

Naturgy

Condensed interim consolidated financial statements at 30 June 2018

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Naturgy

Interim consolidated balance sheet

(Million euro)

	30/06/2018	31/12/2017
ASSETS		
Intangible assets (Note 7)	7,958	9,921
Goodwill	3,220	4,760
Other intangible assets	4,738	5,161
Property, plant and equipment (Note 7)	20,408	22,654
Investments recorded using the equity method	855	1,500
Non-current financial assets (Note 8)	1,111	1,315
Deferred tax assets	1,520	849
NON-CURRENT ASSETS	31,852	36,239
Non-current assets held for sale (Note 9)	247	1,682
Inventories	628	720
Trade and other receivables	4,979	4,994
Trade receivables	4,259	4,347
Other receivables	477	469
Current tax assets	243	178
Other current financial assets (Note 8)	398	462
Cash and cash equivalents	3,492	3,225
CURRENT ASSETS	9,744	11,083
TOTAL ASSETS	41,596	47,322
EQUITY AND LIABILITIES		
Share capital	1,001	1,001
Share premium	3,808	3,808
Treasury shares	(6)	(9)
Reserves	11,289	9,904
Profit for the period attributed to the parent company	(3,281)	1,360
Interim dividend	-	(330)
Other equity components	(1,369)	(1,000)
Equity attributed to the parent company	11,442	14,734
Non-controlling interests	3,778	3,571
EQUITY (Note 10)	15,220	18,305
Deferred income	845	842
Non-current provisions (Note 11)	1,155	1,129
Non-current financial liabilities (Note 8)	13,711	15,916
Borrowings	13,711	15,914
Other financial liabilities	-	2
Deferred tax liabilities	2,081	2,312
Other non-current liabilities	1,556	1,210
NON-CURRENT LIABILITIES	19,348	21,409
Liabilities related to non-current assets held for sale (Note 9)	90	621
Current provisions (Note 11)	118	183
Current financial liabilities (Note 8)	2,217	2,543
Borrowings	2,164	2,477
Other financial liabilities	53	66
Trade and other payables	3,521	3,920
Trade payables	2,722	2,885
Other payables	767	888
Current tax liabilities	32	147
Other current liabilities	1,082	341
CURRENT LIABILITIES	7,028	7,608
TOTAL EQUITY AND LIABILITIES	41,596	47,322

Notes 1 to 22 described in the explanatory notes of the condensed interim consolidated financial statements and Appendix are an integral part of the Interim consolidated balance sheet at 30 of June of 2018 and 31 of December of 2017.

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Interim consolidated income statement

(Million euro)

	For the six-month period ended 30 June	
	2018	2017 (1)
Revenue (Note 12)	12,176	11,569
Procurements (Note 13)	(8,907)	(8,263)
Other operating income	83	107
Personnel expenses (Note 14)	(464)	(469)
Other operating expenses (Note 15)	(905)	(935)
Release of fixed assets grants to income and other	21	21
EBITDA	2,004	2,030
Depreciation, amortisation and impairment losses (Note 7 and 16)	(5,165)	(800)
Impairment of credit losses	(63)	(58)
Other results	-	-
EBIT	(3,224)	1,172
Financial income	56	57
Financial expenses	(362)	(404)
Variations in fair value of financial instruments	(1)	-
Exchange differences	1	(2)
NET FINANCIAL INCOME (Note 17)	(306)	(349)
Profit/(loss) of companies measured under the equity method	(559)	7
PROFIT BEFORE TAXES	(4,089)	830
Corporate income tax (Note 18)	926	(183)
NET INCOME FOR THE PERIOD FROM CONTINUING OPERATIONS	(3,163)	647
Profit for the year from discontinued operations, net of taxes (Note 9)	(15)	64
CONSOLIDATED NET INCOME FOR THE PERIOD	(3,178)	711
Attributable to:		
the parent company	(3,281)	550
From continuing operations	(3,307)	503
From discontinued operations	26	47
Non-controlling interests	103	161
	(3,178)	711
Basic and diluted earnings/(losses) per share in euros from continuing operations attributable to the equity holders of the parent company (Note 10)	(3.31)	0.50
Basic and diluted earnings/(losses) per share in euros attributable to the equity holders of the parent company (Note 10)	(3.28)	0.55

(1) The consolidated income statement for the six-month period ended 30 June 2017 was restated by application of IFRS 5 (Notes 3.4 and 9).

Notes 1 to 22 described in the explanatory notes of the condensed interim consolidated financial statements and Appendix are an integral part of the Interim consolidated income statement of the six month period ended at 30 of June of 2018 and 2017.

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Interim Consolidated Statement of Comprehensive Income

(Million euro)

	For the six-month period ended 30 June	
	2018	2017
CONSOLIDATED NET INCOME FOR THE PERIOD	(3,178)	711
OTHER COMPREHENSIVE INCOME RECOGNISED DIRECTLY IN EQUITY	(462)	(632)
Items that will not be transferred to profit/(loss):		
Other financial liabilities at fair value with changes through other comprehensive income	(164)	(3)
Actuarial gains and losses and other adjustments	(2)	7
Tax effect	1	1
Items that will subsequently be transferred to profit/(loss):		
Cash flow hedges	(119)	(54)
Translation differences	(212)	(552)
Tax effect	30	11
Equity-consolidated companies	4	(42)
<i>Cash flow hedges</i>	1	(3)
<i>Currency translation differences</i>	3	(39)
<i>Tax effect</i>	-	-
RELEASES TO INCOME STATEMENT	59	(5)
Cash flow hedges	72	(9)
Currency translation differences	-	-
Tax effect	(13)	3
Companies recorded using the equity method	-	1
<i>Cash flow hedges</i>	-	1
<i>Currency translation differences</i>	-	-
<i>Tax effect</i>	-	-
OTHER COMPREHENSIVE INCOME FOR THE PERIOD	(403)	(637)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	(3,581)	74
Attributable to:		
Parent company	(3,637)	54
From continuing operations	(3,649)	4
From discontinued operations	12	50
Non-controlling interests	56	20

Notes 1 to 22 described in the explanatory notes of the condensed interim consolidated financial statements and Appendix are an integral part of the Interim Consolidated Statement of Comprehensive Income of the six month period ended at 30 of June of 2018 and 2017.

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Interim Statement of Changes in Consolidated Equity

(Million euro)

	Equity attributed to the parent company										Non-controlling interests	Equity
	Share capital	Share premium	Treasury shares	Reserves and accumulated gains	Profit for the year	Currency translation differences	Cash flow hedges	Financial assets at fair value	Other equity components	Subtotal		
Balance at 01/01/17	1,001	3,808	(21)	9,219	1,347	(183)	47	7	(129)	15,225	3,780	19,005
Total comprehensive income for the year	-	-	-	(2)	550	(450)	(52)	8	(494)	54	20	74
Transactions with shareholders or owners	-	-	-	677	(1,347)	-	-	-	-	(670)	(147)	(817)
Dividend distribution (Note 10)	-	-	-	676	(1,347)	-	-	-	-	(671)	(147)	(818)
Transfer of dependent company	-	-	-	-	-	-	-	-	-	-	-	-
Transactions with own equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-	-	-	-	-	-
Other changes in equity	-	-	-	-	-	-	-	-	-	-	(16)	(16)
Other changes	-	-	-	1	-	-	-	-	-	1	(16)	(15)
Balance at 30/06/17	1,001	3,808	(21)	9,894	550	(633)	(5)	15	(623)	14,609	3,637	18,246
Total comprehensive income for the year	-	-	-	11	810	(266)	(49)	(62)	(377)	444	142	586
Transactions with shareholders or owners	-	-	12	(331)	-	-	-	-	-	(319)	(166)	(485)
Dividend distribution (Note 10)	-	-	-	(330)	-	-	-	-	-	(330)	(86)	(416)
Transfer of dependent company	-	-	-	-	-	-	-	-	-	-	(73)	(73)
Transactions with own equity instruments	-	-	12	-	-	-	-	-	-	12	(8)	4
Other changes	-	-	-	-	-	-	-	-	-	-	1	1
Other changes in equity	-	-	-	-	-	-	-	-	-	-	(42)	(42)
Other changes	-	-	-	(1)	-	-	-	-	-	(1)	(42)	(43)
Balance at 31/12/2017	1,001	3,808	(9)	9,574	1,360	(899)	(54)	(47)	(1,000)	14,734	3,571	18,305
Impact of first-time application of new standards (Note 3.5)	-	-	-	10	-	-	-	(14)	(14)	(4)	(13)	(17)
Balance at 1/1/18	1,001	3,808	(9)	9,584	1,360	(899)	(54)	(61)	(1,014)	14,730	3,558	18,288
Total comprehensive income for the year	-	-	-	(1)	(3,281)	(167)	(29)	(159)	(355)	(3,637)	56	(3,581)
Transactions with shareholders or owners	-	-	3	1,705	(1,360)	-	-	-	-	348	184	532
Dividend distribution (Note 9)	-	-	-	689	(1,360)	-	-	-	-	(671)	(269)	(940)
Transfer of dependent company	-	-	-	-	-	-	-	-	-	-	-	-
Transactions with own equity instruments	-	-	3	-	-	-	-	-	-	3	(5)	(2)
Other changes	-	-	-	1,016	-	-	-	-	-	1,016	458	1,474
Other changes in equity	-	-	-	1	-	-	-	-	-	1	(20)	(19)
Other changes	-	-	-	1	-	-	-	-	-	1	(20)	(19)
Balance at 30/06/18	1,001	3,808	(6)	11,289	(3,281)	(1,066)	(83)	(220)	(1,369)	11,442	3,778	15,220

Notes 1 to 22 described in the explanatory notes of the condensed interim consolidated financial statements and Appendix are an integral part of the Interim Statement of Changes in Consolidated Equity at 30 of June of 2018 and 31 of December of 2017.

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Interim consolidated cash flow statement

(Million euro)

	For the six-month period ended 30 June	
	2018	2017
Profit before tax	(4,089)	830
Adjustments to results	5,990	1,251
Depreciation, amortisation and impairment losses	5,165	843
Other adjustments to net income	825	408
Changes in working capital	(203)	(258)
Other cash flows from operating activities:	(454)	(675)
Interest paid	(417)	(490)
Interest collected	10	15
Dividends received	82	21
Corporate income tax paid	(129)	(221)
CASH FLOWS GENERATED FROM OPERATING ACTIVITIES ⁽¹⁾	1,244	1,148
Cash flows into investing activities:	(959)	(1,005)
Group companies, associates and business units	(27)	(14)
Property, plant and equipment and intangible assets	(898)	(945)
Other financial assets	(34)	(46)
Proceeds from divestitures:	1,121	34
Group companies, associates and business units	1,080	-
Property, plant and equipment and intangible assets	5	-
Other financial assets	36	34
Other cash flows from investing activities:	29	24
Other proceeds/(payments) from/(of) investing activities	29	24
CASH FLOWS FROM INVESTING ACTIVITIES ⁽¹⁾	191	(947)
Collections and payments on equity instruments:	1,493	(2)
Issue	1,493	-
Acquisition	-	(2)
Collections and (payments) on financial liability instruments	(2,284)	140
Issue	6,742	3,956
Repayment and redemption	(9,026)	(3,816)
Dividends paid and remuneration on other equity instruments	(295)	(805)
Other cash flows from financing activities	(78)	(54)
CASH FLOWS FROM FINANCING ACTIVITIES ⁽¹⁾	(1,164)	(721)
Other changes in cash and cash equivalents	(21)	-
Effect of fluctuations in exchange rates	17	(92)
VARIATION IN CASH AND CASH EQUIVALENTS	267	(612)
Cash and cash equivalents at beginning of the period	3,225	2,067
Cash and cash equivalents at the end of the period	3,492	1,455

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

Notes 1 to 22 described in the explanatory notes of the condensed interim consolidated financial statements and Appendix are an integral part of the Interim Consolidated Statement of Comprehensive Income of the six month period ended at 30 of June of 2018 and 2017.

Notes to the condensed interim consolidated financial statements

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 San Luis 77, 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 its subsidiary companies ("Naturgy") form a group that is mainly engaged in natural gas business (supply, liquefaction, re-gasification, transport, storage, distribution and commercialisation), in electricity business (generation, transport, distribution and commercialisation), as well as any other source of existing energy. It could also operate as a holding company, incorporating companies or holding shares as a shareholder in other companies no matter what their corporate purposes or nature, by subscribing, acquiring and holding shares, stakes or any other securities deriving from the same, subject to compliance with the legal requirements in each case.

Naturgy operates mainly in Spain and also outside Spain, especially in Latin America, in the rest of Europe and Africa.

Note 5 includes financial information by operating segment.

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.

Note 2. Regulatory framework

Concerning the regulatory framework described in the consolidated annual accounts for the year ended 31 December 2017, the following should be noted in relation to the first half of 2018:

Order ETU/66/2018, of 26 January, establishing the taxes and surcharges considered for the purposes of the territorial supplements and implementing the mechanism to obtain the necessary information to establish the territorial supplements in relation to the electric power access tolls corresponding to the year 2013, was published on 30 January 2018.

Order ETU/257/2018, laying down obligations relating to contributions to the National Energy Efficiency Fund in 2018, was published on 17 March 2018. Naturgy's contribution to the National Energy Efficiency Fund for 2018 is Euros 21 million.

The Directorate General of Energy Policy and Mines (DGPEM) Resolution of 22 March, which published the last-resort tariff for natural gas, providing for a reduction of 3.2% with respect to the first quarter of 2018, was published on 31 March 2018.

Order ETU/362/2018, of 6 April, amending Order IET/2013/2013, of 31 August, which regulates the competitive mechanism for allocation of the interruptibility demand management service, was published on 7 April 2018.

The Resolution of 12 April approving the joint proposal by the Iberian market operator OMIE and the Iberian system operators REE and REN for the methodology of supplementary intraday regional auctions between Spain and Portugal, drawn up in accordance with Commission Regulation (EU) 2015/1222, establishing a guideline on capacity allocation and congestion management, was published on 18 April 2018. The proposed hybrid operation model is based on integrating the European intraday market XBID, supplemented by Iberian auction sessions.

Directorate General of Energy Policy and Mines (DGPEM) Resolution of 6 June, amending the order of 25 July 2006 which established the conditions for allocation and the procedure for application of interruptibility in the gas system, was published on 13 June 2018. Specifically, it establishes zones with the possibility of congestion and the capacity that can be contracted for under the interruptible toll.

Directive (EU) 2018/410 amending Directive 2003/87/EC to enhance cost-effective emission reductions, which will apply for the period 2021-2030, came into force on 8 April 2018. In the case of the sectors subject to the market in emission rights, a 43% reduction in emissions by 2030 with respect to the 2005 baseline is assumed and, additionally, the Directive establishes measures to reduce the excess of emission rights in the

market to ensure that there is a CO2 price signal.

The Revised Energy Performance of Buildings Directive, amending the previous directive with the goal of decarbonising Europe's pool of buildings so as to achieve zero emissions by 2050, was approved on 14 May 2018.

In February 2018, Chile's National Energy Commission (CNE) published the final results of the profitability check of the companies Metrogas, S.A. and Gas Sur, S.A. for 2016, calculated in accordance with the new Gas Law for each concession zone. The results were below the 11% ceiling, with the result that the companies will continue to operate under a supervised free tariff system.

On 27 March 2018, the Argentinian gas regulator, ENARGAS, approved Resolution no. 301, which approves the tariff tables applicable from 1 April 2018. The approved tariff is approximately 42.5% higher than the one in force since December 2017, recognising the third 30% step-up in the tariff recognised on 1 April 2017; inflation measured by the Internal Wholesale Price Index; and the remuneration recognised for the distributors to correct for the effect of staggered increases in the first year of the five-year period.

Note 3. Basis of presentation and accounting policies

3.1. Basis of presentation

The Consolidated annual accounts of Naturgy for 2017 were adopted by the General Meeting of Shareholders on 27 June 2018.

These condensed interim consolidated financial statements at 30 June 2018 of Naturgy were drawn up and signed by the Board of Directors on 24 July 2018, pursuant to IAS 34 "Interim financial reporting" and must be read together with the consolidated annual accounts for the year ended 31 December 2017, which were prepared in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council ("IFRS-EU").

As a result, it has not been necessary to repeat or update certain notes or estimates included in the consolidated annual accounts. 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 cash flows of Naturgy between 31 December 2017, the date of the above-mentioned consolidated annual accounts, and 30 June 2018.

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

3.2 Main risks and uncertainties

Note 4 "Significant events in the period" describes the main changes affecting Naturgy's equity and results in the six-month period ended 30 June 2018. Additionally, Note 6 "Asset impairment losses" describes the main changes in the economic assumptions used to draw up the new Strategic Plan 2018-2022 and other factors that have occurred in the period, which resulted in the recognition of impairment of the carrying amounts of Naturgy's certain non-current assets as at 30 June 2018.

3.3 Seasonality

Demand for natural gas is seasonal, with gas supplies and sales in Europe generally being higher in the colder months, from October to March, and lower during the warmer months, from April to September while demand for natural gas for industrial uses and electricity generation is generally more stable throughout the year. On the other hand, electricity demand tends to increase in summer in Spain, particularly in July and August, and therefore compensates natural gas seasonality as both activities are included in the "Gas and Power" segment.

3.4 Comparability

As a result of the divestments of the gas distribution and supply business in Italy, gas distribution and supply in Colombia, electricity distribution in Moldova, electricity generation in Kenya and mining in South Africa, described in Note 9 “Non-current assets and disposable groups of assets held for sale and discontinued operations”, the income statement for the six-month period ended 30 June 2017 was restated for purposes of comparison with the information relating to the first half of 2018, in compliance with IFRS 5.

A breakdown of the effects of the restatement on the consolidated income statement for the first half of 2017 is as follows:

Consolidated income statement for the six-month period ended 30 June 2017

	2017	Application of IFRS 5 (Note 9)	2017
Revenue	12,283	(714)	11,569
Procurements	(8,726)	463	(8,263)
Other operating income	115	(8)	107
Personnel costs	(501)	32	(469)
Other operating expenses	(1,016)	81	(935)
Release of fixed assets grants to income and other	21	-	21
EBITDA	2,176	(146)	2,030
Depreciation, amortisation and impairment losses	(843)	43	(800)
Impairment of credit losses	(64)	6	(58)
Other results	-	-	-
EBIT	1,269	(97)	1,172
Financial income	67	(10)	57
Financial expenses	(412)	8	(404)
Variations in fair value of financial instruments	-	-	-
Exchange differences	(2)	-	(2)
NET FINANCIAL INCOME/(EXPENSE)	(347)	(2)	(349)
Profit/(loss) of companies measured under the equity method	7	-	7
PROFIT BEFORE TAXES	929	(99)	830
Corporate income tax	(218)	35	(183)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	711	(64)	647
Profit for the year from discontinued operations, net of taxes	-	64	64
CONSOLIDATED PROFIT FOR THE YEAR	711	-	711
Attributable to:			
the parent company	550	-	550
From continuing operations	550	(47)	503
From discontinued operations	-	47	47
Non-controlling interests	161	-	161
Basic and diluted earnings per share in euros from continuing operations attributable to the equity holders of the parent company	0.55	(0.05)	0.50
Basic and diluted earnings per share in euros attributable to the equity holders of the parent company	0.55	-	0.55

Additionally, the structure of the consolidated income statement has been changed to present credit losses as a separate line item (previously presented under other operating expenses). As a result, the comparative information for the consolidated income statement for the six-month period ended 30 June 2017 has been modified.

3.5 Accounting policies

The accounting policies applied in these interim consolidated financial statements are the same as those applied in the consolidated financial statements for the year ended 31 December 2017, except for adoption of the new IFRS-EU, interpretations and amendments that came into force on 1 January 2018.

The main amendments arising from the adoption of the new IFRS refer essentially to those set out in IFRS 9 and IFRS 15, and are detailed below:

3.5.1 Intangible assets

a) Customer acquisition costs

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

Customer acquisition costs recognised as assets are amortised systematically in the consolidated income statement over the expected average life of the contracts with customers, which ranges from 2 to 8 years.

3.5.2 Financial assets and liabilities

Naturgy classifies its financial assets and liabilities according to their measurement category, which is determined on the basis of the business model and the characteristics of the contractual cash flows.

Financial assets

Purchases and sales of investments are recognised on trade-date, which is the date on which Naturgy commits to purchase or sell the asset, and are classified under the following categories:

a) Financial assets at amortised cost

These are non-derivative financial assets, with fixed or determinable pay outs, that are not listed on an active market and for which there is no plan to trade in the short-term. 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 also include assets representing debt claims with fixed or determinable pay outs and fixed maturity which Naturgy plans to and can actually hold until maturity.

They are initially recorded at their fair value and then at their amortised cost using the effective interest rate method.

Cash and cash equivalents include cash at hand, time deposits with financial entities and other highly liquid short-term investments with an original maturity no longer than three months as from the acquisition date.

b) Financial assets at fair value with changes 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.

In the case of equity instruments classified in this category they are recognised at fair value. Unrealised gains and losses that arise from fair value changes, or losses due to extended impairment, or the result of the sale, are recognised in the consolidated income statement.

The fair values of listed investments are based on 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 (Levels 2 and 3). If none of these techniques can be used to determine fair value, investments are carried at cost less any impairment loss.

c) Equity instruments at fair value with changes through other comprehensive income

These are equity instruments that are maintained inside a business model whose pursues are obtained by contractual payments through its sale and that have been irrevocably categorised in this category by Naturgy as first-time application option. They are recognised at fair value with changes through other comprehensive income, with the exception of the dividends of these investments that are recognised in the income statement of the period. Therefore, no impairment losses are recognised in profit and loss and, at the time of their sale, no gains or losses are reclassified to the consolidated income statement.

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

- Level 1: Valuations based on the quoted price of identical instruments in an active market. The 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 included in this category is determined using valuation techniques. The valuation techniques maximise the use of observable market data when available and rely as little as possible on specific estimates by Naturgy. If all significant inputs required to calculate the fair value are observable, the instrument is included in Level 2. If one or more of the significant inputs are not based on observable market data, the instrument is included in Level 3.
- Level 3: Valuations based on variables that are not based on observable market information.

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

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

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

Naturgy applies the general approach to expected losses on financial assets with the exception of Trade and other receivables without a significant financial component, for which the simplified approach is used.

The general approach requires the recognition of expected losses resulting from a default event during the next 12 months or during the life of the contract, depending on the evolution of financial asset's credit risk since its initial recognition in the balance sheet. Under the simplified approach, expected credit losses are recognised over the life of the asset considering the available information about past events (such as customer payment behaviour), current conditions and prospective factors (macroeconomic factors such as GDP, unemployment, inflation, interest rates, etc.) that may impact the credit risk of Naturgy's debtors.

Financial liabilities

a) Financial liabilities 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 the consolidated income statement during the period of repayment of the financial debt by using the effective interest rate method, subsequently measuring the financial liabilities at amortised cost.

In the event of contractual modifications of a liability at amortised cost that does not result in derecognition, the contractual flows of the refinanced debt must be calculated by maintaining the original effective interest rate, and the difference must be recognised in profit or loss on the date of the modification.

Borrowings are classified as current liabilities unless they mature in more than twelve months as from the balance sheet date, or include tacit one-year renewal clauses that can be exercised by Naturgy.

Additionally, current trade and other payables are short-term financial liabilities, are initially recognised at fair value, do not explicitly accrue interest, and are recognised for their nominal value. Those maturing in more than twelve months are considered non-current payables.

b) Financial liabilities assets at fair value with changes 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 later valuations, at their fair value, and the changes in their value are taken to the Income Statement for the year.

3.5.3 Derivatives and other financial instruments

Derivatives are initially recognised at fair value on the date the 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.

Naturgy aligns its accounts with its management of financial risks. It regularly reviews the aims of risk management and hedging strategies, and describes the risk management goal being pursued.

For a hedge transaction to be considered effective, Naturgy documents that the economic relationship between the hedging instrument and the hedged item is aligned with the entity's risk management objective.

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

- Derivatives listed on an official market are calculated on the basis of their year-end closing 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, for some non-financial items, on best estimates of future curves for those items (Level 2 and 3).

Fair values are adjusted by the expected impact of the counterparty credit risk observable in positive valuation scenarios and the impact of own credit risk observable 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 consolidated profit or loss.

For accounting purposes, the operations are classified as follows:

1. Derivatives eligible for hedge accounting

a) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement together with any changes in the fair value of the hedged item.

b) Cash flow hedges

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 consolidated income statement.

Amounts accumulated in equity are reclassified to the income statement in the periods when the hedged item affects the consolidated income statement.

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 on the consolidated balance sheet under "Cumulative translation differences". The gain or loss from the non-effective part is recognised immediately under "Exchange differences" on the consolidated income statement. The accumulated amount of the valuation recorded under "Cumulative translation differences" is released to the consolidated income statement as the foreign investment that gave rise to it is sold.

2. *Derivatives that do not qualify for hedge accounting*

Certain derivative instruments do not qualify for hedge accounting. Such derivatives are classified as at fair value through profit or loss, and changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the consolidated income statement.

3. *Energy purchase and sale agreements*

During the normal course of its business, Naturgy enters into energy purchase and sale agreements which in most cases include "take or pay" clauses. by virtue of which the buyer takes on the obligation to pay the value of the energy contracted irrespective of whether he receives it or not. These agreements are executed and maintained in order to meet the needs of receipt on physical delivery of energy projected by Naturgy in accordance with the energy purchase and sale estimates made periodically, which are monitored systematically and adjusted always by physical delivery.

3.5.4 New IFRS-EU standards and IFRIC interpretations

As a result of their approval, publication and entry into force on 1 January 2018, the following standards, interpretations and amendments have been applied:

- IFRS 9, "Financial instruments"
- IFRS 15, "Revenue from contracts with customers";
- IFRS 4 (Amendment), "Application of IFRS 9 Financial Instruments with IFRS 4 Insurance contracts";
- Annual improvements to IFRS, Cycle 2014-2016;
- IFRS 2 (Amendment) , "Classification and measurement of share-based payments";
- IAS 40 (Amendment), "Transfers of investment property";
- IFRIC 22, "Transactions and advance payments in foreign currency"
- IFRS 15 (Modification), "Clarifications"

Of these standards, interpretations and amendments, only IFRS 9 and IFRS 15 have a material impact on the interim financial statements.

IFRS 9 - "Financial instruments"

IFRS 9 establishes the criteria for the classification, measurement and derecognition of financial assets and liabilities, introduces new rules for hedge accounting and provides a new model for the impairment of financial assets.

Naturgy has chosen not to adopt the new standard in advance, opting not to restate the comparative information for 2017. Therefore, as at 1 January 2018, the adjustment to the carrying amount of financial assets and liabilities is recognised in reserves.

The impacts of first-time application of IFRS 9 were as follows:

- a) Classification of financial assets: With respect to investments in equity instruments classified as available-for-sale financial assets under IFS 39 with fair value changes through equity that are taken to income when they are disposed of or impaired, Naturgy used the option permitted by IFRS at first-time application of irrevocably categorised them in the new category of investment in equity instruments at fair value through other comprehensive income, with the exception of Medgaz, which was classified as held for trading. Increases and decreases in the fair value of these assets will be recognised in other comprehensive income, no impairment losses will be recognised in profit or loss, and no gains or losses

will be reclassified to the consolidated profit and loss account at the time of sale. As for financial assets other than equity instruments, Naturgy holds them mainly with the objective of obtaining the contractual cash flows; accordingly, they will continue to be measured at amortised cost from 1 January 2018 onwards.

- b) Exchange of debt instruments: Naturgy has carried out refinancing operations in which, in accordance with the provisions of IAS 39, there weren't no substantial changes in the debt instrument and, consequently, the carrying amount of the liability was adjusted in accordance with the costs and commissions, which were amortised over the remaining life of the modified liability. In accordance with IFRS 9 in transactions to modify financial liabilities, the value of the cash flows of the new financial liability must be determined using the effective internal rate of the old financial liability, and the difference between this new accounting value and the original value must be recognised in the consolidated profit and loss account. The impact estimated at 1 January 2018 is a decrease of Euros 48 million in financial liabilities, with a corresponding increase in deferred tax liabilities of Euros 12 million.
- c) Impairment of financial assets: Naturgy applies the general approach for financial assets with the exception of "Trade and other receivables", for which the simplified approach is used. In this context, Naturgy considers the information available on past events (such as the customer payment trends), current conditions and forward-looking elements (e.g. macroeconomic factors such as gross domestic product (GDP), unemployment, inflation, interest rates, etc.) that may impact the credit risk of Naturgy's debtors. On the basis of the evaluations carried out at the date of entry into force of the new standard, the impact as at 1 January 2018 has been an increase in the impairment provision for financial assets of Euros 102 million with a corresponding increase in deferred tax assets of approximately Euros 26 million.
- d) Hedge accounting: Naturgy did not make substantial changes in its hedging model, and confirms that its current hedging relationships qualify as hedges that will continue with the adoption of IFRS 9. In line with its current hedge accounting policy, Naturgy does not intend to exclude the term component of foreign exchange insurance contracts in the designation of hedging relationships.
- e) Other adjustments: These adjustments include adjustments on the adoption of IFRS 9 for companies accounted for using the equity method, mainly due to the application of the new financial asset impairment model based on expected credit loss.

In summary, the impact of the adoption of IFRS 9 on the consolidated balance sheet at 1 January 2018 is as follows:

	Amount (million euro)	Adjustments
Investments recorded using the equity method	(23)	e)
Non-current financial assets	(1)	c)
Deferred tax assets	26	c)
NON-CURRENT ASSETS	2	
Trade and other receivables	(101)	c)
CURRENT ASSETS	(101)	
Non-current financial liabilities	(48)	b)
Deferred tax liabilities	12	b)
NON-CURRENT LIABILITIES	(36)	
Equity attributed to the parent company	(50)	
Non-controlling interests	(13)	c)
EQUITY	(63)	

IFRS 15 - "Revenue from contracts with customers"

IFRS 15 establishes a new model for the recognition of revenues derived from contracts with customers, where revenues must be recognised based on fulfilment of performance obligations to customers. Ordinary revenue represents the transfer of committed goods or services to customers for an amount that reflects the consideration to which the undertaking expects to be entitled in exchange for such goods and services.

Additionally, it is established that an asset will be recognised for the incremental costs of obtaining a contract with a client if they are expected to be recovered.

As a transitional method upon first-time application of this standard, Naturgy opted for the retrospective method, recognising the accumulated effect of first-time application as at 1 January 2018 in reserves, and it elected not to restate the comparative information for 2017.

The company also decided to apply practical solutions consisting of not considering the financing component as material when the payment period is less than one year, not applying the standard retrospectively to contracts that had been completed prior to 1 January 2018, and recognising the costs of obtaining contracts as an expense when their expected amortisation period is one year or less.

The impacts from the initial application of IFRS 15 are as follows:

- a) The internal revenue recognition policies for the different types of contracts with customers were analysed, identifying the performance 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 lead to the recognition of liabilities due to contracts with customers, were detected.
- b) IFRS 15 requires the recognition of an asset for incremental costs incurred in obtaining contracts with customers that are expected to be recovered, and those costs are amortised systematically in the income statement as the revenues related to the asset concerned are recognised; the expected average term of customer contracts ranges from 2 to 8 years. On the basis of the evaluations conducted on the date of entry into force of the new standard, Naturgy capitalised, under intangible assets, the commissions paid in previous years to obtain energy supply contracts with customers that are still in force as at 1 January 2018, in the amount of Euros 61 million, with the corresponding increase in deferred tax liabilities of Euros 15 million.

The impact of the adoption of IFRS 15 on the consolidated balance sheet as at 1 January 2018 is as follows:

	Amount (million euro)	Adjustments
Intangible assets	61	b)
NON-CURRENT ASSETS	61	
Deferred tax liabilities	15	b)
NON-CURRENT LIABILITIES	15	
Equity attributed to the parent company	46	b)
EQUITY	46	

Impact of IFRS 9 and IFRS 15 on the consolidated balance sheet as at 1 January 2018

The effects on the consolidated balance sheet as at 1 January 2018 derived from the adoption of IFRS 9 and IFRS 15, as described above, are as follows:

Consolidated balance sheet (million euro)

	1.1.2018	IFRS 9	IFRS 15	Total adjustments	1.1.2018 IFRS 9 and IFRS 15
ASSETS					
NON-CURRENT ASSETS	36,239	2	61	63	36,302
CURRENT ASSETS	11,083	(101)	-	(101)	10,982
TOTAL ASSETS	47,322	(99)	61	(38)	47,284
EQUITY AND LIABILITIES					
Equity attributed to the parent company	14,734	(50)	46	(4)	14,730
Non-controlling interests	3,571	(13)	-	(13)	3,558
EQUITY	18,305	(63)	46	(17)	18,288
NON-CURRENT LIABILITIES	21,409	(36)	15	(21)	21,388
CURRENT LIABILITIES	7,608	-	-	-	7,608
TOTAL EQUITY AND LIABILITIES	47,322	(99)	61	(38)	47,284

Effect of IFRS 9 and IFRS 15 on the interim consolidated income statement as at 30 June 2018

The application of IFRS 15 in the interim income statement as at 30 June 2018 resulted in a reduction of operating expenses of Euros 24 million due to capitalising customer acquisition costs, and an increase in amortisation charges of Euros 17 million due to amortisation of the asset recognised upon first-time application. As for IFRS 9, the impact on the consolidated income statement of recognising impairment for financial assets based on the credit loss model was an increase in expenses of Euros 8 million, while the impact of the new approach to accounting for transactions to modify financial liabilities, both those made in previous years and the one carried out this year (Note 8), led to a decrease in financial expenses of Euros 5 million.

The impact on basic and diluted earnings per share is not material.

The standards, amendments and interpretations that will come into force for years commencing on or after 1 January 2019 and later years are described below.

Standards adopted by the European Union		Entry into force for annual periods commencing
IFRS 16, "Leases"	New standard that replaces IAS 17.	1 January 2019
IFRS 9 (Amendment), "Prepayment features with negative compensation"	Enables entities to measure some prepayable financial assets at amortised cost.	1 January 2019
Standards issued by the IASB and yet to be adopted by the European Union		Entry into force for years commencing
IAS 19 (Amendment) "Plan amendment, curtailment or settlement"	These amendments require the use of updated actuarial assumptions to determine current service cost and net interest for the remainder of the period.	1 January 2019
IFRIC 23, "Uncertainty over income tax treatments"	Clarifies the recognition and valuation of IAS 12 in cases of uncertainty as to whether the tax authorities accept a certain tax treatment used by the entity.	1 January 2019
IFRS 10/IAS 28 (Amendments) "Sales or contributions of assets between an investor and its associate/joint venture"	These amendments clarify the accounting treatment of asset sales and contributions between an investor and its associates or joint ventures	Proposal with no set date
IAS 28 (Amendment), "Long-term interests in associates and joint ventures"	Clarifies the application of IFRS 9 to long-term interests in associates or joint ventures when the equity method is not used.	1 January 2019
Annual improvements to IFRS, Cycle 2015-2017	Minor changes to various standards.	1 January 2019
Amendments to References to the Conceptual Framework in IFRS Standards	Ensures that the standards are consistent; includes a new chapter on measurement, enhances definitions and guidelines, and clarifies areas such as prudence and judgements under conditions of uncertainty.	1 January 2020
IFRS 17, "Insurance contracts"	New standard that replaces IFRS 4.	01 January 2021

None of these standards or amendments has been applied early.

IFRS 16 - "Leases"

IFRS 16 will enter force in 2019 and will replace IAS 17 and the current associated interpretations, without been determined the transition method yet.

IFRS 16 "Leases" establishes that lessees must recognise all leases under a single accounting model. At the date of initiation of a lease, an asset must be recognised in the consolidated balance sheet for the right to use the underlying asset for the contract term, and a liability must be recognised for the payments to be made under the operating lease contract (except for short-term leases and those relating to low-value assets. In addition, there will be a change in the policy for recognising the lease expense, which will be recorded as a depreciation expense for the relevant asset and a financial expense due to the revaluation of the lease liability.

The current accounting approach for lessors has not changed substantially. Lessors must continue to classify leases as operational or financial depending on the degree of substantial transfer of the risks and advantages inherent to ownership.

The analysis is still under way at the date of presentation of these interim consolidated financial statements. Naturgy has completed the compilation of the necessary data concerning its operating lease contracts to be able to assess the relevant impacts; different rates for specific categories, countries and terms are being considered to estimate the impact of IFRS 16 for each category of commitment. The term is determined by the number of years of the contract or the useful life of the related asset.

However, considering the negligible volume of commitments for operating lease contracts held by the Group, Naturgy estimates that the most material impact of IFRS 16 on the consolidated financial statements would be an increase in financial debt (as well as the corresponding right of use asset) amounting to Euros 300 million and the presentation of the Finance lease liabilities now included in other current and non-current liabilities as Net financial debt.

3.6 Consolidation scope

2018

On February 2018, once the competition authorities had given their approval, the sale of the gas distribution and supply companies in Italy was completed.

On March 2018, Naturgy, through subsidiary Global Power Generation, agreed to acquire two solar photovoltaic projects in Brazil which are expected to come into operation in the fourth quarter of 2018.

On March 2018, following approval by the competition authorities, a minority 20% stake in the company Holding de Negocios de Gas, S.A., which owns the gas network assets in Spain, was sold.

On May 2018, the deadline for acceptance of the tender offer for Gas Natural, S.A. ESP finalised, as a result of which the sale of the remaining 41.9% of the gas distribution business in Colombia was completed.

2017

There were no significant changes in the consolidation scope in the six-month period to 30 June 2018.

Appendix I sets out the changes in the consolidation scope arising in the first half of 2018 and in 2017.

Note 4. Significant events in the period

The consolidated equity and results of Naturgy as at 30 June 2018 were particularly affected by the following events and transactions in the period:

- The divestment processes described in Note 9 "Non-current assets and disposal groups of assets held for sale and discontinued operations", as a result of efforts to optimise the portfolio of businesses and the ongoing review of the activities and geographies.

The following transfers were completed in the first half of 2018: i) the remaining 41.9% of the gas distribution business in Colombia for Euros 334 million, equal to its carrying amount, net of the dividends received; consequently, this did not have any impact on the consolidated income statement (Note 9); ii) the gas distribution and supply business in Italy, as well as the transfer of the gas supply contract, for Euros 766 million, generating a capital gain of Euros 188 million after taxes which was recognised under "Profits from discontinued operations net of taxes" in the consolidated income statement (Note 9); and iii) the sale of a 20% minority stake in the gas distribution business in Spain for Euros 1,500 million, which resulted in an increase of Euros 1,016 million in the "Reserves" caption in the Consolidated balance sheet (Note 10).

In addition, the "Profits from discontinued operations net of taxes" account in the Consolidated income statement includes a total of Euros -221 million as a result of devaluation of the net book values of investments held for sale in Moldova (Euros 73 million) euros, in Kenya (Euros 7 million) and in the coal field in South Africa (Kangra) (Euros 141 million) taking into consideration the progress of the divestment processes (Note 9).

- The exhaustive review of the value of the assets as a result of the approval on 27 June 2018 of the new Strategic Plan 2018-2022, which established: i) a new industrial model and for the business units, ii) the activities and markets into which Naturgy plans to expand, and their continuity in the future, and iii) an update of the main assumptions and business projections in light of the new context variables for the next five years. From this review and from other factors occurred during the period resulted in the recognition of impairment in the amount of Euros 4,851 million in the consolidated income statement (Note 6) under "Depreciation and impairment losses" (Euros 4,279 million) and "Profit/(loss) of companies measured under the equity method" (Euros 572 million).
- Additionally, prior to the approval of the new Strategic Plan, other assets were impaired under "Depreciation and impairment losses" in the amount of Euros 54 million.

Note 5. Segment financial information

An operating segment is a component that carries on business activities from which it may obtain ordinary revenue and incur costs, whose operating results are reviewed regularly by the Board of Directors when taking Naturgy's operating decisions in order to decide on the resources that must be allocated to the segment and to evaluate its performance, in respect of which separate financial information is available.

The new Strategic Plan 2018-2022, approved by the Board of Directors on 27 June 2018, resulted in a new approach in which business segments are managed independently with full responsibility. As a result, the operating segments were redefined as follows:

- Gas and Power:
 - Supply of gas, electricity and services: its objective is to manage a new integrated business model for gas, electricity and services, maximising the value of the portfolio by focusing on the customer and with high growth potential in services and solutions.
 - International LNG trading: includes both the trading of liquefied natural gas and maritime transportation.
 - Electricity generation Europe: includes both conventional generation (hydroelectric, coal, nuclear and combined cycle) and renewable generation (wind, small hydro, solar and cogeneration), all in Spain at present.
 - Electricity generation International: includes the electricity generating fleet of Global Power Generation (GPG), located in Latin America (Brazil, Chile, Costa Rica, Mexico, Panama, Dominican Republic and Puerto Rico, the latter carried by the equity method via EcoEléctrica LP) and Australia.
- Infrastructure EMEA:
 - Gas distribution Spain: encompasses the regulated gas distribution business in Spain.
 - Electricity distribution Spain: encompasses the regulated gas distribution business in Spain.
 - EMPL: Manages the Maghreb-Europe gas pipeline.
- Infrastructure Latin America South: includes the regulated gas distribution business in Argentina, Brazil, Chile and Peru and the regulated electricity distribution business in Argentina and Chile, as well as the gas supply business in Chile.
- Infrastructure Latin America North: includes the regulated gas distribution business in Mexico and the regulated electricity distribution business in Panama.
- Remainder. Consists basically of the Unión Fenosa Gas business (equity method) and the gas storage business.

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

Six-month period ended 30 June 2018	Gas and Power					Infrastructure EMEA				Infrastructure Latin America South					Infrastructure Latin America North			Rest	Eliminations	TOTAL
	Supply	LNG	Gen. Europe	Gen. International	Total	Gas Networks Spain	Elec. Networks Spain	EMPL	Total	Argentina	Brazil	Chile	Peru	Total	Mexico	Panama	Total			
Consolidated revenue	5,640	1,760	145	425	7,970	576	412	36	1,024	321	735	1,435	2	2,493	277	377	654	35		12,176
Revenue between segments	1,128	35	767	8	1,938	36	15	121	172	-	-	-	-	-	-	-	-	94		2,204
Sales by segment	6,768	1,795	912	433	9,908	612	427	157	1,196	321	735	1,435	2	2,493	277	377	654	129	(2,204)	12,176
Segment procurements	(6,457)	(1,555)	(465)	(243)	(8,720)	(41)	-	-	(41)	(203)	(563)	(1,009)	(1)	(1,776)	(159)	(305)	(464)	(28)	2,122	(8,907)
Net personnel expenses	(64)	(2)	(56)	(19)	(141)	(43)	(39)	(2)	(84)	(17)	(20)	(73)	(1)	(111)	(16)	(6)	(22)	(106)	-	(464)
Other operating income/expenses	(192)	(5)	(225)	(30)	(452)	(96)	(72)	(12)	(180)	(58)	(42)	(142)	(2)	(244)	(24)	(21)	(45)	38	82	(801)
EBITDA	55	233	166	141	595	432	316	143	891	43	110	211	(2)	362	78	45	123	33	-	2,004
Other results	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation, amortisation and impairment expenses	(31)	(36)	(4,147)	(82)	(4,296)	(146)	(119)	(26)	(291)	(2)	(30)	(79)	(46)	(157)	(20)	(17)	(37)	(384)	-	(5,165)
Transfers to provisions	(30)	-	-	-	(30)	(2)	-	-	(2)	(7)	(2)	(12)	-	(21)	(8)	(2)	(10)	-	-	(63)
Operating profit	(6)	197	(3,981)	59	(3,731)	284	197	117	598	34	78	120	(48)	184	50	26	76	(351)	-	(3,224)
Net financial income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(306)
Results of companies recorded by the equity method	-	-	7	(7)	-	-	-	-	-	-	-	15	-	15	-	-	-	(574)	-	(559)
Profit before tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,089)
Corporate income tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	926
Profit/(loss) for the year from continuing operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,163)
Profit/(loss) for the year from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(15)
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,178)
Investments in tangible and intangible fixed assets (Note 7) (1)	35	380	109	99	623	94	90	1	185	27	35	170	6	238	35	45	80	19	-	1,145

Six-month period ended 30 June 2017 (*)	Gas and Power					Infrastructure EMEA				Infrastructure Latin America South					Infrastructure Latin America North			Rest	Eliminations	TOTAL
	Supply	LNG	Gen. Europe	Gen. International	Total	Gas Networks Spain	Elec. Networks Spain	EMPL	Total	Argentina	Brazil	Chile	Peru	Total	Mexico	Panama	Total			
Consolidated revenue	5,323	1,073	148	431	6,975	581	399	39	1,019	286	803	1,756	-	2,845	281	407	688	42	-	11,569
Revenue between segments	1,177	51	792	7	2,027	57	21	120	198	-	-	31	-	31	-	-	-	87	-	2,343
Sales by segment	6,500	1,124	940	438	9,002	638	420	159	1,217	286	803	1,787	-	2,876	281	407	688	129	(2,343)	11,569
Segment procurements	(6,190)	(952)	(458)	(247)	(7,847)	(50)	-	-	(50)	(178)	(603)	(1,350)	-	(2,131)	(160)	(324)	(484)	(17)	2,266	(8,263)
Net personnel expenses	(54)	(3)	(60)	(18)	(135)	(44)	(53)	(2)	(99)	(22)	(21)	(77)	(1)	(121)	(13)	(6)	(19)	(95)	-	(469)
Other operating income/expenses	(215)	(6)	(215)	(35)	(471)	(111)	(69)	(9)	(189)	(58)	(53)	(104)	(2)	(217)	(21)	(25)	(46)	39	77	(807)
EBITDA	41	163	207	138	549	433	298	148	879	28	126	256	(3)	407	87	52	139	56	-	2,030
Other results	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation, amortisation and impairment expenses	(13)	(24)	(224)	(60)	(321)	(148)	(113)	(18)	(279)	(2)	(33)	(74)	-	(109)	(17)	(16)	(33)	(58)	-	(800)
Transfers to provisions	(28)	-	-	-	(28)	(4)	-	-	(4)	(3)	(2)	(12)	-	(17)	(6)	(2)	(8)	(1)	-	(58)
Operating profit	-	139	(17)	78	200	281	185	130	596	23	91	170	(3)	281	64	34	98	(3)	-	1,172
Net financial income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(349)
Results of equity-consolidated companies	-	-	8	29	37	-	-	-	-	-	-	16	-	16	-	-	-	(46)	-	7
Profit before tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	830
Corporate income tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(183)
Profit/(loss) for the year from continuing operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	647
Profit/(loss) for the year from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	64
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	711
Investments in tangible and intangible fixed assets (Note 7) (1)	25	-	54	90	169	82	106	2	190	21	49	156	4	230	41	52	93	55	-	737

(*) The consolidated income statement for the six-month period ended 30 June 2017 was restated by reclassifying to discontinued operations in accordance with IFRS 5 (Notes 3.4 & 9).

(1) Includes investment in property, plant and equipment and intangible assets (Note 7).

Note 6. Asset impairment losses

As a result of the circumstances described in Note 4 "Significant events in the period" and Note 5 "Financial information by segments" and aligning the new structure with the new vision and management approach for the businesses and cash flows under the New Strategic Plan, a new definition of the Cash Generating Units (CGU) was produced, as follows:

- Gas and Power:
 - Supply of gas, electricity and services: The natural gas, electricity and services businesses are managed together for commercial purposes, which maximises the value of the portfolio by focusing on the customer and on the strong growth potential in services and solutions; accordingly, this is a single CGU.
 - International LNG trading: This is considered to be a single CGU since both the trading of liquefied natural gas and maritime transportation are managed together.
 - Electricity generation Europe: It is considered that conventional electricity generation (hydro, coal, nuclear and combined cycle plants) constitutes one CGU and renewable electricity generation (wind, small hydro, solar and cogeneration) constitutes another CGU based on the new strategic vision for the Spanish electricity market, in which renewables have a greater presence and hourly prices are more volatile, which requires specialisation in the management of conventional power generation and renewable energy generation to focus on, respectively, cost adjustments and increasing installed capacity, in line with the reorganisation that was carried out.

In previous years, these activities comprised a single CGU since they were managed and controlled together on a centralised basis as a function of demand conditions, where all power plants using different technologies played a significant, complementary and necessary role in addressing different market situations, providing the electricity required by customers at any given time. However, as a result of the auctions conducted in 2017 in which Naturgy was awarded a total of 971 MW of wind and solar capacity, renewable power production will rise from 8% of conventional output in 2017 to over 30% by 2020, increasing its quantitative contribution to revenues, capital expenditure and earnings, all of which will be increasingly affected by renewable facilities' availability, power price volatility and revisions of remuneration components; as a result of all these factors, the cash flows from those renewable generation assets are viewed separately from those from the conventional generation assets.
 - Electricity generation International: A separate CGU is understood to exist in each country in which there are operations (Brazil, Costa Rica, Mexico, Panama, the Dominican Republic, Puerto Rico and Australia) since the businesses are subject to different regulatory frameworks and are managed independently.
- Infrastructure EMEA:
 - Gas distribution Spain: This constitutes a single CGU since the development, operation and maintenance of the gas distribution network are managed together.
 - Electricity distribution Spain: This constitutes a single CGU since the network consists of a set of inter-related assets whose development, operation and maintenance is managed together.
 - EMPL: This constitutes a single CGU that manages the Maghreb-Europe gas pipeline.
- Infrastructure Latin America South: A separate CGU is understood to exist for each business and country in which there are operations since the businesses are subject to different regulatory frameworks. This includes the regulated gas distribution business in Argentina, Brazil, Chile and Peru and the regulated electricity distribution business in Argentina and Chile.
- Infrastructure Latin America North: A separate CGU is understood to exist for each business and country in which there are operations since the businesses are subject to different regulatory frameworks. This includes the regulated gas distribution business in Mexico and the regulated electricity distribution business in Panama.

- Others: These refer basically to the Unión Fenosa Gas CGU and the gas storage CGU.

In short, with respect to the previous year, a number of CGUs were reallocated between segments and the Electricity Spain CGU was split into: i) Supply of electricity, gas and services; ii) Conventional electricity generation; and iii) Renewable electricity generation.

After the approval of the new Strategic Plan 2018-2022 impairments and write-downs of assets has been recognized in the amount of Euros 4,851 million, due to the re-assessed of the future estimates cash flows based on the Plan, or due to other factors occurred during the period and detailed as follows:

- An amount of Euros 3,929 million recognised under “Depreciation, amortisation and impairment losses” for the conventional electricity generating plants in Spain. That figure includes all the related goodwill, amounting to Euros 1,538 million (Note 7).

As a result of the existence of signs of impairment, after the approval of the new Strategic Plan and taking into account analysts external reporting that indicate a lower value for the Electricity Spain business than its carrying value , an impairment analysis was carried out for the three CGUs that made up the Electricity Spain CGU in previous years — Conventional electricity generation, Renewable electricity generation and Electricity supply — with impairment being recognised only in the Conventional electricity generation in Spain CGU.

The new assumptions and projections that affect these CGUs are based on the new Strategic Plan 2018-2022, approved by the Board of Directors following the last Shareholders' Meeting, which updated those that had been used previously, and were adopted: i) in light of the new environmental variables for the next five-year period, ii) taking into account the uncertainty regarding the role of certain generation assets in the energy transition policy (coal, nuclear and CCGT) and, consequently, the evolution of associated risks, iii) considering the expected greater share of renewables, iv) considering the increasing volatility of prices in the wholesale electricity and emission rights markets; and v) taking account of the values in transactions reported very recently in conventional electricity generation assets in Spain.

The main assumptions used were as follows:

	2018	2019	2020	2021	2022
Spain's GDP	2.70%	2.20%	1.90%	1.70%	1.70%
Pool price (€/MWh)	58.5	56.8	54.8	51.3	50.3
Brent price (USD/bbl)	75.3	75.5	71.0	67.8	65.6
Henry Hub gas price (USD/MMBtu)	2.9	2.8	2.7	2.7	2.7
Coal (API2 CIF ARA) (USD/t)	89.6	88	85.2	82.9	81.9
CO2 €/t	14.0	16.1	16.3	16.6	17.0

The most sensitive aspects contained in the new estimate of the recoverable amount, determined according to the value in use and applying the methodology detailed in the 2017 Consolidated financial statements, are the following:

- Electricity generated. Market demand trends have been estimated based on the consensus of several international bodies. The share has been estimated based on Naturgy's market share in each technology and on the expected evolution of each technology's share of the total market, assuming an average water year. The main variation with respect to past projections is a decrease in conventional output in line with the expected future trend of the conventional generation mix.
- Electricity price. Market electricity prices used were calculated using models that cross expected demand with supply forecasts, taking into account the foreseeable evolution of generation capacity in Spain, based on industry forecasts. The main variation with respect to the past projections corresponds to the fact that this analysis produced price paths which, as a consequence of the aforementioned high uncertainty surrounding energy policy in Spain, have been adjusted downwards on average with futures curves and analysts' forecasts. The sources used for analyst projections are the CERA IHS indices.

- Fuel costs. Estimated by reference to long-term supply contracts entered into by Naturgy, the forecast evolution of price curves and market experience. The main variation with respect to past projections is an increase in the cost of emission rights based on the evolution of futures curves and analysts' forecasts (CERA IHS).
- Operation and maintenance costs. These were estimated from historical costs of the fleet under management.
- Taxes established by Law 15/2012.

Likewise, a long-term growth rate of 1.9% and a pre-tax discount rate of 7.0% were used for the Conventional Electricity Generation CGU. The discount rate was determined specifically for the new CGU as a function of the risks associated with it in a manner consistent with those considered in the estimates of future cash flows. In 2017, the pre-tax discount rate considered for the Electricity Spain CGU was 6.3%, while the long-term growth rate for that CGU was 2.2%.

Additionally, a sensitivity analysis was carried out independently for each of the following variations in the key assumptions and without considering any effect it may be between them and on a sustained basis over the time:

- a 50 basis point increase in the discount rate would increase impairment by Euros 346 million.
 - a 50 basis point reduction in the growth rate would increase impairment by Euros 272 million.
 - a 5% reduction in electricity production would increase impairment by Euros 143 million.
 - a 5% increase in combustible procurement costs would increase impairment by Euros 355 million.
 - a 5% reduction in the electricity price would increase impairment by Euros 389 million.
- The amount of Euros 538 million corresponding to impairment of the 50% stake in Unión Fenosa Gas recognised on "Profit/(loss) of companies measured under the equity method".

In 2012, Egyptian Natural Gas Holding (EGAS), an Egyptian public company, ceased to supply gas to Unión Fenosa Gas and stopped paying the utilisation fee for the Damietta liquefaction plant (Egypt). This resulted in the initiation of several arbitration proceedings whose resolution has been delayed considerably with respect to the expectations set out in the consolidated financial statements as at 31 December 2017. Due to impairment registered in previous year as at 31 December 2017, the recoverable value of Unión Fenosa Gas was roughly equivalent to its carrying amount so any negative change in the assumptions would result in the recoverable value being lower than the carrying amount.

The most sensitive aspects of the impairment analysis are as follows:

- Gas volumes to be obtained from each source. The main reasons for the differences between the past and current cash flow projections relate to the decrease in the volumes of gas to be supplied from Egypt and to be liquefied in the plant during the period of the Strategic Plan 2018-2022, due to the fact that the agreement with EGAS has not yet materialised and considering the aforementioned delays in the arbitration proceedings.
- Gas supply costs In accordance with the prices of the long-term contracts entered into by Unión Fenosa Gas and expected price trends in spot markets, on the basis of the variation in the gas volume composition as a result of the situation in Egypt.
- Selling price of natural gas. Measured using predictive modelling based on the forecast performance of price curves and experience in the markets where Unión Fenosa Gas operates.

Additionally, a long-term growth rate of 1.9% was used (1.8% in 2017) and a pre-tax discount rate of 15.1% (13.4% in 2017).

The accumulated impairment recognised for the 50% stake in Unión Fenosa Gas amounted to Euros 1,166 million as at 30 June 2018 (Euros 628 million as at 31 December 2017).

Additionally, a sensitivity analysis reveals that a 50 basis point increase in the discount rate would increase impairment by Euros 16 million.

- An amount of Euros 171 million recognised under "Depreciation, Amortisation and impairment losses" corresponding to computer software, due to the review of this item in the framework of the new Strategic Plan 2018-2022 and considering the degree of obsolescence.
- An amount of Euros 34 million corresponding to the impairment of the 50% stake in power generation company EcoEléctrica L.P. that was recognised under "Profit/(loss) of companies measured under the equity method" as a result of the need to update the electricity production and electricity price assumptions used for the impairment analysis for the period following the projected renewal in March 2022 of the power purchase agreement (PPA) with Puerto Rico Electric Power Authority (PREPA), which depends on the long-term projected trend in the energy scenario.

Additionally, a long-term growth rate of 1.0% (2.0% in 2017) and a pre-tax discount rate of 8.3% (6.5% in 2017) were used.

A sensitivity analysis reveals that a 50 basis point increase in the discount rate would increase impairment by Euros 6 million.

- An amount of Euros 179 million recognised under "Depreciation, amortisation and impairment losses" corresponding to impairment of the capitalised costs in a number of gas distribution projects in Infrastructure LatAm South in the amount of Euros 45 million and sundry equipment under Others in the amount of Euros 134 million due to their lack of viability.

Additionally, impairment or write-downs of other sundry assets in the amount of Euros 54 million was recognised prior to the approval of the Strategic Plan 2018-2022:

- An amount of Euros 30 million in the electricity generation business in the Dominican Republic that was recognised in March 2018 under "Depreciation, amortisation and impairment losses" as a result of updating, for impairment purposes, the assumptions with regard to electricity production and electricity prices, which was necessary due to the prospect of an increase in the country's power generation capacity using other technologies.

A long-term growth rate of 4.0% (4.0% in 2017) and a pre-tax discount rate of 13.8% (12.8% in 2017) were used.

Additionally, a sensitivity analysis reveals that a 50 basis point increase in the discount rate would increase impairment by Euros 2 million.

- An amount of Euros 24 million recognised under "Depreciation, amortisation and impairment losses" in April and May 2018 in connection with the impairment of costs capitalised in a number of projects included in Rest due to their lack of viability.

Note 7. Intangible assets and property, plant and equipment

Movements in intangible assets and property, plant and equipment during the six-month period ended 30 June 2018 are as follows:

	Goodwill	Other intangible assets	Total intangible assets	Property, plant and equipment
Gross cost	4,760	7,952	12,712	35,733
Sinking fund and impairment losses	-	(2,791)	(2,791)	(13,079)
Carrying amount at 31/12/17	4,760	5,161	9,921	22,654
Impact of first-time application IFRS 15 (Note 3.5)	-	61	61	-
Carrying amount at 01/01/18	4,760	5,222	9,982	22,654
Investment	-	121	121	1,024
Divestment	-	(1)	(1)	(10)
Amortisation charge and impairment losses ⁽¹⁾	(1,538)	(399)	(1,937)	(3,136)
Business combinations	9	28	37	-
Currency translation differences	1	(205)	(204)	(42)
Reclassifications and other ⁽²⁾	(12)	(28)	(40)	(82)
Carrying amount at 30/06/18	3,220	4,738	7,958	20,408
Gross cost	3,220	7,866	11,086	36,348
Sinking fund and impairment losses	-	(3,128)	(3,128)	(15,940)
Carrying amount at 30/06/18	3,220	4,738	7,958	20,408

(1) Includes the impact of the impairments of "Intangible assets" and "Property, plant and equipment" detailed in Note 6.

(2) Mainly includes the transfer of the mining business in South Africa to "Non-current assets held for sale" to the date on which this classification applies, May 2018 (Note 9).

Note 5 provides a breakdown of investments by operating segment, the most significant being the recurring investments made in the planning and development of the gas and electricity distribution network, and those made in the Electricity International business, as well as the addition of two new Gas tankers under finance lease for Euros 380 million.

During March 2018, Naturgy, through its subsidiary Global Power Generation, agreed the purchase of the Guimaranía I Solar Spe Ltda and Guimaranía II Solar Spe Ltda companies of two solar plants in Brazil to Canadian Solar for Euros 35 million. In the provisional purchase price allocation process, it has been identified the assets that could be revalued that corresponded to the electricity sales contracts recording an intangible asset increase of Euros 27 million and a Goodwill of Euros 9 million.

At 30 June 2018, Naturgy had recognised fixed asset investment commitments totalling Euros 155 million, basically for the construction of renewable generation facilities in Spain and Australia, the development of the distribution network and other gas infrastructures, and development of the electricity distribution network.

The changes and breakdown of the goodwill by CGU is as follows:

	1.1.2018	Business combination	Currency translation differences	Transfer to held for sale	CGU reclassification	Impairment	30.06.2018
Gas and Power	3,148	9	11	-	-	(1,538)	1,630
Electricity Spain	2,708	-	-	-	(2,708)	-	-
Conventional generation Spain	-	-	-	-	1,538	(1,538)	-
Renewable generation Spain	-	-	-	-	743	-	743
Supply of gas, electricity and services	16	-	-	-	427	-	443
International generation Mexico	420	-	11	-	-	-	431
International generation Chile	4	-	-	-	-	-	4
International generation Brazil	-	9	-	-	-	-	9
Infrastructure EMEA	1,070	-	-	-	-	-	1,070
Electricity distribution Spain	1,070	-	-	-	-	-	1,070
Infrastructure Latin America South	386	-	(15)	-	-	-	371
Gas distribution Brazil	18	-	(1)	-	-	-	17
Gas distribution Chile	74	-	(3)	-	-	-	71
Electricity distribution Chile	294	-	(11)	-	-	-	283
Infrastructure Latin America North	144	-	5	-	-	-	-
Gas distribution Mexico	20	-	1	-	-	-	21
Electricity distribution Panama	124	-	4	-	-	-	128
Rest	12	-	-	(12)	-	-	-
Total	4,760	9	1	(12)	-	(1,538)	3,220

As a result of the redefinition of the CGUs referred to in note 6, the "CGU Reclassification" item contains the reallocation of the goodwill of the Electricity Spain CGU to the Supply of Gas, Electricity and Services, Conventional electricity generation and Renewable electricity generation CGUs based on the relative values of the goodwill associated with the reorganised units at 30 June 2018. An impairment analysis of these CGUs resulted in impairment being recognised only in the Conventional electricity generation Spain CGU for an amount of Euros 1,538 million for the whole goodwill (Note 5).

Note 8. Financial instruments

a) Financial assets

Set out below is a breakdown of financial assets, excluding "Trade and other receivables" and "Cash and cash equivalents", at 30 June 2018 and 31 December 2017, by nature and category:

	FV through other comprehensive income	FV through profit or loss	Amortised cost	Total
At 30 June 2018				
Equity instruments	285	88	-	373
Derivatives	30	2	-	32
Other financial assets	-	-	706	706
Non-current financial assets	315	90	706	1,111
Derivatives	14	58	-	72
Other financial assets	-	-	326	326
Current financial assets	14	58	326	398
Total financial assets at 30/06/2018	329	148	1,032	1,509
	FV through other comprehensive income	FV through profit or loss	Amortised cost	Total
At 31 December 2017				
Equity instruments	465	95	-	560
Derivatives	4	11	-	15
Other financial assets	-	-	740	740
Non-current financial assets	469	106	740	1,315
Derivatives	20	45	-	65
Other financial assets	-	-	397	397
Current financial assets	20	45	397	462
Total financial assets at 31/12/2017	489	151	1,137	1,777

- The "Fair value through other comprehensive income" item at 30 June 2018 contains the following:
 - Equity instruments: The 85.4% stake in Electrificadora del Caribe, S.A. ESP (Electricaribe), a company intervened by the Superintendence for Residential Public Services of the Republic of Colombia (Superintendence) since 14 November 2016, for which the following facts and circumstances occurred during the first half of 2018:
 - In the first half of 2018, no agreement was reached with the insurers over the USD 500 million claim; consequently, it should be initiated an international arbitration which resolution is not foreseen in the short or middle term.
 - On 15 June 2018, a request for arbitration proceedings was filed with the United Nations Commission on International Trade Law (UNCITRAL) in order to recover the company with a viable regulatory framework or, barring that, obtain compensation.

At 31 December 2017, that stake was recognised at Euros 416 million, i.e. the fair value at the date of loss of control, which did not differ from its net carrying amount, adjusted for the effect derived from variations in the exchange rate.

It became necessary to review the fair value of the holding in view of the aggravation of the situation of uncertainty regarding the amount and the date on which the insurance indemnity will be collected as a consequence of the aforementioned claim that must be made in the course of a dispute resolution process which will be affected by circumstances beyond Naturgy's control, as well as the progressive impairment of the company's value. In view of the difficulty of performing that valuation as a result of the asset's specific situation, the audited financial statements of

Electricaribe as at 31 December 2017, which were not received from the Special Agent appointed by the Superintendence until 30 June 2018, and reflect a value of Euros 276 million for the attributed 85.4% equity stake, was taken into account, and a fair value impairment of Euros 140 million was recognised for the stake.

Given that the option permitted by IFRS 9 of irrevocable classification to the new "Equity instruments at fair value through other comprehensive income" category (Note 3.5) was adopted for this investment in equity instruments, this reduction in fair value was recognised in "Accumulated other comprehensive income".

- Additionally, as at 31 December 2017, this item included the 2.23% stake in Richards Bay Coal Terminals Ltd, a company that operates a coal export terminal in South Africa, that has been transferred to held for sale (see Note 9), for an amount of Euros 22 million (Euros 40 million as at 31 December 2017), whose fair value has been determined based on the sale price.
- Derivatives: Non-current derivative financial assets at fair value through other comprehensive income include the variation in the market value of the contract between the Australian company in the group, Crookwell Development Pty Ltd (Crookwell), and distributor ActewAGL (ACT) under which Crookwell undertakes to sell on the market, at the spot price, the production of the plant that it owns, and to settle with ACT for the difference between the price of each delivery and a fixed price for a determined volume of MW. This contract covers the sale price of the plant's output for a period of 20 years and is recognised as a financial instrument constituting a cash flow hedge.
- The "Fair value through profit or loss" item at 30 June 2018 contains mainly the following:
 - Equity instruments: the 14.9% stake in Medgaz, S.A., the company that operates the undersea pipeline between Algeria and Spain, for an amount of Euros 88 million (Euros 95 million as at 31 December 2017) whose fair value is determined by discounting the cash flows from future dividends.
- At 30 June 2018, the "Amortised cost" item mainly included:
 - Temporary mismatches between gas system revenues and costs accumulated in 2017 and 2018, funded by Naturgy pursuant to Law 18/2014 of 17 October, in the amount of Euros 13 million (Euros 164 million as at 31 December 2017). This amount will be recovered through the gas system settlements. The amount pending receipt following the settlements for the year generates a recovery right in the following five years for the remaining amount financed, plus interest at a market rate. The amount of this financing has been recognised in long-term and short-term items based on the estimated recovery period.
 - Temporary mismatches between electricity system revenues and costs funded by Naturgy pursuant to Law 24/2013, of 26 December, in the amount of Euros 81 million (Euros 91 million as at 31 December 2017), generating a recovery right over the following five years, plus interest recognised at a market rate. The amount of this financing has been recognised entirely as a short-term item on the understanding that it is a temporary mismatch that will be recovered through system settlements within one year.

Financial assets recognised at fair value at 30 June 2018 and at 31 December 2017 are classified as follows:

Financial assets	30 June 2018				31 December 2017			
	Level 1 (listed price in an active market)	Level 2 (observable variables)	Level 3 (unobservable variables)	Total	Level 1 (listed price in an active market)	Level 2 (observable variables)	Level 3 (unobservable variables)	Total
Fair value through other comprehensive income	-	44	285	329	-	24	465	489
Fair value through profit or loss	-	60	88	148	-	56	95	151
Total	-	104	373	477	-	80	560	640

b) Financial liabilities

Set out below is a breakdown of financial liabilities, excluding "Trade and other payables", at 30 June 2018 and 31 December 2017, by nature and category:

At 30 June 2018	Creditors and payables	Hedging derivatives	Total
Bank borrowings	3,507	-	3,507
Debentures and other negotiable securities	10,164	-	10,164
Derivatives	-	40	40
Other financial liabilities	-	-	-
Non-current financial liabilities	13,671	40	13,711
Bank borrowings	952	-	952
Debentures and other negotiable securities	1,211	-	1,211
Derivatives	-	1	1
Other financial liabilities	53	-	53
Current financial liabilities	2,216	1	2,217
Total financial liabilities at 30/06/2018	15,887	41	15,928

At 31 December 2017	Creditors and payables	Hedging derivatives	Total
Bank borrowings	5,140	-	5,140
Debentures and other negotiable securities	10,726	-	10,726
Derivatives	-	48	48
Other financial liabilities	2	-	2
Non-current financial liabilities	15,868	48	15,916
Bank borrowings	988	-	988
Debentures and other negotiable securities	1,488	-	1,488
Derivatives	-	1	1
Other financial liabilities	66	-	66
Current financial liabilities	2,542	1	2,543
Total financial liabilities at 31/12/2017	18,410	49	18,459

Financial liabilities recognised at fair value at 30 June 2018 and at 31 December 2017 are classified as follows:

	30 June 2018				31 December 2017			
	Level 1 (listed price in an active market)	Level 2 (observable variables)	Level 3 (unobservable variables)	Total	Level 1 (listed price in an active market)	Level 2 (observable variables)	Level 3 (unobservable variables)	Total
Financial liabilities								
Hedging derivatives	-	41	-	41	-	49	-	49
Total	-	41	-	41	-	49	-	49

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

	Carrying amount		Fair value	
	At 30/06/2018	At 31/12/2017	At 30/06/2018	At 31/12/2017
Issuance of debentures and other negotiable securities	10,164	10,726	11,058	11,776
Loans from financial institutions and other financial liabilities	3,507	5,142	3,537	5,176

The fair value of the listed bond issues is estimated on the basis of their quoted price (Level 1). The fair value of loans with fixed interest rates is estimated on the basis of the discounted cash flows over the remaining term of such debt. The discount rates were determined based on market rates available at 30 June 2018 and 31 December 2017 on borrowings with similar credit and maturity characteristics. These valuations are based on the listed price of similar financial instruments in an active market or on observable information in an active market (Level 2).

In the first half of 2018 and 2017, the movements in debt securities were as follows:

	At 01/01/2018	Issuances	Buy-backs or redemptions	Business combinations	Interest, exchange rate, etc.	At 30/06/2018
Issued in a European Union Member State which required the filing of a prospectus	10,958	3,044	(3,709)	-	(250)	10,043
Issued in a European Union Member State which did not require the filing of a prospectus	-	-	-	-	-	-
Issued outside a European Union Member State	1,256	153	(65)	-	(12)	1,332
Total	12,214	3,197	(3,774)	-	(262)	11,375

	At 01/01/2017	Issuances	Buy-backs or redemptions	Business combinations	Interest, exchange rate, etc.	At 30/06/2017
Issued in a European Union Member State which required the filing of a prospectus	10,262	3,133	(2,833)	-	(300)	10,262
Issued in a European Union Member State which did not require the filing of a prospectus	-	-	-	-	-	-
Issued outside a European Union Member State	1,399	-	-	-	(49)	1,350
Total	11,661	3,133	(2,833)	-	(349)	11,612

The total amount utilised in the Euro Medium Term Note (EMTN) programme stands at Euros 10,040 million (Euros 11,205 million at 31 December 2017). The programme limit at 30 June 2018 is Euros 15,000 million (Euros 15,000 million at 31 December 2017).

In January 2018, Naturgy issued Euros 850 million under the EMTN programme in 10-year bonds paying 1.5%, the proceeds from which were used to tender for Euros 916 million in bonds maturing between 2019 and 2023, which result in a net redemption of Euros 66 million. Additionally, in the first half of 2018, two bonds totalling Euros 1,099 million with an average coupon of 4.59% matured in 2018.

In March 2018, Gas Natural México issued Euros 153 million in 3-year bonds with a variable coupon of TIIE plus 0.40% and 7-year bonds with a coupon of 8.89%.

In the first half of 2018, issues under the Euro Commercial Paper (ECP) programme totalled Euros 3,044 million (Euros 2,133 million in the same period of 2017). The outstanding balance of issues under the ECP programme stands at Euros 500 million (there were no outstanding issues at 31 December 2017).

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

As at 30 June 2018, available-for-sale non-current assets related to the electricity distribution business in Moldova, the electricity generation business in Kenya and the mining business in South Africa. Additionally, the gas distribution and supply business in Italy and the gas distribution business in Colombia were recognised under available-for-sale non-current assets as at 31 December 2017 and were sold in the first half of 2018.

Once the Italian competition authorities had given their approval, the gas distribution companies in Italy were sold to 2i Rete Gas and Edison on 1 and 22 February 2018, respectively. Additionally, the assignment of the gas supply contract was completed on 18 April 2018. The total sale price amounted to Euros 766 million, and there was an after-tax capital gain of Euros 188 million.

On 17 November 2017, Naturgy entered into a binding agreement with Brookfield Infrastructure for the sale of its 59.1% interest in Gas Natural SA ESP, a Colombian company engaged in the distribution and retail sale of gas, for 1,678,927 million Colombian pesos (Euros 468 million). The transaction was structured in two phases, the first of which was completed in December 2017 by means of a number of sale transactions on the Colombian stock exchange. Following that phase, the stake in Naturgy was reduced to 41.9% and the company ceased to control Gas Natural S.A. ESP, which was then recognised by the equity method. The deadline for acceptance of the tender offer for Gas Natural, S.A. ESP was 28 May 2018, as a result of which the sale of the remaining 41.9% of the gas distribution business in Colombia for Euros 334 million was completed; the transaction was settled on 1 June 2018, corresponding to its book value less dividends received and therefore with no impact in the Consolidated income statement.

On 27 June 2018, Naturgy reached an outline agreement to sell its 70% stake in Kangra Coal Proprietary Limited (mining business in South Africa) to Menar Holding. Completion of the sale is subject to the execution of the pre-emptive acquisition right held by Izimbiwa Coal Inv., Naturgy's partner in Kangra, and owner of the remaining 30%. The transaction represents an equity value of Euros 28 million for Naturgy's 70% stake. Signature of the deal is subject to fulfilment of the calendar and procedures established in the Kangra shareholder agreement and completion of the sale is subject to the necessary regulatory approvals and clearance by the competition authorities. Naturgy expects to complete the transaction by year-end provided that the conditions mentioned in the preceding paragraph are met satisfactorily. Since the sale of this business was highly probable, it was reclassified in May 2018 to non-current assets available for sale. As at that date, to estimate the fair value less costs to sell as required by IFRS 5, a level 3 valuation was carried out using the fair value determined on the basis of bids received less selling costs. Due to the fact, that on March 2018 an impairment had been anticipated of Euros 140 million the result of the devaluation in the net carrying amount of the investment amounting Euros 141 million did not have a significant additional impact.

On 27 June 2017, Naturgy reached an agreement to sell its entire stake in Iberafrica Power Limited, in Kenya, to AEP Energy Africa Limited. The deal represents an enterprise value of USD 62 million. Completion of the transaction is subject to obtaining the necessary regulatory approvals and clearance from the competition authorities and is expected to take place in the fourth quarter of this year. That investment had been classified as available for sale since 31 December 2017. The fair value was determined based on the sale price less the selling costs. To estimate the fair value less costs to sell as required by IFRS 5, the level 3 valuation was updated using the bids received less selling costs, resulting in an impairment of the net carrying amount of the investment in the amount of Euros 7 million, which was recognised under income after taxes from discontinued operations.

Finally, as a result of the strategic review of its businesses and positioning in the various countries, Naturgy decided to undertake a competitive process to sell the electricity distribution business in Moldova, which was classified as available for sale from 31 December 2017. To estimate the fair value less costs to sell as required by IFRS 5, the level 3 valuation was updated using market variables and the progress with the sale process, resulting in an impairment of the net carrying amount of the investment in the amount of Euros 73 million, which was recognised under income after taxes from discontinued operations.

As Naturgy has a firm commitment to sell these assets, which are clearly identified, the process is under way, it is considered that the sale is highly probable and it is expected to be completed in 2018, the accounting balances of these assets and liabilities 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". Additionally, they were classified as discontinued operations since they are components classified as held for sale that constitute a significant separate line of business or geographic area; consequently, all revenues and expenses corresponding to those businesses in 2018 and 2017 are presented under "Income from discontinued operations after taxes".

At 30 June 2018, the detail by nature of assets classified as held for sale and the associated liabilities is as follows:

	Electricity distribution Moldova	International Electricity Kenya	Mining South Africa	Total
Intangible assets	1	-	-	1
Property, plant and equipment	55	40	-	95
Investments recorded using the equity method	-	-	-	-
Non-current financial assets	6	-	22	28
Deferred tax assets	-	-	-	-
NON-CURRENT ASSETS	62	40	22	124
Inventories	-	8	-	-
Trade and other receivables	41	9	-	50
Other current financial assets	-	1	-	1
Cash and cash equivalents	45	-	19	64
CURRENT ASSETS	86	18	19	123
TOTAL ASSETS	148	58	41	240
Grants	9	-	-	9
Non-current provisions	1	-	8	9
Non-current financial liabilities	2	-	-	2
Deferred tax liabilities	2	9	-	11
Other non-current liabilities	0	-	-	0
NON-CURRENT LIABILITIES	14	9	8	31
Current financial liabilities	3	29	-	32
Trade and other payables	20	2	-	22
Other current liabilities	-	5	-	5
CURRENT LIABILITIES	23	36	-	59
TOTAL LIABILITIES	37	45	8	90

At 31 December 2017, the detail by nature of assets classified as held for sale and the associated liabilities is as follows:

	Gas distribution Italy	Gas distribution Colombia	Electricity distribution Moldova	Gas supply Italy	International Electricity Kenya	Total
Intangible assets	597	-	6	35	-	638
Property, plant and equipment	26	-	116	3	43	188
Investments recorded using the equity method	-	327	-	-	-	327
Non-current financial assets	2	-	15	1	-	18
Deferred tax assets	25	-	-	6	-	31
NON-CURRENT ASSETS	650	327	137	45	43	1,202
Inventories	1	-	-	31	8	40
Trade and other receivables	60	-	51	175	15	301
Other current financial assets	1	-	-	2	-	3
Cash and cash equivalents	86	-	49	1	-	136
CURRENT ASSETS	148	-	100	209	23	480
TOTAL ASSETS	798	327	237	254	66	1,682
Grants	-	-	9	-	-	9
Non-current provisions	6	-	-	2	-	8
Non-current financial liabilities	44	-	3	-	-	47
Deferred tax liabilities	20	-	2	-	9	31
Other non-current liabilities	-	-	-	19	-	19
NON-CURRENT LIABILITIES	70	-	14	21	9	114
Current financial liabilities	219	-	3	69	37	328
Trade and other payables	40	-	29	90	4	163
Other current liabilities	11	-	-	-	5	16
CURRENT LIABILITIES	270	-	32	159	46	507
TOTAL LIABILITIES	340	-	46	180	55	621

Breakdowns by nature of the “Profit for the year from discontinued operations net of taxes” item in the consolidated income statement for the six-month period ended 30 June 2018 and 2017 are as follows:

	Gas distribution Italy	Gas distribution Colombia	Electricity distribution Moldova	Gas supply Italy	International Electricity Kenya	Mining South Africa	Total
2018							
Revenue	7	-	149	36	17	41	250
Procurements	-	-	(123)	(30)	(7)	(21)	(181)
Other operating income	2	-	-	1	1	-	4
Personnel costs	(1)	-	(5)	(2)	(1)	(11)	(20)
Other operating expenses	(3)	-	(7)	(1)	(4)	(8)	(23)
Release of fixed assets grants to income and other	-	-	-	-	-	-	-
EBITDA	5	-	14	4	6	1	30
Depreciation and amortisation	-	-	-	-	-	(13)	(13)
Impairment of credit losses	-	-	-	(1)	-	-	(1)
Other results ⁽¹⁾	58	-	(73)	130	(7)	(141)	(33)
EBIT	63	-	(59)	133	(1)	(153)	(17)
Financial income	-	-	1	-	-	1	2
Financial expenses	-	-	(1)	-	(2)	(1)	(4)
Variations in fair value of financial instruments	-	-	-	-	-	-	-
Exchange differences	-	-	-	-	-	-	-
NET FINANCIAL INCOME/(EXPENSE)	-	-	-	-	(2)	-	(2)
Profit/(loss) of companies measured by the equity method	-	7	-	-	-	-	7
PROFIT BEFORE TAXES	63	7	(59)	133	(3)	(153)	(12)
Corporate income tax	(1)	-	(2)	(1)	(2)	3	(3)
NET INCOME FOR THE PERIOD FROM CONTINUING OPERATIONS	62	7	(61)	132	(5)	(150)	(15)
Attributed to:							
The parent company	62	7	(61)	132	(4)	(110)	26
Non-controlling interests	-	-	-	-	(1)	(40)	(41)

(1) Includes the gain for the sale of the Italy business interest (Euros 188 million) and the impact of the devaluation of the carrying amount of the investments to measure it at fair value less sale costs as well as the previous impairment recognised.

	Gas distribution Italy	Gas distribution Colombia	Electricity distribution Moldova	Gas supply Italy	International electricity Kenya	Mining South Africa	Total
2017							
Revenue	46	407	110	84	28	39	714
Procurements	-	(289)	(84)	(58)	(14)	(18)	(463)
Other operating income	6	-	-	-	1	1	8
Personnel costs	(6)	(6)	(4)	(3)	(1)	(12)	(32)
Other operating expenses	(17)	(37)	(6)	(10)	(4)	(7)	(81)
Release of fixed assets grants to income and other	-	-	-	-	-	-	-
EBITDA	29	75	16	13	10	3	146
Depreciation, amortisation and impairment expenses	(12)	(8)	(3)	(1)	(4)	(15)	(43)
Impairment of credit losses	-	(2)	-	(4)	-	-	(6)
Other results	-	-	-	-	-	-	-
EBIT	17	65	13	8	6	(12)	97
Financial income	-	10	2	-	(2)	-	10
Financial expenses	(1)	(6)	(1)	-	-	-	(8)
Exchange differences	-	-	-	-	-	-	-
FINANCIAL REVENUES/(EXPENSES)	(1)	4	1	-	(2)	-	2
Profit/(loss) on equity method companies	-	-	-	-	-	-	-
PROFIT BEFORE TAXES	16	69	14	8	4	(12)	99
Corporate income tax	(5)	(27)	(2)	(2)	(2)	3	(35)
PROFIT FOR THE YEAR FROM DISCONTINUED OPERATIONS	11	42	12	6	2	(9)	64
Attributable to:							
The parent company	11	23	12	6	2	(7)	47
Non-controlling interests	-	19	-	-	-	(2)	17

Set out below is a breakdown of the total comprehensive income from this business during the six-month period ended 30 June 2018 and 2017:

	Gas distribution Italy	Gas distribution Colombia	Electricity distribution Moldova	Gas supply Italy	International electricity Kenya	Mining South Africa	Total
2018							
Consolidated profit/(loss) for the year	62	7	(61)	132	(5)	(150)	(15)
Other comprehensive income recognised directly in equity:							
Financial assets at fair value through other comprehensive income	-	-	-	-	-	(18)	(18)
Currency translation differences	-	-	8	-	-	(8)	-
Transfers to the income statement							
Currency translation differences	-	-	-	-	-	-	-
Total comprehensive income for the year	62	7	(53)	132	(5)	(176)	(33)
2017							
Consolidated profit/(loss) for the year	11	42	12	6	2	(9)	64
Other comprehensive income recognised directly in equity:							
Currency translation differences	-	14	4	-	(3)	(11)	4
Transfers to the income statement							
Currency translation differences	-	-	-	-	-	-	-
Total comprehensive income for the year	11	56	16	6	(1)	(20)	68

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

Cash flow from:	For the six months period ended 30 June	
	2018	2017
Operation	48	88
Investment	(6)	(28)
Financing	-	(48)

Transactions by the companies making up the discontinued business with other group companies are not material.

Note 10. Attributed

Share capital and share premium

There were no changes in the number of shares or in the "Share capital" and "Share premium" accounts during the first half of 2018 or during 2017.

On 22 February 2018, Repsol reached an agreement to sell its 20.072% stake in the capital of Naturgy Energy Group, S.A. to Rioja Bidco Shareholdings, S.L.U., a company controlled by funds advised by CVC. The transaction was completed on 18 May 2018, with the result that Repsol, S.A. ceased to be a shareholder of the company.

Treasury shares

Movements during the first half of 2018 and 2017 involving the treasury shares of Naturgy Energy Group, S.A. are as follows:

	Number of shares	In million euro	% Capital
At 1 January 2018	-	-	-%
Acquisitions	5,336,599	105	0.5%
Share ownership plan	(354,422)	(7)	-
Disposals	(4,982,177)	(98)	(0.5%)
At 30 June 2018	-	-	-
	Number of shares	In million euro	% Capital
At 01 January 2017	750,545	13	0.1%
Acquisitions	3,030,164	60	0.3%
Share ownership plan	(336,625)	(7)	-
Disposals	(3,062,734)	(58)	(0.3%)
At 30 June 2017	381,350	8	-

In the first half of 2018, losses on transactions involving treasury shares of Naturgy amounted to Euros 0.1 million, recognised under “Other reserves” (Euros 0.5 million profit in the first half of 2017).

Executing the resolutions adopted by the Shareholders' Meeting of Naturgy Energy Group, S.A. on 20 April 2017, the Share Ownership Plan 2017-2018-2019 for Naturgy employees in Spain who voluntarily applied was implemented for 2018. The Plan enables participants to collect part of their 2018 compensation in the form of shares of the Company, up to a limit of Euros 12,000 per year. During the first half of 2018, 354,422 own shares were acquired for an amount of Euros 7 million for delivery to the participants of the Plan (336,625 own shares for an amount of Euros 7 million during the first half of 2017).

Movements during the first half of 2018 and 2017 involving own shares of Compañía General de Electricidad, S.A. and CGE Gas Natural, S.A. are as follows:

	Number of shares		In million euro
	Compañía General de Electricidad, S.A.	CGE Gas Natural, S.A.	
At 1 January 2018	6,466,178	5,373,555	9
Acquisitions	1,936,176	-	2
Disposals	(5,105,914)	-	(5)
At 30 June 2018	3,296,440	5,373,555	6

	Number of shares		In million euro
	Compañía General de Electricidad, S.A.	CGE Gas Natural, S.A.	
At 1 January 2017	8,695,395	8,695,395	8
Acquisitions	5,105,914	5,373,555	5
Disposals	-	-	-
At 30 June 2017	13,801,309	14,068,950	13

The shares registered in 2016 were acquired following the merger in which Compañía General de Electricidad, S.A. was absorbed into Gas Natural Chile, S.A., as a result of which the shareholders of both companies obtained a right of withdrawal under which they were able to sell their shares to the company. This right was exercised by 44 shareholders holding 8,695,395 shares in Compañía General de Electricidad, S.A., equivalent to 0.4% of capital.

On 14 December 2016, an extraordinary shareholders' meeting was held which approved the merger by absorption of Transnet, S.A. into Compañía General de Electricidad, S.A. On 8 February 2017 the withdrawal period for dissenting shareholders of Compañía General de Electricidad, S.A. and Transnet, S.A. with respect to said merger expired. Twelve shareholders owning 5,098,044 shares in Compañía General de Electricidad, S.A. and six shareholders owning 7,870 shares in Transnet, S.A. exercised their withdrawal right.

On 30 November 2017, an Extraordinary Shareholders' Meeting of Compañía General de Electricidad, S.A. approved the merger of the company with its subsidiaries CGE Distribución S.A., Compañía Nacional de Fuerza Eléctrica, S.A. and Empresa Eléctrica Atacama, S.A. as a result of which the shareholders of these companies were entitled to withdraw by selling their shares to the company. A total of 60 shareholders owning 1,936,176 shares exercised that right.

Treasury shares resulting from the right of withdrawal must be disposed of in the securities market within a maximum of one year, at the end of which they must be redeemed if they have not been sold. In 2018, capital stock was reduced since 5,105,914 shares in treasury stock had not been subscribed for by the deadline of one year from their payment date.

Earnings per share

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

	At 30/06/2018	At 30/06/17
Income attributable to equity holders of the parent company	(3,281)	550
Weighted average number of ordinary shares in issue	1,000,462,104	1,000,518,692
Earnings/(losses) per share from continuing operations (in euro):		
- Basic	(3.31)	0.50
- Diluted	(3.31)	0.50
Earnings/(losses) per share from discontinued operations (in euro):		
- Basic	0.03	0.05
- Diluted	0.03	0.05

The average weighted number of ordinary shares used in the calculation of earnings per share in the first half of 2018 and 2017 is as follows:

	2018	2017
Weighted average number of ordinary shares	1,000,689,341	1,000,689,341
Weighted average number of treasury shares	(227,237)	(170,649)
Weighted average number of shares outstanding	1,000,462,104	1,000,518,692

The Parent Company has no financial instruments that could dilute the earnings per share.

Dividends

Set out below is a breakdown of the payments of dividends made in the six-month period ended 30 June 2018 and 2017:

	30/06/2018			30/06/2017		
	% of Nominal	Euros per share	Amount	% of Nominal	Euros per share	Amount
Ordinary shares	-	-	-	67%	0.67	671
Other shares (non-voting, redeemable, etc.)	-	-	-	-	-	-
Total dividends paid	-	-	-	67%	0.67	671
a) Dividends charged to income statement	-	-	-	67%	0.67	671
b) Dividends charged to reserves or share premium account	-	-	-	-	-	-
c) Dividends in kind	-	-	-	-	-	-

30 June 2018

The General Shareholders Meeting held on 27 June 2018 approved a supplementary dividend of Euros 0.670 per share for a total of Euros 671 million, paid entirely in cash on 5 July 2018.

The Board of Directors declares, on 24 July 2018, an interim dividend out of 2018 profits of Euros 0.280 per share, to be paid entirely in cash on 31 July 2018.

The Parent company has sufficient liquidity to pay out the interim dividend at the approval date, pursuant to the Spanish Companies Act. The Parent company's provisional liquidity statement drawn up by the Directors at 24 July 2018 is as follows:

Profit after tax	5,597
Reserves to be recognised	-
Maximum amount distributable	5,597
Forecast interim dividend payment	280
Cash resources	2,564
Debt issue and undrawn credit facilities	6,555
Total liquidity	9,119

30 June 2017

The General Shareholders Meeting held on 20 April 2017 approved a supplementary dividend of Euros 0.670 per share for a total of Euros 671 million, paid on 27 June 2017.

The Board of Directors declared an interim dividend for 2017 of Euros 0.330 per share, which was paid entirely in cash on 27 September 2017.

Other equity components

The movement in other components of equity is presented for each item in the Consolidated Statement of Comprehensive Income, detailing the tax effect.

The "Currency translation differences" item includes the exchange differences described in Note 3.4.2 to the 2017 consolidated financial statements as a result of the euro's fluctuation against the main currencies of Naturgy's foreign companies.

Non-controlling interests

Movements in non-controlling interests during the six-month period ended 30 June 2018 are as follows:

Balance at 31/12/2017	3,571
Impact of first-time application of new standards (Note 3.5)	(13)
Balance at 31/12/2017	3,558
Total comprehensive income for the period	56
Distribution of dividends	(269)
Payments for perpetual subordinated bonds	(17)
Sale of 20% of the gas distribution business in Spain without loss of control (Note 3.6).	458
CGE, S.A.'s own shares amortisation	(5)
Other changes	(3)
Balance at 30/06/2018	3,778

On 3 August 2017, Naturgy signed an agreement to sell 20% of the natural gas distribution business in Spain to a consortium made up of Allianz Capital Partners and Canada Pension Plan Investment Board for Euros 1,500 million.

On 19 March 2018, once the necessary regulatory and competition-related approvals had been obtained, Naturgy transferred 20% of Holding de Negocios de Gas, S.A. to the aforementioned consortium. As this was a sale of a non-controlling interest that did not entail loss of control, it was recognised as a transaction with shareholders or owners, entailing an increase in the balance of the Non-controlling interests account in the amount of Euros 458 million and an increase in Reserves in the amount of Euros 1,016 million.

Note 11. Provisions

The breakdown of provisions at 30 June 2018 and 31 December 2017 is as follows:

	At 30/06/2018	At 31/12/2017
Provisions for employee obligations	456	465
Other provisions	699	664
Total non-current provisions	1,155	1,129
Total current provisions	118	183
Total	1,273	1,312

The "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 21 contains further information on contingent liabilities.

Note 12. Revenue

Set out below is a breakdown of this heading for the six-month period in 2017 and 2018 in categories following segment structure:

For the period ended 30 June 2018	Gas and Power	Infrastructure EMEA	Infrastructure LatAm South	Infrastructure LatAm North	Rest	Total
Sales of gas and access to distribution networks	3,179	579	1,336	258	5	5,357
Sales of electricity and access to distribution networks	2,536	404	1,069	376	-	4,385
LNG sales	1,795	-	-	-	-	1,795
New subscriptions and facilities verification	-	32	6	6	-	44
Rental of facilities, maintenance and other services	460	9	82	14	30	595
Total	7,970	1,024	2,493	654	35	12,176

For the period ended 30 June 2017 ⁽¹⁾	Gas and Power	Infrastructure EMEA	Infrastructure LatAm South	Infrastructure LatAm North	Rest	Total
Sales of gas and access to distribution networks	3,100	599	1,554	253	-	5,506
Sales of electricity and access to distribution networks	2,241	390	1,194	406	14	4,245
LNG sales	1,124	-	-	-	-	1,124
New subscriptions and facilities verification	-	26	6	10	-	42
Rental of facilities, maintenance and other services	510	4	91	19	28	652
Total	6,975	1,019	2,845	688	42	11,569

(1) The consolidated income statement for the six-month period ended 30 June 2017 was restated by reclassifying to discontinued operations in accordance with IFRS 5 (Notes 3.4 & 9).

Reporting by geographic area

Naturgy's revenue for the six-month periods ended in 2018 and 2017 by country of destination is analysed below:

	2018	2017 ⁽¹⁾
Spain	5,775	5,283
Rest of Europe	1,394	1,380
France	746	678
Portugal	222	217
Italy	42	141
United Kingdom	64	63
Ireland	88	76
Belgium	77	68
The Netherlands	66	58
Others Europe	89	79
Latin America	3,836	4,293
Chile	1,507	1,824
Brazil	761	804
Mexico	654	742
Panama	379	409
Argentina	337	330
Puerto Rico	98	118
Dominican Republic	81	54
Rest Latin America	19	12
Other	1,171	613
China	213	39
India	180	233
Japan	169	46
Pakistan	112	-
Egypt	178	65
Rest of countries	319	230
Total	12,176	11,569

(1) The consolidated income statement for the six-month period ended 30 June 2017 was restated by reclassifying to discontinued operations (Notes 3.4 & 9).

Note 13. Procurements

Set out below is a breakdown of this heading for the six-month period in 2017 and 2018:

	For the period ended 30 June	
	2018	2017 ⁽¹⁾
Energy purchases	7,683	7,070
Access to transmission networks	1,021	917
Other purchases and changes in inventories	203	276
Total	8,907	8,263

(1) The consolidated income statement for the six-month period ended 30 June 2017 was restated by reclassifying to discontinued operations in accordance with IFRS 5 (Notes 3.4 & 9).

Note 14. Personnel costs

Set out below is a breakdown of this heading for the six-month period in 2017 and 2018:

	For the period ended 30 June	
	2018	2017 ⁽¹⁾
Wages and salaries	390	403
Social security costs	61	66
Defined contribution plans	21	22
Own work capitalised	(56)	(55)
Other	48	33
Total	464	469

(1) The consolidated income statement for the six-month period ended 30 June 2017 was restated by reclassifying to discontinued operations in accordance with IFRS 5 (Notes 3.4 & 9).

The average number of employees of Naturgy for the six-month periods ended 30 June 2018 and 2017 is as follows:

	For the period ended 30 June	
	2018	2017 (1)
Men	10,198	10,494
Women	4,284	4,223
Total	14,482	14,717

(1) Restated in accordance with IFRS 5 (Notes 3.4 and 8).

The calculation of the average number of employees of Naturgy take into account the jointly-controlled assets and operations average number of employees prorated with their participation interest that amounted 191 persons (189 persons at 30 June 2017).

As a result of the application of IFRS 5, which entailed the classification of the gas distribution and supply business in Italy, the gas distribution business in Colombia, the electricity distribution business in Moldova, the electricity generation business in Kenya and the mining business in South Africa as discontinued operations, the calculation of the average number of employees in the current period and in the comparative figures for the previous year omitted the average number of employees in companies classified as discontinued operations, totalling 2,351 persons (2,386 persons at 30 June 2017).

In addition, the average number of employees at equity-method companies stands at 824 persons at 30 June 2018 (837 persons at 30 June 2017).

Note 15. Other operating expenses

Set out below is a breakdown of this heading for the six-month period in 2017 and 2018:

	For the period ended 30 June	
	2018	2017 (1)
Taxes	237	225
Operation and maintenance	188	165
Advertising and other commercial services	101	148
Professional services and insurance	67	82
Supplies	39	42
Construction or refurbishment services	56	71
Services to customers	36	37
Leases	34	31
Other	147	134
Total	905	935

(1) The consolidated income statement for the six-month period ended 30 June 2017 was restated by reclassifying to discontinued operations in accordance with IFRS 5 (Notes 3.4 & 9).

Note 16. Depreciation, amortisation and impairment losses

Set out below is a breakdown of this heading for the six-month period in 2017 and 2018:

	For the period ended 30 June	
	2018	2017 (1)
Amortisation charge	832	800
Impairment losses (Note 4 and 6)	4,333	-
Total	5,165	800

(1) The consolidated income statement for the six-month period ended 30 June 2017 was restated by reclassifying to discontinued operations in accordance with IFRS 5 (Notes 3.4 & 9).

Note 17. Net financial income

Set out below is a breakdown of this heading for the six-month period in 2017 and 2018:

	For the period ended 30 June	
	2018	2017 ⁽¹⁾
Dividends	8	6
Interest income	12	15
Other financial income	36	36
Total financial income	56	57
Cost of borrowings	(286)	(328)
Interest expense for pension plans	(6)	(4)
Other financial expense	(70)	(72)
Total financial expense	(362)	(404)
Fair-value measurement of financial derivatives:	(1)	-
Derivative financial instruments	(1)	-
Net exchange differences	1	(2)
Gains/(losses) on disposals of financial instruments	-	-
Net financial income	(306)	(349)

(1) The consolidated income statement for the six-month period ended 30 June 2017 was restated by reclassifying to discontinued operations in accordance with IFRS 5 (Notes 3.4 & 9).

Note 18. Tax situation

The corporate income tax expense is as follows:

	For the period ended 30 June	
	2018	2017
Current-year tax	5	152
Deferred tax	(931)	31
Total	(926)	183

(1) The consolidated income statement for the six-month period ended 30 June 2017 was restated by reclassifying to discontinued operations in accordance with IFRS 5 (Notes 3.4 & 9).

The effective tax rate as of 30 June 2018, based on the best estimate of the effective tax rate for the full year, without taking into account all the non-recurrent impacts of the impairments and the decrease of the deferred taxes due to the Chile merges, was 21.7%, compared with 21.5% in the same period of the previous year.

Part of the asset impairment and write-downs recognised as at 30 June 2018 (Notes 4 & 6) will be tax deductible in future years and, consequently, timing differences were recognised, with a deferred tax income in the amount of Euros 904 million.

On 31 May 2018, following the process of business reorganisation and structure simplification in Chile, Compañía General de Electricidad, S.A. absorbed its subsidiaries Empresa Eléctrica de Arica, S.A., Empresa Eléctrica de Iquique, S.A. and Empresa Eléctrica de Antofagasta, S.A. The resulting goodwill was allocated to the value for tax purposes of the non-monetary assets received from the absorbed company, equivalent to their carrying amount at the date of the transaction, which resulted in a decrease in deferred tax liabilities of Euros 42 million with a balancing entry under Corporate income tax in the consolidated income statement.

Note 19. 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 propose the appointment of a member of the Board of Directors.

Based on this definition, the significant shareholders of Naturgy are Fundació Bancaria Caixa d'Estalvis i Pensions de Barcelona ("la Caixa"), Repsol, S.A. (Repsol) up to 17 May 2018, Rioja Bidco Shareholdings, S.L.U. (a company controlled by funds advised by CVC) since 18 May 2018, and Global Infrastructure Partners III (GIP) and related companies.

- Directors and executives of the company, and their immediate families. The term "director" means a member of the Board of Directors; "executive" means a member of the Management Committee of Naturgy and the Internal Audit Director. Transactions with directors and executives are disclosed in Note 17.
- Transactions between Group companies form part of ordinary activities and are effected at arm's length. Group company balances include the amount that reflects Naturgy's share of the balances and transactions with companies consolidated under the equity method.

As at 1 January 2018 Naturgy has ceased to consider CaixaBank and the companies in its consolidated group as related parties. However, CriteriaCaixa and the companies in its consolidated group are considered as related parties as requirements established by international and commercial regulation are still met.

The overall amounts of transactions with significant shareholders are as follows, in thousand euro:

Expense and Income (thousand euros)	For the six-month period ended 30 June 2018					For the six-month period ended 30 June 2017			
	Significant shareholders					Significant shareholders			
	"la Caixa" Group (*)	Repsol Group (**)	Rioja Bidco/CVC Capital Partners (***)	GIP Group	Group companies	"la Caixa" Group	Repsol Group	GIP Group	Group companies
Financial expenses	-	-	-	-	2	816	-	-	25
Leases	-	-	-	-	3	-	-	-	2
Receipt of services	7	3,944	-	-	5,717	7,669	7,930	-	5,671
Purchases of goods (1)	-	160,003	-	-	170,737	-	196,731	-	172,710
Other expenses (2)	-	-	-	-	-	10,753	-	-	-
Total expenses	7	163,947	-	-	176,459	19,238	204,661	-	178,408
Financial income	-	-	-	-	2,178	330	-	-	108
Leases	-	-	-	-	-	-	-	-	-
Provision of services	36	20,545	-	-	11,612	224	127	-	11,163
Sale of goods (1)	1,215	367,115	-	-	12,951	484	382,516	-	34,995
Other income	-	-	-	-	1,052	-	-	-	1,187
Total income	1,251	387,660	-	-	27,793	1,038	382,643	-	47,453

Other transactions (in thousand Euros)	For the six-month period ended 30 June 2018					For the six-month period ended 30 June 2017			
	Significant shareholders					Significant shareholders			
	"la Caixa" Group (*)	Repsol Group (**)	Rioja Bidco/CVC Capital Partners (***)	GIP Group	Group companies	"la Caixa" Group	Repsol Group	GIP Group	Group companies
Acquisition of property, plant and equipment, intangible assets or other assets (3)	-	295	-	-	-	-	10,147	-	-
Finance agreements: loans and capital contributions (lender) (4)	-	-	-	-	2,810	362,737	-	-	3,995
Sale of property, plant and equipment, intangibles or other assets (5)	-	-	-	-	-	157,220	-	-	-
Financing agreements: loans and capital contributions (borrower) (6)	-	-	-	-	-	121,325	-	-	-
Warranties and guarantees received	-	-	-	-	-	137,500	-	-	-
Dividends and other profits distributed	-	-	-	-	-	163,854	134,575	134,092	-
Other operations (7)	-	-	-	-	-	472,100	-	-	-

(*) Since 1 January 2018, only transactions with Fundación la Caixa and CriteríaCaixa are reported.

(**) Up to 17 May 2018.

(***) Since 18 May 2018.

- (1) Includes basically purchases and sales of energy. In the case of group companies, relates basically to transactions with Unión Fenosa Gas.
- (2) Includes contributions to pension plans, group insurance policies, life insurance and other expenditure.
- (3) Basically includes the purchase of LPG supply points, under the agreement with Repsol Butano dated 30 September 2015, that are located in the area of influence of its existing distribution zones and which is being completed as the relevant administrative authorisations are obtained.
- (4) Includes cash and cash equivalents.
- (5) Includes basically the assignment of debt claims (factoring without recourse) to "laCaixa" in the period.
- (6) At 30 June 2017, credit facilities arranged with the "La Caixa" Group amounted to Euros 569,000 thousand, no amounts having been utilised. At 30 June 2017, other loans amounted to Euros

121,325 thousand.

- (7) At 30 June 2017, the "Other transactions" heading referring to the "La Caixa" Group includes Euros 345,037 thousand in foreign exchange hedges and Euros 127,063 thousand in interest rate hedges.

Note 20. Information on members of the Board of Directors and senior management personnel

Board of Directors Remuneration

Remuneration accrued to 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 2,435 thousand at 30 June 2018 (Euros 2,546 thousand at 30 June 2017).

At 31 December 2017, the Board of Directors comprised 17 members. On 6 February 2018, the Board of Directors resolved to appoint a new Executive Chairman following the departure of the CEO and the Chairman, as a result of which the number of Board members was reduced to 16.

Finally, on 27 June 2018, the Shareholders' Meeting approved the reduction in the number of members of the Board of Directors to 12. It also eliminated the Executive Committee and established the number of members of the Audit Committee at 7 and the number of members of the Appointments and Remuneration Committee at 7.

Up to 6 February 2018, the amounts accrued to the Chief Executive Officer for executive functions in the form of fixed remuneration, annual variable remuneration, multi-year variable remuneration and other items totalled Euros 130 thousand, Euros 115 thousand, Euros 898 thousand and Euros 4 thousand, respectively, at 30 June 2018 (Euros 642 thousand, Euros 526 thousand, Euros 428 thousand and Euros 4 thousand at 30 June 2017). Additionally, he collected the indemnity provided for consisting of three years' total remuneration and the compensation for the non-compete clause consisting of one year's total remuneration amounting to Euros 14,248 thousand. Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled Euros 18 thousand at 30 June 2018 (Euros 167 thousand at 30 June 2017).

From 6 February 2018, the amounts accrued to the Executive Chairman for executive functions in the form of fixed remuneration, annual variable remuneration and other items totalled Euros 359 thousand, Euros 789 thousand and Euros 4 thousand, respectively, at 30 June 2018.

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled Euros 216 thousand at 30 June 2018.

Senior management remuneration

For the sole purposes of the information contained in this section, "senior management personnel" refers to the executives who report directly to the company's chief executive, and also the Internal Audit Director. In the first half of 2018, a total of 12 persons were classified as "senior management personnel", one of whom joined in April 2017.

Remuneration accrued to senior management personnel totalled Euros 4,461 thousand at 30 June 2018 (Euros 4,859 thousand at 30 June 2017).

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled Euros 729 thousand at 30 June 2018 (Euros 1,327 thousand at 30 June 2017).

On 21 May 2018, the Board of Directors resolved to restructure its business and appoint the area heads as executives effective 1 July 2018. Since this information refers to the period ended 30 June 2017, it considers the "senior management personnel" structure in force on 30 June 2018, without the organisation changes.

Transactions with members of the Board of Directors and senior management personnel

The Board members and senior management personnel have not carried out any 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 21. Contingent assets and liabilities

In relation to the information on lawsuits and arbitration contained in the caption Contingent assets and liabilities in Note 35 "Commitments and contingent liabilities" in the consolidated financial statements for the year ended 31 December 2017, there were no material changes in their status during the first six months of 2018, except for the ones mentioned in Note 6 relating to Unión Fenosa Gas.

Note 22. Events after the reporting date

There have not been significant events after the reporting date, 30 June 2018, and the formulation date of the present Condensed interim consolidated financial statements.

APPENDIX I: CHANGES IN CONSOLIDATION SCOPE

The main consolidation scope changes during the first half of 2018 are as follows:

Company name	Transaction category	Effective date of transaction	Voting rights acquired /eliminated (%)	Voting rights after the transaction (%)	Consolidation method after the transaction
Compañía General de Electricidad, S.A.	Amortisation of own shares	1 February	0.3	97.3	Full
Gas Natural Italia S.P.A.	Disposal	22 February	100.0	-	-
Nedgia, S.P.A.	Disposal	22 February	100.0	-	-
Gas Natural Vendita Italia, S.P.A.	Disposal	22 February	100.0	-	-
Cilento Reti Gas, S.R.L.	Disposal	22 February	60.0	-	-
Guimaranía I Solar Spe Ltda.	Acquisition	16 March	100.0	100.0	Full
Guimaranía II Solar Spe Ltda.	Acquisition	16 March	100.0	100.0	Full
Holding de Negocios de Gas, S.A.	Disposal	29 March	20.0	80.0	Full
Global Power Generation Brasil Geração de Energia Ltda.	Incorporation	3 April	100.0	100.0	Full
Tratamiento Cinca Medio, S.L En liquidación	Acquisition	5 April	10.0	90.0	Full
Tratamiento Almazán, S.L, En liquidación	Acquisition	5 April	10.0	100.0	Full
Sociedad de Tratamiento La Andaya, S.L., en liquidación	Acquisition	5 April	5.0	65.0	Full
Sociedad de Tratamiento Hornillos, S.L. En liquidación	Acquisition	5 April	5.6	100.0	Full
Gasoducto del Pacífico (Cayman) Ltd. en liquidación	Liquidation	16 April	56.7	-	-
Societat Eòlica de l'Enderrocada, S.A.	Capital reduction	10 May	0.2	79.8	Full
Serviconfort Colombia, S.A.S.	Disposal	1 June	100.0	-	-
Gas Natural, S.A. ESP	Disposal	1 June	41.9	-	-
Gas Natural del Oriente, S.A. ESP	Disposal	1 June	54.5	-	-
Gas Natural Cundiboyacense, S.A. ESP	Disposal	1 June	77.5	-	-
Gas Natural Servicios, S.A.S.	Disposal	1 June	100.0	-	-
Gas Natural del Cesar, S.A. ESP	Disposal	1 June	62.2	-	-

The main changes in the consolidation scope in 2017 were as follows:

Company name	Transaction category	Effective date of transaction	Voting rights acquired /eliminated (%)	Voting rights after the transaction (%)	Consolidation method after the transaction
Línea Trasmisión Cabo Leones, S.A.	Disposal	1 January	50.0	-	-
Proyectos Balmes México, S.A. DE C.V.	Incorporation	1 January	100.0	100.0	Full
Gas Natural Fenosa LNG Singapore PTE. LTD.	Incorporation	1 January	100.0	100.0	Full
Vayu Energy, B.V.	Liquidation	28 February	100.0	-	-
Arte Contemporáneo y Energía, A.I.E.	Liquidation	26 April	100.0	-	-
Lanzagorta y Palmes 2, S.L.	Acquisition	7 June	100.0	100.0	Full
Compañía General de Electricidad, S.A.	Capital increase	1 July	0.3	96.9	Full
Compañía General de Electricidad, S.A.	Amortisation of own shares	30 November	0.1	97.0	Full
CGE Gas Natural, S.A.	Capital increase	1 July	5.7	91.7	Full
CGE Gas Natural, S.A.	Amortisation of own shares	11 December	0.4	92.1	Full
Global Power Generation Australia Pty, Ltd.	Acquisition	5 July	1.7	98.7	Full
Parque Eólico Vientos del Pacífico, S.p.A	Acquisition	7 July	100.0	100.0	Full
GPG Solar Chile 2017, S.p.A.	Acquisition	21 August	100.0	100.0	Full
Agua Negra S.A.	Capital increase	25 September	3.1	100.0	Full
Energía San Juan S.A.	Capital increase	25 September	3.1	100.0	Full
Los Andes Huarpes S.A.	Capital increase	25 September	3.5	100.0	Full
El Gritón Solar S.A. de C.V.	Acquisition	26 October	80.0	80.0	Full
Gas Natural Fenosa Renovables Ruralia, S.L.U.	Acquisition	20 November	24.0	75.0	Full
Operación y Mantenimiento Energy Mexico, S.A. de C.V. en Liquidación	Liquidation	6 December	100.0	-	-
Infraestructuras Eléctricas La Mudarra, S.L.	Acquisition	13 December	2.8	36.6	Equity method
Castrios, S.A.	Disposal	14 November	33.3	-	-
Inmobiliaria Parque Nuevo S.A.	Liquidation	10 November	50.0	-	-
Gas Natural, S.A. ESP	Disposal	22 December	17.2	41.9	Equity method
Inimo Ingeniería, S.L.	Acquisition	27 December	100.0	100.0	Equity method

Naturgy Energy Group, S.A.

Condensed interim financial statements at 30 June 2018

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Naturgy Energy Group, S.A.
Interim balance sheet

(million euro)

	30.06.18	31.12.17
NON-CURRENT ASSETS	32,020	29,453
Intangible assets	72	114
Goodwill	68	109
Other intangible assets	4	5
Property, plant and equipment	145	151
Land and buildings	130	134
Other property, plant and equipment	15	17
Long-term investments in group companies and associates	31,656	29,015
Equity instruments	12,649	13,400
Loans to companies	19,007	15,615
Long-term investments	17	40
Equity instruments	5	5
Derivatives	--	8
Other financial assets	12	27
Deferred tax assets	130	133
CURRENT ASSETS	4,424	4,512
Trade and other receivables	746	650
Trade receivables	138	121
Trade receivables, group companies and associates	409	345
Sundry receivables	171	155
Current tax assets	27	29
Public Administrations	1	--
Short-term investments in group companies and associates	1,004	2,223
Loans to companies	972	1,480
Other financial assets	32	743
Short-term financial assets	109	85
Derivatives	51	56
Other financial assets	58	29
Short-term prepayments and accrued expenses	1	1
Cash and cash equivalents	2,564	1,553
Cash at banks and in hand	1,965	1,453
Other cash equivalents	599	100
TOTAL ASSETS	36,444	33,965

Notes 1 to 8 are an integral part of the condensed interim financial statements.

Naturgy Energy Group, S.A.
Interim balance sheet

(million euro)

	30.06.18	31.12.17
EQUITY	18,389	13,466
SHAREHOLDERS' FUNDS	18,400	13,473
Capital	1,001	1,001
Authorised capital	1,001	1,001
Share premium	3,808	3,808
Reserves	7,994	7,971
Legal and statutory	300	300
Other reserves	7,694	7,671
Profit for the year	5,597	1,023
Interim dividend	--	(330)
ADJUSTMENTS FOR CHANGES IN VALUE	(11)	(7)
Hedging operations	(11)	(7)
NON-CURRENT LIABILITIES	13,671	16,113
Long-term provisions	475	465
Long-term post-employment obligations	286	272
Other provisions	189	193
Long-term borrowings	2,109	3,912
Bank borrowings	2,055	3,851
Derivatives	40	47
Other financial liabilities	14	14
Long-term payable to group companies and associates	10,872	11,508
Deferred tax liabilities	214	227
Long-term accruals and deferred income	1	1
CURRENT LIABILITIES	4,384	4,386
Short-term borrowings	1,126	328
Bank borrowings	384	270
Derivatives	46	44
Other financial liabilities	696	14
Short-term payable to group companies and associates	2,466	3,307
Trade and other payables	792	751
Trade payables	244	194
Trade payables, group companies and associates	249	289
Sundry payables	181	140
Personnel (outstanding remuneration)	17	45
Current tax liabilities	15	--
Other amounts payable to Public Administrations	86	83
TOTAL EQUITY AND LIABILITIES	36,444	33,965

Notes 1 to 8 are an integral part of the condensed interim financial statements.

Naturgy Energy Group, S.A.
Interim income statement

(million euro)

	30.06.18	30.06.17
Revenue	2,164	2,322
Sales	1,581	1,494
Income from equity instruments of group companies and associates	326	607
Income from marketable securities and other financial instruments of group companies and associates	257	221
Procurement	(1,585)	(1,499)
Consumption of goods	(1,581)	(1,496)
Raw materials and other consumables	(4)	(3)
Other operating income	189	184
Supplementary income and other operating income	188	184
Operating grants released to the income statement	1	--
Personnel costs	(122)	(109)
Wages, salaries and related expenses	(97)	(82)
Social security	(19)	(19)
Provisions	(6)	(8)
Other operating expenses	(151)	(159)
External services	(151)	(158)
Taxes	--	(1)
Depreciation and amortisation	(48)	(46)
Impairment and results on disposals of fixed assets	5,450	7
Gain/(loss) on disposals of tangible fixed assets	2	--
Impairment of and losses from equity instruments of group companies and associates	(4,074)	--
Gain/(loss) on disposals of equity interests in group companies and associates	9,522	7
OPERATING PROFIT	5,897	700
Financial income	14	14
Negotiable securities and other financial instruments	14	14
- In third parties	14	14
Financial expenses	(279)	(305)
Borrowings from group companies and associates	(208)	(247)
Borrowings from third parties	(71)	(58)
Variation in fair value of financial instruments	--	1
Investments	--	1
NET FINANCIAL INCOME/(EXPENSE)	(265)	(290)
PROFIT BEFORE TAXES	5,632	410
Income tax	35	(39)
PROFIT FOR THE YEAR	5,597	449
Basic and diluted earnings per share in euro	5.59	0.45

Notes 1 to 8 are an integral part of the condensed interim financial statements.

Naturgy Energy Group, S.A.**Interim statement of changes in equity****(million euro)**

	30.06.18	30.06.17
PROFIT FOR THE YEAR	5,597	449
INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY	(6)	(16)
Cash flow hedges	(8)	(21)
Tax effect	2	5
RELEASES TO INCOME STATEMENT	3	3
Cash flow hedges	4	4
Tax effect	(1)	(1)
TOTAL INCOME AND EXPENSE RECOGNISED IN EQUITY	5,594	436

Notes 1 to 8 are an integral part of the condensed interim financial statements.

Naturgy Energy Group, S.A.
Interim statement of changes in equity

(million euro)

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserves	Treasury shares	Profit or loss brought forward	Profit for the year	Interim dividend	Adjustments for changes in value	Total
Balance at 01.01.2017	1,001	3,808	7,898	(13)	--	1,067	(330)	13	13,444
Total recognised revenues and expenses	--	--	6	--	--	1,023	--	(20)	1,009
Transactions with shareholders or owners									
- Distribution of dividends	--	--	--	--	(671)	--	(330)	--	(1,001)
- Trading in treasury shares	--	--	1	13	--	--	--	--	14
Other changes in equity	--	--	66	--	671	(1,067)	330	--	--
Balance at 31.12.2017	1,001	3,808	7,971	--	--	1,023	(330)	(7)	13,466
Total recognised revenues and expenses	--	--	1	--	--	5,597	--	(4)	5,594
Transactions with shareholders or owners									
- Distribution of dividends	--	--	--	--	(671)	--	--	--	(671)
- Trading in treasury shares	--	--	--	--	--	--	--	--	--
Other changes in equity	--	--	22	--	671	(1,023)	330	--	--
Balance at 30.06.2018	1,001	3,808	7,994	--	--	5,597	--	(11)	18,389

Notes 1 to 8 are an integral part of the condensed interim financial statements.

Naturgy Energy Group, S.A.
Interim cash flow statement

(million euro)

	30.06.2018	30. 06.017
Profit for the year before tax	5,632	410
Adjustments to results	(5,711)	(500)
Depreciation and amortisation	48	46
Impairment adjustments	4,074	--
Change in provisions	--	1
Profit/(loss) on write-offs and disposals of fixed assets	2	--
Profit/(loss) on write-offs and disposals of financial instruments	(9,522)	(7)
Financial income	(597)	(842)
Financial expenses	279	304
Variation in fair value of financial instruments	--	(1)
Other income and expenses	5	(1)
Changes in working capital	(146)	5
Debtors and other receivables	(155)	89
Other current assets	1	--
Creditors and other payables	8	(84)
Other cash flows from operating activities	1,512	285
Interest paid	(357)	(438)
Dividends received	1,570	438
Interest collected	258	242
Income tax collections/(payments)	41	43
Cash flows from operating activities	1,287	200
Amounts paid on investments	(13,640)	(103)
Group companies and associates	(13,628)	(92)
Property, plant and equipment	(6)	(7)
Other financial assets	(6)	(4)
Amounts collected from divestments	16,490	321
Group companies and associates	16,474	318
Property, plant and equipment	1	--
Other financial assets	15	3
Cash flows from investing activities	2,850	218
Collections and payments on equity instruments	--	5
Acquisition of own equity instruments	--	5
Collections and payments on financial liability instruments	(3,126)	48
Issue	4,098	3,998
Bank borrowings	177	160
Payables to group companies and associates	3,921	3,838
Repayment/redemption of	(7,224)	(3,950)
Bank borrowings	(1,862)	(170)
Payables to group companies and associates	(5,354)	(3,772)
Other payables	(8)	(8)
Dividend payments	--	(671)
Cash flow from financing activities	(3,126)	(618)
NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS	1,011	(200)
Cash and cash equivalents at the beginning of the year	1,553	502
Cash and cash equivalents at the year end	2,564	302

Notes 1 to 8 are an integral part of the condensed interim financial statements.

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Nota 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. de San Luis 77, 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.).

The company's corporate purposes, 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, planning and execution of construction projects, management of architectural projects, civil engineering works, public services and gas and hydro-carbon distribution in general; management of communications, telecommunications, gas or hydrocarbon distribution networks and maintenance of electrical and gas appliances; as well as business consulting and energy planning services and the rationalisation of energy use, research, development and exploitation of new technologies, communications, computing and industrial security systems; training and selection of human resources and real estate management and development.
- b) The activity as a holding company, incorporating companies or holding shares as a shareholder in other companies no matter what their corporate purposes or nature, by subscribing, acquiring and holding shares, stakes 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. It also has contracts to supply gas to other Naturgy companies and in the electricity area it acts as representative of the Naturgy generation and supply companies before the Electricity Market.

The Company's shares are listed on the four Spanish stock exchanges, the continuous market and form part of the Ibex 35 stock index.

Nota 2. Basis of presentation and accounting policies

2.1. Basis of presentation

The financial statements for 2017 were adopted by the General Meeting of Shareholders on 27 June 2018.

The selected interim financial information was prepared in accordance with the accounting principles and standards set out in Royal Decree 1362/2007, of 19 October, implementing Law 24/1988, of 28 July, on the Securities Market, and Circular 1/2008, of 30 January, on regular disclosures by issuers with securities listed in regulated markets with respect to the half-yearly financial statements, interim directors' reports and, as the case may be, quarterly financial reports, as amended by National Securities Market Commission Circular 5/2015, of 28 October, and should be read along with the financial statements for the year ended 31 December 2017.

As a result, it has not been necessary to repeat or update certain notes or estimates contained in the company's financial statements. Instead, the accompanying selected notes to the accounts include an explanation of significant events or changes in order to explain any changes in the financial situation and results of operations, comprehensive income, changes in equity and cash flows of the Company between 31 December 2017, the date of the above-mentioned financial statements, and 30 June 2018.

The figures set out in these condensed interim financial statements are expressed in million euro, unless otherwise stated.

The condensed interim consolidated financial statements were authorised by the Board of Directors on 24 July 2018 in accordance with IAS 34 "Interim Financial Reporting". The main figures disclosed in the consolidated financial statements are as follows:

Total assets	41,596
Equity attributed to the parent company	11,435
Non-controlling interests	3,775
Revenue	12,176
Net income after tax attributed to the parent Company	(3,288)

2.2. Main risks and uncertainties

Note 3 "Significant events in the period" describes the main changes affecting the Company's equity and results in the six-month period ended 30 June 2018. Additionally, Note 2.3.3 "Impairment of assets" describes the main changes in the economic assumptions used to draw up the new Strategic Plan 2018-2022, and other factors that have occurred in the period, which resulted in the recognition of impairment of the carrying amounts of holdings in group companies and associates as at 30 June 2018.

2.3. Accounting policies

The main valuation standards applied by the Company to prepare these interim financial statements are the same as in the Company's financial statements for the year ended 31 December 2017.

2.3.1 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 depreciation and amortisation and any recognised impairment losses.

a) Goodwill

Goodwill represents the excess, on the date of acquisition, of the cost of a business combination 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 consolidated balance sheet at cost value less amortisation and any cumulative impairment adjustments.

The impairment of goodwill cannot be reversed.

b) Other intangible assets

Research expenditure is recognised in the income statement when incurred.

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

Computer software development costs recognised as assets are amortised on a straight-line basis in four to five years as from the time the assets are ready to be brought into use.

The Company has no intangible assets with an indefinite useful life.

2.3.2 Property, plant and equipment

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 up 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 when its capacity, productivity or useful life increases.

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

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

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

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are recognised in the Income statement.

b) Depreciation

The 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 2.3.3).

2.3.3 Impairment of assets

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 and associates, long-term investments, 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 through profit and loss for the amount of the difference between the two. The recoverable amount is calculated at the higher of an asset's fair value less costs of sale and the value in use calculated by applying the discounted cash flow method. The Company considers value in use as the recoverable amount, calculated as described below.

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

In the case of investments in group companies, barring investments whose recoverable amount is

determined based on the investee's equity (Note 2.3.4) and goodwill, the cash flows employed are based on the Strategic Plan approved by the Company, updated with the latest budgets, extended to five years on the basis of regulations and expected market evolution, drawing on available industry forecasts and historical experience of price trends and volumes produced.

The cash flows after the projected period are extrapolated using the growth rates estimated for each CGU or group of CGUs, 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 strategic plan. Additionally, in order to estimate future cash flows in the calculation of residual values, all maintenance investments have been considered as well as any renewal investments necessary to maintain the CGUs' production capacity.

The new Strategic Plan 2018-2022, approved by the Board of Directors on 27 June 2018, resulted in a new approach in which business segments are managed independently with full responsibility. Aligning the new structure with the new vision and business management approach and with the cash flows under the Strategic Plan, the Cash Generative Units (CGU) were redefined in the Naturgy consolidated as follows:

- Gas and Electricity:
 - Supply of gas, electricity and services: The natural gas, electricity and services businesses are managed together for commercial purposes, which maximises the value of the portfolio by focusing on the customer and on the strong growth potential in services and solutions; accordingly, this is a single CGU.
 - International LNG trading: This is considered to be a single CGU since both the trading of liquefied natural gas and maritime transportation are managed together.
 - Electricity generation Europe: It is considered that conventional electricity generation (hydro, coal, nuclear and combined cycle plants) constitutes one CGU and renewable electricity generation (wind, small hydro, solar and cogeneration) constitutes another CGU based on the new strategic vision for the Spanish electricity market, in which renewables have a greater presence and hourly prices are more volatile, which requires specialisation in the management of conventional power generation and renewable energy generation to focus on, respectively, cost adjustments and increasing installed capacity, in line with the reorganisation that was carried out.

In previous years, these activities comprised a single CGU since they were managed and controlled together on a centralised basis as a function of demand conditions, where all power plants using different technologies played a significant, complementary and necessary role in addressing different market situations, providing the electricity required by customers at any given time. However, as a result of the auctions conducted in 2017 in which Naturgy was awarded a total of 971 MW of wind and solar capacity, renewable power production will rise from 8% of conventional output in 2017 to over 30% by 2020, increasing its quantitative contribution to revenues, capital expenditure and earnings, all of which will be increasingly affected by renewable facilities' availability, power price volatility and revisions of remuneration components; as a result of all these factors, the cash flows from those renewable generation assets are viewed separately from those from the conventional generation assets.
 - Electricity generation International: A separate CGU is understood to exist in each country in which there are operations (Brazil, Costa Rica, Mexico, Panama, the Dominican Republic, Puerto Rico and Australia) since the businesses are subject to different regulatory frameworks and are managed independently.
- Infrastructure EMEA:
 - Gas distribution Spain: This constitutes a single CGU since the development, operation and maintenance of the gas distribution network are managed together.
 - Electricity distribution Spain: This constitutes a single CGU since the network consists of a set of inter-related assets whose development, operation and maintenance are managed

together.

- EMPL: This constitutes a single CGU that manages the Maghreb-Europe gas pipeline.
- Infrastructure Latin America South: A separate CGU is understood to exist for each business and country in which there are operations since the businesses are subject to different regulatory frameworks. This includes the regulated gas distribution business in Argentina, Brazil, Chile and Peru and the regulated electricity distribution business in Argentina and Chile.
- Infrastructure Latin America North: A separate CGU is understood to exist for each business and country in which there are operations since the businesses are subject to different regulatory frameworks. This includes the regulated gas distribution business in Mexico and the regulated electricity distribution business in Panama.
- Others: These refer basically to the Unión Fenosa Gas CGU and the gas storage CGU.

In short, with respect to the previous year, a number of CGUs were reallocated between segments and the Electricity Spain CGU was split into: i) Supply of electricity, gas and services; ii) Conventional electricity generation; and iii) Renewable electricity generation.

In this six-month period ended 30 June 2018, impairments group companies and associates have been recorded for an amount of €3,820 million, recorded under the heading "Impairment and loss of holdings in equity instruments in companies of the Group". group and associates "of the Profit and Loss Account, originated by the reassessment of the estimates of future cash flows based on the Strategic Plan 2018-2022 approved on 27 June 2018, or by other factors that occurred during the period and that are detailed as follows:

- An amount of €2,947 million for the holding in Gas Natural Fenosa Generación, S.A.

As a result of the existence of signs of impairment, after the approval of the new Strategic Plan, and taking into account the external reports of analysts that indicate a value of the electricity business in Spain lower than the book value, an impairment analysis was carried out.

The new assumptions and projections are based on the new Strategic Plan 2018-2022, approved by the Board of Directors following the last Shareholders' Meeting, which updated those that had been used previously, and were adopted: i) in light of the new environmental variables for the next five-year period, ii) taking into account the uncertainty regarding the role of certain generation assets in the energy transition policy (coal, nuclear and CCGT) and, consequently, the evolution of associated risks, iii) considering the expected greater share of renewables, iv) considering the increasing volatility of prices in the wholesale electricity and emission rights markets; and v) taking account of the values in transactions reported very recently in conventional electricity generation assets in Spain.

The main assumptions used were as follows:

	2018	2019	2020	2021	2022
Spain's GDP	2.70%	2.20%	1.90%	1.70%	1.70%
Pool price (€/MWh)	58.5	56.8	54.8	51.3	50.3
Brent (USD/bbl)	75.3	75.5	71.0	67.8	65.6
Henry Hub gas price (USD/MMBtu)	2.9	2.8	2.7	2.7	2.7
Coal (API2 CIF ARA) (USD/t)	89.6	88.0	85.2	82.9	81.9
CO2 €/t	14.0	16.1	16.3	16.6	17.0

The most sensitive aspects contained in the new estimate of the recoverable amount, determined according to the value in use and applying the methodology detailed, are the following:

- Electricity generated. Market demand trends have been estimated based on the consensus of several international bodies. The share has been estimated based on Naturgy's market share in each technology and on the expected evolution of each

technology's share of the total market, assuming an average water year. The main variation with respect to past projections is a decrease in conventional output in line with the expected future trend in the conventional generation mix.

- 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 industry forecasts. The main variation with respect to the past projections corresponds to the fact that this analysis produced price paths which, as a consequence of the aforementioned high uncertainty surrounding energy policy in Spain, have been adjusted downwards on average with futures curves and analysts' forecasts. The sources used for analyst projections are the CERA IHS indices.
- Fuel costs. Estimated by reference to long-term supply contracts entered into by Naturgy, forecast evolution of price curves and market experience. The main variation with respect to past projections is an increase in the cost of emission rights based on the evolution of futures curves and analysts' forecasts (CERA IHS).
- Operation and maintenance costs. These were estimated from historical costs of the fleet under management.
- Taxes established by Law 15/2012.

A long-term growth rate of 1.9% and a pre-tax discount rate of 7.0%. In 2017, the pre-tax discount rate considered was 6.3%, while the long-term growth rate was 2.2%.

The accumulated impairment recognised as at 30 June 2018 for the stake in Gas Natural Fenosa Generación, S.A. amounted to €2,947 million.

- The impairment of the 50% stake in Unión Fenosa Gas amounted to €710 million.

In 2012, Egyptian Natural Gas Holding (EGAS), an Egyptian public company, ceased to supply gas to Unión Fenosa Gas and stopped paying the utilisation fee for the Damietta liquefaction plant (Egypt). This resulted in the initiation of several arbitration proceedings whose resolution has been delayed considerably with respect to the expectations set out in the financial statements as at 31 December 2017.

The most sensitive aspects of the impairment analysis are as follows:

- Gas volumes to be obtained from each source. The main reasons for the differences between the past and current cash flow projections relate to the decrease in the volumes of gas to be supplied from Egypt and to be liquefied in the plant during the period of the Strategic Plan 2018-2022, due to the fact that the agreement with EGAS has not yet materialised and considering the aforementioned delays in the arbitration proceedings.
- Gas supply costs in accordance with the prices of the long-term contracts entered into by Unión Fenosa Gas and expected price trends in spot markets, on the basis of the variation in the gas volume composition as a result of the situation in Egypt.
- Selling price of natural gas. Measured using predictive modelling based on the forecast performance of price curves and experience in the markets where Unión Fenosa Gas operates.

A long-term growth rate of 1.9% was used (1.8% in 2017) and a pre-tax discount rate of 15.1% (13.4% in 2017).

The accumulated impairment recognised for the 50% stake in Unión Fenosa Gas amounted to €2,081 million as at 30 June 2018 (€1,371 million as at 31 December 2017).

- An amount of €129 million recognised for impairment of the stake in Gas Natural Informática, S.A., corresponding to impairment of computer software, due to the review of this item in the framework of the new Strategic Plan 2018-2022 and considering the degree of obsolescence.

The accumulated impairment recognised for the stake in Gas Natural Informática, S.A. amounted to €129 million as at 30 June 2018.

- An amount of €34 million for the impairment of other stakes.

Additionally, impairment was recognised for the following assets prior to the approval of the Strategic Plan 2018-2022:

- €243 million in impairment on the stake in Unión Fenosa Minería, S.A. for the difference between the carrying amount of the holding in the coal field in South Africa (Kangra Coal (Proprietary) Ltd) and its fair value less selling costs, using the price and conditions set out in the sale agreement.

The accumulated impairment recognised for the stake in Unión Fenosa Minería, S.A. amounted to €278 million as at 30 June 2018.

- €11 million in impairment of the holding in Unión Fenosa Financiación, S.A., recognised on the basis of equity.

Additionally, the holding in Gas Natural Exploración, S.L. is provisioned for the amount of €213 million. The recoverable value was determined on the basis of its equity.

2.3.4 Financial assets and liabilities

Investments in the equity of group and multi-group companies and associates

These are stated at the lower of cost of acquisition or fair value, if the investments are acquired through a business combination, and the recoverable value. The recoverable value is determined as the larger of fair value minus cost of sale and the current value of the cash flows generated by the investment. If there is no better evidence of recoverable value, recoverable value will be the equity of the investee company adjusted by any unrealised capital gains subsisting at the valuation date. The value adjustment and, in the event, its reversal, is recorded in the income statement in which it takes place.

In non-cash contributions of a business to a group company, the investment is measured at the carrying amount of the assets and liabilities contributed, as per the consolidated financial statements on the transaction date.

The consolidated financial statements of the largest group or subgroup into which the assets and liabilities are integrated, where the parent is a Spanish company, are used.

In mergers and spin-offs between group companies that involve the group's parent, directly or indirectly, the assets and liabilities acquired are measured at the amount that would be reflected in the group's consolidated financial statements following the transaction. The difference between the cost of the shares delivered and the carrying amount of the assets and liabilities acquired, in the group's consolidated financial statements, is recognised under "Reserves" in the balance sheet.

Financial assets

Purchases and sales of investments are recognised on the trade date, which is the date on which the Company commits to purchase or sell the asset, and are classified under the following categories:

a) Loans and receivables

These are non-derivative financial assets, with fixed or determinable payments, that are not listed on an active market, and for which there is no plan to trade in the short term. 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 recognised at fair value and then at amortised cost using the effective interest rate

method.

A provision is recognised for impairment of receivables when there is objective proof that all the outstanding amounts will not be received. The provision is the difference between the book value of the asset and the present value of the estimated future cash flows discounted at the effective interest rate.

b) Held-to-maturity financial assets

These are assets representing debt with fixed or determinable pay outs and fixed maturity which the Company plans to and can hold until maturity. The valuation criteria for these investments are the same as those for loans and receivables.

c) Financial assets at fair value with changes 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 fair value, and the changes in their value are taken to the income statement for the year.

d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative debt or equity instruments that are not designated in any of the preceding categories.

They are recognised at fair value. Unrealised gains and losses that arise from changes in fair value are recognised in equity. When these assets are sold or impaired over a lengthy period of time, the accumulated adjustments to the reserves due to valuation adjustments are included in the Income statement as gains and losses.

The fair values of listed investments are based on the market price. 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. If none of these techniques can be used to determine fair value, investments are carried at cost less any impairment loss.

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

Cash and cash equivalents

Cash and cash equivalents include cash at hand, time deposits with financial entities and other highly liquid short-term investments with an original maturity no longer than three months as from the acquisition date.

Borrowings

Borrowings are initially recognised at their fair value, net of any transaction costs incurred. Any difference between the amount received and the repayment value is recognised in the income statement during the period of repayment using the effective interest rate method.

Borrowings are classified as current liabilities unless they mature in more than twelve months as from the balance sheet date, or include tacit one-year extension clauses that can be exercised by the Company.

Trade and other payables

Trade and other current payables are financial liabilities that fall due in less than twelve months, are stated at their fair value and do not accrue explicit interest. They are accounted for at their nominal value. Those maturing in more than twelve months are considered non-current payables.

2.3.5 Financial derivatives and other financial instruments

Derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the asset being hedged.

At the inception of the transaction and periodically, the Company documents the relationship between hedging instruments and hedged items, as well as its risk management objective. Additionally, the aims of risk management and hedging strategies are reviewed periodically.

A hedge is considered to be highly effective when the changes in the fair value or the cash flows of the assets hedged are offset by the change in the fair value or cash flows of the hedging instrument, with an effectiveness ranging from 80% to 125%.

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

- Derivatives listed on an official market are calculated on the basis of their year-end market price.
- Derivatives that are not traded on official markets are calculated on the basis of discounting cash flows based on year-end market conditions or, for some non-financial items, on best estimation on forward curves of said non-financial item.

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

Embedded derivatives in other non-financial instruments are booked separately as derivatives only when their economic characteristics and inherent risks are not closely related to the instruments in which they are embedded and when the whole is not being booked at fair value through profit and loss.

For accounting purposes, the operations are classified as follows:

1. Derivatives eligible for hedge accounting

a) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify 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 hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are reclassified to the income statement in the periods when the hedged item will affect profit or loss.

c) Hedges of net foreign investments

Fair value hedge accounting is applied to the differences arising from the exchange rates on loans in foreign currency for financing foreign investments in group and multi-group companies and associates made in the same functional currency.

d) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Such derivatives are classified at fair value through profit or loss, and changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

e) Energy purchase and sale agreements

During the normal course of its business the Company enters into energy purchase and sale agreements which in most cases include “take or pay” clauses by virtue of which the buyer takes on the obligation to pay the value of the energy contracted irrespective of whether the buyer receives it or not. These agreements are executed and maintained in order to meet the needs of receipt of physical delivery of energy projected by the Company in accordance with the energy purchase and sale estimates made periodically, which are monitored systematically and adjusted always by physical delivery. Consequently, these are contracts for “own use”, and, accordingly, fall outside the standards on valuation of financial instruments.

2.3.6 Non-current assets held for sale and discontinued operations

The Company classifies as held-for-sale those assets for which, at the year end, active initiatives have been initiated for their sale, which is estimated to take place within the next twelve months.

These assets are stated at the lower of their carrying value and fair value minus the costs necessary for their sale and are not subject to depreciation since the date they are classified as non-current assets held for sale.

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

2.3.7 Share capital

Share capital is represented by ordinary shares.

Incremental costs directly attributable to the issue of new shares or options, net of taxes, are deducted from equity as a deduction from reserves or share premium in the case of issues of capital with a premium.

Dividends on ordinary shares are recognised as a deduction from equity in the period they are approved.

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

2.3.8 Earnings per share

Basic earnings per share are calculated as a quotient between profit or loss for the period and the average weighted number of ordinary shares outstanding during this period excluding the average number of own shares held as treasury stock by the Company.

Diluted earnings per share are calculated as a quotient between profit or loss for the period attributable to the ordinary shareholders adjusted by the effect attributable to the potential ordinary shares with a dilutive effect and the average weighted number of ordinary shares outstanding during

this period, adjusted by the weighted average number of ordinary shares that would be issued if all the potential ordinary shares were converted into ordinary shares of the Company. Accordingly, the conversion is considered to take place at the beginning of the period or at the time of issue of the potential ordinary shares, if these were placed in circulation during the reporting period.

2.3.9 Provisions for employee obligations

a) Post-employment pension obligations and the like

- Defined contribution plans

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

Additionally, there is a defined contribution plan for a group of executives, for which the Company undertakes to make certain contributions to an insurance policy. Gas Natural Fenosa guarantees this group a yield of 125% of the CPI on 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 in "Personnel costs" 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 transferred out of the company in the form of single premium insurance policies under Royal Decree 1588/1999, 15 October, which adopted the Regulations on the instrumentation of pension commitments.

The liability recognised on 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. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial losses and gains arising from changes in actuarial assumptions or from differences between assumptions and reality are recognised entirely in the period in which they arise, directly in "Reserves".

Past service costs are recognised immediately in the Income statement, in "Staff costs".

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 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 recognises this benefit when it has undertaken demonstrably to terminate current employees according to a detailed formal plan without possibility of withdrawal, or to provide termination benefits. In the event that mutual agreement is required, the provision is only 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.

2.3.10 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 present value of the Company's best estimate of expenditure required to settle the present 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 the contracts in which the obligations borne include unavoidable costs greater than the economic profit expected to be received from them, the expenses and respective provisions are recognised in the amount of the current value of the existing difference.

2.3.11 Leases

a) Finance leases

Leases of property, plant and equipment where the lessee bears substantially 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 any purchase option. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the outstanding debt. The rental obligations, net of finance charges, are recognised on the liabilities side of the balance sheet. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the outstanding 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.

2.3.12 Income tax

Corporate income tax expense includes the deferred tax expense and the current tax expense, which is the amount payable (or refundable) on the taxable 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 financial statements using the tax rates that are expected to be in force when the assets and liabilities are realized.

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 re-estimated. 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.

2.3.13 Recognition of income and expenses

a) General

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, when services are rendered, and there is a reasonable assurance that the economic benefits associated with the transaction will flow to the entity. Net turnover for the year includes the estimate of the energy supplied that has not yet been invoiced

The 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

In accounting for revenues from the service provision agreements the percentage realisation method is used in which, when the income can be reliably estimated, it is recorded on the basis of the degree of progress in the completion of the contract at the year end, calculated as the proportion of the costs incurred at that date with respect to the estimated costs required to fulfil the contract.

If the income from the contract cannot be estimated reliably, the costs (and respective income) are recorded in the period in which they are incurred, provided that the former can be recovered. The contract margin is not recorded until there is certainty of its materialisation, based on cost and income planning.

In the event that the total costs exceed the contract revenues, this loss is recognised immediately in the income statement for the year.

Interest income and expenses are recognised using the effective interest method.

Dividend income is recognised when the right to collect the dividend is established.

The holding of shares in group companies and associates is deemed to be the Company's main ordinary activity from which periodic revenue is obtained. In accordance with the stance adopted by the Spanish Institute of Accounting and Auditing ("ICAC") in connection with the calculation of net revenue in holding companies (Reply 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".

2.3.14 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.

2.3.15 Transactions between related parties

In general, transactions between related parties are recorded initially at their fair value. If the agreed price differs from its fair value, the difference is recorded taking into account the economic reality of the operation. The later valuation is made in accordance with the provisions of the respective legislation.

Notwithstanding the above, in mergers, de-mergers and non-cash contributions of a business, the assets that make up the acquired business are stated at the amount at which it will be recognised in the consolidated financial statements of Naturgy once the transaction is completed.

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 merging company, is recorded under "Reserves" in the balance sheet.

2.3.16 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.

2.3.17 Cash flow statement

The cash flow statement has been prepared using the indirect method and uses the following expressions and their respective meanings:

- a) Operating activities: activities that constitute ordinary Company revenues, as well as other activities that cannot be classified as investing or financing.
- b) Investing activities: acquisition, sale or disposal by other means of assets in the long-term and other investments not included in cash and cash equivalents.
- c) Financing activities: activities that generate changes in the size and composition of equity and liabilities that do not form part of operating activities.

Nota 3. Significant events in the period

For the six-month period ended 30 June 2018

The main transactions performed by the Company in the six-month period ended 30 June 2018 were as follows:

Corporate transactions

- On 3 August 2017, the Company signed an agreement to sell 20% of the natural gas distribution business in Spain to a consortium made up of Allianz Capital Partners and Canada Pension Plan Investment Board for €1,500 million, after first increasing debt by means of a long-term intercompany loan from Naturgy in the amount of €6,000 million. Completion of the transaction was conditional upon obtaining the approval of the regulatory and competition authorities.

To perform this transaction, Holding de Negocios de Gas S.A., a wholly-owned subsidiary of the Company, became the parent company of the natural gas distribution and transportation business and the liquefied petroleum gas (LPG) distribution business in Spain, through the following transactions:

- On 7 February 2018, Holding de Negocios de Gas, S.A. increased its share capital by issuing 15,000 new shares with a par value of €1 each and an issue premium of €499,999 per share. Those new shares were subscribed and paid in full entirely by the Company, in the amount of €7,500 million.
- On 7 February, the Company granted a €6,000 million intercompany loan to Holding de Negocios de Gas, S.A. That loan matures in between 7 and 12 years and accrues interest at market rates.
- Using the funds it had received, on 7 February 2018, Holding de Negocios de Gas, S.A. acquired, from the Company, 100% of the shares of Nedgia, S.A. (formerly called Holding Negocios Regulados Gas Natural S.A., it is the company that owns the Spanish gas distribution companies) for €11,518 million, determined as the fair value based on the same price per share set in the aforementioned agreement for the sale to the consortium, and backed by a fairness opinion from JP Morgan and Morgan Stanley, which acted as financial advisors on the transactions and concluded that the value was reasonable from a financial standpoint. As established in section 1 of Accounting and Measurement Rule 21 of the General Accounting Plan, the transaction was recognised at fair value, resulting in a gain of €9,537 million. The Company also cancelled the loans granted to the Spanish distribution companies in the amount of €1,982 million, since Holding de Negocios de Gas S.A. had granted that funding for the same amount to the Spanish gas distribution companies.
- On 14 February 2018, Holding Negocios de Gas, S.A. acquired, from Nedgia, S.A., 100% of Gas Natural Transporte SDG, S.L. and Gas Natural Redes de GLP, S.A. for €165 million, determined as the fair value from the price set in the aforementioned agreement for the sale to the consortium, following distribution by Nedgia, S.A. of a dividend amounting to €165 million charged to the share premium account.

On 19 March 2018, once the necessary regulatory and competition-related approvals had been obtained, the Company transferred 20% of Holding de Negocios de Gas, S.A. to the aforementioned consortium for €1,500 million in cash, there being no material impact or income since the holding was recognised at its fair value.

- Capital reduction through the reimbursement of contributions in Clover Financial and Treasury Services, D.A.C. in the amount of USD 200 million. The reduction in the shareholding generated a €10 million profit due to the exchange rate effect.
- The distribution of reserves by Global Power Generation, S.A. and Holding de Negocios de Gas, S.A. amounting to €67 million and €464 million, respectively, was recognised as a decrease in the carrying value of the shareholdings.

Other significant transactions

- On 22 February 2018, Repsol, S.A. reached an agreement with a company controlled by funds advised by CVC, for the sale of 20.072% of the capital of Naturgy Energy Group, S.A. On 18 May 2018, the transaction was completed and Repsol was not the holder of the shares of said company.
- The "Other financial assets" heading includes the temporary mismatches between gas system revenues and costs accumulated in 2017, funded by Naturgy pursuant to Law 18/2014 of 17 October. This amount was acquired by the Company from the Naturgy distribution companies and will be recovered through gas system settlements as the right to the recovery of this amount is generated in the following five years, recognising a market interest rate. The amount of this financing has been recognised based on the estimated recovery period.

After receiving settlements in 2017, the gas industry deficit was observed to be progressing satisfactorily and the amount of the mismatch for 2017 was adjusted by €14 million.

Funding transactions

- In January 2018, Naturgy issued €850 million under the Euro Medium Term Notes (EMTN) programme in 10-year bonds paying 1.5%, the proceeds from which were used to tender for €916 million in bonds maturing between 2019 and 2023, which result in a net redemption of Euros 66 million. Additionally, in the first half of 2018, two bonds totalling Euros 1,099 million with an average coupon of 4.59% matured in 2018.
- In the first half of 2018, issues under the Euro Commercial Paper (ECP) programme totalled €3,044 million. The outstanding balance of issues under the ECP programme stands at €500 million (there were no outstanding issues at 31 December 2017).

Six-month period ended 30 June 2017

The main transactions performed by the Company in the six-month period ended 30 June 2017 were as follows:

Corporate transactions

- Capital reduction through the reimbursement of contributions in Clover Financial and Treasury Services, D.A.C. in the amount of USD 75 million. The reduction in the shareholding generated a €7 million profit due to the exchange rate effect.

Funding transactions

- In April 2017, Naturgy issued bonds under its Euro Medium Term Notes (EMTN) programme amounting to €1,000 million, maturing in 7 years and with a coupon of 1.125%. This amount was used to tender for bonds amounting to €1,000 million maturing in 2018, 2020 and 2021.
- In the first half of 2017, issues under the Euro Commercial Paper (ECP) programme totalled €2,133 million. The outstanding balance of issues under the ECP programme stands at €500 million (€100 million as at 31 December 2016).

Nota 4. Other information

Workforce structure

The average number of Company employees is as follows:

	At 30.06.18	At 30.06.17
Men	833	872
Women	918	897
Total	1,751	1,769

Own shares

Movements during 2018 and 2017 involving the Company's own shares are as follows:

	Number of shares	In million euro	% Capital
At 1 January 2018	--	--	--
Acquisitions	5,336,599	105	0.5%
Share ownership plan	(354,422)	(7)	--
Disposals	(4,982,177)	(98)	(0.5%)
At 30 June 2018	--	--	--

	Number of shares	In million euro	% Capital
At 01 January 2017	750,545	13	0,1%
Acquisitions	3,030,164	60	0.3%
Share ownership plan	(336,625)	(7)	--
Disposals	(3,062,734)	(58)	(0.3%)
At 30 June 2017	381,350	8	--

In the first half of 2018, profit on transactions involving own shares of the Company amounted to €0.1 million, recognised under "Other reserves" (€0.5 million profit in the first half of 2017).

Executing the resolutions adopted by the Shareholders' Meeting of the Company on 20 April 2017, the Share Ownership Plan 2017-2018-2019 for Naturgy employees in Spain who voluntarily applied was implemented for 2018. The Plan enables participants to collect part of their 2018 compensation in the form of shares of the Company, up to a limit of €12,000 per year. During the first half of 2018, 354,422 own shares were acquired for an amount of €7 million for delivery to the participants of the Plan (336,625 own shares for an amount of €7 million during the first half of 2017).

Dividends

On 27 June 2018, the Shareholders' Meeting approved the proposal for distribution of 2017 income made by the Board of Directors on 6 February 2018.

Available for distribution		
Profit/(loss)		1,023
Distribution		
To Voluntary reserve		22
To Dividend		1,001

Set out below is a breakdown of the dividend payments in the first half of 2018 and 2017:

	30.06.2018			30.06.2017		
	% of Nominal	€ per share	Amount	% of Nominal	€ per share	Amount
Ordinary shares	-	-	-	67%	0.67	671
Other shares (non-voting, redeemable, etc.)	-	-	-	-	-	-
Total dividends paid	-	-	-	67%	0.67	671
a) Dividends charged to income statement	-	-	-	67%	0.67	671
b) Dividends charged to reserves or share premium account	-	-	-	-	-	-
c) Dividends in kind	-	-	-	-	-	-

30 June 2018

The General Shareholders Meeting held on 27 de June 2018 approved a supplementary dividend of €0.670 per share for a total of €671 million, paid entirely in cash on 5 July 2018.

On 24 July 2017, the Company's Board of Directors approved an interim dividend of €0.28 per share out of 2018 results, payable on 31 July 2018.

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 drawn up by the directors on 24 July 2018 is as follows:

Profit after tax	5,597
Reserves to be recognised	--
Maximum amount distributable	5,597
Forecast interim dividend payment	280
Cash resources	2,564
Undrawn credit facilities	6,555
Total liquidity	9,119

30 June 2017

The General Shareholders Meeting held on 20 April 2017 approved a supplementary dividend of €0.670 per share for a total of €671 million, paid entirely in cash on 27 June 2017.

The Board of Directors declared an interim dividend for 2017 of €0.330 per share, which was paid entirely in cash on 27 September 2017.

Nota 5. Net sales

The breakdown of the Company's revenues from ordinary activities in the six-month period ended 30 June 2018 and 2017 is as follows:

	At 30.06.18	At 30.06.17
Domestic market	1,945	2,052
Exports:	219	270
- European Union	214	258
- OECD countries	4	4
- Rest of countries	1	8
Total	2,164	2,322

Nota 6. Information on members of the Board of Directors and senior management personnel

Board of Directors Remuneration

Remuneration accrued to 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 €2,435 thousand at 30 June 2018 (€2,546 thousand at 30 June 2017).

At 31 December 2017, the Board of Directors comprised 17 members. On 6 February 2018, the Board of Directors resolved to appoint a new Executive Chairman following the departure of the CEO and the Chairman, as a result of which the number of Board members was reduced to 16.

Finally, on 27 June 2018, the Shareholders' Meeting approved the reduction in the number of members of the Board of Directors to 12. It also eliminated the Executive Committee and established the number of members of the Audit Committee at 7 and the Appointments and Remuneration Committee at 7.

Up to 6 February 2018, the amounts accrued to the Chief Executive Officer for executive functions in the form of fixed remuneration, annual variable remuneration, multi-year variable remuneration and other items totalled €130 thousand, €115 thousand, €898 thousand and €4 thousand, respectively, at 30 June 2018 (€642 thousand, €526 thousand, €428 thousand and €4 thousand at 30 June 2017). Additionally, he collected the indemnity provided for consisting of three years' total remuneration and the compensation for the non-compete clause consisting of one year's total remuneration: €14,248 thousand. Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled €18 thousand at 30 June 2018 (€167 thousand at 30 June 2017).

From 6 February 2018, the amounts accrued to the Executive Chairman for executive functions in the form of fixed remuneration, annual variable remuneration and other items totalled €359 thousand, €789 thousand and €4 thousand, respectively, at 30 June 2018.

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled €216 thousand at 30 June 2018.

Senior management remuneration

For the sole purposes of the information contained in this section, "senior management personnel" refers to the executives who report directly to the company's chief executive, and also the Internal Audit Director. In the first half of 2018, a total of 12 persons were classified as "senior management personnel", one of whom joined in April 2017.

Remuneration accrued to senior management personnel totalled €4.461 thousand at 30 June 2018 (€4,859 thousand at 30 June 2017).

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled €729 thousand at 30 June 2018 (€1,327 thousand at 30 June 2017).

On 21 May 2018, the Board of Directors resolved to restructure its business and appoint the area heads as executives effective 1 July 2018. Since this information refers to the period ended 30 June 2018, it considers the "senior management personnel" structure in force on 30 June, without the organisation changes.

Transactions with members of the Board of Directors and senior management personnel

The Board members and senior management personnel have not carried out any 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.

Nota 7. Information on transactions with related parties

The following are related parties for the purposes of this Note:

- Significant shareholders of the Company, i.e. those directly or indirectly owning an interest of 5% or more, and those who, though not significant, have exercised the power to propose the appointment of a member of the Board of Directors.

Based on this definition, the significant shareholders of the Company are Fundació Bancaria Caixa d'Estalvis i Pensions de Barcelona ("la Caixa"), Repsol, S.A. (Repsol) up to 17 May 2018, Rioja Bidco Shareholdings, S.L.U. (a company controlled by funds advised by CVC) since 18 May 2018, and Global Infrastructure Partners III (GIP) and related companies.

- Directors and executives of the Company and their immediate families. The term "director" means a member of the Board of Directors; "executive" means a member of the Management Committee of Naturgy and the Internal Audit Director. Transactions with directors and executives are disclosed in Note 6.
- Transactions between Group companies form part of ordinary activities and are effected at arm's length. Group company balances include the amount that reflects the company's share of the balances and transactions with companies recognised by the equity method.

As at 1 January 2018 Naturgy has ceased to consider CaixaBank and the companies in its consolidated group as related parties. However, CriteriaCaixa and the companies in its consolidated group are considered as related parties as requirements established by international and commercial regulation are still met.

The overall amounts of transactions with significant shareholders are as follows, in thousand euro:

Income and expense (in thousand Euros)	Six-month period ended 30 June 2018			
	"la Caixa" Group (*)	Repsol Group (**)	Rioja Bidco Shareholdings (***)	GIP Group
Receipt of services	--	801	--	--
Total expenses	--	801	--	--
Financial income	--	38	--	--
Provision of services	--	293	--	--
Total income	--	331	--	--

(*) Since 1 January 2018, only transactions with Fundació La Caixa and Criteria are reported.

(**) Up to 17 May 2018.

(***) Since 18 May 2018.

Income and expense (in thousand Euros)	Six-month period ended 30 June 2017		
	"la Caixa" Group	Repsol Group	GIP Group
Financial expenses	535	--	--
Receipt of services	4,758	--	--
Purchases of goods	--	1,038	--
Other expenses (1)	3,390	--	--
Total expenses	8,683	1,038	--
Financial income	1	--	--
Total income	1	--	--

Other transactions (in thousand Euros)	"la Caixa" Group	Repsol Group	GIP Group
Finance agreements: loans and capital contributions (lender) (2)	244,423	--	--
Finance agreements: loans and capital contributions (borrower) (3)	100,000	--	--
Warranties and guarantees received	137,500	--	--
Dividends and other profits distributed	163,854	134,575	134,092
Other operations (4)	173,036	--	--

- (1) Includes contributions to pension plans, group insurance policies, life insurance and other expenditure.

- (2) Includes cash and cash equivalents.
- (3) At 30 June 2017, credit facilities arranged with the "La Caixa" Group amounted to €569,000 thousand, no amounts having been utilised. "La Caixa" also has shares in other loans totalling €100,000 thousand.
- (4) At 30 June 2017, the "Other transactions" heading referring to the "La Caixa" Group included €72,128 thousand in foreign exchange hedges and €100,908 thousand in interest rate hedges.

Nota 8. Events after the reporting date

There have not been significant events after the reporting date, 30 June 2018, and the formulation date of the present condensed interim financial statements.



Naturgy

Consolidated Directors' Report as at 30 June 2018

1. Company situation

Naturgy is an integrated gas and electricity company that operates in over 30 geographies and has a base of 20 million contracts in Europe and Latin America.

On 27 June 2018, a new Strategic Plan was approved whose primary goal is to orient the company towards value creation and lay the foundations for the Group's new industrial model in order to meet the challenges of the energy transition.

Naturgy's value-creation commitment rests on four basic pillars: simplicity and accountability, disciplined investment, optimisation, and shareholder remuneration.

At organisational level, changes have been made in corporate governance and in the organisation structure to facilitate decision-making and autonomy in the business units, always underpinned by oversight from headquarters.

The focus on simplicity is also reflected in the Group's strategic positioning to focus on Naturgy's core geographies and businesses. The positioning entails simplifying the business portfolio, which is being trimmed and rationalised so as restore the balance in the business mix and focus on the businesses and geographies in which Naturgy wants to strengthen its position or expand.

The Strategic Plan also steps up discipline in investing by setting hurdle rates and risk management criteria to ensure value creation and profitable growth in both organic and inorganic investments, always within the framework of the Group's industrial model and in pursuit of the objectives set in the strategic positioning.

This investment discipline will ensure that investments are optimised, but Naturgy has also made a firm commitment to optimise operating expenses, which will provide major savings with a visible impact on results.

The focus on value creation and increasing cash flow will make it possible to enhance shareholder remuneration within the period of the Strategic Plan and lay the foundations for growth, subject always to the requirement that value be created.

2. Business evolution and results

2.1. Milestones in the six-month period ended 30 June 2018

Ebitda amounted to Euros 2,004 million in the first half of 2018, a 1.3% reduction with respect to the same period of 2017. Exchange rate fluctuations in the period by all the currencies in which the group operates had a negative impact in the amount of Euros -106 million.

Net profit in the first half of 2018 amounted to Euros -3,281 million due to recognition of impairment following an exhaustive review of all the assets that might be impaired, as a result of the approval of the new Strategic Plan 2018-2022 on 27 June 2018. In recurring terms, net profit increased by 22.3% (Euros 532 million in the first half of 2018 vs. Euros 435 million in the first half of 2017).

On 22 February 2018, Repsol reached an agreement to sell its 20.072% stake in the capital of Naturgy Energy Group, S.A. to Rioja Bidco Shareholdings, S.L.U., a company controlled by funds advised by CVC. The transaction was completed on 18 May 2018, with the result that Repsol, S.A. ceased to be a shareholder of the company.

The following transfers were completed in the first half of 2018: i) the remaining 41.9% of the gas distribution business in Colombia for Euros 334 million, equal to its carrying amount, net of the dividends received; consequently, this did not have any impact on the consolidated income statement; ii) the gas distribution and supply business in Italy, as well as the transfer of the gas supply contract, for Euros 766 million, generating a capital gain of Euros 188 million after taxes which was recognised under "Profits from discontinued operations net of taxes" in the consolidated income statement; and iii) the sale of a 20% minority stake in the gas distribution business in Spain for Euros 1,500 million, which resulted in an increase of Euros 1,016 million in the "Reserves" caption in the consolidated balance sheet.

On 27 June 2018, Naturgy reached an outline agreement to sell its 70% stake in Kangra Coal Proprietary Limited (mining business in South Africa) to Menar Holding. Completion of the sale is subject to the execution of the pre-emptive acquisition right held by Izimbiwa Coal Inv., Naturgy's partner in Kangra, and owner of the remaining 30%, and to fulfilment of the established time periods and procedures. The transaction represents an equity value of Euros 28 million for Naturgy's 70% stake.

On 27 June 2018, Naturgy reached an agreement to sell its entire stake in Iberafrica Power Limited, in Kenya, to AEP Energy Africa Limited. The deal represents an enterprise value of USD 62 million. Completion of the transaction is subject to obtaining the necessary regulatory approvals and clearance from the competition authorities and is expected to take place in the fourth quarter of this year.

On 27 June 2018, the Shareholders' Meeting approved the distribution of income, consisting of allocating Euros 1,001 million out of 2017 income to dividends, the same amount as in the preceding year, representing a 73.6% payout. That is a dividend of Euros 1 per share, of which Euros 0.33 per share was paid as an interim dividend in cash on 27 September 2017 and a supplementary dividend 0.670 per share was paid, also in cash, on 5 July 2018.

On 27 June 2018, the Shareholders' Meeting approved the new Strategic Plan 2018-2022, which established a new industrial model and for the business units, and the activities and markets continuity in the future, and an update of the main assumptions and business projections in light of the new context variables for the next five years.

In the context of the new Strategic Plan 2018-2022 and as part of the new shareholder remuneration policy that includes a minimum dividend of Euros 1.30 per share out of 2018 earnings, the Board of Directors declared the first interim dividend for 2018 in the amount of Euros 0.280 per share, payable entirely in cash on 31 July 2018.

Following the approval of the new Strategic Plan 2018-2022, assets were impaired in the amount of Euros 4,851 million due to re-measurement of the estimated future cash flows on the basis of the Plan and for other factors that have occurred in the period; the impairment was recognised under "Depreciation and impairment of fixed assets" (Euros 4,279 million) and "Profit/(loss) of companies measured under the equity method" (Euros 572 million) in the consolidated income statement.

As of 30 June 2018, leverage stood at 44.8%, while the net financial debt/Ebitda ratio was 3.2, both metrics were lower than in 2017.

2.2. Main aggregates

Main financial aggregates

	2018	2017	%
Net sales	12,176	11,569	5.2
Ebitda	2,004	2,030	(1.3)
Operating income	(3,224)	1,172	-
Income attributable to equity holders of the parent company	(3,281)	550	-
Net capital expenditure	(1,429)	740	-
Equity (at 30/06)	15,220	18,246	(16.6)
Attributed equity (at 30/06)	11,442	14,609	(21.7)
Net borrowings (at 30/06)	12,362	15,818	(21.8)

Key financials & metrics

	2018	2017
Leverage	44.8%	46.4%
Ebitda/Cost of net financial debt	7.3x	6.5x
Net financial debt/Ebitda	3.2x	3.7x

Main stock market ratios and shareholder remuneration

	2018	2017
Average no. of shares ('000)	1,000,462	1,000,519
No. of shares outstanding at end of period ('000)	1,000,689	1,000,689
Share price at 30/06 (euro)	22.68	20.49
Stock market capitalisation at 30/06 (million euro)	22,696	20,504
Earnings per share (Euros)	(3.28)	0.55

Main physical aggregates

	2018	2017	%
Electricity Generation:			
Electric energy produced (GWh):	22,192	22,092	0.5
Spain:	13,279	13,161	0.9
Hydroelectric	2,335	737	216.8
Nuclear	2,060	2,185	(5.7)
Coal	1,203	2,832	(57.5)
CCGTs	6,251	6,141	1.8
Renewables and Cogeneration	1,430	1,266	13.0
International:	8,913	8,931	(0.2)
Hydroelectric	194	234	(17.1)
CCGTs	7,847	7,925	(1.0)
Oil – gas	510	466	9.4
Wind	362	306	18.3
Solar	67	-	-
<hr/>			
Installed capacity (MW):	15,562	15,306	2.0
Spain:	12,718	12,716	-
Hydroelectric	1,954	1,954	-
Nuclear	604	604	-
Coal	2,010	2,010	-
CCGTs	7,001	7,001	-
Renewables and Cogeneration	1,149	1,147	0.2
International:	2,844	2,590	9.8
Hydroelectric	123	123	-
CCGTs	2,289	2,035	12.5
Oil – gas	198	198	-
Wind	234	234	-
Solar	68	-	-

	2018	2017	%
Supply			
Gas supply (GWh)	126,587	123,024	2.9
Europe wholesale	109,052	107,232	1.7
Spain retail	17,535	15,792	11.0
Electricity supply (GWh)	18,328	17,524	4.6
International LNG			
Sales (GWh)	76,793	55,603	38.1
<hr/>			
	2018	2017	%
Gas distribution:			
Sales - TPA¹:	224,119	217,771	2.9
Spain	102,730	98,913	3.9
Latin America	121,389	118,858	2.1
Gas distribution connections points (thousand) (at 30/06):	10,586	10,345	2.3
Spain	5,391	5,336	1.0
Latin America	5,195	5,009	3.7
<hr/>			
Electricity distribution:			
Sales - TPA¹:	27,513	26,928	2.2
Spain	16,294	15,977	2.0
Latin America	11,219	10,951	2.4
Electricity distribution connections (thousand) (at 30/06):	7,510	7,388	1.7
Spain	3,730	3,712	0.5
Latin America	3,780	3,676	2.8
ICEIT ² (minutes)	25	67	(62.7)
<hr/>			
Gas transportation – EMPL (GWh)³	71,066	49,433	43.8

¹ Third-Party Access (energy distributed). Includes TPA services in secondary transmission.

² Installed capacity equivalent interruption time in Spain.

³ Maghreb-Europe gas pipeline.

2.3. Analysis of consolidated results

Net sales

	2018	% of total	2017	% of total	% 2018/2017
Gas & Electricity	9,908	81.4	9,002	77.8	10.1
Supply of gas, electricity and services	6,768	55.6	6,500	56.2	4.1
International LNG	1,795	14.7	1,124	9.7	59.7
Generation Europe	912	7.5	940	8.1	(3.0)
International generation	433	3.6	438	3.8	(1.1)
Infrastructure EMEA	1,196	9.8	1,217	10.5	(1.7)
Gas distribution Spain	612	5.0	638	5.5	(4.1)
Electricity distribution Spain	427	3.5	420	3.6	1.7
EMPL	157	1.3	159	1.4	(1.3)
Infrastructure LatAm South	2,493	20.5	2,876	24.9	(13.3)
Gas and electricity distribution Argentina	321	2.6	286	2.5	12.2
Gas distribution Brazil	735	6.0	803	6.9	(8.5)
Gas and electricity distribution Chile	1,435	11.8	1,787	15.4	(19.7)
Gas distribution Peru	2	-	-	-	-
Infrastructure LatAm North	654	5.4	688	5.9	(4.9)
Gas distribution Mexico	277	2.3	281	2.4	(1.4)
Electricity distribution Panama	377	3.1	407	3.5	(7.4)
Rest	129	1.1	129	1.1	-
Consolidation adjustments	(2,204)	(18.1)	(2,343)	(20.3)	(5.9)
Total	12,176	100	11,569	100	5.2

Net sales totalled Euros 12,176 million in the first half of 2018, a 5.2% increase with respect to the same period of 2017, due basically to higher volumes and prices in the gas business compared with the same period of the previous year, and to the currency effect.

Ebitda

	2018	% of total	2017	% of total	% 2018/2017
Gas & Electricity	595	29.7	549	27.0	8.4
Supply of gas, electricity and services	55	2.7	41	2.0	34.1
International LNG	233	11.6	163	8.0	42.9
Generation Europe	166	8.3	207	10.2	(19.8)
International generation	141	7.0	138	6.8	2.2
Infrastructure EMEA	891	44.5	878	43.3	1.5
Gas distribution Spain	432	21.6	432	21.3	-
Electricity distribution Spain	316	15.8	298	14.7	6.0
EMPL	143	7.1	148	7.3	(3.4)
Infrastructure LatAm South	362	18.1	407	20.0	(11.1)
Gas and electricity distribution Argentina	43	2.1	28	1.4	53.6
Gas distribution Brazil	110	5.5	126	6.2	(12.7)
Gas and electricity distribution Chile	211	10.5	256	12.6	(17.6)
Gas distribution Peru	(2)	(0.1)	(3)	(0.1)	(33.3)
Infrastructure LatAm North	123	6.1	139	6.8	(11.5)
Gas distribution Mexico	78	3.9	87	4.3	(10.3)
Electricity distribution Panama	45	2.2	52	2.6	(13.5)
Rest	33	1.6	57	2.8	(42.1)
Total	2,004	100	2,030	100	(1.3)

Consolidated Ebitda in the first half of 2018 amounted to Euros 2,004 million, 1.3% less than in the same period of the previous year.

Foreign currency fluctuations in consolidation by all the group's currencies had a negative impact on Ebitda in the first half of 2018 amounting to Euros 106 million with respect to the same period of 2017.

Ebitda from Naturgy's international activities accounts for 49.5% of the consolidated total, in line with the same period of last year (49.3%). Ebitda from operations in Spain maintained its share of the consolidated total at 50.5% (50.7% in the same period of 2017).

EBIT

	2018	% of total	2017	% of total	2018/2017	%
Gas & Electricity	(3,731)	115.7	200	17.1	-	-
Supply of gas, electricity and services	(6)	0.2	-	-	-	-
International LNG	197	(6.1)	139	11.9	41.7	
Generation Europe	(3,981)	123.5	(17)	(1.5)	-	-
International generation	59	(1.8)	78	6.7	(24.4)	
Infrastructure EMEA	598	(18.5)	595	50.8	0.5	
Gas distribution Spain	284	(8.8)	280	23.9	1.4	
Electricity distribution Spain	197	(6.1)	185	15.8	6.5	
EMPL	117	(3.6)	130	11.1	(10.0)	
Infrastructure LatAm South	184	(5.7)	281	24.0	(34.5)	
Gas and electricity distribution Argentina	34	(1.1)	23	2.0	47.8	
Gas distribution Brazil	78	(2.4)	91	7.8	(14.3)	
Gas and electricity distribution Chile	120	(3.7)	170	14.5	(29.4)	
Gas distribution Peru	(48)	1.5	(3)	(0.3)	-	
Infrastructure LatAm North	76	(2.4)	98	8.4	(22.4)	
Gas distribution Mexico	50	(1.6)	64	5.5	(21.9)	
Electricity distribution Panama	26	(0.8)	34	2.9	(23.5)	
Remainder	(351)	10.9	(2)	(0.2)	-	
Total	(3,224)	100	1,172	100	-	

Depreciation and amortisation and impairment charges as at 30 June 2018 amounted to Euros 5,165 million, including Euros 4,279 million in impairment of generation assets (Euros 3,929 million), computer software (Euros 171 million), and other non-viable projects (Euros 179 million) recognised after discounting future cash flows as a result of approving the Strategic Plan 2018-2022. They also include Euros 54 million in impairments recognised before the plan was approved.

Provisions for bad debts amounted to Euros 63 million, in line with the Euros 58 million booked last year.

EBIT in the first half of 2018 was negative in the amount of Euros -3,224 million as a result of the impairments.

Financial result

Net financial expenses amounted to Euros 306 million in the first half of 2018, 12.3% less than in the same period of the previous year (Euros 349 million in 2017).

The breakdown of the financial result is as follows:

	2018	2017	%
Cost of net financial debt	(274)	(315)	(13.0)
Other financial expenses/revenues	(41)	(41)	-
Financial revenues Costa Rica ¹	9	7	28.6
Net financial income	(306)	(349)	(12.3)

¹ The Costa Rica generation concessions are accounted for as finance leases in accordance with IFRIC 12.

The cost of net interest-bearing debt in the first half of 2018 was Euros 274 million, i.e. lower than in the same period of the previous year due to lower rates on new issues used to refinance maturing debt or redeem bonds, and cancellation of bank debt.

The average cost of gross financial debt is 3.0%, and 89% of the debt is at fixed rates.

Equity-accounted affiliates

Equity-accounted affiliates contributed -Euros 559 million in the first half of 2018 (Euros 7 million in the same period of 2017) due to recognising impairment of the holding in the Unión Fenosa Gas subgroup (Euros -538 million) and of the holding in Ecoeléctrica (Euros -34 million).

Income tax

The effective tax rate as of 30 June 2018, based on the best estimate of the effective tax rate for the full year, without taking into account all the non-recurrent impacts of the impairments and the decrease of the deferred taxes due to the Chile merges, was 21.7%, compared with 21.5% in the same period of the previous year.

Income from discontinued operations

In the first half of 2018, income from discontinued operations amounted to Euros -15 million (Euros 64 million in the first half of 2017), corresponding to Italy (Euros 194 million, including the Euros 188 million gain on the sale of the holdings), gas distribution in Colombia (Euros 7 million), electricity distribution in Moldova (Euros -61 million that includes a write-down of the investment amounting Euros 73 million), electricity generation in Kenya (-Euros 5 million that includes a write-down of the investment amounting Euros 7 million) and mining in South Africa (Euros - 150 million that includes a write-down of the investment amounting Euros 141 million).

Non-controlling interest

The main items in this account are the non-controlling interests in EMPL, International Electricity Generation (GPG), Nedgia (gas distribution in Spain), gas distribution companies in Chile, Brazil and Mexico, and the electricity distribution companies in Chile and Panama, as well as accrued interest on perpetual subordinated notes.

Income attributed to non-controlling interests amounted to Euros - 103 million in the first half of 2018 (Euros - 161 million in the first half of 2017).

Net income

Net profit amounted to Euros -3,281 million (Euros 550 million in the first half of 2017). Excluding the non-recurring effects in the period, net profit amounted to Euros 532 million, compared with Euros 435 million in the same period of the previous year, an increase of 22.3%.

2.4. Consolidated balance sheet

Investments

The breakdown of net investments by type is as follows:

	2018	2017	%
Investments in property, plant and equipment and intangible assets (Note 7)	1,145	737	55.4
Financial assets	35	27	29.6
Total gross investments	1,180	764	54.5
Divestments and others.	(2,609)	(24)	-
Total net investments	(1,429)	740	-

Investments in property, plant and equipment and intangible assets amounted to Euros 1,145 million in the first half of 2018, a 55.4% increase with respect to the same period of the previous year, basically because of the recognition of two new gas carriers under finance lease (Euros 380 million: one in March 2018 and the other in June 2018).

Excluding investment in gas carriers, capital expenditure increased by 3.8%.

Divestments and other items include the sale of the businesses in Italy for Euros 766 million, the proceeds from the sale of a 20% non-controlling stake in Holding de Negocios de Gas, S.A. (Euros 1,500 million) and the proceeds from the sale of the remaining 41.9% stake in the gas distribution business in Colombia (Euros 334 million).

The breakdown of investments in property, plant and equipment and intangible assets is as follows:

	2018	2017	% 2018/2017
Gas & Electricity	623	169	268.6
Supply of gas, electricity and services	35	25	40.0
International LNG	380	-	-
Generation Europe	109	54	101.9
International generation	99	90	10.0
Infrastructure EMEA	185	190	(2.6)
Gas distribution Spain	94	82	14.6
Electricity distribution Spain	90	106	(15.1)
EMPL	1	2	(50.0)
Infrastructure LatAm South	238	230	3.5
Gas and electricity distribution Argentina	27	21	28.6
Gas distribution Brazil	35	49	(28.6)
Gas and electricity distribution Chile	170	156	9.0
Gas distribution Peru	6	4	50.0
Infrastructure LatAm North	80	93	(14.0)
Gas distribution Mexico	35	41	(14.6)
Electricity distribution Panama	45	52	(13.5)
Remainder	19	55	(65.5)
Total	1,145	737	55.4

The gas business represented 54.4% of the consolidated total due to the addition of two new gas tankers under finance lease (Euros 380 million).

Infrastructure EMEA accounts for 16.2% of total consolidated capital expenditure, having declined by 2.6% year-on-year.

Infrastructure LatAm South accounted for 20.8% of the consolidated total, having increased by 3.5% year-on-year, basically because of higher investment in Chile.

Infrastructure LatAm North accounted for 7.0% of total consolidated capital expenditure, having declined by 14.0% with respect to the same period of the previous year.

Excluding the two gas tankers acquired under finance lease in 2018, capital expenditure in Spain increased by 18.5% and accounted for 45.2% of the total, compared with 38.4% the previous year. Capital expenditure outside Spain declined by 5.6% to account for 54.8% of the total (vs. 61.6% the previous year).

Maintenance capex in the first half of 2018 amounted to Euros 309 million, compared with Euros 345 million in the same period of the previous year, a 10.4% reduction. Growth capex amounted to Euros 836 million (Euros 456 million excluding the two gas carriers acquired under finance lease) compared with Euros 392 million, a 16.3% increase without considering the ships.

Additionally, in the first half of 2018 inorganic investments in two photovoltaic projects in Brazil have been made. Development of this projects, located in Minas Gerais State, would require an approximately investment of Euros 95 million and a capacity of 83 MW and are expected to start operations in the fourth quarter of 2018.

Equity and shareholder remuneration

The distribution of 2017 income proposed to the Shareholders' Meeting on 27 June 2018 entailed allocating Euros 1,001 million to dividends, the same amount as in the previous year. That represents a dividend of Euros 1 per share and a pay-out of 73.6%, i.e. a dividend yield of 5.2% based on the share price on 31 December 2017 (Euros 19.25).

An interim dividend amounting to Euros 0.33 per share out of 2017 earnings was paid entirely in cash on 27 September 2017, and the Euros 0.67 per share supplementary dividend was paid on 5 July 2018.

In the context of the new Strategic Plan 2018-2022 and as part of the new shareholder remuneration policy that includes a minimum dividend of Euros 1.30 per share out of 2018 earnings, the Board of Directors declared the first interim dividend for 2018 in the amount of Euros 0.28 per share, payable entirely in cash on 31 July 2018.

At 30 June 2018, Naturgy's shareholders' equity totalled Euros 15,220 million. Of that total, Euros 11,442 million is attributable to Naturgy.

Debt and finances

Net interest-bearing debt (Euros million)

	30/06/18	30/06/17	%
Net financial debt	12,362	15,818	(21.8)

At 30 June 2018, net interest-bearing debt amounted to Euros 12,362 million and leverage was 44.8% (Euros 15,818 million and 46.4% at 30 June 2017).

The net debt/Ebitda ratio was 3.2 and the Ebitda/interest ratio was 7.3 at 30 June 2018, evidencing an improvement in fundamentals with respect to the preceding year (3.7x and 6.4x, respectively).

Considering the estimated impact of applying IFRS 16, net interest-bearing debt would amount to Euros 14,000 million and the leverage ratio would be 47.9%. The net debt/Ebitda ratio would be 3.6.

Net interest-bearing debt is calculated as follows:

	30/06/18	30/06/17
Non-current borrowings	13,711	14,485
Current borrowings	2,217	2,857
Cash and cash equivalents	(3,492)	(1,455)
Derivatives	(74)	(69)
Net financial debt	12,362	15,818

Maturity of net debt (Euros million)

	2018	2019	2020	2021	Post 2022
Net debt maturities	240	438	731	1,696	9,257

The above table shows Naturgy's net debt maturities at 30 June 2018.

A total of 94.9% of net interest-bearing debt matures in or after 2020. The average term of the debt is 6.3 years.

Of the net interest-bearing debt, 4.2% is short term and 95.8% is long term.

The debt structure is mainly at fixed rate (89%) taking into account the impact of the derivatives on financial liabilities

The breakdown of the net borrowings by currency at 30 June 2018, in absolute and relative terms, is as follows:

(million euro)	30/06/2018	%
EUR	9,768	79.0
CLP	1,760	14.2
USD	262	2.1
MXN	311	2.5
BRL	234	1.9
Others	27	0.3
Total net financial debt	12,362	100.0

Main financial transactions

In January 2018, Naturgy Euros 850 million in 10-year bonds paying 1.5%, the proceeds from which were used to tender for Euros 916 million in bonds maturing between 2019 and 2023. Additionally, two bonds totalling 1,099 million with an average coupon of 4.59% matured in the first quarter of 2018.

In March 2018, Gas Natural México issued Euros 153 million in 3-year bonds with a variable coupon of TIIE plus 0.40% and 7-year bonds with a coupon of 8.89%.

In the first half of 2018, issues under the Euro Commercial Paper (ECP) programme totalled Euros 3,044 million (Euros 2,133 million in the same period of 2017). The outstanding balance of issues under the ECP programme stands at Euros 500 million (there were no outstanding issues at 31 December 2017).

On 1 July 2018 an ING credit facility has been renewed amounting to Euros 300 million.

Credit rating

The credit ratings of Naturgy's short- and long-term debt are as follows:

Agency	Short term	Long term
Fitch	F2	BBB+
Moody's	P-2	Baa2
S&P	A-2	BBB

On 18 July 2018, S&P ratified the long-term credit rating (BBB) and stable outlook after the presentation of the new Strategic Plan.

Liquidity and capital

At 30 June 2018, cash and cash equivalents together with available bank finance totalled Euros 10,686 million, providing the company with sufficient liquidity to cover its debt maturities for more than 24 months, with the following breakdown:

Liquidity source	Limit	Drawn	Available
Committed credit lines	6,973	213	6,760
Uncommitted credit lines	548	114	434
Cash and cash equivalents	-	-	3,492
Total	7,521	327	10,686

Additionally, at 30 June 2018, the company had Euros 6,815 million available in the form of shelf registrations for financial instruments, including Euros 4,960 million in the Euro Medium Term Notes (EMTN) programme; Euros 500 million in the Euro Commercial Paper (ECP) programme; and a combined Euros 1,355 million in the stock market certificates programmes on the Mexico Stock Exchange, the commercial paper programme on the Panama Exchange and the bond lines in Chile.

2.5. Analysis of results by segment

Gas & Electricity

2.5.1 Supply of gas, electricity and services

This business includes wholesale gas procurement and supply in the Spanish liberalised market, the supply of gas and electricity and of other products and services related to retail supply in the Spanish liberalised market, supply of gas at the last resort tariff (TUR) in Spain and supply of electricity at the small consumer voluntary price (PVPC) in Spain.

Results

	2018	2017	%
Net sales	6,768	6,500	4.1
Procurement	(6,457)	(6,190)	4.3
Net personnel expenses	(64)	(54)	18.5
Other revenues/expenses	(192)	(215)	(10.7)
Ebitda	55	41	34.1
Depreciation, amortisation and impairment expenses	(31)	(13)	138.5
Allocation to provisions	(30)	(28)	7.1
EBIT	(6)	-	-

Net sales amounted to Euros 6,768 million, a 4.1% increase with respect to last year. Ebitda amounted to Euros 55 million, 34.1% more than in the same period of the previous year due to improved retail margins.

The Euros 17 million increase in depreciation and amortisation charges in the period is due mainly to the application of IFRS 5.

Main aggregates

The main aggregates in the supply activity are as follows:

	2018	2017	%
Gas sales (GWh)	126,587	123,024	2.9
Europe wholesale	109,052	107,232	1.7
Retail Spain	17,535	15,792	11.0
Electricity sales (GWh)	18,328	17,524	4.6
Retail contracts (Spain) ('000, at 30/06)	11,655	11,740	(0.7)
Energy contracts	8,796	8,856	(0.7)
Energy services contracts	2,859	2,884	(0.9)
Contracts per customer (Spain)	1.52	1.52	-
Gas contract market share (Spain)	53.8	55.0	1.2 p.p.

Gas supply

In June, Sonatrach and Naturgy strengthened their relationship by extending the contracts for the purchase of Algerian gas until the end of the next decade; their alliance ensures a stable supply of gas to Spain.

The renewal of the contracts enables Naturgy to maintain a very large volume and ensures an optimal mix of natural gas (NG) and liquefied natural gas (LNG) in its inputs.

The first shipment of LNG under the long-term contract signed with the Russian company Yamal LNG was unloaded on 21 June 2018. This is the first of a total of 37 shiploads that will reach south-western Europe each year until 2041. This contract expands Naturgy's portfolio of strategic suppliers and reinforces the diversity of supply in this region of Europe with the first long-term contract for the supply of LNG from Russia.

Wholesale supply

Wholesale supply in Spain totalled 75,728 GWh, a 1.2% increase with respect to the same period of the previous year.

Naturgy has a strong position in natural gas supply in Europe, with a presence in France, Belgium, Luxembourg, the Netherlands, Germany, Ireland and Portugal. Its customers are mainly industrial and services companies and the public sector.

Sales in France totalled 20.1 TWh in the first half. Sales in Belgium, Luxembourg, the Netherlands, Germany and Ireland amounted to 9.9 TWh in the same period.

Naturgy is still Portugal's second-largest operator (and its largest foreign operator), with a market share of approximately 14%, and it sold 3.2 TWh there in the first half of 2018.

Retail supply

In the retail market, Naturgy focuses on meeting its customers' energy needs. With a range of quality products and services, it has 11.7 million active gas, electricity and maintenance contracts.

Naturgy provides a comprehensive service by integrating the supply of both energies (gas and electricity) with maintenance services to achieve efficiencies and enhance customer satisfaction; it supplies both energies to over 1.5 million homes, a large percentage of which have a maintenance contract in place.

With a strong focus on continued growth in the retail business, the company sells products and services throughout Spain, having signed 745 thousand new contracts in the first half of 2018.

The offering of services for residential and SME customers has enabled the company to increase the number of active contracts to 2.8 million, managed through the group's own operating platform with 121 associated firms connected via a mobile online system. As a result of this performance, the portfolio of energy and services contracts in the retail segment increased in value.

Naturgy continues to focus on developing natural gas service stations that are open to the public. In the first half of 2018, the company had 49 natural gas service stations, supplying both compressed and liquefied natural gas. A total of 30 stations are open to the public and 19 are private. Additionally, Naturgy is running four special projects developed to encourage the vehicular natural gas use.

As for electricity supply, 18,328 GWh were sold in the first half of 2018, including sales in the liberalised market and under the last resort tariff, a 4.6% increase. The electricity supply portfolio is in line with Naturgy's strategy of maximising margins, optimising market share, and hedging against price variations in the electricity market.

2.5.2 LNG International

This includes trading of liquefied natural gas in international markets and maritime transportation.

Results

	2018	2017	%
Net sales	1,795	1,124	59.7
Procurement	(1,555)	(952)	63.3
Net personnel expenses	(2)	(3)	(33.3)
Other revenues/expenses	(5)	(6)	(16.7)
Ebitda	233	163	42.9
Depreciation, amortisation and impairment expenses	(36)	(24)	50.0
Allocation to provisions	-	-	-
EBIT	197	139	41.7

Ebitda in the LNG business amounted to Euros 233 million in the first half of 2018, a 42.9% increase year-on-year.

Main aggregates

	2018	2017	%
Gas sales (GWh)	76,793	55,603	38.1
Shipping fleet capacity (m ³)	1,463,149	1,095,532	33.6

LNG trading in the international market increased by 38.1% in the first half to 76,793 GWh. This increase was due to the availability of larger volumes under Naturgy's long-term procurement contracts, as well as the completion of a larger number of LNG optimisation and trading transactions.

The company continues to diversify into international markets, having sold gas in the Americas and Asia. This strengthens the company's presence in the main international LNG markets, providing it with a medium-term position in growing countries and new markets.

The shipping fleet expanded with the addition of two new vessels under long-term charter to handle the larger procurement volume.

The main gas price indices performed as follows:

	2018	2017	%
Brent (USD/bbl)	70.6	51.8	36.3
Henry Hub (USD/MMBtu)	2.8	3.2	(12.5)
NBP (USD/MMBtu)	7.7	5.4	42.6
TTF (EUR/MWh)	19.5	17.4	12.7

2.5.3 Generation Europe

Includes power generation in Spain, also conventional and renewable.

Results

	2018	2017	%
Net sales	912	940	(3.0)
Procurement	(465)	(458)	1.5
Net personnel expenses	(56)	(60)	(6.7)
Other revenues/expenses	(225)	(215)	4.7
Ebitda	166	207	(19.8)
Depreciation, amortisation and impairment expenses	(4,147)	(224)	-
Allocation to provisions	-	-	-
EBIT	(3,981)	(17)	-

Net sales in the electricity generation business in Spain amounted to Euros 912 million, 3.0% less than in the same period of the previous year, while Ebitda amounted to Euros 166 million, 19.8% less than in the same period last year.

Depreciation and amortisation charges and impairment losses amounted to Euros 4,147 million, including Euros 3,929 million of impairments as a result of discounting future cash flows following approval of the Strategic Plan 2018-2022.

Market situation

Electricity demand in mainland Spain amounted to 126.4 TWh in the first half of the year, an increase of 1.2% with respect to the same period of 2017. Adjusting for temperatures and the calendar effect, growth would have been 1.1% in 2018.

Peak capacity usage in one hour was registered on 27 June: 36,927 MW, i.e. below the 39,017 MW attained in the same quarter of the previous year (22 June 2017) and well below the all-time summer record of 40,934 MW reached in July 2010.

The balance of physical international interchanges amounted to 6,033 GWh in the first half of 2018, 18.7% more than the 5,081 GWh registered in the same period of the previous year.

Year-to-date consumption for pumped storage amounted to 2,243 GWh, i.e. 7.5% more than in 2017 due to lower market prices in comparison with last year.

Net generation in Spain increased by 0.6% overall in the first half of 2018. Renewable output increased by 23.3% year-on-year and covered 44.6% of demand, compared with 36.6% the previous year.

Wind output in the first half amounted to 27,779 GWh (+10.4% year-on-year) and covered 22.0% of demand, two points more than in the same period of 2017.

In terms of hydroelectric energy capability, the second quarter of 2018 was rated as wet, with an exceedance probability of 20% when compared with the historical average; i.e. statistically, 20 out of every 100 years would be dryer. The trend during the quarter was similar.

Non-renewable output declined by -13.0%. The thermal gap narrowed by -22.6% in the first half of the year, achieving coverage that was 6 points lower than in the same period of 2017 (19.6% vs. 25.6%).

Nuclear output decreased by -10.7%, coal-fired output by -31.0%, CCGT output by -8.5% and output from other non-renewable thermal, cogeneration and energy-from-waste increased by 1.6% at the end of the first half, compared with the same period of last year.

Year-to-date, the weighted average price in the electricity pool was Euros 50.92/MWh, i.e. 1.97% less than in the same period of 2017.

Movements in the main electricity and related market price indices (in addition to the indices mentioned in point 2.5.2.) are set out below:

	2018	2017	%
Arithmetic mean daily market price (€ /MWh)	50.1	51.3	(2.3)
Coal API 2 CIF (USD/t)	88.0	78.9	11.5
CO ₂ EUA (€/ton)	12.1	5.0	142.0

Main aggregates

The key figures of Naturgy's generation business in Spain are as follows:

	2018	2017	%
Installed capacity (MW):	12,719	12,716	-
Generation:	11,569	11,569	-
Hydroelectric	1,954	1,954	-
Nuclear	604	604	-
Coal	2,010	2,010	-
CCGTs	7,001	7,001	-
Renewable and cogeneration output:	1,150	1,147	0.3
Wind	982	979	0.3
Small hydroelectric	110	110	-
Cogeneration and other	58	58	-
Electric energy produced (GWh):	13,280	13,161	0.9
Generation:	11,849	11,895	(0.4)
Hydroelectric	2,335	737	216.8
Nuclear	2,060	2,185	(5.7)
Coal	1,203	2,832	(57.5)
CCGTs	6,251	6,141	1.8
Renewable and cogeneration output:	1,431	1,266	13.0
Wind	1,079	987	9.3
Small hydroelectric	316	240	31.7
Cogeneration and other	36	39	(7.7)
Market share of generation	16.8	16.5	0.3 p.p.

Naturgy's output in the first half of 2018 amounted to 13,280 GWh, a 0.9% increase with respect to same period of the previous year.

Conventional hydroelectric output increased by 216.8% to 2,335 GWh. The first quarter of 2018 was average in terms of precipitation, and this situation was maintained in the second quarter, ending June with an exceedance probability of 39%, i.e. in statistical terms, 39 out of every 100 years would be wetter.

Reservoirs in the Naturgy watersheds were at 54% of capacity, twenty points higher than at the end of 2Q17 and 37 points higher than at the beginning of the year.

Nuclear output declined by -5.7% while coal-fired output was down -57.5%, and overall utilisation stood at 14%.

CCGT output increased by 1.8% year-on-year to 6,251 GWh. CCGT utilisation year-to-date was 21%, more than double that of the industry as a whole.

Emissions of CO₂ in the first half of 2018 from Naturgy's coal-fired power plants and CCGTs that are affected by the regulation governing greenhouse gas emissions trading totalled 3.6 million tons (-1.4 million tons with respect to the same period of 2017). That decrease was mainly due to coal-fired power plants, caused by lower utilisation as a result of greater precipitation and the use of renewable sources in the first half of 2018 in comparison with the previous year.

Naturgy applies a comprehensive approach to its portfolio of CO₂ emission rights for the post-Kyoto (2013-2020) period, acquiring the necessary emission rights and credits through active participation in auctions and the secondary market.

Naturgy's share of conventional output was 16.8% in the first half of 2018, 0.3 points more than in the same period of 2017.

As for renewable generation and cogeneration, during the second quarter of 2018 Naturgy Renovables commissioned its first wind farm in the Canary Islands: the Haria 2.35 MW wind farm on Gran Canaria is among the projects that the group registered in 2015 under the 450 MW quota opened by the Canary Islands Regional Government.

2.5.4 Generation International (GPG)

This area encompasses the international generation assets and holdings in Brazil (commercial operation in September 2017), Mexico, Puerto Rico, Dominican Republic, Panama and Costa Rica and the power generation projects in Australia and Chile, as well as assets operated for third parties via group company O&M Energy.

Results

	2018	2017	%
Net sales	433	438	(1.1)
Procurement	(243)	(247)	(1.6)
Net personnel expenses	(19)	(18)	5.6
Other revenues/expenses	(30)	(35)	(14.3)
Ebitda	141	138	2.2
Depreciation, amortisation and impairment expenses	(82)	(60)	36.7
Allocation to provisions	-	-	-
EBIT	59	78	(24.4)

GPG's Ebitda in the first half of 2018 amounted to Euros 141 million, up 2.2% year-on-year due basically to a higher Ebitda contribution from O&M Energy, Costa Rica and Brazil (which was not operational in 1H17), and despite an adverse currency effect (Euros -17 million, basically because of USD).

Ebitda in Mexico declined by -5.4% as a result of the exchange rate effect offset with the higher contribution margin, due basically to higher surplus output.

The Bii Hioxo plant performed better than last year because of a higher wind index.

Ebitda in the Dominican Republic increased by 8.3% year-on-year due to higher output and a higher margins in spot prices, higher demand, lower precipitation and the withdrawal of competitors from the system.

Brazil, which came into operation in September 2017, contributed Euros 4.4 million in Ebitda in the first half of 2018.

Ebitda in Costa Rica increased by over 100% as a result of the recovery of water dispatching revenues (not paid in previous periods) and the penalty imposed by ICE in the second quarter of 2017 due to the delayed entry into commercial operation of the Torito plant.

Main aggregates

The key physical aggregates in this business are as follows:

	2018	2017	%
Installed capacity (MW):	2,912	2,590	12.4
Mexico (CC)	2,289	2,035	12.5
Mexico (wind)	234	234	-
Brazil (solar)	68	-	-
Costa Rica (hydroelectric)	101	101	-
Panama (hydroelectric)	22	22	-
Dominican Republic (oil-fired)	198	198	-
Electric energy produced (GWh):	8,980	8,931	0.5
Mexico (CC)	7,847	7,925	(1.0)
Mexico (wind)	362	306	18.3
Brazil (solar)	67	-	-
Costa Rica (hydroelectric)	154	196	(21.4)
Panama (hydroelectric)	40	38	5.3
Dominican Republic (oil-fired)	510	466	9.4
Availability factor (%)			
Mexico (CC)	90.8	95.6	-4.8 p.p.
Costa Rica (hydroelectric)	99.3	96.8	2.5 p.p.
Panama (hydroelectric)	81.8	90.1	-8.3 p.p.
Dominican Republic (oil-fired)	93.9	92.1	1.8 p.p.

Output from the CCGT plants in Mexico decreased year-on-year as a result of the longer maintenance shutdowns at Tuxpan. This effect was partly offset by the sale of larger surpluses, mainly by Norte Durango. The capacity increase year-on-year was due to the recognition of additional capacity in the CCGT plants and the high fogging process implemented in Norte Durango and Tuxpan. Differences in maintenance calendars between years resulted in lower availability than in 2017.

Wind power output by Bii Hioxo increased as a result of the higher wind index.

Hydroelectric output in Costa Rica was impaired by lower precipitation. As discussed in section 2,3, the Costa Rica concessions are accounted for as finance leases in accordance with IFRIC 12.

Output in Panama increased slightly year-on-year as a result of greater precipitation this year in the areas where the plants are located. The reduction in availability year-on-year is attributable to the damage to Unit 2 of the La Yeguada hydroelectric plant.

Output in the Dominican Republic increased year-on-year due to higher demand, lower precipitation and the withdrawal of more efficient plants from the system.

Naturgy's first photovoltaic power project in Brazil entered commercial operation in September 2017: the Sobral I and Sertao I solar farms, with an installed capacity of 68 MW, are located in the Piauí region in northern Brazil.

Infrastructure EMEA

2.5.5 Gas distribution Spain

This area includes remunerated gas distribution and transportation as well activities that are charged for outside the regulated distribution system (meter rental, customer connections, etc.), and the piped liquefied petroleum gas (LPG) business.

Results

	2018	2017	%
Net sales	612	638	(4.1)
Procurement	(41)	(50)	(18.0)
Net personnel expenses	(43)	(44)	(2.3)
Other revenues/expenses	(96)	(111)	(13.5)
Ebitda	432	433	(0.2)
Depreciation, amortisation and impairment expenses	(146)	(148)	(1.4)
Allocation to provisions	(2)	(4)	(50.0)
EBIT	284	281	1.1

Net sales in the gas distribution business amounted to Euros 612 million, i.e. Euros 26 million less than the previous year due to the lower meter rental revenues due to application of the price reduction under Order ETU/1283/2017, of 22 December 2017, in force since January 2018.

These factors, coupled with the positive impact of efficiency measures on operating expenses, resulted in a 0.2% reduction in Ebitda.

Main aggregates

	2018	2017	%
Sales – TPA (GWh)	102,730	98,913	3.9
LPG sales (ton)	54,166	85,223	(36.4)
Distribution network (km)	55,871	53,042	5.3
Increase in connection points (thousand)	20	23	(13.0)
Connection points (thousand) (at 30/06)	5,391	5,336	1.0

Regulated gas sales increased by 3.9% (+3,817 GWh).

Demand growth was concentrated in the residential market. Growth far outstripped the same period of the previous year: +15% (+3,839 GWh) due to favourable weather conditions in March, which was the coldest in 15 years.

The decline in LPG sales was due to a reduction in the number of consumers using this fuel as a result of the shift to natural gas.

2.5.6 Electricity distribution Spain

The electricity distribution business in Spain includes regulated distribution of electricity and network services for customers, basically connections and hook-ups, metering and other actions associated with third-party access to Naturgy's distribution network.

Results

	2018	2017	%
Net sales	427	420	1.7
Procurement	-	-	-
Net personnel expenses	(39)	(53)	(26.4)
Other revenues/expenses	(72)	(69)	4.3
Ebitda	316	298	6.0
Depreciation, amortisation and impairment expenses	(119)	(113)	5.3
Allocation to provisions	-	-	-
EBIT	197	185	6.5

The Ministerial Order on electricity tolls for 2018 (ETU/1282/2017) establishes that, until the approval of the remuneration for transmission and distribution for 2018 under the provisions of Royal Decree 1047/2013, of 27 December, and Royal Decree 1048/2013, of 27 December, the remuneration established in Order IET/981/2016 and Order IET/980/2016, which established the remuneration for electricity transmission and distribution companies for 2016, will be paid pro rata.

Net revenues amounted to Euros 427 million, i.e. slightly higher than in the same period of 2017, due to application of the aforementioned Ministerial Orders and to the accrual of investments that were brought into operation, considering also the adjustment to the finance percentage of the base, as published in the draft ministerial order covering the remuneration for distribution.

Ebitda amounted to Euros 316 million in the first half of 2018, a 6.0% increase with respect to the same period of 2017, due to the positive impact of the reduction in personnel expenses (-26.4%) as a result of business efficiency measures implemented in 2017.

Main aggregates

	2018	2017	%
Sales – TPA (GWh)	16,294	15,977	2.0
Connection points (thousand) (at 30/06)	3,730	3,712	0.5
ICEIT (minutes)	25	67	(62.7)

Energy supplied increased by 2% in the first half with respect to the same period of 2017. The increase was 0.9% in year-on-year terms. Domestic demand amounted to 124,605 GWh in the first half of 2018, a 1% increase, according to figures from Red Eléctrica de España (REE).

The number of supply connections increased in the first half of 2018, by 9,952.

Despite the improvement with respect to the first half of 2017, outage statistics (ICEIT) were penalised in the first half of 2018 by storms in March. The same period of 2017 was also affected by major storms in Galicia (Jurgen, Kurt and Leiv) which had a very significant impact on figures in the first half.

As of 30 June 2018, smart meters accounted for 97.5% of the total, and 95.9% of meter readings are performed on a remote basis. The plan is to achieve 100% smart meters and remote readings in the residential market by 31 December 2018, as required by law. Nevertheless, in accordance with Order ETU 1282/2017, from 1 January 2019, electricity distribution companies are allowed to have up to 2% of their meters without upgrading provided that this is due to causes not attributable to the companies themselves, which must be supported and accepted by the National Markets and Competition Commission.

2.5.7 EMPL

This area refers to operation of the Maghreb-Europe gas pipeline.

Results

	2018	2017	%
Net sales	157	159	(1.3)
Procurement	-	-	-
Net personnel expenses	(2)	(2)	-
Other revenues/expenses	(12)	(9)	33.3
Ebitda	143	148	(3.4)
Depreciation, amortisation and impairment expenses	(26)	(18)	44.4
Allocation to provisions	-	-	-
EBIT	117	130	(10.0)

Net revenues in the Infrastructure business totalled Euros 157 million in the first half of 2018, a 1.3% decline year-on-year.

Ebitda declined by 3.4% year-on-year to Euros 143 million due to the negative impact of the USD exchange rate (Euros -17 million) offset with the increase in the transported volume and for the 3% increase in the transportation fee.

Main aggregates

The main aggregates in international gas transportation are as follows:

	2018	2017	%
Gas transport-EMPL (GWh):	71,066	49,433	43.8
Portugal-Morocco	20,398	20,441	(0.2)
Spain (Naturgy)	50,668	28,992	74.8

The gas transportation activity conducted in Morocco through companies EMPL and Metragaz represented a total volume of 71,066 GWh, 43.8% more than in the same period last year. Of that figure, 50,668 GWh were shipped for Naturgy through Sagane and 20,398 GWh for Portugal and Morocco.

Naturgy owns 14.9% of Medgaz, the company that owns and operates the Algeria-Europe subsea gas pipeline connecting Beni Saf with the Almería coast in Spain (capacity: 8 bcm/year). That capacity is associated with a supply contract amounting to 0.8 bcm/year. A total of 4,023 GWh were shipped via the Medgaz pipeline for Naturgy in the first half of 2018.

Infrastructure Latin America South

This refers to the regulated gas distribution business in Argentina, Brazil, Chile and Peru and the electricity distribution in Argentina and Chile. In Chile also includes the gas supply activity and the electricity transmission activity.

2.5.8 Gas and electricity distribution Argentina

Results

	2018	2017	%
Net sales	321	286	12.2
Procurement	(203)	(178)	14.0
Net personnel expenses	(17)	(22)	(22.7)
Other revenues/expenses	(58)	(58)	-
Ebitda	43	28	53.6
Depreciation, amortisation and impairment expenses	(2)	(2)	-
Allocation to provisions	(7)	(3)	-
EBIT	34	23	47.8

Ebitda of Gas and electricity distribution in Argentina amounted to Euros 43 million, with an increase of 53.6% in respect to the same period of the previous year, following the full application of the tariff review process, whose final stage was approved in April 2018 and despite the impact of the Argentine peso devaluation (Euros -24 million).

Main aggregates

The main aggregates in this area are as follows:

	2018	2017	%
Gas activity sales (GWh)	34,576	34,880	(0.9)
Gas sales	14,138	13,860	2.0
TPA	20,438	21,020	(2.8)
Distribution network (km)	25,965	25,749	0.8
Increase in connection points (thousand)	8	10	(20.0)
Connection points (thousand) (at 30/06)	1,659	1,642	1.0
Electricity sales (GWh)	998	977	2.1
Electricity sales	830	810	2.5
TPA	168	167	0.6
Connection points (thousand) (at 30/06)	231	224	3.1

Gas sales volumes in the first half were in line with the previous year's figures, however, in operating segments there is a notable 9% increase in sales in the deregulated industrial market and higher sales to residential-commercial customers due to lower average temperatures than last year, though this was offset by lower sales of automotive gas and lower TPA.

2.5.9 Gas distribution Brazil

Results

	2018	2017	%
Net sales	735	803	(8.5)
Procurement	(563)	(603)	(6.6)
Net personnel expenses	(20)	(21)	(4.8)
Other revenues/expenses	(42)	(53)	(20.8)
Ebitda	110	126	(12.7)
Depreciation, amortisation and impairment expenses	(30)	(33)	(9.1)
Allocation to provisions	(2)	(2)	-
EBIT	78	91	(14.3)

Brazil's Ebitda decrease a 12.7%, affected, with a negative impact of Euros -23 million. Dispatching and TPA for thermal power plants was 8.9% lower than in the first half of 2017. In contrast, sales of automotive natural gas increased by 9.6% year-on-year as it proved more competitive than liquid fuels; industrial market sales declined by 4.2%, while gas sales in the residential-commercial market were in line with the previous year.

The Ebitda evaluation performance is due to higher gas margins in the automotive and residential markets, mainly because higher volumes offset lower sales in other market segments. Additionally, tariffs increased due to retroactive updates and inflation adjustments.

Main aggregates

	2018	2017	%
Gas activity sales (GWh)	35,461	37,197	(4.7)
Gas sales	28,850	31,579	(8.6)
TPA	6,611	5,618	17.7
Distribution network (km)	7,627	7,382	3.3
Increase in connection points (thousand)	19	21	(9.5)
Connection points (thousand) (at 30/06)	1,109	1,058	4.8

Sales declined by 4.7%: power generation and TPA sales fell by -8.9% due to lower thermal power plant utilisation, while industrial sales declined by 4.2% because of the crisis, as the macroeconomic situation is still recovering. Sales in the residential and commercial market declined slightly, by 0.3%, mainly as a result of lower consumption by large retailers. In contrast, automotive gas sales increased by 9.6% as it proved more competitive than liquid fuels and because of the larger demand for vehicle conversion in the period.

2.5.10 Gas and electricity distribution Chile

Includes the activities of gas distribution, gas supply and the electricity transmission and distribution activities.

Results

	2018	2017	%
Net sales	1,435	1,787	(19.7)
Procurement	(1,009)	(1,350)	(25.3)
Net personnel expenses	(73)	(77)	(5.2)
Other revenues/expenses	(142)	(104)	36.5
Ebitda	211	256	(17.6)
Depreciation, amortisation and impairment expenses	(79)	(74)	6.8
Allocation to provisions	(12)	(12)	-
EBIT	120	170	(29.4)

Chile contributed Euros 211 million in Ebitda, basically as a result of non-recurring expenses related to tree felling and pruning, fire prevention, fines and penalties in the electricity distribution area, and the costs of litigation with gas producers.

Main aggregates

The key physical aggregates in this business are as follows:

	2018	2017	%
Gas distribution sales (GWh)	5,222	5,166	1.1
Gas commercialization sales (GWh)	3,102	3,404	(8.9)
TPA (GWh)	15,664	15,040	4.1
Distribution network (km)	7,358	7,092	3.8
Increase in connection points (thousand)	12	9	33.3
Connection points (thousand) (at 30/06)	614	593	3.5
	-	-	
Electricity sales (GWh):	7,675	7,446	3.1
Electricity sales	6,377	6,842	(6.8)
TPA	1,298	604	114.9
Connection points (thousand) (at 30/06)	2,893	2,824	2.4
Electricity transmitted (GWh)	7,573	7,396	2.4
Transmission network (km, at 30/06)	3,528	3,528	-

- In gas distribution in Chile, the number of gas supply connections increased by 22 thousand, including growth in the residential-commercial (3.7%) and industrial (0.3%) segments with respect to the first half of 2017. As for gas sales and TPA, the strongest growth was observed in the TPA (4.1%) and industrial (4.1%) segments, while there was a decline year-on-year in sales for power generation (-8.7%) and to residential-commercial customers (-3.1%).
- In electricity distribution in Chile, there was a 2.4% year-on-year increase in electricity transmission, mainly due to greater activity in the first half. The transmission grid is 3,528 km long, the same as last year.

Infrastructure Latin America North

This refers to the regulated gas distribution business in Mexico and the electricity distribution business in Panama.

2.5.11 Gas distribution Mexico

Results

	2018	2017	%
Net sales	277	281	(1.4)
Procurement	(159)	(160)	(0.6)
Net personnel expenses	(16)	(13)	23.1
Other revenues/expenses	(24)	(21)	14.3
Ebitda	78	87	(10.3)
Depreciation, amortisation and impairment expenses	(20)	(17)	17.6
Allocation to provisions	(8)	(6)	33.3
EBIT	50	64	(21.9)

In the first half of 2018, ebitda in Mexico amounted to Euros 78 million, i.e. Euros - 9 million less than in the same period of 2017, basically because of devaluation of the Mexican peso.

Main aggregates

	2018	2017	%
Gas activity sales (GWh)	27,343	28,787	(5.0)
Gas sales	10,379	10,843	(4.3)
TPA	16,964	17,944	(5.5)
Distribution network (km)	22,204	21,385	3.8
Increase in connection points (thousand)	31	58	(46.6)
Connection points (thousand) (at 30/06)	1,804	1,716	5.1

The commercial strategy was redesigned in the first half to focus efforts on the most profitable areas, such as Mexico City and some areas of Monterrey. This strategy led to a reduction in new customer additions but they were of better quality.

As part of this refocus, stricter criteria were adopted for retaining customers with bad debt problems. This, coupled with the aggressive customer acquisition drive in recent years, increased customer churn in the period.

At the end of June 2018, there were 1,804 thousand customers (1,802 thousand residential-commercial), a 5.1% increase year-on-year, while the sales volume stood at 27,343 GWh, 5.0% less, due to performance by the TPA and industrial markets. Residential-commercial sales, which have higher margins, increased by 7%.

Affected by the new commercial policy, the distribution network increased by 3.8%, i.e. slightly more slowly than in the previous year (4.2%).

2.5.12 Electricity distribution Panama

Results

	2018	2017	%
Net sales	377	407	(7.4)
Procurement	(305)	(324)	(5.9)
Net personnel expenses	(6)	(6)	-
Other revenues/expenses	(21)	(25)	(16.0)
Ebitda	45	52	(13.5)
Depreciation, amortisation and impairment expenses	(17)	(16)	6.3
Allocation to provisions	(2)	(2)	-
EBIT	26	34	(23.5)

Ebitda in the Panama business in the first half of 2018 amounted to Euros 45 million with a 13.5% decrease, basically because of higher energy losses in the period. It is expected that part of this effect can be recovered in the remainder of the year.

Main aggregates

	2018	2017	%
Electricity sales (GWh):	2,545	2,527	0.7
Electricity sales	2,434	2,477	(1.7)
TPA	111	50	122.0
Connection points (thousand) (at 30/06)	656	628	4.5

Electricity sales increased slightly year-on-year, though by less than the average increase of recent years. Temperatures year-to-date have been below the historical average, with the result that energy sale volumes have expanded by less than projected.

The number of supply connections increased by 4.5%, in line with the pace of growth in the previous year.

3. Main risks and uncertainties

3.1. Operating risks

3.1.1. Regulatory risk

Naturgy and its subsidiaries are required to comply with legislation governing the natural gas and electricity sectors. In particular, gas and electricity distribution are regulated activities in most of the countries in which Naturgy performs them.

Legislation applicable to the natural gas and electricity sectors in the countries in which Naturgy operates is generally revised on a regular basis by the competent authorities. Any amendments may affect the current remuneration system for regulated activities, adversely impacting Naturgy's business, profits, grants and financial position.

In the event that competent public or private bodies interpret or apply such regulations based on criteria that differ from those of Naturgy, its compliance might be questioned or appealed and, in the event that an infringement were proven, there might be a material adverse impact on Naturgy's business, prospects, profits, grants and financial position.

Regulatory risk management is founded on smooth communication between Naturgy and regulators. Additionally, in the course of its regulated activities, Naturgy ensures that its costs and investments are aligned with the rates of return recognised for each business.

3.1.2. Gas and electricity volume risk

Most purchases of natural gas and liquefied natural gas (LNG) are made under long-term contracts containing clauses whereby Naturgy is obligated to purchase certain annual volumes of gas ("take-or-pay" clauses). Under such contracts, even if Naturgy does not need to acquire the committed volume of gas at a given time, it is contractually obligated to pay for the minimum volume committed in the take-or-pay clauses.

The contracts stipulate gas volumes in line with Naturgy's estimated needs. However, actual needs may be below the volumes estimated when the contracts were arranged. In the event of significant departures from the estimates, Naturgy will be obligated to purchase a large volume of gas than is actually needed or, failing this, to pay for the minimum volume of gas committed, irrespective of whether or not it acquires the volume that exceeds its needs; this could have a significant adverse effect on Naturgy's operating costs.

In the electricity business, Naturgy's results are exposed to a reduction in the amount of electricity generated, which is shaped by trends in demand for electricity. Additionally, in view of the major role played by CCGT technology in Naturgy's generating fleet, the amount of power generated might be reduced because of the growing importance of power generation from renewable sources. Business results may also be affected by the levels of hydroelectric output, which may impact the production mix and costs.

A decrease in the volume of electricity generated would increase uncertainty as regards the achievement of generation/supply objectives and the variability of the results.

Naturgy manages contracts and assets on a globally integrated basis to optimise energy balances, enabling it to correct any deviation in the most profitable manner possible.

3.1.3. Operational risk

a) Insurable risks

Naturgy's activities are exposed to a variety of operational risks such as faults in the distribution network, in electricity generation facilities and in gas carriers, explosions, polluting emissions, toxic spillage, fire, adverse weather conditions, contractual breaches, sabotage or accidents affecting the gas distribution network or electricity generation assets, and other damage and force majeure circumstances that might cause bodily harm and/or material damage, affecting or destroying Naturgy's facilities or property. Events such as these, or similar events, are unforeseeable and may interrupt the supply of gas and generation of electricity. In such situations, although coverage is provided by risk insurance policies, such as policies covering loss of profit and material damage, Naturgy's financial situation and results could be affected to the extent that any losses are not insured, coverage is insufficient, or economic losses are generated due to coverage limits or an increase in the excess, as well as potential increases in premiums paid to insurers.

Naturgy might also have to respond to third-party claims for bodily harm and/or other damage caused in the ordinary course of business. Such claims could result in the payment of indemnities under legislation applicable in the countries in which Naturgy operates, which could have a material adverse impact on the business, prospects, financial position and results if the its third-party liability insurance policies not cover the amount of the indemnities.

Naturgy prepares continuous improvement plans to reduce the frequency and severity of potential incidents. Specific asset supervision units have been created to intensify preventive and predictive maintenance, among other measures. Additionally, the approach to insurance coverage is based on optimising the total cost of risk.

b) Image and reputation

Naturgy is exposed to opinions and perceptions of a variety of stakeholders. Such perceptions may be adversely impacted by events caused by the Company or by third parties over which the Company has little or no control, impacting its own reputation or that of the industry. Such impacts might cause medium-term financial damage by increasing regulatory demands or funding costs or by requiring additional expenditure to win customers.

Naturgy is engaged actively in identifying and monitoring potential reputational events and the stakeholders affected. Transparency also forms part of our communication policy.

c) Environment

Naturgy's activities are subject to extensive legislation on environmental protection.

Naturgy and its subsidiaries must comply strictly with extensive environmental protection regulations requiring, among other aspects, the preparation of environmental impact analyses, obtainment of authorisations, licences and permits, and fulfilment of certain requirements. Considerations include:

- Environmental authorisations and licences might not be granted or might be revoked due to failure to comply with the attached conditions;
- The regulatory framework or its interpretation by the authorities might be amended, resulting in higher costs or deadlines for compliance with the new requirements.

In order to mitigate this risk, Naturgy has adopted an integrated environmental management system and has emergency plans for facilities where there is a risk of accidents with an

environmental impact. Specific insurance policies have also been arranged to cover this type of risks.

d) Climate change

Demand for electricity and natural gas is related to the weather. A significant part of gas consumption during the winter months is driven by seasonal needs for space heating in the residential segment, as well as to enable the CCGT plants to support production in the electricity system. In summer, consumption is driven by power generation basically for air conditioning. Naturgy's revenue and results from natural gas distribution and supply activities might be adversely affected in the event that the autumn months become warmer or winters become milder. Demand for electricity might also fall if summers become milder, due to a decline in demand for air conditioning. Additionally, hydroelectric generation plant utilisation depends on rainfall in the plant locations and might be affected by drought.

European policies and measures to combat climate change could affect Naturgy's results in the event that the competitiveness of the Company's generation mix is altered.

Naturgy forms part of a number of work groups at European level, enabling strategy to be adapted to new regulations in advance. The company also forms part of clean development projects designed to reduce CO₂ emissions.

e) Geopolitical exposure

Naturgy has interests in countries with different political, economic and social environments; in this regard, two main areas are particularly relevant:

- Latin America

A large part of Naturgy's operating profits are generated by its Latin American subsidiaries. Operations in Latin America are exposed to a range of risks inherent to investment in the region. Of the risk factors linked to investment and business in Latin America, the following should be noted:

- Considerable influence of local governments on the economy;
- Significant fluctuation in the economic growth rate;
- High inflation;
- Devaluation, depreciation or overvaluation of local currencies;
- Controls or restrictions on the repatriation of earnings;
- Fluctuating interest rates;
- Changes in financial, economic and fiscal policies;
- Unexpected changes to regulatory frameworks;
- Social tensions and
- Political and macroeconomic instability.

- Middle East and Maghreb

Naturgy has both its own assets and major contracts for the supply of gas from various Maghreb countries and the Middle East, particularly Egypt. Political instability in the zone may result in physical damage to the assets of Naturgy's investee companies or the obstruction of the operations of those or other companies, interrupting the Group's gas supply.

Naturgy has a diversified portfolio both in the countries in which it carries on energy distribution activities (Latin America, Europe) and the countries that supply gas (Latin America, Africa, Middle East, Europe). Diversification minimises the risk of expropriation and of supply interruption due to the knock-on effect of political instability in neighbouring countries. Specific insurance policies have also been arranged for these risks.

3.2. Financial risks

Financial risks (interest rate, exchange rate, commodity price, credit and liquidity risk) are detailed in Note 17 to the 2017 Consolidated Annual Accounts.

3.3. Main opportunities

- Generation mix: Naturgy's generating fleet, consisting mainly of CCGT facilities, has the necessary flexibility to adapt to different market circumstances, based on optional dispatching; it is thus a valuable asset to leverage opportunities related to price and demand volume volatility in the gas and electricity markets. Despite the transition to renewable energy, the CCGTs' operational flexibility means that this technology is well placed to make a meaningful contribution in the future.
- International generation: Increase renewable capacity internationally, given that renewable energies are cost-competitive and Naturgy's presence in growth markets.
- Portfolio of natural gas and LNG procurements: Management of gas pipelines, investment in plants and the fleet of gas carriers enable the Company to meet its business needs in a flexible, diversified manner, optimising its approach to different energy scenarios. Specifically, the fleet of gas carriers makes Naturgy one of the world's leading LNG operators and a principal in the Atlantic, the Mediterranean and Asia.
- A balanced structural position in terms of businesses and geographies, many with stable flows, irrespective of commodities prices, making it possible to take the maximum advantage of growth in energy demand and of new business opportunities in new markets.

4. Subsequent events

Events after the closing date, i.e. 30 June 2018, are described in Note 22 to the condensed interim consolidated financial statements.

Glossary of terms

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 30.06.2018	Reconciliation of values at 30.06.2017	Relevance
Ebitda	"Operating profit" ⁽²⁾	Euros 2,004 million	Euros 2,030 million	Measure of earnings before interest, taxes, depreciation and amortisation and provisions
Net capital expenditure	"Investment in intangible assets" ⁽⁴⁾ (Note 7) + "Investment in property, plant and equipment" ⁽⁴⁾ (Note 7) + Financial investments – Receipts for divestment of property, plant and equipment and intangible assets – Other investing receipts/(payments) ⁽⁶⁾	Euros - 1,429 million = 121 + 1,024 + 35 – 2,609	Euros 740 million = 137 + 600 + 27 - 24	Total investments net of the cash received from divestments and other investing receipts
Gross financial debt	"Non-current financial liabilities" ⁽¹⁾ + "Current financial liabilities" ⁽¹⁾	Euros 15,928 million = 13,711 + 2,217	Euros 17,342 million = 14,485 + 2,857	Current and non-current financial debt
Net financial debt	Gross financial debt ⁽⁵⁾ – "Cash and cash equivalents" ⁽¹⁾ – "Derivative financial assets" ⁽⁴⁾ (Note 8)	Euros 12,362 million = 15,928 - 3,492 – 74	Euros 15,818 million = 17,342 - 1,455 - 69	Current and non-current financial debt less cash and cash equivalents and derivative financial assets
Leverage (%)	Net financial debt ⁽⁵⁾ / (Net financial debt ⁽⁵⁾ + "Net equity" ⁽¹⁾)	44.8% = 12,362 / (12,362 + 15,220)	46.4% = 15,818 / (15,818 + 18,246)	The ratio of external funds over total funds
Cost of net financial debt	"Cost of financial debt" ⁽⁴⁾ (Note 17) – "Interest revenue" ⁽⁴⁾ (Note 17)	Euros 274 million = 286 - 12	Euros 315 million = 330 - 15	Amount of expense relative to the cost of financial debt less interest revenue
Ebitda/Cost of net financial debt	Ebitda ⁽⁵⁾ / Cost of net financial debt ⁽⁵⁾	7.3x = 2,004 / 274	6.5x = 2,030 / 315	Ratio between Ebitda and net financial debt
Net financial debt/Ebitda	Net financial debt ⁽⁵⁾ / Ebitda in the last four quarters ⁽⁵⁾	3.2x = 12,362 / 3,889	3.7x = 15,818 / 4,237	Ratio between net financial debt and Ebitda
Market capitalisation	No. of shares ('000) outstanding at end of period ⁽⁶⁾ * Market price at end of period ⁽⁶⁾	Euros 22,696 million = 1,000,689 * Euros 22.68	Euros 20,504 million = 1,000,689 * Euros 20.49	Measure of the company's total value based on its share price
Earnings per share	"Attributable income in the period" ⁽²⁾ / Average No. of shares in the period (in thousands) ⁽⁶⁾	Euros - 3.28 = -3,281 / 1,000,462	Euros 0.55 = 550 / 1,000,519	Ratio between the income attributed to the parent company and the number of shares
Personnel expenses, net	Personnel expenses – "Own work capitalised" (Note 14) ⁽⁴⁾	Euros 464 million = 520 - 56	Euros 469 million = 524 - 55	Personnel expenses recognised in the income statement
Other revenues/expenses	"Other operating revenues" ⁽²⁾ , "Other operating expenses" ⁽²⁾ "Recognition of fixed asset grants and other" ⁽²⁾	Euros - 801 million = 83 - 905 + 21	Euros - 807 million = 107 -935 + 21	Other revenues and expenses recognised in the consolidated income statement

- (1) Consolidated balance sheet line item.
- (2) Consolidated income statement line item.
- (3) Consolidated statement of cash flows line item.
- (4) Figure detailed in the notes to the consolidated financial statements.
- (5) Figure detailed in the APMs.
- (6) Figure detailed in the Directors' Report.

Naturgy Energy Group, S.A.

Condensed interim directors' report as of 30 June 2018

Naturgy Energy Group, S.A.

Directors' report for the six-month period ended 30 June 2018

Nota 1. Business performance

Naturgy Energy Group, S.A. is a holding company whose main ordinary activity is the administration and management of holdings in subsidiaries. As a result, its earnings arise fundamentally from dividends and revenues from finance provided to companies in the Naturgy group. It also has contracts to supply gas to other Naturgy companies and, in the electricity area, it acts as representative of the Naturgy generation and supply companies before the Electricity Market.

Nota 2. Significant events in the first half of 2018

Key figures from the income statement

Earnings performance in the first half of 2018 can be explained by the sale of a 20% stake in the gas distribution business in Spain, through Group company Holding Negocios Gas, S.A (Note 3), and the impairment recognised on financial instruments following adaptation to the new Strategic Plan 2018-2022 (Note 2.3.3).

Revenues in the six-month period ended 30 June 2018 amounted to €2,164 million, of which €1,581 million were basically from the sale of gas and electricity, €326 million were dividends collected from group companies and associates, and €257 million were from finance provided to Naturgy group companies.

The €158 million reduction in revenue is the net result of:

- Revenues increased by €87 million, basically due to good performance in the gas business.
- Dividends from subsidiaries declined by €281 million in the half-year, mainly from the companies Gas Natural Comercializadora, S.A., Gas Natural Servicios SDG, S.A. and Sagane, S.A.
- Financial revenues from providing finance to subsidiaries increased by €36 million.

Procurements amounted to €1,585 million in the year, basically for the purchase of gas and electricity, with an €86 million increase, in line with revenue performance.

Other operating revenues amounted to €189 million, net personnel expenses to €122 million, operating expenses to €151 million, depreciation and amortisation to €48 million, and impairment and gain/loss on fixed asset disposals to €5,450 million, with the result that EBIT in the period amounted to €5,897 million, a €5,197 million increase with respect to same period of the previous year.

Financial income was negative in the amount of €265 million, compared with €290 million in the same period of 2017. This reduction was due basically to the cancellation of loans to Naturgy group companies.

Income before taxes amounted to €5,632 million and income tax to €35 million, with the result that net profit for the period was €5,597 million, compared with €449 million in the same period of the previous year.

Report on Limited Review

**Naturgy Energy Group, S.A. and Subsidiaries
Interim Condensed Consolidated Financial Statements
and Interim Consolidated Management Report
for the six-month period ended
June 30, 2018**

Translation of a report and consolidated financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails

REPORT ON LIMITED REVIEW OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of Naturgy Energy Group S.A.
at the request of the Management

Report on the interim condensed consolidated financial statements

Introduction

We have carried out a limited review of the accompanying interim condensed consolidated financial statements (hereinafter the interim financial statements) of Naturgy Energy Group, S.A. (hereinafter the parent Company) and its Subsidiaries (hereinafter the Group), which comprise the balance sheet at June 30, 2018, the income statement, the statement of other comprehensive income, the statement of changes in equity, the cash flow statement, and the explanatory notes, all of which have been condensed and consolidated, for the six-month period then ended. The parent's Company Directors are responsible for the preparation of said interim financial statements in accordance with the requirements established by IAS 34, "Interim Financial Reporting," adopted by the European Union for the preparation of interim condensed financial reporting as per article 12 of Royal Decree 1362/2007. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

Scope of the review

We have performed our limited review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Reporting Performed by the Independent Auditor of the Entity." A limited review of interim financial statements consists of making inquiries, primarily of personnel responsible for financial and accounting matters, and applying analytical and other review procedures. A limited review is substantially less in scope than an audit carried out in accordance with regulations on the auditing of accounts in force 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

Base on our limited review, which under no circumstances can be considered an audit of accounts, no matter come to our attention which would lead us to conclude that the accompanying interim financial statements for the six-month period ended June 30, 2018 have not been prepared, in all significant respects, in accordance with the requirements established in International Accounting Standard (IAS) 34, "Interim Financial Reporting," as adopted by the European Union in conformity with article 12 of Royal Decree 1362/2007 for the preparation of interim condensed financial statements.

Emphasis paragraph

We draw attention to the matter described in accompanying explanatory Note 3, which indicates that the above-mentioned accompanying interim financial statements do not include all the information that would be required for completed consolidated financial statements prepared in accordance with International Financial Reporting Standards, as adopted by the European Union. Therefore, the accompanying interim financial statements should be read in conjunction with Naturgy Energy Group, S.A. and its Subsidiaries consolidated financial statements (previously named Gas Natural SDG, S.A. and subsidiaries) for the year ended December 31, 2017. This does not modify our conclusion.

Report on other legal and regulatory requirements

The accompanying consolidated interim management report for the six-month period ended June 30, 2018 contains such explanations as the parent's Company Directors consider appropriate concerning significant events which occurred during this period and their effect on these interim financial statements, of which it is not an integral part, as well as on the information required in conformity with article 15 of Royal Decree 1362/2007. We have checked that the accounting information included in the abovementioned report agrees with the interim financial statements for the six-month period ended June 30, 2018. Our work is limited to verifying the consolidated interim management report in accordance with the scope described in this paragraph, and does not include the review of information other than that obtained from the accounting records of Naturgy Energy Group S.A. and its Subsidiaries.

Paragraph on other issues

This report has been prepared at the request of the parent's Company Management with regard to the publication of the half yearly financial report required by article 119 of Royal Legislative Decree 4/2015, of October 23, approving the consolidated text of the Securities Market Law enacted by Royal Decree 1362/2007.

ERNST & YOUNG, S.L.

(Signed on the original in Spanish)

Alfredo Equiagaray

July 25, 2018

Report on Limited Review

Naturgy Energy Group, S.A.
Interim Condensed Individual Financial Statements
and Interim Management Report
for the six-month period ended
June 30, 2018

Translation of a report and financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails

REPORT ON LIMITED REVIEW OF THE INTERIM CONDENSED INDIVIDUAL FINANCIAL STATEMENTS

To the Shareholders of Naturgy Energy Group S.A.
at the request of the Management

Report on the interim condensed individual financial statements

Introduction

We have carried out a limited review of the accompanying condensed individual interim financial statements (hereinafter the interim financial statements) of Naturgy Energy Group S.A. (hereinafter the Company), which comprise the balance sheet at June 30, 2018, the income statement, the statement of changes in equity, the statement of cash flows and the explanatory notes, all of which have been condensed, for the six-month period then ended. The Company Directors are responsible for the preparation of said interim financial statements in accordance with the accounting principles and minimum content set out in articles 12 and 13 of Royal Decree 1362/2007 and Circular 1/2008, amended by Circular 5/2015, of the Spanish National Securities Market Commission. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

Scope of review

We have performed our limited review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Reporting Performed by the Independent Auditor of the Entity". A limited review of interim financial information consists of making inquiries, primarily of personnel responsible for financial and accounting matters, and applying analytical and other review procedures. A limited review is substantially less in scope than an audit carried out in accordance with regulations on the auditing of accounts in force 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 under no circumstances can be considered an audit of accounts, no matter come to our attention which would lead us to conclude that the accompanying interim financial statements for the six-month period ended June 30, 2018 have not been prepared, in all significant respects, in accordance with the accounting principles and minimum content set out in articles 12 and 13 of Royal Decree 1362/2007 and Circular 1/2008, amended by Circular 5/2015, of the Spanish National Securities Market Commission, for the preparation of interim condensed financial statements.

Emphasis paragraph

We draw attention to the matter described in accompanying explanatory Note 2, which indicates that the abovementioned accompanying interim financial statements do not include all the information that would be required for completed financial statements prepared in accordance with the applicable financial reporting framework. Therefore, the accompanying interim financial statements should be read in conjunction with the annual account of Naturgy Energy Group, S.A. (previously named Gas Natural SDG, S.A.) for the year ended December 31, 2017 and the condensed consolidated interim financial statements for the six-month period ended June 30, 2018. This does not modify our conclusion.

Report on other legal and regulatory requirements

The accompanying interim management report for the six-month period ended June 30, 2018 contains such explanations as the Company Directors consider appropriate concerning significant events which occurred during this period and their effect on these interim financial statements, of which it is not an integral part, as well as on the information required in conformity with article 15 of Royal Decree 1362/2007. We have checked that the accounting information included in the abovementioned report agrees with the interim financial statements for the six-month period ended June 30, 2018. Our work is limited to verifying the individual interim management report in accordance with the scope described in this paragraph, and does not include the review of information other than that obtained from the accounting records of Naturgy Energy Group, S.A.

Paragraph on other issues

This report has been prepared at the request of the Company Management with regard to the publication of the half yearly financial report required by Article 119 of Royal Legislative Decree 4/2015, of October 23, approving the consolidated text of the Securities Market Law enacted by the Royal Decree 1362/2007.

ERNST & YOUNG, S.L.

(Signed on the original in Spanish)

Alfredo Eguiagaray

July 25, 2018