closing the coal-fired power stations of Anllares (Castilla y León), La Robla (Castilla y León), Meirama (Galicia) and Narcea (Asturias) that started in 2018.

At the close of 2021, the situation of the dismantling process at the different sites is as follows:

Facility	Degree of progress
Anllares Power Station	>95%
Meirama Power Station	21%
La Robla Power Station	30%
Narcea Power Station	Not started, waiting to obtain the municipal building permit

The future use of these sites depends on the dismantling of the existing facilities, which are already closed. In defining the dismantling work, in all cases and for all the plants, priority has been given to safety procedures and environmental measures, in order to carry out the work in an adequate manner and without affecting third parties and the environment.

In this regard, priority is given to ensuring that all materials and equipment associated to the dismantling and demolition are recovered or recycled as much as possible. In this respect, during 2021 the dismantling work carried out has achieved recovery and/or recycling rates of 97% at the Anllares power station and over 86% at the La Robla and Meirama plants.

In addition, Naturgy contemplates all the necessary actions to ensure an adequate ecological and geomorphological restoration of the power station sites, in accordance with environmental requirements and its firm commitment to biodiversity.

In terms of safety, demolition techniques are prioritised to minimise risks. During 2021 there have been no occupational accidents during demolition work.

New investments

Linked to the process of dismantling each plant, Naturgy has outlined an alternative plan that involves new investments in the affected areas, prioritising the commitment to more efficient generation technologies, less emitting and more environmentally friendly. These alternative plans are especially focused on:

- Renewable generation projects.
- Sustainable mobility initiatives with a decisive boost in the implementation of natural gas for land, rail and maritime transportation.
- Feasibility study of renewable gas and hydrogen projects.

Within these new investments, the commitment to renewable gases is of huge importance, as their promotion and development will not only contribute to mitigating environmental impacts, but will also be a source of value creation shared with society. The development of renewable gases, biomethane and hydrogen represents one of the biggest opportunities for the creation of green jobs, especially in rural areas, in line with the Spanish Strategy against Depopulation.

Training and employability improvement

In this context, having properly trained people is key to take advantage of the employment opportunities offered by the energy transition. Within the framework of the Alliance for Vocational Training of the Ministry of Education and Vocational Training and linked to the Vocational Training Programme for Employability, the Naturgy Foundation provides training aimed at teachers, students of training cycles and the unemployed and employees of the sector. More information about these programmes can be found in the section on the Naturgy Foundation later in this chapter.

In 2021, Naturgy has published a specific report on just transition that sets out how the company understands just transition and provides greater detail on the measures set out in this section. The report can be found here.

3. Relation with communities

Principles of action

Naturgy, under its Human Rights Policy, makes a firm commitment to respect local communities. To achieve this commitment, assessing the social impact that the company's activities may have on communities, specifically contributing to improving the living conditions of these communities is a key aspect.

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 bases its relationship with communities on the following principles:

- Identifying communities affected by the company's activity, and finding out their needs and aspirations.
- Analysing the potential environmental and social risks that its activity could cause in the communities, using the social impact assessment methodology designed for this purpose.
- Reporting to, and inviting participation from, the community at the different stages of the project through a consultation procedure that enables us to listen to their concerns and questions as well as benefit from their proposals.
- Incorporating the opportunities identified through dialogue with the communities and which encourage sustainable development of the community into the impact assessment studies.
- Introducing a system of communication and relations with communities that ensures that these communities receive project information in a clear, updated and efficient way.

The company currently prioritises the performance of social impact assessments in locations where it is looking to carry out new investment projects. These assessments serve to measure numerous impacts (positive and negative) that the company may produce as a consequence of its activity, both in local communities as well as in the territory. These include:

- Impact on human rights.
- Displacement or relocation of local communities.
- Modification to the traditional ways of life.
- Changes in the traditional uses of territory.
- Attracting new technologies.
- Creation of skilled and unskilled jobs.
- Temporary occupation of the communication routes.
- Impact on landscapes.
- Noise.

Featured projects

The projects underway during 2021 are listed below, and some of them are detailed hereunder:

Country	Projects
Australia	Crookwell II wind farm
	Berrybank I wind farm
	Berrybank II wind farm
	Hawksdale wind farm
	Ryan Corner wind farm
Brazil	Sobral I photovoltaic plant
	Guimarania I & II photovoltaic plant
Costa Rica	Torito hydroelectric power station
	La Joya hydroelectric power station
Mexico	Bií Hioxo wind farm
	Tuxpan III & IV combined-cycle power station
	North Durango combined-cycle power station
	Naco Nogales combined-cycle power station
	Hermosillo combined-cycle power station
Dominican Republic	Palamara - La Vega fuel oil-fired power station
Uganda	Bujagali hydroelectric power station
	Achwa II hydroelectric power station

Berrybank wind farm I (Australia)

Naturgy is carrying out a social commitment and profit-sharing plan with the local community near this 180 MW wind farm located in the state of Victoria, associated with the state government contract. The initiatives included are:

- Actions for community benefit. Actions with the participation of the neighbours.
- A person specifically appointed to take charge of the community involvement programme and to set up a community engagement committee.
- Solar energy programme, training and internship programme.
- Scholarship programme with several universities.
- Project website, audio-visual monitoring of the construction, 3D simulation of the wind farm.
- Newsletters, press releases and local print ads.

Bií-Hioxo wind farm (Mexico)

The company collaborates permanently with the local community of this 234 MW wind farm in Juchitán de Zaragoza (Oaxaca). Thus, Naturgy develops programmes that respond to the needs of the community and contribute to improving living conditions. The action lines for 2021 have been:

- Restoration of sanctuaries.
- Restoration of common areas in local schools.
- Support to local cooperatives to promote productive development.
- Support to the population in the event of floods, COVID-19 and other contingencies.
- Endowment of a community house and various workshops with young people and children.
- Community development team supporting the community and attending the community house.

Tuxpan III & IV combined-cycle power station (Mexico)

The plan to support the communities around this 1,007 MW plant, located 30 km south of Tuxpan (Veracruz), continues to be developed. In particular, Naturgy has deployed a major community relations plan with the communities located on “Carretera de los Kilómetros” state highway from the kilometre point 0.000 to 16.000. The action lines for 2021 have been:

- Support plan for the restoration of community infrastructures along Los Kilómetros Highway community.
- Project for the conservation of priority species, at the Tortuguero camp in Playa Villamar.
- Support to the population and local health centres with food and medical supplies to cope with COVID-19.
- Support to the population to alleviate the contingencies caused by Hurricane Grace.

Naco Nogales combined-cycle power station (Mexico)

In 2021, the plan to support the communities around this 300 MW plant, located in the vicinity of the city of Agua Prieta (Sonora), has consisted of:

- Training in energy efficiency and eco-construction for the local population in a situation of energy vulnerability.
- Community infrastructure improvement projects.
- Germplasm collection.
- Delivery of food parcels and medical supplies to the population to help cope with COVID-19.

Hermosillo combined-cycle power station (Mexico)

In 2021, the plan to support the communities around this 250 MW plant, located in Hermosillo (Sonora), has consisted of:

- Equipment, infrastructure restoration and reforestation in local schools.
- Support for improvements and in-kind donations to various local community organisations.
- Support for the Red Cross to cope with COVID-19.

Norte Durango combined-cycle power station (Mexico)

In 2021, the plan to support communities around this 480 MW plant, located near the city of Durango (Durango), has consisted mainly of the following:

- Construction and commissioning of a nursery with native species for reforestation.
- Restoration of municipal infrastructure.
- Delivery of food parcels and medical supplies to the population to help cope with COVID-19.

Sobral I photovoltaic plant (Brazil)

During 2021 the company continued implementing the Quilombola Basic Environmental Project (QBEP), associated to the Sobral I photovoltaic plant (30 MW) in the municipality of São João do Piauí (Piauí, Brazil), in order to create shared value and to have a positive social impact in the territories of Riacho dos Negros and Saco/Curtume. For the development of the QBEP, a close and ongoing relationship has been maintained with the community and local authorities, to identify, design and implement actions to promote economic and social development in the region. The project has various lines of action, which include a series of specific actions of which the following have been implemented during 2021:

- Recovery of infrastructure in the territory for community use.
- University and technical study grants.
- Conducting events with the community for the attraction of health and social services to the localities.
- Training of the local population in technical professions to improve employability.
- Delivery of medical supplies to the population and the local hospital to cope with COVID-19.

Bujagali hydroelectric plant (Uganda)

The social action plan has continued in the area surrounding this 230 MW plant. The following actions have been carried out in 2021:

- Delivery of sanitary materials and food supplies to the local population to cope with COVID-19 and other diseases.
- Supporting local schools and orphanages with materials.
- Distribution of reflective materials to improve visibility and avoid road accidents.
- Breast cancer awareness and prevention workshop.

4. Sponsorship, patronage and social action

Sponsorship activity

The company maintains a commitment to collaboration with society that goes beyond its business activity with resources allocated to cultural, social, sustainability and environmental programmes. These economic contributions allow the company to strengthen its commitment to positively integrate itself in each community and country where it operates.

Naturgy's sponsorship and donation activity, as well as the definition of the processes that regulate and control its development, is the purpose of the company's General Procedure of Sponsorship and Donations. Similarly, activities related to sponsorships and donations are subject to a process of 100% transparency. The main lines of action are:

- **Education, training and development**: education and university activity form part of the company's areas of action. With this objective and among other actions, the company collaborates with entities that encourage the promotion and training of young people.
- **Environment and sustainability**: Naturgy collaborates with different institutions that aim to preserve the environment, conserve and rehabilitate habitats, as well as generate debates on trends and opportunities in the energy and sustainable development sector. Furthermore, it also collaborates with entities that carry out educational activities on sustainability, energy and the environment. Some examples are the collaborations with the Foundation for Research in Ethology and Biodiversity (FIEB) -whose objective is the development and collaboration in projects that increase the knowledge of animal behaviour and/or facilitate the preservation of biodiversity- or the support to the group for the Rehabilitation of Native Fauna and its Habitat (GREFA) -whose pillar is research and environmental education and the preservation of natural resources-.

- **Artistic and musical culture**: the company maintains its efforts in the field of cultural sponsorship, with the encouragement and promotion of music, art and training, which goes beyond its business activity and which takes the form of extensive sponsorship of initiatives that generate great value for society. In 2021 it has continued to collaborate with the Gran Teatre del Liceu in the celebration of the 175th anniversary of the opening of the institution. The aim is for the entity to continue to be an artistic reference, to strengthen its social project and to facilitate its adaptation to the new times through innovation. Naturgy has maintained its support to the Teatro Real with the "Plan for the promotion of street opera at the Teatro Real", to contribute to the enhancement of its work and its dissemination to all audiences at regional, national and international level. In 2021 it has also collaborated in the celebration of the Xacobeo 2021 holy year, declared "an event of exceptional public interest", as in the two previous collaborations, and whose objective is to reinvigorate culture and heritage.

Social action in Latin America

For Naturgy it is essential that its social action activities are focused on the geographical areas in which it is present and that they are developed within the framework of the activity it carries out. The main actions carried out in the different locations are:

Argentina

- Efficient use of resources: work has continued on training students and teachers through the portal cuidemosnuestrosrecursos.com, where they can learn about energy efficiency and become aware of the efficient use of gas, electricity, water and paper. In addition, courses on the 3Rs (reduce, reuse, recycle), gardening and composting have been implemented. During 2021, 2,200 students and 1,300 teachers have been trained.
- Energy of Flavour: this programme aims to promote the inclusion of disadvantaged groups into the labour market through training linked to gastronomy. This year, the programme has featured two types of courses: on the one hand, aimed at gastronomic staff of community kitchens - held together with the Peregrina Foundation in the community kitchen Unidos por la Sociedad in La Cava, and together with the Civil Association Siloé in the Community Centre Acá Sí, in Cascallares, Moreno-, and on the other hand, aimed at female victims of gender violence, a special bakery programme together with Siloé and the Secretariat of Women, Gender and Diversities of Moreno. A total of 61 people have been trained.
- Sowing the Future: the programme seeks to encourage the planting of native trees and the development of urban gardens. Throughout the year, three workshops have been held, where a total of 75 native trees have been planted, as well as two training courses on urban vegetable gardens.
- Social Entrepreneurs: its objective is to collaborate in the support of social projects presented by the company's collaborators. This year, the programme has received 24 projects.
- Trades Workshop: this year an agreement has been signed with the Benavídez Trades Foundation, to move forward with joint actions to train young people from vulnerable neighbourhoods in the trade of registered gas fitter of single-function units. Courses have been offered in carbon monoxide accident prevention and digital marketing for entrepreneurs.
- Planning your Future: its purpose is to encourage the employees' children to achieve their professional aspirations by granting them an incentive scholarship to start higher education. In 2021 there have been five beneficiaries.

Brazil

- Energy of Flavour: this programme aims to promote the inclusion of disadvantaged young people aged between 17 and 25 in the labour market through training linked to gastronomy. In partnership with Unilasalle, Naturgy has sponsored courses for international chefs, bakers, pastry chefs and kitchen assistants. In 2021, due to the pandemic, two classes with ten students each have been created, instead of one class with twenty students, to maintain social distance. All students have received appropriate and personal protective equipment. The first class graduated in December and the second class will graduate in March 2022, both as kitchen assistants.

- Energy to Grow: the project brings culture and environmental education to children in public and private schools in Rio de Janeiro, and teaches them about the safe use of natural gas through a theatrical play and a lecture. Due to the pandemic, in 2021 the initiative has been resumed in a new format, with online presentations. In total, there have been 24 presentations in eight schools in Rio de Janeiro, impacting 2,000 children between the ages of six and ten, in addition to 109 educators. The initiative has existed since 2010 and has already reached a total audience of more than 85,000 students and 280 schools in 23 cities in the State of Rio de Janeiro.
- Donation of 32 respirators: in partnership with the Brazilian Navy and the University of São Paulo (USP), Naturgy donated, in February 2021, 32 respirators to public hospitals in Rio de Janeiro and Sorocaba, a city located in the interior of São Paulo. These hospitals have designated the ventilators to treat patients with COVID-19.

Chile

- The company has focused its actions on strengthening community relations and development in the regions, specifically in Libertador Bernardo O'Higgins and Los Lagos, with the commitment to bring clean energy to important areas with high levels of pollution.
- Emphasis has also been placed on the relationship with companies that work in the sectors where Metrogas has its networks, with the purpose of developing a preventive culture that avoids any type of affectation to the facilities. In the same way, emergency response institutions (firefighters, police, municipalities) have been involved, with work that has focused on training officials so that they know how to deal with this type of event, always thinking about safety and the protection of health.

Mexico

- This year collaboration has been carried out with the SM Foundation to avoid educational backwardness, 169 books have been donated to the children of Naturgy Mexico employees, from primary to secondary level, with the most relevant topics of the school year in subjects such as Spanish, mathematics, history or knowledge of the environment, among others; all with the aim of reinforcing knowledge and avoiding the educational gap for the next level.
- Another of the activities the company carried out during 2021 with the collaboration of the visual artist Patricia Victoria was to participate in Mexico City (in the Cuauhtémoc City Hall), in the creation of two ecological murals made with paint that absorbs CO_2 and that were on show during July and August of this year.

  The main theme of the two murals was the importance of raising awareness among the population of environmental care and commitment to cleaner energy. In this way, the company acts as a reflection of these small actions that can be carried out in the places where it operates, and that lead to change for the benefit of new generations.

Panama

- Donation of layettes with supplies for new-borns in hospitals throughout the country.
- Donation to the Waved Foundation, which supports education and nutrition in underprivileged communities throughout the country, specifically in indigenous areas.
- Donation of food and personal hygiene supplies to the Luz y Vida nursing home and the Nuestra Señora children's home.
- Participation in the "Panamá en positivo" programme, which rewards the work of socially responsible companies.

Corporate volunteering and employee participation

Corporate volunteering

Naturgy structures the Corporate Volunteer Programme in three areas: energy, social and environmental. Over the course of 2021, 477 employees from Spain, Mexico, Panama and Argentina spent more than 9,618 hours on corporate volunteering with their companions.

Globally, 26 initiatives of a one-off, temporary or continuous nature, 6 social volunteering actions, 9 environmental volunteering actions and 11 energy volunteering actions, with the participation of 1,033 volunteers, were carried out. The number of beneficiaries dealt with amounted to 8,371[1] in 2021.

Energy volunteering has been consolidated with regular online energy advice workshops, where vulnerable users are helped to understand the bill and access the discount rate and, at the same time, energy saving measures are explained to reduce the cost of the bill. During this year a new action has been developed for the user, the realisation of an energy advice report based on the bill and a mini-energy audit.

Due to the global situation of movement restrictions due to the pandemic, the environmental and energy volunteer programmes have continued in an online format. However, at the year-end, the on-site activity was resumed as a result of the improvement in the health situation and it was possible to carry out two activities to care for the natural environment, which together with the three online workshops conducted, rounded off the environmental volunteering activity for the year.

Different initiatives have been launched during December on the occasion of International Volunteer Day, some of them enhancing previous activities and others newly created: energy workshops for children with special abilities, solidarity energy kilometre, training sessions on energy prices, how to learn to speak in public or the activity “Wise Man for a Day”.

Also, for the third consecutive edition, a coaching volunteering activity has been continued and a new mentoring activity has been added. In both cases the aim is to show vocational students what the company is like from the inside and to motivate them to continue studying. Volunteers act as mentors or coaches in individual sessions with students.

Solidarity Day

The initiative was created in 1997 and is managed by the company’s 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 1,004 employees around the world take part in the initiative.

In 2021 these employees donated approximately Euros 171,666 of their salaries and the company made an additional matching contribution, as well as assuming the costs of managing the association. Since its inception, Solidarity Day has raised Euros 3.2 million in employee donations and an equal amount contributed by the company.

In 2021, Solidarity Day financed the education of approximately 988 school, technical and university students as part of the ordinary projects being implemented in Argentina Brazil, Morocco, Mexico, Moldova, Nicaragua, Panama, Chile and Portugal.

In addition, the association continued to develop the recurring initiative, which was launched in the wake of the pandemic, of donating computers that are being replaced to employees and which are in perfect working condition. These computers go to organisations and schools that use them to reduce the digital gap for the most vulnerable people. To date, nearly 800 computers have been donated to more than 40 entities in Spain, Chile, Panama and Portugal.

[1] Argentina, Mexico and Panama carried out environmental volunteering. This does not include entities to which material was donated as a result of the transfer of offices, nor the donation of km of solidarity energy.

5. Naturgy Foundation

The Naturgy Foundation, which is present in the countries where the company operates, is tasked with disseminating information, training, and raising society's awareness on issues of energy and the environment, as well as developing business and academic programmes. It also develops social action programmes, focusing on actions aimed at alleviating energy vulnerability.

Dissemination of information and awareness-raising in society

In 2021, the Foundation has continued all the initiatives carried out in the previous year in the area of communication, dissemination and debate on current issues related to energy, technology and the environment. The aim of these initiatives, which has received trust and interest from the specialised public, is to promote debate on the energy sector, its current situation and its near future, with the participation of speakers of recognised national and international prestige. This year a total of 2,884 people attended.

The balance of the year's activities is as follows:

- 3 high-level Energy Prospectives conferences held, a joint initiative of the Naturgy Foundation and IESE Business School.
- 5 conferences organised jointly with the Spanish Chapter of the Club of Rome.

Among the activities related to the dissemination of energy-related content, the presentation of books, studies and reports published and edited by the Foundation and prepared by experts in the field worldwide is particularly noteworthy. Through online events, 5 webinars (online seminars to present the publications and discuss them) and 7 online presentations (sending publications by mail) were held, both accompanied by summary videos that facilitated an approach to the publication in a simple way, with the main conclusions explained by the authors.

This new way of communicating has allowed the publications to reach a much wider audience than in previous years, both nationally and internationally. And so the numbers show, with more than 2,405 webinar attendees, more than 28,823 views of the video summaries and more than 4,945 downloads of the publications.

Education and heritage

In the line of education and heritage, the Naturgy Foundation has launched several programmes, including:

Efigy education

This is the Foundation's educational programme, which contains didactic proposals that are in line with the Just Transition Strategy and the MITECO (Ministry for the Ecological Transition and the Demographic Challenge) Environmental Education Action Plan. It also has the recognition and collaboration of the Ministry of Education and Vocational Training, the Spanish Foundation for Science and Technology (FECYT) and the Spanish National Research Council (CSIC), as well as the competent public administrations in education and social agents.

2021 has meant the adaptation to a new reality in which face-to-face and digitalisation are of equal importance and capacity. The exit of the pandemic has drawn a different educational scenario than the one we knew, causing an evident shake-up in the educational sector. Educational centres have had to adapt both to situations of occasional confinement in online settings and to face-to-face scenarios with stringent safety measures in the classrooms. However, if the pandemic has shown anything, it is that school needs close human contact and relationships. In this context, the Foundation has worked to continue to be a help and support at the service of society and the community.

The Foundation's educational programme has adapted to these new circumstances to continue offering activities that reinforce knowledge in energy, environmental and technological matters, under the perspective of the Sustainable Development Goals (SDGs) of the United Nations.

The good relationship with the education ministries of the different autonomous communities and the agents involved in the sector was maintained and strengthened, ensuring that, throughout the year, the different activities that make up the Efigy Education educational programme were in great demand and received positive feedback.

Efigy Education in the classroom

In 2021, this itinerant action has been revived, offering innovative workshops for schools to explore new energy technologies. The aim is to transmit in a pleasant and didactic way specialised knowledge about the transition to a new energy model, the preservation of the environment and the responsible consumption of energy.

The workshops are aimed at all stages of formal education, with special attention and support for vulnerable or more complex groups. The programme contents are adapted to the different curricula and educational competencies according to a methodology aligned with the new pedagogical models.

This itinerant action has reached the autonomous communities of Aragon, Catalonia, Community of Madrid, Region of Valencia, with stops in the areas directly affected by the closure of thermal power stations as part of the plan to accompany the facilities in Galicia, Castilla y León and the Principality of Asturias.

The Foundation, given the peculiarity of this year, has offered schools to possibility to conduct educational workshops in virtual format. Through a digital channel adapted to each centre, the educator offers live explanations and energises the activity, encouraging the interaction and participation of all students.

Efigy Education Digital

The Foundation has continued its commitment to content and resources in digital format, periodically updating and expanding those that already exist within the framework of Efigy Education Digital. This ensures universal access to educational and informative material developed by experts on topics such as energy transition, circular economy, sustainability, efficient building, energy efficiency, air quality and new energy technologies, among others.

One of the greatest successes of the programme is that all these resources continue to be accessible to any educational centre free of charge, regardless of its social and economic reality or location, which has fostered equal access to education and educational equity.

Efigy Planet

New pedagogical innovation project to support teachers and aimed at middle and upper primary school students. It has been presented by the Foundation in 2021 as a new differential, interactive and didactic proposal, based on gamification -which motivates students and gives visibility to their learning and progress- and blended learning methodology -which combines digital and face-to-face classroom lessons-. It is designed to be an aid to cross-curricular teaching and prepared to work curricular content on energy, technology and environment.

This platform allows the incorporation of updated contents on energy, technologies, STEM disciplines and environmental sciences to the educational curricula, and encourages each student to experience their own learning process in an individualised way and adapted to their skills and abilities, as well as offering permanent technical support to the teacher. It is the teacher who creates the itineraries for the students and who, by resolving the challenges, can evaluate the results.

This tool also allows the reduction of the digital gap of vulnerable groups, traditionally excluded from the processes of technological development, as it complements an individual action plan for schools in disadvantaged environments. It also provides support and assistance to groups of schoolchildren at risk of exclusion in agreement with the administration in order to give value to public-private collaboration, promoting social equity and directing resources to where they are really needed.

Efigy Technology Competition

In 2021, the Foundation held the 3rd edition of the Efigy Technological Competition, with the support of the Spanish Foundation for Science and Technology (FECYT), which reports to the Ministry of Science and Innovation, the Ministry for the Ecological Transition and the Demographic Challenge (MITECO) and the Spanish National Research Council (CSIC).

During the academic year, around 570 students in the 3rd and 4th years of Obligatory Secondary Schooling (E.S.O) have worked on more than a hundred projects together with their teachers at 67 schools in Aragon, Castilla-La Mancha, Catalonia, Valencia, Galicia, Madrid and La Rioja.

The ultimate goal of this initiative is to encourage technological vocations among young people and the values of energy efficiency, as well as to strengthen their research skills while promoting teamwork.

Planet First LEGO League

The Foundation has joined the STEM alliance for female talent promoted by the Spanish Ministry of Education and Vocational Training to promote female talent in the field of energy among young women.

The #EfigyGirls are the stars of the main initiative in this area. The Foundation has promoted and mentored eight female teams, aged 10 to 16, who have participated in the FIRST LEGO League, with projects related to innovation in the field of energy. Two of them qualified for the grand final FIRST LEGO League España RePLAY, in which a thousand groups from all over the country competed.

In June 2021, Naturgy Chairman Francisco Reynés met, in a hybrid face-to-face and digital event, with the more than 160 girls sponsored by the Foundation who participated in the initiative this year.

Visits to power stations

The educational programme of the Foundation also includes informative actions to transmit to society, in a transparent way, the operation of the facilities of the Naturgy group. This programme of support to other units has led us to organise and carry out visits with educators and specialists from the plants to the Bolarque hydroelectric power station-Museum (Castilla-La Mancha), to the Puerto del Rosario wind farm in Fuerteventura and to the Piletas 1 wind farm in Gran Canaria (Canary Islands).

This activity, available to the educational community and the general public, allows them to discover the peculiarities of the operation of a power station, its close relationship with the environment, the different professional profiles required to carry out its operation, raise awareness of the complexity involved in power generation and distribution, and publicise Naturgy's commitment to renewable energy.

In this context, the Foundation collaborates with the EducaEmprede programme of the Xunta de Galicia, which aims to give Galician schools the opportunity to see first-hand the facilities of leading companies in the technology sector. During 2021, adapting to the health circumstances, a material and a video of the Galician hydroelectric power stations has been created to carry out the sessions in digital format.

Vocational training for employability

Improving employability by optimising vocational education and training (VET) around the theme of energy is an important activity in the framework of the just energy transition. In addition, New technological developments and current social needs linked to energy offer employment opportunities both for young people and active workers, who need to retrain, and for the unemployed who are looking to re-enter the labour market.

It is therefore very important that the private sector and public administrations join forces to adapt training to the real needs of companies working in the field of energy.

In this context, the Naturgy Foundation continues to promote the vocational training programme for employability. A programme that is fully in line with the Just Transition Strategy approved by MITECO, which aims to create an active employment and vocational training policy for coordinated work between administrations and social actors.
The programme offers certified training for VET educators, direct training for students with complementary sessions to their usual classes or refresher courses and new content for employees or unemployed people in the sector.

The most notable initiatives in 2021 under the programme were:

- In collaboration with Unión Fenosa Distribución, adapting the content and conducting training on the digitisation of electricity grids.
- Continuation of the already consolidated training courses on energy advice in vulnerable environments, efficient mobility, gas vehicles, renewable gas and efficient construction and renovation.
- Joining the Alliance for Vocational Training.

- Cooperation agreement with the State Employment Agency (SEPE), which will be guided by this agency in the continuous updating of its catalogue of training specialities developed by Naturgy in the fields of energy, sustainability and the environment.

In addition to working with the administrations, the Foundation collaborates with experts such as the School of Architects of Catalonia, MINSAIT —leader in digitalisation processes—, BIOVIC —leader in the construction and maintenance of biogas plants—, SEAT, Scania or the Universitat Oberta de Catalunya, with which the training courses are developed in e-learning format.

10. Annexes

1. About this report

This Sustainability Report and Statement Non-Financial Information forms part of the Management Report of Naturgy Energy Group, S.A. and of the Consolidated Management Report of Naturgy Energy Group, S.A. and subsidiaries for the 2021 financial year. It is subject to the same approval, filing and publication criteria as these reports and has been verified by an independent verification service provider. By issuing this report, Naturgy Energy Group, S.A. complies with the provisions of Article 262 of the Corporate Enterprises Act and Article 49 of the Commercial Code as amended by Law 11/2018 of 28 December on non-financial reporting and diversity, which transposes Directive 2014/95/EU into Spanish law.

Materiality focus

[102-46] and [102-49]

For the preparation of this 2021 Sustainability Report and Non-Financial Information Statement, Naturgy has based itself on the standards of the Global Reporting Initiative (GRI)—known as GRI Standards—, on the Sustainability Accounting Standards Board (SASB), and has taken into account the requirements of Law 11/2018 on non-financial information.

The company believes that the report has been prepared in accordance with the core or essential level 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 stakeholders.

Materiality analysis process

To identify material issues, Naturgy has relied on the use of the Datamaran® tool. This tool provides the following advantages:

- Data-driven materiality analysis: Datamaran® is software that enables a comprehensive, data-driven process for monitoring external risks, including Environmental, Social and Governance (ESG) risks. The software technology provides real-time analysis of strategic, regulatory and reputational risks and opportunities. Its use strengthens understanding of ESG, geopolitical, technological and emerging issues, ensures alignment with the different expectations of internal and external stakeholders, and enhances the company's ability to monitor its evolution.
- Dynamic materiality based on diverse sources: the analysis takes into account information published by different companies from all sectors in their annual corporate reports, introduces into the analysis both mandatory regulations and other voluntary policy initiatives, as well as information published in traditional media and social media such as Twitter. The analysis has focused on those issues that experienced an increase in relevance, and also identifies which stakeholders (peers, industry, regulators, general public) were behind the increase. This analysis is carried out regularly throughout the year and makes it possible to monitor those issues that are in the process of materialising, based on a dynamic materiality perspective.
- General issues map adapted to Naturgy's reality: the 21 issues assessed in the materiality analysis have been built from an exhaustive map of 90 issues (topic mapping) included in the tool itself, so that all emerging issues of interest are taken into account in the analysis.

The materiality analysis combines an external view (which issues are considered relevant by the different stakeholders) and an internal view (which aspects are considered to be of greater importance from the company's point of view).

The following sources of information have been incorporated for the external view:

- Comparison of the 22 leading energy companies, mainly European in scope; comparison of 190 companies from 28 countries representative of the water, gas and diversified utilities, electric utilities and electricity generators sectors; and comparison of leading companies in sustainability in various sectors.
- Both mandatory regulations and voluntary initiatives representative of the three sectors mentioned above.
- News appeared in the media for the Utilities and Oil & Gas sectors.
- Mentions on social media such as Twitter.

For the internal vision, an analysis of the annual reports published by Naturgy has been made through the tool to objectively identify which are the most relevant issues in the company's discourse; this analysis has been adjusted according to internal expert knowledge.

List of material aspects at corporate level

[102-47]

Naturgy has identified fourteen material issues, which are detailed below:

Relevant issues	
01. Climate change and energy transition	Environmental
02. Cybersecurity and information security	Governance
03. Circular economy and eco-efficiency	Environmental
04. Occupational safety and well-being of workers	Social
05. Business continuity	Economic
06. Safety of facilities and operations	Economic
07. Diversity and equality	Social
08. Attraction and quality of employment	Social
09. Business integrity, compliance and transparency	Social
10. Talent development	Social
11. Good corporate governance	Governance
12. Biodiversity and natural capital	Environmental
13. Business model resilience	Economic
14. Customer service and satisfaction	Economic

NB: each country has a different prioritisation based on its corporate responsibility agenda.

Matters of the greatest relevance to the company

Of the issues identified as relevant for Naturgy, the first three are considered to be of maximum relevance. For each of these we set out below how the company sees these three issues as making a particular contribution to long-term value creation.

Matters of the greatest relevance	Business motivation	Supporting business strategy	Long-term tracking metrics
Climate change and energy transition	Business opportunity. Naturgy's climate action is based on the management and integration of climate change risks and opportunities in the company's strategy. The key lines of action, goals and indicators aim to promote renewable energies, energy efficiency and renewable natural gas, as well as to offer innovative solutions for transport that contribute to the reduction of emissions and the improvement of air quality in cities.	Naturgy's strategy for the next five years focuses on growth that contributes to the energy transition by focusing on renewable projects. The company has an investment target of Euros 8.700 billion on renewables, which will enable it to triple its installed renewable capacity to 14GW of installed capacity. In addition, projects worth Euros 13.9 billion have been submitted to the NextGen EU to develop renewable gases, among others.	This target for investment in renewables is accompanied by emission reduction targets in the three scopes so that by 2025 the group's total emissions will have been reduced by 24% compared to 2017. In addition, Naturgy is committed to achieving zero net emissions by 2050.
Cybersecurity and information security	Risk reduction. Naturgy's transformation involves increasing its digital footprint, both in customer relations and in the management of its networks and assets in general. In this context, it is critical to have infrastructures and information systems that are secure and safe from threats.	Being a best-in-class operator is one of the company's strategic pillars through the transformation of its operations to simplify and digitise them. Over the next five years, Naturgy will spend Euros 1.2 billion to reposition its services through the digitisation of systems.	Reach a level of 790 points in 2025 in the international BitSight index.
Circular economy and eco-efficiency	Business opportunity. Promoting renewable gas as an energy and storage vector that contributes to the transition to a circular and low-carbon economic model.	The future of natural gas lies in achieving decarbonisation. Naturgy, in its Strategic Plan 2021-2025, sets ambitious targets for renewable gases with the implementation of projects in areas of just transition.	Development of renewable gas projects for more than 1TWh in 2025.

Map of material issues

[103-1]

In order to respond to the requirements of 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 on this map:

- Point of the value chain at which the issue is material.
- Impact of the aspect inside and outside the company and, consequently, the stakeholder affected.
- Geographic location. To determine the countries in which the issues are material we need to cross-check the following table with the activity map in the chapter Business model and sustainable strategy. 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.

#	Material Aspects for Naturgy	Nature	Stages of the value chain where the material issues have greatest impact: Gas – Procurement	Gas – Transport	Gas – Distribution	Gas – Commercialisation	Electricity – Generation	Electricity – Distribution	Electricity – Commercialisation	Impact of the aspect inside and/or outside the organisation by stakeholder	Sustainability Report and Non-Financial Information Statement 2021 chapter that deals with the issue
01	**Climate change and energy transition**	EN	■	■	■		■	■		Shareholders · Investors I Suppliers I Business partners I Analysts I Society I Administrative staff · Regulatory bodies I Financing groups I Customers I Insurance and reinsurance agencies.	The opportunity of environmental challenges.
2	**Cybersecurity and information security**	SO	■	■	■	■	■	■	■	Shareholders · Investors I Suppliers I Business partners I Analysts I Society I Administrative staff · Regulatory bodies I Financing groups I Customers I Insurance and reinsurance agencies.	Integrity and trust.
03	**Circular economy and eco-efficiency**	EN	■	■	■	■	■	■	■	Suppliers I Business partners I Employees I Analysts I Society I Administrative staff · Regulatory bodies I Insurance and reinsurance agencies.	The opportunity of environmental challenges.
04	**Occupational safety and well-being of workers**	SO	■	■	■	■	■	■	■	Shareholders · Investors I Suppliers I Business partners I Analysts I Society I Administrative staff · Regulatory bodies I Financing groups I Customers I Insurance and reinsurance agencies.	Commitment and talent.
05	**Business continuity**	EC	■	■	■	■	■	■	■	Shareholders · Investors I Suppliers I Business partners I Analysts I Society I Administrative staff · Regulatory bodies I Financing groups I Customers I Insurance and reinsurance agencies	Integrity and trust
06	**Safety of facilities and operations**	EC		■	■		■	■		Suppliers I Employees I Business partners I Analysts I Society I Administrative staff · Regulatory bodies I Financing groups I Customers I Insurance and reinsurance agencies	Integrity and trust
07	**Diversity and equality**	SO	■	■	■	■	■	■	■	Shareholders · Investors I Employees I Analysts I Society I Administrative staff · Regulatory bodies.	Commitment and talent.
08	**Attraction and quality of employment**	SO	■	■	■	■	■	■	■	Shareholders · Investors I Employees I Analysts I Society I Administrative staff · Regulatory bodies.	Commitment and talent.
09	**Business integrity, compliance and transparency**	SO	■	■	■	■	■	■	■	Shareholders Investors I Suppliers I Business partners I Employees I Analysts I Market agents I Society I Administration · Regulatory bodies I Financing groups I Customers I Insurance and reinsurance agencies.	Integrity and trust.
10	**Talent development**	SO	■	■	■	■	■	■	■	Shareholders · Investors I Employees I Analysts I Society I Administrative staff · Regulatory bodies.	Commitment and talent.
11	**Good corporate governance**	SO	■	■	■	■	■	■	■	Shareholders · Investors I Analysts I Administrative staff · Regulatory bodies I Financing groups.	Integrity and trust.
12	**Biodiversity and natural capital**	EN	■	■	■		■	■		Shareholders · Investors I Suppliers I Business partners I Employees I Analysts I Society I Administrative staff · Regulatory bodies I Insurance and reinsurance agencies.	The opportunity of environmental challenges.

13	**Business model resilience**	EC	■	■	■	■	■	■	■	Shareholders · Investors I Suppliers I Business partners I Analysts I Society I Administrative staff · Regulatory bodies I Financing groups I Customers I Insurance and reinsurance agencies.	Integrity and trust.
14	**Customer service and satisfaction**				■	■		■	■	Suppliers I Employees I Business partners I Analysts I Society I Administrative staff · Regulatory bodies I Financing groups I Customers I Insurance and reinsurance agencies	Customer experience

Materiality of the aspects of Law 11/2018

The materiality analysis has shown that almost all the aspects required by Law 11/2018 on non-financial information are material for the specific activities performed by Naturgy. In this regard, according to the independent review report, this report has met all those aspects required by Law 11/2018 that are material to Naturgy.

Only food waste and light and noise pollution have not been identified as material. Food waste is not a relevant issue for the company because the company's activity is not linked to the food sector and the company does not engage in intensive food consumption. Likewise, the environmental risk analyses carried out by the company have determined that the company does not have a significant or relevant impact on light and noise pollution.

Scope of the information

[102-48], [102-49] and [102-50]

The financial and non-financial data of Naturgy Energy Group, S.A. and its subsidiaries -the Naturgy group- (hereinafter, Naturgy, the "company" or the "group") presented in this report are consolidated and refer to all activities carried out during 2021 as a global gas and electricity operator.

In general:

- Those indicators that plot progress throughout the year must reflect information on companies held for sale except where indicated otherwise in a footnote, while the indicators that represent information at year-end will not include information in connection with such companies.
- As these are consolidated data, they do not include companies consolidated using the equity method.

There are particularities in some chapters:

- In the field of human resources, the reported information refers to the countries in which Naturgy operates and where it has established companies with hired staff assigned to these countries and where the company performs centralised management of its human resources policies, except the number of employees.
- With regard to the environment, the disclosures refer solely to those companies or activities that are at least 50% owned or controlled by the company, which have the capacity to influence environmental management and have the capacity to make a significant impact, based on global data.

Appendix I of the Consolidated Annual Accounts, entitled "Naturgy Companies", contains a complete list of the companies belonging to Naturgy at 31 December 2021.

Changes in the consolidation scope are described in Appendix II of 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 GRI “Electric Utilities” and “Oil and gas” supplements. The company therefore considers that this report has been prepared in accordance with the Core option of the GRI Standards. In addition, it has followed the indicators identified in the standards of the “Electric Utilities & Power Generators” and “Gas Utilities & Distributors” sectors by the Sustainability Accounting Standards Board (SASB).

This report has also been drawn up in accordance with the AA1000AP (2018) standard and the United Nations Guiding Principles Reporting Framework.

- AA1000AP (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.
- The Global Reporting Initiative Standards: 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.
- SASB Standards: the purpose of the Sustainability Accounting Standards Board is to identify and guide the disclosure of financially relevant sustainability-related information by companies to their investors.

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 AA1000AP (2018) standard.

- Inclusivity: in relation to this principle, the numerous actions aimed at stakeholders for consultation and dissemination carried out throughout the year are particularly relevant.
- Relevance: the relevant matters for Naturgy are included in its Corporate Responsibility Policy, updated in 2019. A major part of this report is structured according to said matters. The contents of this report are also determined by the materiality study.
- Response capacity: this includes key performance indicators of the company, as well as its core policies, strategies, management systems and initiatives in the spheres taken into account.
- Impact: this includes information on the effect of Naturgy's behaviour, performance and/or results on the economy, the environment, society, the stakeholders and the company itself.

Principles for drafting this report.
[102-46]

- Stakeholder participation: the company has identified its stakeholders and their expectations and has specified actions to establish a two-way dialogue with them. For further information, see the sections included in this report on "Naturgy's stakeholders".
- Sustainability context: the report analyses 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: the issues identified in the materiality study 2021 have been considered as material and have been included in the Sustainability Report and the Non-Financial Information Statement 2021.
- Thoroughness: the outline of contents have been 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 disclosed.
[102-52]

- Accuracy: all the information in the report is necessary 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 and accessible. 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.
- Comparability: the information given in this report is consistent and makes it possible to analyse the evolution of the company performance over time and be compared with other companies.
- Reliability: the figures given in this report have been verified by KPMG. The drafting of the report took into account the four principles required by the AccountAbility AA1000AP (2018) standard, and whether or not the information disclosed responds to the stakeholders' concerns and requirements.
- Frequency: Naturgy publishes its Sustainability Report and Non-Financial Information Statement 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.

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's internal control systems and their purpose includes guaranteeing the correct presentation of the company's information to third parties.

In these policies and in accordance with the Global Reporting Initiative recommendations, Naturgy commissions an annual verification of the contents of its report by an independent third party.

This report, corresponding to 2021 has been verified by KPMG, which reviews the adaptation of the contents of the Sustainability Report and Statement of Non-Financial Information to that indicated in the recommendations of the Global Reporting Initiative, in the AA1000AP standard (2018) and in Law 11/2018 on non-financial information and diversity.

As a result of the said 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 report, Naturgy has published the following reports in 2021 which include both financial and non-financial information:

- Corporate Governance Report.
- Audit and Control Committee Report.

It should also be noted that Naturgy publishes local corporate responsibility reports in the main countries where it operates.

Readers can send their questions, queries or requests for information via the corporate website: https://www.naturgy.com/inicio.

2. Additional information

Content index in accordance with the provisions of Act 11/2018, of 28 December, which amends the Commercial Code, the consolidated text of the Corporate Enterprises Act approved by Legislative Royal Decree 1/2010, of 2 July, and Act 22/2015, of 20 July, on Auditing, in connection with non-financial and diversity reporting.

Contents	Pages	Reporting criteria	Reason for the omission
Business model.			
Description of the business model. – Its business environment. – Its organisation and structure. – The markets in which it operates. – Its goals and strategies. – The main factors and trends that may affect their future.	10, 22, 142, 161	GRI 102-2 GRI 102-3 GRI 102-4 GRI 102-6 GRI 102-7 GRI 102-15	
Reporting framework used to report non-financial information.	262	GRI 102-54	
Policies.			
A description of the group's policies on these issues. 1. Due diligence procedures applied for the identification, assessment, prevention and mitigation of risks and impacts, and verification and control, including what measures have been adopted. 2. Key performance indicators of policy implementation to enable monitoring and evaluation of progress.	52, 95, 157	GRI 103-2	
Risks.			
The main risks related to these issues associated with the activities of the group, including, where relevant and proportionate, its business relationships, products or services that could have an adverse effect on those areas, and how the group manages such risks, explaining the procedures used to identify and assess them in accordance with the national, European or international reference frameworks for each subject matter.	50, 70, 91, 157	GRI 102-15	
Materiality analysis.	257	GRI 102-46 GRI 102-47	

Social and personnel issues.			
Employment. – Number and distribution of employees by country, gender, age group and professional category. – Total number and distribution of employment contract types and annual average of: ▪ Indefinite contracts by gender, age and professional category. ▪ Temporary contracts by gender, age and professional category.	161	GRI 102-8 GRI 405-1	
Number of layoffs by gender, age group and professional category.	172, 173	GRI 401-1	
Average remuneration by gender, professional category and age group.	193.199	GRI 405-2	
Pay gap.	203	((RMH-RMM)/ RMH)*100	
Average remuneration of directors and senior managers, including bonus, allowances, compensation, payment to long-term savings schemes and any other payment broken down by gender.	69	GRI 405-2 GRI 201-3	
Introduction of policies on disconnecting from work.	187	GRI 401-2	
Percentage of disabled employees.	182	GRI 405-1	
Work organisation.			
Organisation of work time.	187	GRI 401-2	
Number of hours of absenteeism.	232	GRI 403-9 (2018)	
Measures to facilitate work-life balance and encourage the co-responsible exercise of these by both parents.	179, 183, 184, 185, 186	GRI 401-3	
Health and safety.			
Health and safety conditions in the workplace.	212, 215, 217, 218, 220, 224, 226, 227, 229	GRI 403-1 (2018) GRI 403-3 (2018) GRI 403-2 (2018) GRI 403-9 (2018)	
Number of work accidents by gender.	212	GRI 403-1 (2018) GRI 403-3 (2018) GRI 403-2 (2018) GRI 403-9 (2018)	The internal management system does not allow accident rates to be obtained for all workers who are not employees. The company aims to obtain this data in the future.
Occupational diseases by gender.	212	GRI 403-10 (2018)	
Social relations.			
Organisation of social dialogue, including procedures for informing, consulting and negotiating with staff.	207, 224, 225	GRI 402-1 GRI 403-4 (2018)	
Percentage of employees covered by collective bargaining agreements.	208	GRI 102-41	
Balance of the collective bargaining agreements in the field of occupational health and safety.	207	403-5 (2018)	
Training.			
Policies introduced in the field of training.	173 225	GRI 404-2 GRI 403-5 (2018)	

Total number of training hours by professional category.	175	GRI 404-1
Universal accessibility for people with disabilities.	179	GRI 405-1
Equality.		
Measures taken to promote equal treatment and opportunities between women and men.	178	GRI 405-1 GRI 405-2
Equality plans.	178	GRI 405-1 GRI 405-2
Measures adopted to foster employment.	178	GRI 405-1 GRI 405-2
Protocols against sexual and gender-based harassment.	178	GRI 405-1 GRI 405-2
Integrity and universal accessibility for people with disabilities.	178	GRI 405-1 GRI 405-2
Policy against all types of discrimination and, where appropriate, diversity management.	178	GRI 405-1 GRI 405-2
Environmental issues.		
Management approach.		
Detailed information on the current and foreseeable effects of the company's activities on the environment and, where appropriate, on health and safety.	70, 101	GRI 102-15 GRI 103-2
Environmental assessment or certification procedures.	96	GRI 307-1
Resources targeted at the prevention of environmental risks.	101	GRI 201-2
The application of the precautionary principle.	71, 98, 131	GRI 102-11
The amount of provisions and guarantees for environmental risks.	98	GRI 103-3
Pollution.		
Measures to prevent, reduce or repair carbon emissions that seriously affect the environment (also includes noise and light pollution).	113-115, 127	GRI 305-1 GRI 305-2 GRI 305-3
Circular economy, sustainable use of resources and waste prevention.		
Measures for prevention, recycling, reuse, and other forms of recovery and disposal.	127, 128	GRI 306-2
Actions to combat food waste.	127	N/A
Sustainable use of resources.	122	303-1 (2018)
Water consumption and water supply in accordance with local constraints.	121	GRI 303-2(2018) GRI 305-5(2018)
Consumption of raw materials and measures taken to improve the efficiency of their use.	122	GRI 301-1
Direct and indirect energy consumption	121	GRI 302-1 GRI 302-4
Measures to improve energy efficiency.	114	GRI 302-4 GRI 302-5
Use of renewable energies.	121	GRI 302-1
Environmental issues.		
Climate change.		
Greenhouse gas emissions.	109	GRI 305-1 GRI 305-2 GRI 305-3 GRI 305-4 GRI 305-5
Measures to adapt to climate change.	98, 103	GRI 201-2 GRI 302-4

Targets to reduce greenhouse gases.	114	GRI 305-5	
Sustainable finance taxonomy – Regulation (UE) 2020/852 of the European Parliament – Commission Delegated Act Regulation (UE) 2021/2139	39-50	Company criteria	
Biodiversity.			
Measures to preserve or restore biodiversity.	131	GRI 102-11 GRI 304-3	So far, Naturgy does not have a programme that uses independent external experts to approve the success of all the restoration measures implemented.
Impacts caused by the activity.	133	GRI 304-2	Naturgy continues to work to have more and more accurate information about the duration of the impacts and the reversibility or irreversibility of the impacts, in order to include this information in future reports.
Information on respect for human rights.			
Application of due diligence procedures.	51, 59	GRI 102-16 GRI 102-17 GRI 412-2	
Measures for the prevention of risks of human rights violations and, where appropriate, measures to mitigate, manage and redress possible abuses.	51, 59	GRI 102-16 GRI 102-34	
Complaints about human rights violations.	51	GRI 102-33 GRI 412-1	
Promotion and enforcement of the provisions of ILO core conventions related to respect for freedom of association and the right to collective bargaining, elimination of forced or compulsory labour and the effective abolition of child labour.	50	GRI 102-16	
Information on corruption and bribery.			
Measures to prevent corruption and bribery.	52	GRI 205-3	
Anti-money laundering measures	54	GRI 201-16	
Contributions to foundations and not-for-profit associations.	242	GRI 201-1	
Information about the company.			
Commitments of the companies to sustainable development.			
– The impact of society on local employment. – The impact of society's activity on local populations and the territory. – The relations maintained with the local community players and the types of business with them. – The actions of association or sponsorship.	30, 78, 241		Naturgy has not implemented a methodology to accurately measure the indirect economic contribution of the organisation.
Responsible supply chain management.			
– The inclusion of social, gender equality and environmental issues in the procurement policy. – Consideration in relations with suppliers and subcontractors of their social and environmental responsibility. – Monitoring and auditing systems.	78, 79	GRI 102-9	
Management of customers relations.			

– Measures for the health and safety of consumers. – Complaint systems. – Complaints received and their resolution.	64, 141	GRI 416-1 GRI 417-2
Tax information and transparency.		
– Profits country by country. – Taxes paid on profits. – Public grants received.	18, 58, 59	Accounting criteria

GRI contents index
[102-55]

For the Materiality Disclosures Services, GRI Services has checked that the GRI table of contents is clear, and that the references for Contents 102-40 to 102-49 correspond to the indicated sections of the report.

GRI Standard	*Disclosure*	Pages	Direct response / Omission	External assurance
GRI 101: Foundation 2016				
GRI 102: General disclosures 2016				
Organisational profile	102-1: Name of the organisation.	4		Yes
	102-2: Activities, brands, products and services.	10, 142		Yes
	102-3: Location of headquarters.	10		Yes
	102-4: Location of operations.	15		Yes
	102-5: Ownership and legal form.	Annual Accounts and Directors' Report of the Consolidated Group of Naturgy Energy Group, S.A., p. 9		Yes
	102-6: Markets served.	10, 16		Yes
	102-7: Scale of the organisation.	17, 18, 161		Yes
	102-8: Information on employees and other workers.	165		Yes
	102-9: Supply chain.	78, 79		Yes
	102-10: Significant changes to the organisation and its supply chain.	10		Yes
	102-11: Precautionary principle and approach.	71, 98, 131		Yes
	102-12: External initiatives.	35, 214		Yes
	102-13: Affiliation to associations.	32, 214		Yes
Strategy	102-14: Statement from senior decision-makers.	4		Yes
Ethics and Integrity	102-16: Values, principles, standards and norms of behaviour.	52		Yes
Governance	102-18: Governance structure.	64		Yes
	102-33 Communication of critical concerns	51, 54		Yes
	102-34 Nature and total number of critical concerns	51, 54		yes
Stakeholder engagement	102-40: List of stakeholders.	30		Yes
	102-41: Collective bargaining agreements.	207		Yes
	102-42: Identifying and selecting stakeholders.	30		Yes
	102-43: Approach to stakeholder engagement.	30		Yes
	102-44: Key topics and concerns raised.	30		Yes

Reporting practice	102-45: Entities included in the consolidated financial statements.	Annual Accounts and Directors' Report of the Consolidated Group of Naturgy Energy Group, S.A., p. 141		Yes
	102-46: Defining report content and topic boundaries.	257, 262, 263		Yes
	102-47: List of material topics.	258		Yes
	102-48: Restatements of information.	261		Yes
	102-49: Changes in reporting.	257, 261	There have been no significant changes to the list of material items.	Yes
	102-50: Period covered by the report.	261	2021	Yes
	102-51: Date of last report.		2020	Yes
	102-52: Reporting cycle.	263		Yes
	102-53: Contact point for questions regarding the report.	264		Yes
	102-54: Claims of reporting in accordance with the GRI Standards.	262		Yes
	102-55: GRI content index.	269		Yes
	102-56: External verification.	263		Yes
Material issues				
Climate change and energy transition				
GRI 103: Management Approach 2016	103-1: Explanation of the material topic and its boundary.	101		Yes
	103-2: Management approach and its components.	101		Yes
	103-3: Evaluation of the management approach.	101		Yes
GRI 305: Emissions 2016	305-1: Direct GHG emissions (Scope 1).	109, 112		Yes
	305-2: Indirect GHG emissions from power generation (Scope 2).	109		Yes
	305-3: Other indirect GHG emissions (Scope 3).	109		Yes
	305-4: GHG emissions intensity.	111		Yes
	305-5: Reduction of GHG emissions.	114		Yes
	305-6: Emissions of ozone-depleting substances (ODS).	127		Yes
	305-7: Nitrogen oxides (NOX), sulphur oxides (SOX), and other significant air emissions.	127		Yes
EU1	EU1: Installed capacity.	20		Yes
EU2	EU2: Net energy output.	20		Yes
EU3	EU3: Number of clients.	10, 13, 14		Yes
EU4	EU4: Length of transmission and distribution lines.	13, 14, 18		Yes
EU5	EU5: Allocation of CO_2 emissions allowances or equivalent.	113		Yes
OG3	OG3 Total amount of renewable energy generated broken down by source	20		Yes

Cybersecurity and information security			
GRI 103: Management Approach 2016	103-1: Explanation of the material topic and its boundary.	86	Yes
	103-2: Management approach and its components.	86	Yes
	103-3: Evaluation of the management approach.	86	Yes
Circular economy and eco-efficiency			
GRI 103: Management Approach 2016	103-1: Explanation of the material topic and its boundary.	121	Yes
	103-2: Management approach and its components.	121	Yes
	103-3: Evaluation of the management approach.	121	Yes
GRI 301 Materials 2016	301-1: Materials used, by weight or volume.	122	Yes
GRI 302: Energy 2016	302-1: Electricity consumption within the organisation.	121	Yes
	302-2: Electricity consumption outside the organisation.	122	Yes
	302-3: Energy intensity.	121	Yes
	302-4: Reduction of energy consumption.	114	Yes
	302-5: Reduction in energy requirements of products and services.	114	Yes
GRI 303: Water and effluents 2018	303-1: Interactions with water as a shared resource.	122	Yes
	303-2: Management of impacts related to water discharges.	122	Yes
	303-3: Water withdrawal.	124, 126	Yes
	303-4: Water discharge.	125, 126	Yes
	303-5: Water consumption.	125, 126	Yes
GRI 306: Effluents and waste 2018	306-2: Waste by type and disposal method.	127	Yes
	306-3: Significant spills.	98	Yes
Occupational safety			
GRI 103: Management Approach 2016	103-1: Explanation of the material topic and its boundary.	209	Yes
	103-2: Management approach and its components.	209	Yes
	103-3: Evaluation of the management approach.	209	Yes

GRI 403: Occupational health and safety 2018	403-1: Occupational health and safety management system.	212, 226, 229		Yes
	403-2: Hazard identification, risk assessment, and incident investigation.	215, 217, 218, 220, 224		Yes
	403-3: Occupational health services.	227		Yes
	403-4: Worker participation, consultation, and communication on occupational health and safety.	224, 225		Yes
	403-5 Training of workers on health and safety at work	225		Yes
	403-6: Promotion of worker health.	230		Yes
	403-7: Prevention and mitigation of occupational health and safety impacts directly linked by business relationships.	215		Yes
	403-8: Workers covered by an occupational health and safety management system.	212, 226, 229		Yes
	403-9: Work-related injuries.	212	The internal management system does not allow accident rates to be obtained for all workers who are not employees. The company aims to obtain this data in the future.	Yes
	403-10: Work-related ill health.	212		Yes
EU25	EU25: Injuries and fatalities to the public due to company activities.	223	The associated potential risk is not reported; work will be done to expand the information for the next fiscal year.	Yes
Business continuity				
GRI 103: Management Approach 2016	103-1: Explanation of the material topic and its boundary.	70		Yes
	103-2: Management approach and its components.	70		Yes
	103-3: Evaluation of the management approach.	70		Yes
Strategy	102-15: Key impacts, risks and opportunities	70		Yes
GRI 201: Economic performance 2016	201-2: Financial implications and other risks and opportunities due to climate change.	75, 98, 103, 119		Yes
	201-3: Defined benefit plan obligations and other retirement plans.	206		Yes
Safety of facilities and operations				
GRI 103: Management Approach 2016	103-1: Explanation of the material topic and its boundary.	88		Yes
	103-2: Management approach and its components.	88		Yes
	103-3: Evaluation of the management approach.	88		Yes
GRI 416: Customer Health and Safety	416-1: Assessment of the health and safety impacts of product and service categories	141		Yes
EU28	EU28: Power outage frequency	151	The information for Argentina is not available; work will be done to expand the information for the next fiscal year.	Yes
EU29	EU29: Average power outage duration	151	The information for Argentina is not available; work will be done to expand the information for the next fiscal year.	Yes

Diversity and equality			
GRI 103: Management approach	103-1: Explanation of the material topic and its boundary.	178	Yes
	103-2: Management approach and its components.	178	Yes
	103-3: Evaluation of the management approach.	178	Yes
GRI 401: Employment 2016	401-1: New employee hires and employee turnover.	168	Yes
GRI 405: Diversity and equal opportunities 2016	405-2: Ratio of basic salary and remuneration of women to men.	69, 189	Yes
Attraction and quality of employment			
GRI 103: Management approach	103-1: Explanation of the material topic and its boundary.	186	Yes
	103-2: Management approach and its components.	186	Yes
	103-3: Evaluation of the management approach.	186	Yes
GRI 401: Employment 2016	401-2: Benefits provided to full-time employees that are not provided to temporary or part-time employees.	187	Yes
	401-3: Parental leave.	179, 183, 184, 185, 186,	Yes
GRI 402: Labor/ Management relations 2016	402-1: Minimum notice periods regarding operational changes.	207	Yes
GRI 407: Freedom of association and collective bargaining	407-1: Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk.	207	Yes
Business integrity, compliance and transparency			
GRI 103: Management Approach 2016	103-1: Explanation of the material topic and its boundary.	50	Yes
	103-2: Management approach and its components.	50	Yes
	103-3: Evaluation of the management approach.	50	Yes
Organisational profile	102-17: Mechanisms for evaluating and reporting ethical issues.	52	Yes
GRI 205 Anti-corruption 2016	205-1: Operations assessed for risks related to corruption.	50	Yes
	205-3: Confirmed incidents of corruption and actions taken.	52	Yes
GRI 206 Unfair competition 2016	206-1: Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices.	64	Yes
GRI 207 Tax 2019	207-1: Approach to tax	56	Yes
	207-2: Tax governance, control, and risk management.	56	Yes
	207-3: Stakeholder engagement and management of concerns related to tax.	30, 56	Yes
GRI 307 Environmental compliance 2016	307-1: Non-compliance with environmental laws and regulations.	97	Yes

Talent development				
GRI 103: Management Approach 2016	103-1: Explanation of the material topic and its boundary.	173		Yes
	103-2: Management approach and its components.	173		Yes
	103-3: Evaluation of the management approach.	173		Yes
GRI 404: Training and education 2016	404-1: Average hours of training per year per employee.	174		Yes
	404-2: Programmes for upgrading employee skills and transition assistance programmes.	173		Yes
Good corporate governance				
GRI 103: Management approach	103-1: Explanation of the material topic and its boundary.	64		Yes
	103-2: Management approach and its components.	64		Yes
	103-3: Evaluation of the management approach.	64		Yes
Governance	102-22: Composition of the highest governance body and its committees.	66		Yes
	102-23: Chair of the highest governance body.	66		Yes
GRI 405: Diversity and equal opportunities 2016	405-1: Diversity of governance bodies and employees.	67, 69, 162, 163, 181, 182		Yes
Biodiversity				
GRI 103: Management Approach 2016	103-1: Explanation of the material topic and its boundary.	131		Yes
	103-2: Management approach and its components.	131		Yes
	103-3: Evaluation of the management approach.	131		Yes
GRI 304: Biodiversity 2016	304-1: Operations centres owned, leased or managed located within or adjacent to protected areas or zones of great value for biodiversity outside protected areas.	135		Yes
	304-2: Significant impacts of activities, products and services on biodiversity.	133	Naturgy continues to work towards obtaining increasingly accurate information on the duration of the impacts and the reversibility or irreversibility of them, in order to include this information in future reports.	Yes
	304-3: Habitats protected or restored.	136,139, 140	So far, Naturgy does not have a programme that uses independent external experts to approve the success of all the restoration measures implemented.	Yes
	304-4: IUCN Red List species and national conservation list species with habitats in areas affected by operations.	136		Yes
EU13	EU13: Biodiversity of surrounding area habitats.	140		Yes
Business model resilience				

GRI 103: Management Approach 2016	103-1: Explanation of the material topic and its boundary.	10		Yes
	103-2: Management approach and its components.	10		Yes
	103-3: Evaluation of the management approach.	10		Yes
GRI 201: Economic performance 2016	201-1: Direct economic value generated and distributed.	242		Yes
Customer service and satisfaction				
GRI 103: Management Approach 2016	103-1: Explanation of the material topic and its boundary.	141		Yes
	103-2: Management approach and its components.	141		Yes
	103-3: Evaluation of the management approach.	141		Yes
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.	64		Yes
	417-3: Incidents of non-compliance concerning marketing communications.		In 2021, the company registered no fines for breach of regulations on marketing communications, including advertising, promotions and sponsorship.	Yes

SASB contents index

Code	SASB Contents	Pages	Direct response / Omission	Comments	External verification
IF-EU-110a.1	(1) Scope 1 gross worldwide emissions, percentage covered by (2) emission limitation regulations and (3) emission reporting regulations.	109, 113		Partial response. Percentage not reported in (2) and (3).	Yes
IF-EU-110a.2	Greenhouse gas (GHG) emissions associated with energy supplies.	112		Full response.	Yes
IF-EU-110a.3	Analysis of the long- and short-term strategy or plan for managing Scope 1 emissions, emission reduction targets and analysis of results in relation to these targets.	115, 119		Full response.	Yes
IF-EU-110a.4	(1) Number of clients served in markets subject to renewable portfolio standards (RPS) and (2) percentage of compliance with the RPS target, for each market.		Not applicable		Yes
IF-EU-120a.1	Emissions to the atmosphere of the following pollutants: (1) NOx (except N_2O), (2) SO_x, (3) particulate matter (PM10), (4) lead (Pb), and (5) mercury (Hg); the percentage of each in or near densely populated areas.	127		Partial response. Information on the percentage of emissions in densely populated areas is omitted.	Yes
IF-EU-140a.1	(1) Total water withdrawn, (2) total water consumed, percentage of each in regions with high or extremely high initial water stress.	124, 125, 126		Partial response. The percentage of water consumed in water-stressed regions out of the total is not reported.	Yes
IF-EU-140a.2	Number of incidents of non-compliance related to water quantity or quality permits, standards and regulations.	126		Full response.	Yes
IF-EU-140a.3	Description of water management risks and analysis of strategies and practices to mitigate them.	122		Full response.	Yes
IF-EU-150a.1	Amount of waste generated by coal combustion (RCC), percentage recycled.		Not applicable	Until 2020, there were coal-fired power stations.	Yes
IF-EU-150a.2	Total number of coal combustion generated waste impoundments (CCR), broken down by hazard potential classification and structural integrity assessment.		Not applicable	Until 2020, there were coal-fired power stations.	Yes
IF-EU-240a.1	Average retail electric rate for (1) residential, (2) commercial and (3) industrial customers.	155		Full response, pending some geographies.	Yes
IF-GU-240a.1	Average retail gas rate for (1) residential, (2) commercial, (3) industrial and (4) transportation-only service customers.	155		Full response, pending some geographies.	Yes
IF-EU-240a.2	Typical monthly electricity bill for residential customers for (1) 500 kWh and (2) 1000 kWh of electricity supplied each month.	155		Full response, pending some geographies.	Yes

IF-GU-240a.2	Typical monthly gas bill for residential customers for (1) 50 MMBTU and (2) 100 MMBTU of gas supplied per year.	155		Full response, pending some geographies.	Yes
IF-EU-240a.3	Number of residential customers cut off from electricity supply due to non-payment, percentage reconnected before 30 days.	153, 154		Full response, pending some geographies.	Yes
IF-GU-240a.3	Number of residential customers cut off from gas supply for non-payment, percentage of services restored within 30 days.	153, 154		Full response, pending some geographies.	Yes
IF-EU-240a.4	Analysis of the effect of external factors on the affordability of electricity for customers, including the economic conditions of the service territory.	155		Partial response. Factors mentioned, analysis planned for the next fiscal year.	Yes
IF-GU-240a.4	Analysis of the effect of external factors on the affordability of gas for customers, including economic conditions of the service territory.	155		Partial response. Factors mentioned, analysis planned for the next fiscal year.	Yes
IF-EU-320a.1	(1) total recordable incident rate (TRIR), (2) fatality rate and (3) near miss frequency rate (NMFR).	212			Yes
IF-EU-420a.1	Percentage of electric utility revenues that come from rate structures that (1) are decoupled and (2) contain a loss of revenue adjustment mechanism (LRAM).		Not applicable		Yes
IF-GU-420a.1	Percentage of gas utility revenues from rate structures that (1) are decoupled or (2) contain a loss of revenue adjustment mechanism (LRAM).		Not applicable		Yes
IF-EU-420a.2	Percentage of electric load supplied with smart grid technology.	146		Full response.	Yes
IF-EU-420a.3	Electricity savings by customers, thanks to efficiency measures, per market.	142			Yes
IF-GU-420a.2	Customer gas savings from efficiency measures, by market.	142			Yes
IF-EU-540a.1	Total number of nuclear power units, broken down by U.S. Nuclear Regulatory Commission (NRC) "Shares Matrix" column.		Not applicable		Yes
IF-EU-540a.2	Description of initiatives to manage nuclear safety and emergency preparedness.	88		Full response.	Yes
IF-EU-550a.1	Number of incidents of non-compliance with physical or cybersecurity standards or regulations.	88		Full response.	Yes
IF-EU-550a.2	(1) System Average Interruption Duration Index (SAIDI), (2) System Average Interruption Frequency Index (SAIFI), and (3) Customer Average Interruption Duration Index (CAIDI), which includes days on which severe events occur.	151, 152		Partial response. Serious event days are not reported.	Yes
IF-EU-000.A IF-GU-000.A	Number of: (1) residential, (2) commercial and (3) industrial customers served.	18		Partial response. The total number is reported but not by category.	Yes
IF-EU-000.B	Total electricity supplied to: (1) residential customers, (2) commercial customers, (3) industrial customers, (4) all other retail customers and (5) wholesale customers.	14		Partial response. The total and percentage corresponding to the residential segment are reported.	Yes
IF-GU-000.B	Amount of natural gas supplied to: (1) residential customers, (2) commercial customers, (3) industrial customers and (4) transferred to a third party.	13		Partial response. The total is reported.	Yes
IF-EU-000.C	Length of transmission and distribution lines.	14		Full response.	Yes

IF-GU-000.C	Length of (1) gas transmission pipelines and (2) gas distribution pipelines.	13		Full response.	Yes
IF-EU-000.D	Total electricity generated, percentage by main energy source, percentage in regulated markets.	20		Partial response. The percentage of regulated markets is not reported.	Yes
IF-EU-000.E	Total electricity purchased in bulk.	121		Full response.	Yes
IF-GU-540a.1	Number of (1) pipeline incidents to report, (2) corrective action orders (CAOs), and (3) notices of possible violations (NOPVs).		Not applicable .		Yes
IF-GU-540a.2	Percentage of distribution pipelines that are (1) cast or puddled iron and (2) unprotected steel.	89		Full response.	Yes
IF-GU-540a.3	Percentage of (1) transmission pipelines and (2) gas distribution pipelines inspected.	89		Full response.	Yes
IF-GU-540a.4	Description of efforts to manage the integrity of the gas supply infrastructure, including risks related to safety and emissions.	89		Full response.	Yes

Glossary of non-financial indicators

Indicator	Definition
Investment in innovation	Amount in euros allocated to innovation activities.
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.
Direct greenhouse gas emissions (GHG)	Greenhouse gas emissions (GHG) caused by sources owned by or controlled by the company.
Emission factor for electricity generation (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).
Installed capacity free of emissions (%)	% that represents the installed capacity in hydro, mini-hydro, wind, nuclear and solar technologies over the total installed capacity at the year-end.
Net production free of emissions (%)	% representing the net output of hydro, mini-hydro, wind, nuclear and solar technologies over total net output.
Activity with ISO 14001 environmental certification (%)	Percentage of Ebitda corresponding to companies certified (*) by means of the environmental management model included in the ISO 14001 standard, with respect to total Ebitda generated by activities that have an environmental impact. (*) Certified companies have been included as companies assimilated to certified companies pursuant to the following definition: – Those parent companies whose subsidiaries, of which they are more than 50% owned, are practically all certified. – Those companies that concentrate corporate services only from certified companies. – Those companies whose parent company concentrates corporate services and is certified.
Water consumption	Volume of water consumed by the company's activities.
Consumption of raw materials	Thousands of tonnes of raw materials used in the company's main processes.
Direct energy consumption	It represents the difference between the consumption of non-renewable fuels, electricity purchased for consumption and renewable electricity generated, less the electricity and steam sold.
Indirect energy consumption	It represents the consumption by the final use of the natural gas distributed/ marketed.
Generation of hazardous waste (kt)	Amount of most representative hazardous waste generated.
Resources targeted at the prevention of environmental risks	Amount allocated to investments and expenditure on environmental matters.
Distribution of employees by age, country, gender and professional category	Distribution of employees by age, country, gender and professional category at year-end.
Annual average of indefinite and temporary contracts by age, gender and professional category	Percentage of employees recruited by type of contract at year-end and annual average of temporary contracts by age, gender and category.
Rotation index	Layoffs/average staff.
Voluntary rotation index	Voluntary layoffs/average staff.
Number of dismissals by age, gender, and professional category	Number of persons dismissed, either rightly or wrongly, classified by age, gender and professional category.
Salary gap	Difference between men's and women's wages, calculated as the difference between men's and women's wages, divided by men's wages. The result above zero represents the percentage of salary below men that women receive. The result below zero represents the percentage of salary above men that women receive.
Average remuneration by age, gender, and professional category. Average remuneration of directors and senior managers	Amount of the average remuneration of staff classified by country, age, gender and professional category. Amount of directors' and senior managers' remuneration weighted by the number of directors and executives.
Personnel costs (million euro)	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).

Percentage of employees covered by collective bargaining agreements	Percentage of employees by country whose contract is covered by a collective bargaining agreement.
Staff trained (%)	Percentage of staff who have received training.
Total training hours	Total hours of training received by staff.
Annual investment in training (euros)	Total monetary amount invested by the company in employee training.
People with disabilities integration index	Percentage of employees in Spain with disabilities.
No. of lost time accidents	Number of work accidents with days lost (whether or not fatal).
Days lost	Workdays lost due to occupational accidents. Calculated from the day following the day the medical leave is received and considering calendar days.
Fatalities	Number of workers who have died due to work accidents.
Number of hours worked	Total actual hours worked in the company.
Number of days lost	Total days off as a result of recorded occupational accidents.
Lost time accidents frequency rate	Number of accidents with lost time occurring during the working day per 200,000 hours worked.
Lost time accidents severity rate	Number of days lost as a result of work accidents per 200,000 hours worked.
Occupational illnesses	Illnesses caused by work activity.
Absenteeism	Hours of absenteeism due to occupational and non-occupational illness.
Total number of suppliers	Number of suppliers who have remained active (registered in the supplier database) during the year, and who have been awarded purchases in the year; total and broken down by country.
Total purchase volume awarded	Total monetary amount corresponding to the awards of the year, considering 100% of the awards whose period of validity is less than 365 days, as well as the annualised amounts corresponding to 2021 for the awards of more than 365 days.
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 (Environmental, Social and Governance) supplier assessment	Total number of suppliers that have been active (registered in the supplier database) during the year, evaluated in accordance with ESG criteria, regardless of whether or not they have been awarded, or have provided a service/product to Naturgy during the year.
Number of critical suppliers	Number of suppliers classified as “High” risk, who have remained active (registered in the supplier database) during the financial year, and who have provided products/services to Naturgy during the financial year.
Official-approval suspended suppliers	Suppliers who have not passed the supplier approval process.
Sponsorship and social action investment	Economic contribution to social action or investment and sponsorship and patronage programmes.
Distribution by type of social action (%)	Distribution of investments by reason for initiatives, broken down according to the London Benchmarking Group (LBG) methodology.
Sponsorship and social action activities	Number of sponsorship, patronage and social action activities carried out by the company.
Queries and notifications to the Code of Ethics	Number of communications relating to the Code of Ethics and Anti-Corruption Policy which have been received by the Code of Ethics Committee.
No. of notifications 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 per 200 company employees.
Average time for resolving notifications (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.

Notifications 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 on the Human Rights Policy.
Tax contribution	Amount of taxes actually paid by country and segmented between those that represent an effective expense for the group and those that are withheld or passed on to the end taxpayer.

3. Greenhouse gas (GHG) emissions inventory calculation methodology

Assessment and reduction of uncertainty

The uncertainty associated with reporting Scope 1 emissions for 2020 is 6.7%.

For facilities under the EU Emissions Trading Scheme, in accordance with Decision 2007/589/EC of 18 July, uncertainties regarding GHG emission values will be lower than those corresponding to the approach levels approved by the competent authority. For all other emission sources, the uncertainty associated with the calculation of GHG emissions is a combination of the uncertainties associated with the activity data and emission factors, using the references established in 2.38. IPCC 2006 GHG, vol. 2, table 2.12.

To minimise the uncertainty associated with the activity data, all emission sources have environmental and quality management systems that conform to ISO 14001:2015 and ISO 9001:2015 standards. In order to minimise the uncertainty associated with the emission factors, official sources are always used, as are, by default, the core values recognised in the 2006 IPCC Guidelines for GHG Inventories.

Methodology

To quantify Naturgy's greenhouse gas emissions, an application and calculation methodology has been developed based on the following standards and methodologies:

- Scopes 1, 2 and 3 emissions are included according to "The Greenhouse Gas Protocol. A Corporate accounting and reporting standard".
- Scope 3 reported in accordance with Corporate Value Chain (Scope 3).
- It includes the emissions of the six GHG set out in IPCC in accordance with the 2006 IPCC Guidelines for national GHG inventories (hereinafter 2006 IPCC GHG).
- Standard UNE-ISO 14064-1. Greenhouse gases. Part 1: Specification with guidance at the organisation level for quantification and reporting of greenhouse gas emissions and removals.
- Standard UNE-ISO 14064-2. Greenhouse gases. Part 2: Specification with guidance at the project level for quantification, monitoring and reporting of greenhouse gas emission reductions or removal enhancements.
- Standard UNE-ISO 14064-3. Greenhouse gases. Part 3: Specification with guidance for the verification and validation of greenhouse gas statements.
- Definition of the life cycle in accordance with the UNE- EN-ISO 14040 and ENE-EN-ISO 14044 standards for life cycle analysis.
- Specific emission factors are used in accordance with the 2006 IPCC guidelines for national GHG inventories (hereinafter 2006 IPCC GHG) and other verifiable documentary and bibliographic sources.

Operational limits

Naturgy's carbon footprint inventory includes GHG emissions from the following group activities:

- Extraction, road transport, maritime transport, distribution and commercialisation of natural gas.
- Thermal power stations from coal and fuel oil, combined-cycle power stations, cogeneration, generation at wind farms, photovoltaic power stations and hydroelectric power stations.
- Distribution of electrical power.
- Offices, fleets and travel.

Within the aforementioned activities, different calculation units corresponding to each of the facilities comprising those activities have been defined. These calculation units or facilities are treated according to the global consolidation criteria, in accordance with the shareholding percentages.

Life cycles of fuels used

Energy (fuels, electricity) is consumed throughout the various processes, producing emissions throughout its life cycle. A diagram with the life cycles of the main fuels used is included below.

The fuels used in both fixed sources (fuels from thermal power stations, offices, gas transport and distribution facilities, etc.) and in mobile sources have been considered.

Extraction and treatment	Transport	Transformation	Transport	Transformation	Transport	Consumption
Oil	Road transport Oil pipeline		Maritime transport	Refining	Road transport	Stationary sources
Gas natural	Gas pipelines Gas pipeline	Liquefaction Gas pipeline	Maritime transport Gas pipeline	Regasification Gas pipeline	Gas pipeline	Stationary sources and mobile sources

Electrical energy

Emissions derived from electrical energy have only been considered when it is used in primary energy terms and is not generated by any of the group's calculation units:

- Electricity consumption purchased from external suppliers.
- Losses arising from the transport and distribution of energy distributed and not generated by the company in each country.
- Emissions from the life cycle of the fuels used in the generation mix of each country.

Geographical limits

All the countries in which activities are carried out, as well as the countries from which the fuels originate, have been considered.

For the annual preparation of the inventory, a series of prior studies are carried out to update the initial data, such as the review of gas, coal and crude oil supply routes (there are more than 500 routes connecting 165 extraction points in 30 destination countries).

Three types of data are updated each year:

- Characteristics of the extraction points (specific factors depending on the country, technology, type of well or mine, etc.).
- Definition of the routes themselves (distances from each country of passage and specific factors).
- Fuel balances in destination countries.

Types of emissions

Scope 1

Direct GHG emissions, meaning those from sources controlled by the company itself.

Scope 2

Indirect emissions due to the generation of electricity that is acquired by the company for its own consumption but is not generated by the group.

Scope 3

Indirect emissions, not included in Scope 2, derived from the value chain of activities, including upstream and downstream emissions, over which the group has no direct influence or control. Within the categories defined by the GHG Protocol, those with a weight of less than 1% have been excluded, provided that the sum of all of them does not exceed 5%. The categories reported are:

- Fuel life cycles: emissions derived from the life cycles of fuels. This category includes the following subcategories:
    - Emissions from coal extraction, treatment and transport.
    - Emissions derived from the extraction, treatment (liquefaction and regasification) and transport (by gas pipeline and/or methane tanker not owned by the company) of natural gas.
    - Emissions derived from the extraction, treatment (refining) and transport (by oil pipeline and/or oil tanker) of petroleum products.
    - Emissions produced in the life cycles of the fuels used for electricity generation of the energy mix of each country.
    - Emissions due to electricity losses in the transmission and distribution of electricity consumed but not generated.
    - Emissions of energy that has been consumed by the group but not generated and/or distributed.
- Business trips: emissions derived from the movement of employees by plane, train or any other means of transport not belonging to the fleet of vehicles owned by the group. It is divided into two subcategories:
    - Trips made by company employees by train.
    - Trips made by company employees by plane.
- Employees commutes: emissions derived from employees commuting from their respective homes to the workplace.
- End use of products sold: emissions derived from the combustion of products, which correspond to those derived from the combustion of natural gas sold by the group to the customer, discounting the gas consumed within the organisation.
- Investments: includes emissions derived from the investment in Unión Fenosa Gas.

Organisational limits

The GHG emissions inventory in the Carbon Footprint Report includes all businesses and activities under financial consolidation criteria, according to the shareholding percentages.

Emission factors used

Unit	Unit	Value	Source
LCV ng	MJ/kg	48.2	OECC Carbon Footprint Calculation Guide v.15 (June 2020)
HCV ng	MJ/kg	53.496	OECC Carbon Footprint Calculation Guide v.15 (June 2020)
LCV petrol	MJ/kg	44.3	OECC Carbon Footprint Calculation Guide v.15 (June 2020)
LCV diesel/gas oil A & C Spain	MJ/kg	43	OECC Carbon Footprint Calculation Guide v.15 (June 2020)
LCV ethanol	MJ/kg	27	Table 1.2. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
LCV biodiesel	MJ/kg	27	Table 1.2. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
LCV fuel oil	MJ/kg	40.4	OECC Carbon Footprint Calculation Guide v.15 (June 2020)
Density ng	kg/m^3	0.8076	Naturgy internal data
Density petrol	kg/l	0.7475	OECC Carbon Footprint Calculation Guide v.15 (June 2020)
Density diesel/gas oil A	kg/l	0.8325	OECC Carbon Footprint Calculation Guide v.15 (June 2020)
Density diesel/gas oil C	kg/l	0,9	OECC Carbon Footprint Calculation Guide v.15 (June 2020)
Density ethanol	kg/l	0.789	Naturgy internal data
Density biodiesel	kg/l	0.845	Royal Decree 61/2006
Density methane	kg/m^3	0.7175	Naturgy internal data
Density propane	kg/l	0.5185	CEPSA product sheet
LCV propane	MJ/kg	46.2	OECC Carbon Footprint Calculation Guide v.15 (June 2020)
HCV propane	MJ/kg	49.98	CEPSA product sheet
EF CO_2 petrol	kg CO_2/GJ	69.3	OECC Carbon Footprint Calculation Guide v.15 (June 2020)
EF CH_4 petrol	kg CH_4/GJ	0.025	Table 3.2.2. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
EF N_2O petrol	kg N_2O/GJ	0.008	Table 3.2.2. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
EF CO_2 diesel/gas oil A	kg CO_2/GJ	74.1	OECC Carbon Footprint Calculation Guide v.15 (June 2020)
EF CO_2 diesel/gas oil C	kg CO_2/GJ	73	OECC Carbon Footprint Calculation Guide v.15 (June 2020)
EF CH_4 diesel/gas oil fixed sources (“fs”)	kg CH_4/GJ	0.01	Table 2.4. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
EF N_2O diesel/gas oil fs	kg N_2O/GJ	0.0006	Table 2.4. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
EF CO_2 MDO carriers	t CO_2/t MDO	3.206	4th IMO GHG survey (July 2020): based on Resolution MEPC.308(73). (adopted on 26 October 2018) 2018 GUIDELINES ON THE METHOD OF CALCULATION OF THE ATTAINED ENERGY EFFICIENCY DESIGN INDEX (EEDI) FOR NEW SHIPS
EF CH_4 diesel/gas oil mobile sources (“ms”)	kg CH_4/GJ	0.007	Table 3.5.3. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
EF N_2O diesel/gas oil ms	kg N_2O/GJ	0.002	Table 3.5.3. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
EF CH_4 diesel/gas oil power generation	kg CH_4/GJ	0.003	Table 2.2. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
EF N_2O diesel/gas oil electric generation	kg N_2O/GJ	0.0006	Table 2.2. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
EF CO_2 HFO carriers	t CO_2/t HFO	3.1144	4th IMO GHG survey (July 2020): based on Resolution MEPC.308(73). (adopted on 26 October 2018) 2018 GUIDELINES ON THE METHOD OF CALCULATION OF THE ATTAINED ENERGY EFFICIENCY DESIGN INDEX (EEDI) FOR NEW SHIPS
EF CH_4 fuel oil ms	kg CH_4/GJ	0.007	Table 3.5.3. 2006 IPCC Guidelines for National Greenhouse Gas Inventories

EF N_2O fuel oil ms	kg N_2O/GJ	0.002	Table 3.5.3. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
EF CH_4 fuel oil electricity generation	kg CH_4/GJ	0,003	Table 2.2. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
EF N_2O fuel oil electricity generation	kg N_2O/GJ	0.0006	Table 2.2. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
EF CH_4 domestic coal	kg CH_4/GJ	0.0006	Table. 1.4.2. (01.01.01) National Atmospheric Emission Inventories 1990-2012. Volume 2: Analysis by SNAP Activities.
EF N_2O domestic coal	kg N_2O/GJ	0.0008	Table. 1.4.2. (01.01.01) National Atmospheric Emission Inventories 1990-2012. Volume 2: Analysis by SNAP Activities.
EF CH_4 imported coal	kg CH_4/GJ	0.0006	Table 1.4.2. (01.01.01) National Atmospheric Emission Inventories 1990-2012. Volume 2: Analysis by SNAP Activities.
EF N_2O imported coal	kg N_2O/GJ	0.0008	Table 1.4.2. (01.01.01) National Atmospheric Emission Inventories 1990-2012. Volume 2: Analysis by SNAP Activities.
EF CH_4 coke	kg CH_4/GJ	0.0003	Table 1.4.2. (01.01.01) National Atmospheric Emission Inventories 1990-2012. Volume 2: Analysis by SNAP Activities.
EF N_2O coke	kg N_2O/GJ	0.0025	Table 1.4.2. (01.01.01) National Atmospheric Emission Inventories 1990-2012. Volume 2: Analysis by SNAP Activities.
EF CO_2 natural gas	kg CO_2/GJ	56.13	OECC Carbon Footprint Calculation Guide (2021)
EF CH_4 natural gas fs	kg CH_4/GJ	0.005	Table 2.4. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
EF N_2O natural gas fs and electricity generation	kg N_2O/GJ	0.0001	Table 2.2. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
EF CH_4 natural gas ms	kg CH_4/GJ	0,092	Table 3.2.2. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
EF N_2O natural gas ms	kg N_2O/GJ	0.003	Table 3.2.2. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
EF CH_4 natural gas electricity generation	kg CH_4/GJ	0.001	Table 2.2. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
EF CO_2 LNG carriers	tCO_2/tGNL	2.75	4th IMO GHG survey (July 2020): based on Resolution MEPC.308(73). (adopted on 26 October 2018) 2018 GUIDELINES ON THE METHOD OF CALCULATION OF THE ATTAINED ENERGY EFFICIENCY DESIGN INDEX (EEDI) FOR NEW SHIPS
EF CH_4 natural gas carriers	kg CH_4/GJ	0.004	Table 2.7. 2006 IPCC Guidelines for National Greenhouse Gas Inventories. By analogy with the type of turbine. Gas turbines >3MW.
EF N_2O natural gas carriers	kg N_2O/GJ	0.001	Table 2.7. 2006 IPCC Guidelines for National Greenhouse Gas Inventories. By analogy with the type of turbine. Gas turbines >3MW.
EF CO_2 propane	kg CO_2/GJ	63.6	OECC Carbon Footprint Calculation Guide
EF CH_4 propane ms	kg CH_4/GJ	0.062	Table 3.2.2. 2006 IPCC Guidelines for National Greenhouse Gas Inventories LPG
EF N_2O propane ms	kg CO_2/GJ	0.0002	Table 3.2.2. 2006 IPCC Guidelines for National Greenhouse Gas Inventories LPG
EF CH_4 propane fs	kg CO_2/GJ	0.005	Table 2.4. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
EF NO_2 propane fs	kg CO_2/GJ	0.0001	Table 2.4. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
GWP Methane	kg CO_2/kg CH_4	28	IPCC 6th Assessment Report
GWP SF_6	kg CO_2/t SF_6	23500000	IPCC 6th Assessment Report
GWP N_2O	kg CO_2/t N_2O	265000	IPCC 6th Assessment Report

GWP HFC	kg CO_2/t HFC	12,400,000	IPCC 6th Assessment Report
GWP PFC	kg CO_2/kg PFC	11,100,000	IPCC 6th Assessment Report

11. Verification letters

Independent Review Report on the Sustainability Report and Non-Financial Information Statement

KPMG Asesores, S.L.
Pº de la Castellana, 259 C
28046 Madrid

Independent Assurance Report on the Sustainability Report and Non-Financial Information Statement of Naturgy Energy Group, S.A. and subsidiaries for 2021

(Translation from the original in Spanish. In the case of discrepancy, the Spanish language version prevails)

To the Shareholders of Naturgy Energy Group, S.A.

Pursuant to article 49 of the Spanish Code of Commerce, we have performed a limited assurance review of the accompanying Sustainability Report and Non-Financial Information Statement (hereinafter SR/NFIS) for the year ended 31 December 2021 of Naturgy Energy Group, S.A. (hereinafter the Parent or Naturgy) and subsidiaries (hereinafter the Group), which forms part of the Group's consolidated directors' report.

The SR/NFIS includes additional information to that required by prevailing mercantile legislation concerning non-financial information, which has not been subject to our assurance work. Our work was limited exclusively to providing assurance on the information identified in the "GRI Contents Index", the "Content index in accordance with the provisions of Act 11/2018" and the disclosures specified for the purposes of the Sustainability Accounting Standards Board (SASB) for the "Electric Utilities & Power Generators" and "Oil & Gas" sectors in the "SASB Contents Index" of the accompanying SR/NFIS.

We also verified, with a "Moderate" level of assurance, the adherence to the principles of inclusivity, materiality, responsiveness and impact of the information included in the "Stakeholders of Naturgy" section of the accompanying SR/NFIS, prepared in accordance with the principles established in the AA1000AP (2018) AccountAbility Principles Standard.

Responsibility of the Parent's Directors and Management

The Directors of the Parent are responsible for the preparation and contents of the SR/NFIS included in the Group's consolidated directors' report. The SR/NFIS has been prepared in accordance with prevailing mercantile legislation, the GRI Standards: core option, the selected standards of the GRI G4 "Electric Utilities" and "Oil and Gas" sector supplements, and the selected disclosures of the SASB for the "Electric Utilities & Power Generators" and the "Oil & Gas" sectors, based on the content indicated for each topic in the "Content index in accordance with the provisions of Act 11/2018", the "GRI Contents Index" and the "SASB Contents Index" of the aforementioned SR/NFIS.

This responsibility also encompasses the design, implementation and maintenance of the internal control deemed necessary to ensure that the Report is free from material misstatement, whether due to fraud or error.

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(Translation from the original in Spanish. In the case of discrepancy, the Spanish language version prevails)

The Parent's Directors are also responsible for defining, implementing, adapting, and maintaining the management systems used to obtain the information required to prepare the SR/NFIS.

Furthermore, the Parent's Directors are also responsible for the implementation of the processes and procedures required for compliance with the principles established in the AA1000AP AccountAbility Principles Standard (2018).

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including international independence standards) 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 behaviour.

Our firm applies International Standard on Quality Control 1 (ISQC1) 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.

The engagement team comprised professionals specialised in reviews of non-financial information and, specifically, of information on economic, social and environmental performance, as well as specialists in AA1000AP (2018) on stakeholder engagement and social, environmental and economic business performance.

Our Responsibility

Our responsibility is to express our conclusions in an independent limited assurance report, based on the work performed. We conducted our review engagement in accordance with the requirements of the Revised International Standard on Assurance Engagements 3000, "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), and with the guidelines for assurance engagements on the Non-Financial Information Statement issued by the Spanish Institute of Registered Auditors (ICJCE). We also conducted our engagement in accordance with AA1000AS v3 AccountAbility Sustainability Assurance Standard (2020) (Type 2).

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently, the level of assurance provided is also lower.

Our work consisted of making inquiries of management and of the different units and areas of the Group that participated in the preparation of the SR/NFIS, reviewing the processes for compiling and validating the information presented in the Report, and applying certain analytical procedures and sample review tests, which are described below:

- Meetings with Group personnel to gain an understanding of the business model, policies and management approaches applied, and the principal risks related to these matters, and to obtain the information necessary for the external review.

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(Translation from the original in Spanish. In the case of discrepancy, the Spanish language version prevails)

- Analysis of the scope, relevance and completeness of the content of the Report based on the materiality analysis performed by the Group and described in the "About this report" section, considering the content required by prevailing mercantile legislation.
- Analysis of the processes for compiling and validating the data presented in the SR/NFIS for 2021.
- Review of the information related to the risks, policies and management approaches applied in relation to the material aspects presented in the SR/NFIS for 2021.
- Review, through meetings with the Group personnel responsible, of stakeholder engagement model implementation, review of internal documentation on the deployment of the model, and the nature and scope of the processes defined to comply with Standard AA1000AP (2018), and evaluation of the reliability of performance information indicated in the aforementioned scope.
- Corroboration, through sample testing, of the information relative to the content of the Report for 2021 and whether it has been adequately compiled based on data provided by the information sources.
- Review of the information relative to the Taxonomy of activities according to Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment.
- Procurement of a representation letter from the Directors and management.

Emphasis of Matter

Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment stipulates the obligation to disclose information on how and to what extent the undertaking's activities are associated with economic activities that qualify as environmentally sustainable in relation to climate change mitigation and climate change adaptation. This obligation applies for the first time for the 2021 fiscal year, provided that the Non-Financial Information Statement is published from 1 January 2022 onwards. Consequently, the attached SR/NFIS does not contain comparative information on this matter. Additionally, certain information has been included in respect of which the Directors of Naturgy have opted to apply the criteria that, in their opinion, best allow them to comply with the new obligation, and which are those defined in the "EU Taxonomy Report (Regulation 2020/852)" in the accompanying SR/NFIS. Our conclusion is not modified in respect of this matter.

Conclusion

Based on the assurance procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that:

a) The SR/NFIS of Naturgy Energy Group, S.A. and its subsidiaries for the year ended 31 December 2021 has not been prepared, in all material respects, in accordance with prevailing mercantile legislation, the GRI Standards: core option, the selected standards of the GRI G4 "Electric Utilities" and "Oil and Gas" sector supplements, and the selected disclosures of the SASB for the "Electric Utilities & Power Generators" and the "Oil & Gas" sectors, based on the content indicated for each topic in the "Content index in accordance with the provisions of Act 11/2018", the "GRI Contents Index" and the "SASB Contents Index" of the aforementioned SR/NFIS.

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(Translation from the original in Spanish. In the case of discrepancy, the Spanish language version prevails)

b) The information included in the "Stakeholders of Naturgy" section of the SR/NFIS regarding the principles of inclusivity, materiality, responsiveness and impact have not been prepared, in all material respects, in accordance with the AA1000AP (2018) AccountAbility Principles Standard.

Recommendations

Without prejudice to the conclusions presented above, our key observations on the application of the principles of inclusivity, materiality, responsiveness and impact defined in the AA1000AP (2018) AccountAbility Principles Standard are as follows:

In relation to the principle of INCLUSIVITY

The Group has a Corporate Social Responsibility Policy that identifies the most relevant stakeholders for Naturgy and the communication channels with each of them. Endeavours focus especially on communication with consumers through multiple dialogue channels established with the aim of promoting active two-way communication. It is recommended to continue working on dialogue with all stakeholders, conducting periodic inquiries, particularly at local level across all geographical areas in which the Group operates.

In relation to the principle of MATERIALITY

Naturgy conducts an annual materiality assessment that encompasses all business units and all of the geographical areas in which it has a presence, using software tools that include external risk assessment, as well as information published by other companies from all sectors, analysis of regulations, and the topics that have most increased in relevance and which stakeholder has driven the increase. This materiality assessment is also linked to the stages of the value chain in which each material topic has the greatest impact, as well as the impact of each material topic inside and/or outside the organisation, differentiating by stakeholder. It is recommended to continue periodically reviewing these material issues, involving stakeholders in the definition process in order to incorporate these issues into the Group's sustainable strategy.

In relation to the principle of RESPONSIVENESS

Naturgy established the 2021-2025 Sustainability Plan as a fundamental pillar in its 2021-2025 Strategic Plan. It is currently following the roadmap laid down in the Plan, which defines the fulfilment of the indicators determined on an annual basis and by way of comparison with the objective of the Plan. This communication makes it possible to identify Naturgy degree of fulfilment with respect to the proposed targets. It is recommended to continue integrating Sustainability into the ethos of Naturgy and to involve the stakeholders in its advancement.

In relation to the principle of IMPACT

The Group has set itself the goal in the 2021-2025 Sustainability Plan of subjecting all of its initiatives to an impact assessment and is currently in an initial phase of these measurements. It is recommended to push forward in the calculation and measurement of these impacts across the board, in all the business units and countries where the Group operates, while also involving all of its people in the process in order to create value and have a positive impact on society.

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(Translation from the original in Spanish. In the case of discrepancy, the Spanish language version prevails)

Other Matter

On 3 February 2021 a different assurance provider issued a favourable independent assurance report on the Sustainability Report and Non-Financial Information Statement of Naturgy Energy Group, S.A. and its subsidiaries for 2020.

Use and Distribution

This report has been prepared in response to the requirement established in prevailing mercantile legislation in Spain, and thus may not be suitable for other purposes and jurisdictions.

KPMG Asesores, S.L.

(Signed on original in Spanish)

Patricia Reverter Guillot

3 February 2022

AA1000
Licensed Report
000-38/V3-VKFNZ

Independent Verification Statement on the Emission of Greenhouse Gases

verico SCE

INDEPENDENT VERIFICATION STATEMENT

This Independent Verification Statement is an extract from the Verification Report of verico SCE, number LK-2021-019-HC-NATURGY, prepared as a result of the verification process of Naturgy's Greenhouse Gas Emission Inventory 2021.

Naturgy has commissioned **verico SCE** to carry out the verification of the Greenhouse Gas Emissions Inventory for the year 2021, contained in the document "Carbon Footprint Report 2021", corresponding to the corporate carbon footprint for the period 2021.

During the verification process of the Greenhouse Gas Emission Inventory 2021, the following elements are reviewed:

- Consistency of the report with previous reports and the emission allocation procedure.
- Implementation of monitoring processes
- Compliance with measures to ensure the accuracy of the required measurements and their quality.
- Information on fuels and raw materials
- Data management
- Completeness and correctness of manual and electronic data flow
- Internal quality control

The verification process checks and confirms the correctness, by an independent third party, of the information given in the annual emissions report, and also examines the annual emissions and the implementation of internal control and management procedures.

Scope:

Naturgy is present in more than 20 countries serving more than 16 million customers. **Naturgy** operates in the regulated and deregulated gas and electricity markets, mainly in the following areas:

- Gas and electricity distribution
- Electricity generation and trading
- Gas infrastructure, supply and marketing

The organization has decided to include scopes 1, 2 and 3 in its Greenhouse Gas Emission Inventory..

- Scope 1:
  - Direct GHG emissions, understood as those coming from sources that are controlled by the company itself.
  - These are mainly due to CO_2 emissions from thermal generation of electricity and CH_4 emissions as diffuse emissions from natural gas distribution networks.
- Scope 2:
  - Indirect emissions due to electricity generation that is purchased by the company for its own consumption but is not generated by the group.
  - These are mainly due to CO_2 emissions associated with losses in electricity distribution.
- Scope 3:
  - Indirect emissions, not included in Scope 2, arising from the value chain of activities, including upstream and downstream emissions, over which the group does not have direct control or influence. Within the categories defined by the GHG Protocol, emissions with a weighting of less than 1% have been excluded, provided that the sum of all of them does not exceed 5%.
  - These are mainly due to CO2 emissions in the combustion of natural gas from the end use of the natural gas distributed and marketed.

Inventory coverage groups the entire corporate activity, differentiating the following business segments

1. Generation
2. Electricity Distribution
3. Gas Distribution
4. Gas (infrastructure, supply and marketing of natural gas)
5. Administrative buildings

The Greenhouse Gases contemplated in this carbon footprint calculation are:

• CO_2 • CH_4 • N_2O • SF_6 • HFC verico SCE

Inventory Result 2021:

The aggregate result of the Greenhouse Gas Emissions Inventory 2021 is as follows:

Naturgy GHG Emissions Inventory 2021	
	tCO2e
Scope 1	12.965.240
Scope 2	487.067
Scope 3	136.450.026
1. Goods and Services purchased	
2. Capital goods	
3. Activities associated with fuels and energy upstream	33.167.755
6. Business travels	362
7. Worker mobilization	5.685
8. Upstream leased assets	
9. Downstream transport and distribution	
10. Processing of products sold	
11. Use of products sold	103.276.224
12. End-of-life treatment for products sold	
13. Downstream Leased assets	
14. Franchises	
15. Investments	

verico SCE

Verification Statement

verico SCE has carried out the verification of the Greenhouse Gas Emissions Inventory of the year 2021, contained in the document "Carbon Footprint Report 2021", corresponding to Naturgy's corporate carbon footprint for that monitoring period, in accordance with the requirements established in the UNE-ISO 14064 and GHG Protocol standards (for the definition of sectoral scopes), and the other rules applicable to Naturgy's Greenhouse Gas Emissions Inventory.

The verification team of verico SCE has reached the opinion that naturgy's Greenhouse Gas Emissions Inventory 2021, is prepared in accordance with the requirements defined in the Standard, complies with the greenhouse gas quantification methodology, and the monitored data and the calculation of emissions are evaluated and confirmed as substantially correct. Verico SCE therefore hereby confirms that the emissions reported during the monitoring period for 2021 amount to **149 902 333 tCO_2e**

Madrid, 28/01/2022

LUIS ROBLES OLMOS
Lead Verifier

VERICO SCE is a European Cooperative Society accredited by the Accreditation Body in Germany, DAkkS (D-VS-19003-01-00), for the verification of Greenhouse Gas emissions, according to ISO 14065 (translated as UNE EN ISO 14065 in Spain and DIN EN ISO 14065 in Germany) and EU Regulation nº 600/2012. Likewise, VERICO SCE is accredited for the verification of non-regulated schemes, such as EN ISO 14064-1; IN ISO 14064-2; and EN ISO 14064-3.

Inventory Certificate on the Emissions of Greenhouse Gases

verico SCE

Certificate

The Greenhouse Gas Emissions Inventory for the year 2021 of

NATURGY

meets the requirements according to UNE ISO 14064-1

Verification carried out in January 2022 at Naturgy's Headquarters (Spain).

GHG emissions amount to:

Scope 1:	12.965.240	tCO_2e
Scope 2:	487.067	tCO_2e
Scope 3:	136.450.026	tCO_2e

Total Emissions 2020:
149.902.333 tCO_{2e}

Certificate Nº LK-2021-01-HC_NATURGY

verico SCE
Acreditación nº
D-VS-19003-01-01

Langenbach, 27th January 2022 Javier VALLEJO DREHS

verico SCE, Hagenaustrasse 7, 85416 Langenbach, Alemania

verico SCE is accredited by DAkkS according to DIN EN ISO 14065: 2013.
Accreditation applies to the scopes detailed in the
certified D-VS-19003-01-.

Green Bond Independent Review Report

KPMG Asesores, S.L.
Pº de la Castellana, 259 C
28046 Madrid

Independent Assurance Report on the non-financial indicators in the Report on the Green Bond included in the Sustainability Report and Non-Financial Information Statement of Naturgy Energy Group, S.A. for 2021

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

To Management of Naturgy Energy Group, S.A.

We have been engaged by management of Naturgy Energy Group, S.A. (hereinafter, Naturgy) to perform an independent review of the environmental benefit indicators presented in the Report on the Green Bond included in the Sustainability Report and Non-Financial Information Statement of Naturgy for the year ended 31 December 2021 (hereinafter, the Report on the Green Bond). These indicators have been prepared to comply with the fourth principle, on Reporting, of the Green Bond Principles (Voluntary Process Guidelines for Issuing Green Bonds), published by the International Capital Market Association and in accordance with the criteria established by Naturgy in the "Glossary of environmental benefit indicators" section of the Sustainability Report and Non-Financial Information Statement for 2021, and defined in accordance with Naturgy's "Green Bond Framework" published by the group and available at:
https://www.naturgy.com/files/Gas_Natural_Fenosa_Green_Bond_Framework.pdf

Our report is presented in the form of an independent limited assurance conclusion indicating that, based on the work performed and the evidence obtained, nothing has come to our attention that causes us to believe that the indicators are not reliable and do not comply, in all material respects, with the principles and guidelines defined in Naturgy's Green Bond Framework and in accordance with the criteria included in the glossary of environmental benefit indicators.

The reviewed information solely encompasses the environmental benefit indicators contained in the aforementioned Report on the Green Bond, in which Naturgy has included the environmental benefit indicators selected to report on the performance and environmental benefits of the projects listed in the Report on the Green Bond.

Responsibilities of Naturgy's Management

Naturgy's management is responsible for the selection, preparation and presentation of the Report on the Green Bond for the purpose of complying with the fourth principle, on Reporting, of the Green Bond Principles (Voluntary Process Guidelines for Issuing Green Bonds) published by the International Capital Market Association and in accordance with the criteria established in the "Glossary of environmental benefit indicators" section of the Sustainability Report and Non-Financial Information Statement for 2021, and defined in accordance with Naturgy's "Green Bond Framework" published by the group on its website.

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

It is also responsible for the selection and presentation of the indicators in the Report on the Green Bond from those proposed in the second-party opinion letters associated with green financing, including the establishment and maintenance of the control and performance management systems from which the information is obtained.

These responsibilities include establishing such controls as management determines are necessary to enable the preparation of non-financial indicators that are free from material misstatement whether due to fraud or error.

Our Responsibility

Our responsibility consists of examining the Report on the Green Bond and reporting thereon in the form of a limited assurance conclusion based on the evidence obtained. We conducted our work in accordance with the ISAE 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information, and ISAE 3410, Assurance Engagements on Greenhouse Gas Statements, issued by the International Auditing and Assurance Standards Board (IAASB). These standards require that we plan and perform our work to obtain a significant level of assurance about whether the Report on the Green Bond included in Naturgy's Sustainability Report and Non-Financial Information Statement for 2021 complies, in all material respects, with the principles and guidelines included in Naturgy's Green Bond Framework and is in accordance with the criteria set out in the glossary of environmental benefit indicators.

Our firm applies International Standard on Quality Control 1 (ISQC1) 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.

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Procedures Performed

Our limited review engagement consisted of making inquiries of management and persons responsible for the preparation of the information presented in the Report on the Green Bond, and applying analytical and other evidence gathering procedures. These procedures included:

- Analysis of the evidence gathering procedures and internal control over quantitative data related to the environmental benefit indicators reflected in the Report on the Green Bond, regarding the reliability of the information, by using analytical procedures and review testing based on sampling.
- Review of the consistency with the principles and guidelines included in Naturgy's Green Bond Framework and the criteria defined for the calculation and reporting of the environmental benefit indicators established in the glossary of environmental benefit indicators in the Report on the Green Bond.
- Reading the information included in the Report on the Green Bond to determine whether it is in line with our overall knowledge and experience in relation to the environmental performance of the projects mentioned.

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(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

The engagement team comprised professionals specialised in information on environmental and social performance.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently the level of assurance obtained in a limited review engagement is lower than that of a reasonable assurance engagement. Under no circumstances may this report be considered an auditor's report.

Conclusion

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this Independent Limited Assurance Report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusions.

Based on the procedures performed and the evidence obtained, nothing has come to our attention that leads us to believe that the environmental benefit indicators in the Report on the Green Bond included in the Sustainability Report and Non-Financial Information Statement of Naturgy Energy Group, S.A. for the year ended 31 December 2021 have not been prepared, in all material respects, in accordance with the principles and guidelines included in Naturgy's Green Bond Framework and the criteria defined for the calculation and reporting of the environmental benefit indicators established in the glossary of environmental benefit indicators in the Report on the Green Bond.

Purpose of our Report

In accordance with the terms and conditions of our engagement letter, this Independent Review Report has been prepared for Naturgy in relation to the Report on the Green Bond included in its Sustainability Report and Non-Financial Information Statement for 2021, and for no other purpose nor for use in any other context.

KPMG Asesores, S.L.

(Signed on original in Spanish)

Patricia Reverter Guillot

3 February 2022

Taxonomy Independent Review Report

KPMG Asesores, S.L.
Pº de la Castellana, 259 C
28046 Madrid

Independent limited assurance report on Naturgy Energy Group, S.A. EU Taxonomy report 2021

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

To management of Naturgy Energy Group, S.A.

Pursuant to our engagement letter dated 15 December 2021, we have performed an independent limited assurance review of the activities classification included in the Naturgy Energy Group, S.A. (hereinafter Naturgy) E.U. Taxonomy eport for the year 2021 (hereinafter the Taxonomy Report), to submit a report indicating that, based on the work carried out and the evidence obtained, nothing leads us to believe that the aforementioned activities classification has not been prepared, in all material respects, on the basis of the technical requirements defined by the EU Taxonomy Delegated Act (EU) 2021/2139 of the Commission, which complements the EU Regulation 2020/852 of the European Parliament and the Council which establishes the selection technical criteria, to consider that an economic activity contributes substantially to the mitigation of climate change or to the adaptation of climate change and to determine if that activity does not cause any significant harm to the other environmental objectives, and applying the criteria which in Naturgy's management opinion best allow compliance with the technical requirements and which are defined in note "Eligibility analysis and main indicators calculation" of the Taxonomy Report.

Responsibilities of Naturgy management

Naturgy management is responsible for the preparation and presentation of information on the classification of activities included in the Taxonomy Report in accordance with the EU Taxonomy regulation.

Management is also responsible for the information and statements contained in the Taxonomy Report, the implementation of the processes and procedures for the selection and presentation of information on the Taxonomy regulation KPI's (Revenue, CAPEX and OPEX) and on the classification of activities, and for establishing and maintaining the control and management systems from which the information is obtained.

These responsibilities include establishing the controls that management considers necessary to provide limited assurance that the preparation of this information is free of material misstatements whether due to fraud or error.

KPMG

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

Our responsibility

Our responsibility consists of examining the classification of Naturgy's activities included in the Taxonomy Report prepared by Naturgy and reporting thereon in the form of an independent limited assurance conclusion based on the evidence obtained. We have conducted our engagement in accordance with the Revised International Standard on Assurance Engagements (ISAE) 3000, "Assurance Engagements other than Audits or Reviews of Historical Financial Information", issued by the International Auditing and Assurance Standards Board. This standard requires us to plan and execute our procedures to obtain limited assurance on whether the classification of Naturgy's activities included in the Taxonomy Report has been prepared, in all material respects, in accordance with the EU Taxonomy.

We apply the International Standard on Quality Control (ISQC1) and, accordingly, we maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the International Ethics Standards Board for *Accountants' International Code of Ethics for Professional Accountants* (including international independence standards) (IEABA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due diligence, confidentiality and professional behaviour.

Our limited review engagement consisted of making enquiries of management and the persons responsible for the preparation of the information presented in the Taxonomy Report, and applying cost accounting and other evidence gathering procedures such as:

- Verification of the scope of Naturgy's activities included in the Taxonomy Report, including an inventory of activities by business segment, division and subdivision.
- Verification of Naturgy's internal processes and procedures for determining which of its activities meet the requirements under the EU Taxonomy.
- Verification based on our interviews with the personnel responsible for the processes regarding their understanding of the internal processes for classifying the activities of its different segments and business divisions in accordance with the EU Taxonomy.
- Verification that Naturgy's assignment of eligibility and alignment criteria for both eligible and non-eligible projects is correct and consistent with the EU Taxonomy.
- Understanding of the accounting criteria and of the process followed by Naturgy to extract information on Revenues, CAPEX and OPEX of the activities included in the Taxonomy Report from its business management information systems.
- Verification that the information extracted from their internal systems (ERP) was used by Naturgy as the basis for performing the calculations and assignments to each business segment.
- Analysis of the consistency of the processes for gathering the quantitative data and calculations performed on Revenue, CAPEX and OPEX and the associated internal control processes with the financial information by using analytical procedures and review based on walkthrough and sampling

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(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

testing, in order to understand the calculations performed and their application to the different activities selected in the Taxonomy Report.

The engagement team was comprised of professionals specialized in economic and environmental performance.

Given their nature and timelines, the procedures applied in a limited assurance engagement are different from those used in a reasonable assurance engagement and are less in scope. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than would have been obtained had a reasonable assurance engagement been performed. Under no circumstances may this report be considered an auditor's report.

Conclusion

Based on the procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that the activities classification reported by Naturgy in the UE Taxonomy Report 2021 (UE Regulation 202/852) has not been prepared, in all material respects, according to the technical requirements defined by the EU Taxonomy Delegated Act (EU) 2021/2139 of the Commission, which complements the EU Regulation 2020/852 of the European Parliament and the Council which establishes the selection technical criteria, to consider that an economic activity contributes substantially to the mitigation of climate change or to the adaptation of climate change and to determine if that activity does not cause any significant harm to the other environmental objectives, and applying the criteria which in Naturgy's Management opinion best allow compliance with the technical requirements and which are defined in Note "Eligibility analysis and main indicators calculation" of the Taxonomy Report.

Purpose of our report

In accordance with the terms of our engagement, this Independent Review Report has been prepared for Naturgy in relation to its Taxonomy Report 2021 (EU Regulation 2020/852) and, therefore, it may not be used for any other purpose or used in another context.

KPMG Asesores, S.L.

(Signed on original in Spanish)

Patricia Reverter Guillot

3 February 2022

ANNUAL CORPORATE GOVERNANCE REPORT
FOR LISTED COMPANIES

IDENTIFICATION OF ISSUER

ENDING DATE OF REFERENCE FINANCIAL PERIOD 2021

C.I.F. A-08015497

Registered Name:

NATURGY ENERGY GROUP, S.A.

Registered Office:

Avenida de América, 38 – 28008 Madrid

A OWNERSHIP STRUCTURE

A.1 Including, where applicable, those corresponding to shares with loyalty voting rights, at the end of the financial year:

Indicate whether the company's articles of association contain provision for double loyalty voting:

YES NO **X**

Date of approval at the general meeting:

Minimum period of uninterrupted ownership required by the articles of association:

Indicate whether the company has attributed loyalty votes:

YES NO **X**

Date of last change of share capital	Share capital (€)	Number of shares	Number of voting rights (not including additional votes attributed for loyalty)	Number of additional voting rights attributed corresponding to loyalty voting shares	Total number of voting rights, including additional votes attributed on the basis of loyalty
21/07/20	969.613.801	969.613.801	969.613.801		

Number of shares registered in the special register pending completion of the loyalty period

Comments

Name or company name of shareholder	% voting rights attributed to the shares (including votes for loyalty)		% voting rights through financial instruments		% of total voting rights	Of the total number of voting rights attached to the shares, indicate, if applicable, the additional votes attached to the loyalty voting shares.	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
GLOBAL INFRASTRUCTURE PARTNER III		20,6%			20,6%		
SOCIÉTÉ NACIONALE POUR LA RECHERCHE, LA PRODUCTION, LE TRANSPORT, LA TRANSFORMATION ET LA COMMERCIALISATIO N DES HYDROCARBURES	4,1%				4,1%		
FUNDACION BANCARIA CAIXA D'ESTALVIS i PENSIONS DE BARCELONA (LA CAIXA)		26,7%			26,7%		
CVC Capital Partners SICAV-FIS S.A.		20,7%			20,7%		

IFM GLOBAL INFRAESTRUCTURES FUND.		12,15%			12,15 %		

Please indicate if there are different types of shares with different rights associated:

YES NO **X**

Class	Number of shares	Face value	Number of voting rights	Rights and obligations conferred by

Comments

A.2 List the direct and indirect holders of significant ownership interests in your company at year-end, including directors having a significant shareholding:

Detail of the indirect holding:

Name or company name of the indirect holder	Name or company name of the direct holder	% voting rights attributed to shares (including loyalty loyalty votes)	% voting rights through financial instruments	total % of voting rights	Of the total number of voting rights attributed to the shares, indicate, where applicable, the additional votes attributed which corresponding to the loyalty voting shares loyalty
GLOBAL INFRASTRUCTURE PARTNER III	GIP III CANARY 1, S.À R.L.	20,6%		20,6%	
FUNDACION BANCARIA CAIXA D'ESTALVIS i PENSIONS DE BARCELONA (LA CAIXA)	CRITERIA CAIXA S.A.U.	26,7%		26,7%	
CVC Capital Partners SICAV-FIS S.A.	RIOJA ACQUISITION S.À R.L.	20,7%		20,7%	
IFM Global Infrastructure Fund	Global InfraCo O (2) S.à. r.l.	12,15%		12,15%	

Comments
(1) GIP III Canary 1 S.á.r.L. is an investment vehicle controlled by the private fund Global Infrastructure Partners III whose investment manager is Global Infrastructure Management LLC, a US-based specialist infrastructure fund manager.

(2) Rioja Acquisition S.à.r.l. is indirectly majority owned by CVC Fund VII Limited. CVC Capital Partners VII Limited is the general partner and manages each of CVC Capital Partners VII (A) L.P, CVC Capital Partners VII Asociatess L.P and CVC Capital Partners Investment Europe VII L.P (together, CVC Fund VII). CVC Capital Partner VII Limited is controlled by CVC Capital Partners SICAV-FIS S.A. (3) Global InfraCo O (2) S.à. r.l. is indirectly owned by the IFM Global Infraestrcuture Fund Trust whose principal advisor is IFM Investors Pty Ltd.

Indicate the most significant changes in the shareholder structure occurred during the year:

Most significant movements
Global InfraCo O (2) S.à. r.l., has acquired 10.83% of the share capital, through a voluntary tender offer process approved by the CNMV and completed on 14 October 2021.

A.3 Give details of the shareholdings, by whatever percentage, at year-end of the members of the board of directors who hold voting rights attributed to shares in the company or through financial instruments, excluding the directors identified in section A.2 above.:

Name or company name of director	**% voting rights attached to the shares (including loyalty votes) loyalty votes)**		**% voting rights through financial instruments**		**total % of voting rights**	**Of the total % of voting rights attached to the shares, indicate, if applicable, the % of additional votes attached to loyalty voting shares.**	
	Direct	**Indirect**	**Direct**	**Indirect**		**Direct**	**Indirect**
DON FRANCISCO REYNES MASSANET		0,008			0,008		
RIOJA S.À.R.L	0				0		
THEATRE DIRECTORSHIP SERVICES BETA, S.à.r.l.	0				0		
DOÑA LUCY CHADWICK	0				0		
DON PEDRO SAINZ DE BARANDA RIVA		0,002			0,002		
DON RAMÓN ADELL RAMÓN	0,002				0,002		
DOÑA ISABEL ESTAPÉ TOUS	0,0005				0,00		
DON CLAUDIO SANTIAGO PONSA	0				0		
D. ENRIQUE ALCANTARA GARCÍA-IRAZOQUI	0,003				0,003		
DON FRANCISCO BELIL CREIXELL	0,001				0,001		

DOÑA HELENA HERRERO STARKIE	0				0		
DON RAJARAM RAO	0				0		

% total voting rights held by the Board of Directors	0.014%

COMMENTS

Detail of the indirect holding

Name or company name of Director	**Name or company name of the direct holder**	**% voting rights attributed to the shares (including loyalty loyalty)**	**% voting rights through financial instruments**	**% of total voting rights**	Of the total % of voting rights attached to the shares, indicate, if applicable, the % of additional votes attached to loyalty voting shares.
Mr. Francisco Reynés Massanet	FRINVYCO, SL	0.008			Of the total % of voting rights attached to the shares, indicate, if applicable, the % of additional votes attached to loyalty voting shares.
Mr. Pedro Sainz de Baranda Riva	INVERSORES DE TORNÓN S.L.	0.002			Of the total % of voting rights attached to the shares, indicate, if applicable, the % of additional votes attached to loyalty voting shares.

Give details of the total percentage of voting rights represented on the board:

total % of voting rights represented on the board of directors: 0,001%

Comments

A.4 Indicate, where applicable, the family, commercial, contractual or corporate relations which could exist between the owners of significant stakes, provided they are known by the company, unless they are irrelevant or arise from normal trading activities, excluding those enquired about in section A.6:

Name or company name of related parties	**Relationship type**	**Brief outline**

Observations:

See section A. 7

A.5 Indicate, where applicable, the commercial, contractual or corporate relations which could exist between the holders of significant shares and the company and/or its group, unless they are irrelevant or arise from normal trading activities:

Name or company name of related parties	Relationship type	Brief outline
CRITERIA CAIXA S.A.U	COMMERCIAL	The existing relationships derive from ordinary commercial traffic and are referred to in section D.2 and in the annual accounts.
CVC Capital Partners SICAV-FIS S.A.	COMMERCIAL	The existing relationships derive from ordinary commercial traffic and are referred to in section D.2 and in the annual accounts.
GIP III CANARY 1, S.À R.L.	COMMERCIAL	The existing relationships derive from ordinary commercial traffic and are referred to in section D.2 and in the annual accounts.

A.6 Describe the relationships, unless they are scarcely relevant to the two parties that exist between the significant shareholders or those represented on the board and the directors, or their representatives, in the case of legal entity administrators.

Explain, where appropriate, how significant shareholders are represented. Specifically, give details of those directors who have been appointed on behalf of significant shareholders, those whose appointment would have been promoted by significant shareholders, or who are linked to significant shareholders and/or entities of their group, with a specification of the nature of such relationships. In particular, mention shall be made, where appropriate, of the existence, identity and position of board members, or representatives of directors, of the listed company, who are, in turn members of the administrative body, or their representatives, in companies that hold significant holdings in the listed company or in entities of the group of said significant shareholders.

Name or company name of related director or representative	Name or company name of significant related shareholder	Company name of the significant shareholder group	Description of the relationship/position
MR. ENRIQUE ALCANTARA-GARCIA IRAZOQUI	CRITERIA CAIXA S.A.U	Criteria Caixa SAU	Proprietary/Managing Director

MRS.ISABEL ESTAPÉ TOUS	CRITERIA CAIXA S.A.U	Fundación Bancaria Caixa d'Estalvis I Pensions de Barcelona	Proprietary/Patroness
		Criteria Caixa S.A.U	Director
Mrs. LUCY CHADWICK	GLOBAL INFRASTRUCTURE MANAGEMENT LLP		Proprietary/Partner
MR. RAJARAM RAO.	GLOBAL INFRASTRUCTURE MANAGEMENT LLP		Proprietary/Shareholder
MR. JAVIER DE JAIME GUIJARRO	CVC Capital Partners SICAV-FIS S.A.		Proprietary
MR. JOSÉ ANTONIO TORRE DE SILVA LÓPEZ DE LETONA	CVC Capital Partners SICAV-FIS S.A.		Proprietary/Employee

A.7 Indicate whether or not the company has been notified of parallel shareholders agreements that affect it as per Articles 530 and 531 of the Spanish Corporate Enterprises Act. Where applicable, give a brief description and list the shareholders associated with the agreement:

YES **X** NO

Parties to parallel shareholders agreements	**% of share capital affected**	**Brief outline of agreement**	**Expiration date of the agreement, if there is one**
CRITERIA CAIXA S.A.U GIP III CANARY 1, S.À R.L.	47%	The agreement reported in Relevant Fact No. 242612 of 12/09/2016 specifies that the intervening parties assume certain undertakings concerning corporate governance of the Company and which are for the purpose of respecting the rights to proportional representation both on the Board as well as on Committees.	
ALBA EUROPE S.À R.L. RIOJA CAPITAL RESEARCH AND MANAGEMENT COMPANY INVESTMENT S.À R.L,	20,7%	The agreement reported in Relevant Fact No. 265818 of 18 May 2018 was modified on 1 August 2019 to include the new shareholder, Rioja Acquisitions SARL replacing Rioja Bidco Shareholdings (Relevant Fact Nº 281047). This Agreement affects 1.- The proposal for designation of directors in representation of Rioja Acquisitions Sarl, 2.-The adoption of	

		decisions on the Board at the Meeting, and 3.- The system for transfer of shares.	
Global InfraCo O (2) S.à. r.l. GIP III CANARY 1, S.À R.L.	32,75	According to the prospectus of the takeover bid filed by IFM with the CNMV on 8 September 2021, it has entered into an agreement with GIP in which the latter undertakes to vote in favour and support resolutions and actions at an initial or subsequent General Shareholders' Meeting, with the objective that the composition of Naturgy's Board of Directors reflects the principle of proportional representation taking into account the CNMV's corporate governance recommendations of June 2020, and subject to GIP and IFM maintaining a stake of more than 5% in Naturgy's share capital.	
Global InfraCo O (2) S.à. r.l. RIOJA ACQUISITION S.À R.L.	32,85	According to the prospectus of the takeover bid filed by IFM with the CNMV on 8 September 2021, it has entered into an agreement with Rioja in which the latter undertakes to vote in favour and support reasonable resolutions and actions at the General Shareholders' Meeting with the objective that the composition of Naturgy's Board of Directors is adjusted to reflect the principle of proportional representation established by Spanish law	

Indicate whether or not the company is aware of the existence of concerted actions among its shareholders. Give a brief description as applicable:

YES NO **X**

Parties to concerted action	% of share capital affected	Brief description of the concerted action	Expiry date of the concerted action, if there is one

If any modification or cancellation of said agreements or concerted actions have taken place during the year, please make express mention of this:

NOT APLICABLE

A.8 Indicate whether any individual or legal entity currently exercise control or could exercise control over the company in accordance with Article 5 of the Securities Market Act. If so, identify:

YES NO **X**

Name or company name

Observations

A.9 Complete the following table on the company's treasury share:

At year-end:

Number of direct shares	Number of indirect shares (*)	% of total share capital
163.226,00	8,639,595	0,908%

OBSERVATIONS

(*) Through:

Name or company name of the direct direct holder of the interest	Number of direct actions
Naturgy Alfa Investments S.A.	8.639.595
Total:	8.639.595

Comments

Explain the significant changes over the year:

Details of significant changes

A.10. Give details of the terms and conditions corresponding to the General Meeting of Shareholders current mandate to the Board of Directors for issuing, repurchasing or assigning own shares.

1.- The General Meeting of Shareholders held on 5 March 2019, in item 5 on the Agenda, authorised the Board of Directors to agree to acquire company shares by onerous title and to do so within a deadline of five (5) years, under the following conditions:

Fifth.- To authorise the Board of Directors so that over a term of five (5) years it can acquire by onerous title, on one or several occasions, fully paid-out shares in the Company, so that the nominal value of the shares directly or indirectly acquired, when added to those that the Company and its shareholders already hold never exceeds 10% of the subscribed capital, or any other that were to be legally established for the same. The price or value of the consideration cannot be less than the nominal value of the shares nor exceed its price or value on the Stock Exchange. The Board are hereby authorised to delegate the current authorisation to the person(s) whom they deem fit. The current authorisation extends to the acquiring of shares in the Company for the named companies.

For the purposes of Article 146 of the Spanish Corporate Enterprises Act (Ley de Sociedades de Capital), the shares acquired under the current authorisation, as well as those that the Company and its subsidiaries already hold, may be delivered, either in full or part, directly or as a result of the exercising of option rights, to employees or administrators of the Company or companies in its Group.

This authorisation replaces and renders null and void, to the extent of the unused portion, the authorisation granted by the Board of Directors by the General Meeting of Shareholders held on 14 May 2015 to acquire by onerous title shares in the Company.

2.- The General Meeting of Shareholders held on 20 April 2017, in item fourteen (14) on the Agenda, authorised the Board of Directors to agree to the increase in share capital within a deadline of no more than five (5) years, under the following conditions:

"FOURTEEN.- *Authorisation for the Board of Directors, with powers to delegate said authorisation upon the Executive Committee, in accordance with the provisions of Section 297.1 b) of the Spanish Corporate Enterprises Act, in order that, within the maximum period of five (5) years, if deemed necessary, the share capital may be increased up to a maximum amount equivalent to half of the share capital at the time of the authorisation, with provision for incomplete share subscription, by way of the issue of ordinary, preferential or redeemable shares, with or without voting rights, with or without share issue premiums, by one or more share capital increase procedures and when and in the amount that is deemed necessary, including the power to waive, as the case may be, the preferential share subscription rights up to the limit of 20% of the share capital at the time of this authorisation herein , and to re-draft the corresponding Articles of the Articles of Association and to revoke the authorisation provided by the Ordinary Shareholders Meeting of 20 April 2012.*

1) *Taking into account the current amount of the share capital, to authorise the Board of Directors, with powers to delegate said authorisation upon the Executive Committee, to increase the share capital by the sum of FIVE HUNDRED MILLION THREE HUNDRED AND FORTY-FOUR THOUSAND SIX HUNDRED AND SEVENTY EUROS (€500,344,670.-.) within the period of five (5) years, as from today's date (20/04/2017), by means of monetary payments, by one or more share capital increase procedures and when and in the amount that is deemed necessary by the Board of Directors, by way of the issue of ordinary, preferential or redeemable shares, with or without voting rights, with or without share issue premiums, without the need for any new authorisation of the General Shareholders Meeting, as well as to modify the Articles of Association that are required for the share capital increase or increases that are carried out by virtue of the aforementioned authorisation, with provision for incomplete share subscription, and all of the foregoing in accordance with the provisions of Section 297.1 b) of the Corporate Enterprises Act, and to revoke the authorisation provided by the Shareholders Meeting of 20 April 2012.*

2) *The Board of Directors is expressly empowered, with powers to delegate this to the Executive Committee, to fully or partially exclude the preferential subscription right with regard to all or any of the issuances agreed in accordance with the provisions of this authorisation. This power is limited to the fact that the exclusions of the pre-emptive subscription right do not exceed, as a whole, 20% of the Company's current share capital.*

A.11 Estimated floating capital:

	%
Estimated floating capital	15,90

A.12 Indicate whether there is any restriction (statutory, legislative or of any other nature) on the transferability of securities and/or any restrictions on the voting rights. In particular, the existence of any type of restrictions that may make it difficult to take control of the company through the acquisition of its shares in the market, as well as those authorisation or prior notification systems that apply to acquisitions or transfers of financial instruments of the company through sectoral regulations, will be reported.

YES **X** NO

Description of the restrictions
As a Company that incorporates certain regulated and quasi-regulated assets and activities into its Group, the acquisition of NATURGY ENERGY GROUP S.A. shares may be subject to the provisions laid down in Additional Provision 9 of Law 4/2013, of 4 June, governing the National Commission on Markets and Competition. Given its nature as a major operator in the gas and electricity markets, the holding of its shares is subject to the restrictions laid down in article 34 of Decree-Law 6/2000, governing Urgent Measures to intensify competition in the goods and services markets. Royal Decree-Laws 8/2020, 11/2020, 34/2020, Royal Decree-Law 12/2021 of 24 June and Royal Decree-Law 27/2021 of 23 November have established certain restrictions on investments.

A.13 Indicate whether the General Meeting of Shareholders has agreed to take up measures of neutralisation against a takeover bid by virtue of the provisions laid down in Law 6/2007.

YES NO **X**

If appropriate, explain the measures approved and the terms under which the restrictions would not be enforceable:

Explain the measures approved and the terms under which inefficiency will occur.

A.14 Indicate whether the company has issued securities not traded in a regulated market of the European Union.

YES NO **X**

If appropriate, indicate the different types of shares and, for each type of share, the rights and obligations conferred.

Indicate the different types of actions

B GENERAL MEETING OF SHAREHOLDERS

B.1 Indicate and, where applicable, give details of whether the quorum required for constitution of the General Meeting of Shareholders differs from the system of minimum quorums established in the Corporate Enterprises Act (“LSC” in Spanish).

YES NO **X**

	% quorum different to that laid down in Article 193 LSC for general cases	% quorum different to that laid down in Article 194 LSC for special cases
Quorum required for the first call to meeting		
Quorum required for the second call to meeting		

Description of the differences

B.2 Indicate and, as applicable, describe any differences between the company's system of adopting corporate agreements and the framework established in the Corporate Enterprises Act ("LSC" in Spanish):

YES NO **X**

Describe how the system differs from that of the LSC.

	Reinforced majority other than that laid down by Article 201.2 LSC for the cases of 194.1 LSC	Other cases of reinforced majorities
% laid down by the institution for the adoption of agreements		
Describe the differences		

B.3 Indicate the rules governing amendments to the company's Articles of Association. In particular, indicate the majorities required to amend the Articles of Association and, if applicable, the rules for protecting shareholders' rights when changing the Articles of Association.

The amendment of the Articles of Association is regulated in article 6.2 of the Articles of Association and in article 12 of the Regulations on the General Meeting of Shareholders, which is supplemented with the corresponding provisions of the Corporate Enterprises Act.

The shareholders constituted in a duly convened General Meeting of Shareholders, shall generally decide by simple majority vote on the matters which fall to the terms of reference of the Meeting. In such case an agreement shall be deemed adopted when it obtains more votes in favour than against of the share capital either present or represented.

All shareholders, including dissidents and those that have not taken part in the meeting, are subject to the resolutions of the General Meeting of Shareholders.

In order for the ordinary or extraordinary General Meeting of Shareholders to validly agree the issue of bonds convertible into shares or bonds that give bondholders a share in company profits, the increase or reduction of share capital, the removal or limitation of the preferential subscription right for new shares or convertible bonds, as well as the transformation, merger, spin-off or global assignment of assets and liabilities, the transfer of the company's registered office abroad and, in general, any modification to the Articles of

Association, will require, at the first call to meeting, the attendance of shareholders, either present or represented, that hold at least fifty percent (50%) of the subscribed share capital with voting rights. In the second call to meeting, it will be sufficient for twenty-five (25%) of the share capital to be present.

The modification of the Articles of Association must be agreed by the General Meeting of Shareholders and requires the concurrence of the following requisites:

1) The Board of Directors or, where appropriate, the shareholders that make the proposal, must compile a written report with justification for the amendment.

2) The call to meeting must clearly express the proposed points of change, as well as the right all shareholders have to examine, at the registered office, the full text of the proposed modification and a report on this. They also have the right to ask for handover or free-of-charge sending of said documents.

3) The agreement must be adopted by the General Meeting of Shareholders in accordance with the provisions set out in these Articles of Association.

4) Under the circumstances, the agreement must be set out in a public deed, which will be registered with the Mercantile Registry and published in the Official Bulletin of the Mercantile Registry.

B.4 Indicate the attendance data of the General Meetings held during the financial year to which this report refers and and those of the two previous years::

	Attendance data				
Date of General Meeting of Shareholders	**% physical presence**	**% represented**	**% remote voting Electronic Vote**	**Other**	**Total**
05/03/2019	72,12%	13,06%	0%	0%	85,18%
De los que capital flotante	2,55%	13,06%	0%	0%	15,61%
26/05/2020	64,07%	11,39%	0%	0%	75,46%
De los que capital flotante	1,40%	11,39%	0%	0%	12,79%
09/03/2021	71,38%	11,02%	0%	0%	82%
De los que capital flotante		11,02%	0%	—%	11%

B.5 Indicate whether at the General meetings held during the year there has been any item on the agenda that, for whatever reason, has not been approved by the shareholders.

Yes □ No X

Agenda items that have not been approved	**% of votes against (*)**

(*)<u>If the non-approval of the item is for a reason other than a vote against, this will be explained in the part of the text and "n/a" will be placed in the "% of votes against" column".</u>

B.6 Indicate whether or not there is a statutory restriction to the minimum number of shares required to attend the General Meeting of Shareholders.

YES NO **X**

Number of shares required to attend the General Meeting of Shareholders	
Number of shares required to vote remotely	

OBSERVATIONS

B.7 Indicate whether it has been established that certain decisions, other than those established by Law, which involve the acquisition, disposal, the contribution to another company of essential assets or other similar operations must be submitted to approval of the general meeting of shareholders.

YES NO **X**

Explanation of the decisions that must be submitted to the board other than those established by law

B.8 Indicate the URL of the company and the means of access to corporate governance content and other information concerning the general meetings and which must be made available to shareholders through the company's website.

With regard to the Corporate Governance section, the path is as follows: https://www.naturgy.com/accionistas_e_inversores/gobierno_corporativo/normas_de_gobierno

With the following itinerary www.naturgy.com → Shareholders and Investors → Corporate Governance.

With regard to the General Meeting of Shareholders section, the itinerary is as follows: https://www.naturgy.com/accionistas_e_inversores/gobierno_corporativo/junta_general_ordinaria_de_accionistas_2021 with the following itinerary www.naturgy.com → Shareholders and Investors → General Meeting of Shareholders.

C STRUCTURE OF THE COMPANY'S MANAGEMENT

C.1 Board of Directors

C.1.1 Maximum and minimum number of directors stipulated in the Articles of Association and the number set by the General Meeting of Shareholders:

Maximum number of directors	15
Minimum number of directors	11
Number of directors set by the General Meeting of Shareholders	12

Observations

C.1.2 Complete the following table with Board members' details.

Name or company name of Director	Representative	Type of director	Position on the board	Date of first appointment	Date of last appointment	Election procedure	Date of birth
Mr. Francisco Reynés Massanet		Executive	Chairman	06/02/2018	27/06/2018	Agreement General Meeting of Shareholders	08-04-1963
Mr. Ramón Adell Ramón		Independent	Lead Director	18/06/2010	27/06/2018	Agreement General Meeting of Shareholders	09-01-1958
Mrs Isabel Estapé Tous		Proprietary	Director	16-03-2020	26-05-2020	Acuerdo Junta General de Accionistas	05-04-1957
Mr. Enrique Alcantara García-Irazoqui		Proprietary	Director	13/05/2021	13/05/2021	Agreement General Meeting of Shareholders	21-10-1944
Mr. Francisco Belil Creixell		Independent	Director	14/05/2015	27/06/2018	Agreement General Meeting of Shareholders	24-05-1946
Mrs. Helena Herrero Starkie		Independent	Director	04/05/2016	26-05-2020	Agreement General Meeting of Shareholders	13-06-1959
Mr. Rajaram Rao		Proprietary	Director	21/09/2016	26-05-2020	Agreement General Meeting of Shareholders	03-04-1971
RIOJA S.à.r.l	Mr. Javier de Jaime Guijarro	Proprietary	Director	01/08/2019	26-05-2020	Agreement General Meeting of Shareholders	26-11-1964
Mr. Claudio Santiago Ponsa		Independent	Director	27/06/2018	27/06/2018	Agreement General Meeting of Shareholders	20-09-1956
Mr. Pedro Sainz De Baranda		Independent	Director	27/06/2018	27/06/2018 (accepted 6-07-2018)	Agreement General Meeting of Shareholders	23-03-1963
Mrs Lucy Chadwick		Proprietary	Director	16-03-2020	26-05-2020	Acuerdo Junta General de Accionistas	11-02-1967
THEATRE DIRECTORSHIP SERVICES BETA, S.à.r.l.	Mr. José Antonio Torre de Silva López de Letona	Proprietary	Director	18/05/2018	27/06/2018	Agreement General Meeting of Shareholders	23-10-71

Total number of directors	12

Indicate any resignations from the board of directors during the reporting period, whether due to resignation or by resolution of the general meeting:

Name or company name of Director	Category of director at time of vacancy	Date of last appointment	Date of vacancy	Specialist committees of which he or she was a member	Indicate whether the removal from office occurred before the end of the mandate
D. Marcelino Armenter Vidal	Proprietary	26-05-2020	10-05-2021	CNR	Yes

Reason for the dismissal, when it has occurred before the end of the term of office and other observations; information on whether the director has sent a letter to the other members of the board and, in the case of dismissals of non-executive directors, an explanation or opinion of the director who has been dismissed by the AGM
The proprietary director Mr. Armenter resigned from his position as director of the Company and member of the Appointments and Remuneration Committee, by means of a communication sent to the Chairman of the Board, with effect from 10 March 2021. Mr. Armenter did not address any specific communication to the other members of the Board, but the Chairman informed the Directors that the reason he had informed him was the situation in which he found himself as a result of the partial takeover bid process of IFM due to his status as a executive director of Criteria Caixa, which he also held. Since 12 February 2021, he had stated his decision not to receive privileged information or information relating to this takeover bid and not to participate in any deliberations or votes that took place in the Board on this matter, although given that the process of the takeover bid was being prolonged over time and given the impossibility of carrying out his duties as a director of Naturgy, he tendered his resignation with immediate effect.

C.1.3 Complete the following tables on board members and their respective categories:

EXECUTIVE DIRECTORS

Name or company name of Director	Position in the company's management structure	Profile

Mr. Francisco Reynés Massanet	Executive Chairman	Engineering and international business profile: Industrial Engineer, specialising in mechanics, with a degree from the Polytechnic University of Barcelona, and an MBA from IESE; he has also completed Senior Management programmes in the United States and Germany.

Total number of executive directors	1
% of the entire board	8.33%

OBSERVATIONS

EXTERNAL PROPRIETARY DIRECTORS

Name or company name of Director	Name or title of significant shareholder represented by the director or that has proposed the director's appointment	Profile
Mrs Isabel Estapé Tous	CRITERIA CAIXA S.A.U	Economic and business profile: Graduate in Economics and Business Studies. Notary Public. Director of Criteria Caixa and Patron of la Caixa. She is also a full member of the Royal Academy of Economic and Financial Sciences.
Mr. D. Enrique Alcántara-Garcia Irazoqui	CRITERIA CAIXA S.A.U	Legal and business profile. Law graduate from the University of Barcelona and State Lawyer on leave of absence.
Mr. Rajaram Rao	GIP III Canary 1 S.à r.l..	IT, economics and international business profile: Qualified Electronic and Telecommunications Engineer. He also holds an MBA from the University of Delhi and a Master's degree in Finance from the London Business School.
Rioja S.à.r.l. (Mr. Javier de Jaime Guijarro)	Rioja Acquisitions Sarl, S.L.U	Economics and business profile: Graduate in law from the Comillas University (ICADE) and MB from Houston University.
Mrs. Lucy Chadwick	GIP III Canary 1 S.à r.l.	International business and economic profile: She is a member of GIP's senior management. Formerly Director General of International and Environment at the UK Department for Transport.
THEATRE DIRECTORSHIP SERVICES BETA, S.à.r.l. (Mr. Jose Antonio Torre de Silva López de Letona).	Rioja Acquisitions S.a.r.l	Economics and business profile: Degree in industrial Engineering from the Higher Technical School of the Comillas Pontifical University (ICAI) and MBA from the University of Navarre (IESE).

Observations

Total number of proprietary directors	6
% of the entire board	50.00%

EXTERNAL INDEPENDENT DIRECTORS

Name or company name of Director	Profile
Mr. Ramón Adell Ramón	Expert financial and accounting profile: Doctorate in Economics and Business Administration. Lawyer. Professor of Financial Economics and Accounting. An academic from the Royal Academy of Economic and Financial Sciences of Spain and Honorary Member of the European Doctorate Degree Holders and Dr. H.C. (Consedoc).
Mr. Claudio Santiago Ponsa	Industrial, Business and International Profile ; energy sector: Degree in Computer Engineering from the Autonomous University of Barcelona (UAB) and International executive programme (INSEAD) through the Executive International Business at Georgetown University.
Mr. Francisco Belil Creixell	Engineering and international business profile: Senior Engineer. He has been CEO of the Southwest Europe region at Siemens and Chairman of the German Chamber of Commerce for Spain and the Federation of the Spanish Chemical Industry.
Mr. Pedro Sainz de Baranda Riva	Engineering and international business profile; capitals market: Mining Engineer from the University of Oviedo, PhD in Engineering, Rutgers University of New Jersey and an MBA from the Sloan School of Management of Massachusetts Institute of Technology (MIT).He has been Executive Chairman of Otis Elevator Company.
Mrs. Helena Herrero Starkie	IT, and R&D&i and international business profile: Degree in Chemical Sciences. She is the Chairperson and CEO of Hewlett Packard (HP) for Spain and Portugal.

Total number of independent directors	5
% total of the board	41.66%

OBSERVATIONS

Indicate whether or not any director qualified as independent receives from the company, or from its group, any amount or benefit for an item other than remuneration as director, or holds or has held, over the last year, a business relationship with the company or any other group company, whether in their own name or as a significant shareholder, director or senior executive of an entity that maintains or has maintained any such relationship.

Where appropriate, include a reasoned statement from the board on the grounds why it believes this director many perform his/her duties as an Independent Director.

Name or company name of Director	Description of the relationships	Reason statement

OTHER EXTERNAL DIRECTORS

Identify all other external directors and explain why these cannot be considered proprietary or independent directors and detail their relationships with the company, its executives or shareholders:

Name or company name of Director	Reasons	Company, executive or shareholder with whom the relationship is maintained	Profile

Total number of external directors	
% total of the board	

OBSERVATIONS

List any changes in the category of each director which have occurred during the year:

Name or company name of Director	Date of change	Former category	Current category

OBSERVATIONS

C.1.4 Complete the following table with information regarding the number of female directors at the close of the last four financial years, and their category:

	Number of female directors				% of total directors of each type			
	Financial year Q	Financial year Q-1	Financial year Q-2	Financial year Q-3	Financial year Q	Financial year Q-1	Financial year Q-2	Financial year Q-3
Executive	0	0	0	0	0	0	0	0
Proprietary	2	2	0	0	33,33%	33,33%	0	0
Independent	1	1	1	1	20%	20%	20%	20%
Other external	0	0	0	0	0	0	0	0
Total:	3	3	1	1	25%	25%	8,33%	8,33%

OBSERVATIONS

C.1.5 Indicate whether the company has diversity policies in relation to the Board of Directors of the company with regard to issues such as age, gender, disability, or professional training and experience. Small and medium-sized enterprises, in accordance with the definition contained in the Accounts Auditing Law, will at least have to report the policy they have established in relation to gender diversity.

Yes **No** **Partial policies X**

If yes, describe these diversity policies, their objectives, the measures and the way in which they have been applied and their results over the year. Also indicate the specific measures adopted by the Board of Directors and the Appointments and Remuneration Committee to achieve a balanced and diverse presence of directors.

If the company does not apply a diversity policy, explain the reasons why

Description of the policies, objectives, measures and manner in which they have been applied, as well as the results obtained
Naturgy's Director Selection Policy includes guidelines aimed at selecting candidates whose appointment fosters professional, expertise and gender diversity on the Board of Directors. In any case, it should be noted that said Policy is applied with full respect to the right of proportional representation legally recognised to shareholders. The Appointments and Remuneration Committee ensures that the selection procedures do not include any implicit bias that could involve any discrimination whatsoever. In 2021 there was only one vacancy corresponding to a proprietary director of Criteria. This vacancy was filled at the proposal of this shareholder, who exercised his right to proportional representation..

C.1.6 Explain the measures which, where appropriate, have been agreed by the Appointments Committee so that the selection procedures are unaffected by any implicit bias that hampers the selection of female directors, and which shows that the company purposefully seeks and includes women that satisfy the professional profile sought among the potential candidates and to achieve a balanced presence of women and men. Also indicate whether these measures include encouraging the company to have a significant number of senior managers:

Explication of the measures
The Appointments and Remuneration Committee is tasked with reviewing the necessary skills of candidates required for each vacancy, in compliance with the requirements needed for each category of director and the incorporation process of new members, forwarding the opportune reports or proposals to the Board as necessary. For covering new vacancies, selection processes shall be guaranteed that are not subject to implicit bias that prevents the selection of female directors, with special value placed on, under the same conditions and among potential candidates, women who meet the professional profile being sought. In February 2020, the Board of Directors approved a modification to the Director Selection Policy, incorporating a competence matrix that reflects the Company's needs in terms of the skills, knowledge and experience required on the Board. This matrix should be used in the selection processes for board members. Following the approval in June 2020 by The National Securities Market Commission (CNMV) of the amendment of the Code of Good Governance for listed companies, at its meeting on 24 November the Board of Directors once again reviewed the Director Selection Policy, in order to consider the implementation by the Company of measures that encourage the appointment of a significant number of top executives..

When, despite the measures adopted, the number of female directors is zero or few, explain the reasons for this:

Explanation of the reasons
During the 2021 financial year, there was only one vacancy corresponding to a proprietary director and therefore the Company's Appointments and Remuneration Committee is obliged to respect the legally recognised right to proportional representation of its shareholders. In accordance with this principle, the Appointments and Remuneration Committee can only fully deploy its powers of proposal in relation to independent directors..

C.1.7 Explain the Appointments Committee's on the verification of compliance with the policy aimed at promoting an appropriate composition of the Board of Directors.

The Appointments and Remuneration Committee has verified that the Director Selection Policy has been complied with as regards the filling of vacancies on the Board, all within the framework of the Company's shareholding structure, which imposes respect for certain legal requirements of proportional representation of shareholders. Corporate governance recommendations must comply with this mandatory requirement. The Committee has noted that the selection processes for directors have taken into consideration the balance of criteria such as: i) knowledge, ii) skills, iii) diversity and iv) experience.

The percentage of female profiles among the independent directors represents 20% of the total. The Committee concludes that this percentage should continue to increase as new vacancies need to be filled, while fully respecting the right to proportional representation of shareholders, who will be entitled to propose the candidates they consider most suitable for filling the vacancies to which they are entitled.

C.1.8 Where applicable, explain why proprietary directors have been appointed at the request of shareholders whose shareholding in the capital is less than 3%:

Name or company name of shareholder	Explanation

Indicate whether or not formal requests have been accepted for presence on the board from shareholders whose holding is equal to or higher than that of others for whom proprietary directors have been appointed. If so, explain why these requests have not been answered:

YES NO **X**

Name or company name of shareholder	Explanation

C.1. 9 Indicate, in the event that they exist, the powers and faculties delegated by the Board of Directors to directors or to board committees:

Name or company name of the director or committee	Brief outline
Mr. Francisco Reynés Massanet	He has delegated extensive powers of representation and administration in accordance with the nature and requirements of the position of Executive Chairman.

C.1.10 List the Members of the Board of Directors, if any, who hold office as Administrators or representatives of Administrators or Directors in other companies belonging to the listed company's group:

Name or company name of Director	Company name of group entity	Position	Do they have executive duties?

C.1.11 List any directorships, directorships or directorships held by directors or representatives of directors who are members of the company's board of directors in other entities, whether or not they are listed companies:

Identificación del consejero o representante	Denominación social de la entidad cotizada o no	Cargo
Mr Francisco Reynes Massanet	Frinvico S.L	Director
Mr. Ramón Adell Ramón	Oryzon Genomics, S.A.	Director
	Allianz, Cía. de Seguros y Reaseguros, S.A	Director

	Fénix Directo, Cía. de Seguros y Reaseguros, S.A	Director
Mrsª Lucy Chadwick	Nuovo Transport Viaggiatori (NTV) Italo Sp	Director
	Global Infrastructure Management LLP	Partner
Mr. Enrique Alcantara Garcia Irazoqui	Bufete Alcántara, S.L.P.	Director
	Criteria Caixa, S.A.U	Director
Mr. Francisco Belil Creixel	Uriach, S.A.	Director
Mrs. Isabel Estapé Tous	CriteriaCaixa S.A.U.	Director
Mrs. Helena Herrero Starkie	HP Printing and Computing Solutions, S.L.U.	Chairmwoman and Executive Director
	Fundación I+E Innovación España	Chairwoman
	AMCHAM	Vice-Chairwoman
Mr Rajaram Rao	Mata Biles Ltd	Miembro del consejo de Administración
	VENA ENERGY	Chairman
	Global Infrastructure Management LLP	Partner
D. JAVIER DE JAIME GUIJARRO: Representative of the Proprietar y Director Rioja S.à.r.l.	CVC Capital Partners, S.L.	Partner and Director
	CVC Capital Partners Luxembourg, S.à.r.l.	Director
	Idcsalud Holding, S.L.	Director
	Helios Healthcare Spain, S.L.	Director
	Promotora de Informaciones, S.A.(PRISA)	Director
	Deoleo, S.A.	Representative of the Director.
	Cortefiel, S.A.	Representative of the Director.
	MEP Retail España, S.L.U.	Representative of the Director.
	Rioja Bidco Shareholdings, S.L.U.	Representative of the Director.
	Servet Shareholdings, S.L.	Representative of the Director.
	Masaria Investments, S.A.	Representative of the Director.
	Baranoa Directorship, S.L.	Representative of the Director.

	Sub Lecta, S.A.	Representative of the Director.
	Vitalia Plus, S.A.	Representative of the Director.
	Vivaly Inversiones Globales, S.L.	Representative of the Director.
	Compañía Logística de Hidrocarburos CLH, S.A.	Representative of the Director.
	Paidea Inversiones, S.A.	Representative of the Director.
Mr. Claudi Santiago Ponsa	FINAVES, IESE Business School (Barcelona)	Director
	Giovanni Col SPA	Director
Mr. Pedro Sainz de Baranda Riva	Gestamp Automoción, S.A.	Director
	TK Elevator GmbH	Director
	Sainberg, S.L.	Director
	Internacional Olivarera, S.A.	Chairman
	Scalpers Fashion, S.L.	Director
	Pedro Duro S.L.	Director
	Inversores de Tornón	Director
THEATRE DIRECTORSHIP SERVICES BETA, S.à.r.l. REPRESENTATIVE MR JOSÉ ANTONIO TORRE DE SILVA LÓPEZ DE LETONA.	CVC Investment Advisory Services S.L	Director
	Tendam Retail, S.A.	Representative of the Director.
	Tendam Brands S.A.	Representative of the Director.
	Tendam Fashion S.L.	Representative of the Director.
	Compañía Logística de Hidrocarburos CLH, S.A.	Representative of the Director.
	Porterdale S.L.	Chairman
	Colegio Alegra S.L.	Chairman

Indicate, if applicable, any other remunerated activities of the directors or representatives of the directors, whatever their nature representatives of directors, whatever their nature, other than those indicated in the table above.

Identification of the director or representative	**Other gainful activities**
Mr. Pedro Sainz de Baranda Riva	Consejo Asesor, Banco de Sabadell S.A.
Mr. Francisco Belil Creixel	Fundación Bertelsmann
	Patrimonio Nacional
	Consejo Asesor Caixa Banca Privada
Mr. Ramón Adell Ramón	Professional activity as a lawyer
Mr. José Antonio Torre de Silva López de Letona	Employee CVC Investment Advisory Services S.L
Mrs- Lucy Chadwick	Employee Global Infrastructure Management LLP
Isabel Estapé Tous	Professional activity as a Notary
Claudi Santiago Ponsa	Consulting activity

C.1.12 Indicate and, where appropriate, explain whether the company has established rules about the maximum number of company Boards on which its directors may sit, identifying how this is regulated where appropriate:

YES NO **X**

Explanation of the rules and identification of the document where it is regulated

C.1.13 Indicate the amounts of the following items relating to the overall remuneration of the Board of Directors:

Overall remuneration earned by the Board of Directors during the year (thousands of euros)	7.817
Amount of funds accumulated by current directors for long-term savings schemes with vested economic rights (thousands of euros)	10.302 (*)
Amount of funds accumulated by current directors for long-term savings schemes with non-consolidated economic rights (thousands of euros)	0
Amount of funds accumulated by former directors through long-term savings schemes (thousands of euros)	

OBSERVATIONS
(*) It includes the amount corresponding to the variable remuneration 2018, 2019, 2020 y 2021 that are settled as a contribution to the Executive Chairman´s Social Security Plan as it is beneficiary.

C.1.14 Identify members of senior management who are not also executive directors, and indicate the total remuneration they earned during the year:

Name or company name	**Position/s**
Mr. Carlos Francisco Vecino Montalvo	Marketing Manager
Mr. Pedro Larrea Paguaga	Manager Energy Management and Networks

Mr. Jorge Barredo Lopez	Manager Renewables, Innovation and New Business
Mr. Enrique Tapia Lopez	People and Organisation Manager
Mr. Rafael Blesa Martinez	Information Systems Manager
Mr . Manuel García Cobaleda	General and Board Secretary
Mr. Jordi García Tabernero	Sustainability, Reputation and Institutional Relations Manager
Mr. Steven Fernández	Financial Market Manager
Mr. Jon Ganuza Fernandez De Arroyabe	Manager Planning, Control and Administration

Number of women in senior management	0
Percentage over total number of members of senior management	0%

Total remuneration of senior management (in thousands of euros)	7907

OBSERVATIONS
The executives who report directly to the Executive Director have been listed

C.1.15 Indicate whether or not there has been any modification to the regulations of the board during the year:

YES **X** NO

Description of modifications
At the meeting of the Board of Directors on 21 December 2021, articles 3 and 7 of the board regulations were amended to i) adapt the regime for approving related-party transactions to the amendments introduced by the LSC and ii) to raise the materiality threshold for transactions for which the Board of Directors is competent.

C.1.16 Indicate the procedures for appointing, re-electing, evaluating and removing directors. Provide details of the competent bodies, the procedures to be followed and the criteria applicable in each procedure.

The procedures for the appointment, re-election, evaluation and removal of directors are regulated in Article 7 of the Articles of Association and in Articles 9 and 10 of the Regulations for the Organisation and Functioning of the Board of Directors and its Committees, supplemented by the provisions of Article 529 decies of the Spanish Corporate Enterprises Act ("LSC" in Spanish).

1.- Appointment and re-election:

The General Meeting of Shareholders is competent for appointing directors and establishing the number thereof, subject to the limits stipulated in Article 7 of the Articles of Association.

If vacancies were to arise during the term for which the Directors were appointed, the Board shall be entitled to designate, using the co-option system, the persons to occupy these vacancies until the first General Meeting of Shareholders is held.

The status of Shareholder is not required to be appointed Director.

Anyone who is in any of the situations that, pursuant to prevailing legislation, prevents such characterisation, cannot be proposed, appointed or qualified as Independent Directors.

It will be necessary to appoint persons who not only satisfy legal provisions and those laid down in the Articles of Association for the position, but who have a prestigious position and are equipped with the professional skills and expertise required to perform their duties.

Directors are appointed and re-elected in accordance with a formal and transparent procedure and the proposals which the Board of Directors submits to the General Meeting of Shareholders, as well as appointments adopted by the Board by virtue of its powers of co-option, must be made subject to a proposal from the Appointments and Remuneration Committee in the case of Independent Directors, or a report for the remaining Directors. When the Board does not follow the recommendations of said committee, it will have to explain the reasons and record the said reasons in the Minutes.

In addition, the Board of Directors, on the proposal of the Appointments and Remuneration Committee and in line with the recommendations of the Guide of the CNMV on Appointment and Remuneration Committees, approved in their meeting in October 2019 a Competency Matrix, for which assistance was provided by an Independent Expert. The current Director Selection Policy, the latest modification of which was approved by Naturgy's Board of Directors in November 2020, incorporates the requirement to prepare and take into consideration this competency matrix in all Director selection processes.
2.- Re-election:

Directors elected as of 27 June 2018, will hold office for a maximum term of four (4) years, and may be re-elected (those elected up to that date had a term of three (3) years).

The Independent Directors shall not remain in their post for a period of more than twelve (12) years.

3.- Replacement or removal:

Directors shall be replaced in their position for the length of the term for which they were appointed, unless they are re-elected, and when so determined by the General Meeting of Shareholders by virtue of the powers granted thereto. Likewise, directors shall be replaced in all other circumstances where applicable pursuant to the Law, the Articles of Association and Regulations of the Board of Directors.

Directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deemed it appropriate, in the following cases:

a) When Executive Directors step down from their executive positions.

b) When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these Regulations.

c) When they commit a serious breach of their obligations as directors, jeopardising the interests of the Company.
d) When circumstances arise that may affect the credit or reputation of the Company or, in any other way, put the Company's interests at risk
e) When the reason why they were appointed as independent, executive or proprietary directors is no longer applicable.

In any case, the Board of Directors pays special attention to issues of diversity and not only gender diversity, within the framework of full respect for the right of shareholders as recognised by the Law on Proportional Representation. As explained in previous sections, the Directors selection policy as revised on February 2020 incorporates a Competency Matrix to be used in all processes for covering the position of Director and wich has already been used in the process of covering the position of 1 independent director and 2 proprietary directors whose re-election/appointment whose re-election/appointment was submitted for approval to the General Meeting of Shareholders held on 26 May 2020.

In this regard, the Board of Directors approved a new modification to the Director Selection Policy to expressly include the Company's commitment to gender diversity, providing for the implementation by the Company of measures that encourage the appointment of a significant number of female senior executives.

On 24 November 2020, the Board of Directors approved a new amendment to the Director Selection Policy to expressly reflect the Company's commitment to gender diversity, providing for the implementation by the Company of measures to encourage the appointment of a significant number of female senior managers.

C.1.17 Explain, if applicable, to what extent this annual evaluation has prompted significant changes in its internal organisation and the procedures applicable to its activities:

Description of modifications
As a result of the Board's self-assessment process carried out during the 2021 financial year, no major changes have been made to the internal organisation or procedures of the Company. However, in this regard, it should be noted that in response to suggestions made by the directors, at the meeting held on 21 December 2021, the Board approved the amendment of articles 3 and 7 of the Operating Regulations to raise the materiality thresholds for transactions for which the board of directors is responsible, thereby increasing the capacities of the executive director and his management team.

Describe the evaluation process and the areas evaluated by the Board of Directors, assisted by an outsourced consultant, regarding the operation and composition of its committees, and any other area or aspect that has been subject to evaluation.

Description of the evaluation process and areas evaluated
In the 2021 financial year, the evaluation of the Board was carried out internally. As part of this evaluation process, the Directors completed a series of questionnaires regarding the functioning of the Board and its Committees and an analysis of the considerations made by the Directors in these questionnaires was carried out. The suggestions made by the directors regarding i) improvements in the risk management framework in view of the new disclosure requirements and always in accordance with best practices, ii) reduction in the number of board meetings, iii) progress in the implementation of the Strategic Plan linked to renewable objectives and iv) increase in the capacities of the management committee were accepted.

C.1.18 Explain, for any of the years in which the evaluation has been assisted by an external advisor, the business relationship the adviser or any group company maintains with the company or any group company.

NONE

C.1.19 Indicate the cases in which directors must resign.

Directors shall be replaced in their position for the length of the term for which they were appointed, unless they are re-elected, and when so determined by the General Meeting of Shareholders by virtue of the powers granted thereto. Likewise, directors shall be replaced in all other circumstances where applicable pursuant to the Law, the Articles of Association and Regulations of the Board of Directors.

Directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deems it appropriate, in the following cases:

a. When Executive Directors step down from their executive positions.

b. When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these Regulations. c. When they commit a serious breach of their obligations as directors, jeopardising the interests of the Company d. When circumstances arise that may affect the credit or reputation of the Company or in any other way jeopardise the interests of the Company. e. When the reason why they were appointed as Independent, Executive or Proprietary Directors is no longer applicable.

C.1.20 Are qualified majorities other than those prescribed by law required for any type of decision?

YES **X** NO

Where appropriate, describe the differences.

Description of the differences
Article 7.4 of the Regulations of the Board of Directors states the following: "4.- The resolutions must be adopted with the vote of the absolute majority of the directors who attend, whether present or represented, unless the Law, the Articles of Association or these Regulations establish an enhanced majority. In particular, the favourable vote of more than two thirds of the directors, whether present or represented, will be required for the valid adoption of resolutions on the following matters reserved for the plenary session of the Board and, therefore, non-delegable: a) The acquisition or disposal of assets belonging to the Company (regardless of the legal means used for this purpose and, in particular, even if they are carried out through merger, spin-off or other operations of subsidiaries) in excess of Euros 500,000,000, unless its approval corresponds to the General Meeting of Shareholders or is carried out in execution of the budget or strategic or business plan of the Company. b) The approval of the budget and the strategic or business plan of the Company. c) The modification of the dividend distribution policy and the approval of a new one. d) The subscription, modification, renewal, non-renewal or termination by the Company of financing or refinancing agreements for an amount exceeding Euros 500,000,000. e) The subscription, modification, renewal, non-renewal or termination by the Company of any material contract, other than those provided for in section d) above, whose amount exceeds Euros 500,000,000 in the case of gas supply contracts and of Euros 200,000,000 in the case of other contracts. f) The material changes in the accounting and tax criteria and policies of the Company, unless they are due to modifications of applicable legislation or compliance with the guidelines and criteria set by the competent authorities in the matter. g) The reformulation of the Company's annual accounts, unless such reformulation is due to a modification of applicable legislation or compliance with the guidelines and criteria set by the competent authorities in the matter. h) Capital investments (capex) not provided for in the Company's annual budget for an amount exceeding Euros 200,000,000 euros. i) The modification of the matters of paragraph a) to i) or modification of the enhanced majority of the vote required for any of them."

C.1.21 Indicate if there are specific requirements other than those relating to directors in order to be appointed as Chairman of the Board of Directors.

YES NO **X**

Description of requirements

C.1.22 Indicate whether the Articles of Association or the Board Regulations establish any age limit for Directors:

YES NO **X**

	Age limit
Chairman	
Chief Executive Officer	
Director	

Observations

C.1.23 Indicate whether the Articles of Association of the Board regulations set a limited term, or other requirements stricter than those legally determined, or office for independent directors different to the one established in the regulations:

YES NO **X**

Additional requirements and/or maximum number of years of in office	

C.1.24 Indicate whether the Articles of Association or Board Regulations stipulate specific rules on appointing a proxy to the Board, the procedures thereof and, in particular, the maximum number of proxy appointments a Director may hold. Also indicate whether there are any restrictions as to what categories may be appointed as a proxy other than those stipulated by law. Where appropriate, give a brief description of these rules.

As established in Article 7.5 of the Articles of Association "Directors who cannot attend may delegate their representation to another Director, with or without instructions to vote, and must notify the Chairman or the Secretary."

In addition, Article 7.3 of the Regulations of the Board states: "Each Director shall be entitled to confer his/her representation to another Director, there being no limit on the number of representations held by each member for attending the Board meeting. Absent Directors' representations can be conferred by means of any written document, or any electronic means, addressed to the Chairman's Office or the Board Secretary before the beginning of the session".

Likewise, in the Board Meeting held in October 2019, it was agreed to instruct the Directors so that, in general, and in line with recommendation 27 of the Code of Good Governance of Listed Companies, they include voting instructions in proxy representations.

C.1.25 Indicate the number of board meetings held during the year. Also indicate, where applicable, how many times the Board has met without the Chairman being present. When calculating the number, representations made with specific instructions shall be considered as attendance.

Number of board meetings	23
Number of board meetings without the Chairman attending	0

Observations

Indicate the number of meetings held by the Coordinating Director with the rest of the Directors, without the attendance or representation of any Executive Director.

Number of meetings	0

Observations
Since the Coordinating Director is also the Chairman of the Appointments, Remuneration and Corporate Governance Committee and had held this position on the Audit and Control Committee, of which he is still a member, he has usually had contacts with the non-executive directors and especially with the Independent Directors, both as regards remuneration issues as well as corporate governance in general, which have made it unnecessary to convene formal meetings.

Indicate the number of meetings held by the different board committees over the year:

Number of meetings of the Executive Committee	0
Number of meetings of the Audit and Control Committee	6
Number of meetings of the Appointments and Remuneration Committee	8
Number of meetings of the Appointments Committee	
Number of meetings of the Remuneration Committee	
Number of meetings of the Sustainability Committee	5

Observations

C.1.26 Indicate the number of board meetings held during the year with all Members in attendance:

Number of meetings attended in person by at least 80% of the Directors	23
% of attendance over the total number of votes during the year	97%
Number of meetings with attendance in person, or representations made with specific instructions of all the Directors	21
% votes cast with attendance in person and representations made with specific instructions, on total votes during the year	97%

Observations

C.1.27 Indicate whether the consolidated and individual annual accounts submitted for authorisation for issue by the Board are certified previously.

YES **X** NO

Identify, where applicable, the person(s) who has/have certified the company's individual and consolidated annual accounts in order to be drawn up by the Board:

Name	Position
Mr. Jon Ganuza	Director of Planning, Control and Administration

C.1.28 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated annual accounts it prepares from being laid before the General Meeting of Shareholders with a qualified audit report.

By virtue of those established in Article 529.4 of the Corporate Enterprises Act and in the Articles of Association, and of the competences attributed by the Board of Directors, the Audit and Control Committee is responsible for, among others, the functions of informing the General Meeting of Shareholders about the issues that arise in relation to those matters that fall within the remit of the Committee and, in particular, on the result of the audit, explaining how this has contributed to the integrity of the financial reporting and the role that the Committee has played in that process, as well supervising the process of preparation and presentation of mandatory financial reporting and submitting recommendations or proposals to the administrative body, aimed at safeguarding its integrity.

To this end, the Audit and Control Committee has supervised the process of preparing financial information and has engaged in fluid dialogue with the external auditor, with the utmost respect for its independence, where it has been informed of the Audit Plan, of the preliminary and final results of the auditor's analyses, and where its independence has been specifically ensured. In any case, the 2021 individual or consolidated accounts are unqualified.

C.1.29 Is the Secretary of the Board also a Director?

YES NO **X**

Complete if the secretary is not also a Director:

Name or corporate name of the Secretary	Representative
Mr. Manuel García Cobaleda	-

Observations

C.1.30 Indicate the specific mechanisms introduced by the Company to preserve the independence of the External Auditors, as well as, if any, mechanisms to preserve the independence of financial analysts, investment banks and rating agencies, including how the legal provisions have been implemented in practice.

The legal duties of the Audit and Control Committee include the establishment of appropriate relations with the external auditor to receive information on those matters that may threaten its independence, for examination by the committee, and any other matters related to the process of auditing the accounts, and, where appropriate, the authorisation of services other than those prohibited, on the terms contemplated in articles 5.4 and 6. 2.b) of Regulation (EU) No. 537/2014, of 16 April, and in the provisions of section 3 of Chapter IV of Title I of Law 22/2015, of 20 July, on Auditing, on the independence regime, as well as those other communications provided for in auditing legislation and auditing standards. It also receives annually from the external auditors the declaration of their independence in relation to the entity or entities directly or indirectly related to it, as well as detailed and individualised information on the additional services of any kind provided and the corresponding fees received from these entities by the external auditor or by the persons or entities related to it in accordance with the provisions of the regulations governing the auditing of accounts.

It is also the duty of the Audit and Contro Committee to issue annually, prior to the issuance of the audit report, a report expressing an opinion on whether the independence of the auditors or audit firms is compromised. This report must contain, in any case, a reasoned assessment of the provision of each and every one of the additional services referred to in the previous point, individually considered and as a whole, other than the statutory audit and in relation to the independence regime or to the regulations governing the activity of auditing accounts.

In this respect, it should be noted that the Audit Committee's criterion is that the assignment of non-audit work to the external auditor should be substantially lower than the percentage recommended by the ICAC of 70%.

As regards the mechanisms established to guarantee the independence of financial analysts, investment banks and rating agencies, it should be noted that the Board of Directors approved at its meeting of 24 November 2020 the Policy on Communication with Shareholders, Investors and Voting Advisors. This policy establishes the principles that underpin the Company's relationship with them as those of transparency, truthfulness, completeness and clarity, immediacy and in a timely manner, equal treatment, non-discrimination and symmetry in dissemination, homogeneity and simultaneity. This policy also establishes the channels and units responsible for dialogue with the various agents.

C.1.31 Indicate whether the company has changed its external audit firm during the year. If appropriate, identify the incoming and outgoing auditors:

YES NO **X**

Outgoing auditor	Incoming auditor

Observations
The company has agreed to propose to the shareholders' meeting to be held in March 2021, the appointment of KPMG as the auditor for the 2021 ditches, replacing E&Y which has been the external auditor of the accounts for the period 2018, 2019 y 2020.

In the case of disagreements with the outgoing auditor, explain the content of the said disagreements:

YES NO **X**

Explanation of the disagreements

C.1.32 Indicate if the audit company performs other tasks for the company and/or its group other than auditing activities and the percentage of the fees billed to the company and/or its group:

YES **X** NO

	Company:	**Group**	**Total**
Amount of tasks other than auditing activities (in thousands of euros)	365	931	1296
Amount of tasks other than auditing/Amount billed by the audit company (%)	39,2 %	29,2 %	31,5 %

Observations

C.1.33 Indicate if the auditor's report on the annual accounts corresponding to the previous year involves reservations or exceptions. Where applicable, indicate the reasons given by the Chairman of the Audit and Control Committee to

YES NO **X**

Explication of the reasons and direct link to the document made available to shareholders at the time of the call in relation to this matter

C.1.34 Indicate the number of consecutive years during which the current audit firm has been auditing accounts of the Company. Also indicate the percentage of the number of years audited by the current audit company over the total number of years that the annual accounts have been audited:

	Individual	**Consolidated**
Number of years without interruption	3	3

	Individual	**Consolidated**
Number of years audited by the current audit company / Number of years the company has been audited (in %)	3,20%	3,20%

Observations

C.1.35 Indicate, and give details if any, whether there are procedures for directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies:

YES **X** NO

Details of the procedure

Articles 6.2 and 6.3 of the Regulations of the Board of Directors state: "2-Notices convening sessions shall be issued by the Chairman or the Secretary, or by the Deputy Chairman on order of the Chairman, and may be effected by any of the channels set out in the Articles of Association. The notification shall include the place and the agenda of said meeting and shall be issued, at least five (5) days before the meeting is to be held, specifying the agenda of the meeting. In the event of an emergency duly justified by the Chairman and thus appreciated by the Board at the start of the meeting, a call to meeting will be made by telephone, fax, email or any other telematic means, with sufficient notice to allow the directors to participate in the meeting. Prior to each meeting the directors shall be furnished with the information and documentation considered to be pertinent or relevant regarding the subjects to be addressed in the Board Meeting. Directors shall also be furnished with the Minutes of the previous meeting, regardless of whether said minutes have been approved or not. The Chairman shall be authorised to establish the order of the day, except in the event of the compulsory convening in which case the agenda of the convened meeting will include the issues indicated by the Directors who request it. 3.- The Board Meeting shall have a quorum, without being previously convoked, if all the directors are present or represented and unanimously accept that the board meeting be held".

The procedure followed involves sending, usually a week in advance, the call to meeting, the agenda and any information that is available and may be useful for more accurate knowledge of the matters to be discussed in the Board Meeting. The rest of the documentation is sent as it becomes available - normally 5 days in advance, except for those that, for example, for reasons of urgency do not allow such advance notice.

To this end, the Board's documentation is made available to the directors through a electronic platform, which allows them permanent access to it. The Directors have access to the documentation of all bodies of the Board, irrespective of whether or not they are members of a Committee. In addition, Directors are provided with other information relevant to the exercise of their functions (relevant events, new regulations, access to press reviews, etc) through the platform.

Furthermore, the matters dealt with by the Board are usually presented by the managers responsible for the proposals, so that the Board Members can directly request clarifications, data or opinions from them in relation to the points dealt with in the session and can directly appreciate their qualifications for the position.

Finally, the Directors may request the additional information they deem necessary for the exercise of their duties through the Board Secretary.

C.1.36 Indicate and, where applicable, give details of whether or not the Company has laid down rules that oblige the Directors to report and resign when situations occur that affect them, whether or not they are related to their actions in the company itself, which may damage the company's credit and reputation:

YES **X** NO

Explain the rules
In accordance with Article 11.4 of the Board Regulations, the Director is subject to the duty of loyalty under the terms established in prevailing legislation and, in particular, section e) of said article 11.4, establishes that the Director shall inform the Company of any kind of legal or administrative claim or any claim of any nature in which he/she is involved which, due to its significance, could have a serious bearing on the reputation of the Company. The Board shall examine the matter and adopt the appropriate measures in the Company's interest and with the required urgency. Also, the Article 10.2 of the Board Regulations establishes that Directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deems it appropriate, in the following cases: a) When Executive Directors step down from their executive positions.

b) When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these Regulations.

c) When they commit a serious breach of their obligations as directors, jeopardising the interests of the Company.

d) When circumstances arise that may affect the credit or reputation of the Company or, in any other way, put the Company's interests at risk.

e) When the reason why they were appointed as independent, executive or proprietary directors is no longer applicable.

C.1.37 Unless there are special circumstances that have been recorded in the minutes, indicate whether the Board has been informed of or has otherwise become aware of any situation that affects a director, whether or not it is related to his or her actions in the company, that could damage the company's credit and reputation:

YES NO **X**

Director's name	Criminal Case	Observations

In the above case, indicate whether the board of directors has examined the case. If the answer is affirmative, explain in a reasoned manner if, in view of the specific circumstances, any measure has been adopted, such as the opening of an internal investigation, requesting the resignation of the director or proposing his dismissal.

Indicate also whether the Board's decision has been supported by a report from the Appointments Committee

YES NO **X**

Decision taken/action taken	Reasoned explanation

C.1.38 Detail the major agreements, entered into by the company based on the takeover, and the effects of these agreements.

An important part of the Naturgy investee companies with shareholders outside the group contain change of control clauses whereby the other shareholder is entitled to choose to acquire the shareholdings in the event of change of control of the holding company of the Naturgy Group.

On the hand, most of the outstanding financial debt includes a clause related to the change of control, either by acquiring more than 50% of the voting shares or by obtaining the right to appoint the majority of Members of the Board of NATURGY ENERGY GROUP, S.A. These clauses are subject to additional conditions, whereby their activation depends on the simultaneity of the same of the following events: The significant reduction of the credit rating caused by the change of control, or the loss of the investment grade by the rating agencies: the inability to meet the financial obligations of the contract, material damage to the creditor, or a material adverse change in solvency. These clauses entail the repayment of the debt, although they usually have a longer period than that granted in the event of early termination.

More specifically, the bonds issued, with an approximate value of Euros 8.1 billion (standard practice in the Euromarket), would be susceptible to early maturity providing that the change of control causes a fall of two or more full notches in at least one of the two ratings it had or all of the ratings fall below investment grade, and providing the Rating Agency explains that the reduction of the credit rating is caused by the change of control.

There are also loans for an amount of approximately Euros 1,6 billion, linked almost entirely to long-term infrastructure financing with funds from the European Investment Bank, which could be subject to early repayment in the event of a change of control. To activate these clauses, in addition to the change of control event a reduction of the rating is required, and they have special repayment terms for the debt that are longer than those of early termination cases

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C.1.39 Identify, individually, when referring to Directors and in aggregate form in all other cases, and provide detailed information on agreements between the Company and its officers, executives and employees that provide indemnities for the event of resignation, unfair dismissal or termination as a result of a takeover bid or other type of operations.

Number of beneficiaries	16
Beneficiary type	**Description of the agreement**
Executive Chairman	The Chairman's contract establishes compensation for the cessation or non-renewal of the position of Director for the overall mount of two years of: (i) fixed total annual cash 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 cash 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 will continue 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. The contracts signed with 12 executives contain a clause that establishes a minimum compensation of one full year of fixed remuneration in some cases and two full years of compensation in others in certain cases of termination of the relationship, which include certain cases of change of control, unfair dismissal or the cases set out in Articles 40, 41 and 50 of the Workers' Statute. These contracts also contain a clause which sets out compensation equivalent to one year's fixed remuneration for post-contractual non-competition for a period of two years. Moreover, there are compensation agreements with 3 other executives, equivalent to one year's fixed remuneration for post-contractual non-competition for a period of two (s) years.

Executives	

Indicate whether, beyond the cases stipulated by the regulations, these contracts have to be reported and/or approved by the bodies of the company or its group. If so, specify the procedures, assumptions foreseen and the nature of the bodies responsible for their approval or communication:

	Board of Directors	General Meeting of Shareholders
Body that authorises the clauses	YES	NO

		YES	NO
Is the General Meeting of Shareholders informed of the clauses?		X	

Observations
In relation to the clauses of management personnel, the Appointments and Remuneration and the Board are informed of their terms and beneficiaries. The main terms of the contracts of the executives who report directly to the executive director are approved by the Board.

C.2. Committees of the Board of Directors

C.2.1 Give details on the board committees, their members and the proportion of executive, proprietary and independent directors:

EXECUTIVE COMMITTEE

Name	Position	Category

% of executive directors	
% of proprietary directors	
% of independent directors	
% of other external directors	

Observations
IT DOES NOT APPLY AS THE EXECUTIVE COMMITTEE NO LONGER EXISTS

Explain the committee's duties, other than those already described in section C.1.9, and describe the procedures and rules for the organisation and operation of the organisation. For each of these functions, indicate your most important actions during the year and how you have exercised in practice each of the functions attributed to you, whether by law, by the Articles of Association or by other corporate agreements..

NOT APPLICABLE.

AUDIT COMMITTEE

Name	Position	Category
Mr. Francisco Belil Creixell	Chairman	Independent
Mr. Ramón Adell Ramón	Board Member	Independent
Mrs. Isabel Estapé Tous	Board Member	Proprietary
Mr. Pedro Sainz de Baranda Riva	Board Member	Independent
Mrs. Helena Herrero Starkie	Board Member	Independent
Mrs. Lucy Chadwick	Board Member	Proprietary
Theatre Directorship Services Beta, S.À.R.L., represented by Mr. José Antonio Torre de Silva López de Letona	Board Member	Proprietary

% of proprietary directors	42.86%
% of independent directors	57.14%
% of other external directors	-

Observations

Explain the functions, including, if applicable, those additional to those legally envisaged, which have been attributed to this committee, describe the procedures and rules for the organisation and functioning of the same. For each of these functions, indicate its most important actions during the year and how it has exercised in practice each of the functions attributed to it either in the law or in the articles of association or other corporate resolutions.

a) Functions of the Audit and Control Committee:

The Committee has the powers established by law and those entrusted to it by the Board of Directors in general or in particular.

The Board of Directors has attributed the following functions to the Committee:

1. To prepare the report on the functioning of the Audit and Compliance Committee.

2. To ensure that the Board of Directors endeavours to present the accounts to the General Meeting of Shareholders without limitations or qualifications in the audit report and that, in those cases in which the auditor has included a qualification in its audit report, the Chairman of the Audit and Compliance Committee clearly explains to the General Meeting the opinion of the Audit and Compliance Committee on its content and scope, making a summary of said opinion available to the shareholders at the time of publication of the notice of call to the meeting, together with the rest of the proposals and reports of the Board, a summary of said opinion.

3. Approval of the annual work plan of the Internal Audit Unit and the Compliance Unit, and supervision, on an annual basis, of the activities of these Units.

4. In relation to information and control systems:

a. Supervise the preparation process and the integrity of financial and non-financial information, as well as the control and management systems for financial and non-financial risks relating to the company and, where appropriate, the group, including operational, technological, legal, social, environmental, political, reputational and corruption-related risks, reviewing compliance with regulatory requirements, the appropriate delimitation of the scope of consolidation and the correct application of accounting criteria.

b. Ensure the independence of the unit that assumes the internal audit function; propose the selection, appointment and removal of the head of the internal audit service; propose the budget for this service; approve or propose approval to the board of the internal audit orientation and annual work plan, ensuring that its activity is mainly focused on the relevant risks, including reputational risks; receive regular information on its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.

c. Establish and supervise a mechanism which, while guaranteeing confidentiality and even anonymity, allows employees and other persons related to the company to report any potentially significant irregularities, including financial, accounting or any other irregularities they notice within the company or its group, (d) In general, ensure that the policies and systems established for internal control are effectively applied in practice.

5. In relation to the external auditor.

a. In the event of resignation of the external auditor, examine the circumstances that led to the resignation.

b. Ensure that the external auditor's remuneration for his work does not compromise his quality or independence.

c. Supervise that the company notifies the CNMV of the change of auditor and accompanies it with a statement of any disagreements with the outgoing auditor and, if any, their content.
d. Ensure that the external auditor holds an annual meeting with the full board of directors to report on the work performed and on developments in the company's accounting and risk situation.

e. 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.

6. To summon any employee or manager of the Company, and even arrange for them to appear without the presence of any other manager.

7. To analyse and report to the Board of Directors on the economic conditions and accounting impact and, in particular, if appropriate, on the exchange ratio, in relation to the structural and corporate modification operations that the Company plans to carry out.

8. Supervision of the exercise of the functions of the internal risk control and management department.

9. In relation to the supervision of compliance with the Codes of Conduct.

a. Supervision of compliance with the company's internal codes of conduct.
b. Supervision of the application of the general policy relating to the communication of economic-financial and non-financial information.

c. Assessing all aspects of the company's non-financial risks, including operational, technological, legal, social, environmental, political and reputational risks.
d. Coordinating the reporting of non-financial and diversity information in accordance with applicable regulations and international benchmarks.

10. Report on related-party transactions to be approved by the general meeting or the board of directors and supervise the internal procedure established by the company for those whose approval has been delegated.

b) Procedures, and organisational and operational rules

In accordance with Article 26 of the Regulations of the board

The Audit and Control Committee shall comprise a minimum of three (3) and a maximum of seven (7) Directors appointed by the Board of Directors from among the non-executive directors, and one of them will be appointed taking into account their knowledge and experience in issues of accountancy, audit or both. Its members shall leave their post when they do so in their capacity as Directors or as agreed by the Board of Directors.

The Board of Directors shall elect the Chairman from amongst the members of the Committee, the majority of whom will have the status of Independent Director; the Chairman shall not have the casting vote. The post of Secretary of the Committee will be held by the person who is the Secretary of the Board of Directors, if there is one.

The Committee shall hold meetings whenever necessary in order to issue its reports or proposals, and will be convened by its Chairman on his own initiative or upon prior request of two of its members. At least four (4) meetings per year must be held. The Committee may invite to its meetings any executive or employee it deems appropriate.

c) Main actions taken during the year 2021.

In the exercise of its powers during the year, it reported on and/or adopted proposals on, inter alia, the following matters:

- External audit of the individual and consolidated annual accounts.
- Supervision of the economic reporting process
- Fiscal situation
- Independence of the Auditor
- Verification of the criminal prevention system.
- Supervision of risk control systems and analysis of specific risks.
- Supervision of internal control systems.
- The new approach to the Internal Control System over Financial Reporting SCIIF
- The implementation of the Non-Financial Information Internal Control System (NFICIS).
- Approval and supervision of the budget and action plan of the Internal Audit and Compliance departments.
- Appointment of the new Compliance Director

Identify the Directors who are Members of the Audit and Control Committee who have been appointed Chairman on the basis of knowledge and experience of accounting or auditing, or both, and state the date that said Director was appointed Chairman.

Name of Directors with experience	MR. RAMÓN ADELL RAMÓN
Date of appointment as Chairman	27/06/2018

OBSERVATIONS

APPOINTMENTS AND REMUNERATION COMMITTEE

Name	Position	Category
Mr. Ramon Adell Ramon	Chairman	Independent
Mr. Francisco Belil Creixell	Board Member	Independent
Mr. Pedro Sainz de Baranda Riva	Board Member	Independent
Mr. Claudio Santiago Ponsa	Board Member	Independent
Mr. Marcelino Armenter Vidal	Board Member	Proprietary
Mr. Rajaram Rao	Board Member	Proprietary
RIOJA S.à.r.l represented by Mr. Javier de Jaime Guijarro	Board Member	Proprietary

% of proprietary directors	42.86%
% of independent directors	57.14%
% of other external directors	-

Observations

Explain the committee's duties, describe the procedure, and organisational and operational rules. For each of these functions, indicate its most important actions during the year and how it has exercised in practice each of the functions attributed to it either in the law or in the articles of association or other corporate resolutions.

a) Duties of the Appointments, Remuneration and Corporate Governance Committee:

The Committee has the powers set out in Law and those entrusted to it by the Board of Directors in a general or specific manner.

The Board of Directors has entrusted it with the following functions:

1. Make proposals and report on Corporate Governance initiatives.

2. Prepare the report on the operation of the Appointments and Remuneration Committee.

3. Verify the policy for the selection of Board members and report on it in the Annual Corporate Governance Report.

4. Prepare a report in the event of the separation of an independent board member, before the statutory period for his/her appointment has expired.

5. Prepare a report in the event that the Board of Directors proposes the adoption of measures when it is aware that the actions of a Board member could damage the credit and reputation of the company or when he/she is considered to be under investigation in a criminal case R-22, Organise and coordinate the periodic evaluation of the Board of Directors and of the Chief Executive Officer of the Company.

6. Verify the independence of the external consultant selected to carry out the evaluation of the Board and its committees.

7. Propose to the Board of Directors the basic conditions of senior management contracts.

8. Verify compliance with the remuneration policy established by the Company.

9. Periodically review the remuneration policy applied to board members and senior management, including the share based remuneration systems and their application, as well as ensuring that their

individual remuneration is proportionate to that paid to the other board members and senior management of the company.

10. Ensure that any conflicts of interest do not undermine the independence of the external advice provided to the committee.

11. Verify the information on directors' and senior executives' remuneration contained in the various corporate documents, including the annual report on directors' remuneration.

12. Supervise compliance with the company's corporate governance rules, ensuring that the corporate culture is aligned with its purpose and values.

13. The evaluation and periodic review of the adequacy of the company's system of corporate governance, in order for it to fulfil its mission of promoting the corporate interest and taking into account, as appropriate, the legitimate interests of other stakeholders.

14. Prepare a report on the remuneration systems that award shares, options or financial instruments when the director requests their sale before the three-year period from their award in order to deal with extraordinary situations that may arise.

b) Procedures, and organisational and operational rules

in accordance with Article 25 of the Regulations of the Board:

The Appointments, Remuneration and Corporate Governance Committee shall comprise a minimum of three (3) and a maximum of seven (7) Directors appointed by the Board of Directors from among the non-executive directors, and at least one of them will be appointed taking into account their knowledge and experience in issues of accountancy, audit or both. Its members shall leave their post when they do so in their capacity as Directors or as agreed by the Board of Directors.

The majority of members of the Committee will hold the status of Independent Director, from among which the Board of Directors will elect the Chairman of the same, who will not have a casting vote. The post of Secretary of the Committee will be held by the person who is the Secretary of the Board of Directors, if there is one.

The Committee shall hold meetings whenever necessary in order to issue its reports or proposals, and will be convened by its Chairman on his own initiative or upon prior request of two (2) of its members. At least four (4) meetings per year must be held. The Committee may invite to its meetings any executive or employee it deems appropriate.

c) Main actions taken during the year 2020:

The Appointments and Remuneration Committee has focused its work on the following fundamental aspects:

I. Health and safety issues
II. Annual report on directors' remuneration.
III. Report on appointment and renewal of the position of proprietary director for the 2021 shareholders' meeting.
IV. 2021 DPO objectives
V. Analysis and action plan for the adaptation of the corporate governance rules to the new regime of competences in the area of related-party transactions
VI. Update of the competency matrix
VII. Organisation
VIII. Analysis of Staff Evolution
IX. Launching and coordinating the Council's self-evaluation process

APPOINTMENTS COMMITTEE

Name	Position	Category

% of proprietary directors	
% of independent directors	
% of other external directors	

Observations

Explain the committee's duties, including, if applicable, those additional to those legally established, which this committee has been assigned, and describe the procedures and rules of organisation and operation of the same. For each of these functions, indicate your most important actions during the year and how you have exercised in practice each of the functions attributed to you, either by law or by the statutes or other corporate resolutions.

REMUNERATION COMMITTEE

Name	Position	Category

% of proprietary directors	
% of independent directors	
% of other external directors	

Explain the committee's duties, including, if applicable, those additional to those legally established, which this committee has been assigned, and describe the procedures and rules of organisation and operation of the same. For each of these functions, indicate your most important actions during the year and how you have exercised in practice each of the functions attributed to you, either by law or by the statutes or other corporate resolutions.

SUSTAINABILITY COMMITTEE

Name	Position	Category
Helena Herrero Starkie	Chairman	Independent
Claudi Santiago Ponsa	Board Member	Independent
Isabel Estapé Tous	Board Member	Proprietary
Theatre Directorship Services Beta, S.À.R.L., representada por Don Jose Antonio Torre de Silva Lopez de Letona	Board Member	Proprietary
Lucy Chadwich	Board Member	Proprietary

% of proprietary directors	60%
% of independent directors	40%
% of other external directors	**0**

Explain the committee's duties, describe the procedure and organisation and operational rules. For each of these functions, indicate your most important actions during the year and how you have exercised in practice each of the functions attributed to you either by law or by the statutes or other corporate resolutions.

In accordance with Article 26 of the Rules of Organization of the Board of Directors and its committees, the Sustainability Committee will be made up of a minimum of three and a maximum of six Board Members, appointed by the Board of Directors from among the non-executive Board Members, taking into account the knowledge, skills and experience of the Board Members and the tasks of the Committee.

Its members will resign when they cease to be Board members or when the Board of Directors so decides.

In full compliance with the principle of proportional representation, the majority of the members of the Sustainability Committee will be considered to be independent directors. If this is not possible, at least two of the members of the Sustainability Committee will be considered to be independent directors. The Board of Directors will elect the Chairman of the Committee who will have the category of Independent Board Member and will not have a casting vote. The Secretary of the Committee will be the Secretary of the Board of Directors although the Vice-Secretary, if any, may act as Secretary of the Committee.

The Sustainability Committee will have the powers assigned to it by the Board of Directors.

The Committee, called by its Chairman, will meet when necessary to issue the reports or proposals within its competence or when deemed appropriate by its Chairman or at the request of two of its members and at least three times a year. The Commission may invite any manager or employee it considers appropriate to attend its meetings.

The powers granted to it by the Board of Directors are as follows:
1. To propose to the Board of Directors the approval of a Sustainability Policy
2.To propose to the Council the objectives and guidelines of the Group in the field of environment, health and safety and social responsibility, included in the Sustainability Plan.
3. Periodically analyse indicators in the field of environment, health and safety and social responsibility
4. The review of the information published by Naturgy to the market in relation to sustainability
5. The supervision of compliance with the policies and rules of society in environmental and social matters.
6. he evaluation and periodic review of the environmental and social policy of the society, in order that they fulfil their mission of promoting the social interest and take into account, as appropriate, the legitimate interests of other stakeholders.
7. Monitoring that society's environmental and social practices are in line with the set strategy and policy.
8. Monitoring the implementation of the general policy on communication with shareholders and investors, proxy advisors and other stakeholders, as well as monitoring how the institution communicates and engages with small and medium-sized shareholders.

The most relevant actions during the financial year 2021 have been:

I. Safety and health: the Commission has reviewed the incidents and accidents that occurred during the year, taking care to ensure that lessons are learned from the incidents that occurred.
II. Sustainability: the Commission has reviewed the sustainability plan and in particular the environmental plan.
III. External verification: the Committee has examined the way in which third parties appreciate Naturgy's efforts in this field, as well as the acknowledgements received by Naturgy.
IV. Naturgy Foundation: The Commission has monitored the performance of the Naturgy Foundation.

V. Projections 2021-25: The Committee has supervised the preparation of the group's medium-term projections -period 2021-25- regarding sustainability.
VI. Diversity and Talent Commitment: the Committee has supervised the diversity objectives proposed by the Company.

C.2.2 Complete the following table on the number of female directors on the various board committees at the end of the past four years:

	Number of female directors							
	Financial Year 2021 Number %		Financial Year 2020 Number %		Financial Year 2019 Number %		Financial Year 2018 Number %	
Executive Committee	-	-	-	-	-	-	-	-
Audit Committee	3	42,86%	3	42,86%	1	14,28%	1	14,28%
Appointments and Remuneration Committee	0	0%	0	0%	0	0%	0	0%
Appointments Committee	-	-	-	-	-	-	-	
Remuneration Committee	-	-	-	-	-	-	-	
Sustainability Committee	3	60%	3	60%	-	-	-	

C.2.3 Indicate, where applicable, the existence of committee regulations, the location at which they are available for consultation and the modifications that have been made during the financial year. Also indicate whether any annual report on each committee's activities has been voluntarily drafted.

The Board Committees are regulated in the Articles of Association and in the Regulations for the Organisation and Functioning of the Board of Directors of NATURGY and its Committees.

Both documents are published on the Company's website (www.naturgy.com) →Shareholders and investors →Corporate governance →Corporate governance standards.

The Executive Committee, the Audit and Control Committee and the Appointments, Remuneration and Corporate Governance Committee have all drawn up a report on the quality and effectiveness of their performance over the previous year.

D RELATED-PARTY TRANSACTIONS AND INTRA-GROUP TRANSACTIONS

D.1 Explain, if applicable, the procedure and competent bodies for the approval of related-party and intra-group transactions, indicating the general internal criteria and rules of the company governing the abstention obligations of the directors or shareholders affected and detailing the internal reporting and periodic control procedures established by the company in relation to those related-party transactions whose approval has been delegated by the board of directors..

Procedures for approving related party transactions
Pursuant to Art. 529 Duovicies LSC: (i) the power to approve related-party transactions whose amount or value is equal to or exceeds 10 % of the total asset items according to the last annual balance sheet approved by the company is vested in the general meeting. ii) The power to approve all other related-party transactions shall be vested in the board of directors, which may not delegate it.

In both cases, the approval of a related-party transaction shall be subject to a prior report by the Audit and Compliance Committee, which shall report on the reasonableness of the transaction from the point of view of the company and, where appropriate, of the shareholders other than the related party, and shall give an account of the assumptions on which the evaluation is based and the methods used.

Furthermore, and in accordance with the provisions of section 4 of Art. 529 Duovicies, the board of directors at its meeting held on 21 December 2021 agreed to delegate to the executive chairman the approval of the following related-party transactions:

(a) transactions between Naturgy group companies that are carried out within the scope of ordinary management and on an arm's length basis;
b) transactions entered into by virtue of contracts whose standardised conditions are applied en masse to a large number of customers, are carried out at prices or rates established generally by the party acting as supplier of the good or service in question, and whose amount does not exceed 0.5 per cent of the net turnover of the company.

For the approval of this type of transaction, the board of directors approved at its meeting of 21 December 2021 an internal procedure for periodic information and control, in which the Audit and Control Committee participates, verifying the transparency of such transactions and, where appropriate, compliance with the legal criteria applicable to such transactions.

D.2 and whether any shareholder or director affected abstained. In the event that the board was competent, indicate whether the proposed resolution was approved by the board without the majority of the independent directors voting against independent directors:

Name or company name of the shareholder or of any of its subsidiaries subsidiary	% Shareholding	**Name or company name of the company or dependent entity**	**Nature of the relationship**	**Type of operation and other information necessary for the assessment of the operation**	**Amount (thousands of euros)**	**Approving body**	**Identification of the significant shareholder or director who abstained from voting**	**The proposal to the board, if any, has been approved by the board without a majority of independent directors voting against.**
Gip III Canary 1, S.À R.L.	20,6	Naturgy Energy Group, S.A.	Commercial	Purchase of goods	1.690	Board of Directors	Proprietary Directors GIP	n/a
CRITERIA CAIXA S.A.U	26,7	Naturgy Energy Group, S.A.	Commercial	Sale of goods	2.298	Board of Directors	Proprietary Directors Criteria	n/a
CVC Capital Partners Sicav-Fis S.A.	20,7	Naturgy Energy Group, S.A.	Commercial	Sale of goods	1.689	Board of Directors	Proprietary Directors CVC	n/a

Observations

D.3 List individually the transactions that are significant due to their amount or relevant due to their subject matter carried out by the company or its subsidiaries with the directors or executives of the company, including those transactions carried out with entities that the director or executive controls or jointly controls, indicating which body was competent to approve them and whether any shareholder or director affected abstained. In the event that the board was competent, indicate whether the proposed resolution was approved by the board without the majority of independent directors voting against:

Name(s) or company name(s) of the director(s) or executive(s) or their entity(ies) entities controlled or under joint control	Name or corporate name of the company or body corporate or subsidiary	Link	Nature of the operation and other information necessary for the assessment of the operation	Amount (thousands of euros)	Approving body	Identification of the shareholder or director who abstained from voting	The proposal to the board, if any, has been approved by the board without the majority of independents voting against.

Observations

D.4 Report on an individual basis on significant intra-group transactions due to their amount or relevant due to their subject matter carried out by the company with its parent company or with other entities belonging to the parent company's group, including the listed company's own subsidiaries, unless no other related party of the listed company has an interest in such subsidiaries or such subsidiaries are wholly owned, directly or indirectly, by the listed company.

Under all circumstances, report any intra-group transaction performed with entities established in countries or territories considered to be a tax haven:

Company Name of the Entity of the Group	Brief description of the Operationand other necessary information for its assessment	Amount (thousands of euros)

Observations

D.5 List individually any transactions that are significant in amount or material in terms of their subject matter carried out by the company or its subsidiaries with other related parties in accordance with

International Accounting Standards as adopted by the EU, which have not been reported under the preceding headings.

Company Name of the Entity of the Group	Brief description of the operation and other necessary information for its assessment	Amount (thousands of euros)

Observations

D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its directors, management or significant shareholders or other related parties.

1.- Directors:

In accordance with the Regulations of the Board:

The Director is subject to the duty of loyalty under the terms established in prevailing legislation and, in particular:

In accordance with the regulations, the Director must inform the other members of the Board of his or her conflict of interest and must abstain from participating in the vote.

In the cases in which a situation of conflict of interest has been observed, the affected Board Member(s) have been absent from the meeting when the point on the agenda they have a conflict of interest with has been dealt with and the Secretary has ensured that these Board Members have not been able to access the affected information either.

2.- Directors and executives:

On the other hand, pursuant to Article 3 and 4of the Internal Code of Conduct in Matters relating to the Securities Markets and Treasury Stock Policy (ICC), persons with management responsibilities and insiders, during certain periods of time will refrain from carrying out transactions on their own or for the account of a third party, directly or indirectly on the Affected Securities (i) Transferable securities issued by companies of the NATURGY Group, which are traded on a secondary market or other regulated markets, in multilateral trading systems or in other organised secondary markets, or for which an application for admission to trading on one of these markets or systems has been made. (ii) financial instruments and contracts of any kind giving the right to acquire or sell the securities referred to in (i) above (iii) The financial instruments and contracts whose underlying are the securities indicated in (i)(iv) For the sole purpose of the rules of conduct regarding privileged information contained in Title III of these Regulations, the securities and financial instruments issued by other companies or entities other than the NATURGY Group, regarding which there is Privileged Information

The Supervisory Body, upon written request, describing and justifying the Personal Operation to be carried out and that the specific operation cannot be carried out at any other time than a limited period may authorise Persons with Management Responsibilities to perform personal transactions on Affected Securities in the periods in which there is a general prohibition when certain circumstances are given and justified in the ICC itself. The Supervisory Body will inform the Audit and ControlCommittee at least once a year about the authorisations that have been requested.

For their part, pursuant to section 4.10 of the Code of Ethics, employees must inform the company in the event that they or their close relatives participate or will participate on the governing bodies of other companies that may clash with the interests of Naturgy. In the performance of their professional responsibilities, employees must act with loyalty and defend the interests of the group.

Furthermore, they must avoid situations that may give rise to a conflict between personal interests and the interests of the company. Accordingly, Naturgy employees must refrain from representing the company and participating in and influencing decisions in any situation in which they directly or indirectly have a personal interest. 3.- Significant shareholders: It will be the responsibility of the Board of Directors, pursuant to a report from the Audit and Control Committee, to approve transactions carried out by the company or the companies in its Group with directors under the terms set forth in the current applicable legislation or with shareholders who, individually or in conjunction with others, hold a significant stake, including shareholders represented on the company's Board of Directors or the board of other companies belonging to the same group or with persons associated with them.

D.7 Indicate whether the company is controlled by another entity within the meaning of Article 42 of the Commercial Code, whether listed or not, and has, directly or through its subsidiaries, business relationships with such entity or any of its subsidiaries (other than those of the listed company) or carries out activities related to those of any of them.

YES NO **X**

Indicate whether the respective areas of activity and any business relationships between the listed company or its subsidiaries on the one hand, and the parent company or its subsidiaries on the other, have been publicly disclosed with precision:

YES NO

Report on the respective areas of activity and any business relationships between, on the one hand, the listed company or its subsidiaries and, on the other hand, the parent company or its subsidiaries, and identify where these aspects have been publicly reported

Identifythe mechanisms laid down to solve possible conflicts of interests between the other parent company of the listed company and the other companies in the group:

Mechanisms for solving possible conflicts of interests

E CONTROL SYSTEMS AND RISK MANAGEMENT

E.1 Describe the control and risk management system in place at the company, including fiscal risks.

The system ensures the independence of the risk control and management functions attributed to each of the responsible bodies and units and is responsible for determining limits for the main risk categories with

the aim of defining the Company's global objective risk profile, guaranteeing the predictability of its performance in all aspects relevant to its stakeholders.

The main objective of global risk management is to ensure that the most relevant risks are correctly identified, assessed and managed, in order to ensure that the level of exposure to risk assumed by Naturgy in the development of its activities is congruent with the global target risk profile defined and with the achievement of the annual and strategic objectives.

The Risk Management System operates in an integral and continuous manner, and incorporates the Company's Corporate Governance, Risk and Compliance visions, enabling a complete vision of the Group's processes, the existing controls over them and the associated risk.

It guarantees the predictability of the company's performance within a limited and acceptable range, quantifying the variability of the result and ensuring that it is in line with the strategically defined target levels in all aspects relevant to its stakeholders.

Essential elements of the risk measurement and management model include ensuring that relevant risk factors are correctly identified, assessed and managed. The ultimate aim is to ensure that the level of exposure to risk assumed by Naturgy in the development of its activities is congruent with the global objective risk profile defined and with the achievement of the annual and strategic objectives.

The Comprehensive Risk Management and Control System is structured in the following sections:

a. Risk Appetite: definition of risk tolerance through the setting of limits for the most relevant risk categories, by nature of the risk and by business according to the objectives.
b. Risk Assessment: methodology, procedure and process for identifying, assessing and measuring risks.
c. Risk Governance & Management: risk governance and management mechanism for all types of risk and for all businesses.
d. Risk Reporting: systematic and regular reporting and monitoring of risk at different management levels: Business Units, Corporate, Chairman's Office and Board.

E.2 Identify the company bodies responsible for the development and implementation of the financial and non-financial risk management and control system, including tax risks..

Naturgy has different bodies, with clearly identified areas of responsibility, which ensures predictability and sustainability in operational and financial performance.

Audit and Control Committee

Supervisory body of the effectiveness of internal control and risk management systems. It ensures that they identify the different types of risks and the measures to mitigate them and to address them should they materialise.

Risk Committee

Responsible for determining and reviewing the company's target risk profile. It also oversees that the entire organisation understands and accepts its responsibility for identifying, assessing and managing the most relevant risks.

Risk Control Units

Responsible for controlling, managing and reporting the risk assumed and ensuring that the established target risk profile is maintained. These include the Risk Planning and Management business units and the corporate units of Internal Audit and Planning, Control and Administration.

The Risk Control units monitor the recurrence and sustainability of results. A key task is the modelling of financial statements, aimed at identifying their main sensitivities and anticipating possible impacts and mitigating actions.

Business and Corporate Units

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

In addition, each business unit has specific information on the main types of risks that may affect it. The aim is to facilitate the decision-making process, which in turn has a positive impact on the company, as it improves its profitability, predictability in its behaviour and efficiency.

E.3 Indicate the main risks, financial and no-financial, including fiscal, to the extent that those derived from corruption are significant (the latter being understood to be within the scope of Royal Decree Law 18/2017) which may prevent the company from achieving its business targets.

		Description	Management
Market risk			
Commodity prices	Gas price	Volatility in international markets which determine gas prices.	Physical and financial hedges. Portfolio management
	Electricity price	Volatility in electricity markets	Physical and financial hedges. Optimisation of generation park.
exchange rate		Volatility in international currency markets	Geographical diversification. Hedging through local currency funding and derivatives. Net position monitoring. Contract and asset optimisation. Trading.
Regulation		Exposure to revision of criteria and levels of return recognised for regulated activities.	Heightened intensity of communication with regulatory bodies. Adjusting efficiencies and investments to recognised rates.
Volume	Gas	Mismatch between gas supply and demand	Global contract and asset optimisation.
	Electricity	Reduction of the available thermal gap.	Optimisation of the marketing-generation balance.

		Uncertainty in the volume of renewable production.	
Margin/price		Risk arising from changes in competitive pressure or unachieved margin optimisation scenarios.	Portfolio management through appropriate long term buy and sell formulas
Legal		Uncertainty arising from the potential outcome of litigation, arbitration or open legal claims.	Analysis and mitigation of legal risks affecting the company's operations and corporate governance. Hiring of top-level legal firms. Provisioning with criteria of prudence
Insurable risks		Accidents, damage or unavailability of Naturgy's assets.	Continuous improvement plans. Optimisation of total cost of risk and hedging.
Credit		uncertainty associated with the probability of non-payment of monetary obligations and/or deterioration of the credit quality of the different end customers and counterparties with which Naturgy operates.	Customer solvency analysis to define specific contractual conditions. Recovery process.
Interest rate and credit spread		Volatility in financing rates.	Coberturas financieras. Diversificación de fuentes de financiación.
Fiscal		Ambiguity or subjectiveness in the interpretation of the prevailing fiscal regulations, or through a relevant change to the same.	Consultations with independent expert organisations. Recruitment of leading consultancy firms. Adhesion to the Code of Good Tax Practices. Allocation of provisions with criteria of prudence.
Liquidity, Rating and Provisions		Financial risks associated with the maintenance of the company's rating, derived from liquidity conditions or other causes. Risks associated with excessive use of resources due to the maintenance of provisions.	Setting a target rating and managing sufficient liquidity to maintain it in the event of a potential adverse scenario.
Operational risks			
Security		Residual risk associated with personal injury or property damage intentionally caused by a third party to critical facilities.	Corporate positioning through the Security Policy, defining a specific protection model for Critical Infrastructure specific protection model for Critical Infrastructures (IICC). Liaison with businesses, the National Centre for the Protection

		of Critical Infrastructure (CNPIC), the National Cybersecurity Institute (INCIBE-CERT) and other public and private bodies involved in IICC security. IICC security.
Processes	Uncertainty arising from the inadequacy or failure of processes, systems or personnel performance, which impacts on the efficiency or other risks of the company.	Annual Internal Audit Plan. Detection of weaknesses. Implementation of improvement actions (recommendations). Audit and Control Committee.
Fraud	Risk arising from any intentional unlawful action by an employee or third party, to achieve a direct or indirect benefit for themselves or for the company, through the improper use of Naturgy's resources or assets.	Control mechanisms through the Global Policy of the Internal Financial Reporting Control System. Hedging in the insurance market.
cybersecurity	Malicious attacks or accidental events affecting data, computer networks or technology	Implementation of security measures. Analysis of events and application of remedies Training
Data protection	Uncertainty associated with non-compliance with Data Protection obligations that may result in an administrative sanction or civil judgement.	Action plan by business area to mitigate the risk associated with each obligation according to priority and criticality. Work is carried out in line with the requirements of the General Data Protection Regulation (GDPR). Internal audit plan for periodic review of compliance.
environment	Possibility that environmental limits set by the regulator may be exceeded naturally or by human action, or that ecosystems or biodiversity may be damaged.	Emergency plans for facilities at risk of environmental accidents. Specific insurance policies. Comprehensive environmental management.
Health and Safety	Risk of injury and deterioration of the health of Naturgy professionals and collaborating companies related to the activity.	Health and safety management system. Safety plan aimed at controlling of the six most critical risk factors in terms of frequency and severity of accidents: confined spaces accident rate: confined spaces, work at height, electrical risk, tree felling and pruning, load handling and road safety. road safety.
image and reputation	Deterioration of the perception of Naturgy from different stakeholder groups	Identification and tracking of potential reputation events. Transparency in communication.

Compliance risk		
Reputational and criminal risk	Administrative and criminal sanctions. Deterioration of the reputational image of NATURGY.	Crime Prevention Model. Ethics Code and Anticorruption Policy. Whistleblowing Channel. Compliance Training.
Thrid-Party risk	Administrative and criminal sanctions. Damage derived from contractual breach.	Third-Party Due Diligence Procedure.Compliance Training
Climate change and energy transitionRisk	Uncertainty arising from the energy transition (regulation, market, technologies, ...) and the physical impacts of climate change.	Corporate positioning through the Global Environment Policy and the Environment Plan, which strengthens climate governance and sets emission reduction targets.

E.4 Identify if the company has a risk tolerance level, including tax risks.

The company has risk tolerance levels established at corporate level for the main types of risk through the setting of limits, by nature of risk and by business, depending on the objectives.

The risk assessment process starts with the identification of risks, generally by the businesses that support the exposure. Annually, with the preparation of the Corporate Risk Map, a tool that allows the company to continuously improve the process of identification, characterisation and determination of Naturgy's risk profile, an in-depth review is carried out by the Risk Control Units to ensure the correct identification of all exposures, both current and potential.

It is the responsibility of the Risk Control Units to assess the risks identified, taking into account the following:

a. The characteristics of the Position at risk

b. Impact variables.

c. Qualitative and quantitative severity if the risk materialises.

d. Probability of occurrence.

e. Controls and mitigation mechanisms used and their effectiveness.

Finally, it will propose a tolerance level for the typologies identified, which will be approved by the Risk Committee.

E.5 Indicate which financial and non-financial risks, including tax risks, have materialised during the year..

The risks materialised during the year were inherent to the activity itself, such as the volatility of gas and electricity prices in Spain and Europe, the exchange rate, interest rate, volume, credit or counterparty.

The risk control mechanisms have made it possible to maintain the impact within the company's tolerance range, defined by the risk limits in force, respecting Naturgy's target risk profile.

Given the uncertainty in the economic outlook for the country and the world, the company will seek to position itself in stable geographical areas to ensure steady growth that contributes to the generation of value and profitability of the business and company: balancing the weight of its businesses in its mix of activities, placing greater ambition on increasing the contribution of regulated activities, increasing renewable generation capacity in line with the global energy transition, optimising the natural gas and LNG supply portfolio and developing innovation projects in hydrogen and its blending in gas networks, renewable gas, energy efficiency, sustainable mobility and just transition.

E.6 Explain the response and monitoring plans for the main risks the company is exposed to, including tax risks, as well as the procedures followed by the company to ensure that the board of directors responds to new challenges.

Naturgy analyses its global risk profile according to the potential impact on its financial statements. With this, it determines the maximum accepted level of exposure to risk, as well as the admissible limits for its management.

The tools that allow the company to continuously improve the process of identification, characterisation and determination of Naturgy's risk profile are:

- Global Risk Control and Management Policy: updated and approved by Naturgy's Board of Directors in November 2020. Its purpose is to establish the principles and general guidelines of behaviour necessary to ensure the appropriate identification, information, assessment and management of Naturgy's exposure to risk.
- Corporate Risk Map: identifies and quantifies the risks likely to affect Naturgy's performance, taking into account the characteristics of the risk position (impact variables, potential quantitative and qualitative severity, probability of occurrence and degree of management and control). It is updated and presented annually to the Audit and Control Committee.
- Other risk maps: promoted by Naturgy's Business and Corporate Units, at their discretion, in accordance and aligned with a common methodology, which serve as a basis for the Corporate Risk Map.
- Risk Measurement System: its purpose is to quantify, on a recurring and probabilistic basis, the risk position assumed globally for the different market risk categories. To this end, it carries out correlated risk analyses, sensitivity analyses and stress tests for the main risks identified.

The Risk Control Units regularly measure the evolution of the main risks, giving appropriate indications in the event of exposure levels or trends in their evolution that could exceed the established tolerance.

F INTERNAL SYSTEMS OF CONTROL AND RISK MANAGEMENT WITH REGARD TO THE INTERNAL CONTROL SYSTEMS OVER FINANCIAL REPORTING (ICFR)

Describe the mechanisms that make up your entity's internal control system and management of risks with regard to the financial information reporting process (ICFR).

F.1 The company's control environment

Report on, duly detailing their main characteristics, at least:

F.1.1. Which bodies and/or functions are in charge of: (i) the existence and upkeep of an appropriate and effective ICFR; (ii) its implementation; and (iii) its supervision.

Naturgy has defined its Internal Control System over Financial Reporting (hereinafter "ICFR") in the "Global Policy and General Procedure of the Internal Control System over Financial Reporting (ICFR) General Standard of Naturgy".

As part of the ICFR, Naturgy has defined, in the foregoing **Global Policy and General Procedure**, the responsibilities model revolves around the following seven areas of responsibility:

– Board of Directors: The Board is responsible for the existence of an appropriate and efficient ICFR, the supervision of which is delegated upon the Audit and Control Committee.

The Board Regulations of Naturgy Energy Group, S.A. and its Committees, in Article 3 Section II, establish that the determination of the risk control and management policy, including tax risk, and supervision of the internal information and control systems are, among others, a matter that cannot ordinarily be delegated by the Board of Directors.

– Audit and Control Committee: Among other tasks, this committee is responsible for supervision of the ICFR. Article 26 Section 2 of the Board Regulations states that the Committee has the powers set out in Law and those entrusted to it by the Board of Directors in a general or specific manner. Thus, Article 529.14 of the Spanish Corporate Enterprises Act sets out in section 4.b) that the Audit and Control Committee will have the function of supervising the effectiveness of the company's internal control, internal audit and risk management systems, as well as discussing with the Accounts Auditor the significant weaknesses of the internal control system detected in performance of the audit. In particular and in relation to the reporting and control systems, the Audit and Control Committee is responsible for, inter alia, the supervision of the preparation process and integrity of the financial information related to the company and, where applicable, the group, reviewing compliance with the standard requirements, the appropriate definition of the consolidation perimeter and the correct application of accounting criteria. For the performance of some of these duties, the Audit and Control Committee is supported by the Internal Auditing Unit.

– Planning, Control and Administration Unit: This department is responsible for the design, implementation and operation of the ICFR. For the performance of this function, it is supported by the corporate Internal Control of Financial Reporting team.

– Administration and Operational Monitoring of the Business Unit: is responsible for the implementation and functioning of the ICFR. For the performance of this function it is supported by the team responsible for the Internal Control of Financial Reporting of the business.

– Internal Auditing Unit: In general, it is responsible for assisting the Audit and Control Committee in the ongoing review and assessment of the effectiveness of the Internal Control System in all areas of Naturgy, providing a systematic and rigorous approach for the monitoring and improvement of processes and for the assessment of operational risks and controls associated to these, including those corresponding to the ICFR and the Crime Prevention Model.

– Compliance Unit, responsible for the Criminal Prevention Model in Naturgy, provides information and support to the Audit and Control Committee on the control model. Some of the ICFR controls designed, among other risks, to avoid possible crimes related to financial information. are common to the Criminal Prevention Model.

– Business and corporate units involved in the financial reporting process. They are responsible for executing the processes and maintaining daily operations, ensuring that the control activities implemented are carried out, evaluating them or supervising outsourced service activities, when they participate in relevant processes in the preparation of financial information, with the established frequency and, annually, carrying out the ICFR certification (direct and/or supervised control activities).

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F.1.2. Whether or not the following elements exist, particularly with regard to the procedure for financial reporting:

- **Departments and/or mechanisms responsible for: (i) the design and review of the organisational structure; (ii) the clear definition of the lines of responsibility and authority, with an appropriate distribution of tasks and duties; and (iii) that there are sufficient procedures for proper dissemination at the entity.**

The design and review of the organisational structure of top tier management, as well as definition of the lines of responsibility, are carried out by the Board of Directors, through the CEO and the Appointments and Remuneration Committee.

The Planning, Control and Administration Division is responsible for establishing the criteria and principles for the design and organisation of the ICFR system (with the Internal Control over Financial Reporting team), through the ICFR Global Policy, the General Procedure and other internal regulations.

The Business Administration and Operational Monitoring units are responsible for the implementation and operation of the ICFR (with the business's Internal Control over Financial Reporting team) for the relevant processes in the preparation of the business's financial information.

In this way, there are different "Interrelationship Maps" according to the critical processes existing in the business. These Interrelationship Maps are drawn up by the business's Administration and Operational Monitoring Units under the supervision of the corporate Internal Control over Financial Reporting team, which also draws up the Interrelationship Maps for the transversal and corporate processes.

As a result, with the new operating model and organizational changes, where each business is involved in the preparation of its financial information, there is no longer a single NATURGY Financial Information Interrelationship Map, there being different Interrelationship Maps in each of the critical business processes. These Interrelationship Maps are prepared by the Administration and Operational Monitoring Units of the business, done under the supervision of the Internal Control of Corporate Financial Information team, which also prepares the Interrelationship Maps for the transversal and corporate processes.

In this regard, there are six main areas that Naturgy take into consideration in compiling the interrelationships map of the critical processes involved in preparing the financial information:

(i) the information required to prepare the financial reporting;
(ii) the parties in charge that are either the source or recipient of the financial reporting and
(iii) the distribution of tasks among the different organizational units
(iv) the scope of this distribution to all group companies
(v) the frequency of information transfer
(vi) the information systems that are involved in the drafting process and for the issue of the financial reporting;

Thus, using the Interrelationships Maps of the business of Naturgy, the processes that have an impact on the preparation of financial reporting are clearly defined, both the operational processes that have a relevant impact on financial reporting, as well as those processes associated to the administrative and accounting function, and with those Managers involved in the same.

- **Code of Conduct, approval body, level of dissemination and instruction, principles and values included (indicating whether or not there are specific mentions to the register of operations and the preparation of financial reporting), the body in charge of analysing breaches and proposing corrective actions and fines.**

Naturgy focus their efforts on ensuring that operations are carried out within an environment of professional and ethical practices, not only through the introduction of mechanisms targeted at preventing and detecting fraud committed by employees, or inappropriate practices that could lead to sanctions, fines or which could damage the image of Naturgy, but also reinforcing the importance of ethical values and integrity among its professionals.

Naturgy has a Code of Conduct (hereinafter “Code of Ethics”), which was approved by the Board of Directors. This code is mandatory for all employees of NATURGY ENERGY GROUP S.A. and for all investee companies in which Naturgy holds management control.

Naturgy has also established an Anti-Corruption Policy, which is compulsory for all employees of all the companies which make up the Naturgy group with majority shareholding and those in which it has responsibility in its operation and/or management. The Anti-Corruption Policy is understood to be an extension of Chapter 4.7. “Corruption and Bribery” of the Code of Ethics of the group, which has the purpose of establishing 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 remedy of any corrupt practice within the organisation.

Likewise, to reinforce this commitment to compliance, since January 2019, Naturgy has a Compliance Policy whose objectives are: to promote a culture of compliance and zero tolerance to regulatory breaches; as well as to ensure, through prevention, detection, supervision, training and response activities, the organisation's compliance in all its activities and operations with all applicable regulations, both external regulations and the internal regulatory system, thus avoiding possible sanctions, economic losses and reputational damage.

The main mission of Naturgy's Ethics and Compliance Committee is to promote the dissemination and application of the Code of Ethics, the Compliance Policy and the Anti-Corruption Policy throughout the group and to provide a communication channel for all employees to receive queries and notifications of non-compliance with these regulations.

The Committee is chaired by the Compliance Unit and is formed by representatives of different units involved in the monitoring of compliance of the Code of Ethics, the Compliance Policy and the Anti-Corruption Policy.

The Committee regularly reports to Senior Management and to the Audit and Control Committee. The nature of the committee is to provide reports and recommendations, proposing corrective measures to those units in charge of providing solutions to problems through practical application of the Code of Ethics and the Anti-Corruption Policy, and simultaneously acting as a bridge between these units and employees.

The sanction regime, where necessary, is established by the Human Resources Unit.

To favour not only the exercise of said responsibility but also knowledge and dissemination of the Code of Ethics, this code is available in nine languages:

- Externally: Naturgy corporate website.
- Internally, on the group's Naturgynet platform.

In addition, online training courses through the Corporate University of Naturgy are developed, which are mandatory for all employees of Naturgy.

Through the Code of Ethics Committee, Naturgy periodically carries out campaigns for the Code of Ethics Compliance Declaration, Anti-Corruption Policy, Conflict of Interest and Compliance Policy to disclose the guidelines governing the conduct expected from all employees, to circulate the mechanisms that exist to make enquiries and notifications, and to periodically formalise the commitment of all the employees of the group in accordance with the ethical guidelines and principles of integrity.

Naturgy, to encourage the knowledge of the Code of Ethics among its Suppliers and collaborating companies sets out a clause in the General Terms and Conditions of Contracting in which it promotes practices which are in keeping with the guidelines for conduct included in the Code of Ethics of Naturgy, and informs them of where they can find the Code of Ethics of the group, along with information in the enquiries channel and notifications on aspects related to the Code of Ethics. Furthermore, in 2016 the Code of Ethics for Suppliers was approved and published, the purpose of which is to establish the guidelines that must govern the ethical behaviour of Suppliers, Contractors and External Collaborators of Naturgy. This Code sets out the commitments provided for under the United Nations Global Compact as well as under the Code of Ethics, the Human Rights Policy, the Corporate Responsibility Policy and the Anti-Corruption Policy of Naturgy.

- **Whistleblowing channel, which enables communication to be sent to the Audit and Control Committee concerning any irregularities of a financial and accounting nature, along with any possible breaches of the Code of Conduct and irregular activity within the organisation, and state whether said channel is confidential whether it allows for anonymous communications while respecting the rights of the complainant and the accused.**

NATURGY has a Whistleblowing Channel, accessible to all its employees and third parties at the next web www.naturgy.ethicspoint.com.

The aforementioned Whistleblowing Channel corresponds to an open channel (web platform accessible from any device), accessible to all Naturgy employees and interested third parties, to deal with matters related to the Ethics Code. This channel allows all group employees, suppliers and collaborating companies to collect or provide information on any matter related to the Code of Ethics and Anti-Corruption Policy. They can also get in touch through the channel to communicate in good faith and confidential conduct contrary to the Code.

All communications made through the channel are absolutely confidential and can be anonymous, respecting the limitations established in the Personal Data Protection regulations. In this regard, the

Compliance unit has access, in the first instance, to all the information on all the queries and notifications received from the group through the procedure for operating the code of ethics channel.

Naturgy's Corporate Responsibility Report 2021 provides more detailed information on the Code of Ethics, the Anti-Corruption Policy, the Compliance Policy, the activities of the Ethics and Compliance Committee and the use of the communication channel

- **Training programmes and periodic retraining for personnel involved in the preparation and review of financial reporting, as well as the assessment of the ICFR, which at least cover the accounting, audit, internal control and risk management standards.**

The need to have a sufficient and, above all, updated qualification of those professionals involved in the preparation and review of financial reporting, as well as in the assessment of the ICFR, make it essential to implement an appropriate training plan, by which those persons in charge of each area have the knowledge required to perform the different functions included in the process of preparing and reviewing financial reporting.

The current Model and the Global Training Policy have strengthened the role of governance and transversal management of the Corporate University, while at the same time giving greater accountability to the different businesses of the company, giving them greater responsibility in the definition and execution of their training plans and budget, in direct line with the particular requirements of each business. The connection between both levels of management is modelled in the same Global Training Policy, guaranteeing synchrony through monthly monitoring committees, where visions, proposals and practices are exchanged, facilitating the influence and integration of training into key processes.

The Corporate University has a quality management system pursuant to the ISO 9001:2015 standard, renewed in 2021 and with CLIP (Corporate Learning Improvement Process) accreditation from the European Foundation for Management Development (EFMD) since 2003 and last renewed in 2018 for a five-year period. This certificate recognises the quality of learning and development processes of people of corporate education organisations.

The aims of the Corporate University are, among others: to guarantee the adequacy of the position/person, the acquisition of knowledge linked to new needs of the organisation, compliance with prevailing legislation and the development of skills and abilities related to the Naturgy leadership and culture model; based on placing an updated and quality training offer at the disposal of employees.

With the implementation of the Evolution - Success Factors platform as a training management tool, to improve and adapt training to the demands of employees and businesses, employees and their managers have been involved in defining the training required for their position and/or professional development; in addition, all employees have direct access to all the online training of the company's catalogue, with a model of institutes and knowledge areas and a set of channels and platforms for disseminating specific content.

Naturgy's strategic plan is a challenge for the whole organisation. In this context, the Corporate University is one of the transformation levers, at the service of people and business, to contribute to the creation of value and the achievement of the company's objectives.

The relevant programmes performed in 2021 included:

- Those related to increasing the digital profile of the company. Programmes such as the so-called Digital Gapp or The Valley platform aimed at learning different topics on tools, skills, technologies or new paradigms in the new digital environment in which we are immersed, the Cybersecurity programme that provides us with the keys to ensure the confidentiality, integrity and availability of digital information, avoiding risks through proactive strategies, the Digital Skills programme where different programming languages are worked on (SQL, Phyton...), the use of the Coursera platform, a platform that transversally provides knowledge in digital skills, specific actions and skills development programmes for analyst and scientist positions in analyst and scientist positions, and the use of the Coursera platform, a platform that transversally provides knowledge in digital skills, specific actions and skills development programmes for analyst and scientist positions.), the use of the Coursera platform, a platform that provides transversal knowledge in digital skills, specific actions and skills development programmes for analyst and data scientist positions, different platforms (AWS, Azure and Zeus), governance and Data Quality programmes, and the SAP Hana system, aimed at providing the necessary technological knowledge to make SAP platform processes more efficient.

- Those that address future challenges and market trends, such as innovation strategy, new forms of data visualisation where training has been given in Power BI and other visualisation tools, new forms of work organisation with SCRUM training, programmes oriented towards best practices to be more efficient and effective such as the Productivigy programme..

- Those that promote leadership as a lever for transformation and Group vision, programmes such as Futhure Insight, Club de Mentores, Game of Diversity, IMD development programmes, Naturgy Leadership Toolbox, Digital Mindset, Innovation Management and the Hazte Visible programme, aimed at female and inclusive leadership, without forgetting the programmes that work on the major challenges of communication in the current environment.

On the other hand, transversal programmes have been implemented, which promote and develop the company's culture and values, through high-impact targeted programmes such as The Third Energy, the Five Ways, Only goals, no limits, we are all the future, Teleworking skills, Safety in our daily lives, emotional fitness, safe return, Sustainability Week, Women's Week, etc

The specific knowledge for the economic-financial area has several objectives, among them, to homogenize the economic-financial processes developed in any area of the organization; to update the accounting and financial criteria, risk management, management control, budgets international regulations and technical knowledge of the tax area; as well as to provide sufficient knowledge on financial modelling, company valuation, financial derivatives and financial statement analysis.

In total, in 2021, more than 230 professionals from the economic-financial areas dedicated approximately 1,500 hours to training in specific content, highlighting, among other subjects: financing renewable energies, accountability, finance, new ERP SAP Hana, Digital Experience (bitcoin, blockchain, digital transformation, etc.), Power BI and Cybersecurity.

F.2 Assessment of financial reporting risks

Provide information, at least, on the following:

F.2.1. What are the main characteristics in the risk identification process, including risks of error or fraudulent practices, with regard to:

- **If the process exists and it is documented.**

The approach used by Naturgy to carry out the financial reporting risk identification and analysis process is set out in three interrelated matrices:

- A matrix for defining the scope of the financial reporting.
- A matrix of risks associated with the financial reporting.
- A matrix of financial reporting control activities

The matrix for defining the scope of the financial reporting has the purpose of identifying the accounts and breakdowns which have an associated significant risk, whose potential impact on financial reporting is material and therefore requires special attention. In this regard, a series of quantitative variables (account balance and variation) and qualitative variables (complexity of transactions: changes and complexity in standards; need to use estimates or forecasts; application of judgement and qualitative importance of the information) have been taken into account in the process of identifying accounts and significant breakdowns. The methodology for preparing the scope matrix has been outlined in a technical instruction entitled “Matrix for defining scope of financial reporting of Naturgy”.

For each one of the accounts/significant breakdowns identified in the scope matrix, the critical processes and sub processes associated have been defined, and the risks which might give rise to errors in financial reporting have been identified, covering the objectives for the control of existence and occurrence; integrity; valuation; presentation, breakdown and comparability; and rights and obligations, in the “Risks matrix of financial reporting of Naturgy”.

Within the risk identification process defined by Naturgy in its ICFR, problems relating to fraud have been considered to be a very important element. In this regard, the fraud risk control policy of Naturgy is supported by three basic pillars:

- Fraud prevention.
- Fraud detection.
- Investigation and management of fraud situations.

Fraud prevention controls have been defined from the perspective of financial reporting, have been defined, and are classified into two categories. Those called active controls, which are considered to be barriers for restricting or preventing access to valuable assets by persons who might attempt to commit fraud. On the other hand, passive controls aim to prevent fraud by way of dissuasive measures.

Lastly, both the general control activities as well as the process control activities, which consist of the policies and procedures included in all stages of the financial reporting process which can assure its reliability, are set out in the technical instruction “Matrix of activities of control for financial reporting in Naturgy”.

The ICFR of Naturgy is a dynamic system, so its periodic updating is a fundamental process to comply at all times with the goal of the same, viz., to ensure that the group’s financial reporting is reliable. In particular, the Scope Matrix is updated annually and the Control Activities Matrix on a quarterly basis.

- **If the process covers all the financial reporting objectives (existence and occurrence; integrity; assessment; presentation, breakdown and comparability; and rights and obligations), if it is updated and how frequently.**

Naturgy, being aware of the importance of having a tool to ensure adequate control of ICFR management, implemented, in 2013, the SAP GRC Process Control, for the comprehensive management of documentation, assessment and oversight of internal control in Naturgy processes. This implementation, which was performed within the framework of the programme for improving the efficiency of Naturgy, was initially carried out in all Spanish companies with majority shareholdings in which the company is held responsible for its operation and/or management. In 2014 the implementation was carried out in the Share Economic and Financial Services Centre of Latin America; in 2015 the implementation extended to Mexico and France; in 2016 the tool was implemented in Holland, in 2017 in Panama and Brazil. For the implementation of SAP GRC Process Control, both on a national and international way, users responsible for the key controls of the ICFR and of the Internal Auditing Unit have provided support. .

It should be noted that, during the 2018 and 2019 financial years, the scope of the corporate ICFR model was extended to those countries newly integrated into the group, as was the case of the companies in Ireland and Singapore, respectively, with a significant presence in the international marketing of LNG and the companies of the renewable energy business in Australia. These incorporations strengthen and consolidate Internal Control in Naturgy.

The ICFR model of Naturgy is integrated in SAP GRC Process Control, except for the scope matrix. This application identifies the General Controls of Management, the General Environment Controls and the General Computer Controls, the critical processes, their associated risks and the control activities used to mitigate them, set out in the aforementioned risks matrices and controls. The units responsible for carrying out the control activities are also identified and integrated in the process structure.

The benefits provided by the implementation of SAP GRC Process Control include the following:

- It centralises all the ICFR management of Naturgy in a uniform way.

- It integrates the internal control of financial reporting in business and transversal processes, allowing each responsible organisational unit to regularly assess its controls, providing the necessary evidence and, every year, execute the ICFR internal certification process.

- It uses work flows and forms for managing control activities, the documentation of evidence of the execution thereof and for the action plans.

- It allows documentary access to evidence of controls in respect of processes and viewing of the result of the assessment in a user-friendly and immediate way.

- It is a support tool for the ICFR supervision process by Internal Auditing and External Auditing.

It allows both external and internal information required for reporting on the ICFR to be obtained and support.

Since 2013, requests for assessment of the controls have been made in accordance with the established schedules, through SAP GRC Process Control, requesting evidence of the implementation of the controls from the units involved in ICFR, in accordance with the periodicity established in each case. This assessment makes it possible, where appropriate, to identify and report weaknesses and the action plans necessary to remedy them..

- **The existence of a process for the identification of the consolidation perimeter, taking into account, among other aspects, the possible existence of complex corporate structures, instrumental or special purpose entities.**

Part of the critical processes identified includes the process of identifying the consolidation perimeter of Naturgy and it has been described in a technical instruction called "Consolidated closing cycle of Naturgy". Said document sets out the process for the monthly update of the perimeter, in accordance with the corporate operations of the period, and the units involved therein are defined. This process of identification and update of the perimeter is of fundamental importance for the drafting of the consolidated financial reporting of Naturgy.

- **If the process takes other types of risks into account (operating, technological, financial, legal, reputational, environmental, etc.) insofar as they affect the financial statements.**

The risks matrix has taken into account the risks associated with reaching the objectives of financial reporting, considering, in that identification, the effects of other kinds of risks (for example: operating, technological, financial, reputational, etc.) which form part of the Corporate Risk Map of Naturgy.

- **Which governing body of the company supervises the process.**

The Audit and Control Committee is responsible for supervising the efficiency of the ICFR. In order to carry out this function, the Audit and Control Committee uses the Internal Audit Unit and the External Audit (see section F.5).

F.3 Control activities

State, duly detailing their main characteristics, whether, at least, the following aspects exist:

F.3.1. Procedures for the review and authorisation of financial reporting, and the description of ICFR, to be published on the securities markets, indicating their supervisors, and the documentation which describes the flow of activities and controls (including those relating to risk of fraud) of the different types of transactions which can have a material impact on the financial statements, including the closing of accounts procedure and the specific review of relevant judgements, estimates, valuations, and protection.

Naturgy conducts regular reviews of the financial information prepared and of the description in the ICFR according to the different levels of responsibility, guaranteeing the quality of this description.

As a first level of review, the persons responsible for the closing of accounts of each company of Naturgy, within the Administration and Operational Monitoring of the Business units, review the financial reporting drawn up to ensure it is reliable and certify the reasonableness of the individual annual accounts.

Ultimately, the responsible for Planning, Control and Administration certifies the reasonability of the individual and consolidated annual accounts of NATURGY ENERGY GROUP, S.A. presented to the Board of Directors for approval.

Furthermore, as indicated in the "Global Policy for the Internal Control System of Financial Reporting (ICFR)" of Naturgy, control activities defined by the group in its ICFR comply with the basic objective of ensuring that the financial reporting of Naturgy represents the true and fair image of the group.

The control activities defined in the ICFR include both general controls and controls over critical processes.

While they do not allow a sufficient degree of control to be achieved over the group's processes, general controls are mechanisms that enable a series of key targets to be obtained for the achievement of an effective ICFR; in other words, they describe the policies and guidelines designed to protect Naturgy's ICFR in its entirety.

In addition, all the critical processes identified have been documented by means of the control activities matrix and by the pertinent descriptive technical descriptions of the processes. These critical processes, their associated risks and the control activities which mitigate them, as well as the descriptive documentation of the aforesaid processes, are identified in the ICFR management tool, SAP GRC Process Control. In this regard, Naturgy has identified all the processes necessary to draw up the financial information, using relevant judgements, estimates, valuations and forecasts, all of them being considered to be critical. The Audit and Control Committee is regularly informed of the main hypotheses used to estimate the financial reporting which depends on relevant judgements, valuations and projections.

The following information has been included in the documentation of the critical processes and control activities:

- Process description.
- Process information flow chart.
- Map of systems which interact in the process.
- Description of financial reporting risks associated with the different processes and control objectives.
- Definition of control activities to mitigate risks identified and their attributes.
- Descriptions of persons responsible for processes and control activities.

The following classifications of control activities have also been identified in the definition of control activities, in accordance with the five following criteria:

- Scope: according to the typology of the control activities, these can be divided into:
  - General control activities.
  - Processes control activities.
- Level of automation: depending on the level of automation of the control activities, they can be divided into automatic and manual.
- Nature of the activity: depending on the type of action of the control activities, they can be divided into preventive or detection activities.
- Frequency: depending on the recurrence which the activity has over the course of time, for example; annual, monthly, weekly, daily, non-recurrent, etc.

Lastly, the ICFR of Naturgy includes the definition of the annual internal certification model of the controls identified in the critical processes which have to be performed by the business, corporates units involved in the process of drawing up financial information. The Internal Control for Financial, Corporate and Business Reporting teams are responsible for launching and monitoring this certification process. In order to carry out the internal certification process, the units taking part use the functionalities integrated in the SAP GRC Process Control application for managing the ICFR of Naturgy (see section F.2.1). In the case of not having the tool, the certification is done manually guaranteeing the same premises and criteria.

The units responsible for control activities must identify the weaknesses detected in the evaluation of controls and design the necessary action plans to remedy them, which must be reviewed by the Internal Control over Financial Reporting teams of the businesses and approved by the corporate Internal Control over Financial Reporting team.

The Internal Audit Unit is responsible for reviewing and assessing the conclusions regarding the compliance and effectiveness of the annual internal certifications process of the units which are responsible for carrying out the controls, review of the weaknesses and action plans designed for their correction.

F.3.2. Internal control policies and procedures on information systems (inter alia, on access security, control of changes, operation thereof, operating continuity and separation of functions) which support the relevant processes of the company in drawing up and publishing financial information.

For the critical processes associated with the drawing up and publication of the financial reporting of Naturgy which have been defined in the ICFR of the group, the control activities which operate in information systems have been defined, both for those used directly in preparing their financial information and for those which are relevant in the process or control of the transactions included in it.

At general level, within the reporting systems map of Naturgy, a series of policies have been defined and implemented to guarantee the following aspects:

- Security of access to both data and applications.
- Control of changes in applications.
- Correct operation of applications.
- Availability of data and continuity of applications.
- Adequate separation of functions.
- The correct regulatory compliance (GDPR)

a) Secure access:

A series of measures have been defined at different levels to guarantee confidentiality and to prevent unauthorised access to data and/or applications. Most internal users are managed and authenticated in a centralised way in the OIM (Oracle Identity Manager) Directories, which ensure they remain confidential.

The company has two main Data Processing Centres (DPC) in Madrid, to facilitate availability of information systems in the event of any contingency. Only authorised staff are able to access these facilities, all accesses are registered, and they are subsequently inspected to check for any possible anomalies.

Communications with these systems include systems such as Firewall, IPS (Intrusion Prevention System) and antivirus (signature and behaviour based) to internally reinforce control against threats.

Email and other information repositories are in the cloud (O365), where a layer of anti-malware protection (signatures and behaviour) is deployed, as well as a cloud security tool (CASB).

At the computer level, all PCs and servers have deployed a state-of-the-art anti-virus (EPP) and a detection and response tool (EDR).

A password policy that establishes a set of requirements for their definition and maintenance has been included in the Identity Management Model: minimum length, complexity, impossibility for repeating the password, maximum and minimum validity, encrypted, user blocks after period of inactivity, etc.

Additionally, a Multiple Factor Authentication (MFA) access model has been implemented, which incorporates two-factor authentication for access control and identity assurance. MFA is being deployed on O365, OIM, external and internal VPNs. Additionally, all internal staff teams have a third control per team certificate implemented. For external staff, a new state-of-the-art VPN SW has been implemented, which incorporates to the Access Control a greater particularisation and control of the traffic, and a security situation analysis (posture Management) of the connected equipment.

Furthermore, the CyberSOC (Security Operations Centre) is monitoring all the alerts created by failed or abnormal access attempts, applying to this information an intelligence level that analyses and interprets the data relating to said attempts (timestamp, location...), enabling decisions to be taken early on that prevent hypothetical unauthorised access, such as blocking accounts, filtering on access, password change.

A Threat Hunting service is also available to proactively and continuously identify potential compromises that have not yet generated alerts..

Likewise, the Company is working on the creating and updating of the BRS (Business Recovery Systems) of the main information systems, for the recovery and restoration of critical interrupted functions.

Finally, at application, operating system and database level, the user-password combination is used as preventative control. At a data level, profiles have been defined that limit access thereto. Naturgy is developing a project for the definition and implementation of users/roles/functions matrix for the enhancement of the segregation of functions that ensures the procedures for access to systems and data.

b) Change control:

A change management methodology has been developed and implemented based on best practices, setting out the precautions and validations which are necessary to limit risk in that process.

Some of the main aspects it includes are as follows:

- Approval by the Technical Committee, Changes Committees and Business.
- Carrying out tests in the different environments before passing to production.
- Specific environments for the development and tests tasks.
- Roll-back procedures.
- Separation of functions in most of the environments between development and production teams.

- Monitoring and control in any phase of development.
- User manuals and training courses.
- Regular maintenance of changes documentation.

c) Operation:

To guarantee that operations are carried out correctly, monitoring is conducted at four levels:

- All interfaces between systems are monitored to ensure they are correctly executed.
- At perimeter level, there are different availability indicators to prevent interruptions in communications.
- Automatic validations on the data entered so that they are in line with expectations based on their nature, rank, etc.
- Of the infrastructures which support applications.

There is also an internal Help Desk service which final users can contact, and they also have management tools at their disposal to report any kind of discrepancy.

d) Availability and continuity:

The majority of the systems have a high degree of local availability, and the servers thereof are situated in the same DPC, and in certain cases, in the support DPC for critical aspects. The high availability of information systems allows them to remain available should any incidents arise.

A backup copy is made regularly, and temporarily kept in a temporary secure location based on the legal requirements established for each system. The data are copied and stored in different locations, so preventing any loss of information. In order to restore these data there is a specific procedure, although tests are not carried out regularly.

e) Segregations of functions:

Access to the Information Systems is defined based on roles and profiles which define the functionalities to which a user must have access. These profiles are used to limit user access to Information Systems.

f) Regulatory compliance: GDPR

Naturgy complies with the provisions of Regulation (EU) 2016/679 of the European Parliament and the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and the free movement of such data, and with the provisions of Organic Law 3/2018, of 5 December, on the Protection of Personal Data and the guarantee of digital rights, as well as with the other provisions on data protection, to grantee the protection of data of a personal nature of its directors, employees, customers, suppliers, shareholders, investors and other stakeholders.

Naturgy, when it is the Data Controller, performs as many actions as necessary to comply with the legislation on data protection including and not limited to the following:

- It processes personal data in a lawful, sincere and transparent manner.
- It collects data for specific, explicit and legitimate purposes.
- It minimises the data subject to processing.
- It updates the data, providing data subjects with simple systems for this update.
- It limits the data storage periods.
- It applies appropriate technical and organisational measures to guarantee the security, integrity and confidentiality of the data.
- It obtained the consent of the data subject for processing whenever necessary.
- It introduces simple and adequate mechanisms so that the data subject, directly or through their legal or voluntary representation, can exercise their rights pursuant to prevailing legislation.
- It chooses data processors that offer sufficient guarantees to apply appropriate technical and organisational measures so that data processing is carried out in compliance with the requirements of relevant legislation. In addition it signs agreements with these data processes through which the data processor will only process data in accordance with the instructions given by the data controller, and will not apply the data or use them for any purpose other than then one set out in this agreement, and will not disclose them, even for safeguarding purposes, to third parties.

- It keeps a record of data-processing activity.
- It carries out impact assessments it deems appropriate.
- It has a collegiate body that acts as Data Protection Office.
- It makes the appropriate queries with the Spanish Data Protection Agency (AEPD) on issues of international transfers of personal data.
- It performs audits to grantee compliance with data protection regulations.
-

Under Article 32 of the GDPR that conditions security measures to the technology, Naturgy adopts the measures deemed technically appropriate that guarantee the security of personal data and avoids alteration, loss, processing or unauthorised access guaranteeing the confidentiality, integrity and availability of the data.

Naturgy periodically carries out internal audits in order to supervise compliance with the General Data Protection Regulation (GDPR), as well as with the associated procedures and instructions.

F.3.3. Internal control policies and procedures for supervising the management of activities subcontracted to third parties, and those assessment, calculation or valuation questions entrusted to independent experts, which could have a material impact on the financial statements.

Naturgy has developed a series of policies and procedures used to supervise the management of activities subcontracted to third parties, all of which are approved by the levels established in the group, which include a “Global Policy for External Contracting”, a “Global Policy for Quality Suppliers” and the procedures which implement them, and the “Counterparty Due Diligence Procedure (corruption and reputational risks)”.

In this context, in the “Global Policy for External Contracting”, Naturgy sets out the general principles which have to be applied to all contracting of goods and services, guaranteeing a uniform, efficient and sustainable quality model for managing the Procurement process in Naturgy.

This Policy also determines the responsibilities of the different units in the contracting process, establishing a series of compulsory objectives that assure control over contracting activities to third-parties, as part of the same promoting productive and long-lasting relationships with suppliers, implementing impartial mechanisms of assessment, selection and monitoring, ensuring that the supply chain complies with the principles provided for in the Supplier Code of Ethics, that the suppliers must ratify and the terms of which are sourced from the Code of Ethics of Naturgy, from the Human Rights Policy, from the Health and Safety Policy, from the Anti-Corruption Policy, as well as from internationally recognised principles of good governance. Likewise, initial evaluation of the contracting of the suppliers is compulsory to minimise exposure to risk of the companies, in accordance with the activity and environment in which they operate. For this purpose, the Company evaluates, inter alia, legal, financial, quality, safety, environmental and corporate responsibility aspects. In certain critical processes an additional level of control is required, that is referred to as “certification”, which is supported by documentary evidence and/or audits in order to secure the quality of the goods and services that are acquired.

In the global Policy for suppliers and the procedure that it develops, the general principles which have to be applied to the assessment, monitoring and development of the suppliers, as well as the quality offered of the products and services acquired or installed, guaranteeing a homogeneous, efficient and sustainable model in Naturgy are established. The establishment of procedures and controls that guarantee the compliance of requirements set out in the specifications by potential suppliers and awarded contractors and furthermore also requires the certification of the suppliers of certain services or materials identified as of high-risk (operating risk, legal risk, health and safety risk, quality risk, and environmental-social-governance risk). The approval process may unveil anomalies that lead to a plan of corrective actions, or the non-approval of the supply, which would prevent such supplier from performing this activity for Naturgy. Furthermore, the measurement of performance is carried out by means of satisfaction surveys of the service provided by suppliers that carry out high risk activities, with special attention on health and safety aspects. The necessary corrective measures or actions plans are established, as the case may be.

The Business and Corporates Units carry out the supervision and quality control of its suppliers to determine if they offer the levels of quality required to the works. If not, they send the proposals for the withdrawal of certification/authorisation to supplier/products/persons as a result of the deficiencies in the performance of services or products.

The main areas which affect the critical processes of the financial information that Naturgy ha subcontracted to third parties are as follows:

- Certain processes of the Systems area.
- Reading and measuring processes.
- Certain processes in the Sales area.
- Logistics operator.
- Payroll and staff management process.
- Operational purchasing processes
- Certain accounting, tax, financial and payment operational processes.
- Works management and maintenance of the distribution networks.
- Certain generation activities

Naturgy uses experts in works which are used for support to valuations, judgements or accounting calculations, only when they are registered in the corresponding Professional Colleges, or have an equivalent certification, show their independence and are companies which the market considers to be prestigious.

Naturgy has also defined the "Counterparty Due Diligence Procedure" which, in general terms, is 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.

In addition it will be carried out from suppliers with a commercial relationship with Naturgy by using a screening tool to detect the exposure to reputational risk of the counterparties and make decisions based on the risk detected in coordination with the Compliance Unit.

The Internal Auditing Unit of Naturgy audits the processes and correct application of the Procurement, Suppliers and Counterparty Due Diligence Policies and Procedures and, if breaches are detected then the pertinent corrective actions are taken.

F.4 Information and communication

State, duly detailing their main characteristics, whether, at least, the following aspects exist:

F.4.1. A specific function responsible for defining accounting policies (area or department of accounting policies), keeping them up to date, and resolving doubts or conflicts arising from their interpretation, keeping fluid communications with the persons responsible for operations in the organisation, as well as a manual of accounting policies which is up to date and communicated with the units through which the entity operates.

One of the responsibilities, inter alia, of the The Planning, Control and Administration Unit, via the Accounting Planning Unit, is to keep the accounting policies applicable to the group to date. In this regard, it is responsible for updating the "Naturgy Accounting Plan", which includes the group's accounting criteria and accounts plan and an analysis of the accounting changes which might have an impact on the financial report of Naturgy.

The "Naturgy Accounting Plan" is usually updated every year. Both the accounting criteria on the basis of changes in the IFRS-EU standards applicable and the group's accounting structure are reviewed in the updates, ensuring the traceability between the Individual Account Plans of the group's subsidiaries and the Accounting Plan of Naturgy, that constitutes the basis for the drafting of the different financial reporting to be provided to external bodies as well as the Management Control information.

Once the Accounting Plan is updated, it is disseminated to all the personnel of the organisation via the Naturgy Intranet.

On the other hand, the Accounting Planning Unit is responsible for analysing the EU-IFSR regulations that might have a significant impact on financial statements and for reporting to the Naturgy management affected by any such regulatory changes. It is also entrusted with the task of resolving questions regarding the account entry of specific transactions that may be considered by those responsible for Naturgy financial reporting.

F.4.2. Mechanisms for the capture and preparation of financial information with uniform formats, applied and used by all units of the company of the group, used to support the main financial statements and the notes, as well as the information set out in detail on the ICFR.

Naturgy's economic-financial management model guarantees the uniformity of administrative and accounting processes through the centralisation of administrative transactional processes and accounting operations, carried out by a specialised external provider (Lean Corporate Services), and of the accounting processes, carried out and supervised in the Administration and Operational Monitoring units of the businesses; and the use of SAP, as a homogeneous support system, in the majority of the companies that form part of the group. Companies that do not use SAP are obliged to follow the criteria set by the group to ensure the uniformity of such processes.

The most important features of the aforesaid model are as follows;

- It is unique for all countries and businesses;
- It includes the legal, fiscal, mercantile and regulatory requirements of the countries;
- It includes internal control requirements;
- It is used as a base for obtaining information furnished to Management Staff and to official bodies;
- It is supported by a certain organisational model and unique economic and financial reporting processes and systems for all countries and businesses.

The IFRS-EU financial statements of each country are obtained directly through the local account-group account assignment and the registration of IFRS-EU adjustments in the SAP application.

As part of the group ICFR, the interrelationships map of all the critical processes for drawing up financial information of Naturgy has been defined. The aforesaid map defines a number of things, including the reporting systems which take part in the process of drawing up and issue of financial information both from the standpoint of individual closing of accounts and the closing of the consolidated accounts.

Accordingly, in the processes of drawing up the consolidated financial reporting and its breakdowns in the ambit of the Naturgy group, the SAP BPC application is used, which is a SAP application for managing the consolidation process.

The information is uploaded in the two systems automatically and directly, once the month is closed.

The use of this two systems help in managing the consolidation process in tasks such as:

- Standardisation of the information.
- Validation of the information.

The preparation of the consolidated financial reporting is done centrally in the Consolidation Unit, which ensures the integration, uniformity, coherence and streamlining of Naturgy's consolidated financial statements.

Naturgy also has local accounts plans to comply with accounting, fiscal, mercantile and regulatory requirements established by the different laws of the countries in which it operates. Those local accounting plans are conflated into a group accounting plan, which is unified and homogeneous for the purposes of consolidation and reporting of financial information.

In 2020, the Single European Electronic Format (SUEF) was adopted for the preparation of the individual and consolidated Annual Financial Report in accordance with the European Commission Delegated Regulation 2019/815 of 17 December 2018.

F.5 Supervision of the functioning of the system

Report on, duly detailing their main characteristics, at least:

F.5.1. The supervision activities of the ICFR carried out by the Audit and Control Committee and whether the company has an internal audit function which includes the responsibility of supporting the committee in its task of supervising the internal control system, including the ICFR. Information will also be provided on the scope of the assessment of ICFR carried out during the year and on the procedure through which the party responsible for carrying out the assessment notifies its results, if

the company has an action plan with details of the possible corrective measures, and if its impact on financial information has been taken into account.

The Audit and Control Committee has the powers that are provided for by Law, as well as the specific or general powers that are delegated upon it by the Board of Directors. The powers thereof include the following:

- Supervising the preparation and integrity of the financial information related to the Company and, where applicable, the Group, reviewing compliance with the standard requirements, the appropriate definition of the consolidation perimeter and the correct application of the accounting criteria.
- Overseeing the effectiveness of the internal control of the Company, internal audit, and risk management systems, including tax risks, and discuss with the Auditors the significant weaknesses of the internal control system detected during the carrying out of the audit.
- Notifying the General Meeting of Shareholders regarding the questions that are raised thereby in relation to the aspects for which the Committee is responsible.
- Submitting to the Board of Directors proposals for the selection, appointment, re-election and replacement of the External Auditor, as well as the conditions of their contracting and regularly collecting information on the Audit Plan and its execution, in addition to preserving its independence in the exercise of its functions.
- Establishing the appropriate relations with the Accounts Auditor to receive information on any issues which could jeopardise their independence, to be examined by the Committee, and any other matters relating to the progress of the audit, as well as any communications required pursuant to legislation governing accounts auditing and auditing standards. In any event, the Committee must receive, annually, from the External Auditors the declaration of their independence in relation to any directly or indirectly related parties, as well as the information regarding the additional services of any type whatsoever provided thereby and the corresponding professional fees received from said entities by the External Auditor or by the persons or related parties thereof, in accordance with the provisions of accounts audit legislation.
- Annually issue, prior to the issue of the audit report, a report giving an opinion on the independence of the Auditors. This report shall in all cases include a valuation of the additional services provided, as referred to in the previous section, considered separately and in their entirety, consisting of services other than statutory audits and how they relate to the requirement of independence or to the regulatory legislation on auditing.
- Ensuring the independence of the unit handling the internal audit function; approve its priorities and work programmes, ensuring that its focuses primarily on the main risks the Company is exposed to; receive regular reports on its activities; and verify that senior management is acting on the findings and recommendations of its reports. Propose to the Chairman of the Board of Directors the selection, appointment, re-election and removal of the person responsible for the internal audit service, as well as proposing the budget for that service, with the final decision corresponding to the Chairman of the Board of Directors.

In order to be able to comply with its responsibilities, the Audit and Control Committee has the information and documentation provided by the Internal Audit, Control of the Planning, Control and Administration Unit, Financial Market Unit, the Business Administration and Operational Monitoring Units and the External Auditor.

The Internal Audit function is established in Naturgy as a means of independent and objective assessment and for this reason the Internal Audit Unit, reports to the Audit and Control Committee of NATURGY ENERGY GROUP S.A.

It has the task of guaranteeing the continuous review and improvement of the Group's internal control system, as well as safeguarding compliance with external and internal norms and the Control Models established in order to safeguard the effectiveness and efficiency of operations, and to mitigate the main risks in each one of the fields in which the Group operates. Likewise, it is responsible for the report of the internal audit activity to the Audit and Control Committee.

In the performance of its activity, Internal Auditing methodically reviews the internal control system of the Group's processes in all areas, and also assesses the risks and controls associated to these processes, (including those established in the ICFR and the Crime Prevention Model), through definition and execution of the Annual Internal Audit Plan, to improve effectiveness and efficiency of these. It also provides support to the divisions in achieving their objectives.

The Annual Internal Audit Plans are drawn up principally on the basis of the Corporate Strategic Plan, the company's processes the risk areas included in the Risk Map, the Internal Control System of Financial Reporting (ICFR) Scope Matrix, the results of previous years' audits and the proposals from the Audit and Control Committee and from top-tier management.

In accordance with the group policies, it is expected that the Internal Control System governing the ICFR of Naturgy is fully supervised by Internal Auditing in a period of three (3) years.

The methodology for the assessment of risks is in accordance with best corporate governance practices, based on the conceptual framework of the COSO Report (Committee of Sponsoring Organisations if the Treadway Commission) and on the basis of the types of risks defined in the company's Corporate Risk Map.

The risks associated with the processes are prioritised by assessing their incidence, relative importance and degree of control. Depending on the findings, the company designs an action plan with corrective measures that enable mitigation of residual risks identified with a potential impact above the tolerable or accepted risk established.

Internal Auditing is supported by the implementation of a SAP environment corporate application which it uses to manage and document internal audit projects in accordance with the defined methodology.

More specifically and with regard to the Internal Control System on Financial Reporting (ICFR), Internal Auditing is in charge of:

- Supervising the general model of the system for Internal Control of Financial Reporting (ICFR) and the effectiveness of the associated controls, through the execution of the Annual Audit Plan within a multi-year time frame.

- Supervising the certification process performed by those parties responsible for the ICFR controls.

- Within the scope defined, inform the Audit and Control Committee of the results and the weaknesses identified in the ICFR, presenting the main aspects detected in the internal audits of the ICFR and their monitoring, related to the general model and the controls governing ICFR processes.

With regard to the Crime Prevention Model, the Internal Audit Area is in charge of its annual supervision to make reasonably sure that the model is efficient and effective at preventing, identifying and mitigating the occurrence of crimes provided for under applicable legislation.

The main processes revised by the Internal Audit in 2020 were as follows:

Gas Networks: Construction of Infrastructures, Collection and Commissioning; Reading and Determination of Consumption, Infrastructure Maintenance, Emergency Attention, Domiciliary Operations, Management of Irregularities and Fraud.
- Electricity Networks: Operations, Contracting Third Party Access, Irregularities and Fraud Management.
- Generation: Development and Start-up of new renewable projects, Operation and Maintenance of Assets, Warehouse Management, Contract Monitoring and Management, Asset Management.
- Commercialisation: Social Bonus, Energy Management
- Energy Management and Markets: Management and Monitoring of gas purchase and sale contracts.
- Customer Service: Invoicing, Collection, Management of Unpaid Debts.
- Management of Economic and Financial Resources: Treasury Stock, Economic-Administrative Management of Operations.
- Internal Control Management: Follow-up of Corrective Actions, SCIIF, Criminal Prevention Model.
- Management of Physical Resources: External Procurement of Goods and Services; Evaluation and Approval of Suppliers.
- Information Systems Management: Cybersecurity, Project Management, Disaster Recovery Plan, Economic-Administrative Management of SSII.
- Sustainability, Reputation and IR Management: Corporate Responsibility.
- Review of the Group's Regulatory System
- Code of Ethics Channel

48% of the reviewed processes correspond to Spain with the remaining 52% to the international ambit.

Controls on the above processes relating to the Financial Information, were reviewed in accordance with the work methodology described above.

F.5.2. If the company has a discussion procedure through which the accounts auditor (as established in the TAS), the internal audit function and other experts can inform the company senior management

and the Audit and Control Committee or administrators of significant weaknesses in internal control identified during the annual accounts review processes or others which might have been entrusted to them. The company shall also state whether it has an action plan to try to correct or mitigate the weaknesses observed.

As set out in Article 6 of the Council Regulation:

The Board shall meet at least eight times a year and, at the Chairman's initiative, as many times as he deems appropriate for the proper functioning of the Company or when at least 1/3 of the Board members request it.

In order to obtain the necessary information for the exercise of their duties, the members of the Board of Directors have the Audit and Control Committee, whose functions include knowledge and supervision of the process of preparing the regulated financial information, as well as the effectiveness of the internal control system.

In accordance with the Company's By-Laws and the Code of Conduct for the Board of Directors and its Committees, the Audit and Control Committee will be made up of a minimum of three and a maximum of seven Board members, appointed by the Board of Directors from among the non-executive directors, and at least one of these will be appointed taking into account his or her knowledge and experience in accounting and/or auditing matters. Its members shall leave the Board when they cease to be directors and when the Board of Directors so decides. The majority of the committee members shall have the status of independent directors. At 31 December 2021 the Committee is made up of seven directors, three proprietary and four independent, one of whom is also the Chairman.

The Board of Directors will elect the Chairman of the Committee, who will not have a casting vote. The Secretariat of the Committee will correspond to the Secretariat of the Board of Directors.

The Committee, which is convened by its Chairman, meets when necessary to issue the reports for which it is responsible or when deemed appropriate by its Chairman or requested by two of its members and at least four times a year. The Commission may invite any manager or employee it deems appropriate to attend its meetings.

The internal auditor reports functionally to the Audit and Control Committee and attends to meetings of the Audit and Control Committee and thus has a direct relationship with it.

The Internal Audit Unit regularly reports to the Audit and Control Committee on the actions taken to ensure that Naturgy complies with all the policies, standards and controls of the processes established by the top-tier Management of the Group.

The external auditor may at any time address the management team, the Management Committee and the Audit and Control Committee (normally through the Chairman or the Secretary of the Committee).

The External Auditor informs the Audit and Control Committee of the weaknesses in internal control detected during the audit. The External Auditors also report on the main conclusions they have reached in the review of internal control, regarding the risks assessment and action plans.

Finally, the external auditor, in addition to meeting periodically with the Audit and Control Committee, also has the possibility of meeting with the Board of Directors in plenary session prior to the preparation of the annual accounts.

The Compliance Director regularly addresses the Audit and Control Committee or the Management Committee directly to report on any issues he/she deems necessary.

F.6 Other relevant information.

As indicated in section F.3.1. above, as part of the model for the assessment of the Internal Control System of Financial Reporting of Naturgy, it has been decided to carry out an internal certification process whereby, through SAP GRC Process Control, the Business and Corporates Units which are involved in the process of drawing up financial reporting guarantee that the identified controls are applied within their processes and that they are valid and sufficient. They also inform the Internal Control of Financial Reporting team of the weaknesses and/or shortcomings detected, of the action plans necessary to remedy them and of changes arising in their processes so as to assess if they need to develop new controls or modify existing ones.

During the 2021 year, Naturgy carried out the annual internal certification process, whereby changes were identified in a limited number of processes. Importantly, those changes did not necessitate a modification of the control activities previously identified, so that the risks associated with the preparation and reporting of financial reporting were considered to be covered in the critical processes affected. The main magnitudes of this process, relating to ongoing activities, were as follows:

	Spain	International	Total
Business and corporate units	214	151	365
Processes identified	56	158	214
Controls certified	854	908	1,762

Likewise, action plans have been identified for weaknesses in the assessment of controls, amounting to 16, of which 4 are general group plans and 8 in Spain. During the financial year 2021, 40% of the action plans identified in 2020 have been resolved, with new plans emerging during 2021. In any case, the sub-processes affected by these action plans do not significantly affect the quality of financial information.

F.7 Report of the external auditor

State:

F.7.1. If the ICFR information submitted to the markets has been reviewed by the External Auditor, in which case the company will have to include the corresponding report as an annex. Otherwise, it will have to explain why.

Naturgy has deemed it pertinent to ask the External Auditor to issue a report referring to the information on the Internal Control System of Financial Reporting (ICFR).

G DECREE OF COMPLIANCE WITH THE CORPORATE GOVERNANCE RECOMMENDATIONS

State the degree of compliance of the Company in respect of the recommendations regarding the Good Governance Code of Listed Companies.

If any recommendations are not followed or are followed partially, it will be necessary to include a detailed explanation of the reasons why so that the shareholders, investors and the market in general, have sufficient information to be able to assess the company's actions. General explanations are not acceptable.

1. **The Articles of Association of listed companies should not limit the maximum number of votes that can be issued by the same shareholder or contain other restrictions that prevent the company from being taken over through the purchase of its shares on the market.**

   Compliant **X** Explain

2. **When the listed company is controlled, pursuant to the meaning established in Article 42 of the Commercial Code, by another listed or non-listed entity, and has, directly or through its subsidiaries, business relationships with that entity or any of its subsidiaries (other than those of the listed company) or carries out activities related to the activities of any of them, this is reported publicly, with specific information about:**

a) The respective areas of activity and possible business relationships between, on the one hand, the listed company or its subsidiaries and, on the other, the parent company or its subsidiaries.

b) The mechanisms established to resolve any conflicts of interest that may arise.

Compliant Partially compliant Explain Not applicable **X**

3. During the annual general meeting the Chairman of the Board should verbally inform shareholders in sufficient detail of the most relevant aspects of the Company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:

a) Changes taking place since the previous annual general meeting.

b) The specific reasons for the Company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.

Compliant **X** Partially compliant Explain

4. The company should define and promote a policy for communication and contact with shareholders and institutional investors within the framework of their involvement in the company, as well as with proxy advisors, that complies in full with the rules on market abuse and gives equal treatment to shareholders who are in the same position. The company should make said policy public through its website, including information regarding the way in which it has been implemented and the parties involved or those responsible its implementation.

Further, without prejudice to the legal obligations of disclosure of inside information and other regulated information, the company should also have a general policy for the communication of economic-financial, non-financial and corporate information through the channels it considers appropriate (media, social media or other channels) that helps maximise the dissemination and quality of the information available to the market, investors and other stakeholders.

Compliant **X** Partially compliant Explain

5. The Board of Directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription to rights for an amount exceeding 20% of capital at the time of such delegation.

When the Board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

Compliant **X** Partially compliant Explain

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the ordinary general meeting, even if their distribution is not obligatory:

a) Report on auditor independence.

b) Reports on the operation of the Audit and Control Committee and the Appointments and Remuneration Committee.

c) Audit Committee report on related party transactions.

D) Report on corporate social responsibility policy.

Compliant **X** Partially compliant Explain

7. The company should broadcast its general meetings on the corporate website.

The company should have mechanisms that allow the delegation and exercise of votes by electronic means and even, in the case of large-cap companies and, to the extent that it is proportionate, attendance and active participation in the general shareholders' meeting.

Compliant **X** Partially compliant Explain

8. **The Audit and Control Committee should strive to ensure that the financial statements that the board of directors presents to the general shareholders' meeting are drawn up in accordance to accounting legislation. And in those cases where the auditors includes any qualification in its report, the chairman of the Audit and Control Committee should give a clear explanation at the general meeting of their opinion regarding the scope and content, making a summary of that opinion available to the shareholders at the time of the publication of the notice of the meeting, along with the rest of proposals and reports of the board.**

Compliant **X** Partially compliant Explain

9. **The Company should disclose its conditions and procedures for admitting share ownerships, the right to attend the General Meeting of Shareholders and the exercise or delegation of voting rights, and display the permanently on its website.**

   Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Compliant **X** Partially compliant Explain

10. **When an accredited shareholder exercises the right to supplement the Agenda or submit new proposals prior to the General Meeting of Shareholders, the company should:**

a) **Immediately circulate the supplementary items and new proposals.**

b) **Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that the new agenda items and alternative proposals can be voted on in the same terms as those submitted by the Board of Directors.**

c) **Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the Board of Directors, with particular regard to presumptions or deductions about the direction of the votes.**

d) **After the General Meeting of Shareholders, disclose the breakdown of votes on such supplementary items or alternative proposals.**

Compliant Partially compliant Explain Not applicable **X**

11. **In the event that the company plans to pay for attendance at the General Meeting of Shareholders, it should establish a general, long-term policy in this respect.**

Compliant Partially compliant Explain Not applicable **X**

12. **The Board of Directors should perform its duties with unity of purpose and independent judgement, affording the same treatment to all Shareholders in the same position. It should be guided at all times by the company's best interests, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.**

    In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the board community and the natural environment.

Compliant **X** Partially compliant Explain

13. The Board of Directors should be an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five (5) and fifteen (15) members.

Compliant **X** Partially compliant Explain

14. The board of directors should approve a policy aimed at promoting an appropriate composition of the board that:

a) Is concrete and verifiable.

b) Ensures that appointment or re-election proposals are based on a prior analysis of the Board's needs.

c) Favours diversity of knowledge, experience, age and gender. Therefore, measures that encourage the company to have a significant number of female senior managers are considered to favour gender diversity.

The results of the prior analysis of competences required by the board should be written up in the nomination committee's explanatory report, to be published when the general shareholders' meeting is convened that will ratify the appointment and re-election of each director.

The Appointments Committee should run an annual check on compliance with this Policy and set out its findings in annual corporate governance report.

Compliant **X** Partially compliant Explain

15. Proprietary and independent directors should constitute an ample majority on the Board of Directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

Further, the number of female directors should account for at least 40% of the members of the board of directors before the end of 2022 and thereafter, and not less than 30% previous to that.

Compliant Partially compliant **X** Explain

The number of executive directors is 1 and therefore meets the minimum requirement.

Finally, with regard to the number of female directors, the policy for the selection of directors ensures that the selection procedures are not subject to any implicit bias that could imply any discrimination, within the framework of full respect for the shareholders' right to proportional representation as recognised by law. The policy for selecting Board members is aimed at ensuring adequate diversity in the composition of the Board of Directors, which means that Board members have different and complementary professional profiles and careers, in the conviction that this diversity will result in a better functioning of the Board. Within this framework the Board pays attention to gender diversity issues.

The Company shares the objective of increasing the presence of women on the Board to at least 30% in 2020 and 40% in 2021, and to this end 100% of the vacancies (three) that have arisen during 2020 have been filled by female directors, reaching 25%.

16. **The percentage of proprietary directors out of all non-executive directors should not be greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.**

    This criterion can be relaxed:

a) **In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.**

b) **In companies with a plurality of shareholders represented on the Board but not otherwise related.**

Compliant **X** Explain

17. **Independent directors should be at least half of all Board members.**

    However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30% of capital, independent directors should occupy, at least one third (1/3) of the Board places.

Compliant Explain **X**

The company comfortably meets the objective of having a higher percentage of independent directors than the free float percentage. The Company has three (3) shareholders who do not act in concert and who have a shareholding equal to or greater share than 20%. All three have exercised their legal right to proportional representation, so by legal imposition it is impossible to comply with the recommendation.

At present, the number of independent directors is five (5) out of a total of twelve (12) directors, in other words, they represent 41.6% of the directors which is a percentage much higher than the free float. Conversely, the significant shareholders of the Company hold, as a whole, 66.1% of the capital and have proposed 50% of the Directors (in total 6 out of 12). While this is maintained, out of respect for the legal mandate of proportionality, the number of independent directors cannot be equal to half of the total number of directors. In any case, the figure of five (5), apart from quantitatively being the one according to the law, has qualitative relevance: a modification of the Board Regulations has established that, for matters of greater relevance, an enhanced majority of more than two thirds (2/3) is required, which amounts to a possibility of blocking the set of independent directors.

18. **The companies should publish the following information about their directors on their website and keep the said information up-to-date.**

a) **Background and professional experience.**

b) **Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.**

c) **Statement of the director class to which they belong; in the case of proprietary directors indicating the shareholder they represent or have links with.**

d) **Dates of their first appointment as Board member and subsequent re-elections.**

e) **Shares held in the company, and any options on the same.**

Compliant **X** Partially compliant Explain

19. **The annual corporate governance report, with prior verification by the Appointments Committee is to provide an explanation for the reasons proprietary directors were appointed at the behest of shareholders whose stake in the company is less than 3% of share capital, and reasons given for the rejections of formal requests for board representation from shareholders who have successfully requested the appointment of proprietary directors.**

Compliant Partially compliant Explain Not applicable **X**

20. **Proprietary directors are to submit their resignation when the shareholder whom they represent fully disposes of their stake. They should also present their resignation, in the corresponding number, when**

the said shareholder lowers his/hers shares in the company to a level that requires a reduction in the number of his/her proprietary directors.

Compliant X Partially compliant Explain Not applicable

21. The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the Articles of Association, except where just cause is found by the Board, based on a report from the Appointments Committee. In particular, it shall be understood that there is just cause when the director takes on new offices or assumes new obligations that prevent them from devoting the time necessary to perform the duties of the office of director, breaches the duties inherent to their position or is affected by one of the circumstances that cause them to lose their independent status in accordance with the provisions of applicable law.

The removal of independent directors may also be proposed as a consequence of offers for the takeover, merger or similar corporate actions affecting the company that may involve a change in the company's capital structure, whenever such changes in the Board of Directors arise under application of the proportionality criterion pointed out in Recommendation 16.

Compliant X Explain

22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, related or not to their actions within the company, and tendering their resignation as the case may be, and, in particular, to inform the board of any criminal charges brought against them and the progress of any subsequent trial.

When the board is informed or becomes aware of any of the situations mentioned in the previous paragraph, the board of directors should examine the case as soon as possible and, attending to the particular circumstances, decide, based on a report from the nomination and remuneration committee, whether or not to adopt any measures such as opening of an internal investigation, calling on the director to resign or proposing his or her dismissal. The board should give a reasoned account of all such determinations in the annual corporate governance report, unless there are special circumstances that justify otherwise, which must be recorded in the minutes. This is without prejudice to the information that the company must disclose, if appropriate, at the time it adopts the corresponding measures.

Compliant X Partially compliant Explain

23. All directors are to clearly express their opposition when they consider that any proposal subject to the decision of the Board of Directors may be detrimental to corporate interests. The independent directors and other directors who are not affected by the potential conflict of interest are to voice their opposition in a special manner whenever such decisions may be of detriment to shareholders not represented on the Board of Directors.

When the Board makes material or reiterated decisions about which director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

Compliant X Partially compliant Explain Not applicable

24. Directors who give up their position before their tenure expires, through resignation or resolution of the general meeting, should state the reasons for this decision, or in the case of non-executive directors, their opinion of the reasons for the general meeting resolution, in a letter to be sent to all members of the board.

This should all be reported in the annual corporate governance report, and if it is relevant for investors, the company should publish an announcement of the departure as rapidly as possible, with sufficient reference to the reasons or circumstances provided by the director.

Compliant **X** Partially compliant Explain Not applicable

25. **The Appointments Committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.**

    The Board of Directors regulations should lay down the maximum number of company Boards on which Directors can serve.

    Compliant Partially compliant **X** Explain

    Owing to the high level of participation and attendance at the sessions of the governing bodies by the Members of the Board, to date the company has not established any rules on the number of Boards on which the said Directors can sit.

26. **The Board should meet with the necessary frequency to properly perform its functions, eight (8) times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each Director may propose the addition of initially unscheduled items.**

    Compliant **X** Partially compliant Explain

27. **Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, Directors should delegate their powers of presentation with the appropriate instructions.**

    Compliant X Partially compliant Explain

28. **When Directors or the Secretary express concerns about some proposal or, in the case of Directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the Minutes if the person expressing them so requests.**

    Compliant **X** Partially compliant Explain Not applicable

29. **The Company should provide suitable channels for Directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the Company's expense.**

    Compliant **X** Partially compliant Explain

30. **Regardless of the knowledge Directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.**

    Compliant **X** Partially compliant Explain Not applicable

31. **The Agendas of the Board Meetings should clearly indicate on which items Directors must arrive at a decision, so that they can study the matter beforehand or gather together the material they need for its resolution.**

    For reasons of urgency, the Chairman may wish to present decisions or resolutions for Board approval that were not on the Agenda. In such exceptional circumstances, their inclusion will require express prior consent, duly recorded in the Minutes, from the majority of the Directors in attendance.

    Compliant **X** Partially compliant Explain

32. **Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the Company and its Group.**

    Compliant **X** Partially compliant Explain

33. The Chairman, as the person charged with the efficient functioning of the Board of Directors, in addition to the functions assigned by Law and the Company's Articles of Association, should prepare and submit to the Board a schedule of meeting dates and agendas; organise and coordinate regular assessments of the Board and, where appropriate, the Company's Chief Executive Officer; exercise leadership of the Board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each Directors, when circumstances so advise.

Compliant **X** Partially compliant Explain

34. When a coordinating independent Director has been appointed, the Articles of Association or Board of Directors regulations should grant him or her the following powers over and above those conferred by law: chair the Board of Directors in the absence of the Chairman or Deputy Chairmen, give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those that have to do with the company's corporate governance; and coordinate the Chairman's succession plan.

Compliant Partially compliant **X** Explain Not applicable

The Coordinating Director has all the recommended functions attributed (chair the Board of Directors in the absence of the Chairman, give voice to the concerns of non-executive directors, coordinate the succession plan of the Chairman, etc.), except for the relationship with investors.

The Board of Naturgy as such pays special attention on matters relating to Investor relations, as set forth in Article 4 of the Regulation, amongst others. In view of this, the Company, within the scope of the new Strategic Plan, have developed a substantial line of action based on the alignment the interests between Directors and Shareholders. Accordingly, the Board have decided to assign this function to the Executive Chairman and have created a Capital Markets Department reporting directly to the same that has a unit that specialises in Investor Relations.

35. The Board Secretary should strive to ensure that the Board's actions and decisions take into account the good governance recommendations contained in the Good Governance Code of relevance to the Company.

Compliant **X** Explain

36. The Board in a plenary session should assess once a year, adopting, where necessary, an Action Plan to correct deficiencies identified in:

The quality and efficiency of the Board's operation.

The performance and composition of its Committees.

The diversity of the composition and competence of the Board of Directors

e) The performance of the Chairman of the Board of Directors and the Company's Chief Executive.

f) The performance and contribution of each Director, with particular attention to the Chairmen of Board Committees.

The assessment of Board Committees should start from the reports they submit to the Board of Directors, while that of the Board itself should start from the report of the Appointments Committee.

Every three (3) years, the Board of Directors should engage an External Advisor to assist in the assessment process, whose independence should be verified by the Appointments Committee.

Any business relationships that the Consultant or any other company of its group maintains with the company or any company of its group must detailed in the annual corporate governance report.

The process followed and areas assessed should be detailed in the annual corporate governance report.

Compliant X Partially compliant Explain Not applicable

37. When there is an executive committee, there should be at least two nonexecutive members, at least one of whom should be independent; and its secretary should be the secretary of the board of directors.

Compliant Partially compliant Explain Not applicable X

38. The Board is kept informed at all times of the business addressed and resolutions made by the Executive Committee and that all Members of the Board receive a copy of the Minutes of the Executive Committee meetings.

Compliant Partially compliant Explain Not applicable X

39. All members of the Audit and Control Committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters, both financial and non-financial.

Compliant X Partially compliant Explain

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the Audit and Control Committee, to assure the correct functioning of the reporting and internal control systems. This unit should report functionally to the non-executive Chairman of the Audit and Control Committee.

Compliant Partially compliant X Explain

The company considers it more appropriate for the functional unit to be of the Commission as a whole and not of the President of the Commission, since the functions that make up such a unit are preached from the Commission as a whole and not only from the President.

Thus, this Committee sets the annual budget, approves the annual audit plan and supervises its monitoring, and proposes its termination and appointment to the Executive Chairman. Finally, together with the Appointments, Remuneration and Corporate Governance Committee, the fixed remuneration of the Chairman, and determines, after evaluation, the variable remuneration.

It reports to the General Secretariat for administrative and management purposes only

41. The head of the unit handling the internal audit function should present an annual work programme to the Audit and Control Committee, for approval by this committee or the board, inform it directly of any incidents or scope limitations arising during its implementation, the results and monitoring of its recommendations, and submit an activities report at the end of each year.

Compliant X Partially compliant Explain Not applicable

42. The Audit and Control Committee have the following functions over and above those legally assigned:

1. With respect to internal control and reporting systems:

a) Monitor and evaluate the preparation process and the integrity of the financial and non-financial information, as well as the control and management systems for financial and non-financial risks related to the company and, where appropriate, to the group – including operating, technological, legal, social, environmental, political and reputational risks or those related to corruption – reviewing compliance with regulatory requirements, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles..

b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment and removal of the head of the internal audit service; propose the service's budget; approve or make a proposal for approval to the board of the priorities and annual work programme of the internal audit unit, ensuring that it focuses primarily on the main risks the company is exposed to (including reputational risk); receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

c) **Establish and supervise a mechanism that allows employees and other persons related to the company, such as directors, shareholders, suppliers, contractors or subcontractors, to report irregularities of potential significance, including financial and accounting irregularities, or those of any other nature, related to the company, that they notice within the company or its group. This mechanism must guarantee confidentiality and enable communications to be made anonymously, respecting the rights of both the complainant and the accused party.**

d) **In general, ensure that the internal control policies and systems established are applied effectively in practice**

2. With regard to the External Auditor:

a) **In the event of resignation of the External Auditor, the Committee should investigate the issues giving rise to the resignation.**

b) **Ensure that the remuneration of the external auditor does not compromise its quality or independence.**

c) **Ensure that the company notifies any change of external auditor through the CNMV, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.**

d) **Ensure that the External Auditor has a yearly meeting with the Board in plenary session to inform them of the work undertaken and developments in the company's risk and accounting positions.**

e) **Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.**

Compliant **X** Partially compliant Explain

43. The Audit and Control Committee may call any of the Company's employees or managers, and also have them appear without the presence of any other executive.

Compliant **X** Partially compliant Explain

44. The Audit and Control Committee should be informed on any structural or corporate operations that the Company is planning, so the Committee can analyse the same and report to the Board beforehand on its economic conditions and accounting impact, and, when applicable the exchange rate ratio proposed.

Compliant **X** Partially compliant Explain Not applicable

45. The risk control and management policies should identify at least:

a) **The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks, and risks relating to corruption), with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.**

b) **A risk control and management model based on different levels, of which a specialised risk committee will form part when sector regulations provide or the company deems it appropriate.**

c) **The level of risk that the company considers acceptable.**

d) **The measures in place to mitigate the impact of identified risk events should they occur.**

e) **The internal control and reporting systems to be sued to control and manage the above risks, including the contingent liabilities and off-balance sheet risks.**

Compliant **X** Partially compliant Explain

46. **That, under the direct supervision of the Audit and Control Committee or, as the case may be, of a specialised Committee of the Board of Directors, there is an internal function of control and risk management exercised by a unit or internal department of the company that has been assigned expressly the following functions:**

a) **Ensure the proper functioning of the risk management and control systems and, in particular, that all important risks affecting the Company are identified, managed and quantified adequately.**

b) **Participate actively in the preparation of risk strategies and in key decisions about their management.**

c) **Ensure that risk control and management systems mitigate risks adequately within the framework of the policy defined by the Board of Directors.**

Compliant **X** Partially compliant Explain

47. **Members of the Appointments and Remuneration Committee - or of the Appointments Committee and Remuneration Committee, if separately constituted - should have the right mix of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be Independent Directors.**

Compliant **X** Partially compliant Explain

48. **Large cap companies should operate separately constituted Appointments Committees and Remuneration Committees.**

Compliant Explain **X** Not applicable

The Company believes that, at least in its case, it is neither necessary nor effective to separate the powers of the Appointments and Remuneration Committee into two Committees, on of Appointments and the other Remuneration. The existence of a single Committee does not harm or limit the exercise of the powers granted by law to the Appointments and Remuneration Committee, which also allows the Company to optimise costs insofar as this avoids the accrual of additional remuneration to the Directors called to be part of the two split committees. Furthermore, the Company considers that such splitting could be counter-productive, given that for the Company the presence of a significant number of Independent Directors on the Board Committees is relevant. Given the restrictions on the number of Independent Directors imposed under prevailing legislation in application of the principle of proportional representation, the number of Independent Directors on the Board of Directors is currently five (5). In order for there to be a significant number of Independent Directors on the two separate Committees, in addition to the Audit and Control Committee (where they must be the majority by legal provision), an overload of work derived from a new Committee would be imposed on said Directors.

In addition, in the financial year 2020, the Board of Directors has decided to create a new Committee, the Sustainability Committee, which reaffirms the inappropriateness of splitting the Appointments, Remuneration and Corporate Governance Committee.

49. **The Appointments Committee should consult with the Chairman of the Board of Directors and Chief Executive Officer, especially on matters relating to Executive Directors.**

When there are vacancies on the Board, any Director may approach the Appointments Committee to propose candidates they consider suitable.

Compliant **X** Partially compliant Explain

50. **The Remuneration Committee should operate independently and have the following functions in addition to those assigned by Law:**

a) **Propose to the Board of Directors the standard conditions for Senior Executive contracts.**

b) **Monitor compliance with the remuneration policy set by the Company.**

c) **Periodically review the remuneration policy for Directors and Senior Executives, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other Directors and Senior Executives to the Company.**

d) **Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.**

e) **Verify the information on remuneration of Directors and Senior Executives contained in the various corporate documents, including the Annual Report on Directors' Remuneration.**

Compliant **X** Partially compliant Explain

51. The Remuneration Committee should consult with the Chairman of the Board of Directors and Chief Executive Officer, especially on matters relating to Executive Directors.

Compliant **X** Partially compliant Explain

52. The terms of reference of supervision and control should be set out in the Board of Director's regulations and aligned with those governing legally mandatory Board Committees as specified in the preceding sets of recommendations. They should include at least the following terms:

a) **Committees should be formed exclusively by non-executive Directors, with a majority of Independent Directors.**

b) **Committees should be chaired by an Independent Director.**

c) **The Board should appoint the members of such committees with regard to the knowledge, skills and experience of its Directors and each Committee's terms of reference; discuss their proposals and reports; and provide report backs on their activities and work at the first board plenary following each committee meeting.**

d) **The may engage external advice, when they feel it necessary for the discharge of their functions.**

e) **Meeting proceedings should be recorded/notified in the Minutes and a copy made available to all Board Members.**

Compliant Partially compliant **X** Explain Not applicable

53. The task of supervising compliance with the policies and rules of the company in the environmental, social and corporate governance areas, and internal rules of conduct, should be assigned to one board committee or split between several, which could be the Audit and Control Committee, the nomination committee, a committee specialised in sustainability or corporate social responsibility, or a dedicated committee established by the board under its powers of selforganisation. Such a committee should be made up solely of non-executive directors, the majority being independent and specifically assigned the following minimum functions.

Compliant Partially compliant **X** Explain

The Audit and Control and Appointments, Remuneration and Corporate Governance Committees carry out some of the supervisory functions referred to in this recommendation and are made up of a majority of independent directors.

In addition, the Company's Board of Directors created the Sustainability Committee in financial year 2020, which has been entrusted with the exercise of supervision and control functions in environmental and social matters.

The Commission is composed of 5 members, of whom 2 are independent and one of whom chairs the Commission. This number is considered to be sufficient in view of the Committee's functions and in order not to overburden the independent directors by belonging to more than 2 Committees simultaneously

54. The minimum functions referred to in the previous recommendation are as follows:

a) Monitor compliance with the company's internal codes of conduct and corporate governance rules, and ensure that the corporate culture is aligned with its purpose and values.

b) Monitor the implementation of the general policy regarding the disclosure of economic-financial, non-financial and corporate information, as well as communication with shareholders and investors, proxy advisors and other stakeholders. Similarly, the way in which the entity communicates and relates with small and medium-sized shareholders should be monitored.

c) Periodically evaluate the effectiveness of the company's corporate governance system and environmental and social policy, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.

d) Ensure the company's environmental and social practices are in accordance with the established strategy and policy.

e) Monitor and evaluate the company's interaction with its stakeholder groups.

Compliant **X** Partially compliant Explain

55. Environmental and social sustainability policies should identify and include at least.

a) The principles, commitments, objectives and strategy regarding shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of corruption and other illegal conducts.

b) The methods or systems for monitoring compliance with policies, associated risks and their management.

c) The mechanisms for supervising non-financial risk, including that related to ethical aspects and business conduct.

d) Channels for stakeholder communication, participation and dialogue.

e) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Compliant X Partially compliant Explain

56. Directors' remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.

Compliant **X** Explain

57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Compliant X Partially compliant Explain

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.

b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.

c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate their contribution to long-term value creation. This will ensure that the performance measurement is not based solely on one-off, occasional or extraordinary events.

Compliant   Partially compliant **X**   Explain   Not applicable

In setting the variable remuneration, the Board has considered it appropriate to combine variable remunerations with different time horizons and metrics: on the one hand, annual variable remuneration whose metrics, linked to operational objectives, respond to a classic incentive model, which fits with the limits and precaution set out in this recommendation. On the other hand, remuneration with a long-term horizon has been introduced, which has now been aligned with the return the shareholder would receive, and therefore does not tally exactly with the more traditional models of remuneration. The Board considers that, in the long term, the best and simplest metric of the performance of the Executive Chairman is the one referring to dividends distributed and changes to the share price.

59. The payment of the variable components of remuneration is subject to sufficient verification that previously established performance, or other, conditions have been effectively met. Entities should include in their annual directors' remuneration report the criteria relating to the time required and methods for such verification, depending on the nature and characteristics of each variable component.

Additionally, entities should consider establishing a reduction clause ('malus') based on deferral for a sufficient period of the payment of part of the variable components that implies total or partial loss of this remuneration in the event that prior to the time of payment an event occurs that makes this advisable.

Compliant **X**   Partially compliant   Explain   Not applicable

60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Compliant **X**   Compliant partially   Explain   Not applicable

61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Compliant **X**   Partially compliant   Explain   Not applicable

62. Following the award of shares, options or financial instruments corresponding to the remuneration schemes, executive directors should not be able to transfer their ownership or exercise them until a period of at least three years has elapsed.

Except for the case in which the director maintains, at the time of the transfer or exercise, a net economic exposure to the variation in the price of the shares for a market value equivalent to an amount

of at least twice his or her fixed annual remuneration through the ownership of shares, options or other financial instruments.

The foregoing shall not apply to the shares that the director needs to dispose of to meet the costs related to their acquisition or, upon favourable assessment of the nomination and remuneration committee to address an extraordinary situation..

Compliant | Compliant partially | Explain **X** | Not applicable

The long-term incentive applicable to the Executive Chairman and other relevant executives of the Company brings into line the interest of the executives with those of the shareholders through a mechanism that contemplates a deferral in the payment of the incentive more than five (5) years after its approval. Accordingly, it is unnecessary to introduce an additional period of limitation to the transfer of shares when the plan expires and the shares are handed over.

63. Contractual arrangements should include provision that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

Compliant **X** | Partially compliant | Explain | Not applicable

64. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

For the purposes of this recommendation, payments for contractual termination include any payments whose accrual or payment obligation arises as a consequence of or on the occasion of the termination of the contractual relationship that linked the director with the company, including previously unconsolidated amounts for long-term savings schemes and the amounts paid under post-contractual non-compete agreements.

Compliant | Partially compliant **X** | Explain | Not applicable

Compensation due to termination respects the foregoing recommendation of two (2) years of the director's total annual remuneration (fixed remuneration, annual variable and multi-year variable in terms detailed in the annual report on remunerations).

Conversely, the Executive Chairman has the right to compensation for non-competition that is of a different legal nature to the payment for termination of contract, since it involves compensation for the post-contractual non-competition agreement that it assumes. The amount of this compensation is one year's fixed remuneration.

H OTHER INFORMATION OF INTEREST

1. If there is any other relevant aspect in corporate governance in the company or in the group companies which has not been included in the rest of the sections of this report, but which it was necessary to include to show more complete and reasoned information on the governance structure and practices in the company or its group, briefly indicate them here.

2. In this section, you may include any information or clarification with regard to the previous sections of this report to the extent that they are relevant and non-repetitive.

More specifically, indicate whether your company is subject to any corporate governance legislation other than Spanish law, and if so, include any information that is mandatory and different from that requested herein.

3. The Company will also be able to indicate if it has voluntarily subscribed to other codes of ethical principles or good practices, at international or sector level, or in any other field. In that case, indicate the code in question and the date it was subscribed to. In particular, mention whether there has been adherence to the Code of Good Tax Practices of 20 July 2010.

The Board of Directors, at its meeting on 17 September 2010, agreed to the adhesion of NATURGY to the Code of Good Tax Practice. In accordance with the provisions of this Code, it is expressly stated that NATURGY has effectively complied with its content and, in particular, that at the meeting held on 2 February 2021, the Board was informed, through the Audit and Control Committee, of the situation and the tax policies followed by the Group during financial year 2020.

Likewise, the Board of Directors, at its meeting on 29 January 2019 and with the favourable report of the Audit and Control Committee, approved the Tax Strategy and Policy for the Control and Management of Tax Risks, which regulates the basic principles that should guide NATURGY's tax function, as well as the main lines of action to mitigate and guide the correct control of tax risks.

This Annual Corporate Governance Report was approved by the Board of Directors of the Company at a meeting on 1 February 2022.

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

YES NO **X**

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**

KPMG

Naturgy Energy Group, S.A.

Auditor's Report on the “Internal Control over Financial Reporting (ICOFR) Information” of Naturgy Energy Group, S.A. for 2021

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

KPMG Auditores, S.L.
Paseo de la Castellana, 259C
28046 Madrid

Auditor's Report on the "Internal Control over Financial Reporting (ICOFR) Information" of Naturgy Energy Group, S.A. for 2021

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

To the Directors of Naturgy Energy Group, S.A.,

As requested by the Board of Directors of Naturgy Energy Group, S.A. (the "Company") and in accordance with our proposal letter dated 7 October 2021, we have applied certain procedures to the "ICOFR disclosures" attached in the Directors' Report of Naturgy Energy Group, S.A. for 2021, which summarises the Entity's internal control procedures for annual financial reporting.

The Board of Directors is responsible for adopting appropriate measures to reasonably ensure the implementation, maintenance and oversight of an adequate system of internal control, the development of improvements to that system and the preparation and definition of the content of the ICOFR information attached hereto.

In this respect, it should be borne in mind that irrespective of the quality of the design and operation of the internal control system adopted by the Entity in relation to annual financial reporting, the system may only provide reasonable, but not absolute assurance in relation to the objectives pursued, due to the limitations inherent in any internal control system.

In the course of our audit work on the annual accounts and in accordance with Technical Auditing Standards, our evaluation of the Entity's internal control was solely aimed at enabling us to establish the scope, nature and timing of the audit procedures on the Entity's annual accounts. Consequently, the scope of our evaluation of internal control, performed for the purposes of the audit of accounts, was not sufficient to enable us to issue a specific opinion on the effectiveness of this internal control over regulated annual financial reporting.

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

For the purposes of issuing this report, we have applied only the specific procedures described below and set out in the *Guidelines for preparing the auditor's report on the information on the system of internal control over financial reporting of listed companies*, published on the website of the Spanish National Securities Market Commission (CNMV), which define the work to be performed, the minimum scope thereof and the content of this report. As the scope of the work resulting from these procedures is in any event limited and substantially less than that of an audit or review of the internal control system, we do not express an opinion on the effectiveness thereof, nor on its design or operating effectiveness, with respect to the Entity's annual financial reporting for 2021 described in the ICOFR information attached hereto. Consequently, had additional procedures been applied other than those established in the aforementioned Guidelines, or had an audit or a review been performed of the internal control system in relation to regulated annual financial reporting, other events or matters could have been identified, which would have been reported to you.

As this special work did not constitute an audit of accounts and is not subject to current legislation regulating the audit of accounts in Spain, we do not express an audit opinion under the terms provided in such legislation.

The procedures applied were as follows:

1. Reading and understanding of the information prepared by the Entity regarding ICOFR – disclosures included in the directors' report – and an evaluation of whether this information meets all the minimum reporting requirements, taking into account the minimum content described in section F, on the description of ICOFR, of the ACGR template provided in the Spanish National Securities Market Commission (CNMV) Circular 5/2013 of 12 June 2013 and subsequent amendments, the most recent being CNMV Circular 1/2020 of 6 October 2020 (hereinafter the CNMV Circulars).

2. Inquiries of the personnel responsible for drawing up the information detailed in point 1 above in order to: (i) gain an understanding of the preparation process; (ii) obtain information that allows us to assess whether the terminology used conforms to the definitions contained in the reference framework; (iii) obtain information on whether the control procedures described are in place and operational in the Entity.

3. Review of the explanatory documentation supporting the information detailed in point 1 above, primarily including documents made directly available to those responsible for preparing the description of the ICOFR system. This documentation includes reports prepared by internal audit, senior management and other internal or external specialists supporting the Audit and Control Committee.

4. Comparison of the information detailed in point 1 above with the understanding of the Entity's ICOFR gained as a result of the procedures performed within the framework of the audit work on the annual accounts.

5. Reading of the minutes of the meetings of the Board of Directors, Audit and Control Committee and other committees of the Entity for the purposes of assessing the consistency of the matters discussed at these meetings in relation to ICOFR with the information detailed in point 1 above.

6. Procurement of a representation letter concerning the work performed, duly signed by those responsible for preparing and authorising the information detailed in point 1 above.

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

As a result of the procedures applied to the ICOFR information, no inconsistencies or incidents have been detected that could affect it.

This report has been prepared exclusively within the context of the requirements laid down in article 540 of the Revised Spanish Companies Act and in the CNMV Circulars for the purposes of the description of ICOFR in annual corporate governance reports.

KPMG Auditores, S.L.

(Signed on original in Spanish)

Eduardo González Fernández

3 February 2022

ANNUAL REPORT ON REMUNERATION OF DIRECTORS OF LISTED PUBLIC LIMITED COMPANIES

IDENTIFICATION OF ISSUER

FINANCIAL YEAR REFERENCE DATE 31/12/2021

C.I.F. A-08015497

Registered Name:

NATURGY ENERGY GROUP, S.A.

Registered Office:

Avenida de América, 38 – 28008 Madrid

A COMPANY REMUNERATION POLICY FOR THE CURRENT FINANCIAL YEAR

A.1.1 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:

a. Description of the procedures and bodies of the Company involved in the determination and approval of the Remuneration Policy and its terms and conditions.

b. Indicate and, as the case may be, explain if comparable companies have been examined to establish the Company's Remuneration Policy.

c. Information on whether any External Consultant has participated and, as the case may be, the identity of the same.

d. Procedures under the existing directors' remuneration policy for applying temporary exceptions to the policy, the conditions under which such exceptions may be used and the components that may be subject to exception under the policy.

In establishing its remuneration policies, the Company's objective, in accordance with article 9 of the Articles of Association, is to promote the long-term profitability and sustainability of the Company, through the generation of value in a sustained manner over time, ensuring transparency and competitiveness in its remuneration policy.

Article 9 of the Articles of Association also establishes a system of remuneration for directors for generic functions and for specifically executive or delegated functions.

The remuneration policy for directors is periodically reviewed by the Board of Directors following a report from the Appointments and Remuneration Committee, in order to keep it in line with best practices in the relevant market and with the objectives set out in the Articles of Association.

The remuneration policy in force at the date of preparation of this report is that approved at the Annual General Meeting held on 9 March 2021 for the period 2021-2023.

According to the current policy, remuneration for non-executive functions consists of a fixed remuneration package and may also be paid in shares or by reference to shares. The distribution of such remuneration, within the limit established in the Remuneration Policy, shall be made by the Board of Directors, and the remuneration may be different depending on the Committee or Committees to which each Director belongs and the dedication and responsibility required in each of the positions. It may also be different depending on the responsibility and functions that each Director assumes on the Board or on the Committees.

The Executive Chairman's remuneration for the performance of specifically executive or delegated functions consists of the following items:
- Basic fixed annual remuneration. This includes any remuneration received for membership of any administrative body of a company of the Naturgy group, except the parent company.

- Annual variable remuneration: this is based on 100% of the total annual fixed monetary remuneration and shall be adjusted according to the degree of achievement of objectives. Its receipt in cash may be replaced each year by mutual agreement, in whole or in part, by a contribution to a social welfare system.

- Multi-year variable remuneration or Long-Term Incentive Programme (LTIP); linked to the profitability obtained by shareholders in the reference period, which substantially coincides with that of the 2018-2022 Strategic Plan.

- Other social benefits such as health insurance, company car, housing assistance, life and disability insurance, limited gas and electricity rebates and group savings insurance.

In addition to the above, the Board of Directors may establish other variable remuneration in the event of special transactions, both in terms of targets linked to their achievement and in terms of remuneration for the achievements obtained

The remuneration for executive and non-executive functions for the financial year 2022 was approved by the Board on 1 February 2022. The targets for the annual variable remuneration of the Executive Chairman were also set at this meeting. At its meeting of 25 November 2021, the Board of Directors approved the amendment of the ILP, among other aspects, to extend its ordinary duration from 31 July 2023 to 31 December 2025, in order to make it coincide with the duration of the Company's new Strategic Plan 2021-2025. This amendment is subject to the condition precedent of its approval by the Ordinary General Meeting of 2022.maintain his multi-year variable remuneration. rights in accordance with the LTI approved at the 2019 AGM, without modifications.

During the 2022 financial year and due to the changes in the remuneration of directors introduced by Law 5/2021, of 12 April, which amends the revised text of the Capital Companies Act, the Board, following a favourable report from the aforementioned Committee, has proposed to the next General Shareholders' Meeting to be held on 5 March 2019, the approval of a new Remuneration Policy that will be in force from the date of approval and for the following three financial years. This new Policy includes a remuneration scheme for directors for both executive and non-executive functions similar to the 2021-2023 Remuneration Policy, already explained in the preceding paragraphs, although, (a) it takes into account the new 2021-2025 Strategic Plan, which translates especially into the adaptation of the multi-year variable remuneration scheme for executive directors authorised by the 2019 General Shareholders' Meeting and (b) it incorporates all those references necessary to comply with the new wording of article 529 novodecies of the Spanish Companies Act, and (c) it includes all those references necessary to comply with the new wording of article 529 novodecies of the Spanish Companies Act. 529 novodecies of the Capital Companies Act, with regard to (i) their contribution to the business strategy and to the long-term interests and sustainability of the company, (ii) the express reference to the relative proportion of the different components of the remuneration, (iii) the explanation of how the remuneration and employment conditions of the company's employees have been taken into account when setting the remuneration policy and (iv) the explanation of the decision-making process followed for its determination.

The Appointments and Remuneration and Corporate Governance Committee has used the consultant PeopleMatters to compare the remuneration of other entities and to determine the remuneration of the management team and thus also of the executive chairman.

The Remuneration Policy in force at the date of this report does not provide for temporary exceptions..

A.1.2. Relative importance of the variable remuneration items in 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.

Likewise, indicate whether the Company has established a period for the accrual or consolidation of certain variable remuneration concepts, in cash, shares or other financial instruments, a period of deferral in the payment of amounts or delivery of financial instruments already accrued and consolidated, or whether any clause has been agreed upon to reduce deferred remuneration that has not yet been consolidated or that obliges the director to return the remuneration received, when such remuneration has been based on data whose inaccuracy has subsequently been clearly demonstrated.

The remuneration of the Executive Chairman, the only director who receives variable remuneration, is balanced into 3 main components designed with a similar weighting:

- 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, and with a claw back clause for the 18 months following after receiving the variable annual remuneration.
- A variable component with a very long-term time horizon A variable component with a very long-term time horizon linked to the Company's Strategic Plan. Its inception dates back to 2018 and its expiry period will coincide with that of the 2021-2025 Strategic Plan, if ratified by the 2022 AGM, or otherwise it would expire in July 2023. Since this type of remuneration exceeds the norm, it moderates excessive risk-taking and provides more long-term value creation than usual. This remuneration component is linked to a minimum profitability threshold below which the surplus will not be distributed, even if there is one, and to a claw back clause during the 18 months following receipt of the plan.

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 mainly 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 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.

- A.1.3 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 for 2022 of the Directors for their status as such (non-executive functions) approved by the Board of Directors at its meeting of 1 February 2021, following a report from the Appointments, Remuneration and Corporate Governance Committee:

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: 66,000 €/year.
- Committee Member: 44,000 €/year.

A.1.4. 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 1 February 2022, the Board set the fixed component of the remuneration of the Executive Chairman at € 2.112.000 (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 € 1.012.000 that he receives as annual fixed base remuneration for exercising executive or delegated functions.

A.1.5.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 total gross annual fixed monetary remuneration he/she has been receiving, 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' annuities of total annual gross fixed monetary 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. 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.

A.1.6 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 effective rate of attainment of the parameters used in the design of the variable remuneration, explaining the criteria and factors it applies in terms of the time required and methods for verifying that the performance or other conditions attached to the accrual and consolidation of each component of variable remuneration have been effectively fulfilled.

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
Directors do not receive this type of remuneration for exercising non-executive functions. For the Executive Chairman who exercised executive and delegated functions, the variable components of the remuneration system are the following: - Annual variable remuneration It is based on 100% of the total annual fixed monetary remuneration multiplied by the degree of achievement of objectives effectively reached during the year. It has a maximum degree of achievement of 150%. This remuneration will not be received if the degree of achievement does not reach 80%. The Executive Chairman may decide to substitute the payment of all or part of the annual variable remuneration for a company contribution to a social welfare system to be agreed upon on an annual basis. The targets and weightings are as follows: - Operational efficiency weighted by 25%. - Ordinary Ebitda-Capex Maintenance weighted at 25%. - Ordinary net profit: weighted 25%. - Qualitative objectives weighted 15% - Assessment of qualitative factors by the Board 10% (commitment to the project, transformation, team work). - Contribution to business growth 5% - ESG weighted at 10% - Health and safety - Gender and diversity - Multi-year variable remuneration: The Executive Chairman's multi-year variable remuneration is configured through a long-term incentive (LTI) in which, in addition to the Executive Chairman, 28 active executives participate. The long-term incentive was approved by the Board in June 2018 and ratified by the General Meeting of Shareholders held on 5 March 2019. In July 2021, the company approved the 2021-2025 Strategic Plan, which extends the planning horizon, and thus the long-term objectives for executives, to December 2025. Therefore, in accordance with the current Remuneration Policy, this obliges the Board of Directors to adapt the Incentive Plan and thus extend it by 50% of the initial period, as it was linked to the previous Strategic Plan 2018-2022 which expired two and a half years earlier,

The Board of Directors has decided to extend the ordinary expiry of the current ILP from 31 July 2023 to 31 December 2025. For this adaptation of the ILP, the Board of Directors has approved a new Regulation identical to the previous one except for the duration and the powers of the Board of Directors in the management of the Incentive Plan.

The Board has carried out all the necessary preparatory work, including the consent to the extension of the term by all directors - also establishing a liquidity amount for such extension, and subject to the condition precedent that the amendment be approved by Naturgy's 2022 Shareholders' Meeting. The amount corresponding in the case of the Executive Chairman for all amendments to the current ILP regulations and their term extension is €1,548,966 for each of the years 2021 and 2022.

In the event that the General Meeting decides not to approve the modification of the incentive or if 30 June 2022 arrives without it being approved, the executive Chairman will not receive the amounts for modification of the scheme and will maintain his multi-year variable remuneration rights in accordance with the LTI approved at the 2019 Shareholders' Meeting, without modifications and expiring in July 2023. In the event that the shareholders' meeting does approve the amendment, such amounts will be deducted from the final settlement of the incentive, if applicable.

Notwithstanding the fact that the detail of the incentive is also set out in the 2019 AGM resolution and in the proposed 2022 AGM resolution, its characteristics are:

The incentive covers the period of the 2022-2025 Strategic Plan, ordinarily expiring in December 2025 and is related to the total return obtained by NATURGY ENERGY GROUP S.A. shareholders.

It is instrumented through the acquisition of a package of NATURGY shares by a wholly-owned company that may generate a surplus. This surplus, if any, is the incentive to be delivered to the participants.

Only the surplus value generated will be received as a multi-year variable incentive and only if the pre-set minimum profitability threshold has been exceeded, which implies a share price of €19.15 at the time of maturity of the LTI and assuming that all dividends envisaged in the 2022-2025 Strategic Plan (and those actually distributed in the 2018-2022 Plan) are paid out. This is consistent with the return requirements associated with financial discipline and contained in the Strategic Plan and is higher than the share price on the day of appointment of the Executive Chairman (6 February 2018, €17.69). Therefore, even if the holding company were to have a positive result, if this threshold is not reached, the amount of the ILP would be zero.
The ILP includes a claw back clause during the 18 months following receipt of the incentive in the event of a material change in the annual accounts that significantly affects the share price.
In addition, and in accordance with the internal regulations governing the ILP, this remuneration mechanism includes a recommendation for its beneficiaries by virtue of which, at the end of the period of validity, they must have acquired or, as the case may be, must hold a package of Naturgy shares whose value reaches at least half of the gross annual fixed remuneration.
The Appointments, Remuneration and Corporate Governance Committee shall annually verify the volume of shares held by each beneficiary.

The Board of Directors, at the reasoned proposal of the Nomination, Remuneration and Corporate Governance Committee, may adopt such decisions as it deems necessary for the administration, interpretation, correction, development or continuity of the incentive scheme in the event of substantial changes in the circumstances of the Plan, taking into account the corporate interest of the Company and the objectives of the Plan.

The Board of Directors may adopt such decisions as it deems necessary to keep the multi-year variable remuneration scheme in line with the Strategic Plan in force at any given time, carrying out such preparatory work as may be necessary before submitting any amendments requiring such approval to the General Meeting of Shareholders for approval.

In the event of leaving the Company before the end of the plan, the executive chairman shall lose his rights in the event of voluntary termination of his duties or serious breach and shall maintain them in the event of retirement, disability, death or termination not attributable to him, although in the event of maintaining them, he shall only be entitled to the incentive that finally results in the proportional part of his time spent with respect to the duration of the Plan.

A.1.7. 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 Management Committee of the Company are afforded to him under the following terms: <u>Group savings-linked insurance policy:</u> 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. <u>Social welfare system linked to annual variable remuneration</u>: 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 years2018, 2019 2020 and 2021. 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.

- **A.1.8 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.**

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

A.1.9 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 Executive Chairman's contract was approved at the Board of Directors' meeting held on 6 February 2018, following a favourable report from the Appointments, Remunerations and Corporate Governance Committee. It was subsequently adapted on 31 October 2018 in order to include the new ILP long-term incentive scheme as well as other minor adaptations, and again on 30 December 2021 to reflect the amendments resulting from the modification of the ILP as described in section A.1.6. The contract contains, in addition, a clause requiring advance notice of at least six (6) months from the Executive Chairman except for cases of force majeur, 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 mount 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.

A.1.10 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

A.1.11 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.

A.1.12 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.**

The Board, following a favourable report from the Appointments, Remuneration and Corporate Governance Committee, has proposed to the next General Shareholders' Meeting to be held, the approval of a Remuneration Policy that continues the one approved by the General Shareholders' Meeting in 2020, proposing two specific adaptations to that policy: (a) to take into account the new 2021-2025 Strategic Plan, which translates especially into the adaptation of the multi-year variable remuneration scheme for the executive director authorised by the 2019 General Shareholders' Meeting and (b) to incorporate all those references necessary to comply with the new wording of art. 529 novodecies of the Capital Companies Act: i) it incorporates all those references necessary to comply with the new wording of art. 529 novodecies of the Capital Companies Act, with regard to i) their contribution to the business strategy and to the long-term interests and sustainability of the company, ii) the express reference to the relative proportion of the different components of the remuneration, iii) the explanation of how the remuneration and employment conditions of the company's employees have been taken into account when setting the remuneration policy and iv) the explanation of the decision-making process followed for its determination.

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.

file:///C:/Users/uf776989/Downloads/Politica_remuneraciones_consejeros_aprobada_Junta_ES.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 the 2021 financial year, it was the shareholders themselves who approved by a large majority the Remuneration Policy 2021-2023, one of the new features of which was to entrust the Board with the adaptation of the long-term incentive when the end of its term was approaching or when the Strategic Plan changed. The Board has complied with this provision in November 2021, based on the previous work of the Nomination, Remuneration and Corporate Governance Committee during the preceding months.

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

B.1.1 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 exercise of non-executive functions for the financial year 2021 at its meeting of 2 February 2021, maintaining unchanged with respect to 2020 both the fixed remuneration component of €1,100,000 for the Chairmanship of the Board, as well as the part corresponding to executive functions of €960,000. The targets for the 2021 annual variable remuneration were set by the Appointments, Remuneration and Corporate Governance Committee and the Board of Directors on 2 February 2021. The settlement of the short-term variable remuneration for 2021 took place at the Board of Directors' meeting of 1 February 2022, once the annual accounts for 2021 had been prepared by the Board, which, moreover, were unqualified by the external auditor.

B.1.2 Explain any deviations from the established procedure for the application of the remuneration policy that have occurred during the year.

B.1.3 Indicate whether any temporary exceptions to the remuneration policy have been applied and, if so, explain the exceptional circumstances that have led to the application of these exceptions, the specific components of the remuneration policy affected and the reasons why the company considers that these exceptions have been necessary to serve the long-term interests and sustainability of the company as a whole or to ensure its viability. Also quantify the impact that the application of these exceptions has had on the remuneration of each director during the year.

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.

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 substantially coincides with that of the 2018-2022 Strategic Plan). Since this type of remuneration exceeds the norm, 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 mainly 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 and consolidated in the financial year complies with the provisions of the current remuneration policy and, in particular, how it contributes to the long-term and sustainable performance of the company.

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 2021 does not exceed the maximum amount established in the Remuneration Policy approved by the General Meeting of Shareholders on 9 March 2021.

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 2021).

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

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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	790.325.783	96,87

	Number	% Votes Cast
Votes Against	90.534.321	11,45
Votes in Favour	699.063.605	88,45
Abstentions	727.857	0,09

Observations

B.5 Explain how the fixed components accrued and consolidated during the year by the directors in their capacity as such have been determined, their relative proportion for each director and how they have varied from the previous year..

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

a) For membership of the Board

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

b) For membership of committees

- Committee Chairman: €66,000/year
- Member of the Committee: €44,000/year

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: €960.000
- Annual variable remuneration based on an amount equivalent to the total annual fixed monetary remuneration, to which a percentage has been applied according to the achievement metric, and which amounted to €2,321,620. The aforementioned amount will be settled as a voluntary contribution to the social welfare plan of which the Executive Chairman is a beneficiary, in accordance with the terms of the contract.
- - The long-term incentive programme has been continued in 2021 as in September 2021 the Board of Directors decided not to tender the shares of the ILP vehicle in the takeover bid announced on 26 January.

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:

a) Identify each of the remuneration plans that have determined the different variable remuner ation accrued by each of the directors during the financial year, including information on their scope, d ate of approval, date of implementation, conditions, if any, of consolidation, accrual periods and validi ty, criteria used to evaluate performance and how this has impacted on the setting of the variable am ount accrued, as well as the measurement criteria that have been used and the time needed to be abl e to properly measure all the conditions and criteria stipulated. The criteria and factors that have bee n applied in terms of the time required and methods to check that the performance conditions or any other conditions to which the accrual and consolidation of each component of variable remuneration was linked have to be explained in detail.

b) 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 own ership (consolidation) as well as exercising said options or financial instruments, including price and e xercising period.

c) Each of the Directors, and their category (CEO, external proprietary directors, external indep endent directors or other external directors), who are beneficiaries of remuneration systems or plans included in the variable remuneration.

d) Where applicable, information shall be provided on the established periods of accrual, consoli dation or deferral of payment of consolidated amounts that have been applied and/or the periods of r etention/disposal of 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 2021 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 form the Appointments and Remuneration Committee. To be precise, in 2020 the following parameters to determine the rate of attainment of the objectives have been considered: - Operational efficiency weighted at 25%. Achievement 117,8% Opex reduction without captu re costs - Ordinary Ebitda-Capex Maintenance weighted at 25%. Achievement 104.2%. - Maximization of comparable cash generation - Ordinary net profit: weighted at 25%. Achievement 108.3%. - Maximization of comparable consolidated net profit - Qualitative objectives weighted at 15%. Achievement 130% Teamwork - Teamwork 5% Transformation - Transformation 5% Contribution to business growth - Contribution to business growth 5% - ESG objectives weighted at 10%. Achievement 105.6% Health and safety

- Health and safety
- Gender diversity management team

The calculation is based on 100% of the total annual fixed monetary remuneration and multiplied by the degree of achievement of objectives effectively reached in the year (for a degree of achievement of 100%, 100% of the total annual fixed monetary remuneration is received). The maximum level of achievement is 150%. This remuneration will not be received if the degree of achievement does not reach 80%.

Therefore, the amount of the Annual Variable Remuneration corresponding to the financial year 2021 and which will be settled as a contribution to the social welfare plan of which the Executive Chairman is a beneficiary, is €2,321,620, having reached a total degree of achievement of 112.7%.

Explain the long-term variable components of the remuneration system
As the long-term incentive linked to the 2018-2023 Strategic Plan is substantially analogous to the one that will govern if approved by the 2022 AGM, the details for 2021 are the same as described in section A.1.6 and in the previous years' reports..

B.8 Indicate whether certain variable components have been reduced or returned when payment of non-consolidated amounts has been deferred in the former case 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 Executive President's multi-year variable remuneration was provided for in his contract of 6 February 2018, although it could not be determined until the Strategic Plan was approved. Once this Plan had been approved, the Board approved a new long-term incentive scheme involving the Chief Executive Officer and other executives, a scheme that was confirmed by the AGM on 5 March 2019.

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 Executive Chairman's pension plans amounted to EUR 412 thousand in the financial year 2021. The amount corresponding to the variable remuneration 2021 must be added to the aforementioned amount, 2,321,620, which will be settled as a voluntary contribution to the Social Welfare Plan of which the Chairman is a beneficiary. Premiums paid for life and disability insurance amounted to 68 thousand euros during the year. The amount of the limited allowance for electricity and gas consumption, company vehicle, housing assistance and health care insurance amounted to 100 thousand euros during the 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.

Not applicable

B.16 Explain and detail the amounts accrued during the year in relation to any other type of remuneration, including all benefits in any form, such as when it is considered a related-party transaction or, especially, when it significantly affects the true and fair view of the total remuneration accrued by the director, explaining the amount granted or pending payment, the nature of the consideration received and the reasons why it would have been considered, as the case may be, that it does not constitute remuneration to the director in his capacity as such or in consideration for the performance of his

executive duties, and whether or not it has been considered appropriate to include it among the amounts accrued in the "other items" section of section C.

Not applicable

C BREAKDOWN OF INDIVIDUAL REMUNERATION EARNED BY EACH OF THE DIRECTORS

Name	Category	Accrual Period Q
RAMÓN ADELL RAMÓN/	Independent	From 01/01/2021 to 31/12/2021
ENRIQUE ALCÁNTARA-GARCÍA IRAZOQUI	Proprietary	From 13/05/2021 to 31/05/2021
FRANCISCO BELIL CREIXELL	Independent	From 01/01/2021 to 31/12/2021
HELENA HERRERO STARKIE	Independent	From 01/01/2021 to 31/12/2021
MARCELINO ARMENTER VIDAL	Proprietary	From 01/01/2021 to 10/05/2021
LUCY CHADWICK	Proprietary	From 01/01/2021 to 31/12/2021
RAJARAM RAO	Proprietary	From 01/01/2021 to 31/12/2021
ISABEL ESTAPÉ TOUS	Proprietary	From 01/01/2021 to 31/12/2021
Theatre Directorship Services Beta, S.à.r.l.	Proprietary	From 01/01/2021 to 31/12/2021
CLAUDI SANTIAGO PONSA	Independent	From 01/01/2021 to 31/12/2021
PEDRO SAINZ DE BARANDA RIVA	Independent	From 01/01/2021 to 31/12/2021
FRANCISCO REYNES MASSANET	Executive Chairman	From 01/01/2021 to 31/12/2021
Rioja S.à.r.l.	Proprietary	From 01/01/2021 to 31/12/2021

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 Remuneration	Allowance	Short-term Variable Remuneration	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	2.158 (*)									
RAMÓN ADELL RAMÓN/ Independent	205		110						315	355
ENRIQUE ALCÁNTARA-GARCÍA IRAZOQUI/ Proprietary	111		28						139	50
MARCELINO ARMENTER VIDAL/ Proprietary	175		150						325	325
FRANCISCO BELIL CREIXELL / Independent	175		110						285	325
LUCY CHADWICK/ Proprietary	175		88						263	185
HELENA HERRERO STARKIE / Independent	175		110						285	235
ISABEL ESTAPÉ TOUS/ Proprietary	175		88						263	185
RAJARAM RAO/ Proprietary	175		44						219	235
Rioja S.à.r.l. / Proprietary	175		44						219	235
PEDRO SAINZ DE BARANDA RIVA / Independent	175		88						263	295
CLAUDI SANTIAGO PONSA/ Independent	175		88						263	235
Theatre Directorship Services Beta, S.à.r.l, / Proprietary	175		88						263	235

(*) Does not include the amount corresponding to the accrued annual variable remuneration paid in year t-1 as a contribution to pension 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 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	Nº instruments	Nº instruments	Nº equivalent shares

									financial instruments (in thousands €)			
Director 1:	Plan 1											
	Plan 2											

Observations

iii) Long-term Saving Systems

	Remuneration for vested rights to Savings System (*)
Mr. Francisco Reynés Massanet	2734

(*) Includes the amount corresponding to the accrued annual variable remuneration to be settled in year t as a contribution to pension schemes, as contractually established..

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		--	2734	2330		10302		7586

Observations

iv) Detail of other items

Name	Item	Remuneration Amount
Mr. Francisco Reynés Massanet	life insurance	68

Observations

b) Remuneration paid to directors of listed companies for their membership of the governing bodies of their subsidiaries:

i) Payment in cash (in thousands of €)

Name	Fixed Remuneration	Allowance	Remuneration for Membership 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.

	Remuneration earned in the Company					Remuneration earned in companies of the Group				
Name	Total Remuneration in Cash	Gross return on shares or consolidated financial	Name	Total Remuneration in Cash	Gross return on shares or consolidat	Name	Total Remuneration in Cash	Gross return on shares or consolidat	Nam	Total Remuneration in Cash
RAMÓN ADELL RAMÓN/ Independent	315				315					
ENRIQUE ALCÁNTARA-GARCÍA IRAZOQUI/ Proprietary	139				139					

MARCELINO ARMENTER VIDAL/ Proprietary	78				78						
FRANCISCO BELIL CREIXELL / Independent	285				285						
LUCY CHADWICK/ Proprietary	263				263						
HELENA HERRERO STARKIE / Independent	285				285						
ISABEL ESTAPÉ TOUS/ Proprietary	263				263						
RAJARAM RAO/ Proprietary	219				219						
Rioja Bidco Shareholdings , S.L.U. / Proprietary	219				219						
Rioja S.à.r.l. / Proprietary	263				263						
PEDRO SAINZ DE BARANDA RIVA /	263				263						
CLAUDI SANTIAGO PONSA/ Independent	263				263						
Theatre Directorship Services Beta, S.à.r.l, / Proprietary	263				263						
FRANCISCO REYNES MASSANET/ Executive	2160		2734	68	4962						
TOTAL	5015		2734	68	7817						

Observations

C.2 Indicate the changes over the last five years in the amount and percentage change in the remuneration earned by each of the listed company's directors during the year, the consolidated results of the company and the average remuneration on a full-time equivalent basis of the employees of the company and its subsidiaries who are not directors of the listed company.

	Total amounts accrued and % annual change								
	Exercise t	% variación t/t-1	Exercise t-1	% changet-1/t-2	Exercise t-2	% changet-2/t-3	Ejercicio t-3	% variación t-3/t-4	Ejercicio t-4
Executive Directors									
FRANCISCO REYNES MASSANET	4.962	9,1 %	4.549	-8,1 %	4.948	11,5 %	4.436	— %	—
Consejeros Externos									
RAMÓN ADELL RAMÓN/ Independiente	315	-11,3 %	355	— %	355	0,3 %	354	20,8 %	293
ENRIQUE ALCÁNTARA-GARCÍA IRAZOQUI/ Dominical	139	183,7 %	50	-79,1 %	235	13,0 %	208	24,6 %	167
MARCELINO ARMENTER VIDAL/ Dominical	78	-66,8 %	235	— %	235	-8,2 %	256	1,2 %	253
FRANCISCO BELIL CREIXELL Independiente	285	-12,3 %	325	— %	325	1,9 %	319	14,7 %	278
LUCY CHADWICK/ Dominical	263	41,4 %	185	— %	—	— %	—	— %	—
HELENA HERRERO STARKIE / Independiente	285	21,3 %	235	— %	235	13,0 %	208	24,6 %	167
ISABEL ESTAPÉ TOUS/Dominical	263	41,4 %	185	— %	—	— %	—	— %	—
RAJARAM RAO/ Dominical	219	-6,8 %	235	— %	235	-15,2 %	277	-5,5 %	293
Rioja S.à.r.l. / Dominical	219	-6,8 %	235	139,8 %	98	— %	—	— %	—
PEDRO SAINZ DE BARANDA RIVA / Independiente	263	-10,8 %	295	— %	295	99,3 %	148	— %	—
CLAUDI SANTIAGO PONSA/ Independiente	263	11,9 %	235	— %	235	99,2 %	118	— %	—
Theatre Directorship Services Beta, S.à.r.l, / Dominical	263	11,9 %	235	— %	235	37,4 %	171	— %	—

	Total amounts accrued and % annual change								
	Exercise t	% variación t/t-1	Exercise t-1	% changet-1/t-2	Exercise t-2	% changet-2/t-3	Ejercicio t-3	% variación t-3/t-4	Ejercicio t-4
Consolidated results of the company	1.214	— %	-347	— %	1.401	— %	-2.822	— %	1.360
Average employee remuneration	57.900	4,31 %	55.506	-4,14 %	57.905	0,92 %	57.378	5,12 %	54.582

Observations:

Note: On average employee remuneration, data are at group level expressed in euros. Does not include company Social Security costs.

The difference between 2020 vs 2019 corresponds to the deconsolidation of CGE (Chile) as well as the variation in Variable Remuneration.

Data for 2021 are estimated, pending the final closing and final settlement of the Variable Remuneration'21 for the workforce included in this scheme.

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 1 February 2022.

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

Auditor's Report on Naturgy Energy Group, S.A.

(Together with the annual accounts and directors' report of Naturgy Energy Group, S.A. for the year ended 31 December 2021)

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

KPMG Auditores, S.L.
Paseo de la Castellana, 259C
28046 Madrid

Independent Auditor's Report on the Annual Accounts

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

To the shareholders of Naturgy Energy Group, S.A.

REPORT ON THE ANNUAL ACCOUNTS

Opinion

We have audited the annual accounts of Naturgy Energy Group, S.A. (the "Company"), which comprise the balance sheet at 31 December 2021, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes.

In our opinion, the accompanying annual accounts give a true and fair view, in all material respects, of the equity and financial position of the Company at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with the applicable financial reporting framework (specified in note 2 to the accompanying annual accounts) and, in particular, with the accounting principles and criteria set forth therein.

Basis for Opinion

We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Annual Accounts section of our report.

We are independent of the Company in accordance with the ethical requirements, including those regarding independence, that are relevant to our audit of the annual accounts pursuant to the legislation regulating the audit of accounts in Spain. We have not provided any non-audit services, nor have any situations or circumstances arisen which, under the aforementioned regulations, have affected the required independence such that this has been compromised.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the annual accounts of the current period. These matters were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverable amount of non-current investments in Group companies and associates See notes 3.3, 3.19, 4 y 7 to the annual accounts	
Key audit matter	*How the matter was addressed in our audit*
At 31 December 2021 the Company has recognised non-current investments in Group companies and associates amounting to Euros 31,284 million. The recoverable amount of these investments in Group companies and associates is determined, for those companies in which there is objective evidence of impairment, by applying valuation techniques which often require the exercising of judgement by the Directors and the use of assumptions and estimates. Due to the significance of the investments and the uncertainty associated with these estimates, this has been considered a key audit matter.	Our audit procedures included the following: • Evaluating the design and implementation of the key controls related to the process of calculating the recoverable amount. • Assessing the existence of evidence of impairment, as well as the reasonableness of methodology and assumptions used to estimate the recoverable amount with the involvement of our specialists. • Assessing whether the disclosures in the annual accounts meet the requirements of the financial reporting framework applicable to the Company.

Other Information: Directors' Report

Other information solely comprises the 2021 directors' report, the preparation of which is the responsibility of the Company's Directors and which does not form an integral part of the annual accounts.

Our audit opinion on the annual accounts does not encompass the directors' report. Our responsibility regarding the information contained in the directors' report is defined in the legislation regulating the audit of accounts, as follows:

a) Determine, solely, whether the non-financial information statement and certain information included in the Annual Corporate Governance Report and the Annual Report on Directors' Remuneration, as specified in the Spanish Audit Law, have been provided in the manner stipulated in the applicable legislation, and if not, to report on this matter.

b) Assess and report on the consistency of the rest of the information included in the directors' report with the annual accounts, based on knowledge of the entity obtained during the audit of the aforementioned annual accounts. Also, assess and report on whether the content and presentation of this part of the directors' report are in accordance with applicable legislation. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report them.

Based on the work carried out, as described above, we have observed that the information mentioned in section a) above has been provided in the manner stipulated in the applicable legislation, that the rest of the information contained in the directors' report is consistent with that disclosed in the annual accounts for 2021, and that the content and presentation of the report are in accordance with applicable legislation.

Directors' and Audit and Control Committee's Responsibilities for the Annual Accounts

The Directors are responsible for the preparation of the accompanying annual accounts in such a way that they give a true and fair view of the equity, financial position and financial performance of the Company in accordance with the financial reporting framework applicable to the entity in Spain, and for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Audit and Control Committee is responsible for overseeing the preparation and presentation of the annual accounts.

Auditor's Responsibilities for the Audit of the Annual Accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing legislation regulating the audit of accounts in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with prevailing legislation regulating the audit of accounts in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors[2].

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves a true and fair view.

We communicate with Naturgy Energy Group, S.A.'s Audit and Control Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the entity's Audit and Control Committee with a statement that we have complied with the applicable ethical requirements, including those regarding independence, and to communicate with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Audit and Control Committee of the entity, we determine those that were of most significance in the audit of the annual accounts of the current period and which are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

European Single Electronic Format

We have examined the digital file of Naturgy Energy Group, S.A. for 2021 in European Single Electronic Format (ESEF) comprising an XHTML file with the annual accounts for the aforementioned year, which will form part of the annual financial report.

The Directors of Naturgy Energy Group, S.A. are responsible for the presentation of the 2021 annual financial report in accordance with the format requirements stipulated in Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 (hereinafter the "ESEF Regulation"). In this regard, they have incorporated the Annual Corporate Governance Report and Annual Report on Directors' Remuneration by means of a reference thereto in the directors' report.

Our responsibility consists of examining the digital file prepared by the Company's Directors, in accordance with prevailing legislation regulating the audit of accounts in Spain. This legislation requires that we plan and perform our audit procedures to determine whether the content of the annual accounts included in the aforementioned digital file fully corresponds to the annual accounts we have audited, and whether the annual accounts have been formatted, in all material respects, in accordance with the requirements of the ESEF Regulation.

In our opinion, the digital file examined fully corresponds to the audited annual accounts, and these are presented, in all material respects, in accordance with the requirements of the ESEF Regulation.

Additional Report to the Audit and Control Committee

The opinion expressed in this report is consistent with our additional report to the Company's Audit and Control Committee dated 3 February 2022.

Contract Period

We were appointed as auditor by the shareholders at the ordinary general meeting on 9 March 2021 for a period of three years, from the year ended 31 December 2021.

KPMG Auditores, S.L.
On the Spanish Official Register of
Auditors ("ROAC") with No. S0702

(Signed on original in Spanish)

Eduardo González Fernández
On the Spanish Official Register of Auditors ("ROAC") with No. 20435

3 February 2022

Naturgy Energy Group, S.A.
Annual Report
2021

Annual Report

Balance sheet.
Income statement.
Statement of recognised income and expense.
Statement of changes in equity.
Cash flow statement.
Notes to the annual accounts.

This 2021 Annual Report is a translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish language version prevails.

Naturgy Energy Group, S.A.

Balance sheet **(million euro)**

		31.12.2021	31.12.2020
NON-CURRENT ASSETS	**Note**	**31,809**	**31,048**
Intangible assets	5	2	3
Patents, licences, trademarks and other		1	1
Other intangible assets		1	2
Property, plant and equipment	6	110	113
Land and buildings		98	101
Other property, plant and equipment		12	12
Long-term investments in group companies and associates	7	31,284	30,594
Equity instruments		16,138	15,417
Loans to companies		15,146	15,177
Long-term investments	8	9	9
Equity instruments		4	5
Other financial assets		5	4
Other non-current assets	9-14	231	136
Derivatives		231	136
Deferred tax assets	17	173	193
CURRENT ASSETS		**6,927**	**3,845**
Trade and other receivables	9-14	2,282	312
Trade receivables for sales and services		56	37
Trade receivables, group companies and associates		213	143
Derivatives		1,865	123
Other sundry receivables		12	3
Current tax assets		134	4
Other amounts receivable to Public Administrations		2	2
Short-term investments in group companies and associates	7	2,379	743
Loans to companies		2,376	628
Other financial assets		3	115
Short-term investments	8	57	171
Other financial assets		57	171
Short-term prepayments and accrued expenses		1	1
Cash and cash equivalents	10	2,208	2,618
Cash at banks and in hand		889	1,076
Other cash equivalents		1,319	1,542
TOTAL ASSETS		**38,736**	**34,893**

Notes 1 to 30 form an integral part of these annual accounts.

Naturgy Energy Group, S.A.

Balance sheet

	Note	31.12.2021	31.12.2020
			(million euro)
EQUITY	11	**18,858**	**18,393**
SHAREHOLDERS' FUNDS		**18,901**	**18,471**
Capital		970	970
Authorised capital		970	970
Share premium		3,808	3,808
Reserves		11,304	11,291
Legal and statutory		300	300
Other reserves		11,004	10,991
Treasury shares		(4)	(1)
Profit/(loss) for the year		1,706	98
Retained earnings		1,778	—
Interim dividend		(679)	(785)
Other equity instruments		18	14
VALUE CHANGE ADJUSTMENTS		**(43)**	**(78)**
Available-for-sale financial assets		—	(1)
Hedging operations		(43)	(77)
NON-CURRENT LIABILITIES		**12,335**	**13,079**
Long-term provisions	12	309	373
Long-term post-employment obligations		242	258
Other provisions		67	115
Long-term borrowings	13	2,434	2,829
Bank borrowings		2,372	2,720
Derivatives	14	61	108
Other financial liabilities		1	1
Amounts owing to group companies and associates falling due in more than one year	15	9,110	9,530
Deferred tax liabilities	17	250	211
Other liabilities	14-16	232	136
Derivatives		232	136
CURRENT LIABILITIES		**7,543**	**3,421**
Short-term borrowings	13	421	399
Bank borrowings		402	257
Derivatives		19	21
Other financial liabilities		—	121
Amounts owing to group companies and associates falling due in less than one year	15	4,823	2,560
Trade and other payables	16	2,298	461
Trade payables		259	141
Trade payables, group companies and associates		103	59
Derivatives	14	1,873	123
Other sundry payables		12	10
Personnel (outstanding remuneration)		33	18
Current tax liabilities		—	93
Other amounts payable to Public Administrations		18	17
Short-term prepayments and accrued expenses		1	1
TOTAL EQUITY AND LIABILITIES		**38,736**	**34,893**

Notes 1 to 30 form an integral part of these annual accounts.

Naturgy Energy Group, S.A.

Income statement

		(million euro)	
		2021	2020
Revenue	18	2,082	2,292
Sales		802	667
Income from services rendered		—	1
Income from equity instruments of group companies and associates	7	932	1,271
Income from marketable securities and other financial instruments of group companies and associates		348	353
Raw materials and consumables	19	(803)	(667)
Consumption of goods		(803)	(667)
Other operating income	22	81	156
Supplementary income and other operating income		81	155
Operating grants released to the income statement		—	1
Personnel expenses	20	(126)	(115)
Wages, salaries and related expenses		(112)	(98)
Social Security		(9)	(11)
Provisions		(5)	(6)
Other operating expenses	21	(110)	(170)
External services		(109)	(171)
Taxes		(2)	(1)
Impairment losses and variation in trade provisions		1	2
Fixed asset depreciation/amortisation	5 - 6	(13)	(14)
Impairment and results on disposals of fixed assets		871	(1,087)
Gain/(loss) on disposals of tangible fixed assets	6	1	—
Impairment of and losses from equity instruments of group companies and associates	7	869	(1,088)
Gain/(loss) on disposals of equity interests in Group companies and associates	7	1	1
OPERATING PROFIT/(LOSS)		**1,982**	**395**
Financial income		3	5
Negotiable securities and other financial instruments		3	5
- In third parties		3	5
Financial expenses		(349)	(339)
Borrowings from group companies and associates		(303)	(292)
Borrowings from third parties		(46)	(47)
Impairment and gains/(losses) on disposals of financial instruments		(1)	—
Impairments and losses		(1)	—
Variation in fair value of financial instruments		—	1
Fair value through profit and loss		—	1
Exchange differences		—	(2)
NET FINANCIAL INCOME	23	**(347)**	**(335)**
PROFIT/(LOSS) BEFORE TAXES		**1,635**	**60**
Income tax	17	71	38
PROFIT FOR THE YEAR		**1,706**	**98**
Basic and diluted earnings per share in euro		1.77	0.10

Notes 1 to 30 form an integral part of these annual accounts.

Naturgy Energy Group, S.A.
Statement of changes in equity

A) STATEMENT OF RECOGNISED INCOME AND EXPENSE	Note	(million euro)	
		2021	2020
PROFIT FOR THE YEAR		1,706	98
INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY		38	(22)
Cash flow hedges		27	(37)
Actuarial gains and losses and other adjustments	12	22	7
Tax effect	17	(11)	8
RELEASES TO INCOME STATEMENT		14	12
Cash flow hedges		19	16
Tax effect	17	(5)	(4)
TOTAL INCOME AND EXPENSE RECOGNISED IN EQUITY		**1,758**	**88**

Notes 1 to 30 form an integral part of these annual accounts.

Naturgy Energy Group, S.A.

Statement of changes in equity

B) TOTAL STATEMENT OF CHANGES IN EQUITY **(million euro)**

	Share capital	Share premium	Reserves	Treasury shares	Profit or loss brought forward	Retained Earnings	Profit of the year	Interim dividend	Other instruments	Value changes adjustments	Total
Balance at 1.1.2020	**984**	**3,808**	**11,573**	**(121)**	**—**	**—**	**4,415**	**(754)**	**9**	**(61)**	**19,853**
Total recognised income and expense	—	—	2	—	—	—	98	—	5	(17)	88
Operations with shareholders or owners											
- Capital reduction	(14)	—	(284)	298	—	—	—	—	—	—	—
- Dividend distribution	—	—	—	—	(9)	—		(1,361)	—	—	(1,370)
- Trading in treasury shares	—	—	—	(178)		—		—	—	—	(178)
Other changes in equity	—	—		—	9	3,076	(4,415)	1,330	—	—	—
Balance at 31.12.2020	**970**	**3,808**	**11,291**	**(1)**	**—**	**3,076**	**98**	**(785)**	**14**	**(78)**	**18,393**
Total recognised income and expense	—	—	14	—	—	—	1,706	—	4	34	1,758
Operations with shareholders or owners											
- Capital reduction	—	—	—	—	—	—	—	—	—	—	—
- Dividend distribution	—	—	—	—	(611)	—	—	(679)	—	—	(1,290)
- Trading in treasury shares	—	—	—	(3)	—	—	—	—	—	—	(3)
Other changes in equity	—	—	(1)	—	611	(1,298)	(98)	785	—	1	—
Balance at 31.12.2021	**970**	**3,808**	**11,304**	**(4)**	**—**	**1,778**	**1,706**	**(679)**	**18**	**(43)**	**18,858**

Notes 1 to 30 form an integral part of these annual accounts.

Naturgy Energy Group, S.A.
Cash flow statement (million euro)

	Note	31.12.2021	31.12.2020
Profit for the year before tax		**1,635**	**60**
Adjustments to results		**(1,790)**	**(196)**
Fixed asset depreciation/amortisation	5 and 6	13	14
Impairment adjustments		(869)	1,086
Change in provisions		(2)	(7)
Profit/(loss) on write-offs and disposals of fixed assets		(1)	—
Profit/(loss) on write-offs and disposals of financial instruments		(1)	(1)
Financial income		(1,283)	(1,629)
Financial expenses		349	339
Variation in fair value of financial instruments		—	(1)
Other income and expenses		4	3
Changes in working capital		**(416)**	**(242)**
Debtors and other receivables		(2,280)	163
Creditors and other payables		1,863	(405)
Other cash flows from operating activities		**2,157**	**1,821**
Interest paid		(318)	(346)
Dividends received		1,749	1,381
Interest collected		344	350
Income tax collections/(payments)		382	436
Cash flows from operating activities		**1,586**	**1,443**
Amounts paid on investments		**(3,392)**	**(270)**
Group companies and associates		(3,255)	(232)
Intangible assets		—	(1)
Property, plant and equipment		(10)	(8)
Other financial assets		(127)	(29)
Amounts collected from divestments		**847**	**547**
Group companies and associates		845	486
Property, plant and equipment		2	6
Other financial assets		—	55
Cash flows from investing activities		**(2,545)**	**277**
Collections and payments on equity instruments		**(3)**	**(185)**
Acquisition of own equity instruments		(3)	(185)
Collections and payments financial liability instruments		**1,842**	**1,279**
Issuance		5,195	3,887
Bank borrowings		52	1,225
Payables to Group companies and associates		5,046	2,662
Other payables		97	—
Repayment/redemption of		(3,353)	(2,608)
Bank borrowings		(255)	(247)
Payables to Group companies and associates		(3,086)	(2,288)
Other payables		(12)	(73)
Dividend payments		**(1,290)**	**(1,370)**
Cash flow from financing activities		**549**	**(276)**
NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS		**(410)**	**1,444**
Cash and cash equivalents at the beginning of the year		2,618	1,174
Cash and cash equivalents at the year end		2,208	2,618

Notes 1 to 30 form an integral part of these annual accounts.

Contents of the notes to the annual accounts for 2021

Notes to the annual accounts of Naturgy Energy Group, S.A. for the year ended 31 December 2021

Note 1. General information

Naturgy Energy Group, S.A. ("the Company"), the parent company of the Naturgy group ("Naturgy"), was incorporated as a public limited company in 1843 and its registered office for corporate purposes is in Avda. América 38, Madrid. On 27 June 2018, the shareholders, in general meeting, agreed to change the company's business name to Naturgy Energy Group, S.A., formerly Gas Natural SDG, S.A.

The company's corporate objects, as per its articles of association, comprise the following activities:

a. All types of activities related to the gas and electricity business and any other type of existing energy source, the production and selling of electrical, electro-mechanical and electronic equipment and components, management of architectural projects, civil engineering works, public services and gas and hydro-carbon distribution in general; management of communications and telecommunications networks and maintenance of electro- and gas-related appliances; as well as consulting, business and energy planning services and the rationalisation of energy use, research, development and exploitation of new technologies, communications, computer and industrial security systems; training and selection of human resources and real estate management and development.

b. Acting as a holding company, incorporating companies or holding shares as a member or shareholder in other companies no matter what their corporate purpose or nature, by subscribing, acquiring or holding shares, participation units or any other securities deriving from the same, subject to compliance with the legal requirements in each case.

The Company's most relevant ordinary activity is the administration and management of its shareholdings in subsidiaries. In 2021 it also has had gas supply contracts for other Naturgy companies.

The Company's shares are listed on the four Spanish stock exchanges, the continuous market and form part of the Ibex 35 stock index.

On 26 January 2021, Global InfraCo O (2), S.à.r.l., wholly owned by the Australian fund IFM (IFM GIF), announced the terms and conditions of the partial voluntary offer to acquire shares in Naturgy Energy Group, S.A. for a maximum of 220 million shares, equivalent to 22.689% of Naturgy's share capital ("the Offer"). On 18 February 2021, it was admitted for processing by the Spanish National Securities Market Commission (CNMV).

The Offer price of 23 €/share was adjusted to 22.37 €/share due to the supplementary dividend of 0.63 €/share paid by Naturgy on 17 March 2021 and finally to 22.07 €/share due to the supplementary dividend of 0.30 €/share paid by Naturgy on 4 August 2021.

On 18 March 2021, the Mexican Federal Competition Commission (COFECE) unanimously and unconditionally authorised the business concentration that would result from the Offer, thus fulfilling one of the conditions to which the Offer was subject.

On 8 September 2021, the CNMV authorised the partial voluntary offer. Previously, on 3 August 2021 the offeror obtained authorisation from the Council of Ministers for the foreign direct investment in Spain, subject to certain conditions which were accepted by the offeror.

On 14 October 2021 the acceptance level of the offer was released, consisting of 105,021,887 shares which represented 10.83% of Naturgy's share capital, and the offeror decided to waive the 17% minimum acceptance condition. The offer was settled on 19 October 2021 and IFM GIF became a significant shareholder of Naturgy.

Note 2. Basis of presentation

The Company's annual accounts for 2020 were approved at the annual general meeting of shareholders on 9 March 2021.

The annual accounts for 2021, which were drawn up and signed by the Company's Board of Directors on 3 February 2022, will be submitted to the general shareholders' meeting for approval; they are expected to be approved without any changes.

The accompanying annual accounts are presented in accordance with current mercantile legislation and with the rules laid down in the National Chart of Accounts approved by Royal Decree 1514/2007 of 16 November and the amendments incorporated therein by Royal Decree 1159/2010 of 17 September, Royal Decree 602/2016 of 2 December, and Royal Decree 1/2021 of 12 January, as well as by the adoption of the Resolution of 10 February 2021 of the Spanish Institute of Accounting and Auditing which lays down rules for the recognition, valuation and preparation of the annual accounts for the recognition of income from sales of goods and services.

These annual accounts have been prepared based on the Company's accounting records in order to fairly present its equity and financial position at 31 December 2021, as well as the Company's results, changes in equity and cash flows for the year then ended.

At 31 December 2021, the Company's working capital was negative by Euros 616 million. In this respect, the Company's liquidity statements envisaged for this year together with the amounts available under credit lines (Note 14) will ensure coverage of the goodwill.

The figures set out these annual accounts are expressed in million euros, which is the Company's functional and presentation currency, unless otherwise stated.

The annual accounts present for comparative purposes, for each item in the balance sheet, income statement, statement of changes in equity, cash-flow statement and notes to the accounts, the figures corresponding to the previous year which formed part of the 2020 annual accounts as well as the figures for 2021.

The accounting principles and the main measurement standards used by the Company to prepare the annual accounts for the year are the same as those applied in the Company's annual accounts for the year ended 31 December 2020, except for the adoption of Royal Decree 1/2021 and the adoption of the Resolution of 10 February 2021 of the Spanish Institute of Accounting and Auditing, which lays down rules for the recognition, valuation and preparation of the annual accounts for the recognition of income from sales of goods and services.

The main changes essentially concern the transposition to local accounting regulations of a major part of the standards contained in IFRS-EU 9, IFRS-EU 15, IFRS-EU 7 and IFRS-EU 13.

The impacts on the Company resulting from the adoption of Royal Decree 1/2021 are as follows:

Financial instruments

In relation to financial assets and liabilities, new policies are introduced for their classification, measurement and derecognition, and new rules for hedge accounting are introduced.

In the first application of this standard at 1 January 2021, the Company has opted for the practical solution of not restating comparative information for 2020, opting for prospective application for hedge accounting and the classification of financial instruments.

The option of changing the classification of 2020 assets and liabilities without affecting their valuation has been applied. There has been no adjustment to the carrying amount of financial assets and liabilities in reserves at 1 January 2021.

The impacts derived from initial application have been as follows:

Classification of financial assets

Investments in equity instruments classified as available-for-sale financial assets at 31 December 2020 have been classified as financial assets carried at cost, as their fair value cannot be determined by reference to a quoted market price. In addition, in relation to financial assets that are debt instruments and are not derivatives, the Company holds such assets mainly in order to obtain contractual cash flows and therefore they continue to be measured at amortised cost as from 1 January 2021.

The only impact on the Company arising from the adoption of Royal Decree 1/2021 relates to the classification and valuation of financial assets. In accordance with transitional provision two of Royal Decree 1/2021, the Company has applied the new criteria for the classification and valuation of financial assets and liabilities retroactively, in accordance with the provisions of recognition and measurement standard 22 "Changes in accounting policies, errors and accounting estimates" of the Spanish National Chart of Accounts. As a result, the Company has recognised financial investments in equity instruments at cost amounting to Euros 4 million (31 December 2020: Euros 5 million), which at the end of the previous year were recognised as available-for-sale financial assets. There has been no adjustment to the carrying amount of financial assets and liabilities in reserves at 1 January 2021 as a result of the application of the new accounting legislation.

The equivalence between the amounts classified by category of financial assets as of 31 December 2020 and 1 January 2021 is as follows:

	31.12.2020	01.01.2021
Trade and other receivables	16,164	
Financial assets at amortised cost		16,164
Other fair value financial assets through profit or loss	379	
Fair value financial assets through profit or loss		379
Investments in the equity of Group companies and associates	15,417	
Available-for-sale financial assets	5	
Financial assets at cost		15,422
Total	**31,965**	**31,965**

Except for the changes in the designations of the financial asset categories, Royal Decree 1/2021 has had no impact on equity.

The classification of the Company's financial liabilities for valuation purposes has not changed with respect to that included in the Annual accounts for 2020, with the exception of "Debts and payables", which have been reclassified as "Liabilities at amortised cost", without affecting the valuation criteria previously applied.

Accordingly, financial assets classified by class and category at 31 December 2020 beak down as follows:

At 31 December 2020	Amortised cost	At cost	Assets at fair value through profit and loss	Total
Equity instruments	—	15,417	—	15,417
Loans	15,177	—	—	15,177
Investments in group companies and associates	**15,177**	**15,417**	**—**	**30,594**
Equity instruments	—	5	—	5
Other financial assets	4	—	—	4
Non current investments	**4**	**5**	**—**	**9**
Derivatives (Note 14)	—	—	136	136
Other non-current assets	**—**	**—**	**136**	**136**
Total non current assets	**15,181**	**15,422**	**136**	**30,739**
Derivatives (Note 14)	—	—	123	123
Other assets	189	—	—	189
Trade and other receivables	**189**	**—**	**123**	**312**
Loans	628	—	—	628
Other financial assets	115	—	—	115
Investments in group companies and associates	**743**	**—**	**—**	**743**
Other financial assets	51	—	120	171
Current investments	**51**	**—**	**120**	**171**
Total current investments	**983**	**—**	**243**	**1,226**

Financial liabilities classified by class and category at 31 December 2020 break down as follows:

At 31 December 2020	Fair value through profit and loss	Amortised cost	Hedging derivatives	Total
Bank borrowings	—	2,720	—	2,720
Derivatives (Note 14)	—	—	108	108
Other financial liabilities	—	1	—	1
Non-current borrowings	**—**	**2,721**	**108**	**2,829**
Payable to group companies and associates	**—**	**9,530**	**—**	**9,530**
Derivatives (Note 14)	136	—	—	136
Other non-current financial liabilities	**136**	**—**	**—**	**136**
Total non-current borrowings	**136**	**12,251**	**108**	**12,495**
Bank borrowings	—	257	—	257
Derivatives (Note 14)	—	—	21	21
Other financial liabilities	—	121	—	121
Current borrowings	**—**	**378**	**21**	**399**
Payable to group companies and associates	**—**	**2,560**	**—**	**2,560**
Derivatives (Note 14)	123	—	—	123
Other financial liabilities	—	338	—	338
Trade and other payables	**123**	**338**	**—**	**461**
Total Current borrowings	**123**	**3,276**	**21**	**3,420**

Hedge accounting

The Company has chosen to apply hedge accounting under the standard. However, it has not made any substantial changes in its hedging model, confirming that its current hedging relationships qualify as hedges in accordance with the adoption of the new standard. The Company will record, in a separate equity item, the temporary value of the option contracts, the forward element of forward contracts and the base exchange rate differential in financial instruments in the event of their being excluded from the hedging relationship.

Revenue recognition

The standard has brought in a new model for the recognition of revenue derived from contracts with customers whereby revenue is recognised based on compliance with performance obligations with customers. Revenue reflects the transfer of goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for such goods or services.

In addition, an asset (or inventory item) is recognised for the costs of fulfilling a contract with a customer and an expense accrual is recognised for the incremental costs of obtaining a contract with a customer, in both cases if they are expected to be recovered.

The Company has chosen the practical solution of applying the new standard for new contracts as from 1 January 2021 as the first-time application method at that date, opting not to restate comparative information for 2020.

In addition, the Company decided to apply the practical solution of not considering the financing component to be material when the payment period is less than one year, and recognising the incremental costs of obtaining contracts as an expense when their expected period of allocation to profit and loss is one year or less.

The impacts derived from the initial application of the standard are as follows:

a. The internal revenue recognition policies for the different types of contracts with customers were analysed, identifying the performance obligations, the determination of a schedule for meeting these obligations, transaction price and allocation thereof, in order to identify possible differences with respect to the revenue recognition model under the new standard. No significant differences between them, or performance obligations that could lead to the recognition of liabilities due to contracts with customers, were detected.

b. The standard requires the recognition of an accrual for the expense associated with the incremental costs of obtaining a contract with a customer. Based on the evaluations carried out at the date of entry into force of the new standard, no such expenses have been detected in the Company.

The consolidated annual accounts of Naturgy for 2021 have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS-EU), in accordance with Regulation (EU) 1606/2002 of the European Parliament and of the Council. The main figures disclosed in the consolidated annual accounts, which have been audited, are as follows:

Total assets	38,249
Equity attributed to the parent company	5,889
Non-controlling interests	2,984
Revenue	22,140
Profit after tax attributed to the parent company	1,214

Note 3. Accounting policies

The main accounting principles applied by the Company to prepare these annual accounts are described below.

3.1 Intangible assets

Intangible assets are carried at acquisition price or production cost, or at fair value in the case of assets acquired through a business combination, less accumulated amortisation and any recognised impairment losses.

a. Goodwill

Goodwill represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired at the date of the operation. Consequently, goodwill is only recognised when it has been acquired for valuable consideration and relates to the future economic profits from assets that have not been identified individually and recognised separately.

Goodwill is amortised over ten years using the straight-line method. Goodwill is tested annually to analyse possible impairment losses. It is recognised in the balance sheet at cost value less amortisation and any cumulative impairment adjustments.

The impairment of goodwill cannot be reversed.

b. Computer software

Costs associated directly with the production of computer software programs that are likely to generate economic benefits greater than the costs related to their production are recognised as intangible assets. The direct costs include the personnel costs of the employees involved in developing the programs.

Computer software development costs recognised as assets are amortised on a straight–line basis over a period of five years as from the time the assets are ready to be brought into use.

c. Other intangible assets

Research expenditure is recognised in the income statement when incurred.

The Company has no intangible assets with an indefinite useful life.

3.2. Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and any impairment provision.

a. Cost

Property, plant and equipment are carried at acquisition price or production cost, or at the value attributed to the asset if it is acquired as part of a business combination.

Financial costs relating to financing for plant projects during the plant construction period to the date the asset is ready for use form part of property, plant and equipment.

Renewal, extension or improvement costs are capitalised as an increase in the asset's value only when its capacity, productivity or useful life increases.

Own work capitalised under Property, plant and equipment relates to the direct cost of production.

Expenses arising from actions designed to protect and improve the environment are expensed in the year they are incurred.

When such costs entail additions to property, plant and equipment the purpose of which is to minimise the environmental impact and to protect and improve the environment, they are accounted for as an increase in the value of property, plant and equipment.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the Income statement.

b. Depreciation

Assets are depreciated on a straight-line basis over their useful lives or the concession term, if shorter. Estimated useful lives are as follows:

	Estimated useful life years
Buildings	33 – 50
Computer hardware	4
Vehicles	6
Other	3 – 20

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

When the carrying value of an asset is greater than its estimated recoverable amount or when it is no longer useful, its value is written down immediately to its recoverable amount (Note 3.3).

3.3 Asset impairment

Assets are tested for impairment provided that an event or change in circumstances indicates that their carrying amount might not be recoverable. Additionally, investments in group companies, goodwill and intangible assets that are not in use are tested annually for impairment.

When the recoverable amount is less than the asset's carrying amount, an impairment loss is recognised in the income statement for the amount of the difference between the two. The recoverable amount is calculated at the higher of an asset's fair value less costs of sale and value in use calculated by applying the discounted cash flow method. The Company considers value in use as the recoverable amount, calculated as described below.

For the purposes of assessing impairment losses, assets are grouped together at the lowest level for which there are separately identifiable cash flows. Assets and goodwill are assigned to these cash-generating units (CGUs).

For investments in group companies and associates, barring investments the recoverable amount of which is determined based on the investee's equity (Note 3.4), which have required an analysis of potential impairment losses, the cash flows employed are based on the best prospective information available for the next five years, on the basis of regulations and expected market evolution, drawing on available industry forecasts and historical experience of price trends and volumes produced.

The extension in five years of the projections of cash flows or in the period of remaining useful life of the assets and concessions is motivated because in many cases long-term energy sales contracts have been signed, estimated price curves are available that are used in the group's normal operations (for contracts, hedges, etc.), the electricity and gas trading business is influenced by long-term government policies and supported by stable relationships with customers, there are long regulatory periods and in the case of electricity and gas transportation and distribution concessions, because the mechanism for calculating the new rate that the corresponding regulator will use at the beginning of the new regulatory period is foreseen.

Naturgy considers that its projections are reliable and that it can reliably predict the additional cash flows for the initial five-year period.

The cash flows after the ten-year projected period are extrapolated using the growth rates estimated for each CGU, and in no case exceed the average long-term growth rate for the business in which they operate. In all cases, they are lower than the growth rates stated in the available prospective information. Additionally, in order to estimate future cash flows in the calculation of residual values, all maintenance investments have been considered and, if applicable, renewal investments necessary to maintain the CGUs' production capacity.

The parameters taken into account to determine the growth rates, which represent the long-term growth of each line of business, are in line with the long-term growth of the country, obtained from inflation estimates from various sources: analyst consensus (Bloomberg), International Monetary Fund (IMF), OECD, Central Banks and other government agencies, European Commission for the period 2021-2025 and from 2026 onwards the Economist Intelligence Unit (EIU).

The parameters taken into account for the composition of the discount rates before taxes are as follows:

- Risk-free rate: Based on the sovereign bond market and CGU benchmark term as well as studies or other sources of information (Damodaran, EIU and others).
- Market risk premium: Premium based on studies and other sources of information (IESE Business School: Pablo Fernández, Damodaran and others).
- Deleveraged Beta: Based on estimated betas for each CGU based on comparables (Bloomberg).
- Local current interest rate swaps: Swap between 10 years and 30 years, depending on the CGU's business (Bloomberg).
- Debt-equity ratio: Based on industry comparables.

The impairment loss of an asset, individually considered, is recognised in the income statement, reducing the carrying value of the asset to its recoverable amount. The depreciation charges for the asset are adjusted in future periods in order to apportion the revised carrying amount of the asset, less its residual value, in a systematic manner over its remaining useful life.

An impairment loss is recognised for an asset if its recoverable amount is less than the carrying amount. The carrying amount of an asset is not reduced below the higher of its recoverable value and zero.

Impairment adjustments to values recognised in previous periods for investments in Group companies and associates may be reversed if and only if there is a change in the estimates used to determine their recoverable amount since the latest impairment loss was recognised.

3.4 Financial assets and liabilities

Financial assets

The Company classifies its financial assets based on their valuation category, which is determined on the basis of the business model and the characteristics of the contractual cash flows, and it reclassifies financial assets if and only if it changes its business model for managing those assets.

Purchases and sales of investments are recognised on the trade date, which is the date on which the Company undertakes to purchase or sell the asset, classifying the acquisition under the following categories:

a. Financial assets at cost

This category includes investments in the equity of group companies and associates, as well as investments in equity instruments whose fair value cannot be determined by reference to a quoted price in an active market for an identical instrument or cannot be estimated reliably.

They are carried at the lower of acquisition cost, which is equivalent to the fair value of the consideration provided plus directly-attributable transaction costs, or fair value in the case of investments acquired through business combinations, and recoverable value. The recoverable value is determined as the higher of fair value minus selling costs and the present value of the cash flows generated by the investment. If there is no better evidence of recoverable value, it is taken to be the equity of the investee company adjusted by any unrealised capital gains subsisting at the valuation date. The value adjustment and, where appropriate, its reversal, is recognised in the income statement in the year in which it takes place.

b. Financial assets at amortised cost

These are non-derivative financial assets held to collect contractual cash flows when such cash flows represent only payments of principal and interest. They include current assets, except for those maturing after twelve months as from the balance sheet date, which are classified as non-current assets.

They are initially recorded at fair value and subsequently at amortised cost using the effective interest rate method. Interest revenues on these financial assets are recognised as financial revenues, any gain or loss arising on their derecognition is recognised directly in profit or loss, and impairment losses are presented as a separate item in the income statement.

c. Fair value financial assets through profit or loss

These are assets acquired for short-term sale. Derivatives form part of this category unless they are designated as hedges. These financial assets are stated, both initially and in later valuations, at their fair value, and the changes in their value are taken to the income statement for the year.

Equity instruments in this category are recognised at fair value, and fair value changes or the proceeds from their sale are recognised in profit or loss.

The fair values of listed investments are based on current listed prices (Level 1). In the case of shareholdings in unlisted companies, fair value is determined using valuation techniques that include the use of recent transactions between willing and knowledgeable parties, references to other instruments that are substantially the same, and the analysis of discounted future cash flows (Level 2 and 3). If none of these techniques can be used to determine fair value, investments are carried at cost less any impairment loss.

d. Equity instruments at fair value through equity

These are equity instruments for which the company has made an irrevocable choice at the time of initial recognition to account for them in this category. They are recognised at fair value, and fair value changes are recognised in equity. Nevertheless, impairment losses and the dividends from such investments are recognised in profit or loss. At the time of sale, gains or losses are reclassified to profit or loss.

The fair value measurements made in these half-yearly financial statements are classified using a fair value hierarchy that reflects the materiality of the inputs used to perform these measurements. This hierarchy consists of three levels:

- Level 1: Valuations based on the quoted price of identical instruments in an active market. Fair value is based on quoted market prices at the balance sheet date.

- Level 2: Valuations based on variables that are observable for the asset or liability. The fair value of financial assets in this category is determined by using valuation techniques. The valuation techniques maximise the use of available observable market data and place as little reliance as possible on specific estimates made by the company. If all significant inputs required to calculate fair value are observable, the instrument is classified as Level 2. If one or more of the significant inputs are not based on observable market data, the instrument is classified as Level 3.

- Level 3: Valuations based on variables that are not based on observable market data.

Financial assets are written off when the contractual rights to the asset's cash flows have expired or they have been transferred; in the latter case, the risks and rewards of ownership must have been substantially transferred. Financial assets are not written off, and a liability is recognised in the same amount as the payment received, in asset assignments where the risks and rewards of ownership are retained.

Contracts for the assignment of receivables are classified as non-recourse factoring provided that they entail a transfer of the risks and rewards inherent in ownership of the transferred financial assets.

Impairment of financial assets is based on their recoverable value. The company recognises impairment of financial assets at each reporting date.

Financial liabilities

a. Financial liabilities measured at amortised cost

Borrowings are initially recognised at fair value, net of any transaction costs incurred. Any difference between the amount received and the repayment value is recognised in profit or loss over the debt repayment period using the effective interest rate method, and the financial liabilities are classified as being measured subsequently at amortised cost.

In the event of contractual modifications to a liability at amortised cost that do not result in derecognition, any transaction costs or fees incurred are adjusted in the carrying amount of the financial liability. Thereafter, the amortised cost of the financial liability is determined by applying the effective interest rate that matches the carrying amount of the financial liability with the cash flows payable under the new terms.

The difference between the carrying amount of a derecognised financial liability and the consideration paid is recognised in profit or loss.

Borrowings are classified as current liabilities unless they mature in more than twelve months as from the balance sheet date, or include tacit renewal clauses at the Company's election.

Additionally, trade and other current payables are financial liabilities that fall due in less than twelve months, are recognised initially at fair value and do not accrue explicit interest are recognised at their nominal value. Those maturing in more than twelve months are considered non-current payables.

b. Financial liabilities at fair value through profit or loss

These are liabilities acquired for short-term sale. Derivatives form part of this category unless they are designated as hedges. These financial liabilities are stated, both initially and in subsequent remeasurements, at fair value, and fair value changes are recognised in profit or loss.

3.5 Financial derivatives and other financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the asset being hedged.

The Company aligns its accounting with its management of financial risk. Risk management objectives and the hedging strategy are reviewed periodically and a description of the risk management objective pursued is carried out.

In order for each hedging operation to be considered effective, the Company documents that the economic relationship between the hedging instrument and the hedged asset is aligned with its risk management objectives.

The market value of the various financial instruments is calculated using the following procedures:

- Derivatives listed on an official market are calculated on the basis of their year-end quoted price (Level 1).
- Derivatives that are not traded on official markets are calculated on the basis of the discounting of cash flows based on year-end market conditions or, in the case of non-financial items, on the best estimate of forward price curves for those items (Level 2 and 3).

The fair values are adjusted for the expected impact of observable counterparty credit risk in positive valuation scenarios and the impact of observable credit risk in negative valuation scenarios.

Derivatives embedded in other financial instruments or in other host contracts are recorded separately as derivatives only when their financial characteristics and inherent risks are not strictly related to the instruments in which they are embedded and the whole item is not being carried at fair value through profit or loss.

For accounting purposes, the operations are classified as follows:

1. Derivatives eligible for hedge accounting

a. Fair value hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recognised in the income statement together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

b. Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Income statement.

When options contracts are used to hedge forecast transactions, the Group only designates the intrinsic value of the options contract as the hedging instrument.

Amounts accumulated in equity are transferred to the income statement in the period in which the hedged item affects the gain or loss, as follows:

- The gain or loss relating to the effective portion of interest rate swaps is recognised in the financial expense at the same time as the interest expense in the hedged loans.

- When a hedging instrument covers a forecast transaction, the accumulated amounts remain in equity until the forecast transaction takes place. When the forecast transaction does not occur, the amount accumulated in equity is immediately reclassified to income for the period.

However, if this amount is a loss, and for an amount that is not expected to be recovered, it will be immediately reclassified in the income statement as a reclassification adjustment.

If the hedged item subsequently results in the recognition of an asset, the amount accumulated in equity will be recognised in the initial cost of the asset.

c. Hedges of net foreign investments

The accounting treatment is similar to cash flow hedges. The variations in value of the effective part of the hedging instrument are carried in the Balance sheet under “Value change adjustments”. The gain or loss from the non-effective part is recognised immediately under “Exchange differences” in the income statement. The accumulated amount of the valuation recorded under “Value change adjustments” is released to the income statement as the foreign investment that gave rise to it is sold.

2. Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

Additionally, commodity derivatives not classified as hedges for accounting purposes are recognised inside the operating profit since they essentially constitute an economic hedge because the critical terms of the derivative coincide with those of its hedged item.

3. Energy purchase and sale agreements

In the normal course of its business the Company enters into energy purchase and sale agreements which in most cases include “take or pay” clauses. by virtue of which the buyer takes on the obligation to pay the value of the energy contracted irrespective of whether the buyer receives it or not. These agreements are executed and maintained in order to meet the needs of receipt or physical delivery of energy expected by the Company in accordance with regular energy purchase and sale estimates, which are monitored systematically and adjusted in all cases through physical delivery. Consequently, these are contracts for “own use” and therefore fall outside the scope of the standard on the valuation of financial instruments.

3.6 Non-current assets held for sale and discontinued operations

The Company classifies as held-for-sale assets those assets for which, at the year end, active measures have been initiated for their sale, which is estimated to take place within the next twelve months.

Additionally, the Company considers discontinued activities the components that make up a business line or geographic area of operations, which are significant and which can be considered separately from the rest, and which have been sold or disposed by other means or which meet the conditions to be classified as held-for-sale. Entities acquired solely for resale are also classed as discontinued operations.

These assets are stated at the lower of their carrying value and fair value minus the costs necessary for their sale and are not subject to depreciation from the date on which they are classified as non-current assets held for sale.

In the event of delays caused by events or circumstances beyond Naturgy's control and if there is sufficient evidence that the commitment to the plan to sell those classified as held for sale is maintained, the classification is maintained even though the period to complete the sale is extended beyond one year.

3.7 Share capital

Share capital is represented by ordinary shares.

Issuance costs of new shares or options, net of taxes, are deducted from equity as a reduction in reserves or the share premium account in the case of issuances with a share premium.

Dividends on ordinary shares are recognised as a deduction from equity in the period they are approved.

Acquisitions of treasury shares are recorded at acquisition cost, deducted from equity until disposal. The gains and losses on disposals of treasury shares are recognised under "Reserves" in the balance sheet.

3.8 Share-based payments

Share-based payments settled in shares are valued on the basis of the fair value of the equity instruments granted on the grant date. In addition, the effects of changes that increase the fair value of share-based payment arrangements will be recognised.

The resulting cost is recognised under Personnel expenses in the income statement as the services are rendered by the employees during relevant vesting period, with a balancing entry in Other equity instruments in the balance sheet.

The amounts recognised in equity are not subject to a subsequent reassessment due to trends in external market conditions.

3.9 Borrowings and equity instruments

Borrowings and equity instruments issued by the Company are classified based on the nature of the issue.

The Company treats all contracts that represent a residual share in net assets as equity instruments.

Equity instrument issuance costs are presented as a deduction in equity.

3.10 Provisions for employee obligations

a. Post-employment pension obligations and similar

-Defined contribution plans

The Company, together with other Naturgy companies, is the promoter of a joint occupational pension plan, which is a defined contribution plan for retirement and a defined benefit plan for the so-called risk contingencies, which are insured.

Additionally, there is a defined contribution plan for a group of executives, in which the Company undertakes to make certain contributions to an insurance policy, guaranteeing this group a yield of 125% of the CPI of the contributions made to the insurance policy. All the risks have been transferred to the insurance company, since it insures the guarantee indicated above.

The contributions made have been recognised under Personnel expenses in the income statement.

-Defined benefit plans

For certain groups of employees there are commitments for defined benefit schemes in relation to the payment of supplements on retirement, death and disability pensions, in accordance with the benefits agreed by the entity, which have been externalised through single premium insurance policies under Royal Decree 1588/1999 of 15 October, which approved the Regulations on the arrangement of companies' pension commitments.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit liability is calculated annually by independent actuaries using the projected unit credit method. The current value of the liability is determined discounting the estimated future cash flows at interest rates on bonds denominated in the currency in which the benefits will be paid and having similar maturities to those of the respective liabilities.

Actuarial losses and gains arising from changes in actuarial assumptions or from differences between assumptions and the actual situation are recognised in full in the period in which they arise, directly under Equity in Reserves.

Past service costs are recognised immediately in the Income statement under Personnel expenses.

b. Other post-employment benefit obligations

The Company provides post-employment benefits to its retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that used for defined benefit pension plans. Actuarial gains and losses arising from changes in actuarial assumptions, are charged or credited to Reserves.

c. Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Company terminates the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits. In the event that mutual agreement is required, the provision is only recorded in those situations in which the Company has decided to give its consent to voluntary redundancies once they have been requested by the employees.

3.11 Provisions

Provisions are recognised when the Company has a legal or implicit present obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the best estimate of the present value of the amount required to settle the obligation at the balance sheet date.

When it is expected that part of the disbursement needed to settle the provision will be paid by a third party, the payment is recognised as a separate asset, provided that its receipt is practically assured.

In contracts in which the obligations undertaken include unavoidable costs greater than the economic benefits expected to be received from them, the expenses and respective provisions are recognised in the amount of the current value of the existing difference. The unavoidable costs of the contract will reflect the lower net costs of terminating the contract, i.e. the lower of the cost of complying with the terms of the contract and the compensation derived from non-compliance.

3.12 Leases

a. Finance leases

Leases of property, plant and equipment where the lessee substantially bears all the risks and rewards of ownership are classified as finance leases.

These leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the lease payments, including the purchase option. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The payment obligation derived from the lease, net of the finance cost, is recognised under liabilities in the balance sheet. The interest component of the finance cost is charged to the income statement over the lease period so as to obtain a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the asset's useful life.

b. Operating leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are charged to the income statement on a straight-line basis over the lease term.

3.13 Corporate income tax

Income tax expense includes the deferred tax expense and the current tax expense which is the amount payable (or refundable) on the tax profit for the year.

Deferred taxes are recorded by comparing the temporary differences that arise between the taxable income on assets and liabilities and their respective accounting figures in the annual accounts used the tax rates that are expected to be in force when the assets and liabilities are realised. No deferred taxes are recognised for profits not distributed by subsidiaries when Naturgy can control the reversal of the temporary differences and it is likely that they will not reverse in the foreseeable future.

Deferred tax arising from direct charges or credits to equity accounts are also charged or credited to equity.

Deferred tax assets and tax credits are recognised only to the extent that it is probable that future taxable income will be available against which to offset temporary differences and apply tax credits.

When tax rates change, deferred tax assets and liabilities are reestimated. These amounts are charged or credited to losses or profits, or to reserves, depending on the account to which the original amount was charged or credited.

3.14 Recognition of income and expense

a. General

Revenue derived from contracts with customers is recognised based on compliance with performance obligations with customers.

Revenue reflects the transfer of goods or services to customers at an amount that reflects the consideration to which the Company expects to be entitled in exchange for such goods or services.

Five steps are established for the recognition of revenue:

1. Identify the customer's contract(s).
2. Identify the performance obligations.
3. Determine the price of the transaction.
4. Allocate the transaction price to the performance obligations.
5. Recognise the revenue according to the fulfilment of each obligation.

Based on this recognition model, sales are recognised when products are delivered to the customer and have been accepted by the customer, even if they have not been invoiced, or if applicable, services are rendered, and it is probable that the economic benefits associated with the transaction will flow to the entity.

Expenses are recognised on an accruals basis, immediately in the case of disbursements that are not going to generate future economic profits or when the requirements for recording them as assets are not met.

Sales are stated net of tax and discounts.

b. Other income and expenses

The holding of shares in Group companies and associates is deemed to be the Company's most relevant ordinary activity from which regular revenue is obtained. In accordance with the approach taken by the Spanish Institute of Accounting and Auditing ("ICAC") in connection with the calculation of revenue in holding companies (ruling request number 2 in ICAC Official Gazette number 79), dividends from Group companies and associates, and interest received on loans granted to Group companies and associates, are recognised as “Revenue”. Additionally, the item “Impairment and results on disposal of equity instruments of Group companies and associates” is included in “Operating profit/(loss)”.

Revenue from a contract is recognized as control over the promised goods or services is transferred to the customer.

Revenue derived from the commitments (in general, of provision of services) that are fulfilled over time are recognized based on the degree of progress or progress towards the complete fulfillment of the contractual obligations.

When, at a given date, the stage of fulfilment of the obligation cannot be reasonably measured, revenue and the related consideration are recognised only to the extent of the costs incurred up to that date.

Interest incomes and expenses are recognised using the effective interest method.

Dividend income is recognised when the right to collect the dividend is established. If the dividends are unequivocally derived from reserves generated prior to the acquisition, the value of the investment is adjusted.

3.15 Foreign currency transactions

Foreign currency transactions are translated to euro using the exchange rates in force at the transaction dates. Gains and losses resulting from the settlement of these transactions and translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currency are recognised in the income statement.

3.16 Transactions between related parties

In general, transactions between related parties are recorded initially at their fair value. If the agreed price differs from its fair value, the difference is recorded taking into account the economic reality of the operation. The later valuation is made in accordance with the provisions of the respective legislation.

Notwithstanding the above, in mergers, de-mergers or non-cash contributions of a business, the assets that make up the acquired business are valued at the amount at which they are recognised after the operation takes place in the consolidated annual accounts of the Company.

In these cases, the difference that could arise between the net value of the assets and liabilities of the acquired company, adjusted by the balance of the groupings of grants, donations and bequests received, or any value adjustments or capital or share premiums, as the case may be, issued by the acquiring company, is recorded under Reserves in the balance sheet.

3.17 Business combinations

Business combinations are recorded using the acquisition method. The cost of an acquisition is calculated using the fair value of the assets given, the equity instruments issued and the liabilities incurred or borne on the transaction date plus the costs directly attributable to the acquisition. The valuation process required in order to use the acquisition method is completed within the period of one year as from the acquisition date.

The identifiable assets acquired and the liabilities or contingent liabilities incurred or borne as a result of the transaction, are initially stated at their fair value at the date of acquisition, provided that this can be reliably measured.

The surplus cost of the acquisition in relation to the fair value of the shareholding of the Company in the net identifiable assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised directly in the Income statement.

3.18 Cash flow statement

The cash flow statements has been prepared using the indirect method and contain the use of the following expressions and their respective meanings:

a. Operating activities: activities that constitute ordinary Company revenues, as well as other activities that cannot be qualified as investing or financing.
b. Investing activities: acquisition and disposal of non-current assets and other investments not included in cash and cash equivalents.
c. Financing activities: activities that result in changes in the size and composition of the equity and borrowings of the Company that are not operating activities.

3.19 Significant accounting estimates and judgments

The preparation of annual accounts requires the use of estimates and judgments. The measurement standards that require a large number of estimates are set out below:

a. Property, plant and equipment (Note 3.2)

The determination of useful life of property, plant and equipment requires estimates of their degree of use, as well as expected technological developments. The assumptions regarding the degree of use, technological framework and future development involve a significant degree of judgement, insofar as the timing and nature of future events are difficult to foresee.

b. Impairment of investments in group companies and associates (Note 3.3)

In accordance with applicable accounting regulations, the Company performs impairment tests on investments in group companies and associates that show impairment indicators. These impairment tests require an estimate of future business performance and the most appropriate discount rate in each case. The Company believes that the estimates made are appropriate and consistent with the current market situation.

Note 4 details the main assumptions used to determine the recoverable value of investments in group companies and associates.

c. Derivatives and other financial instruments (Note 3.5)

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the Balance sheet date. The fair value of commodity derivatives is calculated by using forward prices curves. The recoverable value of the investments in the equity of group and multi-group companies and associates is determined as the greater of their fair value less costs of sale and the current value of the cash flows from the investment.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

d. Provisions for employee benefits (Note 3.10)

A number of assumptions must be used to calculate pension costs, other costs of post-retirement benefits and other post-retirement liabilities. The Company estimates at each year end the provision necessary to meet its pension commitments and similar obligations, in accordance with the advice from independent actuaries. The changes affecting such assumptions may result in the recording of different amounts and liabilities. The most significant assumptions for the measurement of pension or post-retirement benefit liabilities are energy consumption by beneficiaries during retirement, retirement age, inflation and the discount rate employed. Social security coverage assumptions are also essential to determine other post-retirement benefits. Future changes to these assumptions will have an impact on future pension costs and liabilities.

e. Provisions (Note 3.11)

The Company makes an estimate of the amounts to be settled in the future, including amounts relating to contractual obligations, onerous contracts, outstanding litigation or other liabilities. These estimates are subject to the interpretation of current events and circumstances, projections of future events and estimates of their financial effects, as well as the result of the negotiations associated with the gas supply contracts.

f. Corporate income tax (Note 3.13)

The calculation of the income tax expense requires interpretations of tax legislation in the jurisdictions in which the Company operates. The determination if the tax authority will accept an uncertain tax treatment and the expected outcome of litigation requires the preparation of significant estimates and judgment. The Company evaluates the recoverability of the deferred income tax assets based on estimates of future taxable income. Deferred tax liabilities are recognised based on estimates of the net assets that will not be tax deductible in the future.

g. COVID-19

The COVID-19 pandemic raised major challenges to commercial activities and introduced a high degree of uncertainty as to economic performance and world energy demand.

In 2020, the confinement of a large proportion of the world population depressed economic activity and triggered widespread declines in macroeconomic indicators, energy demand and prices of the main energy variables.

In 2021, the effects of the COVID-19 pandemic increased the uncertainty about the outlook for individual companies and for the economy in general, and there was a supply and demand shock in the international markets for energy commodities that commenced in the third quarter of 2021, consisting of a sharp recovery in demand while supply lagged behind.

The Group monitors the evolution of the economic cycle in the short and long term, as a result of the impact of COVID-19 or other factors, with the objective of minimising the likelihood that further deteriorations or sharp recoveries in the current economic situation in the markets in which it operates might have material adverse effects on the Group's business, prospects, financial position and the results of its operations.

In making the estimates and hypotheses necessary for the preparation of the Annual accounts, these perspectives have been considered, detailing them in the corresponding Notes.

h. Climate change and the Paris Agreement

Naturgy's strategy takes into consideration the objectives of the Paris Agreement to keep the global temperature increase below 2ºC and achieve climate neutrality by 2050, and they have been taken into account in the preparing the annual accounts for 2021.

In this regard, in the context of its preparation, the effect of the commitments assumed by Naturgy has been considered in the estimates of the useful life of the assets, in the costs of closure and decommissioning of electricity facilities and in the analysis of the impairment of financial assets.

As detailed in Note 4, the projections used in the impairment tests of assets were based on the best available prospective information and reflect the investment plans existing in each CGU at that time. These plans are in line with Naturgy's strategy, which takes account of the objectives of the Paris Agreement. Those projections also took into account the expected effect on wholesale and retail electricity market prices of the entry into operation of new renewable generation facilities and the possible evolution of gas, oil and emission rights prices.

Note 4. Asset impairment

Definition of Cash Generating Unit

At 31 December 2021 the Cash Generating Units (CGUs) are renamed and regrouped following the new business structure reorganisation carried out by Naturgy in 2020.

Energy and Network Management:

- Iberian Networks:

  - Gas networks Spain: Is a single CGU as the development, operation and maintenance of the gas distribution network is managed jointly.
  - Electricity networks Spain: This makes up a single CGU since the network comprises a group of interrelated assets the development, operation and maintenance of which is managed jointly.

- Latin American Networks: A CGU is understood to exist for each business and country in which there are operations since the businesses are subject to different regulatory frameworks. Includes the regulated gas distribution business in Argentina, Brazil, Chile, Mexico and Peru (until the resolution agreement with the Peruvian government in December 2020) and the regulated electricity distribution business in Argentina, Panama and Chile (until July 2021).

- Energy Management:

  - International LNG: There is considered to be a single CGU, since the supply of liquefied natural gas and the maritime transport activity are managed on a global level.
  - Markets and supplies: A CGU is considered to exist since it manages supply and other gas infrastructures, as well as sales to major energy-intensive consumers. It also includes Unión Fenosa Gas following the transaction described in Note 7.
  - Gas pipelines: It includes the CGU which manages the Maghreb-Europe gas pipeline, as well as the CGU for the Medgaz gas pipeline.
  - Thermal generation Spain: A single CGU is considered to exist for thermal power generation in Spain (nuclear and combined cycle).
  - Thermal generation Latin America: A thermal power generation CGU is understood to exist in each country in which there are operations (Mexico, Dominican Republic and Puerto Rico) since the businesses are subject to different regulatory frameworks and are managed independently.

Renewables and New Business:

- Spain: One CGU is considered for renewable electricity generation (wind, mini-hydro, solar and cogeneration) and another CGU for hydroelectric power generation.

- USA: One CGU is considered which encompasses all projects in the country.

- Latin American: A renewable power generation CGU is understood to exist in each country in which there are operations (Brazil, Costa Rica, Mexico, Panama and Chile) since the businesses are subject to different regulatory frameworks and are managed independently.

- Australia: One CGU is considered which encompasses all projects in the country.

Supply:

The commercial management of natural gas, electricity and services is carried out on a comprehensive basis, maximising the value of the portfolio through a customer-based approach and with high potential for growth in services and solutions, for which there is a single CGU.

The grouping of assets considered in the previous CGUs has not changed since the previous estimation of their recoverable value.

Information on impairment tests performed

Naturgy has evaluated the recoverable value of investments in group companies and associates based on the Strategic Plan 2021-2025 presented on 28 July 2021, taking into account the investment plans that maintain the productive capacity of the businesses involved and the market conditions in which they operate. As indicated in Note 3.3, this period has been extended by an additional five years or by the remaining useful life for certain assets and concessions. Various potential future scenarios have also been considered when estimating cash flows, if they provide more relevant information to reflect possible future economic developments.

In general, and in accordance with the new Plan 21-25, the flows reflect Naturgy's new positioning to drive the energy transition and decarbonisation with a focus on digital transformation, with increasing investments in networks and renewables located in stable geographies and regulatory frameworks.

Cash flows have taken into account short-term volatility in international gas markets and transitory high electricity prices. In particular, the regulatory measures approved in Spain for generation, distribution and supply have been estimated, together with the commercial proposals for avoiding high pool prices.

Likewise, although in 2021 the effects of the pandemic continued to generate strong uncertainty in the economy in general and the final scope and the moment in which the definitive recovery from the COVID-19 health crisis will take place is still unknown, the estimated cash flows contemplate, in general terms, a recovery path to pre-pandemic levels and a limitation of its effect on energy demand.

Information on recognised impairments (Note 7)

In 2021 an income has been recognised due to the reversal of impairments of shareholdings in Group companies and associates amounting to Euros 869 million (increase in impairment of Euros 1,088 million in 2020) under the heading "Impairment of and losses from equity instruments of Group companies and associates" in the income statement, detailed below:

- Impairment reversal of Euros 154 million (impairment of Euros 1,005 million in 2020) for the holding in Naturgy Generación, S.L.U., which includes the Spanish hydroelectric power generation CGU following the spin-off detailed in Note 7. In 2020, the CGUs for Hydraulic Generation and Thermal Generation were included in this company.

The assumptions and projections affecting the Hydroelectric power generation CGUs are based on the best forward-looking information available to date.

The assumptions taken into consideration are the following:

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Evolution of Spanish GNP	**4.80%**	5.70%	3.60%	2.30%	2.10%	1.80%	1.30%	0.90%	0.60%	0.40%
Pool price €/MWh	**111.4**	152.2	80.9	75.7	69.5	58.1	56.3	57.0	59.6	60.7

The most sensitive aspects that are included in the estimate of the recoverable amount determined according to the value in use and applying the methodology detailed in Note 3.3 are the following:

Electricity generated. For the Hydroelectric power generation CGU, production has been estimated considering an average hydraulic year and in addition compensation has been considered through a mechanism that remunerates the firm capacity contributed that is expected to be implemented to make the NECP forecasts viable.

Electricity price. Market electricity prices used have been calculated using models that cross expected demand with supply forecasts, taking into account the foreseeable evolution of generation capacity in Spain, based on sector forecasts, the evolution of the energy scenario on the basis of the futures curves and analysts' forecasts.

The projected flows take into account the most relevant extraordinary regulatory changes derived from the increase in electricity prices in 2021 on the wholesale market:

- The allocation of energy produced by the hydraulic installations to the new long-term energy purchase auctions, aimed at industrial customers and independent marketers.
- The estimated impact of the reduction in the remuneration of non-emitting installations, for an amount proportional to the value of the gas price quote, as well as the project for the reduction in remuneration for CO_2 not emitted from the electricity market.
- The measures envisaged to regulate water impounded for hydroelectric use.

Operation and maintenance costs. These have been estimated from historical costs of the managed park.

Taxes established by Law 15/2012 and extraordinary temporary suspensions.

Investments: those required to maintain the regular use of the facilities have been taken into account.

In addition, a long-term growth rate of 2% and a pre-tax discount rate of 6% have been used. The discount rate has been determined based on the associated risks in a manner consistent with those considered in the estimates of future cash flows.

In 2020, the long-term growth rate was 2.1% and the pre-tax discount rate was 6.2% for the Hydroelectric power generation CGU.

The accumulated impairment at 31 December 2021 relating to the holding in Naturgy Generation, S.L.U. following the demerger mentioned in Note 7 amounts to Euros 2,186 million (Euros 4,678 million at 31 December 2020).

- An impairment reversal of Euros 784 million (an impairment of Euros 47 million in 2020) relating to the 100% shareholding in Unión Fenosa Gas (UFG).

In March 2021, Naturgy, ENI and the Arab Republic of Egypt completed the agreement reached on 1 December 2020 to amicably resolve the disputes affecting UFG. As a result, UFG received a number of cash payments for the sale of the assets in Egypt, UFG's business activities in Spain and one of its vessels, as well as the receipt of compensation agreed with the Egyptian government. Simultaneously, Naturgy completed the acquisition of the remaining 50% holding in UFG for Euros 466 million, bringing Naturgy's holding to 100% and enabling it to obtain control. This also entailed the termination of the annual gas supply contract of around 3.5 bcm for supplying combined cycle plants in Spain that was due to end in 2029, while maintaining the contract with Oman which expires in 2025.

As a result of the acquisition of the additional 50% holding, Euros 108 million have been reversed for the valuation of the previous 50% holding in Unión Fenosa Gas.

From the valuation of the expected flows corresponding to the gas supply contract with Oman that expires in 2025 and the estimate of the dividends for its 7.36% holding in the company Qalhat LNG S.A.O.C., an additional Euros 676 million have been reversed.

In addition, a pre-tax discount rate of 12.2% was used. The discount rate has been determined based on the associated risks in a manner consistent with those considered in the estimates of future cash flows.

The accumulated impairment at 31 December 2021 relating to the 100% interest in Unión Fenosa Gas amounts to Euros 1,395 million (Euros 2,179 million at 31 December 2020 for a 50% interest). At 31 December 2021, the recoverable amount calculated as the value in use of UFG, which is equivalent to its carrying value, was Euros 1,294 million (Euros 262 million at 31 December 2020) (Note 7).

In addition, the following impairments have been recognised based on the companies' equity:

- Euros 49 million relating to the holding in Naturgy LNG, S.L. (Euros 9 million in 2020), due to the company's unfavourable performance.

The accumulated impairment at 31 December 2021 relating to the holding in Naturgy LNG, S.L. amounts to Euros 59 million (Euros 10 million in 2020).

- Euros 9 million relating to the holding in Naturgy Informática, S.A. (Euros 9 million in 2020).

The accumulated impairment at 31 December 2021 relating to the holding in Naturgy Informática, S.A. amounts to Euros 155 million (Euros 146 million at 31 December 2020).

- Euros 8 million relating to the shareholding in Naturgy Engineering, S.L. (Euros 4 million in 2020).

The accumulated impairment at 31 December 2021 relating to the holding in Naturgy Engineering, S.L. amounts to Euros 12 million (Euros 4 million in 2020).

- Euros 8 million for the shareholding in Naturgy Nuevas Energías, S.L.U. The accumulated impairment at 31 December 2021 is Euros 2 million. A provision for future liabilities amounting to Euros 6 million has been included under "Other long-term provisions".

- Euros 7 million for the holding in Naturgy Almacenamientos Andalucía, S.A. Accumulated impairment at 31 December 2021 amounts to Euros 8 million (Euros 3 million at 31 December 2020). A provision for future liabilities amounting to Euros 2 million has been included under "Other long-term provisions".

- Euros 1 million in 2021 for the impairment of the 32.3% holding in Petroleum Oil & Gas España, S.A.(Euros 3 million at 31 December 2020).

The accumulated impairment at 31 December 2021 relating to the holding in Petroleum Oil & Gas España, S.A. amounts to Euros 74 million (Euros 73 million in 2020).

- Impairment reversal of Euros 13 million relating to Naturgy Participaciones, S.A.U. Accumulated impairment at 31 December 2021 amounts to Euros 8 million (Euros 21 million in 2020).

- Impairment of Euros 1 million of the holding in Gas Natural Exploración, S.L. (Euros 0 million at 31 December 2020).

The accumulated impairment at 31 December 2021 relating to the holding in Gas Natural Exploración, S.L. amounts to Euros 214 million (Euros 213 million in 2020).

- Other reversals of impairment in holdings in Naturgy companies amounting to Euros 1 million (Euros 16 million in 2020).

Information on other impairment tests performed:

As regards the remaining CGUs or groups of CGUs that have been allocated goodwill or intangible assets with an indefinite useful life or evidence of impairment, in 2021 and 2020 the recoverable amounts, calculated according to the methodology described in Note 3.3, have been higher than the carrying values of holdings in Group companies recorded in these annual accounts. The most sensitive aspects included in the projections used are as follows:

Gas and Electricity Networks Spain:

- Remuneration. Amount and growth of remuneration. In relation to the regulatory framework, the future cash flows of these business lines have been reviewed taking into account the publications by the regulator in 2020 and 2021 on the remuneration methodology for the regulated electricity and gas distribution activity from 2021, respectively.

- Operation and maintenance costs. Estimated on the basis of the historical cost of the network managed.

- Investments. Considering the investments required to maintain the regular use of the network and the quality of supply, as well as the digitalisation of electricity networks and the estimated investment in line with sector requirements and the digital transition in the operation of gas networks.

- In addition, long-term growth rate of 0.5% - 2.0% (0.5% - 1.9% in 2020) and pre-tax discount rate of 4.7% - 5.4% (5.2% - 5.9% in 2020) have been used.

Latin American networks:

For gas networks CGUs in Brazil, Chile, Argentina and México and electricity networks CGUs in Argentina and Panama:

- Variations in rates. Valuation of rates in each country, based on existing regulatory conditions and rate reviews, taking into account the experience gained from previous rate reviews in each country.

- Cost of raw materials and consumables. Estimated on the basis of predictive modelling based on an understanding of energy markets in each country.

- Operation and maintenance costs. Estimated on the basis of the historical cost of the network managed.

- Investments. Taking into account the necessary investments to maintain the regular use of the network and supply quality and safety.

- In addition, long-term growth rate of 2% - 8.8% (2.5% - 11.4% in 2020) and pre-tax discount rate of 7.7% - 18.1% (7.9% - 15.8% in 2020, after homogenization) have been used.

Thermal generation Spain:

The assumptions and projections affecting this CGU have been based on the best forward-looking information available to date, generally considering the possible effects on generation of the transition expected due to the increase in renewable energy sources set out in the rules on the first NECP in the Climate Change and Energy Transition Bill. The above projections consider a production path considering the prospects of the NECP, which contemplate the need for all the installed power of combined cycle generation units in the projection horizon (2030).

The assumptions taken into consideration are the following:

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Evolution of Spanish GNP	**4.8%**	5.7%	3.6%	2.3%	2.1%	1.8%	1.3%	0.9%	0.6%	0.4%
Pool price €/MWh	**111.4**	152.2	80.9	75.7	69.5	58.1	56.3	57.0	59.6	60.7
Brent (USD/bbl)	**70.7**	66.7	71.6	67.3	64.6	63.7	65.1	66.6	68.3	70.1
Gas Henry Hub (USD/MMBtu)	**3.8**	3.9	3.5	3.2	3.0	3.3	3.4	3.6	3.9	4.1
Coal (API2 CIF ARA) (USD/t)	**119.9**	110.4	85.8	80.6	80.5	79.0	81.2	83.5	85.9	88.3
CO2 €/t	**53.2**	77.1	60.2	61.0	62.0	67.6	71.7	75.8	80.1	84.6

The most sensitive aspects that are included in the estimate of the recoverable amount determined according to the value in use and applying the methodology detailed in Note 3.3 are the following:

Electricity generated. Demand evolution has been estimated based on projections from the CNMC and analysts. The market share has been estimated based on Naturgy's market share in each technology and the expected evolution of the share of each technology in the total market, in line with the expected future evolution of the generation mix, maintaining the expected decrease in thermal production offset by a mechanism that rewards the firm capacity provided, which is expected to be established to make the PNIEC forecasts viable.

Electricity price. Market electricity prices used have been calculated using models that cross expected demand with supply forecasts, taking into account the foreseeable evolution of generation capacity in Spain, based on sector forecasts, the development of the energy scenario on the basis of futures curves, and analysts' forecasts.

The projected flows take into account the most relevant extraordinary regulatory changes derived from the increase in electricity prices on the wholesale market:

- The allocation of energy produced by the hydraulic installations to the new long-term energy purchase auctions, aimed at industrial customers and independent marketers.
- The estimated impact of the reduction in the remuneration of non-emitting installations, for an amount proportional to the value of the gas price quote, as well as the project for the reduction in remuneration for CO_2 not emitted from the electricity market.

Fuel costs. Estimated on the basis of market prices. Operation and maintenance costs. Estimated from historical costs of the managed park.

Taxes established by Law 15/2012 and extraordinary temporary suspensions.

In addition, a long-term growth rate of 2% and a pre-tax discount rate of 7.1% (growth rate of 2.1% and pre-tax discount rate of 7.4% in 2020) have been used.

Thermal generation Latin American:

For thermal electricty generation CGUs in México, Dominican Republic and Puerto Rico:

- Thermal generation in Mexico is carried out over most of its useful life under energy sale-purchase contracts through stable business models and which are not subject to fluctuation risks on the basis of market variables. In the Dominican Republic and Mexico, upon termination of the contracts energy prices are set based on the market and are estimated on the basis of developments in the country's energy scenario, including the foreseeable evolution of the generation pool and taking into account expected supply and demand, and production costs.

- The main estimates considered in the flows generated by the Puerto Rico thermal genertion CGU relate to the contract with Puerto Rico Electric Power Authority (PREPA), which will remain in force until the end of 2032.

- Operation and maintenance costs have been estimated from historical costs of managed park.

- In addition, long-term growth rate of 2% (1.8% in 2020) and pre-tax discount rate of 9% - 12.5% (9% - 13.2% in 2020) have been used.

<u>Renewables Spain:</u>

The assumptions and projections affecting the Renewable generation CGU (wind, mini-hydro, solar and cogeneration) are based on the best forward-looking information available to date.

The assumptions concerning changes in GDP and the Pool price coincide with those considered in the Thermal Generation Spain CGU.

The most sensitive matters included in the impairment test are as follows:

- Electricity generated. Projections of hours of operation of each park consistent with their historical output and predictions based on historical records of similar parks have been used when there were no historical data.

- Electricity price. Market electricity prices used have been calculated using models that cross expected demand with supply forecasts, taking into account the foreseeable evolution of generation capacity in Spain, based on sector forecasts, the evolution of the energy scenario on the basis of the futures curves and analysts' forecasts.

- Remuneration. For the renewable generation CGU facilities entitled to specific remuneration, the remuneration has been estimated on the basis of the remuneration parameters for the established regulated income period.

- Operation and maintenance costs have been estimated from historical costs of managed park.

- Taxes established by Law 15/2012 and extraordinary temporary reductions.

- In addition, long-term growth rate of 2% (2.1% in 2020) and pre-tax discount rate of 5.4% (5.7% in 2020) have been used.

<u>Renewables USA:</u>

As the acquisition was made in 2021, the main assumptions used in the business plan considered in the acquisition of the portfolio of 8 GW of solar projects together with 4.6 GW of energy storage projects are considered unchanged.

<u>Renewables Latin America:</u>

Includes the Brazil, Costa Rica, México, Panama and Chile electricity generation CGUs.

- Renewable electricity generation in Latin America is managed under energy sale-purchase contracts through stable business models which are not subject to fluctuation risks on the basis of market variables.

- Operation and maintenance costs. Estimated on the basis of historical costs and on the basis of best forecasts when no historical data are available.

- In addition, long-term growth rate of 2% - 3.3% (1.9% - 3.2% in 2020) and pre-tax discount rate of 8.4% - 14.6% (8.6% - 15% in 2020) have been used.

<u>Renewables Australia:</u>

- Electricity generation in Australia is managed during the majority of its useful life under energy sale-purchase contracts through stable business models and which are not subject to fluctuation risks on the basis of market variables. Upon termination of the contracts, energy prices are set based on the market and are estimated on the basis of developments in the country's energy scenario, including the foreseeable evolution of the generating fleet and taking into account expected supply and demand, as well as production costs.

- Operation and maintenance costs. Estimated on the basis of historical costs and on the basis of best forecasts when no historical data are available.

- In addition, long-term growth rate of 2.8% (2.7% in 2020) and pre-tax discount rate of 7.7% (7.4% in 2020) have been used.

<u>Supply:</u>

- Supply margin. Projections have been used on the evolution of the number of customers and unitary margins based on existing contracts and the knowledge of the markets in which it operates.

- In addition, long-term growth rate of 0.5% (0.5% in 2020) and pre-tax discount rate of 6.5% (6.8% in 2020) have been used.

Naturgy has carried out a sensitivity analysis with respect to the following fluctuations:

<u>Thermal electricity generation Spain:</u>

- an increase in the discount rate of 50 basis points would entail an impairment of Euros 40 million.
- a decrease in the growth rate of 50 basis points would entail an impairment of Euros 36 million.
- a decrease in electricity output of 5% would entail an impairment of Euros 94 million.
- a decrease in the electricity price of 1 €/MWh together with the related variation in the cost of gas would entail an impairment of Euros 74 million.

<u>Hydraulic electricity generation Spain:</u> the result of the sensitivity analysis carried out is:

- an increase in the discount rate of 50 basis points would entail an impairment of Euros 61 million.
- a decrease in the growth rate of 50 basis points would entail an impairment of Euros 18 million.
- a decrease in electricity output of 5% would entail an impairment of Euros 94 million.
- a decrease in the electricity price of 1 €/MWh would entail an impairment of Euros 74 million.

<u>Gas distribution Argentina</u>: the result of the sensitivity analysis carried out is:

- an increase in the discount rate of 50 basis points would entail an impairment of Euros 3 million.
- a decrease in the growth rate of 50 basis points would equalize value in use with carrying value.
- a decrease of 5% in the rate/remuneration evolution would entail an impairment of Euros 13 million.
- an increase of 5% in operating and maintenance costs would entail an impairment of Euros 7 million.
- an increase of 5% in investments would entail an impairment of Euros 4 million.

<u>Electricity generation Dominican Republic:</u> The result of the sensitivity analysis carried out is as follow:

- an increase in the discount rate of 50 basis points would result in the recognised reversal remaining unchanged.

<u>Electricity generation Panama:</u> The result of the sensitivity analysis carried out is as follow:

- an increase in the discount rate of 50 basis points would entail an impairment of Euros 1 million.

<u>Electricity generation Costa Rica</u>: The result of the sensitivity analysis carried out is as follow:

- an increase in the discount rate of 50 basis points would entail an impairment of Euros 6 million.

For other investments in group companies and associates, Naturgy has carried out a sensitivity analysis for 2021 and 2020 of the unfavourable variations which, drawing on historical experience, may reasonably impact the aforementioned sensitive parameters on which the recoverable amounts have been determined. Specifically, the most relevant sensitivity analyses performed are as follows:

	Increase	Decrease
Discount rate	50 basis points	—
Growth rate	—	50 basis points
Electricity generated	—	5%
Electricity price	—	5%
Fuel supply costs	5%	—
Tariff/remuneration performance	—	5%
Operating and maintenance costs	5%	—
Investments	5%	—

These sensitivity analyses performed separately for each basic assumption would not affect the conclusions drawn to the effect that the recoverable amount exceeds the carrying amount for investments in Group companies recorded in these annual accounts.

Note 5. Intangible assets

This heading breaks down as follows:

	Patents, licences, trademarks and other	Computer software	Subtotal	Goodwill	Total
Cost	—	6	6	815	821
Accumulated amortisation	—	(3)	(3)	(815)	(818)
Carrying value at 1.1.2020	—	3	3	—	3
Amortisation charge	—	(1)	(1)	—	(1)
Carrying value at 31.12.2020	1	2	3	—	3
Cost	1	6	7	815	822
Accumulated amortisation	—	(4)	(4)	(815)	(819)
Carrying value at 1.1.2021	**1**	**2**	**3**	**—**	**3**
Investment	—	—	—	—	—
Amortisation charge	—	(1)	(1)	—	(1)
Carrying value at 31.12.2021	1	1	2	—	2
Cost	1	6	7	815	822
Accumulated amortisation	—	(5)	(5)	(815)	(820)
Carrying value at 31.12.2021	**1**	**1**	**2**	**—**	**2**

Brands worth Euros 1 million were acquired in 2020.

Goodwill derives from the vertical merger of Unión Fenosa, S.A. completed in 2009 and is attributable to the benefits and synergies arising from the integration with Naturgy. It has been fully amortised since 2019.

At 31 December 2021, intangible assets include fully amortised goodwill.

In 2021 and 2020 there have been no disposals of fully-amortised assets.

Note 6. Property, plant and equipment

Set out below is an analysis showing movements in Property, plant and equipment during 2021 and 2020:

	Land and buildings	Other property, plant and equipment	Total
Cost	184	35	219
Accumulated amortisation	(72)	(23)	(95)
Carrying value at 1.1.2020	**112**	**12**	**124**
Investment	5	2	7
Divestment	(5)	—	(5)
Amortisation charge	(11)	(2)	(13)
Carrying value at 31.12.2020	**101**	**12**	**113**
Cost	177	34	211
Accumulated amortisation	(76)	(22)	(98)
Carrying value at 1.1.2021	**101**	**12**	**113**
Investment	9	2	11
Divestment	(2)	—	(2)
Amortisation charge	(10)	(2)	(12)
Carrying value at 31.12.2021	**98**	**12**	**110**
Cost	169	25	194
Accumulated amortisation	(71)	(13)	(84)
Carrying value at 31.12.2021	**98**	**12**	**110**

In 2021 there have been disposals of fully-depreciated assets totalling Euros 24 million (Euros 2 million at 31 December 2020). In addition, in 2021 various properties and vehicles have been sold resulting in net asset disposals of Euros 1 million with a positive result of Euros 1 million on the income statement reflected under "Impairment and gains/losses on fixed asset disposals".

Property, plant and equipment include fully-depreciated assets still in use totalling Euros 17 million at 31 December 2021 (Euros 19 million in 2020).

It is the Company’s policy to take out insurance where deemed necessary to cover risks that could affect its property, plant and equipment.

At 31 December 2021 and 31 December 2020, the Company had no investment commitments.

Note 7. Investments in Group companies and associates

The classification of investments in Group companies and associates by category at 31 December 2021 and 31 December 2020 is as follows:

At 31.12.2021	Financial assets at cost	Financial assets at amortised cost	Total
Equity instruments	16,138	—	16,138
Loans	—	15,146	15,146
Non-current	**16,138**	**15,146**	**31,284**
Loans	—	2,376	2,376
Other financial assets	—	3	3
Current	**—**	**2,379**	**2,379**
TOTAL	**16,138**	**17,525**	**33,663**

At 31.12.2020	Financial assets at cost	Financial assets at amortised cost	Total
Equity instruments	15,417	—	15,417
Loans	—	15,177	15,177
Non-current	**15,417**	**15,177**	**30,594**
Loans	—	628	628
Other financial assets	—	115	115
Current	**—**	**743**	**743**
TOTAL	**15,417**	**15,920**	**31,337**

Movements during the year in non-current investments in group companies and associates are as follows:

	Holdings in group companies	Loans to group companies	Holdings in associates	Total
Balance at 01.01.2020	**16,548**	**16,202**	**4**	**32,754**
Additions	83	—	—	83
Divestments	(130)	(1)	—	(131)
Reclassification	—	(1,024)	—	(1,024)
Charge/reversal provisions	(1,088)	—	—	(1,088)
Balance at 31.12.2020	**15,413**	**15,177**	**4**	**30,594**
Additions	550	578	—	1,128
Divestments	(706)	(577)	—	(1,283)
Reclassification	—	(32)	—	(32)
Charge/reversal provisions	877	—	—	877
Balance at 31.12.2021	**16,134**	**15,146**	**4**	**31,284**

The main corporate transactions carried out by the Company were as follows:

2021

- In March 2021, Naturgy, ENI and the Arab Republic of Egypt completed the agreement reached on 1 December 2020 to amicably resolve the disputes affecting UFG. As a result, UFG received a number of cash payments for the sale of the assets in Egypt, UFG's business activities in Spain and one of its vessels, as well as the receipt of compensation agreed with the Egyptian government. Simultaneously, Naturgy completed the acquisition of the remaining 50% holding in UFG for Euros 466 million, bringing Naturgy's holding to 100% and enabling it to obtain control. This also entailed the termination of the annual gas supply contract of around 3.5 bcm for supplying combined cycle plants in Spain that was due to end in 2029, while maintaining the contract with Oman which expires in 2025.

  In addition, the distribution of an interim dividend of Euros 218 million for 2021 was recorded as a reduction in the carrying amount of the holding.

- Cash contribution to offset losses incurred by Naturgy LNG, S.L. in the amount of Euros 82 million.

- The distribution of the share premium has been recorded as a decrease in the carrying value of the interest in Holding Negocios de Gas, S.A., in the amount of Euros 396 million.

- The distribution of an interim dividend for 2021 amounting to Euros 91 million has been recorded as a decrease in the carrying amount of the shareholding in Holding Negocios de Electricidad, S.A.

- Cash contribution to offset losses incurred by Petroleum Oil&Gas España, S.A. for Euros 1 million.

- Disposal of 60% of the shareholdings in Lean Corporate Services, S.L., Lean Customer Services, S.L, Lean Grids Services, S.L and Naturgy IT, S.L. already announced in November 2020 to provide the corresponding strategic partners in the provision of the various services involved with an equity interest without any relevant impact on results. At 31 December 2021 the Company holds a 15% interest in all these companies and therefore they have been reclassified to long-term investments (Note 8).

- As a result of the spin-off in 2021 of Naturgy Generación, S.L.U. in favour of Naturgy Ciclos Combinados, S.L.U. and Naturgy Generación Térmica, S.L., Euros 774 million of the net shareholding of Naturgy Generación, S.L.U. was reclassified, giving rise to a valuation of Euros 761 million in Naturgy Ciclos Combinados, S.L.U and Euros 13 million in Naturgy Generación Térmica, S.L.

- A provision/reversal of provisions for holdings in Group companies of Euros 877 million (expense reduction) was recorded (Note 4).

2020

- Cash contribution to offset losses incurred by Gas Natural Comercializadora, S.A. in the amount of Euros 33 million.

- Cash contribution to offset losses incurred by Comercializadora Regulada Gas&Power, S.A. for Euros 28 million.

- The distribution of the share premium was recorded as a decrease in the carrying value of the holding in the Group company Union Fenosa Mineria, S.A., in the amount of Euros 21 million. Subsequently, Union Fenosa Mineria, S.A. was wound up with no impact on income, involving a divestment of Euros 43 million. As a result of this liquidation the Company received the shareholding of Lignitos de Meirama, S.A., an investee of Union Fenosa Minería, S.A., for a carrying value of Euros 17 million, offsetting the Company's debts with the liquidated company which totalled Euros 26 million.

- Cash contribution to offset losses incurred by Lean Grids Services, S.L. in the amount of Euros 2 million. In March 2020, a 25.0% interest in Lean Corporate Services, S.L., Lean Customer Services, S.L. and Lean Grids Services, S.L. was sold to the relevant strategic partners in the provision of the various services. These transactions did not result in a loss of control and did not have a material impact on the Company's annual accounts. Subsequently, in November, the sale of an additional 60% holding was announced, together with Naturgy IT, S.L., which was completed in the first quarter of 2021.

- Cash contribution for a capital increase in Naturgy Nuevas Energías, S.L.U (formerly Naturgy Gas&Power, S.L.U) amounting to Euros 2 million.

- Liquidation of Clover Financial and Treasury Services, D.A.C. without any impact on income.

- The distribution of a supplementary dividend for 2019 amounting to Euros 64 million was recorded as a decrease in the carrying amount of the holding in the Group company Global Power Generation, S.A.

- Other movements totalling Euros 1 million.

- Provisions for holdings in Group companies amounting to Euros 1,088 million were recorded (Note 4).

- Reclassifications included the transfer to current receivables from Group companies in the amount of Euros 1,024 million.

The cumulative provision for the impairment of shareholdings in Group companies and associates totals Euros 4,153 million at 31 December 2021 (Euros 7,369 million at 31 December 2020), relating basically to the following companies (Note 4):

	2021	2020	Variation
Naturgy Generación, S.L.U.	2,186	4,678	(2,492)
Unión Fenosa Gas, S.A.	1,395	2,179	(784)
Gas Natural Exploración, S.L.	214	213	1
Naturgy Informática, S.A.	155	146	9
Petroleum, Oil & Gas España, S.A.	74	73	1
Naturgy LNG, S.L.	59	10	49
N.Engineering, S.L.	12	4	8
General de Edificios y Solares, S.L.	9	9	—
Naturgy Participaciones, S.A.U.	8	21	(13)
Naturgy Almacenamientos Andalucía, S.A.	8	3	5
Naturgy Nuevas Energías, S.L.U.	2	—	2
Other	31	33	(2)
Total	**4,153**	**7,369**	**(3,216)**

The amount of the provision for impairment of Naturgy Generación, S.L.U. considered in cost of the shares of the beneficiary companies of the spin-off Naturgy Ciclos Combinados, S.L.U and Naturgy Generación Térmica, S.L amounts to Euros 2,338 million.

Financial income for dividends received from investments in equity instruments of group companies and associates during 2021 and 2020, correspond to the following companies:

	2021	2020
Holding Negocios Electricidad, S.A.	208	183
Naturgy Iberia, S.A.	200	200
Holding Negocios Gas, S.A.	125	432
Sagane, S.A.	124	175
Global Power Generation, S.A.U.	116	—
Unión Fenosa Gas, S.A.	82	—
Naturgy Inversiones Internacionales, S.A.	70	25
Naturgy Finance, B.V.	4	—
Naturgy Engineering, S.L.	1	15
Naturgy Capital Markets, S.A.	1	3
Naturgy Distribución Latinoamérica S.A.	—	141
Naturgy Aprovisionamientos S.A	—	95
Other	1	2
Total	**932**	**1,271**

The breakdown of shareholdings in Naturgy companies is set out below:

					Data at 31 December 2021								
					% interest			Equity					
Company	**Registered Office**	**Activity**	**Carrying value 2021**	**Carrying value 2020**	**Direct**	**Indirect**	**Total**	**Capital**	**Reserves (1)**	**Profit/(loss)**	**Interim dividend**	**Other (2)**	**EQUITY**
Naturgy Aprovisionamientos, S.A.	Spain	Gas supply	85	85	100.0	—	100.0	1	181	(49)	—	1	134
Naturgy LNG, S.L.	Spain	Gas supply	38	5	100.0	—	100.0	2	94	(59)	—	(3)	34
Sagane, S.A.	Spain	Gas supply	42	42	100.0	—	100.0	95	22	76	—	3	196
Unión Fenosa Gas, S.A.	Spain	Gas supply	1,294	262	100.0	—	100.0	33	398	437	(300)	(341)	227
Naturgy LNG GOM, S.L.	Spain	Gas supply	—	—	100.0	—	100.0	—	—	—			—
Gas Natural Comercializadora, S.A.	Spain	Gas and electricity supply	195	195	100.0	—	100.0	3	6	(319)	—	175	(135)
Comercializadora Regulada, Gas & Power, S.A.	Spain	Gas and electricity supply	121	121	100.0	—	100.0	2	4	3	—	—	9
Naturgy Commodities Trading, S.A.	Spain	Gas and electricity supply	11	11	100.0	—	100.0	10	6	11	—	—	27
Naturgy Iberia, S.A.	Spain	Gas and electricity supply	494	494	100.0	—	100.0	3	167	140	(100)	405	615
Naturgy Clientes, S.A.	Spain	Gas and electricity supply	—	—	100.0	—	100.0	—	—	—	—	—	—
Holding Negocios Electricidad, S.A.	Spain	Electricity distribution	3,845	3,936	100.0	—	100.0	—	3,666	124	—	—	3,790
Holding de Negocios de Gas, S.A.	Spain	Gas distribution	4,720	5,115	80.0	—	80.0	—	5,958	79	—	—	6,037
Naturgy Generación, S.L.U.	Spain	Electricity generation	928	1,548	100.0	—	100.0	732	53	143	—	(113)	815
Naturgy Renovables, S.L.U.	Spain	Electricity generation	1,141	1,141	100.0	—	100.0	90	208	73	—	(228)	143
Global Power Generation, S.A.	Spain	Electricity generation	648	648	75.0	—	75.0	20	552	158	—	25	755
Toledo PV A.I.E.	Spain	Electricity generation	—	—	33.3	—	33.3	—	—	1	—	—	1
Naturgy Ciclos Combinados, S.L.U.	Spain	Electricity generation	761	—	100.0	—	100.0	320	445	42	—	(4)	803
Naturgy Generación Térmica, S.L.U.	Spain	Electricity generation	13	—	100.0	—	100.0	—	23	(4)	—	(208)	(189)
Naturgy Almacenamientos Andalucía S.A.	Spain	Gas infrastructures	—	5	100.0	—	100.0	—	5	2	—	—	7
Gas Natural Exploración, S.L.	Spain	Gas infrastructures	8	9	100.0	—	100.0	8	16	—	—	(16)	8
Petroleum, Oil & Gas España, S.A.	Spain	Gas infrastructures	—	—	32.3	67.7	100.0	4	(2)	(2)	—	—	—
Liginitos de Meirama, S.A.	Spain	Mining	17	15	100.0	—	100.0	23	(7)	1	—	—	17
Natural Re, S.A.	Luxembourg	Insurance	9	9	100.0	—	100.0	5	56	1	—	—	62
General de Edificios y Solares, S.L.	Spain	Services	54	54	100.0	—	100.0	34	20	—	—	—	54
Naturgy Capital Markets, S.A.	Spain	Financial services	—	—	100.0	—	100.0	—	—	1	—	—	1
Naturgy Finance, B.V.	Netherlands	Financial services	7	7	100.0	—	100.0	—	5	4	—	—	9
Naturgy Participaciones, S.A.	Spain	Financial services	102	89	100.0	—	100.0	—	90	13	—	(1)	102
Unión Fenosa Preferentes, S.A.U.	Spain	Financial services	—	—	100.0	—	100.0	—	1	1	(1)	110	111
Naturgy Informática, S.A.	Spain	IT services	1	10	100.0	—	100.0	20	(10)	(9)	—	—	1
Naturgy Engineering, S.L.	Spain	Engineering services	9	19	100.0	—	100.0	—	15	(3)	—	1	13
Naturgy Ingenieria Nuclear, S.L.	Spain	Engineering services	1	1	100.0	—	100.0	—	1	(1)	—	—	—
Naturgy Distribución Latinoamérica, S.A.	Spain	Holding company	557	557	100.0	—	100.0	402	221	196	—	—	819
Naturgy Nuevas Energías, S.L.U.	Spain	Holding company	—	2	100.0	—	100.0	2	—	(8)	—	—	(6)
Naturgy Infraestructuras EMEA, S.L.	Spain	Holding company	89	89	100.0	—	100.0	—	199	3	—	—	202
Naturgy Inversiones Internacionales, S.A.	Spain	Holding company	944	944	100.0	—	100.0	250	346	363	—	(142)	817
TOTAL			**16,134**	**15,413**									

(1) Includes the share premium, reserves, prior-year losses, contributions and retained earnings.

(2) Includes value change adjustments, other equity instruments and grants, donations and bequests.

Non-current loans to Group companies which at 31 December 2021 total Euros 15,146 million (15,177 million at 31 December 2020), with maturities as follows:

Maturity	**At 31.12.2021**
2024	7,471
2025	1,000
2026	1,000
2027	1,324
2028	1,350
2029	1,000
2030	1,000
2037	388
2040	613
Total	**15,146**

Set out below are movements during 2021 and 2020 in loans and other current financial assets:

	Loans to group companies	**Other financial assets**	**Total**
Balance at 01.01.2020	**527**	**139**	**666**
Additions	180	111	291
Divestments	(483)	(135)	(618)
Reclassifications and transfers	406	—	406
Exchange differences	(2)	—	(2)
Balance at 31.12.2020	**628**	**115**	**743**
Additions	2,127	—	2,127
Divestments	(266)	(112)	(378)
Reclassifications and transfers	(113)	—	(113)
Balance at 31.12.2021	**2,376**	**3**	**2,379**

There are no significant differences between carrying values and fair values in the balances under Loans to Group companies and other receivables.

The heading Loans to Group companies includes loans to Group companies amounting to Euros 224 million (Euros 349 million in 2020) and cash pooling balances with investee companies, as manager of Naturgy's centralised cash system amounting to Euros 2,084 million (Euros 212 million in 2020). It also includes accrued unmatured interest of Euros 68 million (Euros 67 million in 2020).

At 31 December 2021, loans to Group companies and associates have borne interest at a rate of 2.15% (2.20% in 2020) in the case of non-current loans and 1% (1% in 2020) in the case of current loans.

At 31 December 2021 there are no dividend balances receivable (110 million as at 31 December 2020 recorded under "Other current financial assets").

Note 8. Investments

Investments by class and category at 31 December 2021 and 31 December 2020 break down as follows:

At 31 December 2021	Financial assets at amortised cost	At cost	Total
Equity instruments	—	4	4
Loans to third parties	1	—	1
Other financial assets	4	—	4
Non-current investments	**5**	**4**	**9**
Other financial assets	57	—	57
Current investments	**57**	**—**	**57**
Total	**62**	**4**	**66**

At 31 December 2020	Financial assets at amortised cost	Financial assets at fair value through profit and loss	At cost	Total
Equity instruments	—	—	5	5
Other financial assets	4	—	—	4
Non-current investments	**4**	**—**	**5**	**9**
Other financial assets	51	120	—	171
Current investments	**51**	**120**	**—**	**171**
Total	**55**	**120**	**5**	**180**

Financial assets recognised at fair value at 31 December 2021 and at 31 December 2020 are classified as follows:

	31.12.2021				31.12.2020			
Financial assets	**Level 1 (quoted price in an active market)**	**Level 2 (observable variables)**	**Level 3 (unobservable variables)**	**Total**	**Level 1 (quoted price in an active market)**	**Level 2 (observable variables)**	**Level 3 (unobservable variables)**	**Total**
Fair value through profit or loss	—	—	—	—	120	—	—	120
Total	**—**	**—**	**—**	**—**	**120**	**—**	**—**	**120**

The movement in equity instruments in 2021 and 2020, based on the method applied for calculating their fair value, is as follows:

	2021				2020			
	Level 1 (quoted price in an active market)	**Level 2 (observable variables)**	**Level 3 (unobservabl e variables)**	**Total**	**Level 1 (quoted price in an active market)**	**Level 2 (observable variables)**	**Level 3 (unobservabl e variables)**	**Total**
At 1 January	120	—	—	120	—	—	—	—
Increase	—	—	—	—	120	—	—	120
Decrease	(120)	—	—	(120)	—	—	—	—
At 31 December	**—**	**—**	**—**	**—**	**120**	**—**	**—**	**120**

Financial assets at cost

All financial assets at cost relate to unlisted shareholdings at 31 December 2021 and 31 December 2020.

At 31 December 2021, this heading includes the shareholdings in Naturgy IT, S.L, Lean Customer Services, S.L, Lean Corporate Services, S.L and Lean Grids, S.L following the 60% sale described in Note 5, resulting in a percentage shareholding of 15%.

Financial assets at fair value through profit and loss

The Trading portfolio at 31 December 2020 included the valuation of deposits constituted as CO_2 emission rights amounting to Euros 120 million.

Financial assets at amortised cost

The balance at 31 December 2021 and 2020 is as follows:

	At 31.12.21	At 31.12.20
Loans to companies	1	—
Deposits and guarantee deposits	4	4
Non- current	**5**	**4**
Deposits and guarantee deposits	57	51
Current	**57**	**51**
Total	**62**	**55**

The fair values and carrying amounts of these assets do not differ significantly.

The breakdown by maturities at 31 December 2021 and 31 December 2020 is as follows:

Maturities	**31.12.2021**	31.12.2020
Before 1 year	57	51
Between 1 and 5 years	1	—
More than 5 years	4	4
Total	**62**	**55**

Note 9. Other non-current assets and Trade and other receivables

The headings “Other non-current assets” and “Trade and other receivables” at 31 December 2021 and 31 December 2020, classified by nature and category, are as follows:

At 31.12.2021	**At fair value through profit and loss**	**Amortised cost**	**Total**
Derivatives (Note 14)	231	—	231
Other non-current assets	**231**	**—**	**231**
Derivatives (Note 14)	1,865	—	1,865
Other assets	—	417	417
Trade and other receivables	**1,865**	**417**	**2,282**
Total	**2,096**	**417**	**2,513**

At 31.12.2020	**At fair value through profit and loss**	**Amortised cost**	**Total**
Derivatives (Note 14)	136	—	136
Other non-current assets	**136**	**—**	**136**
Derivatives (Note 14)	123	—	123
Other assets	—	189	189
Trade and other receivables	**123**	**189**	**312**
Total	**259**	**189**	**448**

Fair value through profit and loss

Financial assets recognised at fair value at 31 December 2021 and at 31 December 2020 are classified as follows:

	At 31.12.2021				At 31.12.2020			
Financial assets	**Level 1 (quoted price in an active market)**	**Level 2 (observable variables)**	**Level 3 (unobservable variables)**	**Total**	**Level 1 (quoted price in an active market)**	**Level 2 (observable variables)**	**Level 3 (unobservable variables)**	**Total**
Fair value through profit and loss	—	2,096	—	2,096	—	259	—	259
Total	**—**	**2,096**	**—**	**2,096**	**—**	**259**	**—**	**259**

This heading includes gas price operating hedging derivatives amounting to Euros 2,096 million (31 December 2020: Euros 259 million), of which Euros 231 million is classified as non-current (31 December 2020: Euros 136 million) (Note 14).

Amortised cost

The breakdown of this account is as follows:

	At 31.12.21	At 31.12.20
Trade receivables	83	65
Trade receivables, Group companies and associates	213	143
Sundry receivables	12	3
Provision	(27)	(28)
Current income tax asset	134	4
Other amounts receivable from Public Administrations	2	2
Total	**417**	**189**

In general, amounts billed pending collection do not bear interest, the average maturity period being less than 21 days.

Current tax assets include a reduction in the amount of the assignment of the corporate income tax receivable, as it is considered to be non-recourse factoring since the risks and rewards have been transferred.

Movements in the bad debt provision are as follows:

	2021	2020
At 1 January	**(28)**	**(30)**
Net charge for the year (Note 21)	1	2
At 31 December	**(27)**	**(28)**

Note 10. Cash and cash equivalents

Cash and cash equivalents include:

	At 31.12.2021	At 31.12.2020
Cash at banks and in hand	889	1,076
Other cash equivalents	1,319	1,542
Total	**2,208**	**2,618**

"Other cash equivalents" mainly relate to short-term investments in deposits associated with CO_2 emission allowances maturing in under three months and with assured returns.

Note 11. Equity

The main items of Equity are as follows:

Share capital and share premium

The variations during 2021 and 2020 in the number of shares and share capital and share premium accounts have been as follows:

	Number of shares	Share capital	Share premium	Total
At 1 January 2020	**984,122,146**	**984**	**3,808**	**4,792**
Capital reduction	(14,508,345)	(14)	—	(14)
At 31 December 2020	**969,613,801**	**970**	**3,808**	**4,778**
Variation	—	—	—	—
At 31 December 2021	**969,613,801**	**970**	**3,808**	**4,778**

All issued shares are fully paid up and carry equal voting and dividend rights.

On 10 August 2020, capital was reduced through the redemption of 14,508,345 treasury shares with a par value of 1 euro each, representing approximately 1.47% of the Company's share capital at the time of adoption of the relevant resolution (see paragraph on treasury shares). Following the capital reduction share capital stood at Euros 970 million and consisted of 969,613,801 shares with a par value of 1 euro each.

There were no movements in the number of shares or in the accounts "Share capital" and "Share premium" during 2021.

The Company's Board of Directors, for a maximum term of five years as from 20 April 2017, is empowered to increase share capital by Euros 500,344,670 through one or more cash payments at the time and in the amount that it deems fit, issuing ordinary, privileged or redeemable shares with or without voting rights, with or without a share premium, without requiring any further authorisation from the shareholders, with the possibility of agreeing, as appropriate, the full or partial exclusion of preferential subscription rights up to a limit of 20% of share capital at the date of this authorisation, and to alter the By-laws as required due to the capital increase or increases performed by virtue of said authorisation, with provision for an incomplete subscription, in accordance with the provisions of Article 297.1.b) of the Spanish Companies Act.

The Spanish Companies Act specifically allows the use of the Share premium balance to increase capital and imposes no specific restrictions on its use.

The most relevant holdings in the Company's share capital at 31 December 2021 and 2020, in accordance with the public information available or the communication issued by the Company itself, are as follows:

	% interest in share capital	
	2021	2020
- Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona, "la Caixa" (1)	26.71	24.8
-Global Infrastructure Partners III (2)	20.6	20.6
-CVC Capital Partners SICAV-FIS, S.A. (3)	20.7	20.7
- IFM Global Infraestructure Fund	12.2	—
- Sonatrach	4.1	4.1

(1) Holding through Criteria Caixa, S.A.U.

(2) Global Infrastructure Partners III, whose investment manager is Global Infrastructure Management LLC, holds its interest indirectly through GIP III Canary 1, S.à.r.l.

(3) Through Rioja Acquisition S.à.r.l.

All the Company's shares are traded on the four official Spanish Stock Exchanges and the "Mercado continuo" and form part of Spain's Ibex 35 stock index.

The Company's share price at 31 December 2021 was Euros 28.63 (Euros 18.96 at 31 December 2020).

Reserves

"Reserves" includes the following reserves:

	2021	2020
Legal reserve	200	200
Statutory reserve	100	100
Goodwill reserve	—	—
Voluntary reserves	10,702	10,702
Capital redemption reserve	31	31
Other reserves	271	258
Total	**11,304**	**11,291**

Legal reserve

Appropriations to the legal reserve are made in compliance with the Spanish Capital Companies Act, which stipulates that 10% of the profits must be transferred to this reserve until it represents at least 20% of share capital. The legal reserve can be used to increase capital in the part that exceeds 10% of the capital increased.

Except for the use mentioned above, and as long as it does not exceed 20% of share capital, the legal reserve can only be used to offset losses in the event of no other reserves being available.

Statutory reserve

Under the Company's Articles of Association, 2% of net profit for the year must be allocated to the statutory reserves until it reaches at least 10% of share capital.

Goodwill reserve

Law 22/2015 on Auditing eliminated the requirement to record annually the restricted reserve for at least 5% of the goodwill figuring under assets on the balance sheet, stipulating that in periods commencing as from 1 January 2016, the goodwill reserve is to be reclassified to voluntary reserves and will be available in the amount that exceeds the goodwill recognised under assets on the balance sheet.

At the annual general meeting held on 26 May 2020, the shareholders agreed to the transfer to Voluntary reserves of Euros 27 million from the Goodwill reserve. At 31 December 2020 the entire goodwill reserve has been reclassified to voluntary reserves.

Capital redemption reserve

Following approval at the ordinary general meeting of shareholders held on 26 May 2020, a capital reduction was made during the year through the redemption of treasury shares with a reduction of Euros 14 million and 284 million in Voluntary reserves.

In addition, pursuant to Article 335 c) of the Spanish Companies Act a restricted Capital redemption reserve was created for an amount equal to the par value of the redeemed shares. The total accumulated capital redemption reserve amounts to Euros 31 million at 31 December 2021 and 2020.

Voluntary reserve and other reserves

Relates basically to voluntary reserves for undistributed profits, also including the effects of the measurement of shareholdings in group companies as a result of transactions between group companies recognised in the same amounts stated in Naturgy's consolidated annual accounts.

Share-based payments

On 31 July 2018, within the framework of the Strategic Plan 2018-2022 the Board of Directors approved a long term variable incentive plan (ILP) involving the Executive Chairman and 25 other executives. The main characteristics of the plan were approved by the general meeting of shareholders on 5 March 2019.

The incentive covers the duration of the Strategic Plan 2018-2022, and scheduled to expire in July 2023. It is directly related to the total yield obtained by the Company's shareholders in the period concerned.

It is arranged through the acquisition of shares in Naturgy Energy Group S.A. through an investee company that can generate a surplus. This surplus, if any, is the incentive that will be given to the participants. At the expiration of the plan, this company will obtain a profit derived from the collection of dividends on its shares, changes in the share price and other income and expenses, mainly financial in character. At that time it will sell the shares required to return all the resources received for the acquisition of the shares and after settling its obligations it will distribute any surplus among its members in the form of shares.

The surplus will be received only if a minimum profitability threshold has been surpassed, which implies a share price of Euros 19.15 when the LTI expires and assuming that all the dividends provided for in the Strategic Plan 2018-2022 are paid.

If they leave the Company, the beneficiaries will only be entitled, in certain cases, to receive a part of the final incentive calculated in proportion to their length of service in the Company with respect to the duration of the plan.

The fair value of the equity instruments granted has been determined at the grant date using a Monte Carlo simulation valuation model based on share Price at the date of the concession with the following assumptions:

Forecast share price volatility (1)	17.73 %
Plan duration (years)	5
Expected dividends	6.26 %
Risk-free interest rate	0.34 %

(1) Forecast volatility has been determined based on the historical volatility of the daily share price in the last year.

As a result of the time apportionment of the fair value estimate of the equity instruments granted over the term of the plan, an amount of Euros 3 million (Euros 2 million in 2020) has been recorded in the income statement for 2021 under Personnel expenses, credited to “Other equity instruments” in the balance sheet.

On the other hand, given the new objectives set out in the 2021-2025 Strategic Plan approved on 28 July 2021, the Naturgy Board of Directors has decided, at the proposal of the Appointments, Remuneration and Corporate Governance Committee, the temporary extension of the current ILP, in order to contribute to the achievement of the aforementioned Strategic Plan. The entry into force of the temporary extension of the ILP is subject to the approval of the Naturgy Shareholders' Meeting.

Treasury shares

Movements during 2021 and 2020 involving the treasury shares of the Company are as follows:

	Number of shares	In million euro	% Capital
At 1 January 2020	**5,183,890**	**121**	**0.5**
Share Acquisition Plan	470,000	8	—
Delivered to employees	(455,797)	(8)	—
2019 buyback programme	9,346,025	178	0.9
Capital reduction	(14,508,345)	(298)	(1.4)
At 31 December 2020	**35,773**	**1**	**—**
Share Acquisition Plan	127,453	3	—
At 31 December 2021	**163,226**	**4**	**—**

In 2021 and 2020, no gains or losses were made on transactions involving the Company’s treasury shares.

On 5 March 2019, the shareholders in general meeting authorised the Board of Directors to purchase, within five years, in one or more operations, fully paid Company shares; the nominal value of the shares directly or indirectly acquired, added to those already held by the Company and its subsidiaries, must not exceed 10% of share capital or any other limit established by law. The price or value of the consideration may not be lower than the par value of the shares or higher than their quoted price.

The minimum and maximum acquisition price will be the share price on the continuous market of the Spanish stock exchanges, within an upper or lower fluctuation of 5%.

Transactions with the Company’s Treasury shares relate to:

2021

- Share acquisition plan: In accordance with the resolutions adopted by the shareholders of Naturgy Energy Group, S.A. at the general meeting held on 5 March 2019, within the Share Acquisition Plan 2020-2023, the one relating to 2021 addressed to Naturgy employees in Spain who decide voluntarily to take part in the Plan was set in motion. The Plan enables participants to receive part of their remuneration in the form of shares in Naturgy Energy Group, S.A., subject to an annual limit of Euros 12,000. In December 2021, 127,453 of the Company's own shares were acquired for Euros 3 million to be handed over to the employees taking part in the Plan. The shares will be delivered in January 2022.

2020

- Share acquisition plan: In accordance with the resolutions adopted by the shareholders of Naturgy Energy Group, S.A. at the general meeting held on 5 March 2019, within the Share Acquisition Plan 2020-2023, the one relating to 2020 addressed to Naturgy employees in Spain who decide voluntarily to take part in the Plan was set in motion. The Plan enables participants to receive part of their remuneration in the form of shares in Naturgy Energy Group, S.A., subject to an annual limit of Euros 12,000. During 2020, 470,000 treasury shares were acquired for Euros 8 million to be handed over to the employees taking part in the Plan and 455,797 shares were delivered, leaving a surplus of 14,203 shares.

- 2019 share buyback programme: The Board of Directors of Naturgy Energy Group, S.A. approved a treasury share buyback programme, which was published on 24 July 2019, with a maximum investment of Euros 400 million to 30 June 2020 representing approximately 2.1% of share capital on the date of notification, the redemption of which was ratified by the shareholders at the annual general meeting held on 26 May 2020. At 30 June 2020, a total of 14,508,345 treasury shares had been acquired under this programme at an average price of 20.6 euros per share, representing a total cost of Euros 299 million (5,162,320 treasury shares at an average price of 23.3 euros per share with a total cost of Euros 121 million at 31 December 2019), which were applied to reduce capital.

- Capital reduction: At a meeting held on 21 July 2020, the Board of Directors of Naturgy Energy Group, S.A. resolved to implement the capital reduction resolution approved at the annual general meeting of shareholders held on 26 May 2020, whereby it approved a reduction in the share capital of Naturgy Energy Group, S.A. to a maximum of Euros 21,465,000, relating to:

  (a) the 465,000 treasury shares held by the Company at close of trading on 24 July 2019.

  (b) the 21,000,000 additional shares with a par value of one euro each which were acquired and may continue to be acquired for redemption by the Company under the treasury share buyback programme (the "Buyback Programme") approved by the Company under Regulation (EU) No. 596/2014 on market abuse and disclosed as price-sensitive information on 24 July 2019 (registration number 280517). The time limit for acquiring these shares was 30 June 2020.

  In this respect, as Naturgy Energy Group, S.A. had acquired a total of 14,043,345 shares at 30 June 2020 under the approved buyback programme referred to in paragraph (b) above, the Board of Directors set the figure for the capital reduction at Euros 14 million (the "Capital Reduction") and agreed to implement this reduction. The Capital Reduction was carried out through the redemption of 14,508,345 treasury shares with a par value of 1 euro each, representing approximately 1.47% of the Company's share capital at the time of adoption of the resolution in question. Following the Capital Reduction share capital stood at Euros 970 million, made up 969,613,801 shares with a par value of 1 euro each.

Dividends

Set out below is a breakdown of the payments of dividends made in 2021 and 2020:

	2021			2020		
	% of Nominal	Euros per share	Amount	% sobre Nominal	Euros per share	Amount
Ordinary shares	**133**	**1.33**	**1,290**	**141**	**1.41**	**1,370**
Other shares (without voting rights, redeemable, etc.)	—	—	—	— %	—	—
Total dividens paid	**133 %**	**1.33**	**1,290**	**141 %**	**1.41**	**1,370**
a) Dividends charged to income statement or retained earnings	133	1.33	1,290	141	1.41	1,370
b) Dividends charged to reserves or share premium account	—	—	—	—	—	—
c) Dividends in kind	—	—	—	—	—	—

2021

On 2 February 2021, the Board of Directors approved the following proposal for the distribution of the Company's net profit for 2020 and retained earnings, for submission to the annual general meeting:

AVAILABLE FOR DISTRIBUTION

Profit.. 98
Retained earnings.. 3,076
Distribution base.. 3,174

DISTRIBUTION:

TO DIVIDENDS: the gross aggregate amount will be equal to the sum of the following quantities (the “Dividend”):

i. Euros 785 million ("the Total Interim Dividend"), corresponding to the two interim dividends for 2020 paid by Naturgy Energy Group,S.A., jointly equivalent to 0.810 euros per share for the number of shares that were not direct treasury shares on the relevant dates as approved by the Board of Directors in accordance with the interim accounting statements prepared and in accordance with the relevant legal requirements, which revealed the existence of sufficient liquidity for the distribution of these interim dividends out of the profit for 2020, and

ii. The amount obtained by multiplying 0.63 euros per share by the number of shares that are not direct treasury shares on the date on which the registered shareholders entitled to receive the supplementary dividend (the “Supplementary Dividend”) are determined.

The supplementary dividend proposal has been made in line with the commitments of the previous Strategic Plan, reaffirmed in market disclosures during 2020. However, by suspending the share buyback programme, the company has shown caution in view of the uncertainties during 2020.

Euros 785 million of said dividend had already been paid on 29 July and 11 November 2020. The Supplementary Dividend will be paid in the amount per share indicated above through the entities that are members of Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear). The dividend will be paid to shareholders as from 16 March 2021.

TO RETAINED EARNINGS: Determinable amount obtained by subtracting the dividend amount from the distribution base.

TOTAL DISTRIBUTED 3,174

This proposal for the distribution of profits and retained earnings prepared by the Board for approval by the annual general meeting included a supplementary payment of Euros 0.63 per share for each qualifying share outstanding at the proposed date of payment, 16 March 2021.

Finally, the general meeting of shareholders held on 09 March 2021 approved a supplementary dividend of 0.63 euros per share for shares not directly held as treasury stock on the payment date, which was fully paid in cash on 17 March 2021.

Following payment of the supplementary dividend, the amount allocated to Retained earnings was Euros 1,778 million.

On 27 July 2021, the Company's Board of Directors resolved to pay an interim dividend of 0.30 euros per share out of 2021 results, for shares not classified as direct treasury shares on the date on which the dividend was paid. The dividend was paid in full in cash on 4 August 2021.

The Company had sufficient liquidity to pay out the dividend at the approval date, with the necessary liquidity to proceed to payment pursuant to the Spanish Companies Act. The provisional liquidity statement at 30 June 2021 drawn up by the Directors on 27 July 2021 was as follows:

Profit after tax		468
Reserves to be replenished		—
Maximum amount distributable		468
Forecast maximum interim dividend payment (1)		291
Cash resources	2,341	
Undrawn credit facilities	5,460	
Total liquidity		7,801

(1) Amount considering total shares issued

On 3 November 2021, the Board of Directors of Naturgy Energy Group, S.A. resolved to pay a second interim dividend of 0.40 euros per share out of 2021 results, paid on 15 November 2021, for shares not classified as direct treasury shares on the date on which the dividend was paid.

The Company had sufficient liquidity to pay the dividend at the approval date, in accordance with the provisions of the Spanish Companies Act. The provisional liquidity statement at 30 September 2021 drawn up by the Directors on 2 November 2021 is as follows:

Profit after tax		705
Reserves to be replenished		—
Maximum amount distributable		705
Interim dividend 2020 profits		291
Forecast maximum interim dividend payment (1)		388
Cash resources	1,942	
Undrawn credit facilities	5,465	
Total liquidity		7,407

(1) Amount considering total shares issued

On 3 February 2022, the Board of Directors approved the following proposal for the distribution of the Company's net profit for 2021 and retained earnings, for submission to the annual general meeting:

AVAILABLE FOR DISTRIBUTION

Profit.. 1,706
Retained earnings... 1,778
Distribution base.. 3,484

DISTRIBUTION:

TO DIVIDENDS: the gross aggregate amount will be equal to the sum of the following quantities (the "Dividend"):

i. Euros 679 million ("the Total Interim Dividend"), corresponding to the two interim dividends for 2021 paid by Naturgy Energy Group,S.A., jointly equivalent to 0.70 euros per share for the number of shares that were not direct treasury shares on the relevant dates as approved by the Board of Directors in accordance with the interim accounting statements prepared and in accordance with the legal requirements, which revealed the existence of sufficient liquidity for the distribution of these interim dividends out of the profit for 2021, and

ii. The amount obtained by multiplying 0.50 euros per share by the number of shares that are not direct treasury shares on the date on which the registered shareholders entitled to receive the supplementary dividend (the "Supplementary Dividend") are determined.

Euros 679 million of said dividend had already been paid on 4 August and 15 November 2021. The Supplementary Dividend will be paid in the amount per share indicated above through the entities that are members of Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear). (Iberclear). The dividend will be paid to shareholders as from 22 March 2022.

The Board of Directors is expressly empowered to delegate its powers to the director(s) it deems fit so that they may perform all the actions required to carry out the distribution and, in particular, without limitation, so that they may designate the entity that is to act as payment agent.

TO RETAINED EARNINGS: Determinable amount obtained by subtracting the dividend amount from the distribution base.

TOTAL DISTRIBUTED 3,484

This proposal for the distribution of profits and retained earnings prepared by the Board for approval by the annual general meeting includes a supplementary payment of Euros 0.50 per share for each qualifying share outstanding at the proposed date of payment, 22 March 2022. In this respect, in the event that at the time of distribution of the third and last payment of the proposed 2021 dividend (Euros 0.50 per share) the same number of treasury shares is maintained as at the 2021 year end (163,226 treasury shares, see section on Treasury shares), the amount applied to retained earnings would be Euros 2,320 million.

2020

At a meeting held on 4 February 2020, the Board of Directors of Naturgy Energy Group, S.A. agreed to the proposed distribution of profits described in Note 11 to the annual accounts for the year ended 31 December 2019. Following the declaration of a “state of alarm” and with the aim of safeguarding the health and safety of all shareholders, employees and collaborators, the company decided to postpone the Annual General Meeting scheduled for 17 March 2020.

To prevent this deferral having a detrimental effect on its shareholders and particularly on the over 70,000 minority shareholders, on 16 March 2020 the Board of Directors of Naturgy Energy Group, S.A. resolved to pay a third interim dividend of 0.593 euros per share out of 2019 profits, for shares not classified as direct treasury shares on the date on which the dividend was paid, this being 25 March 2020.

Subsequently, the general meeting of shareholders held on 26 May 2020 approved a supplementary dividend of 0.010 euros per share for shares not directly held as treasury stock on the payment date, which was fully paid in cash on 03 June 2020. Following payment of the supplementary dividend, the amount allocated to Retained earnings was Euros 3,076 million.

On 21 July 2020, the Company’s Board of Directors resolved to pay a first interim dividend of 0.31 euros per share out of 2020 results, for shares not classified as direct treasury shares on the date on which the dividend was paid, this being 29 July 2020.

Finally, on 27 October 2020, the Company’s Board of Directors resolved to pay a second interim dividend of 0.50 euros per share out of 2020 results, for shares not classified as direct treasury shares on the date on which the dividend was paid, this being 11 November 2020.

The trend in the Company's profits in the last quarter of the year, basically due to the impairment of holdings in Group companies, meant that at year end profits were insufficient to be able to pay an interim dividend. At the annual general meeting, therefore, the Board of Directors proposed that they should be taken to retained earnings.

Note 12. Provisions

The breakdown of provisions at 31 December 2021 and 2020 is as follows:

	At 31.12.2021	At 31.12.2020
Provisions for employee obligations	242	258
Other provisions	67	115
Non-current provisions	**309**	**373**

Provisions for employee obligations

A breakdown of the provisions related to employee obligations is as follows:

	2021			2020		
	Pensions and other similar obligations	**Other obligations with personnel**	**Total**	**Pensions and other similar obligations**	**Other obligations with personnel**	**Total**
At 1 January	**253**	**5**	**258**	**267**	**5**	**272**
Appropriations/reversals charged to income	3	1	4	4	2	6
Payments during the year	(10)	—	(10)	(15)	(2)	(17)
Changes recognised directly in equity	(19)	—	(19)	(2)	—	(2)
Transfers and other applications	9	—	9	(1)	—	(1)
At 31 December	**236**	**6**	**242**	**253**	**5**	**258**

Pensions and other similar liabilities

Most of the Company's post-employment obligations consist of the contribution of defined amounts to occupational pension plan systems. Nevertheless, at 31 December 2021 and 31 December 2020, the Company held the following defined benefit obligations for certain groups of workers:

- Pensions to retired workers, the disabled, widows and orphans and other related groups.
- Defined benefit supplement obligations with retired personnel of the legacy Unión Fenosa group who retired before November 2002 and a residual part of current personnel.
- Coverage of retirement and death for certain employees.
- Gas subsidy for current and retired personnel.
- Electricity for current and retired personnel.
- Obligations with employees that took early retirement until they reach official retirement age and early retirement plans.
- Salary supplements and contributions to social security for a group of employees taking early retirement until they can access ordinary retirement.
- Health care and other benefits.

The amounts recognised in the Balance sheet for pensions and similar obligations, as well as the movement in the current value of the obligations and the fair value of the plan assets are determined as follows:

Present value of obligations	**2021**	2020
At 1 January	**917**	**969**
Service cost for the year	1	1
Interest cost	4	8
Changes recognised directly in equity	(34)	3
Benefits paid	(56)	(63)
Transfers and other	10	(1)
At 31 December	**842**	**917**

Fair value of plan assets		
At 1 January	**664**	**702**
Expected yield	2	5
Contributions	—	4
Changes recognised directly in equity	(15)	5
Benefits paid	(46)	(52)
Transfers and other	1	—
At 31 December	**606**	**664**
Provisions for pensions and similar obligations	**236**	**253**

The amounts recognised in the income statement for all the above-mentioned defined benefit plans are as follows:

	2021	2020
Service cost for the year	1	1
Interest cost	2	3
Total charge to the income statement	**3**	**4**

Benefits for pensions and similar obligations, depending on the duration of the above commitments, are as follows:

	2021	2020
1 to 5 years	—	—
5 to 10 years	23	26
More than 10 years	213	227
Provisions for pensions and similar obligations	**236**	**253**

The plan assets expressed as a percentage of total assets are as follows:

% of total	**2021**	2020
Bonds	100%	100%

Cumulative actuarial gains and losses, net of the tax effect, recognised directly in equity are negative in the amount of Euros 6 million at 31 December 2021 (negative in the amount of Euros 20 million at 31 December 2020).

The change recognised in equity relates to actuarial losses and gains derived basically from adjustments to:

	2021	2020
Financial assumptions	(43)	37
Demographic assumptions	39	(6)
Experience	(15)	(33)
At 31 December	**(19)**	**(2)**

Actuarial assumptions applied are as follows:

	At 31.12.2021	At 31.12.2020
Discount rate (p.a.)	0.0 to 1.38%	0.0 to 0.78%
Expected return on plan assets (p.a.)	0.0 to 1.38%	0.0 to 0.78%
Future salary increases (p.a.)	2.00%	2.00%
Future pension increases (p.a.)	2.00%	2.00%
Inflation rate (annual)	2.00%	2.00%
Mortality table	PER2020 Col 1st order	PERMF 2020
Life expectancy:		
Men		
Retired during the year	24.64	23.5
Retiring within 20 years	45.59	43.8
Women		
Retired during the year	28.37	27.3
Retiring within 20 years	49.82	48.3

These assumptions are equally applicable to all the obligations, irrespective of the origin of their collective bargaining agreements.

The interest rates used to discount post-employment commitments are applied based on the period of each commitment and the reference curve is calculated applying observable rates for high-credit-quality corporate bonds (AA) issued in the Eurozone.

The costs of health care have been measured on the basis of the expected costs of the premiums of the different medical care policies taken out. A 1% variation in the increase in the cost of these premiums would not have a significant impact on the liability recorded at 31 December 2021 and 31 December 2020, nor would it cause a relevant variation in the ordinary financial costs for future years in relation to that recorded in 2021 and 2020.

Other obligations with personnel

Within the framework of the new Strategic Plan 2018-2022, a new long-term incentive plan was implemented for Naturgy executives not included in the plan referred to in Note 11, the aim of which is to align the shareholders' interests, the materialization of the Strategic Plan and the executives' multi-year variable remuneration. This programme replaces the previous scheme, called PREMP, and is linked to the total return earned by the shareholders over the duration of the Strategic Plan, generating a collection right once the annual accounts for 2022 have been approved by the General Meeting, which will be collected in cash. The provision for this commitment at 31 December 2021 totals Euros 6 million (Euros 5 million in 2020).

Other non-current provisions

The movement in other non-current provisions is as follows:

	2021	2020
At 1 January	**115**	**187**
– Appropriations (1)	9	11
– Reversals	(6)	(27)
Transfers and other	(51)	(56)
At 31 December	**67**	**115**

(1) Includes Euros 1 million in 2020, relating to the financial update of provisions.

"Non-current provisions" mainly includes provisions posted to cover obligations deriving mainly from tax claims (Note 17), litigation and arbitration, and other liabilities.

No provision for business contracts was deemed necessary at 31 December 2021 or 2020.

At 31 December 2021, the estimated payment dates for these obligations are Euros 67 million between one and five years (2020: Euros 109 million between one and five years, Euros 6 million between five and ten years and 0 in more than ten years).

Note 13. Borrowings

Set out below is a breakdown of financial liabilities, excluding "Trade and other payables", at 31 December 2021 and 31 December 2020, by nature and category:

At 31.12.2021	**Amortised cost**	**Hedging derivatives**	**Total**
Borrowings from financial institutions	2,372	—	2,372
Derivatives (Note 14)	—	61	61
Other financial liabilities	1	—	1
Non-current borrowings	**2,373**	**61**	**2,434**
Borrowings from financial institutions	402	—	402
Derivatives (Note 14)	—	19	19
Other financial liabilities	—	—	—
Current borrowings	**402**	**19**	**421**
Total	**2,775**	**80**	**2,855**

At 31.12.2020	**Amortised cost**	**Hedging derivatives**	**Total**
Borrowings from financial institutions	2,720	—	2,720
Derivatives	—	108	108
Other financial liabilities	1	—	1
Non-current borrowings	**2,721**	**108**	**2,829**
Borrowings from financial institutions	257	—	257
Derivatives	—	21	21
Other financial liabilities	121	—	121
Current borrowings	**378**	**21**	**399**
Total	**3,099**	**129**	**3,228**

Financial liabilities recognised at fair value at 31 December 2021 and at 31 December 2020 are classified as follows:

	At 31.12.2021				At 31.12.2020			
Financial liabilities	**Level 1 (quoted price in an active market)**	**Level 2 (observable variables)**	**Level 3 (unobservable variables)**	**Total**	**Level 1 (quoted price in an active market)**	**Level 2 (observable variables)**	**Level 3 (unobservable variables)**	**Total**
Headging derivatives	—	80	—	80	—	129	—	129
Total	**—**	**80**	**—**	**80**	**—**	**129**	**—**	**129**

The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amount		**Fair value**	
	At 31.12.2021	At 31.12.2020	**At 31.12.2021**	At 31.12.2020
Bank borrowings, derivatives and other financial liabilities	2,434	2,829	2,439	2,831

The fair value of loans with fixed interest rates is estimated on the basis of the discounted cash flows over the remaining terms of such debt. The discount rates were determined based on market rates available at 31 December 2021 and 31 December 2020 on borrowings with similar credit and maturity characteristics. These valuations are based on the quotation price of similar financial instruments in an official market or on observable information in an official market (Level 2).

The movement in borrowings is as follows:

	Bank borrowings	Derivatives	Other financial liabilities	Total
At 01.01.2020	**1,997**	**106**	**3**	**2,106**
Increase	1,227	24	121	1,372
Decrease	(247)	(1)	(2)	(250)
At 31.12.2020	**2,977**	**129**	**122**	**3,228**
Increase	50	—	—	50
Decrease	(253)	(49)	(121)	(423)
At 31.12.2021	**2,774**	**80**	**1**	**2,855**

The following tables describe borrowings and maturities at 31 December 2021 and 2020, taking into account the impact of derivatives.

	2022	2023	2024	2025	2026	2027 and beyond	**Total**
At 31 December 2021:							
Fixed	151	280	91	191	91	870	1,674
Floating	270	304	565	40	1	1	1,181
Total	**421**	**584**	**656**	**231**	**92**	**871**	**2,855**

	2021	2022	2023	2024	2025	2026 and beyond	**Total**
At 31 December 2020:							
Fixed	237	167	291	91	191	961	1,938
Floating	162	785	287	15	40	1	1,290
Total	**399**	**952**	**578**	**106**	**231**	**962**	**3,228**

Setting aside the impact of derivatives on borrowings, fixed-rate debt would amount to Euros 169 million of total borrowings at 31 December 2021 (Euros 321 million at 31 December 2020) and variable-rate debt would amount to Euros 2,606 million at 31 December 2021 (Euros 2,778 million at 31 December 2020).

The following tables describe the gross borrowings denominated in foreign currencies at 31 December 2021 and 31 December 2020 and their maturities, taking into account the impact of the derivative hedges:

	2022	2023	2024	2025	2026	2027 and beyond	**Total**
At 31 December 2021:							
Euro debt	421	584	656	231	92	871	2,855
Total	**421**	**584**	**656**	**231**	**92**	**871**	**2,855**

	2021	2022	2023	2024	2025	2026 and beyond	**Total**
At 31 December 2020:							
Euro debt	399	952	578	106	231	962	3,228
Total	**399**	**952**	**578**	**106**	**231**	**962**	**3,228**

Borrowings bore an average effective interest rate in 2021 of 1.05% (1.03% in 2020) including the derivatives assigned to each transaction.

At 31 December 2021, Bank borrowings includes Euros 8 million in interest pending payment (Euros 9 million at 31 December 2020).

Most of the outstanding financial debt carries a change-of-control clause referring to acquisition of over 50% of the voting stock or of the right to appoint a majority of members of the Board of Directors of Naturgy Energy Group, S.A. Those clauses carry additional conditions so that triggering them depends on some of the following events occurring simultaneously: a significant downgrade of the credit rating due to a change of control, or loss of an investment grade rating; inability to fulfil the financial obligations under the contract; material impairment for the creditor, or a material adverse change in solvency. These clauses would entail repayment of the outstanding debt, although the time period would normally be longer than in the event of early termination.

At the preparation date of these annual accounts, the Company is not in breach of its financial obligations or of any type of obligation that could give rise to the early maturity of its financial commitments.

The most relevant financial instruments are as follows:

Other bank borrowings

The group continues to work on enhancing its financial profile; in this respect, the most relevant financing operations with credit institutions arranged during 2021 have been the refinancing of credit lines in Spain for Euros 3,483 million, which basically includes:

- Refinancing of the undrawn syndicated credit line, increasing the limit from Euros 1,750 million to Euros 2,000 million, with a 3-year maturity (with an option to extend to 2026) at Euribor +0.30% and with ESG metrics in the calculation of the price. In addition, credit lines and bilateral loans were renegotiated for an amount of Euros 1,483 million.

Naturgy also enjoys a comfortable debt maturity profile and balance sheet position, as well as flexibility in its capital expenditure and operating expenses for coping with the current economic scenario.

Institutional financing

The Company records a loan from the Official Credit Institute (ICO) relating to instruments maturing in 2029 at maximum, for a total amount of Euros 160 million (Euros 180 million in 2020).

The European Investment Bank (EIB) has granted financing to Naturgy which at 31 December 2021 is fully drawn down, in the amount of Euros 1,336 million maturing between 2022 and 2037 (Euros 1,564 million drawn down at 31 December 2020). This loan could be subject to early repayment in the event of a change in control, additionally requiring a rating downgrade, and has special debt repayment terms that are longer than those in the event of early termination. In addition, Euros 1,215 million (Euros 1,359 million at 31 December 2020) is subject to compliance with certain financial ratios.

Note 14. Risk management and derivative financial instruments

Risk management

Naturgy has a number of standards, procedures and systems for identifying, measuring and managing different types of risk which are made up of the following basic action principles:

- Guaranteeing that the most relevant risks are correctly identified, evaluated and managed.
- Segregation at the operating level of the risk management functions.
- Assuring that the level of its risk exposure for Naturgy in its business is in line with the objective risk profile.
- Ensuring the appropriate determination and review of the risk profile by the Risk Committee, proposing global limits by risk category, and assigning them to the Business Units.

Interest rate risk

The fluctuations in interest rates modify the fair value of the assets and liabilities that accrue a fixed interest rate and the cash flows from assets and liabilities pegged to a floating interest rate, and, accordingly, affect equity and profit, respectively.

The purpose of interest rate risk management is to balance floating and fixed borrowings in order to reduce borrowing costs within the established risk parameters.

The Company employs financial swaps to manage exposure to interest rate fluctuations, swapping floating rates for fixed rates.

The debt structure at 31 December 2021 and 2020 (Note 13), after taking into account the hedges arranged through derivatives, is as follows:

	At 31.12.2021	At 31.12.2020
Fixed interest rate	1,674	1,938
Floating interest rate	1,181	1,290
Total	**2,855**	**3,228**

The floating interest rate is mainly subject to the fluctuations of the Euribor and the Libor.

The sensitivity of results and equity (measurement adjustments) to interest rate fluctuations is as follows:

	Increase/decrease in interest rates (basis points)	**Effect on profit before tax**	**Effect on equity before tax**
44561	50	(6)	(31)
	-50	6	31
44196	50	(6)	(41)
	-50	6	41

Exchange rate risk

The variations in the exchange rates can affect the fair value of:

- Counter value of cash flows related to the purchase-sale of raw materials denominated in currencies other than local or functional currencies
- Debt denominated in currencies other than local or functional currencies.
- Operations and investments in non-Euro currencies, and, accordingly, the counter value of equity contributed and results.

In order to mitigate these risks the Company finances, to the extent possible, its investments in local currency. Furthermore, it tries to match, whenever possible, costs and revenues indexed in the same currency, as well as amounts and maturities of assets and liabilities arising from operations denominated in non-Euro currencies.

For open positions, the risks in investments in non-functional currencies are managed through financial swaps and foreign exchange fluctuation insurance when its marginal contribution to the risk is relevant and can exceed the risk limits established.

The non-Euro currency with which the Company operates most is the US Dollar. The sensitivity of the Company's profits and equity ("Adjustments for changes in value") to a 5% variation (increase or decrease) in the US dollar/euro exchange rate is as follows:

		2021	2020
Effect on profit before tax	+5%	—	—
	-5%	—	—
Effect on equity before tax	+5%	—	—
	-5%	—	—

Commodity price risk

The Company purchases gas to be supplied to other Naturgy companies.

A large portion of Naturgy's operating expenses are linked to gas purchased to supply customers.

These gas supply contracts are typically signed on a long-term basis with purchase prices based on a combination of different commodity prices, basically crude oil and its derivatives, and natural gas hub prices.

However, sales prices to final customers are usually signed on a short/medium term basis and sales prices are conditioned by the supply-demand balance that exists at any given time in the gas market. This may imply a decoupling with gas supply prices, e.g. in periods of gas oversupply.

Therefore, Naturgy is exposed to the risk of variation in the price of gas with respect to the selling price of end customers. Exposure to these risks is managed and mitigated by natural hedging through the monitoring of the position with respect to these commodities, trying to balance the prices of purchase and supply obligations and sales prices. In addition, some supply contracts allow this exposure to be managed through volume flexibility and price review mechanisms.

When it is not possible to achieve natural hedging, the position is managed, within reasonable risk parameters, by contracting derivatives to reduce exposure to price decoupling risk, generally designated as hedging instruments.

In the integrated electricity businesses, the company's aggregate exposure is determined by the strategic positioning of generation/commercialisation and by the final sales pricing policies in electricity commercialisation.

Finally, the company is exposed to the evolution of the price of CO_2 emission rights, intended for generation in its combined cycle plants. Conjuncturally, Naturgy invests part of its cash surpluses in CO_2-linked notes.

Naturgy has no relevant investments in upstream businesses or commodities production.

Business segment sensitivity to the prices of oil, gas, coal and electricity is explained below:

- Gas and electricity distribution. It is a regulated activity with revenue and profit margins are linked to distribution infrastructure management services rendered, irrespective of the prices of the commodities distributed. In any event, a fall in the price of gas could increase consumption, having a favourable impact on revenue and thus contributing to the stability of Naturgy's results.

- Gas and electricity. Profit margins on gas and electricity supply activities are directly affected by commodity prices. In this regard, Naturgy has a risk policy that stipulates the tolerance range, based on applicable risk limits, among other aspects. Measures employed to keep risk within the stipulated limits include active supply management, balanced acquisitions and sales formulae, and specific hedging so as to maximise the risk-profit relationship. Additionally to that policy, a large portion of Naturgy’s supply portfolio has mechanics, through clauses, to review prices both ordinary and extraordinary. In the medium-term, those clauses allow to modulate the potential impacts of imbalances between sale prices in Naturgy’s markets and prices of the supply portfolio.

Credit risk

Credit risk is defined as the potential loss resulting from the possible nonfulfillment of the contractual obligations of counterparties with which Naturgy does business.

Naturgy performs solvency analyses on the basis of which credit limits are assigned and any necessary provisions are determined. Based on these models, the probability of customer default can be measured and the expected commercial loss can be kept under control. In addition, credit quality and portfolio exposure are monitored on a recurring basis to ensure that potential losses are within the limits provided for by internal regulations. This allows a certain capacity to anticipate events in credit risk management.

Credit risk relating to trade receivables is reflected in the balance sheet net of provisions for bad debts (Note 9), estimated by the Company on the basis of the ageing of the debt and past experience in accordance with the prior segregation of customer portfolios and the current economic environment.

Credit risk relating to trade accounts receivable is historically limited given the short collection periods of customers that do not individually accumulate significant amounts before supply can be suspended due to non-payment, in accordance with applicable regulations.

With respect to other exposures to counterparties in transactions involving financial derivatives and the investment of cash surpluses, credit risk is mitigated by carrying out such operations with reputable financial institutions in line with internal requirements. No significant defaults or losses arose in 2021 or 2020.

The ageing analysis of financial assets concluded that there were no unimpaired, past due financial assets at 31 December 2021 and 2020.

The aging analysis of financial assets and their expected loss as of 31 December 2021 and 31 December 2020 is as follows:

31.12.2021	**Total**	**Current**	**0 to 180 days**	**180 to 360 days**	**Over 360 days**
Expected loss ratio	32.5 %	—	—	—	100.0 %
Trade receivables for sales and services	83	56	—	—	27
Expected loss	27	—	—	—	27

31.12.2020	**Total**	**Current**	**0 to 180 days**	**180 to 360 days**	**Over 360 days**
Expected loss ratio	43.1 %	—	—	—	100.0 %
Trade receivables for sales and services	65	37	—	—	28
Expected loss	28	—	—	—	28

The impaired financial assets are broken down in Note 9.

Concerning supplier credit risk, the solvency of each supplier of products and services is guaranteed through the recurring analysis of their financial information, particularly prior to new engagements. To this end, the relevant assessment criteria are applied depending on the supplier's criticality in terms of service or concentration. This procedure is supported by control mechanisms and systems and supplier management.

At 31 December 2021 and 2020 the Company did not have significant concentrations of credit risk.

Liquidity risk

The Company has liquidity policies that ensure compliance with its payment commitments, diversifying the coverage of financing needs and debt maturities. A prudent management of the liquidity risk includes maintaining sufficient cash and realisable assets and the availability of sufficient funds to cover credit obligations.

At 31 December 2021, available cash totalled Euros 7,484 million (Euros 7,930 million in 2020), considering cash and cash equivalents of Euros 2,208 million (Euros 2,618 million in 2020) together with bank borrowings and undrawn credit facilities amounting to Euros 5,276 million (Euros 5,312 million in 2020).

Capital management

The main purpose of the Company’s capital management is to ensure a financial structure that can optimise capital cost and maintain a solid financial position, in order to combine value creation for the shareholder with the access to the financial markets at a competitive cost to cover financing needs.

Naturgy considers a long-term leverage level of approximately 50% as an indicator of the capital management objectives.

The Company's long-term credit rating is as follows:

	2021	2020
Standard & Poor’s	BBB	BBB
Fitch	BBB	BBB

Other considerations

On 23 June 2016 UK voters supported the departure of their country from the European Union in a national referendum (“Brexit”). On 31 January 2020 the United Kingdom left the European Union and a transitional period began until 31 December of that same year. On 30 December 2020 the European Union and the United Kingdom signed a Trade and Cooperation Agreement with provisional entry into force on 1 January 2021.

The Brexit process has had and is likely to continue to have adverse effects on the economic and political situation of the EU and the stability of international financial markets. Without considering the aforementioned impact at international level, Naturgy's exposure to the risk derived from the Brexit is not considered significant.

Derivative financial instruments

The breakdown of derivative financial instruments by category and maturity is as follows:

	At 31.12.2021		At 31.12.2020	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Hedging derivative financial instruments	**—**	**61**	**—**	**108**
Cash flow hedge				
- Interest rate		38		81
- Interest rate and foreign exchange rate		23		27
Other financial instruments	**231**	**232**	**136**	**136**
- Price of commodities	231	232	136	136
Derivative financial instruments – non current	**231**	**293**	**136**	**244**
Hedging derivative financial instruments	**—**	**19**	**—**	**142**
Cash flow hedge				
- Interest rate	—	19	—	21
- Exchange rate	—	—	—	—
- Price of commodities	—	—	—	121
Other financial instruments	**1,865**	**1,873**	**123**	**123**
- Price of commodities	1,865	1,873	123	123
- Exchange rate	—	—	—	—
Derivative financial instruments - current	**1,865**	**1,892**	**123**	**265**
Total	**2,096**	**2,185**	**259**	**509**

Other financial instruments include the derivatives not qualifying for hedge accounting.

The impact on the Income statement of derivative financial instruments is as follows:

	2021		2020	
	Operating profit	**Net financial income/ (expense)**	**Operating profit**	**Net financial income/ (expense)**
Cash flow hedge	—	(19)	—	(17)
Other financial instruments	(6)	—	1	(1)
Total	**(6)**	**(19)**	**1**	**(18)**

The breakdown of derivatives at 31 December 2021 and 2020, their fair value and maturities of their notional values is as follows:

	At 31.12.2021							
	Fair value	**Notional value**						
		2022	**2023**	**2024**	**2025**	**2026**	**Subsequent years**	**Total**
INTEREST RATE HEDGES:								
Cash flow hedges:								
Financial swaps (EUR)	(57)	91	191	70	498	48	527	1,425
INTEREST RATE AND FOREIGN EXCHANGE RATE HEDGES:								
Cash flow hedges:								
Financial swaps (NOK)	(23)	—	101	—	—	—	—	101
EXCHANGE RATE HEDGES:								
Cash flow hedges:								
Foreign exchange insurance (USD)	—	—	—	—	—	—	—	—
Fair value hedges:								
Foreign exchange insurance (USD)	—	9	—	—	—	—	—	9
PRICE OF COMMODITIES HEDGES:								
Cash flow hedges:								
Price of commodities Derivatives (EUR)	—	—	—	—	—	—	—	—
OTHER:								
Foreign exchange insurance (USD)	(9)	—	—	—	—	—	—	—
	(89)	**100**	**292**	**70**	**498**	**48**	**527**	**1,535**

	At 31.12.2020							
	Fair value	**Notional value**						
		2021	**2022**	**2023**	**2024**	**2025**	**Subsequent years**	**Total**
INTEREST RATE HEDGES:								
Cash flow hedges:								
Financial swaps (EUR)	(102)	63	91	191	70	498	576	1,489
INTEREST RATE AND FOREIGN EXCHANGE RATE HEDGES:								
Cash flow hedges:								
Financial swaps (NOK)	(27)	—	—	101	—	—	—	101
EXCHANGE RATE HEDGES:								
Cash flow hedges:								
Foreign exchange insurance (USD)	—	33	—	—	—	—	—	33
Fair value hedges:								
Foreign exchange insurance (USD)	—	—	—	—	—	—	—	—
PRICE OF COMMODITIES HEDGES:								
Cash flow hedges:								
Price of commodities Derivatives (EUR)	(121)	1,228	—	—	—	—	—	1,228
OTHER:								
Foreign exchange insurance (USD)	—	—	—	—	—	—	—	—
	(250)	**1,324**	**91**	**292**	**70**	**498**	**576**	**2,851**

Note 15. Payables to Group companies and associates

The breakdown by maturity of payables to Group companies is as follows:

Maturity	At 31.12.2021	At 31.12.2020
2021	—	2,560
2022	4,823	1,451
2023	629	625
2024	1,619	1,604
2025	1,197	1,196
2026	1,591	1,589
2027	1,488	989
Subsequent years	2,586	2,076
Total	**13,933**	**12,090**

Payables to Group companies mainly relate to issuances carried out by Naturgy Capital Markets, S.A. and Naturgy Finance, B.V. under the European Medium-Term Notes (EMTN) programme. The balances payable to Naturgy Finance, B.V. in respect of perpetual subordinated debentures amounting to Euros 1,500 million (Euros 1,500 million 2019) and to Unión Fenosa Preferentes, S.A. relating to preference shares totalling Euros 110 million (Euros 110 million in 2019) are also included.

It also includes accrued unmatured interest of Euros 135 million (Euros 145 million in 2020) and cash-pooling balances with Group companies amounting to Euros 3,429 million are also included (Euros 1,268 million in 2020).

A breakdown of amounts owed to Group companies due to bond issues of Naturgy Finance, B.V. and Naturgy Capital Markets, S.A. is as follows:

At 31 December 2021

Programme/Company	Country	Year formalised	Currency	Programme limit	Drawn-down nominal amount	Available	Issuances per year
Euro Commercial Paper (ECP) programme							
Naturgy Finance B.V.	Netherlands	2010	Euro	1,000	—	1,000	280
European Medium Term Notes (EMTN) programme							
Naturgy Capital Markets, S.A. and Naturgy Finance, B.V.	Netherlands /Spain	1999	Euro	12,000	8,110	3,890	—

At 31 December 2020

Programme/Company	Country	Year formalised	Currency	Programme limit	Drawn-down nominal amount	Available	Issuances per year
Euro Commercial Paper (ECP) programme							
Naturgy Finance B.V.	Netherlands	2010	Euro	1,000	—	1,000	900
European Medium Term Notes (EMTN) programme							
Naturgy Capital Markets, S.A. and Naturgy Finance, B.V.	Netherlands /Spain	1999	Euro	12,000	8,941	3,059	1,150

The bonds issued, in a volume of Euros 8,110 million (Euros 8,941 million at 31 December 2020), as usual in the Euromarket, could be redeemed in advance provided that such a change in control triggers a downgrade of more than two full notches in at least two of the three ratings that it had obtained, and all the ratings fall below investment grade, and provided that the rating agency states that the rating downgrade results from the change in control.

The main movements for the years 2021 and 2020 are:

2021

In 2021 two bonds have matured for a total amount of Euros 831 million and with an average coupon of 4.58%.

In 2021, issues under the Euro Commercial Paper (ECP) programme totalling Euros 280 million were carried out. There were no outstanding issues at 31 December 2021 or 31 December 2020.

In November 2021, Naturgy issued a subordinated perpetual bond for an amount of Euros 500 million, redeemable at the issuer's option from February 2027 and with an annual return of 2.374%. As part of the transaction, a repurchase of Euros 500 million of the amortized subordinated perpetual bonds was repurchased from November 2022. The repurchase price was 104.211% and was determined on the basis of the purchase yield up to the first optional purchase date based on a settlement date of 24 November 2021.

Consequence of the cancellation of the Company's debt with Naturgy Finance B.V. for said repurchase, Euros 22 million have been recorded under the heading "Other financial expenses" of the Net financial income (Note 23).

2020

Issuances in 2020 under this programme were as follows:

Issue	Par value	Maturity	Coupon (%)
April 2020	1,000	2026	1.250
May 2020(*)	150	2029	0.750

(*) Increase issue November 2019

In 2020 two bonds matured for a total amount of Euros 934 million with an average coupon of 5.07%.

In 2020, issues under the Euro Commercial Paper (ECP) programme totalling Euros 900 million were carried out. At 31 December 2020 there were no outstanding issues under the ECP.

Borrowings from group companies and associates accrued an average interest rate of 2.15% in 2021 (2.20% in 2020).

There are no significant differences between the carrying amounts and fair values of Payables to Group companies and associates.

Note 16. Other non-current liabilities and Trade and other payables

The headings "Other non-current liabilities" and "Trade and other payables" at 31 December 2021 and 31 December 2020, classified by nature and category, are as follows:

At 31.12.2021	**At fair value through profit and loss**	**Amortised cost**	**Total**
Derivatives (Note 14)	232	—	232
Other non-current liabilities	**232**	**—**	**232**
Derivatives (Note 14)	1,873	—	1,873
Other liabilities	—	425	425
Trade and other payables	**1,873**	**425**	**2,298**
Total	**2,105**	**425**	**2,530**

At 31.12.2020	At fair value through profit and loss	Amortised cost	**Total**
Derivatives (Note 14)	136	—	136
Other non-current liabilities	**136**	**—**	**136**
Derivatives (Note 14)	123	—	123
Other liabilities	—	338	338
Trade and other payables	**123**	**338**	**461**
Total	**259**	**338**	**597**

Fair value through profit and loss

Financial liabilities recognised at fair value at 31 December 2021 and at 31 December 2020 are classified as follows:

	At 31.12.2021				At 31.12.2020			
Financial liabilities	**Level 1 (quoted price in an active market)**	**Level 2 (observable variables)**	**Level 3 (unobservable variables)**	**Total**	**Level 1 (quoted price in an active market)**	**Level 2 (observable variables)**	**Level 3 (unobservable variables)**	**Total**
Fair value through profit and loss	—	2,105	—	2,105	—	259	—	259
Total	**—**	**2,105**	**—**	**2,105**	**—**	**259**	**—**	**259**

This heading includes gas price operating hedging derivatives amounting to Euros 2,105 million (31 December 2020: Euros 259 million), of which Euros 232 million is classified as non-current (31 December 2020: Euros 136 million) (Note 14).

Amortised cost

The breakdown of this account is as follows:

	At 31.12.2021	At 31.12.2020
Trade payables	259	141
Trade payables, Group companies and associates	103	59
Other payables	12	10
Personnel (outstanding remuneration)	33	18
Public Administrations	18	17
Current tax liabilities (Note 17)	—	93
Total	**425**	**338**

Most payables do not accrue interest and have contractual maturity dates of less than 30 days, in the case of gas purchases and within the legal limits, for other suppliers.

Information on average supplier payment period. Additional Provision 3 “Duty of disclosure” of Law 15/2010/5 July

The average payment period is in accordance with Law 15/2010 on measures to combat late payment in business operations.

Information disclosed under the Resolution of 29 January 2016 of the Institute of Accountants and Auditors concerning the details to be included in the notes to the annual accounts concerning the average supplier payment period is as follows:

	2021	2020
	Amount	**Amount**
Total payments (thousand euro)	615,883	458,021
Total outstanding payments (thousand euro)	13,528	18,284
Average supplier payment period (days) (1)	38	32
Transactions paid ratio (days) (2)	38	32
Transactions pending payment ratio (days) (3)	40	38

(1) Calculated on the basis of amounts paid and pending payment.

(2) Average payment period in transactions paid during the year.

(3) Average age, suppliers pending payment balance.

The accompanying ratios do not include situations that could distort calculations, such as Trade payables, Group companies and associates.

Note 17. Tax situation

Naturgy Energy Group, S.A. is the parent of tax group 59/93, which includes all the companies resident in Spain that are at least 75% directly or indirectly owned by the parent company and that fulfil certain requirements, entailing the overall calculation of the group's taxable income, deductions and tax credits. The tax group for 2021 is analysed in Appendix I.

Corporate income tax is calculated on the basis of economic or accounting profit obtained by application of generally accepted accounting principles, which do not necessarily coincide with taxable profit, understood as taxable income for corporate income tax purposes.

The reconciliation of accounting profit for 2021 and 2020 to taxable income is as follows:

	At 31.12.2021	At 31.12.2020
Accounting profit before tax	**1,635**	**60**
Permanent differences	**(1,772)**	**(184)**
Temporary differences:		
Arising during current year	55	51
Arising in prior years	(46)	(139)
Taxable income	**(128)**	**(212)**

Permanent differences mainly relate to the application of the tax consolidation system and the double taxation exemption for dividends and income derived from the transfer of shares under Article 21 of Law 27/2014 on Corporate Income Tax, which has led to negative permanent differences of Euros 908 million resulting mainly from negative adjustments for dividends accruing during the year (Euros 1,271 million in 2020), the impairment of shareholdings in Group companies and associates amounting to Euros 868 million (Euros 1,080 million in 2020) and the upward adjustment for donations and other minor adjustments amounting to Euros 4 million.

In 2021 the Company recorded a tax loss of Euros 128 million (Euros 212 million in 2020), which is recovered from the tax group companies due to the taxable income generated by them during the year.

Income tax expense is as follows:

	2021	2020
Current-year tax	58	60
Deferred tax	13	(22)
Total	**71**	**38**

Current corporate income tax is the result of applying a 25% tax rate to taxable income. In the tax group, tax credits applied in 2021 amounted to Euros 26 million (Euros 4 million in 2020) and no tax losses were offset.

In 2021 there were no adjustments for tax differences from the previous year (Euros 4 million negative adjustment in 2020).

Likewise, other adjustments for provisions for future risks, tax on profits abroad and reversal for final inspection records for a total of 7 million euros are included as a lower expense for current tax in 2020.

On 3 December 2016 Royal Decree-Law 3/2016 was published, adopting tax measures for the consolidation of public finances, which introduced relevant changes in the corporate income tax area. Among other matters, with effect from 1 January 2016 the obligation is laid down to reverse provisions for the impairment of shareholdings that would have been deductible before 2013 in a maximum term of five years, the offsetting of tax losses for large companies is limited to 25% of the preliminary tax base and the application of the tax credit for domestic or international double taxation generated or pending application is restricted to 50% of preliminary gross tax payable. Additionally, effective from 1 January 2017, losses on the transfer of shares will not be deductible. In 2021 and 2020 these measures did not have a significant impact on the Company's financial statements.

On 31 December 2020, Law 11/2020 on the General State Budget for 2021 was published in the Official State Gazette, under which, among other measures, certain articles of Law 27/2014 on Corporate Income Tax were amended. The most relevant amendments relate to the limitation of the exemption of dividends and capital gains such that, with effect from 1 January 2021, only those derived from holdings of more than 5% of share capital will be exempt at 95%, thus eliminating those relating to holdings with an acquisition cost exceeding Euros 20 million (although a transitional regime is established for such holdings).

At the same time, the tax consolidation regime was modified by establishing the non-elimination of dividends distributed between companies in the same Tax Consolidation Group, which entails an effective tax rate of 1.25% for dividends received or capital gains generated in Spanish companies receiving dividends from companies in which a percentage of 5% or more is held, without prejudice to whether the distributing company and the receiving company belong to the same Tax Consolidation Group.

Related to this measure, and for the purposes of calculating the limitation on the deductibility of financial expenses in the case of holding companies in which dividends form part of operating profit, only dividends from entities in which the holding is equal to or greater than 5% will be considered, eliminating from the calculation those dividends from holdings in which the acquisition value of the holding was greater than Euros 20 million.

The General State Budget Law for 2022 approved the modification of Law 27/2014 on Corporation Tax, establishing a minimum taxation of 15% of the tax base. Naturgy does not anticipate that this modification will have an impact on the Group as the deductions applied do not imply a reduction in the effective rate below this percentage.

Income qualifying for the tax scheme for transfers of assets made in compliance with competition law (Additional Provision 4 of the Revised CIT Act) is explained below:

Year of sale	Amount obtained on the sale	Amount reinvested	Capital gain	Capital gain included in tax base	Capital gain pending inclusion in tax base
2002	917	917	462	20	442
2003	39	39	20	—	20
2004	292	292	177	9	168
2005	432	432	300	2	298
2006	310	310	226	—	226
2009	161	161	87	—	87
2010	752	752	551	—	551
2011	468	468	394	1	393
2012	38	38	32	—	32
Total	**3,409**	**3,409**	**2,249**	**32**	**2,217**

The reinvestment has been made in fixed assets used in business activities both by the Company and by the other companies in the tax group, pursuant to Article 75 of the Revised CIT Act.

A breakdown of the tax effect of each item on the Statement of Recognised Income and Expenses is as follows:

	At 31.12.2021			At 31.12.2020		
	Gross	**Tax effect**	**Net**	**Gross**	**Tax effect**	**Net**
Cash flow hedges	(46)	11	(35)	21	(5)	16
Actuarial gains and losses and other adjustments	(22)	5	(17)	(2)	1	(1)
	(68)	**16**	**(52)**	**19**	**(4)**	**15**

A breakdown of deferred taxes is as follows:

	At 31.12.2021	At 31.12.2020
Deferred tax assets:	173	193
- Non-current	162	180
- Current	11	13
Deferred tax liabilities:	(250)	(211)
- Non-current	(250)	(211)
Net deferred tax	**(77)**	**(18)**

Movements and breakdown of deferred asset accounts are as follows:

Deferred tax assets	**Provisions**	**Tax credits**	**Valuation of assets and financial instruments**	**Goodwill**	**Other**	**Total**
At 1.1.2020	**121**	**4**	**21**	**12**	**19**	**177**
Creation (reversal)	(4)	—	—	(1)	(17)	(22)
Movements linked to equity adjustments	(1)	—	5	—	—	4
Transfers and other	—	34	—	—	—	34
At 31.12.2020	**116**	**38**	**26**	**11**	**2**	**193**
Creation (reversal)	3	—	—	(1)		2
Movements linked to equity adjustments	(5)	—	(11)	—	—	(16)
Transfers and other	(5)	—	—	—	(1)	(6)
At 31.12.2021	**109**	**38**	**15**	**10**	**1**	**173**

Deferred tax liabilities	**Differences Depreciation**	**Deferred gains**	**Other**	**Total**
At 1.1.2020	**2**	**207**	**2**	**211**
Creation (reversal)	—	—	—	—
Movements linked to equity adjustments	—	—	—	—
Transfers and other	—	—	—	—
At 31.12.2020	**2**	**207**	**2**	**211**
Creation (reversal)	—	—	(11)	(11)
Movements linked to equity adjustments	—	—	—	—
Transfers and other	—	—	50	50
At 31.12.2021	**2**	**207**	**41**	**250**

In 2015, the demerger of the thermal and hydraulic power generation business from the Company to Naturgy Generación, S.L.U. was completed. Pursuant to Article 76.3 of Law 27/2014 on corporate income tax in force in 2015, this operation was defined as a non-cash contribution of a line of business and was thus subject to the special scheme provided by Title VII, Chapter VIII of that law. The information requirements stipulated in the special tax scheme are fulfilled in the notes to the Company's 2015 annual accounts.

In 2014, the demerger of the thermal and hydraulic power generation business from the Company to Naturgy Generación, S.L.U. was completed. Pursuant to Article 83.3 of Royal Decree-Law 4/2004 whereby the Revised CIT Act was approved, this operation is defined as a non-cash contribution of a line of business and is thus subject to the special scheme provided for in Title VII, Chapter VIII of said Act. The information requirements stipulated in the special tax scheme are fulfilled in the notes to the Company's 2014 annual accounts.

In 2009, the companies Unión Fenosa, S.A. and Unión Fenosa Generación S.A. were merged into the Company under the special tax scheme for mergers, spin-offs, asset contributions, share exchanges and changes of registered address of European companies or European cooperatives from one European Union Member State to another, provided by Title VII, Chapter VIII of the Revised CIT Act. The information requirements stipulated in the special tax scheme are fulfilled in the notes to the Company's 2009 annual accounts.

In July 2021 tax inspection proceedings were instigated against the Company as the parent company of Group 59/93 in relation to corporate income tax and as the parent company of Group 273/08 with respect to VAT. These proceedings are partial in nature in both taxes, the object of the verification being limited to certain aspects of the tax obligation. The periods under inspection for corporate income tax purposes (tax consolidation regime) are 2016 to 2019 and for VAT purposes (corporate group regime) from September 2017 to December 2020.

This notification interrupts the limitation period for assessing the taxes for the periods mentioned above with respect to the entire tax group for corporate income tax purposes and the VAT Group for VAT purposes.

In addition, within the framework of the same inspection procedure the Company was notified of the commencement of verification proceedings, also of a partial nature, in respect of personal income tax, withholdings and payments on account on earned income. The inspection covers periods from September 2017 to December 2020.

The tax inspection proceedings initiated against the Company in July 2018 as the parent company of Group 59/93 in relation to corporate income tax and as the parent company of Group 273/08 with respect to VAT concluded at the end of 2020. The periods under inspection for corporate income tax purposes (tax consolidation regime) were from 2011 to 2015 and for VAT purposes (corporate group regime) from June 2014 to December 2015.

The assessments raised on the conclusion of the proceedings have not had a material impact on the Naturgy companies as the resulting liability had already been provisioned.

As a result of the agreed tax assessments a current tax liability was recognised in 2020 under "Trade and other payables" (Note 16), which has been reversed following the settlements paid in 2021.

The assessments relating to the adjustment to the international double taxation credit were contested, as the company considers that its approach is supported by legal doctrine and case law on this matter. This amount continues to be recognised under "Provisions" (Note 12) and has been restated during 2021 for the late payment interest incurred.

In accordance with Spanish tax legislation, at the date of preparation of these annual accounts, the Company’s returns for the last four year for the principal taxes to which it is subject and which are not involved in the above-mentioned tax inspection are open to inspection.

Concerning tax-related appeals, on 30 September 2020 the Spanish National Court handed down a ruling on an appeal against the tax assessments resulting from an inspection on corporate income tax for the periods 2006-2008, which were contested and which basically regularised the tax deduction for export activities. This resolution has been executed during 2021 and the debt provided for under "Provisions" (Note 12) at 31 December 2020 has been repaid during this year.

In addition, the Central Economic-Administrative Court has yet to rule on the appeal filed against the settlements derived from the contested tax assessments relating to the regularisation of the deduction for international double taxation mentioned in previous paragraphs, which is fully provisioned as indicated therein.

As a result, among other things, of the different interpretations to which current tax legislation lends itself, additional liabilities could arise as a result of an inspection. The Company considers, however, that any liabilities that might arise would not significantly affect these annual accounts.

Naturgy has recorded provisions for obligations deriving from a number of tax claims. There are no lawsuits or uncertain tax treatments which are individually significant (Note 12).

Note 18. Revenue

Revenue breaks down as follows:

	2021	2020
Electricity sales	1	—
Natural gas sales and other	801	667
Provision of services	—	1
Income from equity instruments of Group companies and associates (Note 7)	932	1,271
Income from marketable securities and other financial instruments of Group companies and associates	348	353
Total	**2,082**	**2,292**

	2021	2020
Export market:	1,442	1,770
- European Union	640	522
- OECD countries	639	521
- Other countries	1	1
Total	**2,082**	**2,292**

Gas sales are made basically in the domestic market and relate to gas sales to other Naturgy companies.

Note 19. Raw materials and consumables

Includes gas purchases related to the activity of selling gas to other Naturgy companies.

Note 20. Personnel expenses

A breakdown of this heading in the income statement for 2021 and 2020 is as follows:

	2021	2020
Wages and salaries	58	66
Termination benefits	54	32
Social security costs	6	8
Defined contribution plans	1	2
Defined benefit plans (Note 12)	1	1
Share-based payments (Note 11)	3	2
Other	3	4
Total	**126**	**115**

In May 2021, the workers' union representatives and the representatives of Company management adopted a Voluntary Redundancy Plan for the Naturgy Group to be implemented before 31 December 2021. Compensation for termination includes the costs associated with said Voluntary Redundancy Plan corresponding to effective terminations and the agreements confirmed between the parties until 31 December 2021 and which make the commitment irrevocable.

The average number of Company employees in 2021 and 2020 is as follows:

	2021	2020
Executives	34	48
Middle management	105	214
Specialists	172	191
Operational staff	44	74
Total	**355**	**527**

The average number of Company employees during 2021 and 2020 with a disability equal to or greater than 33% is as follows:

	2021		2020	
	Men	**Women**	**Men**	**Women**
Executives	—	—	—	—
Middle management	—	—	1	2
Specialists	3	3	3	1
Operational staff	1	1	1	—
Total	**4**	**4**	**5**	**3**

The number of Company employees at the end of 2021 and 2020 broken down by category and gender is as follows:

	2021		2020	
	Men	**Women**	**Men**	**Women**
Executives	26	6	29	8
Middle management	42	39	96	68
Specialists	68	73	65	82
Operational staff	4	25	8	49
Total	**140**	**143**	**198**	**207**

Note 21. Other operating expenses

A breakdown of this heading in the income statement for 2021 and 2020 is as follows:

	2021	2020
Leases, royalties, operation and maintenance	23	27
Professional services and insurance	17	19
Advertising and other commercial services	12	14
Contribution Naturgy Foundation	5	6
Banking services	6	6
Supplies	7	20
Taxes	2	1
Impairment losses and changes in trade provisions (Note 9)	(1)	(2)
Other	39	79
Total	**110**	**170**

The Company makes contributions to the Naturgy Foundation to enable it to carry out its energy and environmental projects, basically in the community area, as well to fund international initiatives.

In the community area, the Naturgy Foundation has broadened its activities to place greater emphasis on its community initiatives, defining new strategic lines for actions aimed at palliating energy vulnerability.

Note 22. Other operating income

This account includes Euros 71 million in transactions with group companies and associates in 2021 (Euros 149 million in 2020), and basically corresponds to the repercussion of costs incurred.

Note 23. Net financial income/(expense)

The breakdown of this account in the Income statement for 2021 and 2020 is as follows:

	2021	2020
Income from marketable securities and other financial instruments	3	5
Total financial income	**3**	**5**
Cost of borrowings	(313)	(326)
Interest expense on pensions (Note 12)	(2)	(3)
Other financial expense	(34)	(10)
Total financial expense	**(349)**	**(339)**
Variation in fair value of financial instruments	—	1
Net exchange differences	—	(2)
Impairment and gains/(losses) on disposals of financial instruments	(1)	—
Net financial income/(expense)	**(347)**	**(335)**

Other financial expenses include the expenses for the cancellation of the debt associated with the repurchase of bonds from Naturgy Finance, B.V. for an amount of Euros 22 million (Note 15).

Note 24. Foreign currency transactions

Transactions effected in foreign currencies are analysed below, the main currency being the US dollar:

	2021	2020
Sales	401	257
Other operating income	8	—
Income from marketable securities and other financial instruments of Group	16	7
Purchases	(396)	(257)
Services received	(6)	(5)
Financial expenses by borrowings from group companies and associates	(5)	—
Total	**18**	**2**

Note 25. Information on transactions with related parties

The following are related parties for the purposes of this Note:

– Significant Company shareholders, i.e. those directly or indirectly owning an interest of 5% or more, and those who, though not significant, have exercised the power to propose the appointment of a member of the Board of Directors.

  Based on this definition, the significant shareholders of Naturgy are Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona ("la Caixa"), Global Infrastructure Partners III (GIP) and related companies, CVC Capital Partners SICAV-FIS, S.A. (through Rioja Acquisitions, S.à.r.l.) and IFM Global Infrastructure Fund (IFM) (through IFM Global InfraCo O (2), S.à.r.l.).

– Directors and executives of the Company and their close relatives. The term "director" means a member of the Board of Directors and the term "senior management personnel" refers to personnel reporting directly to the Executive President and the Internal Audit Manager. Operations with directors and senior management personnel are disclosed in Note 26.

– Transactions between Naturgy companies form part of ordinary activities and are effected at arm's length.

The aggregated amounts of operations with significant shareholders are as follows (in thousand Euros):

	2021				2020		
Income and expense (in thousand Euros)	**"la Caixa" group**	**CVC group**	**GIP group**	**IFM Group**	**"la Caixa" group**	**CVC group**	**GIP group**
Receipt of services	1	—	—	—	1	—	—
Total expenses	**1**	**—**	**—**	**—**	**1**	**—**	**—**
Total income	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Other transactions (in thousand Euros)	**"la Caixa" group**	**CVC group**	**GIP group**	**IFM Group**	**"la Caixa" group**	**CVC group**	**GIP group**
Dividends and other profits distributed	319,676	267,142	266,183	42,743	339,625	283,813	282,795

The aggregated amounts of operations with group companies and associates are as follows (in million Euros):

	2021		2020	
Expenses, income and other transactions	**Group companies**	**Jointly-controlled entities and associates**	**Group companies**	**Jointly-controlled entities and associates**
Financial expenses	(303)	—	(292)	—
Lease expenses	(1)	—	(1)	—
Receipt of services	(12)	—	(24)	(1)
Purchases of goods	(419)	—	(353)	—
Total expenses	**(735)**	**—**	**(670)**	**(1)**
Financial income	343	5	350	4
Dividends received	1,639	—	1,355	1
Sale of goods	1,046	—	516	—
Other income	71	—	148	1
Total income	**3,099**	**5**	**2,369**	**6**

In 2021 and 2020, "Purchases of goods" relates mainly to purchases of natural gas from Group companies.

The heading "Dividends received" includes the supplementary dividend payments made against the share premium account and reserves, recorded as a Euros 707 million decrease in investments in group companies (Euros 85 million in 2020) (Note 7).

The heading "Sales of goods" includes sales of natural gas derived from supply contracts, as well as gas commodity settlements passed on to group companies.

The heading "Other income" includes income from services rendered in accordance with the nature and extent thereof (Note 22).

Costs shared between the Company and other Naturgy companies are allocated on the basis of business or cost generation parameters.

Detailed definitions are prepared of services to be provided and of related activities or tasks in order to determine the measurement indicators used to calculate costs allocated. Transactions between companies are objective, transparent, non-discriminatory and always effected at arm's length.

Note 26. Information on Board members and management Committee

Remuneration of the members of the Board of Directors

The remuneration policy for the members of the Board of Directors was approved at the General Shareholders' Meeting held on 9 March 2021 and is periodically revised by the Board of Directors following a report from the Appointments and Remuneration Committee, in order to keep it aligned with the best practices in the reference market and with the objectives indicated in the By-laws.

The amount accrued by the members the Board of Directors of Naturgy Energy Group, S.A., for belonging to the Board of Directors, Audit and Control Committee (ACC), Appointments, Remuneration and Corporate Governance Committee (ARGC) and Sustainability Committee (SC), totalled Euros 3,955 thousand. There is no increase compared to 2020, as the creation of the Sustainability Committee has been compensated by a reduction in the unit amounts of the different committees. The amount for 2021 is detailed below (expressed in euros):

	Office	Board	AC	ARC	SC	Total
Mr. Francisco Reynés Massanet	Executive Chairman	1,100,000	—	—	—	1,100,000
Mr. Ramón Adell Ramón	Coordinating Director	205,000	44,000	66,000	—	315,000
Mr. Enrique Alcántara-García Irazoqui (1)	Director	111,022	—	27,914	—	138,936
Mr. Marcelino Armenter Vidal (2)	Director	62,567	—	15,731	—	78,298
Mr. Francisco Belil Creixell	Director	175,000	66,000	44,000	—	285,000
Ms. Lucy Chadwick	Director	175,000	44,000	—	44,000	263,000
Ms. Helena Herrero Starkie	Director	175,000	44,000	—	66,000	285,000
Ms. Isabel Estapé Tous	Director	175,000	44,000	—	44,000	263,000
Mr. Rajaram Rao	Director	175,000	—	44,000	—	219,000
Rioja S.à.r.l, Mr. Javier de Jaime Guijarro	Director	175,000	—	44,000	—	219,000
Mr. Pedro Sainz de Baranda Riva	Director	175,000	44,000	44,000	—	263,000
Mr. Claudi Santiago Ponsa	Director	175,000	—	44,000	44,000	263,000
Theatre Directorship Services Beta, S.à.r.l., Mr. José Antonio Torre de Silva López de Letona	Director	175,000	44,000	—	44,000	263,000
		3,053,589	**330,000**	**329,645**	**242,000**	**3,955,234**

(1) Since 13 May 2021
(2) From 9 May 2021

In 2021, as in 2020, no amounts were received for other items.

At 31 December 2021, the Board of Directors comprised 12 members, the Audit and Control Committee had 7 members, the Appointments, Remuneration and Corporate Governance Committee had 7 members and the Sustainability Committee had 5 members.

The members of the Board of Directors of Naturgy Energy Group, S.A., excluding the Executive Chairman, have not received remuneration from profit sharing, bonuses or indemnities, and have not been granted any loans or advances. Neither have they received shares or share options during the year, nor have they exercised options or have options to be exercised.

The members of the Board of Directors are covered with the same liability policy that insures all managers and directors of Naturgy. The premium paid in 2021 by Naturgy Energy Group, S.A. amounted to Euros 614 thousand (Euros 316 thousand in 2020).

Management Committee Remuneration

For the sole purposes of the information contained in this section, the Management Committee is considered to be the Executive Chairman in relation to his executive functions, the directors reporting directly to the Executive Chairman and the Internal Audit Director.

At 31 December 2021, 9 persons make up this group, excluding the Executive Chairman and the Internal Audit Director (9 persons at 31 December 2020). During 2021 there have been no movements in the Management Committee.

Amounts accrued by the Management Committee in respect of fixed remuneration, annual variable remuneration and other items totalled Euros 10,311 thousand in 2021 (Euros 5,106 thousand, Euros 4,997 thousand and Euros 208 thousand, respectively) and Euros 11,408 thousand in 2020 (Euros 6,130 thousand, Euros 4,752 thousand and Euros 526 thousand, respectively). As in 2020, the amount corresponding to the annual variable remuneration of the Executive Chairman will be paid as a voluntary contribution to the social security plan of which he is the beneficiary, in accordance with the provisions of the contract.

At 31 December 2021, the Management Committee has received for the extension of the current ILP, described in Note 11, the amount of Euros 831 thousand (as of 31 December 2020, the Committee did not receive any amount for this concept).

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled Euros 1,458 thousand in 2021 (Euros 1,601 thousand in 2020). The funds accrued for these contributions, including in the case of the Executive Chairman the amounts contributed voluntarily since 2018 together with the annual variable remuneration accrued in 2021 which will be settled as a contribution to a pension plan, amount to Euros 16,916 thousand at 31 December 2021 (Euros 13,112 thousand at 31 December 2020).

In 2021, as in 2020, Naturgy has not provided any new guarantees for loans to senior management personnel. No indemnities were received for departures from the Management Committee in 2021 (Euros 14,261 thousand in 2020).

The Chairman's contract was approved by the Board of Directors on 6 February 2018 and provides for a fixed remuneration component, an annual variable component and a long-term incentive plan, as well as other welfare benefits.

At a meeting held on 31 July 2018 the Board of Directors approved a long-term variable incentive plan (LTI) in which the Executive Chairman and other senior executives take part, the main characteristics of which are described in Note 11.

The Chairman's contract provides for an indemnity in the event of the termination or non-renewal of his directorship amounting to two years' total remuneration: total fixed remuneration, annual variable remuneration and the annualised part of long-term remuneration (equivalent to 1.25 times the total fixed remuneration). The indemnity will not be payable in the event of the serious and culpable nonfulfillment of his professional obligations causing significant harm to Naturgy's interests. In addition, as consideration for a post-contractual no-competition agreement with a duration of one year, an indemnity equivalent to one year's full fixed remuneration is provided for.

The contracts concluded with the members of the Management Committee (9) contain a clause providing for termination benefits equivalent to the legally established severance payment, which varies, depending on seniority, between two and three and a half years' salary. This clause applies to cases of unfair dismissal, as well as those referred to in Articles 40, 41 or 50 of the Workers' Statute and in one of the contracts for certain situations of change of control . In addition, the 9 contracts contain a clause providing for compensation equivalent to one year's fixed remuneration for a post-contractual non-competition commitment lasting up to two years.

Transactions with members of the Board of Directors and the Management Committee

The Directors have the obligation to avoid conflicts of interest as established by the Board Regulations of Naturgy Energy Group, S.A. and Articles 228 and 229 of the Spanish Companies Law. Additionally, these articles require that conflicts of interest incurred by the board shall be reported in the annual accounts.

In 2021 the Directors of Naturgy Energy Group, S.A. have not notified the Board of Directors of any general situation of conflict of interest.

During 2020, at two meetings of the Board of Directors, two directors abstained from taking part as certain inorganic investments where there was a conflict of interest with Naturgy were discussed. Apart from these cases, in 2021 the Directors of Naturgy Energy Group, S.A. have not notified the Board of Directors of any general situation of conflict of interest.

In transactions with related parties (significant shareholders) that have been submitted for approval by the Board, subject to a favourable report of the Audit Committee, any directors linked to the related party involved have abstained.

During 2021 and 2020, the members of the Board of Directors and the Management Committee have not carried out related-party transactions outside the ordinary course of business or transactions that have not been conducted under normal market conditions with Naturgy Energy Group, S.A. or Group companies.

Note 27. Contingent liabilities and commitments

Guarantees

Guarantees furnished by Naturgy at 31 December 2021 and 2020 are as follows:

- Guarantees provided to third parties, basically for investment commitments of Group companies, amounting to Euros 23 million (Euros 34 million at 31 December 2020).
- Guarantees to group companies Naturgy Capital Markets, S.A., Naturgy Finance, B.V. and Unión Fenosa Preferentes, S.A.U., for debt issuances carried out by them totalling Euros 9,720 million (Euros 10,551 million at 31 December 2020).
- Guarantees to group companies Naturgy Aprovisionamientos, S.A. and Gas Natural Europe, S.A.S for obligations under the gas purchase and transport contracts and gas tanker chartering agreements.

In 2020 the following guarantees provided by the Company were cancelled:

- Guarantees relating to the economic obligations resulting from its participation in the Spanish electricity system (MEFF and OMIE) for Euros 19 million.
- Guarantee for compliance with obligations under the administrative concession granted for USD 7 million (Euros 6 million) and guarantees for compliance with loan obligations relating to investee companies amounting to USD 78 million (Euros 69 million), cancelled as the obligation ceased to exist due to the assignment to other Naturgy Group companies.

As the above guarantees are basically granted in order to guarantee the fulfilment of contractual obligations or investment commitments, the events that would lead to their execution, and therefore a cash disbursement, would be the nonfulfillment by Naturgy of its obligations in the ordinary course of its business, the probability of which is considered remote. Naturgy estimates that the liabilities not foreseen at 31 December 2021 if any, that could arise from guarantees furnished would not be significant.

Contractual commitments

At 31 December 2020, the Company was party to several gas supply contracts with “take or pay” clauses negotiated for “own use” (Note 3.5), by virtue of which it had gas purchase rights for the period 2021 - 2024 in the amount of Euros 547 million, calculated on the basis of natural gas prices at 31 December 2020. These commitments have been cancelled during 2021.

Operating lease commitments break down as follows:

	2021	2020
Up to one year	18	17
Between 1 and 5 years	68	69
Between 5 and 10 years	28	42
	114	**128**

In 2021 this mainly includes operating leases without purchase options on six properties, as detailed below:

Property	**Situation**	**Maturity contract**	**Extension contract**
Avda San Luis, 77	Madrid	2026	5 years
Acanto, 11-13	Madrid	2026	5 years
Calle Lérida	Madrid	2027	5 years
Avda América,38	Madrid	2030	2 periods of 5 years
Can Ametller	Sant Cugat del Valles (Barcelona)	2022	—
Diagonal, 525	Barcelona	2031	2 periods of 5 years

Contingent liabilities for litigation and arbitration

The Company is involved in certain judicial and extrajudicial disputes within the ordinary course of its activities. At the date of preparation of these annual accounts, the main litigation or arbitration in which the Company is involved are the following:

Qatar Gas arbitration

In 2021, the arbitration on prices for gas supplies for the 2015-2017 period was resolved and an agreement was reached on the arbitration procedure that had been initiated for the 2018-2020 period.

Unión Fenosa Gas

In 2014, Egyptian Natural Gas Holding (EGAS), an Egyptian public company, ceased to supply gas to Unión Fenosa Gas, a company 50% owned by Naturgy at the time, and stopped paying the utilisation fee for the Damietta liquefaction plant. This led to Unión Fenosa Gas instigating arbitration proceedings at various locations (Madrid, El Cairo and the ICSID) against this supplier, which requested the nullity of the contract, and against the Arab Republic of Egypt. In December 2017 the arbitration proceedings against EGAS conducted in Cairo concluded with a decision that confirmed the position of Unión Fenosa Gas concerning the nonfulfillment of the relevant obligations. In August 2018 a decision was made in the investment protection arbitration proceedings (ICSID) against the Arab Republic of Egypt, ordering it to pay USD 2,013 million after taxes and before interest, pending resolution of the arbitration based in Madrid. On 21 December 2018, the Arab Republic of Egypt submitted an appeal to the ICSID against the award and requested its suspension while the appeal proceedings last. In January 2020, as Egypt had not provided the guarantees established by ICSID, the suspension that had been provisionally decreed was lifted and enforcement actions were resumed, with the award having been approved in the United Kingdom and the Netherlands.

In December 2020, Naturgy announced an agreement with ENI and the Arab Republic of Egypt to amicably resolve disputes affecting Unión Fenosa Gas, with the execution of the arbitration award suspended while said conditions were met.

As described in Note 7, in March 2021, Naturgy, ENI and the Arab Republic of Egypt completed the agreement reached on 1 December 2020 to amicably resolve the disputes affecting UFG. As a result, UFG received a number of cash payments and the majority of assets outside Egypt, excluding UFG's commercial activities in Spain. This also entailed the end of the gas supply contract for approximately 3.5 bcm per year to supply combined cycle plants in Spain, which was due to end in 2029 while maintaining its contract with Oman that expires in 2025. As a result of the agreement, Naturgy acquired an additional 50% stake in UFG, with the result that it now owns 100%, having gained control and fully consolidated that company. Additionally, impairment recognised on this holding, corresponding to the valuation of the pre-existing 50% stake in Unión Fenosa Gas, S.A., was reversed.

Energy subsidy (“bono social”)

The Supreme Court ordered reimbursement of the amounts contributed by Naturgy Energy Group, S.A. to the energy subsidy for 2014 to 2016 (Euros 74 million) in accordance with Royal Decree-Law 9/2013. However, this decision was appealed against by the government before the Constitutional Court. After a sentence of the Constitutional Court of 2020 and another of the Court of Justice of the European Union of 2021, the Supreme Court has confirmed its initial sentence.

At 31 December 2021, the balance sheet includes provisions for litigation based on the best estimate made using the information available at the date of preparation of these annual accounts on their progress and ongoing negotiations, which cover the estimated risks. The Company therefore considers that no significant liabilities will be derived from the risks described in the relevant section of this Note.

Note 28. Auditors’ fees

The Company’s auditor until 31 December 2020 was Ernst & Young, S.L. Since 1 January 2021, the Company's auditor has been KPMG. The fees payable to these companies in 2021 and 2020 were as follows:

	2021			2020		
	KPMG Auditores, S.L	**Rest KPMG network**	**Total**	**Ernst & Young, S.L.**	**Rest EY network**	**Total**
Auditing services	565	—	**565**	696	—	696
Assurance services and services related to the audit (1)	131	—	**131**	55	—	55
Tax services (2)	—	92	**92**	—	—	—
Other services (2)	15	127	**142**	127	—	127
Total fees	**711**	**219**	**930**	**878**	**—**	**878**

(1) Includes in 2021 the limited reviews of interim financial statements and fees related to the issuance of securities provided by KPMG Auditores, S.L. and Rest KPMG network.

(2) Fiscal year 2020 tax services have been reclassified for comparative purposes.

Note 29. Environment

Environmental actions

Naturgy is aware of its activities' environmental impacts and therefore the company pays particular attention to the protection of the environment and the efficient use of natural resources to meet energy demand.

As established in the Corporate Responsibility Policy, Naturgy is committed to promoting the sustainable development of society by ensuring the supply of competitive, safe energy with the maximum respect for the environment.

Naturgy only understands its business in the context of a commitment to sustainability, materialized in the company's Sustainability Plan in the form of specific, ambitious and measurable targets. This plan, whose main lines contribute to the SDGs established by the United Nations, is the backbone of the new Strategic Plan 2021-2025.

Climate change is the great global challenge of the 21st century; to face it, it is vital to transform the energy sector. Naturgy views the energy transition as a real opportunity, as reflected in the new Strategic Plan. This is evident in the company's commitment to achieving carbon neutrality by 2050, at the latest, by reducing total scope 1, 2 and 3 GHG emissions in accordance with the 1.5ºC - 2ºC pathways under the Paris Agreement, in line with the principles of a just transition. To this end, the bulk of investments will be concentrated in activities that are eligible under the EU Taxonomy:

- New renewable generation facilities, with the objective of reaching close to 60% of installed capacity by 2025.
- Carbon-neutral renewable gases, driving new projects with a target of injecting at least 1 TWh into the gas grids by 2025.
- Smart adapted energy grids to play a key role in the energy transition.

Protecting biodiversity, as part of the climate change problem, is another strategic priority of the new Plan

Although the "The Opportunity of Environmental Challenges" chapter in the Sustainability Report and Non-Financial Information Statement 2021 contains detailed information on the company's environmental management performance and results, the main milestones are summarized below.

<u>Governance and environmental management</u>

- Approval of a new Sustainability Plan 2021-2025 that reinforces the company's ambition in the transformation towards sustainability and contains more ambitious environmental targets.

- Continuous improvement and environmental performance metrics are based on concrete, ambitious targets that are measured and audited within the framework of the ISO 14001-certified environmental management system and are made public to meet the organisation's commitment to transparency. In 2021, 93.1% of EBITDA came from industrial activities whose environmental management is certified under the ISO 14001 standard, which involves passing external audits each year.

- Naturgy was recognized by CDP as part of its A-list for water management, and received an A- rating for its climate management, in 2021, placing it in the top range in both indexes.

- "Ejemplos Empresariales de Acciones #PorElClima2020" diploma from the #PorElClima Community for the company's initiative on Biomethane, circular energy for the climate and demographic challenge.

- The renewable gas project at the Butarque WWTP was a finalist in the 'Green Generation' category in the first edition of the Retina ECO Awards, organized by El País and Capgemini.

<u>Climate change and energy transition</u>

- In the new Strategic Plan through 2025, Naturgy announced a commitment to achieve climate neutrality by 2050 (net zero emissions).

- In 2021, 562 MW of new renewable plant (wind and photovoltaic) were commissioned worldwide, increasing renewable installed capacity to 33%. These new facilities contribute to the decarbonization of Naturgy's generation mix.

- Renewable gases (biomethane and hydrogen) are the key lever for decarbonizing Naturgy's gas business. In 2021, the company participated in biomethane projects and attained a production or grid injection capacity of 0.14 TW.

- Improved gas grid management (better monitoring, maintenance, improved materials, etc.) resulted in a 2% reduction in the methane leakage rate compared to the previous year.

- Commercialization of ECO tariffs and products in Spain, based on guarantees of origin, to provide customers with energy from renewable sources. In 2021, this represented 34% of the electricity supplied in the free market. Additionally, in 2021, the Gas Neutro product, i.e. natural gas whose CO_2 emissions have been offset, was applied to all new gas customers.

Circular economy

- The process of replacing hazardous chemicals with others that are more environmentally friendly is ongoing. An example is the replacement, at Spanish hydroelectric power plants, of mineral oils with other biodegradable and environmentally friendly oils.

- Encouragement to customers to opt for electronic invoicing to eliminate paper consumption and the pollution associated with its life cycle. Naturgy's online invoicing expanded considerably; at the end of 2021, 4.2 million contracts in Spain had online invoicing, i.e. 41% of the total, which represents an estimated saving of more than 390 tons of paper per year. The measure is also being implemented in Chile, where more than 200,000 paper invoices were eliminated between January and October.

- Worldwide water consumption was reduced by 24% in 2021. The largest reduction (75%) was in the use of inland fresh water, mainly because the coal-fired power plants that were decommissioned in 2020 used mostly river water. This improvement means a reduction of negative environmental impacts, due to reduced use of the most sensitive resource (fresh water). This trend is replicated in areas of high water stress, where there is greater competition for fresh water and where fresh water uptake was cut by 67%.

- Total waste production was cut by 38% year-on-year, mainly in the category of non-hazardous waste due to the non-operation of the coal-fired power plants (which produce ash and slag). Hazardous waste production was reduced by 7%. As for the final destination of the waste, 57% was reused or recycled.

Biodiversity and natural capital

- In 2021, Naturgy undertook numerous actions in the area of natural capital and biodiversity, all with the aim of preventing, reducing or offsetting our impacts so as to advance with our commitment to no net loss of biodiversity and the enhancement of the value of the natural surroundings. Specifically, 302 biodiversity initiatives were implemented worldwide, 25% of them voluntary.

- A total of 145 surveys of the natural environment were carried out, especially in the area of generation (thermal, hydroelectric and wind farms) and electricity distribution facilities, in order to ascertain and monitor the environmental and ecological status of the surroundings. Sampling campaigns were conducted in the environs of thermal and hydroelectric power plants to determine the physicochemical and biological quality of the aquatic environment (rivers, reservoirs, etc.). The most recent surveys confirm that the situation is normal, as it has been over the time series, and conclude that the environmental impact of the facilities that were surveyed is acceptable.

- Environmental restoration actions were taken on 635 hectares of land in 2021. 29% of that area relates to protected areas, habitats or species.

Environmental investment and expenditure

The environmental activities undertaken by the Company in 2021 totalled Euros 1.3 million (Euros 3.9 million in 2020), comprising Euros 0.2 million relating to environmental investment and Euros 1.1 million relating to the costs of environmental management at facilities excluding those derived from the carbon market (Euros 2 million for environmental investments and Euros 1.9 million related to expenses incurred in environmental management at facilities in 2020). Of the investments made, those in new renewable projects stand out, which will contribute to the energy transition and to reducing specific emissions of CO_2 and other atmospheric pollutants.

Finally, referring to possible contingencies, indemnities and other environmental risks that may be incurred by the company, third-party liability insurance policies are in place to cover any damage that might arise.

Emissions

In 2021, total consolidated CO_2 emissions from Naturgy's combined cycle plants and cogeneration subject to regulations governing the European emission trading system totalled 4.9 million tonnes of CO_2 (6 million tonnes of CO_2 in 2020).

Naturgy devises a strategy each year for managing transfers to its CO_2 emission allowance coverage portfolio, acquiring them through its active participation in both the primary and secondary markets.

Note 30. Events after the reporting date

On 3 February 2022, the Board of Directors approved the proposal for the distribution of the Company's net profit for 2021 and retained earnings, which will be submitted to the General Shareholders' Meeting, as described in Note 11.

Apart from this, there have been no significant post-closing events.

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APPENDIX I. NATURGY TAX GROUP COMPANIES

The companies in the Naturgy tax group are as follows:

Naturgy Energy Group, S.A.	Naturgy Future, S.L.U.
Boreas Eólica 2, S.A.	Naturgy Generación Térmica, S.L.U.
Comercializadora Regulada, Gas & Power, S.A.	Naturgy Generación, S.L.U.
Energías Ambientales De Somozas, S.A.	Naturgy Iberia, S.A.
Eòlica Tramuntana, S.L.	Naturgy Informática, S.A.
Europe Mahgreb Pipeline Limited	Naturgy Infraestructuras EMEA, S.L.
Explotaciones Eólicas Sierra De Utrera, S.L.	Naturgy Ingeniería Nuclear, S.L.
Fenosa, S.L.U.	Naturgy Inversiones Internacionales, S.A.
Gas Natural Comercializadora, S.A.	Naturgy LNG GOM, S.L.
Gas Natural Exploración, S.L.	Naturgy LNG, S.L.
Gas Natural Redes GLP, S.A.	Naturgy Nuevas Energías, S.L.U.
Gas Natural Transporte SDG, S.L.	Naturgy Participaciones, S.A.
General de Edificios y Solares, S.L.	Naturgy Renovables Canarias, S.L.U.
Global Power Generation, S.A.	Naturgy Renovables Ruralia, S.L.U.
GPG Ingeniería y Desarrollo de Generación, S.L.U.	Naturgy Renovables, S.L.U.
GPG México Wind, S.L.U.	Naturgy Wind, S.L.
GPG México, S.L.U.	Nedgia Andalucía, S.A.
Holding de Negocios de Gas, S.A.U.	Nedgia Aragón, S.A.
Holding Negocios Electricidad, S.A.	Nedgia Balears, S.A.
Infraestructures Elèctriques de la Terra Alta, S.L.U.	Nedgia Castilla La Mancha, S.A.
JGC Cogeneración Daimiel, S.L.	Nedgia Catalunya, S.A.
La Propagadora del Gas, S.A.	Nedgia Cegas, S.A.
Lignitos de Meirama, S.A.	Nedgia Madrid, S.A.
Naturgy Acciones, S.L.U.	Nedgia Navarra, S.A.
Naturgy Alfa Investments, S.A.U.	Nedgia, S.A.
Naturgy Almacenamientos Andalucía, S.A.	Operación y Mantenimiento Energy, S.A.
Naturgy Aprovisionamientos, S.A.	Parque Eólico Nerea, S.L.
Naturgy Capital Markets, S.A.	Parque Eólico Peñarroldana, S.L.
Naturgy Ciclos Combinados, S.L.U.	Petroleum, Oil & Gas España, S.A.
Naturgy Clientes, S.A.U.	Sagane, S.A.
Naturgy Commodities Trading, S.A.	Societat Eòlica de L'Enderrocada, S.A.
Naturgy Distribución Latinoamérica, S.A.	Tratamiento Cinca Medio, S.L.
Naturgy Electricidad Colombia, S.L.	UFD Distribución Electricidad, S.A.
Naturgy Engineering, S.L.	Unión Fenosa Preferentes, S.A.U.

Naturgy Energy Group. S.A.
2021 Report

DIRECTORS' REPORT

Directors' Report for the year ended 31 December 2021

Contents

1. Main aggregate performances

The main financial aggregates of Naturgy Energy Group, S.A. and their performance are as follows:

	2021	2020	%
Net turnover	2,082	2,292	(9.2)
Operating profit	1,982	395	401.8
Profit of the year	1,706	98	1,640.8
Shareholders' equity	18,901	18,471	2.3
Net equity	18,858	18,393	2.5
Current liabilities	2,855	3,228	(11.6)

Naturgy Energy Group, S.A., is a company that develops its activity basically through the tendency of other group and associated companies shares, so information bellow refers to Consolidated group of Naturgy (hereinafter, Naturgy).

1.1. Business performance and results

Notes on financial disclosures

– Naturgy's financial disclosures contain magnitudes drafted in accordance with International Financial Reporting Standards (IFRS), and Alternative Performance Metrics (APM), which are viewed as adjusted figures with respect to those presented in accordance with IFRS. The attached appendix in Consolidated Directors' Report contains a definition of the APMs.

Main financial aggregates

	2021	2020	%
Net sales	22,140	15,345	44.3
Ebitda	3,529	3,449	2.3
Ebit	2,101	466	350.9
Income attributable to equity holders of the parent	1,214	(347)	(449.9)
Investments	1,484	1,279	16.1
Net borrowings (at 31/12)	12,831	13,612	(5.7)
Free cash flow after non-controlling interests	2,113	1,626	30.0

Key financials & metrics

	2021	2020
Leverage	59.10%	54.70%
Ebitda / Cost of net borrowings	7,2x	6,9x
Net borrowings / Ebitda	3,6x	3,9x

Main stock market ratios and shareholder remuneration

	2021	2020
Total no. of shares ('000)	969,614	969,614
Average no. of shares ('000)[1]	960,935	962,555
Share price at 31/12 (Euros)	28.63	18.9
Market capitalisation at 31/12 (Euros million)	27,760	18,384
Earnings per share (Euros)[1]	1.26	(0.36)
Dividend paid	1,290	1,370

[1] Calculated using the weighted average number of outstanding shares in the year (weighted average number of ordinary shares minus weighted average number of treasury shares).

Main operating aggregates

Distribution	**2021**	2020
Gas distribution (GWh)	459,878	403,910
Electricity distribution (GWh)	36,411	35,536
Gas supply points ('000)	11,037	11,052
Electricity supply points ('000)	4,776	4,727
Gas distribution network (km)	135,640	134,802
Length of electricity transmission and distribution network (km)	153,981	151,495

Gas	**2021**	2020
Supply (GWh)	239,780	181,738
International LNG (GWh)	141,748	133,979
Total gas supply (GWh)	**381,528**	**315,717**

Electricity	**2021**	2020
Thermal installed capacity (MW)	10,674	10,674
Renewable installed capacity (MW)	5,221	4,659
Total installed capacity (MW)	**15,895**	**15,333**
Thermal net production (GWh)	30,891	31,501
Renewable net production (GWh)	10,862	9,513
Total net production (GWh)	**41,753**	**41,014**

Environmental and social performance

Environment	2021	2020
Power generation emission factor (t CO2/GWh)	261	297
Greenhouse gas (GHG) emissions (M tCO2 eq)[1]	14	16
Emissions-free installed capacity (%)	33	29
Emissions-free net production (%)	35	32

Interest in people	2021	2020
No. of employees at year-end[2]	7,366	9,335
Training hours per employee	28.8	26.6
Men/women (%)[3]	68/32	67/33

Health and safety	2021	2020
No. of accidents leading to time lost	8	4
Frequency of accidents with time lost	0.1	0.04

Commitment to society and integrity	2021	2020
Economic value distributed (Euros million)	22,494	16,235
No. of complaints received by the Ethics Committee	61	80

[1] GHG: greenhouse gases, measured as tCO_2 equivalent (scope 1).
[2] Does not include the number of employees at discontinued operations (1 person in 2021 and 1,392 persons in 2020).
[3] Including employees at discontinued operations.

1.2. Executive summary

- The year 2021 has been marked by the gradual recovery of energy demand and the significant rise of commodity prices, impacting both gas and electricity. This trend has intensified during the second half of the year as we approached the winter season.

- Naturgy ordinary EBITDA reached Euros 3,983 million in the full year 2021, up 7% vs. previous year, and above its guidance, mainly supported by the gradual recovery of energy demand and the rising commodity prices, particularly gas.

- Ordinary Net Income reached Euros 1,231 million in 2021, up 41% vs. 2020. On a reported basis, Net income reached €1,204m. The restructuring costs linked to the employee voluntary departure plan in Spain, and the breakup penalties associated to the cease of certain gas contracts in the last quarter of the year, were almost fully compensated by the net gains from the disposal of CGE Chile, the agreement in UFG, and the 2013-2020 hydro canon provision reverted during the last quarter of 2021

- Total capex amounted to Euros 1,484 million in 2021, up 16% vs. the previous year. This increase was mainly explained by greater investments in renewable developments in Australia, Spain & the USA, as well as by higher investments in supply (commercial efforts and digitization).

- Net debt at the end of 2021 stood at Euros 12,831 million, implying a Net debt / LTM reported EBITDA of 3.6x compared to 3.9x as of 31 December 2020. The significant net debt reduction and deleveraging was mainly driven by the disposal of Naturgy's Chilean electricity networks subsidiary in Chile and the cash payments resulting from the agreement to exit UFG. On the other hand, the surge and volatility in gas prices had a temporary negative impact on working capital consumption, notably in 4Q21, which has partially offset the expected reduction in net debt. Such impact however is deemed as transitory and WC consumption is expected to normalize in the forthcoming quarters.

- During 2021, the company paid out a total dividend of 1.33 €/share in cash, including the final dividend of 2020 (0.63 €/share) paid in March as well as the first and second interim dividends for 2021 corresponding to 0.3 €/share and 0.4 €/share, paid in August and November 2021, respectively. The company will be proposing a 2021 complementary dividend of €0.5/share in its upcoming AGM, in line with its dividend policy of €1.2/share per year.

Macroeconomic growth and energy demand

Energy demand experienced a gradual recovery during the year in the regions where the Group operates. Electricity and gas demand in Spain compared on average 2.4% and 5.4% above 2020 respectively. Similarly, electricity and gas demand across the Latin American regions where the Group operates experienced an increase on average of 4.8% and 22.5% respectively during 2021 and compared to 2020.

During 2021, LatAm currencies depreciated against EUR with a negative effect of €-42m and €-8m on the Group's ordinary EBITDA and Net Income respectively. The depreciation pace has moderated in 2021compared to prior years, albeit Brazil and Argentina continued to show a notable depreciation in the year.

Evolution of commodity prices

The year 2021 has been marked by the volatile energy scenario and the surge of gas and electricity prices, most notably during the second half of the year.

Brent prices increased by 69.5% on average when compared to 2020 while gas prices on major gas hubs show as well significant increases vs. 2020 (HH increased by 71.4% and NBP multiplied by 4.9x on average). Wholesale electricity prices for their part multiplied by 3.3x on average vs. 2020, exceeding all- time highs Said increases resulted in significant regulatory changes and uncertainty in Spain during the year.

Corporate activity

During 2021 Naturgy continued to progress on its business simplification and de-risking, reducing risk concentration in Chile and reaching a solution to its lingering disputes in Egypt, reinforcing the company's balance sheet and strength to pursue more ambitious renewable growth.

On 10 March 2021, Naturgy, ENI and The Arab Republic of Egypt completed the agreement to amicably resolve the disputes affecting Union Fenosa Gas (UFG), the 50%/50% partnership between Naturgy and ENI. Naturgy received a series of cash payments adding up to approximately US$0.6bn, as well as most of the assets outside of Egypt, excluding UFG's commercial activities in Spain.

Furthermore during 2021, Naturgy completed the disposal of its 96.04% equity shareholding in its Chilean electricity networks subsidiary, Compañía General de Electricidad S.A in Chile (CGE), to State Grid International Development Limited (SGID) for a total purchase price (equity value) of €2,570m.

COVID-19 update

Naturgy continues to support and protect the interests of all its stakeholders, including measures to preserve employee health, safety and wellbeing, resources to guarantee effective remote work, or individual protection and support by Naturgy's medical services.

Relevant measures remain in place to support society as well as customers and suppliers, including the reinforcement of key infrastructures to ensure the stability and quality of electricity and gas supply. Moreover, and in light of the significant rise in electricity prices and the impact it might have on its industrial and SME/retail clients, Naturgy announced at the beginning of September, its Commitment Initiative, consisting on offering a fixed price of €60/MWh for electricity in Spain for 2 years without conditions. Further to this, Naturgy extended its offering with a fixed price of 65 euros / MWh for three years, which allows clients to get a stable price not linked to the volatility of the pool for a longer horizon.

Naturgy reiterates the importance and value of its commitment to society and reaffirms its willingness to maintain its support for its clients with measures within the company's reach.

2. Main risks and opportunities

2.1. Risk management model

Naturgy's risk management model seeks to ensure that the company's performance is predictable within an acceptable bounded range. The model quantifies the variability of performance and ensures that it is in line with strategically defined target levels in all aspects that are of importance to its stakeholders.

Core goals of the risk measurement and management model include ensuring that material risk factors are correctly identified, assessed and managed. The final objective is to ensure that the level of risk exposure assumed by Naturgy in the course of its business is consistent with the company's defined overall risk profile and the attainment of annual and strategic objectives.

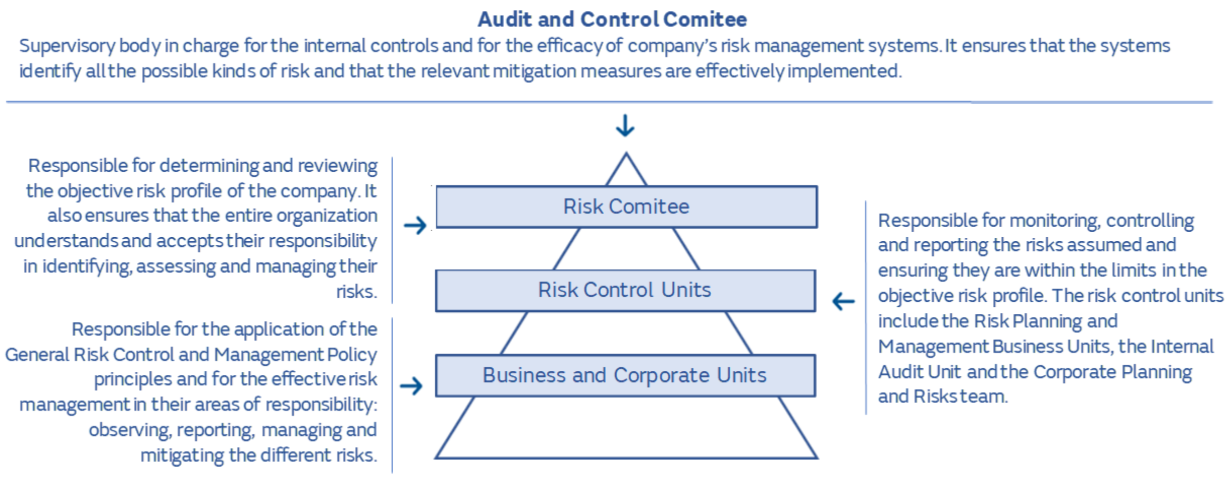
The Integrated Risk Management and Control System is structured as follows:

- *Risk Appetite*: definition of risk tolerance by setting limits for the main risk categories, by risk and by business, as a function of the targets.
- *Risk Assessment*: methodology, procedure and process for identifying, assessing and measuring risks.
- *Risk Governance & Management*: risk governance and management mechanism for all risk classes and all businesses.
- *Risk Reporting*: regular systematic reporting and monitoring of risk at the various levels of management: Business, Business Units, Chairman's Office and Board of Directors.

Risk management bodies

Naturgy has a framework integrating the vision of governance, risks and compliance so as to provide a 360º view of the group's processes, existing controls and the associated risks.

To this end, it has a number of bodies with clearly identified areas of responsibility, making it possible to ensure the predictability and sustainability of the company's operational and financial performance.



The Risk Control units exercise oversight to ensure that results are recurrent and sustainable. A key task is modelling the annual accounts to identify their main sensitivities and anticipate possible impacts and mitigating actions.

Additionally, each business unit has specific information on the main types of risk that may affect it. The goal is to facilitate decision-making, which is positive for the company since it enhances profitability, predictability and efficiency.

Comprehensive management

Naturgy analyses its overall risk profile on the basis of the potential impact on its annual accounts. In this way, it determines the maximum accepted level of risk exposure and the admissible limits.

The tools that enable the company to achieve continuous improvement in the process of identifying, characterising and determining Naturgy's risk profile are:

- Global Risk Control and Management Policy: updated and approved by the Board of Directors of Naturgy in November 2020. Its purpose is to establish the general principles and standards of behaviour required to ensure proper identification, reporting, assessment and management of Naturgy's exposure to risk.

- Corporate Risk Map: identifies and quantifies the risks which might affect Naturgy's performance, considering the characteristics of the risk position (impact variables, potential severity in quantitative and qualitative terms, likelihood of occurrence, and degree of management and control). It is updated and submitted to the Audit and Control Committee every year.

- Other risk maps: these are developed by Naturgy's Business and Corporate units following a common methodology and serve as the basis for the Corporate Risk Map.
- Risk Measurement System: serves to quantify, on a recurring probabilistic basis, the risk position assumed overall in each risk category. To this end, it analyses correlated risks, analyses sensitivity and performs stress tests for the main identified risk.

Risk categories

In the 2021 Risk Map, Naturgy defined four risk types: Economic, Financial, Operational, and Reputational/ Sustainability.

Types of economic and financial risk

For the types of economic and financial risk, a risk assessment is applied through quantitative modelling.

Categories of economic risk

Risk factors with an impact on the businesses' EBITDA.

- **Market/commodity risk**, the uncertainty caused by price variability of energy and other commodities that the company uses.
- **Exchange rate risk**, the uncertainty associated with changes in the exchange rates of the currencies in which Naturgy's businesses are denominated during the year.
- **Regulatory risk**, the risk associated with reviews of the remuneration frameworks for the regulated businesses and/or updates to the specific remuneration parameters under which Naturgy businesses operate.
- **Volume risk**, risk associated with the variation of volumes produced, distributed and/or supplied due to variations in temperature and the macroeconomic or competitive environment with respect to the base scenario considered in the projections.
- **Margin/Price Risk**, understood as the price risk not contemplated under market/commodity risk created by changes in competitive pressure or unachieved margin optimisation scenarios.
- **Legal risk,** related to the eventual outcome of litigation, arbitration or legal claims against Naturgy in the year of analysis.
- **Operational risk**, associated with events of force majeure or accidents affecting persons, and with accidents, damage or non-availability of the company's operating assets, after coverage by Naturgy's insurance programme.

Financial risk categories

Risk factors impacting the company's cash flow and balance sheet.

- **Credit risk**, unexpected loss due to uncertainty associated with the probability of non-payment of monetary obligations and/or deterioration of the credit quality of the end customers and counterparties with which Naturgy operates.
- **Interest rate risk**, variability of the company's financial expenses caused by interest rate movements in the currencies in which Naturgy's debt is denominated.
- **Tax risk**, associated with the proper application of tax regulations, the complexity of their interpretation, and possible amendments, with a potential economic impact on the company's accounts.
- **Liquidity,** risk associated with a potential increase in the financing needs required to maintain the company's target rating.
- **Rating**, risk of a downgrade of the company's credit rating, considering that the company targets an anchor BBB rating.
- **Provisions**, risk of maintaining an excessive volume of provisions on the balance sheet, resulting in the risk that they may materialize and their effect on cash outflows.

Types of operational and reputational/sustainability risk

For the operational and reputational/sustainability risk typologies, an assessment of the risk position using heat maps is generally applied.

Operational risk categories

Risk factors derived from operating the company's human and material assets.

- **Security risk**, understood as the residual risk associated with personal injury or material damage to critical facilities caused intentionally by a third party.
- **Process risk**, understood as a loss resulting from a shortcoming or failure in processes, systems or personnel performance with an impact on the company's efficiency or other risks.
- **Fraud risk**, derived from any intentional breach of the law by an employee or a third party to benefit themselves or the company, directly or indirectly, through the improper use of Naturgy resources or assets.
- **Cybersecurity risk**, arising from malicious attacks or accidental events with an operational impact that affect data, computer networks or technology.
- **Data protection risk**, understood as the risk associated with breach of data protection obligations that may result in an administrative sanction or civil judgement.
- **Environmental risk**, associated with the possibility that natural phenomena or human action may result in regulatory environmental limits being exceeded or in damage to ecosystems and biodiversity.
- **Customer satisfaction risk**, understood as the risk of not offering the customer a distinctive value proposition that places the company in a privileged position to define new relationship models and address the digital transformation by maximising the value of new technologies.
- **Health and safety risk,** understood as the risk of injury and health impairment for professionals of Naturgy or partner companies in connection with the business.

Sustainability and Reputational risk categories

Risk factors associated with behaviours that constitute a departure from good practices in the area of reputation, ESG commitment, compliance, people and climate change.

- **Reputational and ESG risk,** uncertainty in the evolution of stakeholders' perception of the company's reputation and its capacity to engage in business sustainably from an environmental, social and governance point of view.
- **Compliance risk,** understood as the risk of sanctions, financial losses or loss of reputation that Naturgy could suffer as a result of non-compliance with both legal obligations and standards, policies and other internal regulations applicable to its activities.
- **Energy transition and climate change risk**, arising from the energy transition (regulation, markets, technologies, etc.) and the physical impacts of climate change (acute and chronic).

2.2. Main risks

There are horizontal risks, such as the uncertainty in the macroeconomic context and geopolitical exposure, which materialize and have an impact on many of the risk types described in the previous section.

Uncertainty in the macroeconomic context

During the last decade the global economy has been growing at moderate rates marked by the stagnation of economic activity in Europe and the economic contraction of various emerging countries. As of 2020, the macroeconomic scenario was profoundly altered by the lockdowns derived from the outbreak of the COVID-19 pandemic and, specifically in the energy sector, this translated into lower demands for gas and electricity and a significant depreciation of the currencies in key regions of Latin America.

In 2021, the effects of the pandemic have continued to generate strong uncertainty in the economy which, as of the third quarter of 2021, has implied instability between supply and demand in the international markets for energy commodities. At the date of publication of this report, the final extent and timing of the definitive recovery from the COVID-19 health crisis, and the final extent and evolution of geopolitical tensions in Europe, are not known with certainty.

In any case, the Group continuously monitors the evolution of the economic cycle in the short, medium and long term, with the aim of minimizing the negative effects that the context could generate.

External geopolitical exposure

Naturgy has interests in countries with varied political, economic and social environments. It is exposed to two main geographies outside the European Union:

- Latin America
  Among the risk factors linked to investment and business in Latin America, it is worth mentioning the influence on the economy by local governments, the fluctuation in the rate of economic growth, high levels of inflation and devaluation, depreciation or overvaluation of currencies. local, changing environment of interest rates, as well as social tensions and political instability.

- Middle East and Maghreb
  Naturgy has assets and major gas procurement contracts in several countries of the Maghreb and the Middle East. Political instability in the zone may result in physical damage to the assets of Naturgy's investee companies or the obstruction of the operations of those or other companies, interrupting the Group's gas supply.

Table of main risks and trends

Risk type		Description	Management approach	Metric		Trend
Market/commodity risk						
Commodity prices	Gas	Volatility in the international markets that determine the gas price.	Physical and financial hedges. Portfolio management	Stochastic	↑	Mismatch between long-term contracts and hub prices.
	Electricity	Volatility in electricity markets.	Physical and financial hedges. Optimisation of the generation fleet.	Stochastic	↑	Penetration by renewables with zero marginal cost and intermittent production.
Exchange rate risk						
Exchange rate		Volatility in international currency markets.	Geographic diversification. Hedging via local-currency funding and derivatives. Monitoring the net position.	Stochastic	↑	Uncertainty about growth prospects in Latin America.
Regulatory risk						
Regulatory		Exposure to reviews of criteria and returns recognised for regulated activities.	Step up communication with regulators. Adjust efficiency and capital expenditure to recognised rates.	Scenarios	↑	Pressure from regulators, as a function of the situation of the country/industry.
Volume risks						
Volume	Gas	Mismatch between gas supply and demand.	Optimisation of contracts and assets worldwide.	Deterministic / Stochastic	↑	Aggregate demand pressure.
	Electricity	Reduction of the available thermal gap. Uncertainty as to renewable production volume.	Optimisation of the supply-generation balance.	Stochastic	↑	Aggregate demand pressure.
Margin/price risk						
Margin/price		Risk created by changes in competitive pressure or unachieved margin optimisation scenarios.	Portfolio management by adapting long-term purchase and sale formulas.	Scenarios	↑	Reviews of long-term gas contracts
Legal risk						

Legal	Uncertainty as to the eventual outcome of litigation, arbitration or legal claims.	Analysis and mitigation of legal risk affecting the company's operations and corporate governance. Engagement of top-level law firms. Recognition of provisions on a prudential basis.	Scenarios	⇆	Different business units are affected by different laws in each country.
Operational risk					
Insurable risks	Accidents, damage or non-availability of Naturgy assets.	Continuous improvement plans. Optimisation of the total cost of risk and hedges.	Stochastic	↑	Growing tension in the insurance market in the face of the rising frequency of extreme weather events.
Credit risk					
Credit	Uncertainty associated with the probability of non-payment of monetary obligations and/or deterioration of the credit quality of the end customers and counterparties with which Naturgy operates.	Analysis of customer solvency in order to define specific contractual conditions. Debt collection process.	Stochastic	↑	Transitory effect of the post-COVID-19 recovery.
Interest rate risk					
Interest rates and credit spreads.	Volatility in funding rates.	Financial hedges. Diversification of funding sources.	Stochastic	⇆	Uncertainty about interest rate scenarios.
Tax risk					
Tax	Ambiguity or subjectivity in the interpretation of current tax regulations, or material amendments to same.	Queries to independent expert bodies. Engagement of top-level advisory firms. Adoption of the Code of Good Tax Practices. Recognition of provisions on a prudential basis.	Scenarios	⇆	Different business units are affected by different taxes.
Liquidity, rating and provision risks					

Liquidity, rating and provision risks	Financial risks associated with maintaining the company's rating, derived from liquidity conditions or other causes. Risks associated with excessive use of resources due to maintaining provisions.	Establishment of a target rating and ensuring sufficient liquidity to maintain it in the event of a potential adverse scenario.	Scenarios	⇆	Ratification of the target of an investment grade rating in the Business Plan 2021-2025
Security risk					
Security	Residual risk associated with personal injury or material damage to critical facilities caused intentionally by a third party.	Corporate positioning through the Security Policy, defining a specific protection model for Critical Infrastructures (CI). Engagement with the businesses, Centro Nacional para la Protección de Infraestructuras Críticas (CNPIC), Instituto Nacional de Ciberseguridad (INCIBE-CERT) and other public- and private-sector bodies involved in CI security.	Heatmap/ Scenarios	⇆	Certification audits by the regulator (CNPIC) of critical operators, in which technology is of great importance.
Process risk					
Processes	Uncertainty resulting from a shortcoming or failure in processes, systems or personnel performance with an impact on the company's efficiency or other risks.	Annual internal audit plan Weakness detection. Implementation of improvement actions (recommendations). Audit and Control Committee.	Heatmap/ Scenarios	⇆	Increase in the percentage of material recommendations that are implemented.
Fraud risk					
Fraud	Risk derived from any intentional breach of the law by an employee or a third party to benefit themselves or the company, directly or indirectly, through the improper use of Naturgy resources or assets.	Control mechanisms through the Global Policy of the Internal Control System for Financial Information. Arrangement of hedges in the insurance market	Scenarios	⇆	Maintain low levels of fraud at Naturgy
Cybersecurity risk:					

Cybersecurity	Malicious attacks or accidental events that affect data, computer networks or technology.	Implementation of security measures; Event analysis and remediation measures; Training.	Scenarios/ Heatmaps	↑	The cybernetic situation is becoming more demanding.Threat protection plan to mitigate the likelihood of these risks and their associated impact.
Data protection risk					
Data protection	Uncertainty associated with breaches of data protection obligations that may result in an administrative sanction or civil judgement.	Action Plan by business area to mitigate the risk associated with each obligation based on priority and criticality. The company conforms to the requirements of the General Data Protection Regulation (GDPR).Internal audit plan for periodic review of compliance.	Heatmap/ Scenarios	↑	Uncertainty and tightening regulatory requirements.
Environmental risk					
Environment	Possibility that natural phenomena or human action may result in regulatory environmental limits being exceeded or in damage to ecosystems or biodiversity.	Emergency plans at facilities with risk of environmental accident. Specific insurance policies. End-to-end environmental management.	Scenarios/ Heatmaps	⇆	Implementation of an Integrated Management System certified and audited each year by AENOR.
Health and safety risk					
Health and safety	Risk of injury and health impairment for professionals of Naturgy or partner companies in connection with the business.	Health and safety management system. Safety plan aimed at controlling the six most critical risk factors in terms of accident frequency and severity: confined spaces, work at heights, electrical risk, tree felling and pruning, cargo handling, and road safety.	Heatmap/ Scenarios	⇆	Accident rates at partner firms.
Reputation and ESG risk					
Image and reputation	Impairment of stakeholders' perception of Naturgy.	Identification and tracking of potential reputation events. Transparency.	Scenarios/ Heatmaps	⇆	Stabilisation of MERCO index score.
Compliance risk					

Reputational and criminal risk	Administrative and criminal sanctions. Deterioration of Naturgy's reputational image.	Criminal prevention model, Code of Ethics and Anticorruption Policy.	Heatmap/ Scenarios	↑	Commission of criminal offenses, sanctions, financial, reputational, contract and client losses.
Counterparty risk	Administrative and criminal sanctions. Damage arising from breach of contract.	Counterparty Due Diligence Procedure.			
Climate change risk					
Climate change and energy transition	Uncertainty arising from the energy transition (regulation, markets, technologies, etc.) and the physical impacts of climate change.	Corporate positioning via the Global Environmental Policy and Environment Plan, which strengthen governance in climate issues and set emission reduction targets.	Stochastic/ Scenarios/ Heatmaps	↑	Regulatory uncertainty.

Metrics used:

- Stochastic: production of trend lines for the main magnitudes, taking the maximum deviation from the benchmark scenario to be the risk, within a pre-set confidence interval. Those magnitudes are generally EBITDA, earnings after taxes, cash flow and value.
- Scenarios: analysis of the impact, with respect to the benchmark scenario, of a limited number of possible incidents.
- Heatmap: the main risk factors for each risk category are assessed to quantify the impact and probability of the identified risks.

Market/commodity risk

Electricity and gas price volatility

An important part of Naturgy's operating results is linked to the purchase of gas to supply a diversified portfolio of customers.

Most of these gas supply contracts are signed in the long term with purchase prices based on a combination of different commodity prices, basically prices of crude oil and its derivatives, and natural gas hubs.

However, sales prices to end customers are generally agreed in the short/medium term and are conditioned by the supply-demand balance that exists at any given time in the gas market. This may imply a decoupling with gas supply prices.

Therefore, Naturgy is exposed to the risk of variations in the price of gas supply with respect to the sale price of end customers. The exposure to this risk is managed and mitigated by natural coverage, trying to balance the exposures to commodities of both prices. Additionally, some supply contracts allow this exposure to be managed through volume flexibility and price review mechanisms.

When it is not possible to achieve a natural hedge, the position is managed, within reasonable risk parameters, contracting derivatives to reduce exposure to price decoupling risk, generally designated as hedging instruments.

In the integrated electricity businesses, the company's aggregate exposure is determined by the generation/ commercial strategic positioning and by the final sales pricing policies in electricity commercialization.

Finally, the company is exposed to the evolution of the price of CO_2 emission rights, destined for generation in its combined cycles. Conjuncturally, Naturgy invests part of its cash surpluses in notes linked to CO_2.

Exchange rate risks

Naturgy has interests in various countries and is exposed to the exchange rate in each of its currencies, as well as to the dollar currency.

Exchange rate risk is largely mitigated by financing investments in local currency. Likewise, efforts are made to match the costs and revenues of the activities referenced to the same currency, as well as the amounts and maturities of assets and liabilities arising from operations denominated in currencies other than the euro.

Additionally, the exchange rate risk is managed by contracting financial derivatives, within the limits approved for hedging instruments, the level of exposure and the risk appetite approved in each year.

Margin/price risk

The liberalization processes both in Spain and in other relevant markets have had a significant impact in terms of competitive pressure on the final prices of the markets and on the definition of market shares.

In the electricity industry, liberalization in the European Union has increased competition with the entry of new agents, affecting the Spanish market, and may have an impact on the development of electricity generation and marketing businesses.

Naturgy monitors and quantifies the sales margins of all its businesses, identifies the relevant deviations in the margin spread assumptions and mitigates its risk by adapting sales and purchase formulas to all terms.

Gas and electricity volume risk

Part of the purchases of natural gas and liquefied natural gas (LNG) is made through long-term contracts, which include take-or-pay clauses under which Naturgy is obliged to purchase certain volumes of gas annually. Any downward deviation in gas demand may contractually obligate the payment of the minimum amount committed in accordance with said clauses.

On the other hand, in a scenario of gas shortage or excess demand, short-term supply extra costs may have a material adverse effect on the group's operating costs.

All volume risks are measured, monitored and quantified annually, evaluating the suitability of coverage for those linked to the weather (temperature, hydraulicity, etc.) whose management follows the policies and the approved risk appetite.

In the field of electricity generation, Naturgy's results are exposed to the variability of volumes, conditioned by the evolution of electricity demand and the generation mix in the market, which is being particularly affected by the growing weight relative to generation with renewable energies.

Naturgy manages its contracts and assets in an integrated manner, optimizing the energy balance.

Regulatory risk

Regulated and unregulated activities coexist in the gas and electricity distribution businesses. The legal regulations applicable to the gas and electricity sectors are typically subject to periodic reviews by the competent authorities, which may have an impact on the current remuneration scheme for regulated activities, affecting the operation of the business, as well as the economic situation of Naturgy.

All the specific legislation governing the establishment of the methodological frameworks for setting the remuneration for gas and electricity distribution and transportation/transmission in each of the countries and sectors is set out in the Regulatory Framework appendix 4 to the consolidated annual accounts.

As a consequence of the COVID-19 crisis, most of the authorities in the countries where Naturgy operates have established temporary regulatory measures that may affect regulated businesses.

Naturgy manages regulatory risk on the basis of regular communication with the regulators. In addition, in its regulated activities, Naturgy adjusts its costs and investments to the allowed rates of return for each business.

Operational risk

Naturgy's activities are exposed to various operational risks, such as breakdowns in the distribution network, accidents in power generation facilities LNG tankers accidents, explosions, pollutant emissions, toxic spills, fires, adverse weather conditions, contractual breaches, among others.

Additionally, claims might be brought against Naturgy for personal injury and/or other damage arising in the ordinary course of its operations. Such claims could result in the payment of indemnities under the legislation applicable in the countries in which Naturgy operates.

Naturgy has an extensive insurance programme that covers its operational exposure.

Cybersecurity risk

Naturgy is exposed to threats in connection with the availability, confidentiality, integrity and privacy of the information and technology that support business processes as well as the risk of non-compliance with regulations related to cybersecurity.

Such threats include, unauthorised access and the use, disruption, modification or destruction of information as a result of terrorist acts, malicious attacks, sabotage and other intentional acts.

Naturgy has contingency and security plans and insurance policies that cover such exposure.

Environmental risk

Risk associated with the possibility that, naturally or by human action, environmental limits set by the regulator are exceeded, ecosystems or biodiversity are damaged. Naturgy pays special attention to the protection of the environment and the efficient use of natural resources, acting beyond compliance with legal requirements and involving suppliers, interest groups and promoting the responsible use of energy both in its own facilities and on clients.

Naturgy has identified the environmental risks at its facilities using the reference standard –UNE 150008 in Spain– as a basis. For its prevention, it has implemented an integrated management system that includes the operational control and environmental management procedures. Additionally, Naturgy has implemented emergency plans in facilities and warehouses at risk of environmental accidents, including an action plan, means of containment and regular drills. Naturgy takes out specific insurance policies to cover this type of risk.

The environmental risk is developed in detail in chapter 5 "The opportunity of environmental challenges" of the Sustainability Report and Statement of Non-Financial Information.

Reputational and ESG risk

Naturgy has identified its stakeholder groups and subgroups and defines reputational risk as the gap between those groups' expectations and the Company's performance in the environmental, social and governance dimensions.

Naturgy has drawn up a Sustainability Plan that determines the 2021-2025 commitments and lines of action, which accompanies the company's transformation process and is aligned with the 2021-2025 Strategic Plan, with the commitments of the Corporate Responsibility Policy and the Sustainable Development Goals (SDG).

In environmental aspects, the commitments under the Corporate Responsibility Policy are expanded upon the Global Environment Policy, which applies to all geographies and businesses, which establishes four strategic environmental axes:

1. Environmental governance and management
2. Climate change and energy transition
3. Circular economy and eco-efficiency
4. Natural capital and biodiversity

Climate change and energy transition risk

With the aim of integrating the climate variable into Naturgy's strategic planning, the identification, measurement and management of climate change risks and opportunities is carried out in accordance with the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD). The most outstanding result of this process in 2021 is the incorporation of the risks and opportunities of climate change in the new Strategic Plan 2021-2025, aligned with the international climate agenda.

Following the taxonomy of the TCFD, climate risk derives from two risk factors: from the energy transition, in regulation, market and technology risks and from the physical impacts of climate change, in acute climate risks (increase in extreme weather events) and chronic risks (sustained increase in average temperatures and rise in sea level).

Additionally, Naturgy is a member of a number of working groups at European level, which will enable it to adapt its strategy to new regulatory developments in advance. It is involved in clean development projects aimed at reducing CO_2 emissions.

The risk of climate change and energy transition is developed in detail in chapter 5 "The opportunity of environmental challenges" of the Sustainability Report and Statement of Non-Financial Information.

Other risks

Financial risks (interest rate, credit risk, liquidity risk and rating) and Legal are developed in Notes 18 and 36 of the Consolidated Annual Report, respectively.

The Tax, Compliance, Data Protection, Processes, Security and Fraud risks are developed in chapter 4 “Integrity and Trust” of the Sustainability Report and Non-Financial Information Statement. Likewise, the Health and Safety and Customer Satisfaction risks are developed in chapter 7 “Commitment and Talent” and chapter 6 “Customer Experience” of the same report, respectively.

2.3. Main opportunities

At Naturgy, the energy transition is seen as an opportunity to transform the business and promote the necessary changes to achieve a low-carbon economy. Naturgy's main opportunities are as follows:

- **Focus on stable geographical areas**, with low risk and strong currency, which allowcapture energy demand growth and maximise business opportunities in new markets.
- **Renewable generation**: increase renewable generation capacity aligned with the global energy transition.
- **Operation and growth in Networks,** based on solid regulatory frameworks with long-term visibility and focused on continuous improvement, digitization and automation.
- **Technological developments and innovation**: development of innovation projects in hydrogen and its blending in gas networks, renewable gas, energy efficiency, sustainable mobility and fair transition.
- **Natural gas and LNG supply portfolio**: continuous review and optimization of supply contracts, transition in the indexation of oil prices to hub, continuous risk management to guarantee predictable cash flows and adequacy of the fleet of LNG ships putting value its flexibility.

3. Corporate governance

Attached as an Appendix and forming an integral part of this Directors' Report is the Annual Report on Corporate Governance 2021 and the Annual Report on Director Remuneration 2021, as required by article 538 of the Capital Companies Act.

Corporate governance model

Naturgy is governed in accordance with the principles of efficiency and transparency in line with the main international recommendations and standards in this area.

The corporate governance terms of reference comprise basically:

- Articles of Association (adopted in 2018, updated in 2021).
- Regulations of the Board of Directors and its committees (updated in 2021).
- Regulations of the General Meeting of Shareholders (adopted in 2018, updated in 2020).

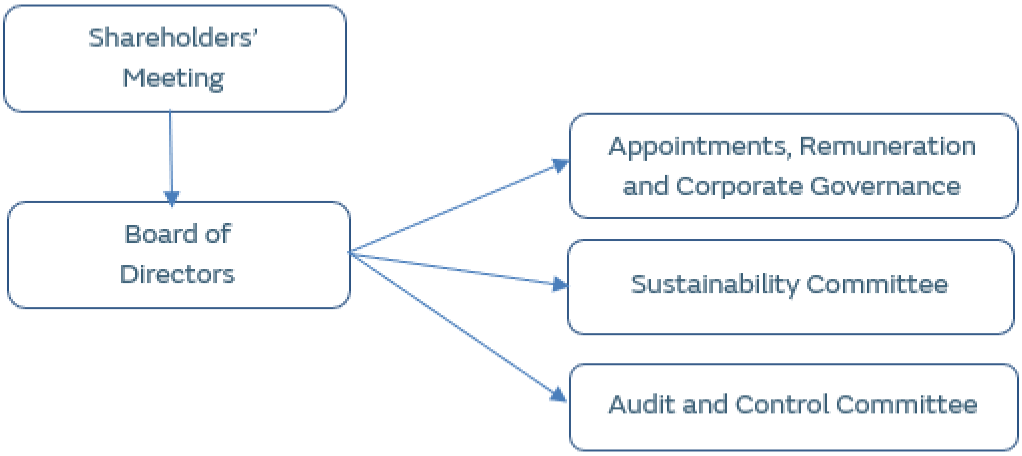
- Human Rights Policy (updated in 2019).
- Code of Ethics (updated in 2021)

The main shareholders of Naturgy as of 31 December 2021 and 2020 are as follows:

	% interest in share capital	
	2021	2020
- Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona, "la Caixa" (1)	26.71	24.8
-Global Infrastructure Partners III (2)	20.6	20.6
-CVC Capital Partners SICAV-FIS, S.A. (3)	20.7	20.7
- IFM Global Infraestructure Fund	12.2	—
- Sonatrach	4.1	4.1

(1) Holding through Criteria Caixa, S.A.U.
(2) Global Infrastructure Partners III, whose investment manager is Global Infrastructure Management LLC, holds its interest indirectly through GIP III Canary 1, S.à.r.l.
(3) Through Rioja Acquisition S.à.r.l.

Naturgy's governance structure is as follows:



Shareholders' Meeting

Any person who is a shareholder of record five days before the Shareholders' Meeting is entitled to attend the Meeting.

Board of Directors

The Board of Directors of Naturgy operates via plenary meetings and committees, in accordance with the requirements of the Capital Companies Act. For this reason, the Board of Directors of Naturgy has an Audit and Control Committee, an Appointments, Remuneration and Corporate Governance Committee, and a Sustainability Committee, which, in addition to the functions entrusted to them by law, also discharge the duties assigned to them by the Board of Directors. Independent directors comprise a majority of both the Audit and Control Committee and the Appointments, Remuneration and Corporate Governance Committee, and all committees are chaired by independent directors.

Risk prevention and corporate responsibility are within the remit of the Board of Directors and its committees. The Board of Directors is the most senior body with responsibility for approving corporate governance and corporate responsibility policies. Each year, by drafting the respective reports, it reviews and approves disclosures of the risks and opportunities in those areas.

The main issues addressed by the Board of Directors in 2021 are as follows:

- Approval of a new Strategic Plan 2021-2025.

- Production of the mandatory report in connection with the voluntary tender offer by Global InfraCo O (2) S.à.r.l.
- Amendment of the Regulations of the Board of Directors and its committees.
- Amendment of the Code of Ethics.s
- Review of the powers of the Audit Committee.
- Grant of powers to the Executive Chairman to approve related-party transactions in the terms set out in the Capital Companies Act.
- Approval of the internal procedure for reporting and regular oversight of related-party transactions that are approved by the Chairman in exercise of his delegated powers.
- External audit of the separate and consolidated annual accounts.
- Oversight of the production of the financial reporting.
- Tax and litigation situation.
- Auditor independence.
- Related-party transactions.
- Verification of the crime prevention system.
- Oversight of the risk control system and analysis of specific risks.
- Oversight of the internal control and internal audit systems.
- Naturgy insurance programme.
- Oversight of transactions with own shares.
- Compliance action plan.

The Board of Directors of Naturgy has 12 members, the Audit and Control Committee has 7 members, the Appointments, Remuneration and Corporate Governance Committee has 7 members, and the Sustainability Committee has 5 members.

The composition of the Board of Directors and its sub-committees on 31 December 2021 is as follows:

Board of Directors		Audit and Control Committee	Appointments, Remuneration and Corporate Governance Committee	Sustainability Committee	Category of director	Seniority on Board
Executive Chairman	Mr. Francisco Reynés Massanet				Executive	6/02/2018
Lead director	Mr. Ramón Adell Ramón	Director	Chairman		Independent	18/06/2010
Director	Mr. Enrique Alcántara-García Irazoqui		Director		Proprietary	13/05/2021
Director	Mr. Francisco Belil Creixell	Chairman	Director		Independent	14/05/2015
Director	Ms. Lucy Chadwick	Director		Director	Proprietary	16/03/2020
Director	Ms. Isabel Estapé Tous	Director		Director	Proprietary	16/03/2020
Director	Ms. Helena Herrero Starkie	Director		Chairman	Independent	04/05/2016
Director	Mr. Rajaram Rao		Director		Proprietary	21/09/2016
Director	Rioja S.à.r.l, Mr. Javier de Jaime Guijarro		Director		Proprietary	01/08/2019
Director	Mr. Pedro Sáinz de Baranda Riva	Director	Director		Independent	27/06/2018
Director	Mr. Claudio Santiago Ponsa		Director	Director	Independent	27/06/2018
Director	Theatre Directorship Services Beta, S.à.r.l., Mr. José Antonio Torre de Silva López de Letona	Director		Director	Proprietary	18/05/2018
Secretary (not a director)	Mr. Manuel García Cobaleda	Secretary (not a director)	Secretary (not a director)	Secretary (not a director)	N/A	29/10/2010

Management structure

Naturgy's management structure consists of three business units (Energy and Networks, Renewables and New Businesses, and Supply) as well as corporate units to ensure centralised control.

The Executive Committee is deemed to comprise the Executive Chairman, Mr. Francisco Reynés Massanet, in connection with his executive functions, and the executives who report directly to him. As of 31 December 2021, it comprised the following departments:

Business units

Energy and Networks, managed by Mr. Pedro Larrea Paguaga
Renewables and New Businesses, managed by Mr. Jorge Barredo López
Supply, managed by Mr. Carlos Francisco Vecino Montalvo

Corporate Units

Information Systems, managed by Mr. Rafael Blesa Martínez
Capital Markets, managed by Mr. Steven Fernández Fernández
Planning, Control and Administration, managed by Mr. Jon Ganuza Fernández de Arroyabe
Company and Board Secretariat, managed by Mr. Manuel García Cobaleda
Sustainability, Reputation and Institutional Relations, managed by Mr. Jordi García Tabernero
People and Organisation, managed by Mr. Enrique Tapia López

4. Forecast Group Performance

4.1. Vision

Strategic pillars

On July 28, 2021, Naturgy presented the **2021-2025 Strategic Plan**, which addresses a new stage that aims to promote our industrial growth while maintaining financial discipline and taking advantage of the opportunities of the energy transition; and to become a best-in-class reference operator through the digitization of processes.

The new plan is based on five solid pillars to promote Naturgy's transformation:

1. Growth
2. Focus
3. *Best-in-class*
4. ESG (environment, society and governance)
5. Culture

Growth

Our growth aims to be mainly organic, consistent with the energy transition and capable of taking advantage of asset rotation to accelerate the transformation.

- Mainly organic, maintaining capital discipline.
- Consistent with the energy transition.
- Opportunistic asset rotation to accelerate transformation.

Focus

We focus on renewable projects in early stages of development and stable geographies; also in network projects, with a prominent role of digitization and a stable regulatory framework.

- Renewables and networks.
- Stable geographies and regulatory frameworks.
- Volatility reduction in procurement commitments.

Best-in-class

We are committed to continuous improvement, increasing the digital footprint and reinventing relationships with our customers.

- Continuous improvement.
- Increasing digital footprint.
- Reinventing customer relationships.

ESG

We have a firm commitment to environmental and social matters. Our roadmap includes a Sustainability Plan with solid objectives in the environmental, social and governance fields, thus integrating ESG into the core of the company.

- Embedded at the core
- Aligned with SDG.
- Tangible targets to meet commitments.

Culture

Our corporate culture must intensify the passion of our professionals, allow us to establish our values and be aligned with our stakeholders.

- Fueling passion on our employees.
- Solidifaying core values.
- Aligned with stakeholders.

Key investment objectives

In economic matters, our Strategic Plan pursues ambitious investment objectives, setting an estimated investment for this period of **14,000 million euros.**

This investment is established by maintaining financial discipline as a pillar and focusing on projects with predictable returns. On the other hand, 80% of the planned investment will be eligible according to the EU taxonomy of sustainable finance, thus being aligned with the energy transition.

The investment is distributed as follows:

Renewables
Euros 8,700 million

- Proven generation technologies.
- Focus on attractive geographies.
- Commitment to innovation.
  - Distributed generation.
  - Biogas and hydrogen.
  - Sustainable mobility.

Networks
Euros 4,100 million

- Focus on solid frameworks with proactive regulatory management.
- Ongoing projects to achieve full automation and remote operation.
- Adapting existing infrastructures to play a key role in energy transition.

ESG at the core of our vision

The Strategic Plan is part of Naturgy's commitments to the environment, society and governance (ESG). Placing sustainability as the backbone of our strategy on our roadmap allows us to reduce our environmental impact, increase the involvement and commitment of all our stakeholders and endorse ourselves as a responsible company with the energy transition.

Our 2025 objectives in ESG are the following:

Ⓐ Environment

Net Zero by 2050

- Reduce total CO2 emissions by 24% (2025 vs 2017).
- Protect Biodiversity, reaching a figure of more than 350 projects to preserve ecosystems.

Ⓢ Social

Gender parity by 2030

- Enhace diversity, reaching more than 40% of women in management positions.
- Extending ESG throughout supply chain up to 95%.

Ⓖ Governance

Management compensation aligned with ESG

- Variable pay of 10% linked with ESG objectives.
- Implement climate change risk reporting and taxonomy to maintain leadership positions in the sustainability indices.

4.2. Roadmap

Based on these strategic pillars, a roadmap is developed that is specified in economic objectives for each of the businesses.

Renewables

It is defined for the renewable business a growth strategy based on:

1. 1. Stable geographies

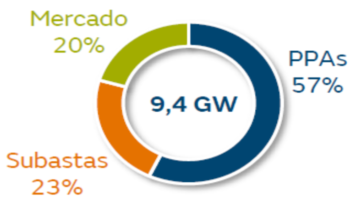
- Low risk and hard currency
- Solid regulatory frameworks
- Long-term visibility

2. 2. Proven technologies

- Solar PV, onshore wind and storage
- 14 GW in operation by 2025
- Tangible pipeline with visibility

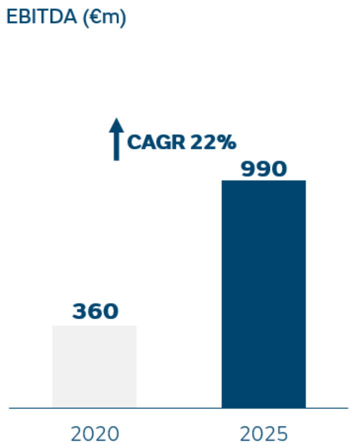
3. Customer base as a natural hedge

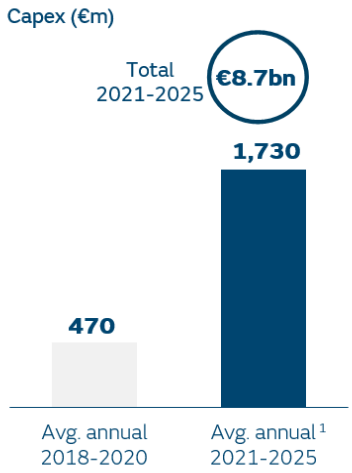
Balancing risks with new capacity (4.6 GW in 2020 to 14.0 GW in 2025)



New installed capacity

Financial estimates





Networks

The following key transformation initiatives are defined for the network business:

1. Spain Electricity networks

- At the forefront of electricity networks digitalization
- Increasing investment commitments in line with sector requirements

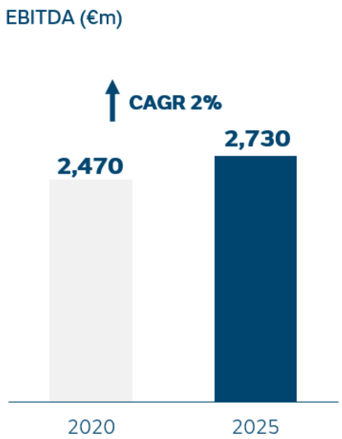
2. Spain gas networks

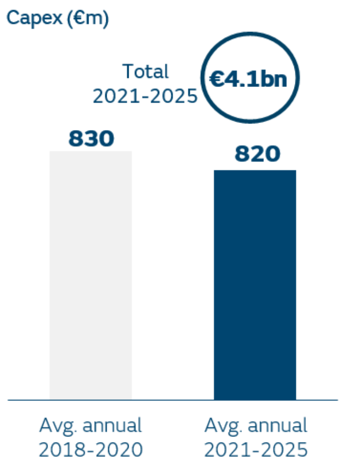
- Networks digital transition to ensure bes-in-class operations
- Commercial repositioning
- Accelerating contribution to decarbonization

3. LatAm networks

- portfolio management
- Investments to guarantee maintenance and safety standards

Financial estimates





Energy management

The following key transformation initiatives are defined for the energy management business:

1. Markets and procurements

- Progressive downsizing of procurements commitments
- Ongoing review and optimization of procurement contracts (oil to hub indexation transition)

2. International LNG

- Risk management to ensure predictable cash flows
- Downsizing of LNG tanker fleet under time charter
- Exploring value alternatives

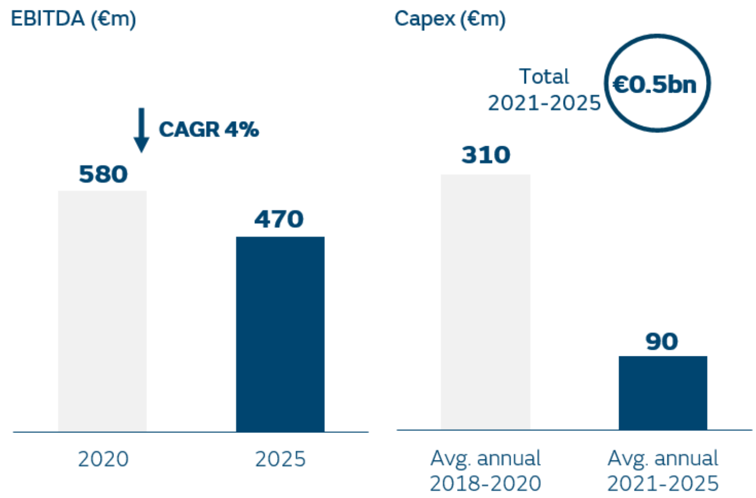
3. Spain thermal generation

- Remote operation and bottom-up process review of CCGT fleet
- Mothballing of non-performing CCGTs
- Working on hybridization alternatives
- Proactive regulatory management (system back-up)

4. LatAm thermal generation

- New opportunities for excess capacity over PPAs
- Cost and investments efficiency
- Exploring value alternatives for Mexico CCGTs

Financial estimates



Supply

The following key transformation initiatives are defined for the marketing business:

1. Boost competitiveness

- Market repositioning
- Integrated energy offering
- Refocusing of distribution channel strategy, including additional third party agreements
- Enhance profitability

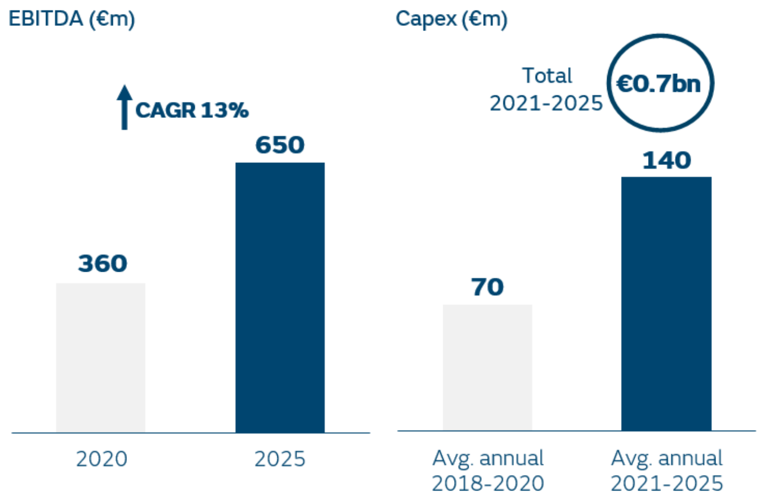
2. Reinvent customer relationships

- Redefined customer service
- Enhanced data analysis and customer segmentation
- Increased loyalty through customer value management

3. Accelerate digital transformation

- Transition to a new, simpler and integrated digital platform
- Enhanced efficiency in every single operating process

Financial estimates

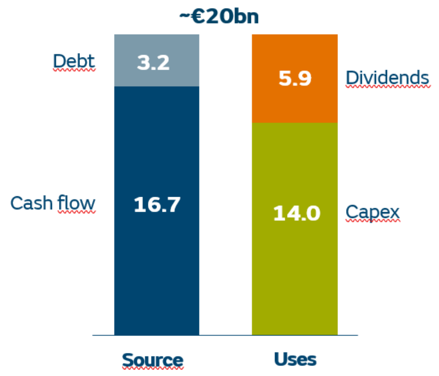


4.3. Summary

Dividend policy and capital allocation

The dividend policy is set with the aim of maintaining a solid BBB rating throughout the period. In this way, a dividend of 1.20 euros per share per year is established, which will be reassessed in 2023 depending on the performance and execution of the transformation.

The allocation of capital for the period 2021-2025 detailed between origins and uses is as follows:



Key figures

The 2025 objectives for the main economic magnitudes are detailed below:

Key figures	**2020**	**2025**	
Ordinary EBITDA	~3.700	~4.800	TACC 5,1%
Ordinary Net income	~900	~1.500	TACC 12,0%
Leverage (FFO/DN)	17.1 %	20.7 %	Rating BBB
Net debt	~13.600	~16.800	
	PE 2018-22	**PE 2021-25**	
Capex	~8.400	~14.000	x 1,7
Dividends (*Pay-out* on ordinary Net Income)	120 %	85 %	1,20 €/share

5. Sustainable innovation

Management vision and approach

The ecological transition to a carbon neutral economy is an opportunity in environmental, social and economic terms. It allows us to reduce our dependence on foreign energy, improve our trade balance and move towards a prosperous, modern economy. In this global context, meeting the challenge of climate neutrality requires a transformation of the energy system. Achieving this objective requires a horizontal vision that abandons the classic approach of analyzing and managing the main energy uses (electricity, heating, industrial heat, transportation) individually and adopts a smart sectoral integration that flexibly combines renewable generation, storage, demand-side management and the production of renewable fuels to optimize energy resources. This new energy model must be supported by:

- **Innovation**, which is a key lever for growth as it enables the adoption of new or better practices, new business models and technological solutions that contribute to process digitalization, automation and optimization, guaranteeing safety and operational improvement and facilitating access to information for better decision making, aimed at creating value and ensuring the company's competitiveness in the long term. Always to the fore, putting the customer at the center of what it does.
- **Optimization of renewable energy generation** through innovative systems because of their improved energy efficiency, their capacity for integration in the environment, in buildings or in business, their lower costs or greater reliability, and models that allow new players into the system and cover part of the energy needs of homes, SMEs and governments.
- Harnessing energy directly through new **manageable electricity demand applications that lend flexibility**, e.g. in climate control and mobility, and through storage for subsequent use as electricity or heat, in daily or seasonal storage systems.

- Production of **renewable gases**, particularly hydrogen, for end users where electrification is not technically feasible or economically viable. This is an efficient solution providing immediate decarbonization in hydrogen-intensive industries that currently use natural gas reforming and high temperature processes; also in heavy goods transport, maritime transport, rail transport and aviation. The fact that it is an energy vector gives it great potential for energy storage and integration into industry.

On this basis, Naturgy is developing an extensive programme of investment in renewable energies as a result of the Strategic Plan 2021-2025 and developing new lines of business in areas such as renewable gases (hydrogen and biomethane), storage and sustainable mobility; all of this to provide a broad range of value-added services and promote sustainable innovation as a driver of development. Examples include the additional investment opportunities under the Next Generation EU programme, focusing on renewable gases by developing projects such as La Robla and Meirama (green hydrogen plants), a network of hydrogen stations along the Spain's main heavy goods transport routes, and combining hydrogen and natural gas in turbines and cogeneration engines.

Investment in innovation (million euro)

In 2021, a total of Euros 59 million were spent on innovation (Euros 37 million in 2020), as indicated below:

	2021	2020
Investment in innovation	59	37

Main lines of innovation

The main lines of innovation on which Naturgy is working are described below:

Renewable gases

Basing decarbonization of the economy predominantly on a high level of electrification with renewable energies faces technical limitations in certain energy-intensive sectors, such as manufacturing and transportation. Since electrification cannot cover all energy demand, further integration of electricity and gas is an effective solution to achieve the decarbonization goals by taking advantage of the complementarity of renewable gases, gas infrastructure and electricity. The gas grid currently has a high storage capacity, and a level of reach and capillarity that make it possible to transport large amounts of energy to where it is to be consumed; these are essential factors for the use of renewable gases to decarbonize the end-use of energy at all points where natural gas is currently used. The development of renewable gases, biomethane and hydrogen, is part of the Just Transition Strategy and one of the areas of the energy transition that represents the greatest opportunities for job creation. They are identified as a way to decarbonize and generate employment in transportation and manufacturing while placing special emphasis on the creation of green jobs in rural areas, in line with Spain's strategy against depopulation.

As one of the main operators of basic natural gas infrastructures, Naturgy accepts its leading role as a driver of the development of the renewable gas value chain.

Biomethane

The production of biomethane, a renewable gas, from livestock, agricultural or industrial organic waste, or from landfills and wastewater plants, is an excellent example of the circular economy in the energy sector, providing significant environmental benefits and a supplementary source of income for rural areas.

Naturgy is working both on the development of projects with the integrated value chain (including waste management, biogas production and biomethane production and marketing), and on projects where biogas is available and the scope is focused on biomethane production and marketing.

Naturgy has experience in the development of renewable gas on a commercial scale, acquired in projects launched in recent years such as Methamorphosis, in Vilasana (Lleida), as well as the one located at the Bens (A Coruña) wastewater treatment plant (WWTP).

Naturgy also has 32 projects under development for biogas production and upgrading to biomethane for injection into the natural gas grid:

- 8 projects using livestock waste (1,408 GWh/year).
- 4 projects using WWTP sludge (170 GWh/year).
- 16 projects using industrial waste (595 GWh/year).
- 3 projects using the organic fraction of municipal solid waste (109 GWh/year).

- 1 project using agricultural waste (85 GWh/year).

Hydrogen

The renewable hydrogen value chain is at an incipient stage of development, with pilot projects that use hydrogen in place of fossil or other fuels.

Not all sectors of the economy will adopt hydrogen at the same pace because of differences in uses and availability, as well as the cost of the final equipment. In the short term, renewable hydrogen penetration can leverage sectors that already consume grey hydrogen, such as refineries and fertilizer plants.

Green hydrogen has a promising future provided that it receives the necessary boost from governments and the private sector to implement large-scale projects in line with the projected technology roadmap.

Spain's Hydrogen Roadmap set a target of 4 GW of installed electrolysis capacity by 2030, which is 10% of the target set by the European Union in its Hydrogen Strategy for that same year.

Naturgy has long been researching hydrogen development, because the renewable resource, the existing infrastructure and Spain's geostrategic position mean that the country has all the potential to become a hydrogen exporter in the future. This new energy could be exported through the current gas infrastructure, which would enable integration between the electricity and gas grids to create a more efficient and resilient energy system.

Also, like LNG, hydrogen can also be transported over long distances in liquid form. In a context in which there is global trading of hydrogen, this form of transport and distribution can be vital and Naturgy could play an essential role by contributing its international capacity and knowledge throughout the value chain.

During 2021, the company worked on the development of large renewable hydrogen production hubs linked to just transition zones, especially in areas affected by the closure of the group's thermal power plants. The objective of developing multi-demand hubs is to promote the development of new markets for direct consumption in industry, injection into the gas network for commercialization with guarantees of origin, mobility, and production of H2 derivatives: ammonia, methanol, etc.

Storage

Renewables penetration is growing steadily. According to Spain's National Integrated Energy and Climate Plan (PNIEC), by 2030, 74% of the energy mix will be made up of renewable energies, principally wind and photovoltaic. This presents the energy system with the challenge of equipping itself with flexible tools to manage production, match generation and consumption, avoid sudden drops in production, and provide firm capacity to the system. In this scenario, storage is key to the security and quality of supply.

During 2021, Naturgy worked on several initiatives:

- **Hybridization projects in its generation fleet**, mainly in wind and photovoltaic farms. The hybridization of storage with generation will make grid-connected renewable capacity manageable, providing flexibility and firm capacity to the system.
- Deployment of **stand-alone storage** in key areas where there is either grid congestion or loss of firm capacity due to the closure of thermal power plants. In technology terms, the challenges are similar to those of hybridization projects in wind farms — mainly managing the control system to achieve optimal operation.
- Development of a **new storage mode**l to optimize, in both economic and technical terms, the implementation of hybridized systems with storage in small generating facilities that are close to each other. Since there is currently no regulatory framework for this, it will be developed as a regulatory test case.

These projects are being developed with Spanish technology partners and research centres, with the aim of generating employment and strengthening the business fabric throughout the project value chain.

Sustainable mobility

In 2021, the company continued to focus on the nationwide roll-out of a network of natural gas filling stations open to the public.

The most notable initiatives in 2021 were as follows:

- Signature of the first **biomethane for vehicles** contract. Naturgy agreed to supply up to 2GW/year of biomethane for the last-mile delivery fleet of Aquaservice, a water distributor. This fuel substitution will contribute to reducing emissions by up to 350 tCO2/year, which is equivalent to taking 53,000 vehicles in a city off the road for one day. The biomethane is from Naturgy's production plant at the Elena landfill.
- Supply of **renewable gas to the first bus** in Zaragoza. In partnership with Consorcio de Transportes del Área de Zaragoza, Automóviles Zaragoza, Scania and Calvera, Naturgy supplied 150 MWh of biomethane from the company's plant in Vilasana (Lleida) for the purification of biogas obtained from slurry digestion. This biomethane was used to propel a city bus, which ran for three months between Zaragoza and Villamayor de Gállego.
- Alliance for the development of **hydrogen mobility**. Signature of an agreement with Enagás, through its subsidiary Scale Gas, and Exolum, to jointly study and develop infrastructures for the production, distribution and supply of green hydrogen in the mobility sector nationwide. This is the first major alliance for hydrogen in mobility corridors. The project will be called Win4H2. The agreement covers the development of a network of 50 hydrogen service stations, which will offer homogeneous penetration of this energy vector in Spain, enabling any user to choose the green hydrogen solution with guaranteed supply in 100% of mainland Spain.

6. Non-financial information statement

The non-financial information statement for the year 2021, referred to in articles 262 of the Capital Companies Law and 49 of the Commercial Code, is presented in a separate report called “Sustainability report and Non-financial information statement 2021”, in which it is indicated, expressly, that the information contained in said document is part of the Naturgy Group's consolidated directors’ report (Appendix II).

This document is subject to verification by an independent verification service provider and is subject to the same approval, deposit and publication criteria as the Naturgy Group's consolidated directors’ report.

7. Additional information

7.1 Treasury shares

Movements during 2021 and 2020 involving the treasury shares of Naturgy Energy Group, S.A. are as follows:

	Number of shares	In million euro	% Capital
At 1 January 2020	**5,183,890**	**121**	**0.5**
Share Acquisition Plan	470,000	8	—
Delivered to employees	(455,797)	(8)	—
2019 buyback programme	9,346,025	178	0.9
Capital reduction	(14,508,345)	(298)	(1.4)
At 31 December 2020	**35,773**	**1**	**—**
Share Acquisition Plan	127,453	3	—
At 31 December 2021	**163,226**	**4**	**—**

In 2021 and 2020, no gains or losses were made on transactions involving the Company’s treasury shares.

On 5 March 2019, the shareholders in general meeting authorised the Board of Directors to purchase, within five years, in one or more operations, fully paid Company shares; the nominal value of the shares directly or indirectly acquired, added to those already held by the Company and its subsidiaries, must not exceed 10% of share capital or any other limit established by law. The price or value of the consideration may not be lower than the par value of the shares or higher than their quoted price.

The minimum and maximum acquisition price will be the share price on the continuous market of the Spanish stock exchanges, within an upper or lower fluctuation of 5%.

Transactions with the Company’s Treasury shares relate to:

2021

- Share acquisition plan: In accordance with the resolutions adopted by the shareholders of Naturgy Energy Group, S.A. at the general meeting held on 5 March 2019, within the Share Acquisition Plan 2020-2023, the one relating to 2021 addressed to Naturgy employees in Spain who decide voluntarily to take part in the Plan was set in motion. The Plan enables participants to receive part of their remuneration in the form of shares in Naturgy Energy Group, S.A., subject to an annual limit of Euros 12,000. In December 2021, 127,453 of the Company's own shares were acquired for Euros 3 million to be handed over to the employees taking part in the Plan. The shares will be delivered in January 2022.

2020

- Share acquisition plan: In accordance with the resolutions adopted by the shareholders of Naturgy Energy Group, S.A. at the general meeting held on 5 March 2019, within the Share Acquisition Plan 2020-2023, the one relating to 2020 addressed to Naturgy employees in Spain who decide voluntarily to take part in the Plan was set in motion. The Plan enables participants to receive part of their remuneration in the form of shares in Naturgy Energy Group, S.A., subject to an annual limit of Euros 12,000. During 2020, 470,000 treasury shares were acquired for Euros 8 million to be handed over to the employees taking part in the Plan and 455,797 shares were delivered, leaving a surplus of 14,203 shares.

- 2019 share buyback programme: The Board of Directors of Naturgy Energy Group, S.A. approved a treasury share buyback programme, which was published on 24 July 2019, with a maximum investment of Euros 400 million to 30 June 2020 representing approximately 2.1% of share capital on the date of notification, the redemption of which was ratified by the shareholders at the annual general meeting held on 26 May 2020. At 30 June 2020, a total of 14,508,345 treasury shares had been acquired under this programme at an average price of 20.6 euros per share, representing a total cost of Euros 299 million (5,162,320 treasury shares at an average price of 23.3 euros per share with a total cost of Euros 121 million at 31 December 2019), which were applied to reduce capital.

- Capital reduction: At a meeting held on 21 July 2020, the Board of Directors of Naturgy Energy Group, S.A. resolved to implement the capital reduction resolution approved at the annual general meeting of shareholders held on 26 May 2020, whereby it approved a reduction in the share capital of Naturgy Energy Group, S.A. to a maximum of Euros 21,465,000, relating to:

  (a) the 465,000 treasury shares held by the Company at close of trading on 24 July 2019.

  (b) the 21,000,000 additional shares with a par value of one euro each which were acquired and may continue to be acquired for redemption by the Company under the treasury share buyback programme (the "Buyback Programme") approved by the Company under Regulation (EU) No. 596/2014 on market abuse and disclosed as price-sensitive information on 24 July 2019 (registration number 280517). The time limit for acquiring these shares was 30 June 2020.

  In this respect, as Naturgy Energy Group, S.A. had acquired a total of 14,043,345 shares at 30 June 2020 under the approved buyback programme referred to in paragraph (b) above, the Board of Directors set the figure for the capital reduction at Euros 14 million (the "Capital Reduction") and agreed to implement this reduction. The Capital Reduction was carried out through the redemption of 14,508,345 treasury shares with a par value of 1 euro each, representing approximately 1.47% of the Company's share capital at the time of adoption of the resolution in question. Following the Capital Reduction share capital stood at Euros 970 million, made up 969,613,801 shares with a par value of 1 euro each.

7.2. Disclosure of delays in payment to suppliers. Additional Provision 3 "Duty of disclosure" of Law 15/2010/5 July

The total amount of payments made during the year, with details of payment periods, in accordance with the maximum legal limit under Law 15/2010 of July 5, which laid down measures against late payment, is as follows:

	2021	2020
	Amount	**Amount**
Total payments (thousand euro)	615,883	458,021
Total outstanding payments (thousand euro)	13,528	18,284
Average supplier payment period (days) (1)	38	32
Transactions paid ratio (days) (2)	38	32
Transactions pending payment ratio (days) (3)	40	38

(1) Calculated on the basis of amounts paid and pending payment.

(2) Average payment period in transactions paid during the year.

(3) Average age, suppliers pending payment balance.

7.3. Subsequent events

Events subsequent to the end of the period are described in Note 30 of the Notes to the Annual Accounts.

8. Annual Corporate Governance Report

The Annual Corporate Governance Report for the year 2021 of the Company is included as an Annex to the consolidated Management Report of Naturgy, in accordance with the provisions of Article 49.4 of the Commercial Code and in accordance with Article 538 of the Capital Companies Law. Likewise, this report will be available from the publication of these accounts on the corporate website (www.naturgy.com) and on the website of the CNMV (www.cnmv.com).

9. Annual Directors' Remuneration Report

The Annual Directors' Remuneration Report for the year 2021 is included as an Annex to the consolidated Directors' Report of Naturgy, in accordance with Article 538 of the Capital Companies Law. Likewise, this report will be available from the publication of these accounts on the corporate website (www.naturgy.com) and on the website of the CNMV (www.cnmv.com).