Report on Limited Review of Naturgy Energy Group, S.A. and Subsidiaries

(Together with the condensed interim consolidated financial statements and the consolidated interim directors' report of Naturgy Energy Group, S.A. and subsidiaries for the six-month period ended 30 June 2022)

(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

Report on Limited Review of Condensed Consolidated Interim Financial Statements

(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., commissioned by the Directors of the Company

REPORT ON THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Introduction

We have carried out a limited review of the accompanying condensed consolidated interim financial statements (the "interim financial statements") of Naturgy Energy Group, S.A. (the "Company") and subsidiaries (together the "Group"), which comprise the interim balance sheet at 30 June 2022, and the interim income statement, interim statement of comprehensive income, interim statement of changes in equity and interim cash flow statement for the six-month period then ended, and explanatory notes (all condensed and consolidated). The Directors of the Company are responsible for the preparation of these interim financial statements in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting as adopted by the European Union, pursuant to article 12 of Royal Decree 1362/2007 as regards the preparation of interim financial information. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

Scope of Review

We conducted our limited review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A limited review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A limited review is substantially less in scope than an audit conducted in accordance with prevailing legislation regulating the audit of accounts in Spain and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the accompanying interim financial statements.

Conclusion

Based on our limited review, which can under no circumstances be considered an audit, nothing has come to our attention that causes us to believe that the accompanying interim financial statements for the six-month period ended 30 June 2022 have not been prepared, in all material respects, in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting as adopted by the European Union, pursuant to article 12 of Royal Decree 1362/2007 as regards the preparation of condensed interim financial statements.

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Emphasis of Matter

We draw your attention to the accompanying note 2, which states that these interim financial statements do not include all the information that would be required in a complete set of consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The accompanying interim financial statements should therefore be read in conjunction with the Group's consolidated annual accounts for the year ended 31 December 2021. This matter does not modify our conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The accompanying consolidated interim directors' report for the six-month period ended 30 June 2022 contains such explanations as the Directors of the Company consider relevant with respect to the significant events that have taken place in this period and their effect on the interim financial statements, as well as the disclosures required by article 15 of Royal Decree 1362/2007. The consolidated interim directors' report is not an integral part of the interim financial statements. We have verified that the accounting information contained therein is consistent with that disclosed in the interim financial statements for the six-month period ended 30 June 2022. Our work is limited to the verification of the consolidated interim directors' report within the scope described in this paragraph and does not include a review of information other than that obtained from the accounting records of Naturgy Energy Group, S.A. and subsidiaries.

Other Matter

This report has been prepared at the request of the Company's Directors in relation to the publication of the six-monthly financial report required by article 119 of the Revised Securities Market Law, approved by Royal Legislative Decree 4/2015 of 23 October 2015 and enacted by Royal Decree 1362/2007 of 19 October 2007.

KPMG Auditores, S.L.

(Signed on original in Spanish)

Eduardo González Fernández

11 August 2022

Interim consolidated financial report as at 30 June **2022**

Naturgy

This Interim consolidated financial report as at 30 June 2022 is a translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish language version prevails.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2022

Naturgy

Naturgy

Interim consolidated balance sheet as at 30 June 2022 and 31 December 2021 (million euros)

	Note	30.06.2022	31.12.2021
ASSETS			
Intangible assets	5	5,934	5,734
Goodwill		3,016	2,950
Other intangible assets		2,918	2,784
Property, plant and equipment	5	17,037	16,587
Right-of-use assets	5	1,181	1,229
Investments recorded using the equity method	6	649	630
Non-current financial assets	7	569	394
Other non-current assets	8	591	416
Derivatives		273	126
Other assets		318	290
Deferred tax assets		2,454	2,267
NON-CURRENT ASSETS		**28,415**	**27,257**
Non-current assets held for sale	9	21	40
Inventories		1,094	878
Trade and other receivables	8	6,717	5,714
Trade receivables for sales and services		5,208	4,780
Other receivables		347	339
Derivatives		728	454
Current tax assets		434	141
Other current financial assets	7	501	395
Cash and cash equivalents		4,365	3,965
CURRENT ASSETS		**12,698**	**10,992**
TOTAL ASSETS		**41,113**	**38,249**
EQUITY AND LIABILITIES			
Capital		970	970
Share premium		3,808	3,808
Treasury shares		(201)	(204)
Reserves		4,810	4,757
Profit for the period attributed to the parent company		557	1,214
Interim dividend		—	(679)
Other equity items		(6,241)	(3,977)
Equity attributed to the parent company		**3,703**	**5,889**
Non-controlling interests		**2,922**	**2,984**
EQUITY	**10**	**6,625**	**8,873**
Deferred income		913	889
Non-current provisions	11	1,490	1,146
Non-current financial liabilities	12	14,418	15,114
Borrowings		13,060	13,786
Lease liabilities		1,357	1,325
Other financial liabilities		1	3
Deferred tax liabilities		1,598	1,787
Other non-current liabilities		2,678	1,118
Derivatives		2,279	730
Other liabilities		399	388
NON-CURRENT LIABILITIES		**21,097**	**20,054**
Liabilities related to non-current assets held for sale	9	24	26
Current provisions	11	390	589
Current financial liabilities	12	2,099	1,698
Borrowings		1,794	1,493
Lease liabilities		185	196
Other financial liabilities		120	9
Trade and other payables		10,616	6,803
Trade payables		4,997	3,407
Other payables		514	559
Derivatives		4,780	2,704
Current tax liabilities		325	133
Other current liabilities		262	206
CURRENT LIABILITIES		**13,391**	**9,322**
TOTAL EQUITY AND LIABILITIES		**41,113**	**38,249**

Notes 1 to 27 contained in the Notes to the Condensed interim consolidated accounts and the Appendixes are an integral part of the Interim consolidated balance sheet as at 30 June 2022 and 31 December 2021.

Naturgy

Interim consolidated income statement for the six month period ending at 30 June 2022 and 30 June 2021 (million euros)

	Note	Six month ended on 2022	2021
Net sales	14	16,737	9,130
Procurements	15	(13,841)	(6,331)
Other operating income		106	55
Personnel expenses, net	16	(267)	(570)
Other operating expenses	17	(716)	(642)
Gain/(loss) on disposals of fixed assets		3	9
Release of fixed asset grants to income and other		25	27
GROSS OPERATING PROFIT		**2,047**	**1,678**
Depreciation, amortisation and impairment losses	18	(704)	(729)
Impairment due to credit losses		(127)	(52)
Other results	19	(114)	106
OPERATING PROFIT/(LOSS)		**1,102**	**1,003**
Financial income		57	52
Financial expenses		(391)	(286)
Variations in fair value of financial instruments		7	10
Net exchange differences		(9)	(12)
NET FINANCIAL INCOME /(EXPENSE)	**20**	**(336)**	**(236)**
Profit/(loss) of entities recorded by equity method		65	33
PROFIT/(LOSS) BEFORE TAXES		**831**	**800**
Corporate income tax	23	(194)	(204)
PROFIT/(LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS		**637**	**596**
Profit for the period from discontinued operations, net of taxes	9	(16)	51
CONSOLIDATED PROFIT/(LOSS) FOR THE PERIOD		**621**	**647**
Attributable to:			
The parent company		557	484
From continuing operations		573	437
From discontinued operations		(16)	47
Non-controlling interests		64	163
Basic and diluted earnings per share in euros from continuing operations attributable to the equity holders of the parent company (Note 10)		0.60	0.45
Basic and diluted earnings per share in euros from discontinued operations attributable to the equity holders of the parent company (Note 10)		(0.02)	0.05
Basic and diluted earnings per share in euros attributable to the equity holders of the parent company		0.58	0.50

Notes 1 to 27 contained in the Condensed interim consolidated accounts and the Appendixes are an integral part of the Interim consolidated statement of income for the six-month periods ended 30 June 2022 and 2021.

Naturgy

Interim consolidated statement of comprehensive income for the six month period ending at 30 June 2022 and 30 June 2021 (million euros)

	Note	Six months ended 2022	2021
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR		**621**	**647**
OTHER COMPREHENSIVE INCOME RECOGNISED DIRECTLY IN EQUITY			
Items that will not be transferred to profit/(loss):		**18**	**90**
Financial assets at fair value through other comprehensive income		—	(17)
Actuarial gains and losses and other adjustments		24	3
Tax effect		(6)	104
Items that will subsequently be transferred to profit/(loss):		**(2,210)**	**(469)**
Cash flow hedges		(2,607)	(709)
Gains / (Losses) per valuation		(4,492)	(790)
Releases to income statement		1,885	81
Currency translation differences		6	101
Gains / (Losses) per valuation		6	101
Releases to income statement		—	—
Equity-consolidated companies		24	18
Currency translation differences - Valuation		24	8
Currency translation differences - Releases to income statement		—	9
Gains / (Losses) per valuation		—	1
Tax effect		367	121
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**(2,192)**	**(379)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(1,571)**	**268**
Attributable to:			
The parent company		(1,689)	93
From continuing operations		(1,673)	42
From discontinued operations		(16)	51
Non-controlling interests		118	175

Notes 1 to 27 contained in the Notes to the Condensed interim consolidated accounts and the Appendixes are an integral part of the Interim consolidated statement of comprehensive income for the six-month periods ended 30 June 2022 and 2021.

Naturgy

Interim consolidated statement of changes in equity for the six month period ending at 30 June 2022 and 31 December 2021 (million euros)

	Equity attributed to the parent company (Note 10)										Non-controlling interests (Note 10)	Equity
						Other equity items						
	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	Total	Subtotal		
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	**—**	**—**	**—**	**3**	**484**	**89**	**(571)**	**88**	**(394)**	**93**	**175**	**268**
Operations with shareholders or owners	**—**	**—**	**—**	**(956)**	**347**	**—**	**—**	**—**	**—**	**(609)**	**(220)**	**(829)**
Dividend distribution	—	—	—	(958)	347	—	—	—	—	(611)	(220)	(831)
Capital reduction	—	—	—	—	—	—	—	—	—	—	—	—
Trading in treasury shares	—	—	—	—	—	—	—	—	—	—	—	—
Share-based payments	—	—	—	2	—	—	—	—	—	2	—	2
Other changes in equity	**—**	**—**	**—**	**1**	**—**	**—**	**—**	**—**	**—**	**1**	**(16)**	**(15)**
Other changes	—	—	—	1	—	—	—	—	—	1	(16)	(15)
Balance at 30.06.2021	**970**	**3,808**	**(201)**	**4,743**	**484**	**(1,472)**	**(457)**	**(362)**	**(2,291)**	**7,513**	**3,176**	**10,689**
Total comprehensive income for the year	**—**	**—**	**—**	**36**	**730**	**235**	**(1,921)**	**—**	**(1,686)**	**(920)**	**98**	**(822)**
Operations with shareholders or owners	**—**	**—**	**(3)**	**(677)**	**—**	**—**	**—**	**—**	**—**	**(680)**	**(151)**	**(831)**
Dividend distribution	—	—	—	(679)	—	—	—	—	—	(679)	(151)	(830)
Capital reduction	—	—	—	—	—	—	—	—	—	—	—	—
Trading in treasury shares	—	—	(3)	—	—	—	—	—	—	(3)	—	(3)
Share-based payments	—	—	—	2	—	—	—	—	—	2	—	2
Other changes in equity	**—**	**—**	**—**	**(24)**	**—**	**—**	**—**	**—**	**—**	**(24)**	**(139)**	**(163)**
Other changes	—	—	—	(24)	—	—	—	—	—	(24)	(139)	(163)
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**
Total comprehensive income for the period	**—**	**—**	**—**	**18**	**557**	**(56)**	**(2,208)**	**—**	**(2,264)**	**(1,689)**	**118**	**(1,571)**
Operations with shareholders or owners	**—**	**—**	**3**	**718**	**(1,214)**	**—**	**—**	**—**	**—**	**(493)**	**(162)**	**(655)**
Dividend distribution	—	—	—	729	(1,214)	—	—	—	—	(485)	(162)	(647)
Capital reduction	—	—	—	—	—	—	—	—	—	—	—	—
Trading in treasury shares	—	—	3	—	—	—	—	—	—	3	—	3
Share-based payments	—	—	—	(11)	—	—	—	—	—	(11)	—	(11)
Other changes in equity	**—**	**—**	**—**	**(4)**	**—**	**—**	**—**	**—**	**—**	**(4)**	**(18)**	**(22)**
Other changes	—	—	—	(4)	—	—	—	—	—	(4)	(18)	(22)
Balance at 30.06.2022	**970**	**3,808**	**(201)**	**4,810**	**557**	**(1,293)**	**(4,586)**	**(362)**	**(6,241)**	**3,703**	**2,922**	**6,625**

Notes 1 to 27 contained in the Notes to the Condensed interim consolidated accounts and the Appendixes are an integral part of the Interim statement of changes in consolidated equity as at 30 June 2022 and 31 December 2021.

Naturgy

Interim consolidated cash flow statement for the six month period ending at 30 June 2022 and 30 June 2021 (million euros)

	Note	Six months ended 2022	2021
Profit/(loss) before tax		**831**	**800**
Adjustments to income:	**21**	**1,143**	**779**
Depreciation/amortisation and impairment losses	21	704	729
Other adjustments to net profit	21	439	50
Changes in working capital	**21**	**868**	**97**
Other cash flow generated from operations:	**21**	**(413)**	**(389)**
Interest paid	21	(296)	(278)
Interest collected	21	21	12
Dividends collected	21	56	81
Income tax paid	21	(194)	(204)
CASH FLOW GENERATED FROM OPERATING ACTIVITIES (1)		**2,429**	**1,287**
Cash flows into investing activities:		**(874)**	**(228)**
Group companies acquisitions, net of cash and equivalents	21	(15)	343
Property, plant and equipment and intangible assets		(739)	(545)
Other financial assets		(120)	(26)
Proceeds from divestitures:		**36**	**131**
Group companies, associates and business units	21	7	8
Property, plant and equipment and intangible assets		17	9
Other financial assets		12	114
Other cash flows from investing activities:		**37**	**26**
Other proceeds from investing activities		37	26
CASH FLOWS FROM INVESTING ACTIVITIES (1)		**(801)**	**(71)**
Receipts/(payments) on equity instruments:		**(2)**	**(4)**
Issue/disposal		—	—
Acquisition		(2)	(4)
Receipts and payments on financial liability instruments:		**(722)**	**(394)**
Issue		494	685
Repayment and amortisation		(1,216)	(1,079)
Dividends paid (and remuneration on other equity instruments)	10	**(647)**	**(816)**
Other cash flows from financing activities		**(15)**	**5**
CASH FLOW GENERATED FROM FINANCING ACTIVITIES (1)		**(1,386)**	**(1,209)**
Other changes in cash and cash equivalents		—	**(38)**
Effect of fluctuations in exchange rates		**158**	**40**
VARIATION IN CASH AND CASH EQUIVALENTS		**400**	**9**
Cash and cash equivalents at beginning of the year		3,965	3,927
Cash and cash equivalents at year end		4,365	3,936

(1) Includes cash flows from continuing and discontinued operations (Note 9).

Notes 1 to 27 contained in the Notes to the Condensed interim consolidated accounts and the Appendix are an integral part of the Interim consolidated cash flow statement for the six-month periods ended 30 June 2022 and 2021.

Notes to the Condensed interim consolidated financial statements at 30 June 2022

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 America 38, Madrid. On 27 June 2018, the Shareholders' Meeting resolved to change the company's name to Naturgy Energy Group, S.A. (it was 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 (procurement, liquefaction, regasification, transport, storage, distribution and supply), electricity (generation, transmission, 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 object or nature, by subscribing, acquiring or holding shares, participation units or any other securities deriving from same.

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

Note 3 contains financial information by operating segment.

Appendix I. lists the variations in the scope of consolidation with respect to the companies in which Naturgy has a stake at the closing date, detailed in the Consolidated Annual Accounts for the year ending December 31, 2021.

The shares of Naturgy Energy Group, S.A. are listed on the four official Spanish Stock Exchanges, are traded simultaneously on all four ("mercado continuo"), and form part of the Ibex35.

On February 10, 2022, Naturgy communicated the decision of its Board of Directors in relation to the launch of the Geminis project, a very significant reorganization of the group of companies of which Naturgy Energy Group, S.A. is the parent company. Specifically, the stated project contemplates the partial spin-off of Naturgy Energy Group, S.A., under the provisions of Title III (articles 68 et seq.) of Law 3/2009, of April 3, on structural modifications of the trading companies (the LME). This would generally give rise to two large groups listed on the Spanish Stock Exchanges with clearly differentiated business profiles and, as a result of the proposed operation, with the same shareholding composition.

The first of the remaining groups in the contemplated spin-off operation would be headed by Naturgy itself (MarketsCo, after the spin-off), as the spin-off company, and would bring together the liberalized businesses in an integrated manner that will include the development of renewable energies, the customer portfolio of energy and associated services, the conventional generation park and the management of the wholesale energy markets. The second of the groups resulting from the contemplated spin-off operation headed by a newly created company will be the beneficiary of the spin-off (NetworksCo), which will contain all the businesses dedicated to the management of regulated gas and electricity distribution and transport infrastructures.

Once the legal and/or mercantile requirements established by the LME and other applicable regulations have been met and, to the extent logistically possible, on the same day that the NetworksCo shares are admitted to trading on the Spanish Stock Exchange, and prior to the start of the actual negotiation, the shareholders of Naturgy, as a spin-off company, would receive, in accordance with the provisions of article 70 of the LME, a number of newly issued NetworksCo shares proportional to their participation in the share capital of Naturgy Energy Group, S.A.

At the date of formulation of these Interim Consolidated Financial Statements, Naturgy's Board of Directors continues to assess all the elements that may affect the viability of the project. Taking the foregoing into account, and given the uncertainty in the energy and macroeconomic environment, the Board of Directors does not consider that at 30 June 2022, the conditions exist for the materialization of the Gemini project to be highly probable, as required by the accounting standards to classify the net assets affected by the spin-off as held for sale and to distribute to shareholders.

Note 2. Basis of presentation and accounting policies

2.1. Basis of presentation

The Consolidated Financial Statements of the annual year ended December 31, 2021 of Naturgy Energy Group, S.A. were adopted by the Shareholders' Meeting on 15 March 2022.

These Condensed interim consolidated financial statements as of June 30, 2022 of Naturgy have been prepared by the Board of Directors on 11 August 2022 in accordance with IAS 34 "Interim financial information" and must be read together with the Consolidated Financial Statements of the annual year ended December 31, 2021 that have been prepared in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council (hereinafter "IFRS-EU").

As a result, it was not necessary to replicate or update certain notes or estimates included in the Consolidated Financial Statements for the year ended December 31, 2021. Instead, the accompanying selected notes to the accounts include an explanation of significant events or movements in order to explain any changes in the consolidated financial situation and results of operations, comprehensive income, changes in equity and consolidated cash flows of Naturgy between 31 December 2021, the date of the above-mentioned consolidated annual accounts, and 30 June 2022.

The figures set out in these Condensed interim consolidated financial statements are expressed in million euros, unless otherwise stated.

2.2. Seasonality

Demand for natural gas is seasonal, with residential gas supplies and sales in Europe generally being higher in the colder months, from October to March, than during the warmer months, from April to September, while natural gas demand for industrial and power generation purposes is normally more stable throughout the year. Electricity demand tends to increase in summer in Spain, particularly in July and August, offsetting the seasonal fluctuations in gas, since both activities are in the "Supply" segment.

2.3. New IFRS-EU and IFRIC interpretations

As a result of their approval, publication and entry into force on 1 January 2022, the following standards, amendments and interpretations adopted by the European Union have been applied:

Standards adopted by the European Union		**Entry into force for fiscal years started**
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

None of these standards, interpretations and amendments have been applied in advance. The application of these standards, interpretations and amendments did not have a significant impact on these Interim Consolidated Financial Statements.

Standards that will enter force on or after 1st January of 2023

Standards adopted by the European Union		**Entry into force for fiscal years started**
IFRS 17 "Insurance contracts"	New standard that replaces IFRS 4.	1 January of 2023
IAS 8 (amendment) "Definition of accounting estimates"	New definition of accounting estimates.	1 January of 2023
IAS 1 (amendment) "Disclosure of accounting policies"	Develops the criteria to disclose the accounting policies that are material.	1 January of 2023
Standards issued by the IASB pending adoption by the European Union		**Entry into force for fiscal years started**
IAS 1 Presentation of Financial Statements (amendment)	Classification of current or non-current liabilities.	1 January of 2023
IAS 12 (amendment) "Deferred Taxes related to Assets and Liabilities arising from a Single Transaction"	Limits the exemption from the initial recognition of deferred tax assets and liabilities in certain unique transactions.	1 January of 2023
IFRS 17 (amendment) "Initial application of IFRS 17 and IFRS 9, comparison of information"	Transition option regarding comparative information on financial assets presented in the initial application of IFRS 17.	1 January of 2023

None of these regulations and modifications have been applied in advance. The application of these amendments is not expected to give rise to any material impact.

2.4. Accounting policies

The accounting policies that have been followed in these interim financial statements are the same as in the Consolidated Financial Statements for the year ended December 31, 2021, except for the adoption of new IFRS-EU standards, interpretations and amendments with entry into force on January 1, 2022.

The main amendments incorporated by the adoption of the new IFRS essentially refer to those included in the amendments to IAS 16 and IAS 37 and are detailed below:

Property, plant and equipment

The income derived from the sale and the costs of the items that occur during the period of putting the property, plant and equipment into operation, are recognized in the Consolidated profit and loss account.

Provisions

In those contracts in which the obligations assumed entail unavoidable costs greater than the economic benefits that are expected to be received from them, the expense and the corresponding provision are recognized for the amount of the present value of the existing difference. The unavoidable costs of the contract will reflect the lower net costs to resolve it, or what is the same, the lesser amount between the cost of complying with its clauses and the amount of the compensation derived from its non-compliance. Naturgy considers that the costs that are directly related to a contract comprise the incremental costs of fulfilling the contract and an allocation of other costs that are directly related to the fulfillment of the contracts.

2.5. Accounting estimates, uncertainties and judgments

The preparation of interim consolidated accounts requires the use of estimates and judgements. The measurement standards that require a large number of estimates are set out in Note 2.4.25. "Significant accounting estimates and judgements" in the Consolidated annual accounts for the year ended 31 December 2021.

The main updates are detailed below, taking into account the outlook in the current circumstances, including the evolution of the war between Russia and Ukraine.:

a. Impairment of non-financial assets

The main hypotheses used to determine the recoverable value of the Cash Generating Units (CGU) are detailed in Note 4 “Losses due to impairment of non-financial assets”.

Once the impairment indicators of the different CGUs have been reviewed as of June 30, 2022, the need to record any impairment or reversal has not been revealed, except for those detailed in Note 4.

b. Provisions for obligations with personnel

Naturgy has estimated as of June 30, 2022 the necessary provision to meet the commitments for pensions and similar obligations, in accordance with the advice of independent actuaries. The updated assumptions for the valuation of the liability for pensions or post-retirement benefits are basically the valuation of energy consumption of the beneficiaries in their liability period and the discount rate used.

c. COVID-19

In the second quarter of 2022, the lockdown measures reimposed on a large scale in China to contain the spread of COVID-19 may lead to downward revisions of global energy demand, in addition to potential problems in the supply of technological components. for Europe, necessary, for example, to maintain the strong growth of investments in renewables.

The Group monitors the evolution of the economic cycle in the short and long term, as a result of the specific impact of the spread of COVID-19, with the aim of minimizing additional deterioration or sudden recovery of the current economic situation in the markets in which it operates. operates, may have material adverse effects on the Group's business, prospects, financial condition and results of operations.

Creating the estimates and hypotheses necessary for the preparation of these Interim Consolidated Financial Statements, the mentioned perspectives have been considered, detailing them in the corresponding notes.

d. War conflict between Russia and Ukraine

On February 24, 2022, the war between Russia and Ukraine began. The invasion of a European country is an unprecedented event since the middle of the last century, with devastating humanitarian consequences and strong implications for the world economy and financial markets. One of the most affected sectors is the energy sector, with a very high increase in the price of oil and gas. Different countries such as the United States, Australia, Japan, the United Kingdom and the EU have imposed measures and sanctions against the Russian economy, which will also have global effects.

These sanctions have caused impacts on the evolution of the local currency exchange rate, on local interest rates and on the stock price of companies listed on the Moscow Stock Exchange. Likewise, and in the face of a possible gas shortage caused by the conflict, the European gas market has reacted upwards and the seriousness of the situation has also generated high volatility in the market, with its corresponding impacts on electricity prices. These difficulties have also increased with a higher level of technological risks, to which companies and administrations are effected. This has also led to the adoption of adequate defense measures and maximum internal controls for the protection of digital infrastructures.

Considering the reference scenario, and in compliance with the recent recommendations of the European Securities and Markets Authority (ESMA) dated May 13, 2022, Naturgy monitors the status and evolution of the current situation generated by the crisis in order to manage the risks potentials. To this end, the analyzes carried out are aimed at evaluating the indirect impacts of the conflict on business activity, on the financial situation and on economic performance, with special reference to the generalized increase in the prices of raw materials and, if possible, to reduced availability of material supplies from conflict-affected areas. In this context, as part of its diversified portfolio, Naturgy has a long-term contract signed in 2013 with an international consortium for the supply of gas of Russian origin that is not affected by any type of sanction. In 2021, the volume of this contract accounted for 10% of Naturgy's global supply. Additionally, Naturgy has no counterparties eventually affected by the sanctions.

This is a constantly evolving scenario, also characterized by great regulatory uncertainty and a context of high and volatile prices, which is why Naturgy constantly monitors the macroeconomic and business variables to have the best estimate of the potential impacts, also taking into account the various recommendations of national and supranational supervisory bodies on the matter.

e. Estimated return on investment in renewable energy generation facilities in specific remuneration regime

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 by ministerial order certain remuneration parameters will be updated in each regulatory semi-period.

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

To determine the accounting adjustment for deviations in the market price of renewable generation facilities subject to the specific remuneration regime, Naturgy, in accordance with its best future estimate of energy market prices, estimates the Net Updated Value (VNA), as well as the remuneration for the investment to be obtained in each of the type facilities (IT) in which the Group operates in Spain in the recalculation of remuneration parameters for the following semi-regulatory period.

These estimates determine whether leaving the remuneration regime would not have significantly more adverse economic consequences than remaining in it and, therefore, the general accounting treatment is not applied and the asset is only recognized in the event of positive market deviations. The unrecognized liability for this reason as of June 30, 2022 and December 31, 2021 amounts to Euros 127 million and Euros 104 million, respectively.

The estimate of future market prices for the year 2022 and subsequent years is:

	2022	**2023**	**2024**	**2025**	**2026**
Price Euro/MWh	175.2	160.0	135.0	123.2	108.8

2.6. Changes in consolidation scope

Appendix I. includes the main changes in the scope of consolidation that occurred in the six-month period ended June 30, 2022 and in 2021.

The main changes in the scope of consolidation in the six months ended 30 June 2022 were as follows:

On February 8, the acquisition of 33.33% of Infraestructuras San Servan SET 400, S.L. and on March 8, 2022, 100% of Montalto di Castro Solar, S.R.L. These acquisitions have not had a significant impact on the Interim Consolidated Financial Statements.

In the month of May 2022, Naturgy, through its subsidiary Naturgy Renovables, S.L.U. has acquired an additional 50% of the companies Desarrollo de Energías Renovables de Navarra, S.A. and P.E. Cinseiro, S.L. so that Naturgy reaches a 100% stake, obtaining control and consolidating them as subsidiaries (Note 22).

Note 3. Segment financial information

Naturgy's businesses are organised around three strategic areas: Energy and Network Management, Renewables and New Business, and Supply. The operating segments are defined around this organization 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 supply in Chile (the latter classified under discontinued operations, until its sale in July 2021, see Note 9).
  - Gas networks in Mexico.
  - Electricity networks in Panama.
  - Gas networks in Peru (discontinued operation, see Note 9).

- Energy Management:
  - GNL Internacional: includes both the trading and maritime transportation of liquefied natural gas.
  - Markets and supplies: includes procurement and sales to large energy-intensive consumers. Also includes the activity of Unión Fenosa Gas (carried by the equity method until March 2021 and then globally integrated) and other gas infrastructures.
  - Gas pipelines: Manages the Maghreb-Europe (until the end of the concession in October 2021) and Medgaz pipelines (carried by 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, i.e. nuclear plants and combined cycle plants.
  - Thermal generation Latin America: includes management of the conventional thermal generation facilities of Global Power Generation (GPG) in Mexico, the Dominican Republic and Puerto Rico (the latter carried by the equity method through EcoEléctrica LP).

- **Renewables and New Business:**

  - Renewables Spain and the United States: includes the management of wind, hydroelectric generation, mini hydro, solar and cogeneration power generation facilities and projects. The activities included in this segment are carried out mainly in Spain, although, following the acquisition in January 2021 of the Hamel Renewables project portfolio, the activity is now being conducted in the United States.

  - Renewables Latin America: includes management of the renewable electricity generation facilities and projects of GPG located in Latin America (Brazil, Chile, Costa Rica, Mexico and Panama).

  - Renewables Australia: includes management of the renewable electricity generation facilities and projects of GPG located 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.

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

Segment financial information - Interim statement of income

2022	Networks and Energy management																Renewables and New businesses				Supply	Rest	Eli.	Total
	Networks Spain			Networks Latam						Energy management						Total								
	Gas net.	Electr. net.	Total	Argentina	Brazil	Chile	Mexico	Panama	Total	Markets and Procurem.	LNG	Pipelines	Spain CG	Latam CG	Total		Spain & USA	Latam	Australia	Total				
Consolidated Net sales	555	400	**955**	291	902	388	512	433	**2,526**	2,973	3,130	—	1,556	492	**8,151**	**11,632**	81	61	11	**153**	**4,951**	**1**	**—**	**16,737**
Net sales between segments	39	18	**57**	—	—	—	—	—	**—**	1,251	—	—	151		**1,402**	**1,459**	240	4	—	**244**	**908**	**27**	**(2,638)**	**—**
Intersegment Net sales	—	—	**—**	—	—	—	—	—	**—**	3,446	(528)	—			**2,918**	**2,918**	—	—	—	**—**	**—**	**—**	**(2,918)**	**—**
Net sales (by segment)	594	418	**1,012**	291	902	388	512	433	**2,526**	7,670	2,602	—	1,707	492	**12,471**	**16,009**	321	65	11	**397**	**5,859**	**28**	**(5,556)**	**16,737**
Procurements (by segment)	(60)	—	**(60)**	(157)	(724)	(345)	(364)	(339)	**(1,929)**	(7,738)	(2,155)	—	(1,515)	(340)	**(11,748)**	**(13,737)**	(86)	(12)	—	**(98)**	**(5,522)**	**(1)**	**5,517**	**(13,841)**
Personnel expenses, net	(27)	(22)	**(49)**	(28)	(10)	(13)	(9)	(4)	**(64)**	(13)	(6)	(8)	(29)	(8)	**(64)**	**(177)**	(22)	(7)	(1)	**(30)**	**(32)**	**(28)**	**—**	**(267)**
Other operating income/expenses	(51)	(51)	**(102)**	(54)	(26)	(18)	(16)	(22)	**(136)**	30	(5)	2	(89)	(17)	**(79)**	**(317)**	(84)	(11)	(10)	**(105)**	**(148)**	**(51)**	**39**	**(582)**
EBITDA	456	345	**801**	52	142	12	123	68	**397**	(51)	436	(6)	74	127	**580**	**1,778**	129	35	—	**164**	**157**	**(52)**	**—**	**2,047**
Depreciation, amortisation & impairment losses	(137)	(124)	**(261)**	(4)	(26)	(29)	(26)	(26)	**(111)**	(10)	(49)	—	(45)	(39)	**(143)**	**(515)**	(95)	(15)	(6)	**(116)**	**(48)**	**(25)**	**—**	**(704)**
Impairment due to credit losses	—	(6)	**(6)**	—	(13)	—	(3)	(7)	**(23)**	—	—	—	(12)	—	**(12)**	**(41)**	—	—	—	**—**	**(86)**	**—**	**—**	**(127)**
Other results			**—**			(128)	—		**(128)**	—	—	—	—	—	**—**	**(128)**	9	—	—	**9**	**—**	**5**	**—**	**(114)**
Operating results	319	215	**534**	48	103	(145)	94	35	**135**	(61)	387	(6)	17	88	**425**	**1,094**	43	20	(6)	**57**	**23**	**(72)**	**—**	**1,102**
Results of equity-consolidated companies	—	1	**1**	—	—	7	—	—	**7**	4	—	10	—	25	**39**	**47**	18	—	—	**18**	**—**	**—**	**—**	**65**
Invest. in property, plant & equipment, intangible assets and right of use assets	50	98	**148**	20	18	19	20	56	**133**	—	1	—	39	54	**94**	**375**	150	12	111	**273**	**71**	**10**	**—**	**729**

2021	Networks and Energy management																Renewables and New businesses				Supply	Rest	Eli.	Total
	Networks Spain			Networks Latam						Energy management						Total								
	Gas net.	Electr. net.	Total	Argentina	Brazil	Chile	Mexico	Panama	Total	Markets and Procurem.	LNG	Pipelines	Spain CG	Latam CG	Total		Spain & USA	Latam	Australia	Total				
Consolidated Net sales	570	397	**967**	212	541	283	334	347	**1,717**	1,104	1,468	42	487	545	**3,646**	**6,330**	52	67	4	**123**	**2,675**	**2**	**—**	**9,130**
Net sales between segments	40	18	**58**	—	—	—	1	3	**4**	548	50	—	16	—	**614**	**676**	236	6	—	**242**	**869**	**23**	**(1,810)**	**—**
Intersegment Net sales	—	—	**—**	—	—	—	—	—	**—**	1,214	355	84	59	—	**1,712**	**1,712**	—	—	—	**—**	**—**	**—**	**(1,712)**	**—**
Net sales (by segment)	610	415	**1,025**	212	541	283	335	350	**1,721**	2,866	1,873	126	562	545	**5,972**	**8,718**	288	73	4	**365**	**3,544**	**25**	**(3,522)**	**9,130**
Procurements (by segment)	(47)	—	**(47)**	(134)	(414)	(151)	(204)	(267)	**(1,170)**	(2,836)	(1,772)	—	(332)	(416)	**(5,356)**	**(6,573)**	(36)	(19)	—	**(55)**	**(3,196)**	**(1)**	**3,494**	**(6,331)**
Personnel expenses, net	(109)	(102)	**(211)**	(20)	(8)	(12)	(9)	(5)	**(54)**	(15)	(10)	(19)	(48)	(7)	**(99)**	**(364)**	(41)	(10)	(1)	**(52)**	**(94)**	**(60)**	**—**	**(570)**
Other operating income/expenses	(64)	(53)	**(117)**	(38)	(20)	(8)	(14)	(17)	**(97)**	2	(5)	(8)	(126)	(14)	**(151)**	**(365)**	(59)	(11)	(3)	**(73)**	**(103)**	**(38)**	**28**	**(551)**
EBITDA	390	260	**650**	20	99	112	108	61	**400**	17	86	99	56	108	**366**	**1,416**	152	33	—	**185**	**151**	**(74)**	**—**	**1,678**
Depreciation, amortisation & impairment losses	(141)	(122)	**(263)**	(2)	(22)	(29)	(24)	(22)	**(99)**	(7)	(94)	(28)	(39)	(37)	**(205)**	**(567)**	(81)	(15)	(5)	**(101)**	**(39)**	**(22)**	**—**	**(729)**
Impairment due to credit losses	(1)	(1)	**(2)**	(6)	(8)	(2)	(2)	1	**(17)**	—	—	—	—	—	**—**	**(19)**	—	—	—	**—**	**(33)**	**—**	**—**	**(52)**
Other results			**—**	—	—	—	—	—	**—**	103	—	—	—	—	**103**	**103**	2	—	—	**2**	**—**	**1**	**—**	**106**
Operating results	248	137	**385**	12	69	81	82	40	**284**	113	(8)	71	17	71	**264**	**933**	73	18	(5)	**86**	**79**	**(95)**	**—**	**1,003**
Results of equity-consolidated companies	—	—	**—**	—	—	2	—	—	**2**	(4)	—	4	—	27	**27**	**29**	3	—	—	**3**	**—**	**1**	**—**	**33**
Invest. in property, plant & equipment, intangible assets and right of use assets	48	90	**138**	12	11	16	16	36	**91**	1	22	—	25	11	**59**	**288**	54	47	53	**154**	**47**	**11**	**—**	**500**

Non-relevant modifications have been made to the segment information for the six-month period ended June 30, 2021.

Note 4. Impairment losses on non-financial assets

Definition of Cash Generating Units

As of June 30, 2022, the Cash Generating Units (CGUs) are grouped according to the description of the businesses' structure made in Note 4. Impairment losses on non-financial assets in the Consolidated Annual Accounts for the year ended December 31 of 2021.

Information on impairments made

In June 2022, Naturgy has updated the estimates of the recoverable value of the CGUs that may show signs of impairment due to changes in market conditions or relevant regulatory changes.

Naturgy has evaluated the recoverable value of the CGUs based on the 2021-2025 Strategic Plan, approved by the Board of Directors and presented on July 28, 2021, adapted by regulatory updates and energy variables, considering the investment plans they maintain the productive capacity of the assets of its different businesses, as well as the conditions of the markets in which they operate. The projection period has been extended by an additional six years or by the remaining useful life for certain assets and concessions. Different possible future scenarios have also been considered when estimating cash flows, if they provide a better estimate of the set of economic conditions that will occur throughout the remaining useful life of the asset.

In general, the flows present Naturgy's position to promote the energy transition and decarbonisation, with a focus on digital transformation, with investments in growth in networks and renewables, located in stable geographies and regulatory frameworks.

The cash flows have taken into account the volatility of the international gas markets and the temporary high prices of electricity. In particular, the regulations in Spain derived from the approved response measures to the economic and social consequences of the war in Ukraine, the limitation of the price of gas for the formation of prices in the electricity market, as well as such as commercial proposals to avoid high pool prices.

Aspects about the projections used

The most sensitive aspects included in the projections used are the following:

- Latin American Networks: for the gas network CGUs in Argentina and Chile:

    - Evolution of rates. Assessment of the rates in each of the countries, based on the existing regulatory conditions and the current and planned rate reviews, taking into consideration the experience derived from the previous rate reviews in each country.
    - Cost of supplies. Estimated according to the predictive models developed based on knowledge of the energy markets of each country.
    - Operation and maintenance costs. Estimated from the historical costs of the managed network.
    - Investments. Considering the necessary investments to maintain the regular use of the network and the quality of supply and security.

- Thermal generation Spain:

    The hypotheses and projections that affect this CGU have been based on the best prospective information available to date, considering in general the possible effects on the generation of the planned transition due to the increase in renewable energy sources that are included in the regulatory elements of the PNIEC , in the Draft Law on Climate Change and Energy Transition detailed in Annex IV of the Consolidated Annual Accounts for the year ended December 31, 2021. The aforementioned projections include a production path considering the forecasts of the PNIEC, which contemplate the need for all the installed power of the combined cycle generation units in the projection horizon (2031).

The main hypotheses considered were the following:

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Price pool €/MWh	175.2	160.0	135.0	123.2	108.8	98.6	90.4	82.5	84.7	86.4
Brent (USD/bbl)	102.7	90.5	81.9	76.3	69.7	69.5	71.1	72.8	74.7	76.7
Gas Henry Hub (USD/MMBtu)	6.4	5.4	4.3	4.0	3.4	3.4	3.5	3.6	3.7	3.9
CO2 €/t	82.8	84.4	87.2	90.5	93.9	97.3	100.7	104.1	107.5	110.9

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. of the Consolidated Annual Accounts for the year ended December 31, 2021, are as follows:

- Electricity produced. The evolution of demand has been estimated based on projections from the CNMC and analysts, additionally considering existing contracts with Naturgy's marketers. 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 when the penetration of renewables increases.

- Price of electricity. The prices of energy in the market used have been calculated with the models that cross the expected demand with the supply forecasts, considering the foreseeable evolution of the generation park in Spain, based on sectoral forecasts, to the evolution of the energy scenario based on future curves and analyst forecasts. Additionally, the impacts derived from existing contracts with the Group's marketers are included in the estimate.

  In the projected flows, the extraordinary regulatory changes are estimated (Annex II of these Condensed Interim Consolidated Financial Statements and Annex IV of the Consolidated Annual Accounts for the year ended December 31, 2021) derived from the increase in the price of electricity in the wholesale market, the most relevant being:

  – The estimated impact of the reduction in the remuneration of non-emitting facilities, for an amount proportional to the value of the gas price quote.
  – The mechanism for adjusting production costs to reduce the price of electricity regulated in RDL 10/2022, of May 13, and which publicizes the decision of the European Commission that authorizes said mechanism.

- Fuel cost. Estimated based on market prices.

- Operation and maintenance costs. They have been estimated based on the historical costs of the managed park.

- The taxes established by Law 15/2012 and the extraordinary temporary suspensions.

– Renewables Spain:

The hypotheses and projections that affect the Renewable Electricity Generation and Hydraulic Electricity Generation CGUs have been based on the best prospective information available to date.

The hypotheses regarding the evolution of the pool price coincide with those considered in the Spain Thermal Generation CGU.

The most sensitive aspects included in the impairment analysis carried out are the following:

- Electricity produced.

  For the Renewable Electricity Generation CGU, forecasts of hours of operation of each wind farm have been used that are consistent with their historical productions and predictions based on records of similar wind farms in the event that historical data did not exist.

  For the CGU of Hydraulic Electricity Generation, the evolution of production has been carried out considering an average hydraulic year.

- Electricity price. The energy prices in the market used have been calculated with the models that cross the expected demand with the supply forecasts, considering the foreseeable evolution of the generation park in Spain, based on the sectoral forecasts and the evolution of the energy scenario based on futures curves and analyst forecasts. Additionally, the impacts derived from existing contracts with the Group's marketers are included in the estimate.

  In the projected flows, the extraordinary regulatory changes are estimated (Annex II of these Condensed Interim Consolidated Financial Statements and Annex IV of the Consolidated Annual Accounts for the year ended December 31, 2021) derived from the increase in the price of electricity in the wholesale market, the most relevant being:

  – The estimated impact of the reduction in the remuneration of non-emitting facilities, for an amount proportional to the value of the gas price quote.
  – The cut in the remuneration of facilities subject to the specific remuneration regime of RD 413/2014 and approved for the regulatory period of the 2022 financial year, as well as the estimate thereof for subsequent financial years.
  – The planned measures to regulate reservoir water for hydroelectric use.

- Remuneration. For facilities entitled to specific remuneration from the renewable generation CGU, the remuneration has been estimated based on the remuneration parameters for the established regulated income period.

- Operation and maintenance costs. They have been estimated based on the historical costs of the managed park.

- The taxes established by Law 15/2012 and the extraordinary temporary suspensions.

- Investments. Investments necessary to maintain regular use of the facilities are considered.

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

  - The generation of renewable electricity in Latin America is carried out under energy purchase agreements that determine stable business models and are not subject to fluctuation risks based on market variables.

  - Operation and maintenance costs. Estimated from historical costs and based on the best forecasts when there are no historical data.

Discount rates and growth rates used

The discount rates before taxes used in the impairment tests carried out in the six-month period ended June 30, 2022 and in 2021 were:

Discount rate	**June 2022**	2021
Energy and network management		
Gas and electricity distribution Spain	n.a.	4,7 %-5,4 %
Gas and electricity distribution Latin America (1)	8,2% - 18,9 %	7,7 % - 18,1 %
Gas distribution Argentina (2)	19.4 %	18.1 %
Thermal generation Spain	7.6 %	7.1 %
Thermal Generation Latin America (Mexico and Dominican Republic)	n.a.	9 %-12,5 %
Renewables and new business		
Spain renewable electricity generation	6.5 %	5.4 %
Hydroelectric generation Spain	7.0 %	6.0 %
Latin America Renewables	10,2%-14,8%	8,4 %-14,6 %
Australia Renewables	n.a.	7.7 %
Supply	n.a.	6.5 %

(1) On June 22 only includes Chile gas

(2) Rate determined in USD

The growth rates in the impairment tests carried out in the six-month period ended June 30, 2022 and in 2021 were:

Growth rate	**June 2022**	2021
Energy and network management		
Gas and electricity distribution Spain	n.a.	0,5 %-2,0 %
Gas and electricity distribution Latin America (1)	2,0 %-2,2 %	2,0 %-8,8 %
Gas distribution Argentina	9.6 %	8.8 %
Thermal generation Spain	2.0 %	2.0 %
Thermal Generation Latin America	n.a.	2.0 %
Renewables and new business		
Spain renewable electricity generation	2.0 %	2.0 %
Hydroelectric generation Spain	2.0 %	2.0 %
Latin America Renewables	2,0 %-3,3 %	2,0 %-3,3 %
Australia Renewables	n.a.	2.8 %
Supply	n.a.	0.5 %

(1) On June 22 includes only Chile gas

Result of the tests carried out

As a result of the impairment tests carried out in the six-month period ended June 30, 2022, the recoverable values, calculated in accordance with the methodology described in Note 2.4. of the Consolidated Annual Accounts for the year ended December 31, 2021, have been higher than the net book values recorded in these Interim Consolidated Financial Statements except for:

Six-month period ended June 30, 2022

An impairment charge of 17 million euros has been recorded under the heading "Depreciation and impairment losses" of Property, plant and equipment (Note 5 and 18) corresponding to the impairment of cogeneration projects in the Renewables Spain business segment derived from the scenario current energy and regulatory.

On the other hand, an impairment reversal of 5 million euros has been recorded under the heading "Other financial income" (Note 20) corresponding to the Generation assets in Costa Rica of the Renewables Latin America business segment.

Sensitivity analysis

A sensitivity analysis has been carried out on the results of the impairment tests described. It has been considered for each of the following variations of its key hypotheses, independently, with the following result:

Six-month period ended June 30, 2022

Spain thermal electricity generation: the result of the sensitivity analysis is as follows:

- an increase in the discount rate of 50 basis points would imply an impairment of 48 million euros.
- a decrease in the growth rate of 50 basis points would imply a deterioration of 8 million euros.
- a decrease of 5% in the electricity produced would imply a deterioration of 116 million euros.
- a decrease in the average price of electricity during the remaining life of the installation of 1 euro/MWh, together with the variation in the cost of related gas and CO_2, would imply a deterioration of 49 million euros.

Hydropower generation Spain: the result of the sensitivity analysis is as follows:

- an increase in the discount rate of 50 basis points would imply an impairment of 56 million euros.
- a decrease in the growth rate of 50 basis points would imply a deterioration of 9 million euros.
- a decrease of 5% in the electricity produced would imply a deterioration of 76 million euros.
- a decrease in the average price of electricity during the remaining life of the installation of 1 euro/MWh would imply a deterioration of 5 million euros.

Renewable electricity generation Spain: the result of the sensitivity analysis is as follows:

- an increase in the discount rate of 50 basis points would not imply impairment.
- a decrease in the growth rate of 50 basis points would not imply deterioration.
- a decrease of 5% in the electricity produced would not imply deterioration.
- a 5% decrease in the price of electricity would mean a reduction in the value in use of the CGU of 95 million euros, without generating impairment.

Argentina gas distribution: the result of the sensitivity analysis is as follows:

- an increase in the discount rate of 50 basis points would imply an impairment of 5 million euros.
- a decrease in the growth rate of 50 basis points would imply a deterioration of 2 million euros.
- a decrease of 5% in the rate/remuneration evolution would imply a deterioration of 16 million euros.
- a 5% increase in operation and maintenance costs would imply an impairment of 5 million euros.
- a 5% increase in investments would imply a deterioration of 6 million euros.

Chile gas distribution: the result of the sensitivity analysis is as follows:

- an increase in the discount rate of 50 basis points would not imply an impairment.
- a decrease in the growth rate of 50 basis points would not imply a deterioration.

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

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

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

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

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

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

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

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

Rest of the CGUs

For the rest of the CGUs for the six-month period ending June 30, 2022, no additional sensitivity analyzes have been performed to the aforementioned tests, as there are no signs of impairment. In relation to the Renewables USA CGU, whose assets were acquired in 2021, the possible impacts of tariffs and other regulatory changes in the USA have been evaluated, confirming the viability of the projects.

Note 5. Intangible assets, property, plant and equipment and right-of-use assets

Changes in the six-month period ended 30 June 2022 are as follows:

	Goodwill	Other Intangible assets	Total Intangible assets	Property, plant and equipment	Right-of-use assets
Gross cost	2,950	5,222	8,172	35,445	1,839
Amortisation fund and impairment losses	—	(2,438)	(2,438)	(18,858)	(610)
Carrying amount at 31.12.2021	**2,950**	**2,784**	**5,734**	**16,587**	**1,229**
Investment (Note 3)	—	138	138	583	8
Divestment	—	—	—	(34)	(1)
Amortisation charge (Note 18)	—	(138)	(138)	(483)	(66)
Impairment losses (Note 4 & 18)	—	—	—	(17)	—
Currency translation differences (1)	59	130	189	339	10
Business combinations (Note 22)	7	—	7	28	2
Reclassifications and other	—	4	4	34	(1)
Carrying amount at 30.06.2022	**3,016**	**2,918**	**5,934**	**17,037**	**1,181**
Gross cost	3,016	5,756	8,772	36,552	1,704
Amortisation fund and impairment losses	—	(2,838)	(2,838)	(19,515)	(523)
Carrying amount at 30.06.2022	**3,016**	**2,918**	**5,934**	**17,037**	**1,181**

(1) Includes effect of inflation in Argentina.

As detailed in Note 4, as a result of the impairment tests carried out in the six-month period ended June 30, 2022, an impairment has been recorded for an amount of 17 million euros corresponding to the impairment of cogeneration projects of the Renewables Spain business segment derived from the current energy and regulatory scenario.

At 30 June 2022, Naturgy had recognised fixed asset investment commitments totalling Euros 462 million (314 million at 31 December 2021, basically for the construction of renewable generation facilities in Spain and Australia, the development of the distribution network and other gas infrastructure in Latam.

The composition and changes in goodwill by CGU in the six-month period ended 30 June 2022 is as follows:

	01.01.2022	Currency translation differences	Business combinations	30.06.2022
Networks and Energy management	**1,752**	**57**	**—**	**1,809**
Electricity networks Spain	1,070	—	—	1,070
Markets and procurements	19	—	—	19
Thermal generation Mexico	444	42	—	486
Brazil gas networks	12	2	—	14
Chile gas networks	56	—	—	56
Mexico gas networks	19	2	—	21
Panama Electricity networks	132	11	—	143
Renewables and New businesses	**771**	**2**	**7**	**780**
Spain and USA	759	1	7	767
LatAm	12	1	—	13
Supply	**427**	**—**	**—**	**427**
Total	**2,950**	**59**	**7**	**3,016**

Note 6. Investments in companies

Associates and joint ventures

In the six-month period ended June 30, 2022, the main change in the Investments caption recorded using the equity method corresponds to the agreement reached with the Acciona group to separate the wind farms that they jointly managed through Desarrollo de Energies Renovables de Navarra, S.A., P.E. Cinseiro, S.L and Explotaciones Eólicas Sierra de Utrera, S.L. (Note 22).

Based on the agreement, Naturgy Renovables, S.L.U acquires from the Acciona group an additional 50% of the companies Desarrollo de Energías Renovables de Navarra, S.A. and P.E. Cinseiro, S.L. (reaching 100% participation, obtaining control and consolidating them as subsidiaries). Additionally, it acquires 25% of Explotaciones Eólicas Sierra de Utrera, increasing its percentage of control from 75% to 100%, without entailing a change of control and with no significant impact in this Condensed Interim Consolidated Financial Statements.

Note 7. Financial assets

Set out below is a breakdown of financial assets as at 30 June 2022 and 31 December 2021, by nature and category:

30.06.2022	**Fair value through other comprehensive income**	**Fair value through profit or loss**	**Amortised cost**	**Total**
Equity instruments	9	—	—	9
Derivatives (Note 13)	133	38	—	171
Other financial assets	—	—	389	389
Non-current financial assets	**142**	**38**	**389**	**569**
Derivatives (Note 13)	42	—	—	42
Other financial assets	—	—	459	459
Current financial assets	**42**	**—**	**459**	**501**
Total	**184**	**38**	**848**	**1,070**

31.12.2021	**Fair value through other comprehensive income**	**Fair value through profit or loss**	**Amortised cost**	**Total**
Equity instruments	14	—	—	14
Derivatives (Note 13)	16	37	—	53
Other financial assets	—	—	327	327
Non-current financial assets	**30**	**37**	**327**	**394**
Derivatives (Note 13)	—	—	—	—
Other financial assets	—	—	395	395
Current financial assets	**—**	**—**	**395**	**395**
Total	**30**	**37**	**722**	**789**

Financial assets recognised at fair value as at 30 June 2022 and 31 December 2021 are classified as follows:

	30.06.2022				**31.12.2021**			
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	—	175	9	**184**	—	16	14	**30**
Fair value through profit or loss	—	38	—	**38**	—	37	—	**37**
Total	**—**	**213**	**9**	**222**	**—**	**53**	**14**	**67**

Fair value through other comprehensive income

– Equity instruments:

  Includes the 15% ownership interest in the companies Lean Corporate Services, S.L., Lean Customer Services, S.L., Lean Grids Services, S.L. and Naturgy IT, S.L. .

  It 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 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 USD 1,600 million. On 4 December 2018, the Republic of Colombia submitted its answer to the complaint and filed a counterclaim for approximately USD 500 million, the viability of which is considered remote. The main hearings were held in December 2019 and an arbitration award was issued in March 2021 dismissing the claims of both Naturgy and the Colombian State.

Additionally, on March 24, 2021, the Superintendence of Residential Public Services of the Republic of Colombia ordered the beginning of the liquidation process of the company. This fact, together with the completion of the claim process against the insurers, which resulted in a collection of 8 million euros, meant that, as of December 31, 2021, 85.4% of the stake in Electricaribe was valued at 0 millions of euros. Likewise, once the liquidation process began in 2021, a deferred tax asset of 105 million euros was recorded corresponding to the tax loss that will be deductible once the liquidation materializes. Both the decrease in fair value and the tax effect were recorded in "Accumulated other comprehensive income" for the year 2021.

Fair value through profit and loss

- Derivatives: In the context of the agreement reached in relation to Unión Fenosa Gas (Note 32 of the Consolidated Annual Accounts for the year ended December 31, 2021), 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. At 30 June 2022, the fair value recognised for this item was Euros 38 million (Euros 37 million 31 December 2021); the change in value was recognised under financial results for the period of six months ended at 30 June 2022.

Amortised cost

As at 30 June 2022, the following are recognised under Other financial assets:

- The temporary mismatches between electricity system revenues and costs, which are funded by Naturgy pursuant to Law 24/2013 of 26 December, in the amount of Euros 36 million (Euros 64 million as at 31 December 2021). This amount will be recovered through the electricity system settlements. The amount of the mismatch 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 recognised entirely as a short-term item on the understanding that it is a temporary mismatch that will be recovered through system settlements within the same year.

- “Commercial loans” amounting to Euros 23 million , which Euros 16 million non-current and Euros 7 million current (unchanged compared to 31 December 2021) mainly includes the credits for the sale of gas and electricity installations. The respective interest rates (between 5% and 8% 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” amounting to Euros 408 million, which Euros 109 million are non-current and Euros 299 million current (Euros 294 million at 31 December 2021, Euros 108 million non-current and Euros 186 million current), that basically includes 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, as well as deposits related with derivatives positions.

- The value of generation concessions in Costa Rica that are deemed to be credits, pursuant to IFRIC 12 “Service concession arrangements” , in the amount of Euros 131 million (Euros 121 million at 31 December 2021), of which Euros 25 million is classified in current assets (Euros 16 million in 2021). These credits are classified under this heading as they represent an unconditional right to receive cash in fixed or determinable amounts.

- Receivables of Euros 82 million relating to the guaranteed deferred collections under the agreement with the Egyptian government described in Note 32 of the Consolidated Annual Accounts for the year ended December 31, 2021 (Euros 39 million at 31 December 2021), of which Euros 42 million are classified as current assets (Euros 39 million at 31 December 2021). The increase is a result of the extension in the guarantee in 2022.

Derivates

The variables upon which the valuation of the derivatives reflected under this heading are based and observable in an active market (Level 2) (Note 13).

Note 8. Other non-current assets and trade and other receivables

The “Other non-current assets” and “Trade and other receivables” headings as at 30 June 2022 and 31 December 2021, classified by nature and category, are as follows:

30.06.2022	**Fair value through other comprehensive income**	**Fair value through profit or loss**	**Amortised cost**	**Total**
Derivatives (Note 13)	272	1	—	273
Other assets	—	—	318	318
Other non-current assets	**272**	**1**	**318**	**591**
Derivatives (Note 13)	642	86	—	728
Other assets	—	—	5,989	5,989
Trade and other receivables	**642**	**86**	**5,989**	**6,717**
Total	**914**	**87**	**6,307**	**7,308**

31.12.2021	**Fair value through other comprehensive income**	**Fair value through profit or loss**	**Amortised cost**	**Total**
Derivatives (Note 13)	126	—	—	126
Other assets	—	—	290	290
Other non-current assets	**126**	**—**	**290**	**416**
Derivatives (Note 13)	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**

Financial assets recognised at fair value as at 30 June 2022 and 31 December 2021 are classified as follows:

	30.06.2022				**31.12.2021**			
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	21	893	—	914	58	460	—	518
Fair value through profit or loss	26	61	—	87	29	33	—	62
Total	**47**	**954**	**—**	**1,001**	**87**	**493**	**—**	**580**

Fair value through other comprehensive income

Derivatives through other comprehensive income under financial assets include operational gas price hedging derivatives amounting to Euros 867 million (Euros 386 million at 31 December 2021), of which Euros 251 million are classified as non-current (Euros 66 million at 31 December 2021) (Note 13).

At 31 December 2021, they included the market value of the power purchase contracts signed by the Australian wind power subsidiaries in the amount of Euros 60 million, of which Euros 47 are classified as non-current. The PPAs are either with the government of the state in which they operate or with private companies, and they hedge the forward sale price of electricity for a given volume of MW and a given time period. These agreements are recognised as cash flow hedges. At 30 June 2022, these derivatives are reported under "Other non-current liabilities".

Amortised cost

At 30 June 2022 the accumulated balances for electricity and gas sales yet to be invoiced are included under “Trade receivables” and amount to Euros 2,217 million (Euros 1,785 million at 31 December 2021). The forecasts for sales yet to be invoiced include the amount relating to the increase in the cost of raw materials yet to be passed on in the last resort tariff for natural gas, which amounts to Euros 173 million (36 million at 31 December 2021) as a result of the difference between the cost of the raw material calculated in accordance with the methodology in force and that resulting from the application of Royal Decree-Law 17/2021, of 14 September, and will be recoverable in subsequent quarters by virtue of Royal Decree-Law 27/2021, of 23 November, limitation that was extended to the second and third quarters of 2022 with Royal Decree-Law 6/2022, and to the revisions of the fourth quarter of 2022 and the first quarter of 2023, with Royal Decree-Law 11/2022.

Note 9. Non-current assets and disposal groups of assets held for sale and discontinued operations

At 30 June 2022 , non-current assets and disposal groups held for sale correspond to the Marismas assets of the company Naturgy Almacenamientos Andalucía, S.A. and Petroleum Oil & Gas España, S.A.

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

30 June 2022

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

In November 2021, Naturgy reached an agreement to sell 100% of its stake in Naturgy Storage Andalucía, S.A. company that carries out the regulated activity of underground storage of gas as well as certain assets of Petroleum Oil & Gas España, S.A. located in Marismas (Huelva). Said agreement will materialize once certain conditions precedent are met, foreseeably in the third quarter of 2022

Given that Naturgy had a firm commitment to sell these assets, which were clearly identified, the process was ongoing and their sale was considered highly probable, the accounting balances of these assets were transferred at 31 December 2021 to the heading “Assets non-current assets held for sale”, in application of IFRS 5 “Non-current assets held for sale and discontinued operations”. At the time of the transfer, the assets were valued at fair value determined based on the sale price less the sale costs and, since this value was higher than the book value, no impact was recorded due to the valuation in accordance with IFRS 5. On the other hand On the other hand, since it does not represent a line of business or a significant geographical area of exploitation and separate from the rest, it was not considered as 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 valued at fair value determined on the basis of the sale price less the costs of sale, which entailed the recording of a loss in the Consolidated Profit and Loss Account for an amount of 8 million euros that was recorded under the heading "Depreciation and impairment losses on non-financial assets" (Note 28 of the Consolidated Annual Accounts for the year ended December 31, 2021) 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.

31 December 2021

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, consequently, 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 is expected to commence a liquidation process which involves the distribution of assets to their owners and therefore, in accordance with IFRS 5, they have been 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. In addition, since this is a significant line of business or geographical area of operation that is separate from the rest, it was classified as a discontinued operation, as a result of which all the revenues and expenses of this business in the six-month periods ended 30 June 2022 and 2021 are presented under "Profit for the year from discontinued operations, net of taxes". Finally, in February 2022, the liquidation of the company was completed

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 Euros 2,570 million, set in euros and payable in cash upon completion of the transaction. Since this figure is higher than the carrying amount of consolidated net assets, no valuation impact has been 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.

As Naturgy has a firm commitment to sell these assets, which are clearly identified, the process is under way and it is considered that the sale is 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 are discontinued operations as they are components classified as held for sale which represent a significant and separate line of business or geographical area of operations, and the revenues and expenses pertaining to these lines of business for the six-month periods ended 30 June 2022 and 2021 are disclosed under "Profit for the year from discontinued operations net of taxes". As of 30 June 2022, it includes the reestimation of the indemnities agreed with the buyer in the sale carried out in the 2021 financial year.

The breakdown by nature of assets classified as held for sale and the associated liabilities is as follows at 30 June 2022 and 31 December 2021:

30.06.2022	**Almacenamientos Andalucía**	**GLP Assets Nedgia**	**Total**
Intangible assets	—	—	—
Property, plant and equipment	12	4	16
Right-of-use assets	—	—	—
Non-current financial assets	—	—	—
Other non-current assets	—	—	—
Deferred tax assets	4	—	4
NON-CURRENT ASSETS	**16**	**4**	**20**
Inventories	—	—	—
Trade and other receivables	1	—	1
Other current financial assets	—	—	—
Cash and cash equivalents	—	—	—
CURRENT ASSETS	**1**	**—**	**1**
TOTAL ASSETS	**17**	**4**	**21**
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	—	—	—
Other current liabilities	—	—	—
CURRENT LIABILITIES	**—**	**—**	**—**
TOTAL LIABILITIES	**24**	**—**	**24**

31.12.2021	**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**

The breakdowns by nature of the heading "Results for the year from discontinued operations after taxes" of the Consolidated Income Statement for the six-month period ended June 30, 2022 and 2021, are as follows:

Six months ended at 30 June of 2022	**Electricity distribution Chile**
Net sales	—
Procurements	—
Other operating income	—
Personnel expenses	—
Other operating expenses	(22)
GROSS OPERATING RESULTS	**(22)**
Fixed asset depreciation/amortisation	—
Impairment due to credit losses	—
Other results	—
OPERATING PROFIT/(LOSS)	**(22)**
Financial income	—
Financial expenses	—
Exchange differences	—
NET FINANCIAL INCOME/(EXPENSE)	**—**
Profit/(loss) on equity method companies	—
PROFIT/(LOSS) BEFORE TAXES	**(22)**
Corporate income tax	6
PROFIT FOR THE YEAR AFTER TAXES FROM DISCONTINUED OPERATIONS	**(16)**
Attributable to:	
The parent company	(16)
Non-controlling interests	—

Six months ended on 30 June 2021	Electricity distribution Chile	Gas Distribution Peru	Total
Net sales	908	—	908
Procurements	(687)	—	(687)
Other operating income	17	—	17
Personnel expenses	(34)	—	(34)
Other operating expenses	(100)	—	(100)
GROSS OPERATING RESULTS	**104**	**—**	**104**
Fixed asset depreciation/amortisation	—	—	—
Impairment due to credit losses	(10)	—	(10)
Other results	—	—	—
OPERATING PROFIT/(LOSS)	**94**	**—**	**94**
Financial income	1	—	1
Financial expenses	(36)	—	(36)
Exchange differences	—	—	—
NET FINANCIAL INCOME/(EXPENSE)	**(35)**	**—**	**(35)**
Profit/(loss) on equity method companies	—	—	—
PROFIT/(LOSS) BEFORE TAXES	**59**	**—**	**59**
Corporate income tax	(8)	—	(8)
PROFIT FOR THE YEAR AFTER TAXES FROM DISCONTINUED OPERATIONS	**51**	**—**	**51**
Attributable to:			
The parent company	47	—	47
Non-controlling interests	4	—	4

Set out below is a breakdown of total comprehensive income from this business during the six-month periods ended 30 June 2022 and 2021:

Six months ended at 30 June of 2022	Electricity distribution Chile
Consolidated profit/(loss) for the year	**(16)**
Other comprehensive income recognised directly in equity:	
Financial assets at fair value through other comprehensive income	—
Currency translation differences	—
Transfer to the income statement:	
Currency translation differences	—
Total comprehensive income for the year	**(16)**

Six months ended on 30 June 2021	**Electricity distribution Chile**	**Gas Distribution Peru**	**Total**
Consolidated profit/(loss) for the year	**51**	**—**	**51**
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	—	—	—
Total comprehensive income for the year	**55**	**—**	**55**

Cash flows from discontinued operations included in the Consolidated Statement of Cash Flows are:

Cash flow from:	**2022**	**2021**
Operation	—	57
Investment	—	(81)
Financing	—	(110)

The transactions between the companies that make up the businesses that have been interrupted with the rest of the group companies are not significant. Consequently, the intragroup cash flows with the discontinued line of business are not significant.

Note 10. Net Equity

The main components of Net Assets are detailed in the following sections:

Share capital and share premium

The variations during the first half of fiscal year 2022 and during fiscal year 2021 in the number of shares and the Share capital and Share premium accounts were as follows:

	Number of shares	**Share capital**	**Share premium**	**Total**
01.01.2021	**969,613,801**	**970**	**3,808**	**4,778**
Capital reduction	—	—	—	—
31.12.2021	**969,613,801**	**970**	**3,808**	**4,778**
Variation	—	—	—	—
30.06.2022	**969,613,801**	**970**	**3,808**	**4,778**

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

There were no changes in the number of shares or in the "Share capital" and "Share premium" accounts during the first six months of 2022 or in 2021.

The Company's Board of Directors is empowered, for a maximum term of five years as from 15 March 2022, to increase share capital by at most one-half of the Company's capital stock at the time of this authorisation, for monetary contributions, at one or more times and at the time and in the amount that it deems fit, by 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 deciding, as appropriate, to fully or partly override preferential subscription rights, up to a limit of 20% of share capital at the date of this authorisation, and to amend the articles of the By-laws as required due to the capital increase or increases performed by virtue of said authorisation, including the possibility of incomplete subscription, all in accordance with the provisions of Article 297.1.b) of the Spanish Capital Companies Law. Additionally, based on this authorisation, it will carry out any necessary procedures and actions before domestic and overseas securities market agencies to request the listing, continuance and/or, as the case may be, delisting of the issued shares.

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 main holdings in the Company's share capital at 30 June 2022 and 31 December 2021, based on available public information or on notices given to the Company, are as follows:

	Interest in share capital %	
	30.06.2022	31.12.2021
- Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona,"la Caixa" (1)	26.7	26.7
- Global Infrastructure Partners III (2)	20.6	20.6
- CVC Capital Partners SICAV-FIS, S.A. (3)	20.7	20.7
- IFM Global Infraestructure Fun	13.9	12.2
- Sonatrach	4.1	4.1

(1) Participation through Criteria Caixa S.A.U.

(2) Global Infrastructure Partners III, whose investment manager is Global Infrastructure Management LLC, indirectly holds its stake through GIP III Canary 1, S.à.r.l.

(3) Through Acquisitions S.à.r.l.

Share-based payments

On 31 July 2018, the Board of Directors approved a long-term variable incentive (LTI) plan for the Executive Chairman and 25 other executives, the main characteristics of which were approved by the general meeting of shareholders on 5 March 2019. That incentive system covered the period of the Business Plan 2018-2022.

On 25 November 2021, the Board of Directors of Naturgy decided, based on a proposal by the Appointments, Remuneration and Corporate Governance Committee, to extend the time period of the LTI 2018-2022 to 31 December 2025 for the current executives in order to contribute to the fulfilment of the Business Plan 2021-2025. The extension of the LTI came into force upon approval by Naturgy's annual general meeting of shareholders on 15 March 2022.

That extension amended the LTI that had been approved under the Business Plan 2018-2022, which was set to expire in July 2023. It maintains the direct linkage with the total return obtained by the Company's shareholders in the period in question.

The LTI was implemented through the acquisition of shares of Naturgy Energy Group, S.A. by an investee that may generate a surplus. Such surplus, if any, is the incentive to be delivered to the participants. Upon conclusion of the plan, that company will obtain a result arising from the receipt of dividends attributed to its shares, changes in the share price and other revenues and expenses, mainly of a financial nature. At that time, it will sell such shares as are required to repay all the funds received to acquire the shares and, after settling its obligations, it will distribute any surplus among its shareholders, in the form of shares.

Such surplus will only be collected if a minimum profitability threshold has been exceeded, which means a share price of Euros 19.15 at the time of expiration of the LTI, assuming that all the dividends envisaged in the Business Plan 2021-2025 are distributed.

If beneficiaries leave the Company, they will be entitled to collect the amount of the incentive that ultimately arises in proportion to the time they were at the company during the term of the plan.

In order to compensate for the delay in the collection of the LTI as a result of the time extension, Naturgy's Board of Directors established a compensation consisting of the payment of a cash amount to the beneficiaries who accepted the extension of the term until 2025 (Note 25).

The fair value of the equity instruments granted was determined at the date of grant using a Monte Carlo simulation valuation model based on the share price at the date of grant and 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 of the date of approval of the extension of the LTI, the LTI 2018-2022 and LTI 2018-2025 were measured using a valuation model based on a Monte Carlo simulation. The incremental value is recognised for accounting purposes over the period from the date of approval of the amendment, i.e. 15 March 2022, until 2025. The assumptions used in the valuations are as follows:

	LTI 2018-2022	LTI 2018-2025
Expected share price volatility (1)	25,32%	25,32%
Plan life (years)	1,38	3,80
expected dividends	5,24%	5,03%
Risk-free interest rate	0,71%	1,06%

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

As a result of accruing the estimated fair value of the granted equity instruments over the term of the plan and the incremental value associated with the extension of the term of the instrument, an amount of Euros 3.0 million (Euros 2.1 million at 30 June 2021) (Note 16) was recognised in the consolidated income statement for the six-month period ended 30 June 2022 under "Personnel expenses" with a credit to "Reserves" in the consolidated balance sheet.

Own shares

Movements involving own shares of Naturgy Energy Group, S.A. during the first half of 2022 and in 2021 are as follows:

	Number of shares	Amount (million euro)	% Capital
	8,675,368	**201**	**0.9**
Share acquisition plan	—	—	—
30.06.2021	**8,675,368**	**201**	**0.9**
Share acquisition plan	127,453	3	—
31.12.2021	**8,802,821**	**204**	**0.9**
Share acquisition plan	15,000	—	—
Delivery to employees	(122,328)	(3)	—
30.06.2022	**8,695,493**	**201**	**0.9**

In the period of six months ended at 30 June 2022 and the financial year 2021, 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:

Period of six months ended at 30 June 2022

– 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 in December 2021. 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. That plan was completed in January 2022 with the acquisition of 15,000 own shares in addition to those acquired in December 2021, for an amount of Euros 0.4 million. During January 2022, a total of 122,328 shares amounting to Euros 3 million were delivered to employees, leaving a surplus of 20,125 own shares in addition to the 35,773 shares that were surplus following the 2020 and 2019 Share Acquisition Plans.

2021

– Share Acquisition Plan: In accordance with the information given in the previous point, 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. 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 were delivered in January 2022.

At 30 June 2022 and 31 December 2021 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

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

	30.06.2022	**30.06.2021**
Profit attributable to equity holders of the parent company	557	484
Weighted average number of ordinary shares in issue	960,898,198	960,938,433
Earnings per share from continuing operations (in euro):		
- Basic	0.6	0.45
- Diluted	0.6	0.45
Earnings per share from discontinued activities (in euro):		
-Basic	(0.02)	0.05
-Diluted	(0.02)	0.05

The weighted average number of ordinary shares used in the calculation of earnings per share in the first half of 2022 and 2021 is as follows:

	2022	**2021**
Weighted average number of ordinary shares	969,613,801	969,613,801
Weighted average number of treasury shares	(8,715,603)	(8,675,368)
Weighted average number of shares in issue	**960,898,198**	**960,938,433**

Basic earnings per share are the same as diluted earnings per share since there were no instruments susceptible of conversion into ordinary shares during those years and the conditions for including the shares under the incentive described in the section on Share-based payments of Note 14 of the consolidated annual accounts as at 31 December 2021 in the calculation of diluted earnings per share were not met.

Dividends

Set out below is a breakdown of the dividend payments made in 2022 and 2021:

	30.06.2022			30.06.2021		
	% of Nominal	**Euros per share**	**Amount (1)**	**% of Nominal**	**Euros per share**	**Amount (1)**
Ordinary shares	50 %	0.5	485	63 %	0.63	611
Other shares (without voting rights, redeemable, etc.)	—	—	—	—	—	—
Total dividends paid	**50 %**	**0.50**	**485**	**63 %**	**0.63**	**611**
a) Dividends charged to income statement or reminder	50 %	0.50	485	63 %	0.63	611
b) Dividends charged to reserves or share premium account	—	—	—	—	—	—
c) Dividends in kind	—	—	—	—	—	—

(1) The amount of dividends paid net of those received by group companies amounts to 481 million euros and 605 million euros as of June 30, 2022 and 2021, respectively.

Additionally, the amount of dividends paid to non-controlling interests in the six-month period ended 30 June 2022 amounts to Euros 166 million (Euros 211 million as of June 30, 2021).

30 June 2022

On 3 February 2022, the Board of Directors approved the following proposal for the distribution of Naturgy Energy Group, S.A. 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 income and retained earnings adopted 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. .

The General Meeting of Shareholders on 15 March 2022 approved the final dividend of Euros 0.50 per share for all shares not classified as direct treasury stock on the date of distribution; this dividend was paid in full in cash on 22 March 2022.

Following payment of the final dividend, the amount allocated to Retained earnings was Euros 2,320 million.

On 11 August 2022, Naturgy Energy Group, S.A Board of Directors declared an interim dividend of Euros 0.3 euros per share out of 2022 results, for shares not classified as direct treasury shares on the payment date of the dividend, which is payable on or after 18 August 2022.

On the date the interim dividend was declared, Naturgy Energy Group, S.A. had the necessary liquidity to make the payment, as required by the Spanish Capital Companies Act. The provisional liquidity statement at 30 June 2022 drawn up by the Directors on 11 August 2022 is as follows:

Profit after tax	1,816
Reserves to be replenished	—
Maximum amount distributable	**1,816**
Forecast maximum interim dividend payment (1)	**291**
Cash resources	1,984
Undrawn credit facilities	5,342
Total liquidity	**7,326**

(1) Amount considering total shares issued

30 June 2021

On 2 February 2021, the Board of Directors approved the following proposal for the distribution of Naturgy Energy Group, S.A. 2020 net profit and retained earnings, for submission to the annual general meeting, as disclosed in Note 11 to the annual accounts for the year ended 31 December 2020.

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.

The Shareholders' Meeting held on 9 March 2021 approved the final dividend of Euros 0.63 per share for all shares not classified as direct treasury stock on the date of distribution; this dividend was paid in full in cash on 17 March 2021.

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

Other equity components

The movement in other components of equity for each item is as follows:

	Financial assets at fair value	Hedging operations	Tax effect	Total asset and liability revaluation reserves	Currency translation differences	Total
31.12.2021	**(468)**	**(2,779)**	**507**	**(2,740)**	**(1,237)**	**(3,977)**
Change in value	—	(4,435)	630	**(3,805)**	(56)	(3,861)
Taken to income statement	—	1,878	(281)	**1,597**	—	1,597
Other	—	—	—	**—**	—	—
30.06.2022	**(468)**	**(5,336)**	**856**	**(4,948)**	**(1,293)**	**(6,241)**

The "Exchange differences" item includes the exchange differences described in Note 2.4.2 to the 2021 consolidated annual accounts as a result of the euro's fluctuation against the main currencies of Naturgy's overseas companies. Additionally, this heading includes the effect of the restatement of the financial statements of companies in hyperinflationary economies.

Non-controlling interest

Movements in non-controlling interests during the six-month period ended 30 June 2022 are as follows:

Balance at 31 December 2021	**2,984**
Total comprehensive income for the period	118
Distribution of dividends	(162)
Payments return on other equity instruments	(20)
Other changes	2
Balance at 30 June 2022	**2,922**

Note 11. Provisions

The breakdown of provisions at 30 June 2022 and 31 December 2021 is as follows:

	30.06.2022	31.12.2021
Provisions for employee obligations	415	430
Other provisions	1075	716
Non-current provisions	**1,490**	**1,146**
Current provisions	**390**	**589**
Total	**1,880**	**1,735**

"Provisions for employee obligations" includes provisions for "Pensions and other similar obligations" as well as "Other obligations with personnel" detailed in Note 16 of the Consolidated Annual Accounts for the year ended 31 December 2021.

In relation to "Other obligations with personnel", as a result of the approval of the 2021-2025 Strategic Plan, the temporary extension of the long-term incentive plan that had been implemented with the approval of the 2018-2022 Strategic Plan for Naturgy managers not included in the plan mentioned in Note 10. This modification maintains the purpose of aligning the interests of the shareholders, the materialization of the Strategic Plan and the multi-year variable remuneration of the directors. The modification of the plan extends its term until December 31, 2025, for certain active beneficiaries, in order to contribute to the achievement of the 2021-2025 Strategic Plan.

In order to compensate for the delay in receipt derived from the temporary extension of the plan, a cash compensation has been established that has been collected in cash at the time of acceptance of the modification and approval of the new LTI by the General Meeting of the past March 15, 2022.

As of June 30, 2022, the provision for this commitment amounts to 10 million euros (19 million euros as of December 31, 2021).

On the other hand, "Other provisions" heading mainly includes provisions set up to cover obligations derived from decommissioning and tax claims, as well as lawsuits and arbitration, insurance and other liabilities. Note 26 contains further information on contingent liabilities.

As of June 30, 2022, "Other provisiones" non-current balance includes the provision associated with the dispute between the group company in Chile Metrogas, S.A. and Transportadora de Gas del Norte S.A. for an amount of 294 million euros as described in Note 26.

Note 12. Financial liabilities

Set out below is a breakdown of financial liabilities, excluding "Trade and other payables", as at 30 June 2022 and 31 December 2021, by nature and category:

At 30 June 2022	**Creditors and payables**	**Hedging derivatives**	**Total**
Bank borrowings	5,652	—	**5,652**
Bonds and other negotiable securities	7,383	—	**7,383**
Derivatives (Note 13)	—	25	**25**
Lease liabilities	1,357	—	**1,357**
Other financial liabilities	1	—	**1**
Non-current financial liabilities	**14,393**	**25**	**14,418**
Bank borrowings	1,020	—	**1,020**
Bonds and other negotiable securities	764	—	**764**
Derivatives (Note 13)	—	10	**10**
Lease liabilities	185	—	**185**
Other financial liabilities	120	—	**120**
Current financial liabilities	**2,089**	**10**	**2,099**
Total financial liabilities at 30.06.2022	**16,482**	**35**	**16,517**

At 31 December 2021	**Creditors and payables**	**Hedging derivatives**	**Total**
Bank borrowings	5,702	—	**5,702**
Bonds and other negotiable securities	8,014	—	**8,014**
Derivatives (Note 13)	—	70	**70**
Lease liabilities	1,325	—	**1,325**
Other financial liabilities	3	—	**3**
Non-current financial liabilities	**15,044**	**70**	**15,114**
Bank borrowings	884	—	**884**
Bonds and other negotiable securities	572	—	**572**
Derivatives (Note 13)	—	37	**37**
Lease liabilities	196	—	**196**
Other financial liabilities	9	—	**9**
Current financial liabilities	**1,661**	**37**	**1,698**
Total financial liabilities at 31.12.2021	**16,705**	**107**	**16,812**

As at 30 June 2022, the "Other current financial liabilities" item includes the temporary mismatches between revenues and costs in the gas system that accumulated in 2021 and in the six-month period itself ended at 30 June 2022, amounting to Euros 108 million. As at 31 December 2021, those mismatches amounted to Euros 23 million and were recognised under "Other financial assets" since they were being financed by Naturgy.

Financial liabilities recognised at fair value as at 30 June 2022 and 31 December 2021 are classified as follows:

	30.06.2022				**31.12.2021**			
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	—	35	—	**35**	—	107	—	**107**
Total	**—**	**35**	**—**	**35**	**—**	**107**	**—**	**107**

The carrying amounts and fair value of non-current borrowings are as follows:

	Carrying amount		**Fair value**	
	30.06.2022	**31.12.2021**	**30.06.2022**	**31.12.2021**
Issuing of debentures and other negotiable securities	7,383	8,014	7,126	8,572
Loans from financial institutions and other financial liabilities	5,653	5,705	5,598	5,739

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 30 June 2022 and 31 December 2021 for borrowings with similar credit and maturity characteristics. These valuations are based on the quoted price of similar financial instruments in an official market or on observable information in an official market (Level 2).

Issues of debt securities evolution in the six-month periods ended 30 June 2022 and in the financial year 2021 are as follows:

	01.01.2022	Issues	Buy-backs or redemptions	Adjustments, exch. rates & other	30.06.2022
Issued in a European Union Member State which required the filing of a prospectus	**7,939**	300	(754)	(36)	**7,449**
Issued in a European Union Member State which did not require the filing of a prospectus	**—**	—	—	—	**—**
Issued outside a European Union Member State	**647**	—	(4)	55	**698**
Total	**8,586**	**300**	**(758)**	**19**	**8,147**

	01.01.2021	Issues	Buy-backs or redemptions	Adjustments, exch. rates & other	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**

The total amount drawn under the Euro Medium Term Note (EMTN) programme stands at Euros 7.656 million (Euros 8,110 million as at 31 December 2021). The programme limit as at 30 June 2022 was Euros 12,000 million.

Period of six month ended at 30 June 2022

During 2022, no issues were made under the EMTN program.

Likewise, during 2022 a bond for a total amount of 454 million euros and an average coupon of 3.88% has come to maturity.

During 2022, issues have been made under the Euro Commercial Paper (ECP) program for a total amount of 300 million euros, with no outstanding issues as of June 30, 2022.

The group continues to work on strengthening its financial profile; In this line, the refinancing operations with credit institutions in Spain and in international businesses have been for 3,384 million euros and 239 million euros equivalent and that includes:

- Refinancing of the syndicated line of credit in Spain for 2,000 million euros, with the extension of the maturity for an additional year (maturity 2025).

Naturgy also has a debt maturity profile and a comfortable balance sheet position, as well as flexibility in capex and opex to navigate through the current economic scenario.

Note 13. Risk management

Risk management is described in detail in Note 18 to the Consolidated annual accounts for 2021. The main aspects of financial risk are updated as at 30 June 2022 below:

Interest rates

The objective of interest rate risk management is to maintain a balance between variable and fixed debt that allows the costs of financial debt to be reduced within the established risk parameters.

80% of Naturgy's debt as of June 30, 2022 is at a fixed rate, limiting exposure to changes in interest rates.

The variable interest rate is mainly subject to the fluctuations of the Euribor, the Libor and the referenced rates of Mexico, Brazil, Argentina and Chile.

Note 2.2 of the Consolidated Annual Accounts for the year ended December 31, 2021 details the most relevant aspects in relation to the transition due to the IBOR reform.

The sensitivity of profit and equity (Other components of equity) to changes in interest rates is as follows:

	Increase/decrease in interest rates (basis points)	Effect on profit before tax	Effect on equity before tax
30.06.2022	+50	(17)	62
	-50	17	(62)
31.12.2021	+50	(15)	78
	-50	15	(78)

Exchange rate

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.

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.

The impacts due to the evolution of the exchange rate on the translation of the main items of the Financial Statements as of June 30, 2022 have been:

Million euros	% variation vs 2021 *	Ordinary ebitda	Net sales	Net financial debt
USD	(9.9)%	40	159	147
MXN	(8.8)%	13	41	50
BRL	(14.3)%	20	115	37
ARS	15.7 %	(6)	(37)	5
CLP	4.1 %	(3)	(4)	(2)
Others		2	5	11
Total		**66**	**279**	**248**

* Cumulative average rates except for Argentina, where the closing exchange rate is used as a consequence of considering Argentina as a hyperinflationary economy.

Commodity prices

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
30.06.2022	**10%**	**—**	**(665)**
	-10%	**—**	**665**
31.12.2021	10%	2	(327)
	-10%	(2)	327

	Increase/decrease in electricity price	Effect on profit before tax	Effect on equity before tax
30.06.2022	**10%**	**—**	**(149)**
	-10%	**—**	**149**
31.12.2021	10%	(1)	(102)
	-10%	3	106

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.

- 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

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 estimated by Naturgy on the basis of available information about 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 from customers, since they cannot accumulate a significant amount of debt before their supply is suspended for non-payment, in accordance with the applicable regulations.

The main guarantees negotiated are bank guarantees, guarantees and deposits. At 30 June 2022, Naturgy had received guarantees totalling Euros 1,465 million to cover the risk of large industrial customers (Euros 576 million at 31 December 2021). In 2021, bank guarantees amounting to less than a million euros were enforced (Euros 2 million at 31 December 2021).

At 30 June 2022 and 31 December 2021 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 trade receivables for sales and services and related expected losses at 30 June 2022 and 31 December 2021 is set out below:

30.06.2022	**Total**	**Current**	**0-180 days**	**180-360 days**	**More than 360 days**
Expected loss ratio	14.9 %	0.9 %	11.2 %	67.5 %	98.5 %
Trade receivables for sales and provisions of services	6,123	4,529	756	117	721
Expected loss	915	41	85	79	710

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

The expected loss ratio is calculated as the quotient of the expected loss between customers for sales and provision of services.

The allocation of the provision in the first half of 2022 was 127 million euros (52 million in the 6-month period of 2021).

Liquidity risk

Available liquidity at 30 June 2022 and 31 December 2021 is analysed below:

Liquidity source	**Availability 2022**	**Availability 2021**
Undrawn credit facilities	5,533	5,459
Cash and cash equivalents	4,365	3,965
Total	**9,898**	**9,424**

There is also additional available capacity to issue debt in the capital markets for Euros 5,502 million

Naturgy's long-term credit ratings are as follows:

	2022	2021
Standard & Poor's	BBB	BBB
Fitch	BBB	BBB

There are financial debts with credit institutions amounting to Euros 4,180 million and bonds issued for Euros 209 million that are subject to compliance with certain financial ratios.

Most of the outstanding financial debt includes a clause relating 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 the members of the Board of Naturgy Energy Group, S.A. These clauses are subject to additional conditions, so that their activation depends on the simultaneity of some of the following events: the significant reduction of the credit rating or rating caused by the change of control, or the loss of investment grade by the agencies raters; the inability to meet the financial obligations of the contract; a material detriment to the creditor, or a material adverse change in creditworthiness. These clauses entail the reimbursement of the arranged debt, although they usually have a longer term than that granted in cases of early resolution.

Specifically, the bonds issued, in volume of Euros 7,656 million (Euros 8,110 million as of December 31, 2021), as is usual in the Euromarket, would be subject to early maturity provided that this change of control caused a fall greater than two steps or two "full notches" in at least two of the three ratings it had and all the ratings fell below "investment grade" and provided that the Rating Agency stated that the reduction of the credit rating is motivated by the change of control.

There are also loans for an amount of Euros 1,426 million that could be subject to early repayment in the event of a change of control (Euros 1,536 million at December 31, 2021). Most of this amount is linked to infrastructure financing with funds from the European Investment Bank that require, in addition to the event of the change of control, a reduction in the rating and have special debt repayment terms that are longer than those of the resolution assumptions. anticipated.

Derivative financial instruments

The breakdown of derivative financial instruments by category and maturity is as follows:

	30.06.2022		31.12.2021	
	Assets	Liabilities	Assets	Liabilities
Hedging derivative financial instruments	**406**	**2,304**	**142**	**800**
Cash flow hedge				
- Interest rate	131	—	13	47
- Interest rate and foreign exchange rate	—	25	—	23
- Foreign exchange rate	2	—	3	—
- Price of commodities	273	2,279	126	730
Fair value hedge				
- Interest rate and foreign exchange rate	—	—	—	—
Other financial instruments	**38**	**—**	**37**	**—**
- Price of commodities	38	—	37	—
Derivative financial instruments – non current	**444**	**2,304**	**179**	**800**
Hedging derivative financial instruments	**684**	**4,687**	**392**	**2,696**
Cash flow hedge				
- Interest rate	20	8	—	37
- Interest rate and foreign exchange rate	—	—	—	—
- Exchange rate	22	—	4	—
- Price of commodities	637	4,673	388	2,659
Fair value hedge				
- Interest rate and foreign exchange rate	—	—	—	—
- Exchange rate	5	6	—	—
Other financial instruments	**86**	**103**	**62**	**45**
- Price of commodities	86	103	62	45
Derivative financial instruments current	**770**	**4,790**	**454**	**2,741**
Total	**1,214**	**7,094**	**633**	**3,541**

The fair value of derivatives is determined based on the quoted price in an active market (Level 1) and observable variables in an active market (Level 2).

Derivatives not designated for hedge accounting are included under "Other financial instruments".

The impact on the Consolidated Income Statement of derivative financial instruments is as follows:

	Six months June 2022		**Six months June 2021**	
	Operating results	**Financial results**	**Operating results**	**Financial results**
Cash flow hedge	(1,880)	(18)	(73)	(15)
Fair value hedge	(11)	(1)	(1)	—
Other financial instruments	(19)	1	(3)	29
Total	**(1,910)**	**(18)**	**(971)**	**(1)**

The detail of the derivative financial instruments as of June 30, 2022 and December 31, 2021, their fair value and the breakdown by maturity of the notional values is as follows:

								30.06.2022
	Fair Value value							Notional value
(million euros)		2022	2023	2024	2025	2026	Subsequent years	Total
INTEREST RATE HEDGES:								
Cash flow hedges:								
Financial swaps (EUR)	34	62	196	77	505	55	568	1,463
Financial swaps (USD)	62	2	5	5	7	696	195	910
Financial swaps (MXN)	6	—	—	—	—	85	—	85
Financial swaps (AUD)	41	2	4	4	5	3	204	222
Options (EUR)	—	—	40	—	—	—	—	40
EXCHANGE RATE HEDGES:								
Cash flow hedges:								
Foreign exchange insurance (USD)	10	259	—	—	—	—	—	259
Foreign exchange insurance (EUR)	2	18	—	—	—	—	—	18
Foreign exchange insurance (AUD)	12	—	156	59	—	—	—	215
Fair value hedges:								
Foreign exchange insurance (BRL)	(2)	33	—	—	—	—	—	33
Foreign exchange insurance (EUR) (1)	5	56	—	—	—	—	—	56
Foreign exchange insurance (USD)	(5)	213	—	—	—	—	—	213
INTEREST RATE AND FOREIGN EXCHANGE RATE HEDGES:								
Cash flow hedges:								
Financial swaps (NOK)	(25)	—	101	—	—	—	—	101
COMMODITIES HEDGES:								
Cash flow hedges:								
Commodities price derivatives (EUR)	151	235	66	26	8	—	—	335
Commodities price derivatives (USD)	(5,762)	401	292	238	414	129	88	1,562
Commodities price derivatives (AUD)	(431)	27	70	94	117	118	1,305	1,731
OTHER:								
Commodities price derivatives (EUR)	(22)	51	1	—	—	—	—	52
Commodities price derivatives (USD)	44	7	—	38	—	—	—	45
Total	**(5,880)**	**1,366**	**931**	**541**	**1,056**	**1,086**	**2,360**	**7,340**

(1) Hired by companies with a functional currency other than the euro.

								31.12.2021
	Fair Value value	Notional value						
(million euros)		2022	2023	2024	2025	2026	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
Foreign exchange insurance (BRL)	—	—	—	—	—	—	—	—
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

(1) Hired by companies with a functional currency other than the euro

Note 14. Net sales

The breakdown of this heading in the consolidated income statement for the six-month periods ended 30 June 2022 and 2021 is as follows, by category with the relevant operating segment reporting structure:

2022	Networks Spain	Networks Latam	Procurement and Markets	Energy management and Networks	Renew. Spain & USA	Renew. Latam	Renew. Australia	Renewables	Supply	Rest	Total
Sales of gas and access to distribution networks	523	2,000	2,773	**5,296**	—	—	—	**—**	**2,407**	**—**	**7,703**
Sales of electricity and access to distribution networks	387	495	2,079	**2,961**	29	48	11	**88**	**2,301**	**—**	**5,350**
LNG sales	—	—	3,130	**3,130**	—	—	—	**—**	**—**	**—**	**3,130**
Registrations and facility checks	15	5	—	**20**	—	—	—	**—**	**18**	**—**	**38**
Assignment power generation capacity			166	**166**	—	—	—	**—**	**—**	**—**	**166**
Rentals meters and facilities	22	2	—	**24**	—	—	—	**—**	**152**	**—**	**176**
Other income	8	24	3	**35**	52	13	—	**65**	**73**	**1**	**174**
Total	**955**	**2,526**	**8,151**	**11,632**	**81**	**61**	**11**	**153**	**4,951**	**1**	**16,737**

2021	Networks Spain	Networks Latam	Procurement and Markets	Energy management and Networks	Renew. Spain & USA	Renew. Latam	Renew. Australia	Renewables	Supply	Rest	Total
Sales of gas and access to distribution networks	541	1,308	1,499	**3,348**	—	—	—	**—**	**1,289**	**—**	**4,637**
Sales of electricity and access to distribution networks	384	387	998	**1,769**	23	53	4	**80**	**1,158**	**—**	**3,007**
LNG sales	—	—	993	**993**	—	—	—	**—**	**—**	**—**	**993**
Registrations and facility checks	14	2	—	**16**	—	—	—	**—**	**20**	**—**	**36**
Assignment power generation capacity	—	—	149	**149**	—	—	—	**—**	**—**	**—**	**149**
Rentals meters and facilities	21	2	—	**23**	—	—	—	**—**	**146**	**—**	**169**
Other income	7	18	7	**32**	29	14	—	**43**	**62**	**2**	**139**
Total	**967**	**1,717**	**3,646**	**6,330**	**52**	**67**	**4**	**123**	**2,675**	**2**	**9,130**

Reporting by geographic area

Naturgy's Net sales by country of destination is analysed below:

	30.06.2022	30.06.2021
Spain	**9,335**	**4,422**
Rest of Europe	**1,828**	**1,304**
France	640	775
Portugal	286	180
United Kingdom	7	30
Italy	174	52
Croatia	145	—
Poland	183	15
Greece	127	47
Turkey	94	58
Ireland	—	81
Other Europe	172	66
Latin American	**3,705**	**2,717**
Brazil	1,002	608
Mexico	974	888
Argentina	602	213
Panama	435	351
Chile	389	387
Puerto Rico	239	233
Dominican Republic	55	28
Other Latin America	9	9
Other	**1,869**	**687**
USA	648	209
South Korea	340	127
China	263	128
Thailand	219	—
Japan	160	94
India	111	63
Australia	11	4
Taiwan	0	18
Other countries	117	44
Total	**16,737**	**9,130**

Note 15. Procurements

The breakdown of this heading in the income statements for the six-month periods in 2022 and 2021 is as follows:

	2022	2021
Energy purchases	13,016	5,293
Access to transmission networks	751	661
Other purchases and changes in inventories	74	377
Total	**13,841**	**6,331**

In the six-month period ended 30 June 2022, an amount of 108 million euros is included corresponding to the claim for invoices pending payment in relation to the provision for the litigation of the group company in Chile Metrogas, S.A. described in Note 26.

Note 16. Personnel expenses

The breakdown of this heading in the income statements for the six-month periods in 2022 and 2021 is as follows:

	2022	2021
Wages and salaries	215	231
Termination benefits	15	300
Social security costs	41	45
Defined contribution plans	10	14
Share-based payments (Note 10)	3	2
Own work capitalised	(33)	(39)
Other	16	17
Total	**267**	**570**

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 for the periods of six months ended at 30 June 2022 and 2021, is as follows:

	2022	2021
Men	4,950	5,761
Women	2,358	2,791
Total	**7,308**	**8,552**

The average number of employees of Naturgy includes the average number of employees in joint ventures which, pro-rated by the company's percentage stake, was 155 (174 as at 30 June 2021).

The calculation of the average number of employees did not consider employees of companies which, as a result of the application of IFRS 5, are classified as discontinued operations (Note 9) or of companies carried by the equity method, as detailed below:

	2022	2021
Discontinued operations	23	1,498
Equity-consolidated companies	56	115

Note 17. Other operating expenses

The breakdown of this heading in the income statements for the six-month periods in 2022 and 2021 is as follows:

	2022	2021
Taxes	183	191
Withdrawal costs for onerous contracts	20	—
Operation and maintenance	131	123
Advertising and other commercial services	49	46
Professional services and insurance	55	47
Concession construction or improvements services (IFRIC 12)	27	19
Supplies	28	24
Services to customers	29	22
Lean Services (1)	71	86
Other	123	84
Total	**716**	**642**

(1) Includes transformation costs amounting to 13 million euros as of June 30, 2022 and 32 million euros as of June 30, 2021.

Note 18. Depreciation and non-financial asset impairment losses

The breakdown of this heading in the income statements for the six-month periods in 2022 and 2021 is as follows:

	2022	2021
Amortisation	687	707
Asset impairment	17	22
Total	**704**	**729**

Note 19. Other results

In the six-month period ended 30 June 30 2022 this caption of the income statement mainly includes:

- the result corresponding to the agreement reached with Acciona regarding the additional 50% stake of the companies Desarrollo de Energías Renovables is mainly included under this heading in the Consolidated Income Statement. de Navarra, S.A. and P.E. Cinseiro, S.L. (Notes 2.6. and 22) for an amount of 9 million euros.
- an amount of 128 million euros of the provision associated with the litigation of the group company in Chile Metrogas, S.A. described in Note 26 for the part corresponding to the claim for early termination of contracts (loss of earnings).

Note 20. Net financial income

The breakdown of this heading in the income statements for the six-month periods in 2022 and 2021 is as follows:

	2022	2021
Dividends	—	—
Interest income	17	6
Other	40	46
Total financial income	**57**	**52**
Cost of borrowings (1)	(265)	(246)
Interest expenses pension plans	(5)	(3)
Other financial expense (2)	(121)	(37)
Total financial expense	**(391)**	**(286)**
Variations in the fair value of financial instruments (3)	7	10
Net exchange differences	(9)	(12)
Net financial income/(expense)	**(336)**	**(236)**

(1) Includes cost of financial lease liabilities (42 million euros at 30 June 2022 and 45 million euros at 30 June 2021).
(2) Includes the financial expenses corresponding to the litigation of the group company in Chile Metrogas, S.A. described in Note 26.
(3) Includes fair value changes in equity instruments and value changes in derivative financial instruments.

Note 21. Cash generated by operating activities and other cash-flow breakdowns

	2022	2021
Profit before tax	**831**	**800**
Adjustments to profit/(loss):	**1,143**	**779**
Depreciation, amortisation and impairment losses (Note 18)	704	729
Other adjustments to net income:	439	50
Net financial income (Note 20)	336	236
Results of equity-accounted companies	(65)	(33)
Transfer of deferred revenues	(25)	(27)
Net variation in Provisions	249	(12)
Capital gains and others	(56)	(114)
Changes in working capital (excluding the effects of scope changes and currency translation differences):	**868**	**97**
Inventories	(198)	(4)
Trade and other receivables	(425)	(240)
Trade and other payables	1,491	341
Other cash flows from operating activities:	**(413)**	**(389)**
Interest paid	(296)	(278)
Interest received	21	12
Dividends received	56	81
Income tax paid	(194)	(204)
CASH FLOWS GENERATED FROM OPERATING ACTIVITIES	**2,429**	**1,287**

Payments for Group companies acquisitions, net of cash and equivalents in the six-month periods ended 30 June 2022 and 2021 are as follows:

	2022	2021
US acquisition	—	(49)
Unión Fenosa Gas acquisition	—	392
San Servan acquisition	(5)	—
Global agreement with Acciona (Note 22)	(9)	—
Montalto acquisition	(1)	—
Total	**(15)**	**343**

Receipts for divestments in Group companies, associates and business units in the six-month periods ended 30 June 2022 and 2021 are as follows:

	2022	**2021**
Lean companies sale	—	1
Cogeneración del Noroeste sale	—	7
Tecnatom sale	6	—
Ute Tramfang sale	1	—
Total	**7**	**8**

Note 22. Business combinations

Period of six months ended at 30 June 2022

Renewable assets acquisition

In May 2022, Naturgy, through Naturgy Renovables, S.L.U., reached a comprehensive agreement with the Acciona group to separate the wind farms that they managed jointly through Desarrollo de Energías Renovables de Navarra, S.A., P.E. Cinseiro, S.L. and Explotaciones Eólicas Sierra de Utrera, S.L.

Under the agreement, Naturgy Renovables, S.L.U. acquired from the Acciona group an additional 50% of the companies Desarrollo de Energías Renovables de Navarra, S.A. and P.E. Cinseiro, S.L. (as a result of which it attained 100% controlling interest and consolidated them as subsidiaries). It also acquired 25% of Explotaciones Eólicas Sierra de Utrera, increasing its controlling stake from 75% to 100%, without a change of control.

Under that same transaction, certain wind farms owned by Desarrollo de Energías Renovables de Navarra, S.A. were sold to the Acciona group.

The acquisition cost of the business combination has risen 58 million euros. Goodwill was calculated as the difference between the acquisition cost and the share in the fair value of the identifiable assets and liabilities existing at the date of the transaction and amounted to 7 million euros.

Acquisition cost	58
Fair value of net assets	51
Goodwill (Note 5)	**7**

	Fair value	Carrying amount
Property, plant and equipment (Note 5)	28	21
Right-of-use assets	2	2
Deferred tax assets	1	1
Commercial debts and others bills to receive the pay	34	34
Cash and other equivalent liquid assets	20	20
Total Assets	**85**	**78**
Provisions	5	5
Non-current financial liabilities (Note 12)	2	2
Deferred tax liability	3	1
Commercial debitors and other accounts payable	23	23
Other current liabilities	1	1
Total Liabilities	**34**	**32**
Fair value of net assets acquired	**51**	**46**

Acquisition cost	58
Purchase price 50% additional	(29)
Cash and other equivalent liquid assets in the acquired subsidiary	(20)
Net acquisition cost	**9**

Purchase price 50% additional	29
Cash and other equivalent liquid assets in the acquired subsidiary	20
Net acquisition cost	**9**

The purchase price allocation process identified assets susceptible to revaluation on the balance sheets of Desarrollo de Energías Renovables de Navarra, S.A. and P.E. Cinseiro, S.L. at the acquisition date, specifically property, plant and equipment with an additional value of Euros 7 million, which represents the generation of value in the portfolio based on the installed capacity of the wind farms remaining in these companies (87 MW). Deferred tax liabilities were also recognised in connection with the revaluation, with the goodwill not expected to be deductible as a contra-item.

Those net assets were valued basically in accordance with the following methodology:

- The projects were valued following the revenue approach, principally with discounted cash flows, based on Level 3 input data, as these data were not observable in the market.

- The valuation was performed as a function of the investment's hurdle rate.

The amount of additional consolidated net income contributed in the period since the acquisition date is not material.

If the acquisition had taken place on 1 January 2022, the impact on the Parent Company's consolidated net revenues, EBITDA and consolidated income attributable to shareholders of the Parent Company for the period would have increased by Euros 55 million, Euros 41 million and Euros 19 million, respectively.

Note 23. Tax situation

The corporate income tax expense is as follows:

	For the period ended 30 June	
	2022	2021
Current-year tax	182	233
Deferred tax	12	(29)
Corporate income tax	**194**	**204**

The effective tax rate as at 30 June 2022, based on the best estimate of the effective tax rate for the full year, was 23%, compared with 25% in the same period of the previous year, mainly as a result of earnings trends in countries with different tax rates.

Note 24. Information on transactions with related parties

Related parties are as follows:

- Significant shareholders of Naturgy, i.e. those directly or indirectly owning an interest of 5% or more, and those who, though not significant, have exercised the power to nominate 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 immediate families. 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 also the Internal Audit Manager. Transactions with directors and executives are disclosed in Note 25.

- Transactions between Group companies form part of ordinary activities and are effected on an arm's-length basis. Group company balances include the amount that reflects Naturgy's share of the balances and transactions with companies carried by the equity method.

The overall amounts of transactions with related parties are as follows, in thousand euro:

2022	Significant shareholders					
Expense and Income (thousand euro)	"la Caixa" group	CVC group	GIP group	IFM	Directors	Group companies
Financial expenses	—	—	—	—	—	
Leases	—	—	—	—	—	2
Receipt of services	—	—	—	—	—	620
Purchase of goods (1)	—	—	—	—	—	42,824
Other expenses	—	—	—	—	—	—
Total expenses	**—**	**—**	**—**	**—**	**—**	**43,446**
Financial income	—	—	—	—	—	576
Leases	—	—	—	—	—	—
Provision of services	—	—	—	—	—	56
Sale of goods (1)	1,830	1,226	—	—	120	40,003
Other income	—	—	—	—	—	769
Total income	**1,830**	**1,226**	**—**	**—**	**120**	**41,404**

	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	—	—	—	—	—	—
Financing agreements: loans and capital contributions (lender)	—	—	—	—	—	—
Dividends and other profits distributed	129,480	100,429	100,069	62,805	—	—

(1) Basically includes energy purchases and sales. In the case of group companies, basically corresponds to transactions with Qalhat LNG S.A.O.C., Sociedade Galega do Medio Ambiente, S.A. y CH4 Energía S.A. de C.V.

2021	Significant shareholders				
Expense and Income (thousand euro)	"la Caixa" group (*)	CVC group	GIP group	Directors	Group companies
Financial expenses	—	—	—	—	—
Leases	—	—	—	—	2
Receipt of services	1	—	—	—	3,026
Purchase of goods (1)	—	—	1,690	—	69,004
Other expenses	—	—	—	—	—
Total expenses	**1**	**—**	**1,690**	**—**	**72,032**
Financial income	—	—	—	—	15
Leases	—	—	—	—	—
Provision of services	—	—	—	—	3,325
Sale of goods (1)	1,226	599	—	126	34,279
Other income	—	—	—	—	617
Total income	**1,226**	**599**	**—**	**126**	**38,236**

	Significant shareholders				
Other transactions (thousand euro)	"la Caixa" group	CVC group	GIP group	Directors	Group companies
Acquisition of property, plant and equipment, intangible assets or other assets	—	—	—	—	—
Financing agreements, loans and capital contributions(lender)	—	—	—	—	240
Dividends and other profits distributed	151,425	126,541	126,087	—	—

(1) Basically includes energy purchases and sales. In the case of group companies, basically corresponds to transactions with Qalhat LNG S.A.O.C., Sociedade Galega do Medio Ambiente, S.A. y CH4 Energía S.A. de C.V.

Note 25. Information on members of the Board of Directors and the Management Committee

Remuneration for the members of the Board of Directors and the Management Committee

The amount earned by the members of the Board of Directors of Naturgy Energy Group, S.A., for their membership of the Board of Directors and the various Commissions of the same, amounted to 1,893 thousand euros at June 30, 2022 (1,977 thousand euros at 30 June 2021).

As of June 30, 2022, the Board of Directors is still made up of 12 members (12 members as of June 30, 2021), while the Audit and Control Committee is made up of 5 members (7 members as of June 30, 2021), the Appointments, Remuneration and Corporate Governance Committee by 5 members (7 members as of June 30, 2021) and the Sustainability Committee by 4 members (5 members as of June 30, 2021).

The members of the Board of Directors are covered by the same civil liability policy that insures all directors and management personnel of Naturgy. As of June 30, 2022, the amount of the premium paid by Naturgy Energy Group, S.A. has amounted to 373 thousand euros (244 thousand euros at June 30, 2021).

For the exclusive purposes of the information contained in this section, the Executive Chairman is considered the Management Committee, in relation to his executive duties, the directors reporting directly to the Executive Chairman and the Director of Internal Audit.

As of June 30, 2022, 9 people make up this group, without considering the Executive President or the Director of Internal Audit (9 people as of June 30, 2021). During the 6-month period ended June 30, 2022, there have been no changes in the Management Committee.

The amounts accrued by the Management Committee for fixed remuneration, variable remuneration and other concepts amounted to 5,145 thousand euros as of June 30, 2022 (4,482 thousand euros as of June 30, 2021).

Contributions to pension plans and group insurance, together with premiums paid for life insurance, amounted to 719 thousand euros as of June 30, 2022 (688 thousand euros as of June 30, 2021).

Additionally, as a multi-year variable remuneration, a compensation has been generated as a result of the acceptance of the temporary extension of the LTI incentive plan, described in Note 10. This amount has been made available to the Management Committee at the rate of 50% (2,897 thousand euros) with the acceptance of said extension by the manager in November 2021 and the remaining 50% (2,897 thousand euros) at the time of approval by the General Shareholders' Meeting held on 15 March 2022.

Transactions with members of the Board of Directors and the Management Committee

The members of the Board of Directors and the Management Committee have not carried out related-party transactions outside ordinary traffic or that have not been carried out under normal market conditions with Naturgy Energy Group, S.A. or with group companies.

Note 26. Litigation and arbitration

In relation to the information in the section on lawsuits and arbitration in Note 36 “Litigation, arbitration, guarantees and commitments” in the Consolidated annual accounts for the year ended 31 December 2021, the following changes took place in the litigation and arbitration situation during the first half of 2022:

Claim against Metrogas, S.A.

Transportadora de Gas del Norte S.A. (TGN) filed in 2011 and 2015 several lawsuits against Metrogas, S.A. (Metrogas), a Chilean company in which Naturgy has a 55.6% stake, before different National Civil and Commercial Courts of First Instance in Argentina for alleged contractual breaches in the transportation of Argentine gas to Chile that occurred during the Argentine gas crisis.

In April 2017, Metrogas received a judicial notice ordering the accumulation of the proceedings, so that the total amount claimed by TGN amounted to 227 million USD (218 million euros) plus interest.

On 4 August 2022, Metrogas received a first-instance conviction sentence condemning to pay TGN for unpaid invoices and for early termination of contracts (loss of earnings), for an approximate amount of 250 million USD (236 million euros), plus costs and interest. This ruling is not final and can be appealed, so Metrogas will exercise all actions it is entitled to in order to defend its interests, appealing the judicial ruling.

As of 30 June 2022, the risk associated with this procedure is provisioned under the heading "Non-current provisions" for an amount of 294 million euros (Note 11).

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.In 2021, the Supreme Court confirmed its initial decision.

In February 2022, the Supreme Court issued a decision declaring inapplicable the social bonus financing regime contained in RD 897/2017, of October 6, which developed RDL 7/2016 and recognizes the right to be compensated for the amounts paid in concept of financing the social bonus since 2017. The execution of this sentence is still pending.

Renewable power generation

The permits for certain renewable generation facilities that are under construction or completed have been appealed before the courts and their viability might be affected in the event that the appeals are upheld. In particular, appeals have been filed against the environmental authorisation of the Puerto del Rosario wind farm in Fuerteventura, Balcón de Balos y Vientos de Roque en Las Palmas y Tabernas 1 y 2 en Almería, and against the award and administrative and environmental authorisation of the wind farms of Eólica Tramuntana S.L. in Catalonia. The risk is considered to be unlikely to materialise, although the potential impacts have been estimated at Euros 39 million, Euros 17 million, Euros 58 million, and Euros 57 million, respectively.

Additionally, claims have been filed against the administrative authorization for the Hawkesdale wind farm in Australia and the Bii Hioxo wind farm in Mexico, which, as in the previous cases, are not considered unlikely to succeed. However, their potential impacts are estimated at AUD 150 million (Euros 99 million) and USD 230 million (Euros 221 million), respectively.

International generation

The combined cycle plants in Mexico have filed appeals against certain legislative amendments, which are suspended, and the risk is considered to be unlikely to materialise, although the potential impacts have been estimated at USD 19 million per year (Euros 18 million).

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.

On 31 January 2022, the General Shareholders' Meeting of Naturgy Peru approved the Liquidation Balance Sheet and the extinction of the company, which was registered on 18 February 2022.

Note 27. Events after the balance sheet date

On 28 July 2022, the Socialistas and Confederal parliamentary groups of Unidas Podemos - En Comú Podem - Galicia en Común presented a draft law for the establishment of temporary energy charges and credit entities and financial credit establishments.

In the case of energy companies, a temporary tax is proposed for the years 2023 and 2024 that would apply to energy operators considered main for the purposes of the CNMC, a condition that is fulfilled if the net amount of the turnover is higher to 1,000 million euros and additionally, its activities in the energy sector exceed 50% of its net amount of turnover for the years 2017, 2018 and 2019. The payment obligation would arise on the first day of 2023 with the nature non-tax public equity benefit and would be the result of applying 1.2% to the net amount of the turnover of the fiscal consolidated Group in which the main energy operator is integrated.

This draft law has not been approved at the date of preparation of the Consolidated Financial Statements of Naturgy at 30 June 2022. If it were finally approved, preserving its current wording, this lien would have a significant impact on Naturgy's equity.

On 4 August 2022, as described in Note 26, Metrogas received a first-instance conviction ordering to pay to Transportadora de Gas del Norte S.A. unpaid invoices and for early termination of contracts (loss of earnings), plus costs and interests. This ruling is not final and can be appealed, so Metrogas will exercise all the actions that correspond to it in defense of its interests, appealing the court ruling.

On August 11, 2022, the Board of Directors has agreed to distribute an interim dividend charged to results for the year 2022 as described in Note 10. of these Condensed Interim Consolidated Financial Statements.

Beside that, there are no significant post-closing events.

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Appendix I. Variations in consolidation scope

The main variations in the scope of consolidation produced in the six-month period ended June 30, 2022 have been as follows:

Company name	Operation category	Effective date of operation	Voting rights acquired / eliminated (%)	Voting rights after the operation (%)	Consolidation method after the operation
Hamel Renewables Holdco LLC	Settlement	January 19	100.0	—	—
Naturgy Perú, S.A	Settlement	February 7	100.0	—	—
Infraestructuras San Servan SET 400, S.L.	Acquisition	February 8	33.3	33.3	Equity
Montalto di Castro Solar S.R.L.	Acquisition	March 8	100.0	100.0	Full
Instalaciones San Serván II 400, S.L	Acquisition	April 7	28.3	28.3	Equity
HELOERI, S.L.U	Acquisition	April 29	50.0	50.0	Equity
Naturgy InnovaHub, S.L.	Constitution	May 12	100.0	100.0	Full
Explotaciones Eólicas Sierra de Utrera, S.L.	Acquisition	May 31	25.0	100.0	Full
Desarrollo de Energías Renovables de Navarra, S.A.	Acquisition	May 31	50.0	100.0	Full
P.E. Cinseiro, S.L.	Acquisition	May 31	50.0	100.0	Full
Gasoducto Gasandes, S.A. (Argentina)	Alienation	June 15	3.5	24.2	Equity
Gasoducto Gasandes, S.A. (Chile)	Alienation	June 15	3.5	24.2	Equity
Rice to Energy, S.L.	Constitution	June 30	33.3	33.3	Equity

The main changes in the scope of consolidation that occurred in 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	Constitution	January 14	100.0	100.0	Full
Naturgy Solar USA LLC	Constitution	January 14	100.0	100.0	Full
Hamel Renewables Holdco LLC	Acquisition	January 14	100.0	100.0	Full
Hamel Renewables LLC	Acquisition	January 14	100.0	100.0	Full
Candela Renewables Hamel DevCo LLC.	Acquisition	January 14	100.0	100.0	Full
7V Solar Ranch, LLC.	Acquisition	January 14	100.0	100.0	Full
Mark Center Solar Project, LLC.	Acquisition	January 14	100.0	100.0	Full
Front Range Midway Solar Project, LLC.	Acquisition	January 14	100.0	100.0	Full
Grimes County Solar Project, LLC.	Acquisition	January 14	100.0	100.0	Full
Hayden Run Solar Project, LLC.	Acquisition	January 14	100.0	100.0	Full
Saguache County Solar Project, LLC.	Acquisition	January 14	100.0	100.0	Full
Scioto Farms Solar Project, LLC.	Acquisition	January 14	100.0	100.0	Full
Defiance County Solar Project, LLC	Acquisition	January 14	100.0	100.0	Full
Lonesome Camp Solar Project, LLC.	Acquisition	January 14	100.0	100.0	Full
Canoe Creek Solar Project, LLC.	Acquisition	January 14	100.0	100.0	Full
Auglaize County Solar Project, LLC.	Acquisition	January 14	100.0	100.0	Full
Yeager Solar, LLC	Acquisition	January 14	100.0	100.0	Full
Naturgy Ciclos Combinados, S.L.U.	Constitution	January 26	100.0	100.0	Full
Naturgy IT, SL	Alienation	February 1	60.0	15.0	—
Lean Corporate Services, S.L..	Alienation	February 1	60.0	15.0	—
Lean Customer Services, S.L.	Alienation	February 1	60.0	15.0	—
Lean Grids Services, S.L.	Alienation	February 1	60.0	15.0	—
Lean Grids Services Chile SpA	Alienation	February 1	60.0	15.0	—
CGE Comercializadora SpA	Constitution	February 11	96.0	96.0	Full
Unión Fenosa Gas, S.A.	Acquisition	March 10	50.0	100.0	Full
Nueva Electricidad del Gas, S.A.U, En Liquidación	Acquisition	March 10	50.0	100.0	Full
Unión Fenosa Gas Exploración y Producción, S.A.U.	Acquisition	March 10	50.0	100.0	Full
Unión Fenosa Gas Infraestructures B.V.	Acquisition	March 10	50.0	100.0	Full
Qalhat LNG S.A.O.C.	Acquisition	March 10	3.7	7.4	Equity
Unión Fenosa Gas Comercializadora, S.A.	Alienation	March 10	50.0	—	—
Segas Services, S.A.E.	Alienation	March 10	40.7	—	—
Spanish Egyptian Gas Company S.A.E.	Alienation	March 10	40.0	—	—
Colectora la Serrata, S.L.	Acquisition	March 15	35.7	35.7	Equity
Naturgy Generación Termica, S.L.	Constitution	April 7	100.0	100.0	Full
Naturgy Solar Operation USA LLC	Constitution	May 17	100.0	100.0	Full
Mobiligaz, SAS	Constitution	June 1	100.0	100.0	Full
Cogeneración del Noroeste, S.L	Alienation	June 3	40.0	40.0	—
Gas Natural Fenosa Engineering, S.A.S. (colombia)	Settlement	June 17	100.0	100.0	—

Stonefield Solar, LLC	Constitution	June 30	100.0	100.0	Full
Rough Hat Solar, LLC	Constitution	June 30	100.0	100.0	Full
Rough Hat 2 Solar, LLC	Constitution	June 30	100.0	100.0	Full
Dugas Solar, LLC	Constitution	June 30	100.0	100.0	Full
Summer Shade Solar, LLC	Constitution	June 30	100.0	100.0	Full
Ft. Meade Solar, LLC	Constitution	June 30	100.0	100.0	Full
Knickerbocker Solar Project, LLC	Constitution	June 30	100.0	100.0	Full
Marshville Solar, LLC	Constitution	June 30	100.0	100.0	Full
Stone Mill Solar, LLC	Constitution	June 30	100.0	100.0	Full
Half Moon Solar Project, LLC	Constitution	June 30	100.0	100.0	Full
Vulcan Solar Project, LLC	Constitution	June 30	100.0	100.0	Full
Bar C Solar, LLC	Constitution	June 30	100.0	100.0	Full
Mobiligaz, SAS	Alienation	July 13	100.0	—	—
Compañía General de Electricidad, S.A.	Alienation	July 28	96.0	—	—
CGE Servicios, S.A.	Alienation	July 28	100.0	—	—
CGE Magallanes S.A.	Alienation	July 28	95.9	—	—
Empresa Eléctrica de Magallanes S.A.	Alienation	July 28	53.0	—	—
Energy Sur Ingeniería, S.A.	Alienation	July 28	52.8	—	—
Transformadores Tusan S.A.	Alienation	July 28	96.0	—	—
TV Red S.A.	Alienation	July 28	47.7	—	—
CGE Comercializadora SpA	Alienation	July 28	96.0	—	—
ROBLA HUB, S.L.	Constitution	July 28	50.8	50.8	Equity
Paling Yards Development Finco Pty Ltd (PYDF)	Constitution	September 21	100.0	100.0	Full
Paling Yards Development Pty Ltd	Constitution	September 21	100.0	100.0	Full
Naturgy Rinnovabili Italia, SRL	Constitution	July 27	100.0	100.0	Full
Naturgy Renouvelables France SAS	Constitution	July 22	100.0	100.0	Full
UFG Infrastructures, BV.	Settlement	October 28	100.0	100.0	Full
Naturgy Clientes, S.A.	Constitution	October 28	100.0	100.0	Full
Naturgy LGN GOM	Constitution	December 10	100.0	100.0	Full
El Almendro, SL	Acquisition	December 23	100.0	100.0	Full
Naturgy LTD	Alienation	December 20	100.0	—	—
Sociedad Gestora de Parques de Andalucía, S.A	Settlement	December 29	21.0	—	—

Appendix II. Regulatory framework

In relation to the regulatory framework described in Appendix IV of the Consolidated Annual Accounts for the year ended December 31, 2021, the following aspects corresponding to the first half of 2022 should be highlighted:

In the European regulatory framework:

In May 2022, in response to the war in Ukraine, the European Commission published a Notification known as the "RePowerEU Plan" with measures to mitigate the impact of energy prices and eliminate energy dependence on Russia, and which revises many of the legislative initiatives contained in the Fit for 55 Package.

The plan contains a series of measures grouped into three main areas: i) energy saving, ii) diversification of natural gas suppliers, and iii) accelerated deployment of renewable energies to replace fossil fuels in households, industry and electricity production.

Likewise, on June 29, 2022, EU Regulation 2022/1032 was adopted in relation to gas storage, which establishes new filling obligations for underground gas storage of 80% for the next winter, and 90% for the following years and until December 2025, being able to compute the stocks of LNG or alternative fuels for the fulfillment of these objectives. In the case of Spain, these obligations are already met with the new storage requirements included in Royal Decree-Law 6/2022 and the Winter Plan.

At National level:

Natural gas industry

In view of the exceptional rise in international natural gas prices, Royal Decree-Law 17/2021, of September 14, introduced urgent measures to mitigate the impact of the rise in natural gas prices in the retail gas and electricity markets, an exceptional limitation on the increase in the cost of the raw material to be transferred to the TUR during the last quarter of 2021 and the first quarter of 2022, a limitation that was extended to the second and third quarters of 2022 with Royal Decree Law 6/2022, and the revisions of the fourth quarter of 2022 and the first quarter of 2023, with Royal Decree Law 11/2022. The difference between the cost of the raw material calculated in accordance with the current methodology and that resulting from the application of the aforementioned limit, will be recovered in the following revisions of the last resort rate from January 1, 2022 according to the established conditions. in the regulations.

Regarding the obligations of minimum security stocks in underground storage, given the exceptional situation due to the war in Ukraine, Royal Decree-Law 6/2022 of March 29, which adopts urgent measures within the framework of the National Plan In response to the economic and social consequences of the war in Ukraine, it increased the obligations of minimum security stocks in underground storage.

The National Markets and Competition Commission (CNMC) has approved the following application provisions for the gas year 2023:

- Resolution of May 19, 2022, of the CNMC, which establishes the remuneration for the year of gas 2023 of the companies that carry out the regulated activities of liquefied natural gas plants, transport and distribution of natural gas.

- Resolution of May 19, 2022, of the CNMC, which establishes the tolls for access to transport networks, local networks and regasification for the gas year 2023.

For its part, the Ministry for the Ecological Transition and the Demographic Challenge approved, for the gas year 2022, Order TED/1023/2021, of September 27, which establishes the charges for the gas system and the remuneration and fees of basic underground storage for gas year 2022, with entry into force on October 1, 2021.

In May 2022, Royal Decree 376/2022, of May 17, was approved, which, among others, creates the system of guarantees of origin for renewable gases, such as renewable hydrogen, biogas or biomethane, which will allow marketers and consumers differentiate them from gas of fossil origin, with a system similar to that applied to renewable electricity. The standard also incorporates into the internal legal system the sustainability and greenhouse gas emission reduction criteria of the community regulations for solid biomass and biogas, biofuels and bioliquids for transport, electrical uses, heating and cooling, as well as such as the penetration targets for biofuels starting in 2023, which should reach 12% of consumption in 2026.

Regarding measures aimed at reducing energy vulnerability, in 2021 and again in 2022, given the exceptional increase in natural gas prices, the amount of aid and the budget allocation were increased, as well as some of the measures adopted were extended during the COVID-19 pandemic, such as the prohibition of supply cuts to vulnerable consumers until December 31, 2022 (Royal Decree-Law 23/2021 and Royal Decree-Law 11/2022), or flexibility measures for modifications of the conditions of the access contracts successively extended until December 31, 2022 (Royal Decree-Law 29/2021, Royal Decree-Law 6/2022 and Royal Decree-Law 11/2022).

<u>Electric sector</u>

The values of the tolls and charges of the electricity system applicable from January 1, 2022 have been approved respectively by the Resolution of December 16, 2021, of the CNMC, which establishes the values of the access tolls to the electricity transmission and distribution networks applicable as of January 1, 2022, and by Order TED/1484/2021, of December 28, which establishes the prices of charges for the electrical system applicable as of of January 1, 2022 and various regulated costs of the electricity system are established for the year 2022. Subsequently, with Royal Decree-Law 6/2022, the values of the charges applicable from March 31, 2022 were reduced by 36 % for the lower remuneration of the RECORE contemplated therein.

Since 2013, the electricity generation activity has been subject to a series of taxes created by Law 15/2012, of December 27, on fiscal measures for energy sustainability (7% tax on the value of electricity production , taxes on the production and storage of nuclear waste and the hydraulic canon). The hydraulic canon was annulled by the Supreme Court in 2021, being recovered again through a modification of the Water Law introduced in Law 7/2022, of April 8, on waste and contaminated soil.

The taxpayer of the canon will be the holders of a hydroelectric exploitation and the rate will accrue annually (with the initial granting and annual maintenance of the hydroelectric concession) on the total remuneration obtained for the energy produced that is incorporated into the electrical system during each year at the rate of 25.5%.

During the 2021 financial year, given the exceptional rise in electricity market prices, various Royal Decree-Laws (RDL 12/2021, RDL 17/2021) suspended the application of the 7% tax on value of electricity production during the second half of 2021, a suspension that has been successively extended until December 31, 2022 through the following Royal Decree-laws: Royal Decree-Law 29/2021, Royal Decree-Law 6 /2022 and Royal Decree-Law 11/2022.

Royal Decree-Law 6/2022, which corresponds to the National Response Plan to the consequences of the war in Ukraine, extends the application of the reduction in remuneration for the price of gas until June 30, 2022, but broadens its scope applicable to energy contracted in term at a fixed price higher than €67/MWh. The application of this reduction has been extended again until December 31, 2022 with Royal Decree-Law 11/2022.

On the other hand, said RDL 6/2022 incorporates the extraordinary review of the RECORE remuneration in advance of the update of the remuneration parameters scheduled for 2023, which are intended to reduce charges as of March 31, 2022.

RDL 6/2022 also introduced modifications to speed up the authorization processes for wind and solar installations in areas with little environmental impact, and measures are contemplated to increase the capacity of access and evacuation networks for renewables and self-consumption.

On May 14, 2022, Royal Decree-Law 10/2022 of May 13 was published, establishing a temporary adjustment mechanism for production costs to reduce the price of electricity on the market wholesaler. This mechanism, also called the "Iberian mechanism", has been worked on with the European Commission to ensure its compatibility with community regulations, so that it came into operation on June 14, 2022, once the publication of the formal decision of its authorization by the European Commission.

The main characteristics of the mechanism are:

- A mechanism for adjusting the cost of production of marginal fossil technologies is established, which has the effect of reducing the offers that said technologies make on the market equivalent to said adjustment, with the consequent reduction in the matching price.

- It will mainly benefit households covered by the regulated tariff (PVPC) and the industry with energy contracts indexed to the wholesale market price.

- It will have a duration of 12 months no later than May 31, 2023. It establishes a gas reference price of €40/MWh for six months, which increases by €5/MWh each month thereafter, until reaching a maximum of €70/MWh in the last month.

- Gas thermal power plants, combined cycles, will continue to charge what is necessary to guarantee the electricity supply.

- The amounts corresponding to said adjustment are financed by those consumers who benefit from the measure, who will pay the difference between that cap and the real price of the raw material, using the MibGas Iberian market as a reference. Exceptionally, additional congestion rents arising on the Spain-France interconnection are allowed to contribute to the financing of the mechanism.

- A system of exemption from the payment of the adjustment is set up for that energy that is subject to term hedging instruments signed prior to April 26, 2022. As the expiration or renewal of these hedges occurs, the new energy that emerges it will go on to support the adjustment.

Likewise, this RDL 10/2022 modifies Royal Decree 413/2014, of June 6, which regulates the production activity from RECORE sources, modifying the adjustment mechanism for deviations in the market price to also include market references term, annual, quarterly and monthly, in a manner consistent with the weighting coefficients that are expected to be included for the calculation of the PVPC. It will apply to the energy generated from January 1, 2023.

Additionally, in order to reduce the volatility of the PVPC, RDL 10/2022 has included the mandate to modify the calculation methodology of the PVPC to incorporate references based on a basket of forward products and the daily and intraday market. The new PVPC is expected to start being applied from the beginning of 2023.

On the other hand, temporarily, due to the escalation in the prices of the wholesale electricity market, different Royal Decree-Laws have been approved throughout 2021 and 2022 that include different measures to protect vulnerable consumers from them (RDL 12/2021, RDL 16/2021, RDL 17/2021, RDL 21/2021, RDL 23/2021, RDL 29/2021, RDL 6/2022 and RDL 11/2022). Noteworthy among these measures is the increase in the discounts applicable to those covered by the social bonus (from 25% to 60% for vulnerable consumers and from 40% to 70% for severely vulnerable consumers), the VAT reduction (from 21% to 10 % % until June 30, 2022, and 5% from July 1 to December 31, 2022) for all consumers of <10 kW provided that the market price exceeds €45/MWh and in any case for consumers who are receiving the social bonus, the reduction of the Electricity Tax (from 5.1% to 0.5%, respecting the maximum limits of the Directive), all applicable until December 31, 2022 and the establishment of a Minimum Vital Supply that prohibits the interruption of the service for non-payment to the beneficiaries of the Electricity Social Bonus for six additional months to the four already existing, guaranteeing maximum power.

The social protection measures established during the pandemic, such as the guarantee of supply and the new categories of beneficiaries of the social bonus.

Additionally, in the aforementioned Royal Decree-Law 6/2022, the group with the right to receive the electricity social bonus was increased and its automatic renewal is established for 2 years, and it will be extended for another 2 years if the requirements continue to be met.

The financing mechanism of the social bond by marketers based on their customer quota established in Royal Decree-Law 7/2016 was annulled by the Supreme Court in February 2022, establishing Royal Decree Law 6/2022 a new financing mechanism by which it falls on all subjects of the electricity system (generators, carriers, distributors, marketers and direct market consumers). The CNMC is responsible for calculating the distribution annually and the Ministry is responsible for approving by Order the unit values to be applied annually by each subject for each activity. Royal Decree Law 6/2022 already includes provisional unit values for each activity, applicable from its entry into force and until the Ministerial Order is approved with the definitive values, the processing of which has already begun by the Ministry.

At the International level:

In **Brazil**, on March 8, 2022, the Interlocutory Resource Requirement Resolution number 0013626-18.2022.8.19 was issued, which ensured the immediate application of the annual readjustment, temporarily establishing the IPCA (10.74%) as the readjustment index, excluding of this change the tariff of the thermoelectric sector, which will be readjusted by the IGPM (17.78%), since this segment is in better conditions to maintain the contractual balance with the application of the current index.

In **Argentina**, on December 27, 2021, ENARGAS notified Naturgy BAN, S.A. and Gasnor, S.A. ENARGAS Resolution No. 518 that convenes Public Hearing No. 102 in order to consider the: 1) Temporary adjustment of the natural gas transportation public service rate (according to Decree No. 1020/20); and 2) Transitory adaptation of the tariff for the public gas distribution network service (according to Decree No. 1020/20). The audience was held on January 19, 2022 and based on the presentations made by the companies and other organizations that participated as speakers, ENARGAS must determine the transitional rate and its time of implementation within the framework of what is established in article 5 of Law No. 27,541 and Decree 1020/20.

Maintaining the scheme followed in the previous adjustment, ENARGAS sent to all the Licensees the final consolidated draft of the Addendum to the Transitory Agreement, granting a peremptory signature period, with a rate adjustment lower than that requested by the Licensees and differential increases by category. The companies signed the aforementioned Addendum and ENARGAS approved new rate schedules effective as of March 1, 2022.

Through Resolutions 237/22 and 235/22, the Ministry of Energy convened public hearings to discuss the adequacy of the price of gas and at the Point of Entry to the Transportation System (PIST) and the rate segmentation in the application of subsidies. Resolution SE No. 403/22 determined the gas prices in PIST of the contracts entered into under the Plan Gas Ar and ENARGAS issued, consequently, a Resolution with the new rate schedules in force as of June 1, 2022.

Through Decree 332 of the National Executive Power, published on June 16, 2022, a subsidy segmentation regime was established, still pending regulation by ENARGAS.

In **Chile**, on January 7, 2022, the President of the Republic sent to the Chamber of Deputies a Bill aimed at improving the gas market. In the field of natural gas, the aforementioned Project establishes in its Second Transitory article that distribution concessionaires with gas purchase contracts signed with companies of the same business group or with related persons or entities, must include in their profitability check, the costs and income associated with the supply of gas made by its related supplier. The Project would leave transitory article 12 of Law No. 20,999 without application, a rule based on which the CNE verified the economic efficiency of the contract signed between Metrogas and Aprovisionadora Global de Energía S.A. Likewise, the Project establishes the obligation of open access to the distribution networks for clients with average monthly consumption of more than 2,000 gigajoules and the obligation of open access for transport companies and LNG companies, through a procedure for requesting and granting access, bill that has already been withdrawn by the authority. On May 10, 2022, the aforementioned Bill was withdrawn from processing in Congress, with the Minister of Energy announcing that one regulating the natural gas market and another liquefied gas will be sent shortly, separately according to their different features.

Subsequently, on June 29, 2022, the executive introduced a Bill that proposes to modify the regime applicable to the annual profitability check to which gas distribution concessionaires are subject, proposing to consider the integrated profitability in the case of concessionaires that purchase gas. to related companies, which is the case of Metrogas, imposes limitations on the modification and reduces the yield limit by 3 percentage points, with respect to assets that are over 20 years old.

In **Mexico**, on March 9, 2021, a Reform to the Electricity Industry Law (LIE Reform) was approved, whose main effects are the modification of the dispatch order, the review of PIE contracts, the creation of Physical Delivery contracts of Energy and Capacity between CFE Supplier of Basic Services and CFE Generation, revocation of self-supply permits that operate with fraud to the Law, among others. However, the companies of the business and of the sector protected themselves against this Law; To date, there is a suspension of the same, until they are resolved.

Likewise, in addition to the amparos by the affected companies, Actions of Unconstitutionality and Constitutional Controversies were filed by different institutions that sought to demonstrate that the Reform to the LIE does not correspond to the Political Constitution of the United Mexican States (CPEUM); however, these Actions and Controversies were resolved by the Supreme Court of Justice of the Nation (SCJN) in April 2022 without the majority required to declare the reform unconstitutional, therefore, the LIE Reform is constitutional.

Every time the LIE Reform was suspended due to the numerous appeals filed by the affected companies, the Executive Branch sent a proposal for a Constitutional Reform, which was analyzed by the Chamber of Deputies and discussed in an Open Parliament; however, during the vote in the plenary session of the Chamber of Deputies on April 17, 2022, the qualified majority (2/3 of those present) was not reached for its approval, so it was rejected.

In **Panama**, on March 31, 2022, ASEP issued Resolution AN-17542, modified by Resolution AN-17554, through which the validity of the Tariff Schedule applicable to regulated customers and for the use of networks is extended. of the distribution companies EDEMET and EDECHI, approved for the period from July 1, 2018 to June 30, 2022, while the studies are carried out for the new IMP that runs from July 2022 to June 2026 and the new tariff specifications complying with all transparency standards for public management. In this sense, it is established that the electricity service rate that will be applied in the second half of 2022 must be updated in accordance with the Distribution Regulation, following the methodology of the current RTI 2018-2022.

In relation to the Tariff Stabilization Funds (ordinary FET), whose validity has been extended until December 2022, through Resolution No. 108, of December 29, 2020, and Resolution No. 35, of April 6, 2021, it was authorized the extension during the first and second quarter of 2021 of the implementation of the extraordinary contribution of the Rate Stabilization Fund (FET) by the State, in order to mitigate the cost of billing end customers. As of the second quarter of 2021, the contributions were limited to users with low voltage rates with consumption of up to 750 kWh in order to maintain the price paid in the first quarter of 2021 and through Resolutions No. 17730 and No. 17731 of 21 December June 2022, the partial monthly adjustments for the second half of 2021 are cancelled through the six-monthly rate update corresponding to the period July to December 2022.

As a result of the continuity of the effects generated by the COVID-19 Pandemic, the Cabinet Council issued Cabinet Resolution No. 62 of May 25, 2022 to extend from June 1, 2022 to July 31, 2022, the scheme adopted as Extraordinary Contributions to the Rate Stabilization Fund (FET) in order to maintain this benefit for simple rate customers (BTS) with consumption from 0 to 750 kWh per month. The State will compensate the distribution companies with contributions from the Extraordinary FET for Covid-19, from the National Treasury for the contributions granted to their benefited clients during the months of June and July 2022 and all this, in addition to the contributions of Resolution N° 60 previous.

CONSOLIDATED INTERIM DIRECTORS' REPORT AS AT 30 JUNE 2022

Consolidated Director's report corresponding to the six-month period ended 30 June 2022

1. Business evolution and results

1.1. Executive summary

Summary results of the period

	Reported			Ordinary		
	1H22	**1H21**	**Changes (%)**	**1H22**	**1H21**	**Changes (%)**
Ebitda	2,047	1,678	22.0	2,184	1,959	11.5
Net Income	557	484	15.1	717	557	28.7
Capex	721	439	64.2	—	—	—
Net financial debt (at 30/06) 1	11,976	12,831	(6.7)	—	—	—
Free cash flow after minorities	1,460	663	120.2	—	—	—

(1) As of 31 December 2021.

The first half of 2022 has been marked by the strong performance of international activities, ordinary ebitda up 23.9% vs. the first half of 2021, comparing positively vs.Spanish operations, whose ordinary ebitda has increased by 2.3% vs. the first half of 2021.

Ordinary EBITDA for the first half of 2022 stood at Euros 2,184 million, up 11.5% vs. the first half of 2021 mainly underpinned by the strong performance in International LNG, supported by higher gas prices globally and particularly in Europe, amid the ongoing Russia – Ukraine conflict. In Spain however, energy supply continued to experience margin pressure, affected by contracts with end customers not yet reflecting the increase of gas and electricity prices in major hubs.

As for Networks, international operations also outperformed results in Spain. Indeed, Networks LatAm growth was driven by tariff updates and positive FX evolution. Networks Spain remained relatively stable, as growth from electricity distribution activities compensated for lower gas demand and the negative impact of the progressive reduction in the gas distribution remuneration established in the regulatory framework 2021-2026.

Renewables posted ordinary EBITDA growth of 5.1% vs. the first half of 2021, particularly in Spain, reflecting higher prices and contract changes, which were partially offset by lower hydro production and the negative impact from new regulatory measures. Thermal generation for its part, increased by 17.6% in Spain and LatAm backed by the scenario and higher production levels.

Ordinary Net income reached Euros 717 million in the first half of 2022, up 28.7% vs. the first half of 2021, supported by the aforementioned international activities and greater contribution from equity associates.

As of 30 June 2022, Net debt amounted to Euros 11.976 million mainly supported by the strong cash flow generation coming from international activities and notably from the high cash conversion rates in international LNG. During the first half of 2022, the company paid out a dividend of 0.5 €/share corresponding to the final dividend for 2021.

Additionally, the Board of Directors has approved the first interim dividend against 2022 results, to be paid on 18 August 2022 and corresponding to 0.3 €/share, in line with last year dividend and committed in the Strategic Plan.

With regards to project Gemini, the board continues monitoring the progress of all the analysis underway which confirm its suitability and strategic sense. However, due to the current market volatility, the evolution of the European energy context and the numerous regulatory uncertainties, many of which have yet to be defined, the execution schedule is likely to be adjusted.

Energy demand and commodity prices

The first half of 2022 has experienced a decline of energy demand of group's activities in Spain, Brazil and Mexico, reflecting different macroeconomic environments, weather circumstances, and energy trends in the countries where the group operates. Thereby, electricity and gas demand in Spain compared on average 12% and 5% respectively below the first half of 2021 and remain below pre-pandemic levels (-17% and -10% respectively vs. the first half of 2019). Similarly, average demand on gas distributed activities in Mexico and Brazil experienced a decrease of 10% and 35% vs. the first half of 2021 respectively. On the other hand, gas and electricity demand in the remaining LatAm countries where the group operates experienced modest growth of +0.4% in Chile, +7% in Argentina gas and electricity and +5% in Panama electricity.

During the first half of 2022, LatAm currencies experienced a different evolution vs the first half of 2021. On the one hand, the USD, Mexican Peso and Brazilian Reais experienced positive appreciations, whereas the Argentinean and Chilean peso continued to depreciate vs. EUR. Overall, the evolution of LatAm currencies had a positive effect on the group's financial performance of Euros 66 million and Euros 32 million in Ordinary EBITDA and Ordinary Net income respectively.

The evolution of commodity prices for its part has followed a more consistent and global trend across regions, with an unprecedented rise of commodity prices in both gas and electricity markets, which has been further exacerbated by the ongoing Russia-Ukraine conflict. Brent prices compare 66% above on average when compared to the first half of 2021 while gas prices on major hubs showed unprecedented increases, notably NBP which multiplied by ~3x on average vs the first half of 2021, but also HH which multiplied by 2x vs the first half of 2021. Wholesale electricity prices for their part multiplied by ~3.5x on average vs the first half of 2021 exceeding all-time highs. Such increases resulted in significant regulatory changes and ongoing uncertainty in Spain during the period, including the temporary regulatory cap of gas prices in Spain linked to the price signal of CCGTs in wholesale electricity markets.

1.2. Key comparability factors and non-ordinary items

Perimeter changes

There are no transactions completed in the first six months of 2022 with a relevant impact in comparability in the first half of 2022 vs.the first half of 2021 results.

Non-ordinary items

Non-ordinary items are summarized in the following table:

	Ebitda		Net income	
Euros million	**1H22**	**1H21**	**1H22**	**1H21**
Restructuring costs	(15)	(300)	(9)	(209)
Regulatory fines	(6)	—	(4)	—
Asset write-down	—	—	(10)	(16)
Provisions	(108)	12	(126)	9
Sales of land and buildings	—	8	—	5
Procurement agreement	—	2	—	2
Lean transformation costs	(13)	(32)	(9)	(22)
Generation Taxes	—	28	—	25
UFGas agreement	40	—	30	103
Interest sales and corporate transactions	—	—	13	(18)
Discontinued operations	—	—	(16)	47
Other	(35)	1	(29)	1
Total non-ordinary items	**(137)**	**(281)**	**(160)**	**(73)**

At the Ebitda level, non-ordinary impacts in the first six months of 2022 amounted to Euros -137 million, of which Euros -108 million corresponding to provisions related to the first instance conviction sentence against Naturgy's Chilean subsidiary Metrogas S.A. in favour of Transportadora de Gas del Norte, S.A. (TGN).

At the Net income level, the non-ordinary items in the first six months of 2022 amount to -160 million euros, of which -126 million euros correspond to the after-tax impact of the ruling against Metrogas S.A., including the amounts claimed for the early termination of contracts (loss of profits) and associated financial expenses, adjusted by the corresponding result attributable to non-controlling interests. The remaining amount of non-ordinary items at the Net income level (34 million euros) corresponds to the after-tax impact of the rest of the aforementioned items, as well as the negative impact of discontinued operations.

Metrogas S.A., a Chilean company 55.6% owned by Naturgy, received a first-instance conviction on August 4, 2022, on a series of lawsuits for alleged contractual breaches in the transportation of Argentine gas filed by Transportadora de Gas del North, S.A. (TGN) originated in 2009, when Argentina stopped supplying gas to Chile during the Argentine gas crisis. The ruling condemns Metrogas to pay TGN for unpaid invoices and early termination of contracts (loss of profits) for an approximate amount of 250 million USD (236 million euros), plus costs and interest. This ruling and its possible effects, which are not final and are subject to appeal, have been provisioned and are included as non-ordinary elements in Naturgy's accounts for the first half of 2022. Metrogas will exercise all the actions that correspond to it in defense of their interests, appealing the judicial ruling.

Foreign exchange impact

Exchange rate fluctuations in the period are summarized below:

Currency	Average exchange rate	Change (%)	Ordinary EBITDA	Ordinary Net income
USD/€	1.09	(9.9)%	40	26
MXN/€	22.17	(8.8)%	13	4
BRL/€	5.56	(14.3)%	20	4
ARS/€ (1)	131.28	15.7 %	(6)	(2)
CLP/€	903.48	4.1 %	(3)	—
Other	—	—	2	—
Total	**—**	**—**	**66**	**32**

(1) Exchange rate as of 30 June 2022 as a consequence of considering Argentina as an hyperinflationary economy

1.3. Consolidated results

	Reported			Ordinary		
	1H22	1H21	Change (%)	1H22	1H21	Change (%)
Net sales	16,737	9,130	83.3	16,737	9,125	83.4
Ebitda	**2,047**	**1,678**	**22.0**	**2,184**	**1,959**	**11.5**
Depreciation, amortisation and	(704)	(729)	(3.4)	(684)	(707)	(3.3)
Impairment of credit losses	(127)	(52)	144.2	(127)	(52)	144.2
Other results	(114)	106	(207.5)	—	—	—
Ebit	**1,102**	**1,003**	**9.9**	**1,373**	**1,200**	**14.4**
Financial result	(336)	(236)	42.4	(266)	(241)	10.4
Profit/(loss) of companies measured under the equity method	65	33	97.0	65	33	97.0
Income tax	(194)	(204)	(4.9)	(287)	(259)	10.8
Income from discontinued operations	(16)	51	(131.4)	—	—	—
Non-controlling interest	(64)	(163)	(60.7)	(168)	(176)	(4.5)
Net income	**557**	**484**	**15.1**	**717**	**557**	**28.7**

Net sales

Ordinary Net sales totalled Euros 16,737 million in the first six months of 2022, up 83.4% vs. the first half of 2021, mainly as a result of higher energy prices in the period.

Ebitda

Consolidated ordinary EBITDA reached Euros 2,184 million in the first half of 2022, up 11.5% vs. the first half of 2021 supported by the strong performance of international activities, up 23,9%, vs the first half of 2021, comparing positively vs. Spanish operations, which increased by 2.3%vs the first half of 2021.

The breakdown by business of the Ebitda is as follows:

	Reported			Ordinary		
	1H22	**1H21**	**Change (%)**	**1H22**	**1H21**	**Change (%)**
Energy management and Networks	1,778	1,416	25.6	1,875	1,613	16.2
Renewables and New businesses	164	185	(11.4)	187	178	5.1
Supply	157	151	4.0	153	214	(28.5)
Rest	(52)	(74)	(29.7)	(31)	(46)	(32.6)
Total Ebitda	**2,047**	**1,678**	**22.0**	**2,184**	**1,959**	**11.5**

The strong performance in Markets was driven by international activities, notably in International LNG, supported by higher gas prices globally and particularly in Europe, amid the ongoing Russia – Ukraine conflict.

EBIT

Depreciation, amortization and impairment losses reached in the period Euros -704 million, 3.4% lower than in the first half of 2021.

Impairment and credit losses reached Euros -127 million in the first half of 2022, higher than in the first half of 2021 mostly following the impact from higher energy prices in the marketing activity.

Financial result

Euros million	**1H22**	**1H21**	**Change (%)**
Cost of net financial debt	(248)	(240)	3.3
Other financial expenses/income	(88)	4	—
Financial result	**(336)**	**(236)**	**42.4**

Financial result amounted to Euros -336 million, up 42.4% vs the first half of 2021. Lower net debt in the period was offset by a slightly higher average cost of gross financial debt (excluding IFRS 16 debt costs) for the first half of 2022 (2.8% in the first half of 2022 vs. 2.5% in FY21). As of 30 June 2022, 80% of the gross debt is fixed rate and 76% is denominated in euros.

"Other financial expenses/income" includes the financial expenses corresponding to the litigation of the group company in Chile Metrogas, S.A. previously described.

Equity-accounted affiliates

Equity-accounted affiliates contributed Euros 65 million in the first six months of 2022 as detailed below.

	1H22	1H21	Change (%)
UF Gas sub-group	4	(4)	(200.0)
Electricity Puerto Rico	25	27	(7.4)
CGE sub-group	7	3	133.3
Renewable Generation and Cogeneration	18	3	500.0
Medgaz/Medina	10	4	150.0
Others	1	—	—
Total	**65**	**33**	**97.0**

The increase comes as result of the higher contribution from renewable activities and gas pipelines (Medgaz/ Medina).

Income tax

The effective tax rate for in the first six months of 2022 stood at 23.3% compared to 25.5% of the first six months of 2021.

Income from discontinued operations

Income from discontinued operations stood at Euros -16 million in In the first six months of 2022 vs. Euros 51 million in the first half of 2021, coming from electricity distribution Chile.

	1H22	1H21	Changes (%)
Electricity distribution Chile	(16)	51	(131.4)
Total	**(16)**	**51**	**(131.4)**

Income attributed to non-controlling interests

Income attributed to non-controlling interests amounted to -Euros 64 million in the first half of 2022, -60.7% compared to the first six months of 2021, as detailed in the following table:

	1H22	1H21	Changes (%)
EMPL	2	(17)	111.8
Nedgia	(41)	(31)	(32.3)
Other interest (1)	1	(86)	101.2
Other equity instruments	(26)	(29)	10.3
Total	**(64)**	**(163)**	**(60.7)**

(1) Including GPG, gas distribution in Chile, Brazil, Mexico and Argentina, and electricity distribution in Panama.

The lower detraction from EMPL follows the termination of the concession in October 2021, while higher contribution in Nedgia and Other affiliates obeys to improved performance.

The other equity instruments caption includes the accrued interest on perpetual subordinated notes (hybrids).

Net income

Net ordinary income in In the first six months of 2022 amounted to Euros 717 million up 28.7% vs. the first half of 2021, supported by the aforementioned international activities and greater contribution from equity associates in the period.

Evolution of Ebitda by geography

Ordinary EBITDA for the first half of 2022 stood at Euros 2,184 million, up 11.5% vs. the first half of 2021 supported by the good results of the international activities, which have grown by 23.9% compared to the first half of 2021, and which compare positively with the modest results of the Spanish operations, which have grown by 2.3% compared to the same period of the previous year.

1.4. Results by business unit

1.4.1. Energy management and networks

Below is the detail of the reported and ordinary Ebitda for the six-month period ended June 30, 2022 and 2021:

	reported			ordinary		
	1H22	**1H21**	**Change (%)**	**1H22**	**1H21**	**Change (%)**
Energy management and Networks	**1,778**	**1,416**	**25.6**	**1,875**	**1,613**	**16.2**
Networks Spain	**801**	**650**	**23.2**	**813**	**827**	**(1.7)**
Gas networks	456	390	16.9	464	481	(3.5)
Electricity networks	345	260	32.7	349	346	0.9
Networks LatAm	**397**	**400**	**(0.8)**	**507**	**397**	**27.7**
Chile gas	12	112	(89.3)	120	106	13.2
Brazil gas	142	99	43.4	142	100	42.0
Mexico gas	123	108	13.9	124	109	13.8
Panama electricity	68	61	11.5	68	62	9.7
Argentina gas	35	11	218.2	36	11	227.3
Argentina electricity	17	9	88.9	17	9	88.9
Energy management	**580**	**366**	**58.5**	**555**	**389**	**42.7**
Markets and procurement	(51)	17	(400.0)	(90)	12	(850.0)
International LNG	436	86	407.0	436	88	395.5
Pipelines (EMPL)	(6)	99	(106.1)	2	113	(98.2)
Spain thermal generation	74	56	32.1	80	68	17.6
LatAm thermal generation	127	108	17.6	127	108	17.6

Ordinary Ebitda increased 16.2% to Euros 1,875 million during the first six months of 2022 driven by the good performance of Networks LatAm, supported by tariff updates and positive FX evolution. Networks Spain remained broadly stable, with electricity distribution partially offsetting the decrease in gas distribution. The current energy scenario, with high energy prices, has allowed to benefit from open positions in the international markets and notably in International LNG. Both Spain and LatAm thermal generation posted moderate growth.

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 from 30 June 2022 will be applied to the accumulated 2021 results, which will also be updated by inflation rates.

1.4.1.1. Spain Networks

Spain gas networks

Results

	1H22	1H21	Change (%)
Net sales	594	610	(2.6)
Procurement	(60)	(47)	27.7
Gross margin	**534**	**563**	**(5.2)**
Other operating income	17	19	(10.5)
Personnel expenses	(27)	(109)	(75.2)
Taxes	(9)	(15)	(40.0)
Other operating expenses	(59)	(68)	(13.2)
EBITDA	**456**	**390**	**16.9**
Depreciation, provisions and other results	(137)	(142)	(3.5)
EBIT	**319**	**248**	**28.6**

In the first six months of 2022 ordinary EBITDA reached Euros 464 million, down 3.5% vs. the first half of 2021, explained by both lower demand and the reduction of regulated remuneration, as expected under the current regulatory period 2021-26

Main aggregates

The main aggregates in the gas distribution networks activity are as follows:

	1H22	1H21	Changes (%)
TPA - Sales (GWh)	96,192	101,465	(5.2)
LPG Sales (tn)	48,325	49,273	(1.9)
Distribution network (km)	56,917	56,911	—
Increase in connection points, thousand	(2)	(12)	(83.3)
Connection points (thousand) (at 30/06)	5,380	5,401	(0.4)

Gas sales (excluding LPG) decreased by 5.2%, while connection points remained stable compared to the first six months of 2021 (-0.4%).

Spain electricity networks

Results

	1H22	1H21	Change (%)
Net sales	418	415	0.7
Procurement	—	—	—
Gross margin	**418**	**415**	**0.7**
Other operating income	10	9	11.1
Personnel expenses	(22)	(102)	(78.4)
Taxes	(14)	(15)	(6.7)
Other operating expenses	(47)	(47)	—
EBITDA	**345**	**260**	**32.7**
Depreciation, provisions and other results	(130)	(123)	5.7
EBIT	**215**	**137**	**56.9**

In the first six months of 2022 ordinary Ebitda amounted to Euros 349 million, a 0.9% increase compared to the first six months of 2021 as a result of additional investments.

Main aggregates

	1H22	1H21	Change (%)
Sales - TPA (GWh)	13,109	14,841	(11.7)%
Connection points (thousand)(at 30/06)	3,809	3,787	0.6 %
ICEIT (minutes)	16.4	19.8	(17.2)%

Connection points increased by 0.6% during the period, while electricity sales decreased by 11.7%.

Unitary opex per km of installed network remained stable compared to to the first six months of 2021 (-0.3%).

1.4.1.2. Latam Networks

Chile gas

Includes the activities of gas distribution and supply.

Results

	1H22	1H21	Change (%)
Net sales	388	283	37.1
Procurement	(345)	(151)	128.5
Gross margin	**43**	**132**	**(67.4)**
Other operating income	1	8	(87.5)
Personnel expenses	(13)	(12)	8.3
Taxes	(2)	(1)	100.0
Other operating expenses	(17)	(15)	13.3
EBITDA	**12**	**112**	**(89.3)**
Depreciation, provisions and other results	(157)	(31)	406.5
EBIT	**(145)**	**81**	**(279.0)**

On the first six months of 2022, ordinary Ebitda totaled Euros 120 million, 13.2% higher than in the first six months of 2021, as a result of higher gas commercialization margins, which more than offset the lower contribution from the distribution activity. FX impact contributed with Euros 3 million.

Depreciation, provisions and other results includes the amounts claimed by Transportadora de Gas del Norte S.A. for the resolution of contracts (loss of profits) (Note 26 of the Condensed Interim Financial Statements as at 30 June 2022).

Main aggregates

	1H22	1H21	Change (%)
Gas activity sales (GWh)	18,580	14,560	27.6
Gas activity sales (GWh)	4,978	4,956	0.4
Gas sales (GWh)	630	240	162.5
TPA (GWh)	12,972	9,364	38.5
Distribution network (km)	8,209	8,107	1.3
Increase in connection points (thousand)	5	6	(16.7)
Connection points (thousand)(at 30/06)	671	660	1.7

Total gas sales increased by 27.6%, mostly as a result of higher TPA sales (+38.5%), while distributed sales remained stable (+0.4%).

Connection points increased by 1.7%.

Brazil Gas Networks

Results

	1H22	1H21	Change (%)
Net sales	902	541	66.7
Procurement	(724)	(414)	74.9
Gross margin	**178**	**127**	**40.2**
Other operating income	11	8	37.5
Personnel expenses	(10)	(8)	25.0
Taxes	(2)	(1)	100.0
Other operating expenses	(35)	(27)	29.6
EBITDA	**142**	**99**	**43.4**
Depreciation, provisions and other results	(39)	(30)	30.0
EBIT	**103**	**69**	**49.3**

On the first six months of 2022 ordinary Ebitda totaled Euros 142 million , 42.0% higher than in 2021. Tariff updates and the positive FX impact (Euros 19 million), more than compensated for lower sales in the generation and TPA segments.

Main aggregates

The main aggregates of the activity are as follows:

	1H22	1H21	Change (%)
Gas activity sales (GWh)	**27,482**	**42,453**	**(35.3)**
Gas sales	17,850	21,358	(16.4)
TPA	9,632	21,095	(54.3)
Distribution network (km)	8,241	8,208	0.4
Increase in connection points (thousand)	9	8	12.5
Connection points (thousand)(at 30/06)	1,171	1,154	1.5

Overall gas sales decreased 35.3% compared to the first six months of 2021, notably in Generation + TPA (-54.3%). Industrial and domestic segments have also shown some reduction (-4.3%, and -2.4% respectively), while GNV and commercial segments have shown some growth (+11.8% and +9.3% respectively).

Connection points supply grew 1.5% in the period

Mexico Gas Networks

Results

	1H22	1H21	Change (%)
Net sales	512	335	52.8
Procurement	(364)	(204)	78.4
Gross margin	**148**	**131**	**13.0**
Other operating income	5	5	—
Personnel expenses	(9)	(9)	—
Taxes	—	—	—
Other operating expenses	(21)	(19)	10.5
EBITDA	**123**	**108**	**13.9**
Depreciation, provisions and other results	(29)	(26)	11.5
EBIT	**94**	**82**	**14.6**

On the first six months of 2022, ordinary Ebitda increased 13.8% to Euros 124 million.

Lower sales in the Generation + TPA segments were compensated by significant growth in supply margins, as well as positive FX impact (Euros 11 million).

Main aggregates

The main aggregates of the activity are as follows:

	1H22	1H21	Change (%)
Gas activity sales (GWh)	**23,151**	**25,677**	**(9.8)**
Gas sales	11,957	11,678	2.4
TPA	11,194	13,999	(20.0)
Distribution network (km)	22,967	22,850	0.5
Increase in connection points (thousand)	2	(11)	(118.2)
Connection points (thousand)(at 30/06)	1,576	1,578	(0.1)

Gas sales decreased by 9.8%, mostly as a result of the decrease in Generation and TPA sales (-20.0%).

Connection points remained stable (-0.1%).

Panama electricity

Results

	1H22	1H21	Change (%)
Net sales	433	350	23.7
Procurement	(339)	(267)	27.0
Gross margin	**94**	**83**	**13.3**
Other operating income	2	2	—
Personnel expenses	(4)	(5)	(20.0)
Taxes	(3)	(2)	50.0
Other operating expenses	(21)	(17)	23.5
EBITDA	**68**	**61**	**11.5**
Depreciation, provisions and other results	(33)	(21)	57.1
EBIT	**35**	**40**	**(12.5)**

In the first six months of 2022, ordinary Ebitda amounted to Euros 68 million, up 9.7% compared to the first six months of 2021, driven by positive FX impact (Euros 6 million) and sales growth (+4.9%).

Main aggregates

The main aggregates of the activity are as follows:

	1H22	1H21	Change (%)
Electricity business sales (GWh)	**2,647**	**2,524**	**4.9**
Electricity sales	2,180	2,114	3.1
TPA	467	410	13.9
Distribution network (km)	29,464	28,916	1.9
Connection points (thousand)(at 30/06)	742	718	3.3

Connection points grew by 3.3%.

Argentina gas

Results

	1H22	1H21	Change (%)
Net sales	227	170	33.5
Procurement	(128)	(112)	14.3
Gross margin	**99**	**58**	**70.7**
Other operating income	11	9	22.2
Personnel expenses	(21)	(15)	40.0
Taxes	(17)	(15)	13.3
Other operating expenses	(37)	(26)	42.3
EBITDA	**35**	**11**	**218.2**
Depreciation, provisions and other results	(3)	(7)	(57.1)
EBIT	**32**	**4**	**700.0**

In the first six months of 2022, ordinary Ebitda amounted to Euros 36 million, compared to Euros 11 million in the first six months of 2021. The growth is explained by both higher sales in all segments - except retail, where remained stable - and tariff updates. On the other side, FX impact amounted to negative Euros 4 million.

Main aggregates

The main aggregates of the activity are as follows:

	1H22	1H21	Change (%)
Gas activity sales (GWh)	**43,729**	**40,872**	**7.0**
Gas sales	23,877	23,753	0.5
TPA	19,853	17,119	16.0
Distribution network (km)	39,618	39,252	0.9
Increase in connection points (thousand)	-1	3	(133.3)
Connection points (thousand)(at 30/06)	2,252	2,254	(0.1)

Gas sales increased by 7.0%, while connection points remained stable (-0.1%) compared to the first six months of 2021

Argentina electricity

Results

	1H22	1H21	Change (%)
Net sales	64	42	52.4
Procurement	(29)	(22)	31.8
Gross margin	**35**	**20**	**75.0**
Other operating income	8	4	100.0
Personnel expenses	(7)	(5)	40.0
Taxes	(2)	—	—
Other operating expenses	(17)	(10)	70.0
EBITDA	**17**	**9**	**88.9**
Depreciation, provisions and other results	(1)	(1)	—
EBIT	**16**	**8**	**100.0**

In the first six months of 2022, ordinary Ebitda amounted to Euros 17 million, 88.9% higher than in the first six months of 2021, driven by inflation update and both sales and connection points growth (+6.6% and +1.9% respectively). FX impact accounted for negative Euros 2 million.

Main aggregates

The main aggregates of the activity are as follows:

	1H22	1H21	Change (%)
Electricity business sales (GWh)	1,019	956	6.6
Distribution network (km)	10,026	9,899	1.3
Connection points (thousand)(at 30/6)	252	247	2.0

1.4.1.3. Energy management

Markets and procurement

Results

	1H22	1H21	Change (%)
Net sales	7,670	2,866	167.6
Procurement	(7,738)	(2,836)	172.8
Gross margin	**(68)**	**30**	**(326.7)**
Other operating income	49	13	276.9
Personnel expenses	(13)	(15)	(13.3)
Taxes	(3)	—	—
Other operating expenses	(16)	(11)	45.5
EBITDA	**(51)**	**17**	**(400.0)**
Depreciation, provisions and other results	(10)	96	(110.4)
EBIT	**(61)**	**113**	**(154.0)**

In the first six months of 2022 ordinary EBITDA reached Euros 90 million negative compared to the first six months of 2021 Euros 12 million . Higher selling prices have been offset by higher procurement costs. Total sales reached 65,461 GWh, -9.3% compared to the first six months of 2021.

Main aggregates

The main aggregates of the activity are as follows

	1H22	1H21	Change (%)
Gas supply (GWh)	**65,461**	**72,165**	**(9.3)**
CCGT	14,796	12,254	20.7
Third parties	50,664	59,912	(15.4)
Electricity sales (GWh)	**884**	**858**	**3.0**

International LNG

Results

	1H22	1H21	Change (%)
Net sales	2,602	1,873	38.9
Procurement	(2,155)	(1,772)	21.6
Gross margin	**447**	**101**	**342.6**
Other operating income	1	—	—
Personnel expenses	(6)	(10)	(40.0)
Taxes	—	—	—
Other operating expenses	(6)	(5)	20.0
EBITDA	**436**	**86**	**407.0**
Depreciation, provisions and other results	(49)	(94)	(47.9)
EBIT	**387**	**(8)**	**(4,937.5)**

In the first six months of 2022 ordinary EBITDA reached Euros 436 million(Euros 88 million the first six months of 2021). The scenario of high prices and the growing spread between TTF and HH has supported higher margins over the period, resulting in significant EBITDA growth.

Main aggregates

The main aggregates of the activity are as follows:

	1H22	1H21	Change (%)
Gas sales (GWh)	59,001	76,002	(22.4)
Shipping fleet capacity (m3)	1,591,245	2,102,662	(24.3)

As of 30 June 2022, contracted sales for 2022 and 2023-24 stood at 90% and 78% respectively.

Pipelines (EMPL)

Results

	1H22	1H21	Change (%)
Net sales	—	126	(100.0)
Procurement	—	—	—
Gross margin	**—**	**126**	**(100.0)**
Other operating income	2	1	100.0
Personnel expenses	(8)	(19)	(57.9)
Taxes	—	—	—
Other operating expenses	—	(9)	(100.0)
EBITDA	**(6)**	**99**	**(106.1)**
Depreciation, provisions and other results	—	(28)	(100.0)
EBIT	**(6)**	**71**	**(108.5)**

This asset ended its activity on October 31, 2021, thus it does not contribute a positive Ebitda to the group.

Main aggregates

The main aggregates of the activity are as follows

	1H22	1H21	Change (%)
Gas transport - EMPL (GWh)	**—**	**47,127**	**—**
Portugal-Morocco	—	18,822	—
Spain (Naturgy)	—	28,305	—

Spain thermal generation

Results

	1H22	1H21	Change (%)
Net sales	1,707	562	203.7
Procurement	(1,515)	(332)	356.3
Gross margin	**192**	**230**	**(16.5)**
Other operating income	2	7	(71.4)
Personnel expenses	(29)	(48)	(39.6)
Taxes	(50)	(90)	(44.4)
Other operating expenses	(41)	(43)	(4.7)
EBITDA	**74**	**56**	**32.1**
Depreciation, provisions and other results	(57)	(39)	46.2
EBIT	**17**	**17**	**—**

In the first six months of 2022 ordinary Ebitda amounted to Euros 80 million, up 17.6% compared to the first six months of 2021 on the back of higher electricity production and rising prices in bilateral contracts.

Pool prices multiplied by 3.5 compared to the first six months of 2021, averaging 206 €/MWh in the period, as a result of higher gas and CO_2 prices.

Main aggregates

The main aggregates of the activity are as follows

	1H22	1H21	Change (%)
Installed capacity (MW)	**8,031**	**8,031**	**—**
Nuclear	604	604	—
CCGTs	7,427	7,427	—

	1H22	1H21	Change (%)
Electric energy produced (GWh)	**9,270**	**7,162**	**29.4**
Nuclear	2,097	1,914	9.6
CCGTs	7,172	5,248	36.7

Total production increased by 29.4%, with the combined cycle productions and nuclear production increasing by 9.6% and 36.7% respectively in the year.

LatAm thermal generation

Results

	1H22	1H21	Change (%)
Net sales	492	545	(9.7)
Procurement	(340)	(416)	(18.3)
Gross margin	**152**	**129**	**17.8**
Other operating income	1	2	(50.0)
Personnel expenses	(8)	(7)	14.3
Taxes	(1)	—	—
Other operating expenses	(17)	(16)	6.3
EBITDA	**127**	**108**	**17.6**
Depreciation, provisions and other results	(39)	(37)	5.4
EBIT	**88**	**71**	**23.9**

In the first six months of 2022 ordinary Ebitda reached Euros 127 million, up 17.6% compared to the first six months of 2021, following higher margins in Dominican Republic and Mexican PPAs, despite lower production, as well as positive FX impact (Euros 12million).

Main aggregates

The main aggregates of the activity are as follows

	1H22	1H21	Change (%)
Installed capacity (MW)	**2,643**	**2,643**	**—**
Mexico (CCGT)	2,446	2,446	—
Dominican Republic (Fuel)	198	198	—

	1H22	1H21	Change (%)
Electric energy produced (GWh)	**6,339**	**7,016**	**(9.6)**
Mexico (CCGT)	6,054	6,785	(10.8)
Dominican Republic (Fuel)	285	231	23.4

Total production decreased by 9.6%, with Mexican CCGTs decreasing by 10.8% while other thermal increased by 23.4%.

1.4.2. Renewables and new businesses

	reported			ordinary		
	1H22	1H21	Change (%)	1H22	1H21	Change (%)
Renewables and New businesses	**164**	**185**	**(11.4)**	**187**	**178**	**5.1**
Europe & USA	129	152	(15.1)	152	141	7.8
Australia	—	—	—	—	—	—
LatAm	35	33	6.1	35	37	(5.4)

Renewables Spain & USA

Results

	1H22	1H21	Change (%)
Net sales	321	288	11.5
Procurement	(86)	(36)	138.9
Gross margin	**235**	**252**	**(6.7)**
Other operating income	14	10	40.0
Personnel expenses	(22)	(41)	(46.3)
Taxes	(32)	(29)	10.3
Other operating expenses	(66)	(40)	65.0
EBITDA	**129**	**152**	**(15.1)**
Depreciation, provisions and other results	(86)	(79)	8.9
EBIT	**43**	**73**	**(41.1)**

1H22 ordinary EBITDA amounted to Euros 152 million, up 7.8% vs. 1H21, reflecting additional capacity coming into operation in Spain, partially offset by lower wind and hydro production (-5.2% and -64.0% respectively) vs. 1H21 and negative regulatory impacts.

Main aggregates

The main aggregates of the activity are as follows:

	1H22	1H21	Change (%)
Installed capacity (MW)	**4,213**	**4,083**	**3.2**
Hydroelectric	2,062	2,062	—
Wind	1,850	1,720	7.6
Solar	250	250	—
Cogeneration and others	51	51	—

	1H22	1H21	Change (%)
Electric energy produced (GWh)	**3,161**	**4,898**	**(35.5)**
Hydroelectric	939	2,610	(64.0)
Wind	1,910	2,015	(5.2)
Solar	204	113	80.5
Cogeneration and others	108	160	(32.5)
Market share of renewables	**4.4**	**6.1**	**(1,7) pp**

Installed capacity at the end of the first half of 2022 reached 4,213MW, 130MW more compared to the first half of 2021, all of them corresponding to wind capacity.

Renewables Australia

Results

	1H22	1H21	Change (%)
Net sales	11	4	175.0
Procurement	—	—	—
Gross margin	**11**	**4**	**175.0**
Other operating income	—	—	—
Personnel expenses	(1)	(1)	—
Taxes	—	—	—
Other operating expenses	(10)	(3)	233.3
EBITDA	**—**	**—**	**—**
Depreciation, provisions and other results	(6)	(5)	20.0
EBIT	**(6)**	**(5)**	**20.0**

In the firs six months of 2022 ordinary Ebitda was 0 Euros , same as the first six months of 2021.

Higher production (+44%) and improved margins following mark to market valuation of existing PPAs were offset by higher opex from Berrybank coming into operation post the first quarter of 2021.

Main aggregates

The main aggregates of the activity are as follows:

	1H22	1H21	Change (%)
Installed capacity (MW)	**277**	**277**	**—**
Wind	277	277	—

	1H22	1H21	Change (%)
Electric energy produced (GWh)	**383**	**266**	**44.0**
Wind	383	266	44.0

Installed capacity at the end of the first six months of 2022 reached 277MW, all of them wind capacity.

Renewables LatAm

Results

	1H22	1H21	Change (%)
Net sales	65	73	(11.0)
Procurement	(12)	(19)	(36.8)
Gross margin	**53**	**54**	**(1.9)**
Other operating income	5	5	—
Personnel expenses	(7)	(10)	(30.0)
Taxes	(1)	(1)	—
Other operating expenses	(15)	(15)	—
EBITDA	**35**	**33**	**6.1**
Depreciation, provisions and other results	(15)	(15)	—
EBIT	**20**	**18**	**11.1**

In the first six months of 2022 ordinary Ebitda reached Euros 35 million, 5.4% lower than in the first six months of 2021, driven by lower production in Mexico and Brasil, and margins in Chile, which has been partially offset by FX impact (Euros 4 million).

Main aggregates

The main aggregates of the activity are as follows

	1H22	1H21	Change (%)
Installed capacity (MW)	**825**	**818**	**0.9**
Mexico (Wind)	234	234	—
Brazil (Solar)	153	153	—
Chile (Solar)	109	101	7.9
Chile (Wind)	206	206	—
Costa Rica (Hydroelectric)	101	101	—
Panama (Hydroelectric)	22	22	—

	1H22	1H21	Change (%)
Electric energy produced (GWh)	**948**	**964**	**(1.7)**
Mexico (Wind)	298	315	(5.4)
Brazil (Solar)	131	142	(7.7)
Chile (Solar)	123	125	(1.6)
Chile (Wind)	140	139	0.7
Costa Rica (Hydroelectric)	215	203	5.9
Panama (Hydroelectric)	41	40	2.5

Installed capacity in LatAm as of end of the first six months of 2022 reached 825MW, 7MW higher compared to the first six months of 2021, all of them solar capacity.

1.4.3. Supply

Results

	1H22	1H21	Change (%)
Net sales	5,859	3,544	65.3
Procurement	(5,522)	(3,196)	72.8
Gross margin	**337**	**348**	**(3.2)**
Other operating income	1	4	(75.0)
Personnel expenses	(32)	(94)	(66.0)
Taxes	(45)	(19)	136.8
Other operating expenses	(104)	(88)	18.2
EBITDA	**157**	**151**	**4.0**
Depreciation, provisions and other results	(134)	(72)	86.1
EBIT	**23**	**79**	**(70.9)**

In the first six months of 2022 ordinary Ebitda reached Euros 153 million, a decrease of 28.5% driven by challenging conditions in electricity supply, due to lower sales and margins in the industrial segment, impacted by volumes sold and not covered with inframarginal generation.

Gas supply for its part, benefited from improved overall margins, which were nevertheless offset by lower sales and costs linked to some contract withdrawals for repricing in the industrial segment.

Main aggregates

The main aggregates of the activity are as follows

	1H22	1H21	Change (%)
Gas sales (GWh)	**45,568**	**55,130**	**(17.3)**
Residential Spain	10,843	12,519	(13.4)
Industrial clients	32,655	41,294	(20.9)
SM&E	2,070	1,316	57.3
By segment	**45,568**	**55,130**	**(17.3)**
Liberalised	42,164	51,358	(17.9)
Regulated	3,404	3,772	(9.8)
Electricity sales (GWh):	**11,532**	**11,056**	**4.3**
Residential Spain	4,687	4,572	2.5
Industrial clients	4,727	5,233	(9.7)
SM&E	2,118	1,251	69.3
By segment	**11,532**	**11,056**	**4.3**
Liberalised	9,608	8,572	12.1
Regulated	1,924	2,483	(22.5)
Retail contracts (thousand)	**10,888**	**10,573**	**3.0**
Gas	3,633	3,731	(2.6)
Electricity	4,247	3,987	6.5
Services	3,008	2,856	5.3
Contracts per customer (Spain)	**2**	**2**	**(0,0) pp**
Gas contract market share (Spain)	46	47	(1,3) pp

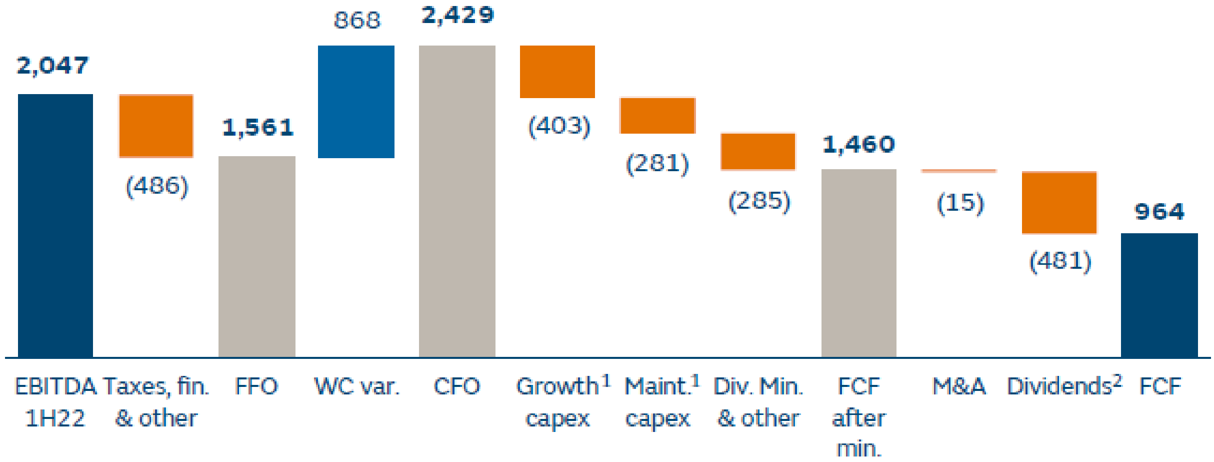
Gas sales decreased by 17.3% on the first six months of 2022, notably in the industrial segment (20.9% decrease).

Power sales showed a slight growth (4.3%) in the first six months of 2022 as a result of higher sales in the SME segment (69.3%) and retail (2.5%), which compensated for lower industrial sales (9.7% decrease).

Finally, the number of contracts increased by 3.0% compared to the first six months of 2021.

1.5. Cash flow

The evolution of cash flow for the first half of 2022 is detailed below:



1 Net of cessions and contributions
2 Dividends paid net of those received by group companies.

In the first six months of 2022 free cash flow after minorities amounted to Euros 1,460 million supported by funds from operations and positive working capital variation. During the first half of the year a total of Euros 481 million were paid as dividends (net of dividend paid to group companies). Free cash flow reached in the period Euros 964 million.

As of 30 June 2022, Net financial debt amounted to Euros 11,976 million, mainly reflecting the strong cash flow generation as well as the positive contribution from working capital variation.

Capex

The breakdown of capex by type was as follows:

	1H22	1H21	%
Investments in property, plant and equipment and intangible assets	721	439	64.2
Other payments of investments activities	(37)	(26)	42.3
Total gross investments	**684**	**413**	**65.6**

The breakdown of capex by activities is as follows:

	1H22	1H21	Change (%)
Energy management and Networks	**373**	**265**	**40.8**
Networks Spain	**145**	**134**	**8.2**
Gas networks	48	45	6.7
Electricity networks	97	89	9.0
Networks Latin America	**133**	**90**	**47.8**
Chile gas	18	16	12.5
Chile electricity	—	—	—
Brazil gas	18	11	63.6
Mexico gas	21	15	40.0
Panama electricity	56	36	55.6
Argentina gas	12	8	50.0
Argentina electricity	8	4	100.0
Energy management	**95**	**41**	**131.7**
Markets and Procurement	—	—	—
International LNG	1	5	(80.0)
Pipelines (EMPL)	—	—	—
Europe thermal generation	39	25	56.0
Latin America thermal generation	55	11	400.0
Renewables and New businesses	**270**	**119**	**126.9**
Spain & USA	150	53	183.0
Australia	111	53	109.4
Latam	9	13	(30.8)
Supply	**71**	**45**	**57.8**
Rest	**7**	**10**	**(30.0)**
TOTAL Capex	**721**	**439**	**64.2**

The breakdown of material and intangible investments between maintenance and growth provides useful information on the investment profile of the group.

Maintenance capex in the first six months of 2022 amounted to Euros 283 million, compared to Euros 181 million as result of higher maintenance in both thermal and renewable generation plants, as well as Networks LatAm, the latter partially explained by currency appreciation.

Growth capex in the period was close to 60% of total capex and amounted to Euros 438 million in the first six months of 2022

Growth capex in the first six months of 2022 mainly included:

- A total of Euros 123 million invested in the development of networks in Spain and LatAm, of which Euros 57 million in Spain, Euros 28 million in Panama, Euros 13 million in Chile and Euros 10 million in Mexico.
- A total of Euros 255 million invested in the construction of different renewable projects, of which Euros 136 million in Spain, Euros 111 million in Australia and Euros 8 million in LatAm.
- Euros 59 million in the Supply activity.

In addition, Naturgy continues to progress on agreements confirming its commitment to renewables growth:

- In Australia, with several projects under different stages of development which would increase our total installed capacity in the country to c. 1,000 MW in the following years.

- In the Unites States, Naturgy is investing Euros 264 million in its first photovoltaic plant which will have an installed capacity of 300MW, the company's largest in the world. Naturgy plans to invest more than Euros 1 billion to reach an operating capacity of 1,200MW in the following years. Last year, Naturgy acquired a portfolio of 25 projects in the United States, totaling more than 3.5 GW, and signed an exclusive five-year development agreement with Candela Renewables which enables the development of solar and energy storage projects exclusively for Naturgy.
- In Spain, Naturgy continues to progress on the following projects:
  - 45MW of solar capacity in the Canary Islands, which will allow the group to double its current installed capacity in the region.
  - 235MW and 221MW of wind and solar projects respectively as part of the Spanish renewable auctions.

1.6. Financial Position

As of 30 June 2022, net debt amounted to Euros 11,976 million, significantly below year-end 2021 figure, reflecting the cash generation capacity of the group.

During the six first months of 2022, the most relevant transactions and refinancing operations included:

- Loan in Spain for Euros 100 million of 3 years at Euribor + 0.40%.
- Refinancing of loans and revolving credit lines in Spain for a total of Euros 3,284 million and international businesses for a total of Euros 239 million, including the refinancing of a syndicated revolving credit facility for Euros 2,000 million increasing the maturity for 1 year and with ESG metrics included in the pricing mechanism.

Liquidity (Euro million)

Liquidity as of 30 June 2022 stood at Euros 9,898 million, including Euros 4,365 million in cash and equivalents and Euros 5,533 million in undrawn and fully committed credit lines. In addition, the ECP program is completely undrawn as of 30 June 2022.

The detail of the Group's current liquidity is as follows:

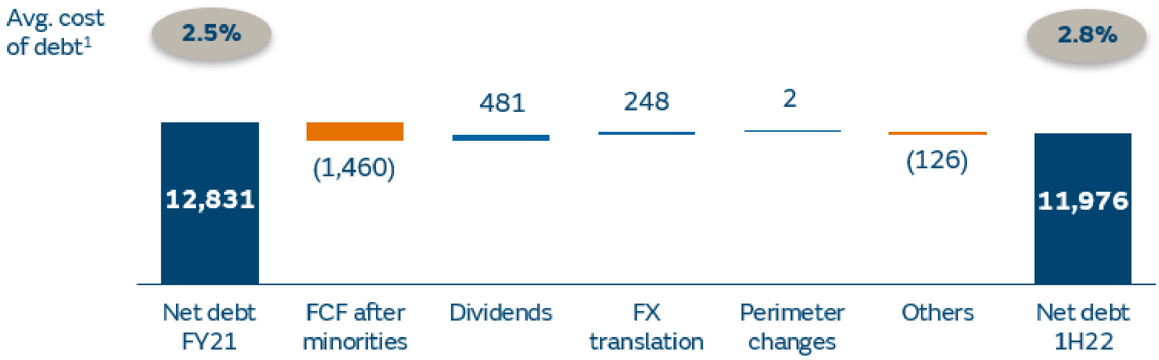
	Consolidated Group		Chile		Brazil	Argentina	Mexico	Panama	Holding & others
	1H22	**FY21**	CLP	USD	BRL	ARS	MXN	USD	EUR/Others
Cash and equivalents	4,365	3,965	46	63	166	52	53	70	3,915
Undrawn commited credit lines	5,533	5,459	—	—	41	—	—	28	5,464
Total	9,898	9,424	46	63	207	52	53	98	9,379

The weighted average maturity of the undrawn credit lines stands over two years, according to the following detail:

	2022	**2023**	**2024**	**2025**	**2026**
Undrawn commited credit lines	171	2,168	1,074	2,000	120

Net debt evolution (Euro million)

The evolution of the debt from 31 December 2021 to 30 June 2022 has been as follows:

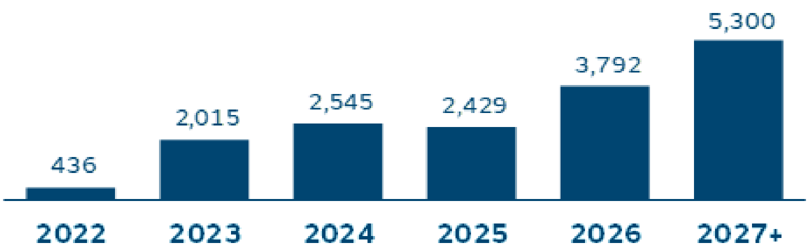


Note:
1. Does not include cost from IFRS 16 debt

The average cost of gross financial debt for the period, excluding the cost of lease liabilities under IFRS 16, is 2.8%, a slightly higher than in FY21 (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:

		1H22	FY21
EBITDA/Net financial debt cost (1)	times	8.3	7.2
Net debt /LTM EBITDA (1)	times	3.1	3.6

(1) As of 31 December 2021.

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 Group		Chile		Brazil	Argentina	Mexico	Panama	Holding & others
		1H22	FY21	CLP	USD	BRL	ARS	MXN	USD	EUR/Others
Net financial debt	MEuros	11,976	12,831	358	24	139	(38)	494	794	10,205
Average cost of gross debt (1)	%	2.8	2.5	10.4	4.0	12.0	43.2	7.9	4.7	1.5
% Fixed (Gross debt)	%	80	83	86	21	1	—	47	22	90

(1) Does not include cost from IFRS 16 debt.

2. Main risks and uncertainties

In the first half of 2022, Naturgy maintained the same risk management policy as described in the consolidated annual accounts for the year ended 31 December 2021.

As detailed in section 4 of the Consolidated directors' report for the year ended 31 December 2021, Naturgy's activities are subject to a range of risks that are classified into four categories:

1. Economic risk
2. Financial risk
3. Operational risk
4. Sustainability and reputational risk

There are also 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.

Financial risks (interest rate, credit, liquidity and capital management) are discussed in Notes 13 and 26 to the Interim consolidated financial statements as of 30 June 2022.

Fiscal, 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 for the year ended 31 December 2021. Health & safety and Customer satisfaction risks are discussed in chapter 7 "Commitment and Talent" and chapter 6 "Customer Experience", respectively, of that same report.

Russia's invasion of Ukraine in February 2022 and the subsequent escalation of the conflict have generated unprecedented volatility in the gas markets. Since the summer of 2021, European hubs had experienced a mismatch between supply and demand due to the impact on gas supply of the demand recovery after the COVID-19 pandemic. However, the onset of the war drove natural gas prices to well above pre-war levels, with extreme volatility in daily prices.

Even with the above situation as a context, the company's supply management has maintained its usual course, without interruption of any supply, even with regard to the long-term contract that Naturgy signed in 2013 with an international consortium for supply gas of Russian origin (in 2021 this contract accounted for 10% of the group's global supply). However, the company continuously monitors the potential impact of a restriction on the entry of Russian gas, anticipating different measures in the face of this possibility.

Despite the situation just described, the company continued to manage its procurements as usual, with no interruption in supplies, including contracts for gas from Russia. However, the company continuously monitors the potential impact of a restriction on the entry of Russian gas and has planned a range of measures to deal with this eventuality.

At the same time, a significant part of the company's long-term procurements has entered the ordinary price review period established in the respective contracts. These reviews might be negatively affected by the extreme price situation in Europe. In the course of the negotiations, the company seeks to protect the long-term interests of its shareholders, creditors and other stakeholders.

Naturgy also monitors the evolution of energy demand and its potential variations, in terms of both price elasticity and the possible worsening of economic conditions in the country, depending, in any event, on the duration and intensity of the conflict. Accordingly, Naturgy has considered a number of measures and actions to be taken in the event of gas shortages arising next winter.

On the regulatory front, both European and local governments have issued regulations to mitigate the consequences of the war on end users of energy. The regulatory framework is described in Appendix IV of the interim consolidated financial statements as of 30 June 2022.

Particularly noteworthy in Spain is Royal Decree-Law 6/2022, of 29 March, adopting urgent measures within the framework of the National Plan to respond to the economic and social consequences of the war in Ukraine. It provides notably for tax measures, a limit on increases in the gas tariff (TUR) for households and SMEs, updated remuneration for renewable, cogeneration and energy-from-waste plants, a reduction in the price of gas, an extension of the energy subsidy (bono social), a reduction in grid tolls for electricity-intensive industry, and an increase in strategic natural gas reserves, among others.

Additionally, on 14 May 2022, the Spanish Cabinet promulgated Royal Decree 10/2022 of 13 May 2022, which temporarily establishes the Iberian mechanism to limit the price of gas consumed by thermal power plants that is passed on in the bids that set the price in the wholesale electricity market (the pool). As required by the European Community (EC), this Royal Decree contains a mandate to modify the PVPC calculation methodology to be applied from January 2023 onwards.

Naturgy expects the impact of this set of measures to be contained and that, in any event, they will affect only the portfolio of sales indexed to the electricity pool and, potentially, some gas procurement contracts linked to it.

Moreover, as a means of supporting its industrial customers, Naturgy has launched, on its own initiative, a gas Commitment tariff in parallel to the electricity Commitment tariff that it was already offering customers.

On 18 May 2022, the EC published the REPowerEU Plan, aimed at reducing dependence on fossil fuels from Russia and accelerating the green transition.

Naturgy is aligned with the EU's plan and sees the REPowerEU's investment drive as a meaningful opportunity both to replace Russian gas supplies and to drive the energy transition.

3. Subsequent events

Events after the closing date, i.e. 30 June 2022, are described in Note 27 to the Interim consolidated financial statements as of 30 June 2022.

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 interim consolidated balance sheet, interim consolidated income statement, interim consolidated statement of cash flows or notes to the interim financial statements of Naturgy. Terms which cannot be directly cross-referenced are reconciled in the Glossary below.

Alternative performance metrics	**Definition and terms**	**Reconciliation of values at 30.06.2022**	**Reconciliation of values at 30.06.2021**	**Relevance**
EBITDA	EBITDA = Net sales (2)– Procurements (2) + Other operating income (2)– Personnel expenses (2)– Other operating expenses (2) + Gain/(loss) on disposals of fixed assets (2) + Release of fixed asset grants to income and other (2)	Euros 2.047 Million	Euros 1.678 Million	Measure of operating income before interest, taxes, depreciation and amortisation and impairment
Ordinary EBITDA	EBITDA - Non-ordinary items (8)	Euros 2.184 Million = 2.047 + 137	Euros 1.959 Million = 1.678 + 281	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
Ordinary Net Income	Net income attributable to the parent company for the period (2) - Non-ordinary items (8)	Euros 717 Million = 557 + 160	Euros 557 million = 484 + 73	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 721 Million = 138 + 583	Euros 439 Million = 90 + 349	Investment in intangible assets and property, plant and equipment
Net capital expenditure (Net CAPEX)	CAPEX (5) - Other investment receipts/ (payments) (3)	Euros 684 Million = 721-37	Euros 413 Million = 439 -26	Total investments (CAPEX) net of the cash received from divestments and other investing receipts
Gross borrowings (7)	"Non-current financial liabilities"(1) + "Current financial liabilities"(1)	Euros 16.517 Million = 14.418 + 2.099	Euros 16.812 Million = 15.114 + 1.698	Current and non-current borrowings
Net borrowings (7)	Gross borrowings(5)– "Cash and cash equivalents"(1) – "Derivative financial assets associated with borrowing"(4)	Euros 11.976 Million = 16.517 -4.365 - 176	Euros 12.831 Million = 16.812 - 3.965 - 16	Current and non-current borrowings less cash and cash equivalents and derivative financial assets
Leverage (%) (7)	Net borrowings (5) / (Net borrowings (5) + "Net equity"(1))	64,4% = 11.976 / (11.976+ 6.625)	59,1% = 12.831 / (12.831 + 8.873)	The ratio of external funds over total funds
Cost of net borrowings	"Cost of borrowings"(4) (Note 20) – "Interest"(4) (Note 20)	Euros 248 Million = 265 - 17	Euros 240 Million = 246 - 6	Amount of expense relative to the cost of borrowings less interest revenue
EBITDA/Cost of net borrowings (7)	EBITDA (5) / Cost of net borrowings (5)	8,3x = 2.047 / 248	7,2x = 3.529 / 491	Ratio between EBITDA and the cost of net borrowings
Net borrowings/LTM EBITDA	Net borrowings(5) / EBITDA from the last 4 quarters (5)	3,1x = 11.976 / 3.898	3,6x = 12.831/ 3.529	Ratio between net borrowings and EBITDA
Free cash flow after non-controlling interests	Net free cash flow (5)+ Parent company dividends (4)+ Purchase of treasury shares (4)+ Inorganic investment payments (4)	Euros 1.460 Million = 964 + 481 -0 + 15	Euros 663 Million = 401 + 605 + 0 - 343	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) + Cash flows from financing activities (3) – Receipts/payments from financial liability instruments (3)	Euros 964 Million = 2.429 - 801 - 1.386 + 722	Euros 401 Million =1,287 – 71 - 1,209 + 394	Net cash generated by the company that is available for payment of debt

Alternative performance metrics	Definition and terms	Reconciliation of values at 30.06.2022	Reconciliation of values at 30.06.2021	Relevance
Average cost of gross financial debt (7)	Annualized financial expense of the operations included in the gross financial debt excluding those corresponding to the debt by IFRS 16 and other refinancing expenses / monthly weighted average of the gross financial debt (including debt liability derivative instruments and excluding the debt by IFRS 16)	2,8% = (265-42-13)= 210 * (360/180) / 15.156	2,5% = (510 - 92 – 29) / 15.751	Indicator of the cost in interest rate of financing
Liquidity (7)	Cash and other equivalent liquid (1) + Undrawn and fully committed lines of credit (4) (Note 13)	Euros 9.898 million = 4.365 + 5.533	Euros 9.424 Million = 3.965 + 5.459	Indicator of the liquid resources available to meet any type of payment
Economic value distributed	Procurements (2) + Other operating expenses (includes Taxes) (2) + Income tax payments (3) + Personnel expenses (2) + Work carried out for fixed assets (4) + Financial expenses (2) + Dividends paid by the parent company (4) + Discontinued activities expenses (4)	Euros 15.923 million = 13.841 + 716 + 194 + 267 + 33 + 391 + 481 + 0	Euros 9.540 million = 6.331 + 642 +204 + 570 + 39 + 286 + 605 + 863	Provides a basic indication of the economic value generated in the entity's activity for its stakeholders

(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 Condensed interim consolidated accounts.

(5) Figure detailed in the APMs.

(6) Figure detailed in the Directors' Report.

(7) Comparative information at 31 december 2021

(8) The non ordinary items are summarized bellow:

	Ebitda		Net income	
Euros million	**1H22**	**1H21**	**1H22**	**1H21**
Restructuring costs	(15)	(300)	(9)	-209
Regulatory fines	(6)	—	(4)	0
Asset write-down	—	—	(10)	(16)
Provisions	(108)	12	(126)	9
Sales of land and buildings	—	8	—	5
Procurement agreement	—	2	—	2
Lean transformation costs	(13)	(32)	(9)	(22)
Generation Taxes	—	28	—	25
Withdrawal costs of onerous contracts with gas customers	—	—	—	—
UFGas agreement	40	—	30	103
Interest sales and corporate transactions	—	—	13	(18)
Discontinued operations	—	—	(16)	47
Other	(35)	1	(29)	1
Total non-ordinary items	**(137)**	**(281)**	**(160)**	**(73)**

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

(Together with the interim financial statements and interim directors' report of Naturgy Energy Group, S.A. for the six-month period ended 30 June 2022)

(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 Interim Financial Statements

(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. commissioned by the Directors of the Company

REPORT ON THE INTERIM FINANCIAL STATEMENTS

Opinion

We have audited the interim financial statements of Naturgy Energy Group, S.A. (the "Company"), which comprise the interim balance sheet at 30 June 2022, and the interim income statement, interim statement of changes in equity and interim cash flow statement for the six-month period then ended, and explanatory notes.

In our opinion, the accompanying interim financial statements give a true and fair view, in all material respects, of the equity and financial position of the Company at 30 June 2022, and of its financial performance and its cash flows for the period then ended in accordance with the applicable financial reporting framework (specified in note 2 to the interim financial statements) 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 Interim Financial Statements* 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 financial statements 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 interim financial statements of the current period. These matters were addressed in the context of our audit of the interim financial statements 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 and 7 to the interim financial statements

Key audit matter	*How the matter was addressed in our audit*
At 30 June 2022 the Company has recognised non-current investments in Group companies and associates amounting to Euros 31,743 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 the methodology and assumptions used to estimate the recoverable amount, where applicable, with the involvement of our specialists. • Assessing whether the disclosures in the interim financial statements meet the requirements of the financial reporting framework applicable to the Company.

Other Information: Interim Directors' Report

Other information solely comprises the interim directors’ report for the six-month period ended 30 June 2022, the preparation of which is the responsibility of the Company’s Directors and which does not form an integral part of the interim financial statements.

Our audit opinion on the interim financial statements does not encompass the interim directors' report. Our responsibility for the interim directors' report, in accordance with the requirements of prevailing legislation regulating the audit of accounts, consists of assessing and reporting on the consistency of the interim directors' report with the interim financial statements, based on knowledge of the entity obtained during the audit of the aforementioned interim financial statements, and assessing and reporting on whether the content and presentation of the interim 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 in the preceding paragraph, the information contained in the interim directors' report is consistent with that disclosed in the interim financial statements for the six-month period ended 30 June 2022 and the content and presentation of the report are in accordance with applicable legislation.

Directors' and Audit and Control Committee's Responsibility for the Interim Financial Statements

The Directors are responsible for the preparation of the accompanying interim financial statements 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 interim financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the interim financial statements, 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 interim financial statements.

Auditor's Responsibilities for the Audit of the Interim Financial Statements

Our objectives are to obtain reasonable assurance about whether the interim financial statements 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 interim financial statements.

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 interim financial statements, 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.

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

- 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 interim financial statements 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 interim financial statements, including the disclosures, and whether the interim financial statements 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 entity's audit and control committee, we determine those that were of most significance in the audit of the interim financial statements 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

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. 20,435

11 August 2022

Naturgy Energy Group, S.A.
Interim Financial Statements
June 2022

Interim Individual Financial Statements

Interim balance sheet.
Interim income statement.
Interim Statement of recognised income and expense.
Interim Statement of changes in equity.
Interim Cash flow statement.
Notes to the interim annual accounts.

This 2022 Interim Individual Financial Statements 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.
Interim balance sheet

			(million euro)
		30.06.2022	31.12.2021
NON-CURRENT ASSETS	**Note**	**32,500**	**31,809**
Intangible assets	5	1	2
Patents, licences, trademarks and other		1	1
Other intangible assets		—	1
Property, plant and equipment	6	105	110
Land and buildings		93	98
Other property, plant and equipment		12	12
Long-term investments in group companies and associates	7	31,743	31,284
Equity instruments		16,606	16,138
Loans to companies		15,137	15,146
Long-term investments	8	43	9
Equity instruments		4	4
Derivatives	14	36	—
Other financial assets		3	5
Other non-current assets	9-14	468	231
Derivatives		468	231
Deferred tax assets	17	140	173
CURRENT ASSETS		**7,859**	**6,927**
Trade and other receivables	9	3,318	2,282
Trade receivables for sales and services		47	56
Trade receivables, group companies and associates		150	213
Derivatives	14	2,981	1,865
Other sundry receivables		2	12
Current tax assets		135	134
Other amounts receivable to Public Administrations		3	2
Short-term investments in group companies and associates	7	2,467	2,379
Loans to companies		2,249	2,376
Other financial assets		218	3
Short-term investments	8	89	57
Derivatives	14	10	—
Other financial assets		79	57
Short-term prepayments and accrued expenses		1	1
Cash and cash equivalents	10	1,984	2,208
Cash at banks and in hand		1,284	889
Other cash equivalents		700	1,319
TOTAL ASSETS		**40,359**	**38,736**

Notes 1 to 29 form an integral part of these Interim Individual Financial Statements.

Naturgy Energy Group, S.A.

Interim balance sheet (million euro)

	Note	30.06.2022	31.12.2021
EQUITY	11	**20,263**	**18,858**
SHAREHOLDERS' FUNDS		**20,240**	**18,901**
Capital		970	970
Authorised capital		970	970
Share premium		3,808	3,808
Reserves		11,320	11,304
Legal and statutory		300	300
Other reserves		11,020	11,004
Treasury shares		(1)	(4)
Profit/(loss) for the year		1,816	1,706
Retained earnings		2,320	1,778
Interim dividend		—	(679)
Other equity instruments		7	18
VALUE CHANGE ADJUSTMENTS		**23**	**(43)**
Hedging operations		23	(43)
NON-CURRENT LIABILITIES		**11,631**	**12,335**
Long-term provisions	12	294	309
Long-term post-employment obligations		223	242
Other provisions		71	67
Long-term borrowings	13	2,031	2,434
Bank borrowings		2,005	2,372
Derivatives	14	25	61
Other financial liabilities		1	1
Amounts owing to group companies and associates falling due in more than one year	15	8,574	9,110
Deferred tax liabilities	17	261	250
Other liabilities	14-16	471	232
Derivatives		471	232
CURRENT LIABILITIES		**8,465**	**7,543**
Short-term borrowings	13-14	556	421
Bank borrowings		548	402
Derivatives		8	19
Amounts owing to group companies and associates falling due in less than one year	15	4,421	4,823
Trade and other payables	16	3,486	2,298
Trade payables		319	259
Trade payables, group companies and associates		59	103
Derivatives	14	2,994	1,873
Other sundry payables		2	12
Personnel (outstanding remuneration)		19	33
Current tax liabilities		78	—
Other amounts payable to Public Administrations		15	18
Short-term prepayments and accrued expenses		2	1
TOTAL EQUITY AND LIABILITIES		**40,359**	**38,736**

Notes 1 to 29 form an integral part of these Interim Individual Financial Statements.

Naturgy Energy Group, S.A.

Interim income statement

			(million euro)
	Note	**30.06.2022**	30.06.2021 (*)
Revenue	18	1,801	1,109
Sales		310	460
Income from equity instruments of group companies and associates	7	1,298	481
Income from marketable securities and other financial instruments of group companies and associates		193	168
Raw materials and consumables	19	(316)	(461)
Consumption of goods		(316)	(461)
Other operating income	22	34	35
Supplementary income and other operating income		34	35
Personnel expenses	20	(34)	(60)
Wages, salaries and related expenses		(29)	(52)
Social Security		(4)	(5)
Provisions		(1)	(3)
Other operating expenses	21	(74)	(54)
External services		(74)	(53)
Taxes		—	(1)
Fixed asset depreciation/amortisation	5-6	(6)	(6)
Impairment and results on disposals of fixed assets		558	75
Gain/(loss) on disposals of tangible fixed assets	6	—	1
Impairment of and losses from equity instruments of group companies and associates	4-7	558	73
Gain/(loss) on disposals of equity interests in Group companies and associates	7	—	1
OPERATING PROFIT/(LOSS)		**1,963**	**638**
Financial income		2	1
Negotiable securities and other financial instruments		2	1
- In third parties		2	1
Financial expenses		(142)	(167)
Borrowings from group companies and associates		(117)	(144)
Borrowings from third parties		(25)	(23)
Impairment and gains/(losses) on disposals of financial instruments		—	—
Impairments and losses		(1)	—
Gains/(losses) on disposals and others		1	—
NET FINANCIAL INCOME	23	**(140)**	**(166)**
PROFIT/(LOSS) BEFORE TAXES		**1,823**	**472**
Income tax	17	(7)	(4)
PROFIT FOR THE YEAR		**1,816**	**468**
Basic and diluted earnings per share in euro		1.89	0.49

(*)Information subject to limited review

Notes 1 to 29 form an integral part of these Interim Individual Financial Statements.

Naturgy Energy Group, S.A.
Interim Statement of recognised income and expense

A) INTERIM STATEMENT OF RECOGNISED INCOME AND EXPENSE	Note		(million euro)
		30.06.2022	30.06.2021(*)
PROFIT FOR THE YEAR		**1,816**	**468**
INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY		77	19
Cash flow hedges		78	23
Actuarial gains and losses and other adjustments	12	24	2
Tax effect	17	**(25)**	**(6)**
RELEASES TO INCOME STATEMENT		**8**	**1**
Cash flow hedges		10	1
Tax effect	17	(2)	—
TOTAL INCOME AND EXPENSE RECOGNISED IN EQUITY		**1,901**	**488**

(*)Information subject to limited review

Notes 1 to 29 form an integral part of these Interim Individual Financial Statements.

Naturgy Energy Group, S.A.

Interim 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 1.1.2021	**970**	**3,808**	**11,291**	**(1)**	**—**	**3,076**	**98**	**(785)**	**14**	**(78)**	**18,393**
Total recognised income and expense	—	—	—	—	—	—	468	—	2	18	488
Operations with shareholders or owners											
- Dividend distribution	—	—	—	—	(611)	—	—	—	—	—	(611)
Other changes in equity	—	—	—	—	611	(1,298)	(98)	785	—	—	—
Balance at 30.06.2021	**970**	**3,808**	**11,291**	**(1)**	**—**	**1,778**	**468**	**—**	**16**	**(60)**	**18,270**
Total recognised income and expense	—	—	14	—	—	—	1,238	—	2	16	1,270
Operations with shareholders or owners											
- Dividend distribution	—	—	—	—	—	—	—	(679)	—	—	(679)
- Trading in treasury shares	—	—	—	(3)	—	—	—	—	—	—	(3)
Other changes in equity	—	—	(1)	—	—	—	—	—	—	1	—
Balance at 31.12.2021	**970**	**3,808**	**11,304**	**(4)**	**—**	**1,778**	**1,706**	**(679)**	**18**	**(43)**	**18,858**
Total recognised income and expense	**—**	**—**	**16**	**—**	**—**	**—**	**1,816**	**—**	**3**	**66**	**1,901**
Operations with shareholders or owners											
- Dividend distribution		**—**	**—**	**—**	**—**	**(485)**	**—**	**—**	**—**	**—**	**(485)**
- Trading in treasury shares	**—**	**—**	**—**	**3**	**—**	**—**	**—**	**—**	**—**	**—**	**3**
Other changes in equity	**—**	**—**	**—**	**—**	**—**	**1,027**	**(1,706)**	**679**	**(14)**	**—**	**(14)**
Balance at 30.06.2022	**970**	**3,808**	**11,320**	**(1)**	**—**	**2,320**	**1,816**	**—**	**7**	**23**	**20,263**

Notes 1 to 29 form an integral part of these Individual Interim Financial Statements.

Naturgy Energy Group, S.A.
Interim Cash flow statement **(million euro)**

	Note	30.06.2022	30.06.2021(*)
Profit for the year before tax		**1,823**	**472**
Adjustments to results		**(1,897)**	**(550)**
Fixed asset depreciation/amortisation	5 and 6	6	6
Impairment adjustments		(558)	(73)
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		(1,493)	(650)
Financial expenses	23	142	167
Other income and expenses		7	2
Changes in working capital		**78**	**84**
Debtors and other receivables		13	(514)
Creditors and other payables		65	598
Other cash flows from operating activities		**1,619**	**740**
Interest paid		(188)	(179)
Dividends received		1,530	800
Interest collected		188	168
Income tax collections/(payments)		89	(49)
Cash flows from operating activities		**1,623**	**746**
Amounts paid on investments		**(1,147)**	**(1,089)**
Group companies and associates		(1,120)	(1,050)
Property, plant and equipment		(3)	(5)
Other financial assets		(24)	(34)
Amounts collected from divestments		**891**	**362**
Group companies and associates		889	360
Property, plant and equipment		—	1
Other financial assets		2	1
Cash flows from investing activities		**(256)**	**(727)**
Collections and payments on equity instruments		**3**	**—**
Disposal of own equity instruments		3	—
Collections and payments financial liability instruments		**(1,109)**	**315**
Issuance		887	1,167
Bank borrowings		102	1
Payables to Group companies and associates		785	1,130
Other payables		—	36
Repayment/redemption of		(1,996)	(852)
Bank borrowings		(322)	(151)
Payables to Group companies and associates		(1,671)	(694)
Other payables		(3)	(7)
Dividend payments		**(485)**	**(611)**
Cash flow from financing activities		**(1,591)**	**(296)**
NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS		**(224)**	**(277)**
Cash and cash equivalents at the beginning of the year		2,208	2,618
Cash and cash equivalents at the year end		1,984	2,341

(*)Information subject to limited review

Notes 1 to 29 form an integral part of these Individual Interim Financial Statements..

Contents of the notes to the Interim Financial Statements at 30 June 2022

Notes to the Interim Financial Statements of Naturgy Energy Group, S.A. at 30 June 2022

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 main ordinary activity is the administration and management of its shareholdings in subsidiaries. In addition, the Company had long-term contracts to supply gas to other Naturgy companies, which were cancelled in 2021. At 31 June 2022, the Company had a short-term gas procurement contracts.

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 10 February 2022, Naturgy communicated the decision of its Board of Directors in relation to the launch of the Geminis project, consisting of a very significant reorganisation of the group of companies of which Naturgy Energy Group, S.A. is the parent company. Specifically, that project consists of a spin-off from Naturgy Energy Group, S.A. under the provisions of Title III (Articles 68 et seq.) of Law 3/2009, of 3 April, on structural modifications of commercial companies (the "LME") so as to create two large groups that would be listed on the Spanish Stock Exchanges and have clearly differentiated business profiles but the same shareholder composition, at least initially, as a result of the proposed transaction.

The first of the groups resulting from the proposed spin-off would be headed by the Company itself (MarketsCo, after the spin-off), as the surviving company, and would encompass, in an integrated manner, the deregulated businesses comprising the development of renewable energies, the portfolio of energy customers and associated services, the conventional generation fleet, and trading in wholesale energy markets. The second of the groups resulting from the proposed spin-off would be headed by a newly-created company (NetworksCo), as the beneficiary of the spin-off, encompassing all the businesses involved in managing regulated gas and electricity distribution and transmission infrastructures.

Once the legal and/or commercial requirements established by the LME and other applicable regulations have been met and, to the extent logistically possible, on the same day that the NetworksCo shares are admitted to trading on the Spanish Stock Exchange, and prior to the commencement of trading, the shareholders of the Company, as the surviving company, would receive, in accordance with the provisions of Article 70 of the LME, a number of newly issued shares of NetworksCo in proportion to their stake in the share capital of Naturgy Energy Group, S.A.

At the date of preparation of these Interim Financial Statements, Naturgy's Board of Directors continues to evaluate all elements that may affect the viability of the project. Taking into account the above, and given the uncertainty in the energy and macroeconomic environment, the Board does not consider that at 30 June 2022 the conditions for the materialization of the Geminis project to be highly probable, as required by accounting regulations to classify the net assets affected by the spin-off as held for sale and to be distributed to shareholders.

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

2.1 Basis of presentation

The Company’s annual accounts for 2021 were approved at the annual general meeting of shareholders on 15 March 2022.

The Interim Financial Statements at 30 June 2022 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 interim financial statements have been prepared based on the Company's accounting records in order to fairly present its equity and financial position at 30 June 2022, as well as the results, changes in equity and cash flows for the six period then ended.

The figures set out these interim financial statements are expressed in million euros, which is the Company’s functional and presentation currency, unless otherwise stated.

2.2 Comparison of information

The Interim Financial Statements at 30 June 30 2022 present for comparative purposes, with each of the balance sheet items, the profit and loss account, the statement of changes in equity, the statement of cash flows and the contents of the notes to the Interim Financial Statements, in addition to the figures for the period ended at 30 June 2022, those corresponding to the previous financial year/period, which were part of the Annual Accounts for 2021 and the Interim Financial Statements at 30 June 2021.

2.3 Accounting principles and main valuation standards

The main accounting policies and valuation standards applied by the Company to prepare these interim accounts at 30 June 2022 are the same as for the Company's annual accounts for the year ended 31 December 2021, which include the changes and effects arising from the adoption of Royal Decree 1/2021.

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 in 2021 were 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.

Upon first-time application of this standard on 1 January 2021, the company opted for the practical expedient of not restating comparative information for 2020, instead choosing prospective application for hedge accounting and classification of financial instruments.

The option of changing the classification of 31 December 2020 financial 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 measurement of financial assets. Pursuant to the second transitional provision of Royal Decree 1/2021, the Company applied the new classification and measurement criteria for financial assets and liabilities retroactively, in accordance with the provisions of accounting and measurement standard 22 "Changes in accounting policies, accounting errors and estimates" of the Spanish National Accounting Plan.

The equivalence between the amounts classified by category of financial assets at 31 December 2020 and 1 January 2021 was 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 break 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	—	—	136	136
Other non-current assets	**—**	**—**	**136**	**136**
Total non current assets	**15,181**	**15,422**	**136**	**30,739**
Derivatives	—	—	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	—	—	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	136	—	—	136
Other non-current financial liabilities	**136**	**—**	**—**	**136**
Total non-current borrowings	**136**	**12,251**	**108**	**12,495**
Bank borrowings	—	257	—	257
Derivatives	—	—	21	21
Other financial liabilities	—	121	—	121
Current borrowings	**—**	**378**	**21**	**399**
Payable to group companies and associates	**—**	**2,560**	**—**	**2,560**
Derivatives	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 chose 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 Interim Financial Statements of Naturgy at 30 June 2022 have been prepared by the Board of Directors on 11 August 2022 in accordance with IAS 34 "Interim financial information". The main magnitudes that emerge from the consolidated financial statements are as follows:

Total assets	41,113
Equity attributed to the parent company	3,703
Non-controlling interests	2,922
Revenue	16,737
Profit after tax attributed to the parent company	557

Note 3. Accounting policies

The main accounting principles applied by the Company to prepare these Interim Financial Statements are the same as those used for the Annual accounts at 31 December 2021 and are detailed 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 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) while minor maintenance is expensed as incurred.

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. 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. The Company uses the value in use, calculated as described below, as 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 and goodwill are assigned to these cash-generating units (CGUs).

For investments in group companies and associates, barring investments whose recoverable amount is determined based on the investee's equity (Note 3.4), which required an analysis of potential impairment losses, the cash flows employed are based on the best prospective information available for the next four years, extended by six additional years or the length of the remaining useful life for certain assets and concessions, 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 of the cash flow projections by six 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 considers that its projections are reliable and that it can reliably predict the additional cash flows for the initial four-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).
- Unlevered 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.

Fair value measurements are classified using a fair value hierarchy that reflects the relevance of the variables employed to perform the measurement. 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 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 consideration received.

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 is given of the risk management objective pursued.

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. 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 distribution to owners

The Company 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.

In addition, Naturgy classifies as assets held for distribution to owners all assets and related liabilities when it undertakes to distribute the asset to shareholders. For this purpose, the assets must be available for distribution in their current condition and the distribution must be highly likely, i.e. actions to perform the distribution must have been initiated and must be expected to be completed within one year from the date of classification.

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

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

3.7 Share capital and Reserves

The social 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 from the share premium account in the case of issuances with a share premium.

Dividends on common shares are recognized as a lower value of equity when they are approved.

Distributions to shareholders of assets other than cash, in the event that the assets are not controlled by the same parties before and after distribution, are recorded at the fair value of the assets at to distribute. The liability for the payment of this dividend will be recognized when the dividend is duly authorized with a counterpart to reserves and the carrying amount of the dividend to be paid in subsequent closings will be adjusted, recognizing any variation in said amount to be paid in equity, as an adjustment to the amount of the distribution. At the time of its liquidation, the difference between the carrying amount of the distributed assets and the amount of the dividend to be paid will be recognized in the results of the year.

Acquisitions of treasury shares are recorded at their acquisition value, reducing equity until the time of disposal. Profits and losses obtained from the disposal of treasury shares are recorded under the heading “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.

Nevertheless, in mergers, spin-offs, de-mergers or non-cash contributions of a business between group companies, the items that make up the acquired business are valued at the amount at which they are recognised in Naturgy's interim accounts after the transaction takes place.

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 2021, the COVID-19 pandemic generated considerable 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.

In the second quarter of 2022, the re-imposition of large-scale lockdowns in China to contain COVID-19 may lead to downward revisions in global energy demand, in addition to potential problems in the supply of technology components for Europe, which are needed, for example, to maintain strong growth in renewable investments.

Naturgy monitors the evolution of the economic cycle in the short and long term, as a result of the specific impact of COVID-19, 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 and financial position, and the results of its operations.

The estimates and assumptions required to prepare the Company's interim accounts took account of those prospects and are detailed 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 interim accounts for the six-month period ended 30 June 2022.

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 accounts.

As detailed in Note 4, 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.

i. Military conflict between Russia and Ukraine

On 24 February 2022, war broke out between Russia and Ukraine. There has not been an invasion of a European country since the middle of the last century, and it has had devastating humanitarian consequences and major implications for the world economy and financial markets. Energy is one of the industries that has been most affected, as oil and gas prices have increased very sharply. Countries such as the United States, Australia, Japan, the United Kingdom and the EU have taken measures and imposed sanctions against the Russian economy, which will also have global effects.

Said sanctions have caused impacts on the evolution of the local currency exchange rate, on local interest rates and on the stock price of companies listed on the Moscow Stock Exchange. Likewise, and in the face of a possible gas shortage caused by the conflict, the European gas market has reacted upwards and the seriousness of the situation has also generated high volatility in the market, with its corresponding impacts on electricity prices. These difficulties have also increased with a higher level of technological risks, to which companies and Administrations are exposed, which has also led to the adoption of adequate defense measures and maximum internal controls for the protection of digital infrastructures.

Considering the reference scenario, and in compliance with the recent recommendations of the European Securities and Markets Authority (ESMA) dated 13 May 2022, Naturgy monitors the status and evolution of the current situation generated by the crisis in order to manage the risks potentials. To this end, the analyzes carried out are aimed at evaluating the indirect impacts of the conflict on business activity, on the financial situation and on economic performance, with special reference to the generalized increase in the prices of raw materials and, if possible, to reduced availability of material supplies from conflict-affected areas. In this context, as part of its diversified portfolio, Naturgy has a long-term contract signed in 2013 with an international consortium for the supply of gas of Russian origin that is not affected by any type of sanction. In 2021, the volume of this contract accounted for 10% of Naturgy's global supply. Additionally, Naturgy has no counterparties eventually affected by the sanctions.

This is a constantly evolving scenario, also characterized by great regulatory uncertainty and a context of high and volatile prices, which is why Naturgy constantly monitors the macroeconomic and business variables to have the best estimate of the potential impacts, also taking into account the various recommendations of national and supranational supervisory bodies on the matter.

Note 4. Asset impairment

Definition of Cash Generating Unit

At 30 June 2022 and 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 and Mexico 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 carried out in 2021, described in the section “Information on recognized impairments” of this note.

  - Gas pipelines: It 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 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 above CGUs has not changed since the previous estimate of their recoverable amount, performed in 2021.

Information on impairment tests performed

In June 2022, Naturgy updated the estimated recoverable value of investments in group companies and associates that may be impaired due to changes in market conditions or significant regulatory changes.

Naturgy evaluated the recoverable value of investments in group companies and associates based on the Strategic Plan 2021-2025 approved by the Board of Directors and presented on 28 July 2021, adapted to changes in regulations and in energy variables, taking into account the investment plans to maintain the production capacity of the assets in 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 six years or by the remaining useful life for certain assets and concessions. Various potential future scenarios were also considered when estimating cash flows, if they provide a better estimate of the set of economic conditions that will arise over the asset's remaining useful life.

In general, the flows reflect Naturgy's 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 take into account the volatility in international gas markets and transitory high electricity prices. In Spain specifically, the regulation derived from the measures approved in response to the economic and social consequences of the war in Ukraine, the limitation of the gas price for price discovery in the electricity market, as well as commercial proposals to avoid high pool prices, have been considered.

Information on recognised impairments (Note 7)

At 30 June 2022, a revenue has been recorded for the reversal of impairment of holdings in group companies and associates in the amount of Euros 558 million (Euros 73 million at 30 June 2021 as revenue from the reversal of impairment) was recorded under the heading "Impairment and losses on investments in equity instruments in group companies and associates" in the income statement and is detailed below:

	30.06.2022	30.06.2021
Unión Fenosa Gas, S.A.	633	108
Naturgy Engineering, S.L.	10	(6)
Naturgy Participaciones, S.A.U	8	13
Naturgy Finance, BV	(1)	(1)
Lignitos de Meirama, S.A	(1)	—
Naturgy Informática, S.A.	(3)	(3)
Naturgy Nuevas Energías, S.L.U.	(4)	(3)
Naturgy LNG, S.L	(6)	(35)
Naturgy Generación, S.L.U.	(79)	—
Other	1	—
Total	**558**	**73**

– Naturgy Generación, S.L.U.:

The impairment of Euros 79 million booked for this holding includes the hydroelectric power generation CGU in Spain following the demerger detailed in Note 7 (Euros 0 million at 30 June 2021).

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

The main hypotheses considered were the following:

	2022	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**
Pool price €/MWh	175.2	160.0	135.0	123.2	108.8	98.6	90.4	82.5	84.7	86.4

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 produced. In the hydroelectric power generation CGU, production trends are based on the average water year.

- Electricity price. Market electricity prices were 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 according to futures curves, and analysts' forecasts. The estimates also include the impact of existing contracts with the Group's supply companies.

  The projected flows take into account the extraordinary regulatory changes derived from the increase in electricity prices in the wholesale market, most notably:

  – The estimated impact of the reduction in the remuneration for non-emitting installations by an amount proportional to the gas market price.

  – The production cost adjustment mechanism to reduce electricity prices, as regulated in Royal Decree Law 10/2022, of 13 May, and which makes public the European Commission's decision authorizing that mechanism.

- Operation and maintenance costs. These were estimated from historical costs of the fleet under management.

- 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.

In addition, a long-term growth rate of 2% and a pre-tax discount rate of 7% were used. The discount rate was determined based on the associated risks in a manner consistent with those considered in the estimates of future cash flows.

In 2021, a long-term growth rate of 2% and a pre-tax discount rate of 6% were used.

The accumulated impairment at 30 June 2022 relating to the holding in Naturgy Generación, S.L.U. following the demerger mentioned in Note 7 amounts to Euros 2,265 million (Euros 2,186 million at 31 December 2021).

– 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 acquired the remaining 50% stake in UFG for Euros 466 million, bringing its holding to 100%. 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 was maintained.

As a result of the acquisition of the other 50% interest in 2021, in the first half of the financial year 2021 Euros 108 million euros in connection with the valuation of the pre-existing 50% interest in Unión Fenosa Gas were reversed. Also, an additional Euros 676 million were reversed in 2021 due to measurement of the expected flows from the gas procurement contract with Oman that expires in 2025 and the estimated dividends from its 7.36% interest in the company Qalhat LNG S.A.O.C. The update of the valuation of UFG, basically due to the expected flows of the gas supply contract with Oman, carried out in June 2022, has generated a reversal of the impairment of Euros 633 million (Euros 108 million at 30 June 2021).

Additionally, a pre-tax discount rate of 12.3% was used (12.2% in 2021). The discount rate was determined based on the associated risks in a manner consistent with those considered in the estimates of future cash flows.

The accumulated impairment at 30 June 2022 relating to the 100% interest in Unión Fenosa Gas amounts to Euros 762 million (Euros 1,395 million at 31 December 2021). At 30 June 2022, the recoverable amount calculated as the value in use of UFG, which is equivalent to its carrying amount, was Euros 1,927 million (Euros 1,294 million at 31 December 2021) (Note 7).

In addition, the following impairments have been recognised based on the companies' equity:

– Naturgy LNG, S.L.:

The impairment recognised in the amount of Euros 6 million is the result of the company's adverse performance. The accumulated impairment at 30 June 2022 relating to the interest in Naturgy LNG, S.L. amounts to Euros 65 million (Euros 59 million at 31 December 2021).

– Naturgy Informática, S.A.:

Impairment has been recognised in the amount of Euros 3 million. The accumulated impairment recognised at 30 June 2022 in connection with the holding in Naturgy Informática, S.A. amounts to Euros 158 million (Euros 155 million in 2021).

– Naturgy Nuevas Energías, S.L.U.:

Impairment has been recognised in the amount of Euros 4 million. The accumulated impairment at 30 June 2022 amounts to Euros 2 million (Euros 2 million at 31 December 2021). This includes the Euros 10 million provision for future risks recorded under "Other long-term provisions" (Euros 6 million at 31 December 2021).

– Naturgy Finance, B.V.:

Impairment has been recognised in the amount of Euros 1 million. The accumulated impairment at 30 June 2022 relating to the interest in Naturgy Finance, BV amounts to Euros 1 million (Euros 0 million at 31 December 2021).

– Lignitos de Meirama, S.A.:

Impairment has been recognised in amount of Euros 1 million. The accumulated impairment at 30 June 2022 relating to the interest in Lignitos de Meirama, S.A. amounts to Euros 30 million (Euros 29 million at 31 December 2021).

Additionally, revenue was recognised from reversing impairment on the following holdings:

– Naturgy Engineering, S.L.:

Impairment reversal has been recognised in amount of Euros 10 million. The accumulated impairment at 30 June 2022 relating to the interest in Naturgy Engineering, S.L. amounts to Euros 2 million (Euros 12 million at 31 December 2021).

– Naturgy Participaciones, S.A.U.:

At 30 June 2022, the entire impairment of Euros 8 million accumulated for this holding was reversed.

– Others :

Relates mainly to the reversal of impairment on holdings in Petroleum Oil&Gas España, S.A, Gas Natural Exploración, S.L and Naturgy Ingenieria Nuclear, S.L.

Information on the rest of the impairment tests performed:

As regards the remaining investments in Group companies and associates that have shown evidence of impairment, at 30 June 2022 and 31 December 2021, the recoverable amounts, calculated according to the methodology described in Note 3.3, were higher than the carrying amounts of holdings in Group companies recorded in these interim accounts.

The most sensitive matters included in the impairment tests, updated as of June 2022, are as follows:

Latin American networks:

For the gas network CGUs in Chile and Argentina:

- 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, a long-term growth rate between 2% and 9.6% and a pre-tax discount rate in the range between 8.2-19.4% (growth rate between 2% and 8.8% and pre-tax discount rate between 7.7% and 18.1% in 2021) were used.

Thermal generation Spain:

The assumptions and projections affecting this CGU were 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. Those projections include a production roadmap based on the outlook of the NECP, which contemplate that all installed capacity of the combined cycle generation units will be needed in the projection horizon (2031).

The main hypotheses considered were the following:

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Pool price €/MWh	175.2	160.0	135.0	123.2	108.8	98.6	90.4	82.5	84.7	86.4
Brent (USD/bbl)	102.7	90.5	81.9	76.3	69.7	69.5	71.1	72.8	74.7	76.7
Gas Henry Hub (USD/MMBtu)	6.4	5.4	4.3	4.0	3.4	3.4	3.5	3.6	3.7	3.9
CO_2 €/t	82.8	84.4	87.2	90.5	93.9	97.3	100.7	104.1	107.5	110.9

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 trends were estimated based on CNMC and analyst projections, considering also the existing contracts with Naturgy's supply companies. 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 when renewables penetration increases.

- Electricity price. Market electricity prices were 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 estimates also include the impact of existing contracts with the Group's supply companies.

  The projected flows take into account the extraordinary regulatory changes derived from the increase in electricity prices in the wholesale market, most notably:

  – The estimated impact of the reduction in the remuneration for non-emitting installations by an amount proportional to the gas market price.

  – The production cost adjustment mechanism to reduce electricity prices, as regulated in Royal Decree Law 10/2022, of 13 May, and which makes public the European Commission's decision authorizing that mechanism.

- Fuel costs. Estimated on the basis of market prices.

- Operation and maintenance costs. These were estimated from historical costs of the fleet under management.

- 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 7.6% (growth rate of 2% and pre-tax discount rate of 7.1% in 2021) were used.

Renewables Spain:

The assumptions and projections affecting the Renewable generation CGU (wind, mini-hydro, solar and cogeneration) are based on the best available forward-looking information to date.

The assumptions concerning changes in 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 power generation CGU, projections of hours of operation of each farm consistent with their historical output and predictions based on historical records of similar parks were used when there were no historical data.

- Electricity price. Market electricity prices were calculated using models that cross expected demand with supply forecasts, taking into account the foreseeable evolution of generation capacity in Spain, according to sector forecasts, the development of the energy scenario on the basis of futures curves, and analysts' forecasts. Additionally, the impacts derived from existing contracts with the Group's marketers are included in the estimate.

  The projected flows take into account the extraordinary regulatory changes derived from the increase in electricity prices in the wholesale market, notably the following:

  – The estimated impact of the reduction in the remuneration for non-emitting installations by an amount proportional to the gas market price.

  - The cut in the remuneration of the facilities subject to the specific remuneration regime provided by RD 413/2014 and approved for the 2022 regulatory period, as well as the estimate for subsequent years.

  - The measures envisaged to regulate water impounded for hydroelectric use.

- Remuneration. For the renewable generation CGU facilities entitled to specific remuneration, the remuneration was estimated on the basis of the remuneration parameters for the established revenue regulation period.

- Operation and maintenance costs. These were estimated from historical costs of the fleet under management.

- 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.

In addition, a long-term growth rate of 2% and a pre-tax discount rate of 6.5% (growth rate of 2% and pre-tax discount rate of 5.4% in 2021) were used.

Renewables Latin America:

The recoverable value of the electricity generation CGUs in Brazil, Costa Rica, Panama and Chile has been updated.

The most sensitive aspects included in the impairment analysis performed are as follows:

- Renewable electricity generation in Latin America is managed under energy sale-purchase contracts through stable business models which are not subject to fluctuation on the basis of market variables.

- Operation and maintenance costs. Estimated on the basis of historical costs and best forecasts when no historical data are available.

In addition, a long-term growth rate between 2% and 3.3% and a pre-tax discount rate between 10.2% and 14.8% (growth rate between 2% and 3.3% and pre-tax discount rate between 8.4% and 14.6% in 2021) were used.

Naturgy carried out a sensitivity analysis with respect to the following fluctuations:

Thermal power generation Spain: The result of the sensitivity analysis is as follows:

- an increase in the discount rate of 50 basis points would entail an impairment of Euros 48 million.
- a decrease in the growth rate of 50 points would entail an impairment of Euros 8 million.
- a decrease in electricity output of 5% would entail an impairment of Euros 116 million.
- A decrease in the average price of electricity during the remaining life of the installation of 1 euro/MWh, together with the variation in the cost of related gas and CO2, would entail an impairment of Euros 49 million.

Hydroelectric power generation in Spain: The result of the sensitivity analysis is as follows:

- an increase in the discount rate of 50 basis points would entail an impairment of Euros 56 million.
- a decrease in the growth rate of 50 basis points would entail an impairment of Euros 9 million.
- a decrease in electricity output of 5% would entail an impairment of Euros 76 million.
- a decrease in the electricity price during the remaining life of the installation of 1 euro/MWh would entail an impairment of Euros 5 million.

Renewable power generation in Spain: The result of the sensitivity analysis is as follows:

- an increase in the discount rate of 50 basis points would not entail impairment.
- a decrease in the growth rate of 50 basis points would not entail impairment.
- a decrease in produced electricity of 5% would not entail impairment.
- a decrease in electricity output of 5% would entail a CGU's use value reduction of Euros 95 million, with no impairment.

Gas distribution in Argentina: The result of the sensitivity analysis is as follows:

- an increase in the discount rate of 50 basis points would entail an impairment of Euros 5 million.

- a decrease in the growth rate of 50 basis points would entail an impairment of Euros 2 million.
- a decrease in the rate/remuneration trend of 5% would entail an impairment of Euros 16 million.
- an increase in operating and maintenance costs of 5% would entail an impairment of Euros 5 million.
- an increase in investments of 5% would entail an impairment of Euros 6 million.

Gas distribution Chile: The result of the sensitivity analysis is as follows:

- an increase in the discount rate of 50 basis points would not result an impairment.
- a decrease in the growth rate of 50 basis points would not result an impairment..

Electricity generation Brazil: The result of the sensitivity analysis is as follows:

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

Electricity generation Panama: The result of the sensitivity analysis is as follows:

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

Electricity generation Chile: The result of the sensitivity analysis is as follows:

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

Electricity generation Costa Rica: The result of the sensitivity analysis is as follows:

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

No other sensitivity tests were performed for the six-month period ended 30 June 2022 since there were no signs of impairment. In relation to the Renewables USA CGU, whose assets were acquired in 2021, the possible impacts of tariffs and other regulatory changes in the USA were assessed and the viability of the projects was confirmed.

For the other holdings in Group companies and associates, in 2021 Naturgy carried out a sensitivity analysis of the unfavourable variations which may reasonably impact the aforementioned sensitive parameters on which the recoverable amounts have been determined. Specifically, the main 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 Interim financial statements.

Note 5. Intangible assets

Movements in intangible assets during the six-month period ended 30 June 2022 and in 2021 are as follows:

	Patents, licences, trademarks and other	Computer software	Subtotal	Goodwill	Total
Cost	1	6	7	815	822
Accumulated amortisation	—	(4)	(4)	(815)	(819)
Carrying value at 1.1.2021	1	2	3	—	3
Amortisation charge (1)	—	(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**
Amortisation charge	—	(1)	(1)	—	(1)
Carrying value at 30.06.2022	1	—	1	—	1
Cost	1	6	7	815	822
Accumulated amortisation	—	(6)	(6)	(815)	(821)
Carrying value at 30.06.2022	**1**	**—**	**1**	**—**	**1**

(1) The total provision for amortization of Intangible assets as of 30.06.2021 is Euros (1) million

Goodwill derived 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.

No fully amortised assets were derecognised in the first half of 2022 or in 2021.

Note 6. Property, plant and equipment

The amounts and variations experienced during the six-month period ended 30 June 2022 and the year 2021 for the items that make up the property, plant and equipment are as follows:

	Land and buildings	Other property, plant and equipment	Total
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 (1)	(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**
Amortisation charge	(5)	—	(5)
Carrying value at 30.06.2022	**93**	**12**	**105**
Cost	169	25	194
Accumulated amortisation	(76)	(13)	(89)
Carrying value at 30.06.2022	**93**	**12**	**105**

(1) The total provision for amortization of Property, plant and equipment as of 30.06.2021 is Euros (5) million

In the first half of 2022, fully depreciated assets in the amount of Euros 1 million were derecognised, of which none related to buildings (Euros 24 million in 2021, of which 17 related to buildings). In addition, in 2021 various properties and vehicles were sold, resulting in net asset disposals of Euros 1 million with a positive impact 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 22 million at 30 June 2022, of which Euros 10 million related to buildings (Euros 17 million in 2021, of which 10 related to buildings).

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 30 June 2022 and 31 December 2021, 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 30 June 2022 and 31 December 2021 is as follows:

At 30.06.2022	**Financial assets at cost**	**Financial assets at amortised cost**	**Total**
Equity instruments	16,606	—	16,606
Loans	—	15,137	15,137
Non-current	**16,606**	**15,137**	**31,743**
Loans	—	2,249	2,249
Other financial assets	—	218	218
Current	**—**	**2,467**	**2,467**
TOTAL	**16,606**	**17,604**	**34,210**

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**

Movements during the six-month period ended 30 June 2022 and in 2021 in the investment in group companies and associates items are as follows:

	Holdings in group companies	**Loans to group companies**	**Holdings in associates**	**Total**
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**
Additions	355	—	—	355
Divestments	(449)	(1)	—	(450)
Reclassification	—	(8)	—	(8)
Charge/reversal provisions	562	—	—	562
Balance at 30.06.2022	**16,602**	**15,137**	**4**	**31,743**

The main corporate transactions carried out by the Company were as follows:

Six-month period ended 30 June 2022

- Monetary contribution to offset losses incurred by Gas Natural Comercializadora, S.A. in the amount of Euros 321 million.

- Monetary contribution to offset losses incurred by Naturgy Informática, S.A. in the amount of Euros 19 million.

- Acquisition from Naturgy Ciclos Combinados, S.L. of a shareholding in La Propagadora del Gas, S.A. for Euros 12 million.

- Additional investment in the capital of Naturgy InnovaHub, S.A. in the amount of Euros 2 million.

- Cash contribution to offset losses incurred by Petroleum Oil&Gas España, S.A. for Euros 1 million.

- The distribution of the share premium was recognised as a decrease in the carrying amount of the interest in Holding Negocios de Gas, S.A., in the amount of Euros 187 million.

- The distribution of the share premium was recognised as a decrease in the carrying amount of the interest in Holding Negocios de Electricidad, S.A., in the amount of Euros 167 million.

- Part of the distribution of a final dividend for 2021 amounting to Euros 94 million was recorded as a decrease in the carrying amount of the holding in Naturgy Inversiones Internacionales, S.A.

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, in the second half of the year.

- 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 (Euros 362 million at 30 June 2021).

- 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., in the second half of the year.

- Cash contribution to offset losses incurred by Petroleum Oil&Gas España, S.A. for Euros 1 million (existing operation at 30 June 2021).

- At 30 June 2021 it had already the 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 was recognised in connection with the Euros 877 million reduction in expenses at 31 December 2021 (at 30 June 2021, the reversal amounted to Euros 73 million) (Note 4).

The cumulative provision for the impairment of shareholdings in Group companies and associates totals Euros 3,591 million at 30 June 2022 (Euros 4,153 million at 31 December 2021), relating basically to the following companies (Note 4):

	30.06.2022	31.12.2021	Variation
Naturgy Generación, S.L.U.	2,265	2,186	79
Unión Fenosa Gas, S.A.	762	1,395	(633)
Gas Natural Exploración, S.L.	214	214	—
Naturgy Informática, S.A.	158	155	3
Petroleum, Oil & Gas España, S.A.	74	74	—
Naturgy LNG, S.L	65	59	6
Lignitos de Meirama, S.A.	30	29	1
General de Edificios y Solares, S.L.	9	9	—
Naturgy Almacenamientos Andalucía, S.A	8	8	—
Naturgy Engineering, S.L.	2	12	(10)
Naturgy Nuevas Energías, S.L.U.	2	2	—
Naturgy Participaciones, S.A.U	—	8	(8)
Other	2	2	—
Total	**3,591**	**4,153**	**(562)**

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 the first six months of 2022 and 2021, correspond to the following companies:

	30.06.2022	31.12.2021
Naturgy Inversiones Internacionales, S.A.	342	70
Naturgy Distribución Latinoamérica, S.A.	252	—
Holding Negocios Electricidad, S.A.	201	29
Holding Negocios Gas, S.A.	180	115
Union Fenosa Gas, S.A.	137	—
Sagane, S.A.	76	124
Naturgy Generación, S.L.U	64	—
Naturgy Ciclos Combinados, S.L.U.	38	—
Naturgy Finance, B.V.	4	4
Naturgy Participaciones, S.A.U.	3	—
Naturgy Capital Markets, S.A.	1	1
Naturgy Iberia, S.A.	—	100
Global Power Generation, S.A.U.	—	37
Other	—	1
Total	**1,298**	**481**

The breakdown of shareholdings in Naturgy companies is set out below:

				Data at 30 June 2022								
				% interest			Equity					
Company	**Registered Office**	**Activity**	**Carrying value June 2022**	**Direct**	**Indirect**	**Total**	**Capital**	**Reserves (1)**	**Profit/(loss)**	**Interim dividend**	**Other (2)**	**Equity**
Naturgy Aprovisionamientos, S.A.	Spain	Gas supply	85	100.0	—	100.0	1	133	(349)	—	(7)	(222)
Naturgy LNG, S.L.	Spain	Gas supply	32	100.0	—	100.0	2	37	(4)	—	(3)	32
Sagane, S.A.	Spain	Gas supply	42	100.0	—	100.0	95	22	(2)	—	—	115
Unión Fenosa Gas, S.A.	Spain	Gas supply	1,927	100.0	—	100.0	33	398	406	—	(469)	368
Naturgy LNG GOM, S.L.	Spain	Gas supply	—	100.0	—	100.0	—	—	—			—
Gas Natural Comercializadora, S.A.	Spain	Gas and electricity supply	515	100.0	—	100.0	3	8	(262)	—	166	(85)
Comercializadora Regulada, Gas & Power, S.A.	Spain	Gas and electricity supply	121	100.0	—	100.0	2	7	49	—	—	58
Naturgy Commodities Trading, S.A.	Spain	Gas and electricity supply	11	100.0	—	100.0	11	17	(15)	—	—	13
Naturgy Iberia, S.A.	Spain	Gas and electricity supply	494	100.0	—	100.0	3	207	(97)	—	20	133
Naturgy Clientes, S.A	Spain	Gas and electricity supply	—	100.0	—	100.0	—	—	—	—	—	—
Holding Negocios Electricidad, S.A.	Spain	Electricity distribution	3,679	100.0	—	100.0	—	3,417	253	—	—	3,670
Holding de Negocios de Gas, S.A.	Spain	Gas distribution	4,533	80.0	—	80.0	—	5,577	(28)	—	—	5,549
Naturgy Generación, S.L.U.	Spain	Electricity generation	849	100.0	—	100.0	732	131	(15)	—	—	848
Naturgy Renovables, S.L.U.	Spain	Electricity generation	1,141	100.0	—	100.0	90	287	31	—	(36)	372
Global Power Generation, S.A.	Spain	Electricity generation	647	75.0	—	75.0	20	710	(6)	—	102	826
Toledo PV A.I.E.	Spain	Electricity generation	—	33.3	—	33.3	—	1	—	—	—	1
La Propagadora del Gas	Spain	Electricity generation	12	100.0	—	100.0	10	2	—	—	—	12
Naturgy Ciclos Combinados, S.L.U	Spain	Electricity generation	762	100.0	—	100.0	320	449	4	—	—	773
Naturgy Generación Térmica, S.L	Spain	Electricity generation	12	100.0	—	100.0	—	19	28	—	(6)	41
Naturgy Almacenamientos Andalucía S.A.	Spain	Gas infrastructures	—	100.0	—	100.0	—	7	—	—	—	7
Gas Natural Exploración, S.L.	Spain	Gas infrastructures	9	100.0	—	100.0	8	16	—	—	(15)	9
Petroleum, Oil & Gas España, S.A.	Spain	Gas infrastructures	1	32.3	67.7	100.0	4	(1)	1	—	—	4
Liginitos de Meirama, S.A.	Spain	Mining	16	100.0	—	100.0	23	(7)	—	—	—	16
Natural Re, S.A.	Luxembourg	Insurance	9	100.0	—	100.0	5	52	—	—	—	57
General de Edificios y Solares, S.L.	Spain	Services	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	6	100.0	—	100.0	—	5	2	—	—	7
Naturgy Participaciones, S.A.	Spain	Financial services	111	100.0	—	100.0	—	100	29	—	—	129
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	17	100.0	—	100.0	20	—	(3)	—	—	17
Naturgy Innovahub, S.L.U.	Spain	Services	2	100.0	—	100.0	—	—	—	—	—	—
Naturgy Engineering, S.L.	Spain	Engineering services	19	100.0	—	100.0	—	12	5	—	—	17
Naturgy Ingenieria Nuclear, S.L.	Spain	Engineering services	1	100.0	—	100.0	—	1	—	—	—	1
Naturgy Distribución Latinoamérica, S.A.	Spain	Holding company	557	100.0	—	100.0	402	165	146	—		713
Naturgy Nuevas Energías, S.L.U.	Spain	Holding company	—	100.0	—	100.0	2	(8)	(5)	—	—	(11)
Naturgy Infraestructuras EMEA, S.L.	Spain	Holding company	88	100.0	—	100.0	—	202	5	—	—	207
Naturgy Inversiones Internacionales, S.A.	Spain	Holding company	850	100.0	—	100.0	250	274	(48)	—	(142)	334
TOTAL			**16,602**									

(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.

				Data at 31 December 2021								
				% interest			Equity					
Company	**Registered Office**	**Activity**	**Carrying value 2021**	**Direct**	**Indirect**	**Total**	**Capital**	**Reserves (1)**	**Profit/(loss)**	**Interim dividend**	**Other (2)**	**Equity**
Naturgy Aprovisionamientos, S.A.	Spain	Gas supply	85	100.0	—	100.0	1	181	(49)	—	1	134
Naturgy LNG, S.L.	Spain	Gas supply	38	100.0	—	100.0	2	94	(59)	—	(3)	34
Sagane, S.A.	Spain	Gas supply	42	100.0	—	100.0	95	22	76	—	3	196
Unión Fenosa Gas, S.A.	Spain	Gas supply	1,294	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	100.0	—	100.0	3	6	(319)	—	175	(135)
Comercializadora Regulada, Gas & Power, S.A.	Spain	Gas and electricity supply	121	100.0	—	100.0	2	4	3	—	—	9
Naturgy Commodities Trading, S.A.	Spain	Gas and electricity supply	11	100.0	—	100.0	10	6	11	—	—	27
Naturgy Iberia, S.A.	Spain	Gas and electricity supply	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	100.0	—	100.0	—	3,666	124	—	—	3,790
Holding de Negocios de Gas, S.A.	Spain	Gas distribution	4,720	80.0	—	80.0	—	5,958	79	—	—	6,037
Naturgy Generación, S.L.U.	Spain	Electricity generation	928	100.0	—	100.0	732	53	143	—	(113)	815
Naturgy Renovables, S.L.U.	Spain	Electricity generation	1,141	100.0	—	100.0	90	208	73	—	(228)	143
Global Power Generation, S.A.	Spain	Electricity generation	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	—	100.0	—	100.0	—	5	2	—	—	7
Gas Natural Exploración, S.L.	Spain	Gas infrastructures	8	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	100.0	—	100.0	23	(7)	1	—	—	17
Natural Re, S.A.	Luxembourg	Insurance	9	100.0	—	100.0	5	56	1	—	—	62
General de Edificios y Solares, S.L.	Spain	Services	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	100.0	—	100.0	—	5	4	—	—	9
Naturgy Participaciones, S.A.	Spain	Financial services	102	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	100.0	—	100.0	20	(10)	(9)	—	—	1
Naturgy Engineering, S.L.	Spain	Engineering services	9	100.0	—	100.0	—	15	(3)	—	1	13
Naturgy Ingenieria Nuclear, S.L.	Spain	Engineering services	1	100.0	—	100.0	—	1	(1)	—	—	—
Naturgy Distribución Latinoamérica, S.A.	Spain	Holding company	557	100.0	—	100.0	402	221	196	—	—	819
Naturgy Nuevas Energías, S.L.U.	Spain	Holding company	—	100.0	—	100.0	2	—	(8)	—	—	(6)
Naturgy Infraestructuras EMEA, S.L.	Spain	Holding company	89	100.0	—	100.0	—	199	3	—	—	202
Naturgy Inversiones Internacionales, S.A.	Spain	Holding company	944	100.0	—	100.0	250	346	363	—	(142)	817
TOTAL			**16,134**									

(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 30 June 2022 total Euros 15,137 million (15,146 million at 31 December 2021), with maturities as follows:

Maturity	**At 30.06.2022**	At 31.12.2021
2024	3,362	7,471
2025	4,938	1,000
2026	1,000	1,000
2027	1,495	1,324
2028	1,350	1,350
2029	1,000	1,000
2030	1,000	1,000
2037	388	388
2040	604	613
Total	**15,137**	**15,146**

Set out below are movements during the period of six months ended on 30 June 2022 and 2021 in loans and other current financial assets:

	Loans to group companies	**Other financial assets**	**Total**
Balance at 1.1.2021	**628**	**115**	**743**
Additions	2,127	—	2,127
Divestments	(266)	(112)	(378)
Reclassifications and transfers	(113)	—	(113)
Exchange differences	—	—	—
Balance at 31.12.2021	**2,376**	**3**	**2,379**
Additions	769	216	985
Divestments	(887)	(1)	(888)
Reclassifications and transfers	(9)	—	(9)
Balance at 30.06.2022	**2,249**	**218**	**2,467**

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 324 million (Euros 224 million in 2021) and cash pooling balances with investee companies, as manager of Naturgy's centralised cash system amounting to Euros 1,854 million (Euros 2,084 million in 2021). It also includes accrued unmatured interest of Euros 71 million (Euros 68 million in 2021).

At 30 June 2022, loans to Group companies and associates have borne interest at a rate of 3.35% (2.15% in 2021) in the case of non-current loans and 1% (1% in 2021) in the case of current loans.

At 30 June 2022 the balance of dividends pending collection is 216 million euros, recorded under the heading "Other current financial assets" (there are no balances as of 31 December 2021).

Note 8. Investments

Investments by class and category at 30 June 2022 and 31 December 2021 break down as follows:

At 30 June 2022	Financial assets at fair value through equity	Financial assets at amortised cost	At cost	Total
Equity instruments	—	—	4	4
Derivatives (Note 14)	36	—	—	36
Other financial assets	—	3	—	3
Non-current investments	**36**	**3**	**4**	**43**
Derivatives (Note 14)	10	—	—	10
Other financial assets	—	79	—	79
Current investments	**10**	**79**	**—**	**89**
Total	**46**	**82**	**4**	**132**

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**

Financial assets at fair value

Financial assets recognised at fair value at 30 June 2022 and 31 December 2021 are classified as follows:

	30.06.2022				31.12.2021			
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 other comprehensive income	—	46	—	46	—	—	—	—
Total	**—**	**46**	**—**	**46**	**—**	**—**	**—**	**—**

Changes in financial assets in the six-month period ended 30 June 2022 and in 2021, based on the method applied for calculating their fair value, are as follows:

	Level 1 (quoted price in an active market)	Level 2 (observable variables)	Level 3 (unobservable variables)	Total
At 01.01.2021	**120**	**—**	**—**	**120**
Decrease	(120)	—	—	**(120)**
At 31.12.2021	**—**	**—**	**—**	**—**
Variations recognised directly in equity	—	46	—	**46**
At 30.06.2022	**—**	**46**	**—**	**46**

Financial assets at cost

All financial assets at cost relate to unlisted shareholdings at 30 June 2022 and 31 December 2021.

This heading includes the holdings in Naturgy IT, S.L, Lean Customer Services, S.L., Lean Corporate Services, S.L. and Lean Grids Services, S.L. Following the sale of 60% of these holdings in 2021, as described in Note 7, the percentage of participation now stands at 15%.

Financial assets at amortised cost

The balance at 30 June 2022 and 31 December 2021 is as follows:

	At 30.06.2022	At 31.12.2021
Loans to companies	—	1
Deposits and guarantee deposits	3	4
Non- current	**3**	**5**
Deposits and guarantee deposits	79	57
Current	**79**	**57**
Total	**82**	**62**

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

The breakdown by maturities at 30 June 2022 and 31 December 2021 is as follows:

Maturities	**At 30.06.2022**	At 31.12.2021
Before 1 year	77	57
Between 1 and 5 years	1	1
More than 5 years	4	4
Total	**82**	**62**

Note 9. Other non-current assets and Trade and other receivables

The headings “Other non-current assets” and “Trade and other receivables” at 30 June 2022 and 31 December 2021, classified by nature and category, are as follows:

At 30.06.2022	**At fair value through profit and loss**	**Amortised cost**	**Total**
Derivatives (Note 14)	468	—	468
Other non-current assets	**468**	**—**	**468**
Derivatives (Note 14)	2,981	—	2,981
Other assets	—	337	337
Trade and other receivables	**2,981**	**337**	**3,318**
Total	**3,449**	**337**	**3,786**

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**

Fair value through profit and loss

Financial assets recognised at fair value at 30 June 2022 and at 31 December 2021 are classified as follows:

	At 30.06.2022				At 31.12.2021			
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	—	3,449	—	3,449	—	2,096	—	2,096
Total	**—**	**3,449**	**—**	**3,449**	**—**	**2,096**	**—**	**2,096**

This heading includes gas price operating hedging derivatives amounting to Euros 3,449 million (31 December 2021: Euros 2,096 million), of which Euros 468 million is classified as non-current (31 December 2021: Euros 231 million) (Note 14).

Amortised cost

The breakdown of this account is as follows:

	At 30.06.2022	At 31.12.2021
Trade receivables	73	83
Trade receivables, Group companies and associates	150	213
Other sundry receivables	2	12
Provision	(26)	(27)
Current income tax asset	135	134
Other amounts receivable from Public Administrations	3	2
Total	**337**	**417**

In general, amounts billed pending collection do not bear interest, the average maturity period being less than 21 days.

At 30 June 2022, the Company has balances not due for a value of Euros 175 million (Euros 262 million at 31 December 2021), which have been subject to non-recourse factoring operations, for which reason these amounts have been derecognized from the Current Tax Assets of the Balance sheet.

Movements in the bad debt provision are as follows:

At 01.01.2021	(28)
Net charge for the year (1)	1
At 31.12.2021	(27)
Retirement	1
At 30.06.2022	**(26)**

(1) The net provision as of 30.06.2021 is (0)

Note 10. Cash and cash equivalents

Cash and cash equivalents include:

	At 30.06.2022	At 31.12.2021
Cash at banks and in hand	1,284	889
Other cash equivalents	700	1,319
Total	**1,984**	**2,208**

“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 the period of six months ended the 30 June 2022 and 2021 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 2021	**969,613,801**	**970**	**3,808**	**4,778**
Variation	—	—	—	—
At 31 December 2021	**969,613,801**	**970**	**3,808**	**4,778**
Variation	—	—	—	—
At 30 June 2022	**969,613,801**	**970**	**3,808**	**4,778**

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

There were no changes in the number of shares or in the "Share capital" and "Share premium" accounts during the first six months of 2022 or in 2021.

The Company's Board of Directors is empowered, for a maximum term of five years as from 15 March 2022, to increase share capital by at most one-half of the Company's capital stock at the time of this authorisation, for monetary contributions, at one or more times and at the time and in the amount that it deems fit, by 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 deciding, as appropriate, to fully or partly override preferential subscription rights, up to a limit of 20% of share capital at the date of this authorisation, and to amend the articles of the By-laws as required due to the capital increase or increases performed by virtue of said authorisation, including the possibility of incomplete subscription, all in accordance with the provisions of Article 297.1.b) of the Spanish Capital Companies Law. Additionally, based on this authorisation, it will carry out any necessary procedures and actions before domestic and overseas securities market agencies to request the listing, continuance and/or, as the case may be, delisting of the issued shares.

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 main holdings in the Company's share capital at 30 June 2022 and 31 December 2021, based on available public information or on notices given to the Company, are as follows:

	% interest in share capital	
	At 30.06.2022	At 31.12.2021
- Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona, “la Caixa” (1)	26.7	26.7
-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	13.9	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 30 June 2022 was Euros 27.47 (Euros 28.63 at 31 December 2021).

Reserves

“Reserves” includes the following reserves:

	30.06.2022	31.12.2021
Legal reserve	200	200
Statutory reserve	100	100
Voluntary reserves	10,702	10,702
Capital redemption reserve	31	31
Other reserves	287	271
Total	**11,320**	**11,304**

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.

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 30 June 2022 and 31 December 2021.

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, the Board of Directors carried out a long-term variable incentive plan (ILP) in which the Executive Chairman and 25 other directors participated, whose characteristics were approved by the General Shareholders' Meeting of 5 March 2019. This incentive covered the period of the 2018-2022 Strategic Plan.

On 25 November 2021, the Board of Directors of Naturgy decided, based on a proposal by the Appointments, Remuneration and Corporate Governance Committee, to extend the time period of the ILP 2018-2022 to 31 December 2025 for the current executives in order to contribute to the fulfilment of the Strategic Plan 2021-2025. The extension of the ILP came into force upon approval by Naturgy's annual general meeting of shareholders on 15 March 2022.

That extension amended the ILP that had been approved under the Strategic Plan 2018-2022, which was set to expire in July 2023. It maintains the direct linkage with the total return obtained by the Company's shareholders in the period in question.

The ILP was implemented through the acquisition of shares of Naturgy Energy Group, S.A. by an investee that may generate a surplus. Such surplus, if any, is the incentive to be delivered to the participants. Upon conclusion of the plan, that company will obtain a result arising from the receipt of dividends attributed to its shares, changes in the share price and other revenues and expenses, mainly of a financial nature. At that time, all these shares will be sold to repay all the funds received to acquire the shares and, after settling its obligations, the surplus will be distributed among its shareholders, in the form of shares.

Such surplus will only be collected if a minimum profitability threshold has been exceeded, which means a share price of Euros 19.15 at the time of expiration of the ILP, assuming that all the dividends envisaged in the Strategic Plan 2021-2025 are distributed.

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.

In order to compensate for the delay in the collection of the ILP as a result of the time extension, Naturgy's Board of Directors established a compensation consisting of the payment of a cash amount to the beneficiaries who accepted the extension of the term until 2025.

The fair value of the equity instruments granted based on the 2018-2022 ILP will be limited to the grant date using a Monte Carlo simulation valuation model based on the share price at the grant date with the following assumption:

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 of the date of approval of the extension of the ILP, the ILP 2018-2022 and ILP 2018-2025 were measured using a valuation model based on a Monte Carlo simulation. The incremental value is recognised for accounting purposes over the period from the date of approval of the amendment, i.e. 15 March 2022, until 31 December 2025. The assumptions used in the valuations are as follows:

	ILP2018-2022	ILP2018-2025
Forecast share price volatility (1)	25.32 %	25.32 %
Plan duration (years)	1.38	3.8
Expected dividends	5.24 %	5.03 %
Risk-free interest rate	0.71 %	1.06 %

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

As a result of accruing the estimated fair value of the granted equity instruments over the term of the plan and the incremental value associated with the extension of the term of the instrument, an amount of Euros 2 million (Euros 1 million at 30 June 2021) was recognised under "Personnel expenses" in the interim income statement for the six-month period ended 30 June 2022 (Note 20) with a credit to "Other equity instruments" in the balance sheet.

Treasury shares

Movements in treasury shares during the first six months of 2022 and in 2021 are as follows:

	Number of shares	**In million euro**	**% Capital**
At 1 January 2021	**35,773**	**1**	**—**
Share Acquisition Plan	127,453	3	—
At 31 December 2021	**163,226**	**4**	**—**
Share Acquisition Plan	15,000	—	—
Delivered to employees	(122,328)	(3)	—
At 30 June 2022	**55,898**	**1**	**—**

There were no gains or losses on transactions with the Company's own shares in the first six months of 2022 or in 2021.

On 5 March 2019, the general meeting of shareholders 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, plus or minus 5%.

Transactions with the Company’s Treasury shares relate to:

30 June 2022

– 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 in December 2021. 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.That plan was completed in January 2022 with the acquisition of 15,000 own shares in addition to those acquired in December 2021, for an amount of Euros 0.4 million. During January 2022, a total of 122,328 shares amounting to Euros 3 million were delivered to employees, leaving a surplus of 20,125 own shares in addition to the 35,773 shares that were surplus following the 2020 and 2019 Share Acquisition Plans.

2021

– Share acquisition plan: As mentioned in the previous point, as part of the 2020-2023 Share Acquisition Plan, the plan for 2021 aimed at Naturgy employees in Spain was launched. In December 2021, 127,453 Company shares were acquired for Euros 3 million to be delivered to employees taking part in the Plan in January 2022.

Dividends

Set out below is a breakdown of the payments of dividends made during the period of six months ended the 30 June 2022 and 30 June 2021:

	30.06.2022			30.06.2021		
	% of Nominal	Euros per share	Amount	% of Nominal	Euros per share	Amount
Ordinary shares	50 %	0.50	485	63 %	0.63	611
Other shares (without voting rights, redeemable, etc.)	—	—	—	—	—	—
Total dividens paid	**50 %**	**0.50**	**485**	**63 %**	**0.63**	**611**
a) Dividends charged to income statement or retained earnings	50 %	0.50	485	63 %	0.63	611
b) Dividends charged to reserves or share premium account	—	—	—	—	—	—
c) Dividends in kind	—	—	—	—	—	—

30 June 2022

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 the 2021 financial year paid by Naturgy Energy Group, S.A., jointly equivalent to 0.70 euros per share for the number of shares that do not have the condition of direct treasury stock on the corresponding dates as approved by the Board of Directors in accordance with the provisional financial statements formulated and in accordance with the legal requirements, which evidenced the existence of sufficient liquidity for the distribution of said dividends on account of the results for 2021 and,

ii. The amount obtained by multiplying Euros 0.50 per share by the number of shares not classified as direct treasury shares on the date on which the shareholders of record entitled to collect the dividend are determined (the "Final dividend").

Euros 679 million of that dividend had already been paid on 4 August and 15 November 2021. The Final 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).That 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.

REMAINING: Determinable amount that will result from subtracting the amount allocated to the Dividend from the Distribution Base.

TOTAL DISTRIBUTED 3,484

This proposal for the distribution of income and retained earnings adopted 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.

The Shareholders' Meeting held on 15 March 2022 approved the final dividend of Euros 0.50 per share for all shares not classified as direct treasury stock on the date of distribution; this dividend was paid in full in cash on 22 March 2022.

Following payment of the final dividend, the amount allocated to Retained earnings was Euros 2,320 million.

On 11 August 2022, the Company’s Board of Directors declared an interim dividend of Euros 0.30 per share out of 2022 results, for shares not classified as direct treasury shares on the date on which the dividend was paid, which is payable on or after 18 August 2022.

On the date the interim dividend was declared, the Company had the necessary liquidity to make the payment, as required by the Spanish Capital Companies Act. The provisional liquidity statement at 30 June 2022 drawn up by the Directors on 11 August 2022 is as follows:

Profit after tax		1,816
Reserves to be replenished		—
Maximum amount distributable		1,816
Forecast maximum interim dividend payment (1)		291
Cash resources	1,984	
Undrawn credit facilities	5,342	
Total liquidity		7,326

(1) Amount considering total shares issued

30 June 2021

On 2 February 2021, the Board of Directors presented the proposal that it submitted to the General Shareholders' Meeting for the distribution of the net profit of the Company corresponding to the 2020 financial year and the remainder of previous financial years, which appeared in Note 11 of the memory of the annual accounts for the year ended 31 December 2020.

This proposal for the application of the result and the remainder of previous years formulated by the Board of Directors for approval by the General Shareholders' Meeting obtained the complementary payment of 0.63 euros for each share with the right to receive it and that is in circulation in the payment proposal date, 16 March 2021.

Finally, the General Shareholders' Meeting held on 9 March 2021 obtained the complementary dividend of 0.63 euros per share, for those shares that do not have direct treasury stock status on the date on which the distribution is made and that was paid in full in cash on 17 March 2021.

After the liquidation of the complementary dividend, the import destined to Remnant amounted to 1,778 million euros.

Note 12. Provisions

The breakdown of provisions at 30 June 2022 and 31 December 2021 is as follows:

	At 30.06.2022	At 31.12.2021
Provisions for employee obligations	223	242
Other provisions	71	67
Non-current provisions	**294**	**309**

Provisions for employee obligations

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

	Pensions and other similar obligations	**Other obligations with personnel**	**Total**
At 01.01.2021	**253**	**5**	**258**
Appropriations/reversals charged to income statement	3	—	3
Payments during the year	(10)	—	(10)
Changes recognised directly in equity	(19)	—	(19)
Transfers and other applications	9	1	10
At 31.12.2021	**236**	**6**	**242**
Appropriations/reversals charged to income statement	1	1	2
Payments during the year	(2)	(4)	(6)
Changes recognised directly in equity	(21)	—	(21)
Transfers and other applications	3	3	6
At 30.06.2022	**217**	**6**	**223**

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 30 June 2022 and 31 December 2021, 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	
At 1 January 2021	**917**
Service cost for the year	1
Interest cost	4
Changes recognised directly in equity	(34)
Benefits paid	(56)
Transfers and other	10
At 31 December 2021	**842**
Service cost for the year	—
Interest cost	4
Changes recognised directly in equity	(83)
Benefits paid	(22)
Transfers and other	4
At 30 June 2022	**745**

Fair value of plan assets	
At 1 January 2021	**664**
Expected yield	2
Contributions	—
Changes recognised directly in equity	(15)
Benefits paid	(46)
Transfers and other	1
At 31 December 2021	**606**
Provisions for pensions and similar obligations	**236**
Expected yield	3
Contributions	—
Changes recognised directly in equity	(62)
Benefits paid	(20)
Transfers and other	1
At 30 June 2022	**528**
Provisions for pensions and similar obligations	**217**

The amounts recognised in the income statement for all the above-mentioned defined benefit plans are as follows:

	30.06.2022	31.12.2021
Service cost for the year	—	1
Interest cost	1	2
Total charge to the income statement	**1**	**3**

(1) At 30.06.2021 service cost is Euros 0 million and interes cost is Euros 1 million

Benefits for pensions and similar obligations, depending on the duration of the above commitments, are as follows:

	30.06.2022	31.12.2021
1 to 5 years	—	—
5 to 10 years	22	23
More than 10 years	195	213
Provisions for pensions and similar obligations	**217**	**236**

The plan assets expressed as a percentage of total assets are as follows:

% of total	**30.06.2022**	31.12.2021
Bonds	100%	100%

Cumulative actuarial gains and losses, net of the tax effect, recognised directly in equity are positive in the amount of Euros 10 million at 30 June 2022 (negative in the amount of Euros 6 million at 31 December 2021).

The change recognised in equity relates to actuarial losses and gains derived basically from adjustments to:

	30.06.2022	31.12.2021
Financial assumptions	(46)	(43)
Demographic assumptions	—	39
Experience	25	(15)
	(21)	**(19)**

Actuarial assumptions applied are as follows:

	At 30.06.2022	At 31.12.2021
Discount rate (p.a.)	1.0 to 2.79%	0.0 to 1.38%
Expected return on plan assets (p.a.)	1.0 to 2.79%	0.0 to 1.38%
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	PER 2020 1st order	PER 2020 1st order
Life expectancy:		
Men		
Retired during the year	24.78	24.64
Retiring within 20 years	45.74	45.59
Women		
Retired during the year	28.51	28.37
Retiring within 20 years	49.94	49.82

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 30 June 2022 and 31 December 2021, nor would it cause a relevant variation in the ordinary financial costs for future years in relation to that recorded in June 2022 and in 2021.

Other obligations with personnel

As part of the Strategic Plan 2018-2022, a long-term incentive plan had been implemented for Naturgy executives not included in the plan mentioned in Note 11. The purpose of this plan was to align the interests of the shareholders and materialisation of the Strategic Plan with executives' multi-year variable compensation.

As a consequence of the approval of the 2021-2025 Strategic Plan, the term of the long-term incentive plan that was approved as part of the 2018-2022 Strategic Plan for executives not included in the plan mentioned in Note 11 was extended. This amendment maintains the purpose of aligning the interests of shareholders, materialisation of the Strategic Plan and the executives' multi-year variable compensation. The plan was extended to 31 December 2025 for certain serving beneficiaries, in order to contribute to the achievement of the 2021-2025 Strategic Plan.

In order to compensate for the delay in the collection as a result of the time extension, monetary compensation was established and paid in cash at the time the amendment was accepted and the new ILP was approved by the Shareholders' Meeting on 15 March 2022.

The provision for this commitment amounted to Euros 6 million at 30 June 2022 (Euros 6 million at 31 December 2021).

Other non-current provisions

The movement in other non-current provisions is as follows:

At 01.01.2021	115
– Appropriations	9
– Reversals	(6)
– Transfers and other	(51)
At 31.12.2021	67
– Appropriations	4
At 30.06.2022	**71**

“Non-current provisions” mainly includes provisions posted to cover obligations deriving mainly from tax claims (Note 17), onerous contracts, litigation and arbitration, and other liabilities.

No provision for onerous contracts was deemed necessary at 30 June 2022 or 31 December 2021.

At 30 June 2022, the payment of these obligations is estimated at Euros 71 million between one and five years (in 2021, Euros 67 million between one and five years).

Note 13. Borrowings

Set out below is a breakdown of financial liabilities, excluding “Trade and other payables”, at 30 June 2022 and 31 December 2021, by nature and category:

At 30.06.2022	**Amortised cost**	**Hedging derivatives**	**Total**
Borrowings from financial institutions	2,005	—	2,005
Derivatives (Note 14)	—	25	25
Other financial liabilities	1	—	1
Non-current borrowings	**2,006**	**25**	**2,031**
Borrowings from financial institutions	548	—	548
Derivatives (Note 14)	—	8	8
Other financial liabilities	—	—	—
Current borrowings	**548**	**8**	**556**
Total	**2,554**	**33**	**2,587**

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
Current borrowings	**402**	**19**	**421**
Total	**2,775**	**80**	**2,855**

Financial liabilities recognised at fair value at 30 June 2022 and at 31 December 2021 are classified as follows:

	At 30.06.2022				At 31.12.2021			
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	—	33	—	33	—	80	—	80
Total	**—**	**33**	**—**	**33**	**—**	**80**	**—**	**80**

The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amount		**Fair value**	
	At 30.06.2022	At 31.12.2021	**At 30.06.2022**	At 31.12.2021
Bank borrowings, derivatives and other financial liabilities	2,031	2,434	2,029	2,439

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 30 June 2022 and 31 December 2021 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
Balance at 1.1.2021	**2,977**	**129**	**122**	**3,228**
Increase	50	—	—	50
Decrease	(253)	(49)	(121)	(423)
Balance at 31.12.2021	**2,774**	**80**	**1**	**2,855**
Increase	101	—	—	101
Decrease	(322)	(47)	—	(369)
Balance at 30.06.2022	**2,553**	**33**	**1**	**2,587**

The following tables describe borrowings and maturities at 30 June 2022 and 31 December 2021, taking into account the impact of derivatives.

	2022	2023	2024	2025	2026	2027 and beyond	**Total**
At 30 June 2022:							
Fixed	57	292	92	191	92	879	1,603
Floating	27	262	515	178	1	1	984
Total	**84**	**554**	**607**	**369**	**93**	**880**	**2,587**

	2022	2023	2024	2025	2026	2026 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**

Setting aside the impact of derivatives on borrowings, fixed-rate debt would amount to Euros 176 million of total borrowings at 30 June 2022 (Euros 169 million at 31 December 2021) and variable-rate debt would amount to Euros 2,378 million at 30 June 2022 (Euros 2,606 million at 31 December 2021).

The following tables describe the gross borrowings denominated in foreign currencies at 30 June 2022 and 31 December 2021 and their maturities, taking into account the impact of the derivative hedges:

	2022	2023	2024	2025	2026	2027 and beyond	**Total**
At 30 June 2022:							
Euro debt	84	554	607	369	93	880	2,587
Total	**84**	**554**	**607**	**369**	**93**	**880**	**2,587**

	2022	2023	2024	2025	2026	2026 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**

Borrowings bore an average effective interest rate in 30 June 2022 of 1.09% (1.05% in 31 December 2021) including the derivatives assigned to each transaction.

At 30 June 2022 , Bank borrowings includes Euros 7 million in interest pending payment (Euros 8 million at 31 December 2021).

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

At 30 June 2022, debts with non-institutional credit entities amount to Euros 1,170 million (Euros 1,270 million at 31 December 2021). The group works constantly to enhance its financial profile. In this respect, the main financing operations with credit institutions arranged in the first six months of 2022 consisted of refinancing credit lines in Spain in the amount of Euros 3.384 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 has a loan from the Spanish Official Credit Institute (ICO) in the form of instruments maturing in 2029 at the latest, for a total amount of Euros 150 million (Euros 160 million in 2021).

Additionally, the European Investment Bank (EIB) had granted financing that was fully drawn at 30 June 2022 in the amount of Euros 1,226 million maturing between 2022 and 2037 (Euros 1,336 million drawn at 31 December 2021). 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 periods that are longer than those in the event of early termination.

In addition, Euros 1,167 million (Euros 1,215 million at 31 December 2021) 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 30 June 2022 and 31 December 2021 (Note 13), after taking into account the hedges arranged through derivatives, is as follows:

	At 30.06.2022	At 31.12.2021
Fixed interest rate	1,603	1,674
Floating interest rate	984	1,181
Total	**2,587**	**2,855**

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
30 June 2022	50	(5)	(17)
	(50)	5	17
31 December 2021	50	(6)	(31)
	(50)	6	31

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:

		30.06.2022	31.12.2021
Effect on profit before tax	+5%	—	—
	-5%	—	—
Effect on equity before tax	+5%	9	—
	-5%	(9)	—

Commodity price risk

An important part of Naturgy's operating profit is linked to the purchase of gas to supply a diversified portfolio of customers, motivated by long-term gas procurement contracts signed with purchase prices based on a combination of commodity prices, basically the price of crude oil and its derivatives, and to natural gas hubs.

However, selling prices to final customers are generally agreed on a short/medium term basis are conditioned by the supply/demand balance existing at a given time in the gas market. This may entail 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 by monitoring its position in these commodities and seeking to balance purchase and supply obligations and selling prices. In addition, some supply contracts allow this exposure to be managed through volume flexibility and reopener 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.

Additionally, the Company purchases gas to be supplied to other Naturgy companies.

In the integrated electricity businesses, the company's aggregate exposure is determined by the strategic generation/supply positioning and by the final sale pricing policies in electricity supply.

The company is also exposed to the evolution of the price of CO_2 emission allowances, which are allocated for power generation by its combined cycle plants. Naturgy invests part of its cash surpluses temporarily in notes linked to CO_2.

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.

- 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 defined requirements. No significant defaults or losses arose in the first six months of 2022 or 2021.

The ageing analysis of financial assets concluded that there were no unimpaired, past due financial assets at 30 June 2022 and 31 December 2021.

An ageing analysis of financial assets and their expected loss as of 30 June 2022 and 31 December 2021 is as follows:

30.06.2022	**Total**	**Current**	**0 to 180 days**	**180 to 360 days**	**Over 360 days**
Expected loss ratio	35.6 %	—	—	—	100.0 %
Trade receivables for sales and services	73	46	1	—	26
Expected loss	26	—	—	—	26

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

The expected loss ratio is calculated as the quotient of the expected loss between customers for sales and provision of services.

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 30 June 2022 and 31 December 2021 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 30 June 2022, available cash totalled Euros 7,326 million (Euros 7,484 million in 2021), considering cash and cash equivalents of Euros 1,984 million (Euros 2,208 million in 2021) together with bank borrowings and undrawn credit facilities amounting to Euros 5,342 million (Euros 5,276 million in 2021).

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:

	30.06.2022	31.12.2021
Standard & Poor’s	BBB	BBB
Fitch	BBB	BBB

Derivative financial instruments

The breakdown of derivative financial instruments by category and maturity is as follows:

	At 30.06.2022		At 31.12.2021	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Hedging derivative financial instruments	**36**	**25**	**—**	**61**
Cash flow hedge				
- Interest rate	36	—	—	38
- Interest rate and foreign exchange rate	—	25	—	23
Other financial instruments	**468**	**471**	**231**	**232**
- Price of commodities	468	471	231	232
Derivative financial instruments – non current	**504**	**496**	**231**	**293**
Hedging derivative financial instruments	**10**	**8**	**—**	**19**
Cash flow hedge				
- Interest rate	1	8	—	19
- Exchange rate	9	—	—	—
Other financial instruments	**2,981**	**2,994**	**1,865**	**1,873**
- Price of commodities	2,981	2,994	1,865	1,873
Derivative financial instruments - current	**2,991**	**3,002**	**1,865**	**1,892**
Total	**3,495**	**3,498**	**2,096**	**2,185**

Other financial instruments include the derivatives not qualifying for hedge accounting.

The impact on the Income statement of derivative financial instruments is as follows:

	30.06.2022		30.06.2021	
	Operating profit	**Net financial income/ (expense)**	**Operating profit**	**Net financial income/ (expense)**
Cash flow hedge	—	(10)	—	(9)
Other financial instruments	(6)	—	(4)	—
Total	**(6)**	**(10)**	**(4)**	**(9)**

The breakdown of derivatives at 30 June 2022 and 31 December 2021, their fair value and maturities of their notional values is as follows:

	At 30.06.2022							
	Fair value	**Notional value**						
		2022	**2023**	**2024**	**2025**	**2026**	**Subsequent years**	**Total**
INTEREST RATE HEDGES:								
Cash flow hedges:								
Financial swaps (EUR)	29	60	191	70	498	48	537	1,404
INTEREST RATE AND FOREIGN EXCHANGE RATE HEDGES:								
Cash flow hedges:								
Financial swaps (NOK)	(25)	—	101	—	—	—	—	101
EXCHANGE RATE HEDGES:								
Cash flow hedges:								
Foreign exchange insurance (USD)	9	193	—	—	—	—		193
OTHER:								
Foreign exchange insurance (USD)	(16)	1	—	—	—	—	—	1
	(3)	**254**	**292**	**70**	**498**	**48**	**537**	**1,699**

	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:								
Fair value hedges:								
Foreign exchange insurance (USD)	—	9	—	—	—	—	—	9
OTHER:								
Foreign exchange insurance (USD)	(9)	—	—	—	—	—	—	—
	(89)	**100**	**292**	**70**	**498**	**48**	**527**	**1,535**

Note 15. Payables to Group companies and associates

The breakdown by maturity of payables to Group companies is as follows:

Maturity	At 30.06.2022	At 31.12.2021
2022	2,211	4,823
2023	2,287	629
2024	1,626	1,619
2025	1,198	1,197
2026	1,592	1,591
2027	1,489	1,488
Subsequent years	2,592	2,586
Total	**12,995**	**13,933**

Payables to Group companies mainly to the debts recorded at amortized cost for issues made by Naturgy Capital Markets, S.A. and Naturgy Finance, B.V. under the European Medium-Term Notes (EMTN) programme. It also includes the debt to Naturgy Finance B.V. for perpetual subordinated bonds amounting to Euros 1,500 million (Euros 1,500 million at 31 December 2021) and the debt to Unión Fenosa Preferentes, S.A. relating to preference shares in the amount of Euros 110 million (Euros 110 million at 31 December 2021). After the operation related to UFG described in Notes 4 and 7, Euros 592 million debts with UFG are included (Euros 329 million at 31 December 2021).

It also includes accrued unmatured interest of Euros 78 million (Euros 135 million in 2021) and cash-pooling balances with Group companies amounting to Euros 2,558 million are also included (Euros 3,429 million at 31 December 2021), as well as balances with group companies related to the consolidated taxation of corporate income tax for Euros 476 million (Euros 476 million at 31 December 2021).

A breakdown of debts with group companies for debts from Naturgy Finance, B.V. and Naturgy Capital Markets, S.A. bond issues is as follows:

At 30 June 2022

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	300
European Medium Term Notes (EMTN) programme							
Naturgy Capital Markets, S.A. and Naturgy Finance, B.V.	Netherlands /Spain	1999	Euro	12,000	7,656	4,344	—

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	—

The bonds issued, in a volume of Euros 7,656 million (Euros 8,110 million at 31 December 2021), 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 during the first six months of 2022 and during 2021 are:

30 June 2022

During 2022, no issues were made under the EMTN programme.

Likewise, during 2022 a bond have matured for a total amount of Euros 454 million and with an average coupon of 3.88%.

In the first half of 2022, issues under the Euro Commercial Paper (ECP) programme totalled Euros 300 million, and there were no issues outstanding at 30 June 2022.

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.

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.

As a result of the cancellation of the Company's debt to Naturgy Finance B.V. arising from that redemption, Euros 22 million were recognised under "Other financial expenses" in the financial result at 31 December 2021. At 30 June 2022, there were no balances under this heading in financial result (Note 23).

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 30 June 2022 and 31 December 2021, classified by nature and category, are as follows:

At 30.06.2022	**At fair value through profit and loss**	**Amortised cost**	**Total**
Derivatives (Note 14)	471	—	471
Other non-current liabilities	**471**	**—**	**471**
Derivatives (Note 14)	2,994	—	2,994
Other liabilities	—	492	492
Trade and other payables	**2,994**	**492**	**3,486**
Total	**3,465**	**492**	**3,957**

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**

Fair value through profit and loss

Financial liabilities recognised at fair value at 30 June 2022 and 31 December 2021 are classified as follows:

	At 30.06.2022				At 31.12.2021			
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	—	3,465	—	3,465	—	2,105	—	2,105
Total	**—**	**3,465**	**—**	**3,465**	**—**	**2,105**	**—**	**2,105**

This heading includes gas price operating hedging derivatives amounting to Euros 3,465 million (31 December 2021: Euros 2,105 million), of which Euros 471 million is classified as non-current (31 December 2021: Euros 232 million) (Note 14).

Amortised cost

The breakdown of this account is as follows:

	At 30.06.2022	At 31.12.2021
Trade payables	319	259
Trade payables, Group companies and associates	59	103
Other payables	2	12
Personnel (outstanding remuneration)	19	33
Public Administrations	15	18
Current tax liabilities (Note 17)	78	—
Total	**492**	**425**

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.

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 at 30 June 2022 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 at 30 June 2022 and for 2021 to taxable income is as follows:

	At 30.06.2022	At 30.06.2021
Accounting profit before tax	**1,823**	**472**
Permanent differences	**(1,804)**	**(530)**
Temporary differences:		
Arising during current year	7	29
Arising in prior years	(24)	(22)
Taxable income	**2**	**(51)**

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 led to negative permanent differences of Euros 1,254 million resulting mainly from negative adjustments for dividends accruing during the year (Euros 463 million at 30 June 2021), the reversal of impairment of shareholdings in Group companies and associates and other financial assets amounting to Euros 558 million (Euros 73 million at 30 June 2021 as a negative adjustment) and the positive adjustment for donations and other minor adjustments amounting to Euros 8 million (Euros 6 million at 30 June 2021).

At 30 June 2022, the Company recognised a positive tax base in the amount of Euros 2 million (negative Euros 51 million at 30 June 2021, which was recovered from the companies in the tax group against their positive tax bases in the period).

Income tax expense is as follows:

	At 30.06.2022	At 30.06.2021
Current-year tax	10	15
Deferred tax	(17)	(19)
Total	**(7)**	**(4)**

Current corporate income tax is the result of applying a 25% tax rate to taxable income. In the tax group, tax credits applied at 30 June 2022 amounted to Euros 11 million (Euros 2 million in 2021) and no tax losses were offset.

As at 30 June 2022, corporate income tax prepayments by the consolidated tax group amounted to Euros 89 million.

Royal Decree 3/2016, adopting tax measures to strengthen public finances, which made material amendments to the corporate income tax regulations, was published on 3 December 2016. 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. At 30 June 2022 and 2021, these measures did not have a significant impact on the Company's accounts.

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 main 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 they hold a stake of 5% or more, regardless of 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 5% or greater will be considered, and dividends from holdings whose acquisition value was greater than Euros 20 million are disqualified.

The General State Budget Law for 2022 amended Law 27/2014 on Corporate Income Tax by setting a minimum rate of 15% on the taxable base. Naturgy does not expect this amendment to have an impact on the Group as the tax credits applied do not reduce the effective tax 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 30.06.2022			At 30.06.2021		
	Gross	**Tax effect**	**Net**	**Gross**	**Tax effect**	**Net**
Cash flow hedges	(88)	22	(66)	(24)	5	(19)
Actuarial gains and losses and other adjustments	(24)	5	(19)	(2)	1	(1)
	(112)	**27**	**(85)**	**(26)**	**6**	**(20)**

A breakdown of deferred taxes is as follows:

	At 30.06.2022	At 31.12.2021
Deferred tax assets:	140	173
- Achievable within one year	10	11
- Achievable in more than one year	130	162
Deferred tax liabilities:	(261)	(250)
- Achievable within one year	(3)	—
- Achievable in more than one year	(258)	(250)
Net deferred tax	**(121)**	**(77)**

The breakdown and changes in deferred taxes are shown below:

Deferred tax assets	Provisions	Tax credits	Valuation of assets and financial instruments	Goodwill	Other	Total
At 1.1.2021	**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**
Creation (reversal)	(5)	(10)	—	(1)	—	(16)
Movements linked to equity adjustments	(5)	—	(12)	—	—	(17)
At 30.06.2022	**99**	**28**	**3**	**9**	**1**	**140**

Deferred tax liabilities	Differences Depreciation	Deferred gains	Valuation of liabilities and financial instruments	Other	Total
At 1.1.2021	**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**
Creation (reversal)	—	—	—	1	1
Movements linked to equity adjustments	—	—	10	—	10
At 30.06.2022	**2**	**207**	**10**	**42**	**261**

The demerger of the thermal and hydroelectric power generation business from the Company to Naturgy Generación, S.L.U. was completed in 2015. Pursuant to Article 76.3 of Law 27/2014 on corporate income tax in force in 2015, this transaction 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.

The demerger of the thermal and hydroelectric power generation business from the Company to Naturgy Generación, S.L.U. was completed in 2014. Pursuant to Article 83.3 of Royal Decree-Law 4/2004 whereby the Revised CIT Act was approved, this transaction was 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.

Unión Fenosa, S.A. and Unión Fenosa Generación, S.A. were merged into the Company in 2009. That transaction availed itself of 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 that is provided by Title VII, Chapter VIII of the Consolidated text of the corporate income tax 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 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).

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.

That audit also covers, with a limited scope, personal income tax, withholdings and prepayments in connection with salary income for the period from September 2017 to December 2020, and non-resident income tax and withholdings from capital income for the period from April 2018 to December 2020.

In accordance with Spanish tax legislation, at the date of authorisation of these annual accounts, the Company's returns for the last four years 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 connection with tax appeals, 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 in the Group companies' income tax returns for 2011 through 2015.

Enforcement of the settlements is suspended and the total amount of the debt has been provisioned under "Provisions" (Note 12), and it was updated during the six-month period ended 30 June 2022 and at 31 December 2021 for late payment interest accrued while the suspension continues.

As a result, among other things, of the different interpretations to which current tax legislation lends itself, additional liabilities might arise as a result of an inspection. The Company considers, however, that any liabilities that might arise would not materially affect these interim 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:

	30.06.2022	30.06.2021
Natural gas sales and other	310	460
Income from equity instruments of Group companies and associates (Note 7)	1,298	481
Income from marketable securities and other financial instruments of Group companies and associates	193	168
Total	**1,801**	**1,109**

	30.06.2022	30.06.2021
Domestic market	1,560	719
Export market:	241	390
- European Union	241	390
Total	**1,801**	**1,109**

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 natural 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 at 30 June 2022 and 2021 is as follows:

	30.06.2022	30.06.2021
Wages and salaries	25	26
Termination benefits	2	25
Share-based payments (Note 11)	2	1
Social security costs	2	3
Other social security costs	2	2
Other	1	3
Total	**34**	**60**

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. Termination benefits include the costs associated with that voluntary redundancy plan relating to actual terminations and to the agreements confirmed between the parties that result in the commitment becoming irrevocable. Additional terminations took place through 30 June 2022 in the amount of Euros 2 million.

The average number of Company employees in 30 June 2022 and 2021 is as follows:

	30.06.2022	30.06.2021
Executives	35	35
Middle management	90	119
Specialists	144	182
Operational staff	21	53
Total	**290**	**389**

The average number of Company employees in 30 June 2022 and 2021 with a disability equal to or greater than 33% is as follows:

	30.06.2022		30.06.2021	
	Men	**Women**	**Men**	**Women**
Executives	—	—	—	—
Middle management	—	—	—	—
Specialists	2	1	3	3
Operational staff	—	1	1	1
Total	**2**	**2**	**4**	**4**

The number of Company employees at the end of 30 June 2022 and 2021 broken down by category and gender is as follows:

	30.06.2022		30.06.2021	
	Men	**Women**	**Men**	**Women**
Executives	29	8	27	7
Middle management	49	49	51	51
Specialists	75	89	89	92
Operational staff	3	20	8	36
Total	**156**	**166**	**175**	**186**

Note 21. Other operating expenses

The breakdown of this heading in the income statement at 30 June 2022 and 2021 is as follows:

	30.06.2022	30.06.2021
Leases, royalties, operation and maintenance	10	7
Professional services and insurance	10	7
Advertising and other commercial services	2	1
Contribution Naturgy Foundation	6	3
Banking services	3	3
Supplies	5	3
Taxes	—	1
Other	38	29
Total	**74**	**54**

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 32 million in transactions with group companies and associates at 30 June 2022 (Euros 32 million at 30 June 2021), and basically corresponds to the repercussion of costs incurred.

Note 23. Net financial income/(expense)

The breakdown of this heading in the Income statement at 30 June 2022 and 2021 is as follows:

	30.06.2022	30.06.2021
Income from marketable securities and other financial instruments	2	1
Total financial income	**2**	**1**
Cost of financial debt	(124)	(150)
Pension interest expense (Note 12)	(1)	(1)
Other financial expenses	(17)	(16)
Total financial expenses	**(142)**	**(167)**
Net financial result	**(140)**	**(166)**

Other financial expenses include sundry commissions and others.

Note 24. Foreign currency transactions

Transactions in foreign currencies are analysed below, the main currency being US dollar:

	30.06.2022	30.06.2021
Sales	220	212
Other operating income	—	4
Income from marketable securities and other financial instruments of Group	8	6
Purchases	(220)	(210)
Services received	—	(1)
Financial expenses by borrowings from group companies and associates	(3)	(2)
Total	**5**	**9**

Note 25. Information on transactions with related parties

For the purposes of this section, related parties are as follows:

- 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, at 30 June 2022, 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 "executive" 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):

	At 30.06.2022				At 30.06.2021		
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	—	—	—	—	—	—	—
Total expenses	**—**	**—**	**—**	**—**	**—**	**—**	**—**
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	129,480	100,429	100,069	62,805	151,425	126,541	126,087

The aggregated amounts of transactions with group companies and associates are as follows (in million Euros):

	30.06.2022		30.06.2021	
Expenses, income and other transactions	**Group companies**	**Jointly-controlled entities and associates**	**Group companies**	**Jointly-controlled entities and associates**
Financial expenses	118	1	144	—
Receipt of services	8	—	15	—
Purchases of goods	242	—	186	—
Total expenses	**368**	**1**	**345**	**—**
Financial income	191	2	166	2
Dividends received	1,746	—	843	—
Sale of goods	1,228	—	321	—
Other income	32	—	32	—
Total income	**3,197**	**2**	**1,362**	**2**

At 30 June 2022 and 2021, "Purchases of goods" relates mainly to purchases of natural gas from Group companies.

The "Dividends received" item includes the final dividends and distributions out of the share premium account and reserves, recognised as a reduction in the value of investments in group companies in the amount of Euros 448 million (Euros 362 million in 2021) (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, considered at their net amount as part of Revenue.

The "Other income" item includes revenues from services rendered, in accordance with their nature and scale (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 members of the Board of Directors and the Management Committee

Remuneration for members of the Board of Directors and the Management Committee

Remuneration earned by the members of the Board of Directors of Naturgy Energy Group, S.A. by virtue of their membership of the Board and Board committees totalled Euros 1,893 thousand at 30 June 2022 (Euros 1,977 thousand at 30 June 2021).

At 30 June 2022, the Board of Directors continued to comprise 12 members (12 members at 30 June 2021); the Audit and Control Committee had 5 members (7 members at 30 June 2021), the Appointments, Remuneration and Corporate Governance Committee had 5 members (7 members at 30 June 2021) and the Sustainability Committee had 4 members (5 members at 30 June 2021).

The members of the Board of Directors are covered by the same liability policy that insures all managers and directors of Naturgy. The premium paid by Naturgy Energy Group, S.A. for the policy amounted to Euros 373 thousand at 30 June 2022 (Euros 244 thousand at 30 June 2021).

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 Manager.

At 30 June 2022, nine persons make up this group, excluding the Executive Chairman and the Internal Audit Manager (nine persons at 30 June 2021). There were no changes in the Management Committee in the six-month period ended 30 June 2022.

The amounts earned by the Management Committee under the headings of fixed remuneration, variable remuneration and other items totalled Euros 5,145 thousand at 30 June 2022 (Euros 4,482 thousand at 30 June 2021).

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled Euros 719 thousand at 30 June 2022 (Euros 688 thousand at 30 June 2021).

In addition, compensation accrued as a result of the acceptance of the extension of the term of the ILP, as described in Note 11, which was classified as multi-year variable compensation. That amount was made available to the Management Committee as follows: 50% (Euros 2,897 thousand) upon acceptance of the extension by the executive in November 2021, and the remaining 50% (Euros 2,897 thousand) upon approval by the General Shareholders' Meeting on 15 March 2022.

Transactions with members of the Board of Directors and the Management Committee

The members of the Board of Directors and Management Committee did not carry out any related-party transactions outside the ordinary course of business or other than on arm's-length terms with Naturgy Energy Group, S.A. or with group companies.

Note 27. Contingent liabilities and commitments

Guarantees

Guarantees furnished by the Company at 30 June 2022 and 31 December 2021 are as follows:

- Guarantees provided to third parties, basically for investment commitments of Group companies, amounting to Euros 17 million (Euros 23 million at 30 June 2021).

- Guarantees to group companies Naturgy Capital Markets, S.A., Naturgy Finance, B.V. and Unión Fenosa Preferentes, S.A.U., for bond issues by them totalling Euros 9,266 million (Euros 9,720 million at 31 December 2021).

- Guarantees to group companies Naturgy LNG Marketing Ltd, Naturgy LNG, S.L. , Naturgy LNG GOM Limited, Naturgy Commodities Trading, S.A., 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.

- Guarantees PCGs (Parent Company Guarantees) associated with the contracted derivative instruments.

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 non-fulfilment by Naturgy of its obligations in the ordinary course of its business, the probability of which is considered remote. Naturgy estimates that any liabilities not foreseen at 30 June 2022 that might arise from guarantees furnished would not be significant.

Contractual commitments

The Company held several gas supply contracts with take or pay clause negotiated for "own use" (Note 3.5), based on which it had gas purchase rights for the period 2021-2024 which were cancelled in 2021. At 30 June 2022, the Company had no long-term gas procurement commitments.

The contractual commitments for operating leases at 30 June 2022 and in 2021 are as follows:

	30.06.2022	31.12.2021
Up to one year	8	18
Between 1 and 5 years	68	68
Between 5 and 10 years	28	28
	104	**114**

At 30 June 2022 this mainly includes operating leases without purchase options on five 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
Diagonal, 525	Barcelona	2031	2 periods of 5 years

Contingent liabilities for litigation and arbitration

The Company is a party to certain judicial and extrajudicial disputes within the ordinary course of its activities. At the date of preparation of these interim financial statements, the main litigation in which it is involved is as follows:

Energy subsidy (“bono social”)

In 2016, the Spanish Supreme Court ordered the refund of the amounts contributed by Naturgy Energy Group, S.A. to the energy subsidy ("bono social") for the years 2014 to 2016 (Euros 74 million) in application of Royal Decree-Law 9/2013. In 2021, the Supreme Court confirmed its initial decision.

In February 2022, the Contentious-Administrative Chamber of the Supreme Court issued a ruling declaring inapplicable the energy subsidy (“bono social”) financing regime contained in RD 897/2017, of October 6, which developed RDL 7/2016 and recognizes the right to be compensated for the amounts paid in concept of financing the energy subsidy (“bono social”) since 2017. This sentence is pending execution.

Note 28. Auditors’ fees

The company has been audited by KPMG since 1 January 2021. The fees accrued in the six-month period ended 30 June 2022 and 2021 are as follows:

	30.06.2022			30.06.2021		
	KPMG Auditores, S.L	**Rest KPMG network**	**Total**	**Ernst & Young, S.L.**	**Rest EY network**	**Total**
Auditing services	566	—	**566**	242	—	242
Assurance services and services related to the audit (1)	853	312	**1,165**	73	—	73
Tax services	—	—	**—**	—	—	—
Other services	—	—	**—**	—	49	49
Total fees	**1,419**	**312**	**1,731**	**315**	**49**	**364**

(1) Includes 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.

Note 29. Events after the reporting date

On 28 July 2022, the Socialistas and Confederal parliamentary groups of Unidas podemos - En Comú Podem - Galicia en Común presented a draft law for the establishment of temporary energy charges and credit entities and financial credit establishments.

In the case of energy companies, a temporary tax is proposed for the years 2023 and 2024 that would apply to energy operators considered main for the purposes of the CNMC, a condition that is fulfilled if the net amount of the turnover is higher to 1,000 million euros and additionally, its activities in the energy sector exceed 50% of its net amount of turnover for the years 2017, 2018 and 2019. The payment obligation would arise on the first day of 2023 with the nature non-tax public equity benefit and would be the result of applying 1.2% to the net amount of the turnover of the fiscal consolidated Group in which the main energy operator is integrated.

This draft law has not been approved at the date of preparation of the Naturgy Energy Group, S.A Interim Financial Statements at 30 June 2022. If it were finally approved, preserving its current wording, this lien would have a significant impact on Naturgy's equity.

On 4 August 2022, Metrogas, S.A. received a first-instance conviction ordering to pay to Transportadora de Gas del Norte S.A. for unpaid invoices and for early termination of contracts (loss of earnings), plus costs and interests. This ruling is not final and can be appealed, so Metrogas, S.A. will exercise all the actions that correspond to it in defense of its interests, appealing the court ruling. In any case, this has not affected the valuation of the Naturgy Energy Group, S.A. portfolio as of June 30, 2022.

On 11 August 2022, the Company's Board of Directors declared an interim dividend for 2022, as described in Note 11.

No other material events took place after the reporting date.

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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 Generación, S.L.U.
Boreas Eólica 2, S.A.	Naturgy Iberia, S.A.
Comercializadora Regulada, Gas & Power, S.A.	Naturgy Informática, S.A.
Energías Ambientales De Somozas, S.A.	Naturgy Infraestructuras EMEA, S.L.
Eòlica Tramuntana, S.L.	Naturgy Ingeniería Nuclear, S.L.
Europe Mahgreb Pipeline Limited	Naturgy Innovahub, S.L.U.
Explotaciones Eólicas Sierra De Utrera, S.L.	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.	Nedgia Andalucía, S.A.
GPG México, S.L.U.	Nedgia Aragón, S.A.
Holding de Negocios de Gas, S.A.U.	Nedgia Balears, S.A.
Holding Negocios Electricidad, S.A.	Nedgia Castilla La Mancha, S.A.
Infraestructures Elèctriques de la Terra Alta, S.L.U.	Nedgia Catalunya, S.A.
JGC Cogeneración Daimiel, S.L.	Nedgia Cegas, S.A.
La Propagadora del Gas, S.A.	Nedgia Madrid, S.A.
Lignitos de Meirama, S.A.	Nedgia Navarra, S.A.
Naturgy Acciones, S.L.U.	Nedgia, S.A.
Naturgy Alfa Investments, S.A.U.	Operación y Mantenimiento Energy, S.A.
Naturgy Almacenamientos Andalucía, S.A.	Parque Eólico El Almendro, S.L.U.
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 Future, S.L.U.	Unión Fenosa Gas, S.A.
Naturgy Generación Térmica, S.L.U.	

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INTERIM DIRECTORS' REPORT

Interim directors' report as at 30 June 2022

Contents

1. Main aggregate performances

Naturgy Energy Group, S.A. is a holding company, in which the most relevant ordinary activity corresponds to the administration and management of the shares of different subsidiary companies. Consequently, its results come mainly from dividends and income accrued from financing granted to Naturgy group companies.

The main figures of Naturgy Energy Group, S.A. and its evolution as of June 30, 2022 and December 31, 2021 are:

	30.06.2022	**31.12.2021**	**%**
Net turnover(*)	1,801	1,109	62 %
Operating profit (*)	1,963	638	208 %
Profit of the year (*)	1,816	468	288 %
Shareholders' equity	20,240	18,901	7 %
Net equity	20,263	18,858	7 %
Current liabilities	2,587	2,855	(9)%

(*) Comparative information as of 30 June 2021

2. Significant events in the first half of 2022

Basically, the evolution of the result for the first half of 2022 and 2021 is explained by the income accrued in equity instruments of group companies.

The net amount of turnover in the six-month period ended 30 June 2022, amounts to Euros 1,801 million, of which Euros 310 million correspond to gas sales, Euros 1,298 million to dividends received from companies of the group and associates and Euros 193 million for the financing to companies of the Naturgy group (Euros 1,109 million at 30 June 2021, of which Euros 460 million euros corresponded to sales of gas and electricity, Euros 481 million euros to dividends received from group companies and associates, and Euros 168 million for financing Naturgy group companies).

The increase in the amount of turnover by Euros 692 million (Euros 20 million decrease in 2021) is the net effect of:

- Sales have decreased by Euros 150 million, basically due to the natural gas destined for the European market through other group companies (an increase of Euros 147 million at 30 June 2021, basically due to the sale of natural gas destined for the European market through through other group companies).

- Considerable increase of Euros 817 million in the dividends received from the subsidiaries in the semester, mainly from the companies Unión Fenosa Gas, S.A. Holding Negocios de Gas, S.A, Naturgy Inversiones Internacionales, S.A, Naturgy Distribución Latinoamérica, S.A. and Holding Negocios de Electricidad, S.A. (decrease of Euros 158 million in the dividends received from the subsidiaries in the first half of 2021, mainly from the companies Sagane, S.A, Holding Negocios de Gas, S.A, Naturgy Iberia, S.A., Naturgy Inversiones Internacionales, S.A, Global Power Generation, S.A.U and Holding Negocios de Electricidad, S.A.).

- Increase of Euros 25 million (decrease of Euros 9 million at 30 June 2021) due to financial income from financing subsidiaries.

Supplies for the year amounted to Euros 316 million (Euros 461 million at 30 June 2021) mainly associated with gas supplies, decreasing by Euros 145 million in line with sales.

Other operating income of Euros 34 million, net personnel expenses of Euros 34 million, operating expenses of Euros 74 million, amortization of Euros 6 million and the reversal for impairment of holdings in group companies and associates for Euros 558 million, take the operating result for the period to 1,963 million euros, increasing by Euros 1,325 million compared to the same period of the previous year.

At 30 June 2021, other operating income of Euros 35 million, net personnel expenses of Euros 60 million, operating expenses of Euros 54 million, amortization of Euros 6 million and impairment of investments in group companies and associates for Euros 75 million, brought the operating profit for the period to Euros 638 million.

The financial result has been negative by Euros 140 million (Euros 166 million in the same period of 2021).

Profit before taxes amounts to Euros 1,823 million and corporate tax amounts to Euros 7 million, which leaves the net result for the period at Euros 1,816 million, compared to Euros 468 million in the same period of the previous year .

3. Main risks and opportunities

The information broken down below refers to the consolidated group of Naturgy (hereinafter Naturgy), although the Company's main risks and opportunities are duly detailed in Note 14 of the Interim Individual Financial Statements.

In the first half of 2022, Naturgy maintained the same risk management policy as described in the consolidated annual accounts for the year ended 31 December 2021.

As detailed in section 4 of the Consolidated directors' report for the year ended 31 December 2021, Naturgy's activities are subject to a range of risks that are classified into four categories:

1. Economic risk
2. Financial risk
3. Operational risk
4. Sustainability and reputational risk

There are also 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.

Financial risks (interest rate, credit risk, liquidity risk and capital management) are discussed in Notes 13 and 26 of the Interim consolidated financial statements at 30 June 2022.

Fiscal, 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 for the year ended 31 December 2021. Health & safety and Customer satisfaction risks are discussed in chapter 7 "Commitment and Talent" and chapter 6 "Customer Experience", respectively, of that same report.

Russia's invasion of Ukraine in February 2022 and the subsequent escalation of the conflict have generated unprecedented volatility in the gas markets. Since the summer of 2021, European hubs had experienced a mismatch between supply and demand due to the impact on gas supply of the demand recovery after the COVID-19 pandemic. However, the onset of the war drove natural gas prices to well above pre-war levels, with extreme volatility in daily prices.

Faced with extreme volatility in gas prices and, consequently, in electricity prices throughout Europe, Naturgy's management has been particularly proactive in measuring the potential negative consequences for the company's contract portfolio, with an impact on its results. It also took the appropriate decisions to protect its customers' solvency and that of society as a whole by adopting price containment measures.

Even with the above situation as a context, the company's supply management has maintained its usual course, without interruption of any supply, even with regard to the long-term contract that Naturgy signed in 2013 with an international consortium for supply gas of Russian origin (in 2021 this contract accounted for 10% of the group's global supply). However, the company continuously monitors the potential impact of a restriction on the entry of Russian gas, anticipating different measures in the face of this possibility.

At the same time, a significant part of the company's long-term procurements has entered the ordinary price review period established in the respective contracts. These reviews might be negatively affected by the extreme price situation in Europe. In the course of the negotiations, the company seeks to protect the long-term interests of its shareholders, creditors and other stakeholders.

Naturgy also monitors the evolution of energy demand and its potential variations, in terms of both price elasticity and the possible worsening of economic conditions in the country, depending, in any event, on the duration and intensity of the conflict. Accordingly, Naturgy has considered a number of measures and actions to be taken in the event of gas shortages arising next winter.

On the regulatory front, both European and local governments have issued regulations to mitigate the consequences of the war on end users of energy. The regulatory framework is described in Appendix II of the interim consolidated financial statements at 30 June 2022.

Particularly noteworthy in Spain is Royal Decree-Law 6/2022, of 29 March, adopting urgent measures within the framework of the National Plan to respond to the economic and social consequences of the war in Ukraine. It provides notably for tax measures, a limit on increases in the gas tariff (TUR) for households and SMEs, updated remuneration for renewable, cogeneration and energy-from-waste plants, a reduction in the price of gas, an extension of the energy subsidy (bono social), a reduction in grid tolls for electricity-intensive industry, and an increase in strategic natural gas reserves, among others.

Additionally, on 14 May 2022, the Spanish Cabinet promulgated Royal Decree 10/2022 of 13 May 2022, which temporarily establishes the Iberian mechanism to limit the price of gas consumed by thermal power plants that is passed on in the bids that set the price in the wholesale electricity market (the pool). As required by the European Community (EC), this Royal Decree contains a mandate to modify the PVPC calculation methodology to be applied from January 2023 onwards.

Naturgy expects the impact of this set of measures to be contained and that, in any event, they will affect only the portfolio of sales indexed to the electricity pool and, potentially, some gas procurement contracts linked to it.

Moreover, as a means of supporting its industrial customers, Naturgy has launched, on its own initiative, a gas Commitment tariff in parallel to the electricity Commitment tariff that it was already offering customers.

On 18 May 2022, the EC published the REPowerEU Plan, aimed at reducing dependence on fossil fuels from Russia and accelerating the green transition.

Naturgy is aligned with the EU's plan and sees the REPowerEU's investment drive as a meaningful opportunity both to replace Russian gas supplies and to drive the energy transition.

4. Events after the reporting date

Events after the closing date are described in Note 29 to the Interim Financial Statements at 30 June 2022.