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AUDIT REPORT ON CONSOLIDATED FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

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

To the Shareholders of
NATURGY ENERGY GROUP, S.A.:

Audit report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Naturgy Energy Group, S.A. (the Parent) and its subsidiaries (the Group), which comprise the consolidated balance sheet at December 31, 2020, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement, and the notes thereto, for the year then ended.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of consolidated equity and consolidated financial position of the Group at December 31, 2020, and of its financial performance and its consolidated cash flows, for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS-EU), and other provisions in the regulatory framework applicable in Spain.

Basis for Opinion

We conducted our audit in accordance with prevailing audit regulations in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the consolidated financial statements in Spain as required by prevailing audit regulations. In this regard, we have not provided non-audit services nor have any situations or circumstances arisen that might have compromised our mandatory independence in a manner prohibited by the aforementioned requirements.

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

Key audit matters

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

Commitments for the purchase of natural gas

Description

As indicated in Notes 2.4.8.3 and 36 to the accompanying consolidated financial statements, the Group has taken long-term contractual commitments for the purchase of natural gas. In accordance with usual practices in the gas industry, said contracts can be signed for a maximum period of 20 to 25 years, and establish a minimum amount of gas to be purchased (take or pay clauses whereby the buyer assumes the obligation to pay the amount of natural gas contracted regardless of whether they receive it or not) and price review mechanisms linked to international prices of natural gas and prices of natural gas in the countries of destination.

These agreements are executed and kept to meet the needs for receiving or delivering the natural gas expected by the Group in accordance with periodical purchase and sale estimates. Consequently, the Group classifies these contracts as for ‘own use’, and they are thus excluded from the scope of IFRS 9 ‘Financial instruments’. The natural gas purchase commitments under these contracts amount to 53,650 million euros at December 31, 2020 (Note 36).

The assessment of the long-term natural gas procurement contracts requires Group Management to exercise critical judgment regarding the short-, mid- and long-term demand and supply estimates and compliance with the clauses included in the contracts, in order to determine their classification as own-use contracts. Consequently, we consider this area a key audit matter.

Our response

Our audit procedures for this area consisted, among others, in:

- Understanding the accounting procedures and criteria applied by the Group regarding future procurement contracts.
- Reading and analyzing a significant sample of the natural gas procurement contracts signed by the Group.
- Analyzing, by involving our financial instruments specialists, whether the reviewed gas purchase and sale agreements meet the own-use definition by verifying the requirements established for such classification in the applicable regulatory framework for financial reporting.
- Evaluating the amounts acquired during the year and checking that the minimum contractual amounts are met.
- Analyzing provisions and contingencies linked to price review arbitration proceedings, through meetings to understand and validate the ongoing arbitration proceedings, reading the corresponding contracts and obtaining the litigation confirmation letter from the Group’s legal services.
- Reviewing the information related to the gas purchase agreements disclosed in the consolidated financial statements for the year in accordance with the regulatory framework for financial reporting.

Revenue recognition: Sale of unbilled energy

Description

As detailed in Note 10 to the accompanying consolidated financial statements, at 2020 year end, the Group has recorded in the 'Trade and other receivables' heading of the consolidated balance sheet 1,002 million euros corresponding to sales of energy that has been supplied but not yet billed because the usual meter reading period does not coincide with the closing of the consolidated financial statements for the year. The measurement of these unbilled sales is based on complex estimates that require Group Management to apply certain criteria, judgments and assumptions.

The main estimates on which Group Management apply criteria, judgments and assumptions to determine these unbilled sales are the daily consumption derived from seasonally adjusted historical customer profiles and other measurable factors affecting consumption. The information regarding the Group's revenue recognition criterion is detailed in Note 2.4.24.g) to the accompanying consolidated financial statements. Due to the foregoing, we consider this area a key audit matter.

Our response

Our audit procedures for this area consisted, among others, in:

- Understanding the criteria and procedures applied by the Group for estimating unbilled sales, also verifying the effectiveness of the relevant controls associated with the revenue recognition process for unbilled energy supplied.
- Analyzing the Group's energy balances in physical units, by checking the correlation between the consumption in the year and sales in the same period (which include estimated unbilled energy). Additionally, verifying the reasonableness of the assumptions applied (consumption and prices) in the estimate of unbilled sales made by the Group.
- Performing substantive analytical procedures on the historical evolution of billing pending issue and the reasonableness of the sales volumes and margins of the year.

Assessment of the recovery of the book value of certain Group assets

Description

As detailed in Notes 5 and 6 to the accompanying consolidated financial statements, the Group shows intangible assets and property, plant and equipment amounting to 5,575 million euros and 16,128 million euros, respectively.

Additionally, as indicated in Note 8 to the accompanying consolidated financial statements, the Group has an investment in Unión Fenosa Gas, S.A. accounted for using the equity method, the net carrying amount of which at year end is 262 million euros.

These assets are allocated to the cash generating units (CGUs) as indicated in Note 2.4.6 to the accompanying consolidated financial statements.

Additionally, as detailed in Note 9 to the accompanying consolidated financial statements, the Group holds 85.4% of the share capital of Electrificadora del Caribe, S.A. ESP (Electricaribe), which carries out the electricity distribution business in Colombia, whose net carrying amount at year end is the best estimate of its fair value and amounts to 25 million euros.

The recoverability of the book value of the indicated assets has been determined based on the present value of the future cash flows generated by the CGUs or, where appropriate, the best estimate of their recoverable amount. Cash flows are calculated based on projections made by Management, which correspond to the best prospective information available. The key assumptions about these cash flows are included in Note 2.4.6 to the accompanying consolidated financial statements. Additionally, Management have made a sensitivity analysis of the key assumptions that, based on historical experience, may reasonably experience some variations.

As a result of the aforementioned analyses, impairment losses and write-downs on net assets have been recorded in the 2020 consolidated income statement for an amount of 1,363 million euros, as indicated in Notes 5 and 6 to the accompanying consolidated financial statements.

We have considered this area a key audit matter due to the significance of the amounts involved and the existence of significant estimates of the key assumptions used in the calculations made by Management for assessing the recoverability of the assets' value.

Our response

Our audit procedures for this area consisted, among others, in:

- Understanding the processes established by Group Management for the determination of the impairment of the assets, including the assessment of the design and implementation of relevant controls.
- Analyzing the reasonableness of the allocation of the assets to the several cash generating units (CGUs).
- Reviewing the model used by Group Management, in collaboration with our valuation specialists, covering, in particular, the mathematical consistency of the model, the reasonableness of projected cash flows, discount rates and long-term growth rates, and the results of the sensitivity analyses made by Group Management. In the performance of our review we held meetings with the people in charge of the businesses and used renowned external sources and other available information to verify the data used by Group Management.
- Reviewing the information disclosed in the notes to the consolidated financial statements in accordance with the applicable regulatory framework for financial reporting.

Other information: consolidated management report

Other information refers exclusively to the 2020 consolidated management report, the preparation of which is the responsibility of the parent company's directors and is not an integral part of the consolidated financial statements.

Our audit opinion on the consolidated financial statements does not cover the consolidated management report. Our responsibility for the consolidated management report, in conformity with prevailing audit regulations in Spain, entails:

a. Checking only that the consolidated non-financial information statement and certain information included in the Corporate Governance Report, to which the Audit Law refers, was provided as stipulated by applicable regulations and, if not, disclose this fact.

b. Assessing and reporting on the consistency of the remaining information included in the consolidated management report with the consolidated financial statements, based on the knowledge of the Group obtained during the audit, in addition to evaluating and reporting on whether the content and presentation of this part of the consolidated management report are in conformity with applicable regulations. If, based on the work we have performed, we conclude that there are material misstatements, we are required to disclose this fact.

Based on the work performed, as described above, we have verified that the information referred to in paragraph a) above is provided as stipulated by applicable regulations and that the remaining information contained in the consolidated management report is consistent with that provided in the 2020 consolidated financial statements and its content and presentation are in conformity with applicable regulations.

Responsibility of the Parent Company's Directors and the audit committee for the consolidated financial statements

The directors of the Parent Company are responsible for the preparation of the accompanying consolidated financial statements so that they give a true and fair view of the consolidated equity, financial position and results of the Group, in accordance with IFRS-EU, and other provisions in the regulatory framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The audit committee of the Parent Company is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

As part of an audit in accordance with prevailing audit regulations in Spain, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent Company's directors.

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

We also provide the audit committee of the Parent Company with a statement that we have complied with relevant ethical requirements, including those related to independence, and communicate to them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee of the Parent Company, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

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

Report on other legal and regulatory requirements

European single electronic format

We have examined the digital files of the European single electronic format (ESEF) of Naturgy Energy Group, S.A. and subsidiaries for the 2020 financial year, which include the XHTML file containing the consolidated financial statements for the year, and the XBRL files as labeled by the entity, which will form part of the annual financial report.

The directors of Naturgy Energy Group, S.A. are responsible for submitting the annual financial report for the 2020 financial year, in accordance with the formatting and mark-up requirements set out in Delegated Regulation EU 2019/815 of 17 December 2018 of the European Commission (hereinafter referred to as the ESEF Regulation).

Our responsibility consists of examining the digital files prepared by the directors of the parent company, in accordance with prevailing audit regulations in Spain. These standards require that we plan and perform our audit procedures to obtain reasonable assurance about whether the contents of the consolidated financial statements included in the aforementioned digital files correspond in their entirety to those of the consolidated financial statements that we have audited, and whether the consolidated financial statements and the aforementioned files have been formatted and marked up, in all material respects, in accordance with the ESEF Regulation.

In our opinion, the digital files examined correspond in their entirety to the audited consolidated financial statements, which are presented and have been marked up, in all material respects, in accordance with the ESEF Regulation.

Additional report to the audit committee of the Parent Company

The opinion expressed in this audit report is consistent with the additional report we issued to the audit committee on February 3, 2021.

Term of engagement

The ordinary general shareholders' meeting held on April 20, 2017 appointed us as Group auditors for 3 years, commencing on December 31, 2018.

ERNST & YOUNG, S.L.
(Registered in the Official Register of Auditors under No. S0530)

(Signature on the original in Spanish)

José Agustín Rico Horcajo
(Registered in the Official Register of Auditors under No. 21920)

February 3, 2021

Naturgy
Annual Report 2020

CONSOLIDATED ANNUAL ACCOUNTS

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This 2020 Annual Report is a translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish language version prevails.

Naturgy
Consolidated Balance Sheet (million euro)

	Note	31.12.2020	31.12.2019
ASSETS			
Intangible assets	5	5,575	7,713
Goodwill		2,892	3,202
Other intangible assets		2,683	4,511
Property, plant and equipment	6	16,128	19,647
Right-of-use assets	7	1,388	1,416
Investments recorded using the equity method	8	813	731
Non-current financial assets	9	361	738
Other non-current assets	10	691	581
Deferred tax assets	21	1,635	1,525
NON-CURRENT ASSETS		**26,591**	**32,351**
Non-current assets held for sale	11	4,835	73
Inventories	12	519	796
Trade and other receivables	10	3,115	4,900
Trade receivables for sales and services		2,688	3,911
Other receivables		390	708
Current tax assets		37	281
Other current financial assets	9	558	333
Cash and cash equivalents	13	3,927	2,685
CURRENT ASSETS		**12,954**	**8,787**
TOTAL ASSETS		**39,545**	**41,138**
EQUITY AND LIABILITIES			
Capital		970	984
Share premium		3,808	3,808
Treasury shares		(201)	(321)
Reserves		6,480	6,687
Profit for the period attributed to the parent company		(347)	1,401
Interim dividend		(785)	(754)
Other equity items		(1,897)	(1,254)
Equity attributed to the parent company		**8,028**	**10,551**
Non-controlling interests		**3,237**	**3,425**
EQUITY	**14**	**11,265**	**13,976**
Deferred income	15	871	898
Non-current provisions	16	1,052	1,169
Non-current financial liabilities	17	14,968	15,701
Borrowings		13,641	14,252
Lease liabilities		1,325	1,446
Other financial liabilities		2	3
Deferred tax liabilities	21	1,793	2,249
Other non-current liabilities	19	346	492
NON-CURRENT LIABILITIES		**19,030**	**20,509**
Liabilities related to non-current assets held for sale	11	2,840	46
Current provisions	16	246	291
Current financial liabilities	17	2,571	2,286
Borrowings		2,357	2,081
Lease liabilities		212	198
Other financial liabilities		2	7
Trade and other payables	20	3,230	3,744
Trade payables		2,518	3,118
Other payables		530	593
Current tax liabilities		182	33
Other current liabilities	19	363	286
CURRENT LIABILITIES		**9,250**	**6,653**
TOTAL EQUITY AND LIABILITIES		**39,545**	**41,138**

The accompanying Notes 1 to 39 and Appendices are an integral part of the consolidated balance sheet at 31 December 2020 and 2019.

Naturgy

Consolidated Income Statement (million euro)

	Note	2020	2019 (1)
Revenue	22	15,345	20,761
Raw materials and consumables	23	(10,138)	(14,604)
Other operating income	24	162	146
Personnel expenses	25	(798)	(807)
Other operating expenses	26	(1,180)	(1,310)
Gain/(loss) on disposals of fixed assets	27	9	20
Release of fixed asset grants to income and other	15	49	46
GROSS OPERATING RESULTS		**3,449**	**4,252**
Depreciation/amortisation and impairment losses	4, 5, 6, 7, 12 y 28	(2,839)	(1,534)
Impairment due to credit losses	10	(156)	(109)
Other results	29	12	25
OPERATING PROFIT/(LOSS)		**466**	**2,634**
Financial income		96	75
Financial expenses		(622)	(750)
Variations in fair value of financial instruments		(4)	89
Net exchange differences		(8)	1
NET FINANCIAL INCOME	**30**	**(538)**	**(585)**
Profit/(loss) of entities recorded by equity method	8	36	75
PROFIT/(LOSS) BEFORE TAXES		**(36)**	**2,124**
Corporate income tax	21	(19)	(426)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		**(55)**	**1,698**
Profit for the year from discontinued operations, net of taxes	11	24	98
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR		**(31)**	**1,796**
Attributable to:			
The parent company		(347)	1,401
From continuing operations		(365)	1,313
From discontinued operations		18	88
Non-controlling interests	14	316	395
Basic and diluted earnings per share in euros from continuing operations attributable to the equity holders of the parent company		(0.38)	1.34
Basic and diluted earnings per share in euros from discontinued operations attributable to the equity holders of the parent company		0.02	0.09
Basic and diluted earnings per share in euros attributable to the equity holders of the parent company		(0.36)	1.43

(1) The 2019 consolidated income statement has been restated, reclassifying to discontinued operations in accordance with IFRS 5 (Notes 2.2 and 11).

The accompanying Notes 1 to 39 and Appendices are an integral part of the consolidated income statement for the years ended 31 December *2020 and 2019.*

Naturgy
Consolidated Statement of Comprehensive Income

	Note	2020	2019
		(million euro)	
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR		**(31)**	**1,796**
OTHER COMPREHENSIVE INCOME RECOGNISED DIRECTLY IN EQUITY			
Items that will not be transferred to profit/(loss):		**2**	**(313)**
Financial assets at fair value through other comprehensive income	9	(3)	(225)
Actuarial gains and losses and other adjustments	16	6	(112)
Tax effect of actuarial gains and losses and other adjustments	21	(1)	24
Items that will subsequently be transferred to profit/(loss):		(756)	178
Cash flow hedges	21	(168)	321
Gains / (Losses) per valuation		271	348
Releases to income statement		(439)	(27)
Currency translation differences		(540)	(123)
Gains / (Losses) per valuation		(540)	(158)
Releases to income statement		**0**	**35**
Equity-consolidated companies		**(46)**	**15**
Currency translation differences	8	(46)	15
Tax effect cash flow hedges		(2)	(35)
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**(754)**	**(135)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(785)**	**1,661**
Attributable to:			
The parent company		**(987)**	**1,309**
From continuing operations		(947)	1,314
From discontinued operations		(40)	(44)
Non-controlling interests		202	352

The accompanying Notes 1 to 39 and Appendices are an integral part of the consolidated statement of comprehensive income for the years ended 31 December 2020 and 2019.

Naturgy

Statement of Changes in Consolidated Equity

(million euro)

	Equity attributed to the parent company (Nota 14)											
	Share capital	**Share premium**	**Treasury shares**	**Reserves and retained earnings**	**Profit/(loss) for the year**	Currency translation differences	Cash flow hedges	Financial assets at fair value	**Other equity items**	**Subtotal**	**Non-controlling interests (Note 14)**	**Equity**
Balance at 01.01.2019	**1,001**	**3,808**	**(325)**	**10,560**	**(2,822)**	**(1,061)**	**9**	**(222)**	**(1,274)**	**10,948**	**3,647**	**14,595**
Total comprehensive income for the year	—	—	—	(85)	1,401	(77)	295	(225)	(7)	**1,309**	352	**1,661**
Operations with shareholders or owners	**(17)**	**—**	**4**	**(4,546)**	**2,822**	**27**	**—**	**—**	**27**	**(1,710)**	**(511)**	**(2,221)**
Dividend distribution	—	—	—	(4,141)	2,822	—	—	—	—	**(1,319)**	(576)	**(1,895)**
Capital reduction	(17)	—	400	(383)	—	—	—	—	—	**—**	—	**—**
Trading in treasury shares	—	—	(396)	—	—	—	—	—	—	**(396)**	(4)	**(400)**
Share-based payments	—	—	—	5	—	—	—	—	—	**5**	—	**5**
Other transactions with shareholders or owners	—	—	—	(27)	—	27		—	27	**—**	69	**69**
Other changes in equity	**—**	**—**	**—**	**4**	**—**	**—**	**—**	**—**	**—**	**4**	**(63)**	**(59)**
Other changes	—	—	—	4	—	—	—	—	—	4	(63)	**(59)**
Balance at 31.12.2019	**984**	**3,808**	**(321)**	**5,933**	**1,401**	**(1,111)**	**304**	**(447)**	**(1,254)**	**10,551**	**3,425**	**13,976**
Total comprehensive income for the year	—	—	—	3	(347)	(450)	(190)	(3)	(643)	**(987)**	202	**(785)**
Operations with shareholders or owners	**(14)**	**—**	**120**	**(248)**	**(1,401)**	**—**	**—**	**—**	**—**	**(1,543)**	**(340)**	**(1,883)**
Dividend distribution	**—**	—	—	31	(1,401)	—	—	—	—	**(1,370)**	(340)	**(1,710)**
Capital reduction	(14)	—	298	(284)	—	—	—	—	—	**—**	—	**—**
Trading in treasury shares	—	—	(178)	—	—	—	—	—	—	**(178)**	—	**(178)**
Share-based payments	**—**	—	—	5	—	—	—	—	—	**5**	**—**	**5**
Other transactions with shareholders or owners	**—**	—	—		—			—	—	—	—	**—**
Other changes in equity	**—**	**—**	**—**	**7**	**—**	**—**	**—**	**—**	**—**	**7**	**(50)**	**(43)**
Other changes	—	—	—	7	—	—	—	—	—	7	(50)	**(43)**
Balance at 31.12.2020	**970**	**3,808**	**(201)**	**5,695**	**(347)**	**(1,561)**	**114**	**(450)**	**(1,897)**	**8,028**	**3,237**	**11,265**

The accompanying Notes 1 to 39 and Appendices are an integral part of the statement of changes in equity for the years ended 31 December 2020 and 2019.

Naturgy
Consolidated cash flow statement

	Note	2020	2019
			(million euro)
Profit/(loss) before tax		**(36)**	**2,124**
Adjustments to income:	31	**3,345**	**2,188**
Depreciation/amortisation and impairment losses	Note 5, 6, 7, 12 and 28	2,839	1,658
Other adjustments to net profit	31	506	530
Changes in working capital	31	**788**	**545**
Other cash flow generated from operations:	31	**(665)**	**(836)**
Interest paid		(562)	(646)
Interest collected		27	33
Dividends collected		84	170
Income tax paid		(214)	(393)
CASH FLOW GENERATED FROM OPERATING ACTIVITIES (1)		**3,432**	**4,021**
Cash flows into investing activities:		**(1,553)**	**(1,888)**
Group companies, associates and business units	31	(4)	(10)
Property, plant and equipment and intangible assets		(1,474)	(1,849)
Other financial assets		(75)	(29)
Proceeds from divestitures:		**360**	**354**
Group companies, associates and business units	31	263	234
Property, plant and equipment and intangible assets		27	95
Other financial assets		70	25
Other cash flows from investing activities:		**51**	**78**
Other proceeds from investing activities	15	51	78
CASH FLOWS FROM INVESTING ACTIVITIES (1)		**(1,142)**	**(1,456)**
Receipts/(payments) on equity instruments:		**(171)**	**(405)**
Issue/disposal	31		—
Acquisition	31	(171)	(405)
Receipts and payments on financial liability instruments:		**1,633**	**728**
Issue	31	4,816	8,251
Repayment and amortisation	31	(3,183)	(7,523)
Dividends paid (and remuneration on other equity instruments)	14	**(1,802)**	**(1,901)**
Other cash flows from financing activities		**(48)**	**(21)**
CASH FLOW GENERATED FROM FINANCING ACTIVITIES (1)		**(388)**	**(1,599)**
Other changes in cash and cash equivalents	31	**(525)**	**13**
Effect of fluctuations in exchange rates		**(135)**	**(10)**
VARIATION IN CASH AND CASH EQUIVALENTS		**1,242**	**969**
Cash and cash equivalents at beginning of the year	13	2,685	1,716
Cash and cash equivalents at year end	13	3,927	2,685

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

The accompanying Notes 1 to 39 and Appendices are an integral part of the consolidated cash flow statement for the years ended 31 December 2020 and 2019.

<u>Contents of the notes to the consolidated annual accounts for 2020</u>

Notes to the consolidated annual accounts of Naturgy for 2020

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, in general meeting, agreed to change the company's business name to Naturgy Energy Group, S.A., formerly Gas Natural SDG, S.A.

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

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

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

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

Note 3 includes financial information by operating segment.

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

Note 2. Basis of presentation and accounting policies

2.1. Basis of presentation

The consolidated annual accounts of Naturgy Energy Group, S.A. for 2019 were approved by the shareholders at a general meeting held on 26 May 2020.

The consolidated annual accounts for 2020, which were drawn up and signed by the Board of Directors of Naturgy Energy Group, S.A. on 2 February 2021, will be submitted, along with those of the investee companies, to the approval of the respective General Meetings. It is expected that they will be adopted without any change.

The consolidated annual accounts of Naturgy for 2020, have been prepared on the basis of the accounting records of Naturgy Energy Group, S.A. and the other companies in the Group, in accordance with the provisions of International Financial Reporting Standards adopted by the European Union (hereinafter "IFRS-EU"), as per (EC) Regulation 1606/2002 of the European Parliament and of the Council.

In the preparation of these consolidated annual accounts the historical cost method has been used, although modified by the criteria for the recognition at fair value of financial assets measured at fair value through profit or loss and through other comprehensive income, derivative financial instruments, business combinations, the application of inflation to historical asset costs in economies considered hyperinflationary and defined benefit pension plans.

These consolidated annual accounts fairly present the consolidated equity and consolidated financial situation of Naturgy at 31December 2020, and the consolidated results of its operations, the changes in the consolidated statement of comprehensive income, changes in consolidated equity and the consolidated cash flows of Naturgy for the year then ended.

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

2.2. New IFRS-EU and IFRIC interpretations

Standards that came into force on 1 January 2020

As a result of their approval, publication and entry into force on 1 January 2020, the following standards, interpretations and amendments adopted by the European Union have been applied:

Standards adopted by the European Union		**Entry into force for annual periods commencing**
IAS 1 and IAS 8 (amendment) Definition of "materiality"	New definition of materiality, to ensure consistency among all the standards.	1 January 2020
References to the IFRS Conceptual Framework (Amendment)	To ensure that the standards are consistent, include a new chapter on valuations, improve definitions and guidelines, and clarify areas such as prudence and the assessment of uncertainty.	1 January 2020
IFRS 3 “Business combinations” (amendment)	New definition of 'business'.	1 January 2020
IFRS 9, IAS 39 and IFRS 7 (Amendment) Interest Rate Benchmark Reform	Changes certain specific hedge accounting requirements to mitigate the possible effects of the uncertainty caused by the IBOR reform.	1 January 2020
IFRS 16 (amendment) COVID-19 related rent concessions	To enable lessees to recognise any changes in lease agreements arising as a result of the COVID-19 pandemic.	1 January 2020 (from 1 January 2020)

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

In connection with the transition under the IBOR reform, Naturgy has commenced a review of its exposure by identifying the products and contracts where there is a potential impact and monitoring regulatory developments and their potential implications for accounting systems and records. On the basis of the amendments to IFRS 9, IAS 39 and IFRS 7 published by the IAS in September 2019, Naturgy availed itself of the temporary exceptions for the application of hedges directly affected by the Interest Rate Benchmark Reform.

Standards that will enter force on or after 1 January 2021

The standards, amendments and interpretations that will come into force for annual periods commencing on or after 1 January 2021 are described below.

Standards adopted by the European Union		**Entry into force for annual periods commencing**
IFRS 4 Insurance contracts (amendment)	Overcomes the temporary accounting consequences of the different dates of entry into force of IFRS 9 Financial Instruments and the forthcoming IFRS 17 Insurance Contracts.	1 January 2021
Standards issued by the IASB and yet to be adopted by the European Union		**Entry into force for annual periods commencing**
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (amendments) Interest Rate Benchmark Reform	Assists entities in providing useful information about the transition to alternative benchmark rates.	1 January 2021
IFRS 3, IAS 16, IAS 37, Annual improvements cycle 2018-2020 (amendments)	A number of amendments.	1 January 2022
IFRS 17 “Insurance contracts”	New standard that replaces IFRS 4.	1 January 2023
IAS 1 Presentation of Financial Statements (amendment)	Classification of liabilities as current and non-current.	1 January 2023

None of these standards or amendments has been applied early.

In 2019, the entry into force of IFRS 16 and IFRIC 23 generated the following impacts:

IFRS 16 - “Leases”

IFRS 16 "Leases" replaced IAS 17, IFRIC 4, SIC-15 and SIC-27 and established the principles for the accounting recognition of all leases under a single balance sheet model. IFRS 16 entered force on 1 January 2019 and was not adopted early.

Naturgy chose to apply the modified retrospective approach, on the basis of which no comparative figures from previous years were restated and the impacts were recognised as of 1 January 2019.

IFRS 16 provides that lessees must recognise a financial liability on the consolidated balance sheet for the present value of the payments to be made over the remaining term of the lease and a right-of-use asset for the right to use the underlying asset, which is valued based on the amount of the associated liability plus the initial direct costs incurred. In addition, there is a change in the policy for recognising the lease expense, which is recognised as an amortisation charge for the asset and a financial expense due to discounting the lease liability. The accounting approach for lessors does not vary materially and leases must continue to be classified as operating or finance leases depending on the degree of material transfer of the risks and rewards inherent to ownership.

Naturgy applied the following policies, estimates and criteria:

– The exemption from the recognition of leases in which the underlying asset is of low value (less than USD 5,000) or the lease term is short (less than or equal to 12 months) was applied.

– The practical expedient allowed in IFRS 16(C3) was applied, which stipulates that it is not necessary to reassess whether a contract is, or contains, a lease at the date of initial application.

– It was decided not to separately record non-lease and lease components for those asset classes in which these components are not material with respect to the total value of the lease.

– For transition purposes, it was decided to apply the modified retrospective approach, on the basis of which no comparative figures from previous years were restated.

– It was decided to measure the initial right-of-use asset for an amount equivalent to the lease liability as of 1 January 2019 for all lease contracts.

– An incremental effective interest rate was applied with respect to portfolios that are homogeneous in terms of lease, country and contract term. The weighted average incremental borrowing rate at the date of initial application was 2.6% in Spain and 8.7% in Latin America.

– To determine the term of the leases as the non-cancellable period, the initial term of each contract was considered unless Naturgy has a unilateral right to extend or terminate and there is reasonable certainty that this option will be exercised, in which case the corresponding extension term or early termination date will be taken into account.

The impacts derived from the initial application of IFRS 16 as of 1 January 2019 are as follows:

a. Recognition of new assets under the heading "Right-of-use assets" (non-current assets) in the amount of Euros 324 million and new financial liabilities under "Financial liabilities for non-current and current leases" of Euros 257 million and Euros 67 million, respectively. These basically relate to leases on offices, gas tankers, vehicles and land for energy use where generation plants, mainly wind and photovoltaic facilities, are located.

b. With respect to finance leases pre-dating the date of first application that related to gas carrier charters, the accounting treatment remained unchanged in comparison with IAS 17. However, the carrying amount of Euros 1,134 million for finance leases recognised under Property, plant and equipment was reclassified to a new heading, "Right-of-use assets", and the finance lease liabilities, which were formerly recognised under "Other current and non-current liabilities", were reclassified to "Current and non-current financial liabilities" for Euros 1,186 million and Euros 132 million, respectively.

The impact of the adoption of IFRS 16 on the consolidated balance sheet as at 1 January 2019 was as follows:

Consolidated balance sheet (Euros million)

	1/1/2019	IFRS 16	1.1.2019 IFRS 16
ASSETS			
Intangible assets	7,845	—	7,845
Property, plant and equipment	20,707	(1,134)	19,573
Right-of-use assets	—	1,458	1,458
Investments recorded using the equity method	816	—	816
Non-current financial assets	910	—	910
Other non-current assets	334	—	334
Deferred tax assets	1,689	—	1,689
NON-CURRENT ASSETS	**32,301**	**324**	**32,625**
CURRENT ASSETS	**8,330**	**—**	**8,330**
TOTAL ASSETS	**40,631**	**324**	**40,955**
EQUITY AND LIABILITIES			
Equity attributed to the parent company	10,948	—	10,948
Non-controlling interests	3,647	—	3,647
EQUITY	**14,595**	**—**	**14,595**
Deferred income	863	—	863
Non-current provisions	1,125	—	1,125
Non-current financial liabilities	13,352	—	13,352
Deferred tax liabilities	2,149	1,443	3,592
Other non-current liabilities	1,540	(1,186)	354
NON-CURRENT LIABILITIES	**19,029**	**257**	**19,286**
Liabilities related to non-current assets held for sale	93	—	93
Current provisions	297	—	297
Current financial liabilities	2,079	199	2,278
Trade and other payables	4,067	—	4,067
Other current liabilities	471	(132)	339
CURRENT LIABILITIES	**7,007**	**67**	**7,074**
TOTAL EQUITY AND LIABILITIES	**40,631**	**324**	**40,955**

IFRIC 23 - "Uncertainty in the treatment of income taxes”

IFRIC 23 "Uncertainty in the treatment of income taxes" clarifies how to apply the recognition and measurement requirements of IAS 12 "Income taxes" when there is uncertainty as to the treatment of income taxes. In this situation, an entity reflects the effect of uncertainty when determining taxable earnings, tax bases, unused tax losses, unused tax credits and tax rates.

Naturgy analysed the uncertainties regarding tax treatments and the application of this interpretation did not have a material impact on the consolidated annual accounts, apart from their classification (Notes 16 and 21).

2.3. Comparability

As a result of commencing the process that will foreseeably lead to the liquidation of Naturgy Peru and whereby Naturgy finally reached an agreement with the Peruvian State in which both parties agreed to terminate the concession and the Peruvian State assumed operation of the concession from 18 December 2020, which will foreseeably result in the liquidation of Naturgy Peru, as well as of the cessation of electricity generation by coal-fired plants in Spain, and of the agreement to sell distribution subsidiaries in Chile, all of which are described in Note 11 "Non-current assets and disposal groups of assets held for sale and discontinued operations”, the 2019 consolidated income statement was restated for purposes of comparability, in compliance with IFRS 5.

The effects of the restatement on the consolidated income statement for year 2019 are as follows:

Consolidated income statement 2019

	2019	IFRS 5 impact	Total
Revenue	23,035	(2,274)	20,761
Raw materials and consumables	(16,311)	1,707	(14,604)
Other operating income	164	(18)	146
Personnel expenses	(924)	117	(807)
Other operating expenses	(1,476)	166	(1,310)
Profit/(loss) on disposals of fixed assets	28	(8)	20
Release of fixed asset grants to income and other	46	—	46
GROSS OPERATING RESULTS	**4,562**	**(310)**	**4,252**
Depreciation, amortisation and fixed-asset impairment losses	(1,658)	124	(1,534)
Impairment due to credit losses	(134)	25	(109)
Other results	93	(68)	25
OPERATING PROFIT/(LOSS)	**2,863**	**(229)**	**2,634**
NET FINANCIAL INCOME/(EXPENSE)	(666)	81	(585)
Profit/(loss) of companies measured under the equity method	75	—	75
PROFIT/(LOSS) BEFORE TAXES	**2,272**	**(148)**	**2,124**
Corporate income tax	(476)	50	(426)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**1,796**	**(98)**	**1,698**
Profit for the year from discontinued operations, net of taxes	—	98	98
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR	**1,796**	**—**	**1,796**
The parent company	1,401	—	1,401
Non-controlling interests	395	—	395

2.4. Accounting policies

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

2.4.1. Consolidation

a. Subsidiaries

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

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

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

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

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

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

Identifiable assets acquired and liabilities or contingent liabilities incurred or assumed as a result of the transaction are initially stated at acquisition date fair value, irrespective of the percentage of the non-controlling interest.

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

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

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

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

The surplus cost of the acquisition in relation to the fair value of Naturgy’s shareholding 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 of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

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

Inter-company transactions, balances and unrealised gains on transactions between Naturgy companies are eliminated in the consolidation process. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the transferred asset.

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

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

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

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

b. Joint arrangements

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

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

Interests in joint operations are proportionately consolidated, while interests in joint ventures are recognised by the equity method.

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

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

Assets and liabilities assigned to joint operations are recorded in the consolidated balance sheet in accordance with their nature and in proportion to Naturgy's percentage interest. Revenues and expenses from joint operations are reflected in the consolidated income statement in accordance with their nature and in proportion to Naturgy's percentage interest.

c. Associates

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

Investments in associates are accounted for under the equity method.

d. Consolidation scope

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

2020

The sale of 47.9% of Ghesa Ingeniería y Tecnología, S.A. was completed on 20 January 2020 (Note 8).

In March 2020, 25.0% stakes in the companies Lean Corporate Services, S.L., Lean Customer Services, S.L. and Lean Grids Services, S.L. were sold to admit strategic partners that deliver the corresponding services. Those transactions did not result in the loss of control nor did they have a material impact on the annual consolidated accounts. Subsequently, in November, the sale of an additional 60% of this companies and of Naturgy IT, S.L. was announced, which is expected to be completed in the first quarter of 2021.

On 15 October 2019, Naturgy reached an agreement to acquire 34.05% of Medgaz from CEPSA Holding LLC for Euros 445 million through group company Medina Partnership, S.A.U. (Medina) so that, combined with the pre-existing 14.95% holding, Medina attained a 49% stake following that transaction.

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

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

The sale of Iberafrica Power Limited (Note 11) was completed on 3 April 2020, without a material impact on the income statement.

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

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

2019

In April 2019, Naturgy sold its 45% holding in the associate Torre Marenostrum, S.L. to Inmobiliaria Colonial (Note 8).

In May 2019, once the term of the share buyback commitment granted in 2003 to Sinca Inbursa, S.A. de C.V. (Inbursa) relating to 14.125% of Naturgy México, S.A. de C.V. and 14% of Sistemas de Administración, S.A. de C.V. had expired without Inbursa having exercised said right (see Note 14), the reversal of the commitment and the resulting increase in non-controlling interests were recognised.

The swap of the holdings of the Chilean Group company Compañía General de Electricidad, S.A. (CGE) in the Argentinian electricity distribution companies (Empresa de Distribución Eléctrica de Tucumán, S.A., Empresa Jujeña de Energía, S.A. and Empresa Jujeña de Sistemas Energéticos Dispersos, S.A.) for the holdings of Cartellone Energía y Concesiones, S.A. (CECSA) in the Argentinian gas distribution companies (Gasnor, S.A. and Gasmarket, S.A.) was completed in July 2019. Through this transaction the percentage shareholding in the gas distribution companies increased from 50% to 100% and the holdings in the electricity distribution companies were disposed of (Note 11).

In October 2019, Naturgy sold 100% of Empresa de Transmisión Eléctrica Transemel, S.A., an electricity transmission company (Note 11).

2.4.2. Transactions in foreign currency

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

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

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

- Assets and liabilities on each balance sheet are translated at the closing rate on the balance sheet date.
- Revenues and expenses in each income statement are translated at monthly average exchange rates, unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case revenues and expenses are translated at the rate prevailing on the transaction dates.
- All currency translation differences are recognised in the Consolidated Statement of Comprehensive Income, and the accumulated amount under "Currency translation adjustments" in equity.

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

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

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

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

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

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

From 1 January 2018:

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

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

The exchange rates against the euro (EUR) of the main currencies of Naturgy companies at 31 December 2020 and 2019 were as follows:

	31.12.2020		31.12.2019	
	Closing Rate	Average Accumulated Rate (1)	Closing Rate	Average Accumulated Rate (1)
US Dollar (USD)	1.23	1.14	1.12	1.12
Argentinean Peso (ARS)	102.85	102.85	67.27	67.27
Brazilian Real (BRL)	6.37	5.86	4.52	4.41
Chilean Peso (CLP)	868.06	900.34	845.31	786.7
Mexican Peso (MXN)	24.42	24.41	21.22	21.56
Australian Dollar (AUD)	1.59	1.65	1.6	1.61

(1) The closing rate is used in Argentina as it is classified as hyperinflationary.

2.4.2. Intangible assets

a. *Goodwill*

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

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

Impairment of goodwill cannot be reversed.

a. *Concessions under IFRIC 12 and other similar concessions*

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

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

Assets under this heading are amortised on a straight-line basis over the duration of each concession, except in the case of the Maghreb-Europe pipeline, which, until 2020, in order to properly reflect the expected pattern of obtainment of the future economic profits, was based on the value of gas transported over the lifetime of the right of use.

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

a. Computer software

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

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

b. Research expenses

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

c. Customer acquisition costs

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

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

c. Other intangible assets

Other intangible assets mainly include the following:

– The licence costs for renewable generation facilities, mainly acquired as part of a business combination, which are amortised on a straight-line basis over their useful lives.

– Gas supply contracts and other contractual rights purchased as part of a business combination, which are carried at fair value and amortised over the contract term, which does not differ significantly from the expected consumption pattern.

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

2.4.4. Property, plant and equipment

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

a. *Cost*

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

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

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

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

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

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

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

The future costs which Naturgy must meet in relation to the closure of certain facilities are included in the value of the assets at their discounted present value, including the respective provision (Note 2.4.18.).

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

b. Depreciation

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

	Estimated useful life (years)
Buildings	33-50
Gas tankers	25-30
Technical installations (gas transportation and distribution network)	20-40
Technical installations (hydroelectric plants)	14-65
Technical installations (combined cycle gas turbine: CCGT)	35-40
Technical installations (nuclear energy plants)	44-47
Technical installations (wind farms)	25
Technical installations (photovoltaic farms)	25
Technical installations (electricity transmission network)	30-40
Technical installations (electricity distribution network)	18-40
Computer hardware	4
Vehicles	6
Other	3-20

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

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

In December 2020, Naturgy completed technical studies to estimate the useful lives of the combined cycle plants and, in line with the practices adopted by the leading players in the industry, it prospectively modified the useful lives of the combined cycle plants from 35 to 40 years as of 1 December 2020. The effect of this change in the estimated useful lives on the "Depreciation/amortisation and impairment losses" account in the 2020 consolidated income statement was a reduction of depreciation by Euros 1 million. It is also estimated that, from 2021 onwards, this change of useful life will lower annual depreciation by approximately Euros 12 million.

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

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

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

c. Exploration and production operations

Operating costs, excluding drilling costs, are recognised in the income statement as they arise, using the successful efforts method. If, as a result of test drilling, proven reserves are found that justify commercial development, costs are transferred to investments in zones with reserves; otherwise, they are charged to the profit or loss.

Costs of investments in zones with reserves are capitalised and depreciated over the estimated commercial life of the field, based on the relationship between annual production and proven reserves at the start of the depreciation period. The recoverable amount is compared to their carrying amount at year-end or at any time when there is an indication that there may be impairment.

2.4.5. Right-of-use assets

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

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

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

2.4.6. Non-financial asset impairment losses

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

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

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

For those CGUs that required an impairment analysis, the cash flows were based on the best prospective information for the next five years on the basis of regulations and expected market evolution, drawing on available industry forecasts and past experience of price trends and production volumes.

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

The parameters taken into account to determine the growth rates, which represent the long-term growth of each line of business, are in line with the long-term growth of the country, obtained from inflation estimates from a range of sources [analyst consensus (Bloomberg), the International Monetary Fund (IMF), the Economist Intelligence Unit (EIU), central banks, and the European Commission] for the period 2021-2025, and the EIU from 2026 onwards.

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

– Risk-free rate: Based on the sovereign bond for the CGU's market and reference period, as well as studies and other information sources (*Damodaran*, EIU and others).

– Market risk premium: Premium based on surveys and other information source (Pablo Fernández, *Damodaran* and others).

– Unlevered beta: Based on betas estimated for each CGU on the basis of comparables (Bloomberg)

– Local currency interest rate swaps: Swap between 10 and 30 years, depending on the CGU (Bloomberg)

– Equity-debt ratio: Based on industry comparables.

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

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

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

2.4.7. Financial assets and liabilities

Financial assets

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

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

a. Financial assets at amortised cost

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

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

a. Financial assets at fair value through profit or loss

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

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

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

a. Equity instruments at fair value through other comprehensive income

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

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

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

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

– Level 3: Measurements 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. In asset assignments where the risks and rewards of ownership are retained, the financial assets are not written off, and a liability is recognised in the same amount as the payment received.

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

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

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

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

<u>Financial liabilities</u>

a. <u>Financial assets at amortised cost</u>

Borrowings are initially recognised at fair value, net of any transaction costs incurred. Any difference between the amount received and the repayment value is recognised in profit or loss over the repayment period using the effective interest rate method, and the financial liabilities are subsequently classified 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 while maintaining the original effective interest rate, and the resulting difference will be recorded in the income statement on the date of the modification.

The difference between the carrying amount of a derecognised financial liability and the consideration paid is recognised in profit or loss.

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

In addition, trade and other current payables are financial liabilities that fall due in less than twelve months that are recognised initially at fair value, do not accrue explicit interest, and are recognised at their nominal value. Those maturing in more than twelve months are classified as non-current.

b. <u>Financial liabilities at fair value through profit or loss</u>

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

2.4.8. Derivatives and other financial instruments

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

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

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

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

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

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

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

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

For accounting purposes, the transactions are classified as follows:

1. Derivatives eligible for hedge accounting

a. Fair value hedges

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

b. Cash flow hedges

The effective portion of fair value changes in 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 profit or loss.

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

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

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

– The gain or loss relating to the effective portion of interest rate swaps is recognised as a financial expense at the same time as the interest expense in the hedged loans.

– When a hedging instrument covers a planned transaction, the accumulated amounts remain in equity until the planned transaction takes place. If the planned transaction does not take place, the amount accumulated in equity is immediately reclassified to profit or loss.

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

c. Hedges of net foreign investments

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

2. Derivatives that do not qualify for hedge accounting

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

3. Energy purchase and sale agreements

In 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 the buyer receives it or not. These agreements are executed and maintained in order to meet the needs to receive or take physical delivery of energy that are projected by Naturgy in accordance with periodic energy purchase and sale estimates, which are monitored systematically and adjusted in all cases through physical delivery. Consequently, these are contracts for “own use” and, therefore, fall outside the scope of IFRS 9.

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

Naturgy classifies as held for sale all the assets and related liabilities for which active measures have been taken in order to sell them and the sale is expected to take place within the following twelve months.

Additionally, Naturgy classifies 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 material and which can be considered separately from the rest and which have been sold or otherwise disposed of or which meet the conditions to be classified as held-for-sale. Entities acquired solely for resale are also classed as discontinued operations.

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

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

Non-current assets held for sale are presented in the consolidated balance sheet as follows: under a single account called “Non-current assets held for sale” and the liabilities are also carried under a single account called “Liabilities linked to non-current assets held for sale”. The profit or loss from discontinued activities is presented in a single line on the consolidated income statement called “Profit for the year from discontinued operations net of tax”.

2.4.10. Inventories

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

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

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

Emission allowances are stated at the lower of weighted average acquisition price and net realisable value. When the allowances are delivered, they are derecognised against the provision recorded when the CO2 emissions took place (Note 2.4.18).

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

2.4.11. Share capital

Share capital is represented by ordinary shares.

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

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

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

2.4.12. Share-based payments

Share-based payments settled in shares are valued on the basis of the grant date fair value of the equity instruments granted.

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

The amounts recognised in consolidated equity are not subject to subsequent reassessment due to trends in external market conditions.

2.4.12. Earnings per share

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

Diluted earnings per share are calculated as a quotient between consolidated profit for the year attributable to the ordinary equity holders of the company adjusted by the effect attributable to potential ordinary shares with a dilutive effect and the weighted average number of ordinary shares outstanding during this period, adjusted by the weighted average number of ordinary shares that would be issued if all the potential ordinary shares were converted into ordinary shares of the parent company. 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 they were issued during the reporting period.

2.4.14. Borrowings and equity instruments

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

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

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

2.4.15. Preference shares and subordinated perpetual debentures

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

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

– The payment of interest is at the discretion of the issuer.

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

2.4.16. Deferred income

This heading mainly includes:

– Capital grants received, relating basically to agreements with regional governments for the gasification or electrification of municipalities and other investments in gas or electricity infrastructure for which Naturgy has met all the conditions established, are stated at the amount granted. The amounts allocated are recognised in profit or loss systematically over the useful life of the asset concerned, offsetting the amortisation expense.

– Revenue received for the construction of facilities for connecting to the gas or electricity distribution network (connections), which is recognised for the cash amount received, as well as such facilities received under assignment, which are recognised at fair value, since both the cash and the facilities are received in consideration for an ongoing service of providing access to the network during the life of the facilities. As the nature of the performance obligation resulting from contracts with customers includes both the connection service and the continuous network access service, the amounts allocated are recognised in profit or loss systematically over the duration of the contracts, which coincides with the useful lives of the facilities.

2.4.17. Provisions for employee obligations

a. *Post-employment pension obligations and similar*

- Defined contribution plans

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

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

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

- Defined benefit plans

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

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

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

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

b. Other post-employment benefit obligations

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

c. Termination benefits

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

2.4.18. Provisions

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

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

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

Naturgy has the obligation to dismantle certain facilities at the end of their useful life, and to carry out environmental restoration of the sites. To this end, the present value of the cost that these tasks would entail which, in the case of nuclear plants, covers the time until the state-owned corporation ENRESA takes charge of the dismantling and waste management, is recognised under Property, plant and equipment with a balancing entry under provisions for liabilities and charges. This estimate is reviewed annually so that the provision reflects the present value of the future costs by increasing or decreasing the value of the asset. The variation in the provision arising from discounting is recorded against "Financial expenses".

In contracts in which the obligations undertaken include unavoidable costs greater than the economic benefits expected to be received from them, the expenses and respective provisions are recognised in the amount of the present value of the existing difference.

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

2.4.19. Leases

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

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

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

Lessee

In contracts where Naturgy is the lessee, it recognises an asset for the right-of-use and a financial liability for the lease (Notes 2.4.5 and 2.4.20).

Lessor

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

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

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

– *Finance leases*: In its consolidated balance sheet, Naturgy recognises assets held under finance leases as an account receivable for an amount equal to the net investment in the lease, using the implicit interest rate in the lease agreement.

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

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

2.4.20. Lease liabilities

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

Naturgy uses different incremental borrowing rates for homogeneous portfolios of leases, countries and contract terms. The weighted average incremental borrowing rate for 2020 was 2.5% in Spain and 8.2% in Latin America.

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

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

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

2.4.21. Income tax

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

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

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

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

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

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

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

2.4.22. Recognition of income and expenses

a. General

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

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

Five steps are established for the recognition of revenue:

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

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

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

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

b. Gas distribution network access revenue

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

The remuneration for regulated gas transportation is set on the basis of availability and continuity of supply of the companies owning transmission assets.

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

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

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

Order ETU/1977/2016, of 23 December, recognised both the accumulated deficit in the gas system for 2014 and the mismatch between revenues and costs for 2015, which coincide with the amount approved in the respective final settlements for those years. Companies subject to the settlement system, which include Naturgy, are entitled to recover and are recovering these amounts in fifteen and five annual payments, respectively, as from 25 November 2016.

Order ETU/1283/2017, of 22 December, recognises the mismatch between revenues and costs for 2016, which coincides with the amount approved in the final settlement for that year. Companies subject to the settlement system, which include Naturgy, are entitled to recover and are recovering these amounts in five annual payments as from 1 December 2017.

The 2014 shortfall and the mismatches for 2015 and 2016 were assigned irrevocably and without recourse in December 2017.

Order ETU/1367/2018, of 20 December, recognises the mismatch between revenues and costs for 2017, which coincides with the amount approved in the final settlement for that year. Companies subject to the settlement system, which include Naturgy, are entitled to recover these amounts in five annual payments as from 29 November 2018.

The aforementioned order also recognises, as parties subject to the settlement system, irrespective of the activity they engage in, the holders of debt claims relating to the shortfall accumulated at 31 December 2014, and lays down the final interest rates applicable to the calculation of the annual amounts of the accumulated shortfall at the end of 2014 and the annual amounts pertaining to the mismatches for years 2015, 2016 and 2017.

Order TEC/1259/2019, of 20 December, provides for the application of the surplus between revenues and costs for 2018 resulting from the definitive settlement for that year to the total amortisation of the temporary mismatches between costs and revenues for 2015 and 2017, as well as to the partial amortisation of the mismatch for 2016.

The National Commission for Markets and Competition Resolution of 18 December 2019, published in the Official State Gazette on 30 December 2019, established the remuneration for the regulated gas transmission and distribution activities that applied during 2020, at the end of which the current regulatory period that had been in force between 1 January 2015 and 31 December 2020 will concluded.

CNMC Circular 4/2020, of 31 March, established the methodology for determining the remuneration for natural gas distribution from 1 January 2021. CNMC Circular 8/2020, of 2 December 2020, established the unit values of reference for investment and operation and maintenance for the 2021-2026 regulatory period. And the CNMC Resolution dated 17 December 2020 determined the adjustment to remuneration of natural gas distribution applicable to each company for the 2021-2026 period.

On that basis, the Draft Resolution of the CNMC Resolution establishing the remuneration for the transition period from 1 January to 30 September 2021 has yet to be published in the Official Gazette.

c. Revenues from gas sales

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

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

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

d. Electricity distribution network access revenue

The remuneration for the electricity distribution and transmission activity is established annually by the Ministry, which recognises remuneration for investment and for operation and maintenance.

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

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

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

At the date of authorisation of these consolidated annual accounts, the final settlements for the period 2014 to 2019 have not been published, although it is not expected that the final settlements will lead to significant differences in relation to the estimates made.

From 2006 to 2013, the revenues received by the companies in the Spanish electricity sector were not sufficient to remunerate the regulated activities and system costs. The generation companies, including Naturgy, were forced to finance this revenue shortfall until it had been funded in full. Following successive auctions and assignments of the outstanding debt claims, the process of securitising the electricity system deficit was completed on 15 December 2014.

Following the enactment of Electricity Sector Law 24/2013, of 26 December (Note 2.2), temporary mismatches between electricity system revenues and costs are funded by the companies that are subject to the settlement system, including Naturgy, and they are entitled to recover the corresponding amount over the following five years, including interest at a market rate. Consequently, Naturgy's funding of the electricity system revenue shortfall is recognised as a financial asset since, on the basis of this regulation, Naturgy is entitled to a reimbursement and there are no future contingent factors.

In the period 2014 to 2018, following the reforms that were undertaken, there has been no revenue shortfall in the sector, based on the data on provisional settlements for those years.

However, another revenue deficit arose in the sector in 2019, which was offset by transferring an equivalent amount from the specific account against the surpluses of previous years, as provided in Additional Provision Three of Royal Decree-Law 23/2020, of 23 June 2020, and Order TED/952/2020, of 5 October 2020; additionally, best estimates at this date are that there will be a shortfall at 2020 year-end.

e. Revenue from the sale of electricity

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

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

f. Other revenues

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

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

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

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

If the contract revenues cannot be estimated reliably, the costs (and respective revenues) are recognised in the period in which they are incurred, provided that the former can be recovered. The contract margin is not recognised until there is certainty that it will materialise based on cost and revenue planning.

2.4.22. Cash-flow statement

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

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

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

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

2.4.24. Significant accounting estimates and judgments

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

a. Intangible assets and property, plant and equipment (Notes 2.4.2. *and* 2.4.4.*)*

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

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

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

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

c. Derivatives and other financial instruments (Note 2.4.8)

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

The fair value of financial instruments that are not traded in an active market is determined by using measurement techniques. Naturgy uses a variety of methods and makes assumptions that are based on market conditions existing at each consolidated balance sheet date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the other financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the consolidated balance sheet date. The fair value of commodity derivatives is calculated by using forward price curves quoted in the market at the consolidated balance sheet date.

The carrying amounts of accounts receivable, less provisions for bad debts, are assumed to approximate to their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to Naturgy for similar financial instruments.

d. Provisions for employee benefits (Note 2.4.17*)*

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

e. Provisions (Note 2.4.18*)*

Naturgy makes an estimate of the amounts to be settled in the future, including amounts relating to contractual obligations, pending litigation, future dismantling and decommissioning, and land restoration, and other liabilities. These estimates are subject to the interpretation of current events and circumstances, projections of future events and estimates of their financial effects.

f. Income tax (Note 3.4.21*)*

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

g. Revenue recognition (Note 2.4.22*)*

Revenues from energy sales are recognised when the goods are delivered to the customer based on regular meter readings and include the estimated accrual of the value of the goods consumed between the date of the last meter reading and the end of the period.

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

– Prices: they are determined based on the prices for the customer type districts, taking into account the estimated consumption curves.
– Consumption: application of the estimated daily consumption derived from the historical profiles of the different types of clients adjusted seasonally and by other factors that can be measured and that affect consumption.

Historically, no material adjustment has been made for the amounts recorded as unbilled revenue and it is not expected to have them in the future.

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

h. COVID-19

The COVID-19 pandemic raised major challenges to commercial activities and introduced a high degree of uncertainty as to economic performance and world energy demand. The confinement of a large proportion of the world population depressed economic activity and triggered widespread declines in economic indicators, energy demand and prices of the main energy variables. The effects of the COVID-19 pandemic increase the uncertainty about the future vision for individual companies and for the economy in general observing a substantial deterioration of the recuperation perspectives in the second half of the year 2020 . Those prospects were considered when making the estimates and assumptions that are necessary to draw up the consolidated annual accounts, as detailed in the corresponding notes.

Note 3. Segment financial information

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

– Energy and Network Management:

  • Iberian Networks:

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

  • Latin American networks:

    – Gas and electricity networks in Argentina.
    – Gas networks in Brazil.
    – Gas and electricity networks and marketing in Chile (the latter considered as a discontinued activity, see Note 11).
    – Gas networks in Mexico.
    – Electricity networks in Panama.
    – Gas networks in Peru (discontinued activity, see Note 11).

  • Energy Management:

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

– Renewables and New Business:

  • Renewables Spain and the United States: includes the management of facilities and generation projects for wind energy, mini hydro, solar and cogeneration, additionally incorporating hydroelectric generation after the redefinition of this segment. The activities included in this segment are currently carried out in Spain, although future activities are planned in the United States.
  • Renewables Latin America: includes the management of the facilities and renewable electricity generation projects of GPG located in Latin America (Brazil, Chile, Costa Rica, Mexico and Panama).
  • Renewables Australia: includes the management of the facilities and the renewable electricity generation projects of GPG located in Australia.

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

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

For comparative purposes, the information by segments for 2019 has been restated according to the operating segments defined in 2020.

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

Naturgy Energy Group, S.A. and subsidiaries
Annual report 2020

Segment financial information – Income statement

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

2019	Networks and Energy management																Renewables and New businesses							
	Networks Spain			Networks Latam						Energy management														
	Gas net.	Electr. net.	Total	Argentina	Brazil	Chile	Mexico	Panama	Total	Markets and Procurem.	LNG	Pipelines (EMPL)	Europe CG	Latam CG	Total	Total	Spain & USA	Latam	Australia	Total	Supply	Rest	Eli.	Total
Consolidated revenue	1,133	837	1,970	693	1,815	746	635	891	4,780	1,945	3,104	78	743	786	6,656	13,406	277	87	29	393	6,953	9		20,761
Revenue between segments	104	43	147	—	—	—	—	—	—	2,615	16	256	383	1	3,271	3,418	208	18	—	226	1,738	126	(5,508)	—
Intersegment revenue	—	—	—	—	—	—	—	—	—	2,335	301	—	—	—	2,636	2,636	—	—	—	—	—	—	(2,636)	—
Revenue by segment	1,237	880	2,117	693	1,815	746	635	891	4,780	6,895	3,421	334	1,126	787	12,563	19,460	485	105	29	619	8,691	135	(8,144)	20,761
Segment procurements	(74)	—	(74)	(474)	(1,458)	(438)	(345)	(695)	(3,410)	(6,992)	(2,896)	—	(739)	(442)	(11,069)	(14,553)	(65)	(7)	—	(72)	(7,986)	(7)	8,014	(14,604)
Net personnel expenses	(99)	(94)	(193)	(30)	(28)	(30)	(23)	(10)	(121)	(24)	(20)	(7)	(74)	(17)	(142)	(456)	(37)	(20)	(1)	(58)	(93)	(200)		(807)
Other operating income/expenses	(131)	(112)	(243)	(102)	(67)	(41)	(39)	(39)	(288)	(2)	4	(14)	(266)	(23)	(301)	(832)	(126)	(26)	(5)	(157)	(201)	(38)	130	(1,098)
EBITDA	933	674	1,607	87	262	237	228	147	961	(123)	509	313	47	305	1,051	3,619	257	52	23	332	411	(110)		4,252
Depreciation/amortisation & impairment losses	(299)	(250)	(549)	(13)	(61)	(69)	(51)	(42)	(236)	(7)	(131)	(36)	(130)	(90)	(394)	(1,179)	(142)	(62)	(6)	(210)	(72)	(73)		(1,534)
Transfers to provisions	(2)	1	(1)	(11)	(10)	(1)	(16)	(5)	(43)				(1)		(1)	(45)	—	—	—	—	(66)	2		(109)
Other results			—						—						—	—	5			5		20		25
Operating results	632	425	1,057	63	191	167	161	100	682	(130)	378	277	(84)	215	656	2,395	120	(10)	17	127	273	(161)		2,634
Results of equity-consolidated companies	—	1	1	2	—	20	2	—	24	(37)	—	—	—	72	35	60	15	—	—	15	—	—	—	75

Segmental financial information – Assets, liabilities and investments

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

2019	Networks and Energy management																Renewables and New businesses							
	Networks Spain			Networks Latam						Energy management														
	Gas net.	Electr. net.	Total	Argentina	Brazil	Chile	Mexico	Panama	Total	Markets and Procurem.	LNG	Pipelines (EMPL)	Europe CG	Latam CG	Total	Total	Spain & USA	Latam	Australia	Total	Supply	Rest	Eli.	Total
Operating assets (a)	3,802	5,125	8,927	539	**1,041**	5,925	883	1,212	9,600	1,259	1,530	141	**2,684**	1,274	6,888	**25,415**	3,308	559	256	4,123	2,029	563	(1,191)	**30,939**
Investments under equity method	—	6	6	—	—	19	3	—	22	309	—	—	**13**	294	616	**644**	82	—	—	82	—	5		**731**
Operating liabilities (a)	660	989	1,649	259	**278**	531	94	262	1,424	923	197	16	**783**	157	2,076	**5,149**	155	52	10	217	1,273	808	(1,191)	**6,256**
Investment in intangible assets (b)	10	24	34	42	**50**	10	6	11	119	—	1	5	**3**	—	9	**162**	4	—	—	4	40	16	—	**222**
Invest. in property, plant & equipment (c)	157	236	393	2	**—**	177	52	98	329	—	1	—	**65**	60	126	**848**	446	57	92	595	9	11	—	**1,463**
Business combinations (Note 33)			—	72	**—**	—	—	—	72						—	**72**				—				**72**

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

	2020	2019
Operating assets	**23,952**	**30,939**
Goodwill	2,892	3,202
Investments carried under the equity method	813	731
Non-current financial assets	361	738
Deferred tax assets	1,635	1,525
Non-current assets held for sale (Note 12)	4,835	73
Derivative financial instruments (see Note 11)	446	552
Public administrations (Note 11)	89	79
Current tax assets	37	281
Other current financial assets	558	333
Cash and cash equivalents	3,927	2,685
Total assets	**39,545**	**41,138**

	2020	2019
Operating liabilities	**(5,289)**	**(6,256)**
Equity	(11,265)	(13,976)
Non-current financial liabilities	(14,968)	(15,701)
Finance lease liabilities (Note 20)	—	—
Deferred tax liabilities	(1,793)	(2,249)
Liabilities related to non-current assets held for sale (Note 12)	(2,840)	(46)
Current financial liabilities	(2,571)	(2,286)
Derivative financial instruments (Notes 20 and 21)	(237)	(85)
Dividend payable (Note 20)	(25)	(81)
Public administrations (Note 21)	(375)	(425)
Current tax liabilities (Note 21)	(182)	(33)
Total Net Equity and liabilities	**(39,545)**	**(41,138)**

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

Reporting by geographic area

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

	31.12.2020	31.12.2019
Spain	16,747	18,597
Latin American	6,963	11,764
Argentina	217	539
Brazil	819	1,205
Chile	2,385	6,047
Mexico	2,040	2,380
Panama	1,232	1,256
Latam Rest	270	337
Rest of Europe	404	601
Other	632	708
Total	**24,746**	**31,670**

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

	31.12.2020	31.12.2019
Spain	621	1,022
Latin American	554	565
Argentina	22	44
Brazil	34	50
Chile	342	240
Mexico	59	115
Panama	94	112
Latam Rest	3	4
Rest of Europe	1	2
Other	103	96
Total	**1,279**	**1,685**

The revenue by geographical area is detailed on Note 22.

Note 4. Asset impairment losses

Definition of Cash Generating Unit

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

Compared with previous year, the most significant change in relation to the previous year is the splitting of the conventional electricity CGU into the Thermal generation Spain and Hydroelectric generation CGUs (the latter within the Renewables and New Business segment.

- **Energy and Network Management:**

  - Iberian Networks:

  - Gas networks Spain: Is a single CGU as the development, operation and maintenance of the gas distribution network is managed jointly.

  - Electricity networks Spain: This makes up a single CGU since the network comprises a group of interrelated assets the development, operation and maintenance of which is managed jointly.

    - Latin American Networks: A CGU is understood to exist for each business and country in which there are operations since the businesses are subject to different regulatory frameworks. It includes the regulated gas distribution business in Argentina, Brazil, Chile, Mexico and Peru and the regulated electricity distribution business in Argentina, Chile and Panama.

  - Energy Management:

  - International LNG sales: There is considered to be a single CGU, since the supply of liquefied natural gas and the maritime transport activity are managed on a global level.

  - Markets and supplies: A CGU is considered to exist since it manages supply and other gas infrastructures, as well as sales to major energy-intensive consumers. Also includes the Unión Fenosa Gas CGU.

  - Gas pipelines: It includes the CGU which manages the Maghreb-Europe gas pipeline, as well as the CGU for the Medgaz gas pipeline.

  - Thermal generation Spain: A single CGU is considered to exist for thermal power generation in Spain (nuclear, combined cycle and others).

  - Thermal generation Latin America: A thermal power generation CGU is understood to exist in each country in which there are operations (Mexico, Dominican Republic and Puerto Rico) since the businesses are subject to different regulatory frameworks and are managed independently.

- **Renewables and New Business:**

  - Spain: One CGU is considered for renewable electricity generation (wind, mini-hydro, solar and cogeneration) and another CGU for hydroelectric power generation.

  - Latin American: A renewable power generation CGU is understood to exist in each country in which there are operations (Brazil, Costa Rica, Mexico, Panama and Chile) since the businesses are subject to different regulatory frameworks and are managed independently.

  - Australia: One CGU is considered which encompasses all projects in the country.

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

At 31 December 2020, the CGUs for electricity distribution networks in Chile and gas distribution networks in Peru were classified as held for sale in accordance with IFRS 5 (Note 11).

Information on recognised impairments

Naturgy has evaluated the recoverable value of the CGUs based on projections that relate to the best available forward-looking information for the next five years, taking into account the investment plans of the businesses involved and the market conditions in which they operate. Different potential future scenarios have also been considered when estimating the cash flows, if it provides more relevant information to reflect possible future economic developments. The estimated cash flows also take into account the foreseeable effects of COVID-19.

During the first part of the year, Naturgy's best estimate and the opinions expressed by most public and private institutions suggested that the effects of COVID-19 would continue in the short term, but that the pandemic would cease to have a relevant impact in the medium and long term. This forecast was mainly based on the expectations for recovery in the economies in which Naturgy operates once the measures ordered by governments began to take effect, and on the response and adaptation capacity of the rest of the business players affected, including actions taken by the company itself. These expectations of a medium-term recovery were shared at that time by many institutions and companies, which is the reason why it was not considered necessary to update cash flows at that time.

However, at the second part of the year a substantial deterioration were observed in the recuperation prospects has led the consideration of the impact of COVID-19 on cash flow estimates. Although, at the close of 2020 the pandemia effects are shown in a significant way in the macro and energy scenario, leading to lower demand for gas and electricity in Spain and Latin America and significant currency depreciation in key Latin American regions.

In Spain, mainland electricity demand was 5.5% lower than in 2019, while gas demand fell by 9.6%.The fall in demand during the year has been in step with the more or less restrictive confinement periods that have been imposed. In the medium term, electricity demand and conventional gas demand in the Naturgy distribution network are expected to return to pre-COVID levels in 2022-2023.

In Latin America, the impact of COVID-19 on demand in Naturgy's distribution areas in 2020 has varied, with the following changes compared to 2019:

– Gas Brazil: -14%
– Gas Mexico: -10.5%
– Gas Chile: -4.7%
– Gas Argentina: -3.8%
– Electricity Panama: -7.5%
– Electricity Argentina: +1.3%

In general terms, they are expected to recover to 2019 levels in 2022.

Aspects of the projections used

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

– Gas and Electricity Networks Spain:

  • Remuneration. Amount and growth of remuneration. In relation to the regulatory framework, the future cash flows of these business lines have been reviewed taking into account the publications by the regulator in 2019 and 2020 described in Appendix IV on the remuneration methodology for the regulated electricity and gas distribution activity from 2020 and 2021, respectively.

- Operation and maintenance costs. Estimated on the basis of the historical cost of the network managed.
- Investments. Taking into account the necessary investments to maintain the regular use of the network and quality of supply.

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

- Variations in rates. Valuation of rates in each country, based on existing regulatory conditions and rate reviews, taking into account the experience gained from previous rate reviews in each country.
- Cost of raw materials and consumables. Estimated on the basis of predictive modelling based on an understanding of energy markets in each country.
- Operation and maintenance costs. Estimated on the basis of the historical cost of the network managed.
- Investments. Taking into account the necessary investments to maintain the regular use of the network and quality of supply.

– Thermal generation Spain:

The assumptions and projections affecting this CGU have been based on the best forward-looking information available to date, generally considering the possible effects on generation of the transition expected due to the increase in renewable energy sources set out in the rules on the first NECP in the Climate Change and Energy Transition Bill detailed in Appendix IV. The above-mentioned projections envisage a drop in production and prices in line with the scenario applicable over the next five years. The NECP forecasts envisage the need for all the installed power of combined cycle generation units in the plan timeframe (2030).

The assumptions taken into consideration are the following:

	2020	2021	2022	2023	2024	2025
Evolution of Spanish GNP	-12.5%	5.7%	4.3%	3.5%	2.4%	1.5%
Pool price €/MWh	33.8	44.3	45.6	47.7	48.5	48.8
Brent (USD/bbl)	41.2	46.1	46.7	52.2	57.7	63.2
Gas Henry Hub (USD/MMBtu)	2.1	2.8	2.7	2.9	3.1	3.3
Coal API2 (USD/t)	49.3	56.1	56.2	59	61.8	64.6
CO2 €/t	24.4	27.5	27.7	28.3	30.2	33.8

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

- Electricity generated. Demand evolution has been estimated based on CNMC and analyst projections. The share has been estimated based on Naturgy's market share in each technology and on the expected evolution of each technology's share of the total market. The main variation with respect to past projections is a decrease in thermal production in line with the expected future evolution of the generation mix offset by a mechanism to remunerate the firm capacity contributed, which is expected to be established to make the NECP forecasts viable.
- Electricity price. Market electricity prices used have been calculated using models that cross expected demand with supply forecasts, taking into account the foreseeable evolution of generation capacity in Spain, based on sector forecasts, the development of the energy scenario on the basis of futures curves, and analysts' forecasts.
- Fuel costs. Estimated by reference to long-term supply contracts concluded by Naturgy, the forecast evolution of price curves and market experience.
- Operation and maintenance costs. Estimated from historical costs of managed park.
- Taxes established by Law 15/2012.

– Thermal generation Latin America:

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

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

In the case of the Puerto Rico Generation CGU:

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

– Unión Fenosa Gas:

As described in Note 36, in 2020 Naturgy reached an agreement with ENI and the Republic of Egypt concerning Unión Fenosa Gas (UFG), which provides for its separation from the assets and contracts with Egypt whose situation affected the cash flow projections used in impairment tests in prior periods. The amounts registered in 2019 was maintained due to this situation, only adjusted by the specific movements of this present year.

At 31 December 2020, the carrying amount recorded is supported by external references to UFG's value for Naturgy which comprises, on the one hand, the agreement reached whereby Naturgy will receive, once the conditions precedent are met, a number of cash payments totalling approximately Euros 489 million as well as other assets and, on the other, in the event that the agreement concluded by the parties does not materialise, the right to recommence its claim proceedings, including the award in favour of UFG for 1,630 million.

At year-end 2020 Naturgy recorded the 50% interest in UFG under the heading “Investments recorded using the equity method”. As a result of the impairment recognised in prior years, the recoverable amount calculated as the value in use of UFG, which is equivalent to its carrying value, was Euros 262 million (Euros 309 million at 31 December 2019).

The most sensitive matters included in the impairment analysis performed in 2019 were as follows:

- Gas volumes to be supplied from each supply source. The decrease in the volumes of gas to be supplied from Egypt for liquefying at the plant during the Strategic Plan 2018-2022 due to delays in the materialisation of an agreement with EGAS that would enable the plant to be reactivated and supplies to recommence impacted the impairment analysis.

- Gas supply costs. In accordance with the prices of the long-term contracts entered into by Unión Fenosa Gas and expected price fluctuations in spot markets based on the change in the composition of gas volumes affected by the situation in Egypt.
- Selling price of natural gas. Valued using predictive modelling based on the forecast performance of price curves and experience in the markets where Union Fenosa Gas operates.

– Renewables Spain:

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

The assumptions taken into consideration regarding to the Evolution of Spanish GNP and the evolution of the electricity pool price coincided with the considerated in the Thermal generation Spain CGUs.

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

- Electricity generated.

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

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

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

- Remuneration. For the renewable generation CGU facilities entitled to specific remuneration, the remuneration has been estimated on the basis of the remuneration parameters for the established regulated income period, maintaining these values for the following regulatory period.
- Operation and maintenance costs. Estimated from historical costs of managed park.
- Taxes established by Law 15/2012.

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

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

– Renewables Australia:

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

– Supply:

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

Discount rates and growth rates used

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

Discount rate	**2020**	**2019**
Energy and network management		
Gas and electricity distribution Spain	5.2%-5.9%	5.4%-5.8%
Gas and electricity distribution Latin America	9.6%-15.8%	8.5%-13.9%
Gas distribution Argentina (1)	15.1%	14.0%
Thermal generation Spain	7.4%	6.6%
Hydroelectric generation Spain	6.21%	
Thermal Generation Latin America (Mexico and Dominican Republic)	9%-13.2%	8.3%-15.8%
Renewables and new business		
Spain renewable electricity generation	5.7%	5.9%
Hydroelectric generation Spain	6.2%	6.6%
Latin America Renewables	8.6%-15%	8.4%-16.6%
Australia Renewables	7.4%	7.1%
Supply	6.8%	6.7%

(1) Rate determined in USD

The growth rates in the impairment tests carried out in 2020 and 2019 were as follows:

Growth rate	**2020**	**2019**
Energy and network management		
Gas and electricity distribution Spain	0.5%-1.9%	0.5%-1.5%
Gas and electricity distribution Latin America	2.5%-11.4%	0.6%-11%
Gas distribution Argentina (1)	11.4%	10.2%
Thermal generation Spain	2.1%	1.9%
Thermal Generation Latin America	1.8%	1.9%
Renewables and new business		
Spain renewable electricity generation	2.1%	1.9%
Hydroelectric generation Spain	2.1%	1.9%
Latin America Renewables	1.9%-3.2%	1.9%-3.5%
Australia Renewables	2.7%	2.4%
Supply	0.5%	0.50%

(1) Rate determined in USD

<u>Results of the tests performed</u>

As a result of the impairment tests carried out in 2020 and 2019, the recoverable amounts, calculated according to the methodology described in Note 2.4.6, have been higher than the carrying values recorded in these consolidated annual accounts except for:

2020

As a result of the updating of the impairment test, an impairment loss of Euros 1,363 million has been recorded under "Depreciation and impairment losses", with the following breakdown by CGU:

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

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

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

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

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

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

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

Moreover, in thermal generation in Puerto Rico, Euros 7 million of impairment on the 50% interest in EcoEléctrica LP, recorded under “Profit/(loss) from companies accounted for using the equity method”, were reversed (Note 8).

2019

– Thermal generation Puerto Rico, Euros 27 million was recognised in relation to the reversal of the impairment of the 50% interest in EcoEléctrica LP recorded under the heading “Profit/(loss) from companies accounted for using the equity method”, since the flows estimate improved (Note 8).

– Electricity generation Panama, impairment of Euros 38 million was recognised under "Depreciation and impairment losses" in Property, plant and equipment (Note 6) as a result of the update for impairment testing purposes of the electricity production and electricity price assumptions. Along-term growth rate of 2.5% and a pre-tax discount rate of 13.3% were used.

  The recoverable amount calculated as the value in use of the Panama electricity generation CGU, which was equivalent to its carrying value, was Euros 45 million.

– Electricity generation Costa Rica, an impairment of Euros 50 million was recognised under "Non-current financial assets"(Note 9) as a result of the updating of the assumption on electricity production considered in the concession agreement. A pre-tax discount rate of 9.8%-16.6% was used.

  The recoverable amount calculated as the value in use of the Costa Rica electricity generation CGU, which was equivalent to its carrying value, was Euros 148 million.

Sensitivity analysis

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

2020

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

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

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

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

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

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

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

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

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

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

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

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

2019

Conventional generation (Generation of thermal and hydraulic electricity in Spain):

The recoverable amount calculated as the value in use of the Conventional electricity generation CGU, considering the impairment recorded in 2018, which is equivalent to its carrying value, was Euros 3,466 million. A sensitivity analysis was carried out independently for each of the following variations in the key assumptions, with following results:

- an increase in the discount rate of 50 basis points would increase impairment by Euros 332 million.
- a decrease in the growth rate of 50 basis points would increase impairment by Euros 283 million.
- a decrease in electricity output of 5% would increase impairment by Euros 210 million.
- an increase in fuel costs of 5% would increase impairment by Euros 404 million.
- a decrease in electricity prices of 5% would increase impairment by Euros 519 million.

Unión Fenosa Gas

The accumulated impairment at 31 December 2019 relating to the 50% interest in Unión Fenosa Gas amounted to Euros 1,166 million. At 31 December 2019, the recoverable amount calculated as the value in use of Unión Fenosa Gas, which was equivalent to its carrying value, was Euros 309 million. A sensitivity analysis was carried out for an increase in the discount rate of 50 basis points which would have increased impairment by Euros 17 million.

Electricity generation Puerto Rico

At 31 December 2019, the recoverable amount calculated as the value in use of EcoEléctrica L.P., which was equivalent to its carrying value, was Euros 291 million. A sensitivity analysis was carried out for an increase in the discount rate of 50 basis points which would have led to a reversal of impairment of less than Euros 8 million.

Electricity generation Panama

A sensitivity analysis was carried out for an increase in the discount rate of 50 basis points which would have increased impairment by Euros 1 million.

Electricity generation Costa Rica

A sensitivity analysis was carried out for an increase in the discount rate of 50 basis points which would increase impairment by Euros 1 million.

Remaining CGUs

For the remaining CGUs, Naturgy has carried out a sensitivity analysis for 2020 and 2019 of the unfavourable variations which, drawing on historical experience, may reasonably impact on the aforementioned sensitive parameters on which the recoverable amounts have been determined. Specifically, the most relevant sensitivity analyses performed are as follows:

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

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

Note 5. Intangible assets

The movement in 2020 and 2019 in intangible assets is as follows:

	Concessions IFRIC 12	Other concessions and similar	Computer software	Other intangible assets	Subtotal	Goodwill	Total
Gross cost	1,702	3,386	1,313	1,282	**7,683**	**3,215**	**10,898**
Amortisation fund and impairment losses	(691)	(742)	(1,008)	(612)	**(3,053)**		**(3,053)**
Carrying amount at 31.12.2018	**1,011**	**2,644**	**305**	**670**	**4,630**	**3,215**	**7,845**
Investment (Note 3)	91	4	90	37	222	—	222
Amortisation charge	(60)	(38)	(96)	(95)	(289)	—	(289)
Impairment losses (Note 4)	—	—	—	—	—	—	—
Currency translation differences (1)	9	(103)	(2)	(1)	(97)	(8)	(105)
Business combinations (Note 32)	64	—	—	—	64	—	64
Reclassifications and other(2)	6	(30)	(4)	9	(19)	(5)	(24)
Carrying amount at 31.12.2019	**1,121**	**2,477**	**293**	**620**	**4,511**	**3,202**	**7,713**
					—		**—**
Gross cost	1,900	3,269	1,313	1,310	**7,792**	**3,202**	**10,994**
Amortisation fund and impairment losses	(779)	(792)	(1,020)	(690)	**(3,281)**	**—**	**(3,281)**
Carrying amount at 31.12.2019	**1,121**	**2,477**	**293**	**620**	**4,511**	**3,202**	**7,713**
Investment (Note 3)	51	3	93	40	187	—	187
Amortisation charge	(59)	(57)	(101)	(89)	(306)	—	(306)
Impairment losses (Note 4)	(198)	—	—	(177)	(375)	—	(375)
Currency translation differences (1)	(276)	(49)	(5)	(16)	(346)	(75)	(421)
Business combinations (Note 32)		—	—	—	—	—	—
Reclassifications and other (2)	1	(938)	(22)	(29)	(988)	(235)	(1,223)
Carrying amount at 31.12.2020	**640**	**1,436**	**258**	**349**	**2,683**	**2,892**	**5,575**
Gross cost	1,434	2,216	1,176	1,200	**6,026**	**2,892**	**8,918**
Amortisation fund and impairment losses	(794)	(780)	(918)	(851)	**(3,343)**	**—**	**(3,343)**
Carrying amount at 31.12.2020	**640**	**1,436**	**258**	**349**	**2,683**	**2,892**	**5,575**

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

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

As detailed in Note 4, the impairment tests resulted in the recognition of Euros 375 million in impairment of intangible assets (Note 28).

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

The heading "Other concessions and similar" includes principally:

– The Maghreb-Europe pipeline concession (Note 33) amounting to Euros 45 million at 31 December 2020 (Euros 102 million at 31 December 2019).

– Indefinite useful life concessions per the following breakdown:

	31.12.2020	31.12.2019
Electricity distribution Spain	684	684
Electricity distribution Chile	—	922
Gas distribution Chile	689	747

The heading “Other intangible assets” mainly includes:

– Licences to renewable generation farms totalling Euros 144 million at 31 December 2020 (Euros 171 million at 31 December 2019). Includes Euros 22 million for Ibereólica Cabo leones II S.A. (Euros 22 million at 31 December 2019) and Euros 18 million for Guimaranias (Euros 26 million at 31 December 2019) (Note 32).

– Contracts recognised as assets under IFRS 15 amounting to Euros 49 million at 31 December 2020 (Euros 56 million at 31 December 2019).

– The value of gas supply contracts and other contractual rights acquired as a result of the business combinations involving CGE for an amount of Euros 87 million at 31 December 2020 (Euros 147 million at 31 December 2019) and Naturgy Energy (UK) for an amount of Euros 10 million at 31 December 2020 (Euros 11 million at 31 December 2019). In addition, at 31 December 2019 an amount of Euros 193 million of the Unión Fenosa business combination which was impaired in 2020 (Note 4).

Movements in and the composition of goodwill by CGU in 2020 and 2019 are set out below:

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

	01.01.2019	Currency translation differences	Transfer held for sale	CGU reclassification	31.12.2019
Networks and Energy management	2,016	(8)	(5)	—	2,003
Electricity networks Spain	1,070	—	—	—	1,070
Thermal generation Mexico	440	8	—	—	448
Brazil gas networks	17	—	—	—	17
Chile gas networks	68	(5)	—	—	63
Chile electricity	271	(15)	(5)	—	251
Mexico gas networks	20	1	—	—	21
Panama Electricity networks	130	3	—	—	133
Renewables and New businesses	756	—	—	—	756
Renewables and New businesses	743	—	—	—	743
GPG	13	—	—	—	13
Supply	443	—	—	—	443
Total	**3,215**	**(8)**	**(5)**	**—**	**3,202**

At 31 December 2020, Naturgy records investment commitments totalling Euros 18 million (Euros 24 million at 31 December 2019) relating basically to the development of the gas distribution network with concessions regarded as intangible assets under IFRIC 12.

The intangible assets include, at 31 December 2020, fully amortised assets still in use totalling Euros 543 million (Euros 673 million at 31 December 2019).

Note 6. Property, plant and equipment

The movements in the accounts in 2020 and 2019 under property, plant and equipment and their respective accumulated depreciation and provisions have been as follows:

	Land and buildings	Gas installations	Electricity generation plants	Plant for electricity transmission and distribution	Gas tankers	Other Property, plant and equipment	PPE under construction	Total
Gross cost	578	11,352	12,791	8,565	1,498	549	1,637	**36,970**
Depreciation fund and impairment losses	(134)	(6,027)	(7,311)	(2,126)	(364)	(301)	—	**(16,263)**
Carrying amount at 31.12.2018	**444**	**5,325**	**5,480**	**6,439**	**1,134**	**248**	**1,637**	**20,707**
First application IFRS 16 (Note 2.2)	—	—	—	—	(1,134)	—	—	**(1,134)**
Carrying amount at 01.01.2019	**444**	**5,325**	**5,480**	**6,439**	**—**	**248**	**1,637**	**19,573**
Investment (Note 3)	17	216	82	132	—	38	978	**1,463**
Divestment	(8)	(8)	(5)	—	—	(6)	—	**(27)**
Depreciation charge	(37)	(381)	(374)	(328)	—	(34)	—	**(1,154)**
Impairment losses (Note 4)	—	—	(38)	—	—	—	—	**(38)**
Currency translation differences(1)	(8)	(33)	28	(111)	—	2	6	**(116)**
Business combinations (Note 32)	1	—	—	—	—	3	—	**4**
Reclassifications and other (2)	(2)	101	990	476	—	64	(1,687)	(58)
Carrying amount at 31.12.2018	**407**	**5,220**	**6,163**	**6,608**	**—**	**315**	**934**	**19,647**
Gross cost	563	11,534	13,757	8,999	—	634	934	**36,421**
Depreciation fund and impairment losses	(156)	(6,314)	(7,594)	(2,391)	—	(319)	—	**(16,774)**
Carrying amount at 31.12.2019	**407**	**5,220**	**6,163**	**6,608**	**—**	**315**	**934**	**19,647**
Investment (Note 3)	17	115	79	150	—	34	697	1,092
Divestment	(3)	(1)	—	—	—	(4)	(6)	(14)
Depreciation charge	(19)	(369)	(354)	(309)	—	(37)	—	(1,088)
Impairment losses (Note 4)	(6)	—	(966)	—	—	(16)	—	(988)
Currency translation differences (1)	(9)	(116)	(146)	(115)	—	(14)	(35)	(435)
Business combinations (Note 32)	—	—	—	—	—	—	—	—
Reclassifications and other (2)	(105)	48	166	(1,468)	—	(86)	(641)	(2,086)
Carrying amount at 31.12.2020	**282**	**4,897**	**4,942**	**4,866**	**—**	**192**	**949**	**16,128**
Gross cost	439	11,477	13,640	7,222	—	467	949	34,194
Depreciation fund and impairment losses	**(157)**	**(6,580)**	**(8,698)**	**(2,356)**	**—**	**(275)**	**—**	**(18,066)**
Carrying amount at 31.12.2020	**282**	**4,897**	**4,942**	**4,866**	**—**	**192**	**949**	**16,128**

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

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

As detailed in Note 4, the impairment tests resulted in the recognition of Euros 988 million in impairment of property, plant and equipment (Note 28).

In 2019, land and property sales took place that generated a capital gain before taxes totalling Euros 28 million. The most significant sale related to the sale in December 2019 of the LNG cargo facility that was being developed by Gas Natural Puerto Rico, Inc. for USD 23 million, giving rise to a capital gain before income tax of Euros 12 million (Note 27).

As a result of the application of IFRS 16, the assets included under the heading "Gas tankers" acquired under finance leases were reclassified to "Right-of-use assets" (Notes 2.2. and 7).

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

	31.12.2020	31.12.2019
Energy management and Networks	**402**	**614**
Energy management	213	222
Networks Spain	94	91
Networks Latam	95	301
Renewables and New business	**540**	**311**
Spain	75	115
Latam	231	66
Australia	234	130
Supply	**7**	**9**
Total	**949**	**934**

The decrease in Energy management and Networks fixed assets under construction relates to the reclassification to held for sale of the Electricity Distribution in Chile (Note 11). In addition, the increase in Renewables and New business mainly relates to Australia and Chile which are in development.

At 31 December 2020 and 2019, Naturgy had no significant real estate investments. At 31 December 2020, property, plant and equipment include fully-depreciated assets still in use totalling Euros 2,561 million (Euros 2,347 million at 31 December 2019).

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

At 31 December 2020, Naturgy records investment commitments totalling Euros 423 million (Euros 453 million at 31 December 2019) relating basically to the construction of new renewable generation facilities and the development of the gas and electricity distribution network.

The financial expenses capitalised in 2020 in fixed assets projects during their construction total Euro 10 million (Euros 14 million in 2019). The financial expenses capitalised in 2020 account for 1.9% of total financial costs on net borrowings (2.1% in 2019). The average capitalisation rate for 2020 and 2019 was 3.9% and 2.5%, respectively.

Note 7. Right-of-use assets

Movements in 2020 in right-of-use asset accounts and the related accumulated depreciation and provisions are as follows:

	Land and buildings	Gas tankers (1)	Vehicles	Other Property, plant and equipment	Total
First application IFRS 16 at 01/01/2019 (Note 2.2)	**261**	**1,176**	**19**	**2**	**1,458**
Additions	72	36	2	19	**129**
Divestments	(4)	—	—	—	**(4)**
Depreciation charge	(32)	(123)	(10)	—	**(165)**
Currency translation differences	(1)	—	(1)	—	**(2)**
Carrying amount at 31.12.2019	**296**	**1,089**	**10**	**21**	**1,416**
Additions	32	90	6	41	**169**
Divestments	(12)	—	—	—	**(12)**
Depreciation charge	(32)	(127)	(6)	(1)	**(166)**
Currency translation differences	(5)	—	(1)	—	**(6)**
Carrying amount at 31.12.2020	**280**	**1,052**	**5**	**51**	**1,388**

(1) Includes the transfer from property, plant and equipment with respect to transport vessels under finance leases at 31 December 2018 amounting to Euros 1,134 million, as well as the recognition of vessels under medium-term charters in accordance with IFRS 16 (Note 6).

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

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

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

At 31 December 2020, gas tankers include eight vessels under long-term finance lease arrangements and four vessels under medium-term leases.

Note 8. Investments in companies

Associates and joint ventures

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

	31.12.2020	31.12.2019
Associates	52	54
Joint ventures	761	677
Total	**813**	**731**

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

The most significant investments relate to Unión Fenosa Gas, EcoEléctrica L.P. and the interest in Medgaz through Medina (Note 3).

Movements during 2020 and 2019 in equity-accounted investments, including a breakdown of the most significant shareholdings, are as follows:

	Unión Fenosa Gas	EcoEléctrica, L.P.	Medina/ Medgaz	Other joint ventures	Total joint ventures	Associates	Total
Value of shareholding 01.01.2019	**340**	**271**	**—**	**148**	**759**	**57**	**816**
Investment	—	—	—	2	**2**	—	**2**
Divestment	—	—	—	(35)	**(35)**	(7)	**(42)**
Shares of profits/(losses)	(37)	73	—	35	**71**	4	**75**
Dividends received	—	(56)	—	(25)	**(81)**	(1)	**(82)**
Currency translation differences	6	6	—	4	**16**	—	**16**
Other comprehensive income	—	—	—	—	**—**	—	**—**
Reclassifications and other (1)	—	—	—	(55)	**(55)**	1	**(54)**
Value of shareholding 31.12.2019	**309**	**294**	**—**	**74**	**677**	**54**	**731**
Investment	—	—	—	—	**—**	—	**—**
Divestment	—	—	—	(11)	**(11)**	—	**(11)**
Shares of profits/(losses)	(30)	51	6	11	**38**	(2)	**36**
Dividends received	—	(65)	—	(14)	**(79)**	—	**(79)**
Currency translation differences	(18)	(28)	—	—	**(46)**	—	**(46)**
Other comprehensive income	1	—	—	—	**1**	—	**1**
Reclassifications and other	—	—	182	(1)	**181**	—	**181**
Value of shareholding 31.12.2020	**262**	**252**	**188**	**59**	**761**	**52**	**813**

(1) Includes the transfer to "Non-current assets held for sale" at the date on which this classification is applied of the electricity distribution investments in Chile and the change in consolidation method for the gas distribution investments in Chile included in the swap and Ghesa (Note 11).

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

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

In April 2019 Naturgy sold its 45% holding in the associate Torre Marenostrum, S.L. to Inmobiliaria Colonial for Euros 28 million, generating a capital gain of Euros 20 million (Note 29).

On 3 December 2019, Naturgy sold the interest it held through the group company Naturgy Renovables, S.L.U. in Molinos de Cidacos (50.0%), Molinos de la Rioja (33.3%) and DER Rioja (36.25%) to Iberdrola Renovables La Rioja for Euros 40 million, giving rise to a pre-tax capital gain of Euros 5 million (Note 29).

In 2018, impairment was recognised with respect to the Ecoelectrica, L.P. shareholding amounting to Euros 34 million, of which Euros 7 million have been reversed in 2020 (Euros 27 million reversed in 2019) (Note 4) being zero the accumulated impairment. The accumulated impairment as at 31 December 2020 with respect to the Union Fenosa Gas shareholding amounts to Euros 1,166 million (Euros 1,166 million as at 31 December 2019).

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

	31.12.2020			31.12.2019	
	Unión Fenosa Gas	**EcoEléctrica, L.P.**	**Medina/Medgaz**	**Unión Fenosa Gas**	**EcoEléctrica, L.P.**
Non-current assets	637	220	496	699	246
Current assets	145	42	15	137	64
Cash and cash equivalents	33	4	7	25	13
Non-current liabilities	(338)	(7)	(307)	(387)	(13)
Non-current financial liabilities	(248)	—	(233)	(281)	(9)
Current liabilities	(182)	(3)	(16)	(140)	(3)
Current financial liabilities	(59)	—	(13)	(41)	—
Net assets	**262**	**252**	**188**	**309**	**294**
Net borrowings (1)	274	(4)	239	297	(4)

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

	2020			2019	
	Unión Fenosa Gas	**EcoEléctric a, L.P.**	**Medina/ Medgaz**	**Unión Fenosa Gas**	**EcoEléctrica, L.P.**
Revenue	480	138	38	675	154
Raw materials and consumables	(403)	(61)	—	(611)	(78)
Personnel expenses	(10)	(5)	—	(10)	(5)
Other operating income/expenses	(22)	(13)	(3)	(20)	(11)
Gross operating results	**45**	**59**	**35**	**34**	**60**
Depreciation, amortisation and impairment losses	(44)	(15)	(18)	(46)	(15)
Impairment due to credit losses	(20)	2	—	(16)	3
Operating profit	**(19)**	**46**	**17**	**(28)**	**48**
Net financial income/(expense)	(17)	—	(8)	(21)	—
Results of equity-consolidated companies	2	—	—	3	—
Profit/(loss) before tax	**(34)**	**46**	**9**	**(46)**	**48**
Corporate income tax	2	(2)	(3)	7	(2)
Attributed to non-controlling interests	2	—	—	2	—
Profit/(loss) attributed for the year from continuing operations	**(30)**	**44**	**6**	**(37)**	**46**
Shareholding impairment (Note 5)	—	7	—	—	27
Share of profits	**(30)**	**51**	**6**	**(37)**	**73**

There are no contingent liabilities affecting interests in joint ventures.

The contractual commitments for the acquisition and sale of interests in joint ventures at 31 December 2020 and 31 December 2019 are as follows:

Acquisition	**31.12.2020**	**31.12.2019**
Energy purchases (1)	2,251	3,103
Energy transmission (2)	109	113
Total contractual obligations	**2,360**	**3,216**

Sale	**31.12.2020**	**31.12.2019**
Energy sales (3)	759	1,206
Energy transmission (4)	749	—
Provision of capacity assignment services (5)	866	95
Total contractual obligations	**2,374**	**1,301**

(1) Reflects long-term commitments to buy natural gas from Unión Fenosa Gas.
(2) Includes operating costs associated with gas tanker chartering agreements with Unión Fenosa Gas under a financial lease arrangement.
(3) Reflects long-term commitments to sell natural gas of Unión Fenosa Gas.
(4) Includes the long-term commitments to transport natural gas of Medgaz.
(5) Reflects service provision commitments under power generation capacity assignment contracts from EcoEléctrica L.P. to Puerto Rico Electricity Power Authority.During the financial year 2020, a new agreement was formalized until 2032.

Certain investment projects related to interests in joint ventures have been financed by means of specific structures (project finance) which include pledges on the shares in the project companies. At 31 December 2020, the outstanding balance of this type of financing totals Euros 208 million (Euros 183 million at 31 December 2019).

Joint operations

Naturgy participates in various joint operations that meet the conditions indicated in Note 2.4.1.b and which are described in Appendix I, section 3. The relevant interests in joint operations at 31 December 2020 and 2019 are as follows:

	2020	2019
Comunidad de Bienes Central Nuclear de Almaraz	11.30%	11.30%
Comunidad de Bienes Central Nuclear de Trillo	34.50%	34.50%
Comunidad de Bienes Central Térmica de Anllares	66.70%	66.70%

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

	31.12.2020	31.12.2019
Non-current assets	90	136
Current assets	73	74
Cash and cash equivalents	—	1
Non-current liabilities	(112)	(90)
Non-current financial liabilities	—	—
Current liabilities	(14)	(83)
Current financial liabilities	(12)	(12)
Net assets	**37**	**37**
Net borrowings (1)	12	11

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

	2020	2019
Revenue	158	222
Operating expenses	(114)	(165)
Gross operating results	**44**	**57**
Depreciation, amortisation and impairment losses (1)	(88)	72
Operating profit	**(44)**	**129**
Net financial income/(expense)	—	—
Profit/(loss) before tax	**(44)**	**129**
Corporate income tax	11	(32)
Profit/(loss) attributed for the year from continuing operations	**(33)**	**97**

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

Note 9. Financial assets

Financial assets classified by nature and category break down as follows at 31 December 2020 and 2019:

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

31.12.2019	Fair value through other comprehensive income	Fair value through profit or loss	Amortised cost	Total
Equity instruments	35	190	—	**225**
Derivatives (Note 18)	9	20	—	**29**
Other financial assets	—	—	484	**484**
Non-current financial assets	**44**	**210**	**484**	**738**
Derivatives (Note 18)	5	—	—	**5**
Other financial assets	—	—	328	**328**
Current financial assets	**5**	**—**	**328**	**333**
Total	**49**	**210**	**812**	**1,071**

Financial assets recognised at fair value at 31 December 2020 and at 31 December 2019 are classified as follows:

	31.12.2020				31.12.2019			
Financial assets	Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	Total	Level 1 (listed price on active markets)	Nivel 2 (variables observables)	Nivel 3 (variables no observables)	Total
Fair value through other comprehensive income	—	—	35	**35**	—	14	35	**49**
Fair value through profit or loss	120	—	—	**120**	—	210	—	**210**
Total	**120**	**—**	**35**	**155**	**—**	**224**	**35**	**259**

The movement in equity instruments in 2020 and 2019, based on the method applied for calculating their fair value, is as follows:

	2020				2019			
	Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	Total	Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	Total
At 1 January	**—**	**224**	**35**	**259**	**—**	**48**	**347**	**395**
Additions	—	—	—	**—**	—	—	—	**—**
Changes recognised directly in equity	—	—	(3)	**(3)**	—	(3)	(227)	**(230)**
Changes recognised in income statement	120	(7)	—	**113**		95	—	**95**
Currency translation differences	—	—	—	**—**	—	(1)	—	**(1)**
Transfers and other (1)	—	(217)	3	**(214)**	—	85	(85)	**—**
At 31 December	**120**	**—**	**35**	**155**	**—**	**224**	**35**	**259**

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

Fair value through other comprehensive income

– Equity instruments:

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

Given the difficulty in assessing the fair value due to the specific situation of this asset, the shareholding in question was valued on the basis of the latest available information in audited financial statements, which reflect an attributed equity value of 85.4% of the Euros 25 million shareholding.

This decrease in fair value has been recorded under "Other accumulated comprehensive income".

Fair value through profit or loss

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

– the valuation of the deposits constituted at year-end as CO_2 emission rights for an amount of 120 million euros.

Amortised cost

The breakdown at 31 December 2020 and 2019 is as follows:

	31.12.2020	**31.12.2019**
Commercial loans	22	44
Gas system income deficit	—	—
Deposits and guarantees deposits	102	105
Other loans	202	335
Other non-current financial assets	**326**	**484**
Commercial loans	22	29
Electricity system income deficit	106	151
Gas system income deficit	116	27
Dividend receivable	20	—
Other loans	174	121
Other current financial assets	**438**	**328**
Total	**764**	**812**

The breakdown by maturities at 31 December 2020 and 2019 is as follows:

Maturities	**31.12.2020**	**31.12.2019**
No later than 1 year	438	328
Between 1 year and 5 years	64	185
More than 5 years	262	299
Total	**764**	**812**

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

The heading “Gas system revenue deficit financing” includes temporary mismatches between gas system revenues and costs funded by Naturgy pursuant to Law 18/2014 of 17 October, amounting to Euros 116 million (Euros 27 million at 31 December 2019). This amount will be recovered through the gas system settlements. The amount pending receipt following the settlements for the year generates a recovery right in the following five years for the remaining amount financed, plus interest at a market rate. The amount of this financing has been recognised entirely as a short-term item on the understanding that it is a temporary mismatch that will be recovered through system settlements within one year.

“Electric system revenue deficit financing” includes the temporary mismatches between electricity system revenues and costs financed by Naturgy pursuant to Law 24/2013 of 26 December in the amount of Euros 106 million (Euros 151 million at 31 December 2019). This amount will be recovered through the settlements of the electrical system. The amount pending collection, after settlements for the year generates a recovery right over the following five years and interest at a market rate. The amount of this financing has been entirely recognised as a short-term item on the understanding that it is a temporary mismatch that will be recovered through system settlements within one year.

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

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

“Other loans” includes, basically:

- a loan of Euros 19 million (Euros 115 million at 31 December 2019) for financing ContourGlobal La Rioja. S.L. for the sale of the Arrúbal combined cycle plant (La Rioja), which took place on 28 July 2011and which at 31 December 2020 is fully classified under current assets (Euros 24 million in 2019). The loan bears annual interest at a market rate and matures in 2021.
- The value of generation concessions in Costa Rica that are deemed to be credits, pursuant to IFRIC 12 “Service concession arrangements” (Note 2.4.2.b and Note 33), in the amount of Euros 126 million (Euros 168 million at 31 December 2019), of which Euros 15 million is classified under current assets (Euros 14 million in 2019). These credits are classified under this heading as they represent an unconditional right to receive cash in fixed or determinable amounts.

Derivatives

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

Note 18 shows the details of the derivative financial instruments.

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

The headings “Other non-current assets” and “Trade and other receivables” at 31 December 2020 and 31 December 2020 and 2019, classified by nature and category, are as follows:

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

31.12.2019	Fair value through other comprehensive income	Amortised cost	Total
Derivatives (Note 18)	247	—	**247**
Other assets	—	334	**334**
Other non-current assets	**247**	**334**	**581**
Derivatives (Note 18)	305	—	**305**
Other assets	—	4,595	**4,595**
Trade and other receivables	**305**	**4,595**	**4,900**
Total	**552**	**4,929**	**5,481**

Financial assets recognised at fair value at 31 December 2020 and at 31 December 2019 are classified as follows:

Financial assets	31.12.2020				31.12.2019			
	Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	Total	Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	Total
Fair value through other comprehensive income	15	431		**446**		552		**552**
Fair value through profit or loss	—	—	—	—	—	—	—	—
Total	**15**	**431**	**—**	**446**	**—**	**552**	**—**	**552**

Fair value through other comprehensive income

Non-current derivative financial assets through other comprehensive income include the market value of the power purchase contracts signed by the Group's Australian wind power subsidiaries in the amount of Euros 279 million (Euros 111 million as at 31 December 2019), of which Euros 264 are classified as non-current (Euros 109 million as at 31 December 2019). The PPAs are either with the government of the state in which they operate or with private companies, and they hedge the forward sale price of electricity for a given volume of MWh and a given time period. These agreements are recognised as cash flow hedges (Note 18).

They also include operational derivatives hedging gas prices amounting to Euros 151 million (Euros 427 million as at 31 December 2019), of which Euros 88 million are classified as non-current (Euros 138 million as at 31 December 2019) (Note 18).
In addition, operating hedging derivatives are included to cover gas sales (Note 18).

	31.12.2020	31.12.2019
Receivable, revenue from capacity services	151	167
Other receivables	188	167
Other non-current assets	**339**	**334**
Trade receivables	3,444	4,662
Receivables with related companies (Note 34)	19	34
Provision for impairment due to debtor credit losses	(775)	(785)
Trade receivables for sales and services	2,688	3,911
Public Administrations	89	79
Prepayments	94	92
Sundry receivables	113	232
Other receivables	296	403
Current income tax asset	37	281
Trade and other receivables	**3,021**	**4,595**
Other non-current assets and trade and other receivables	**3,360**	**4,929**

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

The heading “Receivable, revenue from capacity services” relates to revenue yet to be billed in respect of the levelling of the term of the service contracts for electricity generation capacity assignment with the Mexican Federal Electricity Commission (Note 2.4.20.f).

In 2020, as a result of the decline in demand for gas and electricity, the Company availed itself of the flexibility mechanisms in the procurement contracts which accrue entitlement to volumes not delivered, which are recognised at 31 December 2020 under "Other receivables" for the non-current part, and payment obligations, recognised under "Trade payables". At 31 December 2019, this included long-term trade receivables relating to the price stabilisation mechanisms in Chile (Note 2.4.2).

In general, the outstanding invoices do not accrue interest as they fall due in an average period of 19 days.

At 31 December 2020 the accumulated balances for electricity and gas sales yet to be invoiced are included under “Trade receivables” and amount to Euros 1,002 million (Euros 1,618 million at 31 December 2019).

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

	2020	2019
At 1 January	**(785)**	**(789)**
Provision for impairment due to credit losses	(194)	(134)
Write offs	96	136
Currency translation differences	49	2
Transfers and other (1)	59	—
At 31 December	**(775)**	**(785)**

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

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

At 31 December 2020, non-current assets held for sale relate to the gas generation business in Peru and electricity distribution in Chile:

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

- On 13 November 2020 Naturgy reached an agreement to sell its 96.04% holding in Compañía General de Electricidad S.A. in Chile (CGE), a company engaging in the electricity network business in Chile, to State Grid International Development Limited (SGID) for a total purchase price (equity value) of Euro 2,570 million, set in euros and payable in cash upon completion of the transaction. Since this figure is higher than the carrying amount, no valuation impact has been recognised under IFRS 5. The execution of the transaction is subject to the relevant regulatory approvals and competition clearance and it is expected to be completed by the end of February 2021, provided that the conditions mentioned above are met.

As Naturgy has a firm commitment to sell these assets that are clearly identified, the process is under way and it is considered that the sale is highly probable, the accounting balances of these assets and liabilities in November 2020 were transferred to "Non-current assets held for sale" and "Liabilities related to non-current assets held for sale", in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations". In addition, it was considered that these are discontinued operations as they are components classified as held for sale which represented a significant and separate line of business or geographical area of operations. The income and expenses pertaining to these lines of business for 2020 and 2019 (Note 2.3) are disclosed under "Profit for the year from discontinued operations net of taxes".

– In addition, on 30 June 2020 Naturgy's coal-fired generation facilities in Spain ceased to operate because there was no compensation mechanism that would make possible the necessary investments that had to be done to reduce emissions and therefore did not comply with the new emission limits. As this group of assets is to be abandoned and as it forms part of a coordinated closure plan and represents a significant and separate line of business in accordance with IFRS 5, it has been treated as a discontinued operation and all income and expenses relating to this line of business for 2020 and 2019 are disclosed under "Profit for the year from discontinued operations net of taxes" (Note 2.3).

At 31 December 2019, non-current assets held for sale related to the electricity generation business in Kenya and the 47.9% interest in Ghesa Ingeniería y Tecnología, S.A. (Ghesa).

– As a result of the strategic review of its business, Naturgy initiated a competitive process for the sale of 100% of its shareholding in Iberafrica Power Limited, in Kenya. On 27 June 2018, Naturgy reached an agreement with AEP Energy Africa Limited for the sale at a total value (Enterprise Value) of USD 62 million. After a number of term extensions, AEP was notified of the termination of the contract in March 2019 and the sale process continued. Finally, on 19 September 2019 a new sales agreement was reached with A.P. Moller Capital for a value equivalent to the previous agreement, subject to the fulfilment of certain conditions, which are expected to be fulfilled in the first quarter of 2020. Fair value was determined based on the selling price less costs to sell and its updating did not have a material impact on the consolidated income statement.

On 3 April 2020 the transaction was completed for a total amount of Euros 35 million, including the repayment of an intragroup loan, and did not have a material impact on the consolidated income statement.

As Naturgy has sold said clearly identified assets, the account 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". In addition, it was considered that these are discontinued operations as they are components classified as held for sale which represented a significant and separate line of business or geographical area of operations. The income and expenses pertaining to these lines of business are disclosed under "Profit for the year from discontinued operations net of taxes".

– In July 2019, Naturgy and the other Ghesa shareholders concluded an agreement with CPE for the sale of their respective shareholdings (47.9% in the case of Naturgy). On 20 January 2020, the sale of Ghesa for Euros 24 million was completed, generating a pre-tax capital gain of Euros 15 million recorded under "Other results". As it does not represent a significant business line or geographical area of operation which is separate from the rest, this was not treated as a discontinued operation.

In addition, during 2019 the electricity distribution business in Moldova was sold, which was treated as held for sale at 31 December 2017. The transaction, which values the capital of the investees at Euros 141 million, including dividends prior to completion of the transaction (Euros 48 million in 2018 and Euros 68 million in 2019), took place in July 2019 with no significant impact on the consolidated income statement. At the time of the transfer, it was considered that these were discontinued operations as they are components classified as held for sale which represented a significant and separate line of business or geographical area of operations. Therefore, all income and expenses until the time of sale are disclosed under "Profit for the year from discontinued operations net of taxes".

In addition, on 10 July 2019 the Chilean group company Compañía General de Electricidad, S.A. (CGE) reached an agreement with the Argentine company Cartellone Energía y Concesiones, S.A. (CECSA) to exchange CGE's shares in the electricity distribution companies in Argentina (Empresa de Distribución Eléctrica de Tucumán, S.A., Empresa Jujeña de Energía, S.A. and Empresa Jujeña de Sistemas Energéticos Dispersos, S.A.) for CECSA's shares in the gas distribution companies in Argentina (Gasnor, S.A. and Gasmarket, S.A.). The sale took place on 30 July for a total price of USD 40 million (Euros 36 million), which is the same price set for the acquisition, without any significant impact on the consolidated financial statements. The interest in the electricity distribution companies was classified as held-for-sale at 30 June 2019 and since the sale value of these holdings was higher than their carrying amount no valuation impact was recorded under IFRS 5. In addition, as it does not represent a significant business line or geographical area of operation which is separate from the rest, this was not treated as a discontinued operation.

Finally, on 1 October, 100% of the shareholding in Empresa de Transmisión Eléctrica Transemel, S.A., which carries out electricity transmission activities in Chile, was sold. The total sale price amounted to Euros 155 million, generating a pre-tax capital gain of Euros 68 million. The investment in Transemel had been classified as held-for-sale at 30 June 2019 and since the expected sale value of this holding was higher than its carrying amount no valuation impact was recorded under IFRS 5. In addition, as it does not represent a significant business line or geographical area of operation which is separate from the rest, this was not treated as a discontinued operation. However, as the holding is owned through CGE, it has been included in the results of interrupted operations in the electricity distribution business in Chile.

The breakdown by nature of assets classified as held for sale and the associated liabilities is as follows at 31 December 2020 and 2019:

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

2019	International Electricity Kenya	Ghesa	Total
Intangible assets	—	—	—
Property, plant and equipment	42	—	42
Non-current financial assets	—	12	12
Other non-current assets	—	—	—
Deferred tax assets	—	—	—
NON-CURRENT ASSETS	**42**	**12**	**54**
Inventories	8	—	8
Trade and other receivables	10	—	10
Other current financial assets	1	—	1
Cash and cash equivalents	—	—	—
CURRENT ASSETS	**19**	**—**	**19**
TOTAL ASSETS	**61**	**12**	**73**
			—
Grants	—	—	—
Non-current provisions	—	—	—
Non-current financial liabilities	—	—	—
Deferred tax liabilities	9	—	9
Other non-current liabilities	—	—	—
NON-CURRENT LIABILITIES	**9**	**—**	**9**
Current financial liabilities	30	—	30
Trade and other payables	2	—	2
Other current liabilities	5	—	5
CURRENT LIABILITIES	**37**	**—**	**37**
TOTAL LIABILITIES	**46**	**—**	**46**

Breakdowns by nature of the heading “Profit for the year from discontinued operations net of taxes” in the consolidated income statement for 2020 and 2019 are as follows:

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

2019	International Electricity Kenya	Electricity distribution Moldova	Electricity distribution Chile	Gas Distribution Peru	Coal generation Spain	Total
Revenue	32	155	2,212	12	50	2,461
Raw materials and consumables	(10)	(126)	(1,647)	(9)	(51)	(1,843)
Other operating income	—	—	15	—	3	18
Personnel expenses	(3)	(4)	(86)	(1)	(30)	(124)
Other operating expenses	(4)	(7)	(149)	(4)	(13)	(177)
Gain/(loss) on disposals of fixed assets	—	—	8	—	—	8
Release of fixed asset grants to income and other	—	—	—	—	—	—
GROSS OPERATING RESULTS	**15**	**18**	**353**	**(2)**	**(41)**	**343**
Fixed asset depreciation/amortisation	—	—	(107)	(5)	(12)	(124)
Impairment due to credit losses	—	—	(25)	—	—	(25)
Other results	(11)	(14)	68	—	—	43
OPERATING PROFIT/(LOSS)	**4**	**4**	**289**	**(7)**	**(53)**	**237**
Financial income	—	—	5	—	—	5
Financial expenses	(2)	(1)	(84)	(3)	—	(90)
Exchange differences	—	—	1	—	—	1
NET FINANCIAL INCOME/(EXPENSE)	**(2)**	**(1)**	**(78)**	**(3)**	**—**	**(84)**
Profit/(loss) on equity method companies	—	—	—			—
PROFIT/(LOSS) BEFORE TAXES	**2**	**3**	**211**	**(10)**	**(53)**	**153**
Corporate income tax	(2)	(3)	(66)	3	13	(55)
PROFIT FOR THE YEAR AFTER TAXES FROM DISCONTINUED OPERATIONS	**—**	**—**	**145**	**(7)**	**(40)**	**98**
Attributable to:						—
The parent company	—	—	**135**	(7)	(40)	88
Non-controlling interests	—	—	**10**	—	—	10

The total comprehensive income from this activity in the years ended 31 December 2020 and 31 December 2019 breaks down as follows:

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

2019	Electricity distribution Moldova	Electricity distribution Chile	Gas Distribution Peru	Coal generation Spain	Total
Consolidated profit/(loss) for the year	**—**	**145**	**(7)**	**(40)**	**98**
Other comprehensive income recognised directly in equity:					—
Financial assets at fair value through other comprehensive income	—	—	—	—	—
Currency translation differences	(5)	(137)	—	—	(142)
Transfer to the income statement:					—
Currency translation differences	—	—	—	—	—
Total comprehensive income for the year	**(5)**	**8**	**(7)**	**(40)**	**(44)**

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

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

	International Electricity Kenya	Electricity distribution Moldova	Electricity distribution Chile	Gas Distribution Peru	Coal generation Spain	Total
Cash flow from:						
Operation	2	9	198	(2)	(41)	166
Investment	(1)	(2)	24	(2)	—	19
Financing	(1)	(33)	(199)	2	—	(231)

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

Note 12. Inventories

The breakdown of Inventories is as follows:

	31.12.2020	31.12.2019
Natural gas and liquefied gas	265	445
Coal and fuel oil	6	39
Nuclear fuel	53	56
CO2 emission allowances	148	196
Raw materials and other inventories	47	60
Total	**519**	**796**

At 31 December 2020 Naturgy has commitments for the acquisition of inventories amounting to Euros 35 million (Euros 31 million at 31 December 2019) corresponding to nuclear fuel.

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

Accumulated inventory impairment at 31 December 2020 amounts to Euros 67 million (Euros 75 million at 31 December 2019).

Note 13. Cash and cash equivalents

Cash and cash equivalents breaks down as follows:

	31.12.2020	31.12.2019
Cash at banks and in hand	1,986	1,574
Short term investments (Spain and rest of Europe)	1676	881
Short term investments (International)	265	230
Total	**3,927**	**2,685**

The investments in cash equivalents mature in less than three months and bear a weighted effective interest rate of 0.37% at 31 December 2020 (1.18% at 31 December 2019). Includes temporary financial investments in deposits associated with CO_2 emission rights with a maturity of less than three months and assured profitability.

At 31 December 2020 and 2019 there are no investments in sovereign debt, nor are there any significant restrictions on cash withdrawals.

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

Note 14. Net Equity

The main net equity items are analysed below:

Share capital and share premium

The variations in 2020 and 2019 in the number of shares and share capital and share premium accounts have been as follows:

	Number of shares	Share capital	Share premium	Total
01.01.2019	**1,000,689,341**	**1,001**	**3,808**	**4,809**
Capital reduction	(16,567,195)	(17)	—	(17)
31.12.2019	**984,122,146**	**984**	**3,808**	**4,792**
Capital reduction	(14,508,345)	(14)	—	(14)
31.12.2020	**969,613,801**	**970**	**3,808**	**4,778**

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

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

On 5 August 2019, capital was also reduced through the redemption of 16,567,195 treasury shares with a par value of 1 euro each, representing approximately 1.65% of the Company's share capital at the time of adoption of the relevant resolution (see paragraph on treasury shares in this Note). Following the capital reduction share capital stood at Euros 984 million, made up 984,122,146 shares with a par value of 1 euro each.

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

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

The most representative holdings in the share capital of Naturgy Energy Group at 31 December 2020 and 31 December 2019, in accordance with the public information available or the information released by the Company itself, are as follows:

	Interest in share capital %	
	2020	2019 (4)
- Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona,“la Caixa” (1)	24.8	24,4
- Global Infrastructure Partners III (2)	20.6	20,3
- CVC Capital Partners SICAV-FIS, S.A. (3)	20.7	20,4
- Sonatrach	4.1	4.1

(1) Holding through Criteria Caixa S.A.U.
(2) Global Infrastructure Partners III, whose investment manager is Global Infrastructure Management LLC, holds its interest indirectly through GIP III Canary 1, S.à.r.l.
(3) Through Rioja Acquisitions S.à.r.l.
(4) Capital Research and Management Company, which at 31 December 2019 held 3.0% of share capital, is not included as it is considered to be floating capital as the 3% limit is occasionally exceeded or reduced.

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

Naturgy's share price at the end of 2020 is Euros 18.96 (Euros 22.40 at 31 December 2019).

Reserves and retained earnings

“Reserves” includes the following reserves:

	2020	**2019**
Legal reserve	200	200
Statutory reserve	100	100
Goodwill reserve	—	27
Capital Redemption Reserve	31	17
Other reserves and retained earnings	6,149	6,343
Voluntary reserve Naturgy Energy Group, S.A.	10,702	10,973
Other reserves and retained earnings	(4,553)	(4,630)
	6,480	**6,687**

<u>Legal reserve</u>

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

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

<u>Statutory reserve</u>

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

<u>Goodwill reserve</u>

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

At the annual general meeting held on 26 May 2020, the shareholders agreed to the transfer to Voluntary reserves of Euros 27 million from the Goodwill reserve (Euros 82 million in 2019). At 31 December 2020 the entire goodwill reserve has been reclassified to voluntary reserves.

<u>Capital redemption reserve</u>

Following approval at the ordinary general meeting of shareholders held on 26 May 2020, a capital reduction was made during the year through the redemption of treasury shares with a reduction of Euros 14 million in capital and Euros 284 million in voluntary reserves (reduction in capital of Euros 17 million and in voluntary reserves of Euros 383 million in 2019).

In addition, pursuant to Article 335 c) of the Spanish Companies Act a restricted Capital redemption reserve was created for an amount equal to the par value of the redeemed shares. The total accumulated capital redemption reserve amounts to Euros 31 million (Euros 17 million in 2019).

<u>Other reserves and retained earnings</u>

Relates basically to voluntary reserves for retained earnings.

Share-based payments

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

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

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

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

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

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

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

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

As a result of the time apportionment of the fair value estimate of the equity instruments granted over the term of the plan, an amount of Euros 4.5 million (Euros 4.5 million in 2019) has been recorded in the consolidated income statement for 2020 under Personnel expenses, credited to Reserves in the consolidated balance sheet.

Treasury shares

Movements during 2020 and 2019 involving the treasury shares of Naturgy Energy Group, S.A. are as follows:

	Number of shares	Amount (million euro)	% Capital
01.01.2019	**14,037,332**	**321**	**1.4**
Share acquisition plan	332,382	7	—
Delivered to employees	(310,812)	(7)	—
2018 buyback programme	11,169,458	279	1.1
Capital reduction	(16,567,195)	(400)	(1.6)
2019 buyback programme	5,162,320	121	0.5
31.12.2019	**13,823,485**	**321**	**1.4**
Share acquisition plan	470,000	8	—
Delivered to employees	(455,797)	(8)	—
2019 buyback programme	9,346,025	178	0.9
Capital reduction	(14,508,345)	(298)	(1.4)
31.12.2020	**8,675,368**	**201**	**0.9**

In 2020 and 2019, no gains or losses were made on transactions involving treasury shares.

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

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

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

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

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

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

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

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

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

– Share Acquisition Plan: In accordance with the resolutions adopted by the shareholders of Naturgy Energy Group, S.A. at the General Meeting held on 20 April 2017, the Share Acquisition Plan 2017-2018-2019 for 2019, aimed at Naturgy employees in Spain who decide voluntarily to take part in the Plan, was set in motion. The Plan enables participants to receive part of their remuneration for 2019 in the form of shares in the Company, subject to an annual limit of Euros 12,000. During 2019, 32,382 treasury shares were acquired for Euros 7 million and 455,797 shares were delivered, leaving a surplus of 21,570 shares.

– 2018 buyback programme: Within the Strategic Plan 2018-2022, The Board of Directors of Naturgy Energy Group, S.A. approved a treasury shares buyback programme, which was published on 6 December 2018, with a maximum investment of Euros 400 million to 30 June 2019, representing approximately 1.8% of share capital, which may be redeemed if such is decided by the shareholders at the annual general meeting to be held in the first half of 2019. At 30 June 2019, a total of 16,567,195 treasury shares had been acquired under this programme at an average price of Euros 24.13 per share, representing a total cost of Euros 400 million which has been used to reduce capital.

– Capital reduction: At its meeting on 23 July 2019, the Company's Board of Directors resolved to implement the capital reduction resolution approved at the annual general meeting of shareholders held on 5 March 2019, whereby it approved a reduction in the share capital of Naturgy Energy Group, S.A. by the amount resulting from the sum of:

a. Euros 3 million through the redemption of 2,998,622 treasury shares with a par value of 1 euro each which had been acquired at the close of trading on 6 December 2018.

b. The aggregate par value, up to a maximum of Euros 16 million, of the 16,000,000 additional shares with a par value of one euro each which, where applicable, are acquired for redemption by the Company under the treasury share buyback programme approved by the Company under Regulation (EU) No. 596/2014 on market abuse and disclosed as price-sensitive information on 6 December 2018.

In this respect, as Naturgy Energy Group, S.A. had acquired a total of 13,568,573 shares at 30 June 2019 under the approved buyback programme referred to above, the Board of Directors set the figure for the capital reduction at Euros 17 million (the "Capital Reduction") and agreed to implement this reduction. The Capital Reduction was carried out through the redemption of 16,567,195 treasury shares with a par value of 1 euro each, representing approximately 1.65% of the Company's share capital at the time of adoption of the resolution in question. Following the Capital Reduction share capital stood at Euros 984 million, made up 984,122,146 shares with a par value of 1 euro each.

– 2019 buyback programme: At 31 December 2019, a total of 5,162,320 treasury shares had been acquired under this programme at an average price of Euros 23.3 per share, representing a total cost of Euros 121 million.

Additionally, at 31 december 2020 and 2019 inludes 8,639,595 treasury shares the objective of which is to cover the potential delivery of shares derived from the increase in the value of the shares involved in the long-term variable incentive plan (see paragraph on Share-based payments in this Note).

Movements during 2020 and 2019 involving the treasury shares of Compañía General de Electricidad, S.A. and CGE Gas Natural, S.A. are as follows:

	Número de acciones		Importe en millones de euros
	Compañía General de Electricidad, S.A.	CGE Gas Natural, S.A.	
01.01.2019	**4,087,225**	**—**	**4**
Acquisitions	—	—	—
Disposals and other	(4,087,225)	—	(4)
31.12.2019	**—**	**—**	**—**

In 2018, as a result of the merger between the company and its subsidiaries CGE Distribución S.A., Compañía Nacional de Fuerza Eléctrica, S.A. and Empresa Eléctrica Atacama, S.A. approved by the shareholders at an extraordinary general meeting of Compañía General de Electricidad S.A. on 30 November 2017, the shareholders of said companies were allowed a right of withdrawal, under which they could sell their shares to the company. This right was exercised by 60 shareholders holding 1,936,176 shares. In addition, as a result of the merger by absorption of Empresa Eléctrica de Arica S.A., Empresa Eléctrica de Iquique S.A. and Empresa Eléctrica de Antofagasta S.A. into Compañía General de Electricidad S.A., the shareholders of said companies were allowed a right of withdrawal, under which they could sell their shares to the company. This right was exercised by 66 shareholders holding 2,151,049 shares.

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. During 2019 capital was reduced as a matter of law since 4,087,225 treasury shares has not been subscribed within the term of one year as from their payment date.

Earnings per share

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

	31.12.2020	31.12.2019
Profit attributable to equity holders of the parent company	(347)	1,401
Weighted average number of ordinary shares in issue	962,554,727	977,636,309
Earnings per share from continuing operations (in euro):		
- Basic	(0.38)	1.34
- Diluted	(0.38)	1.34
Earnings per share from discontinued activities (in euro):		
- Basic	0.02	0.09
- Diluted	0.02	0.09

Earnings per share for 2019 have been ave been restated reclassifying to discontinued operations in application of IFRS 5 (Notes 2.2 and 11).

The average weighted number of ordinary shares used in the calculation of earnings per share in 2020 and 2019 is as follows:

	2020	2019
Weighted average number of ordinary shares	978,453,585	993,971,684
Weighted average number of treasury shares	(15,898,858)	(16,335,375)
Weighted average number of shares in issue	962,554,727	977,636,309

Basic earnings per share are the same as diluted earnings per share as there were no instruments that could be converted into ordinary shares during those years and at the 2020 year-end the conditions for considering the shares pertaining to the incentive described in the paragraph on Share-based remuneration in the calculation of diluted earnings are not met.

Dividends

Set out below is a breakdown of the payments of dividends made in 2020 and 2019:

	31.12.2020			31.12.2019		
	% sobre Nominal	**Euros por acción**	**Importe**	**% sobre Nominal**	**Euros por acción**	**Importe**
Ordinary shares	141%	1.41	1,370	134%	1.34	1,319
Other shares (without voting rights, redeemable, etc.)	—	—	—	—	—	—
Total dividends paid	**141%**	**1.41**	**1,370**	**134%**	**1.34**	**1,319**
a) Dividends charged to income statement	141%	1.41	1,370	134%	1.34	1,319
b) Dividends charged to reserves or share premium account	—	—	—	—	—	—
c) Dividends in kind	—	—	—	—	—	—

Additionally, dividends paid to non-controlling shareholders in 2020 amounted to Euros 432 million (Euros 582 million in 2019). See "Non-controlling interests" in this Note, with which dividend payments have amounted to Euros 1,802 million (Euros 1,901 million in 2019).

<u>2020</u>

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

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

Naturgy Energy Group, S.A. had sufficient liquidity to pay the dividend at the approval date in accordance with the Spanish Companies Act. The provisional liquidity statement drawn up by the Directors on 16 March 2020 was as follows:

Profit after taxes at 31 December 2019		4,415
Reserves to be replenished		-
Maximum amount distributable		4,415
Interim dividend 2019 profits		754
Forecast maximum interim dividend payment (1)		584
Cash resources	1,100	
Undrawn credit facilities	4,807	
Total liquidity		5,907

1) Amount considering total shares issued.

On 15 April 2020 the Board of Directors approved a new proposal for the distribution of the Company's net profit for 2019 which was to the annual general meeting:

AVAILABLE FOR DISTRIBUTION

Available for distribution... 4,415

DISTRIBUTION:

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

a. Euros 1,330 million relating to the three interim dividends for 2019 paid by the Company, equivalent jointly to Euros 1.36 per share by the number of shares that were not direct treasury shares on the relevant dates;

b. and the amount obtained by multiplying 0.010 euros per share by the number of shares that are not direct treasury shares on the date on which the registered shareholders entitled to receive the supplementary dividend (the "Supplementary Dividend") are determined.

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

Total distributed.. 4,415

Finally, the general meeting of shareholders held on 26 May 2020 approved a supplementary dividend of 0.01 euros per share for shares not directly held as treasury stock on the payment date, which was fully paid in cash on 3 June 2020.

Following payment of the supplementary dividend, the amount allocated to Retained earnings was Euros 3,076 million.

On 21 July 2020, the Company's Board of Directors resolved to pay an interim dividend of 0.310 euros per share out of 2020 results, for shares not classified as direct treasury shares on the date on which the dividend was paid, this being 29 July 2020.

Naturgy Energy Group, S.A. had sufficient liquidity to pay the dividend at the approval date in accordance with the Spanish Companies Act. The provisional liquidity statement drawn up by the Directors on 21 July 2020 was as follows:

Profit after tax		535
Reserves to be replenished		-
Maximum amount distributable		535
Forecast maximum interim dividend payment (1)		305
Cash resources	2,679	
Undrawn credit facilities	5,383	
Total liquidity		8,062

1) Amount considering total shares issued

On 27 October 2020, the Company's Board of Directors resolved to pay an interim dividend of 0.50 euros per share out of 2020 results, for shares not classified as direct treasury shares on the date on which the dividend was paid, this being 11 November 2020.

The Company had sufficient liquidity to pay out the dividend at the approval date, with the necessary liquidity to proceed to payment pursuant to the Spanish Companies Act. The provisional liquidity statement drawn up by the Directors on 27 October 2020 is as follows:

Profit after tax		915
Reserves to be replenished		—
Maximum amount distributable		915
Interim dividend 2020 profits		301
Forecast maximum interim dividend payment (1)		485
Cash resources	2,785	
Undrawn credit facilities	5,325	
Total liquidity		8,110

1) Amount considering total shares issued

The trend in the Company's profits in the last quarter of the year, basically due to the impairment of holdings in Group companies, means that at year end profits are insufficient to be able to pay an interim dividend. At the annual general meeting, therefore, the Board of Directors will propose that they should be taken to retained earnings.

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

AVAILABLE FOR DISTRIBUTION

Profit..98
Retained earnings..3,076
Available for distribution.. 3,174

DISTRIBUTION:

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

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

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

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

    The Group is currently in the process of drawing up a new Strategic Plan that will take into account i) the deterioration of the demand forecast as a result of the evolution of the pandemic; ii) the worsening of the macroeconomic situation, and in particular the expected evolution of exchange rates in Latin America where the Group carries out a significant part of its activity; iii) the forecast of the main energy indicators affecting all the liberalised gas businesses; and iv) business opportunities in the energy transition (renewables, hydrogen and others).

    The main objectives of this new Plan are i) to reformulate the one in force until now; ii) to give greater visibility for the coming years; iii) to define a long-term sustainable shareholder remuneration policy.

Of this Dividend, an amount of 785 million euros has already been paid on 29 July and 11 November 2020. Payment of the Final Dividend will be made in the amount per share indicated above through the entities participating in Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear). The aforementioned dividend will be paid to shareholders as from 16 March 2021.

To this effect, the Board of Directors is empowered, with express power of substitution in the Director or Directors it deems appropriate, to carry out all necessary or appropriate actions to carry out the distribution and, in particular, by way of indication and not limitation, to designate the entity that shall act as payment agent.

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

Total distributed.. 3,174

This proposal for the distribution of profits and retained earnings prepared by the Board for approval by the annual general meeting includes a supplementary payment of Euros 0.63 per share for each qualifying share outstanding at the proposed date of payment, 16 March 2021. In this respect, in the event that at the time of distribution of the third and last payment of the proposed 2020 dividend (Euros 0.63 per share) the same number of treasury shares is maintained as at the 2020 year end (35,773 treasury shares, see section on Treasury shares), the amount applied to retained earnings would be Euros 1,778 million.

2019

The general meeting of shareholders held on 5 March 2019 approved a supplementary dividend of 0.570 euros per share for shares not directly held as treasury stock on the payment date, which was fully paid in cash on 20 March 2019.

On 23 July 2019, the Company's Board of Directors resolved to pay an interim dividend of Euros 0.294 per share out of 2019 profits for a total of Euros 289 million, which was paid on 31 July 2019 with respect to the outstanding shares at that date.

On 29 October 2019, the Board of Directors of Naturgy Energy Group, S.A. resolved to pay a second interim dividend of Euros 0.473 per share out of 2020 results for a total of Euros 465 million, which was paid on 12 November 2019 with respect to the outstanding shares at that date.

Other equity items

Movements in other equity items break down as follows:

	Financial assets at fair value	Hedging operations	Tax effect	Total asset and liability revaluation reserves	Currency translation differences	Total
31.12.2018	**(222)**	**29**	**(20)**	**(213)**	**(1,061)**	**(1,274)**
Change in value	(225)	332	(31)	**76**	(105)	(29)
Taken to income statement	—	1	(7)	**(6)**	28	22
Other	—	—	—	**—**	27	27
31.12.2019	**(447)**	**362**	**(58)**	**(143)**	**(1,111)**	**(1,254)**
Change in value	(4)	242	(39)	**199**	(450)	(251)
Taken to income statement	—	(439)	47	**(392)**	—	(392)
Other	—	—	—	**—**	—	—
31.12.2020	**(451)**	**165**	**(50)**	**(336)**	**(1,561)**	**(1,897)**

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

Non-controlling interests

	Non-controlling interests
Balance at 01.01.2019	**3,647**
Total comprehensive income for the year	352
Distribution of dividends	(576)
Payments return on other equity instruments	(58)
Expiration buyback commitment Naturgy México	69
Redemption treasury shares CGE, S.A.	(4)
Other changes	(5)
Balance at 31.12.2019	**3,425**
Total comprehensive income for the year	202
Distribution of dividends	(340)
Payments return on other equity instruments	(58)
Other changes	8
Balance at 31.12.2020	**3,237**

The most significant movements for 2019 relate to:

- The commitment to repurchase without a premium, granted on 22 September 2008 and renewed in June 2013, to Sinca Inbursa, S.A. de C.V. (Inbursa) pertaining to 14.125% of Naturgy México, S.A. de C.V. (formerly Gas Natural México, S.A. de C.V.) and 14% of Sistemas de Administración, S.A. de C.V., expired in May 2019 without having been exercised by Inbursa. Therefore, the derecognition of the liability and the corresponding increase in non-controlling interests was recorded as an equity transaction, as it involved a percentage change that did not represent a loss of control, leading to an increase in "Non-controlling interests" of Euros 69 million, a decrease in "Other current liabilities" of Euros 69 million, a negative impact on "Reserves" of Euros 27 million and a positive impact on "Currency translation differences" of Euros 27 million.

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

	2020			2019		
Company	**Attributed equity**	**Consolidated profit/(loss) for the year**	**Dividends and other reumerations**	**Attributed equity**	**Consolidated profit/(loss) for the year**	**Dividends and other reumerations**
Metrogas, S.A.	484	24	25	497	25	32
Companhia Distribuidora de Gás do Río de Janeiro, S.A.	95	26	7	107	37	77
Fuerza y Energía de Tuxpan S.A. de C.V.	100	11	—	120	17	—
Empresa de Distribución Eléctrica Metro Oeste, S.A.	95	5	—	104	16	—
Ecoelectrica L.P.	72	15	19	80	21	3
Europe Maghreb Pipeline, Ltd.	13	41	65	40	60	56
Gas Natural Mexico, S.A. de C.V.	83	14	24	102	12	38
Ceg Río, S.A.	29	8	6	36	10	3
Aprovisionadora global de energía, S.A.	31	13	24	44	17	10
Nedgia Catalunya, S.A.	169	43	—	192	46	—
Nedgia Madrid, S.A.	50	16	—	58	17	—
Other companies (1)	404	41	170	433	57	357
Subtotal	**1,625**	**257**	**340**	**1,813**	**335**	**576**
Preference shares	110	1	1	110	2	1
Subordinated perpetual debentures	1,502	58	58	1,502	58	58
Other equity instruments	**1,612**	**59**	**59**	**1,612**	**60**	**59**
Total	**3,237**	**316**	**399**	**3,425**	**395**	**635**

(1) 2020, includes accrued dividends amounting to Euros 24 million distributed by Global Power Generation, S.A. (Euro 266 million in 2019).

Dividends paid to non-controlling interests in 2020 amounted to Euros 432 million (Euros 582 million in 2019).

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

	31 de diciembre 2020			31 de diciembre 2019		
Company	**Total assets**	**Non-current liabilities**	**Current liabilities**	**Total assets**	**Non-current liabilities**	**Current liabilities**
Metrogas, S.A.	1,934	(685)	(101)	1,946	(700)	(59)
Companhia Distribuidora de Gás do Río de Janeiro, S.A.	569	(206)	(148)	763	(303)	(215)
Fuerza y Energía de Tuxpan S.A. de C.V.	999	(123)	(67)	1,122	(134)	(57)
Empresa de Distribución Eléctrica Metro Oeste, S.A.	1,186	(319)	(571)	1,122	(409)	(367)
Ecoelectrica L.P.	260	(7)	(3)	310	(13)	(3)
Europe Maghreb Pipeline, Ltd.	58	—	(1)	182	(1)	(5)
Gas Natural Mexico, S.A. de CV	601	(201)	(202)	827	(371)	(106)
Ceg Río, S.A.	187	(64)	(49)	241	(42)	(106)
Aprovisionadora global de energía, S.A.	135	(48)	(25)	151	(33)	(26)
Nedgia Catalunya, S.A.	1,146	(112)	(139)	1,228	(119)	(101)
Nedgia Madrid, S.A.	386	(42)	(74)	404	(44)	(54)

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

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

Perpetual subordinated debentures

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

Issuance	Nominal	Early redemption option	Coupon
Nov 2014	1,000	2022	4.125%
Apr 2015	500	2024	3.38%

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

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

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

The interest accrued during 2020 and 2019 amounts to Euros 58 million and has been recognised in “Non-controlling interests” in the consolidated income statement for 2020 and 2019.

Preference shares

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

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

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

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

Note 15. Deferred income

The breakdown and the movements under this heading in 2020 and 2019 have been as follows:

	Capital grants	pipeline networks and	Other	Total
01.01.2019	**110**	**647**	**106**	**863**
Amount received	14	59	6	79
Release to income	(7)	(29)	(10)	(46)
Currency translation differences (1)	—	—	(11)	(11)
Transfers and other	12	1	—	13
31.12.2019	**129**	**678**	**91**	**898**
Amount received	—	46	5	51
Release to income	(11)	(31)	(8)	(50)
Currency translation differences (1)	(1)	(4)	(1)	(6)
Transfers and other (2)	(15)	(5)	(2)	(22)
31.12.2020	**102**	**684**	**85**	**871**

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

This heading mainly includes:

- Capital grants relating basically to agreements with the Regional Governments or other entities for the gasification or electrification of municipalities and other investments in gas infrastructure, for which Naturgy has met all the conditions established, are stated at the amount granted (Note 2.4.22).
- Income received for the construction of connection facilities for the gas or electricity distribution network (undertaken), which are recorded for the cash received, as well as assignments received for these facilities, which are recorded at fair value, since both the cash and the facilities are received in consideration for an ongoing service of providing access to the network during the life of the facilities (Note 2.4.22).
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Note 16. Provisions

The breakdown of provisions at 31 December 2020 and 2019 is as follows:

	31.12.2020	31.12.2019
Provisions for employee obligations	473	537
Other provisions	579	632
Non-current provisions	**1,052**	**1,169**
Current provisions	**246**	**291**
Total	**1,298**	**1,460**

Provisions for employee obligations

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

	2020			2019		
	Pensions and other similar obligations	Other obligations with personnel	Total	Pensions and other similar obligations	Other obligations with personnel	Total
At 1 January	**525**	**12**	**537**	**425**	**6**	**431**
Appropriations/reversals charged to income statement	21	4	**25**	21	6	**27**
Payments during the year	(23)	(2)	**(25)**	(28)	—	**(28)**
Currency translation differences	(21)	—	**(21)**	(5)	—	**(5)**
Changes recognised directly in equity	(6)	—	**(6)**	112	—	**112**
Transfers and other applications (1)	(37)	—	**(37)**	—	—	**—**
At 31 December	**459**	**14**	**473**	**525**	**12**	**537**

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

Pensions and other similar obligations

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

Breakdown by country	31.12.2020	31.12.2019	01.01.2019
Spain (1)	398	404	311
Brazil (2)	39	62	61
Chile (3)	7	44	45
Mexico (4)	13	13	6
Rest	2	2	2
Total	**459**	**525**	**425**

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

Most of Naturgy's post-employment obligations in Spain consist of the contribution of defined amounts to occupational pension plan systems. Nevertheless, at 31 December 2020 and 31 December 2019, it held the following defined benefit obligations for certain groups of workers:

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

– Health care and other benefits.

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

At 31 December 2020 and at 31 December 2019, the following benefits payable by Naturgy for certain employees in Brazil were still in effect:

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

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

At 31 December 2020 and at 31 December 2019, the following benefits payable by Naturgy for certain employees in Chile were still in effect:

– Termination benefits for employees due to retirement, dismissal or death, calculated based on length of service.
– Pension supplements for employees hired prior to 1992 in some electricity distribution companies.
– Length-of-service awards payable at 5, 10, 15, 20, 25 and 30 years of service.

As of December 2020, the benefits associated with the Electricity Distribution companies in Chile have been classified as “Liabilities related to non-current assets held for sale”, in the application of IFRS 5, after the sale agreement on the Distribution subsidiaries of electricity in Chile described in Note 11.

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

At 31 December 2020 and at 31 December 2019, the following benefits payable by Naturgy for certain employees in Mexico were still in effect:

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

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

	2020				2019			
	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
Present value of obligations								
At 1 January	**1,111**	**167**	**44**	**15**	**1,011**	**149**	**45**	**8**
Service cost for the year	5	—	4	1	4	—	2	—
Interest cost	10	8	1	1	18	13	2	—
Changes recognised in equity	6	(7)	1	(1)	140	18	5	7
Benefits paid	(64)	(8)	(5)	—	(62)	(11)	(7)	—
Currency translation differences	—	(49)	(1)	(1)	—	(2)	(3)	—
Transfers and other	—	—	(37)	—	—	—	—	—
At 31 December	**1,068**	**111**	**7**	**15**	**1,111**	**167**	**44**	**15**
Fair value of plan assets								
At 1 January	**707**	**105**	**—**	**2**	**700**	**88**	**—**	**2**
Expected yield	5	5	—	—	11	8	—	—
Contributions	4	—	—	—	5	—	—	—
Changes recognised in equity	6	(1)	—	—	40	18	—	—
Benefits paid	(52)	(6)	—	—	(49)	(8)	—	—
Currency translation differences	—	(31)	—	—	—	(1)	—	—
Transfers and other	—	—	—	—	—	—	—	—
At 31 December	**670**	**72**	**—**	**2**	**707**	**105**	**—**	**2**
Provisions for pensions and similar obligations	**398**	**39**	**7**	**13**	**404**	**62**	**44**	**13**

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

	2020				2019			
	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
Service cost for the year	5	—	4	1	4	—	2	—
Past service cost	—	—	—	—	—	—	—	—
Interest cost	10	8	1	1	18	13	2	—
Expected return on plan assets	(5)	(5)	—	—	(11)	(8)	—	—
Total charge to the income statement	**10**	**3**	**5**	**2**	**11**	**5**	**4**	**—**

Benefits to be paid, depending on the duration of the previous commitments, are as follows:

	2020				2019			
	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
1 to 5 years	—	—	—	—	1	—	—	—
5 to 10 years	26	39	5	2	23	—	27	1
More than 10 years	372	—	2	11	380	62	17	12
Provisions for pensions and similar obligations	**398**	**39**	**7**	**13**	**404**	**62**	**44**	**13**

The weighted average term of defined benefit commitments is as follows:

	2020				2019			
Years	**Spain**	**Brazil**	**Chile**	**Mexico**	**Spain**	**Brazil**	**Chile**	**Mexico**
Weighted average term of pension commitments	12.4	9.4	9.2	17.4	12.3	11.5	10.3	18.2

Movements in the liability recognised in the consolidated balance sheet are as follows:

	2020				2019			
	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
At 1 January	**404**	**62**	**44**	**13**	**311**	**61**	**45**	**6**
Charge against the income statement	10	3	5	2	11	5	4	—
Contributions paid	(16)	(2)	(5)	—	(18)	(3)	(7)	—
Changes recognised in equity	—	(6)	1	(1)	100	—	5	7
Transfers	—	—	—	—	—	—	—	—
Currency translation differences	—	(18)	(1)	(1)	—	(1)	(3)	—
Other	—	—	—	—	—	—	—	—
Business Combinations	—	—	—	—	—	—	—	—
Discontinued operations	—	—	(37)	—	—	—	—	—
At 31 December	**398**	**39**	**7**	**13**	**404**	**62**	**44**	**13**

The amount of cumulative actuarial gains and losses recognised directly in equity is negative by Euros 193 million at 31 December 2020 (Spain: negative by Euros 111 million, Brazil: negative by Euros 65 million, Chile: negative by Euros 11 million, and Mexico: negative by Euros 4 million). At 31 December 2019, the cumulative negative figure was Euros 199 million (Spain: negative by Euros 111 million, Brazil: negative by Euros 71 million, Chile: negative by Euros 12 million, and Mexico: negative by Euros 5 million).

The change recognised in equity relates to actuarial losses and gains derived basically from adjustments to:

	2020				2019			
	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
Financial assumptions	54.00	7.00	—	(1.00)	84.00	11.00	6.00	5.00
Demographic assumptions	(6.00)	(5.00)	—	—	—	—	—	—
Experience	(48.00)	—	1.00	—	16.00	(4.00)	(1.00)	2.00
Limits on assets	—	(8.00)	—	—	—	(7.00)	—	—
At 31 December	**—**	**(6.00)**	**1.00**	**(1.00)**	**100.00**	**—**	**5.00**	**7.00**

The main categories of assets, expressed as a percentage of the total fair value of the assets are as:

	2020				2019			
% of total	**Spain**	**Brazil**	**Chile**	**Mexico**	**Spain**	**Brazil**	**Chile**	**Mexico**
Shares	— %	18 %	— %	— %	— %	12 %	— %	— %
Bonds	100 %	76 %	— %	100 %	100 %	81 %	— %	100 %
Real estate and other assets	— %	6 %	— %	— %	— %	7 %	— %	— %

Real yields on the plan-related assets in 2020, relating basically to Spain and Brazil, have been Euros 10 million (Euros 19 million in 2019).

The main annual actuarial assumptions used were as follows:

	31.12.2020				31.12.2019			
	Spain	**Brazil**	**Chile**	**Mexico**	**Spain**	**Brazil**	**Chile**	**Mexico**
Discount rate (1)	0,0 a 0,78%	6.56%	0.30%	7.25%	0,0 a 1,33%	6.65%	0.35%	7.25%
Expected return on plan assets (1)	0,0 a 0,78%	6.56%	0.00	7.25%	0,0 a 1,33%	6.65%	0.00	7.25%
Future salary increases (1)	2.00%	4.23%	2.00%	5.50%	2.00%	4.64%	2	5.50%
Future pension increases (1)	2.00%	3.20%	NA	3.40%	2.00%	3.60%	NA	3.40%
Inflation rate (1)	2.00%	3.20%	2.80%	4.00%	2.00%	3.60%	3.00%	4.00%
Mortality table (2)	PERMF 2020	AT-2000	RV-2014	EMSSA 2009	PERMF 2000	AT-2000	RV-2014	EMSSA 2009
Life expectancy:								
Men								
Retired in the current year	23.5	20.5	18.6	22.8	23	20.5	19.4	22.7
Retiring within 20 years	43.8	38	36	39.9	43	37.9	37	39.8
Women								
Retired in the current year	27.3	23.1	23.2	25.2	27.5	23	24.1	25.2
Retiring within 20 years	48.3	41.5	41.8	45	48.9	41.4	42.8	45

(1) anual
(2) For Spain tier 2 tables

The new PERMF2020 tier 2 group tables, approved on 28 December 2020 by the Directorate General for Insurance, have been used for the valuation of pensions and other similar obligations in Spain at December 2020, for all commitments that contribute a monetary amount to the heading "Provisions for commitments with personnel" in the consolidated balance sheet at 31 December 2020. In addition, for the remaining commitments having associated assets, and which are therefore insured, the tables in force in 2019 (PERFMF2000) have continued to be used as the change in tables has no impact on the monetary amount of the provision, as it is recorded net of the relevant asset.

These assumptions are equally applicable to all the obligations, irrespective of the origin of their collective bargaining agreements.

The interest rates used to discount post-employment commitments are applied based on the period of each commitment and the reference curve is calculated applying observable rates for high-credit-quality corporate bonds (AA) issued in the Eurozone.

Benefits payable and estimated contributions to be made for 2020 in million euros are as follows:

	Benefits				**Contributions**			
	Spain	**Brazil**	**Chile**	**Mexico**	**Spain**	**Brazil**	**Chile**	**Mexico**
Post-employment	47	5	—	—	13	—	—	—
Post-employment medical	—	—	—	—	3	2	—	—
A 31 de Diciembre	**47**	**5**	**—**	**—**	**16**	**2**	**—**	**—**

The following table includes the effect of a 1% variation in the inflation rate, a 1% change in the discount rate and a 1% change in the cost of healthcare over the provisions and actuarial costs:

	Inflation 1%	**Discount +1%**	**Healthcare +1%**
Present value of obligations	116	(131)	16
Fair value of plan assets	27	(59)	—
Provision for pensions	**89**	**(73)**	**16**
Service cost for the year	2	(2)	—
Interest cost	1	9	—
Expected return on plan assets	—	(6)	—

Other obligations with personnel

Within the framework of the Strategic Plan 2018-2022, a new long-term incentive plan was implemented for Naturgy executives not included in the plan referred to in Note 14, the aim of which is to align the shareholders' interests, the materialization of the Strategic Plan and the executives' multi-year variable remuneration. This programme replaces the previous scheme, called PREMP, and is linked to the total return earned by the shareholders over the duration of the Strategic Plan, generating a collection right once the annual accounts for 2022 have been approved by the General Meeting, which will be collected in cash. The provision for this commitment at 31 December 2020 totals Euros 14 million (Euros 12 million at 31 December 2018).

At 31 December 2019, a provision of Euros 2 million was included for the 2017-2019 remuneration programmes, classified as current, which has been reversed during 2020.

Other current and non-current provisions

Movements in current and non-current provisions are as follows:

	Non-current provisions			Current provisions	Total
	Due to facility closure costs	Other provisions	Total		
01.01.2019	**381**	**313**	**694**	**297**	**991**
Appropriations/reversals charged to income statement:					
– Appropriations due to financial update	6	4	**10**	—	**10**
– Appropriations charged to other results	—	45	**45**	195	**240**
– Reversals	(4)	(12)	**(16)**	(2)	**(18)**
Appropriations/reversals charged to fixed assets	3	—	**3**	—	**3**
Payments	—	(21)	**(21)**	(164)	**(185)**
Currency translation differences	—	(2)	**(2)**	1	**(1)**
Transfers and other (1)	1	(82)	**(81)**	(36)	**(117)**
31.12.2019	**387**	**245**	**632**	**291**	**923**
Appropriations/reversals charged to income statement:					
– Appropriations due to financial update	4	4	**8**	—	**8**
– Appropriations charged to other results	6	25	**31**	165	**196**
– Reversals	—	(3)	**(3)**	—	**(3)**
Appropriations/reversals charged to fixed assets	48	—	**48**	—	**48**
Payments	(5)	(12)	**(17)**	(208)	**(225)**
Currency translation differences	—	(19)	**(19)**	(9)	**(28)**
Transfers and other (1)	(57)	(44)	**(101)**	7	**(94)**
31.12.2020	**383**	**196**	**579**	**246**	**825**

(1) In 2019 this mainly includes transfers resulting from the application of IFRIC 23 (Note 22). In addition, in 2018 and 2019 it mainly included transfers to "Non-current assets held for sale" at the date on which this classification is applied (Note 11).

The heading "Provisions due to facility closure costs" includes provisions for obligations arising from decommissioning, restoration and other costs related basically to electricity generation facilities.

The heading "Other provisions" mainly includes provisions recorded to cover obligations derived principally from tax claims, lawsuits and arbitration, insurance and other liabilities. Provisions have been recorded during the year due to the development of certain civil, administrative and tax-related claims existing in various Group companies.

The item "Current provisions" relates mainly to CO_2 emissions estimated for the year in the amount of Euros 148 million at 31 December 2020 (Euros 153 million in 2019).

No provision for business contracts was deemed necessary at 31 December 2020 or 2019.

The estimated payment periods for the non-current obligations provisioned in this item are Euros 298 million in between one and five years (Euros 364 million at 31 December 2019), Euros 155 million in between five and 10 years (Euros 140 million at 31 December 2019) and Euros 126 million after more than 10 years (Euros 128 million at 31 December 2019).

Note 17. Financial liabilities

The breakdown of borrowings at 31 December 2020 and 2019 is as follows:

	31.12.2020	31.12.2019
Issuing of debentures and other negotiable obligations	8,206	8,668
Borrowings from financial institutions	5,293	5,485
Derivative financial instruments (Note 18)	142	99
Lease liabilities (Note 2.4.4)	1,325	1,446
Other financial liabilities	2	3
Non-current borrowings	**14,968**	**15,701**
Issuing of debentures and other negotiable obligations	1,035	1,112
Borrowings from financial institutions	1,278	941
Derivative financial instruments (Note 18)	38	28
Lease liabilities (Note 2.4.4)	212	198
Other financial liabilities	8	7
Current borrowings	**2,571**	**2,286**
Total	**17,539**	**17,987**

Financial liabilities recognised at fair value at 31 December 2020 and at 31 December 2019 are classified as follows:

	31.12.2020				31.12.2019			
Financial liabilities	Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	Total	Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	Total
Fair value through profit or loss	—	—	—	**—**	—	—	—	**—**
Hedging derivatives	—	180	—	**180**	—	127	—	**127**
Total	**—**	**180**	**—**	**180**	**—**	**127**	**—**	**127**

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

	Carrying amount		Fair value	
	31.12.2020	**31.12.2019**	**31.12.2020**	**31.12.2019**
Issuing of debentures and other negotiable securities	8,206	8,668	9,010	9,575
Loans from financial institutions and other financial liabilities	5,295	5,488	5,355	5,550

Bonds and other marketable securities are quoted and therefore their fair value is estimated on the basis of their quoted price (Level 1). In loans from financial institutions and other financial liabilities, the fair value of loans with fixed interest rates is estimated on the basis of the discounted cash flows over the remaining terms of such debt. The discount rates were determined based on market rates available at 31 December 2020 and 31 December 2019 on borrowings with similar credit and maturity characteristics. These valuations are based on the quotation price of similar financial instruments in an official market or on observable information in an official market (Level 2).

The following tables describe consolidated gross borrowings by instrument at 31 December 2020 and 31 December 2019 and their maturity profile, taking into account the impact of the derivative hedges.

	2021	2022	2023	2024	2025	2026 and later years	Total
31.12.2020							
Issuing of debentures and other negotiable securities							
Fixed	947	461	642	1,102	1,301	4,660	9,113
Floating	88	2	3	3	3	29	128
Institutional Banks and other financial institutions							
Fixed	108	117	91	91	91	961	1,459
Floating	142	79	38	17	17	23	316
Lease liabilities							
Fixed	213	130	252	72	78	792	1,537
Floating	—	—	—	—	—	—	—
Commercial Banks and other financial liabilities							
Fixed	451	299	426	144	824	237	2,381
Floating	622	1,038	357	14	519	55	2,605
Total Fixed	1,719	1,007	1,411	1,409	2,294	6,650	14,490
Total Floating	852	1,119	398	34	539	107	3,049
Total	**2,571**	**2,126**	**1,809**	**1,443**	**2,833**	**6,757**	**17,539**

	2020	2021	2022	2023	2024	2025 and later years	Total
31.12.2019							
Issuing of debentures and other negotiable securities							
Fixed	1,107	866	470	663	1,132	5,394	9,632
Floating	5	98	3	3	3	36	148
Institutional Banks and other financial institutions							
Fixed	115	158	125	91	91	1,052	1,632
Floating	135	92	72	39	18	46	402
Lease liabilities							
Fixed	198	108	85	261	79	913	1,644
Floating	—	—	—	—	—	—	—
Commercial Banks and other financial liabilities							
Fixed	205	413	349	288	909	312	2,476
Floating	521	433	405	98	524	72	2,053
Total Fixed	1,625	1,545	1,029	1,303	2,211	7,671	15,384
Total Floating	661	623	480	140	545	154	2,603
Total	**2,286**	**2,168**	**1,509**	**1,443**	**2,756**	**7,825**	**17,987**

Had the impact of the derivatives on borrowings been excluded, fixed-rate financial debt would amount to Euros 11,858 million at 31 December 2020 (Euros 12,777 million at 31 December 2019) and, at floating rates, Euros 5,321 million at 31 December 2020 (Euros 5,083 million at 31 December 2019).

The following table describes consolidated gross financial debt denominated by currency at 31 December 2020 and 31 December 2019 and its maturity profile, taking into account the impact of the derivative hedges:

	2021	**2022**	**2023**	**2024**	**2025**	**2026 and later years**	Total
31.12.2020							
Euro debt	1,317	1,496	1,535	1,291	1,526	5,827	12,292
Foreign Currency Debt:							
US Dollar	729	195	92	136	1,043	654	2,849
Chilean peso	92	106	109	9	—	131	447
Mexican peso	172	161	22	2	260	8	625
Brazilian real	77	142	51	5	4	51	330
Australian dollar	183	26	—	—	—	86	295
Colombian peso	1	—	—	—	—	—	1
Argentinian peso	—	—	—	—	—	—	—
Total	**2,571**	**2,126**	**1,809**	**1,443**	**2,833**	**6,757**	**17,539**

	2020	**2021**	**2022**	**2023**	**2024**	**2025 y siguientes**	**Total**
31.12.2019							
Euro debt	1,395	1,259	730	1,111	1,258	6,083	11,836
Foreign Currency Debt:							
US Dollar	519	182	174	65	1,203	754	2,897
Chilean peso	210	386	304	213	117	688	1,918
Mexican peso	55	161	147	2	171	143	679
Brazilian real	84	53	154	52	7	66	416
Australian dollar	7	126	—	—	—	91	224
Colombian peso	—	—	—	—	—	—	—
Argentinian peso	16	1	—	—	—	—	17
Total	**2,286**	**2,168**	**1,509**	**1,443**	**2,756**	**7,825**	**17,987**

Borrowings in euros in 2020 have borne an effective average interest rate of 1.78% (2.20% in 2019) while borrowings in foreign currency have borne an effective average interest rate of 5.14% in 2020 (6.19% in 2019) including derivative instruments assigned to each transaction.

At 31 December 2020, Naturgy has credit facilities totalling Euros 5,797 million (Euros 5,549 million at 31 December 2019), of which Euros 5,548 million has not been drawn down (Euros 5,352 million at 31 December 2019).

Bank borrowings totalling Euros 3,516 million (Euros 4,658 million at 31 December 2019) and issued bonds amounting to Euros 42 million are subject to the fulfilment of certain financial ratios.

Most of the outstanding financial debt carries a change-of-control clause referring to acquisition of over 50% of the voting stock or of the right to appoint a majority of members of the Board of Directors of Naturgy Energy Group, S.A. Those clauses carry additional conditions so that triggering them depends on some of the following events occurring simultaneously: a significant downgrade of the credit rating due to a change of control, or loss of an investment grade rating; inability to fulfil the financial obligations under the contract; material impairment for the creditor, or a material adverse change in solvency. These clauses would entail repayment of the outstanding debt, although the time period would normally be longer than in the event of early termination.

Specifically, the bonds issued, in a volume of Euros 8,941 million (Euros 8,725 million at 31 December 2019), as usual in the Euromarket, could be redeemed in advance provided that such a change in control triggers a downgrade of more than two full notches in at least two of the three ratings that it had obtained, and all the ratings fall below investment grade, and provided that the rating agency states that the rating downgrade results from the change in control.

There are also loans for an amount of Euros 1,764 million that could be subject to early repayment in the event of a change in control (Euros 1,791 million at 31 December 2019). Most of this amount is linked to infrastructure financing with funds from the European Investment Bank that require a rating downgrade in addition to the change in control, and have special repayment terms that are longer than those relating to early termination events.

At the preparation date of these consolidated annual accounts, Naturgy is not in breach of its financial obligations or of any type of obligation that could give rise to the early maturity of its financial commitments.

Naturgy in the process of optimising the financing assigned to each of the business units to increase visibility in the accounts, and their financial autonomy, and to obtain financing in the same currency as that in which the cash flows originate, in order to achieve greater flexibility.

The most relevant financial instruments are as follows:

Issuing of debentures and other negotiable securities

In 2020 and 2019 the evolution of the issues of debt securities has been as follows:

	At 1.1.2020	Issues	Buy-backs or redemptions	Adjustments, exch. rates & other (1)	At 31.12.2020
Issued in a European Union Member State which required the filing of a prospectus	**8,542**	2,050	(1,834)	(20)	**8,738**
Issued in a European Union Member State which did not require the filing of a prospectus	—	—	—	—	—
Issued outside a European Union Member State	**1,238**	136	(8)	(863)	**503**
Total	**9,780**	**2,186**	**(1,842)**	**(883)**	**9,241**

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

	At 1.1.2019	Issues	Buy-backs or redemptions	Adjustments, exch. rates & other	At 31.12.2019
Issued in a European Union Member State which required the filing of a prospectus	9,289	5,194	(6,031)	90	**8,542**
Issued in a European Union Member State which did not require the filing of a prospectus	—	—	—	—	—
Issued outside a European Union Member State	1,469		(204)	(27)	**1,238**
Total	**10,758**	**5,194**	**(6,235)**	**63**	**9,780**

An analysis of the most relevant characteristics of the main issuance programmes for debentures and other negotiable securities by Naturgy is as follows, excluding the impact of accrued unpaid interest:

31.12.2020							
Programme/Company	**Country**	**Year formalised**	**Currency**	**Programme limit**	**Drawn-down nominal amount**	**Available**	**Issuances per year**
Euro Commercial Paper (ECP) programme							
Naturgy Finance B.V.	Netherlands	2010	Euros	1,000	—	1,000	900
European Medium Term Notes (EMTN) programme							
Gas Natural Capital Markets, S.A. and Naturgy Finance B.V.	Netherlands /Spain	1999	Euros	12,000	8,941	3,059	1,150
Negotiable bonds and Certificates Programme							
Guimarania I solar SPE Ltda Guimarania II Solar II SPE Ltda	Brazil	2020	Brazilian real	7	7	—	7
Sobral I Solar Energia SPE Ltda.	Brazil	2018	Brazilian real	18	18	—	—
Sertao I Solar Energia SPE Ltda	Brazil	2018	Brazilian real	18	18	—	—
Gas Natural México S.A. de C.V.	Mexico	2011	Mexican peso	471	196	275	—
Gas Natural BAN, S.A.	Argentina	2015	Argentinian peso	74	—	74	—
Grupo CGE	Chile	2015	Chilean peso	165	165	—	—

31.12.2019							
Programme/Company	**Country**	**Year formalised**	**Currency**	**Programme limit**	**Drawn-down nominal amount**	**Available**	**Issuances per year**
Euro Commercial Paper (ECP)							
Naturgy Finance B.V.	Netherlands	2010	Euro	1,000	-	1,000	4,444
European Medium Term Notes (EMTN) programme							
Gas Natural Capital Markets, S.A. and Naturgy Finance B.V.	Netherlands/ Spain	1999	Euro	8,725	8,725	-	750
Negotiable bonds and Certificates Programme							
Empresa de Distribución Eléctrica Metro-Oeste, S.A.	Panama	2010	USD	44	-	44	-
Sobral I Solar Energia SPE Ltda.	Brazil	2018	Brazilian real	25	25	-	-
Sertao I Solar Energia SPE Ltda	Brazil	2018	Brazilian real	25	25	-	-
Gas Natural México S.A. de C.V.	Mexico	2011	Mexican peso	471	225	246	-
Gas Natural BAN, S.A.	Argentina	2015	Argentinian peso	7	-	7	-
Grupo CGE	Chile	2015	Chilean peso	1,945	864	1,081	-

The breakdown of the nominal balance issued under the EMTN programme is as follows:

Issuance	Drawn-down nominal amount		Maturity	Coupon %
	31.12.2020	31.12.2019		
November 2009	555	555	2021	5.125
January 2010	—	579	2020	4.500
September 2012	—	355	2020	6.000
January 2013	396	396	2023	3.875
April 2013	454	454	2022	3.875
July 2013 (1)	101	101	2023	3.974
October 2013	276	276	2021	3.500
March 2014	412	412	2024	2.875
May 2014	154	154	2023	2.625
January 2015	401	401	2025	1.375
April 2016	600	600	2026	1.250
January 2017	1,000	1,000	2027	1.375
April 2017	742	742	2024	1.125
October 2017	300	300	2029	1.875
November 2017	800	800	2025	0.875
January 2018	850	850	2028	1.500
November 2019	900	750	2029	0.750
April 2020	1,000	—	2026	1.250
Total	**8,941**	**8,725**		

(1)NOK 800 million as nominal value.

<u>2020</u>

Issuances in 2020 under this programme were as follows:

Issuance	Value	Maturity	Coupon
April 2020	1,000	2026	1.25
May 2020(*)	150	2029	0.75

(*) Issue extension November 2019

In 2020 two bonds have matured for a total amount of Euros 934 million and with an average coupon of 5.07%.

In 2020, issues under the Euro Commercial Paper (ECP) programme totalling Euros 900 million (Euros 4,444 million in 2019) were carried out. There were no outstanding issues at 31 December 2020 or 31 December 2019.

<u>2019</u>

In November 2019 Naturgy issued bonds under its EMTN programme for an amount of Euros 750 million maturing in 10 years and with a 0.75% coupon, the proceeds of which were used in a bond buy-back offer for Euros 653 million of debentures maturing between 2021 and 2025.

As the instruments have substantially different conditions, this operation has been recorded as a repayment of the initial financial liability and recognition of a new financial liability.

In addition, in December 2019 a bond amounting to Euros 300 million, maturing in 2021 with a coupon of 0.515%, was repurchased.

These two operations involved a net outlay of Euros 203 million and had a negative impact of Euros 97 million on "Other financial expenses" in the consolidated income statement (Note 30).

In 2019 bonds matured for a total amount of Euros 780 million and with an average coupon of 5.28%.

Borrowings from financial institutions

European bank loans (commercial / institutional banks)

The group continues to work on enhancing its financial profile. In this respect, the most relevant financing operations with credit institutions arranged during 2020 were as follows:

- New loans and credit lines in Spain amounting to Euros 1,225 million and Euros 530 million, respectively.
- Refinancing of loans in Spain amounting to Euros 2,320 million.

Naturgy also enjoys a comfortable debt maturity profile and balance sheet position, as well as flexibility in its capital expenditure and operating expenses for coping with the current economic scenario.

Concerning borrowings from institutional credit entities, the European Investment Bank (EIB) has granted financing to Naturgy in the amount of Euros 1,564 million which had been fully utilised at 31 December 2020, maturing between 2021 and 2037 (Euros 1,791 million drawn down at 31 December 2019). In addition, a loan is recorded from the Official Credit Institute (ICO) totalling Euros 180 million maturing in 2029 at the latest (Euros 200 million at 31 December 2019).

Loans from Latin American credit institutions (commercial / institutional banks)

At 31 December 2020 borrowings from various Latin American financial institutions totalled Euros 2,043 million (Euros 2,599 million at 31 December 2019). The geographic breakdown of these loans is as follows:

Country	31.12.2020	31.12.2019
Chile	349	1,103
Panama	754	632
Brazil	283	362
Mexico	657	426
Peru	—	60
Other	—	16
	2,043	**2,599**

All borrowings from credit institutions in Latin America at 31 December 2020 and 31 December 2019 relate to commercial banks.

Lease liabilities

From 1 January 2019, due to the application of IFRS 16 "Leases", lease liabilities are treated as part of financial debt (Note 2.2.).

The main finance lease liabilities recognised under this heading at 31 December 2020 and 31 December 2019 are as follows:

- In 2003 Naturgy acquired two gas transport tankers to transport liquefied natural gas with a capacity of 276,000 m^3 through finance lease agreements. The duration of the contracts is 20 years, maturing in 2023.

- In 2007 and 2009 two 138,000 ^{3} tankers were acquired, together with Repsol, under 5-year time-charter agreements, extendable for consecutive 5-year periods. In 2014, Naturgy and Shell entered into an agreement, as part of the sale of the Repsol Group's liquefied natural gas business, to obtain exclusive use of each of the two tankers, Naturgy using the tanker acquired in 2009 under a time charter expiring in 2029 and extendable for consecutive five-year periods.

- In March 2014, Naturgy acquired a 173,000 m^3 tanker to carry liquefied natural gas under an 18-year finance lease expiring in 2032.

- In September and November 2016, Naturgy acquired two tankers to carry liquefied natural gas each with a capacity of 176,300 m^3 under a 20-year finance lease expiring in 2036.

- In March and June 2018, Naturgy acquired two tankers to carry liquefied natural gas each with a capacity of 176,000 m^3 each under a 20-year finance lease expiring in 2037.

- In addition, medium-term gas transport charters are also treated as financial leases, in accordance with IFRS 16.

- Other relevant financial liabilities associated with lease contracts, which relate to the leases on office buildings and land for energy use linked to generation facilities. (Note 7).

Naturgy's activity as a lessor in contracts that qualify as finance leases is of little relevance, the main item being commercial collection rights for the assignment of the right to use gas and electricity facilities.

The effective average interest rate on the liabilities for finance lease agreements at 31 December 2020 is 6.8% (6.7% at 31 December 2019).

Note 18. Risk management and derivative financial instruments

<u>Risk management</u>

Naturgy has a number of standards, procedures and systems for identifying, measuring and managing different types of risk which are made up of the following basic action principles:

- Guaranteeing that the most relevant risks are correctly identified, evaluated and managed.

- Segregation at the operating level of the risk management functions.

- Assuring that the level of its risk exposure for Naturgy in its business is in line with the objective risk profile and achievement of its annual, strategic objectives.

- Ensuring the appropriate determination and review of the risk profile by the Risk Committee, proposing global limits by risk category, and assigning them to the Business Units.

Interest rate risk

The fluctuations in interest rates modify the fair value of the assets and liabilities that accrue a fixed interest rate and the cash flows from assets and liabilities pegged to a floating interest rate, and, accordingly, affect equity and profit, respectively.

The purpose of interest rate risk management is to balance floating and fixed borrowings in order to reduce borrowing costs within the established risk parameters.

Naturgy employs financial swaps to manage exposure to interest rate fluctuations, swapping floating rates for fixed rates.

The financial debt structure at 31 December 2020 and 2019 (Note 17), after taking into account the hedges arranged through derivatives, is as follows:

	31.12.2020	**31.12.2019**
Fixed interest rate	14,490	15,384
Floating interest rate	3,049	2,603
Total	**17,539**	**17,987**

The floating interest rate is mainly subject to the fluctuations of the EURIBOR, the LIBOR and the indexed rates of Mexico, Brazil, Argentina and Chile.

The sensitivity of results and equity (Other equity items) to interest rate fluctuations is as follows:

	Increase/decrease in interest rates (basis points)	Effect on profit before tax	Effect on equity before tax
2020	+50	(15)	63
	-50	15	(63)
2019	+50	(13)	70
	-50	13	(70)

Exchange rate risk

The variations in the exchange rates can affect the fair value of:

- Counter value of cash flows related to the purchase-sale of raw materials denominated in currencies other than local or functional currencies.
- Debt denominated in currencies other than local or functional currencies.
- Operations and investments in non-Euro currencies, and, accordingly, the counter value of equity contributed and results.

In order to mitigate these risks Naturgy finances, to the extent possible, its investments in local currency. Furthermore, it tries to match, whenever possible, costs and revenues indexed in the same currency, as well as amounts and maturities of assets and liabilities arising from operations denominated in non-Euro currencies.

For open positions, the risks in investments in non-functional currencies are managed through financial swaps and foreign exchange fluctuation insurance within the limits approved for hedging instruments.

The non-Euro currency with which Naturgy operates most is the US Dollar. The sensitivity of Naturgy's profits and equity (Other equity items) to a 5% variation (increase or decrease) in the US dollar/euro exchange rate is as follows:

		Effect on profit before tax	Effect on equity before tax
2020	+5%	—	8
	-5%	—	(9)
2019	+5%	—	35
	-5%	—	(36)

Additionally, net assets of foreign companies that have a non-euro functional currency are subject to foreign exchange risk when their financial statements are translated to euros during the consolidation process. Exposure to risk countries where there is more than one exchange rate is immaterial.

At 31 December 2020 Naturgy's equity denominated in Argentinian pesos totals Euros 85 million (Euros 244 million at 31 December 2019) representing a pre-tax impact on equity of Euros 4 million at 5% sensitivity (Euros 12 million at 31 December 2019).

Commodity price risk

A large portion of Naturgy's operating expenses are linked to gas purchased to supply customers or generate electricity at combined cycle plants. Therefore, Naturgy is exposed to the variation in commodity prices whose determination is basically subject to crude oil prices and those of its by-products and the prices of natural gas hubs.

These gas supply contracts are typically signed on a long-term basis with purchase prices based on a combination of different commodity prices, basically crude oil and its derivatives, and natural gas hub prices.

However, sales prices to final customers are usually signed on a short/medium term basis and sales prices are conditioned by the supply-demand balance that exists at any given time in the gas market. This may imply a decoupling with gas supply prices, e.g. in periods of gas oversupply.

Therefore, Naturgy is exposed to the risk of variation in the price of gas with respect to the selling price of end customers. Exposure to these risks is managed and mitigated by natural hedging through the monitoring of the position with respect to these commodities, trying to balance the prices of purchase and supply obligations and sales prices. In addition, some supply contracts allow this exposure to be managed through volume flexibility and price review mechanisms.

When it is not possible to achieve natural hedging, the position is managed, within reasonable risk parameters, by contracting derivatives to reduce exposure to price decoupling risk, generally designated as hedging instruments.

In electricity and CO_2 emission allowances trading by Naturgy, risk is insignificant due to the low volume of transactions and the established limits placed, both on the amount and maturity date.

On the other hand, CO_2 emission rights and derivatives to hedge them have been contracted, in order to make profitable short-term cash surpluses, whose variation in fair value offset each other.

The sensitivity of results and equity (Other equity items) to changes in the fair value of derivatives contracted to hedge commodity prices and derivatives used for trading purposes is analysed below:

	Increase/decrease in gas price	Effect on profit before tax	Effect on equity before tax
2020	+10%	—	(46)
	-10%	—	46
2019	+10%	—	(82)
	-10%	—	82

	Increase/decrease in electricity price	Effect on profit before tax	Effect on equity before tax
2020	+10%	(1)	(66)
	-10%	—	66
2019	+10%	(2)	(52)
	-10%	2	52

Naturgy does not have any material investments in upstream businesses or raw materials production.

Business segment sensitivity to the prices of oil, gas, coal and electricity is explained below:

– Gas and electricity distribution. It is a regulated activity with revenue and profit margins are linked to distribution infrastructure management services rendered, irrespective of the prices of the commodities distributed. In any event, a fall in the price of gas could increase consumption, having a favourable impact on revenue and thus contributing to the stability of Naturgy's results.

– Gas and electricity. Profit margins on gas and electricity supply activities are directly affected by commodity prices. In this regard, Naturgy has a risk policy that stipulates the tolerance range, based on applicable risk limits, among other aspects. Measures employed to keep risk within the stipulated limits include active supply management, balanced acquisitions and sales formulae, and specific hedging so as to maximise the risk-profit relationship. Supplementary to the above-mentioned policy, Naturgy has mechanisms for ordinary and extraordinary price reviews, by means of the relevant clauses, with a large part of its supply portfolio. These clauses allow, in the medium term, the modulation of impacts in the event of any decoupling between Naturgy's selling prices in its markets and the evolution of prices in its supply portfolio.

Credit risk

Credit risk is defined as the potential loss resulting from the possible nonfulfillment of the contractual obligations of counterparties with which the Group does business.

Naturgy performs solvency analyses on the basis of which credit limits are assigned and any necessary provisions are determined. Based on these models, the probability of customer default can be measured and the expected commercial loss can be kept under control. In addition, credit quality and portfolio exposure are monitored on a recurring basis to ensure that potential losses are within the limits provided for by internal regulations. This allows a certain capacity to anticipate events in credit risk management.

With regard to credit risk in relation to trade receivables, these are reflected in the consolidated balance sheet net of provisions for impairment due to expected credit losses (Note 10) estimated by Naturgy on the basis of available information on past events (such as customer payment behaviour), current conditions and forward-looking factors(e.g. macroeconomic factors such as GDP, unemployment, inflation, interest rates, etc.) that might impact the credit risk of Naturgy's debtors in accordance with the prior segregation of customer portfolios.

Credit risk relating to trade accounts receivable is historically limited given the short collection periods of customers that do not individually accumulate significant amounts before supply can be suspended due to non-payment, in accordance with applicable regulations.

With respect to other exposures to counterparties in transactions involving financial derivatives and the investment of cash surpluses, credit risk is mitigated by carrying out such operations with reputable financial institutions in line with internal requirements. No significant defaults or losses arose in 2020 or 2019.

The main guarantees negotiated are bank guarantees, guarantees and deposits. At 31 December 2020, Naturgy had received guarantees totalling Euros 189 million to cover the risk of large industrial customers (Euros 154 million at 31 December 2019). In 2020, bank guarantees amounting to Euros 4 million were enforced (Euros 3 million at 31 December 2019).

At 31 December 2020 and 2019 Naturgy did not have significant concentrations of credit risk. The risk of concentration is minimised through diversification, managing and combining various areas of impact. Firstly, by having a customer base that is broadly distributed on an international scale; secondly, a diverse product range, from energy supply to the implementation of tailored energy solutions; thirdly, there are different customer types, such as residential customers, self-employed entrepreneurs and small and large businesses in both the public and private sectors and in different segments of the economy.

An ageing analysis of financial assets and related expected losses at 31 December 2020 and 31 December 2019 is set out below:

31.12.2020	Total	Current	0-180 days	180-360 days	More than 360 days
Expected loss ratio	22.40%	0.90%	10.80%	43.20%	96.80%
Trade receivables for sales and provisions of services	3,462	2,121	493	220	628
Expected loss	776	19	53	95	609
					3500

31.12.2019	Total	Current	0-180 days	180-360 days	More than 360 days
Expected loss ratio	16.70%	1.70%	11.20%	48.30%	95.60%
Trade receivables for sales and provisions of services	4,696	3,277	660	151	608
Expected loss	785	57	74	73	581

The impaired financial assets are broken down in Note 10.

Concerning supplier credit risk, the solvency of each supplier of products and services is guaranteed through the recurring analysis of their financial information, particularly prior to new engagements. To this end, the relevant assessment criteria are applied depending on the supplier's criticality in terms of service or concentration. This procedure is supported by control mechanisms and systems and supplier management.

Liquidity risk

Naturgy has liquidity policies that ensure compliance with its payment commitments, diversifying the coverage of financing needs and debt maturities. A prudent management of the liquidity risk includes maintaining sufficient cash and realisable assets and the availability of sufficient funds to cover credit obligations.

Available cash resources at 31 December 2020 and 2019 are analysed below:

Liquidity source	Availability 2020	Availability 2019
Undrawn credit facilities (Note 17)	5,548	5,352
Undrawn loans	—	—
Cash and cash equivalents (Note 13)	3,927	2,685
Total	**9,475**	**8,037**

There is also additional capacity to issue debt in the capital markets unused for Euros 4,408 million (Note 17).

The breakdown of the maturities of the financial liabilities at 31 December 2020 and 2019 is as follows:

	2021	2021	2022	2023	2024	2025 and later years	Total
31.12.2020							
Trade and other payables (Note 20)	(3,230)	—	—	—	—	—	(3,230)
Loans and other financial payables (1)	(3,043)	(2,560)	(2,215)	(1,822)	(3,182)	(8,898)	(21,720)
Financial derivatives	(37)	(1)	(30)	(28)	(25)	(58)	(179)
Other liabilities	—	—	—	—	—	—	—
Total (2)	**(6,310)**	**(2,561)**	**(2,245)**	**(1,850)**	**(3,207)**	**(8,956)**	**(25,129)**

	2020	2021	2022	2023	2024	2025 and later years	Total
31.12.2019							
Trade and other payables (Note 20)	(3,744)	—	—	—	—	—	(3,744)
Loans and other financial payables (1)	(2,798)	(2,622)	(1,914)	(1,820)	(3,099)	(9,780)	(22,033)
Financial derivatives	(23)	—	9	(7)	(10)	(63)	(94)
Other liabilities	—	—	—	—	—	—	—
Total (2)	**(6,565)**	**(2,622)**	**(1,905)**	**(1,827)**	**(3,109)**	**(9,843)**	**(25,871)**

(1) Does not include financial derivatives.
(2) The amounts are undiscounted contractual cash flows and, accordingly, differ from the amounts included in the balance sheet and in Note 17.
(3) Includes finance leases which, in 2019, due to the application of IFRS 16, were recorded under financial debt.

Capital management

The main purpose of Naturgy's capital management is to ensure a financial structure that can optimise capital cost and maintain a solid financial position, in order to combine value creation for the shareholder with the access to the financial markets at a competitive cost to cover financing needs.

Naturgy considers the following to be indicators of the objectives set for capital management: maintaining, after the acquisition of Unión Fenosa, a long-term leverage ratio of approximately 50%.

Naturgy's long-term credit rating is as follows:

	2020	**2019**
Standard & Poor's	BBB	BBB
Fitch	BBB	BBB

The leverage ratio is as follows:

	2020	**2019**
Net borrowings:	**13,612**	**15,268**
Non-current borrowings (Note 17)	14,968	15,701
Current borrowings (Note 17)	2,571	2,286
Cash and cash equivalents (Note 13)	(3,927)	(2,685)
Derivatives (Note 18)	—	(34)
Equity:	**11,265**	**13,976**
Equity holders of the Company (Note 14)	8,028	10,551
Non-controlling interests (Note 14)	3,237	3,425
Leverage (Net borrowings / (Net borrowings + Net equity))	**54.70%**	**52.20%**

From 1 January 2019, due to the application of IFRS 16 "Leases", lease liabilities were treated as part of financial debt (see Note 2.2).

Other considerations

Naturgy has not received any government aid to mitigate the effects of COVID-19 nor any tax benefits. Furthermore, it has not renegotiated any leases affecting right of use assets and recognised associated liabilities.

Nor has Naturgy instigated any lay-off proceedings as a result of COVID-19.

Since the beginning of the COVID-19 crisis, Naturgy has prioritised its commitment towards people and society and has taken various measures to mitigate the economic impact of the pandemic, such as postponing payment of electricity, gas and service bills for SMEs, individuals and the self-employed, providing free supplies to field hospitals (IFEMA and Fira de Barcelona) and to hotels with medical facilities, and other measures for its SME or self-employed suppliers, who are eligible for a cash payment programme for invoices pertaining to the second quarter of the year. All these measures help to mitigate the impact of the decline in revenues and strengthen the liquidity of the parties concerned.

In addition, as an expression of gratitude for and acknowledgement of the dedication of health personnel, law enforcement personnel and members of the army and the fire brigade, they have been offered a year of free service for electricity and gas breakdowns and for repairs of household appliances and gas equipment, whether or not they are Naturgy customers. In addition, Naturgy has provided all its customers with free medical attention by videoconference during these months.

All these measures have had an estimated negative impact of Euros 2 million on the interim consolidated income statement and have required an estimated financing of bills totalling approximately Euros 28 million.

On 23 June 2016 UK voters supported the departure of their country from the European Union in a national referendum (“Brexit”). On 31 January 2020 the United Kingdom left the European Union and a transitional period to 31 December 2020 commenced, the aim being to allow citizens and businesses more time to adjust to the situation and to negotiate agreements establishing a new framework for the relationship between the Union and the United Kingdom. During the transition period, the United Kingdom has continued to implement Union legislation, but without being represented in the EU institutions. On 30 December 2020 the European Union and the United Kingdom signed a Trade and Cooperation Agreement with provisional entry into force on 1 January 2021. The Agreement has four main pillars: a Free Trade Agreement; a framework for economic, social, environmental and fisheries cooperation; an internal security partnership; and a common governance framework for the Agreement as a whole. Although it will not be equal, in any way, to the level of economic integration that existed while the UK was an EU Member State, the Trade and Cooperation Agreement goes beyond traditional free trade agreements and provides a solid basis for maintaining the former co-operation and friendship. The Brexit process has had and may continue to have adverse effects on the economic and political situation in the EU and the stability of global financial markets. Without considering the above impact on an international level, Naturgy's exposure to the risk derived from the Brexit is not considered significant.

Derivative financial instruments

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

	31.12.2020		31.12.2019	
	Activo	**Pasivo**	**Activo**	**Pasivo**
Hedging derivative financial instruments	**352**	**189**	**276**	**150**
Cash flow hedge				
- Interest rate	—	112	—	72
- Interest rate and foreign exchange rate	—	27	29	27
- Foreign exchange rate	—	3	—	—
- Price of commodities	352	47	247	51
Fair value hedge				
- Interest rate and foreign exchange rate	—	—	—	—
Other financial instruments	**—**	**—**	**—**	**—**
Derivative financial instruments – non current	**352**	**189**	**276**	**150**
Hedging derivative financial instruments	**93**	**227**	**309**	**60**
Cash flow hedge				
- Interest rate	—	38	—	17
- Interest rate and foreign exchange rate	—	—	4	9
- Exchange rate	—	4	1	2
- Price of commodities	92	185	304	31
Fair value hedge				
- Interest rate and foreign exchange rate	—	—	—	—
- Exchange rate	1	—	—	1
Other financial instruments	**1**	**—**	**1**	**2**
- Price of commodities	1	—	1	1
- Exchange rate	—	—	—	1
Derivative financial instruments current	**94**	**227**	**310**	**62**
Total	**446**	**416**	**586**	**212**

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

“Other financial instruments” includes the derivatives not qualifying for hedge accounting.

The impact on the consolidated income statement of derivative financial instruments is as follows:

	2020		2019	
	Operating results	**Financial results**	**Operating results**	**Financial results**
Cash flow hedge	451	(25)	44	(34)
Fair value hedge	—	(9)	(8)	1
Other financial instruments	4	(1)	2	(17)
Total	**455**	**(35)**	**38**	**(50)**

The breakdown of derivatives at 31 December 2020 and 2019, their fair value and maturities of their notional values is as follows:

		31.12.2020						
	Fair value	**Notional value**						
(million euros)		**2021**	**2022**	**2023**	**2024**	**2025**	**Subsequent years**	**Total**
INTEREST RATE HEDGES:								
Cash flow hedges:								
Financial swaps (EUR)	(103)	63	141	191	70	498	576	1,539
Financial swaps (USD)	(35)	—	—	—	—	581	—	581
Financial swaps (MXN)	(7)	—	—	—	—	73	—	73
Financial swaps (AUD)	(4)	—	—	—	—	—	80	80
Options (EUR)	—	—	—	40	—		—	40
EXCHANGE RATE HEDGES:								—
Cash flow hedges:								—
Foreign exchange insurance (USD)	(4)	213	—	—	—	—	—	213
Foreign exchange insurance (BRL)	(3)	—	—	35	—	—	—	35
Fair value hedges:								—
Foreign exchange insurance (BRL)	—	14	—	—	—	—	—	14
Foreign exchange insurance (USD)	1	59	—	—	—	—	—	59
Foreign exchange insurance (DHN)	—	7	—	—	—	—	—	7
INTEREST RATE AND FOREIGN EXCHANGE RATE HEDGES:								—
Cash flow hedges:								—
Financial swaps (NOK)	(27)	—	—	101	—	—	—	101
COMMODITIES HEDGES:								—
Cash flow hedges:								—
Commodities price derivatives (EUR)	(94)	1,522	20	2	—	—	—	1,544
Commodities price derivatives (USD)	28	543	245	105	—	—	—	893
Commodities price derivatives (AUD)	278	29	43	62	82	83	978	1,277
OTHER:								—
Commodities price derivatives (EUR)	—	2	—	—	—	—	—	2
Commodities price derivatives (USD)	—	—	—	—	—	—	—	—
Foreign exchange derivatives (USD)	—	3	1	—	—	—	—	4
Total	**30**	**2,485**	**450**	**536**	**152**	**1,235**	**1,634**	**6,492**

	Fair value	31.12.2019 Notional value						
(million euros)		**2020**	**2021**	**2022**	**2023**	**2024**	**Subsequent years**	**Total**
INTEREST RATE HEDGES:								
Cash flow hedges:								
Financial swaps (EUR)	(80)	844	63	141	91	70	1,074	2,283
Financial swaps (USD)	(6)	—	—	—	—	635	—	635
Financial swaps (MXN)	(2)	—	—	—	—	84	—	84
Financial swaps (AUD)	(1)	—	—	—	—	—	80	80
Options (EUR)	—	—	—	—	40		—	40
EXCHANGE RATE HEDGES:								—
Cash flow hedges:								—
Foreign exchange insurance (USD)	(1)	711	—	—	—	—	—	711
Foreign exchange insurance (BRL)	—	2	—	—	—	—	—	2
Fair value hedges:								—
Foreign exchange insurance (BRL)	—	38	—	—	—	—	—	38
Foreign exchange insurance (USD)	—	67	—	—	—	—	—	67
Foreign exchange insurance (DHN)	—	6	—	—	—	—	—	6
Foreign exchange insurance (EUR) (1)	(1)	47	—	—	—	—	—	47
INTEREST RATE AND FOREIGN EXCHANGE RATE HEDGES:								—
Cash flow hedges:								—
Financial swaps (NOK)	(26)	—	—	—	101	—	—	101
Financial swaps (UF)	23	10	10	172	231	22	22	467
COMMODITIES HEDGES:								—
Cash flow hedges:								—
Commodities price derivatives (EUR)	21	283	3	—	—	—	—	286
Commodities price derivatives (USD)	337	807	403	151	112	—	—	1,473
Commodities price derivatives (AUD)	111	22	39	40	41	41	532	715
OTHER:								—
Commodities price derivatives (EUR)	—	—	—	—	—	—	—	—
Commodities price derivatives (USD)	—	—	—	—	—	—	—	—
Foreign exchange derivatives (USD)	(1)	18	—	—	—	—	—	18
Total	**374**	**2,855**	**518**	**504**	**616**	**852**	**1,708**	**7,053**

(1) Arranged by companies using a functional currency other than the euro.

Note 19. Other current and non-current liabilities

The breakdown of this heading at 31 December 2020 and 2019 is as follows:

	31.12.2020	**31.12.2019**
Deposits and guarantees deposits (1)	213	214
Derivative financial instruments (Note 18)	48	51
Other liabilities (2)	85	227
Other non-current liabilities	**346**	**492**
Dividend payable	25	81
Expenses accrued pending payment	164	177
Derivative financial instruments (Note 18)	121	—
Other liabilities (2)	53	28
Other current liabilities	**363**	**286**
Total other liabilities	**709**	**778**

There are no significant differences between the carrying values and the fair values of the items in the account “Other non-current liabilities”.

(1) Deposits and guarantees deposits

The item “deposits and guarantees deposits” basically includes amounts received from customers under contracts for the supply of electricity and natural gas, deposited with the competent Public Administrations (Note 9) as stipulated by law, and amounts received from customers to secure supplies of liquefied natural gas.

(2) Other liabilities

At 31 December 2019, the balances of long-term trade payables relating to the price stabilisation mechanisms in Chile were included under this heading (Note 2.4.2). The electricity distribution business in Chile has been considered a discontinued activity since October 2020 (Note 11, "Non-current assets and disposal groups held for sale and discontinued operations")

Note 20. Trade and other payables

The breakdown at 31 December 2020 and 2019 is as follows:

	31.12.2020	**31.12.2019**
Trade payables	2,495	3,092
Trade payables with related parties (Note 34)	23	26
Trade payables	2,518	3,118
Public Administrations	375	425
Derivative financial instruments (Note 18)	68	34
Accrued wages and salaries	76	112
Other payables	11	22
Other payables	530	593
Current tax liabilities	182	33
Total	**3,230**	**3,744**

The fair value and carrying value of these liabilities do not differ significantly.

Disclosure of deferrals of payment to suppliers. Additional Provision 3 “Duty of disclosure” of Law 15/2010/5 July

The total amount of payments made during the year, with details of periods of payments, according to the maximum legal limit under Law 15/2010 of 5 July, which laid down measures against slow payers in Spain, is as follows:

	2020	2019
Total payments (million euro)	8,681	11,027
Total outstanding payments (million euro)	243	314
Average supplier payment period (days) (1)	22	23
Transactions paid ratio (days) (2)	22	23
Transactions pending payment ratio (days) (3)	22	24

(1) Calculated on the basis of amounts paid and pending payment
(2) Average payment period in transactions paid during the year
(3) Average age, suppliers pending payment balance

Note 21. Tax situation

Naturgy Energy Group, S.A. is the parent of Tax Consolidated Group 59/93, which includes all the companies resident in Spain that are at least 75% directly or indirectly owned by the parent company and that fulfil certain requirements, entailing the overall calculation of the group's taxable income, deductions and tax credits. The Tax Consolidated Group for 2019 is indicated in Appendix **III**.

The remaining Naturgy companies pay their taxes individually, in accordance with the schemes applicable to them.

Set out below is the reconciliation between corporate income tax recognised and the amount that would be obtained by applying the nominal tax rate in force in the parent company's country (Spain) to “Profit/(loss) before taxes" for 2020 and 2019:

	2020	%	2019	%
Profit/(loss) before tax	**(36)**		**2,124**	
Statutory tax	**(9)**	**25.00 %**	**531**	**25.00 %**
Effect of net results under equity method	(9)	25.00 %	(19)	(0.89)%
Application of tax rates of foreign companies	(9)	25.01 %	(37)	(1.40)%
Tax deductions	(10)	27.78 %	(11)	(0.52)%
Remeasurement deferred taxes on mergers	—	— %	—	— %
Tax revaluation an revaluation deferred taxes Argentina	—	— %	(21)	(0.99)%
Other items	56	(155.56)%	(17)	(0.80)%
Corporate income tax	**19**	**(52.78)%**	**426**	**20.06 %**
Breakdown of current/deferred expense:				
Current-year tax	247		315	
Deferred tax	(228)		111	
Corporate income tax	**19**		**426**	

Part of the asset impairments and write-downs recorded in 2020 (Note 4) will be tax deductible in future periods and, accordingly, temporary differences have been identified, recognising deferred tax revenue in the amount of Euros 290 million. The part that is not tax deductible is listed under Other items in the foregoing reconciliation.

In 2019, Argentina reformed its tax regulations to correct inflation-related distortions by adapting asset values. Naturgy chose to avail itself of the provisions of Tax Revaluation Law No. 27430, which allowed certain assets to be revalued for accounting and tax purposes upon payment of a levy which amounted to ARS 369 million. As a result, deferred taxes associated with assets were revalued, and the net impact of the related levy on "Corporate income tax" in the consolidated income statement amounted to Euros 21 million.

Law No. 27541 on Social Solidarity and Reactivation of Production in the Framework of Public Emergency suspended the reduction in the income tax rate to 25% and the application of a 13% withholding tax on dividends that had been planned for 2020. The suspension applies in 2020 and 2021, when the corporate income tax rate will be 30% and the withholding rate on dividends will be 7%, and it results in an increase in deferred tax liabilities in the amount of Euros 1 million, with a contra-item in "Corporate income tax" in the consolidated income statement.

Income qualifying for the tax credit for reinvestment of extraordinary profits provided by Article 42 of the revised Corporate Income Tax Act introduced under Royal Decree-Law 4/2004 of March 5 (TRLIS) and the resulting investments made in previous periods are explained in the annual accounts for the relevant years. The relevant breakdown is as follows:

Year of sale	Amount obtained on the sale	Amount reinvested	Income qualifying for deduction	Year reinvested
2011	4	4	2	2011
2012	1	1	—	2012
2013	1	1	1	2013
2014	414	414	210	2014
Total	**420**	**420**	**213**	

The reinvestment was made in fixed assets used in business activities and was carried out by both the parent company the other companies included in the Consolidated Tax Group. by virtue of the provisions of article 75 of the Corporate Income Tax Act.

Income qualifying for the tax scheme for transfers of assets made in compliance with competition law (Additional Provision 4 of the revised CIT Act) and the investments in which it has been used in prior years are explained below:

Year of the sale	Amount obtained on the sale	Amount reinvested	Capital gain	Capital gain included in tax base	Capital gain pending inclusion in tax base
2002	917	917	462	19	443
2003	141	141	79	—	79
2004	292	292	177	9	168
2005	432	432	300	2	298
2006	309	309	226	—	226
2007	105	105	93	—	93
2009	161	161	87	—	87
2010	790	790	556	—	556
2011	450	450	394	1	393
2012	38	38	32	—	32
Total	**3,635**	**3,635**	**2,406**	**31**	**2,375**

The reinvestment was made in fixed assets related to economic activities carried out by the transferring Company or any other company included in the Consolidated Tax Group. by virtue of the provisions of article 75 of the Corporate Income Tax Act.

The breakdown of the tax effect relating to each component of "Other comprehensive income" of the Consolidated Statement of Comprehensive Income for the year is as follows:

	31.12.2020			31.12.2019		
	Gross	Tax effect	Net	Bruto	Efecto Impositivo	Neto
Fair value measurement of assets through other comprehensive income	(3)	—	(3)	(225)	—	(225)
Cash flow hedges	(168)	(2)	(170)	321	(35)	286
Currency translation differences	(586)	—	(586)	(108)	—	(108)
Actuarial gains and loss (Note 17)	6	(1)	5	(112)	24	(88)
Total	**(751)**	**(3)**	**(754)**	**(124)**	**(11)**	**(135)**

Set out below is an analysis of and movements in deferred taxes:

Deferred income tax assets	Provisions for employee benefit obligations	Provision for bad debts and other provisions	Tax credits (1)	Amortisation differences	Financial instrument and asset valuation	Other	Total
01.01.2019	**204**	**583**	**26**	**654**	**78**	**144**	**875**
Charged/(credited) to income statement (2)	14	(22)	(13)	(35)	1	2	(53)
Movements related to equity adjustments	26	—	—	—	2	—	28
Currency translation differences	(1)	(9)	(2)	1	—	(2)	(13)
Transfers and other (3)	—	(33)	3	(90)	(4)	(2)	(126)
31.12.2019	**243**	**519**	**14**	**530**	**77**	**142**	**1,525**
Charged/(credited) to income statement (2)	19	220	(4)	(30)	—	(11)	194
Movements related to equity adjustments	(1)	—	—	—	24	—	23
Currency translation differences	(8)	(33)	—	(14)	(3)	6	(52)
Transfers and other (3)	(11)	(20)	42	(34)	(18)	(14)	(55)
31.12.2020	**242**	**686**	**52**	**452**	**80**	**123**	**1,635**

(1) At 31 December 2020, the tax credits relate mainly to unused tax deductions. At 31 December 2019, the tax credits mainly relate to tax loss carryforwards from various CGE companies that arose basically due to the application of the accelerated depreciation tax incentive. The recovery of these credits is reasonably assured as they are not subject to any time limit and pertain to companies that have a track record of reporting recurring profits
(2) In 2020, it includes an increase in deferred tax assets due to impairment recognised in the year.
(3) 2019 includes transfers as a consequence of CINIIF 23 application (Note 16). Additionally, in 2020 and 2019 it includes transfers to "held for sale" at the date on which this classification is applied (Note 11).

Deferred income tax liabilities	Amortisation differences	Deferred gains	Business combination valuation (1)	Financial instrument and asset valuation	Other	Total
01.01.2019	**568**	**197**	**1,138**	**61**	**185**	**2,149**
Charged/(credited) to income statement (2)	98	—	(53)	4	9	58
Business combinations (Note 32)	(3)	—	—	—	—	(3)
Movements related to equity adjustments	—	—	—	37	—	37
Currency translation differences	(26)	—	(25)	1	1	(49)
Transfers and other (3)	4	11	(32)	—	74	57
31.12.2019	**641**	**208**	**1,028**	**103**	**269**	**2,249**
Charged/(credited) to income statement (2)	10	(1)	(54)	—	11	(34)
Business combinations (Note 32)	—	—	—	—	—	—
Movements related to equity adjustments	—	—	—	27	—	27
Currency translation differences	(32)	—	(33)	(4)	(14)	(83)
Transfers and other (3)	(46)	—	(321)	(16)	17	(366)
31.12.2020	**573**	**207**	**620**	**110**	**283**	**1,793**

(1) The heading "Business combination valuation" includes principally the tax effect of the portion of the merger difference resulting from the absorption of Unión Fenosa, S.A. by Naturgy Energy Group, S.A. in 2009, allocated to net assets acquired, which will not have tax effects. It also includes the tax effect of the allocation of the acquisition price of CGE by Naturgy in 2014 and of various prior acquisitions completed by CGE.
(2) 2019 includes transfers as a consequence of CINIIF 23 application (Note 16). Additionally, in 2020 and 2019 it includes transfers to "held for sale" at the date on which this classification is applied (Note 11).

At 31 December 2020 the tax credits that have not been recorded totalled Euros 18 million (Euros 11 million at 31 December 2019).

At the end of this financial year 2020, the inspection actions started in July 2018 to the Company as the parent company of Group 59/93 with regard to Corporation Tax and as the parent of Group of entities 273/08 in that regard have concluded to VAT. The verified years for Corporation Tax (tax consolidation regime) have been from 2011 to 2015, and for VAT (group of entities regime) those that comprise June 2014 to December 2015.

The Minutes initiated at the conclusion of the procedure have not had a significant impact on the Naturgy companies as the resulting debt has already been duly provisioned.

As a consequence of the Minutes signed in accordance and in agreement, a current tax liability has been recorded, included in the heading "Creditors and other accounts payable" (Note 20), since the date on which the voluntary period for payment of the settlements is during 2021.

The amount of the Acts referring to the regularization of the deduction for international double taxation has been signed in disagreement, as the company considers that its criteria are supported by the doctrine and jurisprudence issued on this matter. This amount has been recorded under the heading "Provisions" (Note 16).

With regard to appeals in tax matters, on 30 September 2020, a judgment was received from the National Court regarding the appeal filed against the settlements derived from the Inspection Acts for verifications carried out in respect of Corporation Tax for the years 2006- 2008, signed in disagreement and that mainly regularized the deduction for export activities. The resolution is pending execution and the resulting debt is provisioned under the heading "Provisions" (Note 16).

In accordance with Spanish tax legislation, at the date of preparation of these annual accounts, the Spanish Group's returns for the last four year for the principal taxes to which it is subject and which are not involved in the above-mentioned tax inspection are open to inspection.

In general, the other Naturgy companies are open to inspection for the following periods:

Country	Period
Argentina	2015-2020
Brazil	2016-2020
Colombia	2017-2020
Chile	2015-2020
Mexico	2016-2020
Panama	2014-2020

As a result, among other things, of the different interpretations to which current tax legislation lends itself, additional liabilities could arise as a result of an inspection. Naturgy considers, however, that any liabilities that might arise would not significantly affect these annual accounts.

Naturgy assesses the effect of uncertain tax treatments and recognises the effect of the uncertainty on taxable earnings, tax bases and unused tax losses and credits. Naturgy has recognised sufficient provisions for obligations deriving from a number of tax claims. There are no lawsuits or uncertain tax treatments that are individually material.

Spanish Act 11/2020, enacting the Central Government Budget for 2021, published in the Official State Gazette on 31 December 2020, amended certain articles of the Corporate Income Tax Act (Act 27/2014). The main amendments relate to a cap on the tax exemption for dividends and capital gains so that, for annual periods commencing on or after 1 January 2021, only 95% of those deriving from holdings of over 5% of share capital will be exempt and, consequently, those relating to holdings whose acquisition cost exceeded Euros 20 million cease to be exempt (although a transitional system is provided for the latter).

The tax consolidation system was also amended as dividends between companies in the same Tax Consolidation Group are no longer eliminated, resulting in effective taxation of 1.25% of dividends received and capital gains generated in Spanish companies receiving dividends from companies in which they own a stake of 5% or greater, even where the company distributing the dividend and the recipient both belong to the same Tax Consolidation Group.

Related to this measure, and for the purposes of calculating the cap on the deductibility of financial expenses in the case of holding companies where the dividends form part of their operating profit, only dividends from companies in which they own 5% or more will be considered, while dividends from holdings whose acquisition cost was greater than Euros 20 million are not included in the calculation.

Note 22. Revenue

The breakdown of this heading in the consolidated income statement for 2020 and 2019 is as follows, by category with the relevant operating segment reporting structure:

2020	**Supply**	Markets and Procurement	Networks Spain	Networks Latam	**Energy management and Networks**	Spain & USA	Latam	Australia	**Renewables and New businesses**	**Rest**	**Total**
Sales of gas and access to distribution networks	**1,925**	1,706	1,051	2,473	**5,230**	—	—	—	**—**	**—**	**7,155**
Sales of electricity and access to distribution networks	**2,267**	960	779	857	**2,596**	253	65	20	**338**	**—**	**5,197**
LNG sales	**—**	1,985			**1,985**				**—**		**1,985**
Registrations and facility checks	**33**	—	20	8	**28**	—	—	—	**—**	**—**	**61**
Assignment power generation capacity	**—**	307	—	—	**307**	—	—	—	**—**	**—**	**307**
Rentals meters and facilities	**306**	—	40	5	**45**	—	—	—	**—**	**—**	**351**
Other income	**133**	3	15	39	**57**	51	24	—	**75**	**20**	**289**
Total	**4,664**	**4,961**	**1,905**	**3,382**	**10,248**	**304**	**89**	**20**	**413**	**20**	**15,345**

2019	**Supply**	Markets and Procurement	Networks Spain	Networks Latam	**Energy management and Networks**	Spain & USA	Latam	Australia	**Renewables and New businesses**	**Rest**	**Total**
Sales of gas and access to distribution networks	**3,606**	2,048	1,086	3,684	**6,818**	—	—	—	**—**	**—**	**10,424**
Sales of electricity and access to distribution networks	**2,805**	1,302	813	1,025	**3,140**	219	70	29	**318**	**—**	**6,263**
LNG sales	**—**	3,018	—	—	**3,018**	—	—	—	**—**	**—**	**3,018**
Registrations and facility checks	**57**	—	21	15	**36**	—	—	—	**—**	**—**	**93**
Assignment power generation capacity	**—**	285	—	—	**285**	—	—	—	**—**	**—**	**285**
Rentals meters and facilities	**308**	—	38	8	**46**	—	—	—	**—**	**—**	**354**
Other income	**177**	3	12	48	**63**	58	17	—	**75**	**9**	**324**
Total (1)	**6,953**	**6,656**	**1,970**	**4,780**	**13,406**	**277**	**87**	**29**	**393**	**9**	**20,761**

(1) The 2019 consolidated income statement has been restated, reclassifying to discontinued operations in accordance with IFRS 5 (Notes 2.2 and 11).

Reporting by geographic area

Naturgy's revenue by country of destination is analysed below:

	2020	2019 (1)
Spain	**7,986**	**10,071**
Rest of Europe	**1,965**	**2,639**
France	1,087	1,504
Portugal	380	555
Ireland	193	130
United Kingdom	86	113
Other Europe	219	337
Latin American	**4,417**	**6,288**
Chile	722	850
Brazil	1,034	1,853
Mexico	1,172	1,376
Panama	760	901
Argentina	478	725
Dominican Republic	64	164
Other Latin America	187	419
Other	**977**	**1,763**
China	126	177
India	222	394
USA	211	262
Japan	30	260
Taiwan	112	92
Pakistan	21	112
Other countries	255	466
Total	**15,345**	**20,761**

(1) The 2019 consolidated income statement has been restated, reclassifying to discontinued operations in accordance with IFRS 5 (Notes 2.2 and 11).

Note 23. Raw materials and consumables

The breakdown of this heading for 2020 and 2019 is as follows:

	2020	2019 (1)
Energy purchases	8,497	12,468
Access to transmission networks	1,345	1,616
Other purchases and changes in inventories	296	520
Total	10,138	14,604

(1) The 2019 consolidated income statement has been restated, reclassifying to discontinued operations in accordance with IFRS 5 (Notes 2.2 and 11).

Note 24. Other operating income

The breakdown of this heading for 2020 and 2019 is as follows:

	2020	2019 (1)
Other management income	161	145
Operating grants	1	1
Total	**162**	**146**

(1) The 2019 consolidated income statement has been restated, reclassifying to discontinued operations in accordance with IFRS 5 (Notes 2.2 and 11).

The item "Other management income" includes income from services relating to the construction or improvement of concession infrastructures under IFRIC 12 in the amount of Euros 42 million (Euros 67 million in 2019); whose fair value is estimated by reference to the expenses incurred (Note 26), with no margin.

Note 25. Personnel expenses

The breakdown of this heading for 2020 and 2019 is as follows:

	2020	2019 (1)
Wages and salaries	507	568
Termination benefits	197	150
Social security costs	101	107
Defined contribution plans	26	29
Defined benefit plans (Note 16)	6	4
Share-based payments (Note 14)	5	5
Own work capitalised	(77)	(88)
Other	33	32
Total	**798**	**807**

(1) The 2019 consolidated income statement has been restated, reclassifying to discontinued operations in accordance with IFRS 5 (Notes 2.2 and 11).

The average number of Naturgy employees was 9,580 in 2020 and 9,989 in 2019, analysed by category as follows:

	2020	2019 (1)
Executives	112	1,175
Middle management	2,722	2,000
Specialists	3,443	3,447
Operational staff	3,303	3,367
Total	9,580	9,989

(1) The average number of employees for 2019 has been restated with the employees of the companies reclassified to discontinued operations in application of IFRS 5 (Notes 2.2 and 11).

In 2020, Naturgy implemented a new system for evaluating work posts that affects the comparison by category of both the average workforce and the workforce at the end of the year.

The average number of employees in the year with disability equal to or greater than 33% is as follows, by category:

	2020	2019 (1)
Executives	3	6
Middle management	18	20
Specialists	60	70
Operational staff	68	78
Total	**149**	**174**

(1) The average number of employees for 2019 has been restated with the employees of the companies reclassified to discontinued operations in application of IFRS 5 (Notes 2.2 and 11).

The number of Naturgy employees at the end of 2020 and 2019 broken down by category, gender and geographical area, is as follows:

	2020			2019 (1)		
	Men	**Women**	**Total**	**Men**	**Women**	**Total**
Executives	85	24	**109**	821	346	**1,167**
Middle management	1,919	733	**2,652**	1,501	505	**2,006**
Specialists	1,961	1,394	**3,355**	2,064	1,396	**3,460**
Operational staff	2,202	1,017	**3,219**	2,339	1,184	**3,523**
Total	**6,167**	**3,168**	**9,335**	**6,725**	**3,431**	**10,156**

(1) The average number of employees for 2019 has been restated with the employees of the companies reclassified to discontinued operations in application of IFRS 5 (Notes 2.2 and 11).

	2020	2019 (1)
Spain	5,422	5,890
Rest of Europe	95	117
Latin American	3,627	3,960
Rest	191	189
Total	**9,335**	**10,156**

(1) The average number of employees for 2019 has been restated with the employees of the companies reclassified to discontinued operations in application of IFRS 5 (Notes 2.2 and 11).

Both the calculation of the average number of employees and the calculation of the number of employees at the end of Naturgy's financial year include the number of employees in the joint venture entities pro-rated by the percentage interest. At 31 December 2020, the number of employees at the year end of these entities stood at 187 (193 at 31 December 2019) and the average number of employees was 189 (193 at 31 December 2019).

In both the calculation of the number of employees at the year end and the calculation of the average number of employees, the employees of companies classified as discontinued operations (Note 11) and the employees of companies consolidated using the equity method have not been taken into account, in accordance with the following breakdown:

	2020		2019	
	Number of employees at year end	**Average number of employees**	**Number of employees at year end**	**Average number of employees**
Discontinued operations	1,392	1,471	1,769	2,659
Equity-consolidated companies	198	132	477	681

Note 26. Other operating expenses

The breakdown of this heading for 2020 and 2019 is as follows:

	2020	2019 (1)
Taxes	373	348
Operation and maintenance	273	297
Advertising and other commercial services	96	139
Professional services and insurance	104	101
Concession construction or improvements services (IFRIC 12) (Note 24)	42	67
Supplies	54	60
Services to customers	43	56
Other	195	242
Total	**1,180**	**1,310**

(1) The 2019 consolidated income statement has been restated, reclassifying to discontinued operations in accordance with IFRS 5 (Notes 2.2 and 11).

Note 27. Profit/(loss) on disposals of fixed assets

In 2020 this heading includes minor sales, basically made in Spain.

In 2019 this heading mainly reflected the sale in December 2019 of the LNG cargo facility that was being developed by Gas Natural Puerto Rico, Inc. for USD 23 million, giving rise to a capital gain before income tax of Euros 12 million, as well as minor sales in Spain and Chile (Note 6).

Note 28. Amortisation and impairment loses of non financial assets

The breakdown of this heading for 2020 and 2019 is as follows:

	2020	2019 (1)
Amortisation intangible assets (Note 5)	296	275
Depreciation PPE (Note 6)	1,017	1,049
Depreciation right-of-use assets (Note 7)	163	160
Intangible asset impairment (Notes 4 and 5)	375	—
PPE impairment (Notes 4 and 6)	988	38
Inventory impairment (Note 12)	—	12
Total	2,839	1,534

(1) The 2019 consolidated income statement has been restated, reclassifying to discontinued operations in accordance with IFRS 5 (Notes 2.2 and 11).

Note 29. Other results

In 2020 this income statement heading mainly includes the pre-tax capital gain of Euro 15 million on the sale of the 47.9% holding in Ghesa Ingeniería y Tecnología, S.A. (Ghesa) (Note 11).

In 2019 this income statement heading mainly included:

- Pre-tax capital gain of Euros 5 million from the sale of the interest in the Molinos de Cidacos, Molinos de la Rioja y DER Rioja for joint ventures for Euros 40 million (Note 9).
- Pre-tax capital gain of Euros 20 million from the sale of the interest in the associate Torre Marenostrum, S.L. for Euros 28 million (Note 9).

Note 30 . Net financial income

The breakdown of this heading for 2020 and 2019 is as follows:

	2020	2019 (1)
Dividends	5	13
Interest income	17	23
Other (2)	74	39
Total financial income	**96**	**75**
Cost of borrowings	(515)	(570)
Interest expenses pension plans	(9)	(12)
Other financial expense (3)	(98)	(168)
Total financial expense	**(622)**	**(750)**
Variations in the fair value of financial instruments (4)	(4)	89
Net exchange differences	(8)	1
Net financial income/(expense)	**(538)**	**(585)**

(1) The 2019 consolidated income statement has been restated, reclassifying to discontinued operations in accordance with IFRS 5 (Notes 2.2 and 11).
(2) 2019 included asset impairment in the generation activity in Costa Rica amounting to Euros 50 million (Note 4).
(3) In 2020 this heading includes a financial asset impairment of Euros 37 million. In 2019 this heading included the cost of bond repurchases (Note 17) for Euros 97 million.
(4) Includes changes in the fair value of equity instruments (Note 9) and changes in the value of derivative financial instruments (Note 18).

Note 31. Cash generated from operating activities and other cash-flow details

The breakdown of cash generated from operations in 2020 and 2019 is as follows:

	2020	2019
Profit/(loss) before tax	**(36)**	**2,124**
Adjustments to profit/(loss):	**3,345**	**2,188**
Depreciation, amortisation and impairment expenses (Notes 5, 6, 7 and 8)	2,839	1,658
Other adjustments to net income:	506	530
Net financial income (Note 12 and 31)	538	666
Profit of entities recorded by equity method (Note 9 and 12)	(36)	(75)
Transfer of deferred income (Note 16)	(49)	(46)
Net variation in Provisions	(55)	(37)
Pre-tax profit/(loss) from discontinued activities net of capital gains and impairment (Note 12)	146	148
Other results	(38)	(126)
Changes in working capital (excluding the effects of adjustments in consolidation scope and exchange differences):	**788**	**545**
Inventories	249	32
Trade and other receivables	649	445
Trade and other payables	(110)	68
Other cash flows from operating activities:	**(665)**	**(836)**
Interest paid	(562)	(646)
Interest collected	27	33
Dividends received	84	170
Income tax paid	(214)	(393)
CASH FLOWS GENERATED FROM OPERATING ACTIVITIES	**3,432**	**4,021**

Payments on investments in Group companies, associates and business units at 31 December 2020 and 2019 break down as follows:

	2020	2019
Acquisition Guimaranias (Note 32)	—	8
Acquisition Terra Alta	4	—
Capital increase La Mudarra and Ruralia	—	2
Total	**4**	**10**

Receipts due to divestments in Group companies, associates and business units at 31 December 2020 and 2019 break down as follows:

	2020	2019
Sale Torremarenostrum (Note 9)	—	28
Sale Transemel (Note 12)	—	155
Sale Molinos de Cidacos, Molinos de la Rioja and DER Rioja (Note 9)	—	40
Sale Moldavia (Note 12)	—	10
Sale 50% Medina	190	—
Sale Kenya	35	—
Sale Ghesa	24	—
Sale Montouto	8	—
Other	6	1
Total	**263**	**234**

The breakdown of payments for the acquisition of equity instruments at 31 December 2020 and 2019 is as follows:

	2020	2019
Naturgy Energy Group, S.A. treasury shares (Note 15)	(184)	(405)
Other	13	—
Total	**(171)**	**(405)**

Movements in borrowings in 2020 2019 are set out below, disclosing separately the changes that generate cash flows form those that do not:

		Generate cash flow		Do not generate cash flow		
	01.01.2020	Increase	Decrease	Currency translation differences	Transfers and other (1)	31.12.2020
Issuing of debentures and other negotiable obligations	**9,780**	2,186	(1,842)	(91)	(792)	**9,241**
Borrowings from financial institutions	**6,426**	2,626	(1,188)	(358)	(935)	**6,571**
Derivative financial instruments	**127**	—	—	(2)	55	**180**
Lease liabilities	**1,644**	—	(152)	(99)	144	**1,537**
Other financial liabilities	**10**	4	(1)	(13)	10	**10**
Total	**17,987**	**4,816**	**(3,183)**	**(563)**	**(1,518)**	**17,539**

				Generate cash flow		Do not generate cash flow		
	31.12.2018	Impact IFRS 16	01.01.2019	Increase	Decrease	Currency translation differences	Transfers and other (1)	31.12.2019
Issuing of debentures and other negotiable obligations	**10,758**	—	**10,758**	5,194	(6,235)	(42)	105	**9,780**
Borrowings from financial institutions	**4,577**	—	**4,577**	3,017	(1,096)	(40)	(32)	**6,426**
Derivative financial instruments	**85**	—	**85**	—	—	—	42	**127**
Lease liabilities	**—**	1,642	**1,642**	—	(144)	20	126	**1,644**
Other financial liabilities	**11**	—	**11**	40	(48)	4	3	**10**
Total	**15,431**	**1,642**	**17,073**	**8,251**	**(7,523)**	**(58)**	**244**	**17,987**

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

"Other changes in cash and cash equivalents" includes:

	2020	2019
Consolidation perimeter changes	(192)	13
Held for sale transfers	(333)	—
Total	**(525)**	**13**

Nota 32. Business combinations

2020

There were no material business combinations in 2020.

2019

Gasnor, S.A. and Gasmarket, S.A.

On 10 July 2019 the Chilean group company Compañía General de Electricidad, S.A. (CGE) reached an agreement with the Argentine company Cartellone Energía y Concesiones, S.A. (CECSA) to exchange CGE's shares in the electricity distribution companies in Argentina (Empresa de Distribución Eléctrica de Tucumán, S.A., Empresa Jujeña de Energía, S.A. and Empresa Jujeña de Sistemas Energéticos Dispersos, S.A.) for CECSA's shares in the gas distribution companies in Argentina (Gasnor, S.A. and Gasmarket, S.A.). The sale took place on 30 July 2019 for a total price of USD 40 million (Euros 36 million), which is the same price set for the acquisition.

Through this exchange, Naturgy acquired 100% of the gas companies in Argentina in which it had previously held 50%. In this business combination carried out in stages, Naturgy adjusted the value of 50% of its previously held interests in the acquired companies to their fair value at the date of acquisition.

The net assets acquired at 30 July 2019 break down as follows:

Acquisition cost	72
Fair value of the net assets	72
Goodwill (Note 5)	**0**

	Fair value	Carrying amount
Intangible assets (Note 5)	64	64
Property, plant and equipment (Note 6)	4	4
Other current assets	58	58
Cash and cash equivalents	9	9
TOTAL ASSETS	**135**	**135**
Deferred tax liabilities (Note 21)	3	3
Current borrowings (Note 17)	1	1
Other current liabilities	59	59
TOTAL LIABILITIES	**63**	**63**
Net assets acquired	**72**	**72**
Fair value of the net assets acquired	**72**	

Acquisition price	72
Cash and cash equivalents in subsidiary acquired	(9)
Net acquisition cost	**63**

At the date of acquisition, no assets requiring restatement or contingent liabilities were identified based on the balance sheet of Gasnor, S.A. and Gasmarket, S.A. at 30 July 2019 and, accordingly, no asset restatements or provisions additional to those included in the carrying amount were recognised.

The measurement of net assets was basically performed using the following methodology:

- The business was valued following the revenue approach and in particular, through the discounted cash flow method, based on Level 3 inputs as the data are not observable on the market.
- The main parameters used in the valuation were a discount rate of 19.02% and a growth rate of 2%.
- The most sensitive assumptions included in the projections and which were based on sector forecasts and the analysis of historical information were the evolution of gas prices in Argentina and operation and maintenance costs.

Note 33. Service concession agreements

Naturgy manages a number of concessions containing provisions for the construction, operation and maintenance of facilities, as well as connection and power supply obligations during the concession period, in accordance with applicable regulations (Appendix IV). There follow details of the concession period and the period remaining to the expiration of concessions that are not indefinite:

Company	Activity	Country	Concession period	Initial remaining period
Gas Natural BAN, S.A.	Gas distribution	Argentina	35 (extendable 10)	7
Gasnor, S.A.	Gas distribution	Argentina	35 (extendable 10)	7
Energía San Juan S.A.	Electricity distribution	Argentina	60	36
Companhia Distribuidora de Gás do Río de Janeiro, S.A, Ceg Rio, S.A. and Gas Natural Sao Paulo Sul, S.A.	Gas distribution	Brazil	30 (extendable 20/30)	7-10
Unión Fenosa Generadora La Joya, S.A. and Unión Fenosa Generadora Torito, S.A.	Electricity generation	Costa Rica	20	2-10
Naturgy Generación S.L.U., S.A. and Naturgy Renovables, S.L.	Hydraulic power generation	Spain	14-65	2-43
Gas Natural México S.A. de C.V. and Comercializadora Metrogas S.A. de C.V.	Gas distribution	Mexico	30 (extendable 15)	7-18
Europe Maghreb Pipeline Ltd	Gas transportation	Morocco	25 (extendable)	1
Empresa Distribuidora de Electricidad Metro Oeste, S.A. and Empresa Distribuidora de Electricidad Chiriqui, S.A.	Electricity distribution	Panama	15	8

As indicated in Note 2.4.2.b, Naturgy applies IFRIC 12 “Service concession arrangements”, the intangible asset model being applicable basically to the gas distribution activities in Argentina, Brazil and Peru, and to the electricity distribution activity in Argentina, while the financial asset model applies to the electricity generation business in Costa Rica.

The hydraulic power plant concessions in Spain (Note 2.4.4.) fall outside the scope of IFRIC 12, due among other reasons to the fact that power selling prices are set in the market. The other international concessions fall outside the scope of IFRIC 12 because the grantor does not control a significant residual interest in the infrastructure at the concession end date and simultaneously determines the service price. Concession assets are still recognised in “Property, plant and equipment”.

Note 34. Related party disclosures

Related parties are as follows:

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

  Based on this definition, the significant shareholders of Naturgy are Fundación Bancaria Caixa d’Estalvis i Pensions de Barcelona ("la Caixa”), Global Infrastructure Partners III (GIP) and related companies and CVC Capital Partners SICAV-FIS, S.A. (through Rioja Acquisitions S.à.r.l.).

– Directors and executives of the company, and their close relatives. The term "director" means a member of the Board of Directors and the term "senior management personnel" refers to personnel reporting directly to the Executive President and the Internal Audit Manager. Operations with directors and executives are disclosed in Note 35.

– Transactions between Group companies form part of ordinary activities and are effected at arm's length. Group company balances include the amount that reflects Naturgy's share of the balances and transactions with companies consolidated under the equity method.

Aggregate transactions with related parties are as follows:

2020	**Significant shareholders**				**Group companies**
Expense and Income (thousand euro)	**"la Caixa" group (*)**	**CVC group**	**GIP group**	**DIrectors**	
Financial expenses	—	—	—	—	—
Leases	—	—	—	—	5
Receipt of services	23	—	—	—	11,515
Purchase of goods (1)	—	—	9,085	—	236,599
Other expenses	—	—	—	—	—
Total expenses	**23**	**—**	**9,085**	**—**	**248,119**
Financial income	—	—	—	—	52
Leases	—	—	—	—	—
Provision of services	—	—	—	—	23,041
Sale of goods (1)	2,362	19,951	—	178	40,062
Other income	—	—	—	—	1,046
Total income	**2,362**	**19,951**	**—**	**178**	**64,201**

	Significant shareholders				**Group companies**
Other transactions (thousand euro)	**"la Caixa" group (*)**	**CVC group**	**GIP group**	**DIrectors**	
Acquisition of property, plant and equipment, intangible assets or other assets (2)	—	—	—	—	—
Financing agreements: loans and capital contributions (lender)	—	—	—	—	1,702
Dividends and other profits distributed (2)	339,625	283,813	282,795	—	—

	Significant shareholders				**Group companies**
Trade debtors and creditors (thousand euros)	**"la Caixa" group (*)**	**CVC group**	**GIP group**	**DIrectors**	
Trade and other receivables	274	3,359	—	40	**16026**
Trade and other payables	—	—	457	—	22,958

2019	**Significant shareholders**			**Group companies**
Expense and Income (thousand euro)	**"la Caixa" group (*)**	**CVC group**	**GIP group**	
Financial expenses	—	—	—	—
Leases	—	—	—	3
Receipt of services	10	—	—	11,245
Purchase of goods (1)	—	—	13,368	344,034
Other expenses (2)	—	—	—	—
Total expenses	**10**	**—**	**13,368**	**355,282**
Financial income	—	—	—	70
Leases	—	—	—	—
Provision of services	—	—	—	12,649
Sale of goods (1)	1,217	27,028	—	128,473
Other income	—	—	—	1,734
Total income	**1,217**	**27,028**	**—**	**142,926**

Other transactions (thousand euro)	Significant shareholders "la Caixa" group (*)	CVC group	GIP group	Group companies
Acquisition of property, plant and equipment, intangible assets or other assets (3)	—	—	—	—
Financing agreements, loans and capital contributions(lender)	—	—	—	2,085.00
Sale of property, plant and equipment, intangibles or other assets	—	—	—	—
Financing agreements: loans and capital contributions (borrower)	—	—	—	
Warranties and guarantees received	—	—	—	—
Dividends and other profits distributed (2)	333,486.00	268,548.00	267,584.00	—
Other operations	—	—	—	—

Trade debtors and creditors (thousand euros)	Significant shareholders Grupo "la Caixa"	CVC group	GIP group	Group companies
Trade and other receivables	74	5,274	—	29,418
Trade and other payables	—	—	15	26,461

(1) Basically includes energy purchase and sale. In the case of group companies, basically corresponds to operations with Unión Fenosa Gas.
(2) At 31 December 2019, the "la Caixa" dividend included Euros 60,257 thousand relating to 100% of the amount paid to Energía Boreal 2018, S.A. (allocable amount of Euros 43,230 thousand).

Note 35. Information on Board members and Management Committee

Remuneration of the members of the Board of Directors

The remuneration policy for the members of the Board of Directors was approved at the General Shareholders' Meeting held on 26 May 2020 and is periodically reviewed and revised by the Board of Directors following a report from the Appointments and Remuneration Committee, in order to keep it aligned with the best practices in the reference market and with the objectives indicated in the By-laws.

The amount accrued by the members the Board of Directors of Naturgy Energy Group, S.A., for belonging to the Board of Directors, Executive Committee (EC), Audit and Control Committee (ACC), Appointments and Remuneration Committee (ARC) and Sustainability Committee (without additional remuneration), totalled Euros 3,955 thousand (with no increase as compared with 2019), broken down in euros as follows:

	Office	Board	AC	ARC	Total
Mr. Francisco Reynés Massanet	Executive Chairman	1,100,000	—	—	1,100,000
Mr. Ramón Adell Ramón	Coordinating Director	205,000	60,000	90,000	355,000
Mr. Enrique Alcántara-García Irazoqui (1)	Director	36,694	12,581	—	49,275
Mr. Marcelino Armenter Vidal	Director	175,000	—	60,000	235,000
Mr. Francisco Belil Creixell	Director	175,000	90,000	60,000	325,000
Ms. Lucy Chadwick (2)	Director	138,306	47,419	—	185,725
Ms. Helena Herrero Starkie	Director	175,000	60,000	—	235,000
Ms. Isabel Estapé Tous (2)	Director	138,306	47,419	—	185,725
Mr. Rajaram Rao	Director	175,000	12,581	47,419	235,000
Rioja S.à.r.l, Mr. Javier de Jaime Guijarro	Director	175,000	—	60,000	235,000
Mr. Pedro Sainz de Baranda Riva	Director	175,000	60,000	60,000	295,000
Mr. Claudi Santiago Ponsa	Director	175,000	—	60,000	235,000
Mr. Scott Stanley (1)	Director	36,694	—	12,581	49,275
Theatre Directorship Services Beta, S.à.r.l., Mr. José Antonio Torre de Silva López de Letona	Director	175,000	60,000	—	235,000
		3,055,000	**450,000**	**450,000**	**3,955,000**

(1) Since 16 March 2020
(2) From 16 March 2020

In 2020, as in 2019, no amounts were received for other items.

At 31 December 2020, the Board of Directors was still formed of 12 members, the Audit Committee of 7 members, the Appointments and Remuneration Committee of 7 members and the Sustainability Committee of 5 members, without the creation of this new committee having led to an increase in remuneration during 2020.

For the executive functions carried out in the year 2020, the Chief Executive Officer has earned Euros 2,976 thousand corresponding to fixed compensation (Euros 960 thousand), annual variable (Euros 1,918 thousand) and other items (Euros 98 thousand), although the amount corresponding to the annual variable remuneration will be settled as a discretionary contribution to the pension plan of which the Chief Executive Officer is a beneficiary, in accordance with the contractually established (in the year 2019 the amounts were Euros 930 thousand for fixed compensation, Euros 2,369 thousand for variable and Euros 72 thousand for other concepts; also, in the year 2019, the annual variable remuneration was settled as a discretionary contribution to the pension plan).

Contributions to pension plans and group contractual insurance policies, together with life insurance premiums paid, without considering the annual variable remuneration contributed discretionary to the social welfare plan mentioned above, totalled Euros 473 thousand in 2020 (Euros 477 thousand in 2019). Funds accumulated, including the amount corresponding to the earned annual variable remuneration to be settled as a contribution to the pension plan, amount to Euros 7,568 thousand at 31 December 2020 (5,232 thousand at 31 December 2019).

The Chairman's contract was approved by the Board of Directors on 6 February 2018 and provides for a fixed remuneration component, an annual variable component and a long-term incentive plan, as well as other welfare benefits.

At a meeting held on 31 July 2018 the Board of Directors approved a long-term variable incentive plan (LTI) in which the Executive Chairman and 25 other senior executives take part. It is arranged through the acquisitions of shares the main characteristics of which are described in Note 14. The new incentive required the adaptation of the Remuneration Policy and the Executive Chairman's contract, which were approved by the shareholders' general meeting held on 5 March 2019.

The Chairman's contract provides for an indemnity for termination or non-renewal as a director of two annual payments of the combined amount of total remuneration: fixed remuneration, annual variable remuneration and the annualized part of the long term remuneration (equivalent to 1.25 times total fixed remuneration). The indemnity will not be payable in the event of the serious and culpable nonfulfillment of his professional obligations causing significant harm to Naturgy's interests. In addition, as consideration for a post-contractual no-competition agreement of one year, an indemnity equivalent to one year's full fixed remuneration is provided for.

Except as mentioned for the CEO, the members of the Board of Directors of the Company have not received remuneration from profit sharing, bonuses or indemnities, and have not been given loans or advances. Neither have they received shares or share options during the year, nor have they exercised options or have options to be exercised.

The members of the Board of Directors are covered with the same liability policy that insures all managers and directors of Naturgy. The premium paid in 2020 by Naturgy Energy Group, S.A. for the entire policy amounted to Euros 316 thousand (Euros 140 thousand in 2019).

Transactions with Directors

The Directors have the obligation to avoid conflicts of interest as established by the Board Regulations of Naturgy Energy Group, S.A. and Articles 228 and 229 of the Spanish Companies Law. Additionally, these articles require that conflicts of interest incurred by the board shall be reported in the annual accounts.

During 2020, in two sessions of the Board of Directors, two directors have abstained from participating as inorganic investments were examined in which there was a conflict of interest with Naturgy. Except for these cases, the Directors of Naturgy have not reported any general conflict of interest to the Board of Directors.

In transactions with related parties (significant shareholders) that have been submitted for approval by the Board, subject to a favourable report of the Audit Committee, any directors linked to the related party involved have abstained.

During the years 2020 and 2019, the members of the Board have not carried out related transactions outside the ordinary course or transactions that are not conducted under normal market conditions with the company or Group companies.

Management Committee remuneration

For the sole purposes of the information contained in this section, Management Committee refers to executives reporting directly to the Executive Chairman, excluding the Executive Chairman, whose remuneration has been included in the previous section, and to the Internal Audit Director.

At 31 December 2020, 9 people make up this group, without taking into account the Internal Audit Director (11 people at 31 December 2019). During 2020 there has been 7 exits and 5 entries.

Amounts accrued to executives in respect of fixed remuneration, annual variable remuneration, multi-year variable remuneration and other items totalled Euros 5,170 thousand, Euros 2,755 thousand, Euros 79 thousand and Euros 428 thousand, respectively, in 2019 (Euros 6,217 thousand, Euros 3,452 thousand, Euros 1.081 thousand and Euros 362 thousand, respectively, in 2019). The long-term variable incentive plan (ILP) are described in Note 14 and Note 16.

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled Euros 1,128 thousand in 2020 (Euros 1,422 thousand in 2019). Funds accumulated due to these contributions amount to Euros 5,544 thousand at 31 December 2020 (Euros 17,967 thousand at 31 December 2019).

There are no advances granted to management personnel at 31 December 2020 (Euros 45 thousand at 31 December 2019). At 31 December 2020, same as in 2020, Naturgy had not granted any new guarantees on loans to management personnel. Severance benefits received by senior management personnel leaving Naturgy amounted to Euros 14,261 thousand in 2020 (Euros 3,832 thousand in 2019).

The contracts signed with the Management Committee (9) contain a clause that establishes compensation for termination of the relationship that varies from two total annual remuneration and three and a half total annual remuneration in others, in certain cases, which include certain situations of change in control, unfair dismissal or the cases contemplated in articles 40, 41 or 50 of the Statute of Workers. Likewise, 9 of these contracts contain a clause that establishes compensation equivalent to an annuity of fixed remuneration for post-contractual non-competition for a period up to two years.

Note 36. Litigation, arbitration, guarantees and commitments

Litigation and arbitration

The companies in the Naturgy Group are involved in certain judicial and extrajudicial disputes within the ordinary course of their activities. At the date of preparation of these consolidated annual accounts, the main litigation or arbitration in which Naturgy companies are involved are the following:

Claims for PIS and COFINS taxes in Brazil

In September 2005, the Río de Janeiro Tax Administration rendered ineffective the recognition that it had previously issued, in April 2003, for the offset of receivables in respect of PIS and COFINS sales taxes paid by Companhia Distribuidora de Gás do Rio de Janeiro - CEG, in which Naturgy holds an interest of 54.2%. The administrative court confirmed that ruling in March 2007 and the company filed an appeal at a contentious-administrative court (Justicia Federal do Rio de Janeiro). Subsequently, notification of a public civil action against CEG relating to the same events was received on 26 January 2009. The total amount of this disputed tax liability at that date, including interest, was BRL 386 million (Euros 61 million), which updated to the current exchange rate would amount to BRL 467 million (Euros 73 million). In November 2015 the Rio de Janeiro Federal Justice Department issued a first instance ruling partially upholding CEG's appeal, ordering the refund and the payment of the tax debt plus costs in the amount of BRL 105 million (Euros 16 million) and rejecting the imposition of default interest (updated) and fines. The ruling was appealed by the Federal Treasury of Brazil and by CEG before the Federal Court of Rio de Janeiro (Chamber of Appeal).

Qatar Gas arbitration

In May 2015, Naturgy commenced an arbitration procedure against Qatar Liquefied Gas Company Limited in order, among other matters, to set the prices for gas supplies that it receives from said company between 2015 and 2017. Naturgy requested a price reduction and the supplier has requested an increase. The award was delivered on 3 February 2018 and contained various provisions that require negotiations between the parties, which gave rise to a second arbitration process. A second arbitration award was issued in June 2020, in addition to the one issued in February 2018, which concluded the claim filed in 2015 against Qatar Liquefied Gas Company Limited, its main decision being a 3.65% increase in the price paid in Spain. In addition, the award already allows this gas to be sold in various European terminals (France, United Kingdom, Belgium and the Netherlands). The settlement of this arbitration has not had a significant impact on the consolidated annual accounts.

Claim against Metrogas, S.A.

Transportadora de Gas del Norte S.A. lodged various complaints against Metrogas, S.A., a Chilean company 55.6% owned by Naturgy, before the civil and commercial courts of first instance in Argentina for supposed breach of contract in the transport of Argentinian gas to Chile during the Argentina gas crisis. In April 2017, Metrogas, S.A. received a judicial notice declaring a joinder of claims, meaning that the total amount stands at USD 227 million (Euros 185 million). The procedures are in a state sentencing in the first instance.

Environmental incentive to coal plants in Spain

In 2007, the Spanish authorities introduced an environmental incentive to support the installation of new sulphur oxide filters in existing coal plants. In November 2017, the European Commission opened an investigation to determine whether this incentive complied with the European Union's state aid rules. In the event of an unfavourable result, the risk estimated in the consolidated financial statements, which does not include the period in which the plants were subject to the economic regime of Royal Decree 134/2010, could be as much as Euros 67 million.

Unión Fenosa Gas

In 2014, Egyptian Natural Gas Holding (EGAS), an Egyptian public company, ceased to supply gas to Unión Fenosa Gas, a company 50% owned by Naturgy, and stopped paying the utilisation fee for the Damietta liquefaction plant. This led to Unión Fenosa Gas instigating arbitration proceedings at various locations (Madrid, El Cairo and the CIADI) against this supplier, which requested the nullity of the contract, and against the Arab Republic of Egypt. In December 2017 the arbitration proceedings against EGAS conducted in Cairo concluded with a decision that confirmed the position of Unión Fenosa Gas concerning the nonfulfillment of the relevant obligations. In August 2018 a decision was made in the investment protection arbitration proceedings (ICSID) against the Arab Republic of Egypt, ordering it to pay USD 2,013 million after taxes and before interest. A decision has yet to be issued in the arbitration being conducted in Madrid. On 21 December 2018, the Arab Republic of Egypt submitted an appeal to the ICSID against the award and requested its suspension while the appeal proceedings last. In January 2020, as Egypt had not provided the guarantees established by ICSID, the suspension that had been provisionally decreed was lifted and enforcement actions were resumed, with the award having been approved in the United Kingdom and the Netherlands.

Following the agreement reached in February 2020 and terminated in April due to the failure to meet certain conditions precedent, in December 2020 Naturgy announced a new agreement with ENI and the Arab Republic of Egypt to amicably resolve the disputes affecting Unión Fenosa Gas. Following the conclusion of the relevant agreements in December 2020 the transaction is expected to be executed in early 2021, once the usual conditions precedent are met, including the resumption of operations in Damietta scheduled for the first quarter of 2021. The enforcement of the arbitration award is suspended while these conditions are met. The new agreement, approved by the Egyptian Cabinet, is in line with the previous agreement and values Union Fenosa Gas (100%) in a total consideration of up to USD 1,500 million, depending on the energy scenario, of which USD 1,200 million relates to its Egyptian assets (including the outstanding legal proceedings) and the remaining USD 300 million to assets outside Egypt.

Energy subsidy (“bono social”)

The Supreme Court ordered reimbursement of the amounts contributed by Naturgy Energy Group, S.A. to the energy subsidy for 2014 to 2016 (Euros 74 million) in accordance with Royal Decree-Law 9/2013. However, this decision was appealed against by the government before the Constitutional Court. This Court ruled to revoke the Supreme Court's judgement, thus returning the proceedings to the stage prior to said judgement. The Constitutional Court questioned the fact that the Supreme Court did not ask the Court of Justice of the European Union for a preliminary ruling, and has requested such a preliminary ruling.

Electricaribe

On 14 November 2016 the Superintendence for Residential Public Services of the Republic of Colombia (“the Superintendence”) reported the government take-over of Electricaribe, a Naturgy investee, as well as the separation of the members of the governing body and the general manager, and their replacement by a special agent appointed by the Superintendence. On 14 March 2017 the Superintendence announced the decision to liquidate Electricaribe. On 22 March 2017 Naturgy initiated arbitration proceedings before the Court of the United Nations Commission for International Trade Law (UNCITRAL) and on 15 June 2018 it lodged a complaint in which it claimed approximately 1,600 MUSD. On 4 December 2018 the Republic of Colombia submitted its answer to the complaint and filed a counterclaim for approximately USD 500 million, the viability of which is considered remote (Note 9). The main hearings took place in December 2019 and an award is expected in the coming months.

Several Columbian government agencies have brought administrative and judicial procedures against the Naturgy group or its employees on behalf of Electricaribe, including the Public Prosecutor's Office, the Superintendence for Public Services and the Superintendence for Companies.

Naturgy Peru

Naturgy Peru reached an agreement with the Peruvian government under which both parties agreed to terminate the concession agreement and therefore decree the expiration of the natural gas distribution concession in the regions of Arequipa, Tacna and Moquegua. The Peruvian government took over operation of the concession in December 2020.

Naturgy's consolidated balance sheet at 31 December 2020 includes provisions for litigation, based on the best estimate made using the information available at the date of preparation of these consolidated annual accounts on their progress and ongoing negotiations, which cover the estimated risks. Naturgy therefore considers that no significant liabilities will be derived from the risks described in the relevant section of this Note.

Guarantees

Guarantees furnished by Naturgy at 31 December 2020 and 2019 are as follows:

- Guarantees provided to third parties, basically for investment commitments, construction and distribution network expansion, tenders, bids and business contracts amounting to Euros 1,535 million (Euros 1,831 million at 31 December 2019).

- Guarantees relating to the economic obligations resulting from its participation in the Spanish gas system (MIBGAS) and the Spanish electricity system (MEFF and OMIE) for Euros 487 million (Euros 489 million at 31 December 2019).

- At 31 December 2019 financial guarantees were recorded relating to the guarantee for compliance with obligations under loans received by investee companies amounting to Euros 6 million. In addition, guarantees existed for compliance with obligations under loans received by investee companies amounting to USD 78 million (Euros 69 million).

- Guarantees for debt issues by group companies Gas Natural Capital Markets, S.A., Gas Natural Finance, B.V. and Unión Fenosa Preferentes, S.A.U. totalling Euros 10,551 million (Euros 10,335 million at 31 December 2019).

- Guarantees for obligations under gas purchase and transport contracts and the chartering of gas tankers of group companies Naturgy Aprovisionamientos, S.A. and Gas Natural Europe, S.A.S.

As the above guarantees are basically granted in order to guarantee the fulfilment of contractual obligations or investment commitments, the events that would lead to their execution, and therefore a cash disbursement, would be the nonfulfillment by Naturgy of its obligations in the ordinary course of its business, the probability of which is considered limited. Naturgy estimates that the liabilities not foreseen at 31 December 2020 if any, that could arise from guarantees furnished, would not be significant.

Contractual commitments

The following tables present the contractual commitments for purchases and sales at 31 December 2020 (in euros million):

		31.12.2020					
Acquisition	**Total**	**2021**	**2022**	**2023**	**2024**	**2025**	**and later years**
Energy purchases (1)	53,650	5,333	4,590	4,405	4,027	3,929	31,366
Energy transmission (2)	2,890	376	340	342	310	267	1,255
Investment (3)	441	310	131	—	—	—	—
Operating leases (4)	2	2	—	—	—	—	—
Nuclear fuel purchases	35	17	18	—	—	—	—
Total contractual obligations	**57,018**	**6,038**	**5,079**	**4,747**	**4,337**	**4,196**	**32,621**

		31.12.2020					
Sale	**Total**	**2021**	**2022**	**2023**	**2024**	**2025**	**and later years**
Energy sales (5)	17,651	2,540	1,785	1,317	1116	1098	9,795
Provision of capacity assignment services (6)	2,533	257	261	271	261	339	1,144
Total contractual obligations	**20,184**	**2,797**	**2,046**	**1,588**	**1,377**	**1,437**	**10,939**

1. Reflects the long-term commitments for natural gas purchases under gas supply contracts with take or pay clauses negotiated and held for "own use" (Note 2.4.8). Normally, these contracts are for 20-25 years, a minimum amount of gas to be purchased and revision mechanisms for prices indexed to international natural gas prices and regulated prices of natural gas in the countries of origin. The commitments according to these contracts have been calculated on the basis of natural gas prices at 31 December 2020.

2. Reflects the long-term commitments (20 to 25 years) for gas transport and electricity transmission calculated on the basis of prices at 31 December 2020. It also reflects operating costs identified for charter contracts for gas tankers under finance leases for the tankers currently in operation.

3. It reflects investment commitments basically for the construction of renewable generation plants in Spain and Australia, the development of the distribution network and other gas infrastructures and the development of the electricity distribution network. (Note 6).

4. This mainly reflects commitments for short-term operating leases on vessels (expiring in 2021) or leases with variable instalments, as well as commitments for short-term leases on buildings, land tied to generation facilities with variable lease instalments, and other low-value leases.

The cost of these operating leases amounted to Euros 41 million in 2020 (Euros 38 million for 2019).

5. It basically reflects long-term commitments to sell natural gas under gas sale contracts, containing take-or-pay clauses, negotiated and held for "own use" (Note 2.4.8). The commitments have been calculated based on natural gas prices at 31 December 2020.

This also includes long-term commitments to sell electricity, calculated based on prices at 31 December 2020.

6. It reflects service provision commitments under power generation capacity assignment contracts in Mexico (Note 2.4.22). The commitments made in these contracts have been calculated based on prices at 31 December 2020.

Note 37. Auditors' fees

Total fees for auditing and related services and other services in 2020 amounted to Euros 4,347 thousand (Euros 4,303 thousand in 2019).

The fees accrued in thousand euro by the different companies trading under the Ernst & Young (EY) brand in 2020 and 2019 are as follows:

	Thousand Euros					
	2020			2019		
	Ernst & Young, S.L.	Rest EY network	Total	Ernst & Young, S.L.	Rest EY network	Total
Auditing services	1,738	2,148	**3,886**	1,713	2,033	**3,746**
Assurance services and services related to the audit (1)	88	132	**220**	179	128	**307**
Other services (1)	132	105	**237**	22	163	**185**
Total fees	**1,958**	**2,385**	**4,343**	**1,914**	**2,324**	**4,238**

(1) These headings include verification reports on non-financial information, comfort letters and advice on sustainability.

Additionally, other audit firms have provided various Group companies with audit services amounting to Euros 4 thousand in 2020 (Euros 65 thousand in 2019).

The calculation of the auditor' fees for the current period and in the comparative analysis with the previous year does not take into account the fees relating to companies that have been reclassified to discontinued operations, which in 2020 amounted for Euros 386 thousand, accrued by the auditor. The fees accrued in this respect in 2019 amounted to Euros 415 thousand by the auditor and Euros 38 thousand by other audit firms.

Note 38. Environment

Environmental actions

Naturgy is aware of its activities' environmental impacts and therefore the company pays particular attention to the protection of the environment and the efficient use of natural resources to meet energy demand.

As provided in the Corporate Responsibility Policy, Naturgy is committed to promoting the sustainable development of society by ensuring the supply of competitive and safe energy with maximum respect for the environment. This commitment is detailed in the Global Environmental Policy, based on its potential to contribute to the protection of the environment, Naturgy voluntarily assumes the commitment to be a key player in the energy transition towards a circular, low-carbon and digital economy. To this end, four strategic environmental axes have been established:

– Environmental governance and management.

– Climate change and energy transition.

– Circular economy and eco-efficiency.

– Natural capital and biodiversity.

The main milestones in 2020 in connection with governance and the environment were the creation of the Sustainability Committee within the Board of Directors and of the Environment and Social Responsibility Department under the Sustainability, Reputation and Institutional Relations Department, reporting directly to the Chairman. Additionally, the Company received first prize both the Spanish category (in which there were 115 candidates) and the European category (94 candidates) at the European Business Awards for the Environment, organised by the European Commission, in the Environmental Management section, which is granted to companies that combine environmental sensitivity with business success.

Environmental management is based on the ISO 14001 model, the correct functioning of which is audited externally each year, providing the tools required to ensure continuous improvement.

In the area of climate change and the energy transition, the main lines of action pursued in 2020 were expansion of renewable generating capacity, the closure of all of Naturgy's coal-fired plants in the first half of the year, which produced a sizeable reduction in atmospheric emissions of CO2 and other pollutants, and the reduction in emissions that resulted from using natural gas in place of more polluting fossil fuels, such as coal and petroleum derivatives. In this connection, Naturgy obtained the highest rating in the CDP Climate Change 2020 (A List), the most prestigious index on the fight against climate change. The company also received a diploma for "Exemplary Business Action for the Climate" from Comunidad #PorElClima because of its work and commitment to address the climate emergency. As for results, direct emissions of CO2 declined in 2020 with respect to 2019, in line with the company's climate objectives.

With regard to the circular economy, work was conducted on a number of lines. Firstly, energy efficiency improvement projects were carried out, both at our own facilities and at our customers', and initiatives were implemented that led to a reduction in the consumption of fuels and other materials. Actions were also taken to enhance waste recovery and reduce waste production, resulting in an improvement in the ratio. Water use increased slightly in 2020 with respect to 2019, although this was due primarily to greater recourse to sea water, since the use of fresh water, the scarcest and most sensitive water resource, was reduced.

Work continued in order to drive the use of renewable gas, produced from organic waste. In 2020, the company injected 2.02 GWh into the Spanish gas grid from the Butarque wastewater treatment plant under the ECOGATE European initiative, and construction commenced on the biomethane plant at the Elena landfill and on the injection unit at the Bens wastewater treatment plan, the goal being to inject renewable gas into the grid early in 2021.

In 2020, Naturgy conducted multiple actions in the natural capital and biodiversity area, all of which are aligned with preventing, reducing and offsetting our impacts, and with enhancing the value of the natural surroundings. Specifically, more than 250 biodiversity initiatives were implemented worldwide, 25% of them voluntary.

Environmental activities undertaken in 2020 amounted to Euros 685 million (Euros 546 million in 2019), of which Euros 532 million relate to environmental investments and Euros 153 million to environmental management of facilities, excluding those relating to the carbon market. The investments include notably Euros 494 million in renewable projects in Spain and other countries, which will contribute to the energy transition and to reducing specific emissions of CO_2 and other atmospheric pollutants.
Finally, referring to possible contingencies, indemnities and other environmental risks that may be incurred by the company, third-party liability insurance policies are in place to cover any damage that might arise.

Emissions

In 2020, total consolidated CO_2 emissions from Naturgy's coal and combined cycle plants subject to regulations governing the European emission trading system totalled 5.9 million tonnes of CO_2 (6.2 million tonnes of CO_2 in 2019). This three million tonne decrease is due to the reduced operation of coal-fired plants.

Naturgy devises a strategy each year for managing transfers to its CO_2 emission allowance coverage portfolio, acquiring them through its active participation in both the primary and secondary markets.

Note 39. Events after the reporting date

On 15 January 2021, Naturgy, through Naturgy Solar USA, LLC, a wholly owned subsidiary, acquired a 100% holding in Hamel Renewables, LLC (United States) which holds a portfolio of 8 GW solar projects and 4.6 GW energy storage projects located in nine US states. The transaction represents an enterprise value of USD 57 million for 100% of the vehicle.

On 26 January 2021, Global InfraCo O (2), S.à. r.l., a company controlled by Australian fund IFM, announced a takeover bid for Naturgy with the following characteristics:

– The takeover bid is voluntary and for a partial stake.

- It is for 220 million shares (approximately 22.69% of share capital) and is conditional upon attaining at least 17% of share capital.
- The price offered is Euros 23 per share.
- CVC and GIP have undertaken not to accept this takeover bid.
- The takeover bid is conditional upon obtaining authorisation from the Spanish Cabinet for foreign investments under article 7.bis of Act 19/2003.

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Appendix I Naturgy companies

1. Subsidiaries

Company	Country	Activity	Method of Consolidation (1)	Total % interest: % Controlling interest (2)	Total % interest: % Equity interest
Naturgy BAN, S.A.	Argentina	Gas distribution	F.C.	70.0	70.0
Gascart S.A.	Argentina	Gas distribution	F.C.	100.0	94.2
Gasnor S.A.	Argentina	Gas distribution	F.C.	100.0	94.2
Gasmarket S.A.	Argentina	Gas distribution	F.C.	100.0	94.2
Ceg Río, S.A.	Brazil	Gas distribution	F.C.	59.6	59.6
Companhia Distribuidora de Gás do Río de Janeiro, S.A.	Brazil	Gas distribution	F.C.	54.2	54.2
Gas Natural Sao Paulo Sul, S.A.	Brazil	Gas distribution	F.C.	100.0	100.0
Gas Natural Redes GLP, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Gas Natural Transporte SDG, S.L.	Spain	Gas distribution	F.C.	100.0	80.0
Nedgia Andalucía, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Nedgia Aragón, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Nedgia Balears, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Nedgia Castilla La-Mancha, S.A.	Spain	Gas distribution	F.C.	95.0	76.0
Nedgia Castilla y León, S.A.	Spain	Gas distribution	F.C.	90.1	72.1
Nedgia Catalunya, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Nedgia Cegas, S.A.	Spain	Gas distribution	F.C.	99.7	79.8
Nedgia Galicia, S.A.	Spain	Gas distribution	F.C.	68.5	54.8
Nedgia Madrid, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Nedgia Navarra, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Nedgia, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Nedgia Rioja, S.A.	Spain	Gas distribution	F.C.	87.5	70.0
Comercializadora Metrogas, S.A. de CV	Mexico	Gas distribution	F.C.	100.0	70.9
Naturgy México, S.A. de C.V.	Mexico	Gas distribution	F.C.	70.9	70.9
Naturgy Perú, S.A. (3)	Peru	Gas distribution	F.C.	100.0	100.0
UFD Distribución Electricidad, S.A.	Spain	Electricity distribution	F.C.	100.0	100.0
Empresa de Distribución Electrica Chiriqui, S.A.	Panama	Electricity distribution	F.C.	51.0	51.0
Empresa de Distribución Electrica Metro Oeste, S.A.	Panama	Electricity distribution	F.C.	51.0	51.0
Gas Natural Exploración, S.L.	Spain	Gas infrastructures	F.C.	100.0	100.0
Naturgy Almacenamientos Andalucía, S.A.	Spain	Gas infrastructures	F.C.	100.0	100.0
Petroleum Oil & Gas España, S.A.	Spain	Gas infrastructures	F.C.	100.0	100.0
Metragaz, S.A.	Morocco	Gas infrastructures	F.C.	76.7	76.7
Europe Maghreb Pipeline, Ltd.	United Kingdom	Gas infrastructures	F.C.	77.2	77.2

Company	Country	Activity	Method of Consolidation (1)	Total % interest % Controlling interest (2)	% Equity interest
Natural Energy, S.A.	Argentina	Gas supply	F.C.	100.0	100.0
Gas Natural Serviços, S.A.	Brazil	Gas supply	F.C.	100.0	100.0
Naturgy Aprovisionamientos, S.A.	Spain	Gas supply	F.C.	100.0	100.0
Naturgy LNG, S.L.	Spain	Gas supply	F.C.	100.0	100.0
Sagane, S.A.	Spain	Gas supply	F.C.	100.0	100.0
Gas Natural Europe, S.A.S.	France	Gas supply	F.C.	100.0	100.0
Naturgy LNG GOM Limited	Ireland	Gas supply	F.C.	100.0	100.0
Naturgy LNG Marketing Ltd	Ireland	Gas supply	F.C.	100.0	100.0
Naturgy Servicios, S.A. de C.V.	Mexico	Gas supply	F.C.	100.0	70.9
Naturgy LNG Singapore Pte. Ltd	Singapore	Gas supply	F.C.	100.0	100.0
Gas Natural Puerto Rico, Inc	Puerto Rico	Gas supply	F.C.	100.0	100.0
Comercializadora Regulada Gas & Power, S.A.	Spain	Gas and electricity supply	F.C.	100.0	100.0
Gas Natural Comercializadora, S.A.	Spain	Gas and electricity supply	F.C.	100.0	100.0
Naturgy Commodities Trading, S.A.	Spain	Gas and electricity supply	F.C.	100.0	100.0
Naturgy Iberia, S.A.	Spain	Gas and electricity supply	F.C.	100.0	100.0
Naturgy Energy, Ltd	Ireland	Gas and electricity supply	F.C.	100.0	100.0
Naturgy Ltd	Ireland	Gas and electricity supply	F.C.	100.0	100.0
Naturgy Energy (UK), Ltd	United Kingdom	Gas and electricity supply	F.C.	100.0	100.0
Berrybank 2 Asset Pty Ltd	Australia	Electricity generation	F.C.	100.0	74.0
Berrybank 2 Asset Trust	Australia	Electricity generation	F.C.	100.0	74.0
Berrybank Development Pty, Ltd	Australia	Electricity generation	F.C.	100.0	74.0
Crookwell 3 Development Pty Ltd.	Australia	Electricity generation	F.C.	100.0	74.0
Crookwell Development Pty, Ltd	Australia	Electricity generation	F.C.	100.0	74.0
Hawkesdale Asset Pty Ltd	Australia	Electricity generation	F.C.	100.0	74.0
Hawkesdale Asset Trust	Australia	Electricity generation	F.C.	100.0	74.0
Ryan Corner Development Pty, Ltd	Australia	Electricity generation	F.C.	100.0	74.0
Global Power Generation Brasil Geracao de Energía Ltda	Brazil	Electricity generation	F.C.	100.0	75.0
Guimarania I Solar Spe Ltda.	Brazil	Electricity generation	F.C.	100.0	75.0
Guimarania II Solar Spe Ltda.	Brazil	Electricity generation	F.C.	100.0	75.0
Sertao i Solar Energía, SPE, Ltda	Brazil	Electricity generation	F.C.	85.0	63.8
Sobral i Solar Energía, SPE, Ltda	Brazil	Electricity generation	F.C.	85.0	63.8
Gestión y Servicios Cabo Leones II	Chile	Electricity generation	F.C.	51.0	38.3
GPG Generación Distribuida, S.p.A.	Chile	Electricity generation	F.C.	100.0	75.0
GPG Solar Chile 2017 SpA	Chile	Electricity generation	F.C.	100.0	75.0
Iberéolica Cabo Leones II, S.A.	Chile	Electricity generation	F.C.	51.0	38.3
Inca de Varas I	Chile	Electricity generation	F.C.	100.0	75.0

Company	Country	Activity	Method of Consolidation (1)	Total % interest % Controlling interest (2)	% Equity interest
Inca de Varas II	Chile	Electricity generation	F.C.	100.0	75.0
Parque Eólico Vientos del Pacífico, S.p.A	Chile	Electricity generation	F.C.	100.0	75.0
Almar Ccs, S.A.	Costa Rica	Electricity generation	F.C.	100.0	75.0
Unión Fenosa Generadora La Joya, S.A.	Costa Rica	Electricity generation	F.C.	65.0	48.8
Unión Fenosa Generadora Torito, S.A.	Costa Rica	Electricity generation	F.C.	65.0	48.8
Boreas Eólica 2, S.A.	Spain	Electricity generation	F.C.	89.6	89.6
Corporación Eólica de Zaragoza, S.L	Spain	Electricity generation	F.C.	68.0	68.0
Energías Ambientales de Somozas, S.A.	Spain	Electricity generation	F.C.	97.0	97.0
Energías Especiales Alcoholeras, S.A., En Liquidación	Spain	Electricity generation	F.C.	82.3	82.3
Energías Eólicas de Fuerteventura, S.L.	Spain	Electricity generation	F.C.	100.0	100.0
Eólica Tramuntana, S.L.	Spain	Electricity generation	F.C.	100.0	100.0
Explotaciones Eólicas Sierra de Utrera, S.L.	Spain	Electricity generation	F.C.	75.0	75.0
Global Power Generation, S.A.	Spain	Electricity generation	F.C.	75.0	75.0
J.G.C. Cogeneración Daimiel, S.L.	Spain	Electricity generation	F.C.	97.6	97.6
Infraestuctures Electriques de la Terra Alta, S.A.U	Spain	Electricity generation	F.C.	100.0	100.0
Naturgy Future, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
Naturgy Generación, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
Naturgy Renovables Ruralia, S.L.	Spain	Electricity generation	F.C.	75.0	75.0
Naturgy Renovables, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
P.E. Nerea, S.L.	Spain	Electricity generation	F.C.	95.0	95.0
P.E. Peñarroldana, S.L.	Spain	Electricity generation	F.C.	95.0	95.0
Societat Eòlica de l´Enderrocada, S.A.	Spain	Electricity generation	F.C.	79.8	79.8
Tratamiento Cinca Medio, S.L.	Spain	Electricity generation	F.C.	90.0	90.0
Spanish Israeli Operation and Maintenance Company, Ltd.	Israel	Electricity generation	F.C.	100.0	100.0
El Gritón Solar S.A. de C.V.	Mexico	Electricity generation	F.C.	80.0	60.0
Fuerza y Energía Bii Hioxo, S.A. de C.V.	Mexico	Electricity generation	F.C.	100.0	75.0
Fuerza y Energía de Hermosillo, S.A. de C.V.	Mexico	Electricity generation	F.C.	100.0	75.0
Fuerza y Energía de Naco Nogales, S.A. de C.V.	Mexico	Electricity generation	F.C.	100.0	75.0
Fuerza y Energía de Norte Durango, S.A de C.V	Mexico	Electricity generation	F.C.	100.0	75.0
Fuerza y Energía de Tuxpan, S.A. de C.V.	Mexico	Electricity generation	F.C.	100.0	75.0
GPG Energía México, S.A. de C.V.	Mexico	Electricity generation	F.C.	100.0	75.0
Energía y Servicios de Panamá, S.A.	Panama	Electricity generation	F.C.	51.0	38.3
Generadora Palamara La Vega, S.A.	Dominican Rep.	Electricity generation	F.C.	100.0	75.0
Lignitos de Meirama, S.A.	Spain	Mining	F.C.	100.0	100.0
Naturgy Informática, S.A.	Spain	IT services	F.C.	100.0	100.0
Naturgy IT, S.L.	Spain	IT services	F.C.	75.0	75.0

Company	Country	Activity	Method of Consolidation (1)	Total % interest % Controlling interest (2)	% Equity interest
United Saudi Spanish Power and Gas Services, LLC	Saudi Arabia	Engineering services	F.C.	100.0	78.8
Gas Natural Fenosa Engineering Brasil , S.A., En Liquidaçao	Brazil	Engineering services	F.C.	100.0	100.0
Gas Natural Fenosa Engineering, S.A.S. En liquidacion	Colombia	Engineering services	F.C.	100.0	100.0
Operación y Mantenimiento Energy Costa Rica, S.A.	Costa Rica	Engineering services	F.C.	100.0	75.0
Naturgy Engineering, S.L.	Spain	Engineering services	F.C.	100.0	100.0
Naturgy Ingeniería Nuclear, S.L.	Spain	Engineering services	F.C.	100.0	100.0
GPG Ingeniería y Desarrollo de Generación, S.L.	Spain	Engineering services	F.C.	100.0	75.0
Operación y Mantenimiento Energy, S.A.	Spain	Engineering services	F.C.	100.0	75.0
Proyectos Balmes México, S.A. de C.V.	Mexico	Engineering services	F.C.	100.0	75.0
Gas Natural Fenosa Ingenieria México, S.A. de C.V., En Liquidación	Mexico	Electricity generation	F.C.	100.0	100.0
Unión Fenosa Operación México S.A. de C.V.	Mexico	Engineering services	F.C.	100.0	75.0
Operations & Maintenance Energy Uganda Ltd	Uganda	Engineering services	F.C.	100.0	75.0
Natural Re, S.A.	Luxembourg	Insurance	F.C.	100.0	100.0
Naturgy Alfa Investments, S.A.U	Spain	Financial services	F.C.	100.0	100.0
Naturgy Capital Markets, S.A.	Spain	Financial services	F.C.	100.0	100.0
Naturgy Participaciones, S.A.U.	Spain	Financial services	F.C.	100.0	100.0
Unión Fenosa Preferentes, S.A.U.	Spain	Financial services	F.C.	100.0	100.0
Naturgy Finance B.V.	Netherlands	Financial services	F.C.	100.0	100.0
Natural Servicios, S.A.	Argentina	Services	F.C.	100.0	100.0
Gas Natural do Brasil, S.A.	Brazil	Services	F.C.	100.0	100.0
Lean Grids Services Chile SpA	Chile	Services	F.C.	100.0	75.0
Lean Grids Services Mexico, S.R.L.	Mexico	Services	F.C.	100.0	75.0
Gas Natural Servicios Económicos, S.A.S.	Colombia	Services	F.C.	100.0	100.0
Gas Natural Servicios Integrales, S.A.S.	Colombia	Services	F.C.	100.0	100.0
General de Edificios y Solares, S.L.	Spain	Services	F.C.	100.0	100.0
Naturgy Nuevas Energías, S.L.U.	Spain	Services	F.C.	100.0	100.0
Lean Corporate Services, S.L..	Spain	Services	F.C.	75.0	75.0
Lean Customer Services, S.L.	Spain	Services	F.C.	75.0	75.0
Lean Grids Services, S.L.	Spain	Services	F.C.	75.0	75.0
Administración y Servicios ECAP, S.A. de C.V.	Mexico	Services	F.C.	100.0	100.0
Administradora de Servicios de Energía México, S.A. de CV	Mexico	Services	F.C.	100.0	70.9
Energía y Confort Administración de Personal, S.A. de C.V.	Mexico	Services	F.C.	100.0	71.5
Sistemas de Administración y Servicios, S.A. de C.V.	Mexico	Services	F.C.	71.0	71.0
Naturgy Services, S.A.	Panama	Services	F.C.	100.0	100.0
Inversiones Hermill, S.A.	Dominican Rep.	Holding company	F.C.	100.0	100.0
Naturgy Argentina, S.A.	Argentina	Holding company	F.C.	100.0	100.0

Company	Country	Activity	Method of Consolidation (1)	Total % interest % Controlling interest (2)	% Equity interest
Invergás, S.A.	Argentina	Holding company	F.C.	100.0	100.0
Global Power Generation Australia Pty, Ltd.	Australia	Holding company	F.C.	98.7	74.0
Berrybank 2 Hold Pty Ltd	Australia	Holding company	F.C.	100.0	74.0
Berrybank 2 Hold Trust	Australia	Holding company	F.C.	100.0	74.0
Berrybank Development Finco Pty Ltd.	Australia	Holding company	F.C.	100.0	74.0
Crookwell 3 Development Finco Pty Ltd.	Australia	Holding company	F.C.	100.0	74.0
Crookwell Development Finco Pty Ltd.	Australia	Holding company	F.C.	100.0	74.0
Hawkesdale Hold Pty Ltd	Australia	Holding company	F.C.	100.0	74.0
Hawkesdale Hold Trust	Australia	Holding company	F.C.	100.0	74.0
Ryan Corner Development Finco Pty Ltd	Australia	Holding company	F.C.	100.0	74.0
Global Power Generation Chile, S.p.A.	Chile	Holding company	F.C.	100.0	75.0
Holding de Negocios de Gas, S.A.	Spain	Holding company	F.C.	80.0	80.0
Holding Negocios Electricidad, S.A.	Spain	Holding company	F.C.	100.0	100.0
Naturgy Distribución Latinoamerica, S.A.	Spain	Holding company	F.C.	100.0	100.0
Naturgy Electricidad Colombia, S.L.	Spain	Holding company	F.C.	100.0	100.0
Naturgy Infraestructuras EMEA, S.L.	Spain	Holding company	F.C.	100.0	100.0
Naturgy Inversiones Internacionales, S.A.	Spain	Holding company	F.C.	100.0	100.0
La Propagadora del Gas, S.A.	Spain	Holding company	F.C.	100.0	100.0
Naturgy Acciones, S.L.U.	Spain	Holding company	F.C.	100.0	100.0
GPG México Wind, S.L.U.	Spain	Holding company	F.C.	100.0	75.0
GPG México, S.L.U.	Spain	Holding company	F.C.	100.0	75.0
First Independent Power (Kenya), Ltd.	Kenya	Holding company	F.C.	100.0	75.0
Unión Fenosa México, S.A. de C.V.	Mexico	Holding company	F.C.	100.0	75.0
Distribuidora Eléctrica de Caribe, S.A.	Panama	Holding company	F.C.	100.0	100.0
Generación Eléctrica del Caribe , S.A.	Panama	Holding company	F.C.	100.0	75.0
Buenergía Gas &Power, LLC	Puerto Rico	Holding company	F.C.	95.0	71.3
Grupo CGE:					
Compañía General de Electricidad, S.A. (3)	Chile	Electricity distribution	F.C.	96.0	96.0
Agua Negra S.A.	Argentina	Electricity distribution	F.C.	100.0	100.0
Energía San Juan S.A.	Argentina	Electricity distribution	F.C.	100.0	100.0
CGE Argentina S.A.	Chile	Electricity distribution	F.C.	100.0	100.0
CGE Magallanes S.A. (3)	Chile	Electricity distribution	F.C.	99.9	95.9
Empresa Eléctrica de Magallanes S.A. (3)	Chile	Electricity distribution	F.C.	55.2	53.0
Energy Sur Ingeniería, S.A. (3)	Chile	Services	F.C.	55.0	52.8
Transformadores Tusan S.A. (3)	Chile	Services	F.C.	100.0	96.0
TV Red S.A. (3)	Chile	Services	F.C.	90.0	47.7

			Method	Total % interest	
			of	%	%
Company	**Country**	**Activity**	**Consolidation (1)**	**Controlling interest (2)**	**Equity interest**
CGE Gas Natural, S.A.	Chile	Holding company	F.C.	92.3	92.3
Aprovisionadora Global de Energía, S.A.	Chile	Gas distribution	F.C.	60.2	55.6
Gas Sur S.A.	Chile	Gas distribution	F.C.	100.0	92.3
Innergy Holdings S.A.	Chile	Gas distribution	F.C.	60.0	55.4
Innergy Soluciones Energéticas S.A.	Chile	Gas distribution	F.C.	100.0	55.4
Innergy Transportes S.A.	Chile	Gas distribution	F.C.	100.0	55.4
Metrogas S.A.	Chile	Gas distribution	F.C.	60.2	55.6
Gasoducto del Pacífico (Argentina) S.A.	Argentina	Gas infrastructures	F.C.	56.7	52.4
Gasoducto del Pacífico S.A.	Chile	Gas infrastructures	F.C.	60.0	55.4
Centrogas S.A.	Chile	Services	F.C.	100.0	55.6
Empresa Chilena de Gas Natural S.A.	Chile	Services	F.C.	100.0	55.6
Financiamiento Doméstico S.A.	Chile	Services	F.C.	99.9	55.5
GN Holding Argentina Comercializadora, S.A.	Argentina	Holding company	F.C.	100.0	92.3
GN Holding Argentina, S.A.	Chile	Holding company	F.C.	100.0	92.3
CGE Servicios, S.A. (3)	Chile	Services	F.C.	100.0	100.0

(1) Consolidation method: F.C. Full Consolidation, P.C. Proportionate Consolidation, E.M. Equity Method
(2) Parent company's interest in the subsidiary
(3) Companies registered as Held for sale

2. Sociedades de negocios conjuntos

Company	Country	Activity	Method of Consolidation (1)	Total % interest: % Controlling interest (2)	% Equity interest
Grupo UF Gas:					
Unión Fenosa Gas, S.A.	Spain	Gas supply	E.M.	50.0	50.0
Segas Services, S.A.E.	Egypt	Gas infrastructures	E.M.	100.0	40.7
Spanish Egyptian Gas Company S.A.E.	Egypt	Gas infrastructures	E.M.	80.0	40.0
Nueva Electricidad del Gas, S.A.U, En Liquidación	Spain	Gas infrastructures	E.M.	100.0	50.0
Unión Fenosa Gas Exploración y Producción, S.A.U.	Spain	Gas infrastructures	E.M.	100.0	50.0
Unión Fenosa Gas Comercializadora, S.A.	Spain	Gas supply	E.M.	100.0	50.0
Unión Fenosa Gas Infraestructures B.V.	Netherlands	Holding company	E.M.	100.0	50.0
MEDGAZ, S.A.	Spain	Gas infrastructures	E.M.	49.0	24.5
Medina Partnership, S.A.	Spain	Holding company	E.M.	50.0	50.0
Gas Natural Vehicular del Norte Asociación en Participación	Mexico	Gas distribution	E.M.	51.3	36.4
Eléctrica Conquense, S.A.	Spain	Electricity distribution	E.M.	46.4	46.4
Eléctrica Conquense de Distribución, S.A.	Spain	Electricity distribution	E.M.	100.0	46.4
CH4 Energía S.A. de C.V.	Mexico	Gas supply	E.M.	50.0	35.4
ENER RENOVA, S.A.	Chile	Electricity generation	E.M.	40.0	40.0
Cogeneración del Noroeste, S.L.	Spain	Electricity generation	E.M.	40.0	40.0
Desarrollo de Energías Renovables de Navarra, S.A.	Spain	Electricity generation	E.M.	50.0	50.0
Infraestructuras Eléctricas La Mudarra, S.L	Spain	Electricity generation	E.M.	39.6	36.6
Nueva Generadora del Sur, S.A.	Spain	Electricity generation	E.M.	50.0	50.0
P.E. Cinseiro, S.L.	Spain	Electricity generation	E.M.	50.0	50.0
Sociedad Gestora de Parques Eólicos Andalucía, S.A.	Spain	Electricity generation	E.M.	21.0	21.0
Toledo PV, A.E.I.E	Spain	Electricity generation	E.M.	33.3	33.3
EcoEléctrica Holding, LLC.	Puerto Rico	Holding company	E.M.	50.0	35.6
EcoEléctrica, L.P.	Puerto Rico	Electricity generation	E.M.	100.0	35.6
EcoEléctrica LLC	Puerto Rico	Holding company	E.M.	100.0	35.6
Grupo CGE:					
Gasoducto GasAndes, S.A. (Argentina)	Argentina	Gas infrastructures	E.M.	47.0	26.1
Andes Operaciones y Servicios S.A.	Chile	Gas infrastructures	E.M.	50.0	27.8
Gas Natural Producción, S.A.	Chile	Gas infrastructures	E.M.	36.2	33.4
Gasoducto GasAndes, S.A. (Chile)	Chile	Gas infrastructures	E.M.	47.0	26.1
GNL Chile S.A.	Chile	Gas infrastructures	E.M.	33.3	18.5

(1) Consolidation method: F.C. Full Consolidation, P.C. Proportionate Consolidation, E.M. Equity Method
(2) Parent company’s interest in the subsidiary

3. Entidades de operaciones conjuntas

Company	Country	Activity	Method of Consolidation (1)	Total % interest: % Controlling interest (2)	Total % interest: % Equity interest
Bezana / Beguenzo	Spain	Gas infrastructures	P.C.	55.6	55.6
Boquerón	Spain	Gas infrastructures	P.C.	4.5	4.5
Casablanca	Spain	Gas infrastructures	P.C.	9.5	9.5
Chipirón	Spain	Gas infrastructures	P.C.	2.0	2.0
Montanazo	Spain	Gas infrastructures	P.C.	17.7	17.7
Rodaballo	Spain	Gas infrastructures	P.C.	4.0	4.0
Central Térmica de Anllares, A.I.E.	Spain	Electricity generation	P.C.	66.7	66.7
Centrales Nucleares Almaraz-Trillo, A.I.E	Spain	Electricity generation	P.C.	19.1	19.1
Comunidad de bienes Central Nuclear de Almaraz (Grupo I y II)	Spain	Electricity generation	P.C.	11.3	11.3
Comunidad de bienes Central Nuclear de Trillo (Grupo I)	Spain	Electricity generation	P.C.	34.5	34.5
Comunidad de bienes Central Térmica de Aceca	Spain	Electricity generation	P.C.	50.0	50.0
Comunidad de bienes Central Térmica de Anllares	Spain	Electricity generation	P.C.	66.7	66.7
UTE ESE Clece - Gas Natural	Spain	Services	P.C.	50.0	50.0

(1) Consolidation method: F.C. Full Consolidation, P.C. Proportionate Consolidation, E.M. Equity Method.
(2) Parent company’s interest in the subsidiary.

4. Sociedades asociadas

Sociedad	País	Actividad	Método de Consolidación (1)	% Participación Total	
				% Participación Control (2)	% Participación Patrimonial
Qalhat LNG S.A.O.C. (Grupo Unión Fenosa Gas)	Oman	Gas infrastructures	E.M.	7.4	3.7
Sistemas Energéticos La Muela, S.A.	Spain	Electricity generation	E.M.	20.0	20.0
Sistemas Energéticos Mas Garullo, S.A.	Spain	Electricity generation	E.M.	18.0	18.0
Sociedade Galega do Medio Ambiente, S.A.	Spain	Electricity generation	E.M.	49.0	49.0
Bluemobility System, S.L. En Liquidación	Spain	Services	E.M.	20.0	20.0
Kromschroeder, S.A.	Spain	Services	E.M.	44.5	44.5

(1) Consolidation method: F.C. Full Consolidation, P.C. Proportionate Consolidation, E.M. Equity Method.
(2) Parent company's interest in the subsidiary.

Appendix II Variations in consolidation scope

The main consolidation scope changes during 2020 were as follows:

Company name	Operation category	Effective date of operation	Voting rights acquired / eliminated (%)	Voting rights after the operation (%)	Consolidation method after the operation
CER's Commercial Corp (Panama)	Disposal	2 January	25	0	—
Eólica Tramuntana 21, S.L.	Liquidation	7 January	60	0.00	—
Eólica Tramuntana 22, S.L.	Liquidation	7 January	60	0	—
Eólica Tramuntana 23, S.L.	Liquidation	7 January	60	0	—
Gas Natural Fenosa LNG International Ltd	Liquidation	15 January	100	0	—
Ghesa Ingeniería y Tecnología, S.A.	Disposal	20 January	47.9	0	—
Clover Financial and Treasury Services, DAC.	Liquidation	7 February	100	0	—
Lean Corporate Services, S.L..	Disposal	9 March	25	75	Full
Lean Customer Services, S.L.	Disposal	9 March	25	75	Full
Lean Grids Services, S.L.	Disposal	30 March	25	75.00	Full
Mataró Energía Sostenible, S.A.	Disposal	2 April	51.1	0	—
Iberafrica power LTD	Disposal	3 April	100	0	—
Gas Natural West Africa	Liquidation	21 April	40	0	—
Medgaz, S.A	Acquisition	30 April	34.1	49	Equity
Medina Partnership, S.A.U.	Disposal	15 July	50	50	Equity
Berrybank 2 Hold Pty Ltd	Incorporation	8 July	100	100	Full
Berrybank 2 Asset Pty Ltd	Incorporation	17 July	100	100	Full
Berrybank 2 Hold Trust	Incorporation	13 July	100	100	Full
Berrybank 2 Asset Trust	Incorporation	20 July	100	100	Full
Hawkesdale Hold Pty Ltd	Incorporation	7 August	100	100	Full
Hawkesdale Asset Pty Ltd	Incorporation	25 August	100	100	Full
Hawkesdale Hold Trust	Incorporation	10 August	100	100	Full
Hawkesdale Asset Trust	Incorporation	26 August	100	100	Full
Gestión y Servicios Cabo Leones II	Incorporation	9 September	51	51.00	Full
Montouto 200, S.A.	Disposal	15 September	49	0.00	—
Hidroeléctrica Rio San Juan SAS ESP, en liquidación	Liquidation	9 October	100	0.00	—
Unión Fenosa Minería, S.A.	Liquidation	21 October	100	0.00	—
GPG Generacion Distribuida SpA	Incorporation	3 November	100	100.00	Full
Eólica Tramuntana, S.L.	Acquisition	15 December	34.2	100.00	Full
Infraestructures Electriques de la Terra Alta, S.L.U.	Acquisition	15 December	100	100.00	Full
Gas Natural Fenosa Engineering Panamá, S.A.	Liquidation	20 December	100	0.00	—

(1) See Note 2.5 and Note 11.

The main consolidation scope changes during 2019 were as follows:

Company name	Operation category	Effective date of operation	Consolidation method after the operation	Voting rights after the operation (%)	Consolidation method after the operation
Naturgy IT, S.L.		9 January	100.0	100.0	Full
P.H. La Perla, S.A.	Liquidation	7 March	100.0	—	—
Compañía General de Electricidad, S.A.	Capital reduction	21 March	0.2	96.0	Full
Energías Eólicas de Fuerteventura, S.L.	Acquisition	5 April	50.0	100.0	Full
Crookwell 3 Development Pty Ltd.	Incorporation	9 April	100.0	100.0	Full
Crookwell 3 Development Finco Pty Ltd.	Incorporation	9 April	100.0	100.0	Full
Crookwell Development Finco Pty Ltd.	Incorporation	9 April	100.0	100.0	Full
Berrybank Development Finco Pty Ltd.	Incorporation	9 April	100.0	100.0	Full
Ryan Corner Development Finco Pty Ltd	Incorporation	9 April	100.0	100.0	Full
Torre Marenostrum, S.L.	Disposal	30 April	45.0	—	—
Holding Negocios Electricidad, S.A.	Incorporation	29 May	100.0	100.0	Full
Naturgy México, S.A. de C.V.	Decrease in shareholding	31 May	14.1	70.9	Full
Sistemas de Administración y Servicios, S.A. de C.V.	Decrease in shareholding	31 May	14.0	71.0	Full
Comercializadora Metrogas, S.A. de CV	Decrease in shareholding	31 May	14.1	70.9	Full
Energía y Confort Administración de Personal, S.A. de C.V.	Decrease in shareholding	31 May	13.5	71.5	Full
Administradora de Servicios de Energía México, S.A. de CV	Decrease in shareholding	31 May	14.1	70.9	Full
Naturgy Servicios, S.A. de C.V.	Decrease in shareholding	31 May	14.1	70.9	Full
CH4 Energía S.A. de C.V.	Decrease in shareholding	31 May	7.1	35.4	Equity
Gas Natural Vehicular del Norte Asociación en Participación	Decrease in shareholding	31 May	7.3	36.4	Equity
Naturgy Ingeniería Nuclear, S.L.	Incorporation	6 June	100.0	100.0	Full
Lean Corporate Services, S.L.	Incorporation	22 July	100.0	100.0	Full
Lean Customer Services, S.L.	Incorporation	22 July	100.0	100.0	Full
Lean Grids Services, S.L.	Incorporation	22 July	100.0	100.0	Full
Empresa de Distribución Eléctrica de Tucumán S.A.	Share exchange	30 July	47.9	—	—
Compañía Eléctrica de Inversiones S.A.	Share exchange	30 July	47.9	—	—
Empresa Jujeña de Energía S.A.	Share exchange	30 July	43.1	—	—
Empresa Jujeña de Sistemas Energéticos Dispersos S.A.	Share exchange	30 July	43.1	—	—
Norelec S.A.	Share exchange	30 July	47.9	—	—
Dimater, S.A.	Share exchange	30 July	47.9	—	—
Empresa de Construcción y Servicios , S.A.	Share exchange	30 July	47.9	—	—
Energética del Norte, S.A.U.	Share exchange	30 July	47.9	—	—
Noanet, S.A.	Share exchange	30 July	47.9	—	—
Gascart S.A.	Share exchange	30 July	50.0	100.0	Full
Gasnor S.A.	Share exchange	30 July	50.0	100.0	Full
Gasmarket S.A.	Share exchange	30 July	50.0	100.0	Full
Gas Natural Fenosa Furnizare Energie, S.R.L.(1)	Disposal	31 July	100.0	—	—
Red Unión Fenosa, S.A. (1)	Disposal	31 July	100.0	—	—
Medina Partnership, S.A.U.	Incorporation	09 August	100.0	100.0	Full
Lean Grids Services Chile SpA	Incorporation	25 August	100.0	100.0	Full
Naturgy IT, S.L.	Disposal	4 September	25.0	75.0	Full
Berrybank Development Finco Pty Ltd.	Capital increase	12 September	—	74.0	Full
Ryan Corner Development Finco Pty Ltd	Capital increase	12 September	—	74.0	Full
Berrybank Development Pty, Ltd	Capital increase	12 September	—	74.0	Full
Ryan Corner Development Pty, Ltd	Capital increase	12 September	—	74.0	Full
Lean Grids Services Mexico, S.R.L	Incorporation	18 September	100.0	100.0	Full
Ener Renova España, S.L.	Liquidation	19 September	40.0	—	—
Gas Natural Rigassificazione Italia, S.P.A.	Liquidation	27 September	100.0	—	—
Empresa de Trasmisión Eléctrica Transemel, S.A. (1)	Disposal	1 October	100.0	—	—
Los Andes Huarpes, S.A.	Liquidation	19 November	98.0	—	—
Molinos de la Rioja, S.A.	Disposal	03 December	33.3	—	—
Molinos del Cidacos, S.A.	Disposal	03 December	33.3	—	—
Desarrollo de Energías Renovables de la Rioja, S.A.	Disposal	03 December	33.3	—	—
Gas Natural Fenosa Minería, B.V.	Liquidation	18 December	100.0	—	—
Gas Natural Fenosa Technology INC	Liquidation	31 December	100.0	—	—
Gas Natural Fenosa Ing. y Desarrollo de Generacion Mexico, S.A.	Liquidation	31 December	100.0	—	—

(1) See Note 2.5 and Note 11.

Appendix III Naturgy tax group companies

The companies in the Naturgy tax group are as follows:

Naturgy Energy Group, S.A.	Naturgy Engineering, S.L.
Boreas Eólica 2, S.A.	Naturgy Future, S.L.U.
Comercializadora Regulada, Gas & Power, S.A.	Naturgy Gas and Power, S.L.U.
Energías Ambientales de Somozas, S.A.	Naturgy Generación, S.L.U.
Energías Eólicas de Fuerteventura, S.L.	Naturgy Iberia, S.A.
Energías Especiales Alcoholeras, S.A.	Naturgy Informática, S.A.
Europe Maghreb Pipeline, Ltd.	Naturgy Infraestructuras EMEA, S.L.
Explotaciones Eólicas Sierra de Utrera, S.L.	Naturgy Ingeniería Nuclear, S.L.
Fenosa, S.L.U.	Naturgy Inversiones Internacionales, S.A.
Gas Natural Comercializadora, S.A.	Naturgy IT, S.L.U.
Gas Natural Exploración, S.L.	Naturgy LNG, S.L.
Gas Natural Redes GLP, S.A.	Naturgy Participaciones, S.A.
Gas Natural Transporte SDG, S.L.	Naturgy Renovables Ruralia, S.L.U.
General de Edificios y Solares, S.L.	Naturgy Renovables, S.L.U.
Global Power Generation, S.A.	Naturgy Wind, S.L.U.
GPG Ingeniería y Desarrollo de Generación, S.L.U.	Nedgia Andalucía, S.A.
GPG México Wind, S.L.U.	Nedgia Aragón, S.A.
GPG México, S.L.U.	Nedgia Balears, S.A.
Holding de Negocios de Gas, S.A.U.	Nedgia Castilla La-Mancha, S.A.
Holding de Negocios Electricidad, S.A.	Nedgia Catalunya, S.A.
J.G.C. Cogeneración Daimiel, S.L.	Nedgia Cegas, S.A.
La Propagadora del Gas, S.A.	Nedgia Madrid, S.A.
Lean Corporate Services, S.L.U.	Nedgia Navarra, S.A.
Lean Customer Services, S.L.U.	Nedgia, S.A.
Lean Grids Services, S.L.U.	Operación y Mantenimiento Energy, S.A.
Lignitos de Meirama, S.A.	P.E. Nerea, S.L.
Naturgy Acciones, S.L.U.	P.E. Peñarroldana, S.L.
Naturgy Alfa Investments, S.A.U	Petroleum Oil & Gas España, S.A.
Naturgy Almacenamientos Andalucía, S.A.	Sagane, S.A.
Naturgy Aprovisionamientos, S.A.	Societat Eòlica de l´Enderrocada, S.A.
Naturgy Capital Markets, S.A.	Tratamiento Cinca Medio, S.L.
Naturgy Commodities Trading, S.A.	UFD Distribución Electricidad, S.A.
Naturgy Distribución Latinoamérica, S.A.	Unión Fenosa Minería, S.A.
Naturgy Electricidad Colombia, S.L.	Unión Fenosa Preferentes, S.A.U.

Appendix IV Regulatory framework

1. European Regulatory Environment

Following market opening efforts that commenced with the first gas and electricity directives in 1997 and 1996, the European Union (EU) is currently focusing on the energy transition and has adopted a set of rules to fight for a more secure, competitive and sustainable energy system with which to address the challenge of climate change. Referred to as the "Clean energy for all Europeans" package, it provides a stable legal framework to promote the necessary investment.

Since 2018, much of Europe's energy legislation has been revised and agreements have been concluded that will define EU energy regulation through 2030 and 2050. A comprehensive regulatory framework has been adopted to advance the energy transition, achieve the objectives of the Paris Agreement, make the EU a world leader in renewable energies, enshrine the "energy efficiency first" principle and help modernise the European economy and European industry.

The legislation covers, among other aspects, the reform of the emissions trading market, the distribution of national efforts to reduce diffuse emissions, the development of renewable energies and energy efficiency measures, the adoption of Integrated National Energy and Climate Plans, internal electricity market regulations and CO2 emission standards for vehicle manufacturers:

Within this package, the following items are of particular importance because of their content:

– Regulation (EU) 2018/1999 of the European Parliament and of the Council on the Governance of the Energy Union and Climate Action, which delimits the content of the Integrated National Energy and Climate Plans (NECP) and the process of their adoption at European level.

– Directive (EU) 2019/944 on common rules for the internal market for electricity and amending Directive 2012/27/EU, which must be transposed into Spanish law by 31 December 2020.

– Regulation 2019/943 on the internal market for electricity.

– Directive (EU) 2018/2001 of the European Parliament and of the Council on the promotion of the use of energy from renewable sources, which must be transposed into domestic law by 31 June 2021.

– Directive (EU) 2018/2002 of the European Parliament and of the Council amending Directive 2012/27/EU on energy efficiency.

– Directive (EU) 2018/844 amending Directive 2010/31/EU on the energy performance of buildings.

– Directive (EU) 2019/692 amending Directive 2009/73/EC concerning common rules for the internal market in natural gas.

– The European Green Deal, presented by the European Commission on 11 December 2019, which sets out the European Commission's new growth strategy for the coming years, focused on sustainability and on combating climate change, and proposes an increase of at least 55% in emission reduction targets for 2030.

Within the scope of the European Green Deal, work is being done to develop the European Climate Change Law and to review a number of Directives, such as: the Renewables Directive, the Energy Efficiency Directive, the Energy Performance of Buildings Directive, the Emissions Directive, and the Energy Taxation Directive.

The Commission has also published a series of strategies that will determine the course of European policy development in the energy field, such as: the Long-term Low Greenhouse Gas Emission Development Strategy, the Hydrogen Strategy, EU Strategy for Energy System Integration, the Offshore Wind Strategy, the Sustainable and Smart Mobility Strategy, the Renovation Wave for buildings, the Methane Strategy, and the New Consumer Agenda.

2. Regulation of the energy sector in Spain

2.1. Regulation of the natural gas sector in Spain

2.1.1. Main characteristics of the natural gas sector in Spain

The Spanish gas industry is regulated by Law 34/1998 of 7 October on the hydrocarbons sector, as amended by Law 12/2007, Royal Decree-Law 13/2012, Law 18/2014, Law 18/2015, Royal Decree-Law 1/2019 and their enabling regulations.

In general, the Spanish gas industry is characterised by the following factors:

– It is an industry in which regulated and unregulated activities coexist. The regulated activities consist of transport, regasification, storage and distribution of natural gas. The unregulated activities comprise production, procurement and supply of natural gas by supply companies.

– The natural gas industry is almost entirely dependent on foreign supplies of natural gas, which represent almost 99.9% of the natural gas supplied in Spain.

– Under EU legislation (Directives 2003/55/EC, of 26 June, and 2009/73/EU), the supply of natural gas in Spain is totally deregulated and all Spanish consumers have been free to choose their natural gas supplier since 1 January 2003. The procedure for deregulating the industry was substantially reinforced by the elimination as from 1 July 2008 of the bundled tariff for distribution companies, consequently entitling all consumers to participate in the deregulated market (although, as indicated below, a tariff of last resort is maintained for consumers with lower consumption volumes).

2.1.2. Regulated activities in the natural gas sector

The main features of the regulated activities are: i) the need for prior administrative authorization, which is regulated, ii) the allocation of remuneration by regulation, iii) specific obligations to allow third-party access to the network, and iv) specific rules governing unbundling.

Following the approval of Royal Decree-Law 1/2019, which grants new functions to the National Commission for Markets and Competition (CNMC), that Commission is responsible for establishing the methodology and the remuneration for the distribution, transportation and regasification of natural gas. Since then, the CNMC is also responsible for establishing the methodology and conditions for access and capacity assignment in the gas system.

2.1.2.1. Transport

The transport activity includes regasification, storage and transport of gas in the strict sense through the basic high pressure gas grid:

– *Regasification*: Natural gas is imported to Spain through pipelines (in gaseous form) and by gas tankers (in liquid form, referred to as liquefied natural gas). Regasification consists of converting natural gas in the liquid phase, stored in cryogenic tanks generally at regasification plants, into a gaseous state, and then injecting it into the national gas grid.

– *Transportation*: once the natural gas is imported or produced and, if necessary, regasified, it is injected in gas form into the high pressure transportation grid. The transport grid crosses most regions in Spain and transports the natural gas to the major consumers, such as electricity plants, industrial customers and local distributors.

  The transport network is owned mainly by Enagás, S.A., although other companies, including various Naturgy investees, own a small proportion of it.

– *Storage*: storage facilities consist basically of underground stores, which are necessary to ensure a constant supply of natural gas unaffected by seasonal changes and other demand peaks. These facilities also serve to fulfil the obligation to maintain minimum security reserves in accordance with Royal Decree 1766/2007, of 28 December. Prevailing legislation allows unregulated underground storage facilities with negotiated third-party access, subject to authorisation by the Spanish Government, although there are currently no such facilities.

2.1.2.2. Distribution

Natural gas is transported from the high pressure transport grid to the final consumer through the medium and low pressure grid.

The distribution business is based on a system of administrative authorisations that do not grant exclusive use rights. A distributor in a given zone has preference in obtaining authorisations for adjacent zones.

Distribution companies are confined to expanding and managing distribution networks; they cannot supply energy; supply companies are specifically authorised to supply energy.

2.1.2.3. LPG supply

As well as natural gas distribution, Naturgy supplies liquefied petroleum gas (LPG), as regulated by Law 34/1998 on the Hydrocarbons Sector. The Ministry for the Ecological Transition and Demographic Challenge (MITERD) establishes the tariffs for selling piped LPG to end consumers and the assignment prices of LPG at which it is purchased by piped LPG distributors, laying down the specific rates or a system for automatically calculating and updating them. These prices are published in monthly resolutions.

2.1.3. <u>Economic regime applicable to regulated activities</u>

Law 18/2014 of 17 October established certain principles and regulations designed mainly to guarantee the gas system's economic and financial sustainability:

– It established the principle of the gas system's economic and financial sustainability, whereby any regulation relating to the sector that entails an increase in costs or a reduction in revenue for the gas system must also provide an equivalent reduction in other cost items or an equivalent increase in revenue such as to ensure a balance in the system.

– Annual mismatches between system costs and revenue are limited and may not exceed 10% of revenue payable for the period; the sum of the annual mismatch and recognised outstanding yearly payments may not exceed 15%.

Following the approval of Royal Decree-Law 1/2019 on the adaptation of the CNMC's powers to the requirements derived from European Union law, the CNMC was entrusted with approving the remuneration methodologies in the natural gas sector, which will be applicable from the end of the period ending 31 December 2020, and it was empowered to establish the methodology for access and capacity assignment in the gas system.

Based on these new powers, the CNMC also issued the following during the year:

– Circular 2/2019, of 12 November 2019, which established the methodology for calculating the financial yield on the regasification, transportation and distribution of natural gas.

– Circular 8/2019 of 12 December 2019 which establishes the access and allocation methods and conditions in the natural gas system and proposes a new joint management system for regasification and storage capacity at LNG plants with the aim of simplifying logistics and favouring the movement of LNG among market players irrespective of the plant where the gas was unloaded.

– Circular 9/2019, of 12 December 2019, which establishes the methodology for determining the remuneration of natural gas transportation facilities and liquefied natural gas plants. It established the methodology for setting the annual remuneration for the owners of natural gas transportation facilities and liquefied natural gas plants, taking into account the investment and operating costs of such facilities, financed using the revenues from the tolls and fees established for their use. The methodology will be applied to the regulatory period 2021-2026. The remuneration model ensures the recovery of investments made in facilities while guaranteeing a reasonable return for what is a low-risk activity and providing incentives for efficient management and productivity improvements in facilities' operating costs. It also defines the facilities to be remunerated, the costs and revenues to be taken into consideration, the eligibility criteria for necessary costs and the oversight of transportation companies' investment plans.

– Circular 4/2020, of 31 March, establishing the methodology for determining the remuneration for natural gas distribution, applicable for the next regulatory period, i.e. from 1 January 2021 to 31 December 2026. This Circular updated the remuneration model while maintaining the remuneration principles set out in Law 34/1998 of 7 October, and Law 18/2014, of 15 October, and their enabling regulations. The Circular determined that a company's remuneration for the use of its natural gas distribution facilities, excluding connections and other installations or services whose prices are regulated, is the sum of the base remuneration, a remuneration for market development, and a transitional remuneration for distribution, plus the incentive for loss settlements. The methodology applies a reduction of the base remuneration on the grounds that the supply points and energy of the baseline year (2000) will be remunerated under the current parameters applicable to new supply points. It also introduced a regulatory system of reporting the necessary costs in order to ascertain whether the distribution companies are being remunerated appropriately for the natural gas distribution business.

– Circular 6/2020, of 22 July, establishing the methodology for calculating local grid transportation and regasification tolls for natural gas. It established that the regasification tolls applicable from 1 October 2020 will be determined using the methodology set out in the Circular, whereas the methodology for calculating transportation and distribution tolls will not apply until 1 October 2021, once the charge methodology to be established by MITERD is available. The current structure and rules for billing tolls apply between 1 October 2020 and 30 September 2021.

2.1.4. Unregulated activities in the natural gas sector in Spain

2.1.4.1. Procurement

Since Spain produces very little natural gas, natural gas procurement in Spain — whether as gas or as LNG — is mainly conducted by gas operators such as Naturgy under long-term contracts with gas producers in other countries or by spot purchases of LNG cargoes. Although such procurement is not regulated, it is subject to two types of limits, basically to ensure supply diversification and competition in the market: 1) no single country can supply more than 60% of the gas imported into Spain; and 2) no business person or group as a whole can supply natural gas for consumption in Spain in excess of 70% of national consumption, excluding self-consumption.

2.1.4.2. Supply

The Law recognises that consumers connected at less than 4 bars who do not exceed a certain consumption threshold (50 MWh/year) are entitled to be supplied at a capped price referred to as the last-resort tariff (TUR).

Order TEC/1368/2018, of 20 December, amending Order ITC/1660/2009, of 22 June, establishing the methodology for calculating the TUR and updating the calculation formula to incorporate as additive components the raw material costs, access tolls, supply costs and supply security costs, was published on 22 December 2018. Specifically, it updated the parameters of the base gas formula used to determine the cost of the raw material.

<u>Organised gas market</u>

The organised gas market was established by Law 8/2015, subsequently implemented by Royal Decree 984/2015 and other enabling regulations. The organised gas market managed by MIBGAS began operating in December 2015 with a view to encompassing the entire Iberian Peninsula, although only products with delivery on the Spanish side have been traded to date.

<u>Proposal for a National Fund</u>

On 15 December 2020, the Spanish Cabinet approved, and released for consultation, a Draft Act for the creation of the National Fund for the Sustainability of the Electricity System (FNSSE) to fund the cost of renewable energy that is remunerated specifically (RECORE). The RECORE is currently paid for by electricity consumers (within the tolls) as part of the regulated tariff.

Under the Draft Act, the FNSSE would collect an amount per MWh from all suppliers of energy (electricity, gas, LPG and fuel) to fund the RECORE. The volume is projected to rise steadily to Euros 4,756 million by 2025, with Euros 1,181 million corresponding to the gas sector.

<u>Vulnerable consumers</u>

Royal Decree-Law 15/2018 published on 6 October 2018 established the Thermal Subsidy ("bono social térmico"), consisting of a single annual payment as direct assistance to pay for heating, hot water and cooking, to consumers that had availed themselves of the electricity subsidy at 31 December the previous year, irrespective of the fuel they use, or support for energy savings or energy efficiency improvements. The amount to be received will depend on the degree of vulnerability and the climate zone. It is funded out of the Central Government Budget.

2.2. Regulation of the electricity sector in Spain

2.2.1. <u>Main characteristics of the electricity sector in Spain</u>

The regulation of the electricity industry in Spain underwent a major reform process in 2013 through the publication of Law 24/2013, of 26 December, on the Electricity Sector, which adapted the previous law (Law 54/1997 of 27 November) to the circumstances of both the economy and the electricity and energy sector in Spain.

The main characteristics of the electricity sector are as follows:

– It is a sector in which regulated and non-regulated activities coexist. The regulated activities consist of electricity transmission and distribution as well as the operation of the system. The non-regulated activities comprise electricity generation and supply.

– The electricity system must be economically and financially sustainable, and action by the Government and other players must respect that principle, under which any regulation relating to the sector that entails an increase in costs or a reduction in revenue for the electricity system must be accompanied by an equivalent reduction in other cost items or an equivalent increase in revenue to ensure a balance in the system.

– Mismatches due to a shortfall in revenues are capped to the extent that they may not exceed 2% of revenues estimated for the period in question, and cumulative liabilities due to mismatches may not exceed 5% of those revenues.

– Revenues in the electricity sector derive from access tolls and other regulated prices, specific tax measures and, exceptionally, certain items in the Central Government Budget.

2.2.2. <u>Regulated activities in the electricity sector</u>

Regulated electricity transmission and distribution activities are characterised by the fact that access to them requires administrative authorisation, their remuneration is established by regulation, engagement in those activities is subject to certain specific obligations, and functional unbundling is also required, which entails not only unbundling for accounting purposes in order to avoid cross-subsidies and to increase transparency in the calculation of tariffs and tolls, but also unbundling in legal terms, through separate companies, and the requirement that the regulated subsidiaries operate independently of the other companies in the group to which they belong, as well as the separation of the brand and brand image, as in the case of the natural gas sector.

2.2.2.1. Transport

Electricity transmission links the power generation plants with the distribution networks and specific end customers. The transmission grid is owned mainly by REE, although Naturgy subsidiary UFD Distribución de Electricidad, S.A. owns a small part of the secondary transmission network.

2.2.2.2. Distribution

Electricity distribution includes all activities that bring electricity from the high tension grid to the final consumer.

2.2.3. Remuneration framework for regulated activities

Royal Decree 1047/2013, of 27 December, and Royal Decree 1048/2013, of 27 December, established the remuneration approaches applicable to transmission and distribution so as to ensure adequate remuneration for these activities and network development. The remuneration receivable for these activities was updated each year by means of a Ministerial Order until the approval of Royal Decree 1/2019, which updated the powers attributed to the CNMC.

The CNMC is now the body entrusted with establishing the methodologies for calculating the remuneration for electricity transmission and distribution. These methodologies for the 2020-2025 regulatory period were adopted by Circulars 5/2019 and 6/2019 of December 2019, respectively. In addition, CNMC Circular 2/2019, of 12 November, established the method for calculating the financial yield on electricity transmission and distribution activities, based on WACC and in line with most European regulators.

The CNMC is also the body entrusted with setting the annual remuneration for the above activities as from 2020. The Ministry retains the power to approve the pending orders setting the annual remuneration for transmission and distribution for the years 2017 through 2019, based on the remuneration methodologies established in the Royal Decrees in force in those years.

Based on these new powers, the CNMC also approved:

– CNMC Circular 7/2019, of 5 December, approving the standard installations and the unit reference values for operation and maintenance per fixed asset item, for use in calculating the remuneration of companies that own electricity transmission installations.

– CNMC Circular 3/2020, of 15 January, establishing the methodology for calculating the tolls for electricity transmission and distribution, subsequently amended by Circular 7/2020. The new access tolls arising from this methodology are due to come into force on 1 April 2021.

2.2.4. Unregulated activities in the electricity sector

2.2.4.1. Electricity generation

Law 24/2013, of 26 December, on the Electricity Sector provides that the production of electrical energy is to be subject to the rules of free competition, although the commissioning, modification, temporary closure, transfer and final closure of facilities requires prior administrative authorisation. The remuneration for this activity derives from its participation in the electricity production market, made up of the forward, daily and intraday markets, unorganised markets and other services related to the security of the electricity system, such as adjustment and balancing services.

The Law also provides for the possibility of establishing capacity mechanisms. These have been governed by provisions that provide for an incentive for investment, an incentive for environmental investment, and the availability service, which was abolished in 2019. Any capacity mechanisms that are implemented must conform to the provisions of Regulation 2019/943 on the Internal Market in Electricity. In order to implement capacity mechanisms, it is necessary that the system be shown to be inadequate on the basis of a European coverage analysis that may be complemented by an analysis at national level.

2.2.4.2. Renewable, high-efficiency cogeneration, and waste-to-power facilities

On an exceptional basis, the Electricity Sector Law provides for the implementation of a specific remuneration system by means of a competitive tender procedure to encourage production based on renewable energy sources, high-efficiency cogeneration, and waste-to-energy, when there exists an obligation to fulfil energy objectives derived from Directives or other European Union legislation, or where introducing them entails a reduction of energy costs and of dependence on external energy sources. Within this framework, during 2016 and 2017 the Ministry of Energy, Tourism and the Digital Agenda arranged a number of auctions to grant the specific remuneration regime to new renewable generation facilities.

For facilities existing prior to the publication of Royal Decree-Law 9/2013, the Law establishes a remuneration system which is additional to the remuneration for the sale of electricity in the production market, the objective being to cover the costs that cannot be recovered in the market plus a reasonable yield, which allows these technologies to compete on an equal footing with other technologies. Royal Decree 413/2014 provided detailed regulations for this system, establishing that the remuneration parameters are to be reviewed every three years, or every six months in the case of parameters associated with the remuneration for the operation of certain technologies.

Royal Decree-Law 17/2019, of 22 November, established the reasonable return for renewables, cogeneration and waste-to-energy and the financial yield for production in offshore and island territories for the period 2020-2025. It also incorporates a mechanism for facilities that had been granted a premium when Royal Decree-Law 9/2013 came into force, the goal being to reduce the tendency towards litigation triggered by that legal text and provide a message of certainty going forward by allowing owners of such facilities to maintain a reasonable return on their facilities until 2031.

Royal Decree 960/2020, of 3 November, regulating the economic regime for renewable energy installations producing electricity, was approved by application of RDL 23/2020 as an alternative remuneration framework to the specific remuneration regime. It establishes the scope of the auctions for the installation of renewable energy facilities, the system for remunerating them, and the requirements and necessary guarantees.

As a result of that Royal Decree, Order TED/1161/2020, of 4 December, was approved, regulating the first auction mechanism for allocating the economic system to renewable energy and establishing an indicative calendar for the period 2020-2025. A total of 3,000 MW are expected to be auctioned in January 2021.

Additionally, Royal Decree-Law 23/2020, of 23 June, established measures in connection with the regulations on grid access and connection for power generation facilities, with the goal of encouraging orderly development of renewable energies. It provides for milestones in project development to ensure that the capacity is actually commissioned with access and connection permits, which expire if the plant owners fail to meet the milestones; it also allows hybridation of facilities with renewables or storage.

2.2.4.3. Electricity supply

Supply is fully deregulated and customers are free to choose their supplier. As a deregulated activity, supply is remunerated at a price freely agreed by the parties.

However, consumers whose supply is 10 kW or less can choose between the free market and a regulated price (PVPC). The criteria for setting the PVPC have been regulated by successive legal instruments; in any event, the PVPC must incorporate all additive costs, including the cost of generation, access tolls and supply costs.

<u>Vulnerable consumers</u>

Vulnerable consumers of electricity can avail themselves of a subsidy ("bono social") that is regulated by Royal Decree-Law 7/2015, amending article 45.4 of Law 24/2013 and Royal Decree 897/2017, which regulated the definition of vulnerable consumers, the energy subsidy and other forms of protection for domestic consumers of electricity.

The subsidy consists of a discount of 25% on the electricity bill for vulnerable consumers and of 40% for very vulnerable consumers, subject to a cap on the amount of electricity consumed; both subsidies are means-tested on the basis of the household's total income and number of children. The regulation also specifies the specific conditions for consumers at risk of social exclusion (the pool of potential beneficiaries has also been expanded because of the COVID-19 pandemic).

Royal Decree-Law 7/2016 implemented a new subsidy scheme where electricity supply companies must fund this public service obligation: specifically, the parent companies of the groups of companies that engage in electricity supply, or the supply companies themselves if they are not part of a group. The percentage distribution is calculated in proportion to the share of customers and is calculated annually by the CNMC.

2.2.4.4. Energy efficiency

Spanish Law 18/2014 established a national system of energy efficiency obligations under which an annual energy saving quota (saving obligation) is assigned to gas and electricity supply companies, oil product wholesalers and liquefied petroleum gas wholesalers. The aggregate saving obligations will be equal to the target allocated to Spain in Directive 2012/27/EU.

Each year a ministerial order stipulates each liable party's obligations to make contributions to the National Energy Efficiency Fund.

2.3. Regulation of the natural gas sector in Latin America

In Brazil, Mexico, Argentina and Chile, the tariffs and remuneration for natural gas distribution companies are determined by the regulatory authorities. There are stable regulatory and tariff frameworks in place that establish the procedures and formalities for the regular review of tariffs and distribution margins. This tariff review is carried out every four or five years in the form of rate cases filed with the regulators.

In Mexico, all the distribution territories assigned to Naturgy (Monterrey, Nuevo Laredo, Toluca, Saltillo, DF and Bajío) have approved tariffs for the 2016-2020 period. In addition, tariffs have been granted until 2020 for the Noroeste zone, and until 2021 for Sinaloa and Valle de México; as for the new distribution territories, the period ends in 2023 for Tabasco, Campeche and Mérida, and in 2024 for Península. The regulatory framework in Mexico is being adapted to the energy reform launched at the end of 2013, which entailed the liberalisation of natural gas supply and marketing activities.

The company has three separate concessions in Brazil, two in the state of Rio de Janeiro, and one in the state of São Paulo. Regulation in Brazil is based on a price cap model, where the regulator sets the maximum tariffs that a distributor can charge its customers; those tariffs include asset remuneration and depreciation, and operating expenses. A distribution company's revenues depend on consumption by customers. The price of natural gas charged to distribution companies by procurement companies is passed on to customers in their invoices. Adjustments are made each year to reflect the variations in the price of gas, inflation and the exchange rate. The tariffs in Brazil for 2018-2020 are those originally set for the previous regulatory period (2013-2017) although the tariffs for 2018-2020 are currently being negotiated.

In Argentina, the company has a concession in a large area of the province of Buenos Aires. The regulatory model in Argentina is based on a price cap and is very similar to that of Mexico and Brazil. Because of the economic crisis in Argentina, tariffs have been frozen since April 2019 and, consequently, do not include adjustments for variations in the price of gas, inflation or the exchange rate; however, a series of payments to compensate for these imbalances are being negotiated with the regulator. A tariff review is planned for the 2022-2027 period, with the possibility of a change in the regulatory model.

In Chile, tariffs may be set freely subject to a cap on returns. Tariffs are therefore set by the distributor, which is also the supply company. Annual profitability may not exceed the rate of return established in the recent law governing the industry. The rate of return consists of the discount rate at which the present value of the flows associated with the business margin (sales revenue less operating costs) matches the value of the assets. In the event that the rate of return exceeds the established rate, the Law requires the Regulator to set mandatory rates for small customers. In October 2019, the Comisión Nacional de Energía (CNE) published the preliminary results of the 2018 profitability check, and determined the profitability of the companies Metrogas, S.A. and Gas Sur, S.A., calculated in accordance with the new Gas Law for each concession area. The results were below the maximum permitted rate of return (the average three-yearly limit established in the Law is 9%) and, therefore, the companies will continue operating within the supervised free tariff system.

2.4. Regulation of the international electricity sector

2.4.1. Generation

Naturgy, through subsidiary Global Power Generation (GPG), operates as a power generator in Mexico, Panama, Costa Rica, the Dominican Republic, Puerto Rico and, more recently, in Chile, Brazil and Australia.

In Costa Rica and Puerto Rico, the Group generates electricity under Power Purchase Agreements (PPA) with Instituto Costarricense de Electricidad (ICE) and Puerto Rico Electric Power Authority (PREPA), respectively, which are vertically integrated state-owned companies with exclusive responsibility for transmission, distribution and supply.

It also operates under PPAs in Mexico, with the electricity being sold to the Comisión Federal de Electricidad (CFE). Surplus energy is sold partly to end-customers under bilateral contracts and partly on the market created under the energy reform carried out in 2015 and 2016. Additionally, the Bii Hioxo wind farm, which became operational during 2014, sells its production to end customers under bilateral contracts.

The energy sector in Mexico is undergoing a process of redefinition following the publication of a new energy policy promoted by the President of Mexico with the aim of strengthening the country's productive industries as provided in the National Development Plan 2019-2024.

Within this context, important measures in the area of electricity generation were announced in 2019, such as the creation of a pilot emissions trading system for 2020-2022, the cancellation of long- and medium-term electricity auctions, and the merger of the CFE's power generation subsidiaries back into the CFE.

In Panama, electricity generated is sold under bilateral contracts with the distributors and on the market, and in the Dominican Republic it is sold on the market.

In Chile, GPG won a tender in August 2016 for generation under a long-term contract scheme (PPA) with distributors (20 years). To meet this commitment, GPG plans to develop two projects (wind and solar) which will enter service in 2021 with a total installed capacity of approximately 330 MW.

In Australia, GPG built and, since November 2018, operates a 96 MW wind generation project under a 20-year contract, with regulated tariffs for energy fed to the system. In 2018, GPG was awarded 180 MW of generation capacity in a wind project expected to enter operation in the first quarter of 2021. In this case the contract consists of a 15-year bilateral Power Purchase Agreement at a regulated tariff.

GPG also operates in Brazil through four photovoltaic generation plants with a total capacity of 153 MW that have 20-year contracts for the sale of reserve energy to Camara de Comercializacao de Energia Eletrica (CCEE) which came into force in 2017 and 2018. Regulation No. 151 of 1 March 2019, establishing the auction schedule for electricity generation for the period 2020-2021, was published on 6 March 2019.

In all these countries, electricity industry regulations are well-established and stable, and are developed and administered by independent regulators.

2.4.2. Electricity distribution

Electricity distribution is regulated in the countries in which Naturgy operates as a distributor: Argentina, Chile and Panama. The distributors convey electricity from the transmission grid to the customer connections and also supply electricity at regulated tariffs to regulated customers, who, based on their consumption volumes, are not free to choose supplier. Unregulated customers that choose to purchase electricity from another supplier must pay the toll or regulated distribution tariff for the use of the networks.

The tariffs are reviewed periodically to reflect the variations in energy purchase prices and the transmission tariffs, as well as the variation in economic indicators.

Those countries have regulatory and tariff frameworks that establish the procedures and processes for the regular review of tariffs and distribution margins. Tariff reviews are carried out every four or five years.

In Panama, Resolution of the Autoridad Nacional de los Servicios Públicos (AN) number 13040, published on 28 December 2018, approved the tariffs for Empresa de Distribución Eléctrica de Chiriqui, S.A. and Empresa de Distribución Eléctrica Metro Oeste, S.A. Previously, resolutions AN No. 12959 of 27 November 2018 and AN No. 13004 of 12 December 2018 had established the Maximum Permitted Revenue (IMP) for the period January 2019 - June 2022.

Regarding electricity distribution in Chile, the power and capacity prices agreed in the contracts with the generators as a result of bidding processes are passed on to regulated customers in the form of average node prices.

The transmission activity in Chile is regulated in accordance with a known, stable framework. Existing transmission facilities are remunerated through a regulated tariff, which is determined every four years through a tariff study.

In Argentina, each provincial jurisdiction has its own regulation to establish the Distribution Added Value (VAD). That is, each province is in charge of allocating the Public Electricity Distribution Service in its area. However, the energy purchase, capacity and transmission costs are pass through values and are subject to regulation at national level.

Naturgy
Annual Report 2020

CONSOLIDATED DIRECTORS' REPORT

Consolidated Directors' Report for the year ended 31 December 2020

Contents

Appendices

1. Company situation

Naturgy Energy Group, S.A. was incorporated in 1843. Its registered office is located at Avenida de San Luis 77, Madrid.

Naturgy Energy Group, S.A. and its subsidiaries (hereinafter Naturgy) is a group that is engaged in the generation, distribution and marketing of energy and services, working to ensure the well-being of people, the progress of companies and society and the sustainability of the planet.

Naturgy operates in over 20 countries, supplies gas and electricity to more than 16 million customers and has 15.3 GW of diversified generating installed capacity.

It operates in regulated and liberalised gas and electricity markets, and international activities are making a growing contribution, mainly in the following areas:

– Gas and electricity distribution
– Electricity generation and supply
– Infrastructure, procurement and supply of natural gas

Naturgy's **mission** is:

– To respond to the energy needs of society by offering quality and environmentally-friendly products and services.
– To respond to the needs of our shareholders by offering increasing and sustainable profitability.
– To respond to the needs of our employees by offering them the opportunity to develop their professional skills.

<table>
<tr><th>Meet the needs of …</th><th>With a vision of …</th><th>Based on our values</th></tr>
<tr><td>Our shareholders</td><td>Offering increasing sustainable profitability</td><td rowspan="4">– Customer focus
– Commitment to results
– Sustainability
– Interest in people
– Social responsibility
– Integrity</td></tr>
<tr><td>Our customers</td><td>Being leaders in continuous growth and with a multinational presence, offering high-quality products that respect the environment</td></tr>
<tr><td>Our employees</td><td>Offering opportunities for professional and personal development</td></tr>
<tr><td>Society</td><td>Contributing positively through a commitment to global citizenship</td></tr>
</table>

1.1. Business model and organisation structure

Naturgy's business model is implemented through a large number of companies, mainly in Spain, Latin America (Argentina, Chile, Brazil, Mexico and Panama) and Australia.

Continuing with the transformation process, in 2020 Naturgy reorganised its businesses into three strategic areas: Energy and Networks, Renewables and New Businesses, and Supply. This new organisation provides greater visibility on business performance and made it possible to redefine operating segments on the basis of the following criteria:

- Energy and Networks:

  - Iberia Networks: covers the gas and electricity network businesses in Spain.
  - Latin America Networks: covers the gas network businesses in Argentina, Chile, Brazil and Mexico and the electricity network businesses in Argentina and Panama.
  - Energy: covers LNG supply on an international scale, Markets and procurement, Gas pipelines, Thermal power generation in Spain, and Thermal power generation in Latin America (Mexico, Dominican Republic and Puerto Rico).

- Renewables and New Business:

  - Renewables Spain and USA: includes the existing fleet and pipeline of power generation plants using hydroelectric, wind, small hydro, solar and cogeneration. The activities in this segment are currently performed in Spain, but there are plans to extend them to the USA.
  - Renewables Latin America: includes the existing fleet and pipeline of power generation plants owned by Global Power Generation (GPG) in Latin America (Brazil, Chile, Costa Rica, Mexico and Panama).
  - Renewables Australia: includes the existing fleet and pipeline of renewable power generation plants owned by GPG in Australia.

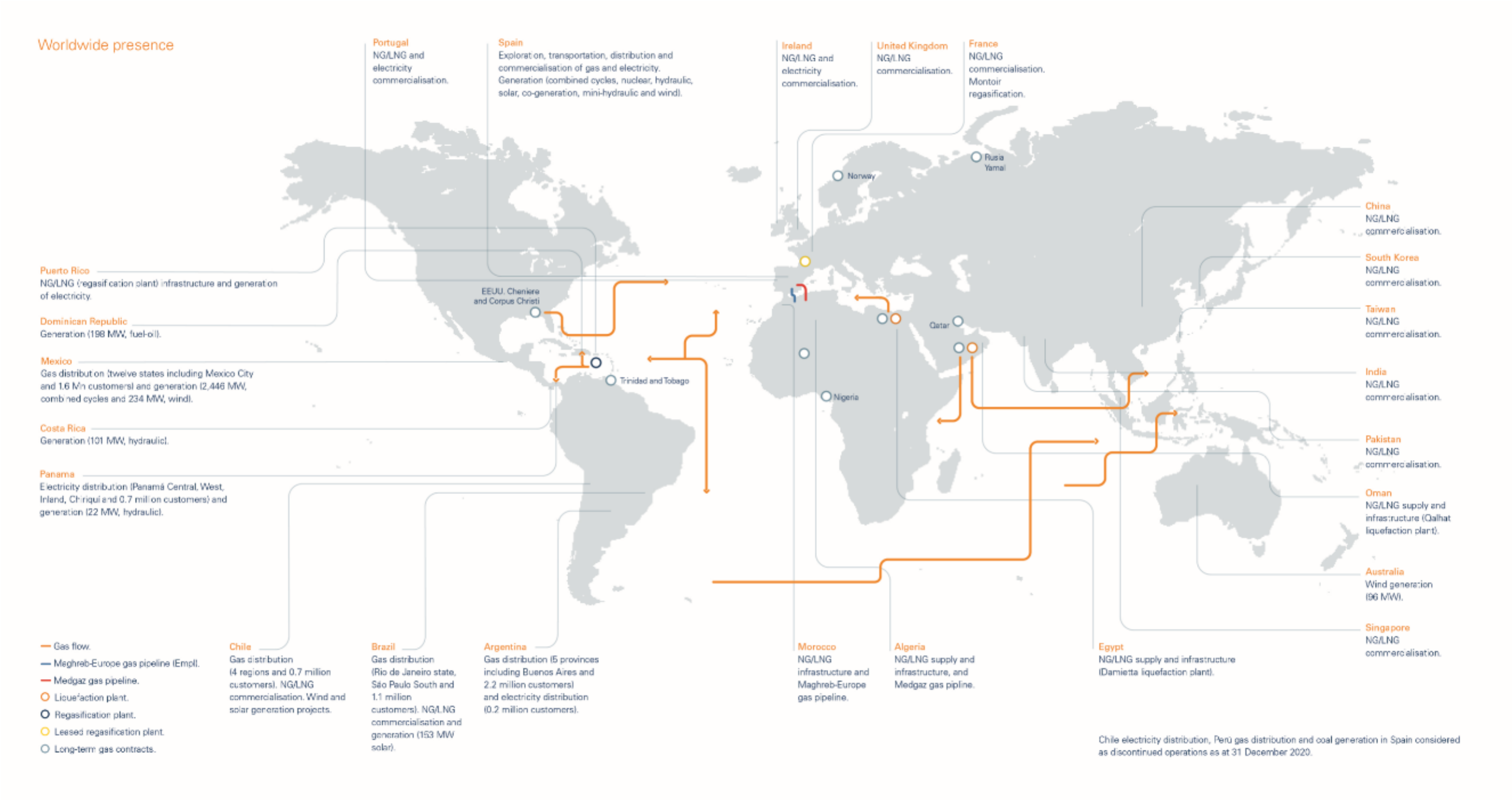
- Supply: deals with the supply to end customers of gas, electricity and services, by adopting new technologies and services and exploiting the brand's full potential.

This organization seeks to continue to ensure transparency and accountability and will mark the beginning of a new period of profitable growth in networks, the expansion of our renewable footprint and the construction of a world-class retail brand.

Throughout the value chain, Naturgy's business model stands apart as a leader in the gas sector and a key player in the electricity sector, in both cases ensuring a regular supply of gas and electricity, which is essential to providing a quality service and fulfilling the company's social mission; providing a broad range of value-added services and fostering sustainable innovation to drive development.

Appendix I to the Consolidated Annual Accounts details the companies that form part of Naturgy and the activities in which they engage.

Geographic footprint



Business areas

Leadership in the gas business

	Networks	Gas		
	Gas distribution	**Infrastructure**	**Procurement**	**Supply**
	11 million distribution connections 134,802 km of network	Eight LNG carriers on long-term lease Two transportation pipelines: Maghreb-Europe (EMPL) and Medgaz.	A supply portfolio totalling ~ 30 bcm	318 TWh of gas supplied
Our positioning	**Spain** Leader in Spain with a 69% market share, distributing natural gas to 5.4 million customers in more than 1,100 municipalities in nine autonomous regions. **Latin America** Latin America's top distributor, catering for more than 5.6 million customers. Presence in Argentina, Brazil, Chile, Mexico and in five of the ten largest cities in Latin America.	– Eight LNG carriers (1.3 Mm3). – Management of the main gas pipeline supplying the Iberian Peninsula, the Maghreb-Europe pipeline (EMPL), and a 24.5% interest in Medgaz. – Stake in the Ecoeléctrica regasification plant and two liquefaction plants (Damietta and Qalhat). – 0.5 bcm of company-owned storage capacity and 0.6 bcm of leased capacity.	Business model based on diversification and flexibility that has made Naturgy a global operator with a strong international profile. Naturgy has procurement contracts with suppliers worldwide, both in a gaseous state (NG) and in the form of liquefied natural gas (LNG).	Unique access to markets: 11 million customers and LNG sales in numerous countries worldwide. A global operator with the flexibility to tap markets offering attractive margins. 23% market share in Spain. Competitive supply to combined cycle plants (CCGT).
Our strength	Naturgy is a leader in the markets where it operates, affording it an excellent platform for organic growth, in terms both of attracting new customers in municipalities with gas and of expanding networks to areas without gas.	Naturgy has an integrated gas infrastructure that affords it considerable stability, making its operations more flexible and enabling it to transport gas to the best business opportunities. Storage capacity enables it to ensure a constant supply, avoiding the impact of seasonal fluctuations or peaks in demand.	A diversified, flexible portfolio of procurement contracts, with price adjustment mechanisms.	Naturgy has a diversified portfolio of end customers, and supplies gas both in Spain and internationally. Naturgy is a leader in dual fuel supply and it offers a broad range of value-added services.

A key player in the electricity business

	Networks	Electricity		
	Electricity distribution	**Thermal generation**	**Renewable generation**	**Supply**
	4.7 million supply connections 151,495 km of network	10.6 GW of generating capacity	4.6 GW of generating capacity	23.9 TWh supplied
Our positioning	**Spain** The third-largest operator in the Spanish market, where it distributes electricity to 3.8 million customers. **Latin America** Presence in Argentina and Panama (0.9 million customers). In November 2020, the company reached an agreement to sell its electricity distribution business in Chile, as a result of which that business is classified as held for sale.	**Spain** 8.0 GW of capacity (7.4 GW CCGT and 0.6 GW nuclear). Coal-fired power generation was discontinued in June 2020. Naturgy's market share is 18.4%. **International** 2.6 GW of capacity: 2.4 GW CCGT (Mexico) and 0.2 GW oil-fired (Dominican Republic).	**Spain** 4.0 GW of capacity (2.0 GW hydroelectric, 1.7 GW wind, 0.2 GW solar and 0.1 GW cogeneration). Naturgy's market share is 6.4%. **International** 0.6 GW of capacity: 0.1 GW hydroelectric (Costa Rica and Panama), 0.3 GW wind (Mexico and Australia), and 0.2 GW solar (Brazil).	Leader in the mainstream consumer and residential segments, with a total market share of 10% in Spain. One of the main traders in the Spanish market. A dual fuel supply and a broad range of value-added services.
Our strength	Naturgy is a leader in the markets where it operates. Naturgy is efficient in terms of operation and maintenance costs in the electricity distribution business.	The company has considerable know-how in the power generation technologies it operates and its infrastructure can adapt to the needs of each energy model and to the reality of each country.	Naturgy's good positioning growth oriented in Spain and Australia will enable it to make the best of investment opportunities in generation in these geographies.	Being a leader in the combined supply of natural gas and electricity affords the company major advantages, such as lower service costs, integrated customer care and lower acquisition costs, not to mention greater customer loyalty.

1.2. Corporate governance model

Attached as an Appendix and forming an integral part of this Directors' Report is the Annual Report on Corporate Governance 2020, as required by article 526 of the Capital Companies Act.

Corporate governance model

Naturgy is governed in accordance with the principles of efficiency and transparency in line with the main international recommendations and standards in this area.

The corporate governance terms of reference comprise basically:

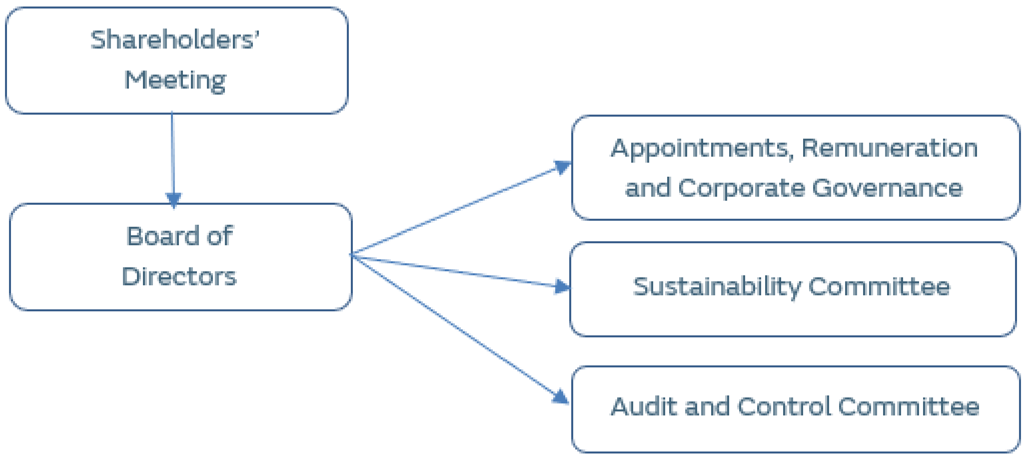
- Articles of Association (adopted in 2018, updated in 2020).
- Regulations of the Board of Directors and its committees (updated in 2020).
- Regulations of the General Meeting of Shareholders (adopted in 2018, updated in 2020).
- Human Rights Policy (updated in 2019).
- Code of Ethics (updated in 2015)

The main shareholders of Naturgy as of 31 December 2020 and 2019 are as follows:

	Interest in share capital %	
	2020	**2019 (4)**
- Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona,“la Caixa” (1)	24.8	24,4
- Global Infrastructure Partners III (2)	20.6	20,3
- CVC Capital Partners SICAV-FIS, S.A. (3)	20.7	20,4
- Sonatrach	4.1	4.1

1. Held through Criteria Caixa S.A.U.
2. Global Infrastructure Partners III, which is managed by Global Infrastructure Management LLC, holds its stake indirectly via GIP III Canary 1, S.à.r.l.
3. Through Rioja Acquisitions S.à.r.l.
4. Capital Research and Management Company, which owned 3.0% of capital as of 31 December 2019, is not included on the grounds that it is floating capital as the stake occasionally rises above or falls below the 3% threshold.

Naturgy's governance structure is as follows:



Shareholders' Meeting

Any person who is a shareholder of record five days before the Shareholders' Meeting is entitled to attend the Meeting.

Board of Directors

The Board of Directors of Naturgy operates via plenary meetings and committees, in accordance with the requirements of the Capital Companies Act. Accordingly, the Board of Directors of Naturgy has an Audit and Control Committee, an Appointments, Remuneration and Corporate Governance Committee, and a Sustainability Committee, whose functions are as set out in the Act; a majority of members of the committees are independent directors.

Risk prevention and corporate responsibility are within the remit of the Board of Directors, which is the most senior body with responsibility for approving corporate governance and corporate responsibility policies. Each year, by drafting the respective reports, it reviews and approves disclosures of the risks and opportunities in those areas.

The main issues addressed by the Board of Directors in 2020 are as follows:

- Reflection on strategy
- 2020 Budget and continuous operational oversight
- Monitoring the COVID-19 crisis
- Monitoring the Company's activities
- Portfolio rotation plan
- Health and safety issues
- Financial and accounting information
- Risk map
- Shareholder remuneration.
- Corporate governance: improvements in aspects of corporate governance in order to adapt to the recommendations in the CNMV's June 2020 Good Governance Code of Listed Companies, and approval of the annual reports on corporate governance and director remuneration, among other mandatory reports.
- Notice of the Shareholders' Meeting: motions proposed by the Board, reports and supplementary documentation.
- Selection and proposals for appointments in the governing bodies.
- Employee remuneration
- Funding strategy
- Analysis of the main projects
- Cybersecurity

The Board of Directors of Naturgy has 12 members, the Audit and Control Committee has 7 members, the Appointments, Remuneration and Corporate Governance Committee has 7 members, and the Sustainability Committee has 5 members.

The composition of the Board of Directors and its sub-committees on 31 December 2020 is as follows:

Board of Directors		Audit and Control Committee	Appointments, Remuneration and Corporate Governance Committee	Sustainability Committee	Director category	Date first appointed to the Board
Executive Chairman	Mr. Francisco Reynés Massanet				Executive	06/02/2018
Lead director	Mr. Ramón Adell Ramón	Member	Chairman		Independent	18/06/2010
Director	Ms. Isabel Estapé Tous	Member		Member	Proprietary	16/03/2020
Director	Mr. Marcelino Armenter Vidal		Member		Proprietary	21/09/2016
Director	Mr. Francisco Belil Creixell	Chairman	Member		Independent	14/05/2015
Director	Ms. Helena Herrero Starkie	Member		Chairman	Independent	04/05/2016
Director	Mr. Rajaram Rao		Member		Proprietary	21/09/2016
Director	Rioja S.à.r.l, Mr. Javier de Jaime Guijarro		Member		Proprietary	01/08/2019
Director	Mr. Pedro Sáinz de Baranda Riva	Member	Member		Independent	27/06/2018
Director	Mr. Claudio Santiago Ponsa		Member	Member	Independent	27/06/2018
Director	Ms. Lucy Chadwick	Member		Member	Proprietary	16/03/2020
Director	Theatre Directorship Services Beta, S.à.r.l., Mr. José Antonio Torre de Silva López de Letona	Member		Member	Proprietary	18/05/2018
Secretary (not a director)	Mr. Manuel García Cobaleda	Secretary (not a director)	Secretary (not a director)	Secretary (not a director)	N/A	29/10/2010

Management structure

Naturgy's management structure consists of three business units (Energy and Networks, Renewables and New Businesses, and Supply) as well as corporate units to ensure centralised control.

Senior Management is defined as meaning the executives who report directly to the Executive Chairman, Mr. Francisco Reynés Massanet. As of 31 December 2020, it comprised the following departments:

Business units

Energy and Networks, managed by Mr. Pedro Larrea Paguaga
Renewables and New Businesses, managed by Mr. Jorge Barredo López
Supply, managed by Mr. Carlos Francisco Vecino Montalvo

Corporate Units

Information Systems, managed by Mr. Rafael Blesa Martínez
Capital Markets, managed by Mr. Steven Fernández Fernández
Planning, Control and Administration, managed by Mr. Jon Ganuza Fernández de Arroyabe
Company and Board Secretariat, managed by Mr. Manuel García Cobaleda
Sustainability, Reputation and Institutional Relations, managed by Mr. Jordi García Tabernero
People and Organisation, managed by Mr. Enrique Tapia López

1.3. Regulatory environment

Appendix IV. Regulatory Environment of the consolidated annual accounts contains a description of the regulations governing the industry and the electricity and gas system in the markets in which Naturgy operates.

2. Business performance and results

Notes on financial disclosures

- Naturgy's financial disclosures contain magnitudes drafted in accordance with International Financial Reporting Standards (IFRS), and Alternative Performance Metrics (APM), which are viewed as adjusted figures with respect to those presented in accordance with IFRS. The attached appendix contains a definition of the APMs.

- The consolidated income statement and operating figures for 2019 have been re-stated due to the discontinuation in application of IFRS 5 of the following activities: gas networks in Peru, electricity networks in Chile and coal power generation in Spain (Notes 2.2 and 11 of the consolidated annual accounts).

2.1. Main aggregates

Main financial aggregates

	2020	2019	%
Net sales (1)	15,345	20,761	(26.1)
Ebitda (1)	3,449	4,252	(18.9)
Ebit (1)	466	2,634	(82.3)
Income attributable to equity holders of the parent (1)	(347)	1,401	(124.8)
Capital expenditure	1,279	1,685	(24.1)
Net borrowings (at 31/12)	13,612	15,268	(10.8)
Free cash flow after non-controlling interests	1,626	1,958	(17.0)

(1) The consolidated income statement for 2019 has been re-stated due to the discontinuation in application of IFRS 5 (Notes 2.2 and 11).

Key financials & metrics

	2020	2019
Leverage	54.70%	52.20%
Ebitda/Cost of net borrowings	6,9x	7,8x
Net borrowings/Ebitda	3,9x	3,6x

Main stock market ratios and shareholder remuneration

	2,020	2,019
Total no. of shares ('000)	969,614	984,122
Average no. of shares ('000) [1]	962,555	977,636
Share price at 31/12 (Euros)	18.9	22.4
Market capitalisation at 31/12 (Euros million)	18,384	22,044
Earnings per share (Euros) [1]	(0.36)	1.43
Dividend paid	1,370	1,319

[1] Calculated using the weighted average number of outstanding shares in the year (weighted average number of ordinary shares minus weighted average number of treasury shares).

Operational performance

Distribution	**2020**	**2019**
Gas distribution (GWh)	403,910	465,844
Electricity distribution (GWh)	35,536	38,292
Gas supply points ('000)	11,052	11,075
Electricity supply points ('000)	4,727	4,689
Gas distribution network (km)	134,802	133,917
Length of electricity transmission and distribution network (km)	151,495	150,341

Gas	**2020**	**2019**
Supply (GWh)	184,018	214,975
International LNG (GWh)	133,979	124,277
Total gas supply (GWh)	**317,997**	**339,252**

Electricity	**2020**	**2019**
Thermal installed capacity (MW)	10,674	10,594
Renewable installed capacity (MW)	4,659	4,534
Total installed capacity (MW)	**15,333**	**15,128**
Thermal net production (GWh)	31,501	36,309
Renewable net production (GWh)	9,513	7,696
Total net production (GWh)	**41,014**	**44,005**

Environmental and social performance

Environment	**2020**	**2019**
Power generation emission factor (t CO2/GWh)	297	301
Greenhouse gas (GHG) emissions (M tCO2 eq)[1]	14.3	15.4
Emissions-free installed capacity (%)	32.9	30.0
Emissions-free net production (%)	32.4	27.0

Interest in people	**2020**	**2019**
No. of employees at year-end [2]	9,335	10,156
Training hours per employee	26.6	25.2
Men/women (%) [3]	67/33	68/32

Health and safety	**2020**	**2019**
No. of accidents leading to time lost	4	14
Frequency of accidents with time lost	0.04	0.12

Commitment to society and integrity	**2020**	**2019**
Economic value distributed (Euros million)	16,235	21,533
No. of complaints received by the Ethics Committee	80	149

[1] GHG: greenhouse gases, measured as tCO_2 equivalent (scope 1).
[2] Does not include the number of employees at discontinued operations (1,411 persons in 2020 and 1,769 persons in 2019).
[3] Including employees at discontinued operations.

2.2. Executive summary

- COVID-19 impacted operating performance in 2020 mainly in the form of lower gas and power demand in Spain and Latin America, a more challenging scenario in International LNG and relevant FX depreciation in key Latin American regions.

- The energy scenario remained challenging during the fourth quarter of 2020, with continued pressure on gas prices and the loss of competitiveness in gas procurement conditions in the liberalized activities which were also affected by one-off costs linked to the recent gas procurement contract renegotiations. Some of these challenges remain structural. The 2020 results were also impacted by the new regulatory framework and lower remuneration in electricity distribution Spain, as well as by the volume capacity step down in the EMPL, effective since February 2020.

- The 2020 results herein presented have been restated according to the new organizational structure i) Energy management and Networks, ii) Renewables and new businesses, and iii) Supply. Moreover results have also been restated to reflect the agreement to sell our Chilean electricity networks subsidiary, Compañía General de Electricidad S.A in Chile (CGE), to State Grid International Development Limited (SGID). As a result and for comparability purposes, Chile CGE has been classified as discontinued operations in the our consolidated accounts for both 2019 and 2020.

- Ordinary EBITDA stood at Euros 3,714 million in 2020, down 14.6% vs. previous year. At constant perimeter ordinary EBITDA would have reached Euros 3,964 million, hence meeting the Euros 4.0bn ordinary EBITDA guidance provided for 2020 despite the challenging scenario.

- Reported Net Income has been impacted by the asset valuation review completed during the 4Q20, which translated into an impact of Euros 1,019 million, in an effort to provide a more transparent an realistic value of our asset base, mainly impacting Spain thermal generation. Excluding this effect, ordinary Net Income reached Euros 872 million in 2020, down 36.7% vs. 2019.

- Total capex amounted to Euros 1,279 million in the period, down 24.1% vs. previous year. This reduction was mainly due to the lower growth investments in networks as a result of months of confinement and a temporary slowdown in renewable developments in Spain.

- As of 31 December 2020, Net debt amounted to Euros 13,612 million, not yet reflecting the pre-tax proceeds of Euros 2,570 million expected on completion of the disposal of CGE Chile. Net debt / LTM EBITDA stood at 3.9x compared to 3.6x as of 31 December 2019.

2020 review

2020 has continued to build on the foundations established in the Strategic plan 2018-2022, including significant progress on simplicity & accountability, business optimization, and capital discipline.

<u>Simplicity & accountability</u>

Naturgy has completed a reorganization of its business around the three strategic areas which will usher in a new period of profitable growth in networks, the expansion of our renewable footprint, and the buildup of a world-class retail brand, amongst others. To lead these areas, Naturgy has attracted three talented managers with proven track records and relevant entrepreneurial experience.

Naturgy has continued to reinforce the autonomy and accountability of its business units together with greater transparency, as evidenced in a new asset valuation review, to reflect a realistic value of our asset base consistent with the current scenario.

Naturgy has also taken decisive steps to further its ESG commitments. In its Environmental Plan, Naturgy has set new targets to reduce its greenhouse gas (GHG) emissions, reduce CO_2 intensity in power generation and increase the share of its generation capacity from renewable sources. The recent shutdown of the company's coal power plants and the plans to replace them with new renewable developments will contribute towards the above goals. In addition, a Sustainability Committee has been established at the Board of Directors level to supervise the company's progress and role in the energy transition along with all its environmental, health and safety, and social responsibility aspects and indicators.

Business optimization

2020 saw an acceleration of the 2018-2022 efficiency plan. Naturgy completed its Euros 500 million efficiencies target by the end of 2020, two years ahead of its initial target. These efforts have helped to partially compensate for the challenging energy scenario and the impact of the COVID-19 outbreak. Also during 2020, Naturgy completed gas procurement contract renegotiations for an aggregate volume of 15bcms with its gas suppliers in order to reduce its risk profile, increase its flexibility and improve its price indexation parameters to bring the gas procurement contracts closer to the current market conditions and improve its commercial competitiveness.

Furthermore, Naturgy, ENI and The Arab Republic of Egypt reached a new agreement to resolve the disputes affecting Union Fenosa Gas (UFG), the 50%/50% partnership between Naturgy and ENI. The parties are working towards completion of the transaction during the first months of 2021, once customary conditions precedent are met, including the restart of operations in Damietta planned in the first quarter of 2021, solving a complex situation which had lingered since 2012, consuming significant time and resources.

Capital discipline

Naturgy made solid progress on its renewable development plans and reached three attractive agreements in Australia. First, a 218 MW wind farm located at Victoria State which will start operations in second half of 2022, consisting of a 15 year PPA contract with the retailer Snow Hydro. Second, the award of a 107 MW wind farm and a 20 MWh battery energy storage system by the Australian Capital Territory (ACT) at a regulated tariff, expected to start operations in the second half of 2022. Third, a 97MW wind farm located at Hawkesdale in Victoria, approximately 270 km from Melbourne, consisting of a 15 years power purchase agreement (PPA) for the energy equivalent to 97MW capacity. With the new projects, Naturgy will increase its installed capacity in Australia by more than 50% above 700MW and confirms its commitment to renewables growth.

The company reached an agreement to sell its 96.04% equity shareholding in CGE for an implied EV (100%) of Euros 4,312 million, which demonstrates Naturgy's ability to execute transactions which maximize value for its shareholders.

In this respect, Naturgy has recently acquired 100% of a portfolio consisting of 8 GW solar projects together with 4.6 GW of co-located energy storage projects spanning 9 states in the U.S., of which 25 projects totaling 3.2 GW of solar and 2 GW storage could be operational before 2026. As part of the transaction, Naturgy also entered into a 5 year development agreement with Candela Renewables, a first in class team holding over 20 years of experience in the development of solar and energy storage projects in the U.S. This transaction represents Naturgy's first investment in the U.S. renewable energy market and demonstrates Naturgy's commitment to growing in renewables, focusing on stable geographies and early stage of development projects.

Shareholder remuneration

During 2020, Naturgy completed the cash payment of 1.41 €/share including the final payment of 2019 corresponding to 0.6 €/share and the 1st and 2nd interim dividends for 2020 amounting to 0.31 €/share and 0.50 €/share respectively. Moreover, and further to its commitment with shareholders, Naturgy completed the cancellation of 14,508,345 shares, with a nominal value of 1 euro each. As of today, the share capital of the company stands at 969.613.801 shares of 1 euro of face value each.

COVID-19 update

Macroeconomic growth and energy demand

The COVID-19 has posed significant challenges to business activities and introduced a high degree of uncertainty on economic activity and energy demand on a global scale.

Throughout 2020, the evolution of GDP estimates for 2020 together with the recovery perspectives have gradually deteriorated as a result of the spread of COVID-19 and the subsequent economic lockdown measures undertaken on a global scale. According to the latest available consensus estimates, 2020 GDP growth is expected to experience a contraction of -3.8%, -7.3% and -3.5% for the World, the Eurozone and the USA respectively, while 2021 forecasts reflect also a slower recovery than initially expected.

The slowdown in economic activity has had a significant impact on the evolution of electricity and gas demand globally and thereby on the various regions where the Group operates. In particular, electricity and gas demand in Spain decreased on average by 5.5% and 6.2% respectively during 2020 compared to 2019. Similarly, electricity and gas demand across the Latin American regions where the Group operates experienced a decrease on average of 2.3% and 8.3% respectively, during 2020 compared to 2019.

Furthermore and since the appearance of the COVID-19, LatAm currencies have significantly depreciated against EUR and its evolution from here remains uncertain. This had a negative effect of Euros 175 million and Euros 53 million on the consolidated Group ordinary EBITDA and Net Income respectively during 2020 and compared to 2019.

Evolution of commodity prices

Lower energy consumption caused by the coronavirus pandemic and uncertainty around Brent production cuts of major producers globally has translated into significant volatility and an unprecedented decline of commodity prices across key references, including a decrease of gas prices on major gas hubs (HH and NBP have decreased on average by 22% and 29% respectively during 2020 vs. 2019) as well as a decrease in wholesale electricity prices (Spanish pool has decreased by 29% on average during 2020 compared to the average of 2019).

Company initiatives

Naturgy has proactively taken a number of key measures to address and mitigate the impacts of the COVID-19 pandemic on their operations and performance, as well as to support and protect the interests of all its stakeholders. On 25 February 2019, less than 24 hours following the first confirmed COVID-19 case in the Iberian Peninsula, Naturgy activated its Crisis Committee and started taking steps to support its stakeholders.

Measures to preserve employee health, safety and well-being were quickly introduced, including the prompt suspension of travel and attendance to external events, the activation of resources to guarantee effective remote work, or individual protection and support by Naturgy's medical services. Relevant measures were also introduced to support society as well as customers and suppliers, including the reinforcement of key infrastructures to ensure the stability and quality of electricity and gas supply, free gas and electricity supply to hotels, residences and other hospitalized centers, or free of charge repairs for health workers and security forces and bodies, armed forces and fire fighters, involved in supporting society during the pandemic. Our SMEs and self-employed customers are also benefiting from the deferral of invoice payments for 12 months to support their short term financing needs, while some of our suppliers have benefited from cash payment advances in respect of their invoices.

2.3. Key comparability factors and non-ordinary items

New reporting structure

The 2020 results have been restated according to the new organizational structure i) Energy management and Networks, ii) Renewables and new businesses, and iii) Supply. It is worth noting the following changes vs. the former reporting structure:

- Networks includes all networks businesses including Spain gas and electricity networks as well as networks LatAm, including Chile Gas, Brazil gas, Mexico gas, Panama electricity and Argentina gas and electricity.
- Energy management is composed of: i) markets & procurements, ii) International LNG, iii) pipelines (EMPL), iv) Spain thermal generation and (v) Latin America thermal generation.
- Markets and procurements includes all gas procurement and internal and external sales (except from International LNG and gas sales to end customers <500 GWh in Spain)
- Renewables and new businesses includes all renewable generation activities (including hydro) previously reported as part of European power generation and International power generation, together with new businesses.
- Supply includes all power sales to end customers in Spain as well as gas sales to end customers < 500GWh in Spain.

Perimeter changes

Coal generation in Spain (June), gas distribution activity in Peru (April) and electricity distribution in Chile (November) are reported as discontinued operations.

The main transactions completed in 2020 with an impact in comparability in the FY20 vs. FY19 results are the following:

- On January 2020 Naturgy completed the sale of 47.9% of Ghesa Ingeniería y Tecnología, S.A.
- On October 2019, Naturgy reached an agreement to acquire a 34.05% stake in Medgaz through a special purpose vehicle (SPV) opened to a financial partner. Naturgy signed an agreement with BlackRock's Global Energy & Power Infrastructure Fund (GEPIF) in which, at Naturgy's option, GEPIF would acquire a 50% stake in the SPV at the same price at which the Medgaz stake was agreed to be purchased. On 1 April 2020, following the authorization received from the CNMC for the acquisition of the 34.05% stake in Medgaz, Naturgy exercised the option it had arranged with GEPIF. After the acquisition of the aforementioned stake and the fulfillment of the rest of conditions, on July 2020 the transaction was completed.
- On April 2020, Naturgy completed the sale of Iberafrica Power in Kenya.
- On November 2020, Naturgy reached an agreement to sell its 96.04% equity shareholding in its Chilean electricity networks subsidiary, Compañía General de Electricidad S.A. Following this agreement the activity has been classified as "Non-current assets available for sale".

The main transactions completed in 2019 with an impact in comparability in the FY20 vs. FY19 results are the following:

– On April 2019 Naturgy completed the sale of 45% of its interests in its associated affiliate Torre Marenostrum, S.L. to Inmobiliaria Colonial, generating capital gains of Euros 20 million.

– On July 2019, CGE, Naturgy's subsidiary in Chile, completed an asset swap in Argentina, whereby CGE now controls and consolidates 100% of the gas distribution subsidiary and the associated commercialization, while formerly co-controlled electricity distribution subsidiaries are no longer within Naturgy's consolidation perimeter.

– On October 2019, the group completed the disposal of Transemel, an electricity transmission subsidiary in Chile.

Non-ordinary items

Non-ordinary items are summarized below:

	Ebitda		Net income	
Euros million	**2020**	**2019**	**2020**	**2019**
Restructuring costs	(197)	(150)	(144)	(112)
Asset write-down	—	—	(1,019)	(23)
Regulatory fines	(1)	(20)	—	(20)
Provisions reversal	37	49	28	33
Sales of land and buildings	7	16	5	15
Procurement agreement	(94)	—	(76)	—
Interest in companies sales	—	—	10	25
Liability management cost	—	—	—	(73)
Medgaz valuation	—	—	—	101
Discontinued operations	—	—	17	88
Other	(17)	9	(40)	(11)
Total non ordinary items	**(265)**	**(96)**	**(1,219)**	**23**

– At the EBITDA level, non-ordinary impacts in 2020 amounted to Euros -265 million, corresponding mostly to restructuring costs derived from the implementation of the efficiency plan (Euros -197 million) and upfront costs from gas contract renegotiations (Euros -94 million), partially offset by provisions reversals (Euros +37 million).

– At the Net Income level, non-ordinary items in 2020 amounted to Euros -1,219 million. In addition to the elements describe above and its corresponding impact at Net income level (Euros -144 million, Euros -76 million and Euros +28 million respectively), the write-down had an impact of Euros -1,019 million, mainly affecting Spain thermal generation (Euros -858 million) and gas activities in Argentina (Euros -152 million).

Foreign exchange impact

Exchange rate fluctuations in the period are summarized below:

	Average exchange rate	Change (%)	EBITDA	Net income
USD/€	1.14	1.8 %	(15)	(6)
MXN/€	24.41	13.2 %	(29)	(8)
BRL/€	5.86	32.9 %	(69)	(17)
ARS/€ (1)	102.85	52.9 %	(37)	(16)
CLP/€	900.34	14.4 %	(21)	(4)
Others	—	—	(4)	(2)
Total	**—**	**—**	**(175)**	**(53)**

(1) Exchange rate as at 31 December 2020 as a consequence of considering Argentina as an hyperinflationary economy.

2.4. Consolidated results

	Reported			Ordinary		
	2020	**2019 (1)**	**Change (%)**	**2020**	**2019 (1)**	**Change (%)**
Net sales	15,345	20,761	(26.1)	15,345	20,739	(26.0)
Ebitda	**3,449**	**4,252**	**(18.9)**	**3,714**	**4,348**	**(14.6)**
Depreciation, amortisation and	(2,839)	(1,534)	85.1	(1,478)	(1,477)	0.1
Impairment of credit losses	(156)	(109)	43.1	(156)	(109)	43.1
Other results	12	25	(52.0)	—	—	—
Ebit	**466**	**2,634**	**(82.3)**	**2,080**	**2,762**	**(24.7)**
Financial result	(538)	(585)	(8.0)	(502)	(523)	(4.0)
Profit/(loss) of companies measured	36	75	(52.0)	29	48	(39.6)
Income tax	(19)	(426)	(95.5)	(374)	(483)	(22.6)
Income from discontinued operations	24	98	(75.5)	—	—	—
Non-controlling interest	(316)	(395)	(20.0)	(361)	(426)	(15.3)
Net income	**(347)**	**1,401**	**(124.8)**	**872**	**1,378**	**(36.7)**

(1) The consolidated income statement for 2019 has been re-stated due to the discontinuation in application of IFRS 5.

Net sales

Ordinary Net sales totaled Euros 15,345 million in 2020, 26.0% below 2019, mainly as a result of lower energy demand caused by the COVID-19 outbreak, as well as lower energy prices in the period. Furthermore, macro uncertainty caused by COVID-19 continued to have a negative impact on the evolution of LatAm currencies as shown in the table in the previous page.

Ebitda

As a result of the above, consolidated ordinary EBITDA reached Euros 3,714 million in 2020, down 14.6%. The difficult global energy and macro scenario have translated into significant headwinds in Energy management and LatAm networks, in addition to FX depreciation. Supply suffered a small decrease, driven by the negative gas performance, while renewable power generation grew supported by higher production and despite lower pool prices compared to 2019.

Ebitda breakdown by activity is as follows:

	Reported			Ordinary		
	2020	**2019**	**Change**	**2020**	**2019**	**Change**
Energy management and networks	2,859	3,619	(21.0%)	3,046	3,670	(17.0%)
Renewables and New businesses	352	332	6.0%	362	337	7.4%
Supply	326	411	(20.7%)	359	392	(8.4%)
Rest	(88)	(110)	(20.0%)	(53)	(51)	3.9%
EBITDA	**3,449**	**4,252**	**(18.9%)**	**3,714**	**4,348**	**(14.6%)**

EBIT

The depreciation, amortisation and impairment expenses in the exercise 2020 amounted Euros 2,839 million (Euros 1,534 million in the exercise 2019) because of the impairment of assets of Euros 1,363 million booked in 2020.

Impairment of credit losses amounted Euros 156 million through the Euros 109 million of the previous year, an increase of 43.1%.

EBIT of the exercise 2020 amounted to Euros 466 million.

Financial result

Euros million	**2020**	**2019**	**Change (%)**
Cost of net financial debt	(498)	(547)	(9.0)
Other financial expenses/income	(40)	(38)	5.3
Financial result	**(538)**	**(585)**	**(8.0)**

The financial result amounted to -Euros 538m, down 8.0%. The decrease is mainly explained by the continued debt optimization efforts and liability management exercises carried out in the period, as well as the impact of FX.

The average cost of gross financial debt (cost from IFRS 16 debt not included) for 2020 improved to 2.5% vs. 3.2% in 2019. As at 2020 year end, 83% of gross debt is at fixed rates and 10% is denominated in foreign currency.

Equity-accounted affiliates

Equity-accounted affiliates contributed Euros 36 million in 2020 mostly as a result of the contributions from Ecoeléctrica (Euros 51 million), UF Gas subgroup (Euros -30 million) and Medgaz (Euros 6 million).

Income tax

The effective tax rate as of 31 December 2020 stood at 23.3% without considering non-ordinary impacts higher than the previous year (21,1%).

Discontinued operations

Contribution from discontinued operations breakdown is as follows:

	2020	2019	Change
Gas distribution Peru	(12)	(7)	71.4
Coal generation Spain	(38)	(40)	(7.5)
Electricity distribution Chile	74	145	(49.7)
Total	**24**	**98**	**(75.5)**

Non-controlling interests

The non-controlling interest breakdown is as follows:

	2020	2019	Change (%)
EMPL	(41)	(61)	(32.8)
Nedgia	(76)	(83)	(8.4)
Other interest (1)	(139)	(191)	(27.2)
Other equity instruments	(60)	(60)	—
Total	**(316)**	**(395)**	**(20.0)**

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

The decrease in EMPL and Nedgia follow the lower contribution of both activities during the period, i.e. the capacity step down effective since February 2020 in the EMPL, and the lower demand in gas distribution Spain, impacted by the COVID-19 pandemic.

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

Net income

Net ordinary income in 2020 amounted to Euros 872 million, down 36.7% compared to the previous year.

2.5. Results by business unit

2.5.1. Energy management and Networks

	Reported			Ordinary		
	2020	**2019**	**Change (%)**	**2020**	**2019**	**Change (%)**
Energy management and Networks	**2,859**	**3,619**	**(21.0)**	**3,046**	**3,670**	**(17.0)**
Networks Spain	**1,538**	**1,607**	**(4.3)**	**1,627**	**1,665**	**(2.3)**
Gas networks	891	933	(4.5)	940	963	(2.4)
Electricity networks	647	674	(4.0)	687	702	(2.1)
Networks Latin America	**834**	**961**	**(13.2)**	**840**	**977**	**(14.0)**
Chile gas	206	237	(13.1)	207	238	(13.0)
Brazil gas	203	262	(22.5)	204	263	(22.4)
Mexico gas	222	228	(2.6)	224	229	(2.2)
Panama electricity	130	147	(11.6)	132	147	(10.2)
Argentina gas	52	72	(27.8)	52	85	(38.8)
Argentina electricity	21	15	40.0	21	15	40.0
Energy management	**487**	**1,051**	**(53.7)**	**579**	**1,028**	**(43.7)**
Markets & Procurement	(223)	(123)	81.3	(170)	(124)	37.1
International LNG	129	509	(74.7)	198	477	(58.5)
Pipelines (EMPL)	240	313	(23.3)	240	313	(23.3)
Spain thermal generation	104	47	121.3	74	72	2.8
Latin America thermal generation	237	305	(22.3)	237	290	(18.3)

Ordinary EBITDA declined 17.0% during the period, driven by lower demand and depressed gas prices, impacting the Markets & Procurement and International LNG activities. Latin America thermal generation decreased due to reduced merchant sales while Spain thermal generation improved vs. 2019 as a result of better margins in the period.

According to the criteria established by IAS 29 "Financial Information in Hyperinflationary Economies", the Argentine economy should be considered as hyperinflationary. As a result, FX differences arising during the year have been applied to 2020 results, which have been as well updated by inflation rates.

2.5.1.1. Networks Spain

<u>Spain gas networks</u>

Results

	2020	2019	Change (%)
Net sales	1,177	1,237	(4.9)
Procurement	(70)	(74)	(5.4)
Gross margin	**1,107**	**1,163**	**(4.8)**
Other operating income	38	38	—
Personnel expenses	(107)	(99)	8.1
Taxes	(25)	(25)	—
Other operating expenses	(122)	(144)	(15.3)
EBITDA	**891**	**933**	**(4.5)**
Depreciation, provisions and other results	(297)	(301)	(1.3)
EBIT	**594**	**632**	**(6.0)**

Ordinary EBITDA reached Euros 940 million, down 2.4% vs. 2019. Lower sales during the period due to the impact of COVID-19 in the industrial segment together with mild weather for most of the year were only partially compensated by efficiencies.

Main aggregates

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

	2020	2019	Change (%)
TPA - Sales (GWh)	185,445	204,578	(9.4)
LPG Sales (tn)	74,053	80,191	(7.7)
Distribution network (km)	56,878	56,743	0.2
Increase in connection points, thousand	6	3	95.2
Connection points (thousand) (at 31/12)	5,412	5,406	0.1

Total gas sales (excluding LPG) decreased by 9.4%, while connection points remained stable (+0.1%) vs. 2019.

Spain electricity networks

Results

	2020	2019	Change (%)
Net sales	842	880	(4.3)
Procurement	—	—	—
Gross margin	**842**	**880**	**(4.3)**
Other operating income	18	18	—
Personnel expenses	(83)	(94)	(11.7)
Taxes	(30)	(30)	—
Other operating expenses	(100)	(100)	—
EBITDA	**647**	**674**	**(4.0)**
Depreciation, provisions and other results	(251)	(249)	0.8
EBIT	**396**	**425**	**(6.8)**

2020 Ordinary EBITDA amounted to Euros 687 million, a 2.1% decrease vs. 2019 primarily due to the lower financial remuneration approved in the new regulatory period, as well as lower fees on meters interventions caused by COVID-19.

Main aggregates

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

	2020	2019	Change (%)
Sales - TPA (GWh)	28,838	31,006	(7.0)
Connection points (thousand)(at 31/12)	3,774	3,758	0.4
ICEIT (minutes)	40	42	(6.3)

Connection points increased by 0.4% during the period, while unitary opex per km of installed network decreased by 14.6% vs 2019.

2.5.1.2. LatAm Networks

Gas Chile

Includes the activities of gas distribution and supply.

Results

	2020	2019	Change (%)
Net sales	521	746	(30.2)
Procurement	(256)	(438)	(41.6)
Gross margin	**265**	**308**	**(14.0)**
Other operating income	4	6	(33.3)
Personnel expenses	(26)	(30)	(13.3)
Taxes	(3)	(3)	—
Other operating expenses	(34)	(44)	(22.7)
EBITDA	**206**	**237**	**(13.1)**
Depreciation, provisions and other results	(63)	(70)	(10.0)
EBIT	**143**	**167**	**(14.4)**

Ordinary EBITDA totaled Euros 207 million, 13.0% lower than in 2019 following the negative impact of lower demand derived from COVID-19 and FX (Euros -21 million), which were partially offset by the positive tariff indexation and efficiencies.

Main aggregates

	2020	2019	Change (%)
Gas activity sales (GWh)	9,857	10,309	(4.4)
Gas sales (GWh)	1,699	6,829	(75.1)
TPA (GWh)	20,491	29,399	(30.3)
Distribution network (km)	7,873	7,773	1.3
Increase in connection points (thousand)	10	18	(45.3)
Connection points (thousand)(at 31/12)	654	644	1.6

Total gas sales decreased (-31.1%), mainly as a result of the COVID-19 impact.

Connection points increased by 1.6%.

Gas Networks Brazil

Results

	2020	2019	Change (%)
Net sales	1,001	1,815	(44.8)
Procurement	(729)	(1,458)	(50.0)
Gross margin	**272**	**357**	**(23.8)**
Other operating income	23	35	(34.3)
Personnel expenses	(21)	(28)	(25.0)
Taxes	(4)	(5)	(20.0)
Other operating expenses	(67)	(97)	(30.9)
EBITDA	**203**	**262**	**(22.5)**
Depreciation, provisions and other results	(64)	(71)	(9.9)
EBIT	**139**	**191**	**(27.2)**

Ordinary EBITDA totaled Euros 204 million, 22.4% lower than in 2019, affected by negative FX (-€65m), and lower demand in all segments as a consequence of COVID-19, with the exception of the residential segment. Negative elements were partially compensated by tariff indexation, efficiencies and lower energy losses.

Main aggregates

The main aggregates in this area are as follows:

	2020	2019	Change (%)
Gas activity sales (GWh)	**61,030**	**70,295**	**(13.2)**
Gas sales	37,670	59,652	(36.9)
TPA	23,360	10,643	119.5
Distribution network (km)	8,156	8,050	1.3
Increase in connection points (thousand)	11	19	(40.8)
Connection points (thousand)(at 31/12)	1,146	1,135	1.0

Overall gas sales decreased (-13.2%) affected by COVID-19, particularly in Generation + TPA, VNG and industrial segments (down -13.4%, 16.2% and -11.0% respectively). Conversely, retail sales increased 10.1% in the year, following quarantine measures and the effect of temperatures.

Connection points grew 1.0% in the period.

<u>Gas Networks Mexico</u>

Results

	2020	2019	Change (%)
Net sales	579	635	(8.8)
Procurement	(316)	(345)	(8.4)
Gross margin	**263**	**290**	**(9.3)**
Other operating income	24	14	71.4
Personnel expenses	(20)	(23)	(13.0)
Taxes	(1)	—	—
Other operating expenses	(44)	(53)	(17.0)
EBITDA	**222**	**228**	**(2.6)**
Depreciation, provisions and other results	(57)	(67)	(14.9)
EBIT	**165**	**161**	**2.5**

2020 Ordinary EBITDA decreased 2.2% to Euros 224 million.

Higher margins and tariff indexation were not sufficient to compensate for negative FX impact (Euros -26 million) and sales reduction (-15.9%).

Main aggregates

The main aggregates in this area are as follows:

	2020	2019	Change (%)
Gas activity sales (GWh)	**48,536**	**57,733**	**(15.9)**
Gas sales	21,866	22,842	(4.3)
TPA	26,670	34,891	(23.6)
Distribution network (km)	22,807	22,722	0.4
Increase in connection points (thousand)	(72)	(135)	(46.6)
Connection points (thousand)(at 31/12)	1,589	1,661	(4.3)

Connection points decreased by 4.3%, as a result of the commercial strategy aimed at improving customer profitability.

Electricity Networks Panama

Results

	2020	2019	Change (%)
Net sales	759	891	(14.8)
Procurement	(586)	(695)	(15.7)
Gross margin	**173**	**196**	**(11.7)**
Other operating income	4	4	—
Personnel expenses	(9)	(10)	(10.0)
Taxes	(4)	(4)	—
Other operating expenses	(34)	(39)	(12.8)
EBITDA	**130**	**147**	**(11.6)**
Depreciation, provisions and other results	(63)	(47)	34.0
EBIT	**67**	**100**	**(33.0)**

2020 Ordinary EBITDA amounted to Euros 132 million, down 10.2% vs. 2019, driven by lower demand derived from COVID-19 only partially compensated by efficiencies.

Main aggregates

The main aggregates in this area are as follows:

	2020	2019	Change (%)
Electricity business sales (GWh)	**4,798**	**5,378**	**(10.8)**
Electricity sales	4,118	4,819	(14.6)
TPA	680	558	21.7
Connection points (thousand)(at 31/12)	710	694	2.3

Electricity sales decreased by 10.8%, while connection points grew by 2.3%.

Gas Networks Argentina

Results

	2020	2019	Change (%)
Net sales	418	554	(24.5)
Procurement	(278)	(385)	(27.8)
Gross margin	**140**	**169**	**(17.2)**
Other operating income	17	35	(51.4)
Personnel expenses	(27)	(22)	22.7
Taxes	(26)	(31)	(16.1)
Other operating expenses	(52)	(79)	(34.2)
EBITDA	**52**	**72**	**(27.8)**
Depreciation, provisions and other results	(223)	(24)	829.2
EBIT	**(171)**	**48**	**(456.3)**

2020 Ordinary EBITDA amounted to Euros 52 million, down 38.8% vs 2019. Tariff updates, and higher contribution from Gasnor were offset by negative FX (Euros -29 million) as well as lower gas sales, notably in in the VNG (-20.7%), Generation + TPA (-18.3%) and industrial (-15.5%) segments. Residential sales increased by 17.3%.

Main aggregates

The main aggregates in this area are as follows:

	2020	2019	Change (%)
Gas activity sales (GWh)	**76,853**	**86,701**	**(11.4)**
Gas sales	38,208	35,502	7.6
TPA	38,645	51,199	(24.5)
Distribution network (km)	39,088	38,630	1.2
Increase in connection points (thousand)	22	24	(8.0)
Connection points (thousand)(at 31/12)	2,251	2,229	1.0

Gas sales decreased by 11.4%, while connection points increased by 1.0% vs. 2019.

<u>Electricity Networks Argentina</u>

Results

	2020	2019	Change (%)
Net sales	104	139	(25.2)
Procurement	(50)	(89)	(43.8)
Gross margin	**54**	**50**	**8.0**
Other operating income	4	5	(20.0)
Personnel expenses	(8)	(8)	—
Taxes	(12)	(15)	(20.0)
Other operating expenses	(17)	(17)	—
EBITDA	**21**	**15**	**40.0**
Depreciation, provisions and other results	(2)	—	—
EBIT	**19**	**15**	**26.7**

2020 Ordinary EBITDA amounted to Euros 21 million, 40.0% higher than in 2019, mainly explained by the April-19 electricity tariff update, which was partially offset by negative FX impact (Euros -8 million).

Main aggregates

The main aggregates in this area are as follows:

	2020	2019	Change (%)
Electricity business sales (GWh)	1,901	1,909	(0.4)
Connection points (thousand)(at 31/12)	243	237	2.4

Electricity sales remained stable (-0.4%), while connection points increased by 2.4% in the year.

2.5.1.3. Energy management

Markets and Procurement

Results

	2020	2019	Change (%)
Net sales	4,222	6,895	(32.6)
Procurement	(4,407)	(6,992)	(30.7)
Gross margin	**(185)**	**(97)**	**90.7**
Other operating income	22	24	(8.3)
Personnel expenses	(27)	(24)	12.5
Taxes	(1)	(2)	(50.0)
Other operating expenses	(32)	(24)	33.3
EBITDA	**(223)**	**(123)**	**81.3**
Depreciation, provisions and other results	(26)	(7)	271.4
EBIT	**(249)**	**(130)**	**91.5**

Markets and procurement includes all gas procurement and internal and external sales (except from International LNG and gas sales to end customers <500GWh in Spain).

2020 Ordinary EBITDA reached Euros -170 million vs. Euros -124 million in 2019. This evolution is explained by the loss of gas supply cost competitiveness, with negative impact on the industrial segment, exship and HUBS sales, as well as negative contribution of some volume sales to avoid unrecoverable take or pay requirements.

Naturgy has already announced renegotiation agreements for approximately 15 bcms of its procurement portfolio, which has allowed to better align procurement costs with the prevailing market conditions.

Main aggregates

The main aggregates in this area are as follows:

	2020	2019	Change (%)
Gas supply (GWh)	**41,727**	**62,430**	**(33.2)**
CCGT	19,834	20,662	(4.0)
Third parties	21,893	41,768	(47.6)
Electricity sales (GWh)	**1,627**	**1,760**	**(7.6)**

International LNG

Results

	2020	2019	Change (%)
Net sales	2,785	3,421	(18.6)
Procurement	(2,626)	(2,896)	(9.3)
Gross margin	**159**	**525**	**(69.7)**
Other operating income	—	14	(100.0)
Personnel expenses	(21)	(20)	5.0
Taxes	—	(1)	(100.0)
Other operating expenses	(9)	(9)	—
EBITDA	**129**	**509**	**(74.7)**
Depreciation, provisions and other results	(135)	(131)	3.1
EBIT	**(6)**	**378**	**(101.6)**

2020 Ordinary EBITDA reached Euros 198 million, down 58.5% vs. 2019, as a result of a depressed LNG scenario resulting in negative margins, partially compensated via financial hedging and cancellation of some cargoes.

As of year end 2020, contracted sales for 2021 and 2022-23 stood at 84% and 52% respectively.

Main aggregates

The main aggregates in this area are as follows:

	2020	2019	Change (%)
Gas sales (GWh)	133,979	124,277	7.8 %
Shipping fleet capacity (m3)	1,989,121	1,811,741	9.8 %

Pipelines

Results

	2020	2019	Change (%)
Net sales	260	334	(22.2)
Procurement	—	—	—
Gross margin	**260**	**334**	**(22.2)**
Other operating income	1	1	—
Personnel expenses	(7)	(7)	—
Taxes	—	—	—
Other operating expenses	(14)	(15)	(6.7)
EBITDA	**240**	**313**	**(23.3)**
Depreciation, provisions and other results	(56)	(36)	55.6
EBIT	**184**	**277**	**(33.6)**

2020 Ordinary EBITDA decreased by 23.3% to Euros 240 million. The decrease was mainly explained by the reduction in revenues following the capacity step down upon expiry of one of the contracts. This was been partially offset by higher tariffs (Euros 8 million).

Main aggregates

The main aggregates in this area are as follows:

	2020	2019	Change (%)
Gas transport - EMPL (GWh)	**49,383**	**68,703**	**(28.1)**
Portugal-Morocco	22,952	27,412	(16.3)
Spain (Naturgy)	26,431	41,290	(36.0)

<u>Spain thermal generation</u>

Results

	2020	2019	Change (%)
Net sales	1,010	1,126	(10.3)
Procurement	(638)	(739)	(13.7)
Gross margin	**372**	**387**	**(3.9)**
Other operating income	48	5	860.0
Personnel expenses	(70)	(74)	(5.4)
Taxes	(164)	(154)	6.5
Other operating expenses	(82)	(117)	(29.9)
EBITDA	**104**	**47**	**121.3**
Depreciation, provisions and other results	(1,081)	(131)	725.2
EBIT	**(977)**	**(84)**	**1063.1**

2020 Ordinary EBITDA amounted to Euros 74 million, up 2.8% vs. 2019 on the back of lower CCGTs generation costs, together with additional efficiencies. These factors allowed for higher margins, despite lower pool prices and nuclear production.

Pool prices decreased 28.7% vs. FY19, averaging 34.0 €/MWh in the period, as a result of higher hydro and renewable production, and lower gas prices.

Main aggregates

The main aggregates in this area are as follows:

	2020	2019	Change (%)
Total MW	**8,031**	**8,031**	**—**
Nuclear	604	604	—
CCGTs	7,427	7,427	—

	2020	2019	Change (%)
Electric energy produced (GWh)	**17,243**	**19,081**	**(9.6)**
Nuclear	4,387	4,542	(3.4)
CCGTs	12,856	14,538	(11.6)

Total production decreased by 9.6%: CCGTs and nuclear production decreased by 11.6% and 3.4% respectively in the year, the latter affected by programmed maintenance shutdowns in 2Q20.

Latin America thermal generation

Results

	2020	2019	Change (%)
Net sales	612	787	(22.2)
Procurement	(333)	(442)	(24.7)
Gross margin	**279**	**345**	**(19.1)**
Other operating income	3	15	(80.0)
Personnel expenses	(14)	(17)	(17.6)
Taxes	(1)	(1)	—
Other operating expenses	(30)	(37)	(18.9)
EBITDA	**237**	**305**	**(22.3)**
Depreciation, provisions and other results	(85)	(90)	(5.6)
EBIT	**152**	**215**	**(29.3)**

Ordinary EBITDA in the period reached Euros 237 million, down 18.3% vs. 2019. Cost efficiencies and higher margins in PPA sales were offset by: i) lower merchant margins in Dominican Republic caused by higher hydro generation, new competitors and affection in demand COVID-19, ii) lower volume as consequence of market operator restrictions that affected our plants in Mexico, and iii) negative FX translation (Euros -8 million).

Main aggregates

The main aggregates in this area are as follows:

	2020	2019	Change (%)
Total MW	**2,643**	**2,563**	**3.1**
Mexico (CCGT)	2,446	2,365	3.4
Dominican Republic (Fuel)	198	198	—

	2020	2019	Change (%)
Electric energy produced (GWh)	**14,258**	**17,228**	**(17.2)**
Mexico (CCGT)	13,778	16,123	(14.5)
Dominican Republic (Fuel)	481	1,105	(56.5)

2.5.2. Renewables and new business

	Reported			Ordinary		
	2020	2019	Change (%)	2020	2019	Change (%)
Renovables y nuevos negocios	**352**	**332**	**6.0**	**362**	**337**	**7.4**
España y USA	272	257	5.8	281	260	8.1
Australia	14	23	(39.1)	14	23	(39.1)
LatAm	66	52	26.9	67	54	24.1

Renewables and new businesses includes all renewable generation activities (including hydro) previously reported as part of European power generation and International power generation, together with new businesses.

Ordinary EBITDA reached Euros 362 million (+7.4%) in 2020, mainly due to higher renewable production in Spain and Latam backed by new installed capacity in Spain, and higher wind resource and prices in Mexico. The decrease in Australia contribution is explained by derivative adjustments in new PPA contracts.

Spain and USA

Results

	2020	2019	Change (%)
Net sales	516	485	6.4
Procurement	(59)	(65)	(9.2)
Gross margin	**457**	**420**	**8.8**
Other operating income	15	7	114.3
Personnel expenses	(49)	(37)	32.4
Taxes	(72)	(62)	16.1
Other operating expenses	(79)	(71)	11.3
EBITDA	**272**	**257**	**5.8**
Depreciation, provisions and other results	(364)	(137)	165.7
EBIT	**(92)**	**120**	**(176.7)**

2020 Ordinary EBITDA amounted to Euros 281 million, up to 8.1% vs. 2019. Higher renewable and hydro production in Spain, were partially offset by lower PPA/pool prices vs 2019.

Main aggregates

The main aggregates in this area are as follows:

	2020	2019	Change (%)
Total MW	**4,053**	**3,927**	**3.2**
Hydroelectric	2,062	2,065	(0.2)
Wind	1,691	1,561	8.3
Solar	249	250	(0.4)
Cogeneration and others	51	51	0.2

	2020	2019	Change (%)
Electric energy produced (GWh)	**7,715**	**5,991**	**28.8**
Hydroelectric	3,534	3,360	5.2
Wind	3,546	2,258	57.1
Solar	320	227	41.1
Cogeneration and others	315	147	114.8
Market share of generation	**16.4**	**16.1**	**36.6**

Naturgy continued to progress developing renewable assets in Spain and installed capacity as of year end 2020 reached 4,053 MW, 125 MW higher compared to 2019.

Australia

Results

	2020	2019	Change (%)
Net sales	20	29	(31.0)
Procurement	—	—	—
Gross margin	**20**	**29**	**(31.0)**
Other operating income	—	—	—
Personnel expenses	(1)	(1)	—
Taxes	—	—	—
Other operating expenses	(5)	(5)	—
EBITDA	**14**	**23**	**(39.1)**
Depreciation, provisions and other results	(5)	(6)	(16.7)
EBIT	**9**	**17**	**(47.1)**

Ordinary EBITDA in the period reached Euros 14 million, down 39.1% vs. 2019.

The reduction is mainly explained by lower margins in PPA contracts, following adjustments in derivative contracts, as well as a small decrease in power generation (-2.2%) in the period.

Main aggregates

The main aggregates in this area are as follows:

	2020	2019	Change (%)
Total MW	**96**	**96**	**—**
Wind	96	96	—

	2020	2019	Change (%)
Electric energy produced (GWh)	**287**	**294**	**(2.2)**
Wind	287	294	(2.2)

Latin America

Results

	2020	2019	Change (%)
Net sales	104	105	(1.0)
Procurement	(4)	(7)	(42.9)
Gross margin	**100**	**98**	**2.0**
Other operating income	7	6	16.7
Personnel expenses	(16)	(20)	(20.0)
Taxes	(2)	(3)	(33.3)
Other operating expenses	(23)	(29)	(20.7)
EBITDA	**66**	**52**	**26.9**
Depreciation, provisions and other results	(17)	(62)	(72.3)
EBIT	**49**	**(10)**	**—**

Ordinary EBITDA in the period reached Euros 67 million, 24.1% higher than in 2019, mainly driven by higher production and prices in Mexico, partially offset by lower contribution from Brazil solar.

Main aggregates

The main aggregates in this area are as follows:

	2020	2019	Change (%)
Total MW	**511**	**511**	**—**
Mexico (Wind)	234	234	—
Brazil (Solar)	153	153	—
Costa Rica (Hydroelectric)	101	101	—
Panama (Hydroelectric)	22	22	—

	2020	2019	Change (%)
Electric energy produced (GWh)	**1,510**	**1,411**	**7.0**
Mexico (Wind)	754	670	12.5
Brazil (Solar)	295	302	(2.2)
Costa Rica (Hydroelectric)	367	369	(0.4)
Panama (Hydroelectric)	94	70	34.3

2.5.3. Supply

Supply includes all power sales to end customers in Spain as well as gas sales to end customers < 500GWh in Spain.

Results

	2020	2019	Change (%)
Net sales	6,302	8,691	(32.4)
Procurement	(5,686)	(7,986)	(34.0)
Gross margin	**616**	**705**	**(12.6)**
Other operating income	7	9	(22.2)
Personnel expenses	(106)	(93)	14.0
Taxes	(25)	(12)	108.3
Other operating expenses	(166)	(198)	(16.2)
EBITDA	**326**	**411**	**(20.7)**
Depreciation, provisions and other results	(156)	(138)	13.0
EBIT	**170**	**273**	**(37.7)**

Ordinary EBITDA amounted to Euros 359 million in the period, -8.4% lower than 2019, primarily driven by lower energy demand in power supply due to the COVID-19. Gas supply margins remained under pressure throughout the year. On the positive side, power supply margins benefited from lower pool prices.

Main aggregates

The main aggregates in this area are as follows:

	2020	2019	Change (%)
Gas sales (GWh)	**142,291**	**152,545**	**(6.7)**
Residential Spain	19,786	21,537	(8.1)
Industrial clients	120,080	127,627	(5.9)
SM&E	2,425	3,381	(28.3)
By segment	142,291	152,545	(6.7)
Liberalised	136,684	146,780	(6.9)
Regulated	5,607	5,765	(2.7)
Electricity sales (GWh):	**22,268**	**23,272**	**(4.3)**
Residential Spain	9,524	9,830	(3.1)
Industrial clients	9,659	8,749	10.4
SM&E	3,084	4,694	(34.3)
By segment	22,268	23,272	(4.3)
Liberalised	17,248	18,336	(5.9)
Regulated	5,019	4,937	1.7
Retail contracts (thousand)	**10,658**	**11,018**	**(3.3)**
Gas	3,813	3,993	(4.5)
Electricity	4,020	4,213	(4.6)
Services	2,825	2,812	0.5
Contracts per customer (Spain)	1.55	1.54	1.0
Gas contract market share (Spain)	47.9	50.9	(3.01)pp

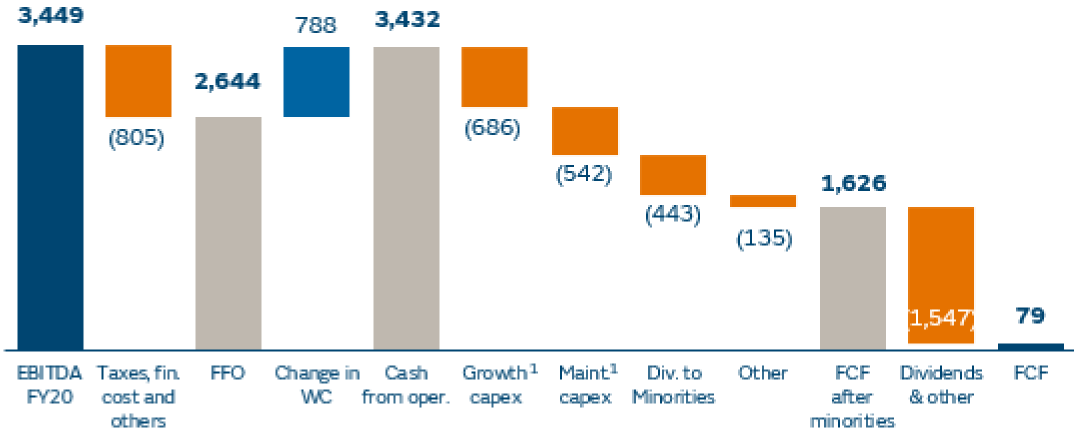
Gas sales declined by 6.7% in 2020, in all segments, notably in the SME and retail segments (-28.3% and -8.1%) impacted by COVID-19 and mild climate conditions compared to 2019.

Power sales fell by 4.3% in 2020 as a result of lower sales in the liberalized market (-5.9%), with the SME segment severely impacted (-34.3%); on the contrary, industry sales increased by 10.4%. VPSC (Voluntary Price for Small Consumers) sales increased by 1.7%.

The number of contracts experienced a small decrease, reaching 10.7 million as of year end 2020, a 3.3% decrease compared to 2019 figures.

2.6. Cash flow

The evolution of cash flow in the year 2020 is as follows:



1 Net of cessions and contributions

2020 free cash flow after minorities amounted to Euros 1,626 million. The contribution from operating results was complemented by a decrease in working capital, following lower sales and inventories, and optimization efforts. Proactive cash flow and liquidity management has remained a priority during COVID-19 crisis.

Free cash flow after minorities and capex was mostly allocated to the payment of dividends (Euros 1,370 million) and the share buy-back program (Euros 184 million) until its halt.

Capex

The capex breakdown is as follows:

	2020	2019	%
Investments in property, plant and equipment and intangible assets (Capex)	1,279	1,685	(24.1)
Other investment receipts/payments	(51)	(78)	(34.6)
Total gross investments	**1,228**	**1,607**	**(23.6)**

Investments in property, plant and equipment and intangible assets amounted to Euros 1,279 million in 2020, a 24.1% decrease with respect to the previous year.

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

	2020	2019	Change (%)
Energy management and Networks	**756**	**1,012**	**(24.9)**
Networks Spain	**321**	**427**	**(24.8)**
Gas networks	96	167	(42.5)
Electricity networks	225	260	(13.5)
Networks Latin America	**342**	**450**	**(24.0)**
Chile gas	37	76	(51.3)
Chile electricity	119	111	7.2
Brazil gas	33	50	(34.0)
Mexico gas	37	58	(36.2)
Panama electricity	94	109	(13.8)
Argentina gas	17	39	(56.4)
Argentina electricity	5	5	—
Peru gas	—	2	(100.0)
Energy management	**93**	**135**	**(28.0)**
Markets and Procurement	1	—	—
International LNG	15	2	650.0
Pipelines (EMPL)	3	5	(40.0)
Europe thermal generation	51	68	(19.7)
Latin America thermal generation	23	60	(61.7)
Renewables and New businesses	**429**	**599**	**(29.1)**
Spain & USA	140	450	(70.6)
Australia	100	92	8.7
Latam	189	57	231.6
Supply	**55**	**49**	**12.2**
Rest	**39**	**25**	**56.0**
TOTAL Capex	**1,279**	**1,685**	**(24.1)**

Maintenance capex in 2020 amounted to Euros 546 million, compared to Euros 633 million in 2019, a 13.7% reduction resulting from the optimization of capex processes and FX.

Growth capex in the period was close to 60% of total capex and amounted to Euros 733 million in 2020.

Growth capex in 2020 included the following:

- A total of Euros 115 million invested in the construction of different renewable projects in Spain, with 125 MW put into operation in 2020.

- Euros 287 million invested in the development of 181 MW of wind capacity in Australia and 307 MW of wind and solar capacity in Chile that will come into operation in the following months.

Naturgy recently reached several attractive agreements in Australia, which will increase its current presence in the country to over 700 MW by 2022, confirming its commitment to renewables growth.

Divestments

- On 20 February, the partners in Ghesa Ingeniería y Tecnología, S.A. and Empresarios Agrupados AIE (Naturgy among them) sold their ownership to a company specialized in engineering activities for power generation assets. The net capital gain from this operation amounts to Euros 13 million.

- On 1 April, and in relation with the agreement between Naturgy and Mubadala to acquire a 34.05% stake in Medgaz from CEPSA through an SPV, Naturgy exercised the option signed with BlackRock's Global Energy & Power Infrastructure Fund (GEPIF), whereby GEPIF will acquire a 50% stake in that said SPV at the same price at which the Medgaz stake was agreed to be purchased from Mubadala. After the acquisition of the aforementioned stake and the fulfillment of the rest of conditions, on July 2020 the transaction was completed.
- On 7 April, Naturgy announced the completion of the sale of its ownership in Iberafrica Power (Kenya) to AP Moller Capital for a total amount of USD62m. The operation has not contributed with significant capital gains.
- Last, on 13 November, Naturgy announced an agreement to sell its 96.04% equity shareholding in its Chilean electricity networks subsidiary, Compañía General de Electricidad S.A in Chile (CGE), to State Grid International Development Limited (SGID) for a total purchase price (equity value) of Euros 2,570m. The transaction implies a total Enterprise value (EV) for 100% of CGE of Euros 4,312m and pre-tax capital gains for Naturgy are expected to amount approximately to Euros 0.4bn. Completion of the transaction is subject to the required regulatory approvals and competition clearance.

2.7. Financial position

As of 31 December 2020, Net debt amounted to Euros 13,612 million, not yet reflecting the pre-tax proceeds of Euros 2,570 million expected on completion of the disposal of CGE Chile. Net debt / LTM EBITDA stood at 3.9x compared to 3.6x as of 31 December 2019.

During 2020, the most relevant transactions and refinancing included:

- Issuance of a Euros 1bn bond with a tenor of 5 years at a 1.25% coupon.
- Euros 150 million bond tap maturing on nov-29.
- New loans and credit lines in Spain for a total of Euros 1,225 million and Euros 530 million respectively. In the international businesses new loans and credit lines raised for a total equivalent of Euros 534 million (includes Euros 250 million from CGE Chile) and Euros 86 million respectively.
- Refinancing of credit lines in Spain for a total of Euros 2,320 million, and refinancing of loans and credit lines for a total equivalent of Euros 422 million (includes Euros 71 million from CGE Chile) and Euros 225 million respectively in the international businesses.
- CGE (Chile) issued two bonds in third quarter in the local market for Euros 64 million with a tenor of 5 years at a 1.2% coupon and for Euros 62 million with a tenor of 10 years at a 1.25% coupon, both being indexed to inflation.
- Photovoltaic projects of Guimarania I and II (Brazil) issued debentures for €7m with a tenor of 13 years at a 5.57%coupon, indexed to inflation (IPCA).

Liquidity (Euros million)

Liquidity as of 31 December 2020 stood at Euros 9,475 million, including Euros 3,927 million in cash and equivalents and Euros 5,548 million in undrawn and fully committed credit lines. In addition, the ECP program is completely undrawn as of 31 December 2020.

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

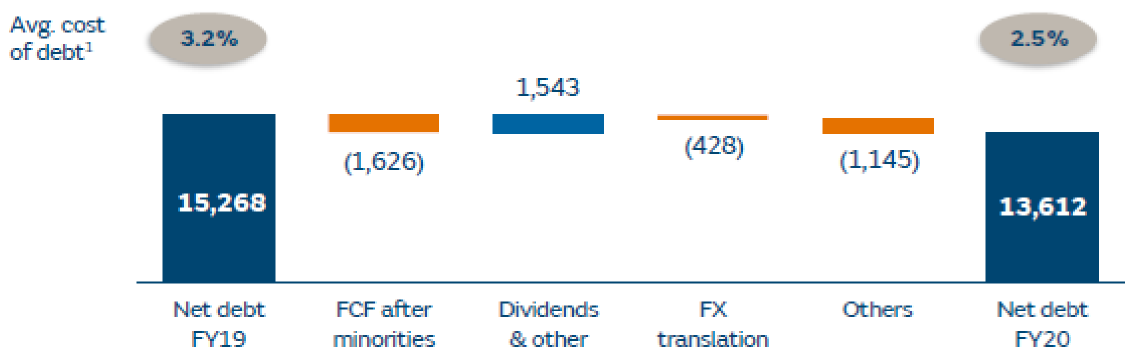
	Consolidated		Chile		Brasil	Argentina	Mexico	Panama	Holding & others
	Dec'20	Dec'19	CLP	USD	BRL	ARS	MXN	USD	EUR/Others
Cash and equivalents	3,927	2,685	98	41	101	59	101	105	3,422
Undrawn commited credit lines	5,548	5,352	—	—	24	—	8	—	5,516
Total	9,475	8,037	98	41	125	59	109	105	8,938

The weighted average maturity of the undrawn credit lines stands over 2 years, according to the following detail:

	2021	2022	2023	2024	2025
Undrawn commited credit	86	2,838	2,228	294	102

Net debt evolution (Euros million)

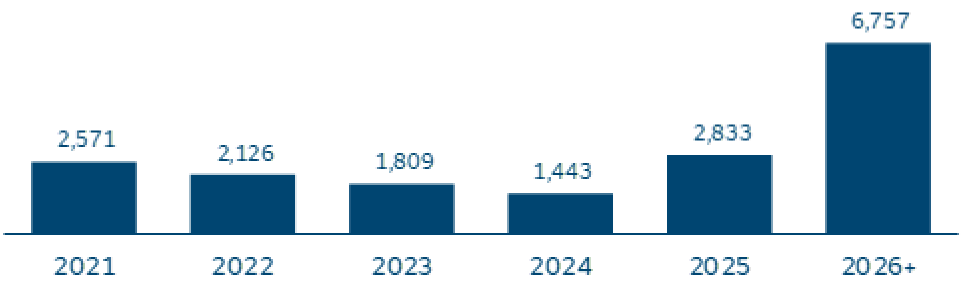
The net debt evolution from 31 December 2019 to 31 December 2020 is as follows:



The average cost of debt, excluding the cost of lease liabilities under IFRS 16, is 2.5%, in line with the level in 2019 (3.2%).

Gross debt maturities (Euros million)

The gross debt maturities are as follows:



The evolution of the principal ratios applied referent to the Net financial debt is as follows:

		2020	2019
Ebitda/Net financial cost	Times	6.9	7.8
Net financial debt / Ebitda	Times	3.9	3.6

The detail of the net financial debt, the average financial cost of the gross debt and the % of fixed gross debt for country and currency is as follows:

		Consolidated		Chile		Brasil	Argentina	Mexico	Panama	Holding & others
		Dec'20	Dec'19	CLP	USD	BRL	ARS	MXN	USD	EUR/USD
Net financial debt	Euros m	13,612	15,268	349	26	155	(57)	363	631	12,145
Average cost of gross debt (1)	%	2.5	3,2	5.1	5.1	4.3	45.6	7.5	4.4	1.8
% Fixed (Gross debt)	%	83	86	68	31	10	72	34	57	89

[1] Does not include cost from IFRS 16.

3. Liquidity and capital

Capital management

The main purpose of Naturgy's capital management is to ensure a financial structure that can optimise the cost of capital and maintain a solid financial position, in order to combine value creation for the shareholder with access to the financial markets at a competitive cost to cover financing needs.

Naturgy considers the following to be indicators of the objectives set for capital management maintaining a long-term leverage ratio of approximately 50%.

Naturgy's long-term credit rating is as follows:

	2020	2019
Standard & Poor's	BBB	BBB
Fitch	BBB	BBB

As of 31 December 2020, net interest-bearing debt amounted to Euros 13,612 million and leverage stood at 54.70% (Euros 15,268 million and 52.20%, respectively, as of 31 December 2019).

Liquidity

Naturgy has liquidity policies that ensure compliance with its payment commitments, diversifying the coverage of financing needs and debt maturities. Prudent management of liquidity risk includes maintaining sufficient cash and realisable assets and the availability of sufficient funds to cover credit obligations.

Available cash resources at 31 December 2020 and 2019 are analysed below:

Liquidity source	Availability 2020	Availability 2019
Undrawn credit facilities (Note 17)	5,548	5,352
Undrawn loans	—	—
Cash and cash equivalents (Note 13)	3,927	2,685
Total	**9,475**	**8,037**

There is also additional available capacity to issue debt in the capital markets for Euros 4.408 million.

4. Main risks and opportunities

4.1. Risk management model

Naturgy's risk management model seeks to ensure that the company's performance is predictable in all aspects that are of relevance to its stakeholders.

The main objective of the model is to ensure that the main risks are properly identified, assessed and managed, the goal being to ensure that the level of risk exposure assumed by Naturgy in the course of its business is consistent with the company's defined overall risk profile and the attainment of annual and strategic objectives.

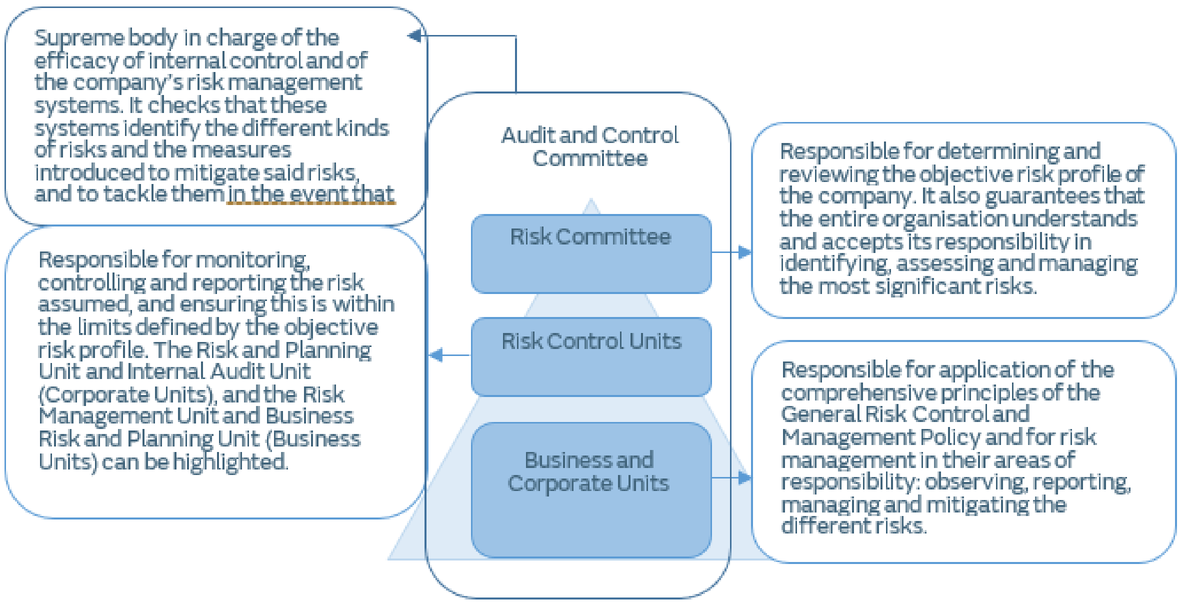
The Integrated Risk Management and Control System is structured as follows:

- Risk Appetite: definition of risk tolerance by setting limits for the main risk categories, by risk and by business, as a function of the targets.
- Risk Assessment: methodology, procedure and process for identifying, assessing and measuring risks.
- Risk Governance & Management: risk governance and management mechanism for all risk classes and all businesses.
- Risk Reporting: regular systematic reporting and monitoring of risk at the various levels of management: Business, Business Units, Chairman's Office and Board of Directors.

Risk management bodies

Naturgy has a framework integrating the vision of governance, risks and compliance so as to provide a 360º view of the group's processes, existing controls and the associated risks.

To this end, it has a number of bodies with clearly identified areas of responsibility, making it possible to ensure the predictability and sustainability of the company's operational and financial performance.



Comprehensive management

Naturgy analyses its overall risk profile on the basis of the potential impact on its annual accounts. In this way, it determines the maximum accepted level of risk exposure and the admissible limits.

The tools that enable the company to achieve continuous improvement in the process of identifying, characterising and determining Naturgy's risk profile are:

– Overall Risk Control and Management Policy: updated and approved by the Board of Directors of Naturgy in November 2020. Its purpose is to establish the general principles and standards of behaviour required to ensure proper identification, reporting, assessment and management of Naturgy's exposure to risk.
– Corporate Risk Map: identifies and quantifies the risks which might affect Naturgy's performance, considering the characteristics of the risk position (impact variables, potential severity in quantitative and qualitative terms, likelihood of occurrence, and degree of management and control). It is updated and submitted to the Audit and Control Committee every year.
– Other risk maps: these are developed by Naturgy's Business and Corporate units following a common methodology and serve as the basis for the Corporate Risk Map.
– Risk Measurement System: serves to quantify, on a recurring probabilistic basis, the risk position assumed overall in each risk category. To this end, it analyses correlated risks, analyses sensitivity and performs stress tests for the main identified risk.

Risk categories

Each business unit has specific information on the main types of risk that may affect it. The goal is to facilitate decision-making, which is positive for the company since it enhances profitability, predictability and efficiency.

Risk factors are grouped basically into the following risk categories:

– Business risk: Uncertainty associated with the pursuit and achievement of business units' objectives as a result of the emergence of factors that hinder the implementation of Naturgy's strategy, and that may have an impact on its value and/or on the annual accounts.
– Market risk, i.e. the uncertainty related to commodity volumes and prices.
– Regulatory risk, i.e. the potential impact on the achievement of strategic objectives produced by changes in the regulatory frameworks under which Naturgy businesses operate.
– Tax risk, arising from uncertainty as to whether the tax authorities will accept the tax treatment adopted in tax returns that have been filed or are to be filed.
– Legal risk, caused by the eventual outcome of litigation, arbitration or legal claims against Naturgy.
– Financial risk, understood as the uncertainty related to exchange rates and interest rates, which may impact the company's balance sheet and its ability to raise funding in the capital markets.
– Credit risk, i.e. the risk to the financial solvency of the company's receivables. It also incorporates the short-term measurement of returns on placing cash surpluses with financial institutions, the aim being to select the most efficient portfolios.
– Operational risk, i.e. the uncertainty associated with losses resulting from inadequate or faulty processes, personnel performance, operational asset availability or the occurrence of any external event.
– Environmental risk, associated with the possibility that natural phenomena or human action, may result in the environmental limits being exceeded or in damage to ecosystems and biodiversity.
– Climate Change Risk, arising from the energy transition (regulation, markets, technologies, etc.) and the physical impacts of climate change.

- Reputational Risk, i.e. uncertainty about trends in stakeholder's perception of the company's reputation as a result of conduct by the company or its employees, including corruption, and its influence on earnings in the short, medium and long term.
- Cybersecurity risk, arising from malicious attacks or accidental events with an operational impact that affect data, computer networks or technology.
- Fraud risk, derived from any intentional breach of the law by an employee or a third party to benefit themselves or the company, directly or indirectly, through the improper use of Naturgy resources or assets.

4.2. Main risks

Risk type		Description	Management approach	Metric		Trend
Business risks						
Macroeconomic context		Macroeconomic, social and geopolitical instability	Step up communications with government agencies. Adopt specific measures	Deterministic	↑	Impact of the COVID-19 health crisis
Market risks						
Commodity prices	Gas	Volatility in the international markets that determine the gas price.	Physical and financial hedges. Portfolio management	Stochastic	↑	Mismatch between long-term contracts and hub prices.
	Electricity	Volatility in electricity markets.	Physical and financial hedges. Optimisation of the generation fleet.	Stochastic	↑	Penetration by renewables with zero marginal cost and intermittent production.
Volume	Gas	Mismatch between gas supply and demand.	Optimisation of contracts and assets worldwide.	Deterministic/ Stochastic	⇄	Aggregate demand pressure.
	Electricity	Reduction of the available thermal gap. Uncertainty as to renewable production volume.	Optimisation of the supply-generation balance.	Stochastic	↑	Aggregate demand pressure.
Regulatory risk						
Regulatory		Exposure to reviews of criteria and returns recognised for regulated activities.	Step up communications with regulators. Adjust efficiency and capital expenditure to recognised rates.	Scenarios	↑	Pressure from regulators, as a function of the situation of the country/industry.
Tax risk						
Tax		Ambiguity or subjectivity in the interpretation of current tax regulations, or material amendments to same.	Queries to independent expert bodies. Engagement of top-level advisory firms. Adoption of the Code of Best Tax Practices. Recognition of provisions on a prudential basis.	Scenarios	⇆	Different business units are affected by different taxes.
Legal risks						
Legal		Uncertainty as to the eventual outcome of litigation, arbitration or legal claims.	Analysis and mitigation of legal risk affecting the company's operations and corporate governance. Engagement of top-level law firms. Recognition of provisions on a prudential basis.	Scenarios	⇆	Different business units are affected by different laws in each country.

Risk type	Description	Management approach	Metric		Trend
Financial risk					
Exchange rate	Volatility in international currency markets.	Geographic diversification. Hedging via local-currency funding and derivatives. Monitoring the net position.	Stochastic	⇆	Uncertainty about growth prospects in Latin America.
Interest rate and credit spread	Volatility in funding rates.	Financial hedges. Diversification of funding sources	Stochastic	⇆	Uncertainty about interest rate scenarios.
Credit risk					
Credit	Uncertainty about bad debt trends driven by the economic cycle.	Analysis of customer solvency in order to define specific contractual conditions. Debt collection process.	Stochastic	↑	Transitory effect of COVID-19.
Operational risk					
Insurable risks	Accidents, damage or non-availability of Naturgy assets.	Continuous improvement plans. Optimisation of total cost of risk and of hedges.	Stochastic	↑	Growing tension in the insurance market in the face of natural catastrophes.
Environmental risk					
Environment	Exceedance of environmental limits or harm to ecosystems or biodiversity due to natural causes or human action.	Emergency plans at facilities with risk of environmental accident. Specific insurance policies. End-to-end environmental management.	Scenarios	⇆	Implementation of an Integrated Management System certified and audited each year by AENOR.
Climate change risk					
Climate change and energy transition	Uncertainty arising from the energy transition (regulation, markets, technologies, etc.) and the physical impacts of climate change.	Corporate positioning via the overall Environmental Policy and Environment Plan, which strengthen governance in climate issues and set emission reduction targets.	Stochastic/ Scenarios	↑	Regulatory uncertainty.
Reputational risk					
Image and reputation	Impairment of stakeholders' perception of Naturgy.	Identification and tracking of potential reputation events. Transparency	Scenarios	⇆	Stabilisation of MERCO index score.

Risk type	Description	Management approach	Metric		Trend
Cybersecurity	Malicious attacks or accidental events with an operational impact that affect data, computer networks or technology.	Implementation of security measures; Event analysis and remediation measures; Training.	Scenarios	↑	The cybernetic scenario is becoming more demanding. Threat Protection Plan to mitigate the likelihood of these risks and their associated impact.

Metrics used:

- **Stochastic**: production of trend lines for the main magnitudes, taking the maximum deviation from the benchmark scenario to be the risk, within a pre-set confidence interval. Those magnitudes are generally EBITDA, earnings after taxes, cash flow and value.
- **Scenarios**: analysis of the impact with respect to the benchmark scenario of a limited number of possible incidents.

Financial risks (interest rate, exchange rate, commodity prices, credit risk, liquidity risk) are discussed in Note 19 to the Consolidated Annual Accounts.

Business risk

Uncertainty in the macroeconomic context

World economic growth has been modest in the last decade, which has seen stagnation in Europe and contraction in a number of emerging economies. The Euro area has lagged other advanced economies in the recovery from the sovereign debt crisis, which also impacted Spain. Growth has accelerated in Europe since 2017, although the macroeconomic structural fundamentals did not appear to be sufficiently solid. In 2019, with the world economy drifting to stagnation, the Euro area began to decelerate, reflecting modest underlying inflation, and a loss of confidence by business and consumers, resulting in stagnation of consumer and capital spending.

This was compounded by political instability in some countries, particularly with regard to Brexit on 31 January 2020, with the consequent uncertainty as to future relations between the two parties.

At this time, there is no accurate information as to the scope and medium-term consequences of the COVID-19 health crisis or as to the scale and pace of the recovery. However, the macroeconomic and energy situation in 2020 was profoundly affected by the COVID-19 crisis, which resulted in lower demand for gas and electricity in Spain and Latin America and significant currency depreciation in key regions of Latin America.

Geopolitical exposure

Naturgy has interests in countries with varied political, economic and social environments. It is exposed to two main geographies:

• 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 fluctuations in economic growth rates;
  – 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
- Political and macroeconomic instability.

• Middle East and Maghreb

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

Market risks

Electricity and gas price volatility

A significant portion of Naturgy's operating costs are related to the prices of natural gas and liquefied natural gas (LNG), both for supply in the regulated and liberalised markets in which it operates and to supply its combined cycle power plants.

In the gas supply business, the prices that Naturgy charges its customers generally reflect price trends in the natural gas market. However, since supplies are delivered under long-term contracts, in the event of sudden price changes, procurement costs may not reflect the variation in such prices in very competitive environments, possibly resulting in adverse variations in margins in the short term, with an impact on Naturgy's financial position. Market prices are clearly influenced by global demand dynamics, particularly the trends in Asian countries.

Naturgy's procurement contracts generally have mechanisms in the form of clauses that guarantee ordinary and extraordinary price reviews in the event of mismatches in procurement prices. These review processes make it possible to modulate the impact of mismatches between Naturgy's selling prices in its markets and price trends in its procurement portfolio, although the outcome depends on negotiations.

Gas and electricity volume risk

Most purchases of natural gas and liquefied natural gas (LNG) are made under long-term contracts, which include clauses under which Naturgy might be obliged to buy certain volumes of gas each year (take-or-pay clauses). Under such contracts, even if Naturgy does not need to acquire the volume of gas to which it is committed in a given time period, it will be obliged by contract to pay the minimum amount to which it is bound under the "take-or-pay" clause.

Those contracts contemplate volumes of gas that are in line with Naturgy's estimated needs. Nevertheless, actual needs may be lower than was estimated at the time of signing the contracts. If there are significant changes with respect to such estimates, Naturgy will be obliged to acquire a larger volume of gas than it actually needs or, failing that, to pay for the minimum amount of gas to which it is committed, even if it does not acquire more than it actually needs. Although such contracts have price review mechanisms and offer some flexibility in volume between time periods (make-up clauses), a decline in demand in the main markets or a loss of price competitiveness by the contracts might have an adverse impact on Naturgy's commercial and financial position.

In the area of electricity, Naturgy's earnings are exposed to shrinkage in electricity production volume, which is dependent on electricity demand. Additionally, given Naturgy's current generation mix, production volume may be affected by the growing importance of renewable energy production. Profits in this business may also be affected by the levels of renewable energy production, which might impact the production mix and costs.

A reduction in generation volumes entails greater uncertainty as to attainment of the target production/supply balance and the variability of earnings.

Naturgy adopts an end-to-end approach to managing its contracts and assets worldwide in order to optimise its energy balances and be able to correct any deviation in the most cost-effective way possible.

Competitive pressure in the gas and electricity markets

As can be concluded from the aforementioned risks related to gas and electricity volumes and prices, Naturgy operates in a highly competitive environment. In particular, liberalisation processes in Spain and other major markets have had a significant impact on competitive pressure, on final market prices, and on the market share that can be retained. Moreover, global demand for gas has declined recently, resulting in a surplus of LNG. That pressure has been particularly high in the gas supply business in Spain due to the decoupling of short-term and long-term gas prices. The potential loss of competitiveness and market share until such time as those prices are realigned or the review of contractual prices is completed may have a material impact on Naturgy's earnings.

In the electricity industry, the liberalisation of the European market has increased competition due to the entrance of new players, with an impact on the Spanish market. As part of this process, the intensification of international exchanges and the introduction of greater competition has impacted liquidity and end prices in the Spanish wholesale market. All these factors may have an adverse impact on the development of the electricity generation and supply businesses.

Regulatory risk

Regulatory and legal risk

Naturgy and its subsidiaries are subject to compliance with the legislation applicable to the natural gas and electricity industries. In particular, the gas and electricity distribution businesses are regulated in most of the countries where Naturgy operates.

The legislation applicable to the natural gas and electricity industries in the countries where Naturgy operates is typically subject to regular review by the competent authorities. Such changes may affect the existing remuneration scheme for regulated activities, with an adverse effect on Naturgy's business, prospects, profits, subsidies and financial position.

In particular, during 2019, Spain's Royal Decree-Law 1/2019 revised the regulatory powers of the National Commission for Markets and Competition (CNMC) by adapting them to the requirements of EU law, empowering the CNMC to establish methodological frameworks for calculating the remuneration for gas and electricity distribution and transportation/transmission.

In the case of electricity distribution, CNMC Circular 5/2019 established the remuneration methodology for the next regulatory period (2020-2025); although it maintains the existing approach, it made a number of improvements to clarify the rules and promote efficiency, resulting in a decrease in remuneration that will be implemented progressively over the six-year period.

Regarding gas distribution, the CNMC maintained the regulatory model based on activity levels for the next regulatory period (2021-2026), with a gradual adjustment over the period. In April 2020, the CNMC approved a Circular under which the total remuneration for distributors will be reduced by 9.6% on average over the next regulatory period, assuming demand is unchanged and considering that the reduction in remuneration will be applied progressively over that six-year period.

Additionally, as a result of the COVID-19 crisis, most of the authorities in the countries where Naturgy operates have established temporary regulatory measures that may affect regulated businesses.

Naturgy is exposed to any amendment in the regulations or the law, and to the interpretation of such amendments. Where the competent public or private bodies interpret or apply such regulations in a way that differs from that adopted by Naturgy, its compliance might be questioned or challenged and, if it is found to be in breach, this might have a material adverse impact on Naturgy's business, prospects, profits, subsidies and financial position.

Naturgy manages regulatory risk on the basis of regular communication with the regulators. In addition, in its regulated activities, Naturgy adjusts its costs and investments to the allowed rates of return for each business.

Risks related to concessions, licenses and other administrative authorisations

Since most of the industries in which Naturgy operates are regulated, some of the activities require concessions, licenses or other administrative authorisations.

Consequently, the profitability and performance of Naturgy's investments are contingent upon obtaining and retaining such concessions, licenses and authorisations over the medium and long term, a matter that may be beyond the group's control. Any political, social or economic change in the relevant jurisdictions may affect business plans and have an unpredictable effect on the earnings and profitability of Naturgy's regulated businesses.

Operational risk

Naturgy's activities are exposed to various operational risks such as breakdowns in the distribution network, in power generation facilities and in LNG tankers, explosions, pollutant emissions, toxic spills, fires, adverse weather conditions, contractual breaches, sabotage or accidents in the gas distribution network or electricity generation assets and other damage and events of force majeure which may result in personal injury and/or material damage or destruction of Naturgy facilities or properties.

Additionally, claims might be brought against Naturgy for personal injury and/or other damage arising in the ordinary course of its operations. Such claims could result in the payment of indemnities under the legislation applicable in the countries in which Naturgy operates.

Although Naturgy has an extensive insurance programme that covers its operational exposure, the emergence of events such as those referred to above might impact Naturgy's financial position and results.

Moreover, the international reinsurance market has been adversely affected by the recurrence and severity of claims for natural catastrophes. This has resulted in an unprecedented toughening of conditions and the massive withdrawal of insurance capacity from the market, which might limit coverage, impact deductibles and/or significantly increase costs.

Environmental risk

Naturgy is aware of its activities' impacts on their surroundings and, consequently, pays particular attention to the protection of the environment and the efficient use of natural resources to meet energy demand. In its respect for the environment, Naturgy goes beyond compliance with the legal requirements and other voluntary environmental commitments and it involves its suppliers, works with stakeholders and fosters the responsible use of energy both in its own facilities and in those of its customers.

Improper management of climate change and its associated risks might result in material losses for the company as a result of higher exposure to natural catastrophes, the trend towards decarbonisation in the industry, and the loss of rapport with its stakeholders.

Additionally, inappropriate environmental management might result in environmental impacts and the deterioration of natural conditions and biodiversity in the areas in which the company operates. This, in addition to the direct impact on the natural environment, might cause reputational damage to the company, which is greater if the company has infrastructure and/or operations in protected areas.

Naturgy's facilities generate atmospheric emissions, liquid discharges, waste, etc. which, if they exceed certain limits, can have an impact on the environment, biodiversity or people. Moreover, accidents at the facilities may have negative consequences for the environment. To avoid this risk, the following measures are implemented throughout the projects' life cycle:

- For new facilities, the pertinent environmental and social surveys are carried out to avoid such impacts at the design stage, by adapting the design and incorporating the necessary preventive, corrective and compensatory measures.
- During construction, operation and decommissioning, operational control procedures are implemented and, where necessary, environmental risk assessment studies and emergency plans are produced to prevent incidents or minimise their negative effects. These procedures are tested via environmental emergency drills.
- Maintenance of an externally audited and certified environmental management system to prevent and reduce environmental risks in the entire value chain. Specific insurance policies have also been arranged to cover risks of this type.
- Themis system for identifying, logging, monitoring and managing legal requirements in all businesses and geographies.
- Enablon system for logging and centralised management of environmental indicators related to atmospheric emissions, consumption of raw materials, water and other resources, discharges, waste, etc.
- System for identifying and assessing environmental aspects in potential emergency conditions

Climate change and energy transition risk

In addition to the gas and electricity volume risks referred to above, there is also the effect of climate change. Demand for electricity and natural gas is linked to weather. A sizeable proportion of gas consumption during the winter months depends on the seasonal needs of the residential segment for space heating and of combined cycle plants to produce electricity. During the summer months, consumption is driven basically by electricity demand for air conditioning. Naturgy's revenues and earnings from the natural gas distribution and supply businesses might be adversely affected in the event of warm autumns or milder winters. Electricity demand might also decline if summers are cooler. Moreover, the level of utilisation of hydroelectric power plants depends on precipitation and might be affected by periods of drought. To a lesser extent, Naturgy might be affected by more frequent extreme weather events such as hurricanes, floods and droughts, which would interfere with its commercial operation.

Policies and measures established at European level to combat climate change might significantly affect Naturgy's earnings in the medium and long term depending on the pace of decarbonisation and the energy transition.

Naturgy is a member of a number of working groups at European level, which will enable it to adapt its strategy to new regulatory developments in advance. It is also involved in clean development projects aimed at reducing CO2 emissions.

Reputational risk

Naturgy has identified its stakeholder groups and subgroups and defines reputational risk as the gap between those groups' expectations and the Company's performance. Those stakeholder expectations are addressed through a Sustainability Plan that determines the lines of action to be implemented. In 2019, Naturgy developed a Sustainability Master Plan 2019-2022 which accompanies the transformation of the company and is aligned with the Business Plan 2018-2022, with the goal of facilitating the implementation of the strategy, seizing opportunities in sustainability, and implementing actions, as well as targets for such actions, in line with the commitments of the Corporate Responsibility Policy and the Sustainable Development Goals (SDGs).

The commitments under the Corporate Responsibility policy are expanded upon in the Global Environmental Policy, which applies to all geographies and lines of business. Under this policy, based on its potential to contribute to the protection of the environment, Naturgy voluntarily assumes the commitment to be a key player in the energy transition towards a circular, low-carbon, digital economy. To this end, four strategic environmental lines of action have been established:

1. Environmental governance and management
2. Climate change and energy transition

3. Circular economy and eco-efficiency
4. Natural capital and biodiversity

Cybersecurity risk

Naturgy is exposed to threats in connection with the availability, confidentiality, integrity and privacy of the information and technology that support business processes as well as the risk of non-compliance with regulations related to cybersecurity.

Such threats include, for example, unauthorised access and the use, disruption, modification or destruction of information as a result of terrorist acts, malicious attacks, sabotage and other intentional acts. Unauthorised access to information and technology systems can also compromise business or customer data, resulting in fines for non-compliance with data protection legislation.

Although Naturgy has contingency and security plans and insurance policies that cover such exposure, the group's financial position and reputation might be adversely affected by any of the events described above.

4.3. Main opportunities

Naturgy's main opportunities are as follows:

– **A balanced structural position** in businesses and regions, with stable flows, and a predominance of regulated or quasi-regulated businesses make it possible to optimise the capture of energy demand growth and maximise business opportunities in new markets.
– **Renewable generation**: Increase renewable capacity internationally, given that renewable energies are cost-competitive and considering Naturgy's presence in growth markets.
– **Operation and growth in Networks**, based on sound regulatory frameworks and focused on continuous improvement, digitalisation and automation
– **Technological development and innovation**: Naturgy invests in research and development in the areas of hydrogen, renewable gas, energy efficiency, sustainability, mobility and the fair transition as a means of securing a reliable, sustainable energy supply.
– **Portfolio of natural gas and LNG procurements**: Management of gas pipelines, stakes in plants and the fleet of LNG carriers make it possible to meet the needs of the Group's various businesses in a flexible, diversified way, guaranteeing the supply and making it possible to seize opportunities in the markets. Naturgy is one of the world's leading LNG operators and a key player in the Atlantic and Mediterranean.

5. Subsequent events

Events subsequent to the end of the period are described in Note 39 of the Notes to the Consolidated Annual Accounts.

6. Forecast Group performance

6.1. Foundations of strategy

The Business Plan 2018-2022, unveiled in London on 28 June 2018, established the group's business model, which is focused on value creation.

Through the Plan, Naturgy is focused on responding to its own industrial model, based on:

– Treating the energy transition as an opportunity.
– Being a flexible, competitive company.
– Transforming via digitalisation.

– Placing the customer at the centre of the model.

Treating the energy transition as an opportunity

Naturgy believes that natural gas and renewable energies will play a very important role in the transition to energies that produce lower CO2 emissions, as needed to meet the targets set in the 2015 Paris Agreement on climate change.

Moreover, Naturgy's infrastructure assets will play a vital role over the next few years in the process of electrification and of improving energy efficiency, supporting greater electrification and greater penetration by gas in countries where the company already operates.

Being a flexible, competitive company

Solid, tangible levers have been defined for achieving the efficiency goals set out in the Business Plan:

– Organisation: the businesses will be autonomous units with full responsibility for their results, while seeking to optimise company personnel. To this end, a number of changes have been implemented at the organisational level in both corporate governance and the organisational structure in order to facilitate decision-making and the business units' autonomy and responsibility, while always guaranteeing control by the parent company.
– Process re-engineering: reviewing service contracts with suppliers, establishing new cooperation relations with suppliers where necessary to achieve automation or outsource non-core tasks.
– Asset management: search for best practices to optimise asset maintenance based on predictive models and centres of excellence.

Naturgy presented an efficiency plan and undertook to cut annual operating expenses by Euros 500 million by 2022.

Transforming via digitalisation

The following key levers for digitalisation have been defined for 2022:

– Customer relations: 75% of services to be provided via digital channels and 20% penetration via Internet of Things (IoT).
– Processes and operations: Over 80% automation of internal processes and operations.
– Remote control of assets: Achieve 80% coverage of assets with sensors and remote control by 2022, from 56% at the end of 2017.
– Advanced analysis techniques: Data-driven management to be implemented in over 90% of processes Group-wide. The main projects to be undertaken in this connection will be in the following areas: develop predictive models for asset maintenance; use models to pursue customer segmentation, predict churn and apply advanced pricing approaches.

These projects are vital in driving the Group's transformation.

Placing the customer at the centre of the model

Enhance our commitment to the customer by placing them at the centre of Naturgy's strategy based on:

– A single customer experience model
– Defining services and solutions that provide added value to the customer.
– Improving customer segmentation.
– Innovation and digitalisation.

Key factors in this connection are technological innovations such as smart apps, smart meters, remote control, autoproduction of electricity, energy storage, etc.

6.2. Value creation

The main objective of the Business Plan 2018-2022 is to guide the company towards value creation and lay the foundations for the Group's new industrial model. Naturgy's commitment to value creation is underpinned by four basic pillars: simplicity and accountability, optimisation, discipline in investment, and shareholder remuneration.

Simplicity and accountability

1. Corporate governance and organisation structure

In the area of corporate governance, major changes were made in 2018, such as reducing the number of members in the Board of Directors from 17 to 12 (the executive chairman, six proprietary directors and five independents).

The organisation structure was redesigned and a leaner corporate structure was adopted, the goal being for the businesses to operate autonomously with full responsibility, leaving corporate functions to focus on value-added processes and on ensuring centralised control.

A new Opex & Capex Committee was created with the task of ensuring the execution of the company's efficiency plan and for fulfilling the discipline in capital expenditure criteria set in the Business Plan.

With these changes, Naturgy simplified its corporate governance to streamline decision-making and redesigned its organisational structure to attribute greater autonomy and responsibility to the individual businesses.

2. Strategic positioning

Naturgy defined its strategic positioning on the basis of the following criteria:

	Where to invest	Where to divest
Markets	– Big markets with growth potential. – Where Naturgy has significant market share or critical mass. – That offer legal certainty. – Stable macroeconomic environments (e.g. EU, North America, OECD countries).	– Markets that are small and/or offer little growth potential. – High regulatory risk. – Highly concentrated. – Volatile macroeconomic environments.
Businesses	– Electricity or gas grids. – Renewables. – Sale of electricity under contract. – Customer services. – Controlling stakes.	– Low level of integration or synergy with the rest of the Group. – Unhedged volatility. – Non-controlling stakes.
Profitability	Above hurdle rate	Below hurdle rate

Naturgy's long-term strategic vision is to operate in fewer core geographies, maintaining the benefits of diversification but reducing its exposure to non-core or higher risk markets, increasing the weight of electricity in its mix of business vs. gas, and maintain a regulated profile that provides visibility and stability to your cash generation in the long term.

Optimisation

Financial strategy focuses on reducing Opex, optimising Capex and applying strict discipline in investments, pursuing organic development. All optimisation measures will be supervised by the Opex & Capex Committee.

Under the Business Plan 2018-2022, the company continued to optimise the businesses through additional efficiency measures, with the commitment to cut annual operating expenses by Euros 500 million in 2022. These efficiencies are focused on an analysis of the company's non-core activities and on the assignment of operational functions within each of the business units, all supported by digitalisation processes.

Disciplined investment

Four golden rules were defined to ensure value creation and profitable growth in both organic and inorganic investments:

- Establishment of a hurdle rate of return, setting minimum profitability targets for businesses, activities and countries so as to ensure value creation.
- A clear positioning focused on target markets and businesses.
- Industrial leadership via controlled subsidiaries.
- Risk management, minimising the volatility of commodity prices and exchange rates.

The objective of marked financial discipline is to strengthen the free cash flow that will sustain the investment and industrial growth of the group as well as an attractive and sustainable shareholder remuneration.

Shareholder remuneration

The company increased the dividend charged to 2018 earnings by 30% to Euros 1.30 per share.

Under the Business Plan 2018-2022, Naturgy made a commitment to its shareholders to increase the cash dividend by at least 5% per year until the end of the period and to pay dividends in three instalments:

1. at the end of the first half of the year (20% of the total dividend)
2. at the end of the third quarter (35%)
3. after the Shareholders' Meeting (the remaining 45%).

To reinforce the new shareholder remuneration policy, in the event that the company cannot find inorganic investments that meet the hurdle rate, it established that it can allocate a maximum of Euros 2 billion to buying back treasury shares, capped at Euros 400 million per year. As a consequence of the impact caused by COVID-19 and the level of uncertainty associated with future energy demand and other key variables, Naturgy decided to interrupt its own share buy-back program during 2020, to preserve greater flexibility and financial strength during the health crisis.

6.3. Implementation of the Business Plan 2018-2022

At present, Naturgy is working on the elaboration of a new strategic plan that reflects, among other things, the deterioration contrasted in the second half of the year derived from COVID-19 and with an impact on demand, macroeconomic scenario and commodity prices.

During 2020 Naturgy has continued to implement the strategic pillars established in the 2018-2022 Plan.

It has deepened to optimise and automate core processes and strengthen the company's position, focused on the financial structure and progress in the ESG commitments.

The main progress achieved in this connection includes:

<u>Business portfolio</u>

Throughout 2020, Naturgy deepened its transformation strategy through asset rotation with the aim not only of streamlining the portfolio but also of advancing determinedly in reducing risk and becoming a leader in the Energy Transition.

In November 2020, Naturgy reached an agreement to sell its 96.04% stake in Chilean company Compañía General de Electricidad (CGE) to Chinese state-owned company State Grid International Development Limited (SGI) for a total of Euros 2,570 million, fixed in euros and payable in cash once the transaction is completed.

In December 2020, Naturgy reached an agreement to amicably resolve the disputes affecting Unión Fenosa Gas (UFG), a company owned 50% each by Naturgy and ENI. The parties ratified the agreement whereby Naturgy will receive a series of cash payments and most of the assets outside Egypt, excluding UFG's commercial activities in Spain.

These agreements evidence Naturgy's ability to simplify and reduce the risk of its business position in order to allocate capital and resources to those businesses that maximise value creation for all its stakeholders.

Reducing the Group's risk profile

During the first half of the year, Naturgy began taking steps to reduce risk in its business portfolio by renegotiating its gas procurement contracts based on the ordinary and extraordinary review mechanisms contained in the contracts. Ultimately, this process will lead to a better alignment between the contracts and current market conditions.

The company also increased its liquidity to approximately Euros 10,000 million at the end of December, nearly Euros 2,000 million more than at the end of 2019. That figure, coupled with operating cash flow, enables the Group to comfortably meet its financial obligations in the foreseeable future.

Strengthening the team and adapting the organisation

Continuing with the transformation process, in 2020 Naturgy reorganised its businesses into three strategic areas: Energy and Networks, Renewables and New Businesses, and Supply. This new organisation provides greater visibility on business performance, and Naturgy hired three world-class executives with a proven track record and experience to manage them.

Redefining and optimising operations

The efficiency plan 2018-2022 was also accelerated. Naturgy currently expects to achieve its goal of Euros 500 million in efficiencies by the end of 2020, two years ahead of schedule. These efforts will partly offset the difficulties in the energy market and the impact of COVID-19.

Strengthening the ESG commitments (Environmental, Social, Governance)

In addition to efforts to support and protect stakeholders during the COVID-19 pandemic, Naturgy made decisive moves to implement its ESG commitments.

The Environment Plan adopted in December 2019 established new goals for reducing greenhouse gas emissions (cutting the CO2 intensity of power generation and increasing the proportion of power generated from renewable sources). The closure of the company's coal-fired power plants in June 2020 and the plans to replace them with new renewable plants will contribute to these objectives.

The company also created a Sustainability Committee at Board level to monitor progress and the company's role in the energy transition, together with all aspects and indicators related to the environment, health and safety and social responsibility.

7. Sustainable innovation

Management vision and approach

Innovation is one of Naturgy's key growth levers, as it enables it to adopt new or best practices, new business models and technologies that make the company more efficient and competitive. Always to the fore, putting the customer at the centre of what it does.

The approach to innovation enables risks to be transformed into opportunities, as a contribution to the creation of an agile company capable of riding the wave of constant transformation.

Naturgy considers that innovation is indispensable in order to achieve its strategic objectives.

In 2020, Naturgy's innovation model evolved and was integrated into the Renewables and New Businesses division, which will foreseeably expedite the process of implementing more disruptive business models.

Investment in innovation (million euro)

In 2020, a total of Euros 37 million were spent on innovation (Euros 36 million in 2019), as indicated below:

	2020	2019
Investment in innovation	37	36

Innovation governance

Roadmaps are designed for all the strategic lines of innovation, including guidelines and targets in both the short and long term, which contribute to the company's sustainability. This approach also ensures that innovation activities and projects are implemented in a coherent manner, with follow-up and assessment using consistent indicators.

The Innovation Model is based on six strategic innovation lines:

– Renewable generation and storage
– Advanced management of distribution assets
– Renewable gas and hydrogen
– Distributed generation and storage
– Sustainable mobility
– Customer solutions

<u>Renewable generation and storage</u>

Naturgy has a clear vision: to fulfil the commitment to combating climate change, the company's energy mix must evolve steadily towards an emissions-free model while always guaranteeing security and quality of supply.

Renewable energies will play a very important role in this new zero-emissions model and, to ensure continuity of supply, they must be supported by reliable storage systems. Consequently, the development of energy storage technologies is an essential part of this process.

The La Nava photovoltaic test area in Ciudad Real (Spain) was developed in 2020 for the purpose of testing solar panels, trackers and other equipment and assessing design parameters for photovoltaic solar generation facilities.

In the area of storage, development continued in 2019 of the project to hybridise the La Vega I & II wind farm with storage facilities; the goal is to demonstrate the technical feasibility of a manageable hybrid installation that can provide multiple electrical services to the farm itself and the grid; the facility was energised in the Autumn of 2020.

<u>Advanced management of distribution assets</u>

The energy transition marks a path towards a more distributed, more sustainable system with greater customer participation. This entails a new paradigm of electricity distribution based on distributed generation, electrification of demand, and the connection of electric vehicles. In this context, digitalisation is a key driver of the solutions to the challenges facing electricity distribution. The gas network also facilitates the integration of sustainable new technologies such as renewable gas.

SPIDER 2.0 was the most emblematic project in 2020 in the area of advanced management of electricity network assets. The project seeks to develop a sophisticated platform to aggregate information from conventional network devices, new IoT devices and weather, property and traffic data to achieve advanced network operation.

In the field of gas networks, and on a more global scale, Ris3CAT encompasses 3 projects with the participation of 48 partners to develop network digitalisation tools: sensorisation, predictive models and advanced asset management.

Renewable gas and hydrogen

Activities in the area of renewable natural gas were focused on developing green hydrogen and biomethane.

Biomethane is a fuel that is equivalent to natural gas but is obtained from renewable resources such as biomass or organic waste and, consequently, is neutral in terms of CO2 emissions. Therefore, it is a form of energy that contributes to the fight against climate change; it is part of the “circular economy” since it involves efficient waste management; and it also enables society to produce, distribute and consume autochthonous gas, which contributes to developing the local economy.

Actions to promote the use of renewable gas have focused on the production of biomethane from biogas and on methanisation with hydrogen, and developing pilot projects to research this type of gas in order to maximise production and reduce costs.

One of the company's success stories in this area is the Public-Private Renewable Gas Unit, developed with EnergyLab and the sewage treatment company in the municipality of Bens (A Coruña, Spain), which obtained funding in order to continue research and development. This new phase will see completion of the work done to date on the combined biogas/biomethane research unit, which has achieved major results such as commissioning of a membrane based scrubber at the Bens wastewater plant and the first biological methanisation plant in Spain. There will also be a focus on other renewable gases, such as green hydrogen and bio-syngas, so as to assess their impact on existing infrastructure and end users.

Another success was the construction of a biomethane upgrading plant at the "Elena" landfill, a sealed landfill producing biogas located at the emblematic Parc de L’Alba development in Cerdanyola del Vallès. Installation of the plant makes it possible to stop flaring the biogas and make use of the renewable gas in the gas grid.

Distributed generation and storage

The publication of Royal Decree 244/2019, which regulates the new conditions for electricity autoproducers, represents an opportunity for the development of distributed generation based on photovoltaic solar energy in Spain.

The decline in the price of photovoltaic technology makes autoproduction increasingly affordable. This competitive advantage is enhanced by the possibility of joint ownership of autoproduction facilities offered by that Royal Decree. In 2020, a number of projects to explore new business models related to energy communities and the energy aggregator model were explored.

Sustainable mobility

During 2020, the company began a plan to install electric car charging stations along main roads in order to position itself as a national leader in sustainable mobility. It also continued to focus on the national rollout of a network of natural gas filling stations open to the public. Naturgy focuses particularly on improving the energy and economic efficiency of the filling stations, undertaking research in order to introduce storage technologies into both electric and natural gas filling stations.

In the field of liquefied natural gas, work continued on the LNG ON Wheels® project, a solution that will facilitate the supply of LNG through tanker trucks that connect directly to a ship or other supply infrastructure, making it possible to transport LNG to areas that were not previously accessible.

Customer solutions

Innovation makes it possible to create value for customers, by focusing on them, providing them with more sustainable solutions based on digital technologies, and streamlining and transforming the relationship and communication with them.

The Smart client initiative seeks to personalise customer service using technologies such as artificial intelligence (AI) and the internet of things (IoT). During 2020, work was done on the Start4Big open innovation initiative (Smart IoT Labs) to develop a pilot project for identifying business opportunities in processing data from home sensorisation.

The Smart Channel initiative seeks to adapt the communication approach to the new digital reality by accelerating the digitalisation of communication channels using such technologies as Artificial Intelligence. The pilot test concluded in 2020 and Pepe, Naturgy's virtual assistant based on natural language processing driven by artificial intelligence, was deployed to automate customer care processes.

8. Annual corporate governance report

Attached as an Appendix and forming an integral part of this Directors' Report is the Annual Report on Corporate Governance 2020, as required by article 526 of the Capital Companies Act.

9. Additional information

9.1. Treasury shares

Movements during 2020 and 2019 involving treasury shares of Naturgy Energy Group, S.A. are as follows:

	Number of shares	Amount (million euro)	% Capital
01.01.2019	**14,037,332**	**321**	**1.4**
Share acquisition plan	332,382	7	—
Delivered to employees	(310,812)	(7)	—
2018 buyback programme	11,169,458	279	1.1
Capital reduction	(16,567,195)	(400)	(1.6)
2019 buyback programme	5,162,320	121	0.5
31.12.2019	**13,823,485**	**321**	**1.4**
Share acquisition plan	470,000	8	—
Delivered to employees	(455,797)	(8)	—
2019 buyback programme	9,346,025	178	0.9
Capital reduction	(14,508,345)	(298)	(1.4)
31.12.2020	**8,675,368**	**201**	**0.9**

There were no gains or losses on transactions with treasury shares in 2020 and 2019.

On 5 March 2019, the shareholders in general meeting authorised the Board of Directors to purchase, within at most five years, in one or more operations, for good and valuable consideration, shares of the company that are fully paid-up, provided that the nominal value of the shares acquired directly or indirectly, added to those already held by the Company and its subsidiaries, does not exceed 10% of share capital or any other limit established by law. The price or value of the consideration may not be less than the par value of the shares nor higher than their listed market price.

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

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

2020

– Share ownership plan: Executing the resolutions adopted by the Shareholders' Meeting of Naturgy Energy Group, S.A. on 5 March 2019, as part of the Share Ownership Plan 2020-2023, the plan for 2020 for employees of Naturgy in Spain who voluntarily applied was implemented. The Plan enables participants to receive part of their remuneration in the form of shares in Naturgy Energy Group, S.A., subject to an annual limit of Euros 12,000. In 2020, 470,000 treasury shares were acquired for an amount of Euros 8 million for delivery to the participants in the Plan; 455,797 shares were delivered, leaving a surplus of 14,203 shares.

– 2019 share buyback programme: the Board of Directors of Naturgy Energy Group, S.A. approved a share buyback programme, which was published on 24 July 2019, entailing a maximum investment of Euros 400 million through 30 June 2020, representing approximately 2.1% of share capital at the date of disclosure, which was ratified by the shareholders at the Shareholders' Meeting on 26 May 2020. At 30 June 2020, a total of 14,508,345 treasury shares had been acquired under this programme at an average price of Euros 20.6 per share, representing a total cost of Euros 299 million (5,162,320 treasury shares at an average price of Euros 23.3 per share, with a cost of Euros 121 million as at 31 December 2019), which were allocated to reducing capital.

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

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

  b. the 21,000,000 additional shares, with par value of Euro 1 each, which had been acquired and could continue to be acquired for cancellation by the Company under the share buyback programme ("Buyback programme") approved by the Company in accordance with Regulation (EU) No. 596/2014 on market abuse and disclosed as price-sensitive information on 24 July 2019 (registration number 280.517), with a deadline for acquisition of 30 June 2020, inclusive.

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

2019

– Share ownership plan: 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 2019. The Plan enables participants to collect part of their 2019 compensation in the form of shares of the Company, up to a limit of Euros 12,000 per year. In 2019, 332,382 treasury shares were purchased for Euros 7 million and 310,812 were delivered, leaving a remainder of 21,570 treasury shares.

– 2018 buyback programme: Within the Business Plan 2018-2022, the Board of Directors of Naturgy Energy Group, S.A. approved a share buyback programme, which was published on 6 December 2018, with a maximum investment of Euros 400 million to 30 June 2019, representing approximately 1.8% of share capital, which may be cancelled if so decided by the shareholders at the annual general meeting to be held in the first half of 2019. At 30 June 2019, a total of 16,567,195 treasury shares had been acquired under this programme at an average price of Euros 24.13 per share, i.e. a total cost of Euros 400 million, which were allocated to reducing capital.

– Capital reduction: At a meeting on 23 July 2019, the Company's Board of Directors resolved to implement the capital reduction resolution approved at the annual general meeting of shareholders held on 5 March 2019, whereby it approved a reduction in the share capital of Naturgy Energy Group, S.A. by the amount resulting from the sum of:

  a. Euros 3 million through the redemption of 2,998,622 treasury shares with a par value of 1 euro each which had been acquired at the close of trading on 6 December 2018.

b. the aggregate par value, up to a maximum of Euros 16 million, corresponding to the amortisation of the up to 16,000,000 additional shares with a par value of Euros 1 each acquired for amortisation under the share buyback programme approved under Regulation (EU) No. 596/2014 on market abuse and disclosed as price-sensitive information on 6 December 2018.

In this respect, as Naturgy Energy Group, S.A. had acquired a total of 13,568,573 shares at 30 June 2019 under the approved buyback programme referred to above, the Board of Directors set the figure for the capital reduction at Euros 17 million (the "Capital Reduction") and agreed to implement this reduction. The Capital Reduction was carried out through the cancellation of 16,567,195 treasury shares with a par value of 1 euro each, representing approximately 1.65% of the Company's share capital at the time of adoption of the resolution in question. Following the capital reduction share, capital stood at Euros 984 million, made up 984,122,146 shares with a par value of 1 euro each.

– 2019 share buyback programme: At 31 December 2019, a total of 5,162,320 treasury shares had been acquired under this programme at an average price of Euros 23.3 per share, representing a total cost of Euros 121 million.

Note 14 of the Notes to the Consolidated Annual Accounts contains full information on treasury shares.

9.2. Disclosure of delays in payment to suppliers. Additional Provision 3 “Duty of disclosure” of Law 15/2010 of 5 July

The total amount of payments made to suppliers during the year, with details of payment periods, according to the maximum legal limit under Law 15/2010 of 5 July, which laid down measures against late payment in Spain, is as follows:

	2020	**2019**
Total payments (million euro)	8,681	11,027
Total outstanding payments (million euro)	243	314
Average supplier payment period (days) (1)	22	23
Transactions paid ratio (days) (2)	22	23
Transactions pending payment ratio (days) (3)	22	24

Calculated on the basis of amounts paid and pending payment.
1. Average payment period in transactions paid during the year.
2. Average age of supplier accounts payable.

Appendix I. Alternative performance metrics

Naturgy's financial disclosures contain magnitudes and metrics drafted in accordance with International Financial Reporting Standards (IFRS) and others that are based on the Group's disclosure model, referred to as Alternative Performance Metrics (APM), which are viewed as adjusted figures with respect to those presented in accordance with IFRS.

The chosen APMs are useful for persons consulting the financial information as they allow an analysis of the financial performance, cash flows and financial situation of Naturgy, and a comparison with other companies.

Below is a glossary of terms with the definition of the APMs. Generally, the APM terms are directly traceable to the relevant items of the consolidated balance sheet, consolidated income statement, consolidated statement of cash flows or notes to the annual accounts of Naturgy. To enhance the traceability, a reconciliation is presented of the calculated values.

Alternative performance metrics	Definition and terms	Reconciliation of values at 31.12.2020	Reconciliation of values at 31.12.2019	Relevance
EBITDA	EBITDA = Revenue (2)– Procurements (2) + Other operating income (4)– Personnel expenses (4)– Other operating expenses (4) + Own work capitalised (4)	Euros 3,449 million	Euros 4,252 million	Measure of operating income before interest, taxes, depreciation and amortisation and impairment
Ordinary EBITDA	EBITDA - Non-ordinary items (7)	Euros 3,714 million = 3,449 + 265	Euros 4,348 million = 4,252 + 96	EBITDA corrected for impacts related to restructuring costs and other non-ordinary items considered material for a better understanding of the Group's underlying results
OPEX	Personnel expenses (4)+ Own work capitalised (4)+ Other operating expenses (excl. taxes) (4)- Expenses for construction services or enhancement of concessions IFRIC 12 that are recognised as revenue (4)	Euros 1,640 million =798 + 77 + 1,180 – 373 – 42	Euros 1,790 million = 807 + 88 + 1,310 – 348 – 67	Operating expenses recognises in profit or loss, excluding those offset by revenue for the same amount, and taxes
Ordinary profit	Attributable income for the year - Non-ordinary items(7)	Euros 872 million = -347 + 1,219	Euros 1,378 million = 1,401 + 23	Attributable income corrected for impacts of impairment, divestments and discontinued operations and other non-ordinary items that are considered to be material for a better understanding of the Group's underlying results
Capital expenditure (CAPEX)	Investment in intangible assets (4) + Investment in property, plant and equipment (4)	Euros 1,279 million = 187 + 1,092	Euros 1,685 million = 222 + 1,463	Investment in intangible assets and property, plant and equipment
Net capital expenditure (Net CAPEX)	CAPEX (5) - Other investment receipts/ (payments)	Euros 1,228 million = 1,279 – 51	Euros 1,607 million = 1,685 – 78	Total investments (CAPEX) net of the cash received from divestments and other investing receipts
Gross borrowings	“Non-current financial liabilities”(1) + “Current financial liabilities”(1)	Euros 17,539 million = 14,968 + 2,571	Euros 17,987 million = 15,701 + 2,286	Current and non-current borrowings
Net borrowings	Gross borrowings(5)– “Cash and cash equivalents”(1) – “Derivative financial assets”(4) (Note 18)	Euros 13,612 million = 17,539 - 3,927 – 0	Euros 15,268 million = 17,987 - 2,685 – 34	Current and non-current borrowings less cash and cash equivalents and derivative financial assets
Leverage (%)	Net borrowings(5) / (Net borrowings(5) + “Net equity”(1))	54.7% = 13.612 / (13,612 + 11,265)	52.2% = 15,268 / (15,268 + 13,976)	The ratio of external funds over total funds
Cost of net borrowings	“Cost of borrowings”(4) (Note 30) – “Interest”(4) (Note 30)	Euros 498 million = 515 - 17	Euros 547 million = 570 - 23	Amount of expense relative to the cost of borrowings less interest revenue
EBITDA/Cost of net borrowings	EBITDA(5)/ Cost of net borrowings(5)	6.9x = 3,449 /498	7.8x = 4,252 /547	Ratio between EBITDA and net borrowings
Net borrowings/EBITDA	Net borrowings(5) / EBITDA(5)	3.9x = 13,612/ 3,449	3.6x = 15,268 / 4,252	Ratio between net borrowings and EBITDA
Net borrowings / Ordinary EBITDA	Net borrowings(5) / Ordinary EBITDA(5)	3.7x = 13,612 / 3,714	3.5x = 15,268 / 4,348	Ratio between net borrowings and Ordinary EBITDA.
Market capitalisation	No. of shares ('000) outstanding at end of period(6) * Market price at end of period(6)	Euros 18,384 million = 969,614 * 18.90 euros	Euros 22,044 million = 984,122 * 22.40 euros	Measure of the company's total value based on its share price
Free cash flow after non-controlling interests	Free cash flow (5)+ Parent company dividends (4)+ Purchase of treasury shares (4)+ Inorganic investment payments (4)	Euros 1,626 million = 79 + 1,359 + 184 + 4	Euros 1,958 million = 238 + 1,307 + 405 + 8	Net cash generated by the company that is available for distribution to shareholders (via dividends or buybacks), inorganic investment payments and debt payments
Net free cash flow	Cash flow generated from operating activities (3) + Cash flows from investing activities(3) - Other receipts GC divestments (4) + Cash flows from financing activities(3) – Receipts/payments from financial liability instruments(3)	Euros 79 million = 3,432 – 1,142 -190 – 388 - 1,633	Euros 238 million = 4,021 – 1,456 – 1,599 - 728	Net cash generated by the company that is available for payment of debt

(1) Consolidated balance sheet line item.

(2) Consolidated income statement line item.

(3) Consolidated statement of cash flows line item.

(4) Figure detailed in the Notes to the consolidated annual accounts.

(5) Figure detailed in the APMs.

(6) Figure detailed in the Directors' Report.

(7) The non ordinary items are summarized bellow:

	Ebitda		Net income	
Euros million	**2020**	**2019**	**2020**	**2019**
Restructuring costs	(197)	(150)	(144)	(112)
Asset write-down	—	—	(1,019)	(23)
Regulatory fines	(1)	(20)	—	(20)
Provisions reversal	37	49	28	33
Sales of land and buildings	7	16	5	15
Procurement agreement	(94)	—	(76)	—
Interest in companies sales	—	—	10	25
Liability management cost	—	—	—	(73)
Medgaz valuation	—	—	—	101
Discontinued operations	—	—	17	88
Other	(17)	9	(40)	(11)
Total non ordinary items	**(265)**	**(96)**	**(1,219)**	**23**

Appendix II. Non-financial information statement

Sustainability Report

and

Non-Financial Information Statement

2020

Summary

Letter from the Chairman

[102-1] and [102-14]

Dear readers,

The year 2020, the subject of this **Sustainability Report and Non-Financial Information Statement**, was marked by unprecedented circumstances that compelled us to transform our way of life and to deal with a health, economic and social crisis which, among other things, spurred profound reflection on the role of companies in the societies in which they operate.

We at Naturgy have long been aware of the urgency and inevitability of having to adapt to the new global context, and the reality experienced over the last year has only strengthened our conviction.

For this reason, all the people who make up Naturgy are striving every day to make a vital contribution to **transforming the world through energy by resolutely tackling the challenges of energy transition and the demands of society and our customers, and working with excellence, transparency and the talent of a committed team**. We know that we will not be able to achieve our goals on our own, which is why we are working to this end together with our customers, shareholders and collaborators.

Our commitment to society, the foundation of our response to the COVID-19 crisis

There is no doubt that it is practically impossible for companies to achieve longevity such as Naturgy's unless it stays ahead of the trends, knows how to adapt to the opportunities and risks that surround it and works with a long-term purpose that is fully aligned with sustainability.

Our commitment to society in the challenging 2020 financial year was greater than ever. Throughout our history as a leading energy company, we have experienced and successfully overcome different types of situations, but never before have we had to face one like this.

The current health and socio-economic crisis has had a disparate impact on all the countries in which we operate, on the people employed by Naturgy; on the more than 6,500 suppliers and contractors with whom we work; and on the more than 18 million customers who put their faith in us. According to the International Energy Agency, the pandemic has caused greater disruption to the energy sector than any other event in recent history, and its effects will be felt for years to come.

The first of the measures we took to deal with this unexpected situation was to **protect the health of all our employees**, implementing the best preventive practices for the individuals who provide essential services and providing the necessary means for the remaining employees to work from home.

It is also very important for us to **assist society through the most difficult moments of the pandemic,** and for this reason we have implemented a series of solidarity initiatives that have made it possible to alleviate the consequences as far as possible. These measures included:

- Financing and deferring more than 100,000 bills for domestic customers, SMEs and self-employed individuals.
- The supply of energy free of charge to public health facilities, and to hotels and residential establishments whose facilities were made available to the public health service.
- The launch of a free health care service for all our customers
- Carrying out over 20,000 urgent repairs.
- The offer of one year of free service to cover electrical and gas service failures to health workers, law enforcement services, members of the army, fire-fighters and education workers and staff of educational institutions throughout Spain.
- Advancing payment to a large number of our self-employed and SME suppliers in order to contribute as far as possible to their financial stability.

The future is being built today, creating sustainable value

Despite the situation, **in 2020 we made steady progress on the path of transformation** announced by Naturgy in its Strategic Plan 2018–2022. Today we can say that **we are company that is more efficient, transparent, dynamic and active in terms of business management**, which will allow us to face the difficulties arising from this environment in a more realistic and effective way.

Over the last year, we made **significant progress in reducing our risk profile through the renegotiation of gas supply contracts**. A highlight of this is the agreement we reached with Sonatrach, which together with the alliance established in relation to the Medgaz gas pipeline only confirms the desire of both companies to continue their partnership in the long term.

Another major milestone that contributed to simplification was the agreement reached to amicably resolve the disputes over the Damietta gas plant in Egypt.

In relation to our asset turnover target, it is important to underscore the agreement reached with the Chinese state-owned company State Grid International Development Limited (SGI) for the sale of Naturgy's stake in the Chilean Compañía General de Electricidad (CGE). This decision has led to an increase of our financial capacity, which will enable us to support future growth opportunities linked to the energy transition and accelerate Naturgy's transformation.

With regard to our commitment to renewable energies, we are proud of the leading position we gained during the year in Australia, where, as a result of the projects awarded or in operation, we will have an installed capacity of 700 MW.

Within the framework of this transformation process, Naturgy reorganised its business around three strategic areas: Energy and Network Management, Renewables and New Businesses and Commercialisation.

In addition, as a demonstration of the Group's commitment, the Sustainability Committee was set up within the Board of Directors to oversee the company's role in the energy transition and progress in terms of environmental, social and good governance performance.

With regard to financial results, 2020 was marked by the health and economic crisis, which had a major impact on energy demand, and by the complex international energy situation that affected energy prices, as well as the depreciation of Latin American currencies against the euro. All of this has had a significant impact on results.

Compared to the results from the previous year, the most important performance measures showed:

- Net turnover reached Euros 15,345 million (-26.1%).
- Gross operating profit was Euros 3,449 million (-18.9%) including non-core items.
- Net profit came to Euros -347 million.
- Cash-flow generation stood at Euros 1,626 million.
- Total net debt came to Euros 13,612 million.
- Growth capex amounted to Euros 733 million.
- We paid Euros 607 million in direct taxes, and Euros 1,717 million in mainly VAT.

Given the present context, the involvement of the private sector, particularly the energy sector, is essential if we are to return to the path to growth and to construct a new post-COVID environment. In this sense, **Naturgy is now actively working to identify strategic projects that are key for the company through which it aims to spur economic recovery.** All of them will focus on renewable energies, new energy uses, digitalisation and innovation, among others, in order to speed up the energy transition.

Climate change, a pressing challenge to ensure long-term value creation and contribute to the sustainability of the planet

While the pandemic was the undisputed centre of attention of the past year, it was not the only challenge requiring our prompt and effective response.

Climate change has become a decisive factor for the survival of companies, particularly energy companies, with climate-associated risks being the most likely and bringing the greatest impact, according to the World Economic Forum's Global Risks Report 2020. Furthermore, in line with the most recent yearly materiality analysis we have conducted, climate change and energy transition are the most significant issues for the business and our stakeholders.

In order to deal with climate change and meet these ambitious commitments, it is essential that the energy sector is transformed. According to the International Energy Agency, a scenario in which the already stated climate policies are upheld will see renewable energies cover 80% of the growth in world electricity demand until 2030. Moreover, it is now a reality that renewable technologies, such as wind and solar, are the cheapest for generating electricity.

In this sense, **Naturgy has based its strategy on the conviction that the energy transition is an opportunity**. Therefore, among other climate change-related measures, the company is committed to **substantially increasing the installed capacity of renewable energy generation**, increasing electrification in the countries where we operate, taking advantage of the potential of natural gas to reduce greenhouse gas emissions, **promoting renewable gas** and improving **energy efficiency** throughout the value chain.

The shutdown of all the company's coal-fired power stations in the first half of 2020 led to a significant reduction in carbon emissions. In 2020, Naturgy emitted 14.3 t CO_2eq into the atmosphere, a decrease of 30% on 2017, and commissioned 151 MW of renewable power which, added to the rest of our installed capacity, prevented the emission of more than 5 tCO_2eq.

Although our commitment to fighting climate change is a priority, Naturgy has not overlooked the fact that this also comes with a global responsibility to care for our environment as we carry out our activity. In this regard, in **addition to our focus on climate change and energy transition, we continue our work on the three other strategic environmental fronts set out in our Global Environmental Policy**: environmental governance and management, circular economy and eco-efficiency, and biodiversity and natural capital.

Initiatives that contribute to the improvement of biodiversity in the environments where we operate or to significant reductions in the consumption of drinking water and waste are some of the achievements made in 2020.

Innovation, rigour and transparency to meet the expectations of our stakeholders

Over the last year, digitalisation was ever more present in our lives, with clear examples being the increase in teleworking and cyber-attacks, both of which were effectively dealt with by the company. The company's ability to adapt to digital environments is one of the factors that will determine its competitive position in the market. **Digitalisation is therefore a key lever in Naturgy's transformation and is already an essential element of customer relations, the performance of processes and operations, and asset management.**

Along with digitalisation, Naturgy's transformational purpose must be supported by an innovative strategy that allows us to adopt the newest technologies and streamline our processes in order to be able to implement more disruptive business models.

In this sense, the **value hubs** around which Naturgy's commercial offering revolves are aimed at **contributing to transformation through technology and innovation**; pioneering new, **simple and scalable ideas**; and through the development of **new green, sustainable and socially responsible products**, such as 100% renewable electricity and supplying gas offset by Certified Emission Reduction certificates.

Naturgy's good performance would not be possible without the contribution made by and the proper management of its supply chain. In 2020, we updated the purchasing category risk matrix and the business classification model for suppliers, and we included new anti-corruption and ethical practice clauses. Additionally, **almost 70% of high ESG risk purchase volume was audited.**

Naturally, Naturgy's shareholders and investors are viewed as being among the company's primary stakeholders. Therefore, properly managing risks and developing a solid Business Model that guarantees sustainability and long-term value creation are the key business goals. The creation in May of the Sustainability Committee, delegated by the Board of Directors confirms the commitment of the company's shareholders to sustainability as an essential lever for the creation of long-term value.

In addition to its commitment to its customers, suppliers, shareholders and investors, Naturgy cannot overlook its role of contributing to the construction of fairer societies in which nobody is left behind. Aside from the previously described measures to mitigate the effects of the pandemic, we have been providing support to assist the most vulnerable groups, mainly by providing them with personal protective equipment, medical supplies and food.

Likewise, **we have continued to implement our Energy Vulnerability Plan and to promote energy transition that is fair for everybody**. This year, with a now-consolidated plan, we are continuing to increase the number of actions and projects to alleviate cases of energy poverty and to detect situations of vulnerability. Within the framework of a fair energy transition, we are undertaking different projects and initiatives in the regions affected by the shutdown of coal-fired power stations, such as the installation of new renewable power, the study of renewable gas (biomethane and green hydrogen) production plants and the promotion of new uses of power station sites for industry or services in order to encourage and boost local industry and regional economies.

Our behaviour as a responsible company originates from a deep conviction that **ethics and integrity are the starting point from which to develop an enduring business project**. In this regard, it should be noted that the Ethics and Compliance Committee modified the regulations for the operation of the Code of Ethics channel. Also in 2020, Naturgy renewed certification of its Crime Prevention Model in accordance with the recognised UNE 19601 and ISO 37001 standards.

Passion, the driving energy of a talented team that proactively manages challenges

In these volatile and complex times, all of us at Naturgy are driven to action and to give the best of ourselves every day by our passion to build a better world.

Naturgy has a team of people whose **rigour, professionalism, interest in continuous learning and self-development, innovative spirit**, and **sustainable commitment to and involvement in achieving the company's goals** are its main features.

In 2020, we continued to develop the organisational model towards a simplified structure, in order to give the business units full responsibility and optimise the support they receive from corporate functions. This transformation is being **accompanied by the promotion of diversity and equal opportunities for all employees, as well as a**

commitment to the development of talent in order to achieve present and future goals.

Moreover, the new situation has increased the pace at which new working methods are being implemented and has led to the need to redirect the company's preventive activities. For this purpose, Naturgy has adapted its business continuity procedures and implemented measures to maintain activity, prioritising security and minimising risk to all people.

In general, the accident rates have seen a significant reduction in the number of accidents, mainly due to the reduction in non-essential operational activities during the COVID-19 lockdown. However, we deeply regret the significant increase in fatalities among our contractors. We have a strong commitment to safety and will continue to work to prevent such events in the future.

We are convinced that the commitments that guide our purpose are pertinent; this certainty is bolstered by the **constant acknowledgement that the leading global sustainability indices** give to our performance; Naturgy is one of the most nationally and globally recognised companies in the field.

In 2020, we were again chosen to be a member of the Dow Jones Sustainability Index (DJSI) World and Europe, the Euronext Vigeo Eiris World 120, Europe 120 and Eurozone 120 indices, and the FTSE4Good Ibex index, among others. Furthermore, we once again obtained the highest rating from MSCI (AAA). In addition, we joined the CDP Climate Change A list and were recognised by Sustainalytics for having low environmental, social and governance (ESG) risk. Finally, we were rewarded with Prime classification by ISS ESG for high corporate sustainability performance and with the gold medal by the Ecovadis agency, which assesses suppliers from all over the world, for our ESG performance.

We are also pleased to have received the first prize in the Environmental Management section of the European Business Awards for the Environment, organised by the European Commission, for combining environmental sustainability with business success.

I invite you to read this report, in which you can learn more about the company's business model, strategy and commitments, as well as its results for the year. This report also contains our contribution to the Paris Agreement and to the United Nations Sustainable Development Goals, with our renewed commitment to sustainability for yet another year through the Global Compact. The report was prepared in accordance with GRI Standards, the requirements of Spanish Law 11/2018 and the United Nations Guiding Principles Reporting Framework.

In this report, you will also find our carbon footprint, calculated according to the recommendations of the Task-force for Climate Related Financial Disclosure (TCFD), which provides greater detail on Naturgy's response to the challenges of climate change.

You can also access the Green Bond Report issued in November 2017, which includes 35 environmental projects prepared in accordance with Naturgy's Green Bond Framework.

Finally, I would like to highlight the responsibility that both companies and citizens have to **jointly transforming our societies to make the planet a fairer, cleaner and healthier place and where the Sustainable Development Goals are closer than ever to being achieved**.

Thank you very much for your constant support to the Naturgy project,

Francisco Reynés

Executive Chairman

Business model

1. Company situation

[102-3], [102-4], [102-6] [102-10]

Naturgy Energy Group, S.A. was incorporated in 1843 and its registered office is at Avenida San Luis, number 77, in Madrid.

Naturgy Energy Group, S.A. and its subsidiaries (hereinafter Naturgy) is a group dedicated to the generation, distribution and commercialisation of energy and services that works to guarantee the well-being of people, the progress of companies and society, and the sustainability of the planet.

Naturgy operates in over 20 countries, where it supplies gas and electricity to more than 16 million customers. Our installed capacity is 15.3 GW and we offer a diversified mix of electricity generation.

Naturgy operates in the regulated and liberalised gas and electricity markets —where its international activity is steadily growing— and chiefly in the following areas:

- Gas and electricity distribution.
- Electricity generation and commercialisation.
- Gas infrastructure, procurement and commercialisation.

Naturgy's mission is to:

- Meet society's energy needs by offering high-quality products and services that are respectful of the environment.
- Meet the needs of our shareholders by offering them growing and sustainable levels of return.
- Meet the needs of our employees by offering them the opportunity to develop their professional skills.

Meet the needs of ...	With a vision of ...	Based on our values
Our shareholders	Offering increasing sustainable profitability	– Customer-oriented – Commitment to results – Sustainability – Interest in people – Social responsibility – Integrity
Our customers	Being leaders in continuous growth and with a multinational presence, offering high-quality products that respect the environment.	
Our employees	Offering opportunities for professional and personal development	
Society	Contributing positively through a global commitment	

Contribution to Ebitda by activity

Contribution to Ebitda by activity (%)	2020	2019
Renewables, New Business and Innovation	10.4	8.5
Commercialisation	9.5	6

Energy and Network Management	82.6	88
Other	(2.5)	(2.5)

Business model and organisational structure

Naturgy's business model is implemented through a large number of companies mainly in Spain, Latin America (Argentina, Chile, Brazil, Mexico and Panama) and Australia.

In 2020, Naturgy made further progress in its transformation process by reorganising its business around three strategic areas: Energy and Network Management, Renewables and New Businesses and Commercialisation. It is easier to keep track of how the businesses perform with this new organisation. Operating segments have been redefined based on the following criteria:

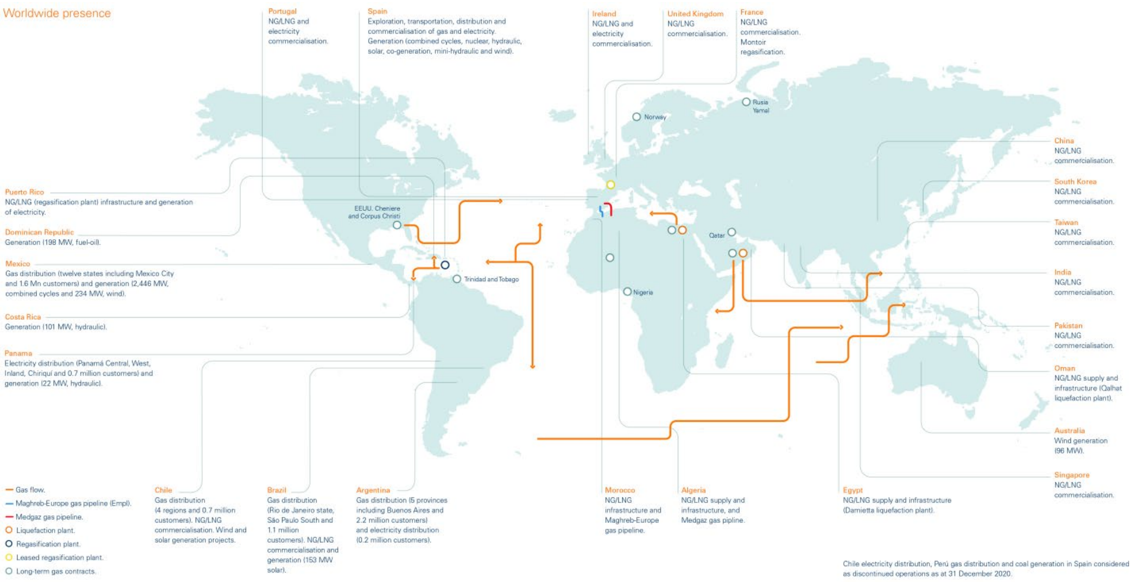
- Energy Management and Networks:
    - Iberia Networks: comprises the gas and electricity network businesses in Spain.
    - Latin America Networks: includes the gas network business in Argentina, Chile, Brazil and Mexico and the electricity network business in Argentina and Panama.
    - Energy Management: includes the businesses of International LNG Commercialisation, Markets and Supplies, Pipeline Management, Thermal Generation Spain and Thermal Generation Latin America (Mexico, Dominican Republic and Puerto Rico).
- Renewables and New Businesses:
    - Renewables Spain and the United States: includes the management of the facilities and projects for the generation of hydraulic, wind, small hydro, solar and cogeneration energy sources. Activities included in this segment are currently carried out in Spain, although future activities are planned in the United States.
    - Renewables Latin America: includes the management of renewable electricity generation facilities and projects of Global Power Generation (GPG) located in Latin America (Brazil, Chile, Costa Rica, Mexico and Panama).
    - Renewables Australia: includes the management of the renewable electricity generation facilities projects for GPG located in Australia.
- Commercialisation: the goal is to manage the business model for end customers for gas, electricity and services, incorporating new technologies and developing the full potential of the brand.

This organisation seeks to continue to ensure transparency and accountability and will mark the beginning a new period of profitable network growth, expanding our renewable footprint and building a world-class retail brand.

Throughout the value chain, Naturgy's Business Model stands apart as a leader in the gas sector and a key player in the electricity sector, in both cases ensuring the continuity of supply, which is essential to providing a quality service and fulfilling the company's social mission; providing a broad range of value-added services and fostering sustainable innovation to drive development.

Annexe I to the Consolidated Financial Statements has detailed information on the companies that form part of Naturgy and the activities they carry out.

Geographical presence



Businesses in which it operates

Leadership in the gas business

	Networks	Gas		
	Gas distribution [EU4] [EU3]	**Infrastructure**	**Supply**	**Commercialisation**
	11 million supply connections 134,802 km of network	Eight long-term methane tankers Two gas pipelines, Maghreb-Europe (EMPL) and Medgaz	~ 28bcm supply portfolio	318 TWh of gas supplied

Our positioning	**Spain** Leader in Spain with a 69% market share, distributing natural gas to more than 1,100 municipalities in nine autonomous regions and 5.4 million customers. **Latin America** Latin America's top distributor, catering for more than 5.6 million customers. Presence in Argentina, Brazil, Chile and Mexico and in five of the ten largest Latin American cities.	– Eight methane tankers (1.3 Mm^3). – Management of the main gas pipeline supplying the Iberian Peninsula Maghreb-Europe (EMPL) and 24.5% stake in Medgaz. – Stake in the Ecoeléctrica regasification plant and two liquefaction plants (Damietta and Qalhat). – 0.5 bcm of company-owned storage capacity and 0.6 bcm of leased capacity.	Business Model based on diversification and flexibility that have made Naturgy a global operator with a strong international profile. Naturgy has procurement contracts with suppliers worldwide, both in a gaseous state (NG) and in the form of liquefied natural gas (LNG).	Unique access to markets: 11 million customers and LNG sales in numerous countries worldwide. A global operator with the flexibility to tap markets offering attractive margins. 23% market share in Spain. Competitive supply to combined cycle plants (CCGT).
Our strength	Naturgy is a leader in the markets where it operates, affording it an excellent platform for organic growth, in terms both of attracting new customers in municipalities with gas and of expanding networks to areas without gas.	Naturgy has an integrated gas infrastructure that affords it considerable stability, making its operations more flexible and enabling it to transport gas to the best business opportunities. Storage capacity enables it to ensure a constant supply, avoiding the impact of seasonal fluctuations or peaks in demand.	A diversified and flexible portfolio of procurement contracts, with review mechanisms in the event of price mismatches.	Naturgy has a diversified portfolio of end customers, and supplies gas both in Spain and internationally. Naturgy is a leader in dual fuel supply and it offers a broad range of value-added services.

A key player in the electricity business

	Networks	Electricity		
	Electricity distribution [EU4] [EU3]	**Conventional generation**	**Renewable generation**	**Commercialisation**
	4.7 million supply connections 151,495 km of network	10.6 GW of generation capacity	4.6 GW of generation capacity	26.9 TWh commercialised

Our positioning	**Spain** The third-largest operator in the Spanish market, where it distributes electricity to 3.8 million customers. **Latin America** Presence in Argentina and Panama (0.9 million customers). In November 2020, an agreement was reached for the sale of the electricity distribution business in Chile. This activity has been classified as held for sale.	**Spain** Capacity of 8.0 GW (7.4 GW combined cycle plants and 0.6 GW nuclear). In June 2020, the group abandoned the coal generation business. Naturgy's market share is 18.4% **International** 2.6 GW capacity: 2.4 GW combined-cycle plants (Mexico) and 0.2 GW oil-fired (Dominican Republic)	Spain Capacity of 4.1 GW (2.1 GW hydraulic, 1.7 GW wind, 0.2 GW solar and 0.1 GW cogeneration. Naturgy's market share is 2.1% International 0.6 GW capacity: 0.1 GW hydroelectric (Costa Rica and Panama), 0.3 GW wind (Mexico and Australia) and 0.2 GW solar (Brazil).	Leader in the mainstream consumer and residential segments, with a total market share of 10% in Spain. One of the main traders in the Spanish market. A dual fuel supply and a broad range of value-added services.
Our strength	Naturgy is a leader in the markets where it operates. Naturgy is an efficient operator in terms of operation and maintenance costs in the electricity distribution business.	The company has far-reaching knowledge in all generation technologies in which it operates and provides an infrastructure which is able to adjust to the needs of each energy model and the real situation in each particular country.	Naturgy's good positioning in Spain and Latin America will enable it to make the best of investment opportunities in generation.	Being a leader in the combined commercialisation of natural gas and electricity affords the company major advantages, such as lower service costs, integrated customer care and lower acquisition costs, not to mention greater customer loyalty.

Regulatory environment

Annex IV. The Regulatory Framework of the consolidated annual accounts includes a description of the industry regulation and explains the functioning of the electricity and gas system in the markets in which Naturgy operates.

2. **Main operational and economic figures**

Main economic figures of Naturgy [102-7]	**2020**	**2019[1]**
Net turnover [€M]	15,345	20,761
Gross operating profit (Ebitda) [€M]	3,449	4,252
Total investments [€M]	1,279	1,685
Net profit [€M]	(347)	1,401
Dividend paid [€M]	1,370	1,319

Share price as at 31 December [€]	18.96	22.4
Earnings per share (€)	(0.36)	1.43

[1] 2019 has been restated as discontinued activities in 2020 according to IFRS5

Main operational figures of Naturgy [102-7]	**2020**	**2019[1]**
Gas distribution sales [GWh]	403,910	465,844
Gas transportation/EMPL [GWh]	49,383	68,703
Gas distribution supply points (in thousands)	11,052	11,075
Electricity distribution supply points (in thousands)	4,727	4,689
Gas distribution network [km]	134,802	133,917
Length of electricity distribution and transportation lines [km]	151,495	150,341
Electricity generated [GWh][2]	41,977	44,704

1 2019 has been restated as discontinued activities in 2020 according to IFRS5

[2] Includes coal activity despite being presented as discontinued activities in the consolidated income statement.

Gas supply and transportation (%)	**2020**	**2019**
Others (LNG)	15.5	6.9
Nigeria	5.6	11.5
Trinidad and Tobago	10.3	10.2
USA	17.5	16.8
Others (NG)	14.1	14.0
Algeria	15	19.6
Oman/Egypt/Others (1)	4	3.6
Qatar	3.8	6.2
Norway	3.2	4.9
Russia	11	6.3

(1) Gas deriving from Unión Fenosa Gas

Energy mix of Naturgy (%)	**2020**	**2019**
Thermal	4.6	11.6
Hydroelectric	13.1	12.3
Wind	12.8	11.2
Nuclear	3.8	3.6
Small hydro	0.7	0.6
Solar	2.5	2.4
Cogeneration	0.3	0.3
Combined-cycle	62.2	58.0

Installed capacity by source of energy (MW) [EU1][1]	2020	2019
Hydroelectric	1,951	1,954
Nuclear	604	604
Coal	530	1,766
Combined-cycle	7,427	7,427
Wind	1,691	1,540
Solar	249	250
Small hydro	111	111
Cogeneration	51	51
Total installed capacity. Spain	**12,614**	**13,703**
Hydroelectric	123	123

Fuel-oil	198	198
Combined-cycle	2,446	2,365
Wind	330	330
Solar	153	153
Total power	**15,864**	**16,872**

[1] Includes coal activity despite being presented as discontinued activities in the consolidated income statement.

Net energy production by energy source and regulatory system (GWh) [EU2] and [OG3][1]	**2020**	**2019**
Total production. Spain	**25,917**	**25,771**
Production in ordinary system. Spain	*21,212*	*22,595*
Hydroelectric	3,011	2,816
Nuclear	4,387	4,542
Coal	958	699
Combined-cycle	12,856	14,538
Production in special system. Spain	*4,705*	*3,176*
Wind	3,546	2,258
Small hydro	524	544
Solar	320	227
Cogeneration	315	147
Production in ordinary system. International	**16,060**	**18,933**
Hydroelectric	465	439
Fuel-oil	481	1,105
Combined-cycle	13,778	16,123
Wind	1,041	964
Solar	295	302
Total production.	**41,977**	**44,704**

[1] Includes coal activity despite being presented as discontinued activities in the consolidated income statement.

Electricity produced using renewable sources broken down by country (GWh)	**2020**	**2019**
Costa Rica	371	369
Spain	7,715[1]	5,844
Mexico	754	670
Panama	94	70
Brazil	295	302
Australia	287	294
TOTAL	9,516	7,549

[1] Includes cogeneration

Average efficiency by technology and regulatory system %	**2020**	**2019**
Combined cycle (Ordinary. Spain)	52.76	52.40
Coal thermal (Ordinary. Spain)	31.23	31.70
Combined cycle (Ordinary. International)	55.25	53.90
Fuel-oil (Ordinary. International)	40.51	40.60

Average availability factor by technology (%) [EU-30]	**2020**	**2019**
Hydroelectric (Spain)	85.71	89.10
Coal thermal (Spain)	48.85	96.90

Nuclear (Spain)	90.53	92.90
Combined-cycle (Spain)	87.33	88.70
Wind farms (Spain)	98.46	98.30
Solar (Spain)	99.01	n/a
Small hydro (Spain)	96.51	99.20
Cogeneration (Spain)	86.99	84.62
Hydroelectric (international)	94.67	94.39
Wind farms (international)	93.04	n/a
Solar (international)	98.54	n/a
Fuel-oil (international)	83.83	87.92
Combined-cycle (international)	90.38	96.06

Energy losses in transportation and distribution (%).	**2020**	**2019**
Spain	8.25	8.26
Argentina	13.23	11.40
Chile	9.73	8.20
Panama	14.38	12.14

ICEIT Installed capacity equivalent interrupt time [EU-29] (hours)*	**2020**	**2019**
Chile	13.60	14.50
Spain	0.66	0.70
Panama	45.78	41.08

SAIFI: Frequency of electrical power cuts [No. of interruptions by customer] [EU-28]	**2020**	**2019**
Chile	5.70	5.70
Spain	0.98	1.23
Panama	24.01	21.38

SAIDI Average duration of electrical power cuts [EU-29] (hours)	**2020**	**2019**
Chile	13.80	14.80
Spain	1.04	1.19
Panama	74.41	64.53

ASIFI: Average System Interruption Frequency Index [EU-29]	**2020**	**2019**
Chile	5.50	5.60
Spain	0.72	0.81
Panama	18.72	17.48

Value creation and sustainable management

Sustainable positioning of Naturgy

Naturgy considers it essential for value creation and the building of trust to maintain an integrated and responsible conduct with its stakeholders, as well as to enhance the sustainability and long-term vision of the company; these being the fundamental and intrinsic pillars of its values and corporate culture.

The global scenario lays down a raft of challenges that, in this last year, within the framework of the crisis produced by Covid-19, have only seen their relevance grow. Climate change, energy transition, scarcity of natural resources, technological and digital disruption, or population growth and town planning, are challenges to which Naturgy anticipates and adapts. This enables the company to get ahead of traditional and emerging risks, finding new business opportunities, and responding to the needs of different stakeholders.

Naturgy's vision of the future—without overlooking its roots and over 175 years of history—aims to transform the current business model and lay the foundations to continue creating value, committing to renewable energies, developing renewable gas (hydrogen and biomethane) thanks to the leadership position in the conventional natural gas market, and promoting energy efficiency and the circular economy.

The company has drawn up this vision, aware of the importance of its actions on people and the environment where it operates, and through its Corporate Responsibility Policy, introduces a series of undertakings that ensure the current and future welfare of people and the environments with which it connects.

During 2020, and as a result of the company's commitment, a Sustainability Committee has been created, reporting to the Board of Directors. The committee is in charge of promoting and supervising sustainable management at Naturgy.

Corporate Responsibility Policy

Naturgy's Corporate Responsibility Policy—whose update was approved by the Board of Directors in 2019—defines the commitment to long-term value creation and sustainable management through a common framework of action, which guides the company's socially responsible behaviour. It is around this that much of this report is structured.

The main purpose of this policy is to introduce the action principles and the company's commitments to its stakeholders, in harmony with the company's corporate strategy, as well as setting out the responsibilities and specific monitoring instruments to guarantee compliance with these.

As well as applying to all Group companies, those persons or companies that work with the company and who have an influence on the company's reputation are also encouraged to be familiar with the policy and to apply it.

Naturgy's commitments

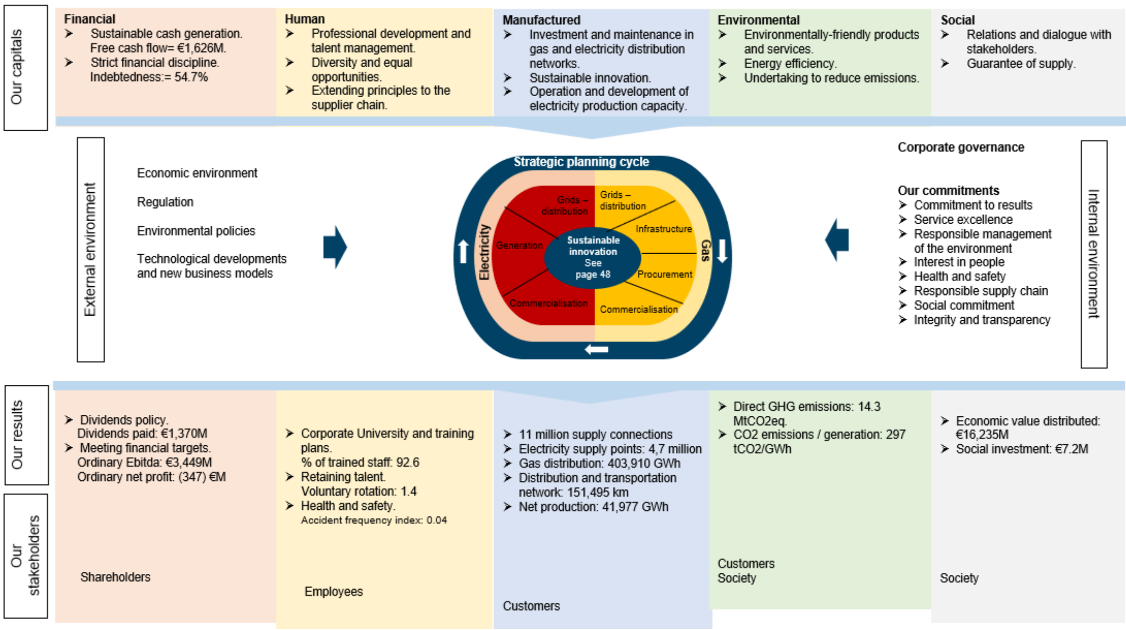
The eight commitments of the corporate responsibility policy with its stakeholders are:

1. Service excellence.
2. Commitment to results
3. Responsible management of the environment.
4. Interest in people.
5. Health and safety.
6. Responsible supply chain.
7. Commitment to society.
8. Integrity and transparency.

These commitments are horizontal and are present throughout the company's business process, based on the generation of economic, social and environmental wealth.

Thanks to the positive results in each of these commitments, once again in 2020 different organisations of international relevance have recognised Naturgy's management. These acknowledgements are founded not only on the Company's excellent trading figures, but also on its achievements in environmental, social and reputational matters, allowing the company to distinguish itself as a good place to invest and a great workplace.

Naturgy has all the essential kinds of capital with which to develop its Business Model, which is based on the responsible and sustainable management of all the resources it uses.



Naturgy's contribution to the Sustainable Development Goals (SDG)

In August 2015, the United Nations Organisation (UN) introduced the 2030 Agenda for Sustainable Development, establishing 17 Sustainable Development Goals (SDG) and 169 related targets.

Thus, Naturgy, analysing each of the goals, joined these universal challenges in two ways:

- Direct contribution: through initiatives, programmes or actions that contribute towards said goal.
- Indirect contribution: through the impact of policies and practices in countries in which the company operates.

Naturgy is committed to actively contributing to the overall achievement of the 17 goals. However, through its business activity it contributes directly to:

- **Target 7**. Ensure universal access to affordable, reliable and modern energy, increase the use of renewable energy and promote energy efficiency. In 2020, Naturgy increased its installed capacity in renewable energies by 9% and works actively to offer society and its customers alternative forms of environmentally friendly energy such as renewable gas.
- **Target 11**. Make cities and human settlements inclusive, safe, resilient and sustainable. Naturgy works actively to offer products and services to its customers that help improve energy efficiency and air quality in cities by making them healthier.
- **Target 13**. Take urgent action to combat climate change and its effects. In 2020, Naturgy prevented the atmospheric emission 129 $MtCO_2eq$.

Sustainability Plan 2021-2025

In line with the company's transformation process, in 2019 Naturgy it began to develop a Sustainability Plan to accompany and contribute to the implementation of the Strategic Plan 2018-2022. In view of the change in the external context caused by various regulatory developments, market demands and marked by COVID-19, the company has decided to carry out a new strategic reflection.

Following the mandate of the Sustainability Committee of the Board of Directors and in order to align and contribute to this strategic reflection, during 2020 Naturgy has reviewed the work carried out in 2019 and has redefined the levers and lines of action that, coupled with the commitments of the Corporate Responsibility Policy and the Sustainable Development Goals (SDG), contribute to the generation of economic, social and environmental wealth.

For preparation of the Sustainability Plan, a materiality analysis was carried out, including an internal analysis, which took into consideration:

- The Strategic Plan 2018-2022.
- The risk map.
- The Annual Reports.
- The Corporate Responsibility Policy.
- The Code of Ethics.
- Other internal policies and internally developed documentation on ESG performance.

An external analysis was also carried out, which took into consideration:

- Regulatory and industry trends.
- Analyst and investor requirements.
- Competitor analysis.
- News from different media.

Following the global situation caused by the Covid-19 pandemic, the changes in society at all levels and the transformation experienced by the company, the review of the Sustainability Plan during 2020 included an update of the internal and external analysis carried out in 2019, and in particular:

- New strategic thinking.
- Adaptation to the new organisational structure.
- New regulatory and industry requirements.
- New social demands arising from the Covid-19 crisis.

The analysis identified the key issues for the company and its stakeholders.

The plan focuses on, and is oriented towards, enhancing those facets of the industry transformation where the company is lagging. To this end, six axes were introduced, pooling 21 lines of action and defining more than 70 monitoring indicators.

Below is a list of the main axes and lines of action defined, their alignment with the commitments of the Corporate Responsibility Policy and the main SDG to which they will contribute.

The targets for each of the actions will be defined throughout t 2021.

Main axis	**Line of action**	**SDG**	**CR Policy commitment**
Integrity and Trust	Governance and reporting Risk management Compliance		Integrity and transparency Responsible supply chain
The opportunity of environmental challenges	Climate change and energy transition Circular economy and eco-efficiency Natural capital and biodiversity Governance and environmental management		Responsible management of the environment
Customer experience	Customer experience Digitalisation Services with value-added Service quality		Service excellence
Commitment and Talent	Transformation Talent management		Interest in people

	Diversity		Health and safety
	Health and safety		
Innovation and new business development	New business		Commitment to results
	Optimisation		Service excellence
	Innovation		
Social Responsibility	Energy vulnerability		Social commitment
	Social contribution		Responsible supply chain
	Fair Transition		Integrity and transparency

Stakeholders of Naturgy

[102-40]

Naturgy has identified the following as its main stakeholders:

Shareholders and investors I Suppliers I Business partners I Employees I Analysts I Market agents I Society I Administration · Regulatory bodies I Financing groups I Customers I Insurance and reinsurance agencies.

Dialogue with stakeholders

[102-42], [102-43] and [102-44]

The company carries out actions that enable it to discover the expectations and demands of its stakeholders, so that it can evaluate some of the main risks and opportunities associated with the business and establish long-lasting and stable relationships with the key agents in those markets in which it has a presence.

Naturgy's actions as far as dialogue is concerned are divided into:

- Consultancy actions: two-way actions. The company and its stakeholders interact to exchange information quickly and fluently.
- Informative actions: one-way actions. The company transmits information to its stakeholders.

Actions of dialogue with "Customers" conducted in 2020	
Consultancy actions	Frequency
Development of focus groups with customers to collect opinions and opportunities for improvement	Ongoing
Consumer surveys and monitoring of Internet users to find out the degree of digitalisation of the company and companies in the sector	Ongoing
Surveys on the customers' opinion in general and following contact	Ongoing
Surveys of reasons for abandonment (of energy and services)	Ongoing
Concept, price and product testing between customers in different markets	Occasional
Co-creation with specialists and consumers	Occasional
Active participation in forums related to energy vulnerability	Ongoing
Meetings with installer associations	Monthly/yearly
Proactive digital communications to customers and installers about progress in gas registration status. Both parties have visibility on milestones reached and next steps and become active subjects that contribute to shortening time frames.	Occasional
INFORMATIVE ACTIONS	Frequency
Regular meetings with public administrations (social services, energy poverty committees, etc.) and working groups with the administration	Ongoing
Regular meetings with officials and consumer protection agencies	Ongoing

Webinars with installers and associations to publicise the new services and features available on the website	According to needs
Sending of informative contents about the new functionalities and services offered on the website, as well as advice and news of interest	Periodic
Adaptation of communications to customers about gas registration processes, regular inspections and readings. This gives the customer a broader view of the process and improves their experience	Occasional

Actions of dialogue with "Employees" conducted in 2020	
Consultancy actions	Frequency
Digital meetings via Teams with the Chairman and answers to employee questions via Nnews	Periodic
Digital meetings with Senior Management via Teams	Quarterly
Virtual meetings between teams	Daily
Psychosocial risk survey	Annual
INFORMATIVE ACTIONS	Frequency
More than 500 pieces of information in the corporate media Nnews	Ongoing
Informative email directly to each employee from internal communication	Weekly
Email about specific projects: ImaginaT, Cybersecurity, Volunteering, Corporate University, etc.	Fortnightly
Communication campaigns for volunteers, conciliation measures, Naturgy Foundation sessions, specific Covid-19 communication campaign, Naturgy Group's Corporate Responsibility Policy	Ongoing

Actions of dialogue with "Society" conducted in 2020	
Consultancy actions	Frequency
Public announcement for a request for proposals to allocate the funds raised by the employee association Solidarity Day in the selected country	Annual
INFORMATIVE ACTIONS	Frequency
Energy Prospectives: A series of conversations that brings together figures recognised internationally for their experience, vision and knowledge of the energy sector and entrepreneurs, regulators, managers and academics	Periodic
Foundation publications on various subjects	Ongoing

Naturgy's response to COVID-19

2020 has been particularly marked by the crisis caused by the COVID-19 pandemic. Naturgy's vision and commitment to its stakeholders and society in general have been highlighted during this crisis and special support has been provided in all locations to meet the needs of the most vulnerable population in the face of this contingency. The pandemic has tested the company's response mechanisms.

In just a few days, Naturgy introduced an action plan to prioritise mitigating the effects of the crisis, ensuring the widest possible scope, with a 360º view.

Thus, several priorities were established: ensuring optimal service, protecting employees and their families, anticipating support mechanisms in the face of the impending economic crisis, both for customers and suppliers, and other measures of a social nature.

The exceptional nature of the situation was immediately taken on board by the company's governing bodies. Accordingly, the Board of Directors changed from monthly to weekly meetings; the Management Committee and the Crisis Operations Committee changed to daily meetings.

Naturgy managed to implement a set of measures in record time aimed at all its stakeholders to help alleviate the effects that the epidemic has caused in the health, economic and social fields, respectively, and seeking to reach the greatest possible number of beneficiaries.

One of the main sources of ideas for the introduction of measures was Naturgy's own employees, who were involved in this challenge and submitted more than 250 initiatives to the company for assessment, many of which ended up being implemented.

This action plan, which was implemented by Naturgy to provide an immediate and comprehensive response to the needs arising from the pandemic, gained recognition by being chosen as a finalist for different awards, such as the European Excellence Awards, the Platts Global Energy Awards and the Correspondent Awards.

The main measures introduced by country are shown below:

Actions aimed at "Society"
SPAIN
Free gas and electric repairs for health care personnel, law enforcement agencies, members of the army and the military emergency unit, and firefighters: Naturgy has offered the repair service free of charge for one year to professionals involved in the front line of the fight against the pandemic, whether or not they are customers.
Donation of more than Euros one million for the purchase of health care equipment: Naturgy employees, together with the contribution of the company itself, have made a donation to the Red Cross amounting to Euros 1.1 million. The amount has been allocated to the purchase of personal protective equipment and volumetric respirators.
Free gas supply to IFEMA: Naturgy has been supplying free gas to the IFEMA exhibition centre, used as a hospital during the first wave of the pandemic, since 30 March.

Free electricity and gas supply to hotels and residences: the company has provided free energy supply to hotels and residential facilities that have given up their premises to the health services in view of the increase in hospitalisations.
Donation of Euros 200,000 to cover the basic needs of children in vulnerable families: the association Solidarity Day has donated the amount to the NGO Educo and the Trilema Foundation to cover subsidised meals, studies and school materials.
Donation of almost 200 computers to young people in a situation of vulnerability: the association Solidarity Day, created and managed by Naturgy employees, together with the participation of other areas of the company, have donated computers so that young people in a situation of vulnerability can continue their studies online.
Educational resources on energy in the family: The Naturgy Foundation has made available the teaching resources of Efigy Education, the educational programme with which it supports teachers in primary and secondary schools and educational cycles throughout Spain. The resources have been provided in digital format and free of charge.
ARGENTINA
Prevention campaign: Naturgy joined the campaign launched by the national government #SomosResponsables (#WeAreResponsible) to raise awareness about the actions to be taken to flatten the Covid-19 infection curve, making available its social networks as a communication tool.
"Your solidarity counts" campaign: employees have made voluntary donations and the company has doubled the amount raised. The funds have been allocated to the fight against the pandemic through the Argentine Red Cross.
BRAZIL
"Your solidarity counts" campaign: employees have made voluntary donations and the company has doubled the amount raised for the purchase and distribution of personal protective equipment to six public hospitals in partnership with the Federation of Industries of the State of Rio de Janeiro (Firjan) and the State Health Department.
CHILE
Power supply to hospitals: Naturgy has enough generators to ensure the power supply to 55 hospitals throughout the country, benefiting about 50% of the population. In addition, hospitals will not be cut off for non-payment.
1 + 1 "Your solidarity counts" campaign: 175 million awarded to CGE Red Cross and its partners. This contribution will be used in support programmes for homeless people infected with Covid-19.
MEXICO
"Your solidarity counts" campaign: a collection of $1,000,000 MX was raised, which will be given to the Mexican Red Cross for the purchase of medical supplies to meet the needs of vulnerable groups.

In addition, in the power generation environments, an ambitious support plan has been implemented consisting of the contribution of medical supplies and food parcels in the municipalities of Tuxpan, Hermosillo, Durango, Agua Prieta and Juchitán de Zaragoza. The investment amounts to $3,600,000 MX and has been materialised through ten partnership agreements with several local institutions (hospitals, residential facilities, municipalities and the Red Cross, among others).
Free supply of natural gas to public hospitals: Naturgy Mexico supplied natural gas free of charge for two months to more than 60 public hospitals connected to its distribution networks.
PANAMA
“Your solidarity counts” campaign: more than $40,000 in masks were donated and used in the modular hospital that handles critical patients affected by the virus.
Santa Clara Community Donation: donation of 400 meals and 400 bags of food products to the residents of the Santa Clara Community in Arraiján.
Prevention information campaign: social media campaign resulting from the national emergency decreed by the Panamanian government with measures to combat COVID-19.

Actions aimed at “Customers”
SPAIN
Deferral of electricity, gas and service bills for domestic customers: the aim was to mitigate the effect of the virus on the family economy in the face of increased domestic consumption resulting from the lockdown.
Deferral of bill payments to SMEs and self-employed workers: Naturgy deferred the electricity and gas bills of SMEs and self-employed people issued during a period of the pandemic so that businessmen and entrepreneurs could cope with the crisis and help alleviate the impact on their income.
Stopping supply cut-offs: the company did not cut off electricity or gas during the time that the health emergency lasted in the country.
Free medical care: Naturgy implemented a free video call health care service for all its customers during lockdown, so that citizens could make health consultations without leaving their homes.
Reinforcement of critical infrastructures and urgent care: the company intensified the measures in its protocol for action against coronavirus in all its critical infrastructures to guarantee energy supply. It also continued to deal with incidents and emergencies, to guarantee the supply of electricity and gas with complete normality, increasing the protection measures for all employees who provide these services.

Advice on energy saving: Naturgy has advised its customers on the optimal rates for each case, taking into account the particularities of the situation, providing its customers with a series of tips on energy saving.
Adaptation of the Customer Service: following the instructions given, Naturgy closed the stores and temporarily suspended the preventive maintenance visits. However, the company has reinforced all its online services and continues to work to meet your needs through several channels.
ARGENTINA
Suspension of supply cuts to customers: in compliance with the decrees of the Argentine national government, Naturgy did not cut off gas to any customer belonging to the social tariff category who owed up to six bills. This measure impacted up to 215,000 customers. Moreover, Naturgy did not cut off the gas to any SME commercial customers, or to the work cooperatives and public welfare entities that were contributing to the emergency through food processing and distribution. The measure affected up to 50,000 companies and 504 public welfare entities.
Digital bill: during the isolation period Naturgy sent bills by email to every customer who has a mailbox. The measure already covers 800,000 customers. The communication and promotion actions have reached over 500,000 customers.
Remote service channels: all communication channels (email, social media, press releases, etc.) have been reinforced to keep users informed about self-management and online payment channels and the remote service channels have been given greater response capacity, both the telephone line and the management of queries through social media and the virtual office.
BRAZIL
Suspension of supply cuts: following the guidelines of the governments of the states of Rio de Janeiro and São Paulo, the cut-off of the piped natural gas supply due to non-payment was suspended on exceptional grounds, benefiting more than one million customers. The measure applies to households, small businesses, individual microentrepreneurs, and medical and hospital services.
Debt deferral: the company launched a debt deferral campaign for customers who did not pay their bills due to the crisis.
Tariff reductions in Rio de Janeiro and São Paulo: natural gas tariffs have been readjusted due to the reduced cost of acquiring natural gas, affecting households, businesses and industries.
Help for industrial customers: Naturgy reached an agreement with Petrobras and the Secretariat of Economic Development, Energy and International Relations of Rio de Janeiro to make the contracts for the purchase of natural gas more flexible. The measure enables industrial customers and volume customers to pay only for the natural gas consumed and not for all the volumes committed to in the contracts. Nor will there be charges for contractual penalties resulting from lower demand caused by the impacts of Covid-19.

Remote service channels: the face-to-face service was suspended. The company's digital channels include the vast majority of services available to customers, such as issuing an account or changing ownership, etc. They operate 24 hours a day, seven days a week.
Remote consumption reading: the remote reading service was launched where the customer reads their consumption directly on the meter and sends the information through the web portal.
CHILE
Payment deferral: the company has registered more than 49,000 customers who have asked to take advantage of the payment deferral scheme put in place because of the pandemic. Once the pandemic is over, customers will be able to pay their debts in up to 36 months interest free.
Suspension of supply cut-off: for the duration of the health emergency and the state of emergency.
Special service for SMEs: CGE has set up a special contact channel so that those who are in a complex financial situation and need to agree on payments can do so quickly.
Adaptation of the Customer Service: with the closure of the 66 commercial offices throughout the country, remote service channels were strengthened for all types of procedures and emergency assistance.
MEXICO
"We take care of your energy" campaign: in recognition of the work performed by health and safety personnel who are on the front line of the health emergency in the country, Naturgy Mexico launched the initiative "We take care of your energy", offering one year of free maintenance and repairs in natural gas and gas-domestic facilities, among others, inside the home to all its customers who make up this group in the 52 cities where the company has a presence.
Digital bill: promotion of the use of the mobile application "Naturgy Contigo", where customers can pay and consult their bill free of charge. Since its launch, more than 50,000 customers have used it.
Guaranteed supply and services: reinforcement of operations, through specific action protocols that guarantee continuity of supply and emergency care.
Remote service channels: the on-site service centres have been closed and the digital service and information channels (Twitter, Facebook, call centre and virtual office) have been reinforced to meet the needs of users and stakeholders in real time.
PANAMA
Payments and tariffs: according to the modifications in the Panamanian state subsidies, Naturgy gave an additional subsidy to customers based on their consumption. Similarly, the extension of the term provided for in the Moratorium Law allowed the electricity debt to be extended in instalments for three years.

Suspension of the power cut: Naturgy called off the power cuts. The measure was extended until July.
Facilities for prepaid customers: 30-day and telephone top-ups have been facilitated to ensure that customers have a secure supply.
Online billing: active service before the pandemic and reaching 25% of customers. After negotiations with the Public Service Authority (ASEP), today, 10% of customers with the online billing service have agreed to stop receiving the physical bill.
Remote service channels: following the decision to temporarily close the on-site service centres, remote service channels have been reinforced and the 24/7 working hours have been extended. The virtual office was also made available.
Information campaign with measures implemented: the measures introduced were made known to customers through traditional media and also through a campaign on social networks.

Actions aimed at "Employees"
GLOBAL A major campaign to combat the pandemic has been carried out, spearheaded by the Medical Assistance and Integral Health Unit:
Daily crisis committee with the participation of all countries to monitor the evolution of the pandemic with a particular focus on the impact on the staff.
In January, the communication plan began with a package of preventive measures aimed at raising awareness as a tool for protecting employees and their families, to combat the effects of the pandemic and ensure business continuity.
In February, preventative isolation was established for teleworking staff from risk regions and work travel was limited to that which was essential at the express indication of the Chairman.
The medical services paid special attention to workers at risk. Following an assessment of their health these workers were sent to work from home.
Since the end of February, the health team has been monitoring the Group's workers on a daily and global basis. Communication channels were established so that employees who found themselves with symptoms or if their relatives showed symptoms, they could be advised and followed up by telephone medical attention from the company's medical services.
From the outset, the company facilitated workers' access to a package of specific measures, with the coordination of the Health area and the different departments - Risk Prevention, General Services, Employee Care Service (SAE) and the Corporate Safety and Emergency Centre - providing protocols and procedures to guide actions in the different COVID-19 risk situations.

A series of parameters to monitor and control the impact of the pandemic on employees in all countries were also monitored from the outset by the medical services. For this purpose, the following indicators were monitored: number of people in isolation, number of people with symptoms, number of people testing positive and number of accumulated people back at work after quarantine.
SPAIN
In March, after the widespread lockdown of the population, Naturgy gave free and direct access to any employee (or family member) who required it to the psychological support service, through the specialised telephone hotline.
In May, an online physiotherapy consultation service was made available to employees to promote comprehensive health care and prevent, through targeted exercise, the effects of remote working and the limitation of outdoor activities.
In June, a massive antibody testing campaign was launched, targeted at employees and their families, as part of the company's overall effort to plan for a return to the workplace. This campaign ended in October after offering all employees in Spain and their families the tests, with 5,168 tests performed on employees and 10,107 tests on family members.
In July, a new communication tool was implemented between employees and the company's health services, the app #SaludNaturgy (#NaturgyHealth), to reinforce the systematic monitoring and management of employees' health status in all matters related to COVID-19.
In October, Naturgy's medical services implemented a return-to-work test for personnel who have become infected or have been in close contact with an infected person as an additional measure to those recommended by the health authorities.
Special plan for workers: Naturgy has carried out a direct instruction for all employees in Spain, Portugal and France to work from home, except for those who carry out operational activities critical to the supply. In addition, it has introduced flexible working hours for all its employees, allowing them to adjust working hours and the workday performed according to each employee's specific work/life balance.
ARGENTINA
Teleworking: teleworking measures have been adopted for all non-essential staff. The initiative reaches 75.74% of the staff of Naturgy BAN, NESA, Gasnor, Gasmarket and Energía San Juan.
Contingency plans and security measures: Naturgy has implemented contingency plans for critical activities and positions that needed to continue operating. In addition, it has strengthened security measures for essential personnel working on public roads.
Awareness campaign: using email and internal posters, news, recommendations and good practices on how to prevent the spread are provided.
BRAZIL

Teleworking: from 16 March, the company started a gradual teleworking regime for all employees who could perform their activities from home. Since 23 March, 94% of employees have been working in the home office, with the exception of those whose activities do not allow it.
Contingency plans and safety measures: the operating areas, both the one responsible for monitoring the piped gas network as well as the technical service teams, continue to operate 24 hours a day, following contingency plans and adopting greater safety measures (hygiene, protection, etc.).
Online employee health monitoring: the physical and mental health of employees is monitored weekly through two online questionnaires.
Psychological support service for employees and their families: free telephone channel for emotional support for health 24 hours a day, every day of the week. The service is provided by a team of psychologists and social workers.
Awareness campaign: weekly live transmissions have been made with professionals specialising in psychiatry on topics such as "Preserving mental health", "Safe and healthy home office", as well as advice on ergonomic issues and the take-up of healthy habits.
CHILE
Teleworking: 86% of workers are currently working from home. CGE made the decision to introduce this measure on 16 March. A critical working group is maintained on site, which is key to operational continuity.
Awareness campaign: a range of hygiene, health and prevention measures, both physical and emotional, were explained. A telephone channel was made available for free psychological support for all partners. Under the hashtag #JuntosConEnergía (#TogetherWithEnergy) messages are launched to maintain partners' pride and sense of belonging. Informative sessions have been held for team leaders on how to manage from home, ergonomic data, organisation of the day with a remote work mode, among others.
MEXICO
Teleworking: the company instructed all employees to work from home, except those who perform critical operational activities to ensure continuity of supply and security in the infrastructure. Currently 90% of the staff are teleworking.
Contingency plans and security measures: sanitary filters were implemented at all facilities, in order to prevent, detect and contain the spread of COVID-19. Critical personnel have been provided with protective equipment and are given daily medical checks. They are provided with transfer vehicles to avoid using public transport. By the same token, all the necessary protocols have been implemented in coordination with the Secretariat of Public Safety and Protection to guarantee the mobility of critical equipment that ensures the full operation of all the infrastructures operating in the country.
Medical service and coverage: the 24/7 medical service was set up to attend to any partner who might have symptoms. This service is extended to immediate family members. In addition,

facilities were provided for direct family members to take out the policy, in order to deal with any medical eventuality requiring hospitalisation.
Awareness campaign: an internal communication campaign has been deployed on an ongoing basis with recommendations on health, technological tools, cybersecurity, online training, optimisation of free time, distance working, family activities, reading recommendations, among others.
Sanitary kits: delivery of a package of sanitary and protective products to employees and partners of production facilities, for use in the family setting.
PANAMA
Teleworking: from 13 March, labour flexibility measures were offered in two staggered phases. On 18 March, 67% of the non-critical staff were teleworking and were equipped with the required IT equipment. As of 26 March, 98% of the non-critical staff had taken advantage of the labour flexibility measures offered by the company, 90% of them working from home.
Health monitoring measures: in particular, individualised health monitoring is maintained for the group at high risk due to existing pathologies (100% working from home). A medical team is available 24 hours a day for monitoring, consultation and follow-up of symptoms.
Prevention and control measures in offices: continuous provision of basic hygiene inputs in the various workplaces. Monthly provision of kits to employees according to the phase of reincorporation, installation of footbaths in all workplaces, daily taking of temperature, signposting of physical distance and hygiene measures in the workplaces.
Reincorporation phases: for the reincorporation phases, measures were introduced that were applied according to the date of return and in line with the needs of each partner: teleworking; reduction of working hours; continuous working hours; flexibility in working hours; flexibility to work from a workplace closer to the home.
Serological antibody detection tests were also made available to all employees and their families.

Actions aimed at "Suppliers"
SPAIN
Reinforcement of protection measures for collaborating companies: Naturgy has extended the measures included in its specific health and safety plan during this health crisis to all partner companies.
Cash payment for services provided by SMEs and self-employed persons: Naturgy has advanced the payment of invoices to SMEs and self-employed suppliers in the company's Spain-based operations for invoices for the second quarter of 2020.
ARGENTINA

Speeding up payment/liquidity: we accepted invoices from suppliers by email, without the need to send the invoice in paper format, and arranged payment of these through bank transfers.
Authorised installers: a mailbox was set up so that accredited installers could carry out procedures remotely. In turn, the expiry of the licenses was extended until 31 July.
CHILE
Support to contractor companies: the company supports its contractors so that they can maintain their sources of employment and the electrical service. As of 20 April, cash payment has been enabled for a number of contractors considered critical to the operation and which, due to their size and turnover, are at risk.
MEXICO
Speeding up payment/liquidity: to help suppliers, cash payment has been arranged for work performed by critical service providers to facilitate liquidity. This covers 100% of critical suppliers (30 suppliers).
Health and safety measures: transmission of Naturgy Mexico's health and safety protocols to ensure safe working conditions, including the handover of personal protective equipment.
PANAMA
Reinforcement of health and safety measures: Naturgy has extended the measures included in its specific health and safety plan during this health crisis to all partner companies.

An integrated and sustainable business model

Key Corporate Responsibility indicators

Service Excellence	2020	2019
Global satisfaction with service quality (on a scale of 0-10)		
Spain (domestic)	7.5	7.2
Spain (SME)	7.5	7.1
Spain (wholesale)	7.8	7.5
Argentina[1]	-	-
Brazil	8.5	8.6
Chile (electricity)[2]	5.7	5.7
Chile (gas)[2]	5.9	5.9
Mexico	7.2	8.5
Panama[1]	7.3	-
Commitment to results	2020	2019
Net turnover	15,345	20,761
Gross operating profit or Ebitda (million euro)	3,449	4,562
Evolution of the DJSI percentile	96	100
Responsible management of the environment	2020	2019
Direct greenhouse gas emissions (GHG) ($MtCO^2e$)	14.3	15.4
Emission factor including nuclear (tCO_2/GWh)	297	301
Water consumption (hm^3)	20.3	20.0
Generation of waste (kt)	159	154
Recovered and recycled waste (%)	61	57
Initiatives to improve biodiversity (no.)	265	257
Environmentally certified Ebitda (%)	92.2	88.7
Environmental investments and expenses (million euro)[3]	685	546
Interest in people	2020	2019
Number of employees[4]	10,540	11,847
Men/Women (%)	67/33	68/32
Women in management posts (%)	22.6	29.4
Personnel costs (million euro)	798	924
Annual investment in training (Euros)	5.02	6.99
Employees covered by collective bargaining agreements (%)	74.5	74.0
Health and safety[5]	2020	2019
Number of lost time accidents (No. of employees)	4	14
Days lost due to lost time accidents	438	704
Deaths	0	0
Lost time accidents frequency rate	0.04	0.12
Lost time accidents severity rate	4.14	6.04
Absenteeism rate (%)	2.37	2.48
Responsible supply chain	2020	2019
Suppliers with contracts currently in force	6,553	7,896
Total purchase volume awarded (million euro)	1,955	2,510
Purchasing budget targeted at local suppliers (%)	95.22	92.37
Suppliers assessed according to ESG criteria (number)[6]	7,780	7,407
Social commitment	2020	2019
Evolution of the contribution from Naturgy (million euro)	7.16	8.16
Breakdown by type of action (%)		

Social	82	84
Environmental	2	2
Cultural	16	14
Sponsorship and social action activities (number)	106	134
Integrity and transparency	2020	2019
Notifications received by the Ethics and Compliance Committee	141	194
No. of complaints received per 200 employees	1.5	3.3
Average time for resolving complaints (days)	42	48
Audit projects analysed on the basis of the risk of fraud	110	95
Complaints received in the area of human rights[7]	0	0
Number of persons trained on the Human Rights Policy	6,827	7,918

1 Argentina and Panama have not measured global satisfaction with service quality during 2019. The data for Argentina in 2020 are not available at the date of the publication of this report. Data for Argentina in 2020 is not available at the date of publication of this report.

2 Figures measured on a scale of 1 to 7.

3 Includes investment in renewable energies.

4 For 2019, 78 people are not included for Kenyan operations that had been discontinued.

5 With the exception of the absenteeism rate, the health and safety indicators have been calculated according to the new OHSA criteria (indicators per 200,000 hours worked).

6 Environmental, Social and Governance (ESG). The suppliers ESG assessment is conducted at the main subsidiaries of the group where the Achilles tool is implemented, and through which the business classification of suppliers is carried out.

7 The human rights issues referred to in this indicator are freedom of association and collective bargaining, respect for the rights of ethnic minorities and the rejection of child labour and, in general, any form of exploitation.

Integrated management system

For years, Naturgy has had an integrated quality, environment, health and safety management system (IMS), certified according to the requirements of the ISO 9001:2015, ISO 14001:2015 and ISO 45001:2018 standards. This system is audited externally every year. In 2020 this audit was carried out by AENOR in all businesses and countries.

The processes certified through this system are:

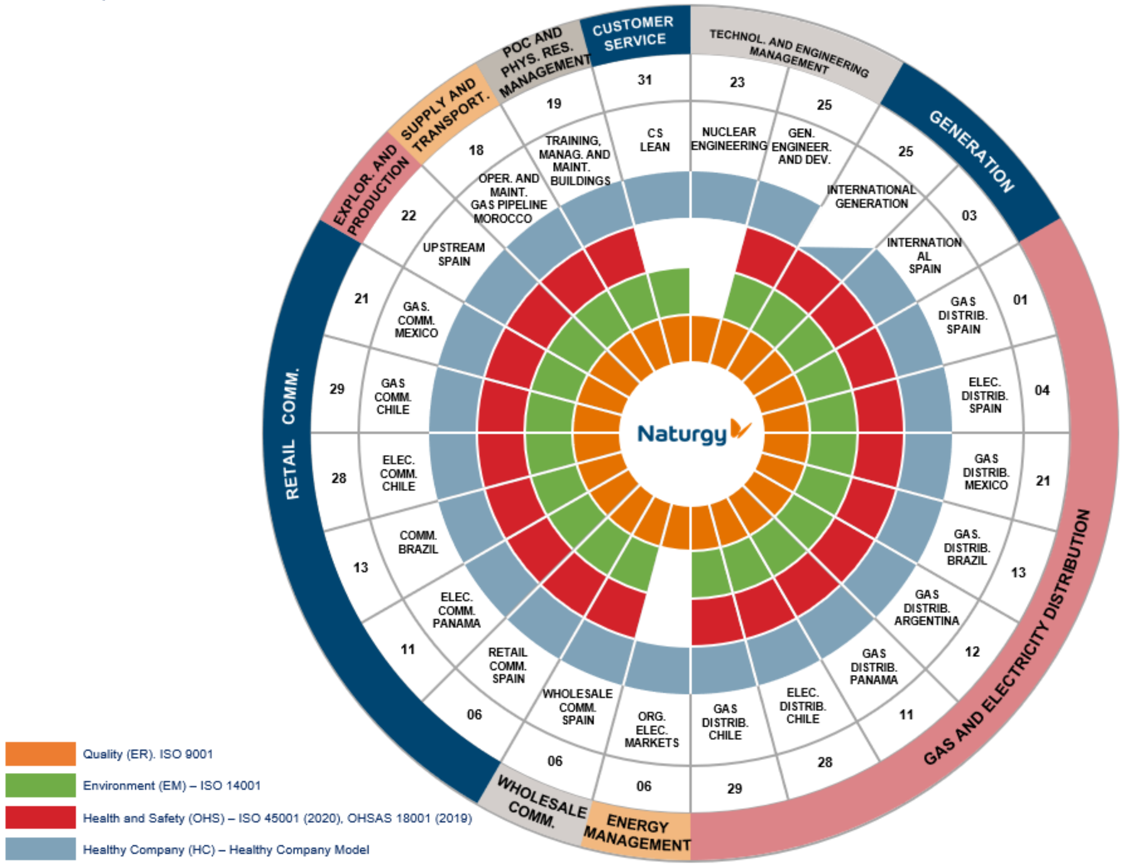
- Extraction and injection of natural gas.
- Transport and operation of the Maghreb-Europe gas pipeline.
- Electricity generation (thermal, hydraulic, wind and solar origin).
- Distribution of natural gas and electricity.
- Gas and electricity transmission.
- Wholesale and retail commercialisation of natural gas and electricity.
- Development and execution of engineering projects.
- Energy management in organised Iberian electricity markets.
- Corporate activities involving training, customer service, billing and collection.
- Building maintenance.

As part of the IMS, the Healthy Company Integrated Management System is also audited and certified annually in the units in Spain, Argentina, Brazil, Chile, Morocco, Mexico and the Dominican Republic, in accordance with the Healthy Company Model.

In addition, the energy services activity included in the commercialisation of natural gas and electricity in Spain is certified in the energy management system according to ISO 50001.

Compared to the previous year, the transition from OHSAS 18001 to the new ISO 45001 standard for occupational health and safety management throughout the group, including auditing and certification, was completed in 2020.

QUALITY, ENVIRONMENT AND HEALTH AND SAFETY CERTIFICATIONS CHART



Avant-garde and sustainable innovation

Naturgy's contribution to SDG:

Management outlook and focus

One of the key growth levers for Naturgy is innovation, since it enables the incorporation of new or better practices, new business models, and technologies to allow the company to become more efficient and competitive. It permits the company to remain at the forefront and centre all its efforts on its customers.

The way in which innovation is devised enables risks to be transformed into opportunities, as a contribution to the creation of an agile company capable of riding the wave of constant transformation.

Naturgy considers the contribution made by innovation to be essential in order to allow the targets set out in the Strategic Plan to be met.

Naturgy's innovation model evolved in 2020 and was integrated into the management of the New Business and Innovation Department as a forward-looking strategy to speed up the processes for implementing the most disruptive business models.

Investment in innovation

Investment in innovation by type (€M)	**2020**	**%**	**2019**	**%**
Process innovation	26.45	71.94	16.40	45.1
Product innovation	5.82	15.84	15.20	41.8
Marketing innovation	0.4	1.1	1.53	4.2
Organisational innovation	2.11	5.75	1.24	3.4
Social innovation	1.97	5.37	2	5.5
Total R&D&I	**36.75**	100	**36.37**	100

Naturgy wants to play an important role in the Spanish Government's Recovery, Transformation and Resilience Plan, to contribute to the country's Energy Transition, which is one of the main axes established in the Plan. To this end, Naturgy has created a work team with more than 100 participants from different departments across the company, which has made it possible to detect a large volume of projects. In total, approximately 30 project lines have been identified from the 6 working groups, with a potential investment of around Euros 14,000 million. The main lines identified are:

- Renewable gases: development of projects for the production of renewable hydrogen and biomethane, adaptation of infrastructure for blending into the gas network and development of projects for use by end customers.
- New renewable electricity: increasing the renewable generation portfolio by developing energy storage projects and innovative renewable generation technologies, such as floating offshore wind power.
- Digitisation: use of digital technologies to make electricity and gas networks an energy transition facilitator, to develop new customer services and to improve asset operation and maintenance through the use of technologies such as Artificial Intelligence or Augmented Reality.
- Energy efficiency: development of customer solutions in the areas of self-consumption, sustainable building and efficiency in industry.
- Sustainable mobility: development of solutions to promote sustainable mobility (electricity and renewable gases such as biomethane and H2).
- Fair Transition: development of projects for the conversion of power stations in the Fair Transition area. It includes energy projects such as those specified in the previous lines, and additional projects with social and environmental impact.

Innovation governance

Action plans have been developed for all the strategic lines of innovation, including guidelines and targets both in the period of the Strategic Plan and in the longer term, which contributes to the company's sustainability.

This approach also ensures that innovation activities and projects are implemented in a coherent manner, with follow-up and assessment using consistent indicators.

Renewable generation and storage

Naturgy's vision is clear, to comply with the commitment to fight climate change the company's energy mix must progressively evolve towards an emission-free model, always guaranteeing the security and quality of supply.

In the new emission-free model, renewable energies will have a very important role to play and, in order to ensure continuity of supply, they will also have to be supported by reliable storage systems. Therefore, the development of energy storage technologies is key in this process.

Renewable generation

The La Nava Photovoltaic Testing Ground Project was set up in the Spanish province of Ciudad Real in 2020 for the purpose of testing solar panels, trackers and other equipment, and assessing design parameters for photovoltaic solar generation facilities. Bifacial panels have been tested and comparison of the results against those of currently used panels will be commencing.

Storage

In the area of storage, work continued in 2020 on the Renewable Hybrid Generation and Storage Project at the La Vega I & II wind farms, the goal of which is to demonstrate the technical feasibility of a manageable hybrid facility that can provide multiple electrical services to the farm itself and the grid. After a few months' delay owing to lockdown, the plant was energised in the autumn of 2020.

The spring of 2020 saw the launch of a pilot project involving a start-up selected from the CleanTech Camp open innovation platform to predict possible failures on wind farms. The results show that the failure of some turbines can be predicted up to five months in advance. Testing and validation of the models will continue until the spring of 2021.

The procedure to take part in the Green Deal and to lead a European consortium to develop a floating wind farm in the Canary Islands was initiated.

Advanced management of distribution assets

The future of distribution networks

The energy transition marks a path towards a more distributed, more sustainable system with greater customer participation. This entails a new paradigm of electricity distribution based on distributed generation, electrification of demand, and the connection of electric vehicles. In this context, digitalisation is a key driver of the solutions to the challenges facing electricity distribution. The gas network also facilitates the integration of sustainable new technologies such as renewable gas.

SPIDER 2.0

SPIDER 2.0 is the most exemplary project in the field of advanced electricity network asset management undertaken in 2020. The project seeks to develop a sophisticated platform that combines information from conventional network devices and new IoT devices with meteorological, property register and traffic information to achieve advanced network operation. The aim is to develop functionalities such as the automatic operation of remote-controlled switches in the medium-voltage network, assisted manual operation for non-remote-controlled switches and disconnectors, and automatic network operation for the optimisation of technical parameters. In order to achieve this, sophisticated algorithms will be developed that combine available static and real-time information, and these will be simulated in a synthetic environment until their optimal functioning is validated and their impact on business can be evaluated.

Ris3CAT

In the field of gas networks, Ris3CAT was completed in 2020. NEDGIA participated in three of the five initiatives comprising this EU-funded project, with the involvement of another 47 partners in the Utilities 4.0 Community. The project falls within the framework of the Utilities 4.0 concept and aims to identify the digitalisation solutions that allow efficiencies to be captured and the security of the gas network to be improved. Among the technologies piloted by the project is sensorisation of the network using IoT, the generation of predictive models based on artificial intelligence and condition-based maintenance.

Renewable gas

Activities involving renewable gas focused on the development of green hydrogen and biomethane. Biomethane is a fuel that is equivalent to natural gas but is obtained from renewable resources such as biomass or organic waste and is therefore carbon neutral. Consequently, this form of energy contributes to the fight against climate change; it is part of the "circular economy" since it involves efficient waste management; and it also enables society to produce, distribute and consume locally produced gas, which contributes to the development of the local economy.

Actions to promote the use of renewable gas have focused on the production of biomethane from biogas, methanation with hydrogen addition and optimising green hydrogen production, with the creation of pilot projects to research this type of gas in order to maximise production and reduce costs.

Renewable gas mixed unit

One of the company's success stories in this field is the renewable gas mixed unit. In partnership with EnergyLab and the government-owned company operating the wastewater treatment plant in Bens (A Coruña), the unit has secured funding to continue its work in R&D&I and to start new lines of development. This new stage will complete the work done so far by the mixed unit for biogas and biomethane research, which has achieved notable results such as the commissioning of a membrane filtration plant and the first biological methanation plant in Spain at the Bens wastewater treatment facility. In addition, research will be conducted into other renewable gases such as green hydrogen and bio-syngas, which will make it possible to assess their impact on current infrastructure and on the facilities of end consumers.

"Elena" landfill site

Another success story was the construction of the biomethane upgrading plant at the "Elena" landfill site, a closed landfill site producing biogas that is located on the grounds of the emblematic Parc de L'Alba urban development in Cerdanyola del Vallès. The construction of the plant has done away with the need to flare the biogas being generated at the site and its use as a renewable gas in the gas network.

Distributed generation and storage

The publication of Royal Decree 244/2019, which regulates the new conditions for electricity autoproducers, represents an opportunity for the development of distributed generation based on photovoltaic solar energy in Spain.

The decline in the price of photovoltaic technology makes autoproduction increasingly affordable. This competitive advantage is enhanced by the possibility offered by the new Royal Decree of joint ownership of autoproduction facilities. Several projects were evaluated in 2020 to explore new business models associated with energy communities and the energy aggregation model.

Sustainable mobility

A plan began to take shape in 2020 for the roll-out of electric vehicle (EV) charging points on public roads that will allow the company to position itself as one of the leaders in sustainable mobility in Spain. The company continues to work on the nationwide roll-out of vehicular natural gas refuelling stations for public use. Naturgy pays special attention to improving the energy and economic efficiency of the actual refuelling stations, conducting several studies for the incorporation of storage technologies at both EV charging points and natural gas refuelling stations.

LNG ON Wheels ®

During 2020, Naturgy continued to develop a solution that will facilitate the supply of liquefied natural gas (LNG) through tanker trucks that connect directly to a ship or other supply infrastructure, making it possible to transport LNG to areas that were not previously accessible.

Customer solutions

Innovation makes it possible to create value for customers, by focusing on them, providing them with more sustainable solutions based on digital technologies and streamlining and transforming the relationship and communication with them.

Smart Client

The Smart Client initiative seeks to personalise customer service using technologies such as artificial intelligence (AI) and the internet of things (IoT). During 2020, work was carried out within the framework of the Start4Big (Smart IoT Labs) open innovation initiative, where a pilot project is being conducted to enable business opportunities to be identified when processing data obtained from sensors in the home.

Smart Channel

In the area of Smart Channel technology, efforts are going in to developing new models of digital communication with customers in order to provide a greater sense of proximity and clarity in communication, as well as to be able to offer improved service. Pilot testing and implementation of Pepe, Naturgy's virtual assistant that uses AI-driven natural language processing to automate the customer service process, was finalised in 2020. This assistant helps customers navigate the company's digital channels in order to deal with queries regarding processes, products and services, in addition to providing general information about the sector that helps customers to better understand the field of energy and how to be more sustainable. In Chile, a new customer communication channel was implemented allowing customer relations to be transformed by making them closer and faster, and to learn the notions customers hold as regards the world of energy, enabling the company to offer personalised services adapted to their needs.

Other fields of action

During 2020, Naturgy and nine other leading companies participated in the Dalion project, a Spanish project that works on self-managed digital identity, through which individuals will have their data concentrated in a single digital identity and stored on their mobile device, so that they exercise control over it and decide with whom to share it at any given time when contracting services.

Innovation planning and technology monitoring.

Technology Observatories

Monitoring takes place through observatories, involving over 200 people from the various business units and corporate areas. These groups have a particular collaborative nature and share and analyse information from an end-to-end perspective: technology, commercial, regulatory, social and market aspects. Insights are generated that guide the innovation activity and contribute to the evolution and transformation of the business. They facilitate the take-up of new technologies and best practices, awakening ideas and facilitating the development of new opportunities.

During 2020, Digital Technology Observatories, organised into three domains of competence (Blockchain, IoT and communications, Artificial Intelligence) were set up to complement the company's other operating groups with their cross-cutting analysis.

Think Tanks

Work was continued on the format of think tanks in order to examine trends in the energy industry and detect new business opportunities. These groups are led by New Business and Innovation with the active participation of all the businesses, in which the final positioning must be validated by the Management Committee.

The main purpose of think tanks is to define the strategic positioning of the Naturgy Group based on a decisive analysis of the information from the Digital Technology Observatories and the roadmaps that define its technological positioning.

Moreover, the Observatories held a series of sessions in 2020 called Quedatech. These sessions were open to the entire company, allowing some of the topics being monitored to be approached and disseminated in order to unlock this knowledge and make it more widely known.

Encouraging innovation

Naturgy continued to operate its two innovaHubs, in Madrid and Barcelona, which are conceived as open spaces that are freely available for innovative activities and in which forms of collaborative agile work can be explored. Face-to-face activities were held in these spaces only during the months of January and February. They were subsequently transferred to an online format from April onwards. Despite the restrictions in place owing to the pandemic, four MeetUps, five innovative knowledge pill workshops, and two Techbreakfasts were held. All of them featured a similar informal, dynamic and collaborative format, where participating companies and start-ups were able to exhibit their products, technology or services and gain first-hand knowledge of innovations for each given theme.

Through the open innovation initiatives, Naturgy maintains an open attitude to observe and identify opportunities and trends and to discover the status and development of new business models and services and how these are progressing, with the aim of finding new ideas that can meet the demands of markets and customers.

In 2020, the Data Hub (a space dedicated to promoting data-driven transformation) continued to carry out various data initiatives focusing on advanced analytics and AI, reporting and visualisation, and data management and governance, all of which took a virtual format.

Corporate governance

Good governance for efficient and transparent management

[102-18] [103-1] [103-2] [103-3] (Good corporate governance)

1. **Corporate governance, in constant evolution**

Governance at Naturgy is based on the principles of efficiency and transparency established in accordance with the main existing recommendations and standards on the world stage.

- The set of governance rules comprise basically:
- Articles of Association (updated in 2018).
- Regulations of the Board of Directors and its Committees (updated in 2019).
- Regulations of the General Meeting of Shareholders (updated in 2018).
- Human Rights Policy (updated in 2019).
- Code of Ethics (updated in 2019).

The main shareholders of Naturgy as of 31 December 2020 and 2019 are as follows:

Stake %		
	2020	**2019**
- Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona, "la Caixa" (1)	24.8	24.4
- Global Infrastructure Partners III (2)	20.6	20.3
- CVC Capital Partners SICAV-FIS, S.A. (3)	20.7	20.4
- Sonatrach	4.1	4.1

1. Stake through Criteria Caixa S.A.U.
2. Global Infrastructure Partners III, which is managed by Global Infrastructure Management LLC, holds its stake indirectly via GIP III Canary 1, S.à.r.l.
3. Through Rioja Acquisition S.à.r.l.

NB: Capital Research and Management Company, which owned 3.0% of capital as of 31 December 2019, is not included on the grounds that it is floating capital as the stake occasionally rises above or falls below the 3% threshold.

Good governance actions are instrumented through the Board of Directors, mainly through the annual analysis and approval of the company's risk profile, including ethical, social and environmental issues in the planning of activities. To this end, the company frequently reviews its internal audit and compliance procedures and uses its internal regulations to set out those practices that should lead to greater knowledge of the company's way of working.

During the Shareholders' Meeting of 26 May 2020, the Company's commitment to implement measures to promote gender diversity in the composition of the Board of Directors was made public. Accordingly, over the course of 2020, the resignation of some of the proprietary directors has enabled substantial progress to be made in terms of gender diversity, with all vacancies being filled by women: Ms. Isabel Estapé to fill the vacancy for Mr. Alcántara and Ms. Lucy Chadwick to fill the vacancy for Mr. Stanley. Ms. Helena Herrero, whose mandate had expired, was re-elected for a new term.

In 2020, the publication by the CNMV of the new Good Governance recommendations has made it necessary to make a series of amendments to the Company's policies and procedures. Specifically, the following actions have been taken:

- General reporting policy.
- Policy for the selection of Directors on aspects related to the promotion of diversity in senior management.
- Risk policy.
- Shareholder and investor communication policy.

In addition, the Board Regulations were amended and the distribution of powers among the three Board Committees was reviewed.

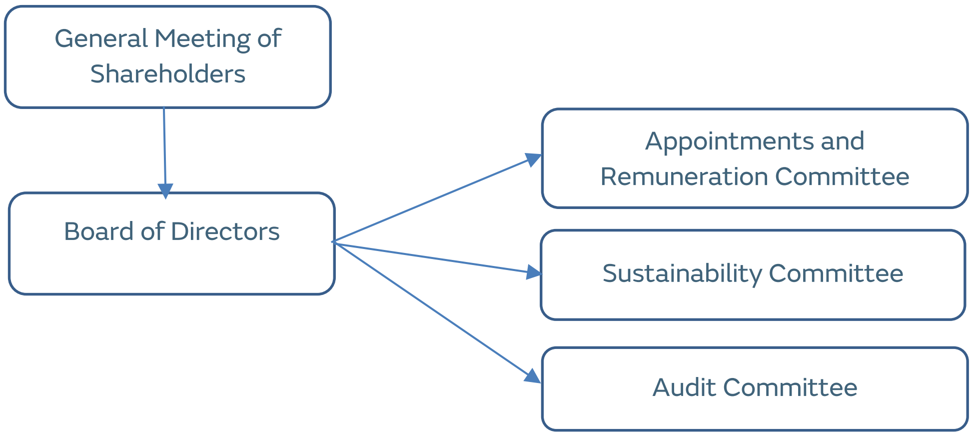
Specifically, and with regard to the Regulations of the Board of Directors, in 2020, Articles 10, 11, 24, 25, 26 have been amended and a new Article 27 has been added to (i) adapt it to the new Good Governance recommendations of the CNMV (ii) update the name of the Board's committees and incorporate the new Sustainability Committee.

Also, in 2020, the Board of Directors proposed the modification of the Company's Articles of Association, specifically Article 6.3 to enable shareholders to attend the General Meeting using online means and Article 6.2 to adapt the powers of the Board of Directors to the prevailing legal framework.

The Board of Directors also proposed the amendment of the Regulations of the General Meeting of Shareholders, specifically Article 8 to confer a new power on the Chairman of the General Meeting, which will enable him to adopt the appropriate health prevention measures at any time to guarantee the adequate development of the event and Article 13 to regulate the basic aspects so that shareholders can attend the General Meeting online.

Both proposals were approved by the General Meeting of Shareholders held on 26 May 2020

Governing structure of Naturgy



4. Functions and composition of the Board of Directors

[102-18]

Risk prevention management and consideration of aspects tied to corporate social responsibility rank very highly on the Board of Directors' activity, and the Board is responsible for approving the corporate governance and corporate responsibility policies. Every year, through the compilation of the respective reports, it reviews and approves the information on risks and opportunities in these areas.

The Board of Directors exercises the powers attributed to it through the Law, the Articles of Association and the Regulations for the Organisation and Functioning of the Board. Specifically, the following general powers correspond exclusively to the Board of Directors, according to Article 3 of the Regulations:

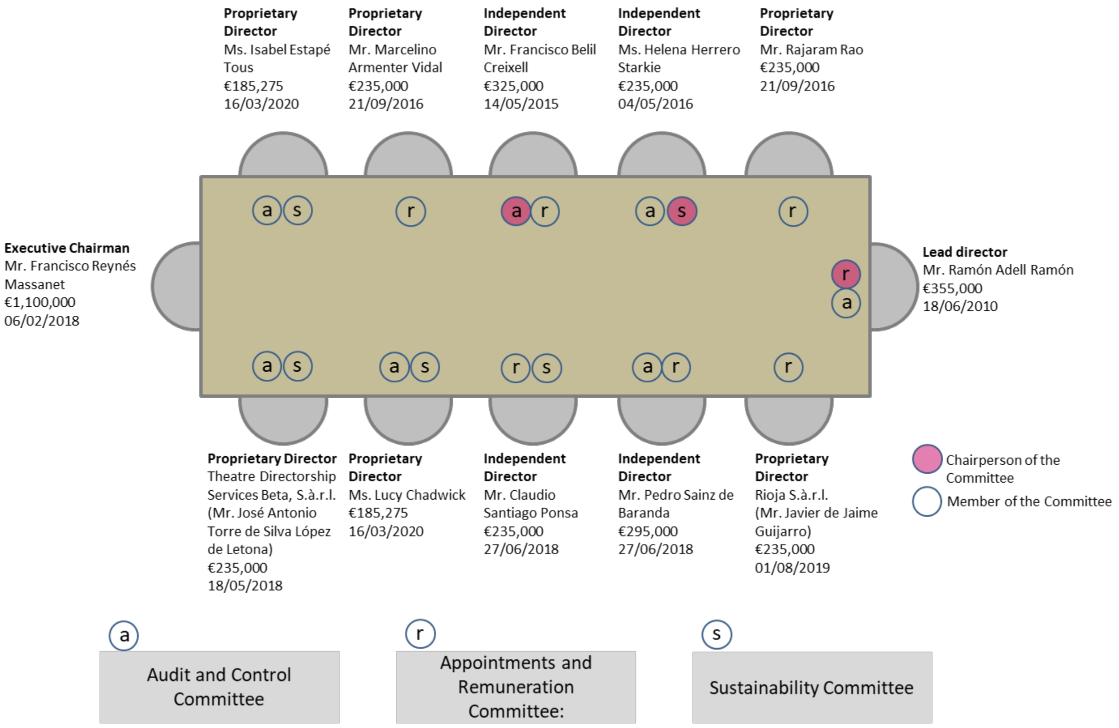
I. Non-delegable matters:

a. Those provided for in legislation as non-delegable.
b. Creation, investment and supervision of the management of personnel pension plans and any other undertakings involving personnel which imply long-term financial liabilities for the company.
c. The appointment and removal of senior managers who have a direct dependence on the Board or any of its members, as well as the introduction of basic conditions of their contracts, including their remuneration.
d. The matters subject to an enhanced majority contemplated in section 4 of Article 7 of these Regulations.

II. Matters ordinarily non-delegable, but which may be adopted by the delegated bodies or persons, for reasons of urgency duly justified and which must be ratified at the first Board of Directors session held after the take-up of the resolutions, of which the following stand out:

a. The approval of management targets, the annual financing plan, the investment and financing policy, the corporate social responsibility policy.
b. The determination of the company's corporate governance policies, of the risk control and management policy, including tax risks, and supervision of the internal reporting and control systems.
c. The approval of the financial reporting which, due to its status as a listed company, must be made public periodically by the company.
d. The approval of investments or operations of a strategic nature.

Composition of the Board of Directors and its Committees (at 31 December 2020)



Remuneration and date of appointment of directors are included.

Management structure

Naturgy's management structure consists of three business units (Energy and Network Management, Renewables and New Businesses, and Commercialisation) as well as corporate units to ensure centralised control.

Senior Management is defined as meaning the senior managers who report directly to the Executive Chairman, Mr. Francisco Reynés Massanet. As of 31 December 2020, it comprises the following senior managers:

Business Units

- Energy and Network Management Department managed by Mr. Pedro Larrea Paguaga.
- Renewables and New Business Department managed by Mr. Jorge Barredo López.
- Commercialisation Department managed by Mr. Carlos Francisco Vecino Montalvo.

Corporate Units

- Information Systems Department managed by Mr. Rafael Blesa Martínez.
- Capital Markets Department managed by Mr. Steven Fernández Fernández.
- Planning, Control and Administration Department managed by Mr. Jon Ganuza Fernández de Arroyabe.
- Company and Board Secretariat managed by Mr. Manuel García Cobaleda.
- Sustainability, Reputation and Institutional Relations Department managed by Mr. Jordi García Tabernero.
- People and Organisation Department managed by Mr. Enrique Tapia López.

Assessment and capacities of the Board of Directors

Pursuant to the recommendations laid down in the Good Governance Code of Listed Companies and the Board Regulations, the quality and efficiency of the Board and of its committees is assessed every year.

In 2020 an external process was set up to assess the operation of the Board of Directors, the Audit and Control Committee, the Appointments, Remuneration and Corporate Governance Committee and the Sustainability Committee.

The assessment exercise for 2020 has concluded that the Board and the Committees are operating with a high degree of satisfaction, although there are a number of views on the Board that require further reflection.

Diversity in the process of appointments and renewal of directors [405-1]

The Naturgy Board of Directors comprises 12 members, of whom three are female. Among the Board members there is a diversity of professional experience and academic knowledge (engineers, lawyers, economists, among others), as identified in the Board's Competence Matrix.

Diversity and Competence Matrix

Executive Independent Proprietary

	Mr. Ramón Adell	Mrs. Isabel Estapé	Mr. Marcelino Armenter	Mr. Francisco Belil	Mrs. Helena Herrero	Mr. Javier de Jaime	Mr. Rajaram Rao	Mr. Francisco Reynes	Mr. Pedro Sainz Baranda	Mr. Claudio Santiago	Mrs. Lucy Chadwick	Mr. José A. Torre de Silva
Energy global trends / strategy / technology	○		○	○			●	●		●	○	
Infrastructure (investments in regulated environments)	○	○	●	○		●	●	●		○	●	●
B2C (customer experience and new services)	○		○		●	○			○			○
Operational excellence and processes optimization	○		●	●	●			●	●	●		
Regulators / other public stakeholders relations	●	●	●				○	●			●	
International Experience	○	○	○	●	○	○	●	●	●	●	○	○
Top Management experience			●	●	●			●	●	●	●	
Accounting / Audit / Risk Management	●	○	●	○	○	○	●	○	○	○	○	●
Corporate finance	○	●	●		○	●	●	●	○	○		●
Industrial & Energy Technologies (Industrial Tech)				●				●	●	●	○	
Industrial & Energy Technologies (Information Tech)					●			○	●	●	●	
Talent Management and Remuneration	○	○	●	○	●	○	○	●	●	●	●	○
Corporate Governance and Sustainability (ESG)	○	●	●	○	○	○	○	●	○	○	●	○

● Professional executive experience ○ Experience as Director or indirect executive experience

In its Policy for the Selection of Directors, the company expressly indicates that the Appointments and Remuneration Committee will ensure that the selection procedures do not suffer from implicit biases that could imply any discrimination, and after the modification made in November 2020 to this policy, the need to introduce measures that promote the appointment of a significant number of female senior managers has been incorporated.

Regarding the selection of candidates for the post of director, the process is based on an assessment by the Appointments and Remuneration Committee, which may seek external advice. The analysis is based on the company's needs and on the skills, knowledge and experience needed on the Board, as well as the alignment of the candidate with the principles, values and vision of Naturgy.

Breakdown of the Board of Directors by age (%) [405-1]

	2020	2019
Under 55 years of age [%]	25	10
Between the ages of 55 and 60 years [%]	25	30
Over 60 years of age [%]	50	60
Total [%]	100	100

5. Remunerative model of the Board of Directors

Remuneration of directors represents an issue of major importance in the company's good governance. In accordance with the current legal framework, Naturgy regularly reports on remuneration of members of the Board of Directors through its Integrated Annual Report, the Annual Accounts and the Annual Report on Remuneration of Directors, all publicly available.

Remuneration of directors for sitting on the collegiate decision-making bodies is considered as fixed remuneration. Only the Chairman of the Board of Directors receives remuneration based on the executive functions he performs outside of sitting on the Board.

The determination of each director's remuneration corresponds to the Board of Directors, which shall take into consideration the duties and responsibilities attributed to each director, the Board committees on which they sit and other objective circumstances that are relevant. In this regard, the remuneration of directors must maintain a reasonable proportion with the importance and economic situation of the company, and the market standards of comparable companies.

The system of remuneration established must be targeted at promoting profitability and the long-term sustainability of the company and incorporate the precautions required to avoid the assumption of excessive risks and rewarding unfavourable results.

No outsourced consultants have been used to determine the remuneration of directors.

In the 2020 Ordinary General Meeting of Shareholders, the Annual Report on Remuneration of Board Members for 2019 was approved by a majority vote, as follows:

Number of shares that have cast valid votes	719,430,449
Total number of valid votes cast	719,430,449
Proportion of the share capital represented by valid votes	73.10
Votes in favour	647,581,762

Votes against	71,625,906
Abstentions	222,781
Quorum of attendance at the General Meeting of Shareholders	75.46

Issues dealt with at the General Meeting of Shareholders

The quorum of attendance at the Meeting represented 75.46% of all shares in Naturgy.

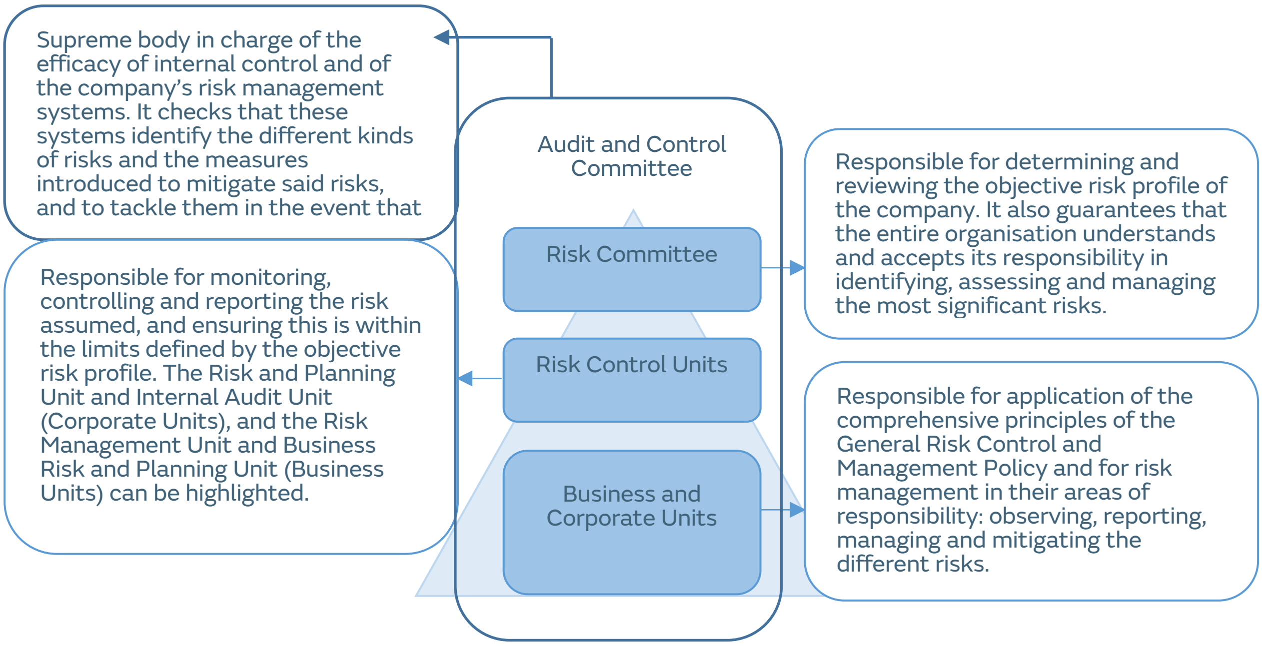
Issue	Nature of the issue (economic, social or environmental)	Conclusions drawn
Approval of the Annual Accounts and the Directors' Report of Naturgy Energy Group, S.A.; the Consolidated Annual Accounts and the Directors' Report of the Consolidated Group for the financial year that closed on 31 December 2019.	Economic	Approved by a majority
Approval of the allocation of profits for the year that closed on 31 December 2019.	Economic	Approved by a majority
Approval of the Consolidated Non-Financial Information Statement of Naturgy Energy Group, S.A.	Economic/Social/Environmental	Approved by a majority
Transfer to the "Voluntary Reserve" account.	Economic/Social	Approved by a majority
Approval of management performed by the Board of Directors in 2019.	Economic/Social	Approved by a majority
Re-election, ratification and, where applicable, appointment of members of the Board of Directors.	Economic/Social	Approved by a majority
Approval of a capital reduction through the cancellation of own shares under the share buy-back programme.	Economic/Social	Approved by a majority
Approval of the Director Remuneration Policy for 2020-2022.	Economic	Approved by a majority
Consultative vote concerning the Annual Report on remuneration of members of the Board of Directors.	Economic	Approved by a majority
Authorisation to reduce the period for calling Extraordinary General Meetings, in accordance with	Social	Approved by a majority

Article 515 of the Corporate Enterprises Act.		
Approval of the amendments to the Articles of Association.	Social	Approved by a majority
Approval of the amendments of the General Meeting of Shareholders Regulations.	Social	Approved by a majority
Amendments of the Regulations for the organisation and functioning of the Board of Directors of Naturgy Energy Group, S.A. and its Committees.	Economic/Social	Approved by a majority

Risks and opportunities

Risk management at Naturgy

Naturgy identifies and assesses the impact of the main risk factors for the company, ensuring uniformity in the criteria used in measuring these risks and proposing control and corrective measures together with the businesses and areas affected.



A model that anticipates the developing situation

The Risk Management Model of Naturgy seeks to ensure predictability of the company's performance in all relevant aspects for its stakeholders. This means establishing risk tolerance by setting limits for the most relevant risk categories. By doing this, the company can anticipate the consequences of certain risks materialising, and is perceived in the market as a solid and stable company.

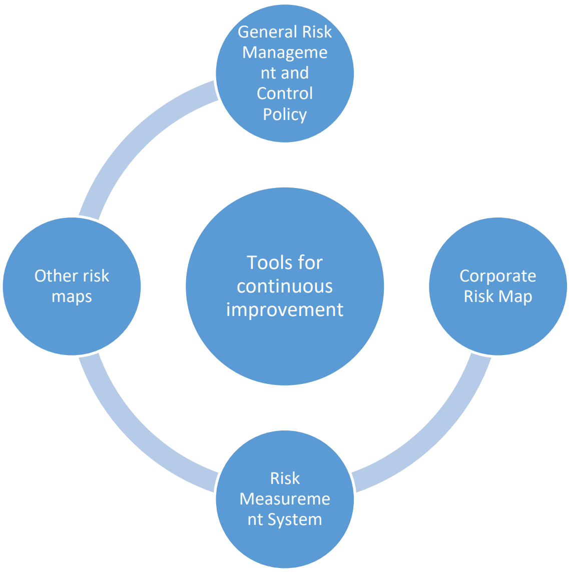
Naturgy has a framework that integrates the corporate vision of governance, risks and compliance, enabling an integrated overview of the group's processes, the existing controls over these and the associated risk.

An integrated management

[102-11], [102-15]

Naturgy analyses its global risk profile through its potential impact on its financial statements. This allows the company to determine the maximum accepted level of risk exposure, as well as the admissible limit for risk management.

The tools that enable the continuous improvement of the process for identifying, characterising and determining Naturgy's risk profile are the following:



Naturgy has identified the environmental risks in its facilities by using the reference standard—UNE 150008 in Spain—as its basis. To prevent these risks, the company has introduced an integrated system of management which sets out the operational control and environmental management procedures. This system is audited in-house and certified and audited annually by AENOR. In addition, Naturgy has introduced emergency plans at facilities and storage premises at risk of an environmental accident, including an action plan, containment measures and regular drills.

General Risk Control and Management Policy

The General Risk Management and Control Policy was updated and approved by the Naturgy Board of Directors in November 2020. Its aim is to lay down the general principles and guidelines on behaviour to guarantee the appropriate identification, information, assessment and management of Naturgy's exposure to risk.

Corporate Risk Map

The identification and characterisation of the risks to Naturgy's performance take into account the characteristics of the position at risk, the impact variables, the potential quantitative and qualitative severity, the probability of occurrence and the degree of management and control. It is updated and presented on a yearly basis to the Audit and Control Committee.

Other Risk Maps

At their discretion, the Naturgy Business Units and Corporate Units promote the creation of risk maps that are specific, consistent and aligned with a common methodology, which serves as the basis for the Corporate Risk Map.

Risk Measurement System

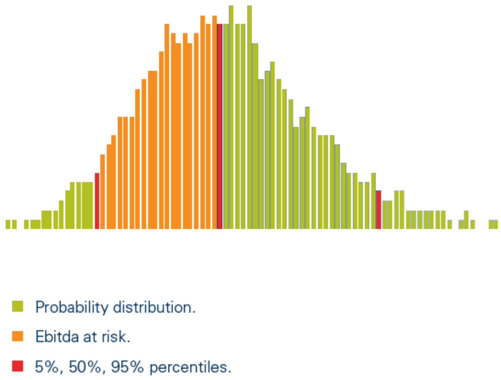
This is designed to provide the recurrent and probabilistic quantification of the risk position assumed on a global scale for the different risk categories. Naturgy undertakes an analysis of corrective risks, a sensitivity analysis and stress tests for the main risks identified.

Main risks

Description of main risks

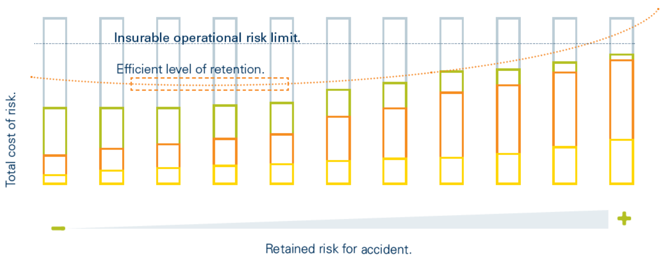
The Risk Control Units seek to guarantee the regularity and sustainability of the performance indicators. One of its key tasks is the modelling of the financial statements, targeted at identifying their main sensitivities and anticipating possible incidents. Quantitative modelling is organised in accordance with the areas of market risk, credit risk and operational risk.

Market risk. Range of values that the annual Ebitda of Naturgy can reach owing to the movement of market variables to which it is exposed: price of gas, price of electricity and exchange rates.



Credit risk. Logic of the risk profile and anticipated loss. Worse levels of credit quality mean the company's exposure has to be limited. It also shows the distribution of the anticipated loss, which increases with the deterioration of customer credit quality.

Insurable operational risk. Fundamental magnitudes with regard to management: efficient level of retention and breakdown of overall costs associated with the risk (premium, unexpected loss, expected loss). The insurable operational risk profile is characterised by the level of potential exposure whereby the materialisation of unforeseen events that can be mitigated through insurance policies has an impact on the equity of Naturgy. The quantification of such exposure is likely to be objectified by estimating the total cost of risk.



Description of emerging risks

Looking ahead, the company values emerging risks that may have a significant long-term impact on the business. In this regard, faced with uncertainty in the current domestic and worldwide economic outlook, the company seeks to position itself in countries that promote legal security, economic developments in stable macroeconomic environments that ensure steady growth that contributes to the generation of value and profitability of business and enterprise. In this way, Naturgy seeks to balance the weight of its businesses in its mix of activities, placing greater ambition on increasing the contribution of regulated activities and enhancing its more renewable profile.

The identified emerging risks that continued to be particularly significant for the company in 2020 were:

- Cybersecurity risk or digital information security.
- ESG (Environmental, Social and Governance) or responsible investment risks.

Cybersecurity risk or digital information security
Cybersecurity emerges as a consequence of an increasingly technological environment and a focus on progressive digitalisation. The increase in networked devices has forced organisations to establish new defence mechanisms to prevent attacks on the security of their information. Potential impact on business if not managed properly. • Loss of information due to theft of files vital to business operations. • Phishing. • Loss of trust. • Loss of customers. • Reputational damage. • Stoppage of activity. • Economic losses. Mitigation actions carried out by Naturgy: see the Cybersecurity Plan in the section on Integrity and Transparency
ESG (Environmental, Social and Governance) investment risk or responsible investment
The consideration of ESG factors and sustainability criteria in decision-making, from an investment perspective, has taken on particular relevance in recent years. Its aim is to achieve profit without environmental, social and governance-related damage. This can be attributed to different trends: - Increasing attention to the effects of climate change and other anthropogenic environmental impacts, especially given the large number of extreme weather events that have occurred recently. - Change in the profile of the global investor (gender, age, interest in ESG factors, etc.). Potential impact on business if not managed properly. • Lower profitability, both in terms of business and investment, in the medium and long-term.

- Lower shareholder value.
- Less sustainable development.
- Negative social and environmental impact, along with a negative financial return.
- Worsening competitiveness.
- Worse assessment by analysts and investors.
- Increased costs of funding.

If properly managed, the impact would be the opposite, becoming an opportunity for the business.

Mitigation actions carried out by Naturgy.

- Promote renewable energies, renewable gas and energy savings and efficiency as key elements towards a low-carbon model.
- Offering solutions for cities and land and maritime transport that reduce emissions and improve air quality.
- Innovate in technologies and business models that help reduce greenhouse gas emissions.
- Supporting international climate change negotiations and market mechanisms that foster the development of the most appropriate technologies at each stage of the energy transition.

Main opportunities

At Naturgy we see the energy transition as an opportunity to transform the business and promote the changes needed to achieve a low-carbon economy. Naturgy's main opportunities are as follows:

- **A balanced structural position in businesses and geographical areas:** with stable flows, and predominance of regulated or quasi-regulated businesses, making it possible to optimise the capture of energy demand growth and maximise new business opportunities in new markets.
- **Renewable generation:** Increase renewable capacity internationally, given that renewable energies are cost-competitive and considering Naturgy's presence in growth markets.
- **Network operation and growth,** leveraged on solid regulatory frameworks and focused on continuous improvement, digitalisation and automation.
- **Technological development and innovation**: Naturgy is committed to innovation and development projects related to hydrogen, renewable gas, energy efficiency, sustainability, mobility and fair transition, as a means of generating a reliable and sustainable energy supply.
- **Portfolio of natural gas and LNG procurement:** The management of gas pipelines, participation in plants and the fleet of methane tankers enable the needs of the Group's different businesses to be covered in a flexible and diversified manner, ensuring supply and allowing to take advantage of any market opportunities that may arise. Naturgy is one of the world's leading LNG operators and a key player in the Atlantic and Mediterranean.

Service excellence

[103-1], [103-2] and [103-3] (Customer care and satisfaction) (Energy vulnerability) [416-1]

Naturgy's contribution to SDG

What does this mean for Naturgy? Risks and management approach

The customer is the centre of operations at Naturgy. Through active dialogue, the company provides speedy and efficient service which, as well as complying with the legal and profitability requirements, meets the customer's needs.

If the company fails to provide quality products and services, has a customer service that can be improved, and lacks communicative fluidity with the customer, it runs the risk of the customer requesting to terminate the contract or filing complaints.

The failure to adapt or lack of flexibility in light of the current context of sector decarbonisation and digitalisation could lead to inefficiencies and losses of market share.

Loss of service quality, for example as a result of poor network maintenance, can lead to increased supply cuts, efficiency losses, resulting in financial penalties by the regulator and increased complaints and claims by consumers, while at the same time it can worsen the company's image and reputation in the eyes of society.

What is our commitment?

- Working towards ongoing improvement of safety, ease and competitiveness of all products and services, offering the highest possible level of quality in accordance with the best available techniques.
- Fostering active and two-way communication that allows us to understand the expectations and opinions of customers and to adapt the responses of Naturgy to their needs.
- Facilitating relationships with customers through simple and efficient operations.
- Providing innovative products and services that encourage energy efficiency and which contribute towards the sustainability of society.
- Furnishing the customer with a different value proposition through products and services that adapt to each segment and to their needs.
- Applying technological innovation and the technical enhancements available as a means of maintaining an efficient, safe and sustainable supply.

Evolution and results 2020

Global satisfaction with service quality (on a scale of 0-10)	2020	2019
Spain (domestic)	7.46	7.24
Spain (SME)	7.51	7.09
Spain (wholesale)	7.76	7.54
Argentina[2]		-
Brazil	8.53	8.6
Chile (electricity)[1]	5.68	5.68
Chile (gas)[1]	5.97	5.92
Mexico	7.23	8.52
Panama[2]	7.25	-

[1]Chile has been calculated based on a 1-7 scale, unlike other countries which used a 0-10 scale.
[2] Argentina and Panama have not measured global satisfaction with service quality during 2019. Data for Argentina in 2020 is not available at the date of publication of this report.

1. Customer at the centre of all decisions

2020 has been marked by the health and economic crisis and by a complex international energy scenario. Since the beginning of the crisis, Naturgy has spearheaded measures to provide service to all its audiences with the aim of mitigating the impact of the pandemic on domestic economies and contributing to the management of this health crisis.

During the first nine months of the year, Naturgy has strengthened the management of its business portfolio and has promoted changes in the organisation to continue with the transformation of the company. It has become a simpler and more efficient company in its organisation.

Naturgy is currently working on the definition of key corporate energy projects, with which it seeks to contribute to spearheading the energy transition with a distinguishing value proposal.

2. Quality and reliability of the service

For Naturgy, the maintenance of gas and electricity facilities and networks is essential to achieve a satisfactory level of quality, safety and reliability of service, allowing it to meet the most demanding industry standards and regulatory requirements of the countries in which it operates.

Naturgy employs modern and innovative methods and work equipment that are included in safe and efficient work and operation procedures. The company also encourages close collaboration with contractor companies in the permanent quest to achieve best practices in the development of its activity.

A set of inspection and assessment actions are carried out, which help to define the corresponding preventive and mitigation measures to ensure a safe and ongoing supply, maximising the useful life of assets. These measures are included in the maintenance plan for each type of facility.

The preventive maintenance actions and processes - reviewed periodically - coupled with the increase in automation and digitalisation of the network are reflected in a notable improvement in recent years of the main quality and service indicators. These indicators measure, inter alia, response times to a notification of a malfunction or anomaly, the stoppage time per customer or installed capacity, the kilometres of the grid and facilities inspected, and the number of incidents per kilometre of grid. These indicators include the average response time for top priority emergencies in the gas network, which is less than half an hour.

To ensure that supply meets demand, Naturgy regularly reviews the operating conditions of its networks, to make sure these are correctly sized or, if appropriate, to determine the potential needs of repowering or enlarging these. Furthermore, Naturgy partakes in several R&D&I projects for storage of energy in batteries, the digitalisation of the grid, the application of drones in the maintenance of facilities and the implementation of advanced analytical models in order to define the actions that encompass the predictive maintenance tasks of the main grid equipment.

3. Products and services adapted to customers' requirements and priorities

The ease of access to information makes customers increasingly demanding on companies. In addition, their preferences evolve faster, in line with trends and social movements. Aware of this, Naturgy's commercial strategy focuses on monitoring, identifying and satisfying the main needs of customers, responding to their expectations with simple and innovative value proposals, with approaches that clearly set the company apart.

In recent years Naturgy's strategy has focused on helping to solve the home-related needs of customers. New value-added proposals based on simplicity and digitalisation with the aim of providing them with a simpler and more comprehensive experience.

To this end, Naturgy has promoted specific market research plans and has developed tools designed to find out the customer's needs and priorities, in order to adapt the products and services to their expectations. All this, through incorporation of those customer-relevant attributes, refocusing the way to market products already on the market or by incorporating new ones.

The New Products and Services Unit is committed to promoting Naturgy's value proposal to achieve a better society in the future. Its purpose is to introduce new business models to adapt them to the new energy situation.

In this line, the value axes are as follows:

1) Development of new green, sustainable and socially responsible products
2) Transformation through technology and innovation
3) Pioneering new, simple and scalable ideas

The vision is to be leaders and to actively participate in the energy transition, offering a portfolio of products and services for the residential and business segment for major impact on customers.

Investing in the development of digital and environmentally friendly products (100% renewable electricity and zero net emission gas). Products that are simple for the customer and that allow them to choose what best suits their needs (fixed price per kWh, with and without hourly discrimination or fixed monthly rate).

In services and equipment, the company retains its unswerving commitment to continuing to be by the customer's side in their moments of need, with an undertaking to provide assistance in less than 3 hours anywhere in the territory, 24 hours a day, 365 days a year.

Naturgy continues to work on innovative solutions linked to the energy transition, such as self-consumption and electric vehicle recharging. Likewise, on the household front it continues to help improve comfort and savings with solutions such as the renovation of equipment in the home, including financing options, warranty extension and maintenance.

As far as businesses are concerned, Naturgy continues to drive their growth and development by being the partner that takes care of the planning and installation, as well as optimal maintenance during the entire contract: financing the whole project, offering the most appropriate maintenance plan to obtain the maximum efficiency of the business, total guarantee of the installation, service availability 24 hours a day, 365 days a year, digital platform for the management of consumption and renewal of the installation, etc.

In short, the ultimate goal of all these initiatives is to achieve customer satisfaction with simple deals and models in which the Naturgy brand is always associated with green energy and service in accordance with the values of a socially responsible company.

Innovative products and services [102-2]	
Equipment Model	A solution that includes the sale and installation of equipment with an extended five-year manufacturer's warranty in addition to a Naturgy maintenance service, without the need to contract the energy with Naturgy.
Ecoeasy	Energy product (electricity and gas) designed for those digital customers, mainly young people concerned about the environment who are offered 100% renewable electricity and environmentally friendly natural gas, since it neutralises its impact with CERs -certified by AENOR-. This is the most competitive rate without additional discounts.
EasyGo Services	Home repair service targeted at customers and non-customers without the need to contract annual maintenance. It is a pay-per-use model with the same features as the rest of Naturgy's exclusive services.
Eco Gas Tariff	Since 2017 Naturgy has had an ECO gas tariff, with a stable kWh price for one year, for those customers with a greater sensitivity in environmental matters.
Superpack Home	Pack of energy supplies + maintenance services + repair of household equipment. Configurable based on the customers' needs.
Servielectric Car	Comprehensive and personalised electric mobility solution that allows customers to enjoy their electric vehicle charging point.
Solution for photovoltaic installation in homes and businesses	Comprehensive offer to encourage the installation of solar panels (includes flexible nightly tariff, preventive maintenance and financing).
Solution for installation of equipment in homes	Comprehensive offer for the installation of boilers (includes warranty extension, preventive maintenance and financing).
SMEs	
Special Plan	New electricity and gas supply adapted to SMEs with consumption > 100,000 kWh.

	Creation of a new sales team of Naturgy's own managers to advise and attract small and medium sized consumers with consumption of > 100,000 kWh.
Superpack SMEs	Pack of energy supplies + maintenance services + repair of business equipment. Customisable based on the customers' needs.
Wholesale	
Loyalty services	Several energy services related to installation management, supply, sustainability or carbon management for customer loyalty. This includes: execution and commissioning of the installation, maintenance services, capacitor bank, real-time monitoring services, energy efficiency and savings courses, CO_2 management.
Gas and electricity coverage	Transactions agreed directly with the customer and which are settled by differences. These enable the price to be set beforehand, removing uncertainties.
Smart solution	
Gascomfort	Gascomfort is a production plant optimisation service through the renewal of equipment, or the transformation of the room and comprehensive management throughout the life of the contract. Equipment financing service, maintenance, 24x7 customer service.
Climatecomfort	Electric air conditioning service, which allows the customer to renew their old air conditioning equipment with the best systems on the market. Equipment financing service, maintenance, 24x7 customer service.
Distribution solutions	Gas & distribution (gas commercialisation and hot water cost sharing service of the owners' association without room management). The delivery service includes supply of equipment, reading, reports and replacement insurance in case of malfunction.
LNG option	Service that enables natural gas to be taken to customers that are some distance from this fuel distribution network. It includes LNG supply, transport and logistics.
Servisolar	Integral service of photovoltaic self-consumption, from design and installation to maintenance and management of the surplus.
Equipment solutions	Financing service that allows the customer to equip themselves with technological equipment to improve the efficiency of their facilities.

4. Customer service

Naturgy operates with a service model focused on the needs of each and every one of its customers. It offers solutions designed with comfort and ease in mind.

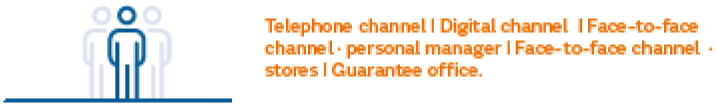
The company offers close-knit customer service covering the full range of channels that the customer may need: telephone service, email, social media or face-to-face attention. It also places great focus on offering digital customer service, with an area reserved for customers.

In 2020 Naturgy has worked in two areas: the ease and simplicity of management - seeking improvements in processes and solutions - and the promotion of self-management and digitalisation of its customers. To this end, it continues to develop and improve digital tools and promote the use of digital communications that have a positive influence on the environment. In a complex year marked by the COVID-19 pandemic, service provision has been expeditiously transformed to continue to be provided safely to the customer.

Naturgy customer service model

Naturgy customer service model_

Customer service means_



5. Customer's satisfaction and experience

As an evolution of the Customer eXperience (CeX) programme that started in 2015, Naturgy has placed the customer at the centre of its industrial model, as a key factor in the company's sustainability, in order to meet their expectations and anticipate their needs. In accordance with the Corporate Responsibility Policy and the commitment to service excellence, the CeX vision is set out in the following principles for the group:

- "Customers are at the centre of everything we do."
- "We treat our customers the way we would like to be treated."
- "We like to innovate to make everyday life easier for our customers."

During 2020, the Naturgy Group made progress in consolidating the Global Customer Experience Policy through different actions:

- **Development and launch of the Corporate Application Form.** Specialised computer application for reporting, which allows qualitative and quantitative data to be collected and consistency checks to be added to the data provided. It also provides a data repository for stakeholder consultation and facilitates subsequent reporting. This tool was launched in 2020 and has already led to progress of countries/businesses in CeX during 2020. This will strengthen monitoring of the Customer Experience Policy, which will become a half-yearly policy in 2021, thus ensuring more solid compliance.

- **Consolidation of a new customer relationship model.** The model integrates automatic push notifications, so that the customer always knows where they are, what is still outstanding, and how to do what they need to do. Visual, easy, specific, two-way and pocket-sized. In June 2020, the new relationship model for gas registrations took second place in the Customer Experience Development Association (DEC) 2020 Awards in the Customer Journey category.

- **Launch of the CeX Community in Naturgy Teams**. This community facilitates permanent contact of all the people in the Group who work directly on the customer experience. They can thus share best practices, news and/or events of interest, and can resolve issues or compare solutions offering previous experience on the subject.

6. Customer complaint management

The company manages claims and complaints from three different areas: commercialisation (residential, commercial and industrial) and gas and electricity distribution in Spain, Chile, Brazil, Argentina, Panama and Mexico. In the rest of the countries where the company is present, no complaints are handled as there are no end customers.

In 2020, the company managed a total volume of 1,404,644 complaints and claims, representing 2.22% of all customer contacts. The average global response time was 9.76 days.

In Spain, customers have multiple service channels through which they can voice their complaints to the marketers (telephone, centres, web, social media). In the event of complaints involving distributors because they are related to their area of responsibility (readings, quality of supply, new registrations, etc.), both for gas and electricity, the marketers channel them through the Third Party Access Unit (TPA). Most claims are related to billing, contracting and collection.

In the remaining countries, different channels are also set up for customers to file their complaints, although the commercialisation and distribution management are integrated into the same company.

The organisation not only serves end customers, but also any natural or legal person who may have a claim or complaint about action or inaction caused by our distribution assets (works in progress, technical elements on public roads, etc.).

	2020	2019
Number of complaints received	1,404,644	1,642,935
Claims portfolio	46,674	n/a
% complaints / total contacts	2.22%	3%
Average response time (days)	9.76	8.21

Indicator	Spain Gas Distrib.	Spain Elec. Distrib.	Spain Energy Wholesale	Spain retail (domestic and SME)	Argentina	Brazil	Chile Gas	Chile Electricity	Mexico	Panama
Total complaints received in the year	261,121	128,444	6,992	569,165	26,433	68,681	13,663	161,108	121,193	47,844
No. of complaints received /No. of contacts (%) [%]	5.30	14.30	11.40	4.27	0.46	4.70	2.27	0.53	2.32	8.00
No. of claims in portfolio	9,276	8,259	737	20,547	1,532	302	142	4,367	1,022	490

Average Time to Resolve MTTR (days) [days]	12.00	10.00	21.31	8.70	13.48	4.26	4.30	17.20	2.17	9.40
Average Portfolio Age AMC (days) [days]	13.00	16.00	68.00	28.00	14.06	43.00	4.00	17.20	4.79	11.57

The following shows the customer disconnections, by business and country, due to non-payment of supply.

Disconnected customers due to non-payment classified by the total duration between disconnection for non-payment and payment of debt. Spain [EU27]			**2020**	**2019**
Argentina	Gas business	Fewer than 48 hours	12,841	42,217
		Between 48 hours and 1 week	13,181	22,112
		Between 1 week and 1 month	6,846	11,925
		Between 1 month and 1 year	5,973	17,709
		Over 1 year	1,890	1,003
	Electrical business [1]	Fewer than 48 hours		
		Between 48 hours and 1 week		
		Between 1 week and 1 month		
		Between 1 month and 1 year		
		Over 1 year		
Brazil	Gas business [2]	Fewer than 48 hours	0	66,534
		Between 48 hours and 1 week	0	36,432
		Between 1 week and 1 month	0	15,557
		Between 1 month and 1 year	0	2,057
		Over 1 year	0	-
Chile	Gas business [1]	Fewer than 48 hours		
		Between 48 hours and 1 week		
		Between 1 week and 1 month		
		Between 1 month and 1 year		
		Over 1 year		
	Electricity business	Fewer than 48 hours	87,329	458,578
		Between 48 hours and 1 week	17,618	85,543
		Between 1 week and 1 month	30,014	129,927
		Between 1 month and 1 year	37,987	84,927
		Over 1 year	6,361	502
Spain	Gas business	Fewer than 48 hours	1,032	901
		Between 48 hours and 1 week	234	304
		Between 1 week and 1 month	201	464
		Between 1 month and 1 year	332	348
		Over 1 year	78	11
	Electricity business	Fewer than 48 hours	11,786	18,389
		Between 48 hours and 1 week	785	2,192
		Between 1 week and 1 month	982	3,422
		Between 1 month and 1 year	354	2,663
		Over 1 year	0	-

Mexico	Gas business [1]	Fewer than 48 hours		
		Between 48 hours and 1 week		
		Between 1 week and 1 month		
		Between 1 month and 1 year		
		Over 1 year		
Panama	Electricity business [3]	Fewer than 48 hours		33,938
		Between 48 hours and 1 week		5,140
		Between 1 week and 1 month		5,585
		Between 1 month and 1 year		6,121
		Over 1 year		-

[1] No information is provided as the systems do not allow it to be obtained.

[2] There were no supply cuts in Brazil during 2020 due to government regulations resulting from COVID-19.

[3] Data for Panamá in 2020 is not available at the date of publication of this report.

Customers disconnected due to non-payment classified by the total duration between debt payment and reconnection.			**2020**	**2019**
Argentina	Gas business	Fewer than 24 hours	37,822	13,869
		Between 24 hours and 1 week	9,258	80,968
		Over 1 week	183	129
	Electrical business [1]	Fewer than 24 hours		
		Between 24 hours and 1 week		
		Over 1 week		
Brazil	Gas business [2]	Fewer than 24 hours	0	83,160
		Between 24 hours and 1 week	0	37,420
		Over 1 week	0	11,925
Chile	Gas business[1]	Fewer than 24 hours		
		Between 24 hours and 1 week		
		Over 1 week		
	Electricity business	Fewer than 24 hours	92	690,927
		Between 24 hours and 1 week	8	66,651
		Over 1 week	0	1,898
Spain	Gas business	Fewer than 24 hours	247	292
		Between 24 hours and 1 week	1430	1,435
		Over 1 week	200	337
	Electricity business	Fewer than 24 hours	13185	25,160
		Between 24 hours and 1 week	651	1,424
		Over 1 week	71	82
Mexico	Gas business	Fewer than 24 hours	153870	168,914
		Between 24 hours and 1 week	19664	45,708
		Over 1 week	280	1,085
Panama	Electricity business [3]	Fewer than 24 hours		12,544
		Between 24 hours and 1 week		36,491
		Over 1 week		1,749

[1] No information is provided as the systems do not allow it to be obtained.

[2] There were no supply cuts in Brazil during 2020 due to government regulations resulting from COVID-19.

[3] Data for Panamá in 2020 is not available at the date of publication of this report.

CeX Action Plan

Spain (commercialisation

- Customer Journey: Improve the customer experience by exploiting and extracting customer data from their feedback (surveys, social media posting) and their voice (speech analytics, text analytics) to reconstruct and adjust trips. Journeys worked this year:
    - Easy Reading: To make the customer journey more understandable for easier reading, accompanying and guidance (performing different pilots depending on the estimation frequency) and giving feedback when it facilitates reading. Also offering the customer new channels for the journey.
    - Contact by phone: Review of the contact's journey by phone with the following objectives: Simplifying and unifying existing telephones numbers. Guiding and accompanying customers in the calls they make. Initiating a service protocol for customers passed from one operator to another. Transferring calls instead of providing a telephone number. Improving support in connections and telephone number search.
- Easy home campaigns: Deferral and financing of the payment of invoices issued during the COVID-19 state of emergency.
- Medical video call assistance at no extra cost for Naturgy customers. The medical assistance service has been set up without the need to leave home.
- Easy SMEs Campaigns: Deferral and financing of the payment of invoices issued during the COVID-19 state of emergency.

Spain (gas distribution):

- Deployment to customers with LPG supply of "push" notifications during the process of Gas Registration, keeping the customer informed of the steps taken and the next steps to be performed.
- Implementation of the first phase of the new Private Area of the web channel as part of the initiative of digitalisation of the customer relationship: Request and management of the budget for grid connection infrastructure, with customer support throughout the process until the supply CUPS is available.
- Claims Improvement Project with definition of a new management model. Pilot project on "Non-compliance with visit schedule" type, shortening the average time for resolving complaints from 12.2 days to 1.5.

Spain (electricity distribution):

- Implementation of the second phase of the new Private Area in the Digital Services Platform user relationship digitalisation initiative.
- Implementation of ININ (new Contact Centre tool) that will enable us:
    - To work on improving the RCF and NPS and deepening quality audits.
    - Service in English.
    - Simultaneous telephone and e-mail service.
- Development of the claim's management model:
    - Extension of the standard response catalogue.
    - Implementation of a new claims root cause tree.

- Robotics and automatic closing of service requests.
- Usability improvements to the service request management tool

Chile electricity

- CeX training certification for call centre senior managers. Because of the pandemic, no office or back office senior managers certifications took place.
- Text analytics on customer letters. Due to the pandemic, it was not possible to continue the benchmarking work with the industry.

Chile gas

- Listening to the customer's voice: Measuring the degree of customer recommendation and satisfaction on their main journeys with the company.
- Customer-focused round tables: Managing round tables that generate and execute action plans based on the results of measurements.
- Customer Experience Values: To reinforce the key Customer Experience values within the company, continuing the Congratulations Programme, aimed at the collaborator with the purpose of recognising and highlighting the CeX principles, publishing "Customer Minute", in which a real case and its solution will be shown by applying the CeX values, spreading the CeX principles by means of visual aids in tables and meeting rooms and implementing "WikiCex" (web platform with all the relevant information of the CeX programme).
- Clear communication to be closer to the customer: To guide the company in its communications with customers so that they are better perceived, through a workshop based on the "Clear Communication Guide" document, with a focus on the participation of employees in written contact with customers.
- We are all Ambassadors: Deliver 4 necessary tools to all company employees, so that each can be an ambassador of the brand.
- Always available for the customer: Expand and facilitate remote means of contact with the customer, so as to be always available, by providing the customer with remote channels for activities that today are only available at the business outlets, incorporating remote assistance into the scheduling on the web and implementing a digital mailbox on the website.
- New Customer Journeys: Review and make any necessary modifications to customer journeys, based on the customer's voice.

Brazil

- Development of new functionalities for the customer on the Minha Naturgy portal, such as 1) invoice consultation, 2) debt information, 3) gas contracting, 4) change of owner, 5) debt fractioning.
- Due to the pandemic, we have closed all the stores. For the reopening we have put in place a safety plan with specific Covid-19 protocols.
- We have reviewed the customer journey in the process of changing tariffs and made changes to improve the customer experience.
- We have intensified campaigns on digital channels in social networks, gas bills, sending e-publicity to guide customers to our channel.

- We have developed quick surveys through the Survey Monkey platform with the aim of gauging customer satisfaction in specific channels and processes and the results have been used to produce action plans.

Argentina

- Development and implementation of the New Customer Service model, based on redirecting contacts to virtual channels and those that facilitate interaction with the customer.
- Development of an alliance with the MercadoPago virtual payment platform, to expand and provide our customers with more alternatives and facilities for bill payment.

Panama

- Due to the Covid-19 pandemic, customer service centres were closed for 6 months. As of September, the reopening was partial and with limited access, later suspended by the Ministry of Health.
- Due to the Covid-19 pandemic external fairs were suspended.
- When the on-site service centres were closed, the service was provided through digital channels and a series of virtual training sessions were developed with the customer service agents, through the Teams platform.

Mexico

- Transformation Lever: Digital Services Platform with the aim of bringing solutions to customers and being part of their lives. We continued with the process of transforming the customer service model, consolidating the 100% outsourcing of payment channels (banks, shops, supermarkets) and migrated to online channels. The launch of the Naturgy Contigo app (Naturgy With You) for bill payment was consolidated. This has offered customers an online payment option during the COVID-19 pandemic lockdown and has been rapidly adopted by customers. We have over 240,000 customers registered on the Naturgy Contigo app (Naturgy With You) and it has become the second most used payment channel after Oxxo. The second phase of the recently launched Naturgy Contigo app (Naturgy With You) features new service functionalities: 1. Direct debits 2. Consumption simulation for future periods 3. Itemise invoice 4. Payment history, etc.
- Customer Experience Centres: In 2020, the CeX customer journey project with face-to-face service was implemented to develop the configuration and design of the Customer Experience Centres, to ensure that these spaces are not only focused on customer service, but also that the company positions its brand and shows the diverse businesses and services it offers.
- Digital Customer Service: A digital project was implemented with two main objectives:
    - New Service Platforms: Social Networks, Virtual Office and Chat were three of the digital customer service channels that were migrated to the new service platforms, offering customer service agents a comprehensive view of all previous contacts with customers.
    - New Naturgy Mexico Website and Customer Service Chat: all contents were reconfigured to make communication with customers simpler, friendlier and more modern, incorporating a new customer service channel through the Chat.

- Hospital support campaigns: Naturgy Mexico, aware of the crucial role played by hospitals, suspended charges for the supply of natural gas and offered free consumption from May to June 2020 to about 50 public and private hospitals. This was well appreciated and welcomed by customers who wrote letters of thanks to the Chairman and Country Manager of Naturgy Mexico for this social initiative.
- Listening to customers: The service of an integral communication agency was implemented, which basically carries out 3 activities:
  - Development of content for communication to customers on social networks
  - Systematic campaign of digital listings of customers and the whole environment
  - Development of digital marketing campaigns.

7. Communication, transparency and customer protection

New channels of communication

Naturgy has simplified its digital commitment by offering a new website entry point focused on the customer experience.

In 2020, Naturgy's online business in Spain increased its digital sales by 65%, with 32,579 new contracts for electricity, gas and value-added services. Likewise, digital sales channels for collaborators and installers have been consolidated -more than 80,000 contracts have been provided digitally online in paperless format-, and the experience and digital simplicity has been integrated into face-to-face sales channels -being able to contract any rate based on the data of the postal address and without requiring more complex data from the customer-.

The commitment to digital simplicity has allowed the customer to request an urgent repair within three hours from www.naturgy.es (EasyGo) or to configure and request a heating, air conditioning and/or boiler offer entirely online.

Of particular note during this year marked by the pandemic is the consolidation of the online bill, which experienced growth between March and May due to the lockdown predicament. Similarly, the increase in digital channels, the availability of services such as medical care by video for customers -available from the app and the website-, and aid for affected groups, SMEs and the self-employed, stand out. Consequently, online access has increased by 50% and the number of contracts registered in the customer area has risen from 1,267,085 in 2019 to 1,706,569 customers in 2020.

In addition, it should be noted that www.naturgy.es has registered more than 10 million unique hits during 2020, www.comercializadoraregulada.es more than 2 million unique hits and 3.5 million hits to apps With regard to online services, a total of 7 million customers have used the digital platforms enabled by the company.

With regard to social media, more than 160,000 fans/followers on Facebook, Twitter, Instagram and LinkedIn. In total, more than 85,000 online applications have been handled during this period.

Since May 2020, access for customers with contracts in the regulated marketer is entirely through www.comercializadoraregulada.es, with a mobile app available to consult their bills and contracts, available on iOS and Android.

The bill as a channel of communication

Relevant messages have been sent to customers through the invoice with different commercial and informative purposes:

- Focus on the move to e-billing because of the environmental benefits it brings.
- Dissemination work on energy efficiency measures.
- Information on different commercial promotions that add value to the customer experience.

In addition, different customer focus groups have taken place in Spain to get customers' opinion on improvements to the reading, billing and payment service.

Lastly, in the fourth quarter, the "Interactive bill" project was launched with the aim of making it available next year as a complement to the current bill, allowing customers to interact with it to obtain historical, comparative and detailed information on the items billed to them.

Digitalisation of processes

The 2020 turnaround has driven the company's digitalisation. The main processes have been subjected to a thorough analysis to evolve them in line with the technological tools currently available. This evolutionary process has been carried out following the principles of agility, flexibility and efficiency; aware that the future brings disruptive technological tools and that the company has to be prepared to incorporate them into its processes.

Along with the evolution of processes, an automated Leads management model has been incorporated into the sales funnel that will permit far more personal relationships with potential customers and users.

In short, this year the technological and process bases have been established to change how Naturgy relates to its customers in a disruptive way in 2021, allowing the company to provide a far more personalised service.

Commitment to results

What does this mean for Naturgy? Risks and management approach

In a challenging environment, Naturgy's goal is to maintain a sound and sustainable financial and business profile. Naturgy's Business Model is committed to sustainability and pursues a balance between regulated and unregulated activities, while applying a strict finance policy.

Shareholders and investors are viewed as being among Naturgy's primary stakeholders. Therefore, properly managing risks and developing a solid Business Model that guarantees sustainability and long-term value creation are the key business goals.

What is our commitment?

- To pursue sustained returns that are commensurate with the risks while ensuring that decisions are based on approved risk levels and thresholds.
- To promote efficient resource allocation and management within the framework of continuous process improvement.
- To continue incorporating relevant sustainability features into the relationship with investors.

Evolution and results 2020

1. Overall results

Net turnover	Net revenue for 2020 amounted to Euros 15,345 million and recorded a decrease of 26.1% compared to 2019, mainly as a result of lower energy demand caused by the COVID-19 outbreak. In addition, the uncertainty caused by COVID-19 has had a negative impact on the evolution of Latin American currencies.
Ebitda performance	Ebitda for 2020 amounted to Euros 3,449 million, including non-core items. Ordinary consolidated Ebitda for 2020 amounted to Euros 3,714 million, a 14.6% decrease compared to the previous year. On the plus side, commercialisation activity has experienced a significant recovery, especially due to the improvement in electricity margins, while renewable generation has remained stable despite lower pool prices thanks to higher production. On the contrary, global energy difficulties and the macro scenario have had important impacts on Energy Management and Latin American Networks, the latter affected by the exchange rate.
Debt ratio	Net financial debt at 31 December 2020 amounted to Euros 13,612 million, down on the figure at 31 December 2019 due to the effect of the transfer of the electricity distribution business in Chile. This activity has been classified as held for sale. As a result, the annualised net financial debt/Ebitda ratio increased to 3.9x from 3.6x as of 31 December 2019.

Cash-flow	Cash-flow after minorities amounted to Euros 1,626 million. The contribution from operating results is complemented by a decrease in working capital, due to lower sales and inventory, as well as optimisation efforts. Proactive working capital management has been a priority during the COVID-19 crisis.
Completed transactions	- Purchase of 34.05% of Medgaz from CEPSA through a 50% special purpose vehicle with BlackRock's Global Energy & Power Infrastructure Fund. - Signing of an agreement for the sale of a 96.04% stake in Compañía General de Electricidad, an electricity distributor in Chile, for an equity value of Euros 2,570 million, and the sale of the electricity generation business in Kenya was completed. - A 5-year bond issue with a 1.25% coupon amounting to Euros 1,000 million. - New loans and credit lines in Spain amounting to Euros 1,225 million and Euros 530 million respectively. In international business, new loans and credit lines were signed for the equivalent of Euros 534 million and Euros 66 million respectively.

Investments

The tangible and intangible investments for the 2020 totalled 1.279 billion euros, with a decrease of 24.1% year-on-year.

Maintenance Capex in 2020 amounted to Euros 546 million, compared to Euros 633 million in 2019, a 13.7% reduction resulting from the optimisation of Capex processes and the effect of exchange rates.

Growth Capex in 2020 represented approximately 60% of total Capex and amounted to Euros 733 million. Growth Capex in 2020 includes the following:

- A total of Euros 115 million invested during the period in the construction of different renewable projects in Spain (wind and solar), with 125 MW put in operation in 2020.
- Euros 287 million invested in the development of 181 MW of wind capacity in Australia and 307 MW of wind and solar capacity in Chile that will come into operation in the coming months.

Naturgy has recently reached several agreements in Australia that will increase its current presence in the country by almost 700 MW by 2022, confirming the commitment to growth in renewables.

Stock market performance and profitability

Naturgy shares closed 2020 at a price of Euros 18.96 and stock market capitalisation of Euros 18,384 million, which represents a 15.4% decrease versus the previous year-end.

Stock market indicators [102-7]

	2020	2019	2018
No. of shareholders (in thousands)	75	70	73

Share prices at 31/12 (euros)	18.96	22.40	22.26
Earnings per share (euros)	0.36	1.43	(2.82)
Share capital (No. of shares)	969,613,801	984,122,146	1,000,689,341
Stock market capitalisation (million euro)	18,384	22,044	22,275

Financial ratios

	2020	**2019**	**2018**
Debt (%)[1, 2]	54.7	52.2	51.2
Ebitda / Cost of net financial debt	6.9x	7.8x	7.5x
Net debt[2] / Ebitda	3.9x	3.6x	3.8x

(1) Net financial debt/Net financial debt + Equity.

(2) In 2018, pro forma data is included applying IFRS16, which has become effective at 1 January 2019.

Consolidated net income (million euro)

	2020	**2019**	**2018**
Net profit of Naturgy	(347)	1,401	(2,822)

Profit by country (€M)	**2020**	**2019**
Spain	(642)	502
Argentina	(126)	46
Brazil	48	74
Chile	117	202
Mexico	144	164
Panama	11	14
Rest of LatAm	24	56
Total LatAm	**218**	**556**
Rest of the world	77	343
TOTAL	**(347)**	**1,401**

The changes in capital subsidies received are detailed in Note 15 to the Consolidated Annual Accounts. No capital grants have been received in 2020 (Euros 14 million in 2019). Operating subsidies received are detailed in Note 24 to the Consolidated Annual Accounts; Euros 1 million were received in 2020 (Euros 1 million in 2019).

2. Communication channels adapted to the needs of shareholders and investors

Naturgy has its own communication channels that allow it to offer the best service under a criterion of homogeneity, simultaneity and diligence.

The company provides shareholders with specialised financial reporting through the corporate website. It also offers the shareholder's office, a meeting point and service for minority investors.

Naturgy also continued its Communication Programme with analysts and investors, in order to strengthen and provide more transparent economic-financial information to enable them to monitor Naturgy's business project. Along this line, during 2020 representatives of the company's management team and the Capitals Market Department held 169 meetings with institutional investors.

Communication channel indicators

	2020	2019	2018
Meetings with shareholders and analysts[1]	169	366	523

(1) The fall against the previous year is due to the impact of the pandemic, which has substantially limited the capacity to hold meetings and roadshows.

3. Sustainable financing and investor activities that take ESG criteria into account

[102-12]

Since 2012, Naturgy has been holding meetings with investors focused specifically on evaluating the group's ESG policies. Throughout 2020, Naturgy has continued with this activity, participating in various events, including the ESG conferences organised by Société Générale. The most relevant investors with whom these meetings were held during the year included Blackrock, Covalis, Allianz y LBBW AM.

Throughout 2017 and in line with its sustainability commitment, Naturgy introduced a framework for the emission of Green Bonds targeted at financing renewable energies. Under this framework, on 15 November 2017, Naturgy issued a Green Bond for an amount of Euros 800 million, maturing in May 2025. The issue pays an annual coupon of 0.875%. At the close of December 2020, all the funds from the issue have been invested in the planned renewable projects. The Green Bond was approved by the Oekom rating agency, obtaining a B+ rating.

In the banking market, Naturgy signed a total of Euros 1,525 million in green loans during 2020. This is in addition to the Euros 830 million in 2019. Euros 500 million of the total are for the green loan that Naturgy Renovables signed to finance part of its investments, under the Green Loan Principles.

To maintain this category, Naturgy Renovables must prepare and deliver an environmental monitoring report to the accrediting entities that incorporates at least the following information:

- Description of the projects financed with this financing contract and their expected impact.
- Periodic environmental monitoring information in accordance with the environmental monitoring requirements of the project.

- Information on environmental and health and safety management systems that apply.

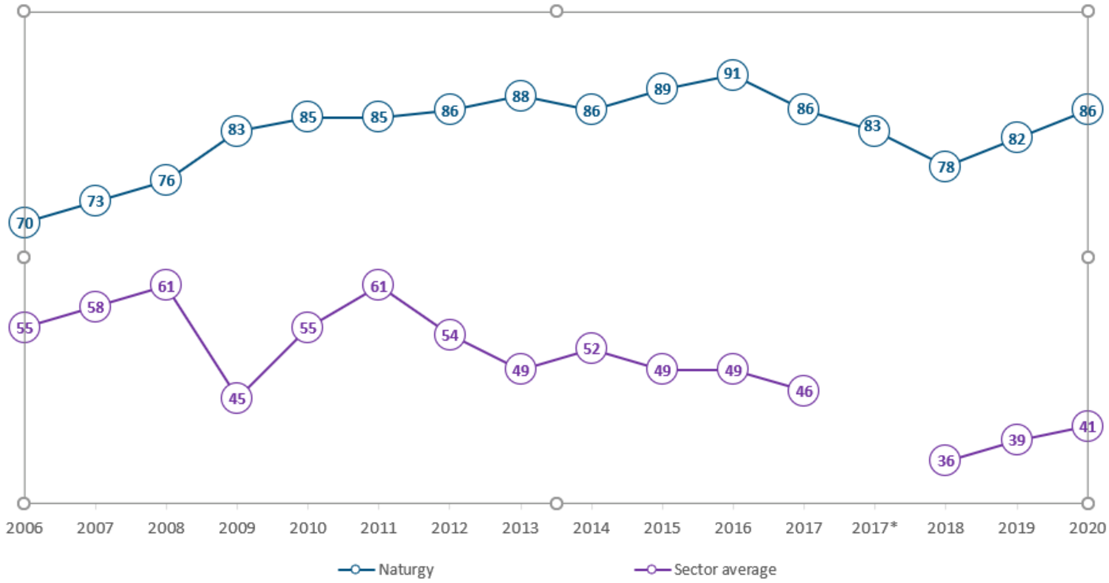
4. Inclusion in socially responsible investment indices

The company's performance in environmental, social and good governance matters has allowed it to position itself in benchmark positions in the main sustainability indices. Naturgy has been part of the Dow Jones Sustainability Index uninterruptedly for the last 16 years. In 2020, Naturgy increased its score by four points compared to 2019, coming second in the Gas Utilities sector and maintaining its environmental leadership. In the same way, the company has belonged to the FTSE4GOOD since its creation in 2001, also obtaining global leadership of the Multiutilities sector for the second year. Furthermore, during 2020, Naturgy has been evaluated by rating agencies such as MSCI, where once again it achieved the highest rating (AAA); by Sustainalytics, where it maintains a low risk profile compared to the 485 utilities evaluated; and ISS ESG, where it comes within the top 10% of companies in the sector with the best rating. The company has improved the score obtained from Vigeo Eiris in 2020 (the evaluation is performed every two years), and is a member of the three Euronext Vigeo indices: World 120, Europe 120 and Eurozone 120. Naturgy is also a member of the MSCI Global Climate Index and MSCI ESG Leaders Index. Ecovadis, a global provider of corporate sustainability ratings, also awarded Naturgy the gold medal for its performance in environmental, social and governance issues.

In 2020, Naturgy was recognised as a world leader for its action against climate change through inclusion in the CDP's Climate Change A List 2020. The company has obtained the highest possible score in this climate change index, in recognition of its actions to reduce emissions, mitigate climate risks and develop a low-carbon economy.

The presence of Naturgy on these sustainability indices highlights the efforts made by the company in areas of corporate responsibility and transparent reporting and represents external recognition of its excellent evolution in these fields.

Evolution of Naturgy and sector average on DJSI (scale from 0 to 100)



NB: the decrease in figures in 2018 is due to the methodology change of the index. For the sake of comparability, DJSI's rating agency, RobecoSam, recalculated the 2017 rating, which is shown with an asterisk.

Responsible management of the environment

Naturgy's contribution to SDG

What does this mean for Naturgy? Risks and management approach

Responsible management of the environment is one of Naturgy's fundamental values and the key priority of the company's strategy. This has always been the case, but at this time of special importance for the energy sector in particular, and for society as a whole, Naturgy is further boosting its commitment to the fight against climate change and the protection of the environment, with the energy transition being a unique opportunity to transform the company and make a firm and sustained contribution to the decarbonisation of the economy.

In the fight against climate change, inaction is not an option as the risks of inadequate action are very high, which is why environmental protection is a priority for Naturgy. This commitment was made in the Strategic Plan 2018-2022, with the aim of becoming a major player in the energy transition towards a circular, low-carbon, digital economy model. This new strategy focuses on promoting renewable energies and fulfilling the climate change objectives of the Paris Agreement, through the following levers:

- Triple renewable generation installed capacity by 2022.
- Increase electrification in the countries where Naturgy operates.
- Exploit the potential of natural gas to reduce greenhouse gas (GHG) emissions by replacing more polluting fossils and by providing, through combined cycle power generation, the necessary support to enable the rapid penetration of renewable energies.
- The development of natural gas in transport as a fuel that is low CO_2 and atmospheric pollutants (particles, SO_2) to improve air quality in cities.
- In parallel, promoting the development of renewable gas (biomethane and hydrogen) as an energy vector of the future to gradually replace conventional natural gas and as an alternative for energy storage, in order to facilitate the transition to a low-carbon, circular economy model.
- Improved energy efficiency of both our own assets and those of our customers, offering efficient energy products and services.
- Digitisation as a lever for change in our relationships with customers, in the management of assets and in the design and operation of processes.

The company's strategic plan is currently being reviewed and the objectives will therefore be updated, of course, with a view to going further in each of the lines of action described.

What is our commitment?

The Corporate Responsibility Policy sets out the commitment to contribute to sustainable development through eco-efficiency, the rational use of natural and energy resources, minimising environmental impact, encouraging innovation and using the best available technologies and processes.

- Contribute to the mitigation of and adaptation to climate change through low-carbon and renewable energies, promotion of savings and energy efficiency, application of new technologies.
- Integrate environmental criteria in business processes, new projects, activities, products and services, as well as in the selection and evaluation of suppliers.
- Minimise the adverse effects on ecosystems and promote the conservation of biodiversity.
- Promote the efficient and responsible use of energy and natural resources, establishing activities to improve their management in the framework of the circular economy.
- Guarantee the prevention of pollution through continuous improvement of technologies and using the best techniques available as well as analysing, controlling and minimising environmental risks.

These commitments are developed and detailed in the Global Environmental Policy, which applies to all countries and businesses, where it is established that, from its potential to contribute to environmental protection, Naturgy voluntarily assumes the commitment to be a key player in the energy transition towards a circular, low-carbon and digital economy model. To this end, four strategic environmental axes are established:

- Governance and environmental management.
- Climate change and energy transition.
- Circular economy and eco-efficiency.
- Natural capital and biodiversity.

Naturgy's basic principles of action in these axes are:

Governance and environmental management

1. Ensure compliance with environmental legislation and more stringent voluntary requirements; anticipate, as far as possible, adaptation to new regulations.
2. Prevent pollution and reduce environmental impacts along the value chain by encouraging the involvement of employees, collaborating companies and stakeholders.
3. Integrate the environment into management of risks and opportunities, as well as into mergers and acquisitions of assets through the performance of environmental due diligence.
4. Establish targets that drive continuous improvement in environmental performance.
5. Have an externally audited and certified environmental management system, in accordance with the criteria of the Global Policy of the Integrated Management System.
6. Promote transparency, in line with international reporting standards, to facilitate communication with our stakeholders.
7. Support the dissemination of knowledge and awareness on energy and environmental issues and to promote constructive dialogue with Public Administrations, NGOs, universities, customers and other stakeholders.

Climate change and energy transition

8. Promoting renewable energies, natural gas and energy savings and efficiency as key elements towards a low-carbon model.
9. Offering solutions for cities and land and maritime transport that reduce emissions and improve air quality.
10. Innovate in technologies and business models that help reduce greenhouse gas emissions.
11. Supporting international climate change negotiations and market mechanisms that foster the development of the most appropriate technologies at each stage of the energy transition.

Circular economy and eco-efficiency

12. Boost the circular economy through the efficient use of resources (energy, water, etc.) and waste management to reduce environmental impacts.
13. Promoting renewable gas as an energy and storage vector that facilitates the transition to a circular and low-carbon economic model.

Natural capital and biodiversity

14. Respect natural capital, biodiversity and cultural heritage in the environments where the group operates.
15. Move towards no net loss of biodiversity, with a preventive approach (hierarchy of impact mitigation), implementing best practices and promoting the creation of natural capital.

In addition to the aforementioned principles of action, the Policy establishes the roles and responsibilities of the different areas in the company's environmental management. In turn, in 2019, the Environmental Plan was approved, which establishes the lines of action that emanate from this Policy and the objectives of the Strategic Plan 2018-2022, which are summarised in the following table:

Action	Indicator	Target 2022
Strengthening governance in environment and climate change	Percentage of industrial Ebitda certified under ISO 14001	90% of industrial Ebitda certified under ISO 14001
Climate change and energy transition[1]	Absolute GHG emissions Scope 1 and Scope 2	Reduce emissions by 21% in 2022 compared to 2017 to 17.3 million tCO_2eq.
	CO_2 intensity in power generation	Reduce specific CO_2 emissions from power generation by 22% in 2022 compared to 2017 to 304 tCO_2/GWh
	Percentage of the generation mix from renewable sources measured in installed	34% renewable power in electricity generation

	capacity over the total of the group.	
Renewable gas and boosting the circular economy	Total water consumption	Reduce water consumption by 20% in 2022 compared to 2017 to 22.4 hm^3
	Total waste (hazardous and non-hazardous)	Reduce waste by 70% in 2022 compared to 2017 to 247.2 kt
	Percentage of total waste recycled and recovered (hazardous + non-hazardous)	Double the percentage of waste recycled and recovered in 2022 compared to 2017 to 66%
Protection of biodiversity and development of natural capital	Initiatives to improve biodiversity throughout the life cycle of the facilities (construction, operation, dismantling)	Conduct at least 300 biodiversity initiatives per year

[1] The absolute emissions and GHG intensity targets are aligned with the global objective of keeping the temperature rise below 1.5°C.

Finally, it should be noted that the new Strategic Plan, entailing a review of the objectives of the Environmental Plan, is currently being drafted.

Governance

The governance of Naturgy in the environmental area falls to the Board of Directors through the Sustainability Committee, which regularly monitors the management of environmental risks and opportunities and the evolution of performance, by following up on the main indicators and objectives.

The commitment to responsible management of the environment is structured with management leadership through:

- The Management Committee, led by the Chairman and senior management of the company, regularly analyses proposals, monitors performance and validates sustainability action plans.
- An organisational structure that defines the environmental responsibilities of the different areas of the company. At corporate level, the function falls to the Environment and Social Responsibility Unit, which reports to the Sustainability, Reputation and Institutional Relations Department, and reports directly to the Chairman. This corporate unit defines the policies and standards to be followed and carries out high-level monitoring of the evolution and results of the action plans, indicators and environmental objectives. In turn, the different businesses and areas have specific environmental management units to ensure daily operations, compliance with standards and continuous improvement of processes.
- The Sustainability Committee, with representation from all areas of the company, monitors all indicators and defines and promotes the projects and corrective actions necessary to ensure compliance with the objectives of the Sustainability Plan, including environmental objectives.

- The operational environmental committees, in which all businesses and countries are involved, coordinate the activities carried out by the different units, and guarantee the uniform implementation of criteria and the dissemination of good practices.
- The integration of the environment into business processes, in all its phases, from design, to decision-making, risk and opportunity management, planning and execution of activities.
- An externally audited environmental management system certified under ISO 14.001, based on environmental indicators and objectives for detailed monitoring and continuous improvement of processes.
- Annual action plans aligned with the environmental objectives.
- Methodologies and specific tools for environmental management.
- Innovation in technologies and business products and models that are eco-efficient and less intensive in CO_2.
- Responsible supply chain that integrates environmental criteria into the purchasing process.
- Communication, awareness and training of employees, collaborating companies and stakeholders on environmental issues.
- Preparation of regular reports on environmental performance and participation in international sustainability indices to ensure transparency and dissemination of results.

Environmental risks [201-2], [103-3] and [102-11]

Inadequate management of climate change and its associated risks can lead to substantial losses for the company, caused by the increase in exposure to natural disasters, the decarbonisation trend of the sector and the loss of affinity on the part of stakeholders. Moreover, improper management can cause negative environmental impacts and the deterioration of natural conditions and biodiversity in the areas where the company operates. This, in addition to the direct impact on the environment, can cause reputational harm, and the risk is greater if the company has infrastructures and/or carries out operations in protected areas.

Environmental and climate change risks and opportunities are integrated into the global model, as described in the chapter “Risks and opportunities”.

Naturgy manages environmental events with a preventive approach. To do this, facilities with environmental risk are assessed using recognised standards as a reference. The first element for management is the self-protection plans and their associated procedures, which identify the risks and the most appropriate responses to potential accidents and emergency situations that may cause environmental damage, by providing the necessary means of containment and carrying out periodic drills. In addition, there are global and uniform procedures and systems in the different businesses and geographies for reporting, classifying, monitoring and managing environmental events, including the tool Prosafety.

This methodology allows, in addition to adequate and homogeneous monitoring of environmental events, the identification, analysis, development, application and exchange of preventive measures and good practices in risk management at a global level between all areas. This approach allows preventive action, since it not only focuses on accidents, but also records and manages environmental incidents, which do not generate significant damage but are a source of learning and prevention of major events.

Climate change risks are managed following the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), considering both physical and transition risks. For the specific analysis of climate change risk, Naturgy has developed its own tool that allows it to estimate risk exposure at an aggregate level and disaggregated by business, geography, technology and time frame (short, medium and long-term). This climate change risk model adopts a central scenario based on the A2 of the Intergovernmental Panel on Climate Change (IPCC) for temperature increase, rainfall, sea-level rise and extreme weather event parameters. The model allows for variations in both physical parameters and indicators of energy markets and regulation, such as the penetration of renewable energies, the CO_2 price, energy efficiency and the price of energy. It has adopted two additional scenarios to analyse sensitivities in which the price of CO_2 and the penetration of renewable energies have been tightened and increased, and which would correspond to ambitious emission reductions scenarios under possible tightening of climate policies, as it is transition risks which have a significantly greater impact on Naturgy. Thus, it estimates the impact of different climate change scenarios through physical, environmental, business and economic indicators. In addition, impact assessment scenarios based on new products and services or R&D&I actions can be simulated. Detailed information on climate risk is provided in the Carbon Footprint Report.

Physical risks are considered in the design of new facilities, as a measure of adaptation to climate change. Safety measures are in place at operating plants to respond to incidents caused by extreme weather events, and these events are also included in emergency plans and protocols. Lastly, the company makes financial provisions to cover the appearance of possible environmental risks and has guarantees to cover the occurrence of these risks in the insurance policies it has taken out. Specifically, the insurance that the company has taken out with environmental cover are:

- Environmental liability insurance: limit contracted for a value of Euros 150 million per loss event and in the annual aggregate.
- Liability coverage for sudden and accidental pollution in the general public liability policy: limit of Euros 500 million per loss event.
- Protection and indemnity insurance: maximum limit of US Dollars 500 million per loss event, in accordance with the Rules of the UK P&I CLUB 2018 (Charterers), to cover the liabilities for pollution arising from chartering vessels.

Evolution and results 2020

As mentioned above, the continuous improvement and measurement of environmental performance are based on concrete and ambitious objectives and indicators defined, measured and audited within the framework of the certified environmental management system (ISO 14.001), and which are made public to respond to our commitment to transparency.

The following table shows the evolution of the objectives of the current Environmental Plan to 2020.

Responsible management of the environment	2020	2019	Environmental Plan		
			2017 base year	Target 2022	Variation 2020 vs. 2017
Absolute greenhouse gas (GHG) emissions - Scopes 1 and 2 ($MtCO_2eq$)	15.5	16.5	21.8	17.3	-29%

CO_2 intensity in electricity generation (tCO_2/GWh)	297	301	388	304	-23%
Installed capacity from renewable sources (%)	29	27	22	34	32%
Water consumption (hm^3)	20.3	20.0	28.0	22.4	-27%
Waste produced (kt)	159	154	824	247	-81%
Recycled or recovered waste (%)	61	57	33	66	85%
Initiatives to improve biodiversity (No.)	265	257	See note [1]	300	N.A.
Activity with environmental certification [2] (%)	92.2	88.7	87.7	90.0	5%

Notes:

[1] Indicator created in 2018.
[2] Percentage of Ebitda certified. The Ebitda used to calculate this percentage corresponds to the end of November.

The evolution of other environmental indicators of interest is included below:

Responsible management of the environment	**2020**	**2019**	**Variation 2020 vs. 2019**
Direct greenhouse gas emissions (GHG) Scope 1 ($MtCO_2eq$)	14.3	15.4	-7%
Indirect greenhouse gas emissions (GHG) Scope 2 ($MtCO_2eq$)	1.2	1.1	9%
Indirect greenhouse gas emissions (GHG) Scope 3 ($MtCO_2eq$)	123.2	129.4	-5%
Emission-free production [1] (%)	32	27	19%
Total energy consumption within the organisation (TWh)	56	57.9	-3%
Energy consumption outside the organisation (TWh)	566	632	-10%
Consumption of fuel raw materials (Mt)	5.2	5.5	-5%
Consumption of non-fuel raw materials (kt)	16.7	17.4	-4%
Resources targeted at the prevention of environmental risks [2] (million euro)	685	546	25%

Notes:

[1] Includes hydroelectric, wind, solar and nuclear generation.
[2] All environmental expenditures and investments have been considered.

As can be seen in the tables shown previously, we are on track to meet all our targets and the remaining indicators are evolving positively, highlighting the company's good environmental performance.

1. Governance and environmental management

Naturgy is aware of the environmental impacts of its activities, and the company therefore pays special attention to environmental protection and the efficient use of natural resources to satisfy the energy demand. Naturgy goes beyond compliance with legal requirements with respect to the environment, adopting more ambitious environmental requirements, involving suppliers, working with the different stakeholders and promoting the responsible use of energy.

The most significant current and foreseeable effects of the company's activities on the environment are the following:

- Impact on climate change.
- Pollution of air, water and soil.
- Consumption of non-renewable raw materials[1].
- Biodiversity affected by habitat and species loss[2].

Naturgy's approach to environmental management is based on application of the principle of prevention and is 360º, considering the entire business value chain. Naturgy has had an integrated quality, environmental, safety and health management system (IMS) for a number of years, environmentally certified according to the requirements of ISO 14001:2015, which is externally audited every year. The environmental management system is aimed at preventing pollution and reducing environmental impacts throughout the value chain, involving employees, suppliers and other stakeholders. The processes certified through this system are:

- Electricity generation (thermal, hydraulic and renewable sources origin).
- Distribution of natural gas and electricity.
- Transportation of electricity.
- Wholesale and retail commercialisation of natural gas and electricity.
- Transport and operation of the Maghreb-Europe gas pipeline.
- Extraction and injection of natural gas.
- Development and execution of engineering projects.
- Energy management in organised Iberian electricity markets.
- Corporate activities involving customer service, billing and collection and training.
- Building maintenance.

To ensure consistency and uniformity in the key environmental management processes, there are global methodologies and tools that are used in the company's different businesses and geographies, including the following:

- Themis, for the identification, registration, monitoring and management of compliance with legal requirements.
- Prosafety, for recording and management of the findings, nonconformities, observations and opportunities to improve environmental management.
- Damas, to identify and assess the direct and indirect environmental aspects of the company, allowing us to establish the most relevant aspects to take into account both in the environmental management of these as well as the environmental targets defined each year.
- Environmental planning, through which action lines are defined, introduced and monitored to reduce environmental impact and for continuous improvement.

[1] The impacts of water management are detailed in the section on Circular Economy and Eco-efficiency.
[2] The section on Biodiversity and Natural Capital details the main impacts on biodiversity.

- Enablon, for recording and centralised management of environmental indicators related to atmospheric emissions, consumption of raw materials, water and other resources, discharges, waste, etc. The system is also used to monitor environmental targets and action plans.
- Carbon footprint, to determine greenhouse gas emissions throughout the entire value chain, including indirect emissions produced by third parties upstream and downstream of group activities.
- Geographical information system of biodiversity, showing the protected natural areas, the group's facilities and the initiatives carried out to protect and improve natural capital.

The following table shows the processes by country with environmental management certified under the ISO 14001 standard.

Processes by country with certified environmental management

Processes by country with certified environmental management	**Technology and engineering management**	**Gas exploration and production**	**Gas procurement and transportation**	**Electricity generation**	**Gas and electricity distribution**	**Commercialisation**	**Customer service**	**Management of office buildings**
Argentina					•			
Brazil					•	•		
Chile					•	•		
Costa Rica				•				
Spain	•	•		•	•	•	•	•
Morocco			•					
Mexico				•	•			
Panama				•	•	•		
Dominican Republic				•				

• Certified

In 2020, 92.2% of Ebitda comes from industrial activities with ISO 14.001 environmental certification. This certification has been obtained after passing the external audits carried out by AENOR.

Supply chain

With regard to the supply chain, suppliers, providers and external partners are fundamental in management of sustainability and the environment. Accordingly, the global purchasing and supplier management model takes into account environmental criteria, including climate change, atmosphere, water, soil, landscape, territory, heritage, resource consumption, waste production and biodiversity. A detailed description of this model can be found in the chapter "Responsible Supply Chain".

Additionally, the integration of climate change issues into the supply chain has been strengthened through the CDP Supply Chain initiative.

Legal requirements and sanctions [307-1]

With regards to environmental regulations, Naturgy continuously monitors environmental legislation to be aware in advance of the repercussion this has on its activity, to define its positioning and to adapt itself to new requirements. The company participates proactively in the processes of consultation and public information in the international, European and national context.

The company only received one significant sanction (fines over Euros 10,000)amounting to Euros 76,363 for environmental breaches in 2020. Dating from 2017, it is currently under appeal. It was incurred in Concello de Oleiros, Galicia, for some tree removal and pruning works on council-owned land over which a power line owned by Naturgy (UFD) runs.

Environmental risks [306-3]

With regard to environmental events, the following table includes data with the main spillages that occurred in 2020. In all cases, the environmental incident procedure was activated and the spill was collected and the area cleaned. There have been no significant impacts on the environment. Most spillages were contained in Naturgy's facilities and there has been no deterioration of water courses or damage to biodiversity. It is worth noting the improvement compared to 2019, with a reduction in all parameters, in particular the 97% drop in the total volume of discharges compared to the 29.5 m^3 discharged in 2019.

Spill table [306-3]

2020					
ACTIVITY	**No. of events**	**Nature of spill (no. of events)**	**Spill volume (m^3)**	**Surface area of natural soil affected (m^2)**	**Country (no. of events)**
Electricity generation	7	Oil (5), fuel (1) and sulphuric acid (1)	0.6	25	Spain (6), and Mexico (1)
Gas and electricity distribution	20	Oil (18) and fuel (2)	0.3	134	Chile (15) and Spain (5)
Total	27	---	0.9	159	---

Environmental training

Environmental training is a basic tool for preventing and reducing environmental impacts and improving environmental operational control in activities. Naturgy therefore pays special attention to identify and ensure that all employees possess the necessary environmental knowledge.

In 2020, a total of 3,418 hours were given to 1,503 participants, with 185% and 188% of the hours and participants performing as planned, exceeding the training initially planned.

Environmental communication and awareness: dialogue with stakeholders

The transparency, awareness and dissemination of knowledge on energy and the environment and constructive dialogue with stakeholders are some of the principles of action defined in Naturgy's Global Environmental Policy.

The activities developed in 2020 included the following:

- Publication of environmental reports on the website www.naturgy.com: Carbon Footprint Report 2019 and Biodiversity Report 2017-2019.
- Participation in collaborative initiatives to improve the environment, including:
    - Sustainable Development and Environment Commission of the Confederation of Employers and Industries of Spain (CEOE).
    - Circular Economy Commission of the Spanish Chamber of Commerce.
    - Working Group on Circular Economy of the Junta de Comunidades de Castilla-La Mancha.
    - Circular Economy Working Group of COTEC.
    - Clusters of circular economy and climate change of Forética.
    - Spanish Green Growth Group, of which Naturgy is a founding partner.
    - Working Group on Natural Capital and Energy, together with other companies in the sector (Cepsa, EDP Spain, Enagás, Endesa, Red Eléctrica Group, Iberdrola and Repsol) to implement a standardised framework for assessing the natural capital impact of the Spanish energy sector.
    - Participation in the LIFE BooGI BOP project to promote biodiversity in urban and rural environments.
- Inclusion in pacts and initiatives for the environment:
    - Biodiversity pact and participation in the Spanish Business and Biodiversity Initiative.
    - Pact for a Circular Economy of the Ministry for the Ecological Transition and the Demographic Challenge of Spain.
- Participation in congresses, round tables and media publications disseminating experiences and knowledge in the fields of climate change, energy transition, the circular economy and biodiversity.
- Organisation of external dissemination webinars on environmental issues, such as the one held to commemorate the European Climate Pact "Naturgy: biomethane, circular economy in the agricultural and livestock sector against climate change and for rural revival".
- Messages to encourage energy saving and efficiency measures have been sent to customers on bills.

The Naturgy Foundation has also carried out numerous initiatives to disseminate, train, inform and raise awareness in society on energy and environmental issues. The activities and results achieved can be consulted in the chapter on Social Commitment, the most significant of which are summarised below:

- Energy efficiency workshops for vulnerable families, schools, public administrations and the third sector.
- Various articles about energy and the environment, and new publications.
- Innovative educational programmes, such as "Efigy Education", aimed at 20,000 students in educational centres in more than 100 municipalities throughout Spain—a programme which explores new technologies for energy transition, environmental preservation and responsible energy consumption.
- Through the Foundation, the company has continued to encourage corporate environmental volunteer actions targeted at promoting a positive attitude among employees and their families about the preservation of biodiversity. Two days of environmental volunteering were

held in natural areas. In 2020, due to the pandemic, the activity was moved to a virtual format with four workshops being organised on different topics including urban gardens, birds and bats and nest boxes and insect hotels being created. A total of 367 volunteers, including employees and their families, took part.

Lastly, to guarantee effective communication with the external interested parties, there are different formal complaint mechanisms in operation. Dealing with environmental complaints properly is of great value because these complaints represent an opportunity to improve environmental management. During 2020, 39 environmental complaints or claims were registered, 36 of which were resolved during the year, the rest being in the process of resolution.

Environmental investments and expenses

Naturgy makes a significant effort in environmental protection, providing the necessary means and resources. The environmental actions carried out in 2020 have reached a total of Euros 685 million (Euros 546 million in 2019), of which Euros 532 million correspond to environmental investments and Euros 153 million to expenses incurred in the environmental management of the facilities, excluding those resulting from the carbon market. Investments made include Euros 494 million in renewable projects, which will contribute to the energy transition and reduce specific emissions of CO_2 and other atmospheric pollutants.

The table below provides a breakdown of environmental investments and expenditures.

Environmental investments (million euro)	**2020**	**2019**
Governance and environmental management	1.6	2.5
Climate change and energy transition	521.3	453.4
Circular economy and eco-efficiency	7.3	5.1
Biodiversity and natural capital	1.9	4.1
Total	**532.1**	**465.1**

Environmental expenses (million euro)	**2020**	**2019**
Governance and environmental management	70.1	61.7
Climate change and energy transition[1]	74.6	11.4
Circular economy and eco-efficiency	3.8	4.3
Biodiversity and natural capital	4.7	3.3
Total	**153.2**	**80.7**

[1] The increase in expenses in the Climate change and energy transition category compared to 2019 is largely due to the inclusion of operating and maintenance expenses for renewable facilities, whose operation contributes to the reduction of GHG emissions. December 2020

Environmental governance and management: achievements and highlights in 2020

Lines of action	**2020 milestones**
Governance	Creation of the Sustainability Committee delegated by the Board of Directors. Creation of the Environment and Social Responsibility Unit, within the Sustainability, Reputation and Institutional Relations Department, reporting directly to the Chairman.
Environmental management	92% of Ebitda comes from industrial activities certified in environmental management by ISO 14001.

	Increase in environmental actions (environmental investments and expenses) by 25% in 2020 compared to 2019, reaching a total of Euros 685 million.
Awards and recognition	First European Business Awards for the Environment, convened by the European Commission, in the section of Environmental Management, for companies that make environmental sustainability compatible with business success. Winners in both the national section (115 applications) and the European section (94 applications).

2. Climate change and energy transition [103-1], [103-2] y [103-3] (Climate change and energy transition)

Naturgy believes that climate change is a global environmental challenge and is committed to offering its customers eco-efficient and less CO_2-intensive energy products and services to help mitigate climate change and the energy transition. The main strategic lines of action in terms of climate to reduce GHG emissions are:

- Promote renewable energies and encourage their integration through the development of smart networks.
- Close down the coal-fired power stations.
- Promote natural gas as an alternative to the most emitting fossil fuels.
- Develop technologies and new business models to reduce emissions, such as renewable gas, both from organic waste and from hydrogen produced from renewable electricity.
- Promote energy efficiency in own and customers' facilities.
- Promote sustainable mobility that reduces GHG emissions and also air pollution, helping to improve air quality.

For management of climate change, in addition to the climate change risk management tool, the measurement, control and monitoring of GHG emissions and the operational plans developed to reduce them are carried out, and the evolution is reflected each year in the Carbon Footprint Report, included as an annexe to this document. The commitment to transparency and dissemination of information on climate change is embodied in the publication of this report, as well as participation in international climate change benchmarks such as CDP Climate Change. It should be noted that Naturgy has been recognised by this index for its climate management, obtaining the highest rating in CDP Climate Change 2020 (A List), remaining since 2011 in the leadership band.

Moreover, Naturgy has voluntarily undertaken commitments by joining climate-related initiatives such as the Carbon Pricing Leadership Coalition (CPLC), Caring for Climate, the Climate Change Trust and Disclosure Statement, the Statement of Support for the Task Force on Climate-related Financial Disclosures (TCFD) and participation in the Science Based Targets initiative.

Given that some of Naturgy's activities are regulated by the European Directive on Emissions Trading (Phase III 2013-2020), in order to cover these CO2 emissions, integrated portfolio management is used to acquire 100% of the emission rights equivalent to its generation, since from 1 January 2013 the electricity sector will not receive free allocation. For this purpose, it actively participates both in the primary market, through auctions, and in the secondary market.

Carbon footprint inventory [305-1], [305-2] and [305-3]

Detailed information on climate performance and a description of the standards, methodologies, conversion factors, assumptions and calculation tools used is given in the 2020 Carbon Footprint Report, included as an appendix to this document. The most relevant data are summarised below:

Emissions (tCO_2eq)	2020	2019
Scope 1	14,301,874	15,415,253
Scope 2	1,153,608	1,098,662
Scope 3	123,217,903	129,433,473
Activities associated with upstream fuels and energy	**30,638,299**	**28,390,264**
Coal	*107,120*	*67,446*
Natural gas	*20,137,098*	*16,583,367*
Oil	*185,822*	*392,403*
Electricity	*10,208,259*	*11,347,048*
Business trips	**621**	**3,108**
Mobilisation of employees	**8,286**	**9,314**
Use of products sold	**92,462,851**	**100,959,590**
Natural gas	92,462,851	*100,959,590*
Investments	**107,846**	**71,197**
Total	**138,673,385**	**145,947,388**

Other climate change indicators [305-1]

Greenhouse gas emissions	2020 target value path	2020	2019
Direct GHG emissions Scope 1 ($MtCO_2eq$/year)	17.8	14.3	15.4
Indirect GHG emissions Scope 2 ($MtCO_2eq$/year)	1.3	1.2	1.1
Emission factor (tCO_2/GWh)	338	297	301
Emissions by leaks in gas networks (t CO_2eq/km network)	6.1	5.7	5.7
Average direct GHG emissions (Scope 1) of last three years *	n.a.	16.0	18.1

(*) NB: the average direct GHG emissions of the last three years for 2020 corresponds to the average of 2018, 2019 and 2020. For 2019, it corresponds to the average of 2017, 2018 and 2019.

Ratio of energy emissions [305-4]

	Electricity generation	Gas distribution	Electricity distribution	Gas infrastructures	Commercialisation	Corporate	Total
CO_2 (tCO_2eq)	12,481,522	8,570	229,194	717,252	29,730	8,873	13,475,140
CH_4 (tCO_2eq)	5,822	774,663	116	4,304	66	75	785,046
N_2O (tCO_2eq)	9,660	5	151	3,383	16	115	13,331
SF_6(tCO_2eq)	914	-	26,288	-	6	-	27,208
HFC (tCO_2eq)	713	-	-	-	-	437	1,150
PFC (tCO_2eq)	-	-	-	-	-	-	-

Total group	12,498,631	783,237	255,749	724,938	29,817	9,501	14,301,874
Net turnover (€M)							15.345
Ratio (tCO_2eq/€M)							932

Coverage of facilities regulated by the European Emissions Trading Directive in Phase III (2013-2020)

[EU5] **Allocation of CO2 emissions allowances or equivalent [million tonnes]**	**2020**	**2019**
Total CO_2 emissions affected by the regulations governing the European Emissions Trading System	6.0	6.2

Initiatives for reducing GHG emissions and associated energy savings [302-4], [302-5] and [305-5]

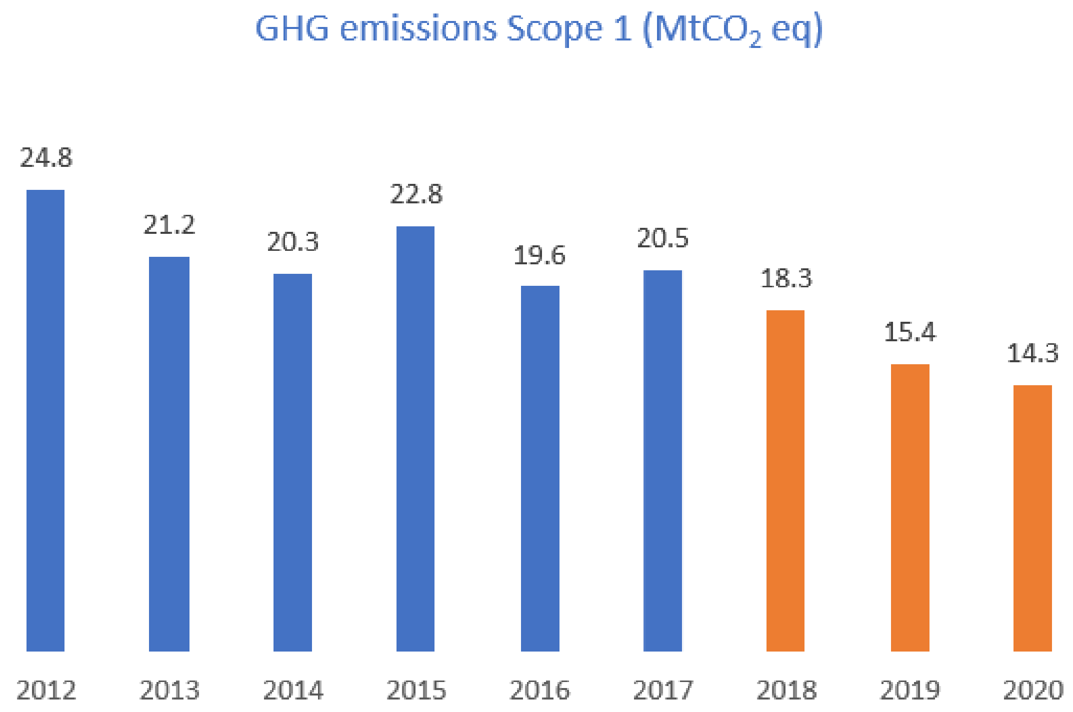
Avoided Emissions[1]	Avoided Emissions 2020 (tCO_2eq)	Energy savings 2020 (GWh)	Avoided Emissions 2019 (tCO_2eq)	Energy savings 2019 (GWh)
Natural gas: reduction of CO_2 emissions by displacement of coal and oil derivatives, of higher emissions	120,304,619	161,637	139,922,516	195,207
Electricity production	76,787,895	133,522	95,991,693	166,697
Industry	22,497,930	10,353	22,414,029	10,198
Residential/Commercial	10,906,893	11,461	11,622,165	12,183
Transport	2,801,792	2,807	2,811,566	2,817
Cogeneration	7,310,108	3,493	7,083,063	3,312
Renewable energies: displacement of fossil fuel generation	5,001,239	19,593	6,252,903	16,917
Wind farms	2,494,745	9,723	2,607,393	7,213
Hydroelectric production	2,179,056	8,616	3,280,482	8,594
Photovoltaic production	327,438	1,253	365,028	1,110
Energy savings and efficiency in own and customers' facilities	1,058,308	2,198	1,190,936	2,942
Own facilities: Energy Efficiency Operations Plan	-	-		
Renewal of gas transmission and distribution networks	746,958	545	742,898	553
Actions in electricity distribution	1,109	4	20,191	146
CCGTs	47,361	242	85,352	428
Coal-fired power stations	7,952	24	11,790	35
Fuel oil-fired power stations	12,680	46	26,894	105
Customer facilities				
Energy services	242,249	1,336	303,811	1,675
Other				
Nuclear production	2,309,669	-4,574	4,047,879	-3,603
Total	128,673,836	178,854	151,414,234	211,463

Climate balance sheet	2020	2019
Total emissions - Scope 1, 2 and 3 ($MtCO_2eq$)	139	146
Avoided Emissions ($MtCO_2$)	129	151
Climate balance sheet: avoided emissions/total emissions Scopes 1, 2 and 3 (%)	93	104

[1] The avoided Emissions are calculated as the difference between the emissions of the "with project" and "without project" scenarios. Using the 2006 IPCC emission factors for the development of national GHG inventories and UNFCCC methodologies and tools for Clean Development Mechanism (CDM) projects.

The climate balance sheet sets out the relationship between our emissions (direct and indirect) and the emissions prevented by our assets, products and services. This balance sheet, while subject to the variability inherent in the business and the environment in which we operate, marks a long-term trend that shows whether we are aligned with the global objective of climate neutrality introduced in the Paris Agreement. In 2020 the balance has been 93%.

In terms of the evolution of our direct GHG emissions, we have reduced our direct GHG emissions (Scope 1) by 42% since 2012. The graph below shows the evolution over time, highlighting the decrease from 2017, with the implementation of the Strategic Plan 2018-2022.



Climate change and energy transition: achievements and highlights in 2020

[201-2]

Lines of action	2020 milestones
Climate management	Naturgy was externally recognised for its climate management, obtaining the highest rating from the CDP Climate Change 2020 (A List), and has been present in the leadership band since 2011. Diploma “Business Examples of Actions #PorElClima2020” from the #PorElClima (#ForTheClimate) Community, for the effort and commitment to address the climate emergency.
Reducing direct CO_2 emissions	Closure of all Naturgy coal-fired power stations in the first half of 2020, involving a significant reduction in CO_2 emissions and other atmospheric pollutants.
Promoting renewable electricity	Implementation of new renewable projects (151 MW of wind power in Spain), which have led to an increase in installed renewable capacity to 29% globally and an increase in electricity produced from water, wind and solar, which has reached 22% of the total electricity generated in 2020.

	The fact that Naturgy has over 9,800 MW of power installed in combined-cycle plants, the most eco-efficient conventional thermal technology that acts as a backup for renewable generation in times of lack of water, wind or sun, has spurred the penetration of renewable energies in the system.
Reducing fugitive GHG emissions in gas networks	Renovation of gas networks, replacing cast-iron pipes with polyethylene, materials with lower methane leaks. Sectorisation of gas networks by means of shut-off valves that allow the isolation of areas where leaks are detected in order to reduce methane emissions during the work of locating and repairing the incident. Improved control and remote monitoring equipment for distribution systems to facilitate operation, detection and reduction of leaks. Reduction of methane leaks by monitoring the gas network (regular routine inspections to identify undetected leaks), reducing pressure during off-peak consumption and improving leakage response plans to reduce response times. Improvement in the operation and maintenance of gas transport infrastructures to reduce venting. Installation of smart meters in Spain.
Reduction in SF_6 emissions	Replacement of SF_6 (greenhouse gas) equipment with new models with a lower leakage rate. Participation of electricity distribution in the Voluntary Agreement for the reduction of SF_6 emissions promoted by the Ministry for Ecological Transition and the Demographic Challenge.
Displace carbon intensive fuels	The distribution and commercialisation of natural gas to replace more carbon-intensive fuels (coal, petroleum derivatives) led to the reduction of 120 million $MtCO_2e$, and other air pollutants (SO_2, particulate matter, NO_x).
Sustainable mobility for customers	Seven bunkering operations have been carried out on two ships, replacing oil-based fuels with liquefied natural gas, which is the most eco-efficient alternative in maritime transport in terms of both GHG emissions and other pollutants. Implementation of comprehensive and personalised electric mobility solutions that allow customers to enjoy their electric vehicle charging point. Commissioning of 5 new vehicular natural gas stations in Spain.
Sustainable mobility for employees	Start-up of recharging points in our own facilities to promote electric mobility (San Cugat offices, Sabón and Palos combined-cycle power stations, etc.). Under this last initiative, the Palos combined-cycle power station was awarded the Lince 2020 prize. Commissioning of electric vehicle fleets to increase the environmental sustainability of the fleets (UFD, Panama) Employee awareness raising campaigns for more sustainable transport use. Digitalisation of processes to reduce face-to-face procedures and associated transfers (Argentina).
Increasing energy	Energy Efficiency Operations Plan in own facilities, that has prevented the emission of 1,058 kt CO_2eq.

efficiency at our own facilities and those of our customers	Renewal of boilers, conversion of customers to replace the consumption of oil derivatives with natural gas, personalised self-consumption solutions, cogeneration projects, installation of photovoltaics in homes and businesses, efficient lighting and air conditioning solutions.
Innovation in low-carbon energy products and services	Commercialisation of ECO tariffs and products in Spain, such as the ECO electricity tariff, to provide customers with 100% of their energy from renewable sources (approximately 5,400 GWh, 29% of the energy supplied) and the neutral gas tariff, a natural gas supply service offset by neutralising their CO_2 emissions.

3. **Circular economy and eco-efficiency** [103-1], [103-2] and [103-3] (Circular economy and eco-efficiency)

Naturgy is committed to promoting the circular economy through the efficient use of resources to reduce environmental impacts. To do this, different lines of action are developed, focused fundamentally on:

- To develop renewable gas (biomethane and hydrogen) as an energy and storage vector that facilitates the transition to a circular and decarbonised economy model, so that it can be injected into gas infrastructures, to replace conventional natural gas.
- Improving eco-efficiency in the use of resources, energy, water and raw materials, reducing pollution, waste and its impact on the environment, and promoting initiatives based on circular economy.

Energy and materials

Within the framework of the integrated management system, Naturgy implements management and control procedures aimed at minimising the consumption of energy and material resources.

As far as energy consumption is concerned, Naturgy's commitment to renewables and the promotion of energy savings and efficiency, both at its own facilities and at its customers, contributes to reducing the environmental impact of unconsumed energy. The figures regarding energy consumption both inside and outside the organisation are given below.[1]

[302-1] Total energy consumption within the organization [GWh]	**2020**	**2,019**
Non-renewable fuels	85,750	92,051
Natural gas	68,060	73,127
Coal	2,929	1,844
Petroleum derivatives	1,641	3,466
Uranium	13,120	13,614
Renewable fuels	-	-
Electricity acquired for consumption	3,181	3,027

[1]The lower calorific values (LCV) and higher calorific values (HCV) of the different fuels defined by the Spanish Office for Climate Change were used to calculate energy consumption.

Renewable electricity generated (not included in the consumption of fuels)	9,202	7,549
Electricity and steam sold	-42,140	-44,777
Total	**55,993**	**57,850**

The following table shows the ratio of energy consumption to net turnover.

[302-3] Energy intensity within the organisation by business segment	**2020**			**2019**		
	Energy consumption within the organisation [GWh]	**Net turnover [million euro]**	**Ratio [GWh / net turnover]**	**Energy consumption within the organisation [GWh]**	**Net turnover [million euro]**	**Ratio [GWh / net turnover]**
Total	55,993	15,345	3.65	57,850	20,761	2.79

[302-2] Energy consumption outside the organization [GWh]	**2020**	**2,019**
Final use of the natural gas commercialised	509,289	566,832
Electricity	56,610	64,792
Total	**565,899**	**631,624**

In 2020, consumption of energy resources decreased by 3% within the organisation, and by 10% outside of it.

[301-1] Materials used, by weight or volume [Mt]	**2020**	**2019**
Fuels	**5.19**	**5.50**
Natural gas	4.57	4.90
Coal	0.47	0.30
Petroleum derivatives	0.15	0.30
Uranium	0.00001	0.00001

[301-1] Materials used, by weight or volume [kt]	**2020**	**2019**
Other materials	**16.71**	**17.40**
Calcium carbonate	9.30	10.70
Lubricant/hydraulic oil	0.61	1.10
Sulphuric acid	1.72	1.20
Nitrogen	1.06	1.30
Sodium hypochlorite	0.57	0.50
Calcium hydroxide	0.96	0.80
Sodium hydroxide	0.74	0.31
Rest of other materials*	1.75	1.49

(*) Includes paper and toner consumption, which in 2020 amounted to 61 t and 1.9 t respectively, much lower than in 2019 (166 t and 3.7 t respectively) due to the remote working situation resulting from COVID-19.

In terms of the materials used, there was a decrease in consumption by weight, both of fuels (6% reduction) and other non-combustible materials (4% reduction) compared to 2019.

Water

[303-1], [303-2]

Water is one of the natural resources used in the processes. Of the total water collected by the company is returned to the environment, with consumption representing a very small percentage of the total, just 2%.

[303-3] Water collection, consumption and discharge [hm³]	**2020 target value path**	**2020**	**2019**
Total volume of water captured from the environment	858	928	791
Total water consumption	25	20	20
Total volume discharged	836	909	779

NB: the discrepancy in the water balance in 2020 is due to the fact that the discharge includes rainwater collected by the drainage networks of the facilities.

The main potential impacts that Naturgy's activities can have on this resource are listed below:

Potential impacts on water	**Upstream**	**Transmission and distribution**		**Electricity generation**			
		Natural gas	**Electricity**	**Thermal**	**Hydroelectric**	**Wind**	**Solar**
The construction and dismantling of facilities can cause temporary impairment of water quality in nearby water masses during the construction phase. The main causes of these impacts are: local removal of vegetation, land being dragged by runoff, accidental spills and uncontrolled dumping.	Low impact	Low impact	Low impact	Low impact	Significant impact	Low impact	Low impact
During the operation phase, there is a risk of water quality impairment due to accidental spillage of liquids, waste or materials into bodies of water in the vicinity of the facilities.	Low impact	No significant impact	Low impact	Medium impact	Low impact	Low impact	Low impact
Modification of physicochemical parameters downstream of the facilities due to the liquid discharges produced.	Low impact	No significant impact	Low impact	Medium impact	Low impact	Low impact	Low impact
Water consumption or drawdowns and/or scarcity of water both for the ecosystems present in the environment and for the populations and socio-economic activities.	No significant impact	No significant impact	No significant impact	Medium impact	Significant impact	Low impact	Low impact

In the design phase of the facilities likely to generate significant impacts on the environment, Environmental Impact Studies are conducted, in which project alternatives and the natural environment are studied, paying special attention to water and its availability, both for the ecosystems and for the affected population. Consequently, all necessary measures are included in the project design to ensure that the environmental and social impacts associated with water use are minimised. In the Environmental Impact Assessment process, both the project and the Environmental Impact Study are subject to public information, whereby stakeholders participate in the procedure by submitting the arguments and proposals they deem appropriate, many of which end up being integrated into the end solution. The result of this process is an environmental authorisation which gives the specific conditions applicable to each project, and which guarantees that water management is adjusted both to the local context of availability of the resource and to the applicable public policies. Occasionally, where facilities are located in areas without local discharge requirements, internationally recognised standards, such as those established by the World Bank guidelines, are taken as a reference.

Once the facilities enter into construction or operation, the monitoring and analyses set out in the environmental studies and in the authorisation are carried out to ensure that the quality of the environment and the availability of this shared resource are maintained. This is guaranteed by the externally audited environmental management system certified by ISO 14001.

The existence and magnitude of impacts will depend on both the source of water used and the amount of the resource consumed. In the case of Naturgy, the main source of water used globally is seawater, which in 2020 accounts for more than 97% of the total. Next is the wastewater from other industries or from urban sources, which is treated to be reused in our processes, thus avoiding the consumption of fresh water, especially in areas of scarcity. Finally, and to a lesser extent, fresh groundwater or water from the supply network is captured.

[303-3] Water collection by source [hm^3]	**2020**	**2019**
Surface water captured (sea[1])	901.3	759.70
Surface water captured (rest[2])	6.1	6.40
Groundwater captured[2]	0.4	0.2
Wastewater used from another organisation[1]	19.8	23.6
Water captured from the supply network[2]	0.3	0.6
Total volume of water captured from the environment	**927.9**	**790.5**

[1] Total dissolved solids (TDS) > 1,000 mg/l
[2] Total dissolved solids (TDS) ≤ 1,000 mg/l

Most of the water collected for the processes is returned to the environment, representing only 2% of water consumed. Most of this consumption takes place in the thermal power stations for electricity generation, specifically in the cooling towers.

[303-5] Water consumption [hm^3]	**2020**	**2019**
Consumption of cooling water	17.1	17.1
Consumption of water in water/steam cycle	0.4	0.4
Consumption of water in other processes	2.3	1.8
Consumption of water in ancillary services and buildings	0.5	0.7
Total	**20.3**	**20.0**

Once used, the different water flows are segregated according to their nature and those that require it are treated at the effluent treatment plants, eliminating the contaminants they contain (particles, oils, organic contamination, pH outside the range, etc.) until the appropriate conditions are reached for their discharge. Each facility has its own discharge limits, set according to the nature and carrying capacity of the receiving water body. Prior to discharge, effluents are analysed to ensure that the permissible limits are complied with and that there are no negative impacts on the aquatic ecosystem. This analysis and monitoring is not limited to the effluents alone; the plants also monitor the water in the environment receiving the discharges to ensure that there are no negative effects on the aquatic environment.

The treatment equipment and systems worked as planned in 2020, complying with environmental permits. In addition, studies of the receiving environment reveal that no significant impacts were generated in the aquatic ecosystems where the effluent discharges are made. Most discharges are into the sea, followed by rivers and the public sewerage system.

[303-4] Water discharge [hm^3]	**2020**	**2019**
Water discharged into the sea	904.7	766.8
Water discharged into waterways	4.42	11.30
Water discharged into the public sewerage system	0.32	0.40
Water discharged into septic tanks	0.01	0.01
Water discharged for use by an aquifer	0.02	0.01
Total volume discharged	**909.47**	**778.5 2**

NB: all discharges had a TDS concentration > 1,000 mg/l

To adequately manage this resource in the facilities with the greatest potential impact, Naturgy also carries out a global assessment of the risk associated with water management, which analyses the use of water by the facilities and the characteristics of the environment in which they are located according to their water stress category. The result of this study states that Naturgy, aware of the situation of water stress or scarcity in the surroundings of some of its thermal plants, implements systems for the use of seawater or the reuse of waste water from cities or other industries in these facilities, which avoids fresh water being consumed and removes the pressure on this scarce resource. In fact, in 2020, fresh water captured (TDS ≤ 1,000 mg/l) in areas of high water stress amounted to only 0.11 hm^3, which represents 0.01% of total water captured.

[303-3] Water collection in high water stress areas	**Volume (hm^3)**		**Percentage of total water collected**	
	2020	**2019**	**2020**	**2019**
Total water captured in high water stress areas	**225.519**	**90.330**	**24%**	**11%**
Seawater[1]	205.626	66.090	22%	8%
Fresh surface water[2]	0.092	0.600	0%	0%
Fresh groundwater[2]	0.004	0.030	0%	0%
Water from another organisation (reuse)[1]	19.784	23.600	2%	3%
Water captured from the supply network[2]	0.013	0.01 0	0%	0%
Capture of fresh water (TDS ≤ 1,000 mg/l) in areas of high water stress	**0.109**	**0.640**	**0.01%**	**0.08%**

The following tables show consumption and discharge in these areas.

[303-5] Consumption of water in high water stress areas [hm³]	**2020**	**2019**
Consumption of cooling water	10.338	9.030
Consumption of water in water/steam cycle	0.237	0.193
Consumption of water in other processes	0.002	0.023
Consumption of water in ancillary services and buildings	0.261	0.310
Total	**10.838**	**9.556**

[303-4] Water discharge in high water stress areas [hm³]	**2020**	**2019**
Water discharged into the sea	214.388	77.002
Water discharged into waterways	0.711	0.667
Water discharged into the public sewerage system	0.030	0.049
Water discharged into septic tanks	-	-
Water discharged for use by an aquifer	-	-
Total volume discharged	**215.129**	**77.718**

Globally, there was a 17% increase in both water capture and discharge in 2020, due to increased activity of coal-fired power stations compared to the previous year. In terms of consumption, the increase recorded was limited to 2%. Considering the quality of water used, these increases have been mainly due to the increased use of seawater, which is a more readily available water resource, with a net decrease of 6% in freshwater capture. This meant a lessening of negative environmental impacts owing to the reduced use of the most sensitive resource (fresh water). This trend was replicated in areas of high water stress, where there is greater competition for fresh water, with an 83% reduction in freshwater capture in those areas.

With regard to the indirect effects on water, it should be noted that water is one of the criteria considered in the purchasing and supplier management model.

Atmospheric emissions

Total specific atmospheric emissions: [305-7] Nitrogen oxides (NO_X), sulphur oxides (SO_2), and other significant air emissions [kt])	**Total [kt]**			**Specific [g/kWh]**	
	2020 target value path	**2020**	**2019**	**2020**	**2019**
SO_2	8.8	3.4	2.1	0.08	0.05
NOx	19.6	10.6	12.1	0.25	0.27
Particles	1.0	0.3	0.5	0.01	0.01
Mercury	N.A.	0.00002	0.00002	0.0000006	0.0000004

The above data correspond to direct measurements made at the facilities. As can be seen, there has been an increase in SO_2 emissions, mainly due to the increased operation of coal-fired plants compared to the previous year, as these plants have the highest emissions of this atmospheric pollutant due to the higher percentage of sulphur in the fuel.

[305-6] Emissions of ozone-depleting substances (SAO) [t]	2020	2019
HCFC	0.0001	0.0100
Freon R22	0.26	0.58

The above data correspond to direct measurements of filling operations performed on equipment using these substances.

With regard to light and noise pollution, following the materiality analysis carried out, these issues have not been of maximum relevance, nor other issues relevant to the company, which is why no information is included in this regard. However, noise-producing facilities are equipped with silencers, insulation and other acoustic measures to ensure compliance with legal limits and reduce disturbance to the surrounding population and fauna, as well as monitoring and measurement programmes to ensure compliance with these requirements.

Waste

[306-2]

Within the framework of the integrated management system, Naturgy has procedures for the control and management of waste, through which it defines the systems for its adequate minimisation, segregation, storage, control and final management.

In accordance with the waste hierarchy, the company prioritises management aimed at prevention, reuse and recycling over other less sustainable alternatives such as incineration without energy recovery or landfill. This strategy is clearly defined in the Environmental Plan, which includes two waste-related targets: reducing waste by 70% and doubling the percentage of waste recycled and recovered by 2022 compared to 2017.

Waste managed and compliance with targets [kt]	2020 target value path	2020	2019
Total waste (kt)	478	159.2	154.4
Non-hazardous waste (kt)	469	153.8	147.5
Hazardous waste (kt)	9	5.4	6.9
Recovery and recycling rate	53%	61%	57%

Non-hazardous waste managed [kt]	2020	2019
Soil and rubble	48.5	70.1
Ashes	60.1	32.3
Gypsum	19.5	20.2
Sludge	8.8	6.6
Cinders	6.8	7.9
Vegetable waste	3.8	2.5
Rest	6.3	7.9
Total	**153.8**	**147.5**

Hazardous waste managed [kt]	2020	2019
Hydrocarbons plus water	1.17	1.70
Sludge from oil and fuels	1.09	1.80
Solid waste contaminated with hydrocarbons	0.78	0.90
Used oil	1.08	0.50
Hydrocarbon-contaminated soils	0.22	1.40
Electronic waste	0.53	0.11
Rest	0.48	0.49
Total	**5.35**	**6.90**

Products sold for reuse [kt]	2020	2019
Ashes	91.9	18.1
Cinders	12.9	2.5
Sludge from oil and fuels	0.8	1.8
Total	**105.6**	**22.4**

In 2020 the total amount of waste generated increased by 3%, mainly accounted for by non-hazardous waste from the increased operation of coal-fired power stations that produce the ash and cinders. The generation of hazardous waste, on the other hand, decreased by 22%. As regards recycling, there was a 6% improvement compared to 2019, amounting to 61% recovery or recycling of waste. The sale and recovery of ash and cinders should also be highlighted, as in 2020 ash generated in previous years was sold for recovery.

In 2020, Naturgy continued with the removal of polychlorinated biphenyls (PCB). Currently, 112 tonnes of dielectric oils with PCBs still have to be removed.

With regard to food waste, after the materiality analysis carried out, this aspect has not been among the most relevant issues, nor other relevant issues for the company, which is why no information is included in this regard.

Renewable gas

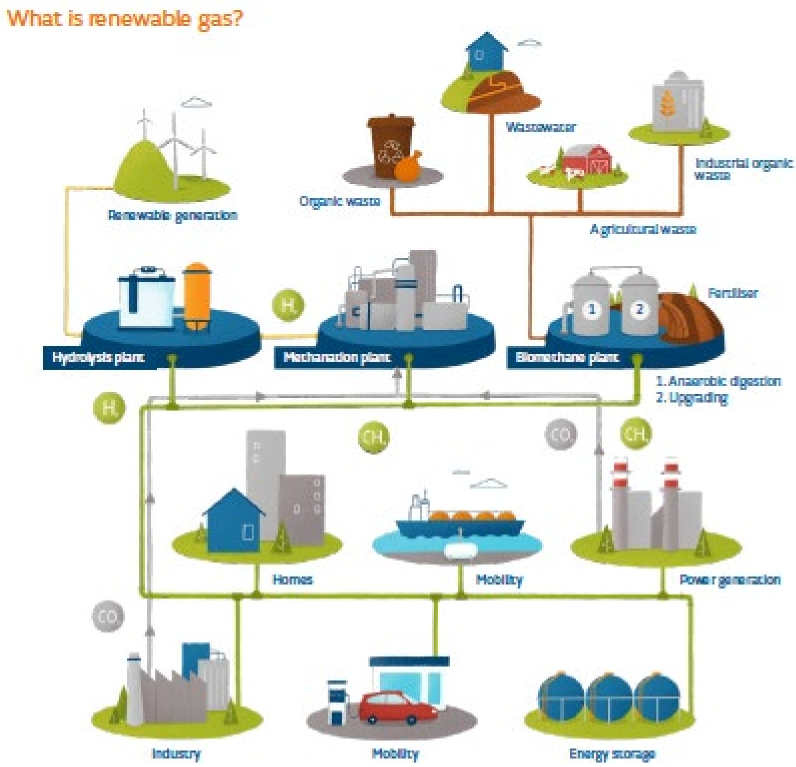
Another strategic line of action in the circular economy is the numerous initiatives being conducted in the field of renewable gases, with the aim of promoting this new energy vector.

Moreover, this circular model has other advantages, such as improving the environmental management of such conflicting organic waste as: livestock waste, slurry, manure, poultry manure, sewage sludge or organic fraction of domestic waste, also avoiding the undesirable effects that these have on people and biodiversity through water pollution, unpleasant odours, etc. From the social point of view, it supports local rural development and the establishment of employment and population in agricultural and livestock environments, reducing external energy dependence and, with it, the country's energy bill.

These gases are obtained from raw materials or renewable sources, and there are three types:

- Biogas: from the anaerobic digestion of organic waste, such as household waste, industrial organic waste, sewage sludge or livestock waste. A by-product is generated in the process that is an excellent fertiliser, in circular economy logic.

- Synthetic gas or syngas: obtained by thermal gasification of lignocellulosic organic matter, such as forest and agricultural waste, which helps prevent fires.
- Green hydrogen: produced from renewable electricity by electrolysis of water, it allows the storage of this energy in the existing gas networks (in Spain, the gas system has the capacity to store the equivalent of the country's electricity consumption of 2 months). This alternative avoids the consumption of materials, energy and waste associated with batteries and, unlike the latter, allows energy storage for lengthy periods to cover seasonal differences in national energy demand. Based on studies, green hydrogen could be injected into gas networks up to a maximum of 20-30% of their capacity. Through a methanation process, H2 binds to captured CO_2 from industry or generation and is transformed into methane, which can be injected into the gas system without any limitations.



All renewable gases contribute help reduce greenhouse gas (GHG) emissions and are key to the decarbonisation of the energy system, by avoiding CO_2 emissions from substituted natural gas. The potential for reducing GHG emissions could reach 35 $MtCO_2eq$/year i.e. more than 15% of the total emission forecast for 2030 in Spain according to the Integrated National Energy and Climate Plan (PNIEC).

Renewable gases produced from organic waste are not only carbon neutral but can even have negative CO_2 emissions, acting as a sink and removing greenhouse gases from the atmosphere. This is the case of biomethane from livestock waste, the current management of which presents GHG emissions. The transformation of this waste into renewable gas can avoid emitting 200% of the CO_2 emissions corresponding to the substituted fossil fuel into the atmosphere.

Since 2014, Naturgy has been developing innovative projects to understand and reduce production costs and to promote the injection of renewable gases into the gas network. These projects include:

- Life Methamorphosis (Lleida). Transformation of pig slurry into biomethane. The biomethane is used to power two cars, one of which has travelled more than 100,000 km on this fuel alone. Future injection into the gas network is planned. Production 135 m^3/h of biomethane (11.6 GWh/year), equivalent to the consumption of 2,320 homes. Emissions savings of 2,900 t CO_2. Naturgy Investment: €1.4 M
- Mixed renewable natural gas unit (A Coruña). Treatment of the sludge from the wastewater of the Bens WWTP. The biomethane is used on a bus in A Coruña that has travelled more than 100,000 km propelled by the city's own waste. Production 65 m^3/h of biomethane (5.5 GWh/year), equivalent to the consumption of 1,100 homes. Emissions savings of 1,356 t CO_2. Naturgy Investment: €1,1 Mn. The facilities for injecting the biomethane into the gas distribution network are currently under construction.
- Butarque WWTP (Madrid). Wastewater sludge treatment and upgrading to biomethane with injection into the distribution network, for the first time in Spain, in October 2019. Benchmark project for the elaboration of the "Model of Renewable Gas Certificates of Origin". Production 56 m^3/h (5 GWh/year), equivalent to the consumption of 1,000 homes. Saving of 1,266 tonnes of CO_2 emissions. Naturgy Investment: €0.8 M.
- COSIN (P2G). EDAR (Sabadell). Research project for the production of biomethane using technology of catalytic hydrogenation of CO_2, which uses H_2 produced by electrolysis and CO_2 from a biological source, resulting in a renewable gas with negative GHG emissions. Naturgy Investment: €0,8 Mn.
- Elena landfill (Barcelona). Project under construction that will take advantage of the biogas generated in the landfill, eliminating its torch burn off by upgrading to biomethane. Treatment of up to 400 m^3/h of biogas in the first years of operation, equivalent to the consumption of 4,000 homes. Naturgy Investment: €2.2 M

Circular economy and eco-efficiency: achievements and highlights in 2020

Lines of action	2020 milestones
Reduction in consumption of raw materials and toxic products	Promotion of electronic invoicing among customers to eliminate paper consumption and the pollution associated with the paper life cycle. Naturgy's online turnover has experienced considerable growth, achieving 2.5 million contracts with online turnover in Spain by 2020 (32% of the total), which means an estimated reduction of more than 5,000 tons of paper per year. Although most of the reduction in paper consumption in offices has been due to remote working as a result of the COVID situation, the use of recycled paper has continued, with controls and limits on the number of pages printed per employee, with awareness raising among users about the conscious use of resources. Likewise, new processes have been digitalised, avoiding paper formats with the associated savings. Reduction in the use of plastics, replacing plastic cups with paper cups. Efficiency plan for the reduction of natural gas odorant consumption in Mexico. Improvement in the cleaning plans for water treatment plants in thermal power stations in Spain and in the reagent dosing systems, with savings in the consumption of chemical products.

	Replacement of mineral oils in hydroelectric power stations in Spain with others that are biodegradable and not toxic to the environment. Inclusion in the criteria for contracting waste management in electricity distribution in Spain of the obligatory nature of waste recovery.
Reduction of water consumption	In six of Naturgy's combined-cycle plants, a total of 20 hm^3 of recycled water from urban discharges or other industrial activities has been reused. Two of the plants reuse the discharge of vaporisation water from regasification plants (combined-cycle power stations of the Port of Barcelona and Cartagena, in Spain). The other four (Hermosillo, Naco and Durango combined-cycle power stations in Mexico and Málaga in Spain) reuse urban waste water, avoiding the use of 4.6 hm^3 of fresh water in high water stress areas. Optimisation of water treatment systems and reuse of water within combined-cycle plants, avoiding discharges. For example, at the Hermosillo combined-cycle plant (Mexico), more than 300,000 m^3 have been recovered by building a channel to increase the distance travelled by a stream of effluents containing chlorine, which makes it possible to reduce this biocide and reuse it in the biological process of water treatment. Eco-washing of the fleet without water
Promoting renewable gas	Injection of 2.02 GWh into the Spanish gas networks in 2020 from the EDAR Butarque project, which is part of the European ECOGATE initiative. Construction of the biomethane plant at the Elena landfill and the injection unit at the Bens WWTP, with the aim of being able to inject renewable gas into the network at the beginning of 2021.
Reduction in the production of waste	Commercialisation and recovery of ashes and slag produced in coal-fired power stations, with up to 100% in some facilities. On-site recovery of waste, as for example in Limeixa, where 792 tonnes of materials from demolition have been reused, or in the generation plants in Spain, where work clothing items have been reused as rags.
Raising awareness about responsible consumption	Digital training in energy efficiency in Argentina for students and teachers on the correct use of gas, electricity, water and paper. The portal was launched in July 2020, and has since been visited by 8,006 users for 9,084 sessions.

4. Biodiversity and natural capital [103-1], [103-2] and [103-3] (Biodiversity), [102-11]

Naturgy is committed to the preservation of natural capital, biodiversity and cultural heritage in the areas around its facilities, with special attention paid to protected areas and species. For this purpose, the following lines of action have been developed:

- Minimising impact on biodiversity and moving towards no net loss, with a preventive approach (hierarchy of impact mitigation), implementing best practices and promoting the creation of natural capital.
- Developing natural capital as a net value tool contributing to biodiversity in decision-making.

To conduct these activities, Naturgy needs a number of services provided by nature, also called ecosystem services. The identification of these dependencies at corporate level is highly relevant as it enables operations that are vulnerable to changes in the quantity and quality of these services to be identified with the implementation of actions aimed at their protection and conservation. The following table identifies the main dependencies identified:

Dependencies	Upstream	Transmission and distribution		Electricity generation			
		Natural gas	Electricity	Thermal	Hydroelectric	Wind	Solar
Provision of non-mineral resources as fuel (natural gas)	X	X		X			
Supply of minerals and materials for the construction and operation of facilities	X	X	X	X	X	X	X
Wind energy supply						X	
Solar energy supply							X
Water supply				X	X		
Climate regulation: carbon sequestration in the seas, soil and biomass	X	X		X			
Regulation of the chemical composition of the atmosphere: processes of diffusion of pollutants				X			
Regulation and maintenance of the flow rate and the physical, chemical and biological conditions of the water, including dilution processes				X	X		
Flood control and protection	X		X	X	X	X	X
Soil erosion protection and soil stabilisation	X	X	X	X	X	X	X

Our efficient management of natural capital is based both on improving the impact on ecosystems by performing preliminary studies for new facilities, reducing our emissions, resource consumption or waste production, and on developing direct actions on biodiversity.

As far as the new facilities are concerned, the development of Naturgy's activities requires land occupation. When the facilities are being designed, the precautionary principle is applied and prior environmental impact studies are conducted, in which the surroundings of the sites are analysed, with a special focus on protected areas of high ecological value, adapting the location and the project to avoid or minimise the impacts on biodiversity. In those cases in which it is not possible to completely avoid the impact, the required compensatory measures are introduced.

Introducing additional voluntary measures contributes to the knowledge and mitigation of the impacts arising from the development of new projects and the operation of the facilities once they have been introduced. The company also takes into consideration the opinion of the stakeholders present in the places where it operates.

The following table summarises the main impacts on biodiversity that may arise from the company's operation at the sites and in adjacent areas:

Potential impacts on biodiversity [304-2]		Upstream	Transmission and distribution		Electricity generation			
			Natural gas	Electricity	Thermal	Hydroelectric	Wind	Solar
Construction and decommissioning of facilities	The construction and decommissioning of facilities can affect the vegetation and fauna present in the environment. The main causes of these impacts are the local removal of vegetation, lower air quality, increased noise levels, accidental spills and the presence of personnel during the work period.	Low impact	Low impact	Low impact	Low impact	Significant impact	Low impact	Low impact
Air pollution, radiation and noise	Atmospheric emissions (mainly from the operation of thermal power stations), noise and electromagnetic fields from power lines and substations can affect the abiotic and biotic environment around the facilities.	Low impact	Low impact	Low impact	Medium impact	Low impact	Low impact	Low impact
Introduction of invasive species, pests and pathogens.	No operations involve the introduction of exotic invasive species. The only risk associated with these species could be their proliferation owing to involuntary transfer or the creation of favourable conditions for their establishment.	No significant impact	No significant impact	No significant impact	No significant impact	Low impact	No significant impact	No significant impact
Species reduction	The construction and operation of plants and infrastructure can affect certain species, although not to such a degree that they totally disappear. The most affected species are birds and bats around power lines and wind	No significant impact	No significant impact	Medium impact	Low impact	Medium impact	Medium impact	Low impact

	farms, aquatic fauna in the case of hydroelectric plants and steppe birds in photovoltaic facilities.							
Habitat transformation	Changes in the use of land and the permanent presence of facilities in the natural areas may cause impacts on the affected habitats. The reservoirs associated with hydroelectric power stations can cause the most significant transformations with regard to biodiversity, which may be both negative or positive.	Low impact	Low impact	Low impact	Low impact	Significant impact	Medium impact	Medium impact
Changes in ecological processes outside of their natural range of variation	The consumption of water or liquid discharges caused mainly by the operation of thermal generation plants, and changes of natural river systems in hydroelectric plants can induce changes in the variables of the environment that affect the aquatic ecosystem.	Low impact	Low impact	Low impact	Significant impact	Significant impact	Low impact	Low impact

To minimise these effects, the company applies operational control procedures and, at those facilities where there can be greater potential risk, we carry out environmental assessment studies and define environmental emergency plans to prevent the incident before it occurs, or to minimise any damage. We also regularly perform environmental emergency drills to test the procedures that have been defined.

In addition, there is a Geographic Information System, which integrates both the natural protected areas in each country and the facilities and biodiversity initiatives carried out. This tool allows the identification, quantification, management and monitoring of impacts on biodiversity.

As a cross-cutting measure, a specific working group, in which all businesses and geographical areas participate, coordinates activities related to biodiversity and natural capital, to promote the dissemination of good practices. Likewise, company employees and their families are invited to participate in environmental volunteer programmes that encourage the development of individual attitudes and behaviour of respect and protection of the natural environment.

In terms of awareness, we collaborate with public administrations, universities, conservation associations, other companies in the sector and various entities in protection initiatives and in the creation and dissemination of technical knowledge to improve the protection of biodiversity and the development of natural capital.

The following table shows the total surface area of facilities located within or adjacent to areas of high biodiversity or protected natural spaces. In order to determine the facilities located adjacent to these types of spaces, consideration has been given not only to their physical limitations but also to a number of specific impact ratios according to type of facility. Consequently, the infrastructure is classified as interior (within areas of high biodiversity), adjacent (radius of impact within the protected space) or exterior when it is outside.

Description of land owned, leased, managed or adjacent to protect natural spaces or unprotected high biodiversity areas [304-1]

[304-1] **Operations centres owned, leased or managed located within or adjacent to protected areas or zones of great value for biodiversity outside protected areas**					
Business	**Type of operation**	**Location with regard to the protected area**	**Area [ha]**		**Value of biodiversity 2020**
			2020	**2019**	
Gas	Exploration	Within the area	494	495	IBA, LIC, MAB, PN, RAMSAR, ZEPA, ZIC
	Transmission and distribution	Within the area and next to the area	6,229	6,376	ANP, APA, CC, HC, HP, IBA, LIC, MAB, MNA, PE, PEIN, PJN, PJNM, PN, PNA, PNAM, PPG, PPU, PR, RAMSAR, RB, RE, RN, RNP, ZECIC, ZEPA, ZEPVN, ZH, ZIC, ZPECP, ZPHE, ZREEN, ZSCE
Electricity	Generation	Within the area and next to the area	20,695	20,666	CE, IBA, LIC, MAB, PJN, PNA, RAMPE, RAMSAR, ZEPA, ZEPVN, ZH

	Transmission and distribution	Within the area and next to the area	28,666	28,241	ACR, AR, ARM, AUM, BNP, BP, IBA, LIC, M, MAB, MN, MNA, PI, PJN, PN, PNA, PR, RAMSAR, RF, RFS, RH, RN, RNA, RNPV, RVS, SN, ZEPA, ZEPVN, ZIC

ACR: Regional Aquifers (Chile); AICA: Areas of Importance for Bird Conservation (Mexico); ANP: Protected Natural Area (Mexico); APA: Environmental Protection Area (Brazil); RA: Recreation Area (Panama); ARM: Managed Resources Area (Panama); ASP: Protected wildlife area (Chile); ASPP: Private protected wildlife area (Chile); AUM: Multi-use Area (Panama); BNP: Protected National Assets (Chile); PF: Protected Forest (Panama); CB: Biological corridor (Chile); CC: Contrafuerte Cordillerano (Chile); CE: Ecological Corridor (Dominican Republic); EN: Natural Enclave (Spain); NPA: Batuco Wetland (Chile); HP: Protected Wetland (Spain); IBA: Important Bird Area (important areas for bird and biodiversity conservation) (International); SCI: Site of Community importance (Spain); M: Microreserve (Spain); MAB: Biosphere Reserve (Spain, Chile); MNA: Natural monument (Chile, Panama, Spain, Mexico); PE: State Park (Mexico); PEIN: Special Protection Plan (Spain); PI: International Park (Panama); PJN: Natural Site (Spain); PJNIN: Natural Site of National Interest (Spain); PJNM: Natural Municipal Site (Spain); PN: National Park (Brazil, Mexico, Spain, Panama, Argentina); PNA: Natural Park (Panama, Spain); PNAM: Municipal Natural Park (Argentina); PPG: Protected Landscape (Spain); PPU: Periurban Park (Spain); PR: Regional Park (Spain); RAMPE: Spanish Network of Marine Protected Areas (Spain); RAMSAR: Wetlands of international importance especially as waterbird habitat (International); RB: Biological reserve (Brazil); RE: Mining Reserve (Brazil); RF: River Reserve (Spain); RFS: Forest Reserve (Panama); RH: Water Reserve (Panama); RNA: Natural Reserve (Chile); RN: Nature Reserve (Morocco, Spain); RNC: Partial Nature Reserve (Spain); RNP: Partial Nature Reserve (Spain); RNPV: Private Nature Reserve (Chile); RVS: Wildlife Refuge (Panama); SE: Strategic site (Chile); SN: Nature Sanctuary (Chile); SP: Priority Site (Chile); WET: Panoramic route (Dominican Republic); ZECIC: Special Conservation Areas (Spain); ZECIC: Special Conservation Area of Community Importance (Spain); SPA: Special Protection Areas for birds (Spain); ZEPVN: Special Area for the Protection of Natural Values (Spain); WET: Wetlands (Spain); ZIC: Area of Community Importance (Spain); ZPECP: Zone of Ecological Preservation of Population Centres (Mexico); ZPHE: Hydrological and Ecological Protection Zone (Mexico); ZREEN: Natura 2000 European Ecological Network Area (Spain); ZSCE: Zone Subject to Ecological Conservation (Mexico).

The variation in the areas affected is due both to the construction of new infrastructure and to changes in the boundaries and extension of areas of protected natural spaces. When analysing the table above, it is also important to consider that 19,349 ha, i.e. around a third of the surface area within or next to protected areas, refers to hydroelectric power stations in Spain that were built after 1910 and before the protection regimes for these areas existed. In fact, many of these reservoirs, previous to the protection figure, constitute natural highly valuable aquatic spaces, which have created the natural wealth in biodiversity that caused the area to be subsequently granted environmental protection.

Another indicator used is the number of protected species that potentially have their habitat in the areas affected by the operations.

Number of species whose habitats are in areas affected by operations [304-4]

[304-4] IUCN Red List species and national conservation list species with habitats in areas affected by operations	**2020**			
	Critically endangered species	**Endangered species**	**Vulnerable species**	**Almost threatened species**

Mammals	6	10	32	17
Birds	18	8	45	42
Reptiles	12	13	15	13
Amphibians	20	18	20	15
Fish	18	22	32	12

The International Union for Conservation of Nature (IUCN) conducts ongoing reviews of species listings. It should be noted that in 2020 there has been a significant increase in the number of species listed by IUCN compared to the previous year.

In order to reduce and compensate the negative impacts on biodiversity, Naturgy is developing various actions. The following are examples of initiatives that are being put into place to compensate or reduce the negative impacts on biodiversity:

- The regular capture of salmon, shad, eel and lamprey reaching the Frieira hydroelectric power station was continued in collaboration with the Xunta de Galicia. The captured specimens are used to restock the tributaries of the lower course of the River Miño that lie within a protected area, from where they will be able to return to the sea.
- The systematic removal of carrion (dead livestock...) is carried out in and around wind farms in order to prevent bird collisions, particularly of certain birds of prey such as vultures, which are drawn to the carcasses to feed.
- Actions are being taken to reintroduce the bearded vulture (an endangered species) into the protected natural spaces of the Alto Tajo and Serranía de Cuenca. The project, which involves such activities as conducting prior studies and the installation of feeding points, is being carried out in coordination with the General Directorate of Biodiversity and Environmental Quality of the Ministry for Ecological Transition and the Demographic Challenge, the provincial authorities of Guadalajara and Cuenca, and the representatives of the protected areas.
- A study was conducted in and around wind farms located in the province of Guadalajara to reduce collisions involving birds of prey. Among the actions taken were the colour-marking, biometric study and ringing of griffon vultures (an endangered species) and subsequent monitoring using GPS equipment. In addition, a kestrel tower was built to encourage the establishment of a stable colony of lesser kestrels (an endangered species), in collaboration with the provincial authorities.
- Installation of the DT Bird, a bird monitoring and mortality mitigation system that has three functions: it automatically detects the presence of birds in real time by means of artificial vision; it emits warning sounds to scare off birds at potential risk of collision; and, finally, it automatically stops and restarts the wind turbine according to the risk of collision.

Different environmental restoration actions have also been carried out. The following table is a summary of the most important actions taken in 2020:

Habitats protected or restored [304-3]

Country	Activity	Actions and objectives	Result: restored area (ha)	Benefits protected space or species

Brazil	Gas distribution	Regular maintenance to ensure the establishment of the specimens planted in the region of Sao Paolo for the recovery of the Atlantic Forest.	1	
Brazil	Renewable generation	Revegetation in and upkeep of the surroundings of new photovoltaic plants.	21	
Chile	Gas distribution	Maintenance irrigation to guarantee the survival of the specimens planted in the area affected by the construction of gas networks, inside the ecological preservation zone of Club de Campo Peñalolen, in collaboration with the National Forest Corporation.	3	
Spain	Renewable generation	Continued actions to improve the habitat of the capercaillie (an endangered species) in the Lago de Sanabria Natural Park, in partnership with Fundación Patrimonio Natural: planting, actions on the tree and shrub layers and fire prevention measures.	125	Yes
Spain	Renewable generation	Support to continue the practice of lavandin (hybrid lavender) farming in order to protect the Dupont's lark (an endangered species) in partnership with Fundación Global Nature and Fundación Patrimonio Natural.	11	Yes
Spain	Renewable generation	Continuation of the project for the reintroduction of the grey partridge in the Lago de Sanabria Natural Park in partnership with Fundación Patrimonio Natural. The project consists of the creation of a mosaic of grassland and scrubland in difficult-to-reach alpine areas and cleaning of water points to make them available to the species.	106	Yes
Spain	Renewable generation	In the areas surrounding new wind farms, restoration and revegetation work is being carried out on land altered or affected by building works to encourage the recovery of soil and vegetation.	55	
Spain	Renewable generation	Different measures were taken in the areas surrounding new photovoltaic plants. In the surroundings of livestock routes and drovers' roads, there was	11	Partially

		reforestation work and the construction of watering holes and drinking troughs to encourage biodiversity (amphibians and reptiles) and also as water points for birds and livestock. Kestrel towers and nesting boxes have also been built for different species (kestrels and owl species), as well as perches for birds of prey.		
Spain	Environmental restoration of the former Limeixa mine	Maintenance of the restored Lake Meirama, formerly occupied by an old mine and now is the largest artificial lake in Europe. Thanks to restoration and the almost half a million trees planted, it has become a prime area for biodiversity. According to the inventory made by the University of Santiago de Compostela, a total of 839 animal and plant species have been identified, 5% of which are endemic. Maintenance work and invasive species removal were carried out.	1,617	
Mexico	Generation (combined cycle)	Upkeep and protection actions were carried out in a reforested area in the community of San Antonio, Municipality of San Miguel Chimalapa.	32	
TOTAL RESTORED AREA 2020 (ha)				1,982
TARGET RESTORED AREA 2020 (ha)				>1,600

Biodiversity and natural capital: achievements and highlights in 2020

Lines of action	2020 milestones
Biodiversity protection	265 biodiversity initiatives in course on an international level, 25% of which are voluntary.
Environmental studies [EU13]	112 studies have been conducted, particularly in the area of electricity generation facilities (thermal, hydroelectric and wind farms) and electric distribution in order to monitor the environmental and ecological status of the surrounding areas. In the case of thermal and hydraulic power stations, sampling campaigns have been carried out to determine the physical-chemical and biological quality of the aquatic environment (rivers, reservoirs, etc.). Recent studies confirmed the situation of normality observed in recent years, and concluded that the studied facilities had an acceptable impact on their environment.
Progress towards no net loss of biodiversity [304-3]	In 2020, environmental restoration actions were carried out on 1,982 ha. 12% of this area corresponds to protected areas or habitats of protected species.

Interest in people

[103-1], [103-2] and [103-3] (Diversity and equality)

Naturgy's contribution to SDG

What does this mean for Naturgy? Risks and management approach

For Naturgy it is essential to promote a quality and safe working environment, prioritising the personal and professional development of its employees. Consistent with this view, 98.7% of their contracts are of an indefinite nature. It also promotes a working environment based on respect, dialogue, appreciation of diversity and, of course, responsible behaviour. In this regard, Naturgy's Code of Ethics, which is compulsory throughout the company, sets out the guidelines governing the ethical behaviour of all employees in their daily work and, specifically, with regard to the relations and interactions it maintains with all its stakeholders.

Within this framework, one of the main risks related to staff issues is that of suffering any type of discrimination or inequality, on grounds of gender, ethnic origin, age, professional profile, or others. In this sense, Naturgy's commitment to its employees is reinforced with:

1) Gender Equality Policy and Protocol for the Prevention of Sexual and Labour-related Harassment: these set out the principles on which labour relations must be developed, as well as defining safe channels for the detection of situations that may not be in accordance with the principles of respect for difference, equality and inclusion. These measures include preventive and operational actions, with formal procedures and deadlines that at all times provide guarantees of protection and support for employees.

2) Integrated diversity management: through programmes that reflect the commitment to, and recognition and promotion of the value of diversity and inclusion in terms of gender, age and disability.

Specifically in terms of gender diversity, Naturgy faces the challenge of balancing the presence of men and women in its management structure, based on starting from the current situation until it exceeds 40% in 2025. To this end, together with the impetus given by the new organisational structure, at the end of 2020 a specific program for management of diverse talent has been defined, to contribute to the gender balance of Naturgy's management and executive staff.

In the area of generational diversity, Naturgy aims to manage the risk of natural ageing of the staff, with an average age of around 44. Faced with this forecast scenario, once again, in addition to the progress that the new organisational model has meant, Naturgy will design an intergenerational talent strategy, with the emphasis on young talent and with the aim of balancing the generational segments, responding to the generational profile of the society in which it operates.

The diverse talent management strategy also incorporates the redefinition of a more attractive value proposal, in tune with the new generations, and the company's industrial plan, through a more flexible, rotational and experiential employee journey.

In the area of disability, the company is constantly monitoring compliance with its objective of a 2.5% presence in the global staff, through:

- Mobility of employees with disabilities in the same field.
- Direct employment recruitment.
- Alternative measures to meeting the reserve amount.

3) Inclusive training: Naturgy has a training offer that integrates diversity and inclusion issues through awareness modules, specialised training and development programmes, which provide its professionals with the knowledge and tools to operate in a dynamic and inclusive context. These include programmes in the fields of:

- Intergenerational and inclusive leadership.
- Diversity management.
- Unconscious biases.
- Regulations.

What is our commitment?

- To apply best practices in identifying, attracting and retaining the talent necessary for the development of the businesses, ensuring the principles of fairness and non-discrimination on any grounds whatsoever (disability, age, gender, ethnic origin, work history, etc.).
- To encourage the professional development of people as part of the talent management model, ensuring that all professionals have the means, programmes and tools necessary to foster their skills and expertise.
- To promote a motivational work setting that guarantees internal recognition of the culture of effort, the autonomy required to be able to create, develop and innovate, and an overall framework of compensation that is commensurate with this.
- To promote the effective introduction of flexibility mechanisms that facilitate the balance between professional and personal life, and which favour the human and social development of people.
- To promote diversity and equal opportunities in an environment of respect, understanding and ongoing dialogue, with a special focus on the inclusion of disabled persons and extending this commitment to suppliers and collaborating companies.
- To foster constant liaison between the company and workers' representatives that enables feedback in order to take decisions.

Evolution and results 2020

Interest in people	**2020**	**2019**
Number of employees[1]	10,540	11,847
Men/Women (%)	67/33	68/32

Women in management posts (%)	23	29
Personnel costs (million euro)	798	924
Annual investment in training (million euro)	5	7
Employees covered by collective bargaining agreements (%)	74.5	74

[1] Data as of December 31, 2020

1. Commitment to people

Summary of awards obtained in 2020

Global FRC Certification Since 2013 Naturgy has been the first company worldwide to obtain the global FRC Certificate, which recognises the achievements made in balancing the personal and professional life of its employees, enabling their human and social development.	efr global certificado en conciliación 1000-1-23 01 / 2020 / AENOR
Equality in Employment Seal (DIE) Obtained in recognition of the development of equal opportunities policies in Naturgy, through comprehensive, measurable and specific equality plans.	
Top Employer Spain 2020 Certification Naturgy continues to be part of the group of leading companies in Spain because of the excellent conditions and environment offered to its employees and because of its special commitment and interest in people and their development.	top EMPLOYER ESPAÑA SPAIN 2020 CERTIFIED EXCELLENCE IN EMPLOYEE CONDITIONS
CLIP certification In 2018, the CLIP (Corporate Learning Improvement Process) accreditation, awarded by the European Foundation for Management Development (EFMD), which recognises the quality of learning and people development processes in business education organisations, was renewed for a period of 5 years.	EFMD CLIP ACCREDITED
Code of Generational Diversity Principle Certificate In recognition of Naturgy's strategic focus on people management, based on equal opportunities, non-discrimination and respect for generational diversity.	ObservatorioGT Generación y Talento

Bequal Certification In recognition of the management of excellence in diversity in different capabilities.	
Healthy Company Certificate that substantiates the implementation of a management system that promotes and protects the health, welfare and safety of employees.	
Rankings	
***Actualidad Económica* Ranking** Annual ranking of the 100 best companies in Spain to work for, in which Naturgy is ranked number 33. Among the most highly valued areas are Talent Management, Compensation and Remuneration, and the Environmental Protection Policy.	
Top30 companies in Spain committed to Diversity and Equality Naturgy is part of the Top30 companies in Spain committed to Diversity and Equality in the "VariableD 2021" study, which includes the best practices for promoting the value of "difference" to achieve diverse and innovative teams with adequate diversity management.	
Universum Ranking Naturgy ranks 22nd among the most attractive companies for students of Natural Sciences and in the top 50 among engineering students in Spain.	

2. Our team

Naturgy offers its employees stable, quality employment together with a solid, structured and attractive professional career. The company has a global model of homogeneous selection for all the businesses and countries where it operates, enabling it to ensure best practices in the identification, recruitment and retention of talent.

The rigour and professionalism of the people that form part of Naturgy, the interest in ongoing learning and self-development, the innovative spirit, as well as the sustainable commitment and involvement in the corporate objectives, are features of the profile of professionals in all geographies and all businesses.

Distribution of employees by age, country, gender and professional category [405-1]													
2020													
Countries	**No. of employees**	**Age**			**Management team**		**Middle managers**		**Technicians**		**Operators**		
		18-35 (%)	36-50 (%)	>50 (%)	Men (%)	Women (%)	Men (%)	Women (%)	Men (%)	Women (%)	Men (%)	Women (%)	
Argentina	1,118	20.8	38.2	41.1	0.2	0.0	16.3	4.6	14.8	7.3	42.1	14.8	
Australia	11	36.4	54.5	9.1	0.0	0.0	45.5	0.0	9.1	0.0	45.5	0.0	
Belgium	0	-	-	-	-	-	-	-	-	-	-	-	
Brazil	423	18.0	67.6	14.4	0.0	0.5	13.2	10.6	20.6	15.8	27.4	11.8	
Chile	2,193	17.3	50.1	32.6	0.3	0.0	16.6	4.6	33.0	11.7	22.2	11.7	
Colombia	7	0	57.1	42.9	0.0	0.0	28.6	71.4	0.0	0.0	0.0	0.0	
Costa Rica	19	15.8	52.6	31.6	0.0	0.0	5.3	0.0	10.5	0.0	78.9	5.3	
Spain	5,318	7.8	64.7	27.5	1.3	0.4	20.8	8.6	22.6	18.6	18.1	9.5	
France	43	48.8	51.2	0.0	0.0	0.0	27.9	9.3	16.3	41.9	0.0	4.7	
Netherlands	1	100.0	0.0	0.0	0.0	0.0	0.0	100.0	0.0	0.0	0.0	0.0	
Ireland	30	36.7	50.00	13.3	0.0	0.0	23.3	6.7	43.3	23.3	3.3	0.0	
Israel	16	62.5	31.3	6.3	0.0	0.0	25.0	0.0	50.0	6.3	18.8	0.0	
Luxemburg	1	0.0	0.0	100.0	0.0	0.0	0.0	100.0	0.0	0.0	0.0	0.0	
Morocco	90	5.6	35.6	58.9	0.0	0.0	47.8	3.3	11.1	3.3	24.4	10.0	
Mexico	783	29.1	60.0	10.9	0.3	0.0	26.6	7.0	24.5	10.9	21.3	9.5	
Panama	327	35.5	40.1	24.5	0.0	0.0	30.0	15.0	15.6	12.5	19.9	7.0	
Peru	0	-	-	-	-	-	-	-	-	-	-	-	
Portugal	15	20.0	73.3	6.7	0.0	0.0	0.0	6.7	26.7	66.7	0.0	0.0	
Puerto Rico	4	25.0	25.0	50.0	0.0	0.0	50.0	0.0	0.0	0.0	0.0	50.0	
Dominican Republic	74	12.2	60.8	27.0	0.0	0.0	25.7	12.2	2.7	8.1	48.6	2.7	
Singapore	7	71.4	28.6	0.0	0.0	0.0	42.9	0.0	28.6	28.6	0.0	0.0	

Uganda	60	66.7	28.3	5.0	0.0	0.0	38.3	6.7	5.0	0.0	45.0	5.0
Total	10,540	14.8	57.1	28.1	0.8	0.2	20.3	7.5	23.5	14.8	22.56	10.4

2019												
	No. of employees	**Age**			**Management team**		**Middle managers**		**Technicians**		**Operators**	
		18-35 (%)	36-50 (%)	>50 (%)	Men (%)	Women (%)	Men (%)	Women (%)	Men (%)	Women (%)	Men (%)	Women (%)
Argentina	1,175	23.8	38	38.2	3.7	0.9	12.4	4.2	14.9	6.8	42.1	15
Australia	10	33.3	55.6	11.1	-	-	11.1	-	22.2	-	55.6	11.1
Belgium	3	100	-	-	33.3	-	-	33.3	-	33.3	-	-
Brazil	456	21.5	63.5	14.9	4.8	3.7	8.4	5.9	21.3	16.3	27.5	12.1
Chile	2,471	21	48.9	30.1	2.9	0.8	12.9	3.1	31.8	10.6	25.2	12.7
Colombia	71	32.4	50.7	16.9	8.5	15.5	5.6	9.9	16.9	25.4	8.5	9.9
Costa Rica	20	15.8	63.2	21.1	-	-	5.3	-	10.5	-	78.9	5.3
Spain	6,017	9.2	61.8	29	10.9	4.6	15.2	4.9	20.5	16.2	17.5	10.3
France	53	54.7	45.3	-	13.2	3.8	9.4	5.7	24.5	35.8	1.9	5.7
Netherlands	7	50	50	-	-	-	16.7	16.7	33.3	16.7	16.7	-
Ireland	37	43.8	46.9	9.4	12.5	-	12.5	6.3	40.6	25	3.1	-
Israel	16	71.4	21.4	7.1	-	-	21.4	7.1	50	7.1	14.3	-
Morocco	93	8.6	36.6	54.8	4.3	1.1	40.9	2.2	11.8	2.2	26.9	10.8
Mexico	874	32.7	58	9.2	5.8	2.2	17.9	3.9	26.8	11	22.3	10.1
Panama	357	35.3	38.1	26.6	4.8	2.5	23.4	12.4	14.4	9.9	22.3	10.2
Peru	21	42.9	52.4	4.8	-	4.8	14.3	4.8	33.3	14.3	9.5	19
Portugal	17	29.4	70.6	-	-	5.9	-	-	23.5	52.9	-	17.6
Puerto Rico	4	25	25	50	50	-	-	-	-	-	-	50
Dominican Republic	75	14.7	65.3	20	-	2.7	25.3	9.3	2.7	8	49.3	2.7
Singapore	12	75	25	-	25	-	-	-	50	12.5	-	12.5
Uganda	58	66.7	26.3	7	1.8	-	35.1	3.5	5.3	-	45.6	8.8
Total	**11,847**	**17.2**	**55.1**	**27.7**	**7.4**	**3.1**	**14.8**	**4.7**	**22.5**	**13.4**	**22.9**	**11.2**

By 2020, the professional classification of the management level was adjusted in line with the simplification of the organisational structure, a process that aims to provide centralised services to gain efficiency, increase automation, digitalisation and simplify management to reduce overlaps, as well as to promote empowerment and provide greater autonomy in monitoring with the aim of improving communication and teamwork.

Total number and distribution of types of employment contract, Total number and distribution of types of employment contract, annual average of permanent contracts, temporary contracts and part-time contracts by gender, age and professional category [102-8]

Breakdown of staff by contract type (%)			**2020**	**2019**
Argentina	Permanent contracts	Men	73.3	73.1
		Women	26.7	26.9
Australia	Permanent contracts	Men	100	88.9
		Women	0	11.1
Belgium	Permanent contracts	Men	0	0
		Women	0	100
Brazil	Permanent contracts	Men	61.2	62
		Women	38.8	38
Chile	Permanent contracts	Men	72	72.8
		Women	28	27.2
Colombia	Permanent contracts	Men	28.6	14.1
		Women	71.4	21.1
	Temporary contracts	Men	0	25.4
		Women	0	39.4
Costa Rica	Permanent contracts	Men	94.7	94.7
		Women	5.3	5.3
Spain	Permanent contracts	Men	62.9	63.8
		Women	37.1	36
	Temporary contracts	Men	0	0.2
		Women	0	0

France	Permanent contracts	Men	44.2	49.1
		Women	55.8	50.9
Netherlands	Permanent contracts	Men	0	66.7
		Women	100	33.3
Ireland	Permanent contracts	Men	70	68.7
		Women	30	31.3
Israel	Permanent contracts	Men	93.7	85.7
		Women	6.3	14.3
Luxembourg	Permanent contracts	Men	0	-
		Women	100	-
Morocco	Permanent contracts	Men	82.2	83.9
		Women	16.7	16.1
	Temporary contracts	Men	1.1	0
		Women	0	0
Mexico	Permanent contracts	Men	61.6	62.1
		Women	21.5	21.5
	Temporary contracts	Men	11.0	10.7
		Women	5.9	5.7
Panama	Permanent contracts	Men	65.4	65
		Women	34.6	35
Peru	Permanent contracts	Men	-	57.1
		Women	-	42.9
Portugal	Permanent contracts	Men	26.7	23.5
		Women	73.3	76.5
Puerto Rico	Permanent contracts	Men	50	50
		Women	50	50
Dominican Republic	Permanent contracts	Men	77	77.3
		Women	23	22.7

Singapore	Permanent contracts	Men	71.4	75
		Women	28.6	25
Uganda	Permanent contracts	Men	88.3	87.7
		Women	10	10.5
	Temporary contracts	Men	0	0
		Women	1.7	1.8
Total	**Permanent contracts**	**Men**	**66.2**	**66.5**
		Women	**32.5**	**31.8**
	Temporary contracts	**Men**	**0.8**	**1**
		Women	**0.54**	**0.7**

NB: information on temporary contracts is only available in those countries where there are employees under such contracts.

Number of contracts by gender and type at 31 December			**2020**
	Men	Women	**Total employees**
Indefinite full-time	6,981	3,424	**10,405**
Indefinite part-time	-	-	**-**
Total indefinite	**6,981**	**3,424**	**10,405**
Temporary full-time	88	47	**135**
Temporary part-time	-	-	**-**
Total temporary	**88**	**47**	**135**
Total full-time	**7,069**	**3,471**	**10,540**
Total part-time	**-**	**-**	**-**

Annual average of contracts by gender and type			**2020**
	Men	**Women**	**Total employees**
Indefinite full-time	7,205	3,534	10,707
Indefinite part-time	0	0	0
Total indefinite	**7,205**	**3,502**	**10,707**
Temporary full-time	99	55	154
Temporary part-time	0	0	0
Total temporary	**99**	**55**	**154**
Total full-time	**7,304**	**3,557**	**10,861**
Total part-time	**0**	**0**	**0**

Number of contracts by age and type at 31 December				2020
	18-35 years	36-50 years	> 50 years	Total employees
Indefinite full-time	1,497	5,952	2,956	**10,405**
Indefinite part-time	-	-	-	**-**
Total indefinite	**1,497**	**5,952**	**2,956**	**10,405**
Temporary full-time	62	70	3	**135**
Temporary part-time	-	-	-	**-**
Total temporary	**62**	**70**	**3**	**135**
Total full-time	**1,559**	**6,022**	**2,959**	**10,540**
Total part-time	**-**	**-**	**-**	**-**

Annual average of contracts by age and type				2020
	18-35 years	36-50 years	> 50 years	Total employees
Indefinite full-time	1,671	6,094	2,942	10,707
Indefinite part-time	-	-	-	-
Total indefinite	**1,671**	**6,094**	**2,942**	**10,707**
Temporary full-time	79	72	3	154
Temporary part-time	-	-	-	-
Total temporary	**79**	**72**	**3**	**154**
Total full-time	**1,750**	**6,166**	**2,945**	**10,861**
Total part-time	**0**	**0**	**0**	**0**

Number of contracts by professional category and type at 31 December					2020
	Management team	Middle managers	Technicians	Operators	Total employees
Indefinite full-time	106	2,894	3,971	**3,434**	**10,405**
Indefinite part-time	-	-	-	**-**	**-**
Total indefinite	**106**	**2,894**	**3,971**	**3,434**	**10,405**
Temporary full-time	0	30	67	38	**135**

Temporary part-time	-	-	-	-	-
Total temporary	**0**	**30**	**67**	**38**	**135**
Total full-time	**106**	**2,924**	**4,038**	**3,472**	**10,540**
Total part-time	**-**	**-**	**-**	**-**	**-**

Annual average of contracts by professional category and type					**2020**
	Management team	Middle managers	Technicians	Operators	**Total employees**
Indefinite full-time	109	2,978	4,086	0	10,707
Indefinite part-time	0	0	0	0	0
Total indefinite	**109**	**2,978**	**4,086**	**3,534**	**10,707**
Temporary full-time	0	34	77	43	154
Temporary part-time	0	0	0	0	0
Total temporary	**0**	**34**	**77**	**43**	**154**
Total full-time	**109**	**3,012**	**4,163**	**3,577**	**10,861**
Total part-time	**0**	**0**	**0**	**0**	**0**

Number of contracts by gender and type at 31 December			**2019**
	Men	Women	**Total employees**
Indefinite full-time	7,751	3,701	**11,452**
Indefinite part-time	-	-	**-**
Total indefinite	**7,751**	**3,701**	**11,452**
Temporary full-time	122	80	**202**
Temporary part-time	-	-	**-**
Total temporary	**122**	**80**	**202**
Total full-time	**7,873**	**3,781**	**11,654**
Total part-time	**-**	**-**	**-**

Annual average of contracts by gender and type			**2019**
	Men	Women	**Total employees**
Indefinite full-time	8,050	3,667	11,717
Indefinite part-time	0	0	0
Total indefinite	**8,050**	**3,667**	**11,717**
Temporary full-time	135	93	228
Temporary part-time	0	0	0

Total temporary	**135**	**93**	**228**
Total full-time	**8,185**	**3,760**	**11,945**
Total part-time	**0**	**0**	**0**

Number of contracts by age and type at 31 December				**2019**
	18-35 years	36-50 years	> 50 years	**Total employees**
Indefinite full-time	1,896	6,336	3,220	**11,452**
Indefinite part-time	-	-	-	**-**
Total indefinite	**1,896**	**6,336**	**3,220**	**11,452**
Temporary full-time	113	84	5	**202**
Temporary part-time	-	-	-	**-**
Total temporary	**113**	**84**	**5**	**202**
Total full-time	**2,009**	**6,420**	**3,225**	**11,654**
Total part-time	**-**	**-**	**-**	**-**

Annual average of contracts by age and type				**2019**
	18-35 years	36-50 years	> 50 years	**Total employees**
Indefinite full-time	2,093	6,486	3,139	11,718
Indefinite part-time	0	0	0	0
Total indefinite	**2,093**	**6,486**	**3,139**	**11,718**
Temporary full-time	140	82	6	228
Temporary part-time	0	0	0	0
Total temporary	**140**	**82**	**6**	**228**
Total full-time	**2,233**	**6,568**	**3,145**	**11,946**
Total part-time	**0**	**0**	**0**	**0**

Number of contracts by professional category and type at 31 December					**2019**
	Management team	Middle managers	Technicians	Operators	**Total employees**
Indefinite full-time	1,223	2,240	4,100	**3,889**	**11,452**
Indefinite part-time	-	-	-	**-**	**-**
Total indefinite	**1,223**	**2,240**	**4,100**	**3,889**	**11,452**
Temporary full-time	3	33	91	**75**	**202**
Temporary part-time	-	-	-	**-**	**-**
Total temporary	**3**	**33**	**91**	**75**	**202**
Total full-time	**1,226**	**2,273**	**4,191**	**3,964**	**11,654**
Total part-time	**-**	**-**	**-**	**-**	**-**

Annual average of contracts by professional category and type		**2019**

	Management team	Middle managers	Technicians	Operators	**Total employees**
Indefinite full-time	1,244	2,319	4,048	4,106	11,717
Indefinite part-time	0	0	0	0	-
Total indefinite	**1,244**	**2,319**	**4,048**	**4,106**	**11,717**
Temporary full-time	2	32	98	96	228
Temporary part-time	0	0	0	0	-
Total temporary	**2**	**32**	**98**	**96**	**228**
Total full-time	**1,246**	**2,351**	**4,146**	**4,202**	**11,945**
Total part-time	**0**	**0**	**0**	**0**	**-**

New employee hires and employee rotation [401-1]

Consideration is given to:

- Rotation index: layoffs/average staff.
- Voluntary rotation index: voluntary layoffs/average staff.

		2020	**2019**
Rotation indices [401-1]	Rotation (%)	10.9	11.7
	Voluntary rotation (%)	1.4	2.7

Rotation index by gender and age group (%)		**2020**	**2019**
18-35	Men	11.6%	17.1%
	Women	11.3%	13.7%
36-50	Men	5.7%	8.7%
	Women	4.7%	4.3%
>50	Men	21.8%	20.5%
	Women	22.6%	10.9%

Voluntary rotation index by gender and age group (%)		**2020**	**2019**
18-35	Men	4.2%	6.3%
	Women	3.5%	9.0%
36-50	Men	1.2%	2.3%
	Women	1.0%	1.8%
>50	Men	0.6%	0.8%
	Women	0.4%	0.9%

Rotation index by country

Countries	**Rotation index (%)**		**Voluntary rotation index (%)**	
	2020	**2019**	**2020**	**2019**
Argentina	4.8	2.8	1.2	1.5
Australia	32.2	0.0	32.2	0.0

Belgium	100.0	36.1	100.0	0.0
Brazil	7.6	5.2	1.8	2.8
Chile	12.3	21.1	1.4	3.3
Colombia	100.0	17.0	12.5	13.0
Costa Rica	0.0	5.1	0.0	5.1
Spain	10.5	8.6	0.7	1.4
France	25.0	21.7	18.7	16.7
Netherlands	100.0	28.6	100.0	0.0
Ireland	6.5	25.1	6.5	25.1
Israel	30.8	48.9	30.8	41.9
Luxembourg	0.0	-	0.0	-
Morocco	3.3	1.1	3.3	1.1
Mexico	11.9	17.1	2.2	6.6
Panama	9.4	7.7	2.4	4.9
Portugal	12.6	5.9	6.3	0.0
Puerto Rico	0.0	44.1	0.0	0.0
Dominican Republic	1.3	11.3	0.0	3.8
Singapore	14.1	0.0	14.1	0.0
Uganda	12.2	9.0	12.2	9.0
TOTAL	**10.9**	**11.7**	**1.4**	**2.7**

NB: 100% is reported when more people left than remained on the staff. This was the case of Belgium, Colombia and the Netherlands in 2020.

New employees	**2020**	**2019**
Argentina	0	5
Australia	5	1
Brazil	1	1
Chile	6	0
Spain	35	40
France	2	0
Netherlands	2	1
Ireland	0	2
Israel	6	6
Morocco	0	1
Mexico	15	32
Panama	5	19
Singapore	0	3
Uganda	10	11
TOTAL	**87**	**122**

Note: only countries where new hirings were made in the last two years are reported

New recruitments by gender and age group		**2020**	**2019**
18-35	Men	34	51
	Women	13	19
36-50	Men	19	23
	Women	14	18
>50	Men	5	7
	Women	2	4
Total	Men	58	81
	Women	29	41
Total		**87**	**122**

Number of dismissals by age, gender, and professional category [401-1]

2020								
	Professional category				Age			Total
	Management team	Middle managers	Technicians	Operators	18-35	36-50	>50	
Men	1	22	45	96	39	79	46	**164**
Women		8	15	32	19	25	11	**55**
Total	**1**	**30**	**60**	**128**	**58**	**104**	**57**	**219**

2019								
	Professional category				Age			Total
	Management team	Middle managers	Technicians	Operators	18-35	36-50	>50	
Men	8	31	82	219	105	163	72	**340**
Women	2	2	18	27	21	21	7	**49**
Total	**10**	**33**	**100**	**246**	**126**	**184**	**79**	**389**

Talent management

In 2020, the creation of sustainable value and transformation have continued as the cornerstones of Naturgy's strategic plan, providing a context for the evolution of its organisational model towards a new, simpler and flatter structure, to reduce the scope of control and complexity, providing business units with full responsibility, and optimising the support they receive from corporate functions.

Thus, in 2020, this vision has meant the simplification of the first organisational levels of Naturgy, with a reduction of positions of more than 30%, which has impacted the composition of the structure in terms of gender and age.

Talent development [404-2]

Leadership model

In 2020, and in this transformational context, leadership and its strategic role in the company have been encouraged, through simplification of the Naturgy Leadership Model's map of competencies, for better alignment with its business challenges, as well as with the cultural values and keys. The design of the new model has been the result of a participatory process within the company, and implementation is planned for 2021.

Key to the future: Digital profile

One of the most significant axes of the talent strategy has been development and training, focused on the definition and implementation of the digital profile of the company's professionals. The first step for this transformation has been to know the starting point of the existing digital competences in the staff, in terms of the skills defined in the European Digital Competence Framework (DigComp). Likewise, the relationships of this profile with the assessments of competencies for development, already standardised in the company, such as the 360 assessment and contribution matrix, have been analysed.

This assessment of digital competences has featured the voluntary participation of more than 6,000 professionals in all businesses and geographies, and has enabled Naturgy to obtain an objective map of the existing digital competences as well as those to be developed. The overall results indicate that the company's professionals are willing to incorporate and use technology (70%) in their work, while showing interest in learning, factors that have facilitated the deployment of Naturgy's Digital Academy training.

Training model

The present Model and the Global Training Policy have strengthened the governance and transversal management role of the Corporate University, while providing greater accountability to the different businesses of the company, giving them more responsibility in the definition and execution of their training plans and budget, in direct line with the particular requirements of each business. The connection between both levels of management is modelled on the same Global Training Policy, guaranteeing synchronicity through monthly monitoring committees, where visions, proposals and practices are exchanged, facilitating the influence and integration of training into key processes.

	2020	**2019**
Annual investment in training (million euro)	5	7
Annual investment in training per person (euro)	514	637
Training hours	259,703.11	276,366
% of trained staff	92.6	85.8

Corporate University [404-1]

Corporate University's figures (1)	**2020**	**2019**
Satisfaction surveys answered	62,208	27,137
Participants' average satisfaction (0-10)	8.6	8.5
Average degree of application of knowledge and skills in the job (%)	83%	76.0%

Number of programmes with evaluation of application	98 courses	81
Average perception index (0-10)	7.6	8.0

(1) The measurement model is not implemented in Chile. The fall in the number of surveys answered in 2019 has been affected by the decrease in staff.

Staff trained (%)	**2020**				**2019**			
	Management team	**Middle managers**	**Technicians**	**Operators**	**Management team**	**Middle managers**	**Technicians**	**Operators**
Men	73.7	94.67	93.66	87.70	87.8	90.5	85.6	83.8
Women	83.33	95.15	94.62	92.08	88.5	89.6	86	80.1
Total	75.47	94.81	94.04	89.15	88	90.3	85.8	85.2

Training hours per employee					
	Total	**Management team**	**Middle managers**	**Technicians**	**Operators**
2020	26.6	22.6	29.9	25.7	24.8
2019	25.2	29.1	35	20.2	23.5

Nb: Training data only includes companies that have access to SuccessFactors. These companies represent 93% of the total workforce reach.

Training hours					
	Total	**Management team**	**Middle managers**	**Technicians**	**Operators**
2020	**259,703**	2,391	82,982	99,426	74,904
2019	**276,365**	34,846	75,497	81,600	84,422

As a result of organisational optimisation, the training budget in 2020 was reduced by 28.2%; however, this only meant a 6% reduction in total training hours given the roll-out of digital training courses and the implementation of lifelong learning platforms.

In 2020, training in Naturgy is consolidated as a strategic lever for transformation, promoting the development and empowerment of its professionals in line with the challenges of competitiveness, innovation and sustainability of the company.

In this context, the Corporate University (CU) continues to be a representative and backbone element of the training experience, guaranteeing the adequacy between the position and the person through the delivery of key knowledge, the connection with the latest trends, technologies and with the development of skills and competencies linked to Naturgy's leadership and cultural models.

The CU training model is deployed through its three academies which, in a supplementary and synergistic way, allow the company to face the training challenges of the present and future: Transformational Leadership Academy (TLA); Tech Academy (TA); Extended Academy (EA).

Based on a transformational vision, in 2020 the TLA has evolved its structure, approach and programmes, to give a greater role to Naturgy's leaders in the transformation and achievement of business objectives, through three axes:

1) **Digital Academy**: whose objective is to transform the professional profile towards a digital employee, in turn supported by three levels of action:

(a) Digital Culture: Common language and basic transversal knowledge of the tools and the digital context.

(b) Digital Skills: Development of advanced and expert digital profiles that can create high-value products and services.

(c) Digital Mindset: Involvement and influence of the management team in the company's digital transformation process.

2) **New Energy**: with the vision to develop managers and high potentials to face future challenges and be aware of market trends.
3) **Naturgy Leadership**: with the aim of promoting the role of the leader as a promoter of organisational and cultural change.

The Tech Academy, in turn, transfers technical knowledge for the development, quality and standardisation of the expert knowledge needed to deal with the current and future challenges in each of the company's businesses.

The CU, through its Extended Academy (EA), offers a wide range of training to external collaborating companies, customers and suppliers of Naturgy, both technical as well as management, enabling companies to improve their operating efficiency, incorporate innovative methodologies and develop skills focused on excellence in operations and service.

The EA thus contributes to the establishment of a common planning and management model, favouring the professionalisation of companies that participate in the Naturgy value chain, with a recurrent activity of 7,469 annual participants and 21,410 hours of training.

Likewise, the relationship with strategic suppliers is managed in order to strengthen partnerships, in an environment of collaboration and efficiency, sharing information, aligning strategies, seeking continuous improvement and promoting innovation.

Online training deployment

The need to work remotely as a consequence of the context of COVID-19 meant a challenge and an opportunity for the Corporate University. In this context, a 100% digital, innovative and versatile training offer was introduced with the aim of responding to business needs and providing professionals with interesting content that contributes to their connection and engagement.

This challenge has served to consolidate the training catalogue that promotes the agile and digital connection of knowledge, simultaneously reinforcing the identity and commitment of the company's professionals. Accordingly, the 2020 programmes are organised into four development areas:

1) Transversal programmes, with high impact on the commitment to the culture and values of the company:

- Transformation and value: "The Third Energy".
- People's well-being: health and safety, emotional fitness, frc modules and the "Safe Return" campaign (COVID-19), in the context of the process of returning to the workplace in Spain.
- Sustainability: "Sustainability Week: SDG commitments."
- Cybersecurity: "Day-to-day security" and "Week: Orange Code".

2) Programmes to boost the company's digital profile:

- Digital culture: The Valley platform.
- Science analyst: focused on the technification of digital profiles.
- Digital skills: programming languages (SQL, Phyton...) and platforms (AWS and Azure).

3) Programmes to connect with future challenges and market trends:

- Productivity: focused on best practices in efficiency and effectiveness.
- Innovation strategies.
- Power BI and other data visualisation tools.
- SCRUM, SaFe, agile methodologies and new forms of work organisation.

4) Leadership programmes, as a lever for the Group's transformation and strategic vision:

- Corporate Mentoring: through the "Mentor Club" we connect the talent and influence from different visions and experiences of Naturgy professionals, fostering the development of the competences of the Naturgy Leadership Model.
- Take the lead: focused on female and inclusive leadership, personal branding and networking.
- Transformational leadership: "Influencing the distance" and "The leader's journey".

Likewise, in 2020 the Corporate University made progress in improving the learning experience through the integration of "*lifelong learning*" platforms, such as PHAROS, which widely disseminate content and which adapt the training offer to the demand of the employees and the specific needs of the different businesses.

Quality certifications

The excellence in management of the Corporate University is supported by a Quality Management System based on ISO 9001:2015, renewed in 2020 for another three years.

Likewise, since 2003, it has also had the CLIP (Corporate Learning Improvement Process) accreditation, awarded by the European Foundation for Management Development (EFMD), which recognises the quality of learning and people development processes in business education organisations. The last CLIP renewal was in 2018 for a five-year period. In 2020, an updated review was made of the evolution of the undertakings made in 2018, through the CLIP Interim report.

3. Diversity and equality

[103-1], [103-2] and [103-3] (Diversity and equality)

For Naturgy it is essential to promote diversity and equal opportunities in an environment of respect, understanding and ongoing dialogue, with a special focus on gender diversity targets, on the inclusion of individuals with disabilities and extending this commitment to suppliers and collaborating companies.

Naturgy promotes an inclusive culture, where there is awareness and action to integrate and connect diversity. This vision of interest in people guides the way we work and achieve the company's objectives. We also share this vision with the entire value chain in the different businesses where we operate.

This commitment is confirmed, with a global vision, in the Sustainability and People strategy, as well as in the Corporate Responsibility Policy, the Code of Ethics, the Gender Equality Policy, and the Protocol for the Prevention of Workplace Harassment.

The Naturgy's Corporate Equality Plan in Spain was approved together with the Trade Union Representative and published in the Official State Gazette (BOE) under Registration No. 90100073112013. It identifies the strengths to be maintained and shows weaknesses to be corrected identified by outsourced experts, giving rise to actions in issues of communication and raising awareness, culture and leadership, development and promotion, remuneration, flexible employment and work-life balance, selection, prevention of harassment, measurement and monitoring.

Aware of the need to continue working in the area of equality and adaptation to the new environment and regulatory development, this Plan is currently the objective of the negotiating table for the new collective agreement introduced in 2020 to determine, in time and manner, the actions to be considered and carried out.

Protocols

The creation and activation of a specific protocol against harassment; the best practices protocol in the selection processes, or the communication guide for business professionals that need to intervene for some reason in the selection process, are just some of the measures introduced which have propitiated major advances in diversity and equal opportunities.

Specifically, the Naturgy's Protocol Against Harassment lays out some preventive actions to avoid situations of harassment that include informing all employees about the protocol; training the entire staff in the issue, and in particular employees with personnel under their charge; the obligatory nature and responsibility of each employee to establish their relationships with respect and dignity and for each employee to report any case of harassment to their superior.

The protocol offers a number of guarantees, such as the total anonymity of the complainant, that the process will be completed as expeditiously as possible, and that the intervention of workers' representatives may be requested. Similarly, a fair hearing and treatment of all persons affected are guaranteed, no reprisals will be accepted, and the identity of informants, among others, will be protected.

The action procedure in the event of detecting any situation of harassment sets out two channels:

- Informal procedure: through which the affected party informs the alleged aggressor that this behaviour is not welcome, that it is offensive and interferes with their work. And if the situation is not resolved, then the formal procedure will be instigated.
- Formal procedure: through which the harassment situation is reported, following these steps:
  - Notification to the Code of Ethics Committee or reporting to their superior or to the Human Resources Department, who will decide whether to accept it for processing.
  - Investigation, gathering information and conducting interviews with the affected parties and witnesses, if there are any.
  - Possibility of introducing precautionary measures.

Once either procedure has been followed, a report will be drawn up on the conclusions and resolution of the procedure, which will include the corrective measures and the adoption of one of the following solutions: either the complaint will be closed or disciplinary proceedings will be initiated depending on the seriousness of the offence.

In another field of action, the Naturgy protocol of good practices in selection processes aims to avoid discrimination in selection processes, thus expanding the options of employability, through the following measures:

- Recruitment: open up the spectrum of recruitment sources to associations and foundations to guarantee equal job opportunities at the company.
- In the publication of job offers: No discriminatory terminology is used. Use of the third person plural is recommended. Gender separation will always be carried out with slashes. Do not use any notation as a requisite that does not offer equal conditions to the different candidates on the grounds of gender, appearance, disability, age, religion or personal beliefs of any kind. Only specify the need for a driving licence when the job requires this. Do not use possession of own vehicle as a requirement. Do not use the need to reside near the place of work as a requirement.
- In the selection process: ensure that disabled candidates have the necessary accessibility to get to the interview. Avoid prejudices and stereotypes associated to gender, appearance, ethnic origin, disability, age, religion, religious beliefs of any kind. Avoid personal questions and, if necessary, justify them. Avoid preferential treatment.
- On joining the company: Inform about equality and social benefit policies without discrimination. Career opportunities based on merits and capabilities.

Diversity management

Diversity management is part of Naturgy's commitment to a sustainable business project. This commitment is embodied in the Sustainability Plan with a 2025 horizon. In this context, the Sustainability Committee is informed about progress made in the overall female presence and their promotion to management tiers, as well as of the diversity of their geographical location, professional profile and skills. In addition to the Committee, these indicators and their evolution are reported in different monitors and certifications, such as the Dow Jones Sustainability Index, the Equality in Employment Seal (DIE) and the Global Certification frc.

In this context, the company's commitment to diversity during 2020 has been confirmed through initiatives deployed in three lines of action: gender, disability and age.

- **Gender**: in 2020 progress has been made in fostering the active role of women in different areas of the company. The presence of women in Naturgy exceeds 30% (32.9%) of the total, and in this context the priority of female management talent within the new organisational model is consolidated, with the aim of advancing in the commitment to balance the gender component in the company. By virtue of their relevance, the development programmes for female management talent have been integrated into Naturgy's catalogue of FRC Global Measures.

Women in management positions (%) [405-1]		
	2020	**2019**
Argentina	0	20.4
Australia	0	0
Belgium	0	0
Brazil	100	43.6
Chile	0	20.9
Colombia	0	64.7
Costa Rica	0	0
Spain	23.7	29.6
France	0	22.2
Netherlands	0	0
Ireland	0	0
Israel	0	0
Luxembourg	0	0
Morocco	0	-
Mexico	0	27.5
Panama	0	34.6
Peru	0	100
Portugal	0	100
Puerto Rico	0	0
Dominican Republic	0	100
Singapore	0	0
Uganda	0	0
Total	**22.6**	**29.4**

- **Disability**: the Management of Naturgy acts as an impetus for a range of actions targeted at standardising management of functional diversity: Plan Familia, Plan Capacitas, Plan Aflora.

Employees with disabilities [405-1]	2020		2019	
	Number	Percentage	Number	Percentage
Argentina	6	0.5	6	0.5
Brazil	12	2.8	13	2.9
Chile	4	0.2	12	0.5
Spain	121	2.3	132	2.2
Morocco	1	1.1	1	1.1
Mexico	0	0	5	0.6
Panama	5	1.5	5	1.4

NB: Employees have the option of not disclosing their disability in all countries. The number of employees with disabilities is only reported in those countries where employees chose to exercise their right to share this information.

- **Age**: Naturgy works on generational diversity through actions to accelerate young talent, monitor mobility and promotion.

Likewise, the best practices protocol in selection processes, as described earlier, aims to avoid discrimination in selection processes, establishing specific guidelines for recruitment, publication of offers, interviews and guidelines for integration into the company, ensuring at all times an environment of respect and transparency with the candidates.

Naturgy's commitment to diversity has been recognised through the Bequal Certification, granted to Naturgy by the Bequal Foundation in recognition of its excellence management in the area of diversity in different skills, awarded on the basis of a model structured in 7 categories, 19 indicators and 69 verification sources.

Commitment to equality [401-3]

Naturgy's commitment to equality has been recognised with the "Equality in employment" seal (DIE) from the Ministry of the Presidency, Parliamentary Relations and Equality in November 2018, still in force, by virtue of the implementation of equal opportunity policies, through comprehensive, measurable and result-oriented equality plans. This certification is granted following a thorough process of verification of the activities related to equality, with the aim of confirming the level of excellence and mainstreaming in management.

No. of employees with maternity or paternity leave entitlements [401-3]	2020			2019		
	Men	Women	Total	Men	Women	Total
Argentina	26	16	36	14	14	28
Australia	0	0	0	1	1	2
Belgium	0	0	0	0	0	0
Brazil	9	5	14	8	6	14
Chile	34	36	70	41	48	89
Colombia	0	0	0	0	1	1

Costa Rica	0	0	0	0	0	0
Spain	119	58	177	118	62	180
France	1	3	4	3	2	5
Netherlands	0	0	0	0	0	0
Ireland	2	2	4	2	1	3
Israel	1	0	1	0	1	1
Luxembourg	0	0	0	-	-	-
Morocco	4	0	4	6	0	6
Mexico	13	13	26	7	13	20
Panama	2	3	5	0	8	8
Peru	-	-	-	0	0	0
Portugal	0	1	1	1	3	4
Puerto Rico	0	1	1	0	0	0
Dominican Republic	1	1	2	1	2	3
Singapore	0	0	0	0	0	0
Uganda	6	2	8	8	0	8
Total	**218**	**141**	**353**	**210**	**162**	**372**

No. of employees who took maternity/paternity leave [401-3]	**2020**			**2019**		
	Men	**Women**	**Total**	**Men**	**Women**	**Total**
Argentina	20	16	36	14	14	28
Australia	0	0	0	1	1	2
Belgium	0	0	0	0	0	0
Brazil	9	5	14	8	6	14
Chile	19	36	55	30	48	78
Colombia	0	0	0	0	1	1
Costa Rica	0	0	0	0	0	0
Spain	117	57	174	111	62	173
France	1	3	4	3	2	5
Netherlands	0	0	0	0	0	0
Ireland	2	2	4	2	1	3
Israel	1	0	1	0	1	1
Luxembourg	0	0	0	-	-	-
Morocco	4	0	4	6	0	6
Mexico	13	13	26	7	13	20
Panama	2	3	5	0	8	8
Peru	-	-	-	0	0	0
Portugal	0	1	1	1	3	4
Puerto Rico	0	1	1	0	0	0
Dominican Republic	0	1	1	0	2	2
Singapore	0	0	0	0	0	0
Uganda	6	2	8	8	0	8
Total	194	**140**	**334**	**191**	**162**	**353**

Comparison of employees with maternity/paternity leave with those who made use of this right [401-3]	**2020**	**2019**
Men with rights	212	210

Men who made use of this right	194	191
Women with rights	141	162
Women who made use of this right	140	162

Ratio of employees who returned to their position following paternity/maternity leave and continue in the company one year after their leave (%) [401-3]	**2020**			**2019**		
	Men	**Women**	**Total**	**Men**	**Women**	**Total**
Argentina	100	100	100	100.0	83.3	90.9
Australia	-	-	-	-	-	-
Belgium	-	-	-	-	-	-
Brazil	88.9	100.0	92.3	100.0	66.7	90.9
Chile	78.9	91.1	87.5	66.7	100.0	91.0
Colombia	.	.	.	-	-	-
Costa Rica	-	-	-	-	-	-
Spain	95.5	100.0	97.1	97.7	93.8	96.4
France	66.7	50.0	60.0	66.7	75.0	71.4
Netherlands	-	-	-	-	-	-
Ireland	100.0	-	100.0	100.0	-	100.0
Israel	-	100.0	100.0	-	-	-
Luxembourg	-	-	-	-	-	-
Morocco	100.0	.	100.0	100.0	100.0	100.0
Mexico	100.0	66.7	79.2	85.7	100.0	95.0
Panama	-	100.0	100.0	-	100.0	100.0
Peru	-	-	-	100.0	-	100.0
Portugal	-	-100.0	100.0	100.0	100.0	100.0
Puerto Rico	-	-	-	-	-	-
Dominican Republic	-	100.0	100.0	-	100.0	100.0
Singapore	-	-	-	-	-	-
Uganda	100.0	-	100.0	100.0	100.0	100.0
Total	**93.9**	**99.4**	**93.6**	**93.8**	**95.1**	**94.4**

No. of employees who did not return to work once their maternity/paternity leave was complete [401-3]						
	2020			**2019**		
	Men	Women	Total	Men	Women	Total
Argentina	0	0	0	0	0	0
Australia	0	0	0	0	0	0
Belgium	0	0	0	0	0	0
Brazil	0	2	2	0	2	2
Chile	0	13	13	0	5	5
Colombia	0	1	1	0	0	0

Costa Rica	0	0	0	0	0	0
Spain	5	0	5	3	4	7
France	0	0	0	0	0	0
Netherlands	0	0	0	0	0	0
Ireland	0	0	0	0	0	0
Israel	0	0	0	0	0	0
Luxembourg	0	0	0	-	-	-
Morocco	0	0	0	0	0	0
Mexico	2	1	3	0	0	0
Panama	0	1	1	0	0	0
Peru	-	-	0	0	0	0
Portugal	0	0	0	0	0	0
Puerto Rico	0	0	0	0	0	0
Dominican Republic	0	0	0	0	0	0
Singapore	0	0	0	0	0	0
Uganda	0	0	0	0	0	0
Total	**7**	**18**	**25**	**3**	**11**	**14**

4. Employee satisfaction

[103-1], [103-2] and [103-3] (Care and welfare of workers)

Knowing employee satisfaction and the value they place on the actions and the products that the company makes available to them is a key element of Naturgy's commitment to its professionals.

Tools such as the climate survey, conducted periodically, give rise to actions and improvement plans that are reflected in the results of subsequent years. Currently, the commitment percentage is around 84% –this result has been obtained separately for men and women-, and the figure is above the benchmark average.

In the last quarter of 2020, work was carried out on a new satisfaction measurement methodology supported by tools that allow regular (annual/six monthly) and on-demand measurements to be taken to assess satisfaction with the implementation of a process or new methodology. This flexible and agile model will be introduced in 2021.

Flexibility and work-life balance [401-2]

Naturgy is committed to promoting and encouraging the work-life balance of its employees, as well as co-responsibility, as permanent goals.

The group's Collective Bargaining Agreement contains a broad chapter on social responsibility, equality and work-life balance, including measures aimed at achieving actual and effective equality between men and women. These measures, which go beyond legal requirements, allow a greater and better work-life balance and highlights the company's commitment to this matter: By way of example, some of the measures in force in Spain include:

Flexibility in start and finish times, as well as in the meal break period.

- Continuous working day from June to September (4 months) and every Friday of the year.
- More extensive paid leave due to marriage, illness and death of family members.
- Paid leave not covered by legislation such as separation or divorce, marriage of children or leave for expectant mothers from the 38th week of pregnancy.
- Possibility of taking paid leave not necessarily on consecutive days.
- Reductions in working hours for personal reasons in cases other than those provided for by law.
- Possibility of accumulating breast-feeding periods.
- Adaptation of the weekly working day by one hour, as a measure to promote conciliation.
- Working from home.

In 2020, in Spain, and in the context of COVID-19, this commitment was reinforced through the Agreement with the Workers' Representative on Exceptional Measures, which has made it possible to extend and improve the work-life balance of employees throughout the health crisis.

Specifically, and together with other complementary labour measures, the following has been provided for:

1) The extension of time flexibility measures at the entrance and exit.
2) The possibility of working remotely to care for children and adults who cannot attend school or care centres.
3) The possibility of reducing the working day without a proportional reduction in salary.

The take-up of these measures has gone hand in hand with the deployment of computer resources and tools, such as laptops, in order to be able to work from home.

In the same context of dialogue, in June 2020 the right to digital disconnection as a procedure that must guarantee respect for rest outside working time and work-life balance was expressed through the signing of a clause, within the framework of the Plan of Labour Measures derived from the Lockdown Easing Plan, with the Workers' Representative.

Global FRC Certification

Naturgy is the first and only company in the world to have the Global FRC Certification (Family Responsible Company) granted in 2013 by the Masfamilia Foundation, with the endorsement of the Ministry of Health, Consumer Affairs and Social Welfare, and audited by AENOR.

This certification substantiates the existence of a culture based on flexibility, respect and mutual commitment of Naturgy with its professionals, generating options that allow them to develop both personally and professionally, always within the framework of the business objectives.

In 2020, the management model has been deployed through 509 local measures, distributed among the different countries where it operates, and also 22 global measures, all of them integrated in the six action groups defined by the Global FRC Standard 1000/23: Quality in Employment, Time and Space Flexibility, Support for the Employees' Families, Support for the Personal and Professional Environment, Equal Opportunities, and Leadership and Management Style.

Time Bank (Spain only)

Naturgy provides its employees with a space, both physical and virtual, where they can delegate the performance of daily tasks in order to increase the free time they can spend on other aspects of their personal life.

The range of services offered is structured in four blocks:

1. Administrative tasks: advisory and assistance services for frequent administrative tasks.

2. Advantage Club: exclusive virtual space with offers.

3. Easylife space: outreach services and acquisition of products.

4. Services available on a quotation basis.

The Naturgy Time Bank also has an Easybox that allows you to manage different services through an interactive window office and a website. Access to these services is built into the My Benefits platform, on the corporate Intranet of Naturgy.

In the COVID-19 context, and once the process of returning to work centres in Spain has begun, the Time Bank's on-site service areas are operational, thanks to the adoption of all the prevention and safety measures introduced by the company, to guarantee the health and well-being of employees.

Employee Care Service (SAE)

The service, introduced in Spain and Latin America, has celebrated its eighth anniversary in 2020, consolidating itself as a single and centralised point of contact between the employee and the organisation. The SAE allows the consolidation of global and unique models in terms of care for professionals during their life cycle in the company. The service has a multichannel approach, thanks to the online platform, and personalised attention that is accessible from any device.

In 2020, in addition to managing the usual services, the Employee Care Service played an important role in connecting and guiding employees in the context of COVID-19, supporting direct management of the preventive, health and also work-life balance measures laid down by the company. Currently, the Net Promoter Score (NPS) of the service is 77.27%, 84,308 requests from employees have been answered and 93.90% of the requests have been resolved within the deadline.

Culture and Employee Experience

The Naturgy culture frames the processes of the people model from consistency, global approach and leadership, giving meaning and projection to the transformation towards value creation.

With the strategic vision of a sustainable company, Naturgy continues to focus on redesigning its spaces and ways of working, digitising its employees' jobs, and promoting a transformational culture, through three key concepts:

TEAM	INNOVATION	WORKING METHODS
Cohesion	Evolution	Flexibility
Leadership	Digitalisation	Collaboration
Enthusiasm	Flexibility	Simplicity

To guarantee the success of its programmes, the company has internal influencers so that the employees themselves are the lynchpins of the transformation and those who inspire and motivate others.

ImaginaT project

The new model of spaces and ways of working of Naturgy, applicable to the whole Group. The physical reconfiguration of spaces is, in itself, a powerful vehicle for implementing new ways of working and collaborating. ImaginaT environments are more flexible, more collaborative and more digital, like Naturgy's values and culture, to encourage employees to connect, collaborate, innovate and foster new points of view, radically changing the employee experience.

The implementation of this project has begun by implementing these new concepts in some of the Naturgy's offices in Barcelona and also in San Cugat del Vallés. The large-scale deployment of ImaginaT is planned for 2021 onwards.

DigitalTeam Project

A global project whose goal is to consolidate new ways of working in the company using technological tools that promote collaboration, mobility and online communication between all professionals. During the first stage of its implementation in 2019, its take-up reached 65%, making it possible for 100% of employees who needed it to work remotely in 2020, during the COVID-19 crisis.

Initial success in adopting this new way of working was based on:

- Blended training through the Naturgy Corporate University, promoting the knowledge of the tool and its application in the day-to-day life of the employees. Over 5,683 hours of training have been provided in this context, with satisfactory quality results: an 8.21 satisfaction index and a NPS value of 46%.
- "Learning by doing" through digital influencers. The role of the influencer is key to bringing about the cultural change required by the new way of working. With inspiration and motivation towards their work community, all staff were able to use the tool, resolving doubts as the project progressed. During 2020 the project has been consolidated and successfully closed, thanks to the work of 530 people who acted as digital influencers at an international level.

5. Compensation and remuneration [405-2]

Reward

The reward axis aims to provide a framework of classification, remuneration, benefits and work environment, which drives and aligns performance with the strategy of Naturgy. In 2020, and by virtue of the launch of the company's new organisational structure, the review of the new positions has been completed with respect to the new model of Job Evaluation and Compensation of Naturgy, designed in 2019.

The Naturgy's concept of reward aims to provide a framework for classification, compensation, benefits and work environment, which drives and aligns professional performance with the strategy of Naturgy.

In this framework, the remuneration policy is governed by equity on an internal scale and competitiveness from the market point of view. There are two remuneration models, one for employees included in the collective bargaining agreement and another for employees not included.

The annual variable remuneration is a structure of uniform objectives for the whole group, with metrics differentiated according to the business unit, corporation or project to which it belongs.

The above-mentioned metrics include:

- Economic and financial targets.
- Safety and quality issues.
- In addition, a qualitative objective that measures the “how” in achieving the targets is valued.

The management by objectives for managers and employees not included in the agreement, and variable remuneration for sales agents, are methods in place at Naturgy as incentives for employee involvement in achieving the company’s targets and a direct share in the profits.

The aims of the management team are aligned and linked to those of the Company through, among others, the implementation of a long-term incentive (LTI) programme, through which they can receive a variable bonus, provided that returns on Naturgy shares in a specific 5-year period are optimum for any shareholder of the Company within the same period. The valuation of these returns has been set in considerably ambitious terms with respect to those existing in the market.

Additionally, the remuneration package of Naturgy employees is supplemented with a social benefits system, which includes a pension plan and other social benefits.

Specifically, employees in Spain have a flexible compensation system that allows them to design the composition of the remuneration package using the existing product offer, optimising this package for tax purposes.

Along these lines, the Total Compensation Plan has also remained in force in 2020. This plan allows employees to customise the composition of the compensation package offered by the company, while being compatible with the flexible compensation system, thus facilitating decisions on the make-up of their compensation package, and allowing them to monetise benefits, maintain the corresponding benefit or allocate the amount to other benefits.

My Benefits Platform

This platform offers a unique and integrated solution to manage and communicate the Compensation and Benefits programmes, allowing Naturgy to contribute to the well-being of its employees from a 360º perspective (financial, emotional, physical and social) and to promote their engagement. It is a living technological platform that evolves by adapting to the various benefits and compensation strategies of the company. It has the following modules:

- **Flexible Compensation**: Flexible Compensation Plans (PCF) are voluntary and customised compensation systems that allow each employee to decide how to receive part of their annual compensation. Through this utility, employees have access to their compensation data and can consult, simulate and contract a flexible compensation plan. All in an environment of maximum usability and clarity of presentation.

- **Social Benefits System**: Naturgy offers services, within its remuneration strategies and through the My Benefits platform, that help employees understand their retirement and find out about existing internal plans. This service provides each employee with personalised information on Naturgy's social benefits initiatives.
- **Savings in Personal Insurance:** through this utility, employees can take out personal insurance (home, life, car, death, etc.) with an excellent price-cover-service ratio and guaranteed by leading insurance companies. Furthermore, the tool makes it easy to compare prices and choose the insurance that best suits each individual.
- **Health Insurance**: The company has health insurance, which is one of the benefits most valued by employees.

Average remuneration by age group, gender, and professional category

For information on remuneration in 2020, the professional categories have been unified with those used for the other people indicators (Management Team, Middle Management, Technicians and Operational Staff). The 2019 remuneration indicators maintain the breakdown of professional categories from the previous year (Management, Technicians, Administrative and Operational).

All remuneration indicators are expressed in euros.

Fixed remuneration*	**2020**			
	Management team	**Middle managers**	**Technicians**	**Operators**
Argentina	95,308	18,262	16,580	12,415
Brazil	110,119	30,282	14,668	10,782
Chile	223,342	64,109	34,752	20,857
Colombia		69,752		
Spain	201,209	64,665	48,930	37,230
France		81,841	40,636	34,142
Ireland		133,148	44,849	
Morocco		40,066	44,328	16,959
Mexico	81,304	23,856	14,770	9,247
Panama		28,296	18,147	13,901
Portugal			33,715	
Dominican Republic		24,451	14,155	10,179

* No data is published as there are no employees in this professional category or for confidentiality reasons.

Fixed remuneration	**2020**		
	Men	Women	**Gap**
Argentina	16,225	15,365	5.30%
Brazil	18,801	19,118	-1.69%
Chile	38,477	32,276	16.12%
Colombia	103,929	56,081	46.04%
Spain	54,825	49,767	9.23%
France	70,421	43,985	37.54%
Ireland	50,515	41,569	17.71%
Morocco	32,711	34,251	-4,71%

Mexico	15,764	16,594	-5.27%
Panama	22,406	20,545	8.31%
Portugal	39,344	35,956	8.61%
Dominican Republic	13,745	23,601	-71.71%

Fixed remuneration*			**2020**
	18-35 years	36-50 years	> 50 years
Argentina	12,589	15,632	17,728
Brazil	12,789	19,699	22,935
Chile	27,711	38,002	40,563
Colombia		48,982	97,445
Spain	34,805	50,463	63,931
France	43,254	67,514	
Ireland	32,535	67,460	76,552
Morocco	13,838	30,549	36,144
Mexico	13,947	16,432	19,643
Panama	16,339	23,025	27,231
Portugal	33,638	30,920	
Dominican Republic	9,560	15,659	19,579

* No data is published as there are no employees in this professional category or for confidentiality reasons.

Average fixed remuneration 2019*								
	Executive		Technicians		Administrative		Operators	
	Men	Women	Men	Women	Men	Women	Men	Women
Argentina	66,367	51,175	22,190	20,786	16,260	14,816	17,634	14,932
Brazil	45,942	44,187	21,369	18,236	29,378	16,781	14,631	11,154
Chile	138,027	74,262	34,226	31,453	19,211	15,598	15,711	10,308
Colombia	76,374	80,023	13,092	12,368	6,632	6,882		
Spain	88,872	78,672	49,835	46,700	39,094	36,020	37,981	29,207
France	108,274	70,856	51,926	45,066	31,815	32,020		
Ireland	118,086		59,266	48,212				
Morocco	82,528	79,917	28,072	29,591	11,169	11,000	12,610	
Mexico	39,430	44,889	18,050	17,808	7,524	9,931	7,457	6,761
Panama	42,099	49,719	18,764	21,143	19,675	19,577	15,458	
Portugal		80,882	39,344	32,719		24,768		
Dominican Republic		72,209	23,692	24,628	12,670	9,703	12,560	

* No data is published as there are no employees in this professional category or for confidentiality reasons.

Variable remuneration was considered to be the amount received by employees under the Management by Objectives, Performance Management and Commercial Variable Remuneration programmes.

Average fixed and variable remuneration*	**2020**			
	Management team	Middle managers	Technicians	Operators
Argentina	133,431	20,405	17,916	12,604
Brazil	167,244	36,252	16,213	11,573
Chile	322,482	71,988	36,814	22,302
Colombia		86,555		
Spain	290,484	74,878	50,840	37,392
France		100,003	47,281	36,222
Ireland		211,573	57,163	
Morocco		44,847	47,405	18,865
Mexico	113,826	29,246	18,499	11,792
Panama		33,346	19,940	15,044
Portugal			34,888	
Dominican Republic		27,540	15,558	10,805

* No data is published as there are no employees in this professional category or for confidentiality reasons.

Average fixed and variable remuneration	**2020**		
	Men	Women	**Gap**
Argentina	17,645	16,492	6.53%
Brazil	21,569	22,310	-3.44%
Chile	42,820	35,502	17.09%
Colombia	137,014	66,372	51.56%
Spain	60,884	53,989	11.32%
France	86,051	50,815	40.95%
Ireland	69,195	48,361	30.11%
Morocco	36,214	38,262	-5,66%
Mexico	19,842	20,316	-2.39%
Panama	25,715	23,478	8.70%
Portugal	39,344	37,448	4.82%
Dominican Republic	14,915	26,824	-79.85%

Average fixed and variable remuneration*		**2020**
	18-35 years	36-50 years	> 50 years
Argentina	13,031	16,970	19,467
Brazil	14,453	22,872	26,313
Chile	30,014	42,127	45,552
Colombia		57,945	124,702
Spain	36,175	55,118	72,144
France	51,339	80,745	
Ireland	37,212	95,062	107,253
Morocco	14,588	33,318	40,476
Mexico	17,729	20,543	23,390

Panama	17,974	26,457	31,977
Portugal	38,347	33,944	
Dominican Republic	10,319	17,144	21,330

* No data is published as there are no employees in this professional category or for confidentiality reasons.

	Average fixed and variable remuneration 2019*							
	Executive		Technicians		Administrative		Operators	
	Men	Women	Men	Women	Men	Women	Men	Women
Argentina	85,380	61,258	23,382	23,161	16,508	15,119	17,709	15,221
Brazil	52,054	51,074	24,187	20,435	31,043	17,862	15,663	11,965
Chile	164,176	82,754	36,704	34,000	22,134	16,480	16,219	10,646
Colombia	148,985	104,717	15,643	14,719	8,508	8,648		
Spain	114,090	99,173	51,887	48,705	39,094	36,020	37,982	29,207
France	132,735	82,902	59,679	50,637	37,917	33,444		
Ireland	168,869		80,309	60,122				
Morocco	98,152	95,782	34,924	34,504	13,443	13,743	18,196	
Mexico	53,594	52,856	21,445	21,247	8,400	10,983	7,612	7,387
Panama	42,081	49,698	18,757	21,135	19,668	19,570	15,451	
Portugal		97,882	51,556	42,023		27,493		
Dominican Republic		88,337	26,246	25,920	13,438	10,159	12,998	

* No data is published as there are no employees in this professional category or for confidentiality reasons.

Average fixed and variable remuneration*	**2019**		
	18-35 years	36-50 years	> 50 years
Argentina	14,443	18,924	21,958
Brazil	6,652	10,444	12,065
Chile	20,698	31,131	30,695
Colombia	9,661	34,222	110,120
Spain	34,879	49,140	61,252
France	42,475	62,876	63,319
Ireland	35,191	68,708	75,868
Morocco	15,259	35,529	39,935
Mexico	15,638	18,944	18,434
Panama	19,251	27,066	30,559
Portugal	41,691	46,361	
Dominican Republic	11,604	19,690	22,190

* No data is published as there are no employees in this professional category or for confidentiality reasons.

Salary gap[1]

The salary gap measure, according to which a percentage greater than zero represents the percentage that women earn less than men, is detailed below. The calculation of the salary gap has been done as follows:

[1] The most relevant data for Naturgy are provided. The difference in salary shown by the results is in line with the context of the sector and generated mainly by the company's past gender make-up, which means greater average seniority of men in comparison with women. The reason why boxes are left blank is because there are no employees of one gender or another in said professional category.

$$\text{Salary gap} = \frac{\text{Average remuneration men} - \text{Average remuneration women}}{\text{Average remuneration men}} \; x\ 100$$

Salary gap (fixed)*	**2020**			
	Management team	Middle managers	Technicians	Operators
Argentina		0.3%	-5.8%	35.0%
Brazil		9.4%	14.0%	-8.6%
Chile		15.0%	10.0%	-4.0%
Colombia		46.0%		
Spain	23.8%	-3.1%	5.9%	5.6%
France		30.6%	-4.9%	
Ireland		100.0%	36.6%	
Morocco		-102.0%	23.7%	-17.8%
Mexico	100.0%	-20.6%	-7.7%	-23.2%
Panama		11.8%	2.3%	2.6%
Portugal			31.5%	
Dominican Republic		-73.9%	32.5%	21.9%

* No data is published as there are no employees in this professional category or there are only men or women.

Salary gap (fixed and variable)*	**2020**			
	Management team	Middle managers	Technicians	Operators
Argentina		-2.5%	-8.3%	40.7%
Brazil		11.0%	14.8%	-8.0%
Chile		17.0%	9.8%	-5.9%
Colombia		51.6%		
Spain	27.7%	-2.3%	5.8%	5.7%
France		30.6%	-0.8%	
Ireland		100.0%	45.2%	
Morocco		-107.1%	25.0%	-21.8%
Mexico	100.0%	-17.8%	0.0%	-30.4%
Panama		12.6%	0.4%	0.1%
Portugal			15.9%	
Dominican Republic		-71.9%	34.1%	22.8%

* No data is published as there are no employees in this professional category or there are only men or women.

Salary gap (fixed)*	**2019**			
	Executive	Technicians	Administrative	Operators
Argentina	22.9%	6.3%	8.9%	15.3%
Brazil	3.8%	14.7%	42.9%	23.8%
Chile	46.2%	8.1%	18.8%	34.4%
Colombia	(4,8%)	5.5%	(3,8%)	-
Spain	11.5%	6.3%	7.9%	23.1%
France	34.6%	13.2%	(0,6%)	-
Ireland	-	18.7%	-	-

Morocco	N/A	N/A	N/A	N/A
Mexico	(13,8%)	1.3%	(32,0%)	9.3%
Panama	(18,1%)	(12,7%)	0.5%	-
Portugal	-	16.8%	-	-
Dominican Republic	-	(3,9%)	23.4%	-
Salary gap (fixed and variable)			**2019**	
	Executive	Technicians	Administrative	Operators
Argentina	28.3%	0.9%	8.4%	14.0%
Brazil	1.9%	15.5%	42.5%	23.6%
Chile	49.6%	7.4%	25.5%	34.4%
Colombia	29.7%	5.9%	-1.6%	
Spain	13.1%	6.1%	7.9%	23.1%
France	37.5%	15.2%	11.8%	
Ireland		25.1%		
Morocco	2.4%	1.2%	-2.2%	
Mexico	1.4%	0.9%	-30.7%	2.9%
Panama	-18,1%	-12,7%	0.5%	
Portugal		18.5%		
Dominican Republic		1.2%	24.4%	

* No data is published as there are no employees in this professional category or there are only men or women.

Average remuneration of Directors [405-2]

Average remuneration of Directors				
Thousand Euros	**2020**		**2019**	
	Men	**Women**	**Men**	**Women**
Executive[1]	1,100	-	1,100	-
Independent/Proprietary	269	235	262	235

[1] It does not include remuneration for executive functions.

Breakdown of personnel costs (€M)	**2020**	**2019**
Wages and salaries	507	821
Social Security costs	101	112
Definitive contribution plans	26	31
Definitive benefit plans	6	6
Work carried out for the company's fixed assets	-77	-105
Share-based compensation	5	5
Other	230	54
Total	**798**	**924**

Pension plan [201-3]

In the case of Spain, the joint pension plan for employees of the Naturgy Group is a defined contribution plan for retirement and defined benefits in the event of death or incapacity whilst actively working. Employees are automatically added to the Plan as soon as they are registered.

The Plan currently has a net worth of more than Euros 500 million, which is distributed among approximately 5,600 active employees, and more than 3,100 beneficiaries and suspended participants.

In the international arena:

- The Group's policy is based on the provision of retirement savings instruments and death and disability coverage whilst an active worker, taking into account the particularities and social welfare needs of each country.
- In accordance with the legal frameworks of each country, Naturgy agreed with the employee representatives to introduce social benefits and work-life balance measures.

6. Labour relations [102-41]

Respect for the freedom to join a union; fundamental rights, collective bargaining, and the agreement culture represent key principles for Naturgy. The company respects workers' representatives freely elected in all countries where it operates, and has introduced communication channels with these representatives as a major part of the corporate action principles.

The collective bargaining agreements include several communications channels with representatives, under the form of committees to deal with the many and varied aspects of general interest.

Article 78 of the collective agreement applicable in the Naturgy Group sets out the constitution of a joint group union table for all companies that make up the scope of the collective agreement. The above-mentioned table is specifically equipped with the same competences regulated in Article 64 of the Workers' Statute, detailing the competences related to information, negotiation, prior hearing, coordination, representation, participation and oversight.

Mainstreaming and collaborative work that promotes the commitment of the entire organisation in matters of health, safety and the environment is a key lever for the development of projects and actions aimed at transformation, innovation and improvement of activities and processes and, of course, the achievement of optimal results. Within this framework, it is essential that workers are consulted and take part in the regular health and safety meetings held at all levels of the company, in order to establish, implement and maintain the specific processes and bodies at all levels of the organisation, facilitating the appointment of representatives and their participation in these. This means that all employees have a channel of direct participation available to them through the joint meetings between management and employees, and 100% of the staff is represented at these meetings.

The main issues formally discussed with the workers' representatives during 2020 are summarised as follows:

- Health and safety commitment.
- Analysis of accidents.
- Launch of new regulations.

- Integral health.
- Quarterly monitoring of preventive measures.

In addition, five extraordinary committees were set up in 2020 to participate in, inform and consult on all kinds of aspects and protocols arising from the COVID-19 health crisis.

	2020		**2019**	
	Not covered by collective bargaining agreements (%)	Covered by collective bargaining agreements (%)	Not covered by collective bargaining agreements (%)	Covered by collective bargaining agreements (%)
Argentina	28.9	71.1	28.6	71.4
Australia	0	100	0.0	100
Belgium	-	-	0.0	100
Brazil	28.1	71.9	27	73
Chile	0.5	99.5	5	95
Colombia	100	0	46.5	53.5
Costa Rica	0	100	-	100
Spain	33.5	66.5	32.8	67.2
France	65.1	34.9	71.7	28.3
Netherlands	0	100	0.0	100
Ireland	100	0	100	0
Israel	0	100	0	100
Morocco	37.8	62.2	35.5	64.5
Mexico	20.3	79.7	20.8	79.2
Panama	56.0	44.0	57.3	42.7
Peru	-	-	0	100
Portugal	0	100	0	100
Puerto Rico	75	25	75	25
Dominican Republic	4.1	95.9	4	96
Singapore	0	100	0	100
Uganda	0	100	0	100
Total	**25.5**	**74.5**	**26**	**74**

7. **Internal communication** [402-1]

In line with Naturgy's commitment to information, consultation and participation, any change that affects or which could affect labour relations are passed on to the social agents in full compliance with the deadlines established in prevailing legislation.

In communications to employees, when there are no longer legally established deadlines, a minimum of two weeks' notice is observed.

Likewise, Naturgy has permanent open channels for the resolution of doubts and the transfer of information, beyond the established formal channels.

In the context of the pandemic that has characterised 2020, Naturgy's internal communication model has become a fundamental lever for transparency and cohesion between all teams while at the same time it has promoted organisational alignment, evolving towards new actions and online support.

In this regard, several meetings have been held throughout the year between employees and the company's management, where those attending have received first-hand key messages from the company, having the opportunity to express their concerns and opinions. Specifically, through the "Conecta" programme, meetings have been reactivated, in digital format, with Management to promote approachable and direct conversation on topics of interest to the organisation and, especially during the first half of 2020, first-hand information was provided on evolution of the pandemic and the different measures that the company has introduced to protect its employees.

Regarding online media, Naturgy has different channels for communication with its employees, such as Naturalnews (Naturgy's digital newspaper), NaturalNet (corporate intranet) and Teams. In a complementary manner, some businesses have their own internal communication channels, where corporate messages and focus points are reinforced from a local perspective.

During the second half of 2020, internal communication management was further developed with a twofold objective: to implement the measures for a safe return to the Naturgy buildings and management of the communication associated with COVID-19 and to promote team cohesion with the activation of a new internal communication plan. All this has enabled the implementation of new programmes that promote progress in the company's strategic lines and cultural transformation, through the communication of organisational, business and project milestones.

Health and safety

[103-1], [103-2] and [103-3] (Occupational safety)

Naturgy's contribution to SDG

Naturgy helps to achieve the third SDG, through its commitments to health, safety and the well-being of its employees, suppliers, contractors and subcontractors.

What does this mean for Naturgy? Risks and management approach

Naturgy plans and carries out its activities with the firm belief that nothing is more important than health, safety and well-being of people. In this regard, the company's action goes beyond compliance with legal obligations and other requirements that it voluntarily adopts, driving continuous improvement in working conditions and in management of health, safety and well-being. This not only involves people who work for Naturgy, but also suppliers, collaborating companies, customers and other stakeholders, in order to avoid and to prevent accidents and damage to health, providing a safe and healthy environment as well as promoting health and well-being.

The implemented health and safety management system has established mechanisms to identify and control the risks associated with our activities. The Safety Plan has included several relevant lines of action aimed at controlling the six most critical risk factors for accident frequency and severity. For each of these six risk factors (confined spaces, work at height, electrical risk, tree felling and pruning, cargo handling and road safety), "red lines" have been defined, non-compliance with which has been the subject of special supervision and the application of a disciplinary regime.

What is our commitment?

– Guarantee that health and safety are non-delegable individual duties, and that they are taken on by senior management through a visible collective commitment, proactively accepted and implemented by the entire organisation, and by our suppliers and collaborating companies.

– Establish health and safety as an individual responsibility and as a condition of employment at Naturgy and of the activity of its collaborating companies.

– Ensure that any potential risk situations that may affect employees, suppliers, customers, the general public and the safety of facilities are brought to attention, assessed and managed in the appropriate manner.

– Work to maintain a risk-free working environment by integrating prevention of occupational risks, and the protection and promotion of health and well-being into business management.

– Establish learning as the driver of a safety culture, by means of ongoing training, accident and incident analysis, the dissemination of lessons learnt, education and the promotion of health.

– Incorporate health and safety criteria into business processes, new projects, activities, facilities, products and services, and in the selection and assessment of suppliers and collaborating companies, non-compliance with which will condition the commencement or continuity of their activity.

– Invest in new strategies of health education and health promotion, which allow the workplace to become the vector of transmission of healthy conduct for workers and their environment.

– Implement measures targeted at improving the quality of life, well-being and health of people within the communities where the company operates.

– Provide the resources and necessary means to enable compliance with established safety standards at all times.

In order to convey this commitment to stakeholders, the units identify their stakeholders, needs and expectations and what the current or potential legal or other requirements could be, in order to adapt safety management to the different realities in which they operate.

To this end, active policies are promoted to encourage the organisation's leadership and commitment and multidisciplinary competence centres are set up to promote participation and the identification of proposals to improve conditions in terms of safety and well-being.

Evolution and results 2020 [403-9], [403-10]

	2020			2019		
	Total	Men	Women	**Total**	Men	Women
No. of lost time accidents (No. of employees)	4	3	1	14	14	0
No. of recordable accidents (No. of employees)	11	10	1	25	25	0
No. of accidents with serious consequences (No. of employees)	1	1	0	0	0	0
Days lost due to lost time accidents	438	380	58	704	704	0
Deaths	0	0	0	0	0	0
Lost time accidents frequency rate	0.04	0.04	0	0.12	0.18	0
Recordable accident frequency rate	0.1	0.14	0			0
Frequency rate of accidents with serious consequences	0.01	0.01	0			0
Death frequency rate	0	0	0			0
Lost time accidents severity rate	4.14	5.34	2	6.04	8.94	0
No. of hours worked[1]	21,157,180	14,221,393	6,935,787			

1 The international criteria of the American Gas Association has been used to calculate hours worked, which establishes 1960 hours per employee per year.

Employee accident indicators show a considerable improvement over the previous year. This has been influenced by the lockdown caused by Covid-19, which contributed to a significant reduction in operational field activities and travel for work purposes over several months.

In terms of injuries recorded as accidents, the most common types included those associated with dislocations, sprains, strains and surface injuries and wounds, all of a minor nature.

One occupational illness was reported in Chile in 2020. Five reported cases of occupational illness corresponding to 2019 were in the process of being resolved by the Chilean Social Security Superintendency and were ratified in 2020.

1. Health and safety strategy of Naturgy

[403-1] and [403-8]

Naturgy's safety strategy, developed in collaboration with the business units, is structured through the following elements:

- A stable health and safety culture throughout the organisation.
- A relational and governance model, integrated at the highest level and with a structure of Environmental Health and Safety (EHS) committees of a transversal nature and specific to the business units, which guarantees the uniform implementation of criteria.
- The integration of health and safety in the value chain, including procurement, design and planning of activities and facilities, implementation and all elements that support control and monitoring.
- An integrated occupational health and safety management system audited and certified by a third party, with scope for all businesses.

- Action plans to address the most critical aspects, ensuring the implementation of preventive and/or corrective measures and strategic lines of work.
- Training itineraries and requirements adjusted to the job, and training and awareness to achieve the commitment of the group and its collaborating companies.
- Uniform supervisory tools for the assessment and monitoring of risks, legal requirements, accidents and lessons learnt and their dissemination.
- Periodic reporting of health and safety performance, adjusted to the needs of the different stakeholders, with transparent and clear communication.
- Five lines of action on which the management system pivots:

The occupational health and safety management system is integrated with the quality and environmental management systems, where it forms an integrated system applicable to all Naturgy processes and activities, including all businesses and countries.

Specifically, the scope of the management system includes all Naturgy companies with a majority shareholding, as well as those companies or entities over which the group has responsibility for their operation and/or management, and which execute one or more of the processes defined in the Global Policy on Standards (NG.00001).

In addition, it has been verified that the scope of the system includes all the groups identified in the definition of "worker" contained in the new standard 45001, which extends beyond the existence of an employment relationship, and the universalisation of the concept of the workplace and the degree of control over it.

Evolution of the Health and Safety Commitment

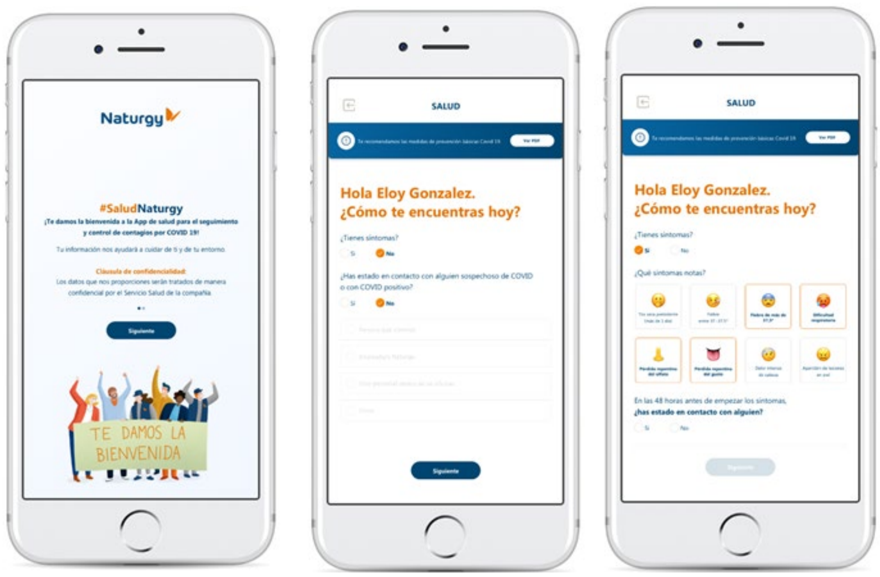
The Health and Safety Commitment project, in force since 2012, has consolidated the safety culture at Naturgy, being a fundamental pillar of compliance, the corporate responsibility commitments and the company's Sustainability Plan.

In 2020, the health and safety context of Naturgy has been marked by the Covid-19 pandemic, which has led to the need to refocus preventive activities to meet the requirements associated with this situation. To this end, Naturgy has adapted its procedures and implemented measures to maintain the activity, while prioritising safety and minimising risks, both for its staff and its partners.

Naturgy has been one of the first companies to activate its crisis committee and introduce global actions to control the crisis and, as an essential services operator, has managed to maintain business continuity and availability of workplaces, thus demonstrating its capacity for anticipation. In addition, it has organised and segmented its staff taking into account not only the criteria of business continuity (critical personnel) but also combining the criteria relating to the pandemic (vulnerable personnel by pathology, family units, work/life balance measures, etc.), ensuring, for example, a scaled plan of returning to work by groups and by phases.

Naturgy, as a critical infrastructure company, had more than 70% of the collective in remote work mode maintaining productivity, thus adopting teleworking as a management strategy. To carry out this implementation, in addition to providing staff with equipment and materials through the health and safety contacts initiative, it has focused efforts on training workers to adapt to and adopt good practices and healthy working habits (safety awareness, personal protection measures, etc.) in this new scenario.

As well as providing instructions on prevention, developing awareness and educational initiatives and monitoring the health of employees, Naturgy has implemented the Health app. In this way, it has managed to address the daily reporting of symptoms and the identification of contacts. The company has also opted to test all staff and their family units.



Within the Lockdown Easing Plan, specific protocols have been generated and those existing in operational and safety matters have been adapted to establish guidelines in view of these new conditions. Examples of this include: health protocols for the management of infections, symptoms and possible positive cases; protocols for returning to work centres based on criteria of limited capacity, adopting measures such as signposting of spaces; operational protocols or the reopening of Naturgy stores.

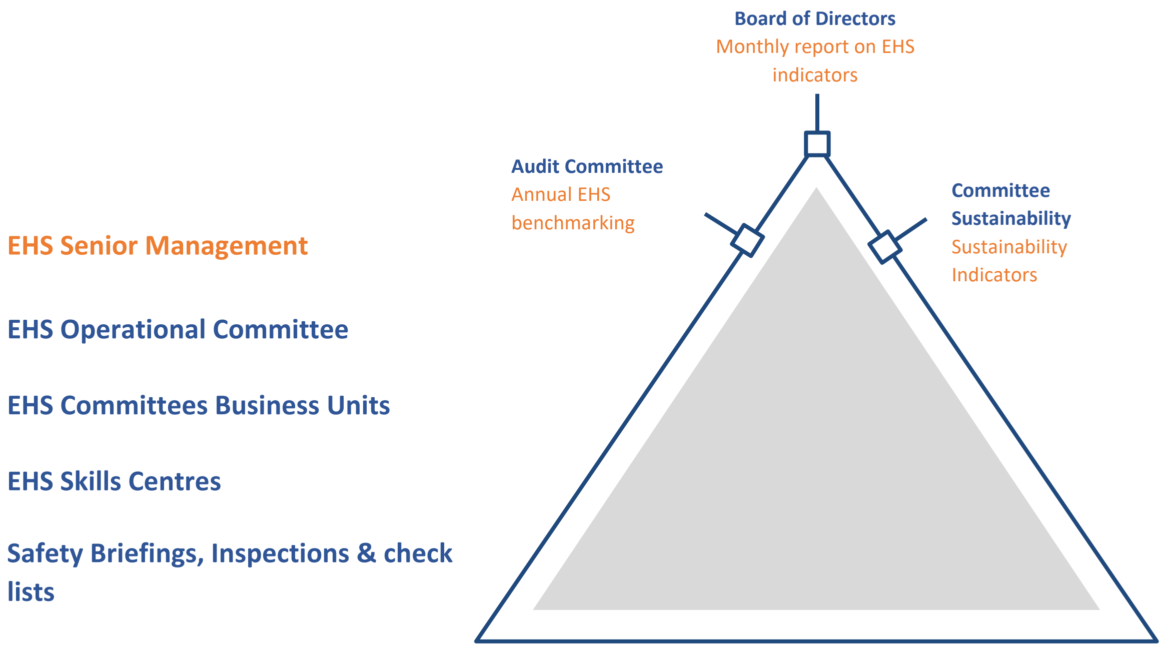
These protocols have been pivoted in the Health and Safety area, which has played a fundamental role. In short, the focus in this pandemic has been on the health, safety and well-being of employees.

Naturgy's participation in meetings with other companies should also be highlighted, to identify best practices in the management of this crisis and to share knowledge and protocols, playing a collaborative role with other essential service companies.

Health and safety leadership

The Global Health and Safety Policy, approved in 2019, reinforces safety as a key factor of business leadership and ensures compliance with the commitments made in the Naturgy's Corporate Responsibility Policy. It places the focus on governance and links directly to Senior Management, enhancing its leadership in safety to ensure application of the model in all businesses and activities —both in-house and outsourced. In addition, the policy is linked to monitoring the evolution of indicators and action plans arising from incidents and accidents.

With this vision, the EHS governance model is consolidated, with a top-down health and safety committee structure, which is adapted to the new business structures and guarantees that criteria are implemented uniformly throughout the organisation.



Safety standards pursuant to the new culture

Health and safety standards guarantee that activities are carried out under the same safety conditions in different areas and countries. The implementation of competence centres to collectively address the main safety processes and risk factors has enabled the alignment of corporate standards and the maintenance of a common regulatory framework adapted to a changing organisational environment. This work promotes the commitment of the entire organisation towards improving safety and achieving optimal results, while ensuring ongoing adaptation and review.

The common regulatory framework established is complemented by technical and safety procedures and instructions by type of activity and through a system for managing work permits for risk activities.

Health and Safety Commitment

[102-12] and [102-13]

Naturgy has adopted Vision Zero, a transformative approach to prevention promoted by the International Social Security Association (ISSA) and which is designed to foster a culture of prevention in organisations through the implementation and development of seven golden rules that promote a generalised commitment by the organisation and a sustained and global effort as a safeguard against any damages to health in the workplace.

7 golden rules

Assume leadership - demonstrate commitment I Identify hazards - assess risks I Define goals - develop programmes I Ensure a safe and healthy system - be well organised I Ensure health and safety in machines, equipment and workplaces I Improve qualifications - develop skills I Invest in people - motivate through participation.

This vision is complemented by the assumption of five health and safety management principles that regulate all activities and are shared and extended to all collaborating companies.

01 **Nothing is more important than health and safety**

... not production, not sales, nor profits.

02 **All accidents can be avoided**

... there are no inevitable accidents.

03 **Safety is Management'sresponsibility**

... and it must be managed us such.

04 **Safety is an individual responsibility**

...and a condition of employment, and of procurement for collaborating companies.

05 **All work must be planned and carried out with a focus on safety**

... ours, that of our employees, collaborating companies, visitors, customers and the community.

Pillars of the Health and Safety Commitment	Activities carried out before the event			Activities carried out after the event		
	Prevention	Detection	Control	Event / Mitigation	communication	Learning
Leadership	Creation of the Accident Rate Committee.	Personal Action Plan.	Leadership workshops.	Creation of committees to analyse and investigate accidents and incidents.	Direct involvement of the management line.	Analysis of accidents and incidents in all committees and meetings.
Leadership	Management Committees for accident analysis.	Zero tolerance.		Introduction of action plans and monitoring to reduce the accident rate.		Introduction of the "Safety Pause" for the entire company in the event of mortalities and particularly relevant accidents.
Leadership	Health and Safety Committees.	Preventive Safety Observations.				
Employees	Regular health and safety meetings.	Motivation and recognition of employees.	Awards for employees. Leader in health and safety for the year.	Lessons learnt and good practices.	Reporting accidents and incidents.	
Employees	Risk assessment and management mechanisms.	Preparation of health and safety standards.	Emergency preparation and response.	Red lines: employee safety breaches.		
Employees	Training and information.	Safety contacts.	Documented inspections.			
Collaborating companies	Preliminary classification of collaborating companies.	Coordination of activities with collaborating companies.		Introduction of action and monitoring plans to reduce the accident rate.	Greater importance given to the targets associated with reducing the accident rate.	Introduction of specific emergency plans.
Collaborating companies	Awareness workshops.	Preventive safety observations.		Red and yellow lines: safety breaches.	Inclusion of a scale of penalties in procurement with those collaborating companies.	Decertification of collaborating companies where serious repetitive breaches are detected.
Collaborating companies		Documented inspections.				
Facilities and processes	Collaboration in intersectoral workgroups for learning purposes.	Zero tolerance.		Industrial safety observatory.	Lessons learnt and good practices.	Communication and investigation into industrial accidents and incidents.
Facilities and processes	Technology-based information of technical processes.	Emergency preparation and response.	Risk analysis of the safety of technical processes.			

2. Risk management

[403-2] and [403-7]

For the assessment and control of health and safety risks, Naturgy has technical procedures and standards of a transversal nature that apply to the whole group. The business units, which now have greater autonomy and responsibility in health and safety management, guarantee the dissemination and implementation of these procedures and standards and ensure an adequate level of operational discipline in the way they are applied.

The safety management model articulates different tools that have been developed around the company's main health and safety vectors and that guarantee adequate integration at all organisational levels, from decision-making to any activity that is carried out or ordered.

Naturgy has an occupational health and safety management system, whose main risks and opportunities have been duly identified and evaluated, to take action to prevent the materialisation of risks and to take advantage of the opportunities that can help improve its performance.

RISK	CAUSES	ASSESSMENT*	ACTIONS TO ADDRESS IT
Do not qualify for ISO 45001 certification	Lack of resources, lack of knowledge of the standard, inadequate implementation process	Moderate	• External staff support for implementation • Integrated Management System (IMS) Coordinators in different areas • Regular follow-up by the IMS coordinator • Implementation planning • Internal audits of the processes involved
Inadequate maintenance of the Occupational Health and Safety Management System (OHSMS) (non-compliance with action plans, failure to follow up on corrective actions, inadequate management review)	Lack of resources	Tolerable	• Annual monitoring of compliance with the actions of the OHMS, with issuance of a report
Loss of preventive culture, ineffectiveness in achieving goals	De-motivation, excessive information, high number of contracts	Moderate	• Introduce annual safety plans that include awareness and training actions • Meetings with contractors, transmission of Naturgy values
Major differences in the implementation and monitoring of EHS in the Group	Greater business autonomy in Occupational Health and Safety	Moderate	• Provide the businesses with the necessary resources for the development of their activity and with hierarchical dependence on the business management
Inadequate reporting (accuracy of data, roles and responsibilities, etc.)	Organisational changes	Tolerable	• Reinforce the EHS governance model, with training and tools that facilitate reporting
Non-compliance with any legal requirement on OHS	High volume of applicable legal requirements	Moderate	• Keeping the Themis tool up-to-date • Performing the legal compliance verification reports • Compliance controls and Crime Prevention Model
Accident rate increase	Lower level of demand and safety monitoring at collaborating companies	Moderate	• Regular monitoring of indicators • Red safety lines and disciplinary regime • Coordination meetings

* Risk assessment criteria as set out in NT.00071 Identification, evaluation and control of occupational risks.

OPPORTUNITIES	ASSESSMENT*	ACTIONS TO ADDRESS IT
Migration to ISO 45001, aligned with the high-level structure of ISO 9001 and ISO 14001, will allow better control of risks, optimise prevention measures to avoid accidents and diseases, and address nonconformities associated with activities and processes.	Optimum	• Integration of the organisation's management processes • Development and maintenance of an effective and efficient management system
Collaborative work model based on competence centres comprising personnel from the different business areas	Optimum	• Evaluate performance and maintain the instance in the next months of OHS action
Reinforcement of the preventive culture based on new ways of working (digitalisation, risk perception, organisation-based safety etc.)	Normal	• Digital pre-control tool, innovation applied to reduce risk exposure
Enhance the model of self-diagnosis of the level of implementation of the IMS based on objective criteria (accountability of the business units)	Optimum	• Development of a tool that facilitates self-diagnosis of the level of compliance by business units
Consolidation of centralised tools for the management of core safety processes	Optimum	• Centralised corporate tools (Prosafety, Control A, Themis) • Design, evolution and efficient use of a single system
Maintaining a certified, third-party audited management system supports compliance and the Crime Prevention Model	Optimum	• Maintain a robust integrated management system team • Keep certifications up-to-date
Unified list of root causes for a homogeneous analysis of accident rates in all countries and business units	Moderate	• Regular monitoring of indicators • Red safety lines and disciplinary regime • Coordination meetings

* Opportunity assessment criteria:

Optimal: the opportunity can clearly help improve the performance of the OHMS.
Normal: the opportunity and its impact on the performance of the OHSMS must be analysed and actions implemented considering the costs, level of effectiveness and the scope of the measures of the organisation.
Small: the opportunity may be rejected until the probability of performance improvement in the OHMS improves.

Beyond legislative compliance, which requires the stoppage of work when workers may be exposed to a serious and imminent risk, Naturgy's health and safety management system incorporates the tool of preventive stoppage of work and activities. This tool empowers any worker, whether they belong to us or to our collaborating companies, to stop or not carry out any activity in which they have detected risk situations not foreseen in the established risk identification procedures.

In the case of collaborating companies, as a fundamental part of Naturgy's commitment to health and safety, proactive work stoppage is included in the safety performance indicators of our contractors with positive evaluation.

Risk assessment and management mechanisms

[403-2]

Naturgy focuses its strategy on avoiding risks and minimising those that have not been eliminated. For the latter, it has instruments for operational control that guarantee that the activity of its workers and collaborators is carried out in the most adequate conditions and in compliance with the contractual, voluntary or legal requirements.

Within Naturgy's health and safety management system, and as one of its key processes, the system used for identification of occupational hazards and risk assessment for the organisation's employees has been defined through corporate standard NT.00071 (identification, assessment and control of occupational risks). Among other issues, it establishes the guidelines for the identification of the risks to which workers may be exposed, the methodology for the evaluation of different types of risks, the responsibilities associated with the execution of these processes and the competencies of the personnel taking part in them, the participation of workers' representatives, the frequency of their performance, the criteria for transferring the resulting information to the employees and the criteria for the review processes that guarantee their effectiveness.

To ensure that all the information identified in this respect is also transferred in an appropriate way to the rest of the "workers" collective (contractor companies, suppliers, visitors, etc.), a coordination process is set up and applied with the contractor companies to make sure these workers receive and are aware of the relevant information on the hazards and risks as well as the health and safety measures to be applied when performing the activity, in such a way as to minimise the risks associated with the contracted activities and guarantee that their level of safety is the same as that of their own personnel. This process considers different actions that are applied depending on the type of contract, the activity contracted and the work centre where it is carried out, such as:

- Definition of health and safety contracting prerequisites.
- Setting up the corresponding means of coordination according to the type of activity contracted (documentary exchanges, coordination meetings, etc.).
- Control and supervision of the safety conditions in the performance of the works where necessary.

Similarly, in the case of workers recruited under a temporary employment agency service provision scheme, a process is applied to ensure that, before the worker is actually hired, he or she receives information on the risks associated with the work to be carried out and the work centre where it will be performed, as well as the protection and prevention measures to be taken against such risks.

The safety management model articulates different tools that have been developed around the company's main health and safety vectors and that guarantee adequate integration at all organisational levels. Naturgy has developed and implemented operational controls that ensure effective management of occupational risks, in accordance with the standards. The performance in 2020 of these inspections, monitoring and control mechanisms implemented in all business units was as follows:

6289 Preventive Safety Observations	24054 documented occupational safety inspections	3145 Zero tolerance records
100% Investigation of accidents and incidents that have occurred	Lessons learnt	Safety contacts

In addition, and to facilitate notification of deviations in safety and risk conditions and to redress these, without this being of a disciplinary nature, Naturgy has introduced the "Zero Tolerance" tool. The tool's purpose is to demonstrate that unsafe behaviours are not tolerated at Naturgy and that, if they are detected, we get involved in resolving them. Accordingly, all Naturgy personnel are responsible for detecting, resolving and reporting deviations as part of their commitment to safety. The development and application of "Zero Tolerance" is done according to the Health and Safety Standard NT.00041.GN-SP.ESS Zero Tolerance with deviations (0 Tolerance).

Ultimately, all workers have the Code of Ethics channel where they can make complaints about important safety breaches that have to be treated confidentially, impartially and without fear of reprisal.

Any findings that arise from Naturgy's monitoring mechanisms and periodic review of hazards and risks are duly incorporated into the integrated management system, to ensure that it remains effective, efficient, and valid in achieving the intended objectives and goals. Therefore, a specific review is conducted in the field of health and safety of the integrated management system, bringing together the different conclusions and proposals, along with other information considered relevant, in a global review report of the system at Naturgy level. This is pursuant to the management review procedure of the integrated management system (PG.00005), which defines the methodology and responsibilities.

Risk map and process safety management

[403-2]

Process safety is a necessary complement to occupational and industrial safety in order to manage all risks associated with the facilities and their operation. The maintenance and verification programmes for regulatory compliance of facilities are supplemented by process safety management standards aimed at ensuring the mechanical integrity of assets, management of changes - both in personnel and in technology and facilities - and adequate management of possible emergencies.

Each business unit has an updated view of the risk levels of its main facilities, which allows it to focus on higher risk situations in a standardised way and thus to be able to prioritise actions aimed at:

Maintaining:

- Facilities in good condition.
- A reliable service.
- Operating license.
- Good relations with authorities and communities.
- Reputation.
- Creating value and employment.
- An image of lower risk for investors.
- Improving competitiveness, efficiency and costs.

Avoiding:

- Serious accidents and their consequences.
- Material and equipment losses.
- Environmental damage.
- Interruptions in business operations.
- Fines, penalties and compensation.
- Costs of accident investigation and remedial action.

Prevention of risks at collaborating companies: suppliers, contractors and subcontractors

The Group's commitment and its extension to collaborating companies requires strict control of the critical factors that have the greatest influence on the most serious accidents. To this end, specific management mechanisms are applied to ensure this level of demand, promote continuous improvement and significantly reduce the accident rate in the collaborating companies:

- They are not invited to the selection process if they do not meet the health and safety requirements.
- They can be disqualified if they do not meet the contractual safety and health requirements.
- Safety proactivity is assessed by applying positive metrics criteria: incident reporting, implementation of safety improvement actions.
- Priority for employee training: demand of individual training certificate, verification of legal accreditations when required.
- Application of a sanctions regime if non-compliance is detected.

Accident indicators of contractors	2020	2019
No. of lost time accidents	66	194
Days lost due to lost time accidents	2,624	5,832
Deaths	5	1

In general, the accident rate of collaborating companies has seen a significant reduction in the number of accidents, mainly due to the reduction in non-essential operational activities during the COVID-19 lockdown. However, there has been a significant upturn in fatal accident rates.

In relation to the latter, the research processes carried out have shown that:

- In three of the cases, a lack of perception of the real risk associated with the activity was identified, as was non-compliance with established safety protocols. This lack of operational discipline in the performance of activities may be related to a reduced capacity to monitor and control operational activities due to the COVID-19 situation.
- The other case (with two fatalities) was part of a pilot project for the construction and assembly of wind turbines with concrete segments, which cannot be traced back to previous events.

Management and investigation of accidents and incidents

[403-2]

Investigation and analysis of events are essential for the identification of actions aimed at minimising risk situations, improving the safety of operations and reducing the associated accident rates. In 2020, 6,316 incidents and accidents have been analysed and investigated and proactively reported throughout the organisation.

The basic action criteria for identification, processing and investigation of the causes of accidents and incidents are defined in the standard Process for the communication, investigation and monitoring of accidents and incidents (NT.00035), or in the Procedure for the management of findings of the Integrated Management System (PG.00007) in the case of deviations identified in the processes, or when non-conforming products and/or services are detected.

The investigation process begins as soon as the event becomes known, with the persons who will carry out the investigation being present on the spot (if necessary), to find out “in situ” the circumstances under which it occurred, collect physical evidence and start gathering information (photographs, diagrams, measurements, operation records, etc.). This information is then supplemented with any interviews, review of procedures, trials or analyses that are deemed necessary.

Throughout the process it should not be overlooked that the purpose of the investigation is:

- To identify the primary and underlying causes, as well as the factors that contribute in some way to the accident/incident: Why?
- To identify, if necessary, measures to prevent or reduce the risk of the event repeating itself, establishing the appropriate improvements: learning.

The processes of investigation into accidents and incidents involve participation by the workers' line managers, those responsible for the activity, process or facility affected, the workers involved, the workers' representatives and any other person who can provide relevant information to determine the causes that produced the event.

To facilitate the first purpose, Naturgy has a unified incident investigation system, which guarantees the analysis of events and the identification of actions aimed at minimising risk situations, improving the safety of the operations and reducing the associated accident rate. The model is based on root cause analysis, optimised according to existing best practices and the HFACS (Human Factor Analysis Classification Scheme) methodology. The model pivots on the following action areas:

Organisational context
Resources management.
Organisation and

Supervision.
Inadequate supervision.
Inadequate planning.
Prevention management.

Previous conditions.
Worker conditions.
Technical means and materials.
Physical environmental conditions.
Environmental conditions.

Acts Operations Unsafe
Errors.
Breaches.

This change helps in reporting and investigating accidents in the following ways:

- Optimising analysis and comparing between business units.
- Helping in the process of capturing information and disseminating lessons learnt.
- Shedding light on root causes through gradual reflection.
- It discriminates between responsibilities and analyses the hierarchical levels at which to act.
- Helping in adopting short and medium-term measures including the review of processes, activities and applicable standards.

In relation to the second purpose (the introduction of improvements), any finding arising from the research feeds into the risk assessment, so if the need is detected, a review of the risk assessment is carried out, recording the reason. It also opens the corresponding non-conformity, corrective and preventive actions of the integrated management system of quality, environment, health and safety, to restore compliance as soon as possible in order to minimise consequences and avoid a repetition.

3. Communication to employees and action plans

Every year, Naturgy publishes the Group's health and safety performance to inform all its stakeholders. It regularly carries out in-house communication actions aimed at the entire organisation. In all communications, it takes into account diversity issues and the views of stakeholders, including suppliers and visitors.

The company has a specific channel on the intranet to guarantee global dissemination of health and safety content.

With regard to the COVID-19 crisis, a specific communication plan has been drawn up to disseminate the action protocols established (prevention measures, return protocol, etc.). Specifically, weekly safety contacts have been maintained, focusing on COVID-19, to disseminate all recommended hygiene and prevention measures during the lockdown phase and online events for communication of the situation and measures addressed by Naturgy.

Consultation and participation

[403-2] and [403-4]

The ambitious project of cultural change that began in 2012 would not have been possible without the involvement and collaboration of Naturgy's workers at all levels. Empowering people through consultation and participation in safety, health and well-being is a priority in order to identify, correct and eliminate situations of potential risk and optimise results.

Through the procedure PG.00009 (Internal and external communication, consultation and participation of the integrated management system of quality, environment, health and safety), Naturgy establishes, implements and maintains specific processes and bodies for consultation, participation and two-way communication with employees:

- Health and Safety Committees, a joint and collegiate body representing workers.
- Various channels for participation and consultation—notice board, personalised letters, intranet, suggestion boxes, Employee Care Service (SAE)—through which anyone can propose ideas, comments, complaints or improvements, without barriers or obstacles.
- Regular health and safety meetings are also held to ensure smooth communication between unit managers and their teams in accordance with the Health and Safety Standard: Regular health and safety meetings (NT.00056) These enable us to keep the commitment in this area alive and to promote awareness and participation of all employees, also responding to their information needs through their lines of command.
- Individual commitment is enhanced through tools such as Zero Tolerance, Preventive Safety Observations and Documented Safety Inspections.
- Ultimately, all workers have the code of ethics channel where they can make complaints about important safety breaches that have to be treated confidentially and impartially.

As required by ISO 45001, Naturgy guarantees disclosure of the results of the management system review by Management to the workers' representatives, encouraging their collaboration in the review and continuous improvement of the management system.

The Health and Safety Committees, represented equally by the company and workers, are the joint and collegiate bodies representing the workers and through which the participation and consultation of the workers in matters of health and safety, operational and process safety reporting is basically instrumented.

The Health and Safety Committee has the following competences:

- To take part in the elaboration, implementation and evaluation of risk prevention plans and programmes.
- To discuss projects in the field of planning, organisation and development of work and protection and prevention activities, including training in preventive matters.
- To promote initiatives on methods and procedures for the effective prevention of risks, proposing to the company the improvement of conditions or the correction of existing deficiencies.
- To be directly aware of the situation regarding occupational risk prevention, making the visits it deems appropriate for this purpose.
- To be aware of the documents and reports relating to working conditions that are necessary for the performance of its duties.
- To be aware of and analyse the damage caused to the health or physical integrity of workers, in order to assess its causes and propose appropriate preventive measures.
- To be aware of and disclose the annual report and programming of prevention services.

These Health and Safety Committees meet on an ordinary basis at least once every quarter, and on an extraordinary basis when very relevant events occur or at the request of any of the parties.

Due to the COVID-19 crisis, extraordinary meetings of the Health and Safety Committee were held to monitor the evolution of the Naturgy staff, to present the status of the application of the ad hoc plans to address this crisis and to contrast the measures to be applied in the different areas of activity of Naturgy (offices, stores, critical facilities, home care, etc.).

Dissemination [403-4]

Regarding outreach activities, as part of the Health and Safety Commitment we can highlight the internal dissemination to all the company's personnel regarding own or third-party events, from lessons learnt to best practices. Everything learnt is available on the intranet platform and the most relevant cases are disseminated individually. The content of this dissemination is reaching contractor companies through the businesses.

At the same time, Naturgy promotes actions aimed at improving the safety of the environment in which it carries out its activity, where the following activities are particularly important:

- Participation and leadership in international sector-specific and safety forums.
- Collaboration with public administrations in safety awareness campaigns.
- Active sponsorship of safety conferences in the gas and electricity sectors.
- Promotion of sector-specific accreditation models (for example, Sedigas and Aelec).
- Promotion of forums for the exchange and dissemination of best practices with collaborating companies.
- Carrying out joint safety meetings with collaborating companies.

4. Training and awareness

[403-5]

By carrying out health and safety training and awareness actions, people are encouraged to get more involved in the organisation. As a result of the cultural change implemented years ago, Naturgy has a variety of consolidated learning and improvement tools and relies on the Occupational Risk Prevention Classroom, —a tool of the Corporate University— to meet the established objectives.

The training itineraries defined are aimed at training employees in the risks and safety measures to be applied when carrying out their activities. These itineraries highlight training associated with the most critical risk factors such as electrical risk, working at height, working in confined spaces, cargo handling, road safety, etc., as well as other activities aimed at improving the level of risk perception and health and safety leadership.

In 2020, this issue has been the area of knowledge on which most hours have been spent, training a total of 26,353 participants, over 2,084 sessions, which translates into 60,305 training hours.

As a measure to accompany the return to the offices, compulsory prior training has been given to all workers to inform them of COVID-19 safety and prevention measures in offices. This training was available either online or through the corporate university in webinar format and was given by a group of volunteers.

Training of collaborating companies

Within the integral health and safety management model for collaborating companies, work is being done to extend the culture of health and safety to suppliers, collaborating companies and their employees, promoting a change in culture through the dissemination, awareness and increased sensitivity about health and safety, and by making the lessons learnt by Naturgy available to collaborating companies.

In 2020, the contents of the leadership and health and safety awareness courses were updated, aimed at middle management and operational personnel of the collaborating companies. An individual certificate of training in this field is required for the employees of collaborating companies who carry out activities with Naturgy.

Internal rules of global application have also been established in which coordination between operational business units and their collaborating companies is promoted.

Safety among employees, customers and society [403-7]

The safety of people is one of the main commitments of Naturgy's corporate policy, involving not only employees, but also suppliers, collaborating companies, customers and other stakeholders. The duty involves identifying the safety risks to which people are exposed in their work and travel, and the necessary measures or actions with which to mitigate them.

- **Protocols for actions at home and at customers' facilities**. To pass on to Naturgy staff the safety standards issued by the competent health authorities in order to work safely against the Covid-19 pandemic. With regard to face-to-face visits, only those that were essential have been carried out.
  Within the operational protocols, the protocol for action in home operations has also been reviewed to adapt it to the lockdown easing phase.
- **Safety protocols at Naturgy stores**. In order to pass on to collaborators the instructions given by the competent authorities and protecting the employees of the stores and the customers. These documents have been updated based on publication of new regulations and generating an action protocol for each lockdown easing phase with the prevention measures and permitted capacities.

Naturgy establishes and maintains effective communication channels with customers regarding to:

- Information concerning the product/service, and its safety.
- Service Level Agreements (SLA).
- The consultations, contracts, handling registrations, cancellations and modifications.
- Customer feedback, including complaints.
- Incident management.
- Protocols for action in emergency situations/contingency actions.

The information obtained, especially complaints or claims, is used as an opportunity for improvement to increase the levels of customer satisfaction in their dealings with Naturgy.

As for the dangers and risks of the product or service, before promoting the commercialisation or provision of any service, all applicable requirements are clearly determined. This is to develop products and services that respond to demand and improve the level of safety and satisfaction. Requirements can be defined by the customer (needs and expectations), regulations, standards (internal and external) or be intrinsic to the service.

This means that purchased products and/or contracted processes that may have implications on quality, safety, health and welfare of people, safety of facilities or have a significant environmental impact, are verified to ensure they meet the requirements set out in the purchase documents. The verifications to be carried out in each case are defined in the regulations or specifications associated with the product or service in question.

In addition, whenever necessary each Unit establishes the necessary mechanisms for the preservation and control of the product during the internal process and delivery to the intended destination, to maintain compliance with requirements, including, if applicable, identification, handling, packaging, storage and protection.

Furthermore, changes in production or service delivery, whether planned or unplanned, that may affect compliance with requirements are also reviewed and controlled, and action is taken to mitigate any adverse effects as necessary.

Below are the accidents, injuries and casualties, among the public, that occurred during 2020 and 2019 that have been investigated for their possible relation to the company's activities, classified by country and business type.

		2020				2019			
EU25 Injuries and fatalities to the public due to company activities		Accidents (No.)	Injuries (No.)	Deaths (No.)	Legal actions (No.)	Accidents (No.)	Injuries (No.)	Deaths (No.)	Legal actions (No.)
Argentina	Gas business	12	10	4	0				
	Electricity business	0	0	0	0	5	2	0	2
	Total	12	10	4	0	5	2	0	2
Brazil	Gas business	0	0	0	0	0	0	0	0
	Electricity business	0	0	0	0	0	0	0	0
	Total	0	0	0	0	0	0	0	0
Chile	Gas business	0	0	0	0	19	11	15	Pending delivery from the Prosecutor's Office
	Electricity business	24	23	4	2				
	Total	24	23	4	2	19	11	15	0
Spain	Gas business	24	84	1	2	47	136	2	2
	Electricity business	1	0	0	0	8	11	1	n/a
	Total	25	84	1	2	55	147	3	2
Panama	Gas business	0	0	0	0				
	Electricity business	1	1	0	1	1	0	1	1
	Total	1	1	0	1	1	0	1	1
Mexico	Gas business	2	4	1	1	17	2	0	0
	Electricity business	0	0	0	0				
	Total	2	4	1	1	17	2	0	0
Total	Gas business	38	98	6	3	83	149	17	2
	Electricity business	26	24	4	3	14	13	2	3
	Total	64	122	10	6	97	162	19	5

5. Certifications, safety audits and process diagnostics

[403-1] and [403-8]

Naturgy has completed the implementation of an occupational health and safety management system, audited and certified by a third party in accordance with the ISO 45001 specification and whose scope is global, including all businesses and countries. Beyond being a requirement in force as of 2021, it constitutes a strategic and operational decision for the company in order to take advantage of the benefits that this new standard brings, not only in terms of safety, but also in its better integration with the quality and environmental management systems that already exist at Naturgy.

In order to verify compliance with current legislation and the effectiveness of the system, an annual audit plan (internal and external) and safety diagnostics are carried out, focusing on the most critical risk processes. All the external audits carried out (AENOR) concluded with a positive assessment of the level of implementation and integration of the management system in all the processes audited, which is effectively maintained and which complies with the obligations established by the legislation in force with a focus on improving performance in the area of occupational health and safety.

Recognising a job well done

As health and safety management is a material area for Naturgy, it is not an option but an obligation and a key factor of business leadership that cuts across all decisions and actions taken, both internally and in collaborating companies. This excellence in safety, stable over the years, has been recognised on a global scale in the form of various initiatives, awards and prizes:

(1) (2) (3) (4) (5) (6) (7) (8)

(1) Best company in safety in EMEA (Europe, Middle East and Africa)
(2) Safety Achievement Award for excellence in employee. Safety Achievements Award for excellence in safety fleet.
(3) Business Monitor Award in excellence in Prevention, Health and Safety.
(4) “Best occupational road safety initiative” Award.
(5) Commitment to Occupational well-being and Improvement in ORP
(6) Award for the promotion of physical activity and healthy habits.
(7) Juan Godoy Award, company with best management in OHS material.
(8) National Security Council Award. Excellence in Risk Prevention Awards. Effort Award.

6. Comprehensive health

[403-7]

Naturgy is firmly committed to offering its employees a healthy working environment and well-being. The Comprehensive Medical and Health Assistance Unit is based on excellence and ongoing innovation to make available to employees, their relatives, collaborating companies, customers and the social environment in which the company operates, a global, health and welfare strategy that encompasses everything necessary for their benefit, both with regard to prevention, promotion and healthcare, in a customised way, as well as training and information with regard to healthy habits, taking into account both individual needs as well as the particular circumstances of each country.

Master Health Plan

This plan defines the strategic guidelines and establishes the general framework for action of Naturgy in the field of health care, ergonomics and psychosociology. The responsibilities under the plan correspond to each and every one of the business areas and countries within the group. In addition, comprehensive medical and health assistance services act as advisors for the development, monitoring and control of the plan in each of the areas.

Master Health Plan targets	
Standardised actions	Ensuring the health of workers, developing standardised actions and respecting differences inherent in each country.
Compliance with regulations	Monitoring compliance with the relevant regulations to each area in the field of health.
Development of activities by external collaborators	Coordinating the development of activities by external collaborators and establishing monitoring and control measurements.
Definition of indicators	Defining the indicators necessary to assess the implementation and development of the Master Health Plan, as well as all of the involved activities.
Continuous training	Ensuring continuous training of professionals in the activity, information about the latest technological developments and promoting creativity for innovation.

Actions for employees' health

Occupational health services for employees

[403-3]

Medical Assistance and Integral Health is the organisational unit formed by a multidisciplinary team, whose function is to guarantee the health and physical, psychological and social well-being of all workers, carrying out a set of activities related to the monitoring of workers' health, ergonomics and applied psychosociology and the promotion of health beyond the workplace.

Every year, this unit defines lines of action and sets out the general framework for Naturgy's activities in the field of health, which it applies to all business areas at national and international level and ensures that processes and actions are carried out in a uniform way, respecting the inherent differences of each country.

This plan is implemented through the following lines of action:

1) Integral health care in the workplace

- Introduce the necessary measures to preserve the health and well-being of employees and involve management and worker representation to ensure the sustainability and effectiveness of the model.
- Develop an annual health plan that includes medical examinations, as well as preventive campaigns aimed at all employees, with emphasis on those who carry out activities of special risk.

2) Support for persons suffering from common illness and accidents

- Efficiently manage the self-insurance for occupational accidents.
- Manage and coordinate appropriate improvement measures to reduce absenteeism.

3) Medical care

- Offer medical and/or nursing consultation and emergency care at workplaces where there are health personnel.
- Introduce actions to improve the quality of life at work and outside work for workers, their families and the social settings in which the company operates.

4) Management of individual aspects of person-position interrelationship considering both the special sensitivities of the workers and the ergonomic needs.

- Adapt the workplace to the person, to avoid injuries that could result from it (overloading, etc.).
- Define and coordinate procedures for ergonomic risk assessment for all countries.

5) Prevention of psychosocial conflicts and promotion of psychological well-being

- Manage work stress through the post-traumatic stress prevention device and the full attention/mindfulness project.
- Evaluate and propose solutions to eliminate or minimise psychosocial risks derived from the interrelationship of people and their socio-labour environment.

As well as in three support or transversal axes that are:

- **National and International Coordination**
  - Govern and support the development and monitoring of the integrated management system and the Healthy Company certification in the countries.
  - Implement and develop corporate policies at a global level to support people in situations of common illness and accident.

- **Integrated management**
  - Promote the health of all the company's stakeholders.
  - Work across the board to achieve safe and healthy working environments.

- **Training and communication**
  - Promote training in health and welfare to: the health team, employees, suppliers and families.
  - Increase the visibility of the Health functions to generate culture in healthy habits in work and non-work settings.

To guarantee the organisation and quality of Naturgy's employees health services, the company's objectives to improve the standards of occupational health services are reviewed each year and an action plan is drawn up and followed up on the basis of indicators.

The Medical Assistance and Integral Health Unit systematically proceed to the identification and analysis of any health-related aspect that may be susceptible to being taken into account.

Likewise, these activities are included in the annual process of internal and external audits of the integrated management system, as well as the audit of the Healthy Company certification. This is in addition to the company's own audits for accreditation with official bodies.

The integrated management system is reviewed each year to ensure it remains valid and is compliant with our Corporate Responsibility Policy, also taking into account other documentation such as the results of internal and external audits, the results of process performance and the monitoring of the area's objectives.

In addition, the Integral Health area monitors its activity and evaluates the results and impact achieved using several quantitative and qualitative methods and indicators. Among other things, the number of medical examinations, the number of injuries that are precursors to serious illnesses detected in time, staff participation in the campaigns, absenteeism rates, the number of psychosocially evaluated posts, as well as the interventions carried out in this regard, are counted and evaluated, as are the number of posts with ergonomic evaluation, ergonomic actions carried out at the request of workers, etc.

Healthy company model
[403-1] and [403-8]

It should be noted that Naturgy is certified as a healthy company according to the Healthy Company Model inspired by the World Health Organization model and implemented by AENOR. This means that, during the certificate validity period, AENOR carries out annual audits to monitor the Healthy Company management system, to check whether it is being effectively implemented and whether the conditions that led to its concession are being maintained.

Naturgy was the first energy company in Spain to obtain certification, a commitment that was renewed in 2019 when the company achieved recertification that drives a new cycle of continuous improvement for the coming years.

This certification establishes the requirements of a management system for organisations committed to the principles and existing international recommendations for healthy companies that want to promote and protect continuously health, safety and welfare of workers and sustainability in the working environment of their workers, their families and the community in which the business operates.

The scope of the international implementation of this model extends to Argentina, Brazil, Chile, Morocco, Mexico and the Dominican Republic. In addition, on the international stage, work has been carried out on the inclusion of the healthy company model in the Naturgy Integrated Management System, using the Enablon tool and the Management Review Report to manage its activity.

Workers have access to all the company's health information. Naturgy follows a policy of personalised/individual and committed attention to those Health and Wellness issues that need to be handled by the professionals that make up these teams and the individual awareness of the workers in health and wellness, to achieve a healthy and committed company with the communities where it operates.

To facilitate this access, several communication channels are placed at the employees' disposal so that they have information and access to this service:

- **Employee Care Service (SAE).** Employees access health services directly after the appointment request that is given through the employee care service. In addition, this service serves to directly resolve questions and requests in this area.

- **Communication.** An important effort is underway to deepen the company's health culture through awareness and communication. Since 2013 to date, the aim of the campaign "Your health always on your agenda" is to educate people working at the company and their families about the importance of protecting their health and prevention to ensure future quality of life, under the view that the welfare of the employees is also the welfare of those around them. During 2020, due to the pandemic, this channel has been used on a daily/weekly basis in order to convey to employees the most relevant aspects of health and well-being.

- **Training**. The health model implemented has led Naturgy to promote the contents as part of the Group's Corporate University, incorporating and developing the key training itineraries for this purpose.

- **Intranet**. Employees can access the comprehensive contents of the intranet on different subjects to care for their health: nutrition, mindfulness, prevention of musculoskeletal injuries. This section was updated in 2020 with information, protocols and health contacts related to COVID-19.

- **My Benefits Portal**. From this portal, which is accessible from different devices (PC, Tablet and Smartphone), employees access different health-related services such as their health insurance and policies, as well as informative content (videos / health contacts).

- **Consultation and participation**. All the actions and campaigns set out in the Annual Health Plan are submitted to the Health and Safety Committee so that the workers' representatives can express their opinion on the proposals of the health team and consult their doubts, as well as propose health campaigns that may be of interest to them.

Promotion of workers' health

[403-6]

The health model approach, described in the previous point, is supplemented by a series of additional/supplementary campaigns and actions, going beyond mere legal compliance, going beyond work-related health, and directly impacting on individual aspects of workers that could pose a risk to their health.

These campaigns and actions seek to increase personal, physical and emotional well-being, and to combat risk factors and health stressors, resulting from a contemporary lifestyle and habits, encouraging Naturgy workers to enjoy an active and healthy aging.

The most relevant actions carried out in this area are:

- Promoting greater awareness and encouraging self-responsibility as a pillar of living a healthy life.
- Raise awareness towards positive habits and behaviour for our health.
- And training workers to take care of themselves and their families' health.

Prevention campaigns and health promotion

In 2020, we have continued to carry out prevention and health promotion campaigns, giving continuity to campaigns as important as the prevention of cardiovascular risk, or the campaigns to detect precancerous lesions (colon, prostate, lung, gynaecological, etc.) included in the generic campaign "Your health always on your agenda".

Along these lines, prevention campaigns and activities for the promotion of integral health involve:

- Designing, coordinating and disseminating actions aimed at avoiding the appearance of disease (primary prevention) and/or detecting it at an early stage in order to reduce its consequences and improve its prognosis (secondary prevention).
- Designing informative campaigns on healthy living habits to train workers to improve their health and that of their families.
- Promoting campaigns aimed at supporting the communities in which the Group operates.
- Furthermore, professionals in the health area collaborate with the social benefits function in the optimisation of employee health insurance (review of health coverage and advice on updating the medical directory).

As a novelty, at the start of 2020 a psychological support service was set up in Spain, through the specialised telephone line in charge of the Trauma, Crisis and Conflicts unit of the UAB psychology faculty; although during January and February this service was accessed exclusively under medical prescription. It was in March, after the lockdown started, that Naturgy gave free access to any employee (or family member) requiring it.

At the end of 2020, a new cycle of evaluation of psychosocial factors begins, with the participation of workers' representatives, and a survey launched among all employees in Spain.

We should mention that participation by the employee in the annual health plan is absolutely voluntary. There is only one exception to this rule, which is that an annual medical check-up must be carried out in those jobs which, by their nature, pose a risk to third parties. Only in this case, and having notified the workers' representatives of the jobs included in this case, is the medical examination considered mandatory. Health promotion campaigns are voluntary for all groups.

Absenteeism

	Total Lost Hours[1]	
	2020	**2019**
Spain	285,434	315,410
Chile	165,736	186,882
Argentina	32,488	36,184
Brazil	7,825	15,726
Colombia	0	1,369
Costa Rica	248	252
France	3,136	3,136
Morocco	1,474	1,180
Mexico	6,072	14,424
Panama	3,232	4,666
Peru	256	104
Dominican Republic	3,424	1,432
Uganda	632	493
Total	509,957	581,258

[1] Colombia is not included in the 2020 report. The hours reported from the human resources department have been considered to calculate the total number of hours of absenteeism The total number of hours worked during 2020 was 21,440,059.

Responsible supply chain

[103-1] [103-2] [103-3] (Responsible and sustainable supply chain)

Naturgy's contribution to SDG

What does this mean for Naturgy? Risks and management approach

Suppliers and collaborating companies are key players in the optimum performance of the value chain of Naturgy, and the company therefore promotes relations based on trust, that are stable, sound and of mutual benefit, under the principles of transparency and risk management.

Naturgy establishes objective and impartial mechanisms of assessment and selection of suppliers, ensuring that the supply chain complies with the principles set out in the Supplier Code of Ethics, to which all suppliers have to adhere and the content of which comes from the Code of Ethics of Naturgy, from the Human Rights Policy, from the Health and Safety Policy, from the Environmental Policy, from the Anti-Corruption Policy, as well as the internationally acknowledged good governance principles.

The risks to the company extend beyond its activity, as it can be severely impacted by the inadequate performance of its suppliers and contractors in terms of the environment, health and safety, human rights, labour practices or corruption. The management of these risks is included in the global supply chain management model, which is based on the assessment of the risk factors intrinsic to the outsourcing of a service or the supply of a product. This allows us to put in place controls to minimise risks and to ensure a level of compliance by suppliers that is equivalent to the requirements that the group satisfies in the activities it performs internally. This Risk Management Model is implemented globally and is discussed in more detail later in this chapter.

What is our commitment?

- Extending the culture of Naturgy to the supply chain, passing on the target of excellence in service, efficient use of resources and the company's principles of acting responsibly, and encouraging the incorporation of sustainability criteria in their daily management.
- Fostering compliance with the codes and policies of Naturgy in the supply chain, in particular in the area of human rights, ethics, health and safety and the environment.
- Encouraging the hiring of suppliers from the country or region where the company performs its activities against similar competitiveness in other locations, supporting the generation of a positive social impact.
- Fostering practices that encourage traceability and fair trade of raw materials at source.

Evolution and results 2020 [102-9]

	2020	2019
Total number of suppliers(1)	6,553	7,896
Total purchase volume awarded (million euro)(2)	1,955	2,510

Assessment of ESG suppliers (3) (number)	7,780	7,407
Number of critical suppliers(4)	1,458	2,135
Official-approval suspended suppliers	2	-

(1) The decrease in the total number of suppliers is due to a decrease in activity as a result of the pandemic and the company's optimisation of resources.

(2) The total volume of purchases awarded has decreased due to the fact that Moldova was accounted for in 2019 and was no longer in operation during the year; Kenya and Peru have been accounted for only in the months they belonged to the group.

(3) Environmental, Social and Governance (ESG). The suppliers ESG assessment is conducted at the main subsidiaries of the group where the Achilles tool is implemented, and through which the business classification of suppliers is carried out. The number of ESG suppliers assessed includes both the awarded suppliers and the potential suppliers that have qualified to participate in Naturgy's tender.

(4) The total number of critical suppliers is reduced due to the decrease in the total number of suppliers and the updating of the risk matrix of the purchasing categories.

	Target 2021	Target 2020	2020	2019
Purchase volume assigned to local suppliers [1] (204-1)	85%	85%	95.22%	92.37%
Coverage level of ESG audits over purchase volume with high ESG risk	65%	65%	69.57%	60.71%
Percentage of purchase volume with acceptance of the Code of Ethics	90%	85%	89.21%	81.06%

[1] Local supplier: supplier located in the same geographical area where the purchases are made.

1. The supply chain of Naturgy

The company performs the procurement of works, goods and services, as well as the assessment, monitoring and development of suppliers in accordance with the general principles established in its policies, rules and procedures, as well as internationally recognised principles of good governance, ensuring a uniform, efficient and sustainable model that goes beyond regulatory compliance with legislation. In 2020, Naturgy set up trade relations with a total of 6,553 suppliers which accounted for a total expenditure of Euros 1,955 million.

Naturgy suppliers according to the nature of their activity
Approximately two thirds of the overall amount awarded corresponds to service suppliers that fundamentally take part in the following business areas: ▪ Development and maintenance of grids, both natural gas and electricity. ▪ Construction, operation and maintenance of energy plants. ▪ Commercial management services. The remaining third corresponds to suppliers that provide materials required for the construction and maintenance of grids and plants, as well as those support services that complement the general activity. This activity was carried out mainly in Argentina, Australia, Brazil, Chile, Spain, Mexico and Panama, and to a lesser extent in Colombia, Costa Rica, Morocco and the Dominican Republic.

2. Management of the supply chain [102-9]

Purchasing Model

The Purchasing and Supplier Management model introduces a management process with unified and overarching criteria for Naturgy's entire scope of operations. Key processes of the purchasing and supplier management functions are centralised, carrying out a global coordination that makes it possible to identify improvement opportunities. The generation of positive social impact is supported by promoting the contracting of suppliers from the country or region where the activities are carried out, preserving the Group's reputation and ensuring Naturgy's sustainable principles of action in the purchasing and procurement processes. In particular, in environmental, social and good governance matters, we guarantee ethical behaviour and human and labour rights, transparency, full and fair opportunity, respect for the interests of stakeholders, respect for the principle of legality and international standards of behaviour, focus on needs, integration and continuous improvement, among others. The levers and measures that activate Naturgy's purchasing model are the following:

Activators

Naturgy's policies and codes

- Corporate Responsibility Policy.
- Human Rights Policy.
- Anti-Corruption Policy.
- Purchase Policy.
- Suppliers Policy.
- Code of Ethics.
- Supplier Code of Ethics.

Preventive

Naturgy Standards and Procedures

- Supplier tree according to risk level.
- ESG risks matrix.
- Supplier classification.
- Approval of suppliers.
- CSR Scoring.
- Reputational and economic-financial analysis.
- ESG audits.
- Environmental questionnaires.
- Performance monitoring.
- Development of suppliers.

— Reputational monitoring of suppliers.

Corrective

Naturgy Standards and Procedures

— Audit corrective action plan.

— Performance monitoring corrective action plan.

— Revoke classification or approval of suppliers.

— Termination of contracts or reduction of suppliers' workload.

Elements to be highlighted in the management of the Naturgy supply chain	
Corporate Responsibility Policy	It lays out the company's commitments, actions and indicators for responsible management of its supply chain.
Supplier Code of Ethics	Since 2016 all Group suppliers have to adhere to the Supplier Code of Ethics. In this way, Naturgy promotes the extension of the company culture to the supply chain.
Human Rights Policy	Naturgy's Human Rights Policy extends to the Supplier Code of Ethics. The assessment of suppliers includes issues related to human rights practices that are used to exclude suppliers in the event of an unsatisfactory response. In 2020, no breach of human rights at suppliers was detected.
Transparency in purchases and communication with suppliers	In terms of procurement, Naturgy is committed to ensuring free competition, objectivity, impartiality, transparency and traceability throughout the procurement process: • The use of secure electronic means for management of all tenders brings greater transparency to the procurement process and ensures information traceability. • Communication channels have been established with the supplier that facilitate access to all the information necessary for their participation in the procurement processes: - A specific section for suppliers on the Naturgy website. - The Supplier Portal, an online platform for transferring technical regulations to the supplier, notifying updates and managing orders. - The Supplier Channel is the online tool available to the supplier to sort out any doubts or incidents or for any queries or suggestions.
Reporting Channel	All suppliers, contractors and external collaborating companies can contact the Ethics and Compliance Committee of the company through the web channel published in the Naturgy Supplier Code of Ethics.

Supply chain management process [102-9], [308-1], [308-2], [414-1] and [414-2]

In order to promote responsible management in the supply chain, Naturgy establishes a procurement process that aims to meet the needs of goods and services efficiently. It covers all stages of procurement from identification of the need for a good or service to the follow-up of the management of contracts or orders. Procurement will be based on unified and universal contractual conditions for the entire scope of the Group's activities, which include, among others, social and environmental clauses. Accordingly, in 2020, anti-corruption clauses and ethical practices have been included. The General Terms and Conditions of Contracting and the Country Specific Conditions are published on the relevant Group websites.

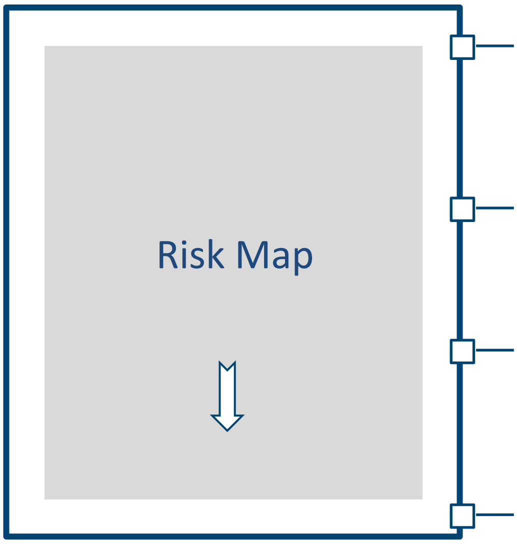
Policies and procedures for supervising the management of subcontracted activities	
Lines of action	Description
Global outsourcing policy	It sets out the general principles which have to be applied to all awarding or procurement of works, goods and services carried out by the Group, guaranteeing a uniform, efficient and quality model for managing the procurement process in Naturgy.
Global supplier policy	It represents the principles of the processes of assessment, approval, monitoring and development of suppliers. It guarantees sustainable management of the supply chain, identifying and assessing risk factors, evaluating suppliers and ensuring compliance with Naturgy's corporate social responsibility commitments. General principles include promoting responsible supply chain management and ensuring the group's sustainability principles in purchasing and contracting processes. In particular, in environmental, social and good governance matters, we guarantee ethical behaviour and human and labour rights, transparency, full and fair opportunity, respect for the interests of stakeholders, respect for the principle of legality and international standards of behaviour, focus on needs, integration and continuous improvement, among others.
Counterparty Due Diligence Procedure	It is designed to cover the main legal and reputation risks involved in business relations with third parties, and, in particular, covering misconduct associated with the risk of corruption.

Risk management of the supply chain

The process of global supply chain management is based on the assessment of risk factors that are intrinsic in outsourcing a service or supply of a product. This allows us to put in place controls to minimise risks and to ensure a level of compliance by suppliers that is equivalent to the requirements that the Group satisfies in the activities it performs internally.

The risk factors considered are:

- Health and Safety Risk: assesses the potential risk of incorrect performance or failure of the service/product and the impact it would have on the life or physical integrity of people.
- Quality Risk: impact on Naturgy if the supplier fails to comply with the expected or agreed quality levels, which could lead to service/product failures, delays in execution or delivery times, increased costs or low customer satisfaction.
- Environmental, Social and Good Governance (ESG) Risk: assesses the existing risk of acquiring products and/or contracting services that are not environmentally friendly, are manufactured or generated in socially unfair conditions, or with ethically incorrect labour practices, and that could generate undesired consequences such as unsuitable spills or emissions and a negative impact on the environment or people.
- Legal Risk: possibility of infringements and breaches by suppliers of laws, rules and practices that apply to them. To contract a supplier and for the contractual term, it is compulsory to prove compliance with the remuneration, tax and workers' rights obligations, as well as to provide the civil liability coverage required in accordance with the product or service contracted for which vicarious liability may be claimed.
- Reputational Risk (Compliance): refers to the potential reputational damage that could result from the perpetration of a fraudulent or anti-competitive act by a supplier, contravening the ethical standard of compliance established in the Naturgy Supplier Code of Ethics. The impact on reputation is a consequence of collusive actions and behaviour or fraudulent competition (including the duty to inform the contracting authority of the existence of conflicts of interest) that fail to respect the principles of equality, free competition, transparency and integrity, and may lead to undesirable consequences such as exploitative labour practices, negative publicity, cost overruns in the construction and maintenance of facilities.
- Financial Risk: assesses the economic impact on operations that may be incurred by the Group in its service to customers as a result of a lack of continuity in supply or the deterioration of a good or service by suppliers that have been awarded contracts.
- Cybersecurity Risk: assessment of the risk inherent to the processing of information assets, knowledge or data that are of value to the Group and with particular relevance to the risk of processing personal data pursuant to Regulation (EU) 2019/679, and which could lead to the failure of strategic infrastructures, the leaking of confidential information, or technological and telecommunications interruptions.



High level Medium level Low level

Quality Risk

Operational Risk

Risk ESG | **Reputational Risk (Compliance):** | **Cybersecurity Risk**

Health and Safety Risk

Legal Risk

With the risk assessment of the 323 purchase categories that are managed worldwide, and after assessing the risks of 50 countries where the company usually contracts, we obtain the risk of each purchase category in accordance with its activity and the country where the activity is conducted.

This combination allows us to assign a high, medium or low risk to each purchase category, which is integrated into the map, thus obtaining the risk of each purchase category by country.

In 2020, the Group started updating the risk matrix of the purchasing categories, with the revised valuations of each purchasing category in all aspects of the risk factors and the present values of the internationally recognised indicators for the risk of each country.

The company considers as critical suppliers those suppliers with a high level of risk in any of the assessed risk factors associated with the purchase categories they supply (Operational, ESG, Health and Safety, and Quality).

In 2020, the number of suppliers with a valid contract in critical activities was 1,458, representing 54.75% of the purchase volume. In addition, the company has identified 66 non-tier 1 critical suppliers, mainly corresponding to categories of purchase of critical products that represent 1.02% of the overall purchase volume.

Naturgy assesses the ESG risk using a matrix that takes into account 20 environmental, social and good governance aspects of each of the purchasing categories and countries in which it operates.

In the 2020 update Naturgy has differentiated the aspect “Atmosphere” in “Climate Change” and “Pollution”, and has introduced a new social aspect, “Freedom”.

Process map and sustainability criteria included in the ESG risk matrix.

Environmental Risk Factors

Climate change
Pollution
Biodiversity
Water
Soil
Landscape/ Territory / Heritage
Consumption of resources
Waste

Good Governance Risk Factors

Fraud
Corruption
Competition
Terrorism
Professional ethics
Regulatory compliance

Social Risk Factors

Community well-being
Human rights
Employee rights
Personal data protection
Safety and quality of products
Freedom

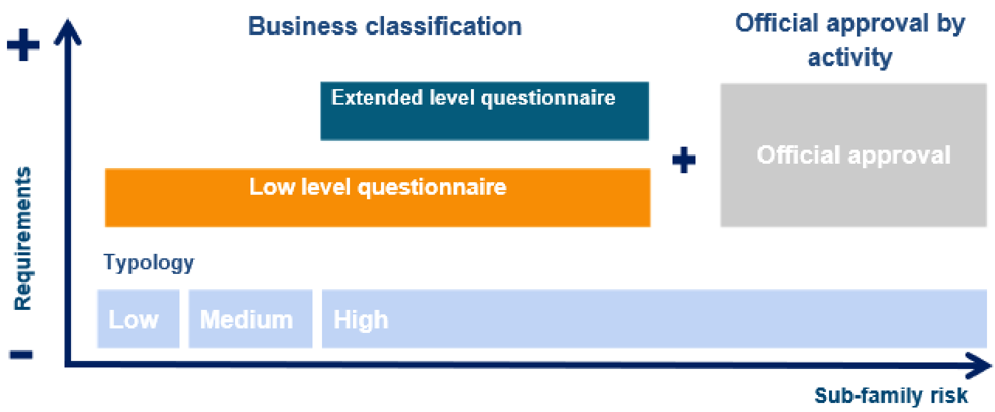
ESG Risk Map (activity/country)

High level I Medium level I Low level

In this way, Naturgy identifies the suppliers with high risk in sustainability, considering those that reveal a high risk level in the Health and Safety and ESG factors. In 2020 the number of suppliers in this category was 701, representing 42.27% of the total purchase volume. 95% of these suppliers present a high Health and Safety risk as this is the predominant factor due to the nature of the activity carried out by Naturgy, construction, operation and maintenance of natural gas networks, electricity networks and power stations.

Assessment of suppliers
Supplier assessment consists of business classification and approval processes by activity. Both processes are set out in the risk map by purchase category.

Risk map by purchase category



Business classification of suppliers

This process is based on the assessment of compliance at business level of what is required by Naturgy in the different risk factors, in order to participate in the procurement process of goods and services. All suppliers must pass this process before maintaining commercial relations with Naturgy.

In 2020 Naturgy updated the business classification model of suppliers, with a basic level for suppliers with medium and low risk that ensures their adherence to Naturgy's Supplier Code of Ethics and the declaration of compliance with the main legal, tax, organisational, environmental, social, health and safety, cybersecurity, compliance, quality and personal data processing criteria required by Naturgy. The extended level, for high-risk suppliers, additionally requires an extended questionnaire and evidence of financial, sustainability, health and safety, and compliance information. The classification is managed by registering on the Achilles platform - supplier classification system - and critical suppliers are required to register in the RePro Community of the energy sector in Southern Europe and South America.

Suppliers who do not answer satisfactorily to the minimum requirements will be considered unsuitable to work with Naturgy.

In 2020 Naturgy has conducted the ESG assessment of 7,780 suppliers, including potential and active ones, which have to be assessed on an annual basis. The number of suppliers assessed has increased due to the modification of the business classification process for suppliers, which has favoured the agility and completion of this process by suppliers and the company's promotion of this classification in countries with low-registration percentages. The result of the process shapes a suppliers tree in which they are classified in accordance with the categories for which they are able to supply services or products, and for which they have been rated as suitable with regard to the associated risk. The weight of sustainability issues raised to high-risk level suppliers during the business classification process represents 60.7% of the total and compliance issues represent an additional 23.4%.

In 2020, the RePro Community updated the classification questionnaire that applies to Naturgy Spain's high sustainability risk suppliers, creating a specific sustainability and compliance module and an objective scoring with the contribution of evidence that classifies suppliers in five categories: excellent, high, medium-high, medium-low and low. Suppliers in the last two categories receive customised reports with recommendations for improvement. By 2021, the company plans to deploy this to the rest of the countries where the classification tool is implemented (Argentina, Brazil, Chile, Mexico and Panama).

The high risk rating process includes the assessment of criminal, privacy and cybersecurity compliance issues through a compliance rating and corresponding customised recommendation report for each supplier.

In accordance with the company's Health and Safety Commitment, specific regulations have been introduced to classify the health and safety risk of suppliers, by defining objective aspects and assessment criteria, requirements for classification, selection and evaluation of bids in award processes.

Official approval and management of supplier quality

Naturgy has introduced the goal whereby all suppliers that perform critical activities—through being defined with a high risk in any of the ESG, Quality and Health and Safety risk factors—must be approved.

The approval process is based on audits conducted at the supplier's facilities or by distance depending on the critical nature, to check compliance with the specific requirements defined for the service or material. Any non-compliances detected during the audits lead to corrective actions that the supplier must introduce within the deadlines agreed between Naturgy and the supplier, and this deadline is always less than one year.

Naturgy also approves the non-tier 1 suppliers corresponding to categories of purchase of critical products, over which audits are conducted based fundamentally on quality-related aspects.

In 2020, 355 audits were performed on suppliers and sub-suppliers, of which 105 were conducted at the supplier's facilities. If anomalies arise in the approval process, this may lead to a plan of corrective actions, or to the non-approval of the supplier, which would prevent such supplier from performing this activity for Naturgy.

44% of the approval audit carried out at the suppliers' premises has resulted in the need to submit a corrective action plan. On the other hand, two suppliers had their official approval either suspended or withdrawn for failing to pass this process as a consequence of breaches related to safety, quality and other issues.

Monitoring, follow-up and development of suppliers

Monitoring of suppliers

Criteria considered in monitoring	
Corporate image and reputation	Since 2019 Naturgy has been monitoring online the reputation risks of the portfolio of suppliers with whom it maintains commercial relations. A screening tool is used to detect exposure to counterparty reputational risk and to make decisions based on the risk detected in coordination with the Compliance Unit. The monitored supplier base amounts to 7,393 at the end of 2020. In no case has there been evidence of an impact that has placed these suppliers at high or very high risk. In addition, reputational due diligence is performed on suppliers to analyse the alignment with Naturgy's corporate responsibility commitments. Based on the findings, the risk and the actions to be carried out are assessed. In 2020 no supplier was disqualified on the grounds of fraud or unethical practices.
Economic-financial information	The main potential or active suppliers of Naturgy are analysed from the economic-financial point of view in order to prevent contractual breaches by suppliers. In addition, in the assessment process the supplier's economic dependency ratio is measured with respect to Naturgy and is taken into account in the supplier's global scoring that can be used in the supplier's valuation during the contract award strategy.

Monitoring of suppliers

Monitoring mechanisms	
Environmental specifications	Naturgy has developed specific environmental specifications for suppliers and contractors that are attached to the corresponding

	contracts, based on the purchase category supplied and which include minimum environmental management requirements for application and monitoring during procurement. 44.59% of the purchase volume from critical suppliers has an environmental management system with external certification.
Performance monitoring	This is carried out with the most relevant suppliers and involves carrying out performance assessments to measure the operating units' level of satisfaction with suppliers and detailed aspects concerning quality, health and safety, operations and ESG. For those suppliers who perform activities classified as high risk, health and safety performance is measured using objective metrics and the method set out in Naturgy's "Health and Safety Standard: Assessment of performance of collaborating companies in health and safety issues". Thus, corrective actions are carried out on those suppliers whose assessment does not reach the standard set by the company. In 2020, 1,357 performance assessments were conducted on suppliers from Argentina, Brazil, Chile, Mexico, Spain, Panama and the Dominican Republic, with a total of 492 suppliers being assessed. The results and classification obtained are reported to the affected internal units of the company, also specifying their weak points and where they need to improve. In 2020, action plans have been agreed with 45 suppliers whose score in the performance measurement proved insufficient.
ESG audits	For suppliers classified as having a high level of risk, documentary evidence is required, and for those whose assessments of financial risk, occupational risk prevention, reputation, compliance and corporate social responsibility criteria do not exceed the objective parameters established by the RePro Community, audits are carried out from the point of view of corporate responsibility. In 2020, ESG on-site audits were carried out on 78 of the group's suppliers. In addition, Naturgy carries out ESG audits on the suppliers classified as having a high ESG risk with the highest purchase volume. In 2020, 69.57% of high ESG risk purchase volume was audited. NB: due to the situation caused by COVID-19, some of the audits that were carried out on site before were performed remotely.

In the case of suppliers of critical purchasing categories with current contracts, the self-assessment and quality control mechanisms are agreed upon prior to the delivery of products or services; monitoring audits are carried out based on the level of risk in the purchase category; equipment calibration control is carried out and there is verification that personnel performing high risk activities are authorised or certified to carry out the same through accreditations or identification.

The products corresponding to critical categories are also subjected to inspections, technical acceptance and FAT at the production centres.

Development of suppliers

Naturgy's Corporate University, through its Extended Academy (EA), offers a wide range of training to external collaborating companies, customers and suppliers of Naturgy, both technical as well as management, enabling companies to improve their operating efficiency, incorporate innovative methodologies and develop skills focused on excellence in operations and service.

The EA thus contributes to the establishment of a common planning and management model, favouring the professionalisation of companies that participate in the Naturgy value chain, with a recurrent activity of more than 7,000 annual participants and 20,000 hours of training.

Likewise, the relationship with strategic suppliers is managed in order to strengthen partnerships, in an environment of collaboration and efficiency, sharing information, aligning strategies, seeking continuous improvement and promoting innovation.

Social commitment

[103-1], [103-2] and [103-3] (Social contribution and participation) [203-2]

Naturgy's contribution to SDG

What does this mean for Naturgy? Risks and management approach.

Naturgy is committed to the economic and social development of those regions where it performs its activities, providing expertise, management capacity, as well as allocating part of its profits to social investment. Fluid and ongoing dialogue with society enables the company to be aware of the expectations and interests of those communities where it operates and thus be able to involve itself in their development.

The involvement and participation with local communities and their needs in the territories where the company operates suggests collaboration and acceptance of the company in the community, avoiding the implementation of pressure actions against the company's operation in those territories and fostering the collaboration of all agents.

What is our commitment?

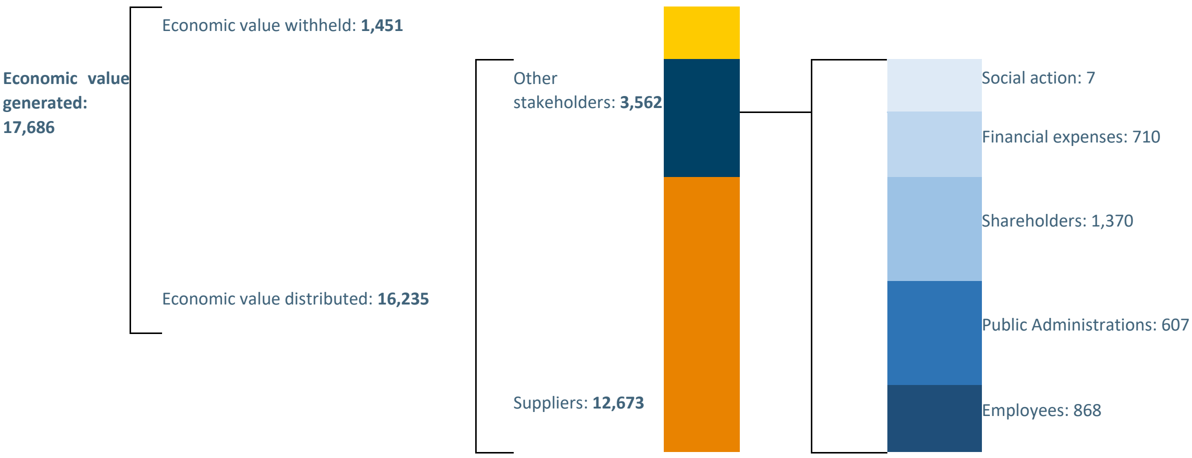
- Guarantee fluid and two-way dialogue and encourage involvement in local communities, respecting the culture, rules and the environment, so that their concerns are responded to appropriately and expeditiously.
- Assess the social impact that the company's activity could cause, to avoid or mitigate the adverse effects these could generate and to foster positive effects.
- Develop initiatives to create shared value and to have a positive social impact in energy projects.
- Promotion of education, cultural wealth, health, research and the inclusion of the more underprivileged collectives through social investment.
- Transfer knowledge and values to society through partnership agreements with the academic community and the supply chain.
- Promote public-private and third sector collaboration to mitigate the impact of energy poverty on the most vulnerable groups.

Evolution and results 2020

Social commitment	2020	2019
Sponsorship and social action investment (million euro)	7.16	8.16
Breakdown by type of action (%)		
Social	82	84

Environmental	2	2
Cultural	16	14
Sponsorship and social action activities (number)	106	134

Economic value distributed. Detail by stakeholders (million euro) [201-1]



The aim of the contributions to social programmes is to increase the company's commitment to society. The programmes to which these resources are therefore allocated form part of the business development strategy of the company. In 2020, they totalled Euros 7.16 million. Naturgy aims to generate a higher corporate commitment to the society of which it forms a part that goes beyond its business activity.

Donations: financial contributions to foundations and non-profit organisations for which the company receives no consideration.
Collaborations: financial contributions to foundations and non-profit organisations for which the company receives some consideration.
Sponsorships: amount allocated to other types of entities, not necessarily non-profit making and for which the company receives some consideration.

In order to measure the results, Naturgy has tools for assessing the reputation of the social programmes it carries out. As in previous years, in 2020 it continued to use the London Benchmarking Group methodology (LBG), which offers an overall view of social investment and enables a comparison of the results obtained with those of other companies.

1. **Creation of wealth and well-being where the company operates** [102-13]

Naturgy develops its commitment to society through five main lines of action, aligning with the company's core activities.

Lines of action				
Energy vulnerability	Fair energy transition	Relationship with communities Social impact	Patronage and sponsorship	Corporate volunteering, social action and employee participation

Presence in trade associations

As part of Naturgy's permanent work with its stakeholders, the participation of the company in several trade associations is fundamental for the contribution to social dialogue and to the construction of better public policies.

Since 2019, Naturgy has had an Institutional Relations policy which, among other matters, regulates these collaborative initiatives. At the end of 2020 Naturgy was involved in 146 major partnerships with an investment of more than Euros 4 million per year.

Given Naturgy's involvement and its strict commitment to the fight against climate change and sustainability, in 2020 it was decided to review and analyse the position of the main entities in which the company participates in these areas.

Through our own methodology and based on criteria of relevance, linkage to the energy sector and the geographical scope of the entity, we specifically identified the associations that have a voice and proactive actions in matters of climate change. Based on this identification, an analysis was undertaken of the public positions on these matters and their correspondence with the company's policies.

Out of the total number of entities, 32[6] were identified in the group of entities of relevance in these matters and the analysis was used to rule out the possibility that some of them are not aligned with Naturgy's commitment in the fight against climate change in the multiple forms that it can take.

[6] Entities identified: Aelec, Asociación Empresarial Eólica, Asociación Empresarial para el Desarrollo del Vehículo Eléctrico (AEDIVE), Asociación Española de Gas Natural para la Movilidad (GASNAM), Asociación Mexicana de Energía Eólica, Asociación Mexicana de Energía Solar, Cámara de Comercio de España, Asociación Gremial de empresas eléctricas de Chile, Círculo de Economía, Círculo de empresarios, Club Español de la Energía, Confederación Española de Empresarios (CEOE), Eurogas, European Biogas Association (EBA), Foment del Treball, Fundación COTEC para la Innovación, Fundación de la Energía de la Comunidad de Madrid (FENERCOM), FUNSEAM, Global Compact, Global Reporting Initiative, Groupe International des Importateurs du Gas Natural Liquefié (GIIGNL), International Gas Union (IGU), Instituto Brasileiro de Petróleo Gás e Biocombustíveis (IBP), Instituto Argentino del Petróleo y el Gas (IAGP), Observatoire Mediterraneen de L'Energie, Plataforma Tecnológica Española de Redes Eléctricas (FUTURED), Real Instituto Elcano, Sedigas, Sociedad Nuclear Española, The European Gas Research Group (GERG), Unión Española Fotovoltaica (UNEF), World Economic Forum.

In establishing a deeper review, it was observed that there are differences in the degree of formalisation of these commitments, which are typical of the nature of each of these associations.

Thus, there is an advanced group (28%) that presents wide degrees of development of these commitments, which explicitly incorporate some of the elements or principles that Naturgy subscribes to in the matter.

The rest of the entities have a different degree of formalisation of their commitments. Although they do not have comprehensive positions, papers or documents, it is possible to identify this support through public positions or by signing up to ongoing international initiatives (compliance with the SDG, Paris Climate Agreement, European Green Deal, among others).

Action against energy fraud

Energy fraud, aside from the economic impact it can cause the company, also implies:

- Reduced tax collection.
- Higher energy costs for end users.
- Unfair competition between companies.
- Risk for public safety from illegal connections.
- Discontinuities in supply due to network overload caused by illegal connections.

Among the energy investigation and anti-fraud actions carried out by Naturgy in collaboration with the law enforcement agencies during 2020 in Spain, the interventions practised by electricity fraud in illegal marijuana plantations (indoor) continue to stand out, and with 111 actions they remain similar to those performed in 2019. Also, in partnership with the security forces, we have participated in 70 anti-fraud actions for illegal connections in occupied homes. All the interventions carried out resulted in the suspension of 1,205 connections.

These actions are examples of Naturgy's commitment to the security of supply, the safety of people and to the care of vulnerable collectives. In this sense, it is relevant to mention the situation in the area called Cañada Real (Madrid, Spain), where the company is working in coordination with the Commissioner of Cañada Real, the Security Forces and Bodies and in collaboration with all social actors and administrations, such as the High Commissioner for Child Poverty of the Government of Spain, to resolves service interruptions caused by network overload due to non-located consumptions registered in the last months of 2020.

In view of this increase in service interruptions, the company has increased the number of repair brigades and the frequency of services for restoring electricity and has never cut off the electricity supply in the area despite the serious economic damage caused by illegal connections and the risks to third parties from handling the line. In the social field, Naturgy has collaboration agreements with Cáritas and the Red Cross, which have specific action and aid programmes in the area and it works, through its Foundation, on specific actions to support these groups.

2. Energy vulnerability [103-1], [103-2] y [103-3] (Energy vulnerability)

Providing vulnerable customers with access to energy

Naturgy is sensitive to the different issues and situations that can cause difficulty in paying for the supply. For this reason, the company uses a range of mechanisms to ensure the supply is not cut off, thus protecting vulnerable customers. These mechanisms include payment by instalments, applied in specific situations.

The company has always developed a proactive policy against energy poverty, protecting its vulnerable customers in Spain by complying with current legislation and promoting and encouraging collaboration agreements with various public and private bodies.

Naturgy closed the year with 130,000 customers with a discount rate –a reduction on electricity bills regulated by the Government for households considered vulnerable due to their socio-economic conditions, i.e. vulnerable, severely vulnerable and at risk of social exclusion–, it received 95,000 calls from vulnerable customers, handled 64,153 mails and 1,073 telephone calls from Social Services. In addition, 211 calls from the Third Sector were handled.

In 2020, in Spain, Naturgy continued signing agreements to protect vulnerable customers with different administrations to prevent cutting off customers.

Energy Vulnerability Plan in Spain

During 2020, Naturgy, through its Foundation, has continued to implement the Energy Vulnerability Plan throughout Spain. The plan has been consolidated as a priority and the core of the activities developed by the Foundation to alleviate the situation of vulnerability and energy poverty in Spain. The targets are:

- Improving management and customer relations in cases of energy vulnerability.
- Streamlining the exchange of information with town and city councils for better identification of situations of energy vulnerability.
- Implementing activities with entities that work to alleviate energy poverty cases and to detect vulnerabilities. The following activities have been introduced during this year:
  - Awarding of the prize of the I Edition of the Award for the Best Social Initiative in the Energy Field, through which the Foundation has a twin objective; on the one hand, to make visible the initiatives that other entities are carrying out to fight against energy vulnerability, and on the other hand, to provide resources to other social energy projects. 88 entities have participated by submitting their projects. A first prize and a second prize were awarded.
  - Consolidation of the Energy Rehabilitation Solidarity Fund, with the aim of financing energy efficiency improvements in vulnerable households. In 2020, the signing of agreements with 14 entities has enabled the rehabilitation of 721 homes based on donations from individuals and contributions from the Foundation.
  - Continued energy volunteering with informative workshops on energy efficiency and visits to homes of vulnerable families to identify rehabilitations that improve habitability and represent economic savings in the home. During 2020, 1,958 vulnerable families have been assisted.
  - Launch of customised online volunteering on recruitment, billing and energy efficiency with the volunteer's individualised monitoring of the improvements to be made by the beneficiaries, which has allowed the impact to be greater.
  - Continuation of the energy efficiency workshops at the Energy School to support public administrations and the third sector in the fight against energy poverty. Training has been provided to specialists and families in a situation of vulnerability on the optimisation of bills, energy management, discount rate, energy efficiency and other consumption habits. Webinars have been launched by the Energy School for the

teaching of these subjects as a result of the pandemic. In 2020, 270 workshops were held for 3,939 attendees.
  - Organisation of the seminar of good practices to alleviate energy poverty in the area of municipalities with social workers. There were 195 attendees.
  - The "Measures against energy poverty in Europe" conference, during which the study *Energy poverty in Europe*. A comparative analysis was presented. This was developed by the Chair of Energy Sustainability (IEB-UB) of the University of Barcelona with collaboration from the Naturgy Foundation.
  - Participation in two European projects, Social Watt and EPIU (Energy Poverty Intelligence Unit), financed by the EU, aimed at identifying energy poverty, defining indicators, and developing and implementing measures against energy vulnerability. Likewise, it has actively participated in the advisory council of the Chair of Energy and Poverty at the University of Comillas.

3. Fair energy transition

As part of its Corporate Responsibility Policy, and with the aim of contributing to a fair energy transition, Naturgy is carrying out initiatives that favour the development of the areas affected by the closure of coal-fired power stations. To this end, it promotes dialogue with local administrations, enterprises and businessmen, studies initiatives of a social nature -mainly through the Naturgy Foundation- that help to energise the areas affected by closure of the power station, and includes these areas as a priority in the analysis of the new projects and businesses that the group is carrying out.

Here, it is worth mentioning that several of the projects analysed have been presented within the framework of the Recovery, Transformation and Resilience Plan of the Ministry for Ecological Transition and the Demographic Challenge, both in its line of work of tractor projects for a just and inclusive energy transition, and in the one that aims to address the demographic challenge and the fight against depopulation.

All the actions carried out are in line with Naturgy's commitments to the environment and sustainability, health and safety, interest in people and social commitment, promoting the development of the industrial and service fabric in the affected areas.

The following is a summary of the main actions carried out throughout 2020, grouped around the sustainability axes defined at Naturgy:

Climate change and energy transition:

As part of Naturgy's activities, this line includes actions dedicated to the analysis and development of new renewable energy generation plants. These actions help fulfil the commitments made in the fight against climate change. During 2020 Naturgy has worked on the development of wind farm and photovoltaic solar plant projects in the affected areas.

Also in this line of work, and as part of the Naturgy Group's own activities, the studies of new renewable gas projects, both of biomethane and green hydrogen (generated from renewable sources), stand out. These projects include the generation of biomethane and hydrogen from wind and solar photovoltaic energy, their storage and use in nearby industries and/or for use in mobility, in hydrogen generators for transport vehicles or even for railways. They fulfil the goal of developing new capacities in the affected areas, by including them with a leading role as part of the new energy economies that are going to be developed in the immediate future.

Circular economy and eco-efficiency:

Within the concept of the circular economy in the processes to dismantle plants, actions have been carried out to favour a second use of all equipment, materials and even waste from the plants, both directly by Naturgy and with collaborations or agreements with third parties. Particularly noteworthy are the actions for the recovery and reuse of equipment and components or the studies on second uses of ashes and cinders generated during the years of plant operation, currently being analysed together with the companies concerned.

A further line of work being developed with third parties has been the promotion of new industrial or service uses at plant sites. To this end, numerous contacts have been made with public administrations and business people to promote the installation of new projects, both complementary and totally unrelated to Naturgy's own activity, resulting in interesting proposals that are currently under review.

Biodiversity:

As part of the plant dismantling activities, Naturgy considers all the necessary actions to guarantee an adequate ecological and geomorphological restoration of the plant sites, in accordance with the environmental requirements and with its commitment to biodiversity.

One example of such action is the conversion of the old open-cast mine in Limiesa into the world's first artificial lake with the potential to supply large populations. With an approximate volume of 150 hm^3, a surface area of 170 hectares, an investment of Euros 60 million and a duration of eight years from the start of filling, the former mining site is fully integrated and provides a boost to the economic and tourist development of the area. 839 species have been inventoried and 450,000 trees have been planted around the old farm, making it a CO_2 sink.

Governance:

Naturgy guarantees adequate management of all the activities specified here, including contracts with third parties, since they are carried out within the Group's management systems, like any other activity of the company.

4. Relationship with communities [413-1]

Naturgy, under its Human Rights Policy, makes a firm commitment to respect local communities. To achieve this commitment, assessing the social impact that the company's activities may have on communities, specifically contributing to improving the living conditions of these communities is a key aspect.

Naturgy has a method based on the Measuring Impact methodology of the World Business Council for Sustainable Development (WBCSD) and the aim is to define initiatives and programmes for the effective management of social impacts associated with the company's business.

The company bases its relationship with communities on the following principles:

- Identifying communities affected by the company's activity, and finding out their needs and aspirations.

- Analysing the potential environmental and social risks that its activity could cause in the communities, using the social impact assessment methodology designed for this purpose.

- Reporting to, and inviting participation from, the community at the different stages of the project through a consultation procedure that enables us to listen to their concerns and questions as well as benefit from their contribution.

- Incorporating the opportunities identified through dialogue with the communities and which encourage sustainable development of the community into the impact assessment studies.

- Introducing a system of communication and relations with communities that ensures that these communities receive project information in a clear, updated and efficient way.

The company currently prioritises the performance of social impact assessments in locations where the company is looking to carry out new investment projects. These assessments serve to measure numerous impacts (positive and negative) that the company may produce as a consequence of its activity, both in local communities as well as in the territory. These include:

- Impact on human rights.

- Displacement or relocation of local communities.

- Modification to the traditional ways of life.

- Changes in the traditional uses of territory.

- Attracting new technologies.

- Creation of skilled and unskilled jobs.

- Temporary occupation of the communication routes.

- Impact on landscapes.

- Noise.

The projects underway during 2020 are listed below, and some of them are detailed hereunder:

- Berrybank wind farm I (Australia).
- Crookwell II wind farm (Australia).
- Bií Hioxo wind farm (Mexico).
- Tuxpan III & IV combined-cycle power station (Mexico).
- Norte Durango combined-cycle power station (Mexico).
- Naco Nogales combined-cycle power station (Mexico).
- Hermosillo combined-cycle power station (Mexico).
- Sobral I photovoltaic plant (Brazil).
- Palamara fuel oil power station - La Vega (Dominican Republic).
- Bujagali hydroelectric power station (Uganda).

- Torito hydroelectric power station (Costa Rica).
- La Joya hydroelectric power station (Costa Rica).
- Guimarania I & II photovoltaic plant (Brazil).

Berrybank wind farm I (Australia)

Naturgy is carrying out a social commitment and profit-sharing plan with the local community near this 180 MW wind farm located in the state of Victoria, associated with the state government contract. The initiatives included are:

- Actions for community benefit, initiatives with the aboriginal community and other local groups.
- Community development funds and voluntary agreements.
- Actions with the participation of the neighbours.
- A person specifically appointed to take charge of the community involvement programme and to set up a community engagement committee.
- Solar energy programme, training and internship programme.
- Contribution to Asian Pacific Renewable Energy Training Centre (Federation University).
- Entrepreneurship programme (Royal Melbourne Institute of Technology).
- Newsletters, press releases and local print ads.
- Weekly information sessions, project presentations and construction updates.
- Project website, audio-visual monitoring of the construction, 3D simulation of the wind farm.
- Newsletters, press releases and local print ads.

Bií-Hioxo wind farm (Mexico)

The company continues to collaborate permanently with the local community of this 234 MW wind farm in Juchitán de Zaragoza (Oaxaca). Thus, Naturgy develops programmes that respond to the needs of the community and contribute to improving living conditions. The action lines for 2020 have been:

- Support for the Guxe Chahui fishermen's cooperative with a productive programme to breed tilapia fish.
- Construction of community house.
- Restoration of sanctuaries.
- Restoration of common areas in local schools.
- Support for the population through the donation of medical supplies to help address the COVID-19 contingency.

Tuxpan III & IV combined-cycle power station (Mexico)

The plan to support the communities around this 1,007 MW plant, located 30 km south of Tuxpan (Veracruz), continues to be developed. In particular, Naturgy has deployed a major community relations plan with the communities located on "Los Kilómetros" state highway from the kilometre point (p.k. 0.000 to p.k. 16.000). The action lines for 2020 have been:

- Support plan for the restoration of community infrastructures along Los Kilómetros Highway community.

- Project for the conservation of priority species, at the Tortuguero camp in Playa Villamar.
- Projects with stakeholders.
- Delivery of food parcels and medical supplies to the population and local health centres to help address the COVID-19 contingency.

Naco Nogales combined-cycle power station (Mexico)

In 2020, the plan to support the communities around this 300 MW plant, located in the vicinity of the city of Agua Prieta (Sonora), has consisted of:

- Conducting energy efficiency workshops with local people in a situation of energy vulnerability.
- Delivery of food parcels and equipment to schools.
- Carrying out the basic engineering for the construction of a wastewater treatment plant.
- Improvement of fire department facilities.
- Assistance with materials for the restoration of several schools.
- Delivery of food parcels and medical supplies to the population to help address the COVID-19 contingency.

Hermosillo combined-cycle power station (Mexico)

In 2020, the plan to support the communities around this 250 MW plant, located in Hermosillo (Sonora), has consisted of:

- Equipment, infrastructure restoration and reforestation in local schools.
- Restoration of communal roads.
- Delivery of food parcels and medical supplies to the population and to nursing homes to assist during the COVID-19 contingency.

Norte Durango combined-cycle power station (Mexico)

In 2020, the plan to support communities around this 480 MW plant, located near the city of Durango (Durango), has consisted mainly of the following:

- Construction of a cattle guard and replacement of lamps in the community dome in the 27 de noviembre Community.
- Reforestation of the Abraham González community.
- Restoration of municipal infrastructure.
- Delivery of food parcels and medical supplies to the population to help address the COVID-19 contingency.

Sobral I photovoltaic plant (Brazil)

During 2020 the company continued implementing the Quilombola Basic Environmental Project (QBEP), associated to the Sobral I photovoltaic plant (30 MW) in the municipality of São João do Piauí (Piauí, Brazil), in order to create shared value and to have a positive social impact in the territories of Riacho dos Negros and Saco/Curtume. For the development of the QBEP, a close and ongoing relationship has been maintained with the community and local authorities, to identify, design and implement actions to promote economic and social development in the region. The project has various lines of action, which include a series of specific actions of which the following have been implemented during 2020:

- Recovery of infrastructure in the territory for community use.
- Giving the community legal status, and location and legalisation of land for the construction of a centre to be used by the community.
- University and technical study grants
- Delivery of medical supplies to the population and the local hospital to help address the COVID-19 contingency.

5. Patronage and sponsorship

The company maintains a commitment to collaboration with society that goes beyond its business activity with resources allocated to cultural, social, sustainability and environmental programmes. These economic contributions allow the company to strengthen its commitment to positively integrate itself in each community and country where it carries out its business activity.

Naturgy's sponsorship and donation activity, as well as the definition of the processes that regulate and control its development, is the purpose of the company's General Procedure of Sponsorship and Donations. Similarly, activities related to sponsorships and donations are subject to a process of 100% transparency. The main lines are:

- **Education, training and development:** education and university activity form part of the company's areas of action. Among the actions that Naturgy carries out with this objective in mind is the collaboration with entities that promote and train young people.
- **Environment and sustainability**: Naturgy collaborates with different institutions that aim to preserve the environment, conserve and rehabilitate habitats, as well as generate debates on trends and opportunities in the energy and sustainable development sector. Furthermore, it also collaborates with entities that carry out educational activities on sustainability, energy and the environment.
  Examples of this include the collaboration with the "Life Oso Courel" project, the aim of which is to favour the expansion of the brown bear to new territories in the Serra do Courel (Galicia), the contribution to the rehabilitation of the green area of Durango, or support to the Group for the Rehabilitation of the Native Fauna and its Habitat (GREFA) whose pillar is environmental research and education.
  Artistic and musical culture: the company maintains its efforts in the field of cultural sponsorship, with the encouragement and promotion of music, art and training, which goes beyond its business activity and which takes the form of extensive sponsorship of initiatives that generate great value for society. In 2020, we have continued to collaborate with the Gran Teatre del Liceu in the celebration of the 20th anniversary of the reopening of the Gran Teatre del Liceu in Barcelona and the bicentenary of the creation of the "Societat d'Accionistes", so that the entity continues to be an artistic benchmark, to promote its social project and to adapt to new times through innovation. Support for the Teatro Real has also been maintained with the "Plan for the promotion of street opera at the Teatro Real", to contribute to the enhancement of its work and its dissemination to all audiences at regional, national and international level. In addition, Naturgy has joined the collaboration of the celebration of the Xacobeo Holy Year 2021, which has also been declared an "event of exceptional public interest", as in the two previous collaborations, and which aims to revitalise culture and heritage.

- **People:** the company focuses on promoting and supporting projects aimed at vulnerable social groups and alleviating problems arising from COVID-19. To this end, it collaborates economically with entities that support the people most affected during the pandemic. It also helps by donating medical supplies and food or by offering spaces and facilities in different areas where it performs its activities.

6. Corporate volunteering, social action and employee participation

Naturgy structures the Corporate Volunteer Programme in three areas: energy, social and environmental. Over the course of 2020, 418 employees from Spain, Mexico, Panama and Morocco spent more than 6,727 hours on corporate volunteering with their companions. Globally, 30 initiatives of a one-off, temporary or continuous nature, 14 social volunteering actions, 8 environmental volunteering actions and 8 energy volunteering actions, with the participation of 786 volunteers, were carried out. The number of beneficiaries dealt with amounted to 14,451 in 2020.

Due to the pandemic, the environmental volunteer programmes have been transferred to online format by carrying out four workshops that have completed the face-to-face activity of three field actions at the beginning of the year.

Different initiatives were launched during December on the occasion of the International Volunteer Day, some of them enhancing previous activities and others newly created: energy workshops for vulnerable families, energy advice for customers, solidarity km, energy efficiency workshops for children with intellectual disabilities, reducing the digital divide, master classes for young people on wind turbines or the "Wise Man for a Day" activity.

Social action in Latin America

For Naturgy it is essential that its social action activities are focused on the geographical areas in which it is present and that they are developed in line with its activity. The main actions carried out in the different locations are:

Argentina

- Efficient use of resources: due to the lockdown arising from the COVID-19 pandemic, all energy efficiency training activity was moved to a digital format. Accordingly, the contents of the face-to-face activities were adapted, and the cuidemosnuestrosrecursos.com portal was created, where both students and teachers could be trained in energy efficiency and learn about the proper use of gas, electricity, water and paper. The portal was launched in July 2020, and has since been visited by 8,000 users.
- Energy of Flavour: this programme aims to find jobs for young people with few resources by training them to be chefs. The training, mostly virtual, and the contribution of material, focused on training 60 volunteers from the "Unidos por la Sociedad" soup kitchen as kitchen assistants. The volunteers cooked 200 daily rations of food to be distributed among the most deprived residents of the La Cava neighbourhood. In total, 26,000 healthy food portions were produced. The other activities of the Energy of Flavour programme were conducted online, through videos submitted through WhatsApp and live from Instagram.

Chile

- Help for electro-dependent customers**:** electro-dependent people require a constant power supply at appropriate voltage levels to power the medical equipment they need to live**.** Naturgy in Chile has loaned 2,400 home generation units as of December 2020.
- From a gas standpoint, the company has focused its actions on strengthening community relations, environmental education for young people, training programmes for certification as gas installers and the development of regions, specifically in the Lake Region (La Región de los Lagos), with the commitment to bring energy to sectors with high rates of pollution.

Mexico

- The company has collaborated with various entities in the area of social action to generate a link with local communities. This year it donated 63 computers to Montefalco School for students who studied from home. It also donated 78 food kits to the civil association Abriendo Nuevos Caminos and it has collaborated with the local authorities of Tlatelolco to generate a link with Naturgy.

Panama

- Food donation: to those affected by the effects of Hurricane ETA in the province of Chiriquí, reaching 20,000 dollars in food and cleaning supplies. Food was also donated to residents of Huile, reaching over 800 people.
- Participation in three forums related to the energy sector, continuing its commitment to education.

Solidarity Day

The initiative was created in 1997 and is managed by the employees. It involves participants voluntarily donating a one-day fraction of their annual salary to projects targeted at promoting education and teaching children and young persons in those countries in which Naturgy operates.

For the Solidarity Day event, the company donates an amount equal to the amount donated by employees and assumes all management costs, so that 100% of the amount raised can be used for the annual selected project. Close to 1,150 employees around the world took part in the initiative. In 2020 these employees donated approximately Euros 200,000 of their salaries and the company made an additional matching contribution, as well as assuming the costs of managing the association. Since its inception, Solidarity Day has raised Euros 3 million in employee donations and an equal amount contributed by the company.

In 2020, Solidarity Day financed the education of approximately 450 school, technical and university students as part of the ordinary projects being implemented in Argentina Brazil, Colombia, Morocco, Mexico, Moldova, Nicaragua, Panama, Chile and Portugal.

In 2020, Solidarity Day engaged in two special campaigns to address the pandemic, with special aid to the Educo Foundation and the Trilema Foundation for children in vulnerable situations to cover basic needs, pay grants for canteens, studies and school materials. Due to the pandemic, the association also launched a recurring initiative to donate employee computers that are gradually being replacing, but which are in perfect condition for use. To date, nearly 200 computers have been donated to various organisations.

7. Naturgy Foundation

The Naturgy Foundation, which is present in the countries where the company operates, is tasked with disseminating information, training, and raising society's awareness on issues of energy and the environment, as well as developing business and academic programmes. It also develops social action programmes in the national and international arenas, with a particular focus on actions targeted at relieving energy vulnerability.

In 2020, the Foundation has continued all the initiatives carried out in the previous year in the area of communication, dissemination and debate on current issues related to energy, technology and the environment.

In 2020, two high-level Energy Prospectives conferences were held, a joint initiative of the Naturgy Foundation and IESE Business School, with the aim of promoting debate on the energy sector, its current situation and its near future with internationally renowned speakers, which has instiled confidence in and attracted the interest of specialist audiences.

This year, due to the health situation and the exceptional measures taken as a result of the pandemic, the Foundation has promoted and accelerated the incorporation of a new mode of online communication, which has become the main format with which the Foundation has continued to share with society the books, studies and reports published and edited by it and prepared by worldwide experts in the field.

This new online communication has been organised through two main activities: 5 webinars (online seminars to present and discuss the publications) and 7 online presentations (mailing of the publications), both accompanied by summary videos that have facilitated a simple approach to publications with the main conclusions explained by the authors.

This new way of communicating has allowed the publications to reach a much wider audience than in previous years, both nationally and internationally. And so the numbers show, with more than 2,500 webinar attendees, more than 14,000 views of the video summaries and more than 3,800 downloads of our publications.
In the line of education and heritage, the Naturgy Foundation has launched several programmes, including:

Efigy education

The Foundation aims to convey to young people the values of efficiency and responsible energy consumption, new energy technologies, air quality, efficient mobility, knowledge about the history of energy and its future projection, as well as the promotion of STEM vocations.
In 2020, due to the global pandemic caused by COVID-19, the second edition of the Efigy Technology Competition was held online, with the support of the Spanish Foundation for Science and Technology (FECYT), the Spanish National Research Council (CSIC) and the STEMadrid Plan

of the Ministry of Education and Research of the Community of Madrid, and almost 400 students were called to participate in this new edition of the competition.

The Foundation participated in the GIRLS FIRST initiative of Scientia Foundation, organiser of FIRST LEGO League in Spain. This international programme promotes the participation of female talent and fosters science and technology among the youngest in order to promote the creation of early vocations in these fields of knowledge.

In partnership with the Council of Foundations of the Spanish Foundation for Science and Technology (FECYT), the Foundation took part in the awards ceremony of the third edition of the Meet a Scientist competition held at the Pfizer-University of Granada-Junta de Andalucía Centre for Genomics and Oncological Research (GENYO) in Granada. The initiative, aimed at 5th and 6th grade primary school students, aims to provide new generations with access to education in the field of science and technology.

Efigy Education Digital

The COVID-19 health emergency accelerated the digitalisation of content that was being worked on. In this way, the Naturgy Foundation has made the teaching resources of Efigy Education available in digital format, through its website. This site brings together all the educational resources with which it supports Primary, Secondary, Baccalaureate and Vocational Training teachers throughout Spain during the school year. Through Efigy Education Digital, you can access material developed by experts, on topics such as, inter alia, the energy transition, the circular economy, sustainability, efficient building, energy efficiency, air quality and new energy technologies. The offer includes interactive content to learn about energy and discover STEM talents in an engaging way.

All the Efigy Education digital learning resources allow teachers and professors to continue using them on a permanent basis, in order to provide their students with educational and, at the same time, enjoyable tasks, with a personalised service from the Naturgy Foundation at all times.

Efigy Education content has had 133,093 users in all its formats (digital + face-to-face), while educational videos have had 43,465 views.

Touring projects

Initiatives which aim to pass on and disseminate knowledge on issues related to energy and the environment through actions and presence at trade fairs in the sector, mobile educational resources and travelling exhibitions.

Energy Challenge, the challenge of energy transition

This immersive travelling experience presents the opportunity to experience innovative, technical concepts that are essential to understanding the energy transition and exploring ways to achieve the challenges agreed in the United Nations Sustainable Development Goals (SDG) in the field of energy. In 2020, it continued to travel thousands of kilometres around Spain in an eco-efficient vehicle.

This initiative proposes a journey in a futuristic aircraft managed by state-of-the-art robots. Visitors are invited to be part of a special mission to solve the energy challenge, an essential factor for the development of society. Crew members observe the Earth and the Cosmos to reflect on and become aware of the planet’s emergency situation and the need to contribute to issues of major importance for humanity, such as the energy transition, the circular economy, air quality, new energy technologies and renewable gas School groups also supplement the space flight with the game The Circular Challenge, on the circular economy and energy consumption. 8,620 users from all over Spain have taken part in this initiative of the Foundation.

Visits to the hydraulic plant and the Bolarque Museum

The Bolarque Museum offers specific activities for educational centres, and is also open to the general public. Its informative content uses the different energies to display responsible consumption and the use of natural resources, and even the historical changes and the social progress caused by the arrival of electricity and gas, industrial heritage and technological innovation in the energy field. In 2020, it had 1,690 users.

Vocational training for employability

The Foundation combines its responsibility to the new generations, contributing to the development of future professions linked to the energy transition and sustainability, and improving the employability of students with vocational training qualifications and professionals who need to update their knowledge, by developing a programme for vocational training in the areas of sustainable building and renovation, renewable gas, vehicular natural gas and energy vulnerability to help improve the employability of professionals in the energy sector.
Throughout the year different training courses were carried out aimed at teachers specialised in professional training and training courses aimed at professionals from the sector who needed to update their knowledge to improve their access to the job market. There were several calls for the 5 courses currently being carried out and which were attended by more than 250 people. Additionally, teaching materials and equipment have been provided to implement the content developed in the classrooms, which will have an annual impact on more than 5,100 students from different Autonomous Communities.
This activity is carried out in partnership with the Autonomous Regions' education ministries, the Secretaryship of Vocational Training of the Ministry of Education and the Public Employment Service State.
At international level, various initiatives have been developed in the social field, chief among which are:

- Argentina: The "Let's take care of our resources" portal was launched in 2020 with educational initiatives in the field of energy resources for teachers and students with specific content on responsible and efficient energy use and with training programmes and games for students at different levels.
- Morocco: Continuation of the Energy Rehabilitation Programme, in collaboration with Metragaz and the Moroccan Ministry of Health, for the development of rehabilitation actions in a health centre in the municipality of Ain Beni Mathar in the province of Jerada.

Integrity and transparency

[103-1], [103-2] and [103-3] (Business integrity, compliance and transparency)

Naturgy's contribution to SDG

What does this mean for Naturgy? Risks and management approach [205-1]

Naturgy believes that operating on the basis of integrity and transparency directly contributes to achieving business targets and sustainable business management.

To respond to the risks related to integrity and transparency, Naturgy has developed a series of mechanisms that introduce the guidelines that are to cover ethical and transparent behaviour of the directors and employees of the company and their daily performance, as set out in the Code of Ethics, the Supplier Code of Ethics, the Compliance Policy, the Crime Prevention Model, the Anti-Corruption Policy, fiscal policies and the Human Rights Policy of the company.

Corruption, fraud and bribery can have a major impact for the company, leading to sanctions imposed by the administrations, loss of contracts, loss of customers and loss of reputation that could also see investors disappear or the non-purchase of shares by investors that consider these aspects in their investment decisions.

The company would improve the way stakeholders perceive the markets in which the company operates, based on the ethical principles of Naturgy. It is also committed to achieving improved conduct and practices in new international settings with growth opportunities for the company, so as to boost development and social progress.

In addition, the company has a Counterparty Due Diligence Procedure that is applied systematically, to ensure that the analyses and assessments of reputational risk and corruption are carried out in an efficient and uniform way whenever third parties intervene in the business relationships of the companies that make up Naturgy.

What is our commitment?

- Reject corruption, fraud and bribery in business dealings and establish measures to prevent and combat them, developing internal channels allowing communication of irregularities while preserving anonymity.
- Comply with national and international laws and standards in force in the countries in which the company operates, in particular, abiding by the principles expressed in the United Nations Universal Declaration of Human Rights, in the Declaration of the International Labour Organisation (ILO), in the United Nations Global Compact, in the United Nations Guiding Principles on Business & Human Rights, and the OECD Principles of Corporate Governance.
- Act with responsibility in management and comply with fiscal obligations in all jurisdictions in which the company operates, undertaking to act transparently and collaborate with tax authorities.

- Compete fairly on the market and prevent misleading, fraudulent or malicious conduct through which the company could obtain an unfair advantage.
- Promote transparency in information and responsible, truthful, efficient, complete and timely reporting, with regular publication of financial and non-financial information to measure the company's activities.
- Maintain, at all times, permanent dialogue with stakeholders through adequate and accessible channels.

Evolution and results 2020

Integrity and transparency transparencia [102-34]	**2020**	**2019**
Communications received by the Ethics and Compliance Committee	141	194
No. of complaints received per 200 employees	1.5	3.32
Average time for resolving complaints (days)	42	48
Audit projects analysed on the basis of the risk of fraud	110	95
Complaints received in the area of human rights	0	0
Number of persons trained on the Human Rights Policy	6,827	7,918

Code of Ethics notifications	**2020**	**2019**
Queries	61	45
Complaints	80	149
Total	**141**	**194**
No. of complaints received per 200 employees	**1.5**	**3.32**

Code of Ethics chapter to which notifications refer	**2020**		
	Queries	**Complaints**	**Total**
Respect for the individual	7	17	**24**
Corruption and bribery	1	26	**27**
Loyalty to the company and conflict of interest	22	9	**31**
Occupational health and safety	0	8	**8**
Environment and asset protection	2	2	**4**
Other	29	18	**47**
Total	**61**	**80**	**141**

Code of Ethics chapter to which notifications refer	**2019**		
	Queries	**Complaints**	**Total**
Respect for the individual	7	46	**53**
Corruption and bribery	3	50	**53**
Loyalty to the company and conflict of interest	34	16	**50**
Occupational health and safety	-	10	**10**

Environment and asset protection	1	12	**13**
Other	-	15	**15**
Total	**45**	**149**	**194**

Integrity is key to the company's success [102-16]

Naturgy believes that operating on the basis of integrity and transparency directly contributes to achieving business targets and sustainable business management.

Integrity and transparency are the fundamental pillars of the declaration of the company's mission, vision and values, its strategic plans and the Corporate Responsibility Policy, ethics and honesty. They are also commitments assumed by the company's highest body of government.

The company needs to pay special attention to the lack of confidence which has affected the energy sector, in order to improve the way stakeholders perceive the markets in which the company operates, based on the ethical principles of Naturgy. It is also committed to achieving improved conduct and practices in new international settings with growth opportunities for the company, so as to boost development and social progress.

Naturgy faces challenges regarding integrity through a management approach based on various policies and procedures and specific tools, within the framework of the company's Code of Ethics. These elements seek to ensure that the company's activities and those of its employees, suppliers and business partners comply with applicable standards and laws in every country in which it operates. They also seek to ensure that all the units and organisations behave impeccably in accordance with ethical values and formal commitments to conduct, and to preventing and detecting any breach in the appropriate time and manner.

Prominent among these mechanisms are the Code of Ethics, the Supplier Code of Ethics, the Crime Prevention Model, the Anti-Corruption Policy, the tax policies and the Human Rights Policy of the company. The responsibilities in managing the compliance system are set out in the Compliance Policy.

These policies give rise to indicators for the management, control and supervision of the company's ethical behaviour, which makes it possible to measure the effectiveness of the programmes that are in place and develop new improvement plans adapted to the specific needs of the business.

Naturgy's Compliance Policy establishes the roles and responsibilities regarding the compliance management system. The Compliance Unit is responsible for supporting the Ethics and Compliance Committee by constantly ensuring compliance with external regulations and the policies and procedures implemented in the Group to mitigate the main legal, corruption and fraud risks. In this regard, the Compliance Unit is responsible for management of the Crime Prevention Model and, in collaboration with the Legal Services, assesses the legal risks in the models that are developed, especially the criminal and regulatory prevention ones.

Given the importance of having a tool that ensures proper management control of the Crime Prevention Model, a SAP GRC Process Control is administered and used for comprehensive management of the documentation, assessment and supervision of the model.

Also, the Compliance Unit takes charge of management of the Code of Ethics of Naturgy, through dissemination of the code and by overseeing compliance with the same and the Anti-Corruption Policy. The Unit, through the Ethics and Compliance Committee, regularly informs the Audit Committee of the activity carried out in the exercise of its functions.

Code of Ethics Management Model [102-16] and [205-3]

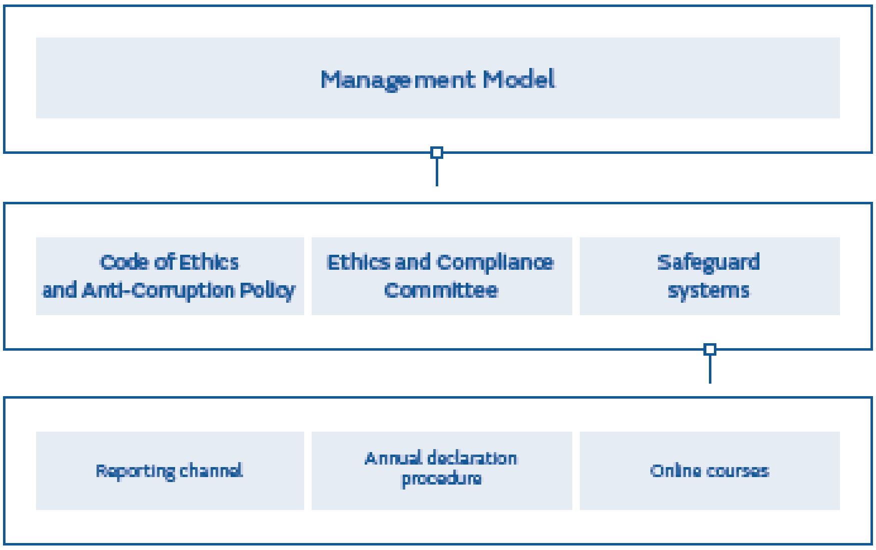
The Code of Ethics of Naturgy, formulated and approved by the Board of Directors, is the document that establishes guidelines that must govern the ethical behaviour of managers and employees of the company, in their daily work, with regard to relationships and interactions with all its stakeholders.

Since 2005, when it was adopted, the code has been regularly renewed to adapt it to the new situations that affect the company. The code sets out the undertakings entered into by Naturgy in the fields of good governance, corporate responsibility and questions of ethics and regulatory compliance. Naturgy also has an Anti-Corruption Policy, as an extension of chapter 4.7. on “Corruption and Bribery” of the Code of Ethics, in compliance with national and international legislation in this matter.

Our Code of Ethics expressly prohibits any contribution to political parties and/or representatives in its section 4.9 Corporate Image and Reputation: “Naturgy does not finance political parties or their representatives or candidates in those countries where it carries out its activities”.

This management model provides that the Audit Committee, delegated from the Board of Directors, must receive regular reports from the Ethics and Compliance Committee on the most relevant issues related to the dissemination of and compliance with the Code of Ethics and the Anti-Corruption Policy.

Components of the Management Model



Ethics and Compliance Committee
During 2020, the Ethics and Compliance Committee continued its work to disseminate the Code of Ethics, as well as its role as interpreter and advisor in the event of any doubt or conflict concerning the same. The Regulations of the Ethics and Compliance Committee, which set out its organisation, functions and obligations within the framework of best practices in the area of compliance, have also been amended to bring them into line with Directive (EU) 2019/1937 of the European Parliament and of the Council of 23 October 2019 on the protection of individuals who report breaches of EU law. In 2020, the Committee held seven work meetings.

Naturgy expects all its employees to render a high level of commitment to compliance with its Code of Ethics and Anti-Corruption Policy and, therefore, places an emphasis on transmitting the company's culture of integrity. Its breach is analysed according to internal disciplinary procedures, legal regulations and existing agreements.

Following the entry into force of the new Organic Law on Data Protection and Guarantee of Digital Rights, and in accordance with the provisions thereof, the Naturgy complaints channel allows for anonymous consultations and whistleblowing. In 2020:

- 21% (31% in 2019) of the notifications were related to the principle of respect for people, and they were all solved appropriately.
- No notifications were reported related to labour or child exploitation or in relation to the rights of local communities and human rights.

During 2020, Naturgy managed various disciplinary situations from complaints made to the Ethics and Compliance Committee, or from situations covered in the Code of Ethics or the Anti-Corruption Policy. In total, two very serious offences have been dealt with, which resulted in dismissals. In 2019, five misdemeanours, two serious offences and four very serious offences, of which three resulted in layoffs were handled.

In 2020, it was not necessary to repair damages relating to impacts caused by human rights cases. Nor in 2019.

Crime Prevention Model and Policies

The company has an international Crime Prevention Model which is updated annually. Thus, in 2020, the model has continued to be adapted to the new organisational structure operated within Naturgy.

From an organisational standpoint, the Board of Directors has assigned the functions of autonomous body, described in Organic Law 1/2015, to the Ethics and Compliance Committee, which is responsible for taking significant decisions in relation to the regular monitoring and supervision of the operation of and compliance with the Crime Prevention Model.

Each year, this model is assessed by an independent third party. In 2020, this assessment process was completed in December and the report issued on the design and effectiveness of the model was satisfactory.

Furthermore, in 2020, the model has been subject to the certification renewal process in accordance with the AENOR UNE 19601 standards (criminal compliance management systems) and ISO 37001 (anti-bribery management systems), obtaining both renewals in October 2020. Worldwide, Naturgy also deploys crime prevention models gradually in countries with laws governing the civil liability of legal persons.

Prevention of money laundering [102-16]

Naturgy has the mechanisms, procedures and policies that seek to prevent and, where appropriate, detect and react to those possible breaches in the area of prevention of money laundering that are detected in the performance of its activity.

The Naturgy Crime Prevention Model is based on an analysis of criminal risks, including the one related to money laundering, introducing the necessary controls to prevent the perpetration of said crime.

Measured adopted to prevent money laundering

1. Prevention	2. Detection	3. Reaction and response
Code of Ethics. Anti-Corruption Policy. Counterparty Due Diligence Procedure. General standard for hiring external advisors. Procedure for granting signature levels. Internal Control Procedure for processing payments and cash movements PE.00004.GN-EF	Review and auditing of the Crime Prevention Model by an independent third party. Reviews of the Internal Audit Area. Internal control system on financial reporting. Reporting channel.	Code of Ethics Channel operating regulations. Disciplinary regime. Collaboration with competent authorities in each country when faced with suspicious situations.

There are three control levels that seek to prevent, detect and, if appropriate, react to money laundering:

1. Prevention: both the Naturgy Code of Ethics and its Anti-Corruption Policy have specific sections that expressly establish the prevention of money laundering as one of the principles that govern the operations of the company and of all its employees. All Naturgy employees receive training on the content of the Code of Ethics, the Anti-Corruption Policy and the conduct guidelines that they must heed.

In addition, Naturgy has other more specific policies and procedures that establish a full series of controls in its daily operations and in the operations it performs, which encompass the prevention of money laundering. Key among these are the Counterparty Due Diligence Procedure; the Global Outsourcing Policy; the Procedure on granting the Signing Level, and the Internal Control Procedure for the processing of payments and cash movements, among others.

2. Detection: some of the foregoing policies and procedures also allow the risk of money laundering to be detected.

Every year, those in charge of controls at Naturgy are subject to a self-assessment in the Crime Prevention Model on compliance with the same, including those where there is a risk of potential money laundering. In addition, to ensure efficiency of this model, it is reviewed regularly and audited every year by an independent expert.

The Internal Auditing Unit periodically reviews the different processes of Naturgy to detect possible breaches that may have occurred in the different operational risks. These reviews include checks of revenue and payments that may be subject to the risk of money laundering.

Naturgy also has an Internal Control System on Financial Reporting that is audited every year by an independent expert.

3. Reaction and response: during 2020, the Ethics and Compliance Committee amended the Code of Ethics Channel Operating Regulations to bring them into line with Directive (EU) 2019/1937 of the European Parliament and of the Council of 23 October 2019 on the protection of individuals who report breaches of EU law.

Finally, Naturgy collaborates with the competent authorities of each country in the fight against money laundering and the financing of terrorism, furnishing all the information they request in accordance with prevailing regulations. The company also reports any suspicious transactions.

Anti-fraud and anti-corruption plans and policies [102-17], [102-33] and [102-34]
The fight against fraud and corruption is a fundamental pillar of the Naturgy Crime Prevention Model, together with the internal regulations and specific procedures in this area. In this regard, Naturgy's Code of Ethics is complemented by the Anti-Corruption Policy and the Compliance Policy.

The Anti-Corruption Policy establishes the principles which must be used to guide the conduct of all employees and directors of the companies of Naturgy with regard to the prevention, detection, investigation and correction of any corrupt practice within the organisation.

Naturgy has a range of mechanisms to ensure the proper implementation of the Anti-Corruption Policy, as well as to prevent, detect, investigate and punish cases of corruption, including:

- Monitoring of the operation and assessment of the effectiveness of the organisation, control and compliance models implemented in the different corporate and business areas of Naturgy, especially the Crime Prevention Model.

- In addition, Naturgy provides both its employees as well as stakeholders with channels so they can report to the Ethics and Compliance Committee concerning any breach or irregular or suspicious conduct in this area. They can perform these communications through the Website Channel of the Naturgy Code of Ethics (www.naturgy.ethicspoint.com) or through ordinary or internal mail. In addition, in accordance with what is permitted under new data protection legislation, these communications may be carried out anonymously.

- Counterparty Due Diligence Procedure, to know and analyse the counterparties with whom Naturgy operates and thus evaluate the associated corruption and reputation risks.

- Regular declaration by all employees, in which it is formally stated that they know and comply with the principles established in the Code of Ethics, the Compliance Policy and the Anti-Corruption Policy.

- Dissemination and training sessions on the content of the Anti-Corruption Policy for all employees through the Anti-Corruption Programme.

Key areas considered in the Naturgy Anti-Corruption Programme approach.
- Establishment of an anti-fraud and anti-corruption culture through training and awareness.
- Implementation of proactive measures to assess the risk of fraud and corruption, monitoring and controls.

- Development of measures and response plans in the event of situations that constitute fraud and corruption.

These plans and measures include the investigation of the episodes, the definition of solutions and the establishment of disciplinary measures.

Naturgy organises regular training initiatives based on the programme with the aim of raising awareness of the importance of fighting against corruption and ensuring that directors, employees and suppliers are given enough and appropriate information to act accordingly.

Some of these regular initiatives include the following:

- Update of the NaturalNet space which concerns the Code of Ethics and the Anti-Corruption Policy.
- Publication of information about the Ethics and Compliance Committee activities (notifications received, activities carried out, etc.).
- Training course on Crime Prevention Model, Code of Ethics and Anti-Corruption Policy.
- Specific training in relation to the Crime Prevention Model and Anti-Corruption Policy for new employees and directors.
- Presentations in Boards of Directors and Management Committees of the Crime Prevention Model.
- Regular declaration of compliance with the Code of Ethics and Anti-Corruption Policy. In 2020, a specific training programme for senior managers was carried out, which included, among other points, the Crime Prevention Model, the Code of Ethics and the Anti-Corruption Policy, and the Counterparty Due Diligence Procedure.

To strengthen its commitment to compliance, since January 2019 Naturgy has had a Compliance Policy that aims to: promote a culture of compliance and zero tolerance to regulatory non-compliance; as well as to ensure, through prevention, detection, supervision, training and response activities, the organisation's compliance in all its activities and operations with all applicable regulations, both external regulations and the internal regulatory system, thus avoiding possible fines, economic losses and reputational damage.

Likewise, Naturgy has implemented a Corporate Hospitality Policy, within the framework of the Code of Ethics and the Anti-Corruption Policy, whose purpose is to regulate the conditions in which Naturgy directors and employees can accept or offer courtesies to business counterparts within the framework of the performance of their professional functions. This is to ensure effective compliance with the principles set out in the Code of Ethics, the Compliance Policy and the Anti-Corruption Policy of Naturgy and thus avoid improperly influencing their commercial, professional or administrative relationships, both with public and private entities. In 2020, a knowledge pill on conflicts of interest was launched in November, aimed at all employees, and in December, as in previous years, a reminder was given on the occasion of the Christmas campaign of the Company's Corporate Hospitality Policy for all employees.

In addition, in all risk operations the company has a Counterparty Due Diligence Procedure that is applied systematically, to ensure that the analyses and assessments of reputational risk and corruption are carried out in an efficient and uniform way when third parties intervene in the business relationships of the companies that make up Naturgy.

In 2020, specific training on conflict of interest and harassment was given to all company employees, as well as occasional face-to-face training for senior managers. These included, inter alia, the Crime Prevention Model, the Code of Ethics and the Anti-Corruption Policy, and the Counterparty Due Diligence Procedure.

3. Taxation

Tax policy

Tax Strategy and Tax Risks Control and Management Policy

At a meeting on 26 January 2019, the Board of Directors approved the Tax Strategy and Tax Risks Control and Management Policy, which sets out the basic principles governing Naturgy's tax function and the main lines of action to mitigate and guide proper control of tax risks. The basic principles governing Naturgy's Tax Strategy are as follows:

- Responsible compliance with tax obligations.
- A low tax risk profile.
- Adoption of tax treatments based on economic reasons.
- Transparency of tax information.
- Co-operation with the Tax Authorities.

The main lines of the Tax Risks Control and Management Policy are as follows:

- Clearly defined tax governance.
- Procedures for controlling the tax risk referred by Compliance.
- Procedures for assessing and controlling tax approaches where there is uncertainty.
- Oversight of the performance of the Tax Control Framework.
- Regular reporting of the tax situation to the Board of Directors.

All of Naturgy's tax policies are aligned with:

- The Naturgy Corporate Social Responsibility Policy, in which one of the commitments and principles of action is to "adopt responsible business management practices and comply with all tax obligations in all jurisdictions in which the company operates, accepting the commitment to accountability and collaboration with the corresponding tax agencies."
- The Naturgy's Code of Ethics establishes that "all employees of the group must comply with the laws in force in the countries where they conduct their activities, thereby heeding the spirit and objectives of the laws and behaving ethically in all their actions".
- The Code of Best Tax Practices (CBTP), approved on 20 July 2010 by the Plenary session of the Large Companies Forum, a body established by the Spanish National Tax Agency with Spain's largest companies, including Naturgy Energy Group, S.A. The CBTP contains recommendations by the tax authorities, which Naturgy has adopted voluntarily, that are aimed at improving the application of the tax system by enhancing legal certainty, reducing litigation, fostering mutual co-operation based on good faith and legitimate trust, and the application of responsible tax policies.

To align Naturgy's tax policies with these principles, the group has a General Regulation governing the Tax Control Framework, designed in accordance with the guidelines of the

Organisation for Economic Co-operation and Development (OECD) for multinational enterprises, and for the design and implementation of a Tax Control Framework.

Naturgy also has a Risk Map that specifically identifies the tax risks and issues regarding the interpretation or application of tax law. The main matters with a tax impact are detailed in Note 21 “Tax situation” in the notes to the Consolidated Annual Accounts.

Tax havens

The incorporation or acquisition of undertakings domiciled in countries or territories designated as tax havens must be reported to the Board of Directors via the Audit Committee.

At 2020 year-end, the Naturgy Group did not have any company in a territory designated as a tax haven under the related Spanish regulations (Royal Decree 1080/1991, of 5 July, and Royal Decree 116/2003, of 31 January). Nor did it have any companies at the end of 2019.

Tax contribution

Naturgy attaches priority to its obligation to pay any taxes that are due under each territory’s rules.

Naturgy’s tax contribution in 2020 amounted to Euros 2,302 million (Euros 2,955 million in 2019). The following table shows the taxes actually paid by Naturgy in each country, distinguishing between those that involve an actual expense for the group (“own taxes”), and those that it withholds or that it passes on to the final taxpayer (“third-party taxes”):

	Own taxes						Third-party taxes								Total	
Country	Income tax (1)		Other (2)		Total		VAT		Hydrocarbons tax and Electricity tax		Other (3)		Total			
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Spain	65	230	310	432	375	662	843	997	223	362	205	253	1,271	1,612	1,646	2,274
Argentina	11	22	12	26	23	48	7	8	0	0	13	21	20	29	43	77
Brazil	38	57	35	46	73	103	56	70	0	0	8	11	64	81	137	183
Chile	2	9	23	10	25	19	102	93	0	0	14	10	116	103	141	122
Mexico	73	36	1	1	74	36	72	63	0	0	5	12	77	75	151	111
Panama	6	13	6	7	12	20	2	0	0	0	0	3	2	3	14	23
Rest of LatAm	9	15	3	0	12	15	5	0	0	0	0	1	5	1	17	16
Total LatAm	139	152	80	89	219	241	244	234	0	0	40	58	284	293	503	533
Rest	10	11	3	7	13	18	85	80	75	46	2	3	162	130	175	148
Total	**214**	**393**	**393**	**528**	**607**	**921**	**1,172**	**1,312**	**298**	**408**	**247**	**314**	**1,717**	**2,034**	**2,324**	**2,955**

(1) Refers to income tax actually paid in the year as per the Cash-Flow Statement of the Consolidated Annual Accounts. Does not include accrued amounts. Information regarding the reconciliation between the registered Corporate Income Tax and that which would arise from applying the nominal rate of the tax applicable in the country of the parent company (Spain) on the pre-tax result is indicated in Note 21 “Tax Situation” of the Consolidated Annual Accounts.

(2) Includes energy taxes which in Spain totalled Euros 144 million in 2020 (Euros 169 million in 2019), local taxes, social security payable by the company and other specific taxes of each country.

(3) Basically includes withholdings on employees and Social Security for the employee’s contribution

4. Global Human Rights Policy

The company's commitment to respect for and protection of human rights is expressed in both the Corporate Responsibility Policy and the Code the Ethics. Since 2011, Naturgy also has a Human Rights Policy, which was last updated and approved by the Board of Directors in 2019. This policy formalises and precisely establishes how the company believes it has to include this issue in its business management.

Prior to the development of the policy, a human rights risk analysis was conducted, in which 33 risks were identified. This evaluation was carried out for all the countries where the company carries out some type of activity and with those responsible for each business or country the degree of exposure to this risk and the internal mechanisms available for its management were validated. Based on the risks identified, the commitments that Naturgy should establish to ensure adequate management to minimise the materialization of these risks were defined.

In order to monitor these risks, the company carries out periodic assessment of the 33 identified risks. The last one was carried out in 2019. In order to make this assessment, those responsible for each business or country are asked to evaluate each of the risks identified, depending on the level of perceived risk and the degree of management of each issue by the company.
The policy establishes ten commitments, which were determined on the basis of the main risks that affect human rights in the company, and accepts the United Nations Guiding Principles on Business and Human Rights (see table of contents according to UNGPRF at the end of this section). It is also focused on the most important principles that have the greatest impact on the company's business.

Human Rights Policy Principles and risks identified

Commitment 1. Avoiding any practices which are discriminatory or which might compromise people's dignity.	
Risk 1. Failure to respect people	Failure to provide the necessary conditions to enable people to work in an environment where their dignity and rights are respected in the centres and activities of the Group.
Risk 2. Discrimination	Failure to avoid discriminatory practices on grounds of gender, ethnic origin, creed, religion, age, disability, political affinity, sexual orientation, nationality, citizenship, civil status or socio-economic status in the processes and practices of the company regarding human resources issues.
Risk 3. Abuse, intimidation and violence	Failure to avoid cases of abuse, intimidation or violence among group employees.
Risk 4. Forced and compulsory labour	Failure to avoid resorting to forced labour or that company employees are unable to freely choose their job position.
Risk 5. Unjust detention	That employees can be detained on unjust or unfair grounds by the authorities or other organisations that use intimidation and violence.
Commitment 2. Eradication of child labour	
Risk 6. Child labour	That the activities and operations of the group breach children's rights.

Risk 7. Minimum working age	The company does not ensure that the ages of all its employees exceeds the minimum working age.
Commitment 3. Ensure freedom of association and collective bargaining.	
Risk 8. Freedom of association	In those places where the institutional framework does not guarantee freedom of association and the right to collective bargaining, failure by the company to provide its employees with the conditions for them to meet and freely discuss issues related to their working or employment conditions.
Risk 9. Collective bargaining	Failure to ensure that its employees have the right to freedom of association, trade union membership and collective bargaining.
Commitment 4. Protecting employee health	
Risk 10. Health and safety of employees	Failure by the group's centres and activities to provide the right conditions for people to work in a safe and healthy environment.
Risk 11. Health and safety of third parties	The assets of the company damage the health or physical integrity of third parties through negligence by the group or the injured party.
Commitment 5. Ensure adequate employment and salary	
Risk 12. Dignified wage	Employees do not receive a dignified wage.
Risk 13. Working hours	Within the company, the limits regarding the number of hours worked per week and employees' right to rest are breached.
Risk 14. Rest	In those places where the institutional framework does not establish remuneration conditions or a right for people to take breaks, the company has not established measures in this regard.
Risk 15. Work-life balance	Failure by the company to facilitate conditions that enable people to maintain a proper balance between their personal and professional life.
Risk 16. Privacy	The company does not respect the right to privacy of its employees.
Commitment 6. Commitment towards people linked to suppliers, contractors and collaborating companies.	
Risk 17. Suppliers, contractors and collaborating companies	The company works with suppliers, contractors and partner companies whose practices do not respect human rights.
Commitment 7: Respecting for indigenous communities and traditional ways of life.	
Risk 18. Rights of indigenous communities	The company violates the human rights and fundamental freedoms of the indigenous communities in the areas where it operates.
Risk 19. Indigenous territories	Failure by the company to recognise the right of indigenous communities to maintain their customs and social practices, as well as ownership of those territories that have been given to them legally, according to the provisions of ILO Convention 169.
Risk 20. Land procurement	During the procurement of land and other transactions or trade agreements with communities, the company fails to adequately inform them in advance or compensate them according to local law and practice and, in any case, in an objectively fair manner.

Risk 21. Assessing impacts	Failure by the company to have the necessary mechanisms to assess the potential impact and risk to the rights of communities in its projects.
Risk 22. Environmental impact	The activities of the group generate an unjustified negative impact on the environment.
Commitment 8. Protecting facilities and people on the basis of respect for human rights.	
Risk 23. Background on security staff	The staff who protect the security of the facilities and operations of the group have been involved in the abuse of human rights.
Risk 24. Bad practices of security staff	The staff who protect the security of the facilities and operations of the group are involved in injustices and in the inhumane or degrading treatment of people.
Risk 25. Disproportionate use of force	The staff who protect the security of the facilities and operations make disproportionate or unjustified use of force.
Risk 26. Misuse of company assets	The resources and assets of the company are used to violate human rights as a consequence of security staff practices.
Risk 27. Involvement in abuse	The company is involved in the abuse of human rights committed by governmental security forces.
Commitment 9. Support and promote respect for human rights in the wider community	
Risk 28. Public commitment	That the commitment made by the company to human rights issues is not known publicly.
Risk 29. Freedom of opinion and expression	The company does not respect or promote the right to freedom of thought, conscience and religion and the freedom of opinion and expression within its field of activity.
Risk 30. Social rights of the community	Failure by the company to undertake actions or foster plans and/or activities in benefit of social rights, as a part of human rights, in the community where it operates.
Risk 31. Investment analysis	Failure by the company to have the necessary mechanisms to assess the potential impact on and risk to human rights of investment projects.
Risk 32. Partner analysis	The due diligence processes prior to the execution of collaboration agreements with third parties do not analyse the human rights policies and practices of partners.
Commitment 10. Helping to fight corruption and protect privacy.	
Risk 33. Corruption	The activities of the company provide incentives for or foster public-private corruption.

Therefore, the Human Rights Policy is the company's response to growing demands in this field and is particularly applicable in locations in which local legislation does not provide a sufficient level of protection for human rights. In these cases, Naturgy undertakes to guarantee a level of protection equivalent to the other areas in which it carries on its business.

Policy compliance is horizontally integrated in the company and is the responsibility of each one of the business areas. The company encourages the policy to be known and to be complied with using a communication and training plan, which includes a compulsory online course for all employees, seminars based around explaining principles of the policy and conflicts which could arise, and guidance sessions about the policy and its role in business activity. By the end of 2020, 6,827 people have taken the online human rights course.

Naturgy undertakes to engage the resources necessary to guarantee the effective implementation of this policy. In this regard, the company regularly analyses the human rights issues that are applicable to its activity and will introduce mechanisms that enable it to assess the risk of breach of these in the environments in which it operates.

During the initial stages of investment projects, and in the analyses of the social and environmental impact, the company considers their impact on the protection and promotion of human rights and defines indicators in this regard. Similarly, the company will introduce specific measures for management of potential impacts and risks to human rights from the projects and investments, and will ensure that sufficient resources are targeted at the implementation of the corrective measures identified.

In the due diligence processes prior to formalisation of collaboration agreements, also with governmental agencies, the company undertakes to assess the human rights policies and practices of its counterparts and to act in accordance with the principles laid out in the policy.
In addition, as part of the standard supplier evaluation process, the company includes among the aspects to be assessed, the issues related to human rights practices that are exclusive in the event of an unsatisfactory response from the supplier. Furthermore, by accepting the supplier's code of ethics, they undertake to observe and ensure compliance with human rights at all times, in particular those related to the elimination of all forms or modalities of forced or compulsory labour; child labour; respect for indigenous communities and traditional ways of life; and respect for individuals in general.

In this way, based on the commitments expressed in the Human Rights policy, the company establishes prevention mechanisms with respect to third parties with whom it establishes commercial relations that offer guarantees in relation to the extension of its own principles to our supply chain.

To ensure respect for human rights in the area of protection of facilities and individuals, existing best practices are adopted, such as the UN Basic Principles on the Use of Force and Firearms for personnel belonging to security companies that the company hires.

Any breaches of human rights are studied in accordance with the internal procedures, legal regulations and the prevailing agreements, and could give rise to disciplinary or employment measures as determined in the internal regulations and legislation.

Employees of Naturgy are obliged to report any breach of the undertakings set out in this policy to the company, confidentially and without fear of reprisals. In this regard, those people who, without being company employees, witness potential malpractice in this area may also report this.

Contents Index in accordance with the United Nations Guiding Principles Reporting Framework (UNGPRF)

Indicator	Reference	Level of fulfilment
System of respect for Human Rights (A)		
A1. Policy commitment	ISEINF 2020 Global Human Rights Policy Code of Ethics – pages 8-9	Complete
A1.1 Development of public commitment	ISEINF 2020 Global Human Rights Policy 4-7	Complete
A1.2 Extent and scope of application of commitment	ISEINF 2020 Global Human Rights Policy 3-4	Complete
A1.3 Form of communication of commitment	ISEINF 2020 Global Human Rights Policy 7-9	Complete
A2. Embedding respect for Human Rights	ISEINF 2020 Global Human Rights Policy page 8 Code of Ethics – pages 8-9 2020 Annual Report on Remuneration	Complete
A2.1 Organisation of responsibility in the field of human rights	ISEINF 2020 Global Human Rights Policy page 7	Complete
A2.2 Human rights issues escalated to the senior management and the governing board	ISEINF 2020 Global Human Rights Policy page 8 2020 Audit and Control Report	Partial
A2.3 Raising employees' awareness about human rights issues	ISEINF 2020 Global Human Rights Policy page 7 2020 Annual Report on Remuneration	Complete
A2.4 Company's form of stating its commitment towards human rights in commercial relations	ISEINF 2020 Global Human Rights Policy pages 5 and 8	Complete
A2.5 Lessons learnt about human rights and consequences which have arisen as a result	ISEINF 2020	Partial
Defining a focus of **reporting (B)**		
B1. Statement of salient issues	ISEINF 2020	Complete
B2. Determination of salient issues	ISEINF 2020	Complete
B3. Choice of focal geographies	ISEINF 2020	Complete
B4. Additional negative impacts	ISEINF 2020 2020 Internal Audit Report	Complete
Management of salient human rights issues (C)		
C1. Specific policies	ISEINF 2020	Complete
C1.1 Importance of human rights policy for persons responsible for implementing it	ISEINF 2020 Global Human Rights Policy page 3	Complete
C2. Stakeholders commitment	ISEINF 2020	Complete
C2.1 Identification of stakeholders to take part in salient human rights issues	ISEINF 2020	Partial
C2.2 Stakeholders which have had relations with the company in connection to human rights	ISEINF 2020	Complete
C2.3 Influence of the stakeholders' vision regarding human rights issues	ISEINF 2020	Partial
C3. Assessing impacts	ISEINF 2020	Complete
C3.1 Patterns or trends in human rights impacts	ISEINF 2020	Partial
C3.2 Severe impacts on human rights	ISEINF 2020	Complete
C4. Integrating findings and taking action	ISEINF 2020	Partial

C4.1 Involvement by the company's parties in applying solutions and taking decisions regarding salient human rights issues	ISEINF 2020	Complete
C4.2 Tensions of human rights impacts	ISEINF 2020 Global Human Rights Policy Commitment 6	Partial
C4.3 Actions taken to prevent or mitigate potential impacts on human rights	ISEINF 2020	Complete
C5. Tracking performance	ISEINF 2020	Complete
C5.1 Effective management of human rights issues	ISEINF 2020	Complete
C6. Remediation	ISEINF 2020	Partial
C6.1 Means of claiming regarding human rights issues	ISEINF 2020 Global Human Rights Policy page 8 Code of Ethics pages 22-23	Complete
C6.2 People's capacity to make claims or complaints	ISEINF 2020 Global Human Rights Policy page 8 Code of Ethics pages 22-23	Complete
C6.3 Processing of claims and evaluation of effectiveness of results	ISEINF 2020 Global Human Rights Policy page 8 Code of Ethics pages 22-23 2020 Audit and Control Report	Complete
C6.4 Patterns and trends in claims or complaints	ISEINF 2020	Partial
C6.5 Repairs in relation to any impact relating to human rights	ISEINF 2020	Complete

5. Privacy and security of data

Naturgy has defined an Information Security Policy that ensures proper processing of this data throughout its life cycle, from collection and processing through to removal or safeguarding this data once the relationship with the customer has terminated.

This policy is communicated to employees, suppliers and customers, and is implemented through a regulatory corpus in line with the legal requirements that govern the processing of information and the internationally accepted best practices and standards. This regulatory corpus includes the technical standard, which is for the purpose of guaranteeing the protection of personal data at Naturgy, and applies to all organisational units and companies of the group that capture or process personal data, as well as partners and suppliers that collaborate in such processing.

In addition, there are procedures for updating and correcting new vulnerabilities of systems, to propitiate better proactive conduct in the prevention of security incidents, and in the analysis and management of information security risks.

Cybersecurity Plan

Naturgy has a Cybersecurity Plan at international level, which is based on three key pillars: people, processes and technology. Also in 2020 we worked on fourteen projects, twelve of which finalised that year:

- Advanced anti-malware deployment.
- Advanced Email Protection (O365).
- Measures and mechanisms in Cloud Control.
- Network segmentation between countries.
- Browsing control and filtering.
- Implementation of Vendor Risk Management.

- Securing VPNs.
- Security process from design (Security in Project).
- International deployment of the Global Security Operations Centre (GSOC).
- Simulation of cyber attacks (Cymulate).
- Implementation of Phishing (Cofense) reporting button.
- Implementation of Threat Intelligence (Phase I) and Threat Hunting model.

Mitigation actions carried out by Naturgy:

- Design and implementation of the Cybersecurity Plan 2019-2020.
- Naturgy's Global Cybersecurity Strategy campaign to prevent the following types of attacks:
- Phishing: attacks via e-mail.
- CEO fraud: impersonation, via e-mail, of the company's senior management.
- Third-party fraud: phishing of bank transfers, etc. (suppliers, financial institutions, etc.).
- Malware: theft of keys and passwords.
- Threats to industrial devices.
- Periodic password change.
- Access control.
- Software update.
- Alerts on suspicious e-mails.
- Backup copies.

During the year, the Cyberincident Response Plan was completed and implemented in the Naturgy Group's Global Security Operations Centre. Following its implementation, it has been reviewed by Internal Audit and, in addition, it has been tested by means of a crisis simulation, a cyber-incident response simulation and a Red Team exercise.

During 2020, Naturgy has been working on updating the cybersecurity regulatory corpus to adapt it to the new structure of the organisation. Currently, in the final stage of the year, most of the high-level documents (policies and technical standards) have been approved and progress has been made in closing specific specifications and procedures. This update is being carried out using a series of international standards and best practices as a control framework, such as ISO 27001, NIST SP 500-53 or ISA 62441. The documents of the new regulatory body are published on the corporate regulatory site and are accessible to all group employees. Once the documents have been approved in their final version, they will be adapted for each of the geographical areas in which the group operates.

Work has been done to include cybersecurity from the design stage in projects through the Security in Projects initiative, whose medium- and long-term objective is to cover all projects and initiatives that arise within the group. In this initial phase, the focus has been on the identification and valuation of assets, considering confidentiality, integrity and availability as basic objectives.

With regard to vulnerability management, Red Teaming exercises are being carried out to identify, classify and subsequently resolve such vulnerabilities, with priority being given to their critical nature.

The risk inherent in contracting services from suppliers is controlled through the implementation of a Vendor Risk Management initiative, based on a form that allows the service outsourcing unit to conduct a cybersecurity self-assessment. In the mid-term, we plan to extend the scope and depth of this supplier risk control model.

In relation to personal data protection, work continues in line with the requirements of the General Data Protection Regulation (GDPR), using the results of the Data Protection Impact

Assessments (DPIA) to determine the technical measures that need to be applied to the systems (both in production and pre-production environments), establishing a benchmark of different tools to select the most appropriate one.
CyberSOC's capabilities have been extended, integrating within its scope new sources of cyber-intelligence, new use cases, MISP, etc. to ensure that potential incidents are detected early, minimising the potential damage they may cause and ensuring an optimal response. In this sense, work is being done to integrate both information technology (IT) and operating technology (OT) environments within it.
Work has been conducted on a Global Incident Response Plan, in which CyberSOC orchestrates the course of action in case of need. Roles and responsibilities have been clearly assigned, and those responsible are identified to facilitate maximum speed in communications. This plan is aligned with the Crisis Management Plan.
To protect end users, both EPP (End Point Protection) and EDR (End Point Detection & Response) tools have been deployed, thus facilitating the prompt detection and efficient response to incidents produced within this area. In addition, user navigation and all corporate emails have been protected (anti-phishing), including the display of a button to report suspicious emails.
With regard to training of employees in cybersecurity, the cybersecurity course remains compulsory for all staff and has been completely renewed. Along this same action line, phishing campaigns have also been conducted to assess the level of employee awareness and, at the same time, help to increase it. These exercises have been carried out on a quarterly basis, providing each participating employee with customised feedback, which varies according to their performance in response to the exercise.
Finally, throughout the year work has continued to maintain and improve even more relations with third parties in the field of cybersecurity, both with public bodies such as the National Institute for Cybersecurity or the European Commission, and with private entities, whether they are companies in the sector or others dedicated to providing cybersecurity services.

6. Protection of strategic assets at Naturgy

In compliance with Law 8/2011, Naturgy was designated in 2014 as a critical operator, defining a specific protection model for its Critical Infrastructures (CI). In addition, and in compliance with Royal Decree Law 12/2018, it was designated in 2018 as an essential services operator, as its Critical Infrastructures depend on information networks and systems, integrating the requirements established in that Decree Law into the protection model.

Throughout 2020, the corporate Security and Cybersecurity units have monitored and supervised the processes established to protect their critical infrastructures, performing actions for the review/updating of applicable documentation, managing the incidents detected and maintaining dialogue with businesses, with the National Centre for the Protection of Critical Infrastructures (CNPIC), with the National Institute of Cybersecurity (INCIBE-CERT) and with other public and private bodies involved in Critical Infrastructures.

Likewise, in the context of the COVID-19 crisis, Naturgy has accredited, through the Ministry of the Interior and through the CNPIC, all essential personnel in the operation and protection of its strategic infrastructures, with the aim of facilitating their mobility in the face of the restrictions due to the state of emergency.

7. Internal auditing

Assurance function of Internal Audit

For Naturgy, Internal Audit is an independent and objective assessment activity. For this reason, the Internal Audit Unit reports to the Audit and Control Committee of the Naturgy Group.

Its mission is to guarantee the ongoing review and improvement of the Group's internal control system, and to ensure compliance with external and internal regulations and the established control models. Its purpose is to safeguard the effectiveness and efficiency of operations and to mitigate the main risks in each of the company's areas. Likewise, it is responsible for drawing up the report on the internal audit activity to the Audit and Control Committee.

In the performance of its activity, Internal Auditing methodically reviews the internal control system of the group's processes in all areas, and also assesses the risks and controls associated with these processes, through definition and introduction of the Annual Internal Audit Plan. It also provides support to the divisions in achieving their objectives.

The methodology for the assessment of operational risks is in accordance with best corporate governance practices, based on the conceptual framework of the COSO Report (Committee of Sponsoring Organizations of the Treadway Commission) and on the basis of the types of risks defined in the company's Corporate Risk Map.

In 2020, 137 (124 in 2019) internal audit projects were carried out, 110 (95 in 2019) of which corresponded to the review of processes associated with the main risks of the general service and business departments at Naturgy. The analyses carried out reached 100% of the general service and business departments. In the projects performed in 2020, no significant incidents related to corruption were detected.

8. Non-compliances and fines

[206-1] and [417-2]

The penalties imposed on Naturgy with a value of more than Euros 10,000 and considered final in administrative proceedings during 2020 are detailed below. This is without prejudice to any legal action that may be taken against them and which could lead to their annulment.

In Chile, in 2020 the company was fined Euros 312,735 for cables in poor condition that caused a gas network to be perforated; a fine of Euros 634,264 for failing to take the necessary safety measures in a gas network, and a fine for supply cut-off amounting to Euros 32,747. In the electricity business, the company has been fined for non-compliance with prevailing electricity regulations, amounting to Euros 4,001,148. For failure to read and bill in a timely manner, a fine of Euros 59,541 and for providing incorrect information and failing to comply with maintenance obligations, Euros 41,679. For lack of maintenance, the company has received several fines amounting to Euros 994,333. The company has also been fined for delays in connection and suspension of supply amounting to Euros 151,829 and for service quality problems totalling Euros 154,806.

In Brazil, the company has received two penalties, one for Euros 12,590 for deficiencies in the maintenance of the gas network and another for Euros 60,443 for an accident with fatal consequences in the high-pressure gas network.

In Spain, in 2020 in the gas distribution area, the company has received a penalty of Euros 151,800 for incorrect billing and another of Euros 15,000 for charging an undue fee.

As for the distribution of electricity, the company has received a penalty of Euros 25,000 for delays in providing the service. In relation to the commercialisation business, Naturgy has received two fines for a total amount of Euros 72,189 for incorrect invoicing, a fine of Euros 15,000 for inadequate management of the complaints service, two fines for a total amount of 21,369 euros for improper activation of the supply contract and a fine for the inclusion of abusive clauses in contracts, in the amount of Euros 11,000.
In 2020, the company registered no fines for monopolistic practices.

About this report

This Sustainability Report and Non-Financial Information Statement forms part of the Director's Report of Naturgy Energy Group, S.A. and the Consolidated Director's Report of Naturgy Energy Group, S.A. and subsidiaries for the financial year 2020. It is subject to the same criteria for approval, deposit and publication as these reports and has been verified by an independent verification service provider. By issuing this report, Naturgy Energy Group, S.A. complies with the provisions of Article 262 of the Corporate Enterprises Act and Article 49 of the Commercial Code as amended by Law 11/2018 of 28 December on non-financial reporting and diversity, which transposes Directive 2014/95/EU into Spanish law.

1. Materiality focus

For the preparation of this 2020 Sustainability Report and Non-Financial Information Statement, Naturgy has based itself on the standards of the Global Reporting Initiative (GRI)—known as GRI Standards—and has taken into account the requirements of Law 11/2018 on non-financial information.

The company believes that the report has been prepared in accordance with the core or essential level of GRI Standards. The Materiality Disclosures methodology has been applied for yet another year. This methodology reviews the definition of material issues, their scope and the information on the commitment of stakeholders.

The material issues identified at corporate level are those that:

- Are of greatest relevance from the standpoint of corporate responsibility and reporting
- Can promote a more significant change in terms of economic, environmental and social impact
- Are considered most relevant to the stakeholders of the company

List of material aspects at corporate level [102-47]

Naturgy identified twelve material aspects of maximum significance, which are detailed below:

Matters of maximum	**1**	**Climate change and energy transition**	**Environmental**
	2	**Business integrity, compliance and transparency**	**Economic**
	3	**Circular economy and eco-efficiency**	**Environmental**
	4	**Occupational safety**	**Social**
	5	**Social contribution and participation**	**Social**
	6	**Customer service and satisfaction**	**Economic**

7	**Responsible and sustainable supply chain**	**Economic**
8	**Care and welfare of workers**	**Social**
9	**Good corporate governance**	**Economic**
10	**Biodiversity and natural capital**	**Environmental**
11	**Diversity and equality**	**Social**
12	**Energy vulnerability**	**Social**

NB: each country has a different prioritisation based on its corporate responsibility agenda.

Materiality analysis process [102-46] [102-49]

To update the analysis of relevant issues carried out, the specific standards defined by GRI, including the new GRI standard on taxation, have been taken as a starting point and adapted to the company's own characteristics in 2020.

Furthermore, for the prioritisation and definition of issues we conducted interviews with different areas of the company and with external stakeholders, and have included other inputs, both internal and external.

For each of the twelve major issues identified, Naturgy has collected, identified and analysed the following information in its materiality study:

- What the matter means and why it is material:
  - Definition and description of the issue.
  - Sub-issues into which the issue is divided.
  - Relevance of the issue for the company and its business.
  - What point of the value chain is affected by the issue.
  - Which stakeholders are impacted.
- Management of the publication of information on the subject by Naturgy:
  - Related GRI Standards.
  - Requirements of Law 11/2018.
  - Related Sustainability Accounting Standards Board (SASB) indicators.
- Sustainable Development Goals (SDG) directly associated to the issue.
- Details of good practices in other companies in the sector.

Sources consulted

In the identification and prioritisation of material issues, the following sources were taken into consideration:

- International reporting frameworks (GRI and SASB).
- Law 11/2018 on non-financial information and diversity.
- Naturgy's Corporate Responsibility Policy.
- Internal interviews with key areas of the company.
- RobecoSAM, FTSE4Good, MSCI, Sustainalytics and Vigeo Eiris requirements.
- Trends in the sector.
- Binding and non-binding regulatory requirements on ESG matters.
- RepRisk for analysis of the main global events of interest for each issue that has taken place during the year.
- The Global Risks Report 2020 of the World Economic Forum.

- Benchmark of companies in the utilities sector with high performance in sustainability.
- Agenda 2030 for Sustainable Development and the Sustainable Development Goals (SDG).

Map of material issues [103-1] [102-49]

In order to respond to the requirements of the GRI Standards, a map of material issues that identify what represents a material issue for Naturgy and where it is relevant is provided. As regards the latter criterion, Naturgy identifies the materiality of the issue from three standpoints on this map:

- Point of the value chain at which the issue is material.
- Impact of the aspect inside and outside the company and, consequently, the stakeholder affected.
- Geographic location. To determine the countries in which the issues are material we need to cross-check the following table with the activity map in the Business Model chapter. In this way, and based on the governing philosophy of integrated and uniform management at Naturgy, the issue will be material in those countries that perform the activity of the value chain in which the issue is material.

				Gas				Electricity				
				Supply	Transport	Distribution	Commercialisation	Generation	Distribution	Commercialisation		
1	Climate change and energy transition	[305] (1-7) Emissions EU1 Installed capacity EU2 Net energy output EU3 Number of clients EU4 Length of transmission and distribution lines EU5 Allocation of CO_2 emissions allowances or equivalent	EN	•	•	•		•	•		- Shareholders/Investors - Suppliers - Business partners - Analysts - Society - Administrative staff/ Regulatory bodies - Financing Groups - Customers - Insurance and reinsurance agencies	Responsible management of the environment
2	Business integrity, compliance and transparency	[205] (1-3) Anti-corruption [206-1] Legal actions related to unfair competition, monopolistic and anti-competitive practices. [307-1] Non-compliance with environmental laws and regulations.	EC	•	•	•	•	•	•	•	- Shareholders/Investors - Suppliers - Business partners - Employees - Analysts - Market agents - Society - Administrative staff/ Regulatory bodies - Financing Groups - Customers - Insurance and reinsurance agencies	Integrity and transparency
3	Circular economy and eco-efficiency	[301] (1-3) Material issues [302] (1-5) Energy [303] (1-5) Water and effluents [306] (1-5) Effluents y waste	EN	•	•	•	•	•	•	•	- Suppliers - Business partners - Employees - Analysts - Society - Administrative staff/ Regulatory bodies - Insurance and reinsurance agencies	Responsible management of the environment
4	Occupational health and safety	[403] (1-10) Occupational health and safety EU25 Injuries and fatalities to the public due to company activities	SO	•	•	•	•	•	•	•	- Shareholders/Investors - Suppliers - Employees - Analysts - Administrative staff/ Regulatory bodies - Insurance and reinsurance agencies	Health and safety

5	Social contribution and participation	[413] (1-2) Local communities	SO	•	•	•	•	•	•	•	- Shareholders/Investors - Suppliers - Business partners - Employees - Analysts - Society - Administrative staff/ Regulatory bodies - Customers	Social commitment
6	Customer service and satisfaction	[417] (1-3) Marketing and labelling	EC		•	•	•		•	•	- Shareholders/Investors - Suppliers - Analysts - Administrative staff/ Regulatory bodies - Customers - Insurance and reinsurance agencies	Service excellence
7	Responsible and sustainable supply chain	[102-9] Supply chain [204] Procurement practices [308] (1-2) Environmental assessment of suppliers [414] (1-2) Social assessment of suppliers	EC	•	•	•	•	•	•	•	- Shareholders/Investors - Suppliers - Business partners - Analysts - Society - Customers	Responsible supply chain
8	Care and welfare of workers	[401-2] Benefits provided to full-time employees that are not provided to temporary or part-time employees [401-3] Parental leave [402-1] Minimum notice periods regarding operational changes	SO	•	•	•	•	•	•	•	- Employees - Analysts - Society - Administrative staff/ Regulatory bodies	Interest in people
9	Good corporate governance	[405-1] Diversity of governance bodies and employees	EC	•	•	•	•	•	•	•	- Shareholders/Investors - Analysts - Administrative staff/ Regulatory bodies - Financing Groups	Integrity and transparency
10	Biodiversity and natural capital	[304] (1-4) Biodiversity EU13 Biodiversity of surrounding area habitats	EN	•	•	•		•	•		- Shareholders/Investors - Suppliers - Business partners - Employees - Analysts - Society Administrative staff/ Regulatory bodies- Insurance and reinsurance agencies	Responsible management of the environment

11	Diversity and equality	[401-1] New employee hires and employee turnover [405-2] Ratio of basic salary and remuneration of women to men	SO	•	•	•	•	•	•	•	- Shareholders/Investors - Employees - Analysts - Society - Administrative staff/ Regulatory bodies	Interest in people
12	Energy vulnerability	EU27 Disconnections of residential customers for non-payment	SO			•	•		•	•	- Business partners - Analysts - Society - Administrative staff/ Regulatory bodies - Customers	Social commitment

Materiality of the aspects of Law 11/2018

The materiality analysis has shown that almost all the aspects required by Law 11/2018 on non-financial information are material for the specific activities performed by Naturgy. In this regard, according to the independent review report, this report has met all those aspects required by Law 11/2018 that are material to Naturgy.

Only food waste and light and noise pollution have not been identified as material. Food waste is not a relevant issue for the company because the company's activity is not linked to the food sector and the company does not engage in intensive food consumption. Likewise, the environmental risk analyses carried out by the company have determined that the company does not have a significant or relevant impact on light and noise pollution.

2. Scope of the information [102-48], [102-49] and [102-50]

This report contains the consolidated financial and non-financial data of Naturgy, referring to all the activities carried out during 2020 as a global gas and electricity operator, although they show peculiarities in some chapters:

Those indicators that plot progress throughout the year must reflect information on companies held for sale except where indicated otherwise in a footnote, while the indicators that represent information at year-end will not include information in connection with such companies.

As these are consolidated data, they do not include companies accounted for using the equity method.

In the field of human resources, the reported information refers to the countries in which Naturgy operates and where it has established companies with hired staff assigned to these countries and where the company performs centralised management of its human resources policies, except the number of employees.

With regard to the environment, the disclosures refer solely to those companies or activities that are at least 50% owned or controlled by the company, which have the capacity to influence environmental management and have the capacity to make a significant impact, based on global data.

Appendix I of the Consolidated Annual Accounts, entitled "Naturgy Companies", contains a complete list of the companies belonging to Naturgy at 31 December 2020.

Changes in the consolidation scope are described in Appendix II of the Consolidated Annual Accounts.

3. <u>Compliance with benchmark standards</u> [102-46] and [102-54]

The company prepares its report in accordance with the GRI Standards, and includes the applicable additional information required by the GRI "Electric Utilities" and "Oil and gas" supplements. The company therefore considers that this report has been prepared in accordance with the Core option of the GRI Standards. This report has also been drawn up in accordance with the AA1000AP (2018) standard and the United Nations Guiding Principles Reporting Framework.

- AA1000AP (2018) standard: the purpose of this standard is to provide organisations with a set of principles to situate and structure the way in which they understand, govern, administrate, implement, assess and surrender their accounts in sustainability performance.
- The Global Reporting Initiative Standards: in accordance with the Global Reporting Initiative recommendations, the balanced and reasonable presentation of the organisation's performance requires application of certain principles to determine the content of public information on this issue and to guarantee its quality.
- United Nations Guiding Principles Reporting Framework: the idea behind this framework is that the companies should report all information relating to human rights in line with the UN Guiding Principles on Business and Human Rights.

The consideration of the principles set out in the following table ensures that the information satisfies the guarantees required by the foregoing standards.

Application of the AA1000AP (2018) standard
• Inclusivity: in relation to this principle, the numerous actions aimed at stakeholders for consultation and dissemination carried out throughout the year are particularly relevant. • Relevance: the relevant matters for Naturgy are included in its Corporate Responsibility Policy, updated in 2019. A major part of this report is structured according to said matters. The contents of this report are also determined by the materiality study. • Response capacity: this includes key performance indicators of the company, as well as its core policies, strategies, management systems and initiatives in the spheres taken into account. • Impact: This includes information on the effect of Naturgy's behaviour, performance and/or results on the economy, the environment, society, the stakeholders and the company itself
Principles for drafting this report (GRI) [102-46]
• Stakeholder participation: the company has identified its stakeholders and their expectations and has specified actions to establish a two-way dialogue with them. For further information, see the sections included in this report on "Naturgy's stakeholders". • Sustainability context: the report analyses the company's performance in the context of the social, environmental and economic requirements of its social and market environments. The sections on business model, strategy and sustainable opportunities focus specifically on this area. • Materiality: the issues identified in the materiality study 2020 have been considered as material and have been included in the Sustainability Report and the Non-Financial Information Statement 2020. • Thoroughness: the outline of contents have been defined with the help of those in charge of the key management areas of the company. This guarantees that essential aspects and impacts that each activity area of Naturgy has on its environment and on its own business targets have been taken into consideration.
Quality of the information given (GRI) [102-52]
• Accuracy: all the information in the report is necessary and given in sufficient detail for the company's stakeholders to be able to value its performance in an appropriate manner.

• Balance: the report clearly shows the positive and negative aspects of the organisation's performance, which enables a reasonable valuation thereof. • Clarity: the information is presented in a way that is understandable and accessible. To enable its correct understanding, the use of technical terms is avoided. In addition, it uses graphs, diagrams, tables and indicators to describe the company's most relevant impacts and make it easier to read the document. • Comparability: the information given in this report is consistent and makes it possible to analyse the evolution of the company performance over time and be compared with other companies. • Reliability: the figures given in this report have been verified by EY. The drafting of the report took into account the four principles required by the AccountAbility AA1000AP (2018) standard, and whether or not the information given responds to the stakeholders' concerns and requirements. • Frequency: Naturgy publishes its Sustainability Report and Non-Financial Information Statement annually, as soon as the information is available, so that the stakeholders have a good understanding of the company.
United Nations Guiding Principles Reporting Framework
• Setting human rights reporting in the business context • Meeting a minimum threshold of information • Demonstrating ongoing improvement • Focusing on respect for human rights • Addressing the most severe impacts on human rights • Providing balanced examples from relevant geographies • Explaining any omission of important information

4. **Verification** [102-56]

The integrity, sound and truthful nature of the information given in this report are maintained by the policies and procedures included in Naturgy's internal control systems and their purpose includes guaranteeing the correct presentation of the company's information to third parties.

In these policies and in accordance with the Global Reporting Initiative recommendations, Naturgy commissions an annual verification of the contents of its report by an independent third party.

This 2020 report has been verified by EY, which reviews the adaptation of the contents of the Sustainability Report and the Non-Financial Information Statement to the provisions laid down in the Global Reporting Initiative guidelines, the AA1000AP (2018) standard and Law 11/2018 on non-financial reporting and diversity.

As a result of the said process, an independent review report is drawn up to include the goals and scope of the review, as well as the verification procedures used and the corresponding conclusions, which can be consulted in the "Additional information" chapter of this report.

5. **Queries and additional information** [102-53]

In addition to this report, Naturgy has published the following reports in 2020 which include both financial and non-financial information:

- Corporate Governance Report
- Audit and Control Committee Report

It should also be noted that Naturgy publishes local corporate responsibility reports in the main countries where it operates.

Readers can send their questions, queries or requests for information via the corporate website: https://www.naturgy.com/inicio.

Additional Information

Content index in accordance with the provisions of Act 11/2018, of 28 December, which amends the Commercial Code, the consolidated text of the Corporate Enterprises Act approved by Legislative Royal Decree 1/2010, of 2 July, and Act 22/2015, of 20 July, on Auditing, in connection with non-financial and diversity reporting

Contents	Pages	Reporting criteria	Reason for the omission
Business model			
Description of the business model • Its business environment. • Its organisation and structure. • The markets in which it operates. • Its goals and strategies. • The main factors and trends that may affect their future development.	63-64,11-13, 15-16, 54-59	GRI 102-2 GRI 102-3 GRI 102-4 GRI 102-6 GRI 102-7 GRI 102-15	
Reporting framework used to report non-financial information.		GRI 102-54	
Policies.			
A description of the group's policies on these issues. 1 Due diligence procedures applied for the identification, assessment, prevention and mitigation of risks and impacts, and verification and control, including what measures have been adopted. 2 Key performance indicators of policy implementation to enable monitoring and evaluation of progress.	46, 70, 80, 117, 136, 142, 156, 184, 196, 199, 212	GRI 103-2	
Risks.			
The main risks related to these issues associated with the activities of the group, including, where relevant and proportionate, its business relationships, products or services that could have an adverse effect on those areas, and how the group manages such risks, explaining the procedures used to identify and assess them in accordance with the national, European or international reference frameworks for each subject matter.	54-59	GRI 102-15	

Materiality analysis.	239, 240 233-234	GRI 102-46 GRI 102-47	
Social and personnel issues.			
Employment. • Number and distribution of employees by country, gender, age group and professional category. • Total number and distribution of employment contract types and annual average of: Indefinite contracts by gender, age and professional classification. Temporary contracts by gender, age and professional classification.	121-129 138-139	GRI 102-8 GRI 405-1	
• Number of layoffs by gender, age group and professional category	129-131	GRI 401-1	
• Average remuneration by gender, professional category and age group	145-150	GRI 405-2	
• Pay gap.	150-152	ARM-ARW ________ 100 ARM	
• Average remuneration of directors and senior managers, including bonus, allowances, compensation, payment to long-term savings schemes and any other payment broken down by gender.	150-152	GRI 405-2 GRI 201-3	
• Introduction of policies on disconnecting from work.	141-144	GRI 401-2	
• Percentage of disabled employees.	138	GRI 405-1	
Work organisation.			
• Organisation of work time.	142-145	GRI 401-2	
• Number of hours of absenteeism.	183	GRI 403-9 (2018)	
• Measures to facilitate work-life balance and encourage the co-responsible exercise of these by both parents.	139-142	GRI 401-3	
Health and safety.			
• Health and safety conditions in the workplace.	158-180	GRI 403-1 (2018) GRI 403-3 (2018) GRI 403-2 (2018) GRI 403-9 (2018)	
• Number of work accidents by gender.	158 177-180 163-166, 167, 169-171		The internal management system does not allow accident rates to be obtained for all workers who are not employees. The company aims to obtain this data in the future.

• Occupational diseases by gender.	158	GRI 403-10 (2018)	
Social relations.			
• Organisation of social dialogue, including procedures for informing, consulting and negotiating with staff.	153-155	GRI 402-1 GRI 403-4 (2018)	
• Percentage of employees covered by collective bargaining agreements.	153-154	GRI 102-41	
• Balance of the collective bargaining agreements in the field of occupational health and safety.	177-179	GRI 403-5 (2018)	
Training.			
• Policies introduced in the field of training.	131-136 173	GRI 404-2 GRI 403-5 (2018)	
• Total number of training hours by professional category.	132-135	GRI 404-1	
Universal accessibility for people with disabilities.	139	GRI 405-1	
Equality.			
• Measures taken to promote equal treatment and opportunities between women and men.	136-138	GRI 405-1 GRI 405-2	
• Equality plans.			
• Measures adopted to foster employment.			
• Protocols against sexual and gender-based harassment.			
• Integrity and universal accessibility for people with disabilities.			
• Policy against all types of discrimination, and where appropriate, diversity management.			
Environmental issues.			
Management approach.			
• Detailed information on the current and foreseeable effects of the company's activities on the environment and, where appropriate, on health and safety.	54-59 80-116	GRI 102-15 GRI 103-2	
• Environmental assessment or certification procedures.	88	GRI 307-1	
Environmental issues			

Management approach			
• Resources targeted at the prevention of environmental risks.	84-88	GRI 201-2	Naturgy is working to improve its methodology for measuring the financial implications associated with climate change risks.
• The application of the precautionary principle.	54-59	GRI 102-11	
• The amount of provisions and guarantees for environmental risks.	85	GRI 103-3	
Pollution.			
• Measures to prevent, reduce or repair carbon emissions that seriously affect the environment (also includes noise and light pollution).	92-94	GRI 305-1 GRI 305-2 GRI 305-3	
Circular economy, sustainable use of resources and waste prevention.			
• Measures for prevention, recycling, reuse, and other forms of recovery and disposal	104-107	GRI 306-2	
• Actions to combat food waste	N/A	N/A	
Sustainable use of resources.	100-103	GRI 303-1 (2018)	
• Water consumption and water supply in accordance with local constraints.	100-103 104-105	GRI 302-2 (2018) GRI 305-5 (2018)	
• Consumption of raw materials and measures taken to improve the efficiency of their use.	99	GRI 301-1	
• Direct and indirect energy consumption	98-99 94-96	GRI 302-1 GRI 302-4 GRI 302-1	
• Measures to improve energy efficiency.	94-96	GRI 302-4 GRI 302-5	
• Use of renewable energies.	98-99	GRI 302-1	
Environmental issues.			

Climate change.			
• Greenhouse gas emissions.	93-96	GRI 305-1 GRI 305-2 GRI 305-3 GRI 305-4 GRI 305-5	
• Measures to adapt to climate change.	96-98 94-95	GRI 201-2 GRI 302-4	
• Targets to reduce greenhouse gases.	85 94-95	GRI 305-5	
Biodiversity.			
• Measures to preserve or restore biodiversity.	108 116 114	GRI 102-11 GRI 304-3	So far, Naturgy does not have a programme that uses independent external experts to approve the success of all the restoration measures implemented.
• Impacts caused by the activity.	110-112	GRI 304-2	Naturgy continues to work towards obtaining increasingly accurate information on the duration of the impacts and the reversibility or irreversibility of them, in order to include this information in future reports.
Information on respect for human rights			
Application of due diligence procedures	215-220	GRI 102-16 GRI 102-17 GRI 412-2	
Measures for the prevention of risks of human rights violations and, where appropriate, measures to mitigate, manage and redress possible abuses.	215-220	GRI 102-16 GRI 102-34	
Complaints about human rights violations.	213	GRI 102-33	
Promotion and enforcement of the provisions of fundamental ILO conventions related to respect for freedom of association and the right to collective bargaining, elimination of forced or compulsory labour and the effective abolition of child labour.	214-221	GRI 102-16 GRI 407-1 GRI 408-1	
Information on corruption and bribery.			
Measures to prevent corruption and bribery.	214-221	GRI 205-3	

Anti-money laundering measures	216	GRI 201-16	
Contributions to foundations and not-for-profit associations.	197	GRI 201-1	
Information about the company.			
The commitment of companies to sustainable development.			
• The impact of society on local employment. • The impact of society's activity on local populations and the territory. • The relations maintained with the local community players and the types of business with them. • The actions of association or sponsorship. • The actions of association or sponsorship.	202-211 196-202	GRI 413-1 GRI 203-1 GRI 203-2	Naturgy has not implemented a methodology to measure the indirect economic contribution of the organisation.
Responsible supply chain management			
• The inclusion of social, gender equality and environmental issues in the procurement policy. • Consideration in relations with suppliers and subcontractors of their social and environmental responsibility. • Monitoring and auditing systems.	187-195	GRI 308-1 GRI 414-1 GRI 414-2 GRI 102-9	
Management of customers relations.			
• Measures for the health and safety of consumers. • Complaint systems. • Complaints received and their resolution.	60-63 231-232	GRI 416-1 GRI 417-2	
Tax information and transparency.			
• Profits country by country. • Taxes paid on profits. • Public grants received.	222	Accounting criteria	

GRI contents index [102-55]

GRI Standard	Disclosure	Pages	Direct response / Omission	External assurance
GRI 101: Foundation 2016				
GRI 102: General disclosures 2016				
Organisational profile	102-1 Name of the organisation	3		Yes
	102-2 Activities, brands, products and services	63		Yes
	102-3 Location of headquarters	10		Yes
	102-4 Location of operations	10		Yes
	102-5 Ownership and legal form	Annual Accounts and Directors' Report of the Consolidated Group of Naturgy Energy Group, S.A., p. 7		Yes
	102-6 Markets served	10		Yes
	102-7 Scale of the organisation	15,16, 75		Yes
	102-8 Information on employees and other workers	121		Yes
	102-9 Supply chain	184, 185, 186		Yes
	102-10 Significant changes to the organisation and its supply chain	10		Yes
	102-11 Precautionary principle and approach	54		Yes

	102-12 External initiatives	77, 162		Yes
	102-13 Affiliation to associations	162, 198		Yes
Strategy	102-14 Statement from senior decision-makers	3		Yes
	102-16 Values, principles, standards and norms of behaviour	214		Yes
Governance	102-18 Governance structure	46		Yes
Stakeholder engagement	102-40 List of stakeholders	25		Yes
	102-41 Collective bargaining agreements	153		Yes
	102-42 Identifying and selecting stakeholders	25		Yes
	102-43 Approach to stakeholder engagement	25		Yes
	102-44 Key topics and concerns raised	25		Yes
Reporting practice	102-45 Entities included in the consolidated financial statements	Annual Accounts and Directors' Report of the Consolidated Group of Naturgy Energy Group, S.A., p. 148-153		Yes
	102-46 Defining report content and topic boundaries	234, 240		Yes
	102-47 List of material topics	233		Yes
	102-48 Restatements of information	239		Yes

	102-49 Changes in reporting	234, 235, 239	There have been no significant changes to the list of material items.	Yes
	102-50 Period covered by the report	239	2020	Yes
	102-51 Date of last report	Year 2019	2019	Yes
	102-52 Reporting cycle	240		Yes
	102-53 Contact point for questions regarding the report	241		Yes
	102-54 Claims of reporting in accordance with the GRI Standards	240		Yes
	102-55 GRI content index	249		Yes
	102-56 External verification	241		Yes
Material issues				
Climate change and energy transition				
GRI 103: Management approach	103-1: Explanation of the material topic and its boundary	92		Yes
	103-2: Management approach and its components	92		Yes
	103-3: Evaluation of the management approach	92		Yes
GRI 305: Emissions 2016	305-1 Direct GHG emissions (Scope 1)	93		Yes
	305-2 Indirect GHG emissions from power generation (Scope 2)	93		Yes
	305-3 Other indirect GHG emissions (Scope 3)	93		Yes
	305-4 GHG emissions intensity	93		Yes
	305-5 Reduction of GHG emissions	94		Yes
	305-6 Emissions of ozone-depleting substances (SAO)	104		Yes
	305-7 Nitrogen oxides (NO_X), sulphur oxides (SO_X), and other significant air emissions	103		Yes
EU1	EU1 Installed capacity	16		Yes
EU2	EU2 Net energy output	17		Yes
EU3	EU3 Number of clients	13, 14		Yes
EU4	EU4 Length of transmission and distribution lines	13, 14		Yes

EU5	EU5 Allocation of CO_2 emissions allowances or equivalent	94		Yes
Business integrity, compliance and transparency				
GRI 103: Management approach	103-1: Explanation of the material topic and its boundary	211		Yes
	103-2: Management approach and its components	211		Yes
	103-3: Evaluation of the management approach	211		Yes
GRI 205 Anti-corruption 2016	205-3 Confirmed incidents of corruption and actions taken	213		Yes
GRI 206 Unfair competition 2016	206-1 Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	230		Yes
GRI 307 2016	307-1: Non-compliance with environmental laws and regulations.	88		Yes
Circular economy and eco-efficiency				
GRI 103: Management approach	103-1: Explanation of the material topic and its boundary	98		Yes
	103-2: Management approach and its components	98		Yes
	103-3: Evaluation of the management approach	98		Yes
GRI 301 Materials 2016	301-1 Materials used, by weight or volume	99		Yes
GRI 302: Energy 2016	302-1 Electricity consumption within the organisation	99		Yes
	302-2 Electricity consumption outside the organisation	99		Yes
	302-3 Energy intensity	99		Yes
	302-4 Reduction of energy consumption	94		Yes
	302-5 Reduction in energy requirements of products and services	94		Yes
GRI 303: Water and effluents 2016	303-1 Interactions with water as a shared resource	100		Yes
	303-2 Management of water discharge-related impacts	100		Yes
	303-3 Water withdrawal	100, 101, 102		Yes
	303-4 Water discharge	102, 103		Yes
	303-5 Water consumption	102, 103		Yes

GRI 306: Effluents and waste 2016	306-2 Waste by type and disposal method	104		Yes
	306-3 Significant spills	89		Yes
Occupational safety				
GRI 103: Management approach	103-1: Explanation of the material topic and its boundary	156		Yes
	103-2: Management approach and its components	156		Yes
	103-3: Evaluation of the management approach	156		Yes
GRI 403: Occupational Health and Safety 2018	403-1 Occupational health and safety management system	158, 176, 180		Yes
	403-2 Hazard identification, risk assessment, and incident investigation	163, 165, 167, 169, 171		Yes
	403-3 Occupational health services	178		Yes
	403-4 Worker participation, consultation, and communication on occupational health and safety	171, 172		Yes
	403-6 Promotion of worker health	182		Yes
	403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	163, 174, 177		Yes
	403-8 Workers covered by an occupational health and safety management system	158, 176, 180		Yes
	403-9 Work-related injuries	158	The internal management system does not allow accident rates to be obtained for all workers who are not employees. The company aims to obtain this data in the future.	Yes
	403-10 Work-related ill health	158		Yes
	EU25 Injuries and fatalities to the public due to company activities	176		Yes
Social contribution and participation				
GRI 103: Management approach	103-1: Explanation of the material topic and its boundary	196		Yes
	103-2: Management approach and its components	196		Yes
	103-3: Evaluation of the management approach	196		Yes

GRI 413: Local communities 2016	413-1 Operations with local community engagement, impact assessments and development programmes	202		Yes
Customer service and satisfaction				
GRI 103: Management approach	103-1: Explanation of the material topic and its boundary	60		Yes
	103-2: Management approach and its components	60		Yes
	103-3: Evaluation of the management approach	60		Yes
GRI 417: Marketing and labelling 2016	417-1 Requirements for product and service information and labelling		The general terms and conditions of contracting for the services provided by Naturgy provide customers with the appropriate information about their rights and obligations and about the features of the services provided (gas and electricity). There are no records of breaches of agreements regarding the legal obligations required in each country in which the company operates in this area.	Yes
	417-2 Incidents of non-compliance concerning product and service information and labelling	231		Yes
	417-3 Incidents of non-compliance concerning marketing communications		In 2020, the company registered no fines for breach of regulations on marketing communications, including advertising, promotions and sponsorship.	Yes

Responsible and sustainable supply chain				
GRI 103: Management approach	103-1: Explanation of the material topic and its boundary	184		Yes
	103-2: Management approach and its components	184		Yes
	103-3: Evaluation of the management approach	184		Yes
GRI 204: Procurement practices 2016	204-1 Proportion of spending on local suppliers	185		Yes
GRI 308: Supplier environmental assessment 2016	308-1: New suppliers that were screened using environmental criteria	187		Yes
	308-2: Negative environmental impacts in the supply chain and actions taken	187		Yes
GRI 414: Social assessment of suppliers 2016	414-1 New suppliers examined using social criteria	187		Yes
	414-2 Negative social impacts in the supply chain and actions taken	187		Yes
Care and welfare of workers				
GRI 103: Management approach	103-1: Explanation of the material topic and its boundary	142		Yes
	103-2: Management approach and its components	142		Yes
	103-3: Evaluation of the management approach	142		Yes
GRI 401: Employment 2016	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	142		Yes
	401-3 Parental leave	139, 140, 141		Yes
GRI 402: Labour/Managem ent relations 2016	402-1 Minimum notice periods regarding operational changes	154		Yes
Good corporate governance				
GRI 103: Management approach	103-1: Explanation of the material topic and its boundary	46		Yes
	103-2: Management approach and its components	46		Yes
	103-3: Evaluation of the management approach	46		Yes

GRI 405: Diversity and equal opportunities 2016	405-1 Diversity of governance bodies and employees	50, 51, 121, 138, 139		Yes
Biodiversity				
GRI 103: Management approach	103-1: Explanation of the material topic and its boundary	108		Yes
	103-2: Management approach and its components	108		Yes
	103-3: Evaluation of the management approach	108		Yes
GRI 304: Biodiversity 2016	304-1 Operations centres owned, leased or managed located within or adjacent to protected areas or zones of great value for biodiversity outside protected areas	112		Yes
	304-2 Significant impacts of activities, products and services on biodiversity	110	Naturgy continues to work towards obtaining increasingly accurate information on the duration of the impacts and the reversibility or irreversibility of them, in order to include this information in future reports.	Yes
	304-3 Habitats protected or restored	114, 116	So far, Naturgy does not have a programme that uses independent external experts to approve the success of all the restoration measures implemented.	Yes
	304-4 IUCN Red List species and national conservation list species with habitats in areas affected by operations	112		Yes
	EU13 Biodiversity of surrounding area habitats	116		Yes
Diversity and equality				
GRI 103: Management approach	103-1: Explanation of the material topic and its boundary	117, 136		Yes
	103-2: Management approach and its components	117, 136		Yes
	103-3: Evaluation of the management approach	117, 136		Yes

GRI 401: Employment 2016	401-1 New employee hires and employee turnover	129, 131		Yes
GRI 405: Diversity and equal opportunities 2016	405-2 Ratio of basic salary and remuneration of women to men	145		Yes
Energy vulnerability				
GRI 103: Management approach	103-1: Explanation of the material topic and its boundary	60, 199		Yes
	103-2: Management approach and its components	60, 199		Yes
	103-3: Evaluation of the management approach	60, 199		Yes
EU 27	EU27 Disconnections of residential customers for non-payment	67		Yes

Glossary of non-financial indicators

Indicator	Definition
Investment in innovation	Amount in euros allocated to innovation activities.
Overall satisfaction with service quality	Customers' degree of satisfaction with the quality of global service on a scale from 1 to 10 (in Chile from 1 to 7), broken down by country or geographical region.
Evolution of the DJSI percentile	The company's global score in the annual Dow Jones Sustainability Index evaluation
Direct greenhouse gas emissions (GHG)	Greenhouse gas emissions (GHG) caused by sources owned by or controlled by the company.
Emission factor for electricity generation (tCO_2/GWh)	Emission rate as a result of electrical generation activity arising from the ratio of the amount of atmospheric pollution emitted (tonnes of carbon dioxide) divided by energy generated (GWh).
Installed capacity free of emissions (%)	% that represents the installed capacity in hydro, mini-hydro, wind, nuclear and solar technologies over the total installed capacity at the year-end.
Net production free of emissions (%)	% representing the net output of hydro, mini-hydro, wind, nuclear and solar technologies over total net output.
Activity with ISO 14001 environmental certification (%)	Percentage of Ebitda corresponding to companies certified (*) by means of the environmental management model included in the ISO 14001 standard, with respect to total Ebitda generated by activities that have an environmental impact. (*) Certified companies have been included as companies assimilated to certified companies pursuant to the following definition: ▪ Those parent companies whose subsidiaries, of which they are more than 50% owned, are practically all certified. ▪ Those companies that concentrate corporate services only from certified companies. ▪ Those companies whose parent company concentrates corporate services and is certified.
Water consumption	Volume of water consumed by the company's activities.
Consumption of raw materials	Thousands of tonnes of raw materials used in the company's main processes.
Direct energy consumption	It represents the difference between the consumption of non-renewable fuels, electricity purchased for consumption and renewable electricity generated, less the electricity and steam sold.
Indirect energy consumption	It represents the consumption by the final use of the natural gas distributed/marketed.
Generation of hazardous waste (kt)	Amount of most representative hazardous waste generated.
Resources targeted at the prevention of environmental risks	Amount allocated to investments and expenditure on environmental matters.
Distribution of employees by age, country, gender and professional category	Distribution of employees by age, country, gender and professional category at year-end.

Annual average of indefinite and temporary contracts by age, gender and professional category	Percentage of employees recruited by type of contract at year-end and annual average of temporary contracts by age, gender and classification.
Rotation index	Layoffs/average staff.
Voluntary rotation index	Voluntary layoffs/average staff.
Number of dismissals by age, gender, and professional category	Number of persons dismissed, either rightly or wrongly, classified by age, gender and professional category.
Salary gap	Difference between men's and women's wages, calculated as the difference between men's and women's wages, divided by men's wages. The result above zero represents the percentage of salary below men that women receive. The result below zero represents the percentage of salary above men that women receive.
Average remuneration by age, gender, and professional category Average remuneration of directors and senior managers	Amount of the average remuneration of staff classified by country, age, gender and professional category. Amount of directors' and senior managers' remuneration weighted by the number of directors and executives.
Personnel costs (million euro)	Monetary amount representing the staff expenses for the company (wages and salaries, Social Security expenses, defined contribution plans, defined benefit plans, works performed on the company's fixed assets, and others).
Percentage of employees covered by collective bargaining agreements	Percentage of employees by country whose contract is covered by a collective bargaining agreement.
Staff trained (%)	Percentage of staff who have received training.
Total training hours	Total hours of training received by staff.
Annual investment in training (Euros)	Total monetary amount invested by the company in employee training.
People with disabilities integration index	Percentage of employees in Spain with disabilities.
Number of lost time accidents	Number of work accidents with days lost (whether or not fatal)
Days lost	Workdays lost due to occupational accidents. Calculated from the day following the day the medical leave is received and considering calendar days.
Fatalities	Number of workers who have died due to work accidents.
Number of hours worked	Total actual hours worked in the Company.
Number of days lost	Total days off as a result of recorded occupational accidents.
Lost time accidents frequency rate	Number of accidents with lost time occurring during the working day per 200,000 hours worked.
Lost time accidents severity rate	Number of days lost as a result of work accidents per 200,000 hours worked.
Occupational illnesses	Illnesses caused by work activity.
Absenteeism	Hours of absenteeism due to occupational and non-occupational illness.
Total number of suppliers	Number of suppliers who have remained active (registered in the supplier database) during the year, and who have been

	awarded purchases in the year; total and broken down by country.
Total purchase volume awarded	Total monetary amount corresponding to the awards of the year, considering 100% of the awards whose period of validity is less than 365 days, as well as the annualised amounts corresponding to 2020 for the awards of more than 365 days.
Purchasing budget targeted at local suppliers (%)	Amount of budget used for the procurement of suppliers located in the geographical area from where the purchases are made over the total procurement budget.
ESG (Environmental, Social and Governance) supplier assessment	Total number of suppliers that have been active (registered in the supplier database) during the year, evaluated in accordance with ESG criteria, regardless of whether or not they have been awarded, or have provided a service/product to Naturgy during the year.
Number of critical suppliers	Number of suppliers classified as “High” risk, who have remained active (registered in the supplier database) during the financial year, and who have provided products/services to Naturgy during the financial year.
Official-approval suspended suppliers	Suppliers who have not passed the supplier approval process.
Sponsorship and social action investment	Economic contribution to social action or investment and sponsorship and patronage programmes.
Distribution by type of social action (%).	Distribution of investments by reason for initiatives, broken down according to the London Benchmarking Group (LBG) methodology.
Sponsorship and social action activities	Number of sponsorship, patronage and social action activities carried out by the company.
Queries and notifications to the Code of Ethics	Number of communications relating to the Code of Ethics and Anti-Corruption Policy which have been received by the Code of Ethics Committee.
No. of notifications received per 200 employees	Ratio of number of communications received relating to the Code of Ethics and the Anti-Corruption Policy which have been received by the Code of Ethics Committee per 200 company employees.
Average time for resolving notifications (days)	Average number of days from the time the company receives the communications until it resolves them.
Audit projects analysed on the basis of operational risks	Number of audit projects analysed on the basis of operational risks.
Notifications received in the area of human rights	Number of communications which the company has received concerning human rights.
Number of persons trained on the Human Rights Policy	Number of employees who have taken part in training on the Human Rights Policy.
Tax contribution	Amount of taxes actually paid by country and segmented between those that represent an effective expense for the group and those that are withheld or passed on to the end taxpayer.

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

INDEPENDENT ASSURANCE REPORT ON THE SUSTAINABILITY REPORT AND THE CONSOLIDATED NON-FINANCIAL INFORMATION STATEMENT

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

In accordance with article 49 of the Commercial Code, we have verified, with a limited scope, the Sustainability Report and the accompanying Consolidated Non-Financial Statement (hereinafter NFS) for the year ended December 31, 2020 of Naturgy Energy Group, S.A. and subsidiaries (hereinafter the Group), which is part of the Group's Consolidated Management Report.

The content of the NFS contains information in addition to that required by prevailing company law in respect of non-financial information that was not included in the scope of our assurance work. Consequently, our work was limited exclusively to verifying the information identified in the "Content index in accordance with the provisions of Act 11/2018" and in conformity with the "GRI content index" included in the accompanying NFS.

Director's responsibility

The preparation of the NFS included in the Group's Consolidated Management Report and its content is the responsibility of the Directors of Naturgy Energy Group, S.A. The NFS was prepared in accordance with the content required by prevailing company law and in conformity with the criteria outlined in the GRI Sustainability Reporting Standards (GRI standards), core option, as well as other criteria, such as the G4 GRI Electric Utilities and Oil and Gas sector supplements, or other criteria established by the Group. Those criteria are described as explained for each subject matter in the "Content index in accordance with the provisions of Act 11/2018", the "GRI content index" and the "Glossary of non-financial indicators" of the said report, and in accordance with principles stated in AA1000AP (2018) issued by AccountAbility (Institute of Social and Ethical Accountability).

The directors are also responsible for the design, implementation and maintenance of such internal control as they determine is necessary to enable the preparation of a NFS that is free from material misstatement, whether due to fraud or error.

The directors of Naturgy Energy Group, S.A. are also responsible for defining, implementing, adapting, and maintaining the management systems from which the necessary information for preparing the NFS is obtained.

Our independence and quality control procedures

We have complied with the independence and other Code of Ethics requirements for accounting professionals issued by the International Ethics Standards Board for Accountants (IESBA), which are based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behavior.

Our firm applies International Standard on Quality Control 1 (ISQC 1), and consequently maintains a comprehensive quality control system which includes documented policies and procedures relating to compliance with ethical requirements, professional standards, and the applicable legal and regulatory provisions.

The EY team is made up of experts in non-financial information engagements and specifically, information on economic, social, and environmental performance.

Our responsibility

Our responsibility is to express our conclusions in an independent limited assurance report based on the work performed. We have carried out our work in accordance with the requirements established in the International Standard on Assurance Engagements (ISAE) 3000 (revised), "Assurance Engagements Other than Audits and Review of Historical Financial Information" issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) and in accordance with the Guidelines on non-financial statement assurance engagements issued by Spain's Institute of Auditors and AA1000AS v3, with a moderate level of type 2 assurance.

In a limited assurance engagement, the procedures carried out vary in nature and timing, and are less in extent than those carried out for a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is also substantially lower.

Our work consisted in making inquiries of management and of the Group's various business units participating in the preparation of the NFS, reviewing the processes for compiling and validating the information presented therein, and applying certain analytical procedures and sample review tests as described in general terms below. These procedures included:

- Holding meetings with Group personnel to gain an understanding of the business model, the policies and management approaches applied, and the main risks related to these matters, as well as to gather the information needed to perform the independent assurance work.
- Analyzing the scope, relevance, and integrity of the contents of the 2020 NFS, based on the materiality assessment performed by the Group and described in the section "About this report" in light of the content required under prevailing company law.
- Analyzing the processes used to compile and validate the data presented in the 2020 NFS.
- Reviewing the disclosures relating to the risks, policies, and management approaches applied with respect to the material matters presented in the 2020 NFS.
- Checking, via tests of a selected sample, the information underlying the contents of the 2020 NFS and the satisfactory compilation of the NFS based on data taken from information sources.
- Obtaining a representation letter from the Directors and Management.

In addition, we reviewed the adequacy of the structure and content in accordance with the principles established in standard AA1000AP (2018), with a moderate level of type 2 assurance.

Conclusions

Based on the limited assurance procedures conducted and the evidence obtained, no matter has come to our attention that would cause us to believe that the Group's NFS for the year ended December 31, 2020 has not been prepared, in all material respects, in accordance with the contents required by prevailing company law and the criteria established by the GRI standards, core option, as well as other criteria, including the G4 GRI Electric Utilities and Oil and Gas sector supplements and the own criteria established by the Group, described as explained for each subject matter in the "Content index in accordance with the provisions of Act 11/2018", the "GRI content index" and the "Glossary of non-financial indicators" of the said NFS.

With regard to the application of the principles established in standard AA1000AP (2018), no matter has come to our attention that would cause us to believe that the Group has not applied the principles of inclusivity, materiality, responsiveness, and impact, as explained under the section "About this report."

Recommendations

We presented our recommendations to Group management regarding areas of improvement related to the application of standard AA1000AP (2018). The most significant recommendations are summarized below:

- Inclusivity: The Group's sustainability policy identifies the most relevant stakeholders to the Company. For each identified stakeholder, there are different communication channels to engage in a dialog with them. Due to COVID-19, talks with internal collaborators and other stakeholders have intensified, which has resulted in an action plan to give a comprehensive response to the needs arisen as a result of the pandemic. We recommend keeping on working on fostering periodic consultation with local stakeholders in the countries where the Company operates.

- Materiality: Every year the Company conducts a materiality analysis applicable to all countries and business units and considers the Group's risk analyses. This provides leverage to define the scope of the Report and the update of the sustainability action plan. We recommend reviewing material matters periodically, involving local stakeholders, to reinforce inclusion of relevant aspects in its sustainability strategy.

- Responsiveness: The Company has updated its 2021-2025 sustainability plan, which is aimed at strengthening the Group's commitment to stakeholders and moving forward towards energy transition. The Company is working on aligning the variable remuneration goals with the goals set in this new plan. Every year, the Group reports the key ESG results, which allows it to identify the Company's level of compliance with the goals defined. We recommend continuing to include ESG performance in the financial reporting, providing quarterly information on key KPIs.

- Impact: The Group is working on a methodology for measuring the Company's social and environmental impact. We recommend moving forward on the measurement and analysis of long-term value created. Additionally, we recommend intensifying internal communication to ensure all collaborators get involved in the Group's commitment to creating value and a positive impact on society.

Use and distribution

This report was prepared in response to the requirement established by prevailing company law in Spain and may not be appropriate for other uses or jurisdictions.

This report has been assigned stamp nº 20/21/02638 issued by the Col·legi de Censors Jurats de Comptes de Catalunya (Association of Certified Public Accountants of Catalonia)

ERNST & YOUNG, S.L.

(Signature on the original in Spanish)

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Antonio Capella Elizalde

AA1000
Licensed Assurance Provider
000-59

February 3, 2021

Carbon Footprint Report

1. Main figures

Greenhouse gas emissions	2020
Scope 1 (tCO_2eq)	**14,301,874**
Scope 2 (tCO_2eq)	**1,153,608**
Scope 3 (tCO_2eq)	**123,217,903**
CO_2 emission intensity of electricity generation (tCO_2/GWh)	**297**
Intensity of methane leaks in the natural gas distribution network (tCO_2eq/km network)	**5.7**

Electricity generation	2020
Installed capacity free of emissions (%)	**33**
Net production free of emissions (%)	**32**
Total installed capacity in renewables (MW)	**4,609**
Increase in installed capacity in renewables in 2020 vs. 2019 (%)	**10**

Main climate change targets
Reduce absolute GHG emissions Scopes 1 and 2 by 21% in 2022 vs. 2017
Reduce the CO_2 emission intensity of electricity generation by 22% in 2022 vs. 2017
Reach a percentage of renewable installed capacity in the generation mix that is greater than 34% by 2022

2. Significant events

In 2020

- 72% of investment spent mainly on increasing renewable generation and extending and improving electricity networks, in line with the energy transition.
- 151 MW of new renewable power in Spain put into operation, increasing installed wind power capacity by 10% compared to 2018 in Spain and by 8% globally.
- Closure of all the group's coal-fired plants, which will lead to a significant reduction in CO_2 emissions.
- Commercialisation of ECO tariffs and products in Spain, such as the ECO electricity tariff, to provide customers with 100% of their energy from renewable sources (approximately 5,400 GWh, 29% of the energy supplied) and the neutral gas tariff, a natural gas supply service offset by neutralising their CO_2 emissions. In 2020, Naturgy offset about 13,783 tCO_2eq for its customers.

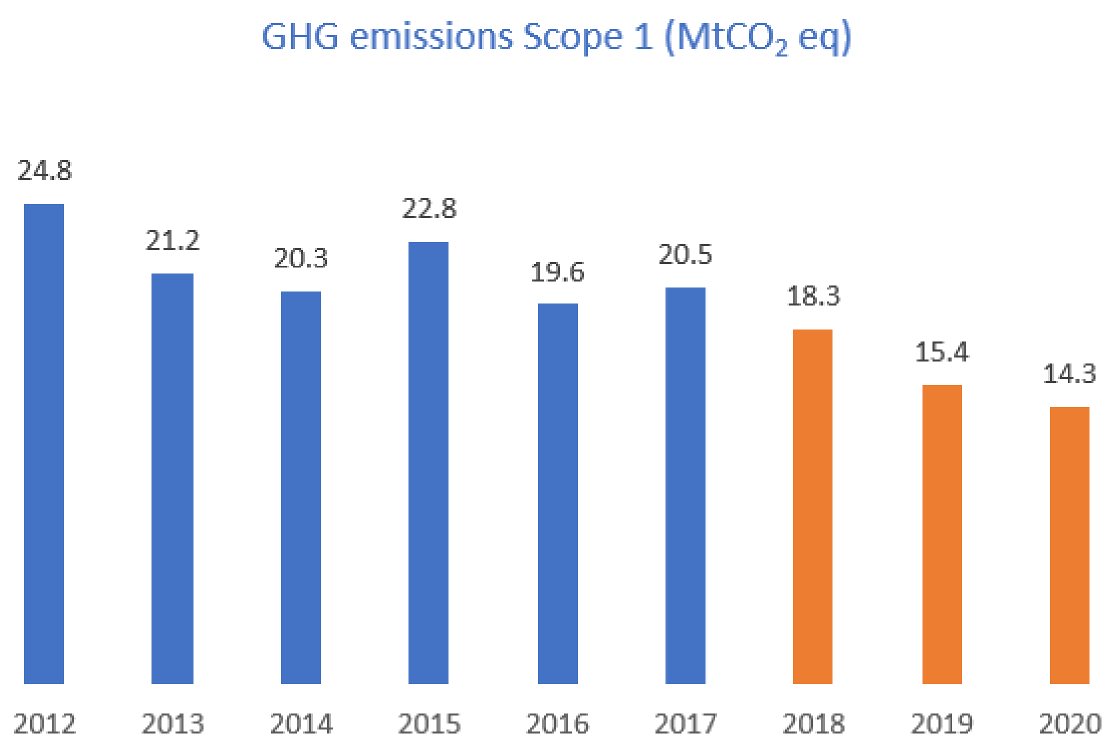
- In 2020, 2.02 GWh of biomethane (GHG-neutral renewable gas) from the Butarque WWTP project, which is part of the European ECOGATE initiative, were injected into Spain's gas networks. In addition, we have started the construction of the biomethane plant at the Elena landfill and the injection unit at the Bens WWTP, with the aim of being able to inject renewable gas into the network at the beginning of 2021.
- Reduction of 7% of direct greenhouse gas emissions compared to 2019.
- Naturgy included in the CDP Climate Change 2020 A List in recognition of its climate management in 2020.

Since the launch of the strategic plan

- 30% fall in direct GHG emissions in 2020 vs. 2017
- 23% reduction of CO_2 intensity in electricity generation in 2020 vs. 2017
- 16% reduction of carbon footprint (Scopes 1, 2 and 3) in 2020 vs. 2017

Since 2012

- We have reduced our direct GHG emissions (Scope 1) by 42%. The graph below shows the evolution over time, highlighting the decrease from 2017, with the implementation of the Strategic Plan 2018-2022.



We have offset all the emissions from our buildings, travel and fleet by 12,114 tCO_2eq and also 13,783 tCO_2eq for our customers with the Neutral Gas product.

3. Climate change governance

At Naturgy, the delegate Sustainability Committee of the Board of Directors is responsible for climate change governance. It oversees the company's actions in the area of sustainable development, focusing on environmental, social and corporate governance policies. In relation to climate change, this committee monitors performance against defined key indicators as well as the management of risks and opportunities related to climate change.

Climate governance involves all of the company's businesses, operating areas, geographies and projects through the Management Committee and the Sustainability Committee.

Environmental and climate change risks are integrated into the global risk management model. Ensuring predictability and sustainability in the company's operational and financial performance is one of the key aspects of risk management at Naturgy.

Governance agencies and responsibilities in climate change

Board of Directors

Sustainability Committee

Oversees sustainability policies, focusing in particular on environmental, social and corporate governance policies.

Audit Committee

Monitors the management and exposure to risk of the different businesses.

Senior Management

Management Committee

Ensures the application and monitoring of business and sustainability policies, strategies, plans and objectives, proposing measures in the area of climate change.

Sustainability Committee

Ensures the performance, implementation and improvement of environmental and climate change policies, commitments, plans and objectives through monitoring and action proposals.

Risk Committee

Determines and reviews the target risk profile and supervises risk management by the units.

Business and Corporate Units

Business and Corporate Units

Responsible for the application of general principles and strategies and the development of plans, projects and activities to meet climate change targets.

Corporate Environment Unit

Establishes the policy, indicators and objectives for the environment and climate change in coordination with the businesses, monitors the evolution, consolidates the information and centralises reporting for the management committees and Board of Directors.

In accordance with the Regulations for the organisation and functioning of the Board of Directors and its Committees of November 2020, the Sustainability Committee meets at least three times a year. At these meetings, the company monitors performance on climate change and the energy transition, using a high-level indicator scorecard.

This commitment made by senior management is transferred to all business and corporate units through the Global Environmental Policy, which establishes climate change and energy transition as one of its strategic environmental areas, defining the following basic principles of action:

Basic principles of action

- Promoting renewable energies, natural gas and energy savings and efficiency as key elements towards a low-carbon model.
- Offering solutions for cities and land and maritime transport that reduce emissions and improve air quality.
- Innovate in technologies and business models that help reduce greenhouse gas emissions.
- Supporting international climate change negotiations and market mechanisms that foster the development of the most appropriate technologies at each stage of the energy transition.

These guidelines, in turn, are translated into high-level climate targets for the framework set by the Strategic Plan 2018-2022 and reflected in the Environmental Plan, which are summarised in the table below:

	Indicator	**Target 2022**
Climate change and energy transition	Absolute GHG emissions Scope 1 and Scope 2	Reduce emissions by 21% in 2022 compared to 2017 to 17.3 million tCO_2eq.
	CO_2 intensity in power generation	Reduce specific CO_2 emissions from power generation by 22% in 2022 compared to 2017 to 304 t CO_2/GWh

	Percentage of the generation mix from renewable sources measured in installed capacity over the total of the group.	34% renewable power in electricity generation

NB: The absolute emissions and GHG intensity targets are in line with the overall objective of the Paris Agreement to keep the temperature increase below 1.5°C.

These commitments are transferred to the assessment of the management team's performance through objectives of transformation of the generation mix, development of renewable energies and energy efficiency, which result in the reduction of GHG emissions.

4. Management of risks, opportunities and strategy in climate change

Risk management

Naturgy identifies and assesses the impact of the main risk factors through the Risk Management Model, which seeks to ensure the predictability of the company's performance in all aspects relevant to its stakeholders.

The elements that allow for continuous improvement in the process of identifying, characterising and determining Naturgy's risk profile are: the Risk Control and Management Policy, the Corporate Risk Map and the Risk Measurement System.

The Corporate Risk Map identifies and quantifies the risks that may affect the company's performance, including those related to the environment, climate change and energy transition. Their measurement allows them to be integrated within the Corporate Strategy and to set targets with the aim of keeping risks to a minimum and maximising opportunities.

These risks are identified following the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and in accordance with the nomenclature used in that standard. The following classification is established: physical risks (acute and chronic) and transition risks (regulatory, technological, market and reputation).

The assessment analyses the probability of occurrence, the time horizon and the impact, taking into account two scenarios. The first scenario is the 2ºC policy scenario, i.e., with the objective of reaching a maximum global warming of 2ºC. The second, much more restrictive scenario, corresponds to a global warming objective of 1.5ºC or less. The section "Scenarios considered" below gives details of these scenarios.

The time horizons are approximate, although a reference could be: short-term in reference to the Strategic Plan 2018-2022, medium-term until 2030 and long-term beyond 2030.

The information included in the management section develops the company's policies or actions aimed at minimising the risks identified.

The main risks linked to climate change at Naturgy are the following:

Main risks linked to climate change at Naturgy

Identification			Assessment				Management
Type	**Risk**	**Description**	**Probability**	**Time horizon**	**2ºC impact**	**1.5ºC impact**	**Management**
Acute physical risks	Damage from extreme weather events	Damage to facilities, loss of production and/or interruption of energy supplies (gas or electricity)	Possible	Medium	Low	Very low	Policies for: property damage/loss of profit, environmental liability and land liability. All our facilities are designed to operate under extreme weather conditions.
	Increased frequency and severity of fires	Damage to facilities and risk of increased fire frequency on electricity distribution lines with possible damage to third parties.	Possible	Short	Medium-high	Medium	Policies for: property damage/loss of profit, environmental liability and land liability. Innovation projects for the improvement of felling and pruning work for the maintenance of power line safety corridors.
Chronic physical risks	Effects of increased temperature.	Drop in demand for natural gas for heating (residential and commercial). Decrease in the performance of combined-cycle power stations.	Possible	Medium	Low	Very low	Increase the contribution of electricity businesses vs. gas businesses. Operational efficiency plan that establishes objectives to improve specific consumption in thermal power stations, compensating for efficiency losses due to temperature increases
	Impacts of changes in rainfall patterns and extreme variability of weather patterns	Changes in the generation dispatch	Possible	Long	Low	Very low	Hydroelectric power station repowering programme. Study of the impact of climate change on hydroelectric power stations. Dominant position in combined-cycle power stations to support the production of electricity from renewable sources.
		Wholesale electricity market price changes					
		Floods	Possible	Long	Low		

	Effects of rising sea levels	Loss of production and/or interruption of supplies				Very low	Plans for self-protection and periodic evaluation of emergency environmental issues
Transition: Policies and regulation	Regulatory changes of energy and climate policies to mitigate climate change	More demanding GHG emission reduction paths Accelerated transition to decarbonisation Variations in the carbon markets Changes in environmental taxation Electrification to the detriment of natural gas	Likely	Medium	Low - Medium	Medium - High	Measures to reduce the company's carbon intensity: divestment of high carbon intensity assets (coal mine in South Africa, fuel oil power generation in Kenya), announcement of coal plants closure, development of new renewable power, increasing the weight of electricity in the company's portfolio and boosting renewable gases. Positioning natural gas in the energy transition as a substitute for high-emission fossil fuels (coal and/or oil derivatives)
Transition: technological	Technological disruption in the energy transition	Technological improvements, cost reductions or innovations that support the transition to a more efficient and low-carbon economic system. For example, implementation of large-scale electricity storage systems	Likely	Medium	Medium - High	High	Investment to triple installed renewable capacity by 2022 Promoting innovation in renewable gas, hydrogen, energy storage and other technologies for energy transition to a decarbonised economy
Transition: Market	Changes in traditional energy business models	Demand for new low-carbon products and services Financing difficulties for projects not aligned with the reduction of	Likely	Medium	Medium	Medium - High	Accounting adjustment of the book value of conventional electricity generation assets Announcement of the closure of the coal-fired power stations

		greenhouse gas emissions. Loss in asset valuation (stranded assets)					Development of new services (self-consumption, commercialisation of renewable electricity, PPAs) and low-carbon products (Neutral Gas, GDO's in the gas sector)
							Increase the contribution of regulated vs. liberalised businesses and increased weight of electricity in the company's portfolio
Transition: Reputation	Increased demand for transparency and climate action by stakeholders.	Loss of relevance in climate change and sustainability indices due to failure to achieve the expected standard of climate management or reputational damage resulting from climate change impacts, which may negatively affect the valuation of company intangibles by stakeholders (shareholders, customers or employees).	Remote	Short	Medium - High	High	Corporate positioning on climate change with new Global Policy and Environmental Plan that includes emission reduction targets aligned with 1.5 ºC scenarios. Presence in the main sustainability indices such as CDP or DJSI.

Climate risk assessment methodology

The climate change risk model is based on a tool developed by Ms Excel and @Risk that allows the company's risk exposure to be estimated.

The tool uses a Monte Carlo simulation (1) which determines the optimal abatement cost (2) in the European Union to meet the CO_2 reduction targets for 2030 and allows CO_2 price scenarios to be obtained that reflect the evolution of the penetration of renewable energies, fuel prices, electricity demand, electricity prices, impact on Ebitda, Value at Risk, etc.

The model allows the parameters related to energy markets (penetration of renewables, energy efficiency, CO_2 and energy prices) to be modified in order to carry out sensitivity and regulatory analyses and stress tests. In addition, impact assessment scenarios based on new products and services or R&D&I actions can be simulated.

The exposure to the risks of the different scenarios can be broken down into the following areas:

- **Temporary:** The impacts are analysed over various time horizons (2020-2050) and the risks are classified according to their relevance in the short, medium and long-term.
- **Nature of the business**: The impacts that could be caused in the company's different businesses (generation, commercialisation and distribution of electricity and gas and operation in markets of CO_2 emission rights) are analysed.
- **Geography**: The impacts are analysed in the various countries in which Naturgy operates.

(1) The Monte Carlo simulation is a computerised mathematical technique that allows risk to be taken into account in quantitative analysis and decision-making. When applied to the world of energy prices, it gives a measure of the maximum individual and/or joint variation that these prices can have, over a given time horizon and at a given level of confidence.

(2) For the purposes of the climate change risk model, work is done with the concept of abatement cost as the optimum CO_2 price for meeting the European Union's emission reduction targets for 2030.

Scenarios considered

IPCC SRES A2 temperature increase scenario (2ºC).

- 2DS ETP IEA (2ºC) 50% probability of not exceeding 2ºC in 2100 (central scenario).
- B2DS ETP IEA (well below 2ºC) 66% probability of limiting peak warming between now and 2100.
- SR1.5 IPCC (1.5ºC) Scenario defined for 1.5ºC by SBTI.

NB: IPCC: Intergovernmental Panel on Climate Change; ETP: Energy Technologies Perspectives; IEA: International Energy Agency; SBTI: Science Based Target Initiative.

In the last simulation carried out, we worked with 4 scenarios for covering demand in 2030. We obtained abatement costs for 2030 of around 40 euros/tCO_2 for the intermediate scenarios. The CO_2 price is used for:

- Strategic decision-making.
- Investment analysis.

- Identifying opportunities according to the degree of maturity in low-carbon technologies.
- Climate change and energy transition risk analysis, and stress testing.
- Analysis of climate change and GHG regulation.

One of the main conclusions drawn from this analysis is that the sensitivity of the business is greater to the transition parameters than to the physical ones, since the latter represent a much smaller impact on the company, in part because they are properly covered.

Strategy and opportunities

Risk analysis and development of opportunities linked to the transition energy is one of the pillars of Naturgy's Strategic Plan.

Industrial model

- The customer as the focal point.
- Energy transition as an opportunity.
- Digitalisation.
- Competitive and agile.

Renewables and natural gas

Low carbon and rise of renewables with gas as a key contributor.

- x3 growth in renewable energies by 2022.
- Leadership in combined-cycles.
- Leadership in liquified natural gas.
- Natural gas in mobility.
- Renewable gas.

Infrastructure

Electrification and energy efficiency

- Initiatives to increase the weight of electricity in the group to 50% by 2022.
- Leading positions in countries showing strong fundamentals for organic growth based on electrification and renewable gas penetration.

The opportunities linked to climate change considered in the Strategic Plan are detailed below:

Opportunities	Description
Development of new renewable installed capacity (solar and wind)	Development of new renewable projects for the gradual decarbonisation of the generation mix. Reduced investment and operating costs compared to other technologies and the possibility of financing through instruments such as Green Bonds. Positioning in a growing market linked to renewable energies (Power Purchase Agreement, Guarantees of Origin, etc.). In the medium-term, combined-cycle power stations represent the best possible back-up for renewable energy.
Promotion and development of renewable gases	The drive and innovation for the development of renewable gas (biomethane and hydrogen) will provide a new energy product, which can replace natural gas, but with neutral CO_2 emissions in a circular economy model. Renewable gas will maintain the value of distribution network assets in the long-term and allow customers to decarbonise with minimal changes to their facilities, in an economically efficient manner thanks to existing gas infrastructures.
Smart and integrated networks (gas and electricity)	The digitization and integration of electricity and gas networks will enable dynamic demand management, cost reduction, increased security of supply and the development of new services associated with big data. In addition, smart networks, coupled with renewable gas generation from surplus electricity generated on wind or solar farms, will enable energy storage by taking advantage of existing infrastructures, without the need for additional batteries, and on the scale required to meet seasonal variations in demand.
Natural gas as energy for the energy transition	Penetration of natural gas and LNG (liquefied natural gas) in carbon-intensive markets, to replace high-emission fossil fuels (coal, oil) in an efficient and rapid manner, in line with the pace of the international climate agenda. Development of new products, such as Neutral Gas, to offer customers a decarbonised alternative.
Energy efficiency	Promotion of energy efficiency in both internal and customer processes, with a commitment to business models of energy service companies (ESCOs). Energy efficiency provides economic competitiveness and makes possible synergies with other sectors, as in the case of cogeneration.

Strengthening the position in the electricity business	Growth in the electricity distribution business associated with the growing trend towards electrification of the economy.
Digitalisation to provide new customer services	The use of technologies such as the Internet of Things (IoT) and artificial intelligence makes it possible to develop the figure of the active customer, who has tools for monitoring and controlling their facilities in order to consume energy more efficiently and integrate new services such as distributed renewable generation or electrical mobility.
Sustainable mobility	Penetration in the road and maritime mobility sector through the development of electric and gas solutions, which allow the reduction of CO_2 emissions, the improvement of air quality and economic savings for users. In the case of maritime transport, LNG (liquefied natural gas) is the most eco-efficient alternative in terms of GHG emissions.
Positioning, governance and transparency	Strengthening governance and policies on sustainability and climate change to meet the expectations of customers, investors and society in general. Transparency and good performance make it possible to improve the position with ESG investors and access to improved conditions of funding.

Degree of compliance achieved in the first two years of the Strategic Plan

- 72% of the total investment has been devoted to new renewable projects (Euros 503 million) and electricity networks (Euros 408 million).
- Closure of all the group's coal-fired plants.
- Increase in installed renewable wind and solar power capacity by 1,142 MW, up 1.9 times compared to 2017.
- Increase in more than 4,400 km of electricity networks (up 2%).
- Seven bunkering operations have been carried out on two ships, replacing oil-based fuels with liquefied natural gas, which is the most eco-efficient alternative in maritime transport in terms of both GHG emissions and other pollutants.
- Commissioning of 5 new vehicular natural gas stations in Spain.
- Development of the innovative DirectLink LNG and LNG on Wheels projects that allow the arrival of liquefied natural gas (LNG) to areas where it was not viable until now, promoting the replacement of carbon-intensive fuels.
- Launch of low-carbon products and services, such as Neutral Gas, which offers customers natural gas offset by neutralising their CO_2 emissions.
- Start-up of several innovation projects in renewable gas, injecting biomethane into the gas distribution network for the first time in Spain.

5. **Objectives and metrics**

Targets

Naturgy's climate change strategy is embodied in the following targets.

Targets 2022. Strategic Plan 2018-2022

Naturgy approved high level short-term targets associated with meeting the Strategic Plan 2018-2022, which are included in the Environmental Plan:

- To reach a percentage of the generation mix from renewable sources, measured in installed capacity, greater than 34% by 2022.
- To reduce GHG Scope 1 and 2 emissions by 21% in 2022 compared to the base year 2017 and CO_2 emission intensity in electricity generation by 22% (tCO_2/GWh).

These objectives have been set with the following considerations:

- The targets are aligned with the overall average reduction required under SBTI for a 1.5ºC scenario and with the 2025 and 2030 targets.
- Compliance with the objectives in previous years does not ensure compliance in 2022 due to the influence of the variability of hydropower and wind in the electricity generation mix.

Targets 2025. SBTI

In 2015 Naturgy established medium-term objectives to meet the requirements of the Science Based Target Initiative (SBTI) Tool v.8. The targets are defined as a 26% reduction in Scope 1 and 2 emissions in 2025 compared to the base year 2012 and a 33% reduction in the intensity of CO_2 emissions in electricity generation over the same time horizon.

These objectives have been set with the following considerations:

- The targets are aligned with the reduction required under SBTI for a 2ºC scenario.
- Compliance with the objectives in previous years does not ensure compliance in 2025 due to the influence of the variability of hydropower and wind in the electricity generation mix.
- The targets have not yet been validated by SBTI as the company has been waiting for the preparation of a sector-specific protocol by this institution since 2017 [(3)].

(3) Although over 90% of direct GHG emissions correspond to electricity generation, SBTI includes Naturgy in the gas sector by the weight represented by gas in the net turnover.

- Although it is a requirement of SBTI to set them in this way, meeting the targets in 2025 does not ensure an overall reduction in the period, so long-term targets were also set, as described below.

Targets 2030. Average values for the period 2013-2030

In 2015 Naturgy set a long-term target expressed as an 18% reduction in average Scope 1 and 2 GHG emissions in the period 2013-2030 compared to the base year 2012. This target was also transferred to the intensity of CO_2 in electricity generation (tCO_2/ GWh), as this activity is responsible for over 90% of the group's direct emissions.

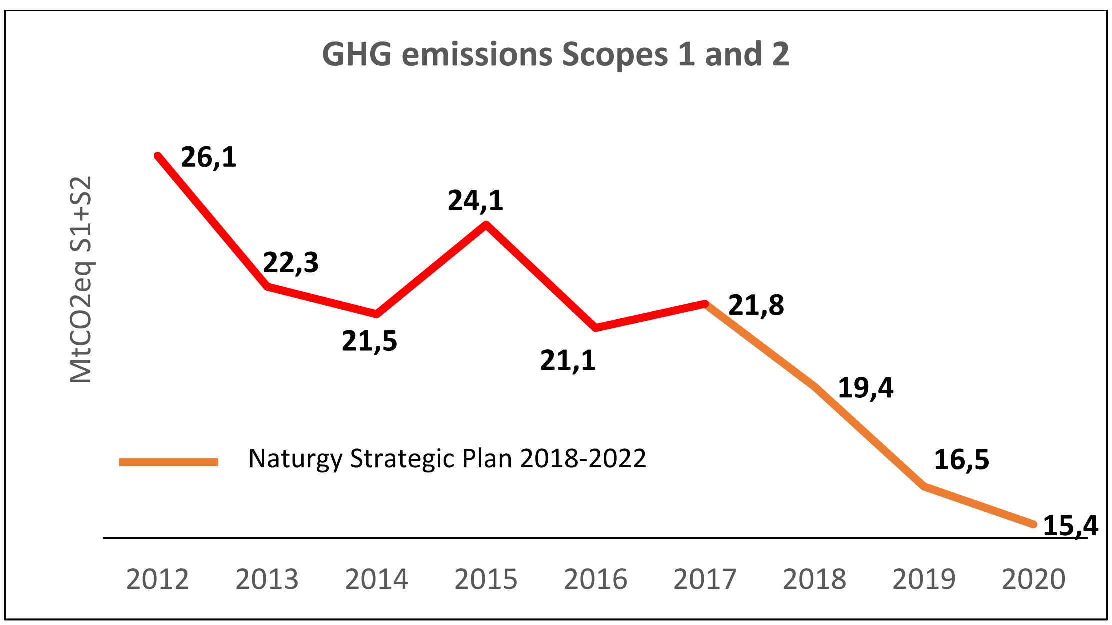
This target has been set in the form of average values for two reasons:

- If the average emissions target is met a minimum reduction in the period of 92.9 $MtCO_2eq$ is ensured (26.12-20.96 $MtCO_2eq$/year x 18 years = 92.9 $MtCO_2eq$). This would not occur with an annual target, as it could be achieved in the last year, but with a net increase in emissions in the intermediate years.
- To avoid the uncertainty that the variability of hydropower and wind and their influence on electricity generation has when a target is set in a given year.

Absolute emissions target

	Emissions	Type	Approval year	Base year	Target date	Target	Base year value ($MtCO_2eq$)	Target Value ($MtCO_2eq$)	Value 2020 ($MtCO_2eq$)	Tracking
Strategic Plan 2022	A1+A2	Annual	2019	2017	2022	↓21%	21.85	17.26	15.46	139%(*)
2025 SBTI	A1+A2	Annual	2016	2012	2025	↓26%	26.12	19.38	15.46	158%(*)
Average 2030	A1+A2	Average for the period	2015	2012	2013-2030	↓18%	26.12	21.48	20.28	126%(*)

* On track. The compliance percentage is above the set target and indicates the good evolution of the target, although it must be clarified that compliance with the targets in previous years does not ensure compliance on the target date.

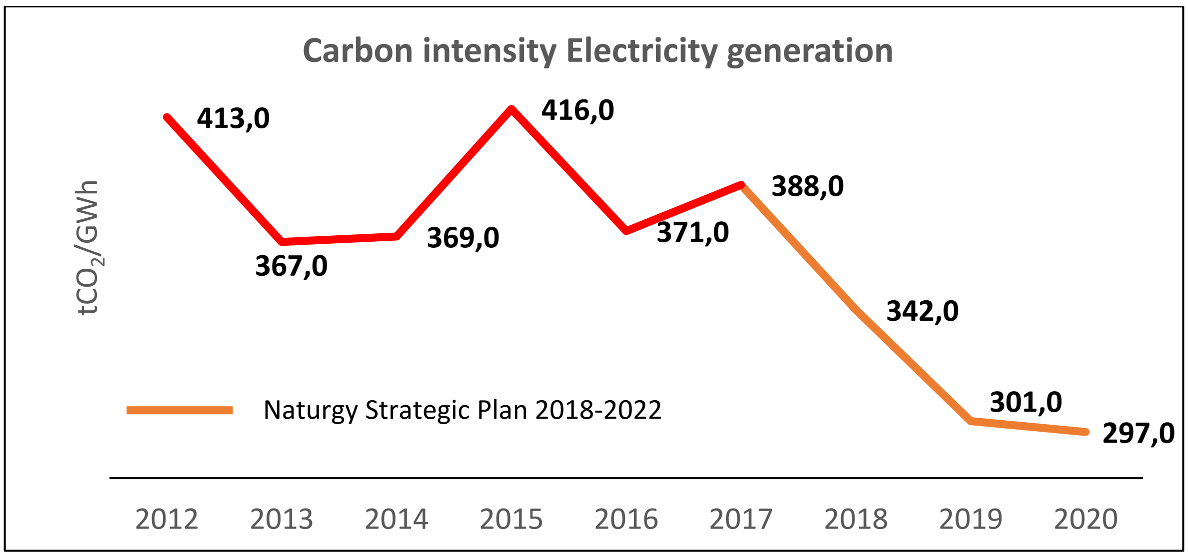


Relative emissions target

	Emissions	Type	Approval year	Base year	Target date	Target	Base year value (tCO_2/GWhe)	Target value (tCO_2/GWhe)	Value 2020 (tCO_2/GWhe)	Tracking
Strategic Plan 2022	tCO_2/GWhe	Annual	2019	2017	2022	↓22%	388	304	297	108%(*)
2025 SBTI	tCO_2/GWhe	Annual	2016	2012	2025	↓33%	413	278	297	86%(**)
Average 2030	tCO_2/GWhe	Average for the period	2015	2012	2013-2030	↓18%	339	339	356	77%(**)

* On track. The compliance percentage is above the set target and indicates the good evolution of the target, although it must be clarified that compliance with the targets in previous years does not ensure compliance on the target date.

** On track.

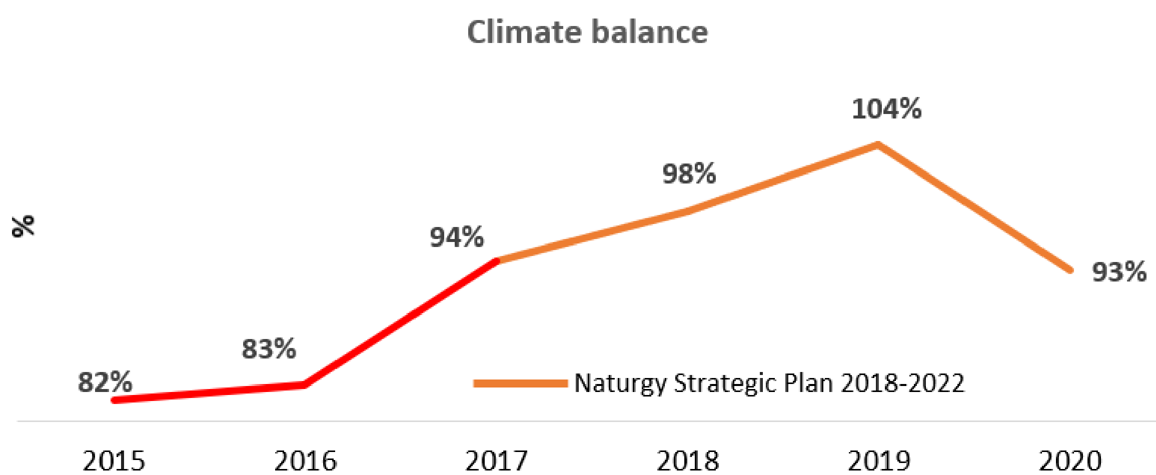


Climate balance sheet target

In 2015 Naturgy set a “Climate Impact Balance Sheet” target for 2050. The climate balance sheet sets out the relationship between our emissions (direct and indirect) and the emissions prevented by our assets, products and services, for example by displacing high-emission fossil fuels such as coal and oil derivatives (see table of emissions prevented).

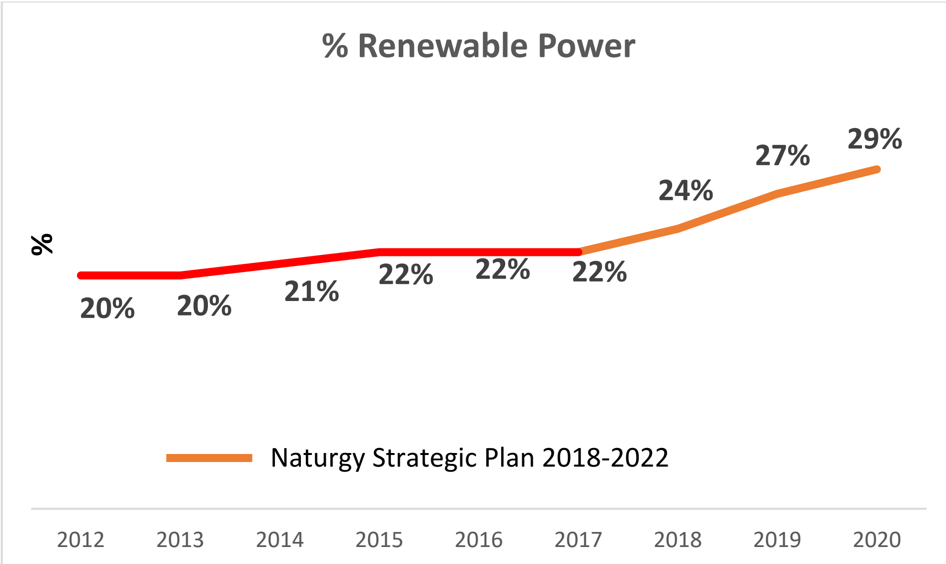
This balance sheet, while subject to the variability inherent in the business and the environment in which we operate, marks a long-term trend that shows whether we are aligned with the global objective of climate neutrality introduced in the Paris Agreement.

	Emissions prevented vs footprint emissions	Type	Approval year	Base year	Target date	Target	Value Base year	Target value	Value 2020	Tracking
2050	tCO_2/GWhe	Annual	2015	2015	2050	100%	68%	100%	100%	93%(*)



Renewable energy target

To reach a percentage of renewable installed capacity in the generation mix greater than 34% by 2022.



6. Inventory

The data of the GHG emissions Scopes 1, 2 and 3 derived from all of Naturgy's activities and businesses are listed below. (tCO2eq)

	2020	2019	2018
Scope 1	14,301,874	15,415,253	18,305,632
Scope 2	1,153,608	1,098,662	1,093,343
Market	-	-	-
Location	1,153,608	1,098.66	1,093.34
Scope 3	123,217,903.25	129,433,473	131,390,996
Goods and services purchased	-	-	-
Capital goods	-	-	-
Activities associated with upstream fuels and energy	30,638,299	28,390,264	29,786,118
Coal	107,120	67,446	373,124
Natural gas	20,137,098	16,583,367	17,488,011
Oil	185,822	392,403	435,839
Electricity	10,208,259	11,347,048	11,489,144

Transport and distribution of goods	-	-	-
Waste produced in the operation	-	-	-
Business trips	621	3,108	1,568
Mobilisation of employees	8,286	9,314	9,985
Upstream leased goods	-	-	-
Downstream transport and distribution	-	-	-
Procedure for products sold	-	-	-
Use of products sold	92,462,851	100,959,590	100,756,160
Natural gas	92,462,851	100,959,590	100,756,160
Coal	-	-	-
End-of-life processing of products sold	-	-	-
Downstream leased goods	-	-	-
Franchises	-	-	-
Investments	107,846	71,197	837,165
Total	138,673,385.47	145,947,388	150,789,971

NB: For Scope 3 emissions, within the categories defined by the GHG Protocol, those weighing less than 1% have been excluded, as long as the sum of all of them does not exceed 5%

Inventory of GHG emissions Scope 1 by gas type and process (tCO_2eq)

	Electricity generation	Gas distribution	Electricity distribution	Gas infrastructures	Commercialisation	Corporate	Total
CO2	12,481,522	8,570	229,194	717,252	29,730	8,873	13,475,140
CH4	5,822	774,663	116	4,304	66	75	785,046
N20	9,660	5	151	3,383	16	115	13,331
SF6	914	-	26,288	-	6	-	27,208
HFC	713	-	-	-	-	437	1,150

PFC							0
Total group	12,498,631	783,237	255,749	724,938	29,817	9,501	14,301,874
Net turnover (€M)							15,345
Ratio (tCO_2eq /€M)							932

Inventory of GHG emissions Scopes 1, 2 and 3 (tCO_2eq)

Country	**Scope 1**	**Scope 2**	**Scope 3**
Spain	6,866,646	187,184	36,700,466
Mexico	6,238,979	855	3,783,773
Chile	332,891	709,914	11,058,192
Dominican Republic	328,214	-	354,978
Argentina	311,767	105,076	17,896,847
Morocco	115,233	1,169	727,715
Brazil	102,141	724	15,481,422
Panama	5,979	148,686	885,507
Costa Rica	14	-	6
Australia	10	-	4
Rest	-	-	36,212,241
Total	14,301,874	1,153,608	123,101,150 (*)

(*) Scope 3 in the table above refers to energy emissions (excluding: business travel, mobilisation of workers and investments)

Inventory of GHG emissions Scopes 1, 2 and 3 by business area

	Scope 1	**Scope 2**	**Scope 3**
Generation Spain	6,133,425	-	1,000,261

International generation (GPG)	6,365,206	-	828,109
Supply, LNG and Commercialisation	637,980	-	62,140,111
Gas distribution Spain	69,763	-	9,441,904
Electricity distribution Spain	19,745	187,172	2,081,574
EMPL&Up/mid	116,776	1,082	727,894
Gas distribution Argentina	311,119	1,686	17,227,161
Electricity distribution Argentina	23	102,758	669,495
Gas distribution Brazil	101,286	429	14,845,273
Gas distribution Chile	100,303	1,064	3,546,998
Electricity distribution Chile	230,510	708,547	6,614,242
Gas distribution Mexico	200,766	184	3,089,655
Electricity distribution Panama	5,472	148,686	885,294
Corporate	9,501	1,999	3,179
Total	14,301,874	1,153,608	123,101,150

(*) Scope 3 in the table above refers to energy emissions (excluding: business travel, mobilisation of workers and investments)

7. Climate balance sheet 2020

The climate balance sheet sets out the relationship between our emissions (direct and indirect) and the emissions prevented by our assets, products and services. This balance sheet, while subject to the variability inherent in the business and the environment in which we operate, marks a long-term trend that shows whether we are aligned with the global objective of climate neutrality introduced in the Paris Agreement.

The criteria for the quantification of emissions prevented are as follows:

- During the reporting period, projects and activities must produce quantifiable reductions in GHG emissions and energy with respect to a baseline, which is defined on a case-by-case basis.
- The emissions prevented are calculated as the difference between the emissions of the “with project” and “without project” scenarios. The emissions of the “with project” scenario represent the actual level of GHG emissions. Emissions from the “without project” scenario represent the GHG emission levels that would have been achieved with other more emitting sources if the project had not been implemented.
- The emission factors used for the “with project” and “without project” scenarios have been obtained following the 2006 IPCC guidelines for the preparation of national GHG inventories.

- Calculations have been made in accordance with the UNFCCC methodologies and tools for the Clean Development Mechanism (CDM) projects.

Emissions prevented	Emissions prevented 2020 (tCO_2eq)	Energy savings 2020 (GWh)	Emissions prevented 2019 (tCO_2eq)	Energy savings 2019 (GWh)
Natural gas: reduction of CO_2 emissions by displacing coal and oil derivatives, with higher emissions	120,304,619	161,637	139,922,516	195,207
Electricity production	76,787,895	133,522	95,991,693	166,697
Industry	22,497,930	10,353	22,414,029	10,198
Residential/commercial	10,906,893	11,461	11,622,165	12,183
Transport	2,801,792	2,807	2,811,566	2,817
Cogeneration	7,310,108	3,493	7,083,063	3,312
Renewable energies: displacement of fossil fuel generation	5,001,239	19,593	6,252,903	16,917
Wind farms	2,494,745	9,723	2,607,393	7,213
Hydroelectric production	2,179,056	8,616	3,280,482	8,594
Photovoltaic production	327,438	1,253	365,028	1,110
Energy savings and efficiency in own and customer's facilities	1,058,308	2,198	1,190,936	2,942
Own facilities: Energy Efficiency Operations Plan	-	-		
Renewal of gas transmission and distribution networks	746,958	545	742,898	553
Actions in electricity distribution	1,109	4	20,191	146
CCGTs	47,361	242	85,352	428
Coal-fired power stations	7,952	24	11,790	35
Fuel oil-fired power stations	12,680	46	26,894	105
Customer facilities				
Energy services	242,249	1,336	303,811	1,675
Other				
Nuclear production	2,309,669	-4,574	4,047,879	-3,603
Total	128,673,836	178,854	151,414,234	211,463

Direct and indirect emissions(tCO_2eq)	138,673,385
Prevented emissions (tCO_2EQ)	128,673,836
Balance sheet 2020	93%

(1) Natural gas is the best fossil fuel to replace other fossil fuels.

(2) Generation of renewables to replace combustion of fossil fuels.

(3) Energy saving and efficiency actions at our facilities or those of the end customer.

NB: This year the methodology has been adjusted to include the reductions prevented in Spain and Mexico by the electricity generation in combined-cycle plants. Previous years have been recalculated in the same way. This modification allows us to calculate the emissions prevented from our products and services in a more realistic manner.

Naturgy's Emissions Offsetting Plan: Compensa2 Initiative

Activities offset in 2020 (tCO_2eq)	
Scope 1 emissions from fuel use in workplaces (fixed sources and fleet)	9,501
Scope 2 emissions from electricity consumption in workplaces	1,992
Scope 3 emissions from business trips (Air and train)	621
Total Compensa2	12,114

In 2020, Naturgy also offset 12,114 tCO_2eq corresponding to the emissions from its buildings, travel and fleet and 13,783 tCO_2eq for its customers with the Neutral Gas product.

8. Annexes

Assessment and reduction of uncertainty

The uncertainty associated with reporting Scope 1 emissions for 2020 is 5.63%.

For facilities under the EU Emissions Trading Scheme, in accordance with Decision 2007/589/EC of 18 July, uncertainties regarding GHG emission values will be lower than those corresponding to the approach levels approved by the competent authority. For all other emission sources, the uncertainty associated with the calculation of GHG emissions is a combination of the uncertainties associated with the activity data and emission factors, using the references established in 2.38. 2006 IPCC GHG, Vol.2, table 2.12.

To minimise the uncertainty associated with the activity data, all emission sources have environmental and quality management systems that conform to ISO 14001:2015 and ISO 9001:2015 standards. In order to minimise the uncertainty associated with the emission factors, official sources are always used, as are, by default, the core values recognised in the 2006 IPCC Guidelines for GHG Inventories.

Methodology

To quantify Naturgy's greenhouse gas emissions, an application and calculation methodology has been developed based on the following standards and methodologies:

- Scope 1, 2 and 3 emissions are included according to "The Greenhouse Gas Protocol. A Corporate accounting and reporting standard".
- Scope 3 report in accordance with Corporate Value Chain (Scope 3).

- It includes the emissions of the six GHG set out in IPCC in accordance with the 2006 IPCC Guidelines for national GHG inventories (hereinafter 2006 IPCC GHG).
- Standard UNE-ISO 14064-1. Greenhouse gases. Part 1: Specification with guidance, at organisation level, for the quantification and reporting of greenhouse gas emissions and removals.
- Standard UNE-ISO 14064-2. Greenhouse gases. Part 2: Specification with guidance, at project level, for the quantification, monitoring and reporting of the reduction of emissions or increase in removal of greenhouse gases.
- Standard UNE-ISO 14064-3. Greenhouse gases. Part 3: Specification with guidance for the validation of greenhouse gas statements.
- Definition of the life cycle in accordance with the UNE- EN-ISO 14040 and ENE-EN-ISO 14044 standards for life cycle analysis.
- Use of specific emission factors in accordance with the 2006 IPCC guidelines for national GHG inventories (hereinafter 2006 IPCC GHG) and use of other verifiable documentary and bibliographic sources.

Operational limits

Naturgy's Carbon Footprint inventory includes GHG emissions from the following group activities:

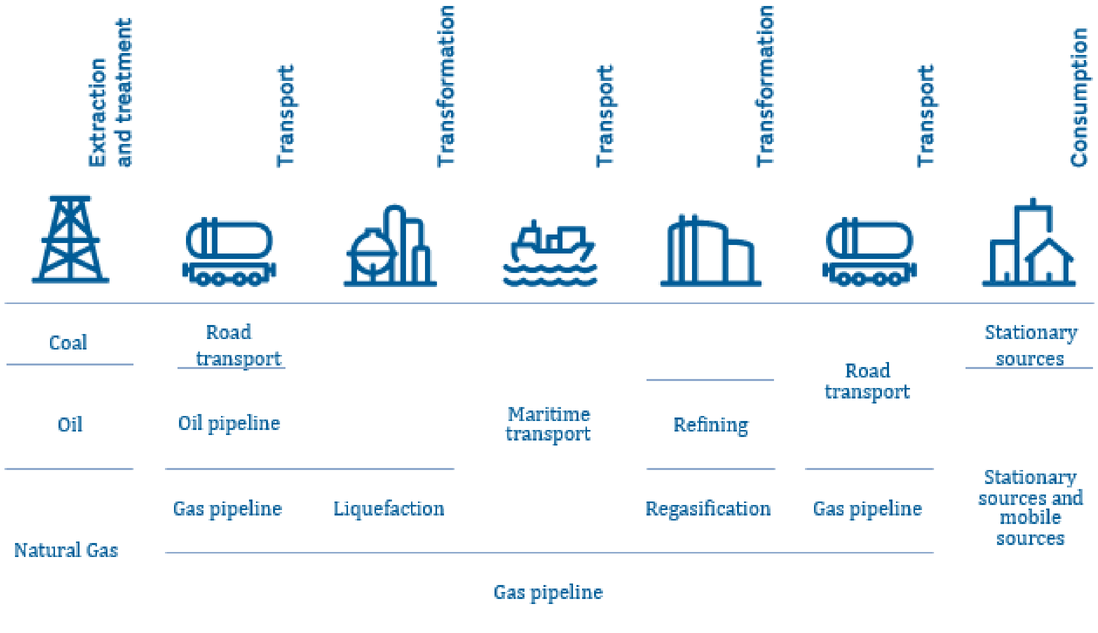
- Extraction, road transport, maritime transport, distribution and commercialisation of natural gas.
- Thermal power stations from coal and fuel oil, combined-cycle power stations, cogeneration, generation at wind farms, photovoltaic power stations and hydroelectric power stations.
- Distribution of electrical power.
- Offices, fleets and travel.

Within the aforementioned activities, different calculation units corresponding to each of the facilities comprising those activities have been defined. These calculation units or facilities are treated according to the global consolidation criteria, in accordance with the shareholding percentages.

Life cycles of fuels used

Energy (fuels, electricity) is consumed throughout the various processes, producing emissions throughout its life cycle. A diagram with the life cycles of the main fuels used is included below.

The fuels used in both fixed sources (fuels from thermal power stations, offices, gas transport and distribution facilities, etc.) and in mobile sources have been considered.



Electrical energy

Emissions derived from electrical energy have only been considered when it is used in primary energy terms and is not generated by any of the group's calculation units:

- Electricity consumption purchased from external suppliers.
- Losses arising from the transport and distribution of energy distributed and not generated by the company in each country.
- Emissions from the life cycle of the fuels used in the generation mix of each country.

Geographical limits

All the countries in which activities are carried out, as well as the countries from which the fuels originate, have been considered.

For the annual preparation of the inventory, a series of prior studies are carried out to update the initial data, such as the review of gas, coal and crude oil supply routes (there are more than 500 routes connecting 165 extraction points in 30 destination countries).

Three types of data are updated each year:

- Characteristics of the extraction points (specific factors depending on the country, technology, type of well or mine, etc.).
- Definition of the routes themselves (distances from each country of passage and specific factors).
- Fuel balances in destination countries.

Types of emissions

Scope 1

Direct GHG emissions, meaning those from sources controlled by the company itself.

Scope 2

Indirect emissions due to the generation of electricity that is acquired by the company for its own consumption but is not generated by the group.

Scope 3

Indirect emissions, not included in Scope 2, derived from the value chain of activities, including upstream and downstream emissions, over which the group has no direct influence or control. Within the categories defined by the GHG Protocol, those with a weight of less than 1% have been excluded, provided that the sum of all of them does not exceed 5%. The categories reported are:

- Fuel life cycles: Emissions derived from the life cycles of fuels. This category includes the following subcategories:
    - Emissions from coal extraction, treatment and transport.
    - Emissions derived from the extraction, treatment (liquefaction and regasification) and transport (by gas pipeline and/or methane tanker not owned by the company) of natural gas.
    - Emissions derived from the extraction, treatment (refining) and transport (by oil pipeline and/or oil tanker) of petroleum products.
    - Emissions produced in the life cycles of the fuels used for electricity generation of the energy mix of each country.
    - Emissions due to electricity losses in the transmission and distribution of electricity consumed but not generated.
    - Emissions of energy that has been consumed by the group but not generated and/or distributed.
- Business trips: these are the emissions derived from the movement of employees by plane, train or any other means of transport not belonging to the fleet of vehicles owned by the group. It is divided into two subcategories:
    - Trips made by company employees by train.
    - Trips made by company employees by plane.
- Employees commutes: emissions derived from employees commuting from their respective homes to the workplace.
- End use of products sold: emissions derived from the combustion of products, which correspond to those derived from the combustion of natural gas sold by the group to the customer, discounting the gas consumed within the organisation.
- Investments: Includes emissions derived from the investment in Unión Fenosa Gas.

Organisational limits

The GHG emissions inventory in the Carbon Footprint Report includes all businesses and activities under financial consolidation criteria, according to the shareholding percentages.

Emission factors used

UNIT	UNIT	VALUE	SOURCE
LCV gn	MJ/kg	48.20	OECC Carbon Footprint Calculation Guide v.15 (June 2020)
HCV gn	MJ/kg	53.496	OECC Carbon Footprint Calculation Guide v.15 (June 2020)
LCV petrol	MJ/kg	44.3	OECC Carbon Footprint Calculation Guide v.15 (June 2020)
LCV diesel/gas oil A & C Spain	MJ/kg	43	OECC Carbon Footprint Calculation Guide v.15 (June 2020)
LCV ethanol	MJ/kg	27	Table 1.2. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
LCV biodiesel	MJ/kg	27	Table 1.2. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
LCV fuel oil	MJ/kg	40.4	OECC Carbon Footprint Calculation Guide v.15 (June 2020)
Density gn	kg/m^3	0.8076	Naturgy internal data
Density petrol	kg/l	0.7475	OECC Carbon Footprint Calculation Guide v.15 (June 2020)
Density diesel/gas oil A	kg/l	0.8325	OECC Carbon Footprint Calculation Guide v.15 (June 2020)
Density diesel/gas oil C	kg/l	0.9	OECC Carbon Footprint Calculation Guide v.15 (June 2020)
Density ethanol	kg/l	0.789	Naturgy internal data
Density biodiesel	kg/l	0.845	Royal Decree 61/2006.
Density methane	kg/m^3	0.7175	Naturgy internal data
Density propane	kg/l	0.5185	CEPSA product sheet
LCV propane	MJ/kg	46.2	OECC Carbon Footprint Calculation Guide v.15 (June 2020)
HCV propane	MJ/kg	49.98	CEPSA product sheet
EF CO_2 petrol	kg CO_2/GJ	69.30	OECC Carbon Footprint Calculation Guide v.15 (June 2020)
EF CH4 petrol	kg CH4/GJ	0.025	Table 3.2.2. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
EF N2O petrol	kg N2O/GJ	0.008	Table 3.2.2. 2006 IPCC Guidelines for National Greenhouse Gas Inventories

EF CO_2 diesel/gas oil A	kg CO_2/GJ	74.10	OECC Carbon Footprint Calculation Guide v.15 (June 2020)
EF CO_2 diesel/gas oil C	kg CO_2/GJ	73.00	OECC Carbon Footprint Calculation Guide v.15 (June 2020)
EF CH4 diesel/gas oil fixed sources (“fs”)	kg CH4/GJ	0.01	Table 2.4. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
EF N2O diesel/gas oil fs	kg N2O/GJ	0.0006	Table 2.4. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
EF CO_2 MDO carriers	tCO_2/tMDO	3.206	4th IMO GHG survey (July 2020): based on Resolution MEPC.308(73). (adopted on 26 October 2018) 2018 GUIDELINES ON THE METHOD OF CALCULATION OF THE ATTAINED ENERGY EFFICIENCY DESIGN INDEX (EEDI) FOR NEW SHIPS
EF CH4 diesel/gas oil mobile sources (“ms” hereinafter)	kg CH4/GJ	0.007	Table 3.5.3. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
EF N2O diesel/gas oil ms	kg N2O/GJ	0.002	Table 3.5.3. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
EF CH4 diesel/gas oil power generation	kg CH4/GJ	0.003	Table 2.2. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
EF N2O diesel/gas oil electric generation	kg N2O/GJ	0.0006	Table 2.2. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
EF CO_2 HFO carriers	tCO_2/tHFO	3.1144	4th IMO GHG survey (July 2020): based on Resolution MEPC.308(73). (adopted on 26 October 2018) 2018 GUIDELINES ON THE METHOD OF CALCULATION OF THE ATTAINED ENERGY EFFICIENCY DESIGN INDEX (EEDI) FOR NEW SHIPS
EF CH4 fuel oil ms	kg CH4/GJ	0.007	Table 3.5.3. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
EF N2O fuel oil ms	kg N2O/GJ	0.002	Table 3.5.3. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
EF CH4 fuel oil electricity generation	kg CH4/GJ	0.003	Table 2.2. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
EF N2O fuel oil electricity generation	kg N2O/GJ	0.0006	Table 2.2. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
EF CH4 domestic coal	kg CH4/GJ	0.0006	Table. 1.4.2. (01.01.01) National Atmospheric Emission Inventories 1990-2012. Volume 2: Analysis by SNAP Activities.

EF N2O domestic coal	kg N2O/GJ	0.0008	Table. 1.4.2. (01.01.01) National Atmospheric Emission Inventories 1990-2012. Volume 2: Analysis by SNAP Activities.
EF CH4 imported coal	kg CH4/GJ	0.0006	Table. 1.4.2. (01.01.01) National Atmospheric Emission Inventories 1990-2012. Volume 2: Analysis by SNAP Activities.
EF N2O imported coal	kg N2O/GJ	0.0008	Table. 1.4.2. (01.01.01) National Atmospheric Emission Inventories 1990-2012. Volume 2: Analysis by SNAP Activities.
EF CH4 coke	kg CH4/GJ	0.0003	Table. 1.4.2. (01.01.01) National Atmospheric Emission Inventories 1990-2012. Volume 2: Analysis by SNAP Activities.
EF N2O coke	kg N2O/GJ	0.0025	Table. 1.4.2. (01.01.01) National Atmospheric Emission Inventories 1990-2012. Volume 2: Analysis by SNAP Activities.
EF CO_2 natural gas	kg CO_2/GJ	55.98	OECC Carbon Footprint Calculation Guide v.15 (June 2020)
EF CH4 natural gas fs	kg CH4/GJ	0.005	Table 2.4. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
EF N2O natural gas fs and electricity generation	kg N2O/GJ	0.0001	Table 2.2. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
EF CH4 natural gas ms	kg CH4/GJ	0.092	Table 3.2.2. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
EF N2O natural gas ms	kg N2O/GJ	0.003	Table 3.2.2. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
EF CH4 natural gas electricity generation	kg CH4/GJ	0.001	Table 2.2. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
EF CO_2 LNG carriers	tCO_2/tLNG	2.75	4th IMO GHG survey (July 2020): based on Resolution MEPC.308(73). (adopted on 26 October 2018) 2018 GUIDELINES ON THE METHOD OF CALCULATION OF THE ATTAINED ENERGY EFFICIENCY DESIGN INDEX (EEDI) FOR NEW SHIPS
EF CH4 natural gas carriers	kg CH4/GJ	0.004	Table 2.7. 2006 IPCC Guidelines for National Greenhouse Gas Inventories. By analogy with the type of turbine. Gas turbines >3MW.
EF N2O natural gas carriers	kg N2O/GJ	0.001	Table 2.7. 2006 IPCC Guidelines for National Greenhouse Gas Inventories. By analogy with the type of turbine. Gas turbines >3MW.
EF CO_2 propane	kgCO_2/GJ	63.6	OECC Carbon Footprint Calculation Guide
EF CH4 propane ms	kgCH4/GJ	0.062	Table 3.2.2. 2006 IPCC Guidelines for National Greenhouse Gas Inventories LPG.

EF N2O propane ms	$kgCO_2/GJ$	0.0002	Table 3.2.2. 2006 IPCC Guidelines for National Greenhouse Gas Inventories LPG.
EF CH4 propane fs	$kgCO_2/GJ$	0.005	Table 2.4. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
EF NO2 propane fs	$kgCO_2/GJ$	0.0001	Table 2.4. 2006 IPCC Guidelines for National Greenhouse Gas Inventories
GWP Methane	$kgCO_2/kgCH4$	25	IPCC 4th Assessment Report
GWP (SF6).	$kgCO_2/tSF6$	22800000	IPCC 4th Assessment Report
GWP (N2O).	$kgCO_2/tN2O$	298000	IPCC 4th Assessment Report
GWP HFC	$kgCO_2/tHFC$	14800000	IPCC 4th Assessment Report
GWP PFC	$kgCO_2/kg$ PFC	12200000	IPCC 4th Assessment Report

INDEPENDENT VERIFICATION STATEMENT

This Independent Verification Statement is an extract from the Verification Report of Verico SCE, number LK-2021-01-HC-NATURGY, prepared as a consequence of the verification process of Naturgy's 2020 Greenhouse Gas Emissions Inventory.

Naturgy has commissioned **verico SCE** to carry out the verification of the 2020 Greenhouse Gas Emissions Inventory, contained in the document "Carbon Footprint Report 2020", corresponding to the corporate carbon footprint for the period 2020.

During the verification process of the 2020 Greenhouse Gas Emissions Inventory, the following elements were reviewed:

- The consistency of the report with previous reports and the procedure for allocating emissions.
- Implementation of monitoring processes.
- Compliance of the measures to ensure the accuracy of required measurements and their quality.
- Information on fuels and raw materials
- Data management
- Integrity and correctness of manual and electronic data flow
- Internal quality control

The verification process checks and confirms the correctness, by an independent third party, of the information given in the annual emissions report, and also examines the annual emissions and the implementation of internal control and management procedures.

Scope:

Naturgy is present in 20 countries serving more than 16 million customers. Naturgy operates in the regulated and liberalized gas and electricity markets, mainly in the following areas:

- Gas and electricity distribution
- Generation and commercialization of electricity
- Infrastructure, supply and marketing of gas

The organization has decided to include in its Greenhouse Gas Emissions Inventory scopes 1, 2 and 3.

- Scope 1:
  - Direct GHG emissions, understood as those coming from sources controlled by the company itself.
  - They are mainly due to CO_2 emissions from thermal electricity generation and CH_4 emissions as diffuse emissions from natural gas distribution networks.
- Scope 2:
  - Indirect emissions due to the generation of electricity that is acquired by the company for its own consumption but is not generated by the group.
  - Are mainly due to CO_2 emissions associated with electricity distribution losses
- Scope 3:
  - Indirect emissions, not included in Scope 2, derived from the value chain of activities, including upstream and downstream emissions, over which the group has no direct control or influence. Within the categories defined by the GHG Protocol, those with a weight of less than 1% have been excluded, provided that the sum of all of them does not exceed 5%.
  - Are mainly due to CO_2 emissions in the combustion of natural gas by the final use of natural gas distributed and marketed.

Inventory coverage includes the entire corporate activity, differentiating the following Business segments

- Generation
- Electricity Distribution
- Gas Distribution
- Gas (infrastructure, supply and marketing of natural gas)
- Office

The Greenhouse Gases included in this carbon footprint calculation are:

• CO_2 • CH_4 • N_2O • SF_6 • HFC

Inventory Result 2020:

The aggregate result of the 2020 Greenhouse Gas Emissions Inventory is as follows:

Naturgy's 2020 GHG Emissions Inventory	
	tCO_2e
Scope 1	**14.301.874**
Scope 2	**1.153.608**
Scope 3	**123.217.903**
1. Purchased and good services	-
2. Capital goods	-
3. Fuel and energy related activities	30.638.299
4. Upstream transportation and distribution	-
5. Waste generated in operations	-
6. Business travel	621
7. Employees commuting	8.286
8. Upstream leased assets	-
9. Downstream transportation and distribution	-
10. Processing of sold products	-
11. Use of sold products	92.462.851
12. End-of-life treatment of sold products	-
13. Downstream leased assets	-
14. Franchises	-
15. Investments	107.846

Verification Statement

verico SCE has carried out the verification of the 2020 Greenhouse Gas Emissions Inventory, contained in the document "Carbon Footprint Report 2020", corresponding to Naturgy's corporate carbon footprint for that monitoring period, in accordance with the requirements established in standards UNE-ISO 14064 and GHG Protocol (for the definition of sectoral scopes), and other rules applicable to Naturgy's Greenhouse Gas Emissions Inventory.

The verico SCE verification team has reached the opinion that Naturgy's 2020 Greenhouse Gas Emissions Inventory is prepared in accordance with the requirements defined in the Standard, complies with the greenhouse gas quantification methodology, and the monitored data and emissions calculation are evaluated and confirmed as substantially correct. Therefore, verico SCE hereby confirms that the reported emissions during the 2020 monitoring period amount to **138.673.385 tCO_2e**.

Madrid, 28/01/2021

LUIS ROBLES OLMOS

Lead Verifier

VERICO SCE is a European Cooperative Society accredited by the German Accreditation Entity, DAkkS (D-VS-19003-01-00), for the verification of greenhouse gas emissions, according to ISO 14065 (translated as UNE EN ISO 14065 in Spain and DIN EN ISO 14065 in Germany) and EU Regulation No. 600/2012. Likewise, VERICO SCE is accredited for the verification of non-regulated schemes, such as EN ISO 14064-1; EN ISO 14064-2; and EN ISO 14064-3..

Certificate

The Greenhouse Gas Emissions Inventory for the year 2020 of

NATURGY

meets the requirements according to UNE ISO 14064-1

Verification carried out in January 2021 at Naturgy's Headquarters (Spain).

GHG emissions amount to:

Scope 1:	14.301.874	tCO_2e
Scope 2:	1.153.608	tCO_2e
Scope 3:	123.217.903	tCO_2e

Total Emissions 2020:
138.673.385 tCO_{2e}

Certificate Nº LK-2021-01-HC_NATURGY

Acreditación nº:
D-VS-19003-01-01

F. Javier Vallejo Drehs.-

Langenbach, 28th January 2021 Javier VALLEJO DREHS

verico SCE, Hagenaustrasse 7, 85416 Langenbach, Alemania

verico SCE is accredited by DAkkS according to DIN EN ISO 14065: 2013.
Accreditation applies to the scopes detailed in the
certified D-VS-19003-01-.

ZERTIFIKAT CERTIFICATE

Report on the Green Bond

Indicators of use of proceeds

As at 31 December 2020, the total number of projects allocated to Green Bonds issued on 15 November 2017 was 35, representing a total investment of Euros 800 million. These allocated funds represent 100% of the total amount obtained through the issuance of Green Bonds.

Technology	Location	Project name	Year launched	Status	Green Bond Financing 2020 (€M)	% Financed by Green Bonds	Avoided Emissions (tCO_2)
Photovoltaic	Spain	C.F. CARPIO DE TAJO	2019	Operation	30.06	99%	54,166.01
Photovoltaic	Spain	C.F. LA NAVA	2019	Operation	30.18	99%	60,771.71
Wind	Spain	P.E. AMPLIACION EL HIERRO	2019	Operation	38.29	96%	82,747.83
Wind	Spain	P.E. BALCÓN DE BALOS	2018	Operation	6.21	50%	17,754.97
Wind	Spain	P.E. BARASOAIN	2019	Operation	43.22	89%	76,907.43
Wind	Spain	P.E. DORAMÁS	2018	Operation	1.88	49%	4,324.69
Wind	Spain	P.E. FUERTEVENTURA II	2018	Operation	2.96	50%	7,509.09
Wind	Spain	P.E. LA HARÍA	2018	Operation	2.00	50%	4,807.67
Wind	Spain	P.E. LA VAQUERÍA	2018	Operation	1.96	50%	4,988.76
Wind	Spain	P.E. MERENGUE	2019	Operation	42.71	99%	98,596.85
Wind	Spain	P.E. MIRABEL	2020	Operation	23.80	98%	55,394.54
Wind	Spain	P.E. MONCIRO	2019-2020	Operation	36.37	96%	89,073.96
Wind	Spain	P.E. MONTAÑA PERROS	2018	Operation	1.92	50%	5,286.42
Wind	Spain	P.E. PEÑAFORCADA - CATASOL II	2019	Operation	11.01	98%	18,130.04
Wind	Spain	P.E. PILETAS I	2020	Operation	10.43	50%	27,360.41
Wind	Spain	P.E. SAN BLAS	2019-2020	Operation	34.15	98%	74,136.86
Wind	Spain	P.E. TESO PARDO	2019	Operation	30.52	98%	65,438.37
Wind	Spain	P.E. TESORILLO	2019	Operation	30.12	98%	52,435.29
Wind	Spain	P.E. TIRAPU	2020	Operation	16.65	90%	27,470.24
Wind	Spain	P.E. TRIQUIVIJATE	2018	Operation	3.46	50%	9,571.24
Wind	Spain	P.E. VIENTOS DEL ROQUE	2018	Operation	3.52	50%	10,755.44
Wind	Spain	P.E. MONTEJO DE BRICIA (AMPLIACIÓN)	2019	Operation	6.87	88%	12,696.68
Wind	Spain	P.E. FRÉSCANO	2019	Operation	21.74	96%	51,932.38
Wind	Spain	P.E. SAN AGUSTÍN	2019	Operation	27.22	95%	71,182.36
Wind	Spain	P.E. MONTE TOURADO - EIXE	2019	Operation	41.79	98%	91,794.50
Wind	Spain	P.E. PASTORIZA - RODEIRO	2019	Operation	32.75	96%	96,719.72
Wind	Spain	P.E. SERRA DO PUNAGO - VACARIZA	2019-2020	Operation	28.70	96%	71,589.12
Photovoltaic	Spain	C.F. PICON I	2019	Operation	33.65	97%	64,368.85
Photovoltaic	Spain	C.F. PICON II	2019	Operation	31.70	97%	64,368.85
Photovoltaic	Spain	C.F. PICON III	2019	Operation	30.46	95%	64,368.85
Wind	Spain	P.E. TOROZOS A	2019	Operation	36.98	97%	79,507.03
Wind	Spain	P.E. TOROZOS B	2019	Operation	30.32	96%	68,570.50
Wind	Spain	P.E. TOROZOS C	2019	Operation	35.71	96%	80,039.56
Wind	Spain	P.E. MOURIÑOS	2019	Operation	10.21	98%	25,416.76
Wind	Spain	Common Infraestructures	2019	Operation	30.48	73%	
					800.00		1,690,183

The Green Bond funds as reported at 31 December 2020 have been allocated in full to investments in eligible assets under the requirements of the Green Bond Framework; one of the projects that was included in the report at 31 December 2019 has been excluded with that amount having been allocated to equally eligible investments under the Green Bond Framework.

The net funds of the bond issue have been managed within the liquidity portfolio of Naturgy's treasury, in cash or other short-term liquidity instruments that do not include intensive greenhouse gas or other controversial activities. At the year-end, Naturgy has maintained a minimum cash level equivalent to the funds pending award of the Green Bond.

Environmental benefit indicators

The estimated environmental benefit of the Green Bond is expected to total 1,690,183 tCO_2/year in avoided emissions, based on a total of approximately 920.8 MW of installed capacity financed by the green bond, with associated production of 2,645 GWh/year.

The United Nations methodology ACM0002 for Clean Development Mechanisms has been used to calculate the avoided emissions in 2020: "Consolidated Methodology for Grid-connected Electricity Generation from Renewable Sources", through calculation according to option b) of the Adjusted-Simple OM. This method is an improvement over the OM Simple method used in previous years in which the Operating Margin Emission Factor of low operating cost sources is weighted along with base load and other sources depending on the number of hours each is marginal. This improvement in the measurement method used justifies the difference in avoided emissions compared to previous years".

Actions in environmental and social matters

In the projects, sustainability has been considered throughout its life cycle, in partnership with the competent administrations, with participation of the different stakeholders. In the design stage, an environmental study has been carried out in all the projects, where information has been gathered about the environment (physical, biological, socio-economic and cultural). This study has served as a baseline to define the most environmentally and socially sustainable project alternatives, identify and assess the associated impacts and define the necessary prevention, mitigation and, if necessary, compensation measures. During the construction phase, a thorough environmental and archaeological follow-up is carried out in order to ensure that the project is executed with the established environmental and social guarantees. During the operation stage, the facilities are covered by Naturgy's environmental management system, which is certified and externally audited pursuant to the UNE-EN ISO 14001, which ensures control and compliance with environmental requirements, the prevention of environmental accidents and the ongoing improvement in the reduction of our impacts.

Glossary of indicators

Indicators for use of proceeds	
Description of the financed projects	Description of the projects financed with Green Bonds, with details of generation technology, location (country), project name, year launched, completion status (1. Development, 2. Construction, 3. Operation and maintenance) at year-end
Allocated Green Bond financing: Amount allocated (in euros) per project and in total	Sum attributable to Green Bonds invested in projects that meet the Green Bond eligibility criteria listed in the Naturgy Green Bond Framework (in euros million) at year-end.
% Financed by Green Bonds	Percentage of project investment attributable to Green Bonds at year-end
Number of projects	Number of projects with financing attributable to funds from Green Bonds at year-end
Total allocated amount relative to total proceeds (%)	Percentage of the total investment attributable to Green Bonds across all projects relative to the total sum obtained through the issuance of Green Bonds (bond funds) at year-end.
Description of the use of non-invested proceeds	Description of the management of funds obtained through the issuance of Green Bonds that have not been allocated to any project, at year-end, in accordance with the "Naturgy Green Bond Framework"
Environmental benefit indicators	
Greenhouse gas (GHG) avoided emissions"	CO_2 emissions (tonnes of CO_2/year) expected to be avoided each year through renewable energy projects (wind and solar), calculated by multiplying expected energy production by a

	regional average emissions factor (peninsula and Canary Islands). This emissions factor has been calculated using the methodology used by UNFCCC Clean Development Mechanism (CDM) projects, which allow the use of either an average regional emissions factor excluding emissions from low cost/must-run power stations when generation from these stations represents less than 50% of the electricity system total (simple method) or an average emissions factor from the entire regional electricity mix (including emissions from low cost/must-run power stations) when generation from these stations represents more than 50% of the electricity system total (average method). The data used to calculate the applied emissions factor come from publicly available information sources based on official statistics
Energy capacity	Total power (MW) corresponding to the projects expected to be financed by Green Bonds
Energy production	Estimated annual electrical power generation (GWh/year) calculated by multiplying the energy capacity by the estimated average number of operating hours per year for each project expected to be financed by Green Bonds.

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

INDEPENDENT LIMITED ASSURANCE REPORT ON THE GREEN BOND INDICATORS

To the Board of Directors of Naturgy Energy Group, S.A.:

Scope of work

We have conducted our work to provide limited assurance on the Green Bond Indicators contained in the "2020 Green Bond Report", which is included in the 2020 Sustainability Report and the accompanying Consolidated Non-Financial Statement (hereinafter "2020 NFS") of Naturgy Energy Group, S.A. (hereinafter "Naturgy") for the year ended December 31, 2020. The Green Bond Indicators have been prepared in accordance with the criteria defined by Naturgy in the section "Glossary of indicators" on pages 294 and 295 of the 2020 NFS, and defined in accordance with the "Gas Natural Fenosa Green Bond Framework" (Gas Natural Fenosa changed its name to Naturgy in June 2018) published by Naturgy and available on its website:

(https://www.naturgy.com/files/Gas_Natural_Fenosa_Green_Bond_Framework_def-2.pdf).

Specifically, we have reviewed the Green Bond Indicators included in the sections "Indicators of use of proceeds" and "Environmental benefit indicators" on pages 293 and 294 of the 2020 NFS.

The Directors of Naturgy Energy Group, S.A. are responsible for the preparation, content and presentation of the Green Bond Indicators included in the "2020 Green Bond Report" in accordance with the criteria set by Naturgy, and the definition of these criteria in accordance with the "Gas Natural Fenosa Green Bond Framework".

This responsibility also includes designing, implementing and maintaining the internal control required to ensure that the Green Bond Indicators included in the "2020 Green Bond Report" are free of any material misstatement due to fraud or error.

The Directors of Naturgy Energy Group, S.A. are also responsible for defining, implementing, adapting and maintaining the management systems from which the information required to prepare the Green Bond Indicators included in the "2020 Green Bond Report" is obtained.

Criteria

Our responsibility is to express our conclusions in a limited assurance report based on the work performed. We have conducted our engagement in accordance with the requirements of the International Standard on Assurance Engagement 3000 (Revised), "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" (ISAE 3000 Revised), issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

Procedures performed

The procedures performed in a limited assurance engagement vary in nature and timing from a reasonable assurance engagement and are less in extent. Thus, the level of assurance obtained is substantially lower.

Our work has involved making inquiries of management, reviewing the procedures for gathering and validating the information included in the Green Bond Indicators and performing certain analytical procedures and random sampling tests, which are described below:

- Meetings with Naturgy's personnel from various departments who have been involved in the preparation of the Green Bond Indicators.
- Analysis of the procedures used for collecting and validating the data and information included in the Green Bond Indicators.
- Analysis of Naturgy's Green Bond Indicators adaptation to the criteria set by Naturgy, described in the section "Glossary of indicators" on pages 294 and 295 of the 2020 NFS.
- Verification of the traceability of the allocation of funds from Green Bond proceeds to project financing and the traceability of not allocated funds, and verification that investments made by Naturgy in projects through funds attributable to the Green Bond have been made in accordance with the criteria of the "Gas Natural Fenosa Green Bond Framework".
- Verification, by means of review tests based on a random sample, and performance of substantive and analytical tests on the quantitative and qualitative information of Naturgy's Green Bond Indicators. We have also verified whether they have been appropriately compiled from the data provided by Naturgy's sources of information.
- Obtaining of the representation letter from the Directors and Management of Naturgy Energy Group.

Independence and quality control

We have performed our work in accordance with the Independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our Firm applies International Standard on Quality Control 1 (ISQC 1) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Conclusion

Based on the procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that the Green Bond Indicators included in Naturgy's "2020 Green Bond Report" for the year ended December 31, 2020 contain significant errors or have not been prepared, in all material respects, in accordance with the criteria set by Naturgy pursuant to the "Gas Natural Fenosa Green Bond Framework".

Use and distribution

This report is only issued to the Directors of Naturgy, in accordance with the terms and conditions of our engagement letter. We accept no responsibility to third parties other than the addressees of our report.

ERNST & YOUNG, S.L.

(Signature on the original in Spanish)

Antonio Capella Elizalde

February 3, 2021

ANNUAL CORPORATE GOVERNANCE REPORT
FOR LISTED COMPANIES

IDENTIFICATION OF ISSUER

ENDING DATE OF REFERENCE FINANCIAL PERIOD 2020

C.I.F. A-08015497

Registered Name:

NATURGY ENERGY GROUP, S.A.

Registered Office:

Avenida de San Luis, 77 – 28033 Madrid

A OWNERSHIP STRUCTURE

A.1 Complete the following table on the company's share capital:

Date of last change	Share capital (€)	Number of shares	Number of voting rights
21/07/2019	969.613.801	969.613.801	969.613.801

Please indicate if there are different types of shares with different rights associated:

YES NO **X**

Class	Number of shares	Face value	Number of voting rights	Rights and obligations

				conferred by

A.2 List the direct and indirect holders of significant ownership interests in your company at year-end, excluding directors:

Name or company name of shareholder	% voting rights attributed to the shares		% voting rights through financial instruments		% of total voting rights
	Direct	Indirect	Direct	Indirect	
GLOBAL INFRASTRUCTURE MANAGEMENT LLP		20,6%			20,6%
SOCIÉTÉ NACIONALE POUR LA RECHERCHE, LA PRODUCTION, LE TRANSPORT, LA TRANSFORMATION ET LA COMMERCIALISATION DES HYDROCARBURES	4.1%				4.1%
FUNDACIÓN BANCARIA CAIXA D'ESTALVIS i PENSIONS DE BARCELONA (LA CAIXA)		24,84%			24,8%
CVC Capital Partners SICAV-FIS S.A.		20,7%			20,7%

Detail of the indirect holding:

Name or company name of the indirect holder	Name or company name of the direct holder	% voting rights attributed to the shares	% voting rights through financial instruments	% of total voting rights
GLOBAL INFRASTRUCTURE MANAGEMENT LLP	GIP III CANARY 1, S.À R.L.	20,6%		20,6%
FUNDACIÓN BANCARIA CAIXA D'ESTALVIS i PENSIONS DE BARCELONA (LA CAIXA)	CRITERIA CAIXA S.A.U	24,8%		24,8%
CVC Capital Partners SICAV-FIS S.A.	RIOJA ACQUISITION S.À R.L.	20.7%		20,7%

Indicate the most significant changes in the shareholder structure occurred during the year:

Name or company name of shareholder	Date of the transaction	Description of the transaction

A.3 Complete the following tables regarding the members of the company's Board of Directors who hold voting rights over the company shares:

Name or company name of Director	% voting rights attributed to the shares		% voting rights through financial instruments		% of total voting rights	% voting rights that can be transferred through financial instruments	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
MR. FRANCISCO REYNES MASSANET		0.008			0.008		
RIOJA S.Á.R.L	0				0		
THEATRE DIRECTORSHIP SERVICES BETA, S.à.r.l.	0				0		
MRS. LUCY CHADWICK	0				0		
MR. PEDRO SAINZ DE BARANDA RIVA		0.002			0.002		
MR. RAMÓN ADELL RAMÓN	0.002				0.002		
MRS. ISABEL ESTAPÉ TOUS	0,0005				0		
MR. CLAUDIO SANTIAGO PONSA	0				0		
MR. MARCELINO ARMENTER VIDAL	0.001				0.001		
MR. FRANCISCO BELIL CREIXELL	0.001				0.001		
MRS. HELENA HERRERO STARKIE	0				0		
MR. RAJARAM RAO	0				0		

% total voting rights held by the Board of Directors	0.014%

Detail of the indirect holding

Name or company name of Director	Name or company name of the direct holder	% voting rights attributed to the shares	% voting rights through financial instruments	% of total voting rights	% voting rights that can be transferred through financial instruments
Mr. Francisco Reynés Massanet	FRINVYCO, SL	0.008			
Mr. Pedro Sainz de Baranda Riva	INVERSORES DE TORNÓN S.L.	0.002			

Observations:

A.4 Indicate, where applicable, the family, commercial, contractual or corporate relations which could exist between the owners of significant stakes, provided they are known by the company, unless they are irrelevant or arise from normal trading activities, excluding those enquired about in section A.6:

Name or company name of related parties	Relationship type	Brief outline

Observations:

See section A. 7

A.5 Indicate, where applicable, the commercial, contractual or corporate relations which could exist between the holders of significant shares and the company and/or its group, unless they are irrelevant or arise from normal trading activities:

Name or company name of related parties	Relationship type	Brief outline

CRITERIA CAIXA S.A.U	COMMERCIAL	The existing relationships derive from ordinary commercial traffic and are referred to in section D.2 and in the annual accounts.
CVC Capital Partners SICAV-FIS S.A.	COMMERCIAL	The existing relationships derive from ordinary commercial traffic and are referred to in section D.2 and in the annual accounts.
GIP III CANARY 1, S.À R.L.	COMMERCIAL	The existing relationships derive from ordinary commercial traffic and are referred to in section D.2 and in the annual accounts.

A.6 Describe the relationships, unless they are scarcely relevant to the two parties that exist between the significant shareholders or those represented on the board and the directors, or their representatives, in the case of legal entity administrators.

Explain, where appropriate, how significant shareholders are represented. Specifically, give details of those directors who have been appointed on behalf of significant shareholders, those whose appointment would have been promoted by significant shareholders, or who are linked to significant shareholders and/or entities of their group, with a specification of the nature of such relationships. In particular, mention shall be made, where appropriate, of the existence, identity and position of board members, or representatives of directors, of the listed company, who are, in turn members of the administrative body, or their representatives, in companies that hold significant holdings in the listed company or in entities of the group of said significant shareholders.

Name or company name of related director or representative	Name or company name of significant related shareholder	Company name of the significant shareholder group	Description of the relationship/position
MR. MARCELINO ARMENTER VIDAL	CRITERIA CAIXA S.A.U	Criteria Caixa SAU	Proprietary/Managing Director
		Caixa Capital Risc, S.G.E.I.C. S.A.	Vice-President – Managing Director
		Inmo Criteria Caixa, S.A.U.	Director
		Mediterránea Beach & Golf S.A.U.	Chairman and Managing Director

		Saba Infraestructuras, S.A.	Director
		Caixa Innvierte Industria, S.C.R., S.A.	Physical Person representing the Sole Administrator
		Criteria Industrial Ventures, S.A.	Physical Person representing the Sole Administrator
		Criteria Venture Capital, S.I.C.C. S.A.	Physical Person representing the Sole Administrator
MRS.ISABEL ESTAPÉ TOUS	CRITERIA CAIXA S.A.U	Fundación Bancaria Caixa d'Estalvis I Pensions de Barcelona	Proprietary/Patroness
		Criteria Caixa S.A.U	Director
Mrs. LUCY CHADWICK	GLOBAL INFRASTRUCTURE MANAGEMENT LLP		Proprietary/Employee
MR. RAJARAM RAO.	GLOBAL INFRASTRUCTURE MANAGEMENT LLP		Proprietary/Shareholder
MR. JAVIER DE JAIME GUIJARRO	CVC Capital Partners SICAV-FIS S.A.		Proprietary
MR. JOSÉ ANTONIO TORRE DE SILVA LÓPEZ DE LETONA	CVC Capital Partners SICAV-FIS S.A.		Proprietary/Employee

A.7 Indicate whether or not the company has been notified of parallel shareholders agreements that affect it as per Articles 530 and 531 of the Spanish Corporate Enterprises Act. Where applicable, give a brief description and list the shareholders associated with the agreement:

YES **X** NO

Parties to parallel shareholders agreements	% of share capital affected	Brief outline of agreement	Expiration date of the agreement, if there is one

CRITERIA CAIXA S.A.U GIP III CANARY 1, S.À R.L.	45,4%	The agreement reported in Relevant Fact No. 242612 of 12/09/2016 specifies that the intervening parties assume certain undertakings concerning corporate governance of the Company and which are for the purpose of respecting the rights to proportional representation both on the Board as well as on Committees.	
ALBA EUROPE S.À R.L. RIOJA CAPITAL RESEARCH AND MANAGEMENT COMPANY INVESTMENT S.À R.L,	20,7%	The agreement reported in Relevant Fact No. 265818 of 18 May 2018 was modified on 1 August 2019 to include the new shareholder, Rioja Acquisitions SARL replacing Rioja Bidco Shareholdings (Relevant Fact Nº 281047). This Agreement affects 1.- The proposal for designation of directors in representation of Rioja Acquisitions Sarl, 2.-The adoption of decisions on the Board at the Meeting, and 3.- The system for transfer of shares.	

Indicate whether or not the company is aware of the existence of concerted actions among its shareholders. Give a brief description as applicable:

YES NO **X**

Parties to concerted action	% of share capital affected	Brief description of the concerted action	Expiry date of the concerted action, if there is one

If any modification or cancellation of said agreements or concerted actions have taken place during the year, please make express mention of this:

NOT APLICABLE

A.8 Indicate whether any individual or legal entity currently exercise control or could exercise control over the company in accordance with Article 5 of the Securities Market Act. If so, identify:

YES NO **X**

Name or company name

Observations

A.9 Complete the following table on the company's treasury share:

At year-end:

Number of direct shares	Number of indirect shares (*)	% of total share capital
35.733	8,639,595	0,895%

OBSERVATIONS

Explain the significant changes over the year:

Details of significant changes
On 21 July 2020, the Company's Board of Directors agreed to implement the capital reduction agreement, approved by the Company's Annual General Meeting held on 26 May 2020, through the amortisation of 14,508,345 own shares with a par value of one euro each.

A.10. Give details of the terms and conditions corresponding to the General Meeting of Shareholders current mandate to the Board of Directors for issuing, repurchasing or assigning own shares.

1.- The General Meeting of Shareholders held on 5 March 2019, in item 5 on the Agenda, authorised the Board of Directors to agree to acquire company shares by onerous title and to do so within a deadline of five (5) years, under the following conditions:

Fifth.- To authorise the Board of Directors so that over a term of five (5) years it can acquire by onerous title, on one or several occasions, fully paid-out shares in the Company, so that the nominal value of the shares directly or indirectly acquired, when added to those that the Company and its shareholders already hold never exceeds 10% of the subscribed capital, or any other that were to be legally established for the same. The price or value of the consideration cannot be less than the nominal value of the shares nor exceed its price or value on the Stock Exchange. The Board are hereby authorised to delegate the current authorisation to the person(s) whom they deem fit. The current authorisation extends to the acquiring of shares in the Company for the named companies.

For the purposes of Article 146 of the Spanish Corporate Enterprises Act (Ley de Sociedades de Capital), the shares acquired under the current authorisation, as well as those that the Company and its subsidiaries already hold, may be delivered, either in full or part, directly or as a result of the exercising of option rights, to employees or administrators of the Company or companies in its Group.

This authorisation replaces and renders null and void, to the extent of the unused portion, the authorisation granted by the Board of Directors by the General Meeting of Shareholders held on 14 May 2015 to acquire by onerous title shares in the Company.

2.- The General Meeting of Shareholders on 26 May 2020, in item 8 on the Agenda, authorised the Board of Directors to agree on a reduction in share capital in 2020 through redemption of a maximum of 21.465.000 own shares by implementing a Share Buy-Back programme.

"Eight.- Reduce the amount of share capital of NATURGY ENERGY GROUP, S.A. (hereinafter, "the Company") up to a maximum of €21,465,000, corresponding to (i) 465,000 Own Shares held by the Company on close of the Market on 24 July 2019; and (ii) 21,000,000 additional shares, each with a nominal value of one euro acquired or to be acquired for redemption by the Company pursuant to the Own-Shares Buy-Back Programme (hereinafter the "Buy-Back Programme"), approved by the Company under the EU Regulation Nº 596/2014 on market abuse and published as Relevant Fact on 24 July 2019 (Registry Number 280,517), whose closing acquisition date expires on 30 June 2020, inclusive.
As a result, the maximum amount of the reduction in share capital (the "Share Capital Reduction") is €21,465,000, through the redemption of up to a maximum of 21,465,000 Own Shares with a nominal value of one euro each, proportional, approximately 2.18% of the share capital of the Company at the time of the adoption of the resolution. Accordingly, on 22 April 2020 the Company held in Own Shares 14.508.345 shares, acquired under the terms of the aforementioned Programme for redemption.
The definitive amount of the Share Capital Reduction shall be fixed by the Board of Directors of the Company depending on the definitive number of shares that are finally acquired pursuant to the Buy-Back Programme under the conditions established in the following section."

3.- The General Meeting of Shareholders held on 20 April 2017, in item fourteen (14) on the Agenda, authorised the Board of Directors to agree to the increase in share capital within a deadline of no more than five (5) years, under the following conditions:

*"**FOURTEEN.-** Authorisation for the Board of Directors, with powers to delegate said authorisation upon the Executive Committee, in accordance with the provisions of Section 297.1 b) of the Spanish Corporate Enterprises Act, in order that, within the maximum period of five (5) years, if deemed necessary, the share capital may be increased up to a maximum amount equivalent to half of the share capital at the time of the authorisation, with provision for incomplete share subscription, by way of the issue of ordinary, preferential or redeemable shares, with or without voting rights, with or without share issue premiums, by one or more share capital increase procedures and when and in the amount that is deemed necessary, including the power to waive, as the case may be, the preferential share subscription rights up to the limit of 20% of the share capital at the time of this authorisation herein , and to re-draft the corresponding Articles of the Articles of Association and to revoke the authorisation provided by the Ordinary Shareholders Meeting of 20 April 2012.*

1) *Taking into account the current amount of the share capital, to authorise the Board of Directors, with powers to delegate said authorisation upon the Executive Committee, to increase the share capital by the sum of FIVE HUNDRED MILLION THREE HUNDRED AND FORTY-FOUR THOUSAND SIX HUNDRED AND SEVENTY EUROS (€500,344,670.-.) within the period of five (5) years, as from today's date (20/04/2017), by means of monetary payments, by one or more share capital increase procedures and when and in the amount that is deemed necessary by the Board of Directors, by way of the issue of ordinary, preferential or redeemable shares, with or without voting rights, with or without share issue premiums, without the need for any new authorisation of the General Shareholders Meeting, as well as to modify the Articles of Association that are required for the share capital increase or increases that are carried out by virtue of the aforementioned authorisation, with provision for incomplete share subscription, and all of the foregoing in accordance with the provisions of Section 297.1 b) of the Corporate Enterprises Act, and to revoke the authorisation provided by the Shareholders Meeting of 20 April 2012.*

2) *The Board of Directors is expressly empowered, with powers to delegate this to the Executive Committee, to fully or partially exclude the preferential subscription right with regard to all or any of the issuances agreed in accordance with the provisions of this authorisation. This power is limited to the fact that the exclusions of the pre-emptive subscription right do not exceed, as a whole, 20% of the Company's current share capital.*

A.11 Estimated floating capital:

	%
Estimated floating capital	29.7

A.12 Indicate whether there is any restriction (statutory, legislative or of any other nature) on the transferability of securities and/or any restrictions on the voting

rights. In particular, the existence of any type of restrictions that may make it difficult to take control of the company through the acquisition of its shares in the market, as well as those authorisation or prior notification systems that apply to acquisitions or transfers of financial instruments of the company through sectoral regulations, will be reported.

YES **X** NO

Description of the restrictions
As a Company that incorporates certain regulated and quasi-regulated assets and activities into its Group, the acquisition of NATURGY ENERGY GROUP S.A. shares may be subject to the provisions laid down in Additional Provision 9 of Law 4/2013, of 4 June, governing the National Commission on Markets and Competition. Given its nature as a major operator in the gas and electricity markets, the holding of its shares is subject to the restrictions laid down in article 34 of Decree-Law 6/2000, governing Urgent Measures to intensify competition in the goods and services markets. Royal Decree-Laws 8/2020, 11/2020 and 34/2020 have established certain restrictions on foreign investment - including intra-Community investment - which affect NATURGY ENERGY GROUP S.A., both because it is a listed company and because it operates in a sector subject to investment control.

A.13 Indicate whether the General Meeting of Shareholders has agreed to take up measures of neutralisation against a takeover bid by virtue of the provisions laid down in Law 6/2007.

YES NO **X**

If appropriate, explain the measures approved and the terms under which the restrictions would not be enforceable:

A.14 Indicate whether the company has issued securities not traded in a regulated market of the European Union.

YES NO **X**

If appropriate, indicate the different types of shares and, for each type of share, the rights and obligations conferred.

B GENERAL MEETING OF SHAREHOLDERS

B.1 Indicate and, where applicable, give details of whether the quorum required for constitution of the General Meeting of Shareholders differs from the system of minimum quorums established in the Corporate Enterprises Act ("LSC" in Spanish).

YES NO **X**

	% quorum different to that laid down in Article 193 LSC for general cases	% quorum different to that laid down in Article 194 LSC for special cases
Quorum required for the first call to meeting		
Quorum required for the second call to meeting		

Description of the differences

B.2 Indicate and, as applicable, describe any differences between the company's system of adopting corporate agreements and the framework established in the Corporate Enterprises Act ("LSC" in Spanish):

YES NO **X**

Describe how the system differs from that of the LSC.

	Reinforced majority other than that laid down by Article 201.2 LSC for the cases of 194.1 LSC	Other cases of reinforced majorities
% laid down by the institution for the adoption of agreements		
Describe the differences		

B.3 Indicate the rules governing amendments to the company's Articles of Association. In particular, indicate the majorities required to amend the Articles of Association and, if applicable, the rules for protecting shareholders' rights when changing the Articles of Association.

The amendment of the Articles of Association is regulated in article 6.2 of the Articles of Association and in article 12 of the Regulations on the General Meeting of Shareholders, which is supplemented with the corresponding provisions of the Corporate Enterprises Act.

The shareholders constituted in a duly convened General Meeting of Shareholders, shall generally decide by simple majority vote on the matters which fall to the terms of reference of the Meeting. In such case an agreement shall be deemed adopted when it obtains more votes in favour than against of the share capital either present or represented.

All shareholders, including dissidents and those that have not taken part in the meeting, are subject to the resolutions of the General Meeting of Shareholders.

In order for the ordinary or extraordinary General Meeting of Shareholders to validly agree the issue of bonds convertible into shares or bonds that give bondholders a share in company profits, the increase or reduction of share capital, the removal or limitation of the preferential subscription right for new shares or convertible bonds, as well as the transformation, merger, spin-off or global assignment of assets and liabilities, the transfer of the company's registered office abroad and, in general, any modification to the Articles of Association, will require, at the first call to meeting, the attendance of shareholders, either present or represented, that hold at least fifty percent (50%) of the subscribed share capital with voting rights. In the second call to meeting, it will be sufficient for twenty-five (25%) of the share capital to be present.

The modification of the Articles of Association must be agreed by the General Meeting of Shareholders and requires the concurrence of the following requisites:

1) The Board of Directors or, where appropriate, the shareholders that make the proposal, must compile a written report with justification for the amendment.

2) The call to meeting must clearly express the proposed points of change, as well as the right all shareholders have to examine, at the registered office, the full text of the proposed modification and a report on this. They also have the right to ask for handover or free-of-charge sending of said documents.

3) The agreement must be adopted by the General Meeting of Shareholders in accordance with the provisions set out in these Articles of Association.

4) Under the circumstances, the agreement must be set out in a public deed, which will be registered with the Mercantile Registry and published in the Official Bulletin of the Mercantile Registry.

B.4 Indicate the attendance data of the General Meetings held during the financial year to which this report refers and that of the previous financial year:

	Attendance data				
Date of General Meeting of Shareholders	**% physical presence**	**% represented**	**% remote voting Electronic Vote**	**Other**	**Total**
27/06/2018	68.69%	15.13%	0%	0%	83.82%
Of the floating capital 2018	0.2%	15.1%	0%	0%	15.3%
05/03/2019	72.12%	13.06%	0%	0%	85.18%
Of the floating capital 2019	2.55%	13.06%	0%	0%	15.61%
26/05/2020	64,07%	11,39%	0%	0%	75,46%

Of the floating capital 2020	1,40%	11,39%	0%	0%	12,79%

B.5 Indicate whether at the General meetings held during the year there has been any item on the agenda that, for whatever reason, has not been approved by the shareholders.

Yes □ No X

Agenda items that have not been approved	% of votes against (*)

(*)<u>**If the non-approval of the item is for a reason other than a vote against, this will be explained in the part of the text and "n/a" will be placed in the "% of votes against" column".**</u>

B.6 Indicate whether or not there is a statutory restriction to the minimum number of shares required to attend the General Meeting of Shareholders.

YES NO **X**

Number of shares required to attend the General Meeting of Shareholders	
Number of shares required to vote remotely	

OBSERVATIONS

B.7 Indicate whether it has been established that certain decisions, other than those established by Law, which involve the acquisition, disposal, the contribution to another company of essential assets or other similar operations must be submitted to approval of the general meeting of shareholders.

YES NO **X**

Explanation of the decisions that must be submitted to the board other than those established by law

B.8 Indicate the URL of the company and the means of access to corporate governance content and other information concerning the general meetings and which must be made available to shareholders through the company's website.

With regard to the Corporate Governance section, the path is as follows: https://www.naturgy.com/accionistas_e_inversores/gobierno_corporativo/normas_de_gobierno
With the following itinerary www.naturgy.com → Shareholders and Investors → Corporate Governance.

With regard to the General Meeting of Shareholders section, the itinerary is as follows:
https://www.naturgy.com/accionistas_e_inversores/gobierno_corporativo/junta_ge

neral_de_accionistas, with the following itinerary www.naturgy.com → Shareholders and Investors → General Meeting of Shareholders.

C STRUCTURE OF THE COMPANY'S MANAGEMENT

C.1 Board of Directors

C.1.1 Maximum and minimum number of directors stipulated in the Articles of Association and the number set by the General Meeting of Shareholders:

Maximum number of directors	15
Minimum number of directors	11
Number of directors set by the General Meeting of Shareholders	12

Observations

C.1.2 Complete the following table with Board members' details.

Name or company name of Director	Representative	Type of director	Position on the board	Date of first appointment	Date of last appointment	Election procedure	Date of birth
Mr. Francisco Reynés Massanet		Executive	Chairman	06/02/2018	27/06/2018	Agreement General Meeting of Shareholders	08-04-1963
Mr. Ramón Adell Ramón		Independent	Coordinating Director	18/06/2010	27/06/2018	Agreement General Meeting of Shareholders	09-01-1958
Mrs Isabel Estapé Tous		Proprietary	Director	16-03-2020	26-05-2020	Acuerdo Junta General de Accionistas	05-04-1957
Mr. Marcelino Armenter Vidal		Proprietary	Director	21/09/2016	26-05-2020	Agreement General Meeting of Shareholders	02-06-1957
Mr. Francisco Belil Creixell		Independent	Director	14/05/2015	27/06/2018	Agreement General Meeting of	24-05-1946

						Shareholders	
Mrs. Helena Herrero Starkie		Independent	Director	04/05/2016	26-05-2020	Agreement General Meeting of Shareholders	13-06-1959
Mr. Rajaram Rao		Proprietary	Director	21/09/2016	26-05-2020	Agreement General Meeting of Shareholders	03-04-1971
RIOJA S.à.r.l	Mr. Javier de Jaime Guijarro	Proprietary	Director	01/08/2019	26-05-2020	Agreement General Meeting of Shareholders	26-11-1964
Mr. Claudio Santiago Ponsa		Independent	Director	27/06/2018	27/06/2018	Agreement General Meeting of Shareholders	20-09-1956
Mr. Pedro Sainz De Baranda		Independent	Director	27/06/2018	27/06/2018 (accepted 6-07-2018)	Agreement General Meeting of Shareholders	23-03-1963
Mrs Lucy Chadwick		Proprietary	Director	16-03-2020	26-05-2020	Acuerdo Junta General de Accionistas	11-02-1967
THEATRE DIRECTORSHIP SERVICES BETA, S.à.r.l.	Mr. José Antonio Torre de Silva López de Letona	Proprietary	Director	18/05/2018	27/06/2018	Agreement General Meeting of Shareholders	23-10-71

Total number of directors	12

Indicate the removals from office due to resignation, dismissal or for any other reason that have occurred on the Board of Directors during the reporting period:

Name or company name of Director	Category of director	Date of last appointment	Date of vacancy	Specialist committees	Indicate whether

	at time of vacancy			of which he or she was a member	the removal from office occurred before the end of the mandate
D. Enrique Alcántara-García Irazoqui	Dominical	20/04/2017	16-03-2020	CAU	YES
Scott Stanley	Dominical	05-03-2019	16-03-2020	CNR	YES

Reason for the dismissal, when it has occurred before the end of the term of office and other observations; information on whether the director has sent a letter to the other members of the board and, in the case of dismissals of non-executive directors, an explanation or opinion of the director who has been dismissed by the AGM
Mr. Stanley resigned from his position as a director of the Company and member of the Appointments and Remuneration Committee, by means of a communication sent to the Chairman of the Board, with effect from 16 March Mr. Stanley did not send any specific communication to the other members of the Board but the President informed the Board members that the reason he had communicated was to enable a greater presence of women in the Board. Mr. Alcántara presented his resignation as a proprietary director and member of the Audit and Control Committee at the beginning of the Board meeting held on 16 March 2020. Mr Alcántara explained his reasons to the other members of the Board during that meeting which included encouraging a greater presence of women on the Board.

C.1.3 Complete the following tables on board members and their respective categories:

EXECUTIVE DIRECTORS

Name or company name of Director	Position in the company's management structure	Profile
Mr. Francisco Reynés Massanet	Executive Chairman	Engineering and international business profile: Industrial Engineer, specialising in mechanics, with a degree from the Polytechnic University of Barcelona, and an MBA from IESE; he has also completed Senior Management programmes in the United States and Germany.

Total number of executive directors	1
% of the entire board	8.33%

OBSERVATIONS

EXTERNAL PROPRIETARY DIRECTORS

Name or company name of Director	Name or title of significant shareholder represented by the director or that has proposed the director's appointment	Profile
Mrs Isabel Estapé Tous	CRITERIA CAIXA S.A.U	Economic and business profile: Graduate in Economics and Business Studies. Notary Public. Director of Criteria Caixa and Patron of la Caixa. She is also a full member of the Royal Academy of Economic and Financial Sciences.
Mr. Marcelino Armenter Vidal	CRITERIA CAIXA S.A.U	Economics and business profile: Degree in Business Administration and Management and Master's degree in Business Administration and management from ESADE.
Mr. Rajaram Rao	GIP III Canary 1 S.à r.l..	IT, economics and international business profile: Qualified Electronic and Telecommunications Engineer. He also holds an MBA from the University of Delhi and a Master's degree in Finance from the London Business School.
Rioja S.à.r.l. (Mr. Javier de Jaime Guijarro)	Rioja Acquisitions Sarl, S.L.U	Economics and business profile: Graduate in law from the Comillas University (ICADE) and MB from Houston University.
Mrs. Lucy Chadwick	GIP III Canary 1 S.à r.l.	International business and economic profile: She is a member of GIP's senior management. Formerly Director General of International and Environment at the UK Department for Transport.
THEATRE DIRECTORSHIP SERVICES BETA, S.à.r.l. (Mr. Jose Antonio Torre de Silva López de Letona).	Rioja Acquisitions S.a.r.l	Economics and business profile: Degree in industrial Engineering from the Higher Technical School of the Comillas Pontifical University (ICAI) and MBA from the University of Navarre (IESE).

Total number of proprietary directors	6
% of the entire board	50.00%

OBSERVATIONS

EXTERNAL INDEPENDENT DIRECTORS

Name or company name of Director	Profile
Mr. Ramón Adell Ramón	Expert financial and accounting profile: Doctorate in Economics and Business Administration. Lawyer. Professor of Financial Economics and Accounting at the University of Barcelona. An academic from the Royal Academy of Economic and Financial Sciences of Spain and Honorary Member of the European Doctorate Degree Holders and Dr. H.C. (Consedoc).
Mr. Claudio Santiago Ponsa	IT and international business profile; energy sector: Degree in Computer Engineering from the Autonomous University of Barcelona (UAB) and International executive programme (INSEAD) through the Executive International Business at Georgetown University.
Mr. Francisco Belil Creixell	Engineering and international business profile: Senior Engineer. He has been CEO of the Southwest Europe region at Siemens and Chairman of the German Chamber of Commerce for Spain and the Federation of the Spanish Chemical Industry.
Mr. Pedro Sainz de Baranda Riva	Engineering and international business profile; capitals market: Mining Engineer from the University of Oviedo, PhD in Engineering, Rutgers University of New Jersey and an MBA from the Sloan School of Management of Massachusetts Institute of Technology (MIT).
Mrs. Helena Herrero Starkie	IT, and R&D&i and international business profile: Degree in Chemical Sciences. She is the Chairperson and CEO of Hewlett Packard (HP) for Spain and Portugal.

Total number of independent directors	5
% total of the board	41.66%

OBSERVATIONS

Indicate whether or not any director qualified as independent receives from the company, or from its group, any amount or benefit for an item other than remuneration as director, or holds or has held, over the last year, a business relationship with the company or any other group company, whether in their own name or as a significant shareholder, director or senior executive of an entity that maintains or has maintained any such relationship.

Where appropriate, include a reasoned statement from the board on the grounds why it believes this director many perform his/her duties as an Independent Director.

Name or company name of Director	Description of the relationships	Reason statement

OTHER EXTERNAL DIRECTORS

Identify all other external directors and explain why these cannot be considered proprietary or independent directors and detail their relationships with the company, its executives or shareholders:

Name or company name of Director	Reasons	Company, executive or shareholder with whom the relationship is maintained	Profile

Total number of external directors	
% total of the board	

OBSERVATIONS

List any changes in the category of each director which have occurred during the year:

Name or company name of Director	Date of change	Former category	Current category

OBSERVATIONS

C.1.4 Complete the following table with information regarding the number of female directors at the close of the last four financial years, and their category:

	Number of female directors				% of total directors of each type			
	Financial year Q	Financial year Q-1	Financial year Q-2	Financial year Q-3	Financial year Q	Financial year Q-1	Financial year Q-2	Financial year Q-3
Executive	0	0	0	0	0	0	0	0
Proprietary	2	0	0	0	33,33%	0	0	0
Independent	1	1	1	3	20%	20%	20%	50 %
Other external	0	0	0	0	0	0	0	0
Total:	3	1	1	3	25%	8,33%	8,33%	17,65%

OBSERVATIONS

C.1.5 Indicate whether the company has diversity policies in relation to the Board of Directors of the company with regard to issues such as age, gender, disability, or professional training and experience. Small and medium-sized enterprises, in accordance with the definition contained in the Accounts Auditing Law, will at least have to report the policy they have established in relation to gender diversity.

Yes **No** **Partial policies X**

If yes, describe these diversity policies, their objectives, the measures and the way in which they have been applied and their results over the year. Also indicate the specific measures adopted by the Board of Directors and the Appointments and Remuneration Committee to achieve a balanced and diverse presence of directors.

If the company does not apply a diversity policy, explain the reasons why

Description of the policies, objectives, measures and manner in which they have been applied, as well as the results obtained
Naturgy's Director Selection Policy includes guidelines aimed at selecting candidates whose appointment fosters professional, expertise and gender diversity on the Board of Directors. In any case, it should be noted that said Policy is applied with full respect to the right of proportional representation legally recognised to shareholders. The Appointments and Remuneration Committee ensures that the selection procedures do not include any implicit bias that could involve any discrimination whatsoever.

During the Shareholders' Meeting of 26 May 2020, it was made public the Company's commitment to implement measures that favour gender diversity in the composition of the Board of Directors and announced at the General Shareholders' Meeting the objective of achieving 30% by the end of 2020 and 40% by the end of 2021 of female presence. Throughout 2020, the resignation of some of the proprietary directors allowed substantial progress to be made in terms of gender diversity, with all vacancies being filled by women: Ms Isabel Estapé to fill the vacancy of Mr Alcántara and Ms Lucy Chadwick to fill the vacancy of Mr Stanley. Both appointments were made by cooption at the Board meeting held on 16 March 2020 and subsequently ratified and appointed at the Shareholders' Meeting held on 26 May 2020. The same Shareholders' Meeting agreed to appoint Helena Herrero, whose term of office had expired, for a new term. In conclusion, 100% of the vacancies produced during 2020 have been filled by women.

C.1.6 Explain the measures which, where appropriate, have been agreed by the Appointments Committee so that the selection procedures are unaffected by any implicit bias that hampers the selection of female directors, and which shows that the company purposefully seeks and includes women that satisfy the professional profile sought among the potential candidates and to achieve a balanced presence of women and men. Also indicate whether these measures include encouraging the company to have a significant number of senior managers:

Explication of the measures
The Appointments and Remuneration Committee is tasked with reviewing the necessary skills of candidates required for each vacancy, in compliance with the requirements needed for each category of director and the incorporation process of new members, forwarding the opportune reports or proposals to the Board as necessary. For covering new vacancies, selection processes shall be guaranteed that are not subject to implicit bias that prevents the selection of female directors, with special value placed on, under the same conditions and among potential candidates, women who meet the professional profile being sought. In February 2020, the Board of Directors approved a modification to the Director Selection Policy, incorporating a competence matrix that reflects the Company's needs in terms of the skills, knowledge and experience required on the Board. This matrix should be used in the selection processes for board members. Following the approval in June 2020 by The National Securities Market Commission (CNMV) of the amendment of the Code of Good Governance for listed companies, at its meeting on 24 November the Board of Directors once again reviewed the Director Selection Policy, in

order to consider the implementation by the Company of measures that encourage the appointment of a significant number of top executives..

When, despite the measures adopted, the number of female directors is zero or few, explain the reasons for this:

Explanation of the reasons
In 2020 the Company has made a significant effort to increase the number of female directors. Thus, the three vacancies that occurred during the year were filled by women. However, it is important to consider that the Company's Appointments and Remuneration Committee is bound to respect the legally recognised right to proportional representation of its shareholders.To this end, it can only deploy fully their right of proposal in relation to Independent Directors, as done in relation to the process for selecting candidates to cover the position of Independent Director whose mandate had expired.

C.1.7 Explain the Appointments Committee's on the verification of compliance with the policy aimed at promoting an appropriate composition of the Board of Directors.

The Appointments and Remuneration Committee has verified that the Policy for the selection of Directors has been complied with as regards the provision of existing vacancies on the board, all within the framework of the Company's shareholding structure, which imposes respect of certain legal requirements of proportional representation of the shareholders. The recommendations of good corporate governance must conform to this condition, of an imperative character. The Committee has verified that in the selection processes for directors, the balance of criteria such as: i) expertise, ii) skills, iii) diversity and iv) experience has been taken into account.

The percentage of female profiles among independent directors represents 25% of the total. The Commission's conclusion is that it should be further increased as new vacancies are filled

C.1.8 Where applicable, explain why proprietary directors have been appointed at the request of shareholders whose shareholding in the capital is less than 3%:

Name or company name of shareholder	Explanation

Indicate whether or not formal requests have been accepted for presence on the board from shareholders whose holding is equal to or higher than that of others for whom proprietary directors have been appointed. If so, explain why these requests have not been answered:

YES NO **X**

Name or company name of shareholder	Explanation

C.1. 9 Indicate, in the event that they exist, the powers and faculties delegated by the Board of Directors to directors or to board committees:

Name or company name of the director or committee	Brief outline
Mr. Francisco Reynés Massanet	He has delegated extensive powers of representation and administration in accordance with the nature and requirements of the position of Executive Chairman.

C.1.10 List the Members of the Board of Directors, if any, who hold office as Administrators or representatives of Administrators or Directors in other companies belonging to the listed company's group:

Name or company name of Director	Company name of group entity	Position	Do they have executive duties?

C.1.11 Identify, where applicable, the directors or representatives of legal persons of your company, who are members of the Board of Directors or director representatives, legal persons of other companies listed on regulated stock exchanges in Spain other than those of your group, that have been reported by the company:

Name or company name of Director	Corporate name of the listed company	Position
Mr. Ramón Adell Ramón	Oryzon Genomics, S.A.	Director

Mrs. Lucy Chadwikc	Nuovo Transport Viaggiatori (NTV) Italo SpA	Director
Mr. Pedro Sainz de Baranda Riva	Gestamp Automocion, S.A.	Director

C.1.12 Indicate and, where appropriate, explain whether the company has established rules about the maximum number of company Boards on which its directors may sit, identifying how this is regulated where appropriate:

YES NO **X**

Explanation of the rules and identification of the document where it is regulated

C.1.13 Indicate the amounts of the following items relating to the overall remuneration of the Board of Directors:

Overall remuneration earned by the Board of Directors during the year (thousands of euros)	7.134
Cumulative amount of rights of current directors in pension scheme (thousands of euros)	7.298 (*)
Cumulative amount of rights of former directors in pension scheme (thousands of euros)	0

OBSERVATIONS
(*) It includes the amount corresponding to the variable remuneration 2018 and 2019 that are settled as a contribution to the Executive Chairman´s Social Security Plan as it is beneficiary.

C.1.14 Identify members of senior management who are not also executive directors, and indicate the total remuneration they earned during the year:

Name or company name	Position/s
Mr. Carlos Francisco Vecino Montalvo	Marketing Manager
Mr. Pedro Larrea Paguaga	Manager Energy Management and Networks
Mr. Jorge Barredo Lopez	Manager Renewables, Innovation and New Business
Mr. Enrique Tapia Lopez	People and Organisation Manager
Mr. Rafael Blesa Martinez	Information Systems Manager
Mr . Manuel García Cobaleda	General and Board Secretary
Mr. Jordi García Tabernero	Sustainability, Reputation and Institutional Relations Manager
Mr. Steven Fernández	Financial Market Manager
Mr. Jon Ganuza Fernandez De Arroyabe	Manager Planning, Control and Administration

Total remuneration of senior management (in thousands of euros)	23.659

OBSERVATIONS
The executives who report directly to the Executive Director have been listed Mr. Manuel Fernández Álvarez, Mr. Carlos Javier Álvarez Fernández and Ms. Rosa Mª Sanz García ended their employment relationship with the company on 31 July 2020 and Mr. Carlos Ayuso Salinas left his position as Internal Audit Director on that date.

C.1.15 Indicate whether or not there has been any modification to the regulations of the board during the year:

YES x NO

Description of modifications
At the meeting of 24 November 2020, Articles 10, 11, 24, 25, 26 were amended and a new Article 27 was added to (i) adapt it to the new Good Governance recommendations of the CNMV (ii) update the name of the Board's committees and incorporate the new Sustainability Committee.

C.1.16 Indicate the procedures for appointing, re-electing, evaluating and removing directors. Provide details of the competent bodies, the procedures to be followed and the criteria applicable in each procedure.

The procedures for the appointment, re-election, evaluation and removal of directors are regulated in Article 7 of the Articles of Association and in Articles 9 and 10 of the Regulations for the Organisation and Functioning of the Board of Directors and its Committees, supplemented by the provisions of Article 529 decies of the Spanish Corporate Enterprises Act ("LSC" in Spanish).

1.- Appointment and re-election:

The General Meeting of Shareholders is competent for appointing directors and establishing the number thereof, subject to the limits stipulated in Article 7 of the Articles of Association.

If vacancies were to arise during the term for which the Directors were appointed, the Board shall be entitled to designate, using the co-option system, the persons to occupy these vacancies until the first General Meeting of Shareholders is held.

The status of Shareholder is not required to be appointed Director.

Anyone who is in any of the situations that, pursuant to prevailing legislation, prevents such characterisation, cannot be proposed, appointed or qualified as Independent Directors.

It will be necessary to appoint persons who not only satisfy legal provisions and those laid down in the Articles of Association for the position, but who have a prestigious position and are equipped with the professional skills and expertise required to perform their duties.

Directors are appointed and re-elected in accordance with a formal and transparent procedure and the proposals which the Board of Directors submits to the General Meeting of Shareholders, as well as appointments adopted by the Board by virtue of its powers of co-option, must be made subject to a proposal from the Appointments and Remuneration Committee in the case of Independent Directors, or a report for the remaining Directors. When the Board does not follow the recommendations of said committee, it will have to explain the reasons and record the said reasons in the Minutes.

In addition, the Board of Directors, on the proposal of the Appointments and Remuneration Committee and in line with the recommendations of the Guide of the CNMV on Appointment and Remuneration Committees, approved in their meeting in October 2019 a Competency Matrix, for which assistance was provided by an Independent Expert. The Policy for selecting Directors was modified on 4 February 2020 to include the need for preparing and taking into consideration this Competency Matrix in all processes for selecting Directors.

2.- Re-election:

Directors elected as of 27 June 2018, will hold office for a maximum term of four (4) years, and may be re-elected (those elected up to that date had a term of three (3) years).

The Independent Directors shall not remain in their post for a period of more than twelve (12) years.

3.- Replacement or removal:

Directors shall be replaced in their position for the length of the term for which they were appointed, unless they are re-elected, and when so determined by the General Meeting of Shareholders by virtue of the powers granted thereto. Likewise, directors shall be replaced in all other circumstances where applicable pursuant to the Law, the Articles of Association and Regulations of the Board of Directors.

Directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deemed it appropriate, in the following cases:

a) When Executive Directors step down from their executive positions.

b) When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these Regulations.

c) When they commit a serious breach of their obligations as directors, jeopardising the interests of the Company.
d) When circumstances arise that may affect the credit or reputation of the Company or, in any other way, put the Company's interests at risk
e) When the reason why they were appointed as independent, executive or proprietary directors is no longer applicable.

In any case, the Board of Directors pays special attention to issues of diversity and not only gender diversity, within the framework of full respect for the

right of shareholders as recognised by the Law on Proportional Representation. As explained in previous sections, the Directors selection policy as revised on February 2020 incorporates a Competency Matrix to be used in all processes for covering the position of Director and wich has already been used in the process of covering the position of 1 independent director and 2 proprietary directors whose re-election/appointment whose re-election/appointment was submitted for approval to the General Meeting of Shareholders held on 26 May 2020. In this regard, the Board of Directors approved a new modification to the Director Selection Policy to expressly include the Company's commitment to gender diversity, providing for the implementation by the Company of measures that encourage the appointment of a significant number of female senior executives.

C.1.17 Explain, if applicable, to what extent this annual evaluation has prompted significant changes in its internal organisation and the procedures applicable to its activities:

Description of modifications
In June 2020, the CNMV published new Good Governance recommendations. Some of these were already being complied with by the Company, but others required the adaptation of some policies or the approval of new ones, which were agreed by the board on 24 November 2020: - General policy on the communication of economic, financial, non-financial and corporate information - Policy for the selection of Directors on aspects related to the promotion of diversity in senior management. - Risk policy - Shareholder and investor communication policy In addition, the Board Regulations were modified and the distribution of powers among the three Board Committees was reviewed

Describe the evaluation process and the areas evaluated by the Board of Directors, assisted by an outsourced consultant, regarding the operation and composition of its committees, and any other area or aspect that has been subject to evaluation.

Description of the evaluation process and areas evaluated
In the year 2020 the Board's evaluation was carried out by an external consultant. As part of this evaluation process, the directors have completed a series of questionnaires regarding the operation of the Board and its committees and have held personal interviews with the external consultant.

Following the evaluation process, the external consultant concluded that the Council and the Committees are functioning to a high degree of satisfaction, but that there are a number of views on the Council that require further reflection.

With regard to the exceptional situation resulting from the health crisis caused by the Covid-19, the advisor stressed that all the directors have highly valued the Board's performance during the most critical months of the crisis, highlighting in particular the holding of weekly meetings of the Company's top management body, which, in turn, has been constantly informed of the Company's situation in all relevant aspects, thus facilitating decision-making by the Board during a large part of this exceptional financial year 2020.

In relation to the composition of the governing bodies, in general terms, it has been satisfactorily qualified in the understanding that the Board and the committees have an adequate degree of knowledge and experience that favours their appropriate functioning and correct decision making and this despite the fact that the sector in which the Company carries out its activity is highly regulated and extremely complex

Some of the recommendations, such as the allocation of clear competences to each of the Commissions, have already been implemented in 2020 and others, such as the reinforcement of training plans, will be implemented in 2021.

C.1.18 Explain, for any of the years in which the evaluation has been assisted by an external advisor, the business relationship the adviser or any group company maintains with the company or any group company.

NONE

C.1.19 Indicate the cases in which directors must resign.

Directors shall be replaced in their position for the length of the term for which they were appointed, unless they are re-elected, and when so determined by the General Meeting of Shareholders by virtue of the powers granted thereto. Likewise, directors shall be replaced in all other circumstances where applicable pursuant to the Law, the Articles of Association and Regulations of the Board of Directors.

Directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deems it appropriate, in the following cases:

a. When Executive Directors step down from their executive positions.

b. When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these Regulations.

c. When they commit a serious breach of their obligations as directors, jeopardising the interests of the Company
d. When circumstances arise that may affect the credit or reputation of the Company or in any other way jeopardise the interests of the Company.
e. When the reason why they were appointed as Independent, Executive or Proprietary Directors is no longer applicable.

C.1.20 Are qualified majorities other than those prescribed by law required for any type of decision?

YES **X** NO

Where appropriate, describe the differences.

Description of the differences
Article 7.4 of the Regulations of the Board of Directors states the following: “4.- The resolutions must be adopted with the vote of the absolute majority of the directors who attend, whether present or represented, unless the Law, the Articles of Association or these Regulations establish an enhanced majority. In particular, the favourable vote of more than two thirds of the directors, whether present or represented, will be required for the valid adoption of resolutions on the following matters reserved for the plenary session of the Board and, therefore, non-delegable: a) The acquisition or disposal of assets belonging to the Company (regardless of the legal means used for this purpose and, in particular, even if they are carried out through merger, spin-off or other operations of subsidiaries) in excess of Euros 500,000,000, unless its approval corresponds to the General Meeting of Shareholders or is carried out in execution of the budget or strategic or business plan of the Company. b) The approval of the budget and the strategic or business plan of the Company. c) The modification of the dividend distribution policy and the approval of a new one. d) The subscription, modification, renewal, non-renewal or termination by the Company of financing or refinancing agreements for an amount exceeding Euros 500,000,000. e) The subscription, modification, renewal, non-renewal or termination by the Company of any material contract, other than those provided for in section d) above, whose amount exceeds Euros 500,000,000 in the case of gas supply contracts and of Euros 200,000,000 in the case of other contracts. f) The material changes in the accounting and tax criteria and policies of the Company, unless they are due to modifications of applicable

legislation or compliance with the guidelines and criteria set by the competent authorities in the matter. g) The reformulation of the Company's annual accounts, unless such reformulation is due to a modification of applicable legislation or compliance with the guidelines and criteria set by the competent authorities in the matter. h) Capital investments (capex) not provided for in the Company's annual budget for an amount exceeding Euros 200,000,000 euros. i) The modification of the matters of paragraph a) to i) or modification of the enhanced majority of the vote required for any of them."

C.1.21 Indicate if there are specific requirements other than those relating to directors in order to be appointed as Chairman of the Board of Directors.

YES NO **X**

Description of requirements

C.1.22 Indicate whether the Articles of Association or the Board Regulations establish any age limit for Directors:

YES NO **X**

	Age limit
Chairman	
Chief Executive Officer	
Director	

Observations

C.1.23 Indicate whether the Articles of Association of the Board regulations set a limited term, or other requirements stricter than those legally determined, or office for independent directors different to the one established in the regulations:

YES NO **X**

Additional requirements and/or maximum number of years of in office	

C.1.24 Indicate whether the Articles of Association or Board Regulations stipulate specific rules on appointing a proxy to the Board, the procedures thereof and, in particular, the maximum number of proxy appointments a Director may hold. Also indicate whether there are any restrictions as to what categories may be appointed as a proxy other than those stipulated by law. Where appropriate, give a brief description of these rules.

As established in Article 7.5 of the Articles of Association "Directors who cannot attend may delegate their representation to another Director, with or without instructions to vote, and must notify the Chairman or the Secretary."

In addition, Article 7.3 of the Regulations of the Board states: "Each Director shall be entitled to confer his/her representation to another Director, there being no limit on the number of representations held by each member for attending the Board meeting. Absent Directors' representations can be conferred by means of any written document, or any electronic means, addressed to the Chairman's Office or the Board Secretary before the beginning of the session".

Likewise, in the Board Meeting held in October 2019, it was agreed to instruct the Directors so that, in general, and in line with recommendation 27 of the Code of Good Governance of Listed Companies, they include voting instructions in proxy representations.

C.1.25 Indicate the number of board meetings held during the year. Also indicate, where applicable, how many times the Board has met without the Chairman being present. When calculating the number, representations made with specific instructions shall be considered as attendance.

Number of board meetings	24
Number of board meetings without the Chairman attending	0

Observations
During the months of March, April and May, the frequency of the Board of Directors' meetings was increased to weekly in order to better monitor the COVID crisis

Indicate the number of meetings held by the Coordinating Director with the rest of the Directors, without the attendance or representation of any Executive Director.

Number of meetings	0

Observations
Since the Coordinating Director is also the Chairman of the Appointments, Remuneration and Corporate Governance Committee and had held this position on the Audit and Control Committee, of which he is still a member, he has usually had contacts with the non-executive directors and especially with the Independent Directors, both as regards remuneration issues as well as corporate governance in general, which have made it unnecessary to convene formal meetings.

Indicate the number of meetings held by the different board committees over the year:

Number of meetings of the Executive Committee	0
Number of meetings of the Audit and Control Committee	10
Number of meetings of the Appointments and Remuneration Committee	9
Number of meetings of the Appointments Committee	
Number of meetings of the Remuneration Committee	
Number of meetings of the Sustainability Committee	4

Observations

C.1.26 Indicate the number of board meetings held during the year with all Members in attendance:

Number of meetings attended in person by at least 80% of the Directors	23
% of attendance over the total number of votes during the year	99,3%
Number of meetings with attendance in person, or representations made with specific instructions of all the Directors	23
% votes cast with attendance in person and representations made with specific instructions, on total votes during the year	99,3%

Observations

C.1.27 Indicate whether the consolidated and individual annual accounts submitted for authorisation for issue by the Board are certified previously.

YES **X** NO

Identify, where applicable, the person(s) who has/have certified the company's individual and consolidated annual accounts in order to be drawn up by the Board:

Name	Position
Mr. Carlos Javier Álvarez Fernández	Chief Financial Officer, until July 31
Mr. Jon Ganuza	Director of Planning, Control and Administration, since July 31

C.1.28 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated annual accounts it prepares from being laid before the General Meeting of Shareholders with a qualified audit report.

By virtue of those established in Article 529.4 of the Corporate Enterprises Act and in the Articles of Association, and of the competences attributed by the Board of Directors, the Audit and Control Committee is responsible for, among others, the functions of informing the General Meeting of Shareholders about the issues that arise in relation to those matters that fall within the remit of the Committee and, in particular, on the result of the audit, explaining how this has contributed to the integrity of the financial reporting and the role that the Committee has played in that process, as well supervising the process of preparation and presentation of mandatory financial reporting and submitting recommendations or proposals to the administrative body, aimed at safeguarding its integrity. To this end, the Audit and Control Committee has supervised the process of preparing financial information and has engaged in fluid dialogue with the external auditor, with the utmost respect for its independence, where it has been informed of the Audit Plan, of the preliminary and final results of the auditor's analyses, and where its independence has been specifically ensured. In any case, it is noteworthy that in financial year 2020 no accounting qualifications have been made.

C.1.29 Is the Secretary of the Board also a Director?

YES NO **X**

Complete if the secretary is not also a Director:

Name or corporate name of the Secretary	Representative
Mr. Manuel García Cobaleda	-

Observations

C.1.30 Indicate the specific mechanisms introduced by the Company to preserve the independence of the External Auditors, as well as, if any, mechanisms to preserve the independence of financial analysts, investment banks and rating agencies, including how the legal provisions have been implemented in practice.

Among the legal functions that correspond to the Audit and Control Committee are to establish the appropriate relations with the external auditor to receive information on those issues that may pose a threat to its independence, for examination by the committee, and any others related to the process for conducting the accounts audit and, where appropriate, the authorisation of services other than those prohibited, under the terms set out in Articles 5, paragraph 4, and 6.2.b) of Regulation (EU) No. 537/2014, of 16 April, and as set out in section 3 of chapter IV of title I of Law 22/2015, of 20 July, on Accounts Auditing, on the independence

regime, as well as those other communications provided for in the audit legislation of accounts and in the auditing standards. In all cases, on an annual basis, the Audit and Control Committee shall receive from the Auditors written confirmation of their independence vis-à-vis the company or entities related to it directly or indirectly, in addition to detailed and individual information on additional services of any kind rendered to these entities by the aforementioned auditors or person or entities related to them in conformity with the provisions of auditing legislation.

Issuing annually, prior to the issuance of the audit report, a report expressing an opinion on whether the independence of the auditors or audit companies is compromised. This report shall in all cases include a reason assessment of each of the additional services provided, as referred to in the previous section, considered separately and in their totality that consists of services other than statutory audits and how they relate to the requirement of independence or to the regulatory legislation of the activity on auditing of accounts.

Likewise, the Board of Directors has entrusted the Audit and Control Committee with, inter alia, the following functions: to ensure that the remuneration of the external auditor for its work does not compromise its quality or independence and ensure that the company and the external auditor respect the standards in force on the provision of services other than auditing, the limits on the concentration of the auditor's business and, in general, the other rules governing the independence of auditors.

The company's relations with financial analysts and investment banks are based on the principles of transparency, simultaneity and non-discrimination as well as the existence of specific and different agents for each collective.

In addition, the company shall take special care not to compromise or interfere with the independence of the financial analysts in respect of the services offered by investment banks, in accordance with the internal codes of conduct established by them and designed to separate their analysis and assessment services.

C.1.31 Indicate whether the company has changed its external audit firm during the year. If appropriate, identify the incoming and outgoing auditors:

YES NO **X**

Outgoing auditor	**Incoming auditor**

Observations
The company has agreed to propose to the shareholders' meeting to be held in March 2021, the appointment of KPMG as the auditor for the 2021

ditches, replacing E&Y which has been the external auditor of the accounts for the period 2018-2020.

In the case of disagreements with the outgoing auditor, explain the content of the said disagreements:

YES NO **X**

Explanation of the disagreements

C.1.32 Indicate if the audit company performs other tasks for the company and/or its group other than auditing activities and the percentage of the fees billed to the company and/or its group:

YES **X** NO

	Company:	Group	Total
Amount of tasks other than auditing activities (in thousands of euros)	127	110	237
Amount of tasks other than auditing/Amount billed by the audit company (%)	14,50%	3,20%	5,50%

Observations

C.1.33 Indicate if the auditor's report on the annual accounts corresponding to the previous year involves reservations or exceptions. Where applicable, indicate the reasons given by the Chairman of the Audit and Control Committee to

YES NO **X**

Explication of the reasons and direct link to the document made available to shareholders at the time of the call in relation to this matter

C.1.34 Indicate the number of consecutive years during which the current audit firm has been auditing accounts of the Company. Also indicate the percentage of the number of years audited by the current audit company over the total number of years that the annual accounts have been audited:

	Individual	Consolidated

Number of years without interruption	3	3

	Individual	**Consolidated**
Number of years audited by the current audit company / Number of years the company has been audited (in %)	10%	10%

Observations

C.1.35 Indicate, and give details if any, whether there are procedures for directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies:

YES **X** NO

Details of the procedure
Articles 6.2 and 6.3 of the Regulations of the Board of Directors state: "2- Notices convening sessions shall be issued by the Chairman or the Secretary, or by the Deputy Chairman on order of the Chairman, and may be effected by any of the channels set out in the Articles of Association. The notification shall include the place and the agenda of said meeting and shall be issued, at least five (5) days before the meeting is to be held, specifying the agenda of the meeting. In the event of an emergency duly justified by the Chairman and thus appreciated by the Board at the start of the meeting, a call to meeting will be made by telephone, fax, email or any other telematic means, with sufficient notice to allow the directors to participate in the meeting. Prior to each meeting the directors shall be furnished with the information and documentation considered to be pertinent or relevant regarding the subjects to be addressed in the Board Meeting. Directors shall also be furnished with the Minutes of the previous meeting, regardless of whether said minutes have been approved or not. The Chairman shall be authorised to establish the order of the day, except in the event of the compulsory convening in which case the agenda of the convened meeting will include the issues indicated by the Directors who request it. 3.- The Board Meeting shall have a quorum, without being previously convoked, if all the directors are present or represented and unanimously accept that the board meeting be held". The procedure followed involves sending, usually a week in advance, the call to meeting, the agenda and any information that is available and may be useful for more accurate knowledge of the matters to be discussed in the Board Meeting. The rest of the documentation is sent as it becomes available - normally 5 days in advance, except for those that, for example, for reasons of urgency do not allow such advance notice. To this end, the Board's documentation is made available to the directors through a electronic platform, which allows them permanent access to it. The Directors have access to the documentation of all bodies of the Board,

irrespective of whether or not they are members of a Committee. In addition, Directors are provided with other information relevant to the exercise of their functions (relevant events, new regulations, access to press reviews, etc) through the platform. Furthermore, the matters dealt with by the Board are usually presented by the managers responsible for the proposals, so that the Board Members can directly request clarifications, data or opinions from them in relation to the points dealt with in the session and can directly appreciate their qualifications for the position. Finally, the Directors may request the additional information they deem necessary for the exercise of their duties through the Board Secretary.

C.1.36 Indicate and, where applicable, give details of whether or not the Company has laid down rules that oblige the Directors to report and resign when situations occur that affect them, whether or not they are related to their actions in the company itself, which may damage the company's credit and reputation:

YES **X** NO

Explain the rules
In accordance with Article 11.4 of the Board Regulations, the Director is subject to the duty of loyalty under the terms established in prevailing legislation and, in particular, section e) of said article 11.4, establishes that the Director shall inform the Company of any kind of legal or administrative claim or any claim of any nature in which he/she is involved which, due to its significance, could have a serious bearing on the reputation of the Company. The Board shall examine the matter and adopt the appropriate measures in the Company's interest and with the required urgency. Also, the Article 10.2 of the Board Regulations establishes that Directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deems it appropriate, in the following cases: a) When Executive Directors step down from their executive positions. b) When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these Regulations. c) When they commit a serious breach of their obligations as directors, jeopardising the interests of the Company. d) When circumstances arise that may affect the credit or reputation of the Company or, in any other way, put the Company's interests at risk. e) When the reason why they were appointed as independent, executive or proprietary directors is no longer applicable.

C.1.37 Unless there are special circumstances that have been recorded in the minutes, indicate whether the Board has been informed of or has otherwise become aware of any situation that affects a director, whether or not it is related to his or her actions in the company, that could damage the company's credit and reputation:

YES NO **X**

Director's name	Criminal Case	Observations

In the above case, indicate whether the board of directors has examined the case. If the answer is affirmative, explain in a reasoned manner if, in view of the specific circumstances, any measure has been adopted, such as the opening of an internal investigation, requesting the resignation of the director or proposing his dismissal.

Indicate also whether the Board's decision has been supported by a report from the Appointments Committee

YES NO **X**

Decision taken/action taken	Reasoned explanation

C.1.38 Detail the major agreements, entered into by the company based on the takeover, and the effects of these agreements.

An important part of the Naturgy investee companies with shareholders outside the group contain change of control clauses whereby the other shareholder is entitled to choose to acquire the shareholdings in the event of change of control of the holding company of the Naturgy Group.

On the hand, most of the outstanding financial debt includes a clause related to the change of control, either by acquiring more than 50% of the voting shares or by obtaining the right to appoint the majority of Members of the Board of NATURGY ENERGY GROUP, S.A. These clauses are subject to additional conditions, whereby their activation depends on the simultaneity of the same of the following events: The significant reduction of the credit rating caused by the change of control, or the loss of the investment grade by the rating agencies: the inability to meet the financial obligations of the contract, material damage to the creditor, or a material adverse change in solvency. These clauses entail the repayment of the debt, although they usually have a longer period than that granted in the event of early termination.

More specifically, the bonds issued, with an approximate value of Euros 8.4 billion (standard practice in the Euromarket), would be susceptible to early maturity providing that the change of control causes a fall of two or more full notches in at least two of the three ratings it had or all of the ratings fall below investment grade, and providing the Rating Agency explains that the reduction of the credit rating is caused by the change of control.

There are also loans for an amount of approximately Euros 2 billion, linked almost entirely to long-term infrastructure financing with funds from the European Investment Bank, which could be subject to early repayment in the event of a change of control. To activate these clauses, in addition to the change of control event a reduction of the rating is required, and they have special repayment terms for the debt that are longer than those of early termination cases

.

C.1.39 Identify, individually, when referring to Directors and in aggregate form in all other cases, and provide detailed information on agreements between the Company and its officers, executives and employees that provide indemnities for the event of resignation, unfair dismissal or termination as a result of a takeover bid or other type of operations.

Number of beneficiaries	19
Beneficiary type	**Description of the agreement**
Executive Chairman	The Chairman's contract establishes compensation for the cessation or non-renewal of the position of Director for the overall mount of two years of: (i) fixed total annual cash remuneration, (ii) the annual variable remuneration and (iii) according to the concept of multi-year variable remuneration, a lump sum equivalent to 1.25 of the fixed total annual cash remuneration. This concept will only be multiplied by a full year if, at the time of accrual, the minimum profitability target of the LTI plan has not been reached; the second full year can be recovered if the minimum target was finally reached at the end of the plan. The compensation will not be payable in the event of serious and culpable breach of their professional obligations that causes significant damage to the interests of Naturgy. Furthermore and as a post-contractual non-competition agreement, compensation equivalent to one year's fixed remuneration has been established. The contract of the Executive Chairman sets out the termination of the contract and the payment of compensation if he forfeits his executive functions and will continue as non-executive Chairman. In this case, the compensation provided is

	identical to that of the previous section, but reduced by half, that is, one full year.
Executives	The contracts signed with 13 executives contain a clause that establishes a minimum compensation of one full year of fixed remuneration in some cases and two full years of compensation in others in certain cases of termination of the relationship, which include certain cases of change of control, unfair dismissal or the cases set out in Articles 40, 41 and 50 of the Workers' Statute. These contracts also contain a clause which sets out compensation equivalent to one year's fixed remuneration for post-contractual non-competition for a period of two years. In addition, 1 executive have compensation agreements whose amounts entitle them to receive a minimum compensation of one fixed full year of remuneration in some cases and two full years of compensation in other in certain cases of termination of the relationship, which include unfair dismissal or the cases set out in Articles 40, 41 and 50 of the Workers' Statute. Moreover, there are compensation agreements with 4 other executives, equivalent to one year's fixed remuneration for post-contractual non-competition for a period of two (s) years.

Indicate whether, beyond the cases stipulated by the regulations, these contracts have to be reported and/or approved by the bodies of the company or its group. If so, specify the procedures, assumptions foreseen and the nature of the bodies responsible for their approval or communication:

	Board of Directors	**General Meeting of Shareholders**
Body that authorises the clauses	YES	NO

		YES	**NO**
Is the General Meeting of Shareholders informed of the clauses?		X	

Observations
In relation to the clauses of management personnel, the Appointments and Remuneration and the Board are informed of their terms and beneficiaries. The main terms of the contracts of the executives who report directly to the executive director are approved by the Board.

C.2. Committees of the Board of Directors

C.2.1 Give details on the board committees, their members and the proportion of executive, proprietary and independent directors:

EXECUTIVE COMMITTEE

Name	Position	Category

% of executive directors	
% of proprietary directors	
% of independent directors	
% of other external directors	

Observations
IT DOES NOT APPLY AS THE EXECUTIVE COMMITTEE NO LONGER EXISTS

Explain the committee's duties, other than those already described in section C.1.9, and describe the procedures and rules for the organisation and operation of the organisation. For each of these functions, indicate your most important actions during the year and how you have exercised in practice each of the functions attributed to you, whether by law, by the Articles of Association or by other corporate agreements..

NOT APPLICABLE.

AUDIT COMMITTEE

Name	Position	Category
Mr. Francisco Belil Creixell	Chairman	Independent
Mr. Ramón Adell Ramón	Board Member	Independent
Mrs. Isabel Estapé Tous	Board Member	Proprietary
Mr. Pedro Sainz de Baranda Riva	Board Member	Independent
Mrs. Helena Herrero Starkie	Board Member	Independent
Mrs. Lucy Chadwick	Board Member	Proprietary
Theatre Directorship Services Beta, S.À.R.L., represented by Mr. José Antonio Torre de Silva López de Letona	Board Member	Proprietary

% of proprietary directors	42.86%
% of independent directors	57.14%
% of other external directors	-

Observations

Explain the functions, including, if applicable, those additional to those legally envisaged, which have been attributed to this committee, describe the procedures and rules for the organisation and functioning of the same. For each of these functions, indicate its most important actions during the year and how it has exercised in practice each of the functions attributed to it either in the law or in the articles of association or other corporate resolutions.

a) Functions of the Audit and Control Committee:

1.- Drawing up the report on the functioning of the Audit and Compliance Committee.

2.- To supervise related-party transactions.

3.- To ensure that the Board of Directors endeavours to present the accounts to the General Meeting of Shareholders without limitations or qualifications in the audit report and that, in those cases in which the auditor has included a qualification in its audit report, the Chairman of the Audit and Compliance Committee clearly explains to the General Meeting the opinion of the Audit and Compliance Committee on its content and scope, making a summary of said opinion available to the shareholders at the time of publication of the notice of the meeting, together with the rest of the proposals and reports of the Board, a summary of said opinion.

4.- Approval of the annual work plan of the Internal Audit Unit, and supervision, on an annual basis, of the activities of the said Unit.

5.- In relation to the information and control systems:

(a) Supervise the process of preparation and the integrity of financial and non-financial information, as well as the systems of control and management of financial and non-financial risks relating to the company and, where appropriate, to the group, including operational, technological, legal, social, environmental, political and reputational risks or risks related to corruption, reviewing compliance with regulatory requirements, the appropriate delimitation of the scope of consolidation and the correct application of accounting criteria.

(b) Ensure the independence of the unit that assumes the internal audit function; propose the selection, appointment and removal of the head of the internal audit service; propose the budget for that service; approve or propose approval to the board of the internal audit orientation and annual work plan, ensuring that its activity is focused primarily on relevant risks, including reputational risks; receive regular information on its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.

(c) Establish and supervise a mechanism which, while guaranteeing confidentiality and even anonymity, enables employees and other persons related to the company to report any potentially significant irregularities, including financial, accounting or any other type of irregularity related to the company, that they may notice within the company or its group, (d) In general, ensure that the policies and systems established for internal control are effectively applied in practice.

6.- In relation to the external auditor.

(a) In the event of resignation of the external auditor, to examine the circumstances giving rise to such resignation.
(b) Ensure that the external auditor's remuneration for his work does not compromise his quality or independence.
(c) Supervise that the company notifies the CNMV of the change of auditor and accompanies it with a statement on the possible existence of disagreements with the outgoing auditor and, if any, their content.
(d) Ensure that the external auditor holds an annual meeting with the full board of directors to report to it on the work performed and on developments in the company's accounting and risk situation.
(e) Ensure that the company and the external auditor comply with current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other regulations on auditor independence.

To summon any employee or manager of the Company, and even arrange for them to appear without the presence of any other manager.

8.- To analyse and inform the Board of Directors on the economic conditions and accounting impact and, in particular, if appropriate, on the exchange ratio, in relation to the structural and corporate modifications that the Company plans to carry out.

9.- Supervision of the exercise of the functions of the internal risk control and management department.

In relation to the supervision of compliance with the Codes of Conduct.

(a) Supervision of compliance with the company's internal codes of conduct.
(b) Supervision of the application of the general policy relating to the communication of economic-financial and non-financial information.
(c) assessing all aspects of the company's non-financial risks, including operational, technological, legal, social, environmental, environmental, political and reputational risks

(d) Coordination of the reporting of non-financial and diversity information in accordance with applicable regulations and international benchmarks.

b) Procedures, and organisational and operational rules

in accordance with Article 26 of the Regulations of the board

The Audit and Control Committee shall comprise a minimum of three (3) and a maximum of seven (7) Directors appointed by the Board of Directors from among the non-executive directors, and one of them will be appointed taking into account their knowledge and experience in issues of accountancy, audit or both. Its members shall leave their post when they do so in their capacity as Directors or as agreed by the Board of Directors.

The Board of Directors shall elect the Chairman from amongst the members of the Committee, the majority of whom will have the status of Independent Director; the Chairman shall not have the casting vote. The post of Secretary of the Committee will be held by the person who is the Secretary of the Board of Directors, if there is one.

The Committee shall hold meetings whenever necessary in order to issue its reports or proposals, and will be convened by its Chairman on his own initiative or upon prior request of two of its members. At least four (4) meetings per year must be held. The Committee may invite to its meetings any executive or employee it deems appropriate.

c) Main actions taken during the year 2020.

In the exercise of its powers during the financial year it has reported and/or adopted proposals, among others, on the following matters:

- External audit of the individual and consolidated annual accounts
- Supervision of the process of preparing economic information.
- Tax and litigation situation.
- Independence of the Auditor.
- Related operations.
- Verification of the criminal prevention system.
- Supervision of risk control systems and specific risk analysis
- Supervision of internal control and internal audit systems
- Naturgy insurance programme
- Monitoring of treasury stock operations
- Compliance Action Plan
- Supervision of Internal Audit and selection of the new manager
- Proposal for the appointment of an external auditor for the period 2021-23

Identify the Directors who are Members of the Audit and Control Committee who have been appointed Chairman on the basis of

knowledge and experience of accounting or auditing, or both, and state the date that said Director was appointed Chairman.

Name of Directors with experience	MR. RAMÓN ADELL RAMÓN
Date of appointment as Chairman	27/06/2018

OBSERVATIONS

APPOINTMENTS AND REMUNERATION COMMITTEE

Name	**Position**	**Category**
Mr. Ramon Adell Ramon	Chairman	Independent
Mr. Francisco Belil Creixell	Board Member	Independent
Mr. Pedro Sainz de Baranda Riva	Board Member	Independent
Mr. Claudio Santiago Ponsa	Board Member	Independent
Mr. Marcelino Armenter Vidal	Board Member	Proprietary
Mr. Rajaram Rao	Board Member	Proprietary
RIOJA S.à.r.l represented by Mr. Javier de Jaime Guijarro	Board Member	Proprietary

% of proprietary directors	42.86%
% of independent directors	57.14%
% of other external directors	-

Observations

Explain the committee's duties, describe the procedure, and organisational and operational rules. For each of these functions, indicate its most important actions during the year and how it has exercised in practice each of the functions attributed to it either in the law or in the articles of association or other corporate resolutions.

a) Duties of the Appointments, Remuneration and Corporate Governance Committee:

The Committee has the powers set out in Law and those entrusted to it by the Board of Directors in a general or specific manner.

The Board of Directors has entrusted it with the following functions:

1. Make proposals and report on Corporate Governance initiatives.

2. Prepare the report on the operation of the Appointments and Remuneration Committee.

3. Verify the policy for the selection of Board members and report on it in the Annual Corporate Governance Report.

4. Prepare a report in the event of the separation of an independent board member, before the statutory period for his/her appointment has expired.

5. Prepare a report in the event that the Board of Directors proposes the adoption of measures when it is aware that the actions of a Board member could damage the credit and reputation of the company or when he/she is considered to be under investigation in a criminal case R-22, Organise and coordinate the periodic evaluation of the Board of Directors and of the Chief Executive Officer of the Company.

6. Verify the independence of the external consultant selected to carry out the evaluation of the Board and its committees.

7. Propose to the Board of Directors the basic conditions of senior management contracts.

8. Verify compliance with the remuneration policy established by the Company.

9. Periodically review the remuneration policy applied to board members and senior management, including the share based remuneration systems and their application, as well as ensuring that their individual remuneration is proportionate to that paid to the other board members and senior management of the company.

10. Ensure that any conflicts of interest do not undermine the independence of the external advice provided to the committee.

11. Verify the information on directors' and senior executives' remuneration contained in the various corporate documents, including the annual report on directors' remuneration.

12. Supervise compliance with the company's corporate governance rules, ensuring that the corporate culture is aligned with its purpose and values.

13. The evaluation and periodic review of the adequacy of the company's system of corporate governance, in order for it to fulfil its mission of promoting the corporate interest and taking into account, as appropriate, the legitimate interests of other stakeholders.

14. Prepare a report on the remuneration systems that award shares, options or financial instruments when the director requests their sale before the three-year period from their award in order to deal with extraordinary situations that may arise.

<u>b) Procedures, and organisational and operational rules</u>

in accordance with Article 25 of the Regulations of the Board:

The Appointments, Remuneration and Corporate Governance Committee shall comprise a minimum of three (3) and a maximum of seven (7) Directors appointed by the Board of Directors from among the non-executive directors, and at least one of them will be appointed taking into account their knowledge and experience in issues of accountancy, audit or both. Its members shall leave their post when they do so in their capacity as Directors or as agreed by the Board of Directors.

The majority of members of the Committee will hold the status of Independent Director, from among which the Board of Directors will elect the Chairman of the same, who will not have a casting vote. The post of Secretary of the Committee will be held by the person who is the Secretary of the Board of Directors, if there is one.

The Committee shall hold meetings whenever necessary in order to issue its reports or proposals, and will be convened by its Chairman on his own initiative or upon prior request of two (2) of its members. At least four (4) meetings per year must be held. The Committee may invite to its meetings any executive or employee it deems appropriate.

c) Main actions taken during the year 2020:

The Appointments and Remuneration Committee has focused its actions on three fundamental aspects:

i) i) Corporate governance: i) The modifications made by the CNMV to its corporate governance recommendations published in June 2020 have been analysed in detail and proposals for measures to adapt to its recommendations have been drawn up. The Board has approved all of these proposals. ii) The Committee has worked intensively on the Board's assessment process, which this year was carried out with the help of an external advisor. iii) Different measures have been proposed to amend the Board's regulations to advance alignment with best corporate governance practices

ii) ii) Remuneration: the Committee has been responsible for implementing the Directors' Remuneration Policy approved by the 2020 General Shareholders' Meeting, as well as for supervising the management team's remuneration policy.

iii) iii) Appointments: the Committee (i) proposed the re-election of Director Helena Herrero and reported favourably on the incorporation of Director Lucy Chadwick and Isabel Estapé and (ii) examined the profile of the three new executives who have joined the company, reporting directly to the executive director

APPOINTMENTS COMMITTEE

Name	Position	Category

% of proprietary directors	
% of independent directors	

% of other external directors

Observations

Explain the committee's duties, including, if applicable, those additional to those legally established, which this committee has been assigned, and describe the procedures and rules of organisation and operation of the same. For each of these functions, indicate your most important actions during the year and how you have exercised in practice each of the functions attributed to you, either by law or by the statutes or other corporate resolutions.

REMUNERATION COMMITTEE

Name	Position	Category

% of proprietary directors	
% of independent directors	
% of other external directors	

Explain the committee's duties, including, if applicable, those additional to those legally established, which this committee has been assigned, and describe the procedures and rules of organisation and operation of the same. For each of these functions, indicate your most important actions during the year and how you have exercised in practice each of the functions attributed to you, either by law or by the statutes or other corporate resolutions.

_____SUSTAINABILITY_______ COMMITTEE

Name	Position	Category
Helena Herrero Starkie	Chairman	Independent
Claudi Santiago Ponsa	Board Member	Independent
Isabel Estapé Tous	Board Member	Proprietary
Theatre Directorship Services Beta, S.À.R.L., representada por Don Jose Antonio Torre de Silva Lopez de Letona	Board Member	Proprietary

Lucy Chadwich	Board Member	Proprietary

% of proprietary directors	60%
% of independent directors	40%
% of other external directors	**0**

Explain the committee's duties, describe the procedure and organisation and operational rules. For each of these functions, indicate your most important actions during the year and how you have exercised in practice each of the functions attributed to you either by law or by the statutes or other corporate resolutions.

In accordance with Article 26 of the Rules of Organization of the Board of Directors and its committees, the Sustainability Committee will be made up of a minimum of three and a maximum of six Board Members, appointed by the Board of Directors from among the non-executive Board Members, taking into account the knowledge, skills and experience of the Board Members and the tasks of the Committee.

Its members will resign when they cease to be Board members or when the Board of Directors so decides.

In full compliance with the principle of proportional representation, the majority of the members of the Sustainability Committee will be considered to be independent directors. If this is not possible, at least two of the members of the Sustainability Committee will be considered to be independent directors. The Board of Directors will elect the Chairman of the Committee who will have the category of Independent Board Member and will not have a casting vote. The Secretary of the Committee will be the Secretary of the Board of Directors although the Vice-Secretary, if any, may act as Secretary of the Committee.

The Sustainability Committee will have the powers assigned to it by the Board of Directors.

The Committee, called by its Chairman, will meet when necessary to issue the reports or proposals within its competence or when deemed appropriate by its Chairman or at the request of two of its members and at least three times a year. The Commission may invite any manager or employee it considers appropriate to attend its meetings**.**

The powers granted to it by the Board of Directors are as follows:
1. To propose to the Board of Directors the approval of a Sustainability Policy
2.To propose to the Council the objectives and guidelines of the Group in the field of environment, health and safety and social responsibility, included in the Sustainability Plan.
3. Periodically analyse indicators in the field of environment, health and safety and social responsibility
4. The review of the information published by Naturgy to the market in relation to sustainability

5. The supervision of compliance with the policies and rules of society in environmental and social matters.
6. he evaluation and periodic review of the environmental and social policy of the society, in order that they fulfil their mission of promoting the social interest and take into account, as appropriate, the legitimate interests of other stakeholders.
7. Monitoring that society's environmental and social practices are in line with the set strategy and policy.
8. Monitoring the implementation of the general policy on communication with shareholders and investors, proxy advisors and other stakeholders, as well as monitoring how the institution communicates and engages with small and medium-sized shareholders.

The most relevant actions in 2020 were:

(i) Health and safety: the Commission has reviewed the incidents and accidents that occurred during the exercise, with a view to drawing lessons from the incidents
(ii) Sustainability: the Commission has reviewed the sustainability plan and in particular the environmental plan
(iii) External verification: the Commission has examined the way in which third parties appreciate Naturgy's efforts in this field, as well as the acknowledgements received by Naturgy
iv) Naturgy Foundation: The Commission has supervised the performance of the Naturgy Foundation
(v) 2021-25 projections: The Commission has supervised the preparation of the medium-term projections - 2021-25 period - for sustainability

C.2.2 Complete the following table on the number of female directors on the various board committees at the end of the past four years:

	Number of female directors							
	Financial Year 2020 Number	%	Financial Year 2019 Number	%	Financial Year 2018 Number	%	Financial Year 2017 Number	%
Executive Committee	-	-	-	-	-	-	1	10%
Audit Committee	3	42,86%	1	14,28%	1	14,28%	2	28,57%
Appointments and Remuneration Committee	0	0%	0	0%	0	0%	1	20%
Appointments Committee	-	-	-		-	-		
Remuneration Committee	-	-	-		-	-		
Sustainability Committee	3	60%	-		-	-	-	-

C.2.3 Indicate, where applicable, the existence of committee regulations, the location at which they are available for consultation and the

modifications that have been made during the financial year. Also indicate whether any annual report on each committee's activities has been voluntarily drafted.

The Board Committees are regulated in the Articles of Association and in the Regulations for the Organisation and Functioning of the Board of Directors of NATURGY and its Committees.

Both documents are published on the Company's website (www.naturgy.com) →Shareholders and investors →Corporate governance →Corporate governance standards.

The Executive Committee, the Audit and Control Committee and the Appointments, Remuneration and Corporate Governance Committee have all drawn up a report on the quality and effectiveness of their performance over the previous year.

D RELATED-PARTY TRANSACTIONS AND INTRA-GROUP TRANSACTIONS

D.1 Explain, if applicable, the procedures for approving related party or intra-group transactions.

Procedures for approving related party transactions
In accordance with art. 3II h) of the Board of Regulations, among the powers that cannot be delegated by the Board but that may be adopted by the Executive Committee or by the CEO(s) for reasons of urgency duly justified and which must be ratified in the first Board Meeting to be held after the adoption of the decision is the approval, following a report from the Audit and Control Committee, of the operations that the Company or its group companies carry out with Directors, under the terms established in prevailing legislation, or with main shareholders, individually or in concert with others, of a significant stake, including shareholders represented on the Board of Directors of the Company or other companies that are part of the same group or with persons related to them. In some circumstances and to a limited extent, the Board has granted generic authorisations for transactions related to one of its shareholders, always in matters of a minor nature linked to the ordinary trade of the Company, and with the requirement that they be carried out under arm's length conditions and with the obligation to report the use of such authorisation to the Audit and Control Committee every year.

D.2 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders:

Nombre o denominación social del accionista significativo	Nombre o denominación social de la sociedad o entidad de su grupo	Naturaleza de la relación	Tipo de la operación	Importe (miles de euros)
CRITERIA CAIXA S.A.U	Naturgy Energy Group, S.A.	Comercial	Recepción de servicios	23
Gip III Canary 1, S.À R.L.	Naturgy Energy Group, S.A.	Comercial	Compra de bienes	9.085
CRITERIA CAIXA S.A.U	Naturgy Energy Group, S.A.	Comercial	Venta de bienes	2.362
CVC Capital Partners Sicav-Fis S.A.	Naturgy Energy Group, S.A.	Comercial	Venta de bienes	272
CRITERIA CAIXA S.A.U	Naturgy Energy Group, S.A.	Comercial	Dividendos y otros beneficios distribuidos	339.625
CVC Capital Partners Sicav-Fis S.A.	Naturgy Energy Group, S.A.	Comercial	Dividendos y otros beneficios distribuidos	283.813
Gip III Canary 1, S.À R.L.	Naturgy Energy Group, S.A.	Comercial	Dividendos y otros beneficios distribuidos	282.795

Observations

D.3 Detail those transactions that are significant because of their amount or which are materially relevant, performed between the company or entities within its group and the company's administrators or executives:

Name or Company Name of the Administrators or Executives	Name or Company Name of the Related Party	Relationship	Nature of the Operation	Amount (thousands of euros)
Pedro Sainz de Baranda Riva	Internacional Olivarera S.A.	Accionista	Comercial - Venta de bienes	178

Observations

D.4 Report on the significant transactions carried out by the company with other companies belonging to the same group, provided that they are not eliminated in the process of drafting the consolidated financial statements and are not part of the company's usual trading in terms of its purpose and conditions.

Under all circumstances, report any intra-group transaction performed with entities established in countries or territories considered to be a tax haven:

Company Name of the Entity of the Group	Brief description of the Operation	Amount (thousands of euros)

Observations

D.5 Detail the significant transactions carried out between the company or entities of its group and other related parties, which have not been reported in the previous sections.

Company Name of the Entity of the Group	Short description of the operation	Amount (thousands of euros)

Observations

D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its directors, management or significant shareholders.

1.- Directors:

In accordance with the Regulations of the Board:

The Director is subject to the duty of loyalty under the terms established in prevailing legislation and, in particular:

In accordance with the regulations, the Director must inform the other members of the Board of his or her conflict of interest and must abstain from participating in the vote.

In the cases in which a situation of conflict of interest has been observed, the affected Board Member(s) have been absent from the meeting when the point on the agenda they have a conflict of interest with has been dealt with and the Secretary has ensured that these Board Members have not been able to access the affected information either.

2.- Directors and executives:

On the other hand, pursuant to Article 3 and 4of the Internal Code of Conduct in Matters relating to the Securities Markets and Treasury Stock Policy (ICC), persons with management responsibilities and insiders, during certain periods of time will refrain from carrying out transactions on their own or for the account of a third party, directly or indirectly on the Affected Securities (i) Transferable securities issued by companies of the NATURGY Group, which are traded on a secondary market or other regulated markets, in multilateral trading systems or in other organised secondary markets, or for which an application for admission to trading on one of these markets or systems has been made. (ii) financial instruments and contracts of any kind giving the right to acquire or sell the securities referred to in (i) above (iii) The financial instruments and contracts whose underlying are the securities indicated in (i)(iv) For the sole purpose of

the rules of conduct regarding privileged information contained in Title III of these Regulations, the securities and financial instruments issued by other companies or entities other than the NATURGY Group, regarding which there is Privileged Information The Supervisory Body, upon written request, describing and justifying the Personal Operation to be carried out and that the specific operation cannot be carried out at any other time than a limited period may authorise Persons with Management Responsibilities to perform personal transactions on Affected Securities in the periods in which there is a general prohibition when certain circumstances are given and justified in the ICC itself. The Supervisory Body will inform the Audit and ControlCommittee at least once a year about the authorisations that have been requested. For their part, pursuant to section 4.10 of the Code of Ethics, employees must inform the company in the event that they or their close relatives participate or will participate on the governing bodies of other companies that may clash with the interests of Naturgy. In the performance of their professional responsibilities, employees must act with loyalty and defend the interests of the group. Furthermore, they must avoid situations that may give rise to a conflict between personal interests and the interests of the company. Accordingly, Naturgy employees must refrain from representing the company and participating in and influencing decisions in any situation in which they directly or indirectly have a personal interest. 3.- Significant shareholders: It will be the responsibility of the Board of Directors, pursuant to a report from the Audit and Control Committee, to approve transactions carried out by the company or the companies in its Group with directors under the terms set forth in the current applicable legislation or with shareholders who, individually or in conjunction with others, hold a significant stake, including shareholders represented on the company's Board of Directors or the board of other companies belonging to the same group or with persons associated with them.

D.7 Indicate whether the company is controlled by another entity within the meaning of Article 42 of the Commercial Code, whether listed or not, and has, directly or through its subsidiaries, business relationships with such entity or any of its subsidiaries (other than those of the listed company) or carries out activities related to those of any of them.

YES NO **X**

Indicate whether the respective areas of activity and any business relationships between the listed company or its subsidiaries on the one hand and the parent company or its subsidiaries on the other have been publicly defined:

YES NO

Report on the respective areas of activity and any business relationships between, on the one hand, the listed company or its subsidiaries and, on the other hand, the parent company or its subsidiaries, and identify where these aspects have been publicly reported

Indicate the mechanisms laid down to solve possible conflicts of interests between the other parent company of the listed company and the other companies in the group:

Mechanisms for solving possible conflicts of interests

E CONTROL SYSTEMS AND RISK MANAGEMENT

E.1 Describe the control and risk management system in place at the company, including fiscal risks.

The Risk Management System works in a comprehensive and continuous way, and integrates the corporate visions of Corporate Governance, Risks and Compliance of the Company, enabling a full overview of the Group's processes, the existing controls over these and the associated risk.

The system ensures the independence of the control and risk management functions attributed to each of the responsible bodies and units, and is responsible for determining thresholds for the main risk categories in order to define the overall risk profile of the Company, guaranteeing the predictability of its performance in all relevant aspects for its stakeholders.

The main objective of global risk management is to ensure that the most relevant risks are correctly identified, assessed and managed, to ensure that the level of risk exposure assumed by Naturgy in the performance of its activities is consistent with the global profile of defined objective risk and with the achievement of the annual and strategic objectives.

Following the organisational change in the Company, the Audit and Control Committee has started to examine an update of the risk assessment and monitoring system.

E.2 Identify the bodies responsible for preparing and implementing the control and risk management system, including fiscal risks.

Audit Committee

A body supervising the efficiency of internal control and risk management systems. It ensures that the foregoing identify the different types of risks and the measures planned to mitigate them and to address them should they materialise.

Risk Committee

Is responsible for determining and reviewing the main risk profile of the company. Likewise, it supervises that the organisation as a whole understands and accepts their responsibility when identifying, assessing and managing the most relevant risks.

Risk Control Units

Responsible for monitoring, controlling and reporting the assumed risk and ensuring the maintenance of the main risk profile established. Noteworthy units include the Corporate Units of: Planning and Risks and Internal Audit and the Business Units of Risk Management and Business Planning and Risks..

Business Units and Corporate Areas

They are responsible for the application of the main principles of the Control and Risk Management Global Policy and the management of the risk in their areas of responsibility: observing, reporting, managing and mitigating the different risks.

E.3 Indicate the main risks, including fiscal, to the extent that those derived from corruption are significant (the latter being understood to be within the scope of Royal Decree Law 18/2017) which may prevent the company from achieving its business targets.

	Description	Management
Market risk		
Gas price	Volatility in international markets which determine gas prices.	Physical and financial hedges. Portfolio management
Electricity price	Volatility in electricity markets in Iberia and Europ	Physical and financial hedges. Optimisation of generation park.
Gas volume	Gap between gas supply and demand.	Optimisation of contracts and assets. Trading.
Electricity volume	Reduction in available thermal gap. Uncertainty in the volume of renewable production	Optimisation of commercialisation/generation gap.
Regulation	Exposure to revision of criteria and levels of return recognised for regulated activities.	Heightened intensity of communication with regulatory bodies. Adjusting efficiencies and investments to recognised rates.

Exchange rates	Volatility in international currency markets.	Geographical diversification. Hedges through financing in local currency and derivatives. Monitoring of the net position.
Interest rates and credit spread	Volatility in financing rates.	Financial hedges. Diversification in financing sources.
Legal	Uncertainty arising from the potential outcome of litigation, arbitration or open legal claims.	Analysis and mitigation of legal risks affecting the company's operations and corporate governance. Hiring of top-level legal firms. Provisioning with criteria of prudence
Fiscal	Ambiguity or subjectiveness in the interpretation of the prevailing fiscal regulations, or through a relevant change to the same.	Consultations with independent expert organisations. Recruitment of leading consultancy firms. Adhesion to the Code of Good Tax Practices. Allocation of provisions with criteria of prudence.
Credit risk		
Credit	Uncertainty over the evolution of ratios of payment default conditioned by the economic cycle.	Customer solvency analysis to define specific contractual conditions. Admission and collection process.
Operational risks		
Operational: image and reputation	Deterioration in perception of stakeholders regarding the company's reputation as a result of the behaviour of the company or its employees, including those related to corruption, and their influence on results.	Identification and tracking of potential reputation events. Transparency in communication.
Operational: insurable.	Accidents, damages or non-availabilities in assets of Naturgy.	Ongoing improvement plans. Optimisation of total cost of risk and hedging.
Operational: environment	Exceeding environmental limits or damage to ecosystems and biodiversity produced naturally or by human action.	Emergency plans in installations with risk of environmental accidents. Specific insurance policies. Complete environmental management.

Operational: climate change	Uncertainty arising from the energy transition (regulation, market, technologies, ...) and the physical impacts of climate change.	Corporate positioning with regard to climate change. Active participation on influence forums.
Operational: cybersecurity	Malicious attacks or accidental events affecting data, computer networks or technology	Implementation of security measures. Analysis of events and application of remedies Training
Compliance risk		
Reputational and criminal risk	Administrative and criminal sanctions. Deterioration of the reputational image of NATURGY.	Crime Prevention Model. Ethics Code and Anticorruption Policy. Whistleblowing Channel. Compliance Training.
Thrid-Party risk	Administrative and criminal sanctions. Damage derived from contractual breach.	Third-Party Due Diligence Procedure

E.4 Identify if the company has a risk tolerance level, including tax risks.

The company has levels of risk tolerance established at corporate level for the main kinds of risks.

The risk assessment process lies in identifying the risks, generally by those businesses that are subject to risk exposure. This identification takes place at the time the risk exposure originates. However, an in-depth review is carried out every year by the Risk Control Units to ensure proper identification of all risk exposures, whether current or future.

It is the Risk Control Unit’s responsibility to assess the risks identified, based on:

a) Risk position: definition and characteristics.
b) Impact variables.
c) Qualitative and quantitative severity of the risk occurring.
d) Probability of risk occurring.
e) Defined mitigation controls and mechanisms, and their effectiveness.

Lastly, it will propose a tolerance level for the types identified, which will be approved by the Risk Committee.

E.5 Identify any risks, including tax risks, which have occurred during the year.

The risks that have materialised during the financial year have been inherent to the activity carried out, such as: exposure to regulatory risks, volatility of fuels and of the pool in Spain, the exchange, interest, credit or counterparty rates.

The risk control mechanisms have enabled the company to keep their impact within the established tolerance range, defined by means of the current risk limits.

Faced with uncertainty in the domestic and worldwide economic outlook, the company will seek to position itself in countries that promote legal security, economic developments in stable macroeconomic environments that ensure steady growth that contributes to the generation of value and profitability of business and enterprise, balance the weight of its businesses in its mix of activities, and it will place greater focus on increasing the contribution of regulated activities and a more electric profile.

E.6 Explain the response and monitoring plans for the main risks the company is exposed to, including tax risks, as well as the procedures followed by the company to ensure that the board of directors responds to new challenges.

The risks regarding the performance of Naturgy are set out in the company's Corporate Risk Map, containing:

- Definition and characteristics of the main risk factors.
- Evolutionary aspects of the Corporate Risks Map.
- Impact variables.
- Main measurement methodologies used for each kind of risk.
- Qualitative, quantitative and probable severity of the risk materialising.
- Defined controls and their effectiveness.

The Risk Control Units and other specific areas (Regulation, Environment and Social Responsibility, Generation) perform periodic measurements of the evolution of main risks, duly giving the opportune instructions in the event of observing levels of exposure or trends in risk evolution that could exceed the established tolerance.

F INTERNAL SYSTEMS OF CONTROL AND RISK MANAGEMENT WITH REGARD TO THE INTERNAL CONTROL SYSTEMS OVER FINANCIAL REPORTING (ICFR)

Describe the mechanisms that make up your entity's internal control system and management of risks with regard to the financial information reporting process (ICFR).

F.1 The company's control environment

Report on, duly detailing their main characteristics, at least:

F.1.1. Which bodies and/or functions are in charge of: (i) the existence and upkeep of an appropriate and effective ICFR; (ii) its implementation; and (iii) its supervision.

Naturgy has defined its Internal Control System over Financial Reporting (hereinafter "ICFR") in the "Global Policy and General Procedure of the Internal Control System over Financial Reporting (ICFR) General Standard of Naturgy".

As part of the ICFR, Naturgy has defined, in the foregoing **Global Policy and General Procedure**, the responsibilities model of the same. This model revolves around the following seven areas of responsibility:

- Board of Directors: The Board is responsible for the existence of an appropriate and efficient ICFR, the supervision of which is delegated upon the Audit and Control Committee.

  The Board Regulations of Naturgy Energy Group, S.A. and its Committees, in Article 3 Section II, establish that the determination of the risk control and management policy, including tax risk, and supervision of the internal information and control systems are, among others, a matter that cannot ordinarily be delegated by the Board of Directors.

- Audit and Control Committee: Among other tasks, this committee is responsible for supervision of the ICFR. Article 26 Section 2 of the Board Regulations states that the Committee has the powers set out in Law and those entrusted to it by the Board of Directors in a general or specific manner. Thus, Article 529.14 of the Spanish Corporate Enterprises Act sets out in section 4.b) that the Audit and Control Committee will have the function of supervising the effectiveness of the company's internal control, internal audit and risk management systems, as well as discussing with the Accounts Auditor the significant weaknesses of the internal control system detected in performance of the audit. In particular and in relation to the reporting and control systems, the Audit and Control Committee is responsible for, inter alia, the supervision of the preparation process and integrity of the financial information related to the company and, where applicable, the group, reviewing compliance with the standard requirements, the appropriate definition of the consolidation perimeter and the correct application of accounting criteria. For the performance of some of these duties, the Audit and Control Committee is supported by the Internal Auditing Unit.

- Planning, Control and Administration Unit: This department is responsible for the design, implementation and operation of the ICFR. For the performance of this function, it is supported by the corporate Internal Control of Financial Reporting team.

- Administration and Operational Monitoring of the Business Unit: is responsible for the implementation and functioning of the ICFR. For the performance of this function it is supported by the team responsible for the Internal Control of Financial Reporting of the business.

- Internal Auditing Unit: In general, it is responsible for assisting the Audit and Control Committee in the ongoing review and assessment of the effectiveness of the Internal Control System in all areas of Naturgy, providing a systematic and rigorous approach for the monitoring and improvement of processes and for the assessment of operational risks and controls associated to these, including those corresponding to the ICFR and the Crime Prevention Model.

- ▪ Compliance Unit, responsible of the Crime Prevention Model at NATURGY, provides information and support to the Audit and Control Committee on the control model. Proper compliance with SCIIF model guarantees the Crime Prevention Model to avoid possible crimes related to financial information..

- Business, Services and Project Units involved in the financial reporting process. These are responsible for carrying out the processes and maintaining daily operations to ensure that the control activities implemented are performed, evaluate them, with the established periodicity, and carry out the Annual Certification of the SCIIF.

F.1.2. Whether or not the following elements exist, particularly with regard to the procedure for financial reporting:

- **Departments and/or mechanisms responsible for: (i) the design and review of the organisational structure; (ii) the clear definition of the lines of responsibility and authority, with an appropriate distribution of tasks and duties; and (iii) that there are sufficient procedures for proper dissemination at the entity.**

The design and review of the organisational structure of top tier management, as well as definition of the lines of responsibility, are carried out by the Board of Directors, through the CEO and the Appointments and Remuneration Committee.

As a result of the push down of functions, specifically Internal Control of Financial Information, the responsibilities, previously centralized in the Planning, Control and Administration Department, have been decentralized to each of the business countries regarding the implementation and operation of the SCIIF Model.

In this sense, the Planning, Control and Administration Department is responsible for establishing the criteria and principles for the design and organization of the operation of the SCIIF (with the Internal Financial Information Control team), through the SCIIF Global Policy and General Procedures and the rest of the internal regulatory body. (indicated in section F.1.1.)

In this process, the Administration and Operational Monitoring units of the businesses are responsible for the implementation and operation of the SCIIF (with the business's Internal Financial Information Control team).

As a result, with the new operating model and organizational changes, where each business is involved in the preparation of its financial information, there is no longer a single NATURGY Financial Information Interrelationship Map, there being different Interrelationship Maps in each of the critical business processes. These Interrelationship Maps are prepared by the Administration and Operational Monitoring Units of the business, done under the supervision of the Internal Control of Corporate Financial Information team, which also prepares the Interrelationship Maps for the transversal and corporate processes.

In this regard, there are six main areas that Naturgy has taken into consideration in compiling the interrelationships map of the critical processes involved in preparing the financial information:

(i) the information required to prepare the financial reporting;
(ii) the parties in charge that are either the source or recipient of the financial reporting and
(iii) the distribution of tasks among the different organizational units
(iv) the scope of this distribution to all group companies
(v) the frequency of information transfer
(vi) the information systems that are involved in the drafting process and for the issue of the financial reporting;

Thus, using the Interrelationships Maps of Naturgy, the processes that have an impact on the preparation of financial reporting are clearly defined, both the operational processes that have a relevant impact on financial reporting, as well as those processes associated to the administrative and accounting function, and those Managers involved in the same.

- **Code of Conduct, approval body, level of dissemination and instruction, principles and values included (indicating whether or not there are specific mentions to the register of operations and the preparation of financial reporting), the body in charge of analysing breaches and proposing corrective actions and fines.**

The undertakings of Senior Management of Naturgy include focusing their efforts on ensuring that operations are carried out within an environment of professional and ethical practices, not only through the introduction of mechanisms targeted at preventing and detecting fraud committed by employees, or inappropriate practices that could lead to sanctions, fines or which could damage the image of Naturgy, but also reinforcing the importance of ethical values and integrity among its professionals.

In this regard, Naturgy has a Code of Conduct (hereinafter “Code of Ethics”), which was approved by the Board of Directors. This code is mandatory for all employees of NATURGY ENERGY GROUP S.A. and for all investee companies in which Naturgy holds management control.

The Code of Ethics sets out the general ethical principles for Naturgy as a whole, setting out the values to be pursued in practice throughout the organisation, and which includes: (i) purpose; (ii) scope of application (involving all members of Naturgy); (iii) governing criteria of conduct at Naturgy (declaration of the group’s style of governance); (iv) conduct guidelines (declaration of key values of Naturgy); (v) acceptance and compliance of the code; (vi) Code of Ethics Committee and (vii) enforceability.

The Code of Ethics considers integrity and responsibility in the exercise of professional activities to constitute a fundamental general criteria for conduct at Naturgy. More specifically, it sets out a series of action guidelines to a greater or lesser extent related to the reliability of the financial reporting and to compliance with applicable regulations, and in particular:

- Respect for the law, human rights and ethical values (Section 4.1)
“Naturgy undertakes the commitment of acting at all times in accordance with applicable laws, with the internal regulatory system established with internationally accepted ethical practices, with total respect towards human rights and public liberties (...)”

- Processing of information and knowledge (Section 4.11):
“All employees that enter any kind of information in the group’s IT systems must ensure that this information is rigorous and reliable.

In particular, all the group’s economic transactions should be clearly and precisely set out in the corresponding registries, via the pertinent accounts, and in all transactions performed, including all income and incurred expenses.

Employees of Naturgy shall refrain from any practice that contravenes the undertaking to clearly and accurately reflect all financial transactions in the group's Accounts".

Naturgy has also established an Anti-Corruption Policy, which is compulsory for all employees of all the companies which make up the Naturgy group with majority shareholding and those in which it has responsibility in its operation and/or management. The Anti-Corruption Policy is understood to be an extension of Chapter 4.7. "Corruption and Bribery" of the Code of Ethics of the group, which has the purpose of establishing the principles which must be used to guide the conduct of all employees and administrators of the companies of Naturgy with regard to the prevention, detection, investigation and remedy of any corrupt practice within the organisation.

Likewise, to reinforce this commitment to compliance, since January 2019, Naturgy has a Compliance Policy whose objectives are: to promote a culture of compliance and zero tolerance to regulatory breaches; as well as to ensure, through prevention, detection, supervision, training and response activities, the organisation's compliance in all its activities and operations with all applicable regulations, both external regulations and the internal regulatory system, thus avoiding possible sanctions, economic losses and reputational damage.

The Code of Ethics Committee of NATURGY has as its principal mission promoting its dissemination and application throughout the group, and to provide a channel of communication to all employees in order to receive enquiries and notifications regarding breaches of the Code of Ethics and the Anti-Corruption Policy.

The Committee is chaired by the Compliance Unit and is formed by representatives of different units involved in the monitoring of compliance of the Code of Ethics and the Anti-Corruption Policy.

The Committee regularly reports to Senior Management and to the Audit and Control Committee. The nature of the committee is to provide reports and recommendations, proposing corrective measures to those units in charge of providing solutions to problems through practical application of the Code of Ethics and the Anti-Corruption Policy, and simultaneously acting as a bridge between these units and employees.

The sanction regime, where necessary, is established by the Human Resources Unit.

To favour not only the exercise of said responsibility but also knowledge and dissemination of the Code of Ethics, this code is available in nine languages:

- Externally: Naturgy corporate website.
- Internally, on the group's Naturalnet platform.

In addition, online training courses through the Corporate University of Naturgy are developed, which are mandatory for all employees of Naturgy.

Through the Code of Ethics Committee, Naturgy periodically carries out campaigns for the Code of Ethics Compliance Declaration, Anti-Corruption Policy, Conflict of Interest and Compliance Policy to disclose the guidelines governing the conduct expected from all employees, to circulate the mechanisms that exist to make enquiries and notifications, and to periodically formalise the commitment of all the employees of the group in accordance with the ethical guidelines and principles of integrity.

Naturgy, to encourage the knowledge of the Code of Ethics among its Suppliers and collaborating companies sets out a clause in the General Terms and Conditions of Contracting in which it promotes practices which are in keeping with the guidelines for conduct included in the Code of Ethics of Naturgy, and informs them of where they can find the Code of Ethics of the group, along with information in the enquiries channel and notifications on aspects related to the Code of Ethics. Furthermore, in 2016 the Code of Ethics for Suppliers was approved and published, the purpose of which is to establish the guidelines that must govern the ethical behaviour of Suppliers, Contractors and External Collaborators of Naturgy. This Code sets out the commitments provided for under the United Nations Global Compact as well as under the Code of Ethics, the Human Rights Policy, the Corporate Responsibility Policy and the Anti-Corruption Policy of Naturgy.

- **Whistleblowing channel, which enables communication to be sent to the Audit and Control Committee concerning any irregularities of a financial and accounting nature, along with any possible breaches of the Code of Conduct and irregular activity within the organisation, and state whether said channel is confidential whether it allows for anonymous communications while respecting the rights of the complainant and the accused.**

NATURGY has a Whistleblowing Channel, accessible to all its employees and third parties at the next web www.naturgy.ethicspoint.com.

The aforementioned Whistleblowing Channel corresponds to an open channel (web platform accessible from any device), accessible to all Naturgy employees and interested third parties, to deal with matters related to the Ethics Code. This channel allows all group employees, suppliers and collaborating companies to collect or provide information on any matter related to the Code of Ethics and Anti-Corruption Policy. They can also get in touch through the channel to communicate in good faith and confidential conduct contrary to the Code.

All communications made through the channel are absolutely confidential and can be anonymous, respecting the limitations established in the Personal Data Protection regulations. In this regard, the Compliance unit has access, in the first instance, to all the information on all the queries and notifications received from the group through the procedure for operating the code of ethics channel.

Naturgy's Corporate Responsibility Report 2020 provides more detailed information on the Code of Ethics, the Anti-Corruption Policy, the Compliance Policy, the activities of the Ethics and Compliance Committee and the use of the communication channel

- **Training programmes and periodic retraining for personnel involved in the preparation and review of financial reporting, as well as the assessment of the ICFR, which at least cover the accounting, audit, internal control and risk management standards.**

The need to have a sufficient and, above all, updated qualification of those professionals involved in the preparation and review of financial reporting, as well as in the assessment of the ICFR, make it essential to implement an appropriate training plan, by which those persons in charge of each area have the knowledge required to perform the different functions included in the process of preparing and reviewing financial reporting.

To this end, Naturgy has the Corporate University, which is responsible for the strategic management of Training and Management Talent, with the People units of each business being responsible for managing the knowledge and development of persons in all areas of the company. It integrates the model, the channels, the programmes and the training and learning actions of the group, introducing methodologies and training experiences with criteria of quality, impact, efficiency and cost optimisation.

The Corporate University has a quality management system pursuant to the ISO 9001:2015 standard, renewed in 2020 and with CLIP (Corporate Learning Improvement Process) accreditation from the European Foundation for Management Development (EFMD) since 2003 and last renewed in 2018 for a five-year period. This certificate recognises the quality of learning and development processes of people of corporate education organisations.

The aims of the Corporate University are, among others: to guarantee the adequacy of the position/person, the acquisition of knowledge linked to new needs of the organisation, compliance with prevailing legislation and the development of skills and abilities related to the Naturgy leadership and culture model; based on placing an updated and quality training offer at the disposal of employees.

With the implementation of the Evolution - Success Factors platform as a training management tool, to improve and adapt training to the demands of employees and businesses, employees and their managers have been involved in defining the training required for their position and/or professional development; in addition, all employees have direct access to all the online training of the company’s catalogue, with a model of institutes and knowledge areas and a set of channels and platforms for disseminating specific content.

Naturgy's strategic plan is a challenge for the whole organisation. In this context, the Corporate University is one of the transformation levers, at the service of people and business, to contribute to the creation of value and the achievement of the company's objectives.

In 2020, we continue to evolve our organisational model, adapting to strategic objectives and priorities, with greater accountability for business and a governance role for corporate areas.

The relevant programmes performed in 2020 included:

- Those related to increasing the company's digital profile.Programmes such as the one called, Digital Culture through The Valley platform and different asynchronous resources, the science analyst programme, oriented to the technification of digital profiles, or the digital skills programme, where different programming languages (SQL, Phyton...) and different platforms (AWS and Azure) are worked on.

- Those that attend to future challenges and market trends, such as, innovation strategy, new forms of data visualization where training has been given in Power BI and other visualization tools, new forms of work organization with SCRUM, SaFe training or the Productivity Program, oriented to the best practices to be more efficient and effective.

- Those who promote leadership with the role of a lever for transformation and the Group's vision, programmes such as take the lead, aimed at female and inclusive leadership, influencing distance, the leader's journey, focused on the drive for transformational leadership or various communication actions that work on the great challenges of communication in the current environment.

On the other hand, transversal programmes have been implemented, which promote and develop the culture and values of the company, through high impact focused programmes: Safety in our daily life, emotional fitness, safe return, code orange, sustainability week, etc.

The specific knowledge for the economic-financial area has several objectives, among them, to homogenize the economic-financial processes developed in any area of the organization; to update the accounting and financial criteria, risk management, management control, international regulations and technical knowledge of the tax area; as well as to provide sufficient knowledge on company valuation, financial derivatives and financial statement analysis.

In total, in 2020 more than 300 professionals from the economic-financial areas dedicated nearly 1,500 hours to training in specific contents, highlighting, among other things, financing of renewable energies, tax innovations, analysis of taxes, accountability, finance, remuneration of distribution and regulation applicable to generation technologies and cybersecurity..

F.2 Assessment of financial reporting risks

Provide information, at least, on the following:

F.2.1. What are the main characteristics in the risk identification process, including risks of error or fraudulent practices, with regard to:

- **If the process exists and it is documented.**

The approach used by Naturgy to carry out the financial reporting risk identification and analysis process is set out in three interrelated matrices:

- A matrix for defining the scope of the financial reporting.
- A matrix of risks associated with the financial reporting.
- A matrix of financial reporting control activities

The matrix for defining the scope of the financial reporting has the purpose of identifying the accounts and breakdowns which have an associated significant risk, whose potential impact on financial reporting is material and therefore requires special attention. In this regard, a series of quantitative variables (account balance and variation) and qualitative variables (complexity of transactions: changes and complexity in standards; need to use estimates or forecasts; application of judgement and qualitative importance of the information) have been taken into account in the process of identifying accounts and significant breakdowns. The methodology for preparing the scope matrix has been outlined in a technical instruction entitled “Matrix for defining scope of financial reporting of Naturgy”.

For each one of the accounts/significant breakdowns identified in the scope matrix, the critical processes and sub processes associated have been defined, and the risks which might give rise to errors in financial reporting have been identified, covering the objectives for the control of existence and occurrence; integrity; valuation; presentation, breakdown and comparability; and rights and obligations, in the “Risks matrix of financial reporting of Naturgy”.

Within the risk identification process defined by Naturgy in its ICFR, problems relating to fraud have been considered to be a very important element. In this regard, the fraud risk control policy of Naturgy is supported by three basic pillars:

- Fraud prevention.
- Fraud detection.
- Investigation and management of fraud situations.

Preventative anti-fraud controls, from the perspective of financial reporting, have been defined, and are classified into two categories. Those called active controls, which are considered to be barriers for restricting or preventing access to valuable assets by persons who might attempt to commit fraud. On the other hand, passive controls aim to prevent fraud by way of dissuasive measures.

Lastly, both the general control activities as well as the process control activities, which consist of the policies and procedures included in all stages of the financial reporting process and which can assure its reliability, are set out in the “Matrix of activities of control for financial reporting in Naturgy”.

The ICFR of Naturgy is a dynamic system, so its periodic updating is a fundamental process to comply at all times with the goal of the same, viz., to ensure that the group’s financial reporting is reliable. In particular, the definition matrix of the scope thereof is updated yearly.

- **If the process covers all the financial reporting objectives (existence and occurrence; integrity; assessment; presentation, breakdown and comparability; and rights and obligations), if it is updated and how frequently.**

Naturgy, being aware of the importance of having a tool to ensure adequate control of ICFR management, implemented, in 2013, the SAP GRC Process Control, for the comprehensive management of documentation, assessment and oversight of internal control in Naturgy processes. This implementation, which was performed within the framework of the programme for improving the efficiency of Naturgy, was initially carried out in all Spanish companies with majority shareholdings in which the company is held responsible for its operation and/or management. In 2014 the implementation was carried out in the Share Economic and Financial Services Centre of Latin America; in 2015 the implementation extended to Mexico and France; in 2016 the tool was implemented in Holland, in 2017 in Panama and Brazil. For the implementation of SAP GRC Process Control, both on a national and international level, users responsible for the key controls of the ICFR and of the Internal Auditing Unit have provided support. .

It is noteworthy to mention that, during the year 2015, the scope of the corporate ICFR model was extended to countries which have recently been included in the group, such as Chile, as a result of the acquisition in November 2014 of the Chilean group Compañía General de Electricidad, S.A. (CGE). Additionally, during 2018, this was extended to companies in Ireland and Singapore, respectively that have a relevant presence in terms of international commercialisation of LNG. Lastly, in 2019 the scope of the corporate model for the renewable energy business was extended to Australia. These additions strengthen and reinforce Internal Control in Naturgy.

The ICFR model of Naturgy is integrated in SAP GRC Process Control, except for the scope definition matrix. This application identifies the General Controls of Management, the General Environment Controls and the General Computer Controls, the critical processes, their associated risks and the control activities used to mitigate them, set out in the aforementioned risks matrices and controls. The units responsible for carrying out the control activities are also identified and integrated in the process structure.

The benefits provided by the implementation of SAP GRC Process Control include the following:

- It centralises all the ICFR documentation and management of Naturgy in a uniform way.

- It integrates the internal control of financial reporting in business and transversal processes, allowing each responsible organisational unit to regularly assess its controls, providing the necessary evidence and, every year, execute the ICFR internal certification process.

- It uses work flows and forms for managing control activities, the documentation of evidence of the execution thereof and for the action plans.

- It allows documentary access to evidence of controls in respect of processes and viewing of the result of the assessment in a user-friendly and immediate way.

- It is a support tool for the ICFR supervision process by Internal Auditing and External Auditing.

It allows both external and internal information required for reporting on the ICFR to be obtained and support.

Since 2013, the control evaluation requests have been performed in the following years according to the established schedules in SAP GRC Process Control, whereby the units involved in ICFR were asked to provide evidence of the controls performed, in accordance with the frequency stipulated in each case. If applicable, this assessment allows weaknesses, and the action plans necessary, to be identified and completed.

- **The existence of a process for the identification of the consolidation perimeter, taking into account, among other aspects, the possible existence of complex corporate structures, instrumental or special purpose entities.**

Part of the critical processes identified includes the process of identifying the consolidation perimeter of Naturgy and it has been described in a technical instruction called “Consolidated closing cycle of Naturgy”. Said document sets out the process for the monthly update of the perimeter, in accordance with the corporate operations of the period, and the units involved therein are defined. This process of identification and update of the perimeter is of fundamental importance for the drafting of the consolidated financial reporting of Naturgy.

- **If the process takes other types of risks into account (operating, technological, financial, legal, reputational, environmental, etc.) insofar as they affect the financial statements.**

  The risks matrix has taken into account the risks associated with reaching the objectives of financial reporting, considering, in that identification, the effects of other kinds of risks (for example: operating, technological, financial, reputational, etc.) which form part of the Corporate Risk Map of Naturgy.

- **Which governing body of the company supervises the process.**

  The Audit and Control Committee is responsible for supervising the efficiency of the ICFR. In order to carry out this function, the Audit and Control Committee uses the Internal Audit Unit and the External Audit (see section F.5).

F.3 Control activities

State, duly detailing their main characteristics, whether, at least, the following aspects exist:

F.3.1. Procedures for the review and authorisation of financial reporting, and the description of ICFR, to be published on the securities markets, indicating their supervisors, and the documentation which describes the flow of activities and controls (including those relating to risk of fraud) of the different types of transactions which can have a material impact on the financial statements, including the closing of accounts procedure and the specific review of relevant judgements, estimates, valuations, and protection.

Naturgy conducts regular reviews of the financial information prepared and of the description in the ICFR according to the different levels of responsibility, guaranteeing the quality of this description.

As a first level of review, the persons responsible for the closing of accounts of each company of Naturgy, within the Administration and Operational Monitoring of the Business units, review the financial reporting drawn up to ensure it is reliable and certify the reasonableness of the individual annual accounts.

Ultimately, the responsible for Planning, Control and Administration certifies the reasonability of the individual and consolidated annual accounts of NATURGY ENERGY GROUP, S.A. presented to the Board of Directors for approval.

Furthermore, as indicated in the “Global Policy for the Internal Control System of Financial Reporting (ICFR)” of Naturgy, control activities defined by the group in its ICFR comply with the basic objective of ensuring that the financial reporting of Naturgy represents the true and fair image of the group.

The control activities defined in the ICFR include both general controls and controls over critical processes.

While they do not allow a sufficient degree of control to be achieved over the group's processes, general controls are mechanisms that enable a series of key targets to be obtained for the achievement of an effective ICFR; in other words, they describe the policies and guidelines designed to protect Naturgy's ICFR in its entirety.

In addition, all the critical processes identified have been documented by means of the control activities matrix and by the pertinent descriptive technical descriptions of the processes. These critical processes, their associated risks and the control activities which mitigate them, as well as the descriptive documentation of the aforesaid processes, are identified in the ICFR management tool, SAP GRC Process Control. In this regard, Naturgy has identified all the processes necessary to draw up the financial information, using relevant judgements, estimates, valuations and forecasts, all of them being considered to be critical. The Audit and Control Committee is regularly informed of the main hypotheses used to estimate the financial reporting which depends on relevant judgements, valuations and projections.

The following information has been included in the documentation included in SAP GRC Process Control of the critical processes and control activities:

- Process description.
- Process information flow chart.
- Map of systems which interact in the process.
- Description of financial reporting risks associated with the different processes and control objectives.
- Definition of control activities to mitigate risks identified and their attributes.
- Descriptions of persons responsible for processes and control activities.

The following classifications of control activities have also been identified in the definition of control activities, in accordance with the five following criteria:

- Scope: depending on the scope of the control activities, they can be divided into:
  - General control activities.
  - Processes control activities.
- Level of automation: depending on the level of automation of the control activities, they can be divided into automatic and manual.
- Nature of the activity: depending on the nature of the control activities, they can be divided into preventive or detection activities.
- Frequency: depending on the recurrence which the activity has over the course of time, for example; annual, monthly, weekly, daily, etc.

Lastly, the ICFR of Naturgy includes the definition of the annual internal certification model of the controls identified in the critical processes which have to be performed by the business, services and projects units involved in the process of drawing up financial information. The Internal Control for Financial, Corporate and Business Reporting teams are responsible for launching and monitoring this certification process. In order to carry out this internal certification process, the units taking part use the functionalities integrated in the SAP GRC Process Control application for managing the ICFR of Naturgy (see section F.2.1). In the case of not having the tool, the certification is done manually guaranteeing the same premises.

The Internal Audit Unit is responsible for reviewing and assessing the conclusions regarding the compliance and effectiveness of the annual internal certifications process of the units which are responsible for carrying out the controls, review of the weaknesses and action plans designed for their correction.

F.3.2. Internal control policies and procedures on information systems (inter alia, on access security, control of changes, operation thereof, operating continuity and separation of functions) which support the relevant processes of the company in drawing up and publishing financial information.

For the critical processes associated with the drawing up and publication of the financial reporting of Naturgy which have been defined in the ICFR of the group, the control activities which operate in information systems have been defined, both for those used directly in preparing their financial information and for those which are relevant in the process or control of the transactions included in it.

At general level, within the reporting systems map of Naturgy, a series of policies have been defined and implemented to guarantee the following aspects:

- Security of access to both data and applications.
- Control of changes in applications.
- Correct operation of applications.
- Availability of data and continuity of applications.
- Adequate separation of functions.
- The correct regulatory compliance (GDPR)

a) Secure access:

A series of measures have been defined at different levels to guarantee confidentiality and to prevent unauthorised access to data and/or applications. Most internal users are managed and authenticated in a centralised way in the OIM (Oracle Identity Manager) Directories, which ensure they remain confidential.

The company has two main Data Processing Centres (DPC) in Madrid, to facilitate availability of information systems in the event of any contingency. Only authorised staff are able to access these facilities, all accesses are registered, and they are subsequently inspected to check for any possible anomalies.

Communications with these systems include systems such as Firewall, IPS (Intrusion Prevention System) and antivirus (signature and behaviour based) to internally reinforce control against threats.

Email and other information repositories are in the cloud (O365), where a layer of anti-malware protection (signatures and behaviour) is deployed, as well as a cloud security tool (CASB).

At the computer level, all PCs and servers have deployed a state-of-the-art anti-virus (EPP) and a detection and response tool (EDR).

A password policy that establishes a set of requirements for their definition and maintenance has been included in the Identity Management Model: minimum length, complexity, impossibility for repeating the password, maximum and minimum validity, encrypted, user blocks after period of inactivity, etc.

In addition, the Company is working on the implementation of Multiple-Factor Authentication (MFA) access model to make more robust access controls and identity assurance. The MFA is being deployed in O365, IOM, external and internal VPN, in the latter there is already an equipment certificate control implemented.

Furthermore, the CyberSOC (Security Operations Centre) is monitoring all the alerts created by failed or abnormal access attempts, applying to this information an intelligence level that analyses and interprets the data relating to said attempts (timestamp, location...), enabling decisions to be taken early on that prevent hypothetical unauthorised access, such as blocking accounts, filtering on access, password change. In 2020, the team has been increased by adding a Threat Hunting service, so that possible commitments that have not yet generated alerts are proactively and continuously identified.

Likewise, the Company is working on the creating and updating of the BRS (Business Recovery Systems) of the main information systems, for the recovery and restoration of critical interrupted functions.

Finally, at application, operating system and database level, the user-password combination is used as preventative control. At a data level, profiles have been defined that limit access thereto. Naturgy is developing a project for the definition and implementation of users/roles/profiles matrix for the enhancement of the segregation of functions that ensures the procedures for access to systems and data.

b) Change control:

A change management methodology has been developed and implemented based on best practices, setting out the precautions and validations which are necessary to limit risk in that process.

Some of the main aspects it includes are as follows:

- Approval by the Technical Committee, Changes Committees and Business.
- Carrying out tests in the different environments before passing to production.
- Specific environments for the development and tests tasks.
- Roll-back procedures.
- Separation of functions in most of the environments between development and production teams.
- Monitoring and control in any phase of development.
- User manuals and training courses.
- Regular maintenance of changes documentation.

c) Operation:

To guarantee that operations are carried out correctly, monitoring is conducted at four levels:

- All interfaces between systems are monitored to ensure they are correctly executed.
- At perimeter level, there are different availability indicators to prevent interruptions in communications.
- Automatic validations on the data entered so that they are in line with expectations based on their nature, rank, etc.
- Of the infrastructures which support applications.

There is also an internal Help Desk service which final users can contact, and they also have management tools at their disposal to report any kind of discrepancy.

d) Availability and continuity:

The majority of the systems have a high degree of local availability, and the servers thereof are situated in the same DPC, and in certain cases, in the support DPC for critical aspects. The high availability of information systems allows them to remain available should any incidents arise.

A backup copy is made regularly, and temporarily kept in a temporary secure location based on the legal requirements established for each system. The data are copied and stored in different locations, so preventing any loss of information. In order to restore these data there is a specific procedure, although tests are not carried out regularly.

e) Segregations of functions:

Access to the Information Systems is defined based on roles and profiles which define the functionalities to which a user must have access. These profiles are used to limit user access to Information Systems.

f) Regulatory compliance: GDPR

Naturgy complies with the provisions of Regulation (EU) 2016/679 of the European Parliament and the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and the free movement of such data, and with the provisions of Organic Law 3/2018, of 5 December, on the Protection of Personal Data and the guarantee of digital rights, as well as with the other provisions on data protection, to grantee the protection of data of a personal nature of its directors, employees, customers, suppliers, shareholders, investors and other stakeholders.

Naturgy, when it is the Data Controller, performs as many actions as necessary to comply with the legislation on data protection including and not limited to the following:

- It processes personal data in a lawful, sincere and transparent manner.
- It collects data for specific, explicit and legitimate purposes.
- It minimises the data subject to processing.
- It updates the data, providing data subjects with simple systems for this update.
- It limits the data storage periods.
- It applies appropriate technical and organisational measures to guarantee the security, integrity and confidentiality of the data.
- It obtained the consent of the data subject for processing whenever necessary.
- It introduces simple and adequate mechanisms so that the data subject, directly or through their legal or voluntary representation, can exercise their rights pursuant to prevailing legislation.
- It chooses data processors that offer sufficient guarantees to apply appropriate technical and organisational measures so that data processing is carried out in compliance with the requirements of relevant legislation. In addition it signs agreements with these data processes through which the data processor will only process data in accordance with the instructions given by the data controller, and will not apply the data or use them for any purpose other than then one set out in this agreement, and will not disclose them, even for safeguarding purposes, to third parties.
- It keeps a record of data-processing activity.
- It carries out impact assessments it deems appropriate.
- It has a collegiate body that acts as Data Protection Office.

- It makes the appropriate queries with the Spanish Data Protection Agency (AEPD) on issues of international transfers of personal data.
- It performs audits to grantee compliance with data protection regulations.
-

Under Article 32 of the GDPR that conditions security measures to the technology, Naturgy adopts the measures deemed technically appropriate that guarantee the security of personal data and avoids alteration, loss, processing or unauthorised access guaranteeing the confidentiality, integrity and availability of the data.

Naturgy carries out two-yearly audits of their Information Systems with the objective of complying with that set forth in the Regulation, as well as in all the procedures and instructions related to data protection.

F.3.3. Internal control policies and procedures for supervising the management of activities subcontracted to third parties, and those assessment, calculation or valuation questions entrusted to independent experts, which could have a material impact on the financial statements.

Naturgy has developed a series of policies and procedures used to supervise the management of activities subcontracted to third parties, all of which are approved by the levels established in the group, which include a "Global Policy for External Contracting", a "Global Policy for Quality Suppliers" and the procedures which implement them, and the "Counterparty Due Diligence Procedure (corruption and reputational risks)".

In this context, in the "Global Policy for External Contracting", Naturgy sets out the general principles which have to be applied to all contracting of goods and services, guaranteeing a uniform, efficient and sustainable quality model for managing the Procurement process in Naturgy.

This Policy also determines the responsibilities of the different units in the contracting process, establishing a series of compulsory objectives that assure control over contracting activities to third-parties, as part of the same promoting productive and long-lasting relationships with suppliers, implementing impartial mechanisms of assessment, selection and monitoring, ensuring that the supply chain complies with the principles provided for in the Supplier Code of Ethics, that the suppliers must ratify and the terms of which are sourced from the Code of Ethics of Naturgy, from the Human Rights Policy, from the Health and Safety Policy, from the Anti-Corruption Policy, as well as from internationally recognised principles of good governance. Likewise, initial evaluation of the contracting of the suppliers is compulsory to minimise exposure to risk of the companies, in accordance with the activity and environment in which they operate. For this purpose, the Company evaluates, inter alia, legal, financial, quality, safety, environmental and corporate responsibility aspects. In certain critical processes an additional level of control is required, that is referred to as "certification", which is supported by documentary evidence and/or audits in order to secure the quality of the goods and services that are acquired.

In the global Policy for suppliers and the procedure that it develops, the general principles which have to be applied to the assessment, monitoring and development of the suppliers, as well as the quality offered of the products and services acquired or installed, guaranteeing a homogeneous, efficient and sustainable model in Naturgy are established. The establishment of procedures and controls that guarantee the compliance of requirements set out in the specifications by potential suppliers and awarded contractors and furthermore also requires the certification of the suppliers of certain services or materials identified as of high-risk (operating risk, legal risk, health and safety risk, quality risk, and environmental-social-governance risk). The approval process may unveil anomalies that lead to a plan of corrective actions, or the non-approval of the supply, which would prevent such supplier from performing this activity for Naturgy. Furthermore, the measurement of performance is carried out by means of satisfaction surveys of the service provided by suppliers that carry out high risk activities, with special attention on health and safety aspects. The necessary corrective measures or actions plans are established, as the case may be.

The Business Units carry out the supervision and quality control of its suppliers to determine if they offer the levels of quality required to the works. If not, they send the proposals for the withdrawal of certification/authorisation to supplier/products/persons as a result of the deficiencies in the performance of services or products.

The main areas which affect the critical processes of the financial information that Naturgy ha subcontracted to third parties are as follows:

- Certain processes of the Systems area.
- Reading and measuring processes.
- Certain processes in the Sales area.
- Logistics operator.
- Payroll and staff management process.
- Works management and maintenance of the distribution networks.
- Certain generation activities

Naturgy uses experts in works which are used for support to valuations, judgements or accounting calculations, only when they are registered in the corresponding Professional Colleges, or have an equivalent certification, show their independence and are companies which the market considers to be prestigious.

Naturgy has also defined the “Counterparty Due Diligence Procedure” which, in general terms, is designed to cover the main legal and reputational risks involved in business relations with third parties, and in particular, covering misconduct associated with the risk of corruption.

In addition it will be carried out from suppliers with a commercial relationship with Naturgy by using a screening tool to detect the exposure to reputational risk of the counterparties and make decisions based on the risk detected in coordination with the Compliance Unit.

The Internal Auditing Unit of Naturgy audits the processes and correct application of the Procurement, Suppliers and Counterparty Due Diligence Policies and Procedures and, if breaches are detected then the pertinent corrective actions are taken.

F.4 Information and communication

State, duly detailing their main characteristics, whether, at least, the following aspects exist:

F.4.1. A specific function responsible for defining accounting policies (area or department of accounting policies), keeping them up to date, and resolving doubts or conflicts arising from their interpretation, keeping fluid communications with the persons responsible for operations in the organisation, as well as a manual of accounting policies which is up to date and communicated with the units through which the entity operates.

One of the responsibilities, inter alia, of the The Planning, Control and Administration Unit, via the Accounting Planning Unit, is to keep the accounting policies applicable to the group to date. In this regard, it is responsible for updating the "Naturgy Accounting Plan", which includes the group's accounting criteria and accounts plan and an analysis of the accounting changes which might have an impact on the financial report of Naturgy.

The "Naturgy Accounting Plan" is usually updated every year. Both the accounting criteria on the basis of changes in the IFRS-EU standards applicable and the group's accounting structure are reviewed in the updates, ensuring the traceability between the Individual Account Plans of the group's subsidiaries and the Accounting Plan of Naturgy, that constitutes the basis for the drafting of the different financial reporting to be provided to external bodies as well as the Management Control information.

Once the Accounting Plan is updated, it is disseminated to all the personnel of the organisation via the Naturgy Intranet. Furthermore, after the updated accounting plan is published on the Intranet, an on-line alert is sent to users who access the Intranet, thus informing all the staff of the update.

On the other hand, the Accounting Planning Unit is responsible for analysing the EU-IFSR regulations that might have a significant impact on financial statements and for reporting to the Naturgy management affected by any such regulatory changes. It is also entrusted with the task of resolving questions regarding the account entry of specific transactions that may be considered by those responsible for Naturgy financial reporting.

F.4.2. Mechanisms for the capture and preparation of financial information with uniform formats, applied and used by all units of the company of the group, used to support the main financial statements and the notes, as well as the information set out in detail on the ICFR.

The complete economic-financial management model of Naturgy guarantees that the administrative and accounting processes are uniform by means of centralising the administrative transactional and accounting processes and in Economic-Financial Shared Services Centres (Lean Corporate Services) and the accounting processes in the Administration and Operational Monitoring of the Business units; as well as the use of SAP as a support system in the majority of the companies which form part of the group. The companies which do not use SAP are obliged to follow the criteria established by the group to ensure that such processes are uniform.

The most important features of the aforesaid model are as follows;

- It is unique for all countries and businesses;
- It includes the legal, fiscal, mercantile and regulatory requirements of the countries;
- It includes internal control requirements;
- It is used as a base for obtaining information furnished to Management Staff and to official bodies;

- It is supported by a certain organisational model and unique economic and financial reporting processes and systems for all countries and businesses.

The IFRS-EU financial statements of each country are obtained directly through the local account-group account assignment and the registration of IFRS-EU adjustments in the SAP application.

As part of the group ICFR, the interrelationships map of all the critical processes for drawing up financial information of Naturgy has been defined. The aforesaid map defines a number of things, including the reporting systems which take part in the process of drawing up and issue of financial information both from the standpoint of individual closing of accounts and the closing of the consolidated accounts.

Accordingly, in the processes of drawing up the consolidated financial reporting and its breakdowns in the ambit of the Naturgy group, the SAP BPC application is used, which is a SAP application for managing the consolidation process.

The information is uploaded in the two systems automatically and directly, once the month is closed.

The use of this two systems help in managing the consolidation process in tasks such as:

- Standardisation of the information.
- Validation of the information.

The preparation of the consolidated financial reporting is done centrally in the Consolidation Unit, which ensures the integration, uniformity, coherence and streamlining of Naturgy’s consolidated financial statements.

Naturgy also has local accounts plans to comply with accounting, fiscal, mercantile and regulatory requirements established by the different laws of the countries in which it operates. Those local accounting plans are conflated into a group accounting plan, which is unified and homogeneous for the purposes of consolidation and reporting of financial information.

In 2020, the Single European Electronic Format (SUEF) has been adopted for the preparation of the individual and consolidated Annual Financial Report in accordance with the European Commission Delegated Regulation 2019/815 of 17 December 2018.

F.5 Supervision of the functioning of the system

Report on, duly detailing their main characteristics, at least:

F.5.1. The supervision activities of the ICFR carried out by the Audit and Control Committee and whether the company has an internal audit function which includes the responsibility of supporting the committee in its task of supervising the internal control system, including the ICFR. Information will also be provided on the scope of the assessment of ICFR carried out during the year and on the procedure through which the party responsible for carrying out the assessment notifies its results, if the company has an action plan with details of the possible corrective measures, and if its impact on financial information has been taken into account.

The Audit and Control Committee has the powers that are provided for by Law, as well as the specific or general powers that are delegated upon it by the Board of Directors. The powers thereof include the following:

- Supervising the preparation and integrity of the financial information related to the Company and, where applicable, the Group, reviewing compliance with the standard requirements, the appropriate definition of the consolidation perimeter and the correct application of the accounting criteria.
- Overseeing the effectiveness of the internal control of the Company, internal audit, and risk management systems, including tax risks, and discuss with the Auditors the significant weaknesses of the internal control system detected during the carrying out of the audit.
- Notifying the General Meeting of Shareholders regarding the questions that are raised thereby in relation to the aspects for which the Committee is responsible.
- Submitting to the Board of Directors proposals for the selection, appointment, re-election and replacement of the External Auditor, as well as the conditions of their contracting and regularly collecting information on the Audit Plan and its execution, in addition to preserving its independence in the exercise of its functions.
- Establishing the appropriate relations with the Accounts Auditor to receive information on any issues which could jeopardise their independence, to be examined by the Committee, and any other matters relating to the progress of the audit, as well as any communications required pursuant to legislation governing accounts auditing and auditing standards. In any event, the Committee must receive, annually, from the External Auditors the declaration of their independence in relation to any directly or indirectly related parties, as well as the information regarding the additional services of any type whatsoever provided thereby and the corresponding professional fees received from said entities by the External Auditor or by the persons or related parties thereof, in accordance with the provisions of accounts audit legislation.
- Annually issue, prior to the issue of the audit report, a report giving an opinion on the independence of the Auditors. This report shall in all cases include a valuation of the additional services provided, as referred to in the previous section, considered separately and in their entirety, consisting of services other than statutory audits and how they relate to the requirement of independence or to the regulatory legislation on auditing.
- Ensuring the independence of the unit handling the internal audit function; approve its priorities and work programmes, ensuring that its focuses primarily on the main risks the Company is exposed to; receive regular reports on its activities; and verify that senior management is acting on the findings and recommendations of its reports. Propose to the Chairman of the Board of Directors the selection, appointment, re-election and removal of the person responsible for the internal audit service, as well as proposing the budget for that service, with the final decision corresponding to the Chairman of the Board of Directors.

In order to be able to comply with its responsibilities, the Audit and Control Committee has the information and documentation provided by the Internal Audit, Control of the Planning, Control and Administration Unit, the Business Administration and Operational Monitoring Units and the External Auditor.

The Internal Audit function is established in Naturgy as a means of independent and objective assessment and for this reason the Internal Audit

Unit, reports to the Audit and Control Committee of NATURGY ENERGY GROUP S.A.

It has the task of guaranteeing the continuous review and improvement of the Group's internal control system, as well as safeguarding compliance with external and internal norms and the Control Models established in order to safeguard the effectiveness and efficiency of operations, and to mitigate the main risks in each one of the fields in which the Group operates. Likewise, it is responsible for the report of the internal audit activity to the Audit and Control Committee.

In the performance of its activity, Internal Auditing methodically reviews the internal control system of the Group's processes in all areas, and also assesses the risks and controls associated to these processes, (including those established in the ICFR and the Crime Prevention Model), through definition and execution of the Annual Internal Audit Plan, to improve effectiveness and efficiency of these. It also provides support to the divisions in achieving their objectives.

The Annual Internal Audit Plans are drawn up principally on the basis of the Corporate Strategic Plan, the company's processes the risk areas included in the Risk Map, the Internal Control System of Financial Reporting (ICFR) Scope Matrix, the results of previous years' audits and the proposals from the Audit and Control Committee and from top-tier management.

In accordance with the group policies, it is expected that the Internal Control System governing the ICFR of Naturgy is fully supervised by Internal Auditing in a period of five (5) years.

The methodology for the assessment of risks is in accordance with best corporate governance practices, based on the conceptual framework of the COSO Report (Committee of Sponsoring Organisations if the Treadway Commission) and on the basis of the types of risks defined in the company's Corporate Risk Map.

The risks associated with the processes are prioritised by assessing their incidence, relative importance and degree of control. Depending on the findings, the company designs an action plan with corrective measures that enable mitigation of residual risks identified with a potential impact above the tolerable or accepted risk established.

Internal Auditing is supported by the implementation of a SAP environment corporate application which it uses to manage and document internal audit projects in accordance with the defined methodology.

More specifically and with regard to the Internal Control System on Financial Reporting (ICFR), Internal Auditing is in charge of:

- Supervising the general model of the system for Internal Control of Financial Reporting (ICFR) and the effectiveness of the associated controls, through the execution of the Annual Audit Plan within a multi-year time frame (in full within a period of five (5) years).

- Supervising the certification process performed by those parties responsible for the ICFR controls (in full within a period of five (5) years).
- Within the scope defined, inform the Audit and Control Committee of the results and the weaknesses identified in the ICFR, presenting the main

aspects detected in the internal audits of the ICFR and their monitoring, related to the general model and the controls governing ICFR processes.

With regard to the Crime Prevention Model, the Internal Audit Area is in charge of its annual supervision to make reasonably sure that the model is efficient and effective at preventing, identifying and mitigating the occurrence of crimes provided for under applicable legislation.

The main processes revised by the Internal Audit in 2020 were as follows:

- Gas Networks: Network Construction, Collection and Commissioning, Network Maintenance, Billing, Reading, Emergency Care, Home Operations, Irregularity Management.
- Electricity Networks: Network Development, Network Maintenance, Logistics, Reading, TPA Contracting, TPA Invoicing.
- Generation: Operation and Maintenance of Generation Assets, Development and Start-up of New Projects, Management of Generation Assets, Management of Warehouses. Dismantling and Closing of Assets,
- Marketing (Gas, Electricity and Services): Attraction and Contracting, Product Management, Construction and Commissioning of Energy Facilities.
- Gas Supply: Invoicing and Payment of Gas Purchases, Negotiation and Contracting.
- LNG: Technical management of ships.
- Customer Service: Invoicing, Collection, Unpaid Management, Customer Service, TPA Invoicing
- Energy Management: Demand Estimation and Gas Procurement
- Management of Physical Resources: Approval of Suppliers
- Internal Control Management: Follow-up of corrective actions, SCIIF
- Information Systems Management: Cybersecurity, Business Continuity Plan
- Management of Economic and Financial Resources: Treasury Stock, Economic-Administrative Management of Operations, Processing of Expenses and Investments.
- Human Resources Management: Administration and People Services
- Review of the Group's regulatory system
- Ethical Code Channel
- Criminal Prevention Model.
- General Data Protection Regulations
- Continuous Audit

41% of the reviewed processes correspond to Spain with the remaining 59% to the international ambit.

Controls on the above processes relating to the Financial Information, were reviewed in accordance with the work methodology described above.

F.5.2. **If the company has a discussion procedure through which the accounts auditor (as established in the TAS), the internal audit function and other experts can inform the company senior management and the Audit and Control Committee or administrators of significant weaknesses in internal control identified during the annual accounts review processes or others which might have been entrusted to them. The company shall also state whether it has an action plan to try to correct or mitigate the weaknesses observed.**

As set out in Article 6 of the Council Regulation:

The Board shall meet at least eight times a year and, at the Chairman's initiative, as many times as he deems appropriate for the proper functioning of the Company or when at least 1/3 of the Board members request it.

In order to obtain the necessary information for the exercise of their duties, the members of the Board of Directors have the Audit and Control Committee, whose functions include knowledge and supervision of the process of preparing the regulated financial information, as well as the effectiveness of the internal control system.

In accordance with the Company's By-Laws and the Code of Conduct for the Board of Directors and its Committees, the Audit and Control Committee will be made up of a minimum of three and a maximum of seven Board members, appointed by the Board of Directors from among the non-executive directors, and at least one of these will be appointed taking into account his or her knowledge and experience in accounting and/or auditing matters. Its members shall leave the Board when they cease to be directors and when the Board of Directors so decides. The majority of the committee members shall have the status of independent directors. At 31 December 2020 the Committee is made up of seven directors, three proprietary and four independent, one of whom is also the Chairman.

The Board of Directors will elect the Chairman of the Committee, who will not have a casting vote. The Secretariat of the Committee will correspond to the Secretariat of the Board of Directors.

The Committee, which is convened by its Chairman, meets when necessary to issue the reports for which it is responsible or when deemed appropriate by its Chairman or requested by two of its members and at least four times a year. The Commission may invite any manager or employee it deems appropriate to attend its meetings.

The sphere of activity of the Audit and Control Committee extends to:

- NATURGY ENERGY GROUP, S.A.
- Companies controlled by NATURGY ENERGY GROUP, S.A.

However, the Audit and Control Committee of NATURGY ENERGY GROUP S.A. respects the functions of the Audit and Control Committees of the investee companies and therefore does not exercise functions with respect to the areas of the latter, which have, for example, their own internal audit service that reports directly to them. In these cases, the Audit and Control Committee of NATURGY ENERGY GROUP S.A. has supervisory functions, but not direct control

The Internal Audit Unit regularly reports to the Audit and Control Committee on the actions taken to ensure that Naturgy complies with all the policies, standards and controls of the processes established by the top-tier Management of the Group.

The relationship between the Internal Auditor and the Audit and Control Committee is as follows:

- The Chief Internal Auditor reports fully to the Audit and Control Committee (setting the annual budget, approving the annual audit plan and supervising its monitoring, setting the fixed remuneration, setting and evaluating the variable remuneration and proposing it to the Executive

Chairman for dismissal and appointment) and reports only to the General Secretariat for administrative and management purposes.
- The same scheme applies to the internal auditors in their full functional dependence on the Chief Internal Auditor, to whom they also report hierarchically.
- This has an exception in those group companies that have their own Audit Committee. In these cases, the functional and hierarchical dependence will be on these committees, but the chief internal auditor must be able to give them instructions to ensure that the internal audit function is carried out in a homogeneous manner in all the companies of the group, must be consulted on the dismissal and appointment and the variable remuneration of these auditors must be consistent with the variable remuneration of the other auditors.

The internal auditor in particular presents to the Audit and Control Committee:

- The Annual Internal Audit Plan for the committee's approval.
- The degree of execution of the Internal Audit Plan and the main conclusions and recommendations included in the Internal Audit Reports.
- The assessment and the effectiveness of the Control System and assessment of operational and Internal Control risks of Naturgy (including those referring to ICFR and the Crime Prevention Model), including corresponding to Action Plans to improve the level of internal control.
- The level of implementation by the audited units of the corrective measures appearing in the Auditor's Reports, in particular those proposed by the Audit and Control Committee.

The external auditor may at any time approach both the management team (normally through the Director of Planning, Control and Administration) and the Audit and Control and Administration Committee (normally through the Chairman or Secretary of the Committee).

The External Auditor informs the Audit and Control Committee of the weaknesses in internal control detected during the audit. The External Auditors also report on the main conclusions they have reached in the review of internal control, regarding the risks assessment and action plans.

Finally, the External Auditor, in addition to meeting periodically with the Audit and Control Committee, also meets with the Board of Directors in plenary session before the latter formulates the Annual Accounts.

The Director of Compliance also has the ability to address the Audit and Control Committee or the Management Committee directly if he deems it necessary. He may also address the management team as the Director of Compliance chairs the Ethics and Compliance Committee whose members are members of the Management Committee.

F.6 Other relevant information.

As indicated in section F.3.1. above, as part of the model for the assessment of the Internal Control System of Financial Reporting of Naturgy, it has been decided to carry out an internal certification process whereby, through SAP GRC Process Control, the Business, Services and Projects Units which are involved in the process of drawing up financial reporting guarantee that the identified controls are applied within their processes and that they are valid and sufficient. They also inform the Internal Control of Financial Reporting team of the weaknesses and/or shortcomings detected and of changes arising in their processes so as to assess if they need to develop new controls or modify existing ones.

During the 2020 year, Naturgy carried out the annual internal certification process, whereby changes were identified in a limited number of processes. Importantly, those changes did not necessitate a modification of the control activities previously identified, so that the risks associated with the preparation and reporting of financial reporting were considered to be covered in the critical processes affected. The main magnitudes of this process, relating to ongoing activities, were as follows:

	Spain	International	Total
Business and corporate units	206	179	385
Processes identified	55	147	202
Controls certified	872	1.020	1.892

The discontinued activity of the electricity distribution business in Chile covers a total of 33 critical processes of consolidated scope in Naturgy, with a total of 272 controls certified by 25 organisational business units.

Likewise, action plans have been identified due to weaknesses in the evidence of controls, which amount to 10, of which 3 are in Spain. During financial year 2020, 33% of the action plans identified in 2019 were resolved, with new plans emerging during 2020. In the discontinued activity of the electricity distribution business in Chile, 17% of the action plans identified in 2019 have been resolved, leaving a total of 29 action plans at December 2020. In any event, the sub-processes affected by these action plans do not significantly affect the quality of financial information.

F.7 Report of the external auditor

State:

F.7.1. If the ICFR information submitted to the markets has been reviewed by the External Auditor, in which case the company will have to include the corresponding report as an annex. Otherwise, it will have to explain why.

Naturgy has deemed it pertinent to ask the External Auditor to issue a report referring to the information on the Internal Control System of Financial Reporting (ICFR).

G DECREE OF COMPLIANCE WITH THE CORPORATE GOVERNANCE RECOMMENDATIONS

State the degree of compliance of the Company in respect of the recommendations regarding the Good Governance Code of Listed Companies.

If any recommendations are not followed or are followed partially, it will be necessary to include a detailed explanation of the reasons why so that the shareholders, investors and the market in general, have sufficient information to be able to assess the company's actions. General explanations are not acceptable.

1. **The Articles of Association of listed companies should not limit the maximum number of votes that can be issued by the same shareholder or contain other restrictions that prevent the company from being taken over through the purchase of its shares on the market.**

Compliant **X** Explain

2. **When the listed company is controlled, pursuant to the meaning established in Article 42 of the Commercial Code, by another listed or non-listed entity, and has, directly or through its subsidiaries, business relationships with that entity or any of its subsidiaries (other than those of the listed company) or carries out activities related to the activities of any of them, this is reported publicly, with specific information about:**

   a) **The respective areas of activity and possible business relationships between, on the one hand, the listed company or its subsidiaries and, on the other, the parent company or its subsidiaries.**

   b) **The mechanisms established to resolve any conflicts of interest that may arise.**

Compliant Partially compliant Explain Not applicable **X**

3. **During the annual general meeting the Chairman of the Board should verbally inform shareholders in sufficient detail of the most relevant aspects of the Company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:**

   a) **Changes taking place since the previous annual general meeting.**

   b) **The specific reasons for the Company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.**

Compliant **X** Partially compliant Explain

4. **The company should define and promote a policy for communication and contact with shareholders and institutional investors within the framework of their involvement in the company, as well as with proxy advisors, that complies in full with the rules on market abuse and gives equal treatment to shareholders who are in the same position. The company should make said policy public through its website, including information regarding the way in which it has been implemented and the parties involved or those responsible its implementation.**

   Further, without prejudice to the legal obligations of disclosure of inside information and other regulated information, the company should also have a general policy for the communication of economic-financial, non-financial and corporate information through the channels it considers appropriate (media, social media or other channels) that helps maximise the dissemination and quality of the information available to the market, investors and other stakeholders.

Compliant **X** Partially compliant Explain

5. **The Board of Directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription to rights for an amount exceeding 20% of capital at the time of such delegation.**

When the Board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

Compliant **X** Partially compliant Explain

6. **Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the ordinary general meeting, even if their distribution is not obligatory:**

   a) **Report on auditor independence.**

   b) **Reports on the operation of the Audit and Control Committee and the Appointments and Remuneration Committee.**

   c) **Audit Committee report on related party transactions.**

   D) **Report on corporate social responsibility policy.**

   Compliant **X** Partially compliant Explain

7. **The company should broadcast its general meetings on the corporate website.**

   The company should have mechanisms that allow the delegation and exercise of votes by electronic means and even, in the case of large-cap companies and, to the extent that it is proportionate, attendance and active participation in the general shareholders' meeting.

   Compliant **X** Partially compliant Explain

8. **The Audit and Control Committee should strive to ensure that the financial statements that the board of directors presents to the general shareholders' meeting are drawn up in accordance to accounting legislation. And in those cases where the auditors includes any qualification in its report, the chairman of the Audit and Control Committee should give a clear explanation at the general meeting of their opinion regarding the scope and content, making a summary of that opinion available to the shareholders at the time of the publication of the notice of the meeting, along with the rest of proposals and reports of the board.**

   Compliant **X** Partially compliant Explain

9. **The Company should disclose its conditions and procedures for admitting share ownerships, the right to attend the General Meeting of Shareholders and the exercise or delegation of voting rights, and display the permanently on its website.**

   Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

   Compliant **X** Partially compliant Explain

10. **When an accredited shareholder exercises the right to supplement the Agenda or submit new proposals prior to the General Meeting of Shareholders, the company should:**

    a) **Immediately circulate the supplementary items and new proposals.**

    b) **Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that the new agenda items and alternative proposals can be voted on in the same terms as those submitted by the Board of Directors.**

c) **Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the Board of Directors, with particular regard to presumptions or deductions about the direction of the votes.**

d) **After the General Meeting of Shareholders, disclose the breakdown of votes on such supplementary items or alternative proposals.**

Compliant Partially compliant Explain Not applicable **X**

11. **In the event that the company plans to pay for attendance at the General Meeting of Shareholders, it should establish a general, long-term policy in this respect.**

Compliant Partially compliant Explain Not applicable **X**

12. **The Board of Directors should perform its duties with unity of purpose and independent judgement, affording the same treatment to all Shareholders in the same position. It should be guided at all times by the company's best interests, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.**

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the board community and the natural environment.

Compliant **X** Partially compliant Explain

13. **The Board of Directors should be an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five (5) and fifteen (15) members.**

Compliant **X** Partially compliant Explain

14. **The board of directors should approve a policy aimed at promoting an appropriate composition of the board that:**

a) **Is concrete and verifiable.**

b) **Ensures that appointment or re-election proposals are based on a prior analysis of the Board's needs.**

c) **Favours diversity of knowledge, experience, age and gender. Therefore, measures that encourage the company to have a significant number of female senior managers are considered to favour gender diversity.**

The results of the prior analysis of competences required by the board should be written up in the nomination committee's explanatory report, to be published when the general shareholders' meeting is convened that will ratify the appointment and re-election of each director.

The Appointments Committee should run an annual check on compliance with this Policy and set out its findings in annual corporate governance report.

Compliant **X** Partially compliant Explain

15. **Proprietary and independent directors should constitute an ample majority on the Board of Directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.**

    Further, the number of female directors should account for at least 40% of the members of the board of directors before the end of 2022 and thereafter, and not less than 30% previous to that.

    Compliant   Partially compliant   **X**   Explain

    The number of executive directors is 1 and therefore meets the minimum requirement.

    Finally, with regard to the number of female directors, the policy for the selection of directors ensures that the selection procedures are not subject to any implicit bias that could imply any discrimination, within the framework of full respect for the shareholders' right to proportional representation as recognised by law. The policy for selecting Board members is aimed at ensuring adequate diversity in the composition of the Board of Directors, which means that Board members have different and complementary professional profiles and careers, in the conviction that this diversity will result in a better functioning of the Board. Within this framework the Board pays attention to gender diversity issues.

    The Company shares the objective of increasing the presence of women on the Board to at least 30% in 2020 and 40% in 2021, and to this end 100% of the vacancies (three) that have arisen during 2020 have been filled by female directors, reaching 25%.

16. **The percentage of proprietary directors out of all non-executive directors should not be greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.**

    This criterion can be relaxed:

    a) **In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.**

    b) **In companies with a plurality of shareholders represented on the Board but not otherwise related.**

    Compliant **X**   Explain

17. **Independent directors should be at least half of all Board members.**

    However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30% of capital, independent directors should occupy, at least one third (1/3) of the Board places.

    Compliant   Explain **X**

    The company comfortably meets the objective of having a higher percentage of independent directors than the free float percentage. The Company has three (3) shareholders who do not act in concert and who have a shareholding equal to or greater share than 20%. All three have exercised their legal right to proportional representation, so by legal imposition it is impossible to comply with the recommendation.

At present, the number of independent directors is five (5) out of a total of twelve (12) directors, in other words, they represent 41.6% of the directors which is a percentage much higher than the free float. Conversely, the significant shareholders of the Company hold, as a whole, 66.1% of the capital and have proposed 50% of the Directors (in total 6 out of 12). While this is maintained, out of respect for the legal mandate of proportionality, the number of independent directors cannot be equal to half of the total number of directors. In any case, the figure of five (5), apart from quantitatively being the one according to the law, has qualitative relevance: a modification of the Board Regulations has established that, for matters of greater relevance, an enhanced majority of more than two thirds (2/3) is required, which amounts to a possibility of blocking the set of independent directors.

18. **The companies should publish the following information about their directors on their website and keep the said information up-to-date.**

    a) **Background and professional experience.**

    b) **Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.**

    c) **Statement of the director class to which they belong; in the case of proprietary directors indicating the shareholder they represent or have links with.**

    d) **Dates of their first appointment as Board member and subsequent re-elections.**

    e) **Shares held in the company, and any options on the same.**

    Compliant X Partially compliant Explain

19. **The annual corporate governance report, with prior verification by the Appointments Committee is to provide an explanation for the reasons proprietary directors were appointed at the behest of shareholders whose stake in the company is less than 3% of share capital, and reasons given for the rejections of formal requests for board representation from shareholders who have successfully requested the appointment of proprietary directors.**

    Compliant Partially compliant Explain Not applicable X

20. **Proprietary directors are to submit their resignation when the shareholder whom they represent fully disposes of their stake. They should also present their resignation, in the corresponding number, when the said shareholder lowers his/hers shares in the company to a level that requires a reduction in the number of his/her proprietary directors.**

    Compliant X Partially compliant Explain Not applicable

21. **The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the Articles of Association, except where just cause is found by the Board, based on a report from the Appointments Committee. In particular, it shall be understood that there is just cause when the director takes on new offices or assumes new obligations that prevent them from devoting the time necessary to perform the duties of the office of director, breaches the duties inherent to their position or is affected by one of the circumstances that**

cause them to lose their independent status in accordance with the provisions of applicable law.

The removal of independent directors may also be proposed as a consequence of offers for the takeover, merger or similar corporate actions affecting the company that may involve a change in the company's capital structure, whenever such changes in the Board of Directors arise under application of the proportionality criterion pointed out in Recommendation 16.

Compliant **X** Explain

22. **Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, related or not to their actions within the company, and tendering their resignation as the case may be, and, in particular, to inform the board of any criminal charges brought against them and the progress of any subsequent trial.**

    When the board is informed or becomes aware of any of the situations mentioned in the previous paragraph, the board of directors should examine the case as soon as possible and, attending to the particular circumstances, decide, based on a report from the nomination and remuneration committee, whether or not to adopt any measures such as opening of an internal investigation, calling on the director to resign or proposing his or her dismissal. The board should give a reasoned account of all such determinations in the annual corporate governance report, unless there are special circumstances that justify otherwise, which must be recorded in the minutes. This is without prejudice to the information that the company must disclose, if appropriate, at the time it adopts the corresponding measures.

Compliant **X** Partially compliant Explain

23. **All directors are to clearly express their opposition when they consider that any proposal subject to the decision of the Board of Directors may be detrimental to corporate interests. The independent directors and other directors who are not affected by the potential conflict of interest are to voice their opposition in a special manner whenever such decisions may be of detriment to shareholders not represented on the Board of Directors.**

    When the Board makes material or reiterated decisions about which director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

    The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

Compliant **X** Partially compliant Explain Not applicable

24. **Directors who give up their position before their tenure expires, through resignation or resolution of the general meeting, should state the reasons for this decision, or in the case of non-executive directors, their opinion of the reasons for the general meeting resolution, in a letter to be sent to all members of the board.**

    This should all be reported in the annual corporate governance report, and if it is relevant for investors, the company should publish an announcement of the

departure as rapidly as possible, with sufficient reference to the reasons or circumstances provided by the director.

Compliant **X** Partially compliant Explain Not applicable

25. **The Appointments Committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.**

    The Board of Directors regulations should lay down the maximum number of company Boards on which Directors can serve.

    Compliant Partially compliant **X** Explain

    Owing to the high level of participation and attendance at the sessions of the governing bodies by the Members of the Board, to date the company has not established any rules on the number of Boards on which the said Directors can sit.

26. **The Board should meet with the necessary frequency to properly perform its functions, eight (8) times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each Director may propose the addition of initially unscheduled items.**

    Compliant **X** Partially compliant Explain

27. **Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, Directors should delegate their powers of presentation with the appropriate instructions.**

    Compliant X Partially compliant Explain

28. **When Directors or the Secretary express concerns about some proposal or, in the case of Directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the Minutes if the person expressing them so requests.**

    Compliant **X** Partially compliant Explain Not applicable

29. **The Company should provide suitable channels for Directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the Company's expense.**

    Compliant **X** Partially compliant Explain

30. **Regardless of the knowledge Directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.**

    Compliant **X** Partially compliant Explain Not applicable

31. **The Agendas of the Board Meetings should clearly indicate on which items Directors must arrive at a decision, so that they can study the matter beforehand or gather together the material they need for its resolution.**

    For reasons of urgency, the Chairman may wish to present decisions or resolutions for Board approval that were not on the Agenda. In such exceptional circumstances, their inclusion will require express prior consent, duly recorded in the Minutes, from the majority of the Directors in attendance.

    Compliant **X** Partially compliant Explain

32. **Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the Company and its Group.**

Compliant X Partially compliant Explain

33. **The Chairman, as the person charged with the efficient functioning of the Board of Directors, in addition to the functions assigned by Law and the Company's Articles of Association, should prepare and submit to the Board a schedule of meeting dates and agendas; organise and coordinate regular assessments of the Board and, where appropriate, the Company's Chief Executive Officer; exercise leadership of the Board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each Directors, when circumstances so advise.**

Compliant X Partially compliant Explain

34. **When a coordinating independent Director has been appointed, the Articles of Association or Board of Directors regulations should grant him or her the following powers over and above those conferred by law: chair the Board of Directors in the absence of the Chairman or Deputy Chairmen, give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those that have to do with the company's corporate governance; and coordinate the Chairman's succession plan.**

Compliant Partially compliant X Explain Not applicable

The Coordinating Director has all the recommended functions attributed (chair the Board of Directors in the absence of the Chairman, give voice to the concerns of non-executive directors, coordinate the succession plan of the Chairman, etc.), except for the relationship with investors.

The Board of Naturgy as such pays special attention on matters relating to Investor relations, as set forth in Article 4 of the Regulation, amongst others. In view of this, the Company, within the scope of the new Strategic Plan, have developed a substantial line of action based on the alignment the interests between Directors and Shareholders. Accordingly, the Board have decided to assign this function to the Executive Chairman and have created a Capital Markets Department reporting directly to the same that has a unit that specialises in Investor Relations.

35. **The Board Secretary should strive to ensure that the Board's actions and decisions take into account the good governance recommendations contained in the Good Governance Code of relevance to the Company.**

Compliant X Explain

36. **The Board in a plenary session should assess once a year, adopting, where necessary, an Action Plan to correct deficiencies identified in:**

The quality and efficiency of the Board's operation.

The performance and composition of its Committees.

The diversity of the composition and competence of the Board of Directors

e) **The performance of the Chairman of the Board of Directors and the Company's Chief Executive.**

f) **The performance and contribution of each Director, with particular attention to the Chairmen of Board Committees.**

The assessment of Board Committees should start from the reports they submit to the Board of Directors, while that of the Board itself should start from the report of the Appointments Committee.

Every three (3) years, the Board of Directors should engage an External Advisor to assist in the assessment process, whose independence should be verified by the Appointments Committee.

Any business relationships that the Consultant or any other company of its group maintains with the company or any company of its group must detailed in the annual corporate governance report.

The process followed and areas assessed should be detailed in the annual corporate governance report.

Compliant **X** Partially compliant Explain Not applicable

37. **When there is an executive committee, there should be at least two nonexecutive members, at least one of whom should be independent; and its secretary should be the secretary of the board of directors.**

Compliant Partially compliant Explain Not applicable **X**

38. **The Board is kept informed at all times of the business addressed and resolutions made by the Executive Committee and that all Members of the Board receive a copy of the Minutes of the Executive Committee meetings.**

Compliant Partially compliant Explain Not applicable **X**

39. **All members of the Audit and Control Committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters, both financial and non-financial.**

Compliant **X** Partially compliant Explain

40. **Listed companies should have a unit in charge of the internal audit function, under the supervision of the Audit and Control Committee, to assure the correct functioning of the reporting and internal control systems. This unit should report functionally to the non-executive Chairman of the Audit and Control Committee.**

Compliant Partially compliant **X** Explain

The company considers it more appropriate for the functional unit to be of the Commission as a whole and not of the President of the Commission, since the functions that make up such a unit are preached from the Commission as a whole and not only from the President.

Thus, this Committee sets the annual budget, approves the annual audit plan and supervises its monitoring, and proposes its termination and appointment to the Executive Chairman. Finally, together with the Appointments, Remuneration and Corporate Governance Committee, the fixed remuneration of the Chairman, and determines, after evaluation, the variable remuneration.

It reports to the General Secretariat for administrative and management purposes only

41. The head of the unit handling the internal audit function should present an annual work programme to the Audit and Control Committee, for approval by this committee or the board, inform it directly of any incidents or scope limitations arising during its implementation, the results and monitoring of its recommendations, and submit an activities report at the end of each year.

Compliant **X** Partially compliant Explain Not applicable

42. The Audit and Control Committee have the following functions over and above those legally assigned:

1. With respect to internal control and reporting systems:

a) Monitor and evaluate the preparation process and the integrity of the financial and non-financial information, as well as the control and management systems for financial and non-financial risks related to the company and, where appropriate, to the group – including operating, technological, legal, social, environmental, political and reputational risks or those related to corruption – reviewing compliance with regulatory requirements, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles..

b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment and removal of the head of the internal audit service; propose the service's budget; approve or make a proposal for approval to the board of the priorities and annual work programme of the internal audit unit, ensuring that it focuses primarily on the main risks the company is exposed to (including reputational risk); receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

c) Establish and supervise a mechanism that allows employees and other persons related to the company, such as directors, shareholders, suppliers, contractors or subcontractors, to report irregularities of potential significance, including financial and accounting irregularities, or those of any other nature, related to the company, that they notice within the company or its group. This mechanism must guarantee confidentiality and enable communications to be made anonymously, respecting the rights of both the complainant and the accused party.

d) In general, ensure that the internal control policies and systems established are applied effectively in practice

2. With regard to the External Auditor:

a) In the event of resignation of the External Auditor, the Committee should investigate the issues giving rise to the resignation.

b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.

c) Ensure that the company notifies any change of external auditor through the CNMV, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.

d) Ensure that the External Auditor has a yearly meeting with the Board in plenary session to inform them of the work undertaken and developments in the company's risk and accounting positions.

e) **Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.**

Compliant X Partially compliant Explain

43. **The Audit and Control Committee may call any of the Company's employees or managers, and also have them appear without the presence of any other executive.**

Compliant X Partially compliant Explain

44. **The Audit and Control Committee should be informed on any structural or corporate operations that the Company is planning, so the Committee can analyse the same and report to the Board beforehand on its economic conditions and accounting impact, and, when applicable the exchange rate ratio proposed.**

Compliant X Partially compliant Explain Not applicable

45. **The risk control and management policies should identify at least:**

a) **The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks, and risks relating to corruption), with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.**

b) **A risk control and management model based on different levels, of which a specialised risk committee will form part when sector regulations provide or the company deems it appropriate.**

c) **The level of risk that the company considers acceptable.**

d) **The measures in place to mitigate the impact of identified risk events should they occur.**

e) **The internal control and reporting systems to be sued to control and manage the above risks, including the contingent liabilities and off-balance sheet risks.**

Compliant X Partially compliant Explain

46. **That, under the direct supervision of the Audit and Control Committee or, as the case may be, of a specialised Committee of the Board of Directors, there is an internal function of control and risk management exercised by a unit or internal department of the company that has been assigned expressly the following functions:**

a) **Ensure the proper functioning of the risk management and control systems and, in particular, that all important risks affecting the Company are identified, managed and quantified adequately.**

b) **Participate actively in the preparation of risk strategies and in key decisions about their management.**

c) **Ensure that risk control and management systems mitigate risks adequately within the framework of the policy defined by the Board of Directors.**

Compliant X Partially compliant Explain

47. **Members of the Appointments and Remuneration Committee - or of the Appointments Committee and Remuneration Committee, if separately constituted - should have the right mix of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be Independent Directors.**

Compliant **X** Partially compliant Explain

48. **Large cap companies should operate separately constituted Appointments Committees and Remuneration Committees.**

Compliant Explain **X** Not applicable

The Company believes that, at least in its case, it is neither necessary nor effective to separate the powers of the Appointments and Remuneration Committee into two Committees, on of Appointments and the other Remuneration. The existence of a single Committee does not harm or limit the exercise of the powers granted by law to the Appointments and Remuneration Committee, which also allows the Company to optimise costs insofar as this avoids the accrual of additional remuneration to the Directors called to be part of the two split committees. Furthermore, the Company considers that such splitting could be counter-productive, given that for the Company the presence of a significant number of Independent Directors on the Board Committees is relevant. Given the restrictions on the number of Independent Directors imposed under prevailing legislation in application of the principle of proportional representation, the number of Independent Directors on the Board of Directors is currently five (5). In order for there to be a significant number of Independent Directors on the two separate Committees, in addition to the Audit and Control Committee (where they must be the majority by legal provision), an overload of work derived from a new Committee would be imposed on said Directors.

In addition, in the financial year 2020, the Board of Directors has decided to create a new Committee, the Sustainability Committee, which reaffirms the inappropriateness of splitting the Appointments, Remuneration and Corporate Governance Committee.

49. **The Appointments Committee should consult with the Chairman of the Board of Directors and Chief Executive Officer, especially on matters relating to Executive Directors.**

When there are vacancies on the Board, any Director may approach the Appointments Committee to propose candidates they consider suitable.

Compliant **X** Partially compliant Explain

50. **The Remuneration Committee should operate independently and have the following functions in addition to those assigned by Law:**

    a) **Propose to the Board of Directors the standard conditions for Senior Executive contracts.**

    b) **Monitor compliance with the remuneration policy set by the Company.**

    c) **Periodically review the remuneration policy for Directors and Senior Executives, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other Directors and Senior Executives to the Company.**

    d) **Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.**

e) **Verify the information on remuneration of Directors and Senior Executives contained in the various corporate documents, including the Annual Report on Directors' Remuneration.**

Compliant **X** Partially compliant Explain

51. **The Remuneration Committee should consult with the Chairman of the Board of Directors and Chief Executive Officer, especially on matters relating to Executive Directors.**

Compliant **X** Partially compliant Explain

52. **The terms of reference of supervision and control should be set out in the Board of Director's regulations and aligned with those governing legally mandatory Board Committees as specified in the preceding sets of recommendations. They should include at least the following terms:**

a) **Committees should be formed exclusively by non-executive Directors, with a majority of Independent Directors.**

b) **Committees should be chaired by an Independent Director.**

c) **The Board should appoint the members of such committees with regard to the knowledge, skills and experience of its Directors and each Committee's terms of reference; discuss their proposals and reports; and provide report backs on their activities and work at the first board plenary following each committee meeting.**

d) **The may engage external advice, when they feel it necessary for the discharge of their functions.**

e) **Meeting proceedings should be recorded/notified in the Minutes and a copy made available to all Board Members.**

Compliant Partially compliant **X** Explain Not applicable

53. **The task of supervising compliance with the policies and rules of the company in the environmental, social and corporate governance areas, and internal rules of conduct, should be assigned to one board committee or split between several, which could be the Audit and Control Committee, the nomination committee, a committee specialised in sustainability or corporate social responsibility, or a dedicated committee established by the board under its powers of selforganisation. Such a committee should be made up solely of non-executive directors, the majority being independent and specifically assigned the following minimum functions.**

Compliant Partially compliant **X** Explain

The Audit and Control and Appointments, Remuneration and Corporate Governance Committees carry out some of the supervisory functions referred to in this recommendation and are made up of a majority of independent directors.

In addition, the Company's Board of Directors created the Sustainability Committee in financial year 2020, which has been entrusted with the exercise of supervision and control functions in environmental and social matters.

The Commission is composed of 5 members, of whom 2 are independent and one of whom chairs the Commission. This number is considered to be sufficient in view of the

Committee's functions and in order not to overburden the independent directors by belonging to more than 2 Committees simultaneously

54. The minimum functions referred to in the previous recommendation are as follows:

a) Monitor compliance with the company's internal codes of conduct and corporate governance rules, and ensure that the corporate culture is aligned with its purpose and values.

b) Monitor the implementation of the general policy regarding the disclosure of economic-financial, non-financial and corporate information, as well as communication with shareholders and investors, proxy advisors and other stakeholders. Similarly, the way in which the entity communicates and relates with small and medium-sized shareholders should be monitored.

c) Periodically evaluate the effectiveness of the company's corporate governance system and environmental and social policy, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.

d) Ensure the company's environmental and social practices are in accordance with the established strategy and policy.

e) Monitor and evaluate the company's interaction with its stakeholder groups.

Compliant **X** Partially compliant Explain

55. Environmental and social sustainability policies should identify and include at least.

a) The principles, commitments, objectives and strategy regarding shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of corruption and other illegal conducts.

b) The methods or systems for monitoring compliance with policies, associated risks and their management.

c) The mechanisms for supervising non-financial risk, including that related to ethical aspects and business conduct.

d) Channels for stakeholder communication, participation and dialogue.

e) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Compliant X Partially compliant Explain

56. Directors' remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.

Compliant **X** Explain

57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Compliant X Partially compliant Explain

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.

b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.

c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate their contribution to long-term value creation. This will ensure that the performance measurement is not based solely on one-off, occasional or extraordinary events.

Compliant Partially compliant **X** Explain Not applicable

In setting the variable remuneration, the Board has considered it appropriate to combine variable remunerations with different time horizons and metrics: on the one hand, annual variable remuneration whose metrics, linked to operational objectives, respond to a classic incentive model, which fits with the limits and precaution set out in this recommendation. On the other hand, remuneration with a long-term horizon has been introduced (it expires in July 2023), which has now been aligned with the return the shareholder would receive, and therefore does not tally exactly with the more traditional models of remuneration. The Board considers that, in the long term, the best and simplest metric of the performance of the Executive Chairman is the one referring to dividends distributed and changes to the share price.

59. The payment of the variable components of remuneration is subject to sufficient verification that previously established performance, or other, conditions have been effectively met. Entities should include in their annual directors' remuneration report the criteria relating to the time required and methods for such verification, depending on the nature and characteristics of each variable component.

Additionally, entities should consider establishing a reduction clause ('malus') based on deferral for a sufficient period of the payment of part of the variable components that implies total or partial loss of this remuneration in the event that prior to the time of payment an event occurs that makes this advisable.

Compliant **X** Partially compliant Explain Not applicable

60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Compliant **X** Compliant partially Explain Not applicable

61. **A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.**

Compliant **X** Partially compliant Explain Not applicable

62. **Following the award of shares, options or financial instruments corresponding to the remuneration schemes, executive directors should not be able to transfer their ownership or exercise them until a period of at least three years has elapsed.**

Except for the case in which the director maintains, at the time of the transfer or exercise, a net economic exposure to the variation in the price of the shares for a market value equivalent to an amount of at least twice his or her fixed annual remuneration through the ownership of shares, options or other financial instruments.

The foregoing shall not apply to the shares that the director needs to dispose of to meet the costs related to their acquisition or, upon favourable assessment of the nomination and remuneration committee to address an extraordinary situation..

Compliant Compliant partially Explain **X** Not applicable

The long-term incentive applicable to the Executive Chairman and other relevant executives of the Company brings into line the interest of the executives with those of the shareholders through a mechanism that contemplates a deferral in the payment of the incentive more than five (5) years after its approval. Accordingly, it is unnecessary to introduce an additional period of limitation to the transfer of shares when the plan expires and the shares are handed over.

63. **Contractual arrangements should include provision that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.**

Compliant **X** Partially compliant Explain Not applicable

64. **Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.**

For the purposes of this recommendation, payments for contractual termination include any payments whose accrual or payment obligation arises as a consequence of or on the occasion of the termination of the contractual relationship that linked the director with the company, including previously unconsolidated amounts for long-term savings schemes and the amounts paid under post-contractual non-compete agreements.

Compliant Partially compliant **X** Explain Not applicable

Compensation due to termination respects the foregoing recommendation of two (2) years of the director's total annual remuneration (fixed remuneration, annual variable and multi-year variable in terms detailed in the annual report on remunerations).

Conversely, the Executive Chairman has the right to compensation for non-competition that is of a different legal nature to the payment for termination of contract, since it involves compensation for the post-contractual non-competition agreement that it assumes. The amount of this compensation is one year's fixed remuneration.

H OTHER INFORMATION OF INTEREST

1. **If there is any other relevant aspect in corporate governance in the company or in the group companies which has not been included in the rest of the sections of this report, but which it was necessary to include to show more complete and reasoned information on the governance structure and practices in the company or its group, briefly indicate them here.**

2. **In this section, you may include any information or clarification with regard to the previous sections of this report to the extent that they are relevant and non-repetitive.**

   More specifically, indicate whether your company is subject to any corporate governance legislation other than Spanish law, and if so, include any information that is mandatory and different from that requested herein.

3. **The Company will also be able to indicate if it has voluntarily subscribed to other codes of ethical principles or good practices, at international or sector level, or in any other field. In that case, indicate the code in question and the date it was subscribed to. In particular, mention whether there has been adherence to the Code of Good Tax Practices of 20 July 2010.**

   The Board of Directors, at its meeting on 17 September 2010, agreed to the adhesion of NATURGY to the Code of Good Tax Practice. In accordance with the provisions of this Code, it is expressly stated that NATURGY has effectively complied with its content and, in particular, that at the meeting held on 2 February 2021, the Board was informed, through the Audit and Control Committee, of the situation and the tax policies followed by the Group during financial year 2020.

   Likewise, the Board of Directors, at its meeting on 29 January 2019 and with the favourable report of the Audit and Control Committee, approved the Tax Strategy and Policy for the Control and Management of Tax Risks, which regulates the basic principles that should guide NATURGY's tax function, as well as the main lines of action to mitigate and guide the correct control of tax risks.

This Annual Corporate Governance Report was approved by the Board of Directors of the Company at a meeting on 2 February 2021.

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

YES NO **X**

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

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AUDITOR'S REPORT ON INFORMATION RELATING TO THE INTERNAL CONTROL FOR FINANCIAL REPORTING (ICFR)

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

To the Directors of Naturgy Energy Group, S.A.

At the request of the Board of Directors of Naturgy Energy Group, S.A. (hereinafter, the Entity) and in accordance with our proposal dated July 10, 2020, we have applied certain procedures to the "ICFR-related information" included in the Management Report of Naturgy Energy Group, S.A. for 2020, which summarizes the Entity's internal control procedures regarding annual financial reporting.

The Directors are responsible for adopting the appropriate measures in order to reasonably guarantee the implementation, maintenance and supervision of an adequate internal control system as well as developing improvements to that system, and preparing and establishing the content of the accompanying ICFR-related information.

It should be noted that irrespective of the quality of the design and effectiveness of the internal control system adopted by the Entity in relation to its annual financial reporting, it can only provide reasonable, rather than absolute assurance with respect to the objectives pursued, due to the inherent limitations to any internal control system.

Throughout the course of our audit work on the financial statements, and in conformity with Technical Auditing Standards, the sole purpose of our assessment of the Entity's s internal control system was to establish the scope, nature, and timing of the audit procedures to be applied to the Entity's financial statements. Therefore, our internal control assessment performed for the audit of the aforementioned financial statements was not sufficiently extensive to enable us to express a specific opinion on the effectiveness of the internal control over regulated annual financial reporting.

For the purpose of issuing this report, we exclusively applied the specific procedures described below and indicated in the Guidelines on the Auditors' report relating to information on the Internal Control over Financial Reporting on Listed Companies, published by the Spanish National Securities Market Commission (CNMV) on its website, which establishes the work to be performed, the minimum scope thereof and the content of this report. Given that the scope of the abovementioned procedures performed was limited and substantially less than that of an audit or a review of the internal control system, we do not express an opinion on the effectiveness thereof, or its design or operating effectiveness, in relation to the Entity's annual financial reporting for 2020 described in the accompanying ICFR-related information. Consequently, had we applied additional procedures to those established by the Guidelines mentioned above or had we carried out an audit or a review of the internal control over regulated annual financial reporting, other matters might have been detected which would have been reported to you.

Additionally, since this special engagement neither constitutes an audit of the financial statements nor is it subject to prevailing audit regulations in Spain, we do not express an audit opinion in the terms provided for therein.

The procedures performed were as follows:

1. Reading and understanding the information prepared by the Entity regarding ICFR – disclosures included in the management report – and assessing whether this information meets all the minimum reporting requirements needed to fill out section F on the ICFR described in the Annual Corporate Governance Report template established in CNMV Circular 5/2013 of June 12, 2013, and subsequent amendments, the most recent one being CNMV Circular 1/2020 of October 6 (hereinafter the CNMV Circulars).

2. Making inquiries of personnel responsible for preparing the information detailed in point 1 above: (i) to obtain an understanding of the process that goes into preparing the information; (ii) to obtain information that allows us to assess whether the terminology used complies with the framework definitions; and (iii) to obtain information on whether the control procedures described are in place and functioning.

3. Reviewing the explanatory documents supporting the information detailed in point 1 above, which will mainly include documents directly made available to those responsible for describing the ICFR. This documentation includes reports prepared by the Internal Audit Department, senior management, and other internal and external experts in their role supporting the Audit Committee.

4. Comparing the information detailed in point 1 above with our knowledge of the Entity’s ICFR obtained through the procedures applied during our audit of the financial statements.

5. Reading the minutes of the meetings of the Board of Directors, the Audit Committee, and other Entity committees in order to evaluate the consistency between matters related to the ICFR and the information detailed in point 1 above.

6. Obtaining a representation letter in connection with the work performed, duly signed by those responsible for preparing and approving the information detailed in point 1 above.

As a result of the procedures applied to the ICFR-related information, no inconsistencies or incidents have come to our attention which might affect it.

This report was prepared exclusively within the framework of the requirements stipulated in article 540 of the consolidated text of the Corporate Enterprises Act and CNMV Circulars on ICFR description in Annual Corporate Governance Reports.

ERNST & YOUNG, S.L.

(Signed on the original Spanish version)

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José Agustín Rico Horcajo

February 3, 2021

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AUDIT REPORT ON FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

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

To the Shareholders of
NATURGY ENERGY GROUP, S.A.:

Audit report on the financial statements

Opinion

We have audited the financial statements of Naturgy Energy Group, S.A. (the Company), which comprise the balance sheet at December 31, 2020, the income statement, the statement of changes in equity, the cash flow statement, and the notes thereto for the year then ended.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the equity and financial position of the Company at December 31, 2020 and of its financial performance and its cash flows for the year then ended in accordance with the applicable regulatory framework for financial information in Spain (identified in Note 2 to the accompanying financial statements) and, specifically, the accounting principles and criteria contained therein.

Basis for Opinion

We conducted our audit in accordance with prevailing audit regulations in Spain. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the financial statements in Spain as required by prevailing audit regulations. In this regard, we have not provided non-audit services nor have any situations or circumstances arisen that might have compromised our mandatory independence in a manner prohibited by the aforementioned requirements.

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

Key audit matters

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

Recovery of the book value of non-current investments in group companies and associates

Description

As detailed in Note 7 to the accompanying financial statements, the Company shows long-term investments in group companies and associates corresponding to equity instruments amounting to 15,417 million euros.

The determination of the recoverable amounts of the long-term investments in group companies and associates is based on estimates that require Management to use cash flow projections based on current results. These cash flows are calculated based on the best prospective information available at that date, whose key assumptions are detailed in Note 4 to the accompanying financial statements. Additionally, Management have made a sensitivity analysis of the most significant assumptions that, based on historical experience, may reasonably experience some variations.

As a result of the aforementioned analyses, Company Management have recorded a net impairment loss amounting to 1,088 million euros (Note 4).

Given the significance of the balance of the ‘Long-term investments in group companies and associates’ heading and the existence of significant estimates regarding the key assumptions used in the calculations made by Management, we consider this area a key audit matter.

Our response

Our audit procedures for this area consisted, among others, in:

- Understanding the processes established by Company Management in the determination of the impairment of long-term investments in group companies and associates, including the assessment of the design and implementation of relevant controls.
- Reviewing whether any indications of impairment exist and, where appropriate, reviewing the model used by Company Management, in collaboration with our valuation specialists, covering, in particular, the mathematical consistency of the model, the reasonableness of projected cash flows, discount rates and long-term growth rates, and the results of the sensitivity analyses made by Company Management. In the performance of our review we held meetings with the people in charge of the businesses and used renowned external sources and other available information to verify the data used by Company Management.
- Reviewing the disclosures included in the notes to the financial statements in accordance with the applicable regulatory framework for financial reporting.

Other information: management report

Other information refers exclusively to the 2020 management report, the preparation of which is the responsibility of the Company’s directors and is not an integral part of the financial statements.

Our audit opinion on the financial statements does not cover the management report. Our responsibility for the management report, in conformity with prevailing audit regulations in Spain, entails:

a. Checking only that the non-financial information statement and certain information included in the Corporate Governance Report, to which the Audit Law refers, was provided as stipulated by applicable regulations and, if not, disclose this fact.

b. Assessing and reporting on the consistency of the remaining information included in the management report with the financial statements, based on the knowledge of the entity obtained during the audit, in addition to evaluating and reporting on whether the content and presentation of this part of the management report are in conformity with applicable regulations. If, based on the work we have performed, we conclude that there are material misstatements, we are required to disclose this fact.

Based on the work performed, as described above, we have verified that the information referred to in paragraph a) above is provided as stipulated by applicable regulations and that the remaining information contained in the management report is consistent with that provided in the 2020 financial statements and its content and presentation are in conformity with applicable regulations.

Responsibility of the Directors and the audit committee for the financial statements

The directors are responsible for the preparation of the accompanying financial statements so that they give a true and fair view of the equity, financial position and results of the Company, in accordance with the regulatory framework for financial information applicable to the Company in Spain, identified in Note 2 to the accompanying financial statements, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the Company's financial reporting process.

Auditor’s responsibilities for the audit of the financial statements

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

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

As part of an audit in accordance with prevailing audit regulations in Spain, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide the audit committee of the Company with a statement that we have complied with relevant ethical requirements, including those related to independence, and communicate to them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee of the Company, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

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

Report on other legal and regulatory requirements

European single electronic format

We have examined the digital file of the European single electronic format (ESEF) of Naturgy Energy Group, S.A. for the 2020 financial year, which includes an XHTML file containing the financial statements for the year, which will form part of the annual financial report.

The directors of Naturgy Energy Group, S.A. are responsible for submitting the annual financial report for the 2020 financial year, in accordance with the formatting requirements set out in Delegated Regulation EU 2019/815 of 17 December 2018 of the European Commission (hereinafter referred to as the ESEF Regulation).

Our responsibility consists of examining the digital file prepared by the directors of the company, in accordance with prevailing audit regulations in Spain. These standards require that we plan and perform our audit procedures to obtain reasonable assurance about whether the contents of the financial statements included in the aforementioned digital file correspond in their entirety to those of the financial statements that we have audited, and whether the financial statements have been formatted, in all material respects, in accordance with the ESEF Regulation.

In our opinion, the digital file examined corresponds in its entirety to the audited financial statements, which are presented, in all material respects, in accordance with the ESEF Regulation.

Additional report for the audit committee

The opinion expressed in this audit report is consistent with the additional report we issued to the Company's audit committee on February 3, 2021.

Term of engagement

The ordinary general shareholders' meeting held on April 20, 2017 appointed us as auditors for 3 years, commencing on December 31, 2018.

ERNST & YOUNG, S.L.
(Registered in the Official Register of Auditors under No. S0530)

(Signature on the original in Spanish)

José Agustín Rico Horcajo
(Registered in the Official Register of Auditors under No. 21920)

February 3, 2021

Naturgy Energy Group, S.A.
2020 Annual Report

This 2020 Annual Report is a translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish language version prevails.

Naturgy Energy Group, S.A.
Balance sheet

			(million euro)
		31.12.2020	**31.12.2019**
NON-CURRENT ASSETS	**Note**	**31,048**	**33,257**
Intangible assets	5	3	3
Patents, licenses, trademarks and similar items		1	—
Other intangible assets		2	3
Property, plant and equipment	6	113	124
Land and buildings		101	112
Other property, plant and equipment		12	12
Long-term investments in group companies and associates	7	30,594	32,754
Equity instruments		15,417	16,552
Loans to companies		15,177	16,202
Long-term investments	8	9	10
Equity instruments		5	5
Other financial assets		4	5
Other non-current assets	14	136	189
Deferred tax assets	17	193	177
CURRENT ASSETS		**3,845**	**2,708**
Trade and other receivables	9	312	843
Trade receivables for sales and services		37	54
Trade receivables, group companies and associates		143	255
Sundry receivables		126	350
Current tax assets		4	183
Other amounts receivable to Public Administrations		2	1
Short-term investments in group companies and associates	7	743	666
Loans to companies		628	527
Other financial assets		115	139
Short-term investments	8	171	24
Derivatives		—	1
Other financial assets		171	23
Short-term prepayments and accrued expenses		1	1
Cash and cash equivalents	10	2,618	1,174
Cash at banks and in hand		1,076	474
Other cash equivalents		1,542	700
TOTAL ASSETS		**34,893**	**35,965**

Notes 1 to 30 form an integral part of these annual accounts.

Naturgy Energy Group, S.A.
Balance sheet

	Note	31.12.2020	31.12.2019
			(million euro)
EQUITY	11	**18,393**	**19,853**
SHAREHOLDERS' FUNDS		**18,471**	**19,914**
Capital		970	984
Authorised capital		970	984
Share premium		3,808	3,808
Reserves		11,291	11,573
Legal and statutory		300	300
Other reserves		10,991	11,273
Treasury shares		(1)	(121)
Profit/(loss) for the year		98	4,415
Retained earnings		3,076	—
Interim dividend		(785)	(754)
Other equity instruments		14	9
VALUE CHANGE ADJUSTMENTS		(78)	(61)
Available-for-sale financial assets		(1)	—
Hedging operations		(77)	(61)
NON-CURRENT LIABILITIES		**13,079**	**11,892**
Long-term provisions	12	373	459
Long-term post-employment obligations		258	272
Other provisions		115	187
Long-term borrowings	13	2,829	1,835
Bank borrowings		2,720	1,744
Derivatives		108	90
Other financial liabilities		1	1
Amounts owing to group companies and associates falling due in more than one year	15	9,530	9,197
Deferred tax liabilities	17	211	211
Other liabilities		136	189
Long-term accruals and deferred income		—	1
CURRENT LIABILITIES		**3,421**	**4,220**
Short-term borrowings	13	399	271
Bank borrowings		257	253
Derivatives		21	16
Other financial liabilities		121	2
Amounts owing to group companies and associates falling due in less than one year	15	2,560	3,168
Trade and other payables	16	461	780
Trade payables		141	237
Trade payables, group companies and associates		59	131
Sundry payables		133	355
Personnel (outstanding remuneration)		18	36
Current tax liabilities		93	—
Other amounts payable to Public Administrations		17	21
Short-term prepayments and accrued expenses		1	1
TOTAL EQUITY AND LIABILITIES		**34,893**	**35,965**

Notes 1 to 30 form an integral part of these annual accounts.

Naturgy Energy Group, S.A.
Income statement

		(million euro)	
	Note	**2020**	**2019**
Revenue	18	2,292	3,496
Sales		667	1,745
Income from services rendered		1	—
Income from equity instruments of group companies and associates	7	1,271	1,361
Income from marketable securities and other financial instruments of group companies and associates		353	390
Raw materials and consumables	19	(667)	(1,743)
Consumption of goods		(667)	(1,738)
Raw materials and other consumables		—	(5)
Other operating income	22	156	255
Supplementary income and other operating income		155	255
Operating grants released to the income statement		1	—
Personnel expenses	20	(115)	(173)
Wages, salaries and related expenses		(98)	(148)
Social Security		(11)	(17)
Provisions		(6)	(8)
Other operating expenses	21	(170)	(202)
External services		(171)	(200)
Taxes		(1)	(1)
Impairment losses and variation in trade provisions		2	(1)
Fixed asset depreciation/amortisation	5 and 6	(14)	(48)
Impairment and results on disposals of fixed assets		(1,087)	3,241
Gain/(loss) on disposals of tangible fixed assets	6	—	1
Impairment of and losses from equity instruments of group companies and associates	7	(1,088)	(320)
Gain/(loss) on disposals of equity interests in Group companies and associates	7	1	3,560
OPERATING PROFIT/(LOSS)		**395**	**4,826**
Financial income		5	11
Negotiable securities and other financial instruments		5	11
- In third parties		5	11
Financial expenses		(339)	(483)
Borrowings from group companies and associates		(292)	(444)
Borrowings from third parties		(47)	(39)
Variation in fair value of financial instruments		1	(5)
Investments		1	(5)
Exchange differences		(2)	(2)
NET FINANCIAL INCOME	23	(335)	(479)
PROFIT/(LOSS) BEFORE TAXES		60	4,347
Income tax	17	38	68
PROFIT FOR THE YEAR		98	4,415
Basic and diluted earnings per share in euro		0.10	4.52

Notes 1 to 30 form an integral part of these annual accounts.

Naturgy Energy Group, S.A.
Statement of changes in equity

A) STATEMENT OF RECOGNISED INCOME AND EXPENSE	Note	(million euro)	
		2020	2019
PROFIT FOR THE YEAR		98	4,415
INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY		(22)	(75)
Cash flow hedges		(37)	(54)
Actuarial gains and losses and other adjustments	12	7	(48)
Tax effect	17	8	27
RELEASES TO INCOME STATEMENT		12	6
Cash flow hedges		16	8
Tax effect	17	(4)	(2)
TOTAL INCOME AND EXPENSE RECOGNISED IN EQUITY		**88**	**4,346**

Notes 1 to 30 form an integral part of these annual accounts.

Naturgy Energy Group, S.A.

Statement of changes in equity

B) TOTAL STATEMENT OF CHANGES IN EQUITY **(million euro)**

	Share capital	Share premium	Reserves	Treasury shares	Profit or loss brought forward	Retained Earnings	Profit of the year	Interim dividend	Other instruments	Value changes adjustments	Total
Balance at 1.1.2019	**1,001**	**3,808**	**8,009**	**(121)**	**—**	**—**	**5,282**	**(730)**	**4**	**(27)**	**17,226**
Total recognised income and expense	—	—	(40)	—	—	—	4,415	—	5	(34)	4,346
Operations with shareholders or owners											
- Capital reduction (Note 11)	(17)	—	(383)	400	—	—	—	—	—	—	—
- Dividend distribution (Note 11)	—	—	—	—	(565)	—	—	(754)	—	—	(1,319)
- Trading in treasury shares (Note 11)	—	—	—	(400)	—	—	—	—	—	—	(400)
Other changes in equity (Note 11)	—	—	3,987	—	565	—	(5,282)	730	—	—	—
Balance at 31.12.2019	**984**	**3,808**	**11,573**	**(121)**	**—**	**—**	**4,415**	**(754)**	**9**	**(61)**	**19,853**
Total recognised income and expense	—	—	2	—	—	—	98	—	5	(17)	88
											—
Operations with shareholders or owners											—
- Capital reduction (Note 11)	(14)	—	(284)	298	—	—	—	—	—	—	—
- Dividend distribution (Note 11)	—	—	—	—	(9)	—	—	(1,361)	—	—	(1,370)
- Trading in treasury shares (Note 11)	—	—	—	(178)	—	—	—	—	—	—	(178)
Other changes in equity (Note 11)	—	—	—	—	9	3,076	(4,415)	1,330	—	—	—
Balance at 31.12.2020	**970**	**3,808**	**11,291**	**(1)**	**—**	**3,076**	**98**	**(785)**	**14**	**(78)**	**18,393**

Notes 1 to 30 form an integral part of these annual accounts.

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

	Note	31.12.2020	31.12.2019
Profit for the year before tax		**60**	**4,347**
Adjustments to results		**(196)**	**(4,500)**
Fixed asset depreciation/amortisation	5 and 6	14	48
Impairment adjustments		1,086	320
Change in provisions		(7)	(35)
Profit/(loss) on write-offs and disposals of fixed assets		—	(1)
Profit/(loss) on write-offs and disposals of financial instruments		(1)	(3,560)
Financial income		(1,629)	(1,762)
Financial expenses		339	483
Variation in fair value of financial instruments		(1)	5
Other income and expenses		3	2
Changes in working capital		**(242)**	**(279)**
Debtors and other receivables		163	(380)
Creditors and other payables		(405)	101
Other cash flows from operating activities		**1,821**	**2,206**
Interest paid		(346)	(395)
Dividends received		1,381	1,967
Interest collected		350	402
Income tax collections/(payments)		436	232
Cash flows from operating activities		**1,443**	**1,774**
Amounts paid on investments		**(270)**	**(7,568)**
Group companies and associates		(232)	(7,452)
Intangible assets		(1)	—
Property, plant and equipment		(8)	(4)
Other financial assets		(29)	(112)
Amounts collected from divestments		**547**	**8,383**
Group companies and associates		486	8,372
Property, plant and equipment		6	2
Other financial assets		55	9
Cash flows from investing activities		**277**	**815**
Collections and payments on equity instruments		**(185)**	**(406)**
Acquisition of own equity instruments		(185)	(406)
Collections and payments financial liability instruments		**1,279**	**(412)**
Issuance		3,887	6,639
Bank borrowings		1,225	3
Payables to Group companies and associates		2,662	6,528
Other payables		—	108
Repayment/redemption of		(2,608)	(7,051)
Bank borrowings		(247)	(226)
Payables to Group companies and associates		(2,288)	(6,807)
Other payables		(73)	(18)
Dividend payments		**(1,370)**	**(1,319)**
Cash flow from financing activities		**(276)**	**(2,137)**
NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS		**1,444**	**452**
Cash and cash equivalents at the beginning of the year		1,174	722
Cash and cash equivalents at the year end		2,618	1,174

Notes 1 to 30 form an integral part of these annual accounts.

Contents of the notes to the annual accounts for 2020

Notes to the annual accounts of Naturgy Energy Group, S.A. for the year ended 31 December 2020

Note 1. General information

Naturgy Energy Group, S.A. ("the Company"), the parent company of the Naturgy group ("Naturgy"), was incorporated as a public limited company in 1843 and its registered office for corporate purposes is in Avda. de San Luis 77, Madrid. On 27 June 2018, the shareholders, in general meeting, agreed to change the company's business name to Naturgy Energy Group, S.A., formerly Gas Natural SDG, S.A.

The company's corporate objects, as per its articles of association, comprise the following activities:

a. All types of activities related to the gas and electricity business and any other type of existing energy source, the production and selling of electrical, electro-mechanical and electronic equipment and components, management of architectural projects, civil engineering works, public services and gas and hydro-carbon distribution in general; management of communications and telecommunications networks and maintenance of electro- and gas-related appliances; as well as consulting, business and energy planning services and the rationalisation of energy use, research, development and exploitation of new technologies, communications, computer and industrial security systems; training and selection of human resources and real estate management and development.

b. Acting as a holding company, incorporating companies or holding shares as a member or shareholder in other companies no matter what their corporate purpose or nature, by subscribing, acquiring or holding shares, participation units or any other securities deriving from the same, subject to compliance with the legal requirements in each case.

The Company's most relevant ordinary activity is the administration and management of its shareholdings in subsidiaries. It also has gas supply contracts for other Naturgy companies and in the electricity area it acted as representative of the Naturgy generation and supply companies before the Electricity Market until 1 June 2019.

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

Note 2. Basis of presentation

The Company's annual accounts for 2019 were approved at the annual general meeting of shareholders on 26 May 2020.

The annual accounts for 2020, which were drawn up and signed by the Company's Board of Directors on 2 February 2021, will be submitted to the general shareholders' meeting for approval; they are expected to be approved without any changes.

The accompanying annual accounts have been prepared on the basis of the Company's accounting records and are presented in accordance with prevailing commercial legislation and the provisions of the Chart of Accounts introduced under Royal Decree 1514/2007 (16 November), as amended by Royal Decree 1159/2010 (17 September) and Royal Decree 602/2016 (2 December), so as to present fairly the Company's equity and financial position at 31 December 2020, and the results, changes in equity and cash flows of Naturgy Energy Group, S.A. for the year then ended.

The figures set out these annual accounts are expressed in million euros, unless otherwise stated.

The consolidated annual accounts of Naturgy for 2020 have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS-EU), in accordance with Regulation (EU) 1606/2002 of the European Parliament and of the Council. The main figures disclosed in the consolidated annual accounts, which have been audited, are as follows:

Total assets	39,545
Equity attributed to the parent company	8,028
Non-controlling interests	3,237
Revenue	15,345
Profit after tax attributed to the parent company	(347)

Note 3. Accounting policies

The main accounting principles applied by the Company to prepare these annual accounts are described below.

3.1 Intangible assets

Intangible assets are carried at acquisition price or production cost, or at fair value in the case of assets acquired through a business combination, less accumulated amortisation and any recognised impairment losses.

a. *Goodwill*

Goodwill represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired at the date of the operation. Consequently, goodwill is only recognised when it has been acquired for valuable consideration and relates to the future economic profits from assets that have not been identified individually and recognised separately.

Goodwill is amortised over ten years using the straight-line method. Goodwill is tested annually to analyse possible impairment losses. It is recognised in the balance sheet at cost value less amortisation and any cumulative impairment adjustments.

The impairment of goodwill cannot be reversed.

b. Other intangible assets

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

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

Research expenditure is recognised in the income statement when incurred.

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

3.2. Property, plant and equipment

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

a. Cost

Property, plant and equipment are carried at acquisition price or production cost, or at the value attributed to the asset if it is acquired as part of a business combination.

Financial costs relating to financing for plant projects during the plant construction period to the date the asset is ready for use form part of property, plant and equipment.

Renewal, extension or improvement costs are capitalised as an increase in the asset's value only when its capacity, productivity or useful life increases.

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

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

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

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

b. Depreciation

Assets are depreciated on a straight-line basis over their useful lives or the concession term, if shorter. Estimated useful lives are as follows:

	Estimated useful life years
Buildings	33 – 50
Computer hardware	4
Vehicles	6
Other	3 – 20

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

When the carrying value of an asset is greater than its estimated recoverable amount or when it is no longer useful, its value is written down immediately to its recoverable amount (Note 3.3).

3.3 Asset impairment

Assets are tested for impairment provided that an event or change in circumstances indicates that their carrying amount might not be recoverable. Additionally, investments in group companies, goodwill and intangible assets that are not in use are tested annually for impairment.

When the recoverable amount is less than the asset's carrying amount, an impairment loss is recognised in the income statement for the amount of the difference between the two. The recoverable amount is calculated at the higher of an asset's fair value less costs of sale and value in use calculated by applying the discounted cash flow method. The Company considers value in use as the recoverable amount, calculated as described below.

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

For investments in group companies and associates, barring investments the recoverable amount of which is determined based on the investee's equity (Note 3.4), which have required an analysis of potential impairment losses, the cash flows employed are based on the best prospective information available for the next five years, on the basis of regulations and expected market evolution, drawing on available industry forecasts and historical experience of price trends and volumes produced.

The cash flows after the five-year 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 available prospective information. Additionally, in order to estimate future cash flows in the calculation of residual values, all maintenance investments have been considered and, if applicable, renewal investments necessary to maintain the CGUs' production capacity.

The parameters taken into account to determine the growth rates, which represent the long-term growth of each line of business, are in line with the long-term growth of the country, obtained from inflation estimates from various sources (analysts' consensus (Bloomberg), FMI, the Economist Intelligence Unit (EIU), Central Banks, European Commission) for the period 2021 to 2025 and the EIU from 2026.

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

- Risk-free rate: Considering the sovereign market bond and reference term of the CGU, and studies or other sources of information (Damodaran, EIU and others).
- Market risk premium: Premium based on studies and other sources of information (Pablo Fernandez, Damodaran and others).
- Deleveraged Beta: Based on estimated betas for each CGU based on comparables (Bloomberg).
- Local current interest rate swaps: Swap between 10 years and 30 years, depending on the CGU's business (Bloomberg).
- Debt-equity ratio: Based on industry comparables.

Impairment adjustments to values recognised in previous periods for investments in Group companies and associates may be reversed if and only if there is a change in the estimates used to determine their recoverable amount since the latest impairment loss was recognised.

3.4 Financial assets and liabilities

The Company classifies its financial assets and liabilities based on their valuation which is determined on the basis of the business model and the characteristics of the contractual cash flow.

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

<u>Investments in the equity of Group companies, jointly-controlled entities and associates</u>

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 higher 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 tacit capital gains subsisting at the valuation date. The value adjustment and, where appropriate, its reversal, is recorded on 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 annual accounts on the transaction date.

The consolidated annual accounts 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 annual accounts following the transaction. The difference between the cost of the shares handed over and the carrying amount of the assets and liabilities acquired, in the group's consolidated annual accounts, is recognised under “Reserves” in the balance sheet.

Investments

a. *Loans and receivables*

These are non-derivative financial assets, with fixed or determinable payments that are not quoted on an active market and with respect to which there is no intention to trade in the short term. They include current assets, except for those maturing after twelve months as from the balance sheet date that are classified as non-current assets.

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

The necessary value adjustments due to impairment are made if there is objective evidence that the entire amount owed will not be collected. The provision is the difference between the carrying 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 debt securities with fixed or determinable payments 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 financial receivables.

c. Fair value financial assets through profit or loss

These are assets acquired for short-term sale. Derivatives form part of this category unless they are designated as hedges. These financial assets are stated, both initially and in later valuations, at their fair value, and the changes in their value are taken to the income statement for the year.

d. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative debt or equity instruments that are not designated in either category.

They are recognised at fair value. Unrealised gains and losses that arise from changes in fair value are recorded 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 quoted investments are based on current bid prices. 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, demand deposits at credit institutions and other short-term highly liquid investments with an original maturity of three months or less.

Borrowings

Borrowings are initially recognised at their fair value, net of the transaction costs that they may have 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 prorogation 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 that 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.

3.5 Financial derivatives and other financial instruments

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

The Company aligns its accounting with its management of financial risk. Risk management objectives and the hedging strategy are reviewed periodically and a description of the risk management objective pursued is carried out.

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

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

- Derivatives listed on an official market are calculated on the basis of their year-end quoted price.
- Derivatives that are not traded on official markets are calculated on the basis of the discounting of cash flows based on year-end market conditions or, in the case of non-financial items, on the best estimate of forward price curves for those items.

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

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

For accounting purposes, the operations are classified as follows:

1. Derivatives eligible for hedge accounting

a. Fair value hedges

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recognised in the income statement together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

b. Cash flow 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 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.

2. Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

3. Energy purchase and sale agreements

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

3.6 Non-current assets held for sale and discontinued operations

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

Additionally, the Company considers discontinued activities the components (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.

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

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

3.7 Share capital

Share capital is represented by ordinary shares.

Issuance costs of new shares or options, net of taxes, are deducted from equity as a reduction in reserves or the share premium account in the case of issuances with a share premium.

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

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

3.8 Share-based payments

Share-based payments settled in shares are valued on the basis of the fair value of the equity instruments granted on the grant date.

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

The amounts recognised in equity are not subject to a subsequent reassessment due to trends in external market conditions.

3.9 Borrowings and equity instruments

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

The Company treats all contracts that represent a residual share in net assets as equity instruments.

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

3.10 Provisions for employee obligations

a. *Post-employment pension obligations and similar*

– Defined contribution plans

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

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

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

– Defined benefit plans

For certain groups of employees there are commitments for defined benefit schemes in relation to the payment of supplements on retirement, death and disability pensions, in accordance with the benefits agreed by the entity, which have been externalised through single premium insurance policies under Royal Decree 1588/1999 of 15 October, which approved the Regulations on the arrangement of companies' pension commitments.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit liability is calculated annually by independent actuaries using the projected unit credit method. The current value of the liability is determined discounting the estimated future cash flows at interest rates on bonds denominated in the currency in which the benefits will be paid and having similar maturities to those of the respective liabilities.

Actuarial losses and gains arising from changes in actuarial assumptions or from differences between assumptions and the actual situation are recognised in full in the period in which they arise, directly under Equity in Reserves.

Past service costs are recognised immediately in the Income statement under Personnel expenses.

b. *Other post-employment benefit obligations*

The Company provides post-employment benefits to its retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that used for defined benefit pension plans. Actuarial gains and losses arising from changes in actuarial assumptions, are charged or credited to Reserves.

c. *Termination benefits*

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Company terminates the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits. In the event that mutual agreement is required, the provision is only recorded in those situations in which the Company has decided to give its consent to voluntary redundancies once they have been requested by the employees.

3.11 Provisions

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

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

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

In contracts in which the obligations undertaken include unavoidable costs greater than the economic benefits expected to be received from them, the expenses and respective provisions are recognised in the amount of the current value of the existing difference.

3.12 Leases

a. *Finance leases*

Leases of property, plant and equipment where the lessee substantially bears all the risks and rewards of ownership are classified as finance leases.

These leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the lease payments, including the purchase option. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The payment obligation derived from the lease, net of the finance cost, is recognised under liabilities in the balance sheet. The interest component of the finance cost is charged to the income statement over the lease period so as to obtain a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the asset's useful life.

b. *Operating leases*

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are charged to the income statement on a straight-line basis over the lease term.

3.13 Corporate income tax

Income tax expense includes the deferred tax expense and the current tax expense which is the amount payable (or refundable) on the tax profit for the year.

Deferred taxes are recorded by comparing the temporary differences that arise between the taxable income on assets and liabilities and their respective accounting figures in the annual accounts used the tax rates that are expected to be in force when the assets and liabilities are realised. No deferred taxes are recognised for profits not distributed by subsidiaries when Naturgy can control the reversal of the temporary differences and it is likely that they will not reverse in the foreseeable future.

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

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

When tax rates change, deferred tax assets and liabilities are reestimated. These amounts are charged or credited to losses or profits, or to reserves, depending on the account to which the original amount was charged or credited.

3.14 Recognition of income and expense

a. General

Sales are recognised when products are delivered to the customer and have been accepted by the customer, even if they have not been invoiced, or if applicable, services are rendered, and it is probable that the economic benefits associated with the transaction will flow to the entity. Revenue for the year includes the estimate of the energy supplied that has not yet been invoiced.

Expenses are recognised on an accruals basis, immediately in the case of disbursements that are not going to generate future economic profits or when the requirements for 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 is used the percentage realisation method 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 a proportion of the costs incurred at that date of 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 incomes 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 most relevant ordinary activity from which regular revenue is obtained. In accordance with the approach taken by the Spanish Institute of Accounting and Auditing ("ICAC") in connection with the calculation of revenue in holding companies (ruling request number 2 in ICAC Official Gazette number 79), dividends from Group companies and associates, and interest received on loans granted to Group companies and associates, are recognised as “Revenue”. Additionally, the item “Impairment and results on disposal of equity instruments of Group companies and associates” is included in “Operating profit/(loss)”.

3.15 Foreign currency transactions

Foreign currency transactions are translated to euro using the exchange rates in force at the transaction dates. Gains and losses resulting from the settlement of these transactions and translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currency are recognised in the income statement.

3.16 Transactions between related parties

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

Notwithstanding the above, in mergers, de-mergers or non-cash contributions of a business, the assets that make up the acquired business are valued at the amount at which they are recognised after the operation takes place in the consolidated annual accounts of Naturgy.

In these cases, the difference that could arise between the net value of the assets and liabilities of the acquired company, adjusted by the balance of the groupings of grants, donations and bequests received, or any value adjustments or capital or share premiums, as the case may be, issued by the acquiring company, is recorded under Reserves in the balance sheet.

3.17 Business combinations

Business combinations are recorded using the acquisition method. The cost of an acquisition is calculated using the fair value of the assets given, the equity instruments issued and the liabilities incurred or borne on the transaction date plus the costs directly attributable to the acquisition. The valuation process required in order to use the acquisition method is completed within the period of one year as from the acquisition date.

The identifiable assets acquired and the liabilities or contingent liabilities incurred or borne as a result of the transaction, are initially stated at their fair value at the date of acquisition, provided that this can be reliably measured.

The surplus cost of the acquisition in relation to the fair value of the shareholding of the Company in the net identifiable assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised directly in the Income statement.

3.18 Cash flow statement

The cash flow statements has been prepared using the indirect method and contain the use of the following expressions and their respective meanings:

a. Operating activities: activities that constitute ordinary Company revenues, as well as other activities that cannot be qualified as investing or financing.
b. Investing activities: acquisition and disposal of non-current assets and other investments not included in cash and cash equivalents.
c. Financing activities: activities that result in changes in the size and composition of the equity and borrowings of the Company that are not operating activities.

3.19 Significant accounting estimates and judgments

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

a. Property, plant and equipment (Note 3.2)

The determination of useful life of property, plant and equipment requires estimates of their degree of use, as well as expected technological developments. The assumptions regarding the degree of use, technological framework and future development involve a significant degree of judgement, insofar as the timing and nature of future events are difficult to foresee.

b. Impairment of assets (Note 3.3)

The estimated recoverable value of the CGU applied to the impairment tests has been determined using the discounted cash flows based on the projections approved by the Company, which have historically been substantially met.

Note 4 details the main assumptions used to determine the recoverable value.

c. Derivatives and other financial instruments (Note 3.5)

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

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the Balance sheet date. The fair value of commodity derivatives is calculated by using forward prices curves. The recoverable value of the investments in the equity of group and multi-group companies and associates is determined as the greater of their fair value less costs of sale and the current value of the cash flows from the investment.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

d. Provisions for employee benefits (Note 3.10)

A number of assumptions must be used to calculate pension costs, other costs of post-retirement benefits and other post-retirement liabilities. The Company estimates at each year end the provision necessary to meet its pension commitments and similar obligations, in accordance with the advice from independent actuaries. The changes affecting such assumptions may result in the recording of different amounts and liabilities. The most significant assumptions for the measurement of pension or post-retirement benefit liabilities are energy consumption by beneficiaries during retirement, retirement age, inflation and the discount rate employed. Social security coverage assumptions are also essential to determine other post-retirement benefits. Future changes to these assumptions will have an impact on future pension costs and liabilities.

e. Provisions (Note 3.11)

The Company makes an estimate of the amounts to be settled in the future, including amounts relating to contractual obligations, outstanding litigation or other liabilities. These estimates are subject to the interpretation of current events and circumstances, projections of future events and estimates of their financial effects.

f. Corporate income tax (Note 3.13)

The calculation of the income tax expense requires interpretations of tax legislation in the jurisdictions in which the Company operates. The determination if the tax authority will accept an uncertain tax treatment and the expected outcome of litigation requires the preparation of significant estimates and judgment. The Company evaluates the recoverability of the deferred income tax assets based on estimates of future taxable income. Deferred tax liabilities are recognised based on estimates of the net assets that will not be tax deductible in the future.

g. COVID-19

The COVID-19 pandemic raised major challenges to commercial activities and introduced a high degree of uncertainty as to economic performance and world energy demand. The confinement of a large proportion of the world population depressed economic activity and triggered widespread declines in economic indicators, energy demand and prices of the main energy variables. The effects of the COVID-19 pandemic increase the uncertainty about the future vision for individual companies and for the economy in general observing a substantial deterioration of the recuperation perspectives in the second half of the year 2020. Those prospects were considered when making the estimates and assumptions that are necessary to draw up the consolidated annual accounts, as detailed in the corresponding notes.

Note 4. Asset impairment

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

Compared with previous year, the most significant change in relation to the previous year is the splitting of the conventional electricity CGU into the Thermal generation Spain and Hydroelectric generation CGUs (the latter within the Renewables and New Business segment).

Energy and Network Management:

– Iberian Networks:

- Gas networks Spain: Is a single CGU as the development, operation and maintenance of the gas distribution network is managed jointly.
- Electricity networks Spain: This makes up a single CGU since the network comprises a group of interrelated assets the development, operation and maintenance of which is managed jointly.

– Latin American Networks: A CGU is understood to exist for each business and country in which there are operations since the businesses are subject to different regulatory frameworks. It includes the regulated gas distribution business in Argentina, Brazil, Chile, Mexico and Peru and the regulated electricity distribution business in Argentina, Chile and Panama.

– Energy Management:

- International LNG: There is considered to be a single CGU, since the supply of liquefied natural gas and the maritime transport activity are managed on a global level.
- Markets and supplies: A CGU is considered to exist since it manages supply and other gas infrastructures, as well as sales to major energy-intensive consumers. It also includes the Unión Fenosa Gas CGU.
- Gas pipelines: It includes the CGU which manages the Maghreb-Europe gas pipeline, as well as the CGU for the Medgaz gas pipeline.
- Thermal generation Spain: A single CGU is considered to exist for thermal power generation in Spain (nuclear, combined cycle and others).
- Thermal generation Latin America: A thermal power generation CGU is understood to exist in each country in which there are operations (Mexico, Dominican Republic and Puerto Rico) since the businesses are subject to different regulatory frameworks and are managed independently.

Renewables and New Business:

– Spain: One CGU is considered for renewable electricity generation (wind, mini-hydro, solar and cogeneration) and another CGU for hydroelectric power generation.

– Latin American: A renewable power generation CGU is understood to exist in each country in which there are operations (Brazil, Costa Rica, Mexico, Panama and Chile) since the businesses are subject to different regulatory frameworks and are managed independently.

– Australia: One CGU is considered which encompasses all projects in the country.

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

Information on impairment tests performed

Naturgy has evaluated the recoverable value of the CGUs based on projections that relate to the best available forward-looking information for the next five years, taking into account the investment plans of the businesses involved and the market conditions in which they operate. Multiple potential future scenarios have also been considered when estimating the cash flows of a CGU, if it provides more relevant information to reflect possible future economic developments. The estimated cash flows also take into account the foreseeable effects of COVID-19.

During the first part of the year, Naturgy's best estimate and the opinions expressed by most public and private institutions suggested that the effects of COVID-19 would continue in the short term, but that the pandemic would cease to have a relevant impact in the medium and long term. This forecast was mainly based on the expectations for recovery in the economies in which Naturgy operates once the measures ordered by governments began to take effect, and on the response and adaptation capacity of the rest of the business players affected, including actions taken by the company itself. These expectations of a medium-term recovery were shared at that time by many institutions and companies, which is the reason why it was not considered necessary to update cash flows at that time.

However, at year-end the impact of COVID-19 on cash flow estimates was taken into account, as the macro and energy scenario was eventually seriously impacted by the COVID-19 crisis in 2020, leading to lower demand for gas and electricity in Spain and Latin America and significant currency depreciation in key Latin American regions.

In Spain, mainland electricity demand was 5.5% lower than in 2019, while gas demand fell by 9.6%.The fall in demand during the year has been in step with the more or less restrictive confinement periods that have been imposed. In the medium term, electricity demand and conventional gas demand in the Naturgy distribution network are expected to return to pre-COVID levels in 2022-2023.

In Latin America, the impact of COVID-19 on demand in Naturgy's distribution areas in 2020 has varied, with the following decreases compared to 2019:

– Gas Brazil: -14%
– Gas Mexico: -10.5%
– Gas Chile: -4.7%
– Gas Argentina: -3.8%
– Electricity Panama: -7.5%
– Electricity Argentina: +1.3%

In general terms, they are expected to recover to 2019 levels in 2022.

Information on recognised impairments (Note 7)

In 2020 and 2019, impairments of shareholdings in Group companies and associates amounting to Euros 1,088 million (Euros 320 million in 2019) have been recognised under “Impairment of and losses from equity instruments of Group companies and associates” in the income statement, and break down as follows:

– Euros 1,005 million (Euros 272 million in 2019) for the shareholding in Naturgy Generación, S.L.U., included in the CGU OF Thermal Generation Spain and Hydraulic Electricity Generation.

The assumptions and projections affecting the Spain Thermal Generation CGU have been based on the best forward-looking information available to date, generally considering the possible effects on generation of the transition expected due to the increase in renewable energy sources set out in the rules on the first NECP in the Climate Change and Energy Transition Bill. The above-mentioned projections envisage a drop in production and prices in line with the scenario applicable over the next five years. The NECP forecasts envisage the need for all the installed power of combined cycle generation units in the plan timeframe (2030).

The main assumptions considered in the impairment test of the Spain thermal generation CGU are the following:

	2020	2021	2022	2023	2024	2025
Evolution of Spanish GNP	-12.50%	5.70%	4.30%	3.50%	2.40%	1.50%
Pool price €/MWh	33.8	44.3	45.6	47.7	48.5	48.8
Brent (USD/bbl)	41.2	46.1	46.7	52.2	57.7	63.2
Gas Henry Hub (USD/MMBtu)	2.1	2.8	2.7	2.9	3.1	3.3
Coal (API2 CIF ARA) (USD/t)	49.3	56.1	56.2	59	61.8	64.6
CO2 €/t	24.4	27.5	27.7	28.3	30.2	33.8

The most sensitive aspects that are included in the estimate of the recoverable amount determined according to the value in use and applying the methodology detailed in Note 3.3 are the following:

- Electricity generated. Demand evolution has been estimated based on CNMC and analyst projections. 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. The main variation with respect to past projections is a decrease in thermal production in line with the expected future evolution of the generation mix offset by a mechanism to remunerate the firm capacity contributed, which is expected to be established to make the NECP forecasts viable.

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

- Fuel costs. Estimated by reference to long-term supply contracts concluded by Naturgy, the forecast evolution of price curves and market experience.

- Operation and maintenance costs have been estimated from historical costs of managed park.

- Taxes established by Law 15/2012.

In addition, a long-term growth rate of 2.1% and a pre-tax discount rate of 7.4% have been used. The discount rate has been determined based on the associated risks in a manner consistent with those considered in the estimates of future cash flows.

The assumptions and projections affecting the Hydraulic generation CGU are based on the best forward-looking information available to date. The assumptions taken into consideration regarding to the Evolution of Spanish GNP and the evolution of the electricity pool price coincided with the considerated in the Thermal generation Spain CGU.

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

- Electricity generated.

- The evolution of production has been estimated considering an average hydraulic year and in addition compensation has been considered through a mechanism that remunerates the firm capacity contributed that is expected to be implemented to make the NECP forecasts viable.

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

- Operation and maintenance costs have been estimated from historical costs of managed park.

- Taxes established by Law 15/2012.

In addition, a long-term growth rate of 2.1% and a pre-tax discount rate of 6.2% have been used. The discount rate has been determined based on the associated risks in a manner consistent with those considered in the estimates of future cash flows.

In 2019, the long-term growth rate was 1.9% and the pre-tax discount rate was 6.6% for the conventional Generation CGU.

The accumulated impairment at 31 December 2020 relating to the holding in Naturgy Generation, S.L.U. amounts to Euros 4,678 million (Euros 3,673 million at 31 December 2019).

The outcome of the sensitivity analysis for the holding in Naturgy Generación is as follows:

- an increase in the discount rate of 50 basis points would increase impairment by Euros 116 million.
- a decrease in the growth rate of 50 basis points would increase impairment by Euros 58 million.
- a decrease in electricity output of 5% would increase impairment by Euros 150 million.
- a decrease in the electricity price of Euros 1/MWh coupled with a related variation in the cost of gas would increase impairment by Euros 157 million.

– Euros 47 million (Euros 32 million in 2019) relates to the impairment of the 50% interest in Unión Fenosa Gas (UFG).

As described in Note 27, in 2020 Naturgy reached an agreement with ENI and the Republic of Egypt concerning Unión Fenosa Gas (UFG), which provides for its separation from the assets and contracts with Egypt whose situation affected the cash flow projections used in impairment tests in prior periods. The impairment analysis performed in 2019 has not been updated on the basis of this situation, only adjusted by the specific movements of this present year.

At 31 December 2020, the carrying amount recorded is supported by external references to UFG's value for Naturgy which comprises, on the one hand, the agreement reached whereby Naturgy will receive, once the conditions precedent are met, a number of cash payments totalling approximately Euros 489 million as well as other assets and, on the other, in the event that the agreement concluded by the parties does not materialise, the right to recommence its claim proceedings, including the award in favour of UFG for 1,630 million.

The accumulated impairment at 31 December 2020 relating to the 50% interest in Unión Fenosa Gas amounts to Euros 2,179 million (Euros 2,132 million at 31 December 2019). At 31 December 2020, the recoverable amount calculated as the value in use of Unión Fenosa Gas, which is equivalent to its carrying value, was Euros 262 million (Euros 309 million at 31 December 2019) (Note 7).

The most sensitive matters included in the impairment test in 2019 were as follows:

- Gas volumes to be supplied from each supply source. The decrease in the volumes of gas to be supplied from Egypt for liquefying at the plant during the Strategic Plan 2018-2022 due to delays in the materialisation of an agreement with EGAS that would enable the plant to be reactivated and supplies to recommence impacted the impairment analysis.

- Gas supply costs. In accordance with the prices of the long-term contracts entered into by Unión Fenosa Gas and expected price fluctuations in spot markets based on the change in the composition of gas volumes affected by the situation in Egypt.

- Selling price of natural gas. Valued using predictive modelling based on the forecast performance of price curves and experience in the markets where Union Fenosa Gas operates.

– Euros 9 million relating to the holding in Naturgy Informática, S.A. (decrease in impairment of Euros 3 million in 2019). The impairment recognised is calculated according to the equity of the company.

  The accumulated impairment at 31 December 2020 relating to the holding in Naturgy Informática, S.A. amounts to Euros 146 million (Euros 137 million at 31 December 2019).

– Euros 3 million in 2020 for the impairment of the 32.3% holding in Petroleum Oil & Gas España, S.A. due to the lack of feasibility of this company's projects.

  The accumulated impairment at 31 December 2020 recognised for the holding in Petroleum Oi l& Gas España, S.A. amounts to Euros 73 million (Euros 71 million at 31 December 2019).

The following impairment has also been recognised:

– Euros 8 million (Euros 2 million in 2019) for the impairment of the holding in Unión Fenosa Minería, S.A.

  In October 2020 Union Fenosa Minería, S.A. was liquidated. The accumulated impairment to date recognised for the interest in Union Fenosa Minería, S.A. amounted to Euros 252 million (Euros 244 million at 31 December 2020).

– Other impairment of shareholdings in Naturgy companies amounting to Euros 16 million (Euros 17 million in 2019) recorded in line with developments in equity.

Information on other impairment tests performed:

In relation to the rest of CGUs or groups of CGUs that have been allocated goodwill or intangible assets with an indefinite useful life or evidence of impairment, in 2020 and 2019 the recoverable amounts, calculated according to the methodology described in Note 3.3, have been higher than the carrying values of the holdings in Group companies and associates recorded in these annual accounts. The most sensitive aspects that are included in the projections used are as follows:

Gas and Electricity Networks Spain:

– Remuneration. Amount and growth of remuneration. In relation to the regulatory framework, the future cash flows of these business lines have been reviewed taking into account the publications by the regulator in 2019 and 2020 on the remuneration methodology for the regulated electricity and gas distribution activity from 2020 and 2021, respectively.

– Operation and maintenance costs. Estimated on the basis of the historical cost of the network managed.

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

– In addition, long-term growth rate of 0.5% - 1.9% (0.5% - 1.5% in 2019) and pre-tax discount rate of 5.2% - 5.9% (5.4% - 5.8% in 2019) have been used.

Latin American networks:

For gas networks CGUs in Brazil, Chile, Argentina and México and electricity networks CGUs in Argentina and Panama:

– Variations in rates. Valuation of rates in each country, based on existing regulatory conditions and rate reviews, taking into account the experience gained from previous rate reviews in each country.

– Cost of raw materials and consumables. Estimated on the basis of predictive modelling based on an understanding of energy markets in each country.

– Operation and maintenance costs. Estimated on the basis of the historical cost of the network managed.

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

– In addition, long-term growth rate of 2.5% - 11.4% (0.6% - 11% in 2019) and pre-tax discount rate of 9.6% - 15.8% (8.5% - 13.9% in 2019) have been used.

<u>Thermal generation Latin American:</u>

For thermal electricty generation CGUs in México, Dominican Republic and Puerto Rico:

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

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

– Operation and maintenance costs have been estimated from historical costs of managed park.

– In addition, long-term growth rate of 1.8% (1.9% in 2019) and pre-tax discount rate of 9% - 13.2% (8.3% - 15.8% in 2019) have been used.

<u>Renewables Spain:</u>

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

The assumptions taken into consideration regarding to the Evolution of Spanish GNP and the evolution of the electricity pool price coincided with the considerated in the Thermal generation Spain CGU.

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

– Electricity generated.

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

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

– Remuneration. For facilities with a right to specific remuneration of the renewable generation CGU, the remuneration has been estimated based on the remuneration parameters for the established regulated income period, maintaining these values for the next regulatory period.

– Operation and maintenance costs have been estimated from historical costs of managed park.

– Taxes established by Law 15/2012.

– In addition, long-term growth rate of 2.1% (1.9% in 2019) and pre-tax discount rate of 5.7% (5.9% in 2019) have been used.

Renewables Latin America:

Including electricity generation CGUs in Brazil, Costa Rica, México, Panama and Chile.

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

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

– In addition, long-term growth rate of 1.9% - 3.2% (1.9% - 3.5% in 2019) and pre-tax discount rate of 8.6% - 15% (8.4% - 16.6% in 2019) have been used.

Renewables Australia:

– Electricity generation in Australia is managed during the majority of its useful life under energy sale-purchase contracts through stable business models and which are not subject to fluctuation risks on the basis of market variables. Upon termination of the contracts, energy prices are set based on the market and are estimated on the basis of developments in the country's energy scenario, including the foreseeable evolution of the generating fleet and taking into account expected supply and demand, as well as production costs.

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

– In addition, long-term growth rate of 2.7% (2.4% in 2019) and pre-tax discount rate of 7.4% (7.1% in 2019) have been used.

Marketing:

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

– In addition, long-term growth rate of 0.5% (0.5% in 2019) and pre-tax discount rate of 6.8% (6.7% in 2019) have been used.

For the remaining CGUs, Naturgy has carried out a sensitivity analysis for 2020 and 2019 of the unfavourable variations which, drawing on historical experience, may reasonably impact on the aforementioned sensitive parameters on which the recoverable amounts have been determined. Specifically, the most relevant sensitivity analyses performed are as follows:

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

These sensitivity analyses performed separately for each basic assumption would not affect the conclusions drawn to the effect that the recoverable amount exceeds the carrying amount for investments in Group companies and associates recorded in these annual accounts.

Note 5. Intangible assets

This heading breaks down as follows:

	Patents, licences, trademarks and other	Computer software	Subtotal	Goodwill	Total
Cost	—	6	6	815	821
Accumulated amortisation	—	(1)	(1)	(788)	(789)
Carrying value at 1.1.2019	—	5	5	27	32
Amortisation charge	—	(2)	(2)	(27)	(29)
Carrying value at 31.11.2019	—	3	3	—	3
Cost	—	6	6	815	821
Accumulated amortisation	—	(3)	(3)	(815)	(818)
Carrying value at 1.1.2020	**—**	**3**	**3**	**—**	**3**
Investment	1	—	1	—	1
Amortisation charge	—	(1)	(1)	—	(1)
Carrying value at 31.12.2020	1	2	3	—	3
Cost	1	6	7	815	822
Accumulated amortisation	—	(4)	(4)	(815)	(819)
Carrying value at 31.12.2020	**1**	**2**	**3**	**—**	**3**

Brands worth Euros 1 million were acquired in 2020.

Goodwill derives from the vertical merger of Unión Fenosa, S.A. completed in 2009 and is attributable to the benefits and synergies arising from the integration with Naturgy. It was fully amortised in 2019.

At 31 December 2020, intangible assets includes fully amortised goodwill and other fully amortised assets in use (Euros 0 million at 31 December 2019).

In 2020 there have been no disposals of fully-depreciated assets (Euros 0 million at 31 December 2019).

Note 6. Property, plant and equipment

Set out below is an analysis showing movements in Property, plant and equipment during 2020 and 2019:

	Land and buildings	Other property, plant and equipment	Total
Cost	197	37	234
Accumulated amortisation	(70)	(23)	(93)
Carrying value at 1.1.2019	**127**	**14**	**141**
Investment	3	1	4
Divestment	(2)	—	(2)
Amortisation charge	(16)	(3)	(19)
Carrying value at 31.12.2019	**112**	**12**	**124**
Cost	184	35	219
Accumulated amortisation	(72)	(23)	(95)
Carrying value at 1.1.2020	**112**	**12**	**124**
Investment	5	2	7
Divestment	(5)	—	(5)
Amortisation charge	(11)	(2)	(13)
Carrying value at 31.12.2020	**101**	**12**	**113**
Cost	177	34	211
Accumulated amortisation	(76)	(22)	(98)
Carrying value at 31.12.2020	**101**	**12**	**113**

In 2020 there have been disposals of fully-depreciated assets totalling Euros 2 million (Euros 18 million at 31 December 2019).

Property, plant and equipment include fully-depreciated assets still in use totalling Euros 19 million at 31 December 2020 (Euros 19 million in 2019).

It is the Company's policy to take out insurance where deemed necessary to cover risks that could affect its property, plant and equipment.

At 31 December 2020 and 31 December 2019, the Company had no investment commitments.

Note 7. Investments in Group companies and associates

A breakdown of the investments in group companies and associates is as follows:

	At 31.12.20	At 31.12.19
Equity instruments	15,417	16,552
Loans	15,177	16,202
Non-current	**30,594**	**32,754**
Loans	628	527
Other financial assets	115	139
Current	**743**	**666**
TOTAL	**31,337**	**33,420**

Movements during the year in non-current investments in group companies and associates are as follows:

	Shareholdings in group companies	Loans to group companies	Shareholdings in associates	Total
Balance at 1.1.2019	**15,227**	**15,657**	**10**	**30,894**
Additions	3,962	3,364	—	7,326
Divestments	(2,321)	(2,415)	(6)	(4,742)
Reclassification	—	(403)	—	(403)
Charge/reversal provisions	(320)	—	—	(320)
Exchange differences	—	(1)	—	(1)
Balance at 31.12.2019	**16,548**	**16,202**	**4**	**32,754**
Additions	83	—	—	83
Divestments	(130)	(1)	—	(131)
Reclassification	—	(1,024)	—	(1,024)
Charge/reversal provisions	(1,088)	—	—	(1,088)
Balance at 31.12.2020	**15,413**	**15,177**	**4**	**30,594**

2020

– Cash contribution to offset losses incurred by Gas Natural Comercializadora, S.A. in the amount of Euros 33 million.

– Cash contribution to offset losses incurred by Comercializadora Regulada Gas&Power, S.A. for Euros 28 million.

– The distribution of the share premium has been recorded as a decrease in the carrying value of the holding in the Group company Union Fenosa Minería, S.A., in the amount of Euros 21 million. Subsequently, Union Fenosa Minería, S.A. was wound up with no impact on income, involving a divestment of Euros 43 million. As a result of this liquidation the Company received the shareholding of Lignitos de Meirama, S.A., an investee of Union Fenosa Minería, S.A., for a carrying value of Euros 17 million, offsetting the Company's debts with the liquidated company which totalled Euros 26 million.

– Cash contribution to offset losses incurred by Lean Grids Services, S.L. in the amount of Euros 2 million. Additionally, in March 2020, 25.0% stakes in the companies Lean Corporate Services, S.L., Lean Customer Services, S.L. and Lean Grids Services, S.L. were sold to admit strategic partners in the delivery of the corresponding services. Those transactions did not result in the loss of control nor did they have a material impact on the Company's annual accounts. Subsequently, in November, the sale of an additional 60% together with the company Naturgy IT, S.L. was announced, and it is expected to be completed in the first quarter of 2021.

– Cash contribution for a capital increase in Naturgy Nuevas Energías, S.L.U (formerly Naturgy Gas&Power, S.L.U) amounting to Euros 2 million.

– Liquidation of Clover Financial and Treasury Services, D.A.C. without any impact on income.

– The distribution of a complementary dividend for 2019 amounting to Euros 64 million has been recorded as a decrease in the carrying amount of the holding in the Group company Global Power Generation, S.A.

– Other movements totalling Euros 1 million.

– Charges of Provisions of shareholdings in Group companies amounting to Euros 1,088 million have been recorded (Note 4).

– Reclassification includes the transfer to Current Loans to Group companies amounting to Euros 1,024 million.

2019

- Incorporation of Holding Negocios de Electricidad, S.A., wholly owned by the Company, which has become the head of the electricity distribution business in Spain, carrying out the following operations:

  - In November 2019, Holding Negocios de Electricidad, S.A. increased capital through the issue of 10 new shares with a par value of 100 euros each and a share premium of Euros 393,612,443 per share. These new shares have been fully subscribed and paid by the Company for a total amount of Euros 3,936 million.

  - On the same date, the Company granted an intragroup loan of Euros 3,362 million to Holding Negocios de Electricidad, S.A. This loan matures in five years and bears interest at a market rate.

  - On 27 November 2019, using the funds received, Holding Negocios de Electricidad, S.A. acquired from the Company 100% of the shares in UFD Distribución Electricidad, S.A. for Euros 5,170 million, which has been determined as fair value. In accordance with the provisions of paragraph 1 of Recognition and Measurement Standard 21 of the Spanish Chart of Accounts, the transaction has been accounted for at fair value and has generated a profit of Euros 3,539 million.

  - The Company had also cancelled the loans it had granted to UFD Distribución Electricidad, S.A. for Euros 2,129 million. Holding Negocios de Electricidad, S.A had granted said financing for the same amount to the acquired company.

- Cash contribution to Naturgy LNG, S.L for Euros 13 million.

- Cash contribution to offset losses to Comercializadora Regulada, Gas & Power, S.A. for Euros 9 million.

- The distribution of the share premium had been recorded as a decrease in the carrying value of the holding in the Group company Global Power Generation, S.A., in the amount of Euros 690 million.

- Sale of 45% of the holding in Compañía Española de Torremarenostrum, S.L. for Euros 28 million, generating a capital gain before taxes of Euros 20 million.

- Liquidation of P.H. La Perla, S.A. without any impact on income as the interest was fully impaired.

- Constitution of new societies and other movements for Euros 4 million.

- Charges of Provisions of shareholdings in Group companies amounting to Euros 320 million have been recorded (Note 4).

- Reclassification includes the transfer to Current Loans to Group companies amounting to Euros 403 million.

The cumulative provision for the impairment of shareholdings in Group companies and associates totals Euros 7,369 million at 31 December 2020 (Euros 6,505 million at 31 December 2019), relating basically to the following companies (Note 4):

	2020	2019	Variation
Naturgy Generación, S.L.U.	4,678	3,673	1,005
Unión Fenosa Gas, S.A.	2,179	2,132	47
Unión Fenosa Minería, S.A.	—	244	(244)
Gas Natural Exploración, S.L.	213	213	—
Naturgy Informática, S.A.	146	137	9
Petroleum, Oil & Gas España, S.A.	73	70	3
Lignitos de Meirama, S.A.	31	—	31
Naturgy Participaciones, S.A.U	21	12	9
Naturgy LNG, S.L	10	—	10
General de Edificios y Solares, S.L.	9	18	(9)
Other	9	6	3
Total	**7,369**	**6,505**	**864**

Financial income for dividends received from investments in equity instruments of group companies and associates during 2020 and 2019, correspond to the following companies:

	2020	2019
Holding Negocios Gas, S.A.	432	151
Naturgy Iberia, S.A.	200	59
Holding Negocios Electricidad, S.A.	183	—
Sagane, S.A.	175	375
Naturgy Distribución Latinoamérica S.A.	141	243
Naturgy Aprovisionamientos S.A	95	—
Naturgy Inversiones Internacionales, S.A.	25	108
Naturgy Engineering, S.L.	15	1
Naturgy Capital Markets, S.A.	3	4
UFD Distribución Electricidad, S.A.	—	308
Global Power Generation, S.A.U.	—	105
Naturgy Finance, B.V.	—	7
Other	2	—
Total	**1,271**	**1,361**

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

					Data at 31 December 2020								
					% interest			Equity					
Company	Registered Office	Activity	Carrying value 2020	Carrying value 2019	Direct	Indirect	Total	Capital	Reserves (1)	Profit/ (loss)	Interim dividend	Other (2)	EQUITY
Naturgy Aprovisionamientos, S.A.	Spain	Gas supply	85	85	100.0	—	100.0	1	86	-45	—	(6)	36
Naturgy LNG, S.L.	Spain	Gas supply	5	14	100.0	—	100.0	2	12	—	—	(9)	5
Sagane, S.A.	Spain	Gas supply	42	42	100.0	—	100.0	95	22	224	(100)	(3)	238
Unión Fenosa Gas, S.A.	Spain	Gas supply	262	309	50.0	—	50.0	33	525	(39)	—	(2)	517
Gas Natural Comercializadora, S.A.	Spain	Gas and electricity supply	154	121	100.0	—	100.0	3	101	(98)	—	46	52
Comercializadora Regulada, Gas & Power, S.A.	Spain	Gas and electricity supply	121	93	100.0	—	100.0	2	27	(24)	—	—	5
Naturgy Commodities Trading, S.A.	Spain	Gas and electricity supply	11	11	100.0	—	100.0	11	4	1	—	—	16
Naturgy Iberia, S.A.	Spain	Gas and electricity supply	107	107	100.0	—	100.0	3	159	205	(100)	22	289
Holding Negocios Electricidad, S.A.	Spain	Electricity distribution	3,936	3,936	100.0	—	100.0	—	3,934	214	(183)	—	3,965
Holding de Negocios de Gas, S.A.	Spain	Gas distribution	5,115	5,115	80.0	—	80.0	—	6,318	291	—	—	6,609
Naturgy Generación, S.L.U.	Spain	Electricity generation	2,719	3,723	100.0	—	100.0	1,052	1,499	(982)	—	(20)	1,549
Naturgy Renovables, S.L.U.	Spain	Electricity generation	397	397	100.0	—	100.0	90	211	(16)	—	—	285
Global Power Generation, S.A.	Spain	Electricity generation	648	711	75.0	—	75.0	20	698	50	—	(47)	721
Toledo PV A.I.E.	Spain	Electricity generation	—	—	33.3	—	33.3	—	—	1	—	—	1
Naturgy Almacenamientos Andalucía S.A.	Spain	Gas infrastructures	5	8	100.0	—	100.0	—	8	(3)	—	—	5
Gas Natural Exploración, S.L.	Spain	Gas infrastructures	9	9	100.0	—	100.0	8	11	5	—	(15)	9
Petroleum, Oil & Gas España, S.A.	Spain	Gas infrastructures	—	3	32.3	67.7	100.0	4	4	(10)	—	—	(2)
Liginitos de Meirama, S.A.	Spain	Mining	15	—	100.0	—	100.0	23	3	(11)	—	—	15
Natural Re, S.A.	Luxembourg	Insurance	9	9	100.0	—	100.0	5	56	1	—	—	62
General de Edificios y Solares, S.L.	Spain	Services	54	45	100.0	—	100.0	34	11	9	—	—	54
Lean Corporate Services, S.L.	Spain	Services	—	—	75.0	—	75.0	—	—	1	—	—	1
Lean Customer Services, S.L.	Spain	Services	—	—	75.0	—	75.0	—	—	1	—	—	1
Lean Grids Services, S.L.	Spain	Services	—	—	75.0	—	75.0	—	(1)	1	—	—	—
Clover Financial and Treasury Services, D.A.C.	Ireland	Financial services	—	—	100.0	—	100.0	—	—	—	—	—	—
Naturgy Capital Markets, S.A.	Spain	Financial services	—	—	100.0	—	100.0	—	—	2	—	—	2
Naturgy Finance, B.V.	Netherlands	Financial services	7	7	100.0	—	100.0	—	4	4	—	—	8
Naturgy Participaciones, S.A.	Spain	Financial services	89	98	100.0	—	100.0	—	99	(9)	—	(1)	89
Unión Fenosa Preferentes, S.A.U.	Spain	Financial services	—	—	100.0	—	100.0	—	1	1	(1)	110	111
Naturgy Informática, S.A.	Spain	IT services	10	18	100.0	—	100.0	20	(1)	(9)	—	—	10
Naturgy IT, S.L.	Spain	IT services	—	—	75.0	—	75.0	—	—	—	—	—	—
Naturgy Engineering, S.L.	Spain	Engineering services	19	23	100.0	—	100.0	—	16	17	(15)	1	19
Naturgy Ingenieria Nuclear, S.L.	Spain	Engineering services	1	1	100.0	—	100.0	—	1	—	—	—	1
Naturgy Distribución Latinoamérica, S.A.	Spain	Holding company	558	558	100.0	—	100.0	402	238	(17)	—	—	623
Naturgy Nuevas Energías, S.L.U.	Spain	Holding company	2	—	100.0	—	100.0	2	—	—	—	—	2
Naturgy Infraestructuras EMEA, S.L.	Spain	Holding company	89	89	100.0	—	100.0	—	205	(6)	—	—	199
Naturgy Inversiones Internacionales, S.A.	Spain	Holding company	944	944	100.0	—	100.0	250	346	70	—	(275)	391
Unión Fenosa Minería, S.A.	Spain	Holding company	—	72	100.0	—	100.0	—	—	—	—	—	—
TOTAL			**15,413**	**16,548**									

Appendix I to Naturgy's consolidated annual accounts provides a breakdown of other indirect shareholdings.

(1) Includes the share premium, reserves, prior-year losses, contributions and retained earnings.

(2) Includes value change adjustments, other equity instruments and grants, donations and bequests.

The non-current loans to Group companies as at 31 December 2020 amounts to Euros 15,177 million with a maturation date in 2022 (at 31 December 2019, Euros 16,202 million maturing in 2021).

Set out below are movements during 2020 and 2019 in loans and other current financial assets:

	Loans to group companies	Other financial assets	Total
Balance at 1.1.2019	**740**	**57**	**797**
Additions	342	135	477
Divestments	(959)	(53)	(1,012)
Reclassifications and transfers	405	—	405
Exchange differences	(1)	—	(1)
Balance at 31.12.2019	**527**	**139**	**666**
Additions	180	111	291
Divestments	(483)	(135)	(618)
Reclassifications and transfers	406	—	406
Exchange differences	(2)	—	(2)
Balance at 31.12.2020	**628**	**115**	**743**

There are no significant differences between carrying values and fair values in the balances under Loans to Group companies and other receivables.

The heading Loans to Group companies includes loans to Group companies amounting to Euros 349 million (Euros 298 million in 2019) and cash pooling balances with investee companies, as manager of Naturgy's centralised cash system amounting to Euros 212 million (Euros 175 million in 2019). It also includes accrued unmatured interest of Euros 67 million (Euros 54 million in 2019).

At 31 December 2020, loans to Group companies and associates have borne interest at a rate of 2.20% (2.46% in 2019) in the case of non-current loans and 1% (1% in 2019) in the case of current loans.

Dividends pending collection at 31 December 2020 amounted to Euros 110 million, recorded under "Other current financial assets" (Euros 135 million at 31 December 2019).

Note 8. Investments

The breakdown of investments by category is as follows:

At 31 December 2020	Available-for-sale financial assets	Loans and receivables	Total
Equity instruments	5	—	5
Other financial assets	—	4	4
Non-current investments	**5**	**4**	**9**
Other financial assets	—	171	171
Current investments	**—**	**171**	**171**
Total	**5**	**175**	**180**

At 31 December 2019	Available-for-sale financial assets	Loans and receivables	Hedging derivatives	Total
Equity instruments	5	—	—	5
Other financial assets	—	5	—	5
Non-current investments	**5**	**5**	**—**	**10**
Derivatives (Nota 14)	—	—	1	1
Other financial assets	—	23	—	23
Current investments	**—**	**23**	**1**	**24**
Total	**5**	**28**	**1**	**34**

Available-for-sale financial assets

All available-for-sale financial assets relate to unlisted shareholdings at 31 December 2020 and 31 December 2019.

Loans and receivables

This heading relates entirely to Other financial assets. It breaks down as:

	At 31.12.20	At 31.12.19
Deposits and guarantee deposits	4	5
Non- current	**4**	**5**
Deposits and guarantee deposits	51	23
Trading portfolio	120	—
Current	**171**	**23**
Total	**175**	**28**

The trading portfolio includes the valuation of deposits made at year-end as CO_2 emission allowances for an amount of Euros 120 million.

Note 9. Trade and other receivables

The breakdown of this account is as follows:

	At 31.12.20	At 31.12.19
Trade receivables	65	84
Trade receivables, Group companies and associates	143	255
Sundry receivables	3	6
Provision	(28)	(30)
Derivatives (Note 14)	123	344
Current income tax asset	4	183
Other amounts receivable from Public Administrations	2	1
Total	**312**	**843**

In general, amounts billed pending collection do not bear interest, the average maturity period being less than 21 days.

Movements in the bad debt provision are as follows:

	2020	2019
At 1 January	**(30)**	**(29)**
Net charge for the year (Note 21)	2	(1)
At 31 December	**(28)**	**(30)**

Note 10. Cash and cash equivalents

Cash and cash equivalents include:

	At 31.12.20	At 31.12.19
Cash at banks and in hand	1,076	474
Other cash equivalents	1,542	700
Total	**2,618**	**1,174**

"Other cash equivalents" mainly relate to short-term investments in deposits associated with CO_2 emission allowances maturing in under three months and with assured returns.

Note 11. Equity

The main items of Equity are as follows:

Share capital and share premium

The variations during 2020 and 2019 in the number of shares and share capital and share premium accounts have been as follows:

	Number of shares	Share capital	Share premium	Total
At 1 January 2019	**1,000,689,341**	**1,001**	**3,808**	**4,809**
Capital reduction	(16,567,195)	(17)	—	(17)
At 31 December 2019	**984,122,146**	**984**	**3,808**	**4,792**
Capital reduction	(14,508,345)	(14)	—	(14)
At 31 December 2020	**969,613,801**	**970**	**3,808**	**4,778**

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

On 10 August 2020, capital was reduced through the redemption of 14,508,345 treasury shares with a par value of 1 euro each, representing approximately 1.47% of the Company's share capital at the time of adoption of the relevant resolution (see paragraph on treasury shares in Note 11). Following the capital reduction share capital stood at Euros 970 million and consisted of 969,613,801 shares with a par value of 1 euro each.

On 5 August 2019, capital was reduced through the redemption of 16,567,195 treasury shares with a par value of 1 euro each, representing approximately 1.65% of the Company's share capital at the time of adoption of the relevant resolution, establishing the share capital at Euros 984 million and consisted of 984,122,146 shares with a par value of 1 euro each.

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

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

The most relevant holdings in the Company's share capital at 31 December 2020 and 2019, in accordance with the public information available or the communication issued by the Company itself, are as follows:

	% interest in share capital	
	2020(4)	**2019(4)**
Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona, "la Caixa" (1)	24.8	24.4
Global Infrastructure Partners III (2)	20.6	20.3
CVC Capital Partners SICAV-FIS, S.A. (3)	20.7	20.4
Sonatrach	4.1	4.1

(1) Holding through Criteria Caixa, S.A.U.

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

(3) Through Rioja Acquisition S.à.r.l.

(4) Capital Research and Management Company is not included, which on 31 December 2019 owns 3.0% of the share capital since it is considered floating capital and the 3% limit is exceeded or reduced occasionally.

All the Company's shares are traded on the four official Spanish Stock Exchanges and the "Mercado continuo" and form part of Spain's Ibex 35 stock index.

The Company's share price at 31 December 2020 was Euros 18.96 (Euros 22.40 at 31 December 2019).

Reserves

"Reserves" includes the following reserves:

	2020	**2019**
Legal reserve	200	200
Statutory reserve	100	100
Goodwill reserve	—	27
Voluntary reserves	10,702	10,973
Capital redemption reserve	31	17
Other reserves	258	256
Total	**11,291**	**11,573**

Legal reserve

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

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

Statutory reserve

Under the Company's Articles of Association, 2% of net profit for the year must be allocated to the statutory reserves until it reaches at least 10% of share capital.

Goodwill reserve

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

At the annual general meeting held on 26 May 2020, the shareholders agreed to the transfer to Voluntary reserves of Euros 27 million from the Goodwill reserve (Euros 82 million in 2019). At 31 December 2020 the entire goodwill reserve has been reclassified to voluntary reserves.

Capital redemption reserve

Following approval at the ordinary general meeting of shareholders held on 26 May 2020, a capital reduction was made during the year through the redemption of treasury shares with a reduction of Euros 14 million and 284 million in Voluntary reserves (Euros 17 million of capital reduction and Euros 383 million of Voluntary reserves in 2019).

In addition, pursuant to Article 335 c) of the Spanish Companies Act a restricted Capital redemption reserve was created for an amount equal to the par value of the redeemed shares. The total accumulated capital redemption reserve amounts to Euros 31 million (Euros 17 million in 2019).

Voluntary reserve and other reserves

Relates basically to voluntary reserves for undistributed profits, also including the effects of the measurement of shareholdings in group companies as a result of transactions between group companies recognised in the same amounts stated in Naturgy's consolidated annual accounts.

Share-based payments

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

The incentive covers the duration of the Strategic Plan 2018-2022, and scheduled to expire in July 2023. It is directly related to the total yield obtained by the Company's shareholders in the period concerned.

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

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

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

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

Forecast share price volatility [(1)]	17.73%
Plan duration (years)	5.00%
Expected dividends	6.26%
Risk-free interest rate	0.34%

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

As a result of the time apportionment of the fair value estimate of the equity instruments granted over the term of the plan, an amount of Euros 2 million (Euros 3 million in 2019) has been recorded in the income statement for 2020 under Personnel expenses, credited to “Other equity instruments” in the balance sheet.

Treasury shares

Movements during 2020 and 2019 involving the treasury shares of Naturgy Energy Group, S.A. are as follows:

	Number of shares	In million euro	% Capital
At 1 January 2019	**5,397,737**	**121**	**0.5**
Share Acquisition Plan	332,382	7	—
Delivered to employees	(310,812)	(7)	—
2018 buyback programme	11,169,458	279	1.1
Capital reduction	(16,567,195)	(400)	(1.6)
2019 buyback programme	5,162,320	121	0.5
At 31 December 2019	**5,183,890**	**121**	**0.5**
Share Acquisition Plan	470,000	8	—
Delivered to employees	(455,797)	(8)	—
2019 buyback programme	9,346,025	178	0.9
Capital reduction	(14,508,345)	(298)	(1.4)
At 31 December 2020	**35,773**	**1**	**—**

In 2020 and 2019, no gains or losses were made on transactions involving treasury shares.

On 5 March 2019, the shareholders in general meeting authorised the Board of Directors to purchase, within at most five years, in one or more operations, for good and valuable consideration, shares of the company that are fully paid-up, provided that the nominal value of the shares acquired directly or indirectly, added to those already held by the Company and its subsidiaries, does not exceed 10% of share capital or any other limit established by law. The price or value of the consideration may not be less than the par value of the shares nor higher than their listed market price.

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

Transactions with the Company’s Treasury shares relate to:

2020

- Share ownership plan: Executing the resolutions adopted by the Shareholders' Meeting of Naturgy Energy Group, S.A. on 5 March 2019, as part of the Share Ownership Plan 2020-2023, the plan for 2020 for employees of Naturgy in Spain who voluntarily applied was implemented. The Plan enables participants to receive part of their remuneration in the form of shares in Naturgy Energy Group, S.A., subject to an annual limit of Euros 12,000. In 2020, 470,000 treasury shares were acquired for an amount of Euros 8 million for delivery to the participants in the Plan; 455,797 shares were delivered, leaving a surplus of 14,203 shares.

– 2019 share buyback programme: the Board of Directors of Naturgy Energy Group, S.A. approved a share buyback programme, which was published on 24 July 2019, entailing a maximum investment of Euros 400 million through 30 June 2020, representing approximately 2.1% of share capital at the date of disclosure, which was ratified by the shareholders at the Shareholders' Meeting on 26 May 2020. At 30 June 2020, a total of 14,508,345 treasury shares had been acquired under this programme at an average price of Euros 20.6 per share, representing a total cost of Euros 299 million (5,162,320 treasury shares at an average price of Euros 23.3 per share, with a cost of Euros 121 million as at 31 December 2019), which were allocated to reducing capital.

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

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

  b. the 21,000,000 additional shares, with par value of Euro 1 each, which had been acquired and could continue to be acquired for cancellation by the Company under the share buyback programme ("Buyback programme") approved by the Company in accordance with Regulation (EU) No. 596/2014 on market abuse and disclosed as price-sensitive information on 24 July 2019 (registration number 280.517), with a deadline for acquisition of 30 June 2020, inclusive.

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

2019

– Share ownership plan: 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 2019. The Plan enables participants to collect part of their 2019 compensation in the form of shares of the Company, up to a limit of Euros 12,000 per year. In 2019, 332,382 treasury shares were purchased for Euros 7 million and 310,812 were delivered, leaving a remainder of 21,570 treasury shares.

– 2018 buyback programme: Within the Business Plan 2018-2022, the Board of Directors of Naturgy Energy Group, S.A. approved a share buyback programme, which was published on 6 December 2018, with a maximum investment of Euros 400 million to 30 June 2019, representing approximately 1.8% of share capital, which may be cancelled if so decided by the shareholders at the annual general meeting to be held in the first half of 2019. At 30 June 2019, a total of 16,567,195 treasury shares had been acquired under this programme at an average price of Euros 24.13 per share, i.e. a total cost of Euros 400 million, which were allocated to reducing capital.

– Capital reduction: At a meeting on 23 July 2019, the Company's Board of Directors resolved to implement the capital reduction resolution approved at the annual general meeting of shareholders held on 5 March 2019, whereby it approved a reduction in the share capital of Naturgy Energy Group, S.A. by the amount resulting from the sum of:

  a. Euros 3 million through the redemption of 2,998,622 treasury shares with a par value of 1 euro each which had been acquired at the close of trading on 6 December 2018.

b. the aggregate par value, up to a maximum of Euros 16 million, corresponding to the amortisation of the up to 16,000,000 additional shares with a par value of Euros 1 each acquired for amortisation under the share buyback programme approved under Regulation (EU) No. 596/2014 on market abuse and disclosed as price-sensitive information on 6 December 2018.

In this respect, as Naturgy Energy Group, S.A. had acquired a total of 13,568,573 shares at 30 June 2019 under the approved buyback programme referred to above, the Board of Directors set the figure for the capital reduction at Euros 17 million (the "Capital Reduction") and agreed to implement this reduction. The Capital Reduction was carried out through the cancellation of 16,567,195 treasury shares with a par value of 1 euro each, representing approximately 1.65% of the Company's share capital at the time of adoption of the resolution in question. Following the capital reduction share, capital stood at Euros 984 million, made up 984,122,146 shares with a par value of 1 euro each.

– 2019 share buyback programme: At 31 December 2019, a total of 5,162,320 treasury shares had been acquired under this programme at an average price of Euros 23.3 per share, representing a total cost of Euros 121 million.

Dividends

Set out below is a breakdown of the payments of dividends made in 2020 and 2019:

	2020			2019		
	% of Nominal	**Euros per share**	**Amount**	**% of Nominal**	**Euros per share**	**Amount**
Ordinary shares	141 %	1.41	1,370	134 %	1.34	1,319
Other shares (without voting rights, redeemable, etc.)	—	—	—	—	—	—
Total dividens paid	**141 %**	**1.41**	**1,370**	**134 %**	**1.34**	**1,319**
a) Dividends charged to income statement	141 %	1.41	1,370	134 %	1.34	1,319
b) Dividends charged to reserves or share premium account	—	—	—	—	—	—
c) Dividends in kind	—	—	—	—	—	—

2020

At a meeting held on 4 February 2020, the Board of Directors of Naturgy Energy Group, S.A. agreed to the proposed distribution of profits described in Note 11 to the annual accounts for the year ended 31 December 2019. Following the declaration of a “state of alarm” and with the aim of safeguarding the health and safety of all shareholders, employees and collaborators, the company decided to postpone the Annual General Meeting scheduled for 17 March 2020.

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

The Company had sufficient liquidity to pay the interim dividend at the approval date in accordance with the Spanish Companies Act. The provisional liquidity statement drawn up by the Directors on 16 March 2020 was as follows:

Profit after tax		4,415
Reserves to be replenished		—
Maximum amount distributable		4,415
Interim dividend 2019 profits		754
Forecast maximum interim dividend payment (1)		584
Cash resources	1,100	
Undrawn credit facilities	4,807	
Total liquidity		5,907

(1) Amount considering total shares issued

On 15 April 2020 the Board of Directors approved a new proposal for the distribution of the Company's net profit for 2019 which was to the annual general meeting:

AVAILABLE FOR DISTRIBUTION

Available for distribution…... 4,415

DISTRIBUTION:

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

a. Euros 1,330 million relating to the three interim dividends for 2019 paid by the Company, equivalent jointly to Euros 1.36 per share by the number of shares that were not direct treasury shares on the relevant dates; and

b. The amount obtained by multiplying 0.010 euros per share by the number of shares that are not direct treasury shares on the date on which the registered shareholders entitled to receive the complementary dividend are determined (“Complementary dividend”).

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

Total distributed …... 4,415

The annual general meeting of shareholders held on 26 May 2020 approved the supplementary dividend of 0.010 euros per share for shares not directly held as treasury stock on the payment date, which was fully paid in cash on 3 June 2020.

Following payment of the supplementary dividend, the amount allocated to Retained earnings was Euros 3,076 million.

On 21 July 2020, the Company’s Board of Directors resolved to pay a first interim dividend of 0.31 euros per share out of 2020 results, for shares not directly held as treasury stock on the payment date, payable on 29 July 2020.

The Company has sufficient liquidity to pay the interim dividend at the approval date in accordance with the Spanish Companies Act. The provisional liquidity statement drawn up by the Directors on 21 July 2020 is as follows:

Profit after tax		535
Reserves to be replenished		—
Maximum amount distributable		535
Forecast maximum interim dividend payment (1)		305
Cash resources	2,679	
Undrawn credit facilities	5,383	
Total liquidity		8,062

(1) Amount considering total shares issued

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

The Company has sufficient liquidity to pay the interim dividend at the approval date in accordance with the Spanish Companies Act. The provisional liquidity statement drawn up by the Directors on 27 October 2020 is as follows:

Profit after tax		915
Reserves to be replenished		—
Maximum amount distributable		915
Interim dividend 2020 profits		301
Forecast maximum interim dividend payment (1)		485
Cash resources	2,785	
Undrawn credit facilities	5,325	
Total liquidity		8,110

(1) Amount considering total shares issued

The trend in the Company's profits in the last quarter of the year, basically due to the impairment of holdings in Group companies, means that at year end profits are insufficient to be able to pay an interim dividend. At the annual general meeting, therefore, the Board of Directors will propose that they should be taken to retained earnings.

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

AVAILABLE FOR DISTRIBUTION

Profit 98
Retained earnings ....… 3,076
Available for distribution ….. 3,174

DISTRIBUTION:

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

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

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

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

The Group is currently in the process of drawing up a new Strategic Plan that will take into account i) the deterioration of the demand forecast as a result of the evolution of the pandemic; ii) the worsening of the macroeconomic situation, and in particular the expected evolution of exchange rates in Latin America where the Group carries out a significant part of its activity; iii) the forecast of the main energy indicators affecting all the liberalised gas businesses; and iv) business opportunities in the energy transition (renewables, hydrogen and others).

The main objectives of this new Plan are i) to reformulate the one in force until now; ii) to give greater visibility for the coming years; iii) to define a long-term sustainable shareholder remuneration policy.

Of this Dividend, an amount of 785 million euros has already been paid on 29 July and 11 November 2020. Payment of the Final Dividend will be made in the amount per share indicated above through the entities participating in Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear). The aforementioned dividend will be paid to shareholders as from 16 March 2021.

To this effect, the Board of Directors is empowered, with express power of substitution in the Director or Directors it deems appropriate, to carry out all necessary or appropriate actions to carry out the distribution and, in particular, by way of indication and not limitation, to designate the entity that shall act as payment agent.

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

Total distributed.. 3,174

This proposal for the distribution of profits and retained earnings prepared by the Board for approval by the annual general meeting includes a supplementary payment of Euros 0.63 per share for each qualifying share outstanding at the proposed date of payment, 16 March 2021. In this respect, in the event that at the time of distribution of the third and last payment of the proposed 2020 dividend (Euros 0.63 per share) the same number of treasury shares is maintained as at the 2020 year end (35,773 treasury shares, see section on Treasury shares), the amount applied to retained earnings would be Euros 1,778 million.

2019

The annual general meeting of shareholders held on 5 March 2019 approved a supplementary dividend of 0.570 euros per share for shares not directly held as treasury stock on the payment date, which was fully paid in cash on 20 March 2019.

On 23 July 2019, the Company's Board of Directors resolved to pay an interim dividend of 0.294 euros per share out of 2019 results, paid on 31 July 2019 to the outstanding shares on this date for an amount of Euros 289 million.

On 29 October 2019, the Company's Board of Directors resolved to pay a second interim dividend of Euros 0.473 per share out of 2019 results for a total of Euros 465 million, which was paid on 12 November 2019 with respect to the outstanding shares at that date.

Note 12. Provisions

The breakdown of provisions at 31 December 2019 and 2018 is as follows:

	At 31.12.20	At 31.12.19
Provisions for employee obligations	258	272
Other provisions	115	187
Non-current provisions	**373**	**459**

Provisions for employee obligations

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

	2020			2019		
	Pensions and other similar obligations	Other obligations with personnel	Total	Pensions and other similar obligations	Other obligations with personnel	Total
At 1 January	**267**	**5**	**272**	**250**	**6**	**256**
Appropriations/reversals charged to income statement	4	2	6	6	3	9
Payments during the year	(15)	(2)	(17)	(13)	—	(13)
Changes recognised directly in equity	(2)	—	(2)	54	—	54
Transfers and other applications	(1)	—	(1)	(30)	(4)	(34)
At 31 December	**253**	**5**	**258**	**267**	**5**	**272**

Pensions and other similar liabilities

Most of the Company's post-employment obligations consist of the contribution of defined amounts to occupational pension plan systems. Nevertheless, at 31 December 2020 and 31 December 2019, the Company held the following defined benefit obligations for certain groups of workers:

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

The amounts recognised in the Balance sheet for pensions and similar obligations, as well as the movement in the current value of the obligations and the fair value of the plan assets are determined as follows:

Present value of obligations	2020	2019
At 1 January	**969**	**927**
Service cost for the year	1	1
Interest cost	8	16
Changes recognised directly in equity	3	97
Benefits paid	(63)	(61)
Transfers and other	(1)	(11)
At 31 December	**917**	**969**

Fair value of plan assets		
At 1 January	**702**	**677**
Expected yield	5	11
Contributions	4	1
Changes recognised directly in equity	5	43
Benefits paid	(52)	(49)
Transfers and other	—	19
At 31 December	**664**	**702**
Provisions for pensions and similar obligations	**253**	**267**

The amounts recognised in the income statement for all the above-mentioned defined benefit plans are as follows:

	2020	2019
Service cost for the year	1	1
Interest cost	3	5
Total charge to the income statement	**4**	**6**

Benefits to be paid, depending on the duration of the previous commitments, are as follows:

	2020	2019
1 to 5 years	—	1
5 to 10 years	26	23
More than 10 years	227	243
Provisions for pensions and similar obligations	**253**	**267**

The plan assets expressed as a percentage of total assets are as follows:

% of total	2020	2019
Bonds	100%	100%

Cumulative actuarial gains and losses, net of the tax effect, recognised directly in equity are negative in the amount of Euros 20 million at 31 December 2020 (negative in the amount of Euros 22 million at 31 December 2019).

The change recognised in equity relates to actuarial losses and gains derived basically from adjustments to:

	2020	2019
Financial assumptions	37	48
Demographic assumptions	(6)	0
Experience	(33)	6
At 31 December	**(2)**	**54**

Actuarial assumptions applied are as follows:

	At 31.12.20	At 31.12.19
Discount rate (p.a.)	0.0 to 0.78%	0.0 to 1.33%
Expected return on plan assets (p.a.)	0.0 to 0.78%	0.0 to 1.33%
Future salary increases (p.a.)	2.00%	2.00%
Future pension increases (p.a.)	2.00%	2.00%
Inflation rate (annual)	2.00%	2.00%
Mortality table	PERMF 2020	PERMF 2000
Life expectancy:		
Men		
Retired during the year	23.5	23
Retiring within 20 years	43.8	43
Women		
Retired during the year	27.3	27.5
Retiring within 20 years	48.3	48.9

The new PERMF2020 tier 2 group tables, approved on 28 December 2020 by the Directorate General for Insurance, have been used for the valuation of pensions and other similar obligations in Spain at 31 December 2020, for all commitments that contribute a monetary amount to the heading "Provisions for commitments with personnel" in the balance sheet at 31 December 2020. In addition, for the remaining commitments having associated assets, and which are therefore insured, the tables in force in 2019 (PERFMF2000) have continued to be used as the change in tables has no impact on the monetary amount of the provision, as it is recorded net of the relevant asset.

These assumptions are equally applicable to all the obligations, irrespective of the origin of their collective bargaining agreements.

The interest rates used to discount post-employment commitments are applied based on the period of each commitment and the reference curve is calculated applying observable rates for high-credit-quality corporate bonds (AA) issued in the Eurozone.

The costs of health care have been measured on the basis of the expected costs of the premiums of the different medical care policies taken out. A 1% variation in the increase in the cost of these premiums would not have a significant impact on the liability recorded at 31 December 2020 and 31 December 2019, nor would it cause a relevant variation in the ordinary financial costs for future years in relation to that recorded in 2020 and 2019.

Other obligations with personnel

Within the framework of the new Strategic Plan 2018-2022, a new long-term incentive plan was implemented for Naturgy executives not included in the plan referred to in Note 11, the aim of which is to align the shareholders' interests, the materialization of the Strategic Plan and the executives' multi-year variable remuneration. This programme replaces the previous scheme, called PREMP, and is linked to the total return earned by the shareholders over the duration of the Strategic Plan, generating a collection right once the annual accounts for 2022 have been approved by the General Meeting, which will be collected in cash. The provision for this commitment at 31 December 2020 totals Euros 5 million (Euros 5 million in 2019).

At 31 December 2019 a provision was included relating to the remuneration programmes 2017 - 2019 amounting to Euros 2 million, all of which was classified as current.

Other non-current provisions

The movement in other non-current provisions is as follows:

	2020	2019
At 1 January	**187**	**222**
– Appropriations (1)	11	3
– Reversals	(27)	(46)
Transfers and other	(56)	8
At 31 December	**115**	**187**

(1) Includes Euros 3 million and Euros 3 million in 2020 and 2019, respectively, relating to the financial update of provisions.

"Non-current provisions" mainly includes provisions posted to cover obligations deriving mainly from tax claims (Note 17), litigation and arbitration, and other liabilities.

No provision for business contracts was deemed necessary at 31 December 2020 or 2019.

At 31 December 2020, the estimated payment dates for these obligations are between one and five years (Euros 109 million), between five and ten years (Euros 6 million) and more than ten years (Euros 0 million) (2019: Euros 11 million at between one and five years, Euros 161 million at between five and ten years and Euros 15 million at more than ten years).

Note 13. Borrowings

The breakdown of borrowings at 31 December 2020 and 2019 is as follows:

	At 31.12.20	At 31.12.19
Borrowings from financial institutions	2,720	1,744
Derivatives (Note 14)	108	90
Other financial liabilities	1	1
Non-current borrowings	**2,829**	**1,835**
Borrowings from financial institutions	257	253
Derivatives (Note 14)	21	16
Other financial liabilities	121	2
Current borrowings	**399**	**271**
Total	**3,228**	**2,106**

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

	Carrying amount		Fair value	
	At 31.12.20	At 31.12.19	At 31.12.20	At 31.12.19
Bank borrowings, derivatives and other financial liabilities	2,829	1,835	2,831	1,835

The fair value of loans with fixed interest rates is estimated on the basis of the discounted cash flows over the remaining terms of such debt. The discount rates were determined based on market rates available at 31 December 2020 and 31 December 2019 on borrowings with similar credit and maturity characteristics.

The movement in borrowings is as follows:

	2020	2019
At 1 January	**2,106**	**2,286**
Increase	1,372	49
Decrease	(250)	(229)
At 31 December	**3,228**	**2,106**

The following tables describe borrowings and maturities at 31 December 2020 and 2019, taking into account the impact of derivatives.

	2021	2022	2023	2024	2025	2026 and beyond	Total
At 31 December 2020:							
Fixed	237	167	291	91	191	961	1,938
Floating	162	785	287	15	40	1	1,290
Total	**399**	**952**	**578**	**106**	**231**	**962**	**3,228**

	2020	2021	2022	2023	2024	2025 and beyond	Total
At 31 December 2019:							
Fixed	115	158	125	91	91	1,052	1,632
Floating	156	181	69	36	15	17	474
Total	**271**	**339**	**194**	**127**	**106**	**1,069**	**2,106**

Setting aside the impact of derivatives on borrowings, fixed-rate debt would amount to Euros 321 million of total borrowings at 31 December 2020 (Euros 0 million at 31 December 2019) and variable-rate debt would amount to Euros 2,778 million at 31 December 2020 (Euros 2,000 million at 31 December 2019).

The following tables describe the gross borrowings denominated in foreign currencies at 31 December 2020 and 31 December 2019 and their maturities, taking into account the impact of the derivative hedges:

	2021	2022	2023	2024	2025	2026 and beyond	Total
At 31 December 2020:							
Euro debt	399	952	578	106	231	962	3,228
Total	**399**	**952**	**578**	**106**	**231**	**962**	**3,228**

	2020	2021	2022	2023	2024	2025 and beyond	Total
At 31 December 2019:							
Euro debt	271	339	194	127	106	1,069	2,106
Total	**271**	**339**	**194**	**127**	**106**	**1,069**	**2,106**

Borrowings bore an average effective interest rate in 2020 of 1.03% (0.82% in 2019) including the derivatives assigned to each transaction.

At 31 December 2020, Bank borrowings includes Euros 9 million in interest pending payment (Euros 6 million at 31 December 2019).

Most of the outstanding financial debt carries a change-of-control clause referring to acquisition of over 50% of the voting stock or of the right to appoint a majority of members of the Board of Directors of Naturgy Energy Group, S.A. Those clauses carry additional conditions so that triggering them depends on some of the following events occurring simultaneously: a significant downgrade of the credit rating due to a change of control, or loss of an investment grade rating; inability to fulfil the financial obligations under the contract; material impairment for the creditor, or a material adverse change in solvency. These clauses would entail repayment of the outstanding debt, although the time period would normally be longer than in the event of early termination.

At the preparation date of these annual accounts, the Company is not in breach of its financial obligations or of any type of obligation that could give rise to the early maturity of its financial commitments.

The most relevant financial instruments are as follows:

Other bank borrowings

The group continues to work on enhancing its financial profile. In this respect, the most relevant financing operations with credit institutions arranged during 2020 were as follows:

a. New loans and credit lines in Spain amounting to Euros 1,225 million and Euros 400 million, respectively.
b. Refinancing of credit lines in Spain amounting to Euros 2,388 million.

Naturgy also enjoys a comfortable debt maturity profile and balance sheet position, as well as flexibility in its capital expenditure and operating expenses for coping with the current economic scenario.

Institutional financing

The Company records a loan from the Official Credit Institute (ICO) relating to instruments maturing in 2029 at maximum, for a total amount of Euros 180 million (Euros 200 million in 2019).

The European Investment Bank (EIB) has granted financing to Naturgy which at 31 December 2020 is fully drawn down, in the amount of Euros 1,564 million maturing between 2020 and 2037 (Euros 1,791 million drawn down at 31 December 2019). This loan could be subject to early repayment in the event of a change in control, additionally requiring a rating downgrade, and has special debt repayment terms that are longer than those in the event of early termination. In addition, Euros 1,359 million (Euros 1,459 million at 31 December 2019) is subject to compliance with certain financial ratios.

Note 14. Risk management and derivative financial instruments

Risk management

Naturgy has a number of standards, procedures and systems for identifying, measuring and managing different types of risk which are made up of the following basic action principles:

– Guaranteeing that the most relevant risks are correctly identified, evaluated and managed.

– Segregation at the operating level of the risk management functions.

– Assuring that the level of its risk exposure for Naturgy in its business is in line with the objective risk profile.

– Ensuring the appropriate determination and review of the risk profile by the Risk Committee, proposing global limits by risk category, and assigning them to the Business Units.

Interest rate risk

The fluctuations in interest rates modify the fair value of the assets and liabilities that accrue a fixed interest rate and the cash flows from assets and liabilities pegged to a floating interest rate, and, accordingly, affect equity and profit, respectively.

The purpose of interest rate risk management is to balance floating and fixed borrowings in order to reduce borrowing costs within the established risk parameters.

The Company employs financial swaps to manage exposure to interest rate fluctuations, swapping floating rates for fixed rates.

The debt structure at 31 December 2020 and 2019 (Note 13), after taking into account the hedges arranged through derivatives, is as follows:

	At 31.12.20	At 31.12.19
Fixed interest rate	1,938	1,632
Floating interest rate	1,290	474
Total	**3,228**	**2,106**

The floating interest rate is mainly subject to the fluctuations of the Euribor and the Libor.

The sensitivity of results and equity (measurement adjustments) to interest rate fluctuations is as follows:

	Increase/decrease in interest rates (basis points)	Effect on profit before tax	Effect on equity before tax
2020	50	(6)	(41)
	-50	6	41
2019	50	(2)	50
	-50	2	(50)

Exchange rate risk

The variations in the exchange rates can affect the fair value of:

- Counter value of cash flows related to the purchase-sale of raw materials denominated in currencies other than local or functional currencies
- Debt denominated in currencies other than local or functional currencies.
- Operations and investments in non-Euro currencies, and, accordingly, the counter value of equity contributed and results.

In order to mitigate these risks the Company finances, to the extent possible, its investments in local currency. Furthermore, it tries to match, whenever possible, costs and revenues indexed in the same currency, as well as amounts and maturities of assets and liabilities arising from operations denominated in non-Euro currencies.

For open positions, the risks in investments in non-functional currencies are managed through financial swaps and foreign exchange insurance within the approved limits of hedging instruments.

The non-Euro currency with which the Company operates most is the US Dollar. The sensitivity of the Company's profits and equity ("Adjustments for changes in value") to a 5% variation (increase or decrease) in the US dollar/euro exchange rate is as follows:

		2020	2019
Effect on profit before tax	+5%	—	—
	-5%	—	—
Effect on equity before tax	+5%	—	—
	-5%	—	—

Commodity price risk

The Company purchases gas to be supplied to other Naturgy companies.

A large portion of Naturgy's operating expenses are linked to gas purchased to supply customers or generate electricity at combined cycle plants.

These gas supply contracts are typically signed on a long-term basis with purchase prices based on a combination of different commodity prices, basically crude oil and its derivatives, and natural gas hub prices.

However, sales prices to final customers are usually signed on a short/medium term basis and sales prices are conditioned by the supply-demand balance that exists at any given time in the gas market. This may imply a decoupling with gas supply prices, e.g. in periods of gas oversupply.

Therefore, Naturgy is exposed to the risk of variation in the price of gas with respect to the selling price of end customers. Exposure to these risks is managed and mitigated by natural hedging through the monitoring of the position with respect to these commodities, trying to balance the prices of purchase and supply obligations and sales prices. In addition, some supply contracts allow this exposure to be managed through volume flexibility and price review mechanisms.

When it is not possible to achieve natural hedging, the position is managed, within reasonable risk parameters, by contracting derivatives to reduce exposure to price decoupling risk, generally designated as hedging instruments.

In electricity and CO_2 emission allowances trading by the Company, risk is insignificant due to the low volume of transactions and the established limits placed, both on the amount and maturity date.

There are no impacts to changes in the fair value of derivatives contracted to hedge commodity prices and derivatives used for trading purposes.

Additionally, CO_2 emission allowances have been acquired together with derivatives to hedge them in order to obtain a return on cash surpluses over the short term; their fair value changes offset each other.

Naturgy has no relevant investments in upstream businesses or commodities production.

Business segment sensitivity to the prices of oil, gas, coal and electricity is explained below:

– Gas and electricity distribution. It is a regulated activity with revenue and profit margins are linked to distribution infrastructure management services rendered, irrespective of the prices of the commodities distributed. In any event, a fall in the price of gas could increase consumption, having a favourable impact on revenue and thus contributing to the stability of Naturgy's results.

– Gas and electricity. Profit margins on gas and electricity supply activities are directly affected by commodity prices. In this regard, Naturgy has a risk policy that stipulates the tolerance range, based on applicable risk limits, among other aspects. Measures employed to keep risk within the stipulated limits include active supply management, balanced acquisitions and sales formulae, and specific hedging so as to maximise the risk-profit relationship. Additionally to that policy, a large portion of Naturgy’s supply portfolio has mechanics, through clauses, to review prices both ordinary and extraordinary. In the medium-term, those clauses allow to modulate the potential impacts of imbalances between sale prices in Naturgy’s markets and prices of the supply portfolio.

Credit risk

Credit risk is defined as the potential loss resulting from the possible nonfulfillment of the contractual obligations of counterparties with which Naturgy does business.

Naturgy performs solvency analyses on the basis of which credit limits are assigned and any necessary provisions are determined. Based on these models, the probability of customer default can be measured and the expected commercial loss can be kept under control. In addition, credit quality and portfolio exposure are monitored on a recurring basis to ensure that potential losses are within the limits provided for by internal regulations. This allows a certain capacity to anticipate events in credit risk management.

Credit risk relating to trade receivables is reflected in the balance sheet net of provisions for bad debts (Note 9), estimated by the Company on the basis of the ageing of the debt and past experience in accordance with the prior segregation of customer portfolios and the current economic environment.

Credit risk relating to trade accounts receivable is historically limited given the short collection periods of customers that do not individually accumulate significant amounts before supply can be suspended due to non-payment, in accordance with applicable regulations.

With respect to other exposures to counterparties in transactions involving financial derivatives and the investment of cash surpluses, credit risk is mitigated by carrying out such operations with reputable financial institutions in line with internal requirements. No significant defaults or losses arose in 2020 or 2019.

The ageing analysis of financial assets concluded that there were no unimpaired, past due financial assets at 31 December 2020 and 2019.

The impaired financial assets are broken down in Note 9.

Concerning supplier credit risk, the solvency of each supplier of products and services is guaranteed through the recurring analysis of their financial information, particularly prior to new engagements. To this end, the relevant assessment criteria are applied depending on the supplier's criticality in terms of service or concentration. This procedure is supported by control mechanisms and systems and supplier management.

At 31 December 2020 and 2019 the Company did not have significant concentrations of credit risk.

Liquidity risk

The Company has liquidity policies that ensure compliance with its payment commitments, diversifying the coverage of financing needs and debt maturities. A prudent management of the liquidity risk includes maintaining sufficient cash and realisable assets and the availability of sufficient funds to cover credit obligations.

At 31 December 2020, available cash totalled Euros 7,930 million (Euros 6,132 million in 2019), considering cash and cash equivalents of Euros 2,618 million (Euros 1,174 million in 2019) together with bank borrowings and undrawn credit facilities amounting to Euros 5,312 million (Euros 4,958 million in 2019).

Capital management

The main purpose of the Company’s capital management is to ensure a financial structure that can optimise capital cost and maintain a solid financial position, in order to combine value creation for the shareholder with the access to the financial markets at a competitive cost to cover financing needs.

Naturgy considers a long-term leverage level of approximately 50% as an indicator of the capital management objectives.

The Company's long-term credit rating is as follows:

	2020	**2019**
Standard & Poor’s	BBB	BBB
Fitch	BBB	BBB

Other considerations

Naturgy has not received any government aid to mitigate the effects of COVID-19 nor any tax benefits. Furthermore, it has not renegotiated any leases affecting right of use assets and recognised associated liabilities.

Nor has Naturgy instigated any lay-off proceedings as a result of COVID-19.

Since the beginning of the COVID-19 crisis, Naturgy has prioritised its commitment towards people and society and has taken various measures to mitigate the economic impact of the pandemic, such as postponing payment of electricity, gas and service bills for SMEs, individuals and the self-employed, providing free supplies to field hospitals (IFEMA and Fira de Barcelona) and to hotels with medical facilities, and other measures for its SME or self-employed suppliers, who are eligible for a cash payment programme for invoices pertaining to the second quarter of the year. All these measures help to mitigate the impact of the decline in revenues and strengthen the liquidity of the parties concerned.

In addition, as an expression of gratitude for and acknowledgement of the dedication of health personnel, law enforcement personnel and members of the army and the fire brigade, they have been offered a year of free service for electricity and gas breakdowns and for repairs of household appliances and gas equipment, whether or not they are Naturgy customers. In addition, Naturgy has provided all its customers with free medical attention by videoconference during these months.

On 23 June 2016 UK voters supported the departure of their country from the European Union in a national referendum (“Brexit”). On 31 January 2020 the United Kingdom left the European Union and a transitional period to 31 December 2020 commenced, the aim being to allow citizens and businesses more time to adjust to the situation and to negotiate agreements establishing a new framework for the relationship between the Union and the United Kingdom. During the transition period, the United Kingdom has continued to implement Union legislation, but without being represented in the EU institutions. On 30 December 2020 the European Union and the United Kingdom signed a Trade and Cooperation Agreement with provisional entry into force on 1 January 2021. The Agreement has four main pillars: a Free Trade Agreement; a framework for economic, social, environmental and fisheries cooperation; an internal security partnership; and a common governance framework for the Agreement as a whole. Although it will not be equal, in any way, to the level of economic integration that existed while the UK was an EU Member State, the Trade and Cooperation Agreement goes beyond traditional free trade agreements and provides a solid basis for maintaining the former co-operation and friendship. The Brexit process has had and may continue to have adverse effects on the economic and political situation in the EU and the stability of global financial markets. Without considering the above impact on an international level, Naturgy's exposure to the risk derived from Brexit is not considered significant.

Derivative financial instruments

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

	At 31.12.20		At 31.12.19	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Hedging derivative financial instruments	**—**	**108**	**—**	**90**
Cash flow hedge				
- Interest rate	—	81	—	64
- Interest rate and foreign exchange rate	—	27	—	26
Other financial instruments	**136**	**136**	**189**	**189**
- Price of commodities	136	136	189	189
Derivative financial instruments – non current	**136**	**244**	**189**	**279**
Hedging derivative financial instruments	**—**	**142**	**1**	**15**
Cash flow hedge				
- Interest rate	—	21	—	15
- Interest rate and foreign exchange rate	—	—	—	—
- Exchange rate	—	—	1	—
- Price of commodities	—	121	—	—
Other financial instruments	**123**	**123**	**344**	**345**
- Price of commodities	123	123	344	344
- Exchange rate	—	—	—	1
Derivative financial instruments - current	**123**	**265**	**345**	**360**
Total	**259**	**509**	**534**	**639**

Other financial instruments include the derivatives not qualifying for hedge accounting.

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

	2020		2019	
	Operating profit	Net financial income/ (expense)	Operating profit	Net financial income/ (expense)
Cash flow hedge	—	(17)	—	(8)
Other financial instruments	1	(1)	2	4
Total	**1**	**(18)**	**2**	**(4)**

The breakdown of derivatives at 31 December 2019 and 2018, their fair value and maturities of their notional values is as follows:

	At 31.12.20							
	Fair value	Notional value						
		2021	2022	2023	2024	2025	Subsequent years	Total
INTEREST RATE HEDGES:								
Cash flow hedges:								
Financial swaps (EUR)	(102)	63	91	191	70	498	576	1,489
INTEREST RATE AND FOREIGN EXCHANGE RATE HEDGES:								
Cash flow hedges:								
Financial swaps (NOK)	(27)	—	—	101	—	—	—	101
EXCHANGE RATE HEDGES:								
Cash flow hedges:								
Foreign exchange insurance (USD)	—	33	—	—	—	—	—	33
Fair value hedges:								
Foreign exchange insurance (USD)	—	—	—	—	—	—	—	—
PRICE OF COMMODITIES HEDGES:								
Cash flow hedges:								
Price of commodities Derivatives (EUR)	(121)	1,228	—	—	—	—	—	1,228
OTHER:								
Foreign exchange insurance (USD)	—	—	—	—	—	—	—	—
	(250)	**1,324**	**91**	**292**	**70**	**498**	**576**	**2,851**

	At 31.12.19							
	Fair value	Notional value						
		2020	2021	2022	2023	2024	Subsequent years	Total
INTEREST RATE HEDGES:								
Cash flow hedges:								
Financial swaps (EUR)	(79)	844	63	91	91	70	1,074	2,233
INTEREST RATE AND FOREIGN EXCHANGE RATE HEDGES:								
Cash flow hedges:								
Financial swaps (NOK)	(26)	—	—	—	101	—	—	101
EXCHANGE RATE HEDGES:								
Cash flow hedges:								
Foreign exchange insurance (USD)	1	119	—	—	—	—	—	119
Fair value hedges:								
Foreign exchange insurance (USD)	—	5	—	—	—	—	—	5
OTHER:								
Foreign exchange insurance (USD)	(1)	18	—	—	—	—	—	18
	(105)	**986**	**63**	**91**	**192**	**70**	**1,074**	**2,476**

Note 15. Payables to Group companies and associates

The breakdown by maturity of payables to Group companies is as follows:

Maturity	At 31.12.20	At 31.12.19
2020	—	3,168
2021	2,560	828
2022	1,451	1,451
2023	625	627
2024	1,604	1,590
2025	1,196	1,195
2026	1,589	597
Subsequent years	3,065	2,909
Total	**12,090**	**12,365**

Payables to Group companies mainly relate to issuances carried out by Naturgy Capital Markets, S.A. and Naturgy Finance, B.V. under the European Medium-Term Notes (EMTN) programme. The balances payable to Naturgy Finance, B.V. in respect of perpetual subordinated debentures amounting to Euros 1,500 million (Euros 1,500 million 2019) and to Unión Fenosa Preferentes, S.A. relating to preference shares totalling Euros 110 million (Euros 110 million in 2019) are also included.

It also includes accrued unmatured interest of Euros 145 million (Euros 179 million in 2019) and cash-pooling balances with Group companies amounting to Euros 1,268 million are also included (Euros 1,637 million in 2019).

A breakdown of amounts owed to Group companies due to bond issues of Naturgy Finance, B.V. and Naturgy Capital Markets, S.A. is as follows:

At 31 December 2020							
Programme/Company	**Country**	**Year formalised**	**Currency**	**Programme limit**	**Drawn-down nominal amount**	**Available**	**Issuances per year**
Euro Commercial Paper (ECP) programme							
Naturgy Finance B.V.	Netherlands	2010	Euro	1,000	—	1,000	900
European Medium Term Notes (EMTN) programme							
Gas Natural Capital Markets, S.A. and Naturgy Finance, B.V.	Netherlands/ Spain	1999	Euro	12,000	8,941	3,059	1,150

At 31 December 2019							
Programme/Company	**Country**	**Year formalised**	**Currency**	**Programme limit**	**Drawn-down nominal amount**	**Available**	**Issuances per year**
Euro Commercial Paper (ECP) programme							
Naturgy Finance B.V.	Netherlands	2010	Euro	1,000	—	1,000	4,444
European Medium Term Notes (EMTN) programme							
Gas Natural Capital Markets, S.A. and Naturgy Finance, B.V.	Netherlands/ Spain	1999	Euro	8,725	8,725	—	750

Specifically, the bonds issued, in a volume of Euros 8,941 million (Euros 8,725 million at 31 December 2019), as usual in the Euromarket, could be redeemed in advance provided that such a change in control triggers a downgrade of more than two full notches in at least two of the three ratings that it had obtained, and all the ratings fall below investment grade, and provided that the rating agency states that the rating downgrade results from the change in control.

The main movements for the years 2020 and 2019 are:

2020

Issuances in 2020 under this programme were as follows:

Issue	Par value	Maturity	Coupon (%)
April 2020	1,000	2026	1.250
May 2020(*)	150	2029	0.750

(*) Increase issue November 2019

In 2020 two bonds have matured for a total amount of Euros 934 million with an average coupon of 5.07%.

In 2020 Naturgy issued bonds under Euro Commercial Paper (ECP) programme for an amount of Euros 900 million (Euros 4,444 million at 31 December 2019). At 31 December 2020 there were no outstanding issues under the ECP, as was the case at 31 December 2019.

2019

In November 2019 Naturgy issued bonds under its Euro Medium Term Notes (EMTN) programme for an amount of Euros 750 million maturing in 10 years and with a 0.75% coupon, the proceeds of which were used in a bond buy-back offer for Euros 635 million of debentures maturing between 2021 and 2025.

In addition, in December 2019 an offer was made for the repurchase of a bond amounting to Euros 300 million, maturing in 2021 with a coupon of 0.515%. These two operations involved a net disbursement of Euros 203 million and have had a negative impact on the "Net financial income" of the Income statement of Euros 84 million (Note 23).

In 2019 bonds had matured for a total amount of Euros 780 million with an average coupon of 5.28%.

Borrowings from group companies and associates accrued an average interest rate of 2.20% in 2020 (2.46% in 2019).

There are no significant differences between the carrying amounts and fair values of Payables to Group companies and associates.

Note 16. Trade and other payables

The breakdown at 31 December 2020 and 2019 is as follows:

	At 31.12.20	At 31.12.19
Trade payables	141	237
Trade payables, Group companies and associates	59	131
Derivatives (Note 14)	123	344
Other payables	10	11
Personnel (outstanding remuneration)	18	36
Public Administrations	17	21
Current tax liabilities (Note 17)	93	—
Total	**461**	**780**

Most payables do not accrue interest and have contractual maturity dates of less than 30 days, in the case of gas purchases and within the legal limits, for other suppliers.

Information on average supplier payment period. Additional Provision 3 “Duty of disclosure” of Law 15/2010/5 July

The average payment period is in accordance with Law 15/2010 on measures to combat late payment in business operations.

Information disclosed under the Resolution of 29 January 2016 of the Institute of Accountants and Auditors concerning the details to be included in the notes to the annual accounts concerning the average supplier payment period is as follows:

	2020	2019
	Amount	**Amount**
Total payments (thousand euro)	458,021	1,947,320
Total outstanding payments (thousand euro)	18,284	18,540
Average supplier payment period (days) (1)	32	18
Transactions paid ratio (days) (2)	32	17
Transactions pending payment ratio (days) (3)	38	30

(1) Calculated on the basis of amounts paid and pending payment.

(2) Average payment period in transactions paid during the year.

(3) Average age, suppliers pending payment balance.

The accompanying ratios do not include situations that could distort calculations, such as Trade payables, Group companies and associates.

Note 17. Tax situation

The Company is the parent of tax group 59/93, which includes all the companies resident in Spain that are at least 75% directly or indirectly owned by the parent company and that fulfil certain requirements, entailing the overall calculation of the group's taxable income, deductions and tax credits. The tax group for 2020 is analysed in Appendix I.

Corporate income tax is calculated on the basis of economic or accounting profit obtained by application of generally accepted accounting principles, which do not necessarily coincide with taxable profit, understood as taxable income for corporate income tax purposes.

The reconciliation of accounting profit for 2020 and 2019 to taxable income is as follows:

	At 31.12.20	At 31.12.19
Accounting profit before tax	**60**	**4,347**
Permanent differences	**(184)**	**(4,616)**
Temporary differences:		
Arising during current year	51	40
Arising in prior years	(139)	(23)
Taxable income	**(212)**	**(252)**

Permanent differences mainly relate to the application of the tax consolidation system and the double taxation exemption for dividends and income derived from the transfer of shares under Article 21 of Law 27/2014 on Corporate Income Tax, which has led to negative permanent differences of Euros 1,271 million resulting mainly from negative adjustments for dividends accruing during the year (Euros 1,361 million in 2019), the impairment of shareholdings in Group companies and associates amounting to Euros 1,080 million (Euros 320 million in 2019) and intragroup sales of shareholdings in Group companies and associates for an negative amount of Euros 1 million (Euros 3,560 million in 2019).

In 2020 the Company posted a tax loss of Euros 212 million (Euros 252 million in 2019), which is recovered from the tax group companies due to the taxable income generated by them during the year.

Income tax expense is as follows:

	2020	2019
Current-year tax	60	64
Deferred tax	(22)	4
Total	**38**	**68**

Current corporate income tax is the result of applying a 25% tax rate to taxable income. In the tax group, tax credits applied in 2020 amounted to Euros 4 million (Euros 4 million in 2019) and no tax losses were offset.

In 2020 there were negative adjustments for tax differences from the previous year, resulting in an increased expense, amounting to Euros 4 million (Euros 0 million in 2019).

Other adjustments for future risk provisions, foreign income tax and the reversal of final tax assessments totalling Euros 7 million are also recognised as an increase in the current tax expense.

On 3 December 2016 Royal Decree-Law 3/2016 was published, adopting tax measures for the consolidation of public finances, which introduced relevant changes in the corporate income tax area. Among other matters, with effect from 1 January 2016 the obligation is laid down to reverse provisions for the impairment of shareholdings that would have been deductible before 2013 in a maximum term of five years, the offsetting of tax losses for large companies is limited to 25% of the preliminary tax base and the application of the tax credit for domestic or international double taxation generated or pending application is restricted to 50% of preliminary gross tax payable. Additionally, effective from 1 January 2017, losses on the transfer of shares will not be deductible. In 2020 and 2019 these measures did not have a significant impact on the Company’s financial statements.

Incomes that qualify to the tax credit for reinvestment of extraordinary profits provided by Article 42 of the revised Corporate Income Tax Act introduced under Legislative Royal Decree-Law 4/2004 (Revised CIT Act) and the resulting investments made in previous periods are explained in the annual accounts for the relevant years. The relevant breakdown is as follows:

Year of sale	Amount obtained from sale	Amount reinvested	Income qualifying for deduction	Year reinvested
2011	2	2	1	2011
2014	412	412	209	2014
Total	**414**	**414**	**210**	

The reinvestment was in fixed assets used in business activities, made by the Company itself or any other company included in the tax group by virtue of the provisions of Article 75 of the Revised CIT Act.

Income qualifying for the tax scheme for transfers of assets made in compliance with competition law (Additional Provision 4 of the Revised CIT Act) is explained below:

Year of sale	Amount obtained on the sale	Amount reinvested	Capital gain	Capital gain included in tax base	Capital gain pending inclusion in tax base
2002	917	917	462	19	443
2003	39	39	20	—	20
2004	292	292	177	9	168
2005	432	432	300	2	298
2006	309	309	226	—	226
2009	161	161	87	—	87
2010	752	752	551	—	551
2011	450	450	394	1	393
2012	38	38	32	—	32
Total	**3,390**	**3,390**	**2,249**	**31**	**2,218**

The reinvestment has been made in fixed assets used in business activities both by the Company and by the other companies in the tax group, pursuant to Article 75 of the Revised CIT Act.

A breakdown of the tax effect of each item on the Statement of Recognised Income and Expenses is as follows:

	At 31.12.20			At 31.12.19		
	Gross	**Tax effect**	**Net**	**Gross**	**Tax effect**	**Net**
Cash flow hedges	21	(5)	16	46	(12)	34
Actuarial gains and losses and other adjustments	(2)	1	(1)	53	(13)	40
	19	**(4)**	**15**	**99**	**(25)**	**74**

A breakdown of deferred taxes is as follows:

	At 31.12.20	At 31.12.19
Deferred tax assets:	193	177
- Non-current	180	162
- Current	13	15
Deferred tax liabilities:	(211)	(211)
- Non-current	(211)	(211)
Net deferred tax	**(18)**	**(34)**

Movements and breakdown of deferred asset accounts are as follows:

Deferred tax assets	Provisions	Tax credits	Valuation of assets and financial instruments	Goodwill	Other	Total
At 1.1.2019	**109**	**2**	**10**	**12**	**19**	**152**
Creation (reversal)	4	—	—	—	—	4
Movements linked to equity adjustments	13	—	12	—	—	25
Transfers and other	(5)	2	(1)	—	—	(4)
At 31.12.2019	**121**	**4**	**21**	**12**	**19**	**177**
Creation (reversal)	(4)	—	—	(1)	(17)	(22)
Movements linked to equity adjustments	(1)	—	5	—	—	4
Transfers and other	—	34	—	—	—	34
At 31.12.2020	**116**	**38**	**26**	**11**	**2**	**193**

Deferred tax liabilities	Differences Depreciation	Deferred gains	Other	Total
At 1.1.2019	**2**	**207**	**3**	**212**
Creation (reversal)	—	—		—
Movements linked to equity adjustments	—	—	—	—
Transfers and other	—	—	(1)	(1)
At 31.12.2019	**2**	**207**	**2**	**211**
Creation (reversal)	—	—	—	—
Movements linked to equity adjustments	—	—	—	—
Transfers and other	—	—	—	—
At 31.12.2020	**2**	**207**	**2**	**211**

In 2015, the demerger of the thermal and hydraulic power generation business from the Company to Naturgy Generación, S.L.U. was completed. Pursuant to Article 76.3 of Law 27/2014 on corporate income tax in force in 2015, this operation was defined as a non-cash contribution of a line of business and was thus subject to the special scheme provided by Title VII, Chapter VIII of that law. The information requirements stipulated in the special tax scheme are fulfilled in the notes to the Company's 2015 annual accounts.

In 2014, the demerger of the thermal and hydraulic power generation business from the Company to Naturgy Generación, S.L.U. was completed. Pursuant to Article 83.3 of Royal Decree-Law 4/2004 whereby the Revised CIT Act was approved, this operation is defined as a non-cash contribution of a line of business and is thus subject to the special scheme provided for in Title VII, Chapter VIII of said Act. The information requirements stipulated in the special tax scheme are fulfilled in the notes to the Company's 2014 annual accounts.

In 2009, the companies Unión Fenosa, S.A. and Unión Fenosa Generación S.A. were merged into the Company under the special tax scheme for mergers, spin-offs, asset contributions, share exchanges and changes of registered address of European companies or European cooperatives from one European Union Member State to another, provided by Title VII, Chapter VIII of the Revised CIT Act. The information requirements stipulated in the special tax scheme are fulfilled in the notes to the Company's 2009 annual accounts.

The tax inspection proceedings initiated against the Company in July 2018 as the parent company of Group 59/93 in relation to corporate income tax and as the parent company of Group 273/08 with respect to VAT concluded at the end of 2020. The periods under inspection for corporate income tax purposes (tax consolidation regime) were from 2011 to 2015 and for VAT purposes (corporate group regime) from June 2014 to December 2015.

The assessments raised on the conclusion of the proceedings have not had a material impact on the Naturgy companies as the resulting liability had already been provisioned.

As a result of the agreed tax assessments, a current tax liability has been recognised under "Trade and other payables" (Note 16), as the voluntary settlement period ends in 2021.

The assessments relating to the adjustment to the international double taxation credit was contested, as the company considers that its approach is supported by legal doctrine and case law on this matter. This amount has been recorded under "Provisions" (Note 12).

In accordance with Spanish tax legislation, at the date of preparation of these annual accounts, the Company's returns for the last four year for the principal taxes to which it is subject and which are not involved in the above-mentioned tax inspection are open to inspection.

Concerning tax-related appeals, on 30 September 2020 the Spanish National Court handed down a ruling on an appeal against the tax assessments resulting from an inspection on corporate income tax for the periods 2006-2008, which were contested and which basically regularised the tax deduction for export activities. This ruling has yet to be implemented and the resulting liability is recorded under "Provisions" (Note 12).

On 3 July 2019, the Central Economic-Administrative Court ruling of 14 May 2019 was received in relation to the administrative appeals filed against the assessments arising from the inspection of Naturgy's corporate income tax for 2009-2010, which had been contested and which regularised the tax credit for export activities and the exemption for international double taxation applied. This ruling partially upheld the appeal filed and its implementation has resulted in a refund in Naturgy's favour of Euros 5 million.

As a result, among other things, of the different interpretations to which current tax legislation lends itself, additional liabilities could arise as a result of an inspection. The Company considers, however, that any liabilities that might arise would not significantly affect these annual accounts.

Naturgy has recorded provisions for obligations deriving from a number of tax claims. There are no lawsuits or uncertain tax treatments which are individually significant (Note 12).

Spanish Act 11/2020, enacting the Central Government Budget for 2021, published in the Official State Gazette on 31 December 2020, amended certain articles of the Corporate Income Tax Act (Act 27/2014). The main amendments relate to a cap on the tax exemption for dividends and capital gains so that, for annual periods commencing on or after 1 January 2021, only 95% of those deriving from holdings of over 5% of share capital will be exempt and, consequently, those relating to holdings whose acquisition cost exceeded Euros 20 million cease to be exempt (although a transitional system is provided for the latter).

The tax consolidation system was also amended as dividends between companies in the same Tax Consolidation Group are no longer eliminated, resulting in effective taxation of 1.25% of dividends received and capital gains generated in Spanish companies receiving dividends from companies in which they own a stake of 5% or greater, even where the company distributing the dividend and the recipient both belong to the same Tax Consolidation Group.

Related to this measure, and for the purposes of calculating the cap on the deductibility of financial expenses in the case of holding companies where the dividends form part of their operating profit, only dividends from companies in which they own 5% or more will be considered, while dividends from holdings whose acquisition cost was greater than Euros 20 million are not included in the calculation.

Note 18. Revenue

Revenue breaks down as follows:

	2020	2019
Electricity sales	—	655
Natural gas sales and other	667	1,085
Other sales	—	5
Provision of services	1	—
Income from equity instruments of Group companies and associates (Note 7)	1,271	1,361
Income from marketable securities and other financial instruments of Group companies and associates	353	390
Total	**2,292**	**3,496**

	2020	2019
Domestic market	1,770	2,974
Export market:	522	522
- European Union	521	510
- Other countries	1	12
Total	**2,292**	**3,496**

Electricity and gas sales in 2019 were made basically in the domestic market and relate to gas and electricity sales to other Naturgy companies.

The Company also has gas supply contracts for other Naturgy companies and in the electricity area it acted as representative of the Naturgy generation and supply companies before the Electricity Market until 1 June 2019.

Note 19. Raw materials and consumables

Includes gas purchases related to the activity of selling gas to other Naturgy companies. In the previous year it also included sales of electricity prior to 1 June 2019.

Note 20. Personnel expenses

A breakdown of this heading in the income statement for 2020 and 2019 is as follows:

	2020	2019
Wages and salaries	66	91
Termination benefits	32	57
Social security costs	8	13
Defined contribution plans	2	5
Defined benefit plans (Note 12)	1	1
Share-based payments (Note 11)	2	3
Other	4	3
Total	**115**	**173**

The average number of Company employees in 2020 and 2019 is as follows:

	2020	2019
Executives	48	291
Middle management	214	138
Specialists	191	328
Operational staff	74	180
Total	**527**	**937**

In 2020, Naturgy implemented a new system for evaluating work posts that affects the comparison by category of both the average workforce and the workforce at the end of the year.

The average number of Company employees during 2020 and 2019 with a disability equal to or greater than 33% is as follows:

	2020		2019	
	Men	**Women**	**Men**	**Women**
Executives	—	—	2	1
Middle management	1	2	1	1
Specialists	3	1	7	3
Operational staff	1	—	5	6
Total	**5**	**3**	**15**	**11**

The number of Company employees at the end of 2020 and 2019 broken down by category and gender is as follows:

	2020		2019	
	Men	**Women**	**Men**	**Women**
Executives	29	8	163	94
Middle management	96	68	62	65
Specialists	65	82	95	173
Operational staff	8	49	32	134
Total	**198**	**207**	**352**	**466**

Note 21. Other operating expenses

A breakdown of this heading in the income statement for 2020 and 2019 is as follows:

	2020	2019
Leases, royalties, operation and maintenance	27	35
Professional services and insurance	19	23
Advertising and other commercial services	14	15
Contribution Naturgy Foundation	6	6
Banking services	6	6
Supplies	20	26
Taxes	1	1
Impairment losses and changes in trade provisions (Note 9)	(2)	1
Other	79	89
Total	**170**	**202**

The Company makes contributions to the Naturgy Foundation to enable it to carry out its energy and environmental projects, basically in the community area, as well to fund international initiatives.

In the community area, the Naturgy Foundation has broadened its activities to place greater emphasis on its community initiatives, defining new strategic lines for actions aimed at palliating energy vulnerability.

Note 22. Other operating income

This account includes Euros 149 million in transactions with group companies and associates in 2020 (Euros 206 million in 2019).

Note 23. Net financial income/(expense)

The breakdown of this account in the Income statement for 2020 and 2019 is as follows:

	2020	**2019**
Income from marketable securities and other financial instruments	5	11
Total financial income	**5**	**11**
Cost of borrowings	(326)	(402)
Interest expense on pensions (Note 12)	(3)	(5)
Other financial expense	(10)	(76)
Total financial expense	**(339)**	**(483)**
Variation in fair value of financial instruments	1	(5)
Net exchange differences	(2)	(2)
Net financial income/(expense)	**(335)**	**(479)**

Note 24. Foreign currency transactions

Transactions effected in foreign currencies are analysed below, the main currency being the US dollar:

	2020	**2019**
Sales	257	629
Income from marketable securities and other financial instruments of Group companies and associates	7	24
Purchases	(257)	(628)
Services received	(5)	(8)
Total	**2**	**17**

Note 25. Information on transactions with related parties

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

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

  Based on this definition, the significant shareholders of Naturgy are Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona ("la Caixa"), Global Infrastructure Partners III (GIP) and related companies and CVC Capital Partners SICAV-FIS, S.A. (through Rioja Acquisitions, S.à.r.l.).

– Directors and executives of the Company and their close relatives. The term "director" means a member of the Board of Directors and the term "senior management personnel" refers to personnel reporting directly to the Executive President and the Internal Audit Manager. Operations with directors and senior management personnel are disclosed in Note 26.

– Transactions between Naturgy companies form part of ordinary activities and are effected at arm's length. Group companies includes the amount that reflects the Company's share of the balances and transactions with companies consolidated under the equity method.

The aggregated amounts of operations with significant shareholders are as follows (in thousand Euros):

	2020			2019		
Income and expense (in thousand Euros)	**"la Caixa" group**	**CVC group**	**GIP group**	**"la Caixa" group**	**CVC group**	**GIP group**
Receipt of services	1	—	—	1	—	—
Total expenses	**1**	**—**	**—**	**1**	**—**	**—**
Total income	**—**	**—**	**—**	**—**	**—**	**—**
Other transactions (thousand euro)	**"la Caixa" group**	**CVC group**	**GIP group**	**"la Caixa" group**	**CVC group**	**GIP group**
Dividends and other profits distributed	339,625	283,813	282,795	333,486	268,548	267,584

The aggregated amounts of operations with group companies and associates are as follows (in million Euros):

	2020		2019	
Expenses, income and other transactions	**Group companies**	**Jointly-controlled entities and associates**	**Group companies**	**Jointly-controlled entities and associates**
Financial expenses	(292)	—	(444)	—
Lease expenses	(1)	—	(1)	(2)
Receipt of services	(24)	(1)	(12)	—
Purchases of goods	(353)	—	(340)	
Total expenses	**(670)**	**(1)**	**(797)**	**(2)**
Financial income	350	4	390	—
Dividends received	1,355	1	2,050	1
Sale of goods	516	—	1,651	—
Other income	148	1	205	1
Total income	**2,369**	**6**	**4,296**	**2**

In 2020, the heading “Purchases of goods” relates basically to natural gas purchases from Group companies (in 2019 it related mainly to purchases of electricity from other Group companies, since the Company acted as their market representative until 1 June 2019).

The heading "Dividends received" includes the supplementary dividend payments made against the share premium account, recorded as a Euros 85 million decrease in investments in Group companies (Euros 690 million in 2019) (Note 7).

”Sales of goods" includes sales of natural gas derived from supply contracts (in 2019 electricity sales were also included as it acted as the market representative of the Group companies).

The heading "Other income" includes income from services rendered in accordance with the nature and extent thereof (Note 22).

Costs shared between the Company and other Naturgy companies are allocated on the basis of business or cost generation parameters.

Detailed definitions are prepared of services to be provided and of related activities or tasks in order to determine the measurement indicators used to calculate costs allocated. Transactions between companies are objective, transparent, non-discriminatory and always effected at arm's length.

Note 26. Information on Board members and management Committee

Remuneration of the members of the Board of Directors

The remuneration policy for the members of the Board of Directors was approved at the General Shareholders' Meeting held on 26 May 2020 and is periodically reviewed and revised by the Board of Directors following a report from the Appointments and Remuneration Committee, in order to keep it aligned with the best practices in the reference market and with the objectives indicated in the By-laws.

The amount accrued by the members the Board of Directors of Naturgy Energy Group, S.A., for belonging to the Board of Directors, Executive Committee (EC), Audit and Control Committee (ACC), Appointments and Remuneration Committee (ARC) and Sustainability Committee (without additional remuneration), totalled Euros 3,955 thousand (with no increase as compared with 2019), broken down in euros as follows:

	Office	Board	AC	ARC	Total
Mr. Francisco Reynés Massanet	Executive Chairman	1,100,000	—	—	1,100,000
Mr. Ramón Adell Ramón	Coordinating Director	205,000	60,000	90,000	355,000
Mr. Enrique Alcántara-García Irazoqui (1)	Director	36,694	12,581	—	49,275
Mr. Marcelino Armenter Vidal	Director	175,000	—	60,000	235,000
Mr. Francisco Belil Creixell	Director	175,000	90,000	60,000	325,000
Ms. Lucy Chadwick (2)	Director	138,306	47,419	—	185,725
Ms. Helena Herrero Starkie	Director	175,000	60,000	—	235,000
Ms. Isabel Estapé Tous (2)	Director	138,306	47,419	—	185,725
Mr. Rajaram Rao	Director	175,000	12,581	47,419	235,000
Rioja S.à.r.l, Mr. Javier de Jaime Guijarro	Director	175,000	—	60,000	235,000
Mr. Pedro Sainz de Baranda Riva	Director	175,000	60,000	60,000	295,000
Mr. Claudi Santiago Ponsa	Director	175,000	—	60,000	235,000
Mr. Scott Stanley (1)	Director	36,694	—	12,581	49,275
Theatre Directorship Services Beta, S.à.r.l., Mr. José Antonio Torre de Silva López de Letona	Director	175,000	60,000	—	235,000
		3,055,000	**450,000**	**450,000**	**3,955,000**

(1) Since 16 March 2020
(2) From 16 March 2020

In 2020, as in 2019, no amounts were received for other items.

At 31 December 2020, the Board of Directors was still formed of 12 members, the Audit Committee of 7 members, the Appointments and Remuneration Committee of 7 members and the Sustainability Committee of 5 members, without the creation of this new committee having led to an increase in remuneration during 2020.

For the executive functions carried out in the year 2020, the Chief Executive Officer has earned Euros 2,976 thousand corresponding to fixed compensation (Euros 960 thousand), annual variable (Euros 1,918 thousand) and other items (Euros 98 thousand), although the amount corresponding to the annual variable remuneration will be settled as a discretionary contribution to the pension plan of which the Chief Executive Officer is a beneficiary, in accordance with the contractually established (in the year 2019 the amounts were Euros 930 thousand for fixed compensation, Euros 2,369 thousand for variable and Euros 72 thousand for other concepts; also, in the year 2019, the annual variable remuneration was settled as a discretionary contribution to the pension plan).

Contributions to pension plans and group contractual insurance policies, together with life insurance premiums paid, without considering the annual variable remuneration contributed discretionary to the social welfare plan mentioned above, totalled Euros 473 thousand in 2020 (Euros 477 thousand in 2019). Funds accumulated, including the amount corresponding to the earned annual variable remuneration to be settled as a contribution to the pension plan, amount to Euros 7,568 thousand at 31 December 2020 (5,232 thousand at 31 December 2019).

The Chairman's contract was approved by the Board of Directors on 6 February 2018 and provides for a fixed remuneration component, an annual variable component and a long-term incentive plan, as well as other welfare benefits.

At a meeting held on 31 July 2018 the Board of Directors approved a long-term variable incentive plan (LTI) in which the Executive Chairman and 25 other senior executives take part. It is arranged through the acquisitions of shares the main characteristics of which are described in Note 11. The new incentive required the adaptation of the Remuneration Policy and the Executive Chairman's contract, which were approved by the shareholders' general meeting held on 5 March 2019.

The Chairman's contract provides for an indemnity for termination or non-renewal as a director of two annual payments of the combined amount of total remuneration: fixed remuneration, annual variable remuneration and the annualized part of the long term remuneration (equivalent to 1.25 times total fixed remuneration). The indemnity will not be payable in the event of the serious and culpable nonfulfillment of his professional obligations causing significant harm to Naturgy's interests. In addition, as consideration for a post-contractual no-competition agreement of one year, an indemnity equivalent to one year's full fixed remuneration is provided for.

Except as mentioned for the CEO, the members of the Board of Directors of the Company have not received remuneration from profit sharing, bonuses or indemnities, and have not been given loans or advances. Neither have they received shares or share options during the year, nor have they exercised options or have options to be exercised.

The members of the Board of Directors are covered with the same liability policy that insures all managers and directors of Naturgy. The premium paid in 2020 by Naturgy Energy Group, S.A. for the entire policy amounted to Euros 316 thousand (Euros 140 thousand in 2019).

Transactions with Directors

The Directors have the obligation to avoid conflicts of interest as established by the Board Regulations of Naturgy Energy Group, S.A. and Articles 228 and 229 of the Spanish Companies Law. Additionally, these articles require that conflicts of interest incurred by the board shall be reported in the annual accounts.

During 2020, in two sessions of the Board of Directors, two directors have abstained from participating as inorganic investments were examined in which there was a conflict of interest with Naturgy. Except for these cases, the Directors of Naturgy have not reported any general conflict of interest to the Board of Directors.

In transactions with related parties (significant shareholders) that have been submitted for approval by the Board, subject to a favourable report of the Audit Committee, any directors linked to the related party involved have abstained.

During the years 2020 and 2019, the members of the Board have not carried out related transactions outside the ordinary course or transactions that are not conducted under normal market conditions with the company or Group companies.

Management Committee remuneration

For the sole purposes of the information contained in this section, Management Committee refers to executives reporting directly to the Executive Chairman, excluding the Executive Chairman, whose remuneration has been included in the previous section, and to the Internal Audit Director.

At 31 December 2020, 9 people make up this group, without taking into account the Internal Audit Director (11 people at 31 December 2019). During 2020 there has been 7 exits and 5 entries.

Amounts accrued to executives in respect of fixed remuneration, annual variable remuneration, multi-year variable remuneration and other items totalled Euros 5,170 thousand, Euros 2,755 thousand, Euros 79 thousand and Euros 428 thousand, respectively, in 2019 (Euros 6,217 thousand, Euros 3,452 thousand, Euros 1.081 thousand and Euros 362 thousand, respectively, in 2019). The long-term variable incentive plan (ILP) are described in Note 11 and Note 12.

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled Euros 1,128 thousand in 2020 (Euros 1,422 thousand in 2019). Funds accumulated due to these contributions amount to Euros 5,544 thousand at 31 December 2020 (Euros 17,967 thousand at 31 December 2019).

There are no advances granted to management personnel at 31 December 2020 (Euros 45 thousand at 31 December 2019). At 31 December 2020, same as in 2020, Naturgy had not granted any new guarantees on loans to management personnel. Severance benefits received by senior management personnel leaving Naturgy amounted to Euros 14,261 thousand in 2020 (Euros 3,832 thousand in 2019).

The contracts signed with the Management Committee (9) contain a clause that establishes compensation for termination of the relationship that varies from two total annual remuneration and three and a half total annual remuneration in others, in certain cases, which include certain situations of change in control, unfair dismissal or the cases contemplated in articles 40, 41 or 50 of the Statute of Workers. Likewise, 9 of these contracts contain a clause that establishes compensation equivalent to an annuity of fixed remuneration for post-contractual non-competition for a period up to two years.

Note 27. Contingent liabilities and commitments

Guarantees

Guarantees furnished by Naturgy at 31 December 2020 and 2019 are as follows:

- Guarantees provided to third parties, basically for investment commitments of Group companies, amounting to Euros 34 million (Euros 57 million at 31 December 2019).

- Guarantees to group companies Naturgy Capital Markets, S.A., Naturgy Finance, B.V. and Unión Fenosa Preferentes, S.A.U., for debt issuances carried out by them totalling Euros 10,551 million (Euros 10,335 million at 31 December 2019).

- Guarantees to group companies Naturgy Aprovisionamientos, S.A. and Gas Natural Europe, S.A.S for obligations under the gas purchase and transport contracts and gas tanker chartering agreements.

In 2019 the following guarantees provided by the Company were also included:

- Guarantees relating to the economic obligations resulting from its participation in the Spanish electricity system (MEFF and OMIE) for Euros 19 million at 31 December 2019, which have been cancelled.

- Guarantee for compliance with obligations under the administrative concession granted for USD 7 million (Euros 6 million) and guarantees for compliance with loan obligations relating to investee companies amounting to USD 78 million (Euros 69 million), which have also been cancelled in 2020 as the obligation ceased to exist due to the assignment to other Naturgy Group companies.

As the above guarantees are basically granted in order to guarantee the fulfilment of contractual obligations or investment commitments, the events that would lead to their execution, and therefore a cash disbursement, would be the nonfulfillment by Naturgy of its obligations in the ordinary course of its business, the probability of which is considered reduced. Naturgy estimates that the liabilities not foreseen at 31 December 2020 if any, that could arise from guarantees furnished, would not be significant.

Contractual commitments

At 31 December 2020, the Company is party to several gas supply contracts with “take or pay” clauses negotiated for “own use” (Note 3.5), by virtue of which it has gas purchase rights for the period 2021 - 2024 in the amount of Euros 547 million, calculated on the basis of natural gas prices at 31 December 2020 (2019: Euros 799 million based on natural gas prices at 31 December 2019).

Operating lease commitments break down as follows:

	2020	2019
Up to one year	17	19
Between 1 and 5 years	69	61
Between 5 and 10 years	42	43
	128	**123**

In 2020 this mainly includes operating leases without purchase options on seven properties, as detailed below:

Property	Situation	Maturity contract	Extension contract
Avda San Luis, 77	Madrid	2026	5 years
Acanto, 11-13	Madrid	2026	5 years
Calle Lérida	Madrid	2027	5 years
Avda América,38	Madrid	2030	2 periods of 5 years
Can Ametller	Sant Cugat del Valles (Barcelona)	2024	5 years
Diagonal, 525	Barcelona	2031	2 periods of 5 years
Torre del Gas	Barcelona	2021	—

Contingent liabilities for litigation and arbitration

The Company is involved in certain judicial and extrajudicial disputes within the ordinary course of its activities. At the date of preparation of these annual accounts, the main litigation or arbitration in which the Company is involved are the following:

Qatar Gas arbitration

In May 2015, Naturgy commenced an arbitration procedure against Qatar Liquefied Gas Company Limited in order, among other matters, to set the prices for gas supplies that it receives from said company between 2015 and 2017. Naturgy requested a price reduction and the supplier has requested an increase. The award was delivered on 3 February 2018 and contained various provisions that require negotiations between the parties, which gave rise to a second arbitration process. A second arbitration award was issued in June 2020, in addition to the one issued in February 2018, which concluded the claim filed in 2015 against Qatar Liquefied Gas Company Limited, its main decision being a 3.65% increase in the price paid in Spain. In addition, the award already allows this gas to be sold in various European terminals (France, United Kingdom, Belgium and the Netherlands). The settlement of this arbitration has not had a significant impact on the consolidated annual accounts.

Energy subsidy ("bono social")

The Supreme Court ordered the reimbursement of the amounts contributed by the Company to the social bond for 2014 to 2016 (Euros 74 million) in accordance with Royal Decree-Law 9/2013. However, this decision was appealed against by the government before the Constitutional Court. That Court revoked the Supreme Court decision and returned the proceeding to the point prior to the issuance of judgement. The Constitutional Court questioned why the Supreme Court had not applied for a preliminary ruling from the Court of Justice of the European Union and it applied for a preliminary ruling.

Unión Fenosa Gas

In 2014, Egyptian Natural Gas Holding (EGAS), an Egyptian public company, ceased to supply gas to Unión Fenosa Gas, a company 50% owned by Naturgy, and stopped paying the utilisation fee for the Damietta liquefaction plant. This led to Unión Fenosa Gas instigating arbitration proceedings at various locations (Madrid, El Cairo and the CIADI) against this supplier, which requested the nullity of the contract, and against the Arab Republic of Egypt. In December 2017 the arbitration proceedings against EGAS conducted in Cairo concluded with a decision that confirmed the position of Unión Fenosa Gas concerning the nonfulfillment of the relevant obligations. In August 2018 a decision was made in the investment protection arbitration proceedings (ICSID) against the Arab Republic of Egypt, ordering it to pay USD 2,013 million after taxes and before interest. A decision has yet to be issued in the arbitration being conducted in Madrid. On 21 December 2018, the Arab Republic of Egypt submitted an appeal to the ICSID against the award and requested its suspension while the appeal proceedings last, as has been done. In January 2020, as Egypt had not provided the guarantees established by ICSID, the suspension that had been provisionally decreed was lifted and enforcement actions were resumed, with the award having been approved in the United Kingdom and the Netherlands.

Following the agreement reached in February 2020 and terminated in April due to the failure to meet certain conditions precedent, in December 2020 Naturgy announced a new agreement with ENI and the Arab Republic of Egypt to amicably resolve the disputes affecting Unión Fenosa Gas. Following the conclusion of the relevant agreements in December 2020 the transaction is expected to be executed in early 2021, once the usual conditions precedent are met, including the resumption of operations in Damietta scheduled for the first quarter of 2021. The enforcement of the arbitration award is suspended while these conditions are met. The new agreement, approved by the Egyptian Cabinet, is in line with the previous agreement and values Union Fenosa Gas (100%) in a total consideration of up to USD 1,500 million, depending on the energy scenario, of which USD 1,200 million relates to its Egyptian assets (including the outstanding legal proceedings) and the remaining USD 300 million to assets outside Egypt.

At 31 December 2020, the balance sheet includes provisions for litigation based on the best estimate made using the information available at the date of preparation of these annual accounts on their progress and ongoing negotiations, which cover the estimated risks. The Company therefore considers that no significant liabilities will be derived from the risks described in the relevant section of this Note.

Note 28. Auditors' fees

The fees accrued in thousand euro by the company Ernst & Young, S.L. are as follows:

	Thousand Euros	
	2020	**2019**
Auditing services	696	693
Assurance services and services related to the audit (1)	55	179
Other services (1)	127	17
Total fees	**878**	**889**

(1) These headings include verification reports on non-financial information, comfort letters and advice on sustainability.

Note 29. Environment

Environmental actions

Naturgy is aware of its activities' environmental impacts and therefore the company pays particular attention to the protection of the environment and the efficient use of natural resources to meet energy demand.

As provided in the Corporate Responsibility Policy, Naturgy is committed to promoting the sustainable development of society by ensuring the supply of competitive and safe energy with maximum respect for the environment. This commitment is detailed in the Global Environmental Policy. Under this policy, based on its potential to contribute to the protection of the environment, Naturgy voluntarily assumes the commitment to be a key player in the energy transition towards a circular, low-carbon and digital economy. To this end, four strategic environmental axes have been established:

- Environmental governance and management
- Climate change and energy transition
- Circular economy and eco-efficiency
- Natural capital and biodiversity

The main milestones in 2020 in connection with governance and the environment were the creation of the Sustainability Committee within the Board of Directors and of the Environment and Social Responsibility Department under the Sustainability, Reputation and Institutional Relations Department, reporting directly to the Chairman. Additionally, the Company received first prize both the Spanish category (in which there were 115 candidates) and the European category (94 candidates) at the European Business Awards for the Environment, organised by the European Commission, in the Environmental Management section, which is granted to companies that combine environmental sensitivity with business success.

Environmental management is based on the ISO 14001 model, the correct functioning of which is audited externally each year, providing the tools required to ensure continuous improvement.

In the area of climate change and the energy transition, the main lines of action pursued in 2020 were expansion of renewable generating capacity, the closure of all of Naturgy's coal-fired plants in the first half of the year, which produced a sizeable reduction in atmospheric emissions of CO_2 and other pollutants, and the reduction in emissions that resulted from using natural gas in place of more polluting fossil fuels, such as coal and petroleum derivatives. In this connection, Naturgy obtained the highest rating in the CDP Climate Change 2020 (A List), the most prestigious index on the fight against climate change. The company also received a diploma for "Exemplary Business Action for the Climate" from Comunidad #PorElClima because of its work and commitment to address the climate emergency. As for results, direct emissions of CO_2 declined in 2020 with respect to 2019, in line with the company's climate objectives.

With regard to the circular economy, work was conducted on a number of lines. Firstly, energy efficiency improvement projects were carried out, both at our own facilities and at our customers', and initiatives were implemented that led to a reduction in the consumption of fuels and other materials. Actions were also taken to enhance waste recovery and reduce waste production, resulting in an improvement in the ratio. Water use increased slightly in 2020 with respect to 2019, although this was due primarily to greater recourse to sea water, since the use of fresh water, the scarcest and most sensitive water resource, was reduced.

Work continued in order to drive the use of renewable gas, produced from organic waste. In 2020, the company injected 2.02 GWh into the Spanish gas grid from the Butarque wastewater treatment plant under the ECOGATE European initiative, and construction commenced on the biomethane plant at the Elena landfill and on the injection unit at the Bens wastewater treatment plan, the goal being to inject renewable gas into the grid early in 2021.

In 2020, Naturgy conducted multiple actions in the natural capital and biodiversity area, all of which are aligned with preventing, reducing and offsetting our impacts, and with enhancing the value of the natural surroundings. Specifically, more than 265 biodiversity initiatives were implemented worldwide, 25% of them voluntary, and 1,982 environmental restoration actions were conducted.

The environmental activities undertaken by the Company in 2020 totalled Euros 3.9 million (Euros 3.8 million in 2019), comprising Euros 2 million relating to environmental investment and Euros 1.9 million relating to the costs of environmental management at facilities excluding those derived from the carbon market (Euros 0.3 million for environmental investments and Euros 3.5 million related to expenses incurred in environmental management at facilities in 2019). The investments include notably Euros 1.2 million in renewable projects in Spain and other countries, which will contribute to the energy transition and to reducing specific emissions of CO_2 and other atmospheric pollutants.

Finally, referring to possible contingencies, indemnities and other environmental risks that may be incurred by the company, third-party liability insurance policies are in place to cover any damage that might arise.

Emissions

In 2020, total consolidated CO_2 emissions from Naturgy's coal and combined cycle plants subject to regulations governing the European emission trading system totalled 6 million tonnes of CO_2 (6.2 million tonnes of CO_2 in 2019).

Naturgy devises a strategy each year for managing transfers to its CO2 emission allowance coverage portfolio, acquiring them through its active participation in both the primary and secondary markets.

Note 30. Events after the reporting date

On 15 January 2021, Naturgy, through Naturgy Solar USA, LLC, a wholly owned subsidiary, acquired a 100% holding in Hamel Renewables, LLC (United States) which holds a portfolio of 8 GW solar projects and 4.6 GW energy storage projects located in nine US states. The transaction represents an enterprise value of USD 57 million for 100% of the vehicle.

On 26 January 2021, Global InfraCo O (2), S.à. r.l., a company controlled by Australian fund IFM, announced a bid for Naturgy with the following characteristics:

- The takeover bid is voluntary and for a partial stake.
- It is for 220 million shares (approximately 22.69% of share capital) and is conditional upon attaining at least 17% of share capital.
- The price offered is Euros 23 per share.
- CVC and GIP have undertaken not to accept this takeover bid.
- The takeover bid is conditional upon obtaining authorisation from the Spanish Cabinet for foreign investments under article 7.bis of Act 19/2003.

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APPENDIX I. NATURGY TAX GROUP COMPANIES

The companies in the Naturgy tax group are as follows:

Naturgy Energy Group, S.A.	Naturgy Engineering, S.L.
Boreas Eólica 2, S.A.	Naturgy Future, S.L.U.
Comercializadora Regulada, Gas & Power, S.A.	Naturgy Generación, S.L.U.
Energías Ambientales de Somozas, S.A.	Naturgy Iberia, S.A.
Energías Eólicas de Fuerteventura, S.L.	Naturgy Informática, S.A.
Energías Especiales Alcoholeras, S.A.	Naturgy Infraestructuras Emea, S.L.
Europe Mahgreb Pipeline Ltd.	Naturgy Ingeniería Nuclear, S.L.
Explotaciones Eólicas Sierra de Utrera, S.L.	Naturgy Inversiones Internacionales, S.A.
Fenosa, S.L.U.	Naturgy IT, S.L.
Gas Natural Comercializadora, S.A.	Naturgy LNG, S.L.
Gas Natural Exploración, S.L.	Naturgy Nuevas Energías, S.L.U.
Gas Natural Redes GLP, S.A.	Naturgy Participaciones, S.A.
Gas Natural Transporte SDG, S.L.	Naturgy Renovables Ruralia, S.L.
General de Edificios y Solares, S.L.	Naturgy Renovables, S.L.U.
Global Power Generation, S.A.	Naturgy Wind, S.L.
GPG Ingeniería y desarrollo de Generación, S.L.U.	Nedgia Andalucía, S.A.
GPG México, S.L.U.	Nedgia Aragón, S.A.
GPG México Wind, S.L.U.	Nedgia Balears, S.A.
Holding de Negocios de Gas, S.A.	Nedgia Castilla La Mancha, S.A.
Holding Negocios Electricidad, S.A.	Nedgia Catalunya, S.A.
J.G.C. Cogeneración Daimiel, S.L.	Nedgia Cegas, S.A.
La Propagadora del Gas, S.A.	Nedgia Madrid, S.A.
Lean Corporate Services, S.L.	Nedgia Navarra, S.A.
Lean Customer Services, S.L.	Nedgia, S.A.
Lean Grids Services, S.L.	Operación y Mantenimiento Energy, S.A.
Lignitos de Meirama, S.A.	P.E. Nerea, S.L.
Naturgy Acciones, S.L.U.	P.E. Peñarroldana, S.L.
Naturgy Alfa Investments, S.A.U.	Petroleum, Oil & Gas España, S.A.
Naturgy Almacenamientos Andalucía, S.A.	Sagane, S.A.
Naturgy Aprovisionamientos, S.A.	Societat Eòlica de L'Enderrocada, S.A.
Naturgy Capital Markets, S.A.	Tratamiento Cinca Medio, S.L.
Naturgy Commodities Trading, S.A.	UFD Distribución Electricidad, S.A.
Naturgy Distribución Latinoamérica, S.A.	Unión Fenosa Minería, S.A.
Naturgy Electricidad Colombia, S.L.	Unión Fenosa Preferentes, S.A.U.

Naturgy Energy Group. S.A.
2020 Report

DIRECTORS' REPORT

Directors' Report for the year ended 31 December 2020

Contents

1. Main aggregates performance

The main financial aggregates of Naturgy Energy Group, S.A. and their performance are as follows:

	2020	2019	%
Net turnover	2.292	3.496	(34,4)
Operating profit	395	4.826	(91,8)
Profit of the year	98	4.415	(97,8)
Shareholders' equity	18.471	19.914	(7,2)
Net equity	18.393	19.853	(7,4)
Current liabilities	3.228	2.106	53,3

Naturgy Energy Group, S.A., is a company that develops its activity basically through the tendency of other group and associated companies shares, so information bellow refers to Consolidated group of Naturgy (hereinafter, Naturgy).

1.1. Business performance and results

Notes on financial disclosures

- Naturgy's financial disclosures contain magnitudes drafted in accordance with International Financial Reporting Standards (IFRS), and Alternative Performance Metrics (APM), which are viewed as adjusted figures with respect to those presented in accordance with IFRS. The attached appendix in Consolidated Directors' Report contains a definition of the APMs.
- The income statement and operating figures for 2019 have been re-stated due to the discontinuation in application of IFRS 5 of the following activities: gas networks in Peru, electricity networks in Chile and coal power generation in Spain (Notes 2.2 and 11 of the consolidated annual accounts).

Main aggregates

Main financial aggregates

	2020	2019	%
Net sales (1)	15,345	20,761	(26.1)
Ebitda (1)	3,449	4,252	(18.9)
Ebit (1)	466	2,634	(82.3)
Income attributable to equity holders of the parent (1)	(347)	1,401	(124.8)
Capital expenditure	1,279	1,685	(24.1)
Net borrowings (at 31/12)	13,612	15,268	(10.8)
Free cash flow after non-controlling interests	1,626	1,958	(17.0)

(1) The consolidated income statement for 2019 has been re-stated due to the discontinuation in application of IFRS 5 (Notes 2.2 and 11).

Key financials & metrics

	2020	2019
Leverage	54.70 %	52.20 %
Ebitda / Cost of net borrowings	6.9x	7.8x
Net borrowings / Ebitda	3.9x	3.6x

Main stock market ratios and shareholder remuneration

	2020	2019
Total no. of shares ('000)	969,614	984,122
Average no. of shares ('000)[1]	962,555	977,636
Share price at 31/12 (Euros)	18.9	22.4
Market capitalisation at 31/12 (Euros million)	18,384	22,044
Earnings per share (Euros)[1]	(0.36)	1.43
Dividend paid	1,370	1,319

[1] Calculated using the weighted average number of outstanding shares in the year (weighted average number of ordinary shares minus weighted average number of treasury shares).

Main operating aggregates

Distribution	2020	2019
Gas distribution (GWh)	403,910	465,844
Electricity distribution (GWh)	35,536	38,292
Gas supply points ('000)	11,052	11,075
Electricity supply points ('000)	4,727	4,689
Gas distribution network (km)	134,802	133,917
Length of electricity transmission and distribution network (km)	151,495	150,341

Gas	2020	2019
Supply (GWh)	184,018	214,975
International LNG (GWh)	133,979	124,277
Total gas supply (GWh)	**317,997**	**339,252**

Electricity	2020	2019
Thermal installed capacity (MW)	10,674	10,594
Renewable installed capacity (MW)	4,659	4,534
Total installed capacity (MW)	**15,333**	**15,128**
Thermal net production (GWh)	31,501	36,309
Renewable net production (GWh)	9,513	7,696
Total net production (GWh)	**41,014**	**44,005**

Environmental and social performance

Environment	2020	2019
Power generation emission factor (t CO2/GWh)	297	301
Greenhouse gas (GHG) emissions (M tCO2 eq)[1]	14.3	15.4
Emissions-free installed capacity (%)	32.9	30.1
Emissions-free net production (%)	32.4	27.0

Interest in people	2020	2019
No. of employees at year-end [2]	9,335	10,156
Training hours per employee	26.6	25.2
Men/women (%) [3]	67/33	68/32

Health and safety	2020	2019
No. of accidents leading to time lost	4	14
Frequency of accidents with time lost	0.04	0.12

Commitment to society and integrity	2020	2019
Economic value distributed (Euros million)	16,235	21,533
No. of complaints received by the Ethics Committee	80	149

[1] GHG: greenhouse gases, measured as tCO_2 equivalent (scope 1).
[2] Does not include the number of employees at discontinued operations (1,411 persons in 2020 and 1,769 persons in 2019).
[3] Including employees at discontinued operations.

1.2 Executive summary

- COVID-19 impacted operating performance in 2020 mainly in the form of lower gas and power demand in Spain and Latin America, a more challenging scenario in International LNG and relevant FX depreciation in key Latin American regions.

- The energy scenario remained challenging during the fourth quarter of 2020, with continued pressure on gas prices and the loss of competitiveness in gas procurement conditions in the liberalized activities which were also affected by one-off costs linked to the recent gas procurement contract renegotiations. The 2020 results were also impacted by the new regulatory framework and lower remuneration in electricity distribution Spain, as well as by the volume capacity step down in the EMPL, effective since February 2020.

- The 2020 results herein presented have been restated according to the new organizational structure i) Energy management and Networks, ii) Renewables and new businesses, and iii) Supply. Moreover results have also been restated to reflect the agreement to sell our Chilean electricity networks subsidiary, Compañía General de Electricidad S.A in Chile (CGE), to State Grid International Development Limited (SGID). As a result and for comparability purposes, Chile CGE has been classified as discontinued operations in the our consolidated accounts for both 2019 and 2020.

- Ordinary EBITDA stood at Euros 3,714 million in 2020, down 14.6% vs. previous year. At constant perimeter ordinary EBITDA would have reached Euros 3,964 million, hence meeting the Euros 4.0bn ordinary EBITDA guidance provided for 2020 despite the challenging scenario.

- Reported Net Income has been impacted by the asset valuation review completed during the 4Q20, which translated into an impact of Euros 1,019 million, in an effort to provide a more transparent and realistic value of our asset base, mainly impacting Spain thermal generation. Excluding this effect, ordinary Net Income reached Euros 872 million in 2020, down 36.7% vs. 2019.

- Total capex amounted to Euros 1,279 million in the period, down 24.1% vs. previous year. This reduction was mainly due to the lower growth investments in networks as a result of months of confinement and a temporary slowdown in renewable developments in Spain.

- As of 31 December 2020, Net debt amounted to Euros 13,612 million, not yet reflecting the pre-tax proceeds of Euros 2,570 million expected on completion of the disposal of CGE Chile. Net debt / LTM EBITDA stood at 3.9x compared to 3.6x as of 31 December 2019.

2020 review

2020 has continued to build on the foundations established in the Strategic plan 2018-2022, including significant progress on simplicity & accountability, business optimization, and capital discipline.

<u>Simplicity & accountability</u>

Naturgy has completed a reorganization of its business around the three strategic areas which will usher in a new period of profitable growth in networks, the expansion of our renewable footprint, and the buildup of a world-class retail brand, amongst others. To lead these areas, Naturgy has attracted three talented managers with proven track records and relevant entrepreneurial experience.

Naturgy has continued to reinforce the autonomy and accountability of its business units together with greater transparency, as evidenced in a new asset valuation review, to reflect a realistic value of our asset base consistent with the current scenario.

Naturgy has also taken decisive steps to further its ESG commitments. In its Environmental Plan, Naturgy has set new targets to reduce its greenhouse gas (GHG) emissions, reduce CO_2 intensity in power generation and increase the share of its generation capacity from renewable sources. The recent shutdown of the company's coal power plants and the plans to replace them with new renewable developments will contribute towards the above goals. In addition, a Sustainability Committee has been established at the Board of Directors level to supervise the company's progress and role in the energy transition along with all its environmental, health and safety, and social responsibility aspects and indicators.

Business optimization

2020 saw an acceleration of the 2018-2022 efficiency plan. Naturgy completed its Euros 500 million efficiencies target by the end of 2020, two years ahead of its initial target. These efforts have helped to partially compensate for the challenging energy scenario and the impact of the COVID-19 outbreak. Also during 2020, Naturgy completed gas procurement contract renegotiations for an aggregate volume of 15bcms with its gas suppliers in order to reduce its risk profile, increase its flexibility and improve its price indexation parameters to bring the gas procurement contracts closer to the current market conditions and improve its commercial competitiveness.

Furthermore, Naturgy, ENI and The Arab Republic of Egypt reached a new agreement to resolve the disputes affecting Union Fenosa Gas (UFG), the 50%/50% partnership between Naturgy and ENI. The parties are working towards completion of the transaction during the first months of 2021, once customary conditions precedent are met, including the restart of operations in Damietta planned in the first quarter of 2021, solving a complex situation which had lingered since 2012, consuming significant time and resources.

Capital discipline

Naturgy made solid progress on its renewable development plans and reached three attractive agreements in Australia. First, a 218 MW wind farm located at Victoria State which will start operations in second half of 2022, consisting of a 15 year PPA contract with the retailer Snow Hydro. Second, the award of a 107 MW wind farm and a 20 MWh battery energy storage system by the Australian Capital Territory (ACT) at a regulated tariff, expected to start operations in the second half of 2022. Third, a 97MW wind farm located at Hawkesdale in Victoria, approximately 270 km from Melbourne, consisting of a 15 years power purchase agreement (PPA) for the energy equivalent to 97MW capacity. With the new projects, Naturgy will increase its installed capacity in Australia by more than 50% above 700MW and confirms its commitment to renewables growth.

The company reached an agreement to sell its 96.04% equity shareholding in CGE for an implied EV (100%) of Euros 4,312 million, which demonstrates Naturgy's ability to execute transactions which maximize value for its shareholders.

In this respect, Naturgy has recently acquired 100% of a portfolio consisting of 8 GW solar projects together with 4.6 GW of co-located energy storage projects spanning 9 states in the U.S., of which 25 projects totaling 3.2 GW of solar and 2 GW storage could be operational before 2026. As part of the transaction, Naturgy also entered into a 5 year development agreement with Candela Renewables, a first in class team holding over 20 years of experience in the development of solar and energy storage projects in the U.S. This transaction represents Naturgy's first investment in the U.S. renewable energy market and demonstrates Naturgy's commitment to growing in renewables, focusing on stable geographies and early stage of development projects.

Shareholder remuneration

During 2020, Naturgy completed the cash payment of 1.41 €/share including the final payment of 2019 corresponding to 0.6 €/share and the 1st and 2nd interim dividends for 2020 amounting to 0.31 €/share and 0.50 €/share respectively. Moreover, and further to its commitment with shareholders, Naturgy completed the cancellation of 14,508,345 shares, with a nominal value of 1€ euro each. As of today, the share capital of the company stands at 969,613,801 shares of 1 euro of face value each.

COVID-19 update

Macroeconomic growth and energy demand

The COVID-19 has posed significant challenges to business activities and introduced a high degree of uncertainty on economic activity and energy demand on a global scale.

Throughout 2020, the evolution of GDP estimates for 2020 together with the recovery perspectives, have gradually deteriorated as a result of the spread of COVID-19 and the subsequent economic lockdown measures undertaken on a global scale. According to the latest available consensus estimates, 2020 GDP growth is expected to experience a contraction of -3.8%, -7.3% and -3.5% for the World, the Eurozone and the USA respectively, while 2021 forecasts reflect also a slower recovery than initially expected.

The slowdown in economic activity has had a significant impact on the evolution of electricity and gas demand globally and thereby on the various regions where the Group operates. In particular, electricity and gas demand in Spain decreased on average by 5.5% and 6.2% respectively during 2020 compared to 2019. Similarly, electricity and gas demand across the Latin American regions where the Group operates experienced a decrease on average of 2.3% and 8.3% respectively, during 2020 compared to 2019.

Furthermore and since the appearance of the COVID-19, LatAm currencies have significantly depreciated against EUR and its evolution from here remains uncertain. This had a negative effect of Euros 175 million and Euros 53 million on the consolidated Group ordinary EBITDA and Net Income respectively during 2020 and compared to 2019.

Evolution of commodity prices

Lower energy consumption caused by the coronavirus pandemic and uncertainty around Brent production cuts of major producers globally has translated into significant volatility and an unprecedented decline of commodity prices across key references, including a decrease of gas prices on major gas hubs (HH and NBP have decreased on average by 22% and 29% respectively during 2020 vs. 2019) as well as a decrease in wholesale electricity prices (Spanish pool has decreased by 29% on average during 2020 compared to the average of 2019).

Company initiatives

Naturgy has proactively taken a number of key measures to address and mitigate the impacts of the COVID-19 pandemic on their operations and performance, as well as to support and protect the interests of all its stakeholders. On 25 February 2019, less than 24 hours following the first confirmed COVID-19 case in the Iberian Peninsula, Naturgy activated its Crisis Committee and started taking steps to support its stakeholders.

Measures to preserve employee health, safety and well-being were quickly introduced, including the prompt suspension of travel and attendance to external events, the activation of resources to guarantee effective remote work, or individual protection and support by Naturgy's medical services. Relevant measures were also introduced to support society as well as customers and suppliers, including the reinforcement of key infrastructures to ensure the stability and quality of electricity and gas supply, free gas and electricity supply to hotels, residences and other hospitalized centers, or free of charge repairs for health workers and security forces and bodies, armed forces and fire fighters, involved in supporting society during the pandemic. Our SMEs and self-employed customers are also benefiting from the deferral of invoice payments for 12 months to support their short term financing needs, while some of our suppliers have benefited from cash payment advances in respect of their invoices.

2. Market trends, risks and opportunities

2.1. Risk management model

Naturgy's risk management model seeks to ensure that the company's performance is predictable in all aspects that are of relevance to its stakeholders.

The main objective of the model is to ensure that the main risks are properly identified, assessed and managed, the goal being to ensure that the level of risk exposure assumed by Naturgy in the course of its business is consistent with the company's defined overall risk profile and the attainment of annual and strategic objectives.

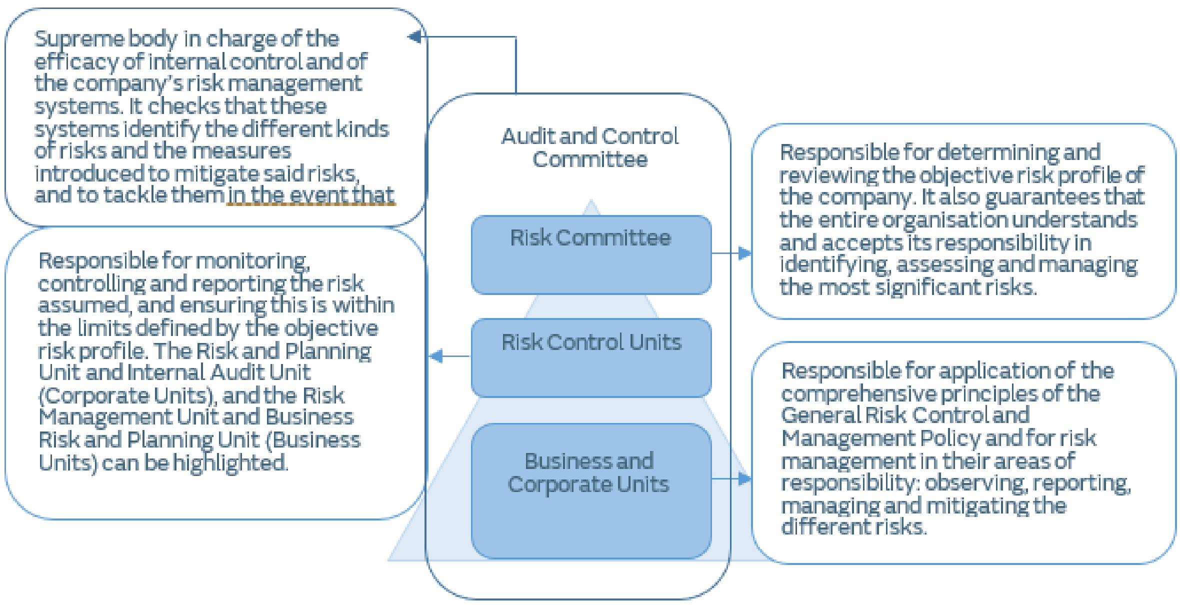
The Integrated Risk Management and Control System is structured as follows:

- Risk Appetite: definition of risk tolerance by setting limits for the main risk categories, by risk and by business, as a function of the targets.
- Risk Assessment: methodology, procedure and process for identifying, assessing and measuring risks.
- Risk Governance & Management: risk governance and management mechanism for all risk classes and all businesses.
- Risk Reporting: regular systematic reporting and monitoring of risk at the various levels of management: Business, Business Units, Chairman's Office and Board of Directors.

Risk management bodies

Naturgy has a framework integrating the vision of governance, risks and compliance so as to provide a 360º view of the group's processes, existing controls and the associated risks.

To this end, it has a number of bodies with clearly identified areas of responsibility, making it possible to ensure the predictability and sustainability of the company's operational and financial performance.



Comprehensive management

Naturgy analyses its overall risk profile on the basis of the potential impact on its annual accounts. In this way, it determines the maximum accepted level of risk exposure and the admissible limits.

The tools that enable the company to achieve continuous improvement in the process of identifying, characterising and determining Naturgy's risk profile are:

- Overall Risk Control and Management Policy: updated and approved by the Board of Directors of Naturgy in November 2020. Its purpose is to establish the general principles and standards of behaviour required to ensure proper identification, reporting, assessment and management of Naturgy's exposure to risk.
- Corporate Risk Map: identifies and quantifies the risks which might affect Naturgy's performance, considering the characteristics of the risk position (impact variables, potential severity in quantitative and qualitative terms, likelihood of occurrence, and degree of management and control). It is updated and submitted to the Audit and Control Committee every year.
- Other risk maps: these are developed by Naturgy's Business and Corporate units following a common methodology and serve as the basis for the Corporate Risk Map.
- Risk Measurement System: serves to quantify, on a recurring probabilistic basis, the risk position assumed overall in each risk category. To this end, it analyses correlated risks, analyses sensitivity and performs stress tests for the main identified risk.

Risk categories

Each business unit has specific information on the main types of risk that may affect it. The goal is to facilitate decision-making, which is positive for the company since it enhances profitability, predictability and efficiency.

Risk factors are grouped basically into the following risk categories:

- Business risk: Uncertainty associated with the pursuit and achievement of business units' objectives as a result of the emergence of factors that hinder the implementation of Naturgy's strategy, and that may have an impact on its value and/or on the annual accounts.
- Market risk, i.e. the uncertainty related to commodity volumes and prices.
- Regulatory risk, i.e. the potential impact on the achievement of strategic objectives produced by changes in the regulatory frameworks under which Naturgy businesses operate.
- Tax risk, arising from uncertainty as to whether the tax authorities will accept the tax treatment adopted in tax returns that have been filed or are to be filed.
- Legal risk, caused by the eventual outcome of litigation, arbitration or legal claims against Naturgy.
- Financial risk, understood as the uncertainty related to exchange rates and interest rates, which may impact the company's balance sheet and its ability to raise funding in the capital markets.
- Credit risk, i.e. the risk to the financial solvency of the company's receivables. It also incorporates the short-term measurement of returns on placing cash surpluses with financial institutions, the aim being to select the most efficient portfolios.
- Operational risk, i.e. the uncertainty associated with losses resulting from inadequate or faulty processes, personnel performance, operational asset availability or the occurrence of any external event.
- Environmental risk, associated with the possibility that natural phenomena or human action, may result in the environmental limits being exceeded or in damage to ecosystems and biodiversity.
- Climate Change Risk, arising from the energy transition (regulation, markets, technologies, etc.) and the physical impacts of climate change.
- Reputational Risk, i.e. uncertainty about trends in stakeholder's perception of the company's reputation as a result of conduct by the company or its employees, including corruption, and its influence on earnings in the short, medium and long term.
- Cybersecurity risk, arising from malicious attacks or accidental events with an operational impact that affect data, computer networks or technology.

– Fraud risk, derived from any intentional breach of the law by an employee or a third party to benefit themselves or the company, directly or indirectly, through the improper use of Naturgy resources or assets.

2.2. Main risks

Risk type		Description	Management approach	Metric		Trend
Business risks						
Macroeconomic context		Macroeconomic, social and geopolitical instability	Step up communications with government agencies. Adopt specific measures	Deterministic	↑	Impact of the COVID-19 health crisis
Market risks						
Commodity prices	Gas	Volatility in the international markets that determine the gas price.	Physical and financial hedges. Portfolio management	Stochastic	↑	Mismatch between long-term contracts and hub prices.
	Electricity	Volatility in electricity markets.	Physical and financial hedges. Optimisation of the generation fleet.	Stochastic	↑	Penetration by renewables with zero marginal cost and intermittent production.
Volume	Gas	Mismatch between gas supply and demand.	Optimisation of contracts and assets worldwide.	Deterministic/ Stochastic	⇄	Aggregate demand pressure.
	Electricity	Reduction of the available thermal gap. Uncertainty as to renewable production volume.	Optimisation of the supply-generation balance.	Stochastic	↑	Aggregate demand pressure.
Regulatory risk						
Regulatory		Exposure to reviews of criteria and returns recognised for regulated activities.	Step up communications with regulators. Adjust efficiency and capital expenditure to recognised rates.	Scenarios	↑	Pressure from regulators, as a function of the situation of the country/industry.
Tax risk						
Tax		Ambiguity or subjectivity in the interpretation of current tax regulations, or material amendments to same.	Queries to independent expert bodies. Engagement of top-level advisory firms. Adoption of the Code of Best Tax Practices. Recognition of provisions on a prudential basis.	Scenarios	⇆	Different business units are affected by different taxes.
Legal risks						
Legal		Uncertainty as to the eventual outcome of litigation, arbitration or legal claims.	Analysis and mitigation of legal risk affecting the company's operations and corporate governance. Engagement of top-level law firms. Recognition of provisions on a prudential basis.	Scenarios	⇆	Different business units are affected by different laws in each country.
Financial risk						

Exchange rate	Volatility in international currency markets.	Geographic diversification. Hedging via local-currency funding and derivatives. Monitoring the net position.	Stochastic	⇆	Uncertainty about growth prospects in Latin America.
Interest rate and credit spread	Volatility in funding rates.	Financial hedges. Diversification of funding sources	Stochastic	⇆	Uncertainty about interest rate scenarios.
Credit risk					
Credit	Uncertainty about bad debt trends driven by the economic cycle.	Analysis of customer solvency in order to define specific contractual conditions. Debt collection process.	Stochastic	↑	Transitory effect of COVID-19.
Operational risk					
Insurable risks	Accidents, damage or non-availability of Naturgy assets.	Continuous improvement plans. Optimisation of total cost of risk and of hedges.	Stochastic	↑	Growing tension in the insurance market in the face of natural catastrophes.
Environmental risk					
Environment	Exceedance of environmental limits or harm to ecosystems or biodiversity due to natural causes or human action.	Emergency plans at facilities with risk of environmental accident. Specific insurance policies. End-to-end environmental management.	Scenarios	⇆	Implementation of an Integrated Management System certified and audited each year by AENOR.
Climate change risk					
Climate change and energy transition	Uncertainty arising from the energy transition (regulation, markets, technologies, etc.) and the physical impacts of climate change.	Corporate positioning via the overall Environmental Policy and Environment Plan, which strengthen governance in climate issues and set emission reduction targets.	Stochastic/ Scenarios	↑	Regulatory uncertainty.
Reputational risk					
Image and reputation	Impairment of stakeholders' perception of Naturgy.	Identification and tracking of potential reputation events. Transparency	Scenarios	⇆	Stabilisation of MERCO index score.

Cybersecurity	Malicious attacks or accidental events with an operational impact that affect data, computer networks or technology.	Implementation of security measures; Event analysis and remediation measures; Training.	Scenarios	↑	The cybernetic scenario is becoming more demanding. Threat Protection Plan to mitigate the likelihood of these risks and their associated impact.

Metrics used:

- **Stochastic**: production of trend lines for the main magnitudes, taking the maximum deviation from the benchmark scenario to be the risk, within a pre-set confidence interval. Those magnitudes are generally EBITDA, earnings after taxes, cash flow and value.
- **Scenarios**: analysis of the impact with respect to the benchmark scenario of a limited number of possible incidents.

Financial risks (interest rate, exchange rate, commodity prices, credit risk, liquidity risk) are discussed in Note 14 to the Annual Accounts.

<u>Business risk</u>

Uncertainty in the macroeconomic context

World economic growth has been modest in the last decade, which has seen stagnation in Europe and contraction in a number of emerging economies. The Euro area has lagged other advanced economies in the recovery from the sovereign debt crisis, which also impacted Spain. Growth has accelerated in Europe since 2017, although the macroeconomic structural fundamentals did not appear to be sufficiently solid. In 2019, with the world economy drifting to stagnation, the Euro area began to decelerate, reflecting modest underlying inflation, and a loss of confidence by business and consumers, resulting in stagnation of consumer and capital spending.

This was compounded by political instability in some countries, particularly with regard to Brexit on 31 January 2020, with the consequent uncertainty as to future relations between the two parties.

At this time, there is no accurate information as to the scope and medium-term consequences of the COVID-19 health crisis or as to the scale and pace of the recovery. However, the macroeconomic and energy situation in 2020 was profoundly affected by the COVID-19 crisis, which resulted in lower demand for gas and electricity in Spain and Latin America and significant currency depreciation in key regions of Latin America.

Geopolitical exposure

Naturgy has interests in countries with varied political, economic and social environments. It is exposed to two main geographies:

- 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 fluctuations in economic growth rates;
  - 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
  - Political and macroeconomic instability.

- Middle East and Maghreb

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

Market risks

Electricity and gas price volatility

A significant portion of Naturgy's operating costs are related to the prices of natural gas and liquefied natural gas (LNG), both for supply in the regulated and liberalised markets in which it operates and to supply its combined cycle power plants.

In the gas supply business, the prices that Naturgy charges its customers generally reflect price trends in the natural gas market. However, since supplies are delivered under long-term contracts, in the event of sudden price changes, procurement costs may not reflect the variation in such prices in very competitive environments, possibly resulting in adverse variations in margins in the short term, with an impact on Naturgy's financial position. Market prices are clearly influenced by global demand dynamics, particularly the trends in Asian countries.

Naturgy's procurement contracts generally have mechanisms in the form of clauses that guarantee ordinary and extraordinary price reviews in the event of mismatches in procurement prices. These review processes make it possible to modulate the impact of mismatches between Naturgy's selling prices in its markets and price trends in its procurement portfolio, although the outcome depends on negotiations.

Gas and electricity volume risk

Most purchases of natural gas and liquefied natural gas (LNG) are made under long-term contracts, which include clauses under which Naturgy might be obliged to buy certain volumes of gas each year (take-or-pay clauses). Under such contracts, even if Naturgy does not need to acquire the volume of gas to which it is committed in a given time period, it will be obliged by contract to pay the minimum amount to which it is bound under the "take-or-pay" clause.

Those contracts contemplate volumes of gas that are in line with Naturgy's estimated needs. Nevertheless, actual needs may be lower than was estimated at the time of signing the contracts. If there are significant changes with respect to such estimates, Naturgy will be obliged to acquire a larger volume of gas than it actually needs or, failing that, to pay for the minimum amount of gas to which it is committed, even if it does not acquire more than it actually needs. Although such contracts have price review mechanisms and offer some flexibility in volume between time periods (make-up clauses), a decline in demand in the main markets or a loss of price competitiveness by the contracts might have an adverse impact on Naturgy's commercial and financial position.

In the area of electricity, Naturgy's earnings are exposed to shrinkage in electricity production volume, which is dependent on electricity demand. Additionally, given Naturgy's current generation mix, production volume may be affected by the growing importance of renewable energy production. Profits in this business may also be affected by the levels of renewable energy production, which might impact the production mix and costs.

A reduction in generation volumes entails greater uncertainty as to attainment of the target production/ supply balance and the variability of earnings.

Naturgy adopts an end-to-end approach to managing its contracts and assets worldwide in order to optimise its energy balances and be able to correct any deviation in the most cost-effective way possible.

Competitive pressure in the gas and electricity markets

As can be concluded from the aforementioned risks related to gas and electricity volumes and prices, Naturgy operates in a highly competitive environment. In particular, liberalisation processes in Spain and other major markets have had a significant impact on competitive pressure, on final market prices, and on the market share that can be retained. Moreover, global demand for gas has declined recently, resulting in a surplus of LNG. That pressure has been particularly high in the gas supply business in Spain due to the decoupling of short-term and long-term gas prices. The potential loss of competitiveness and market share until such time as those prices are realigned or the review of contractual prices is completed may have a material impact on Naturgy's earnings.

In the electricity industry, the liberalisation of the European market has increased competition due to the entrance of new players, with an impact on the Spanish market. As part of this process, the intensification of international exchanges and the introduction of greater competition has impacted liquidity and end prices in the Spanish wholesale market. All these factors may have an adverse impact on the development of the electricity generation and supply businesses.

Regulatory risk

Regulatory and legal risk

Naturgy and its subsidiaries are subject to compliance with the legislation applicable to the natural gas and electricity industries. In particular, the gas and electricity distribution businesses are regulated in most of the countries where Naturgy operates.

The legislation applicable to the natural gas and electricity industries in the countries where Naturgy operates is typically subject to regular review by the competent authorities. Such changes may affect the existing remuneration scheme for regulated activities, with an adverse effect on Naturgy's business, prospects, profits, subsidies and financial position.

In particular, during 2019, Spain's Royal Decree-Law 1/2019 revised the regulatory powers of the National Commission for Markets and Competition (CNMC) by adapting them to the requirements of EU law, empowering the CNMC to establish methodological frameworks for calculating the remuneration for gas and electricity distribution and transportation/transmission.

In the case of electricity distribution, CNMC Circular 5/2019 established the remuneration methodology for the next regulatory period (2020-2025); although it maintains the existing approach, it made a number of improvements to clarify the rules and promote efficiency, resulting in a decrease in remuneration that will be implemented progressively over the six-year period.

Regarding gas distribution, the CNMC maintained the regulatory model based on activity levels for the next regulatory period (2021-2026), with a gradual adjustment over the period. In April 2020, the CNMC approved a Circular under which the total remuneration for distributors will be reduced by 9.6% on average over the next regulatory period, assuming demand is unchanged and considering that the reduction in remuneration will be applied progressively over that six-year period.

Additionally, as a result of the COVID-19 crisis, most of the authorities in the countries where Naturgy operates have established temporary regulatory measures that may affect regulated businesses.

Naturgy is exposed to any amendment in the regulations or the law, and to the interpretation of such amendments. Where the competent public or private bodies interpret or apply such regulations in a way that differs from that adopted by Naturgy, its compliance might be questioned or challenged and, if it is found to be in breach, this might have a material adverse impact on Naturgy's business, prospects, profits, subsidies and financial position.

Naturgy manages regulatory risk on the basis of regular communication with the regulators. In addition, in its regulated activities, Naturgy adjusts its costs and investments to the allowed rates of return for each business.

Risks related to concessions, licenses and other administrative authorisations

Since most of the industries in which Naturgy operates are regulated, some of the activities require concessions, licenses or other administrative authorisations.

Consequently, the profitability and performance of Naturgy's investments are contingent upon obtaining and retaining such concessions, licenses and authorisations over the medium and long term, a matter that may be beyond the group's control. Any political, social or economic change in the relevant jurisdictions may affect business plans and have an unpredictable effect on the earnings and profitability of Naturgy's regulated businesses.

Operational risk

Naturgy's activities are exposed to various operational risks such as breakdowns in the distribution network, in power generation facilities and in LNG tankers, explosions, pollutant emissions, toxic spills, fires, adverse weather conditions, contractual breaches, sabotage or accidents in the gas distribution network or electricity generation assets and other damage and events of force majeure which may result in personal injury and/or material damage or destruction of Naturgy facilities or properties.

Additionally, claims might be brought against Naturgy for personal injury and/or other damage arising in the ordinary course of its operations. Such claims could result in the payment of indemnities under the legislation applicable in the countries in which Naturgy operates.

Although Naturgy has an extensive insurance programme that covers its operational exposure, the emergence of events such as those referred to above might impact Naturgy's financial position and results.

Moreover, the international reinsurance market has been adversely affected by the recurrence and severity of claims for natural catastrophes. This has resulted in an unprecedented toughening of conditions and the massive withdrawal of insurance capacity from the market, which might limit coverage, impact deductibles and/or significantly increase costs.

Environmental risk

Naturgy is aware of its activities' impacts on their surroundings and, consequently, pays particular attention to the protection of the environment and the efficient use of natural resources to meet energy demand. In its respect for the environment, Naturgy goes beyond compliance with the legal requirements and other voluntary environmental commitments and it involves its suppliers, works with stakeholders and fosters the responsible use of energy both in its own facilities and in those of its customers.

Improper management of climate change and its associated risks might result in material losses for the company as a result of higher exposure to natural catastrophes, the trend towards decarbonisation in the industry, and the loss of rapport with its stakeholders.

Additionally, inappropriate environmental management might result in environmental impacts and the deterioration of natural conditions and biodiversity in the areas in which the company operates. This, in addition to the direct impact on the natural environment, might cause reputational damage to the company, which is greater if the company has infrastructure and/or operations in protected areas.

Naturgy's facilities generate atmospheric emissions, liquid discharges, waste, etc. which, if they exceed certain limits, can have an impact on the environment, biodiversity or people. Moreover, accidents at the facilities may have negative consequences for the environment. To avoid this risk, the following measures are implemented throughout the projects' life cycle:

– For new facilities, the pertinent environmental and social surveys are carried out to avoid such impacts at the design stage, by adapting the design and incorporating the necessary preventive, corrective and compensatory measures.

- During construction, operation and decommissioning, operational control procedures are implemented and, where necessary, environmental risk assessment studies and emergency plans are produced to prevent incidents or minimise their negative effects. These procedures are tested via environmental emergency drills.
- Maintenance of an externally audited and certified environmental management system to prevent and reduce environmental risks in the entire value chain. Specific insurance policies have also been arranged to cover risks of this type.
- Themis system for identifying, logging, monitoring and managing legal requirements in all businesses and geographies.
- Enablon system for logging and centralised management of environmental indicators related to atmospheric emissions, consumption of raw materials, water and other resources, discharges, waste, etc.
- System for identifying and assessing environmental aspects in potential emergency conditions

Climate change and energy transition risk

In addition to the gas and electricity volume risks referred to above, there is also the effect of climate change. Demand for electricity and natural gas is linked to weather. A sizeable proportion of gas consumption during the winter months depends on the seasonal needs of the residential segment for space heating and of combined cycle plants to produce electricity. During the summer months, consumption is driven basically by electricity demand for air conditioning. Naturgy's revenues and earnings from the natural gas distribution and supply businesses might be adversely affected in the event of warm autumns or milder winters. Electricity demand might also decline if summers are cooler. Moreover, the level of utilisation of hydroelectric power plants depends on precipitation and might be affected by periods of drought. To a lesser extent, Naturgy might be affected by more frequent extreme weather events such as hurricanes, floods and droughts, which would interfere with its commercial operation.

Policies and measures established at European level to combat climate change might significantly affect Naturgy's earnings in the medium and long term depending on the pace of decarbonisation and the energy transition.

Naturgy is a member of a number of working groups at European level, which will enable it to adapt its strategy to new regulatory developments in advance. It is also involved in clean development projects aimed at reducing CO2 emissions.

Reputational risk

Naturgy has identified its stakeholder groups and subgroups and defines reputational risk as the gap between those groups' expectations and the Company's performance. Those stakeholder expectations are addressed through a Sustainability Plan that determines the lines of action to be implemented. In 2019, Naturgy developed a Sustainability Master Plan 2019-2022 which accompanies the transformation of the company and is aligned with the Business Plan 2018-2022, with the goal of facilitating the implementation of the strategy, seizing opportunities in sustainability, and implementing actions, as well as targets for such actions, in line with the commitments of the Corporate Responsibility Policy and the Sustainable Development Goals (SDGs).

The commitments under the Corporate Responsibility policy are expanded upon in the Global Environmental Policy, which applies to all geographies and lines of business. Under this policy, based on its potential to contribute to the protection of the environment, Naturgy voluntarily assumes the commitment to be a key player in the energy transition towards a circular, low-carbon, digital economy. To this end, four strategic environmental lines of action have been established:

1. Environmental governance and management
2. Climate change and energy transition
3. Circular economy and eco-efficiency
4. Natural capital and biodiversity

Cybersecurity risk

Naturgy is exposed to threats in connection with the availability, confidentiality, integrity and privacy of the information and technology that support business processes as well as the risk of non-compliance with regulations related to cybersecurity.

Such threats include, for example, unauthorised access and the use, disruption, modification or destruction of information as a result of terrorist acts, malicious attacks, sabotage and other intentional acts. Unauthorised access to information and technology systems can also compromise business or customer data, resulting in fines for non-compliance with data protection legislation.

Although Naturgy has contingency and security plans and insurance policies that cover such exposure, the group's financial position and reputation might be adversely affected by any of the events described above.

2.3. Main opportunities

Naturgy's main opportunities are as follows:

- **A balanced structural position** in businesses and regions, with stable flows, and a predominance of regulated or quasi-regulated businesses make it possible to optimise the capture of energy demand growth and maximise business opportunities in new markets.
- **Renewable generation**: Increase renewable capacity internationally, given that renewable energies are cost-competitive and considering Naturgy's presence in growth markets.
- **Operation and growth in Networks**, based on sound regulatory frameworks and focused on continuous improvement, digitalisation and automation
- **Technological development and innovation**: Naturgy invests in research and development in the areas of hydrogen, renewable gas, energy efficiency, sustainability, mobility and the fair transition as a means of securing a reliable, sustainable energy supply.
- **Portfolio of natural gas and LNG procurements**: Management of gas pipelines, stakes in plants and the fleet of LNG carriers make it possible to meet the needs of the Group's various businesses in a flexible, diversified way, guaranteeing the supply and making it possible to seize opportunities in the markets. Naturgy is one of the world's leading LNG operators and a key player in the Atlantic and Mediterranean.

3. Corporate governance

Attached as an Appendix and forming an integral part of this Directors' Report is the Annual Report on Corporate Governance 2020, as required by article 526 of the Capital Companies Act.

3.1. Corporate Governance Model

Naturgy is governed in accordance with the principles of efficiency and transparency in line with the main international recommendations and standards in this area.

The corporate governance terms of reference comprise basically:

- Articles of Association (adopted in 2018, updated in 2020).
- Regulations of the Board of Directors and its committees (updated in 2020).
- Regulations of the General Meeting of Shareholders (adopted in 2018, updated in 2020).
- Human Rights Policy (updated in 2019).
- Code of Ethics (updated in 2015).

The main shareholders of Naturgy as of 31 December 2020 and 2019 are as follows:

	Interest in share capital %	
	2020[4]	2019[4]
Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona, “la Caixa” [1]	24.8	24.4
Global Infrastructure Partners III [2]	20.6	20.3
CVC Capital Partners SICAV-FIS, S.A. [3]	20.7	20.4
Sonatrach	4.1	4.1

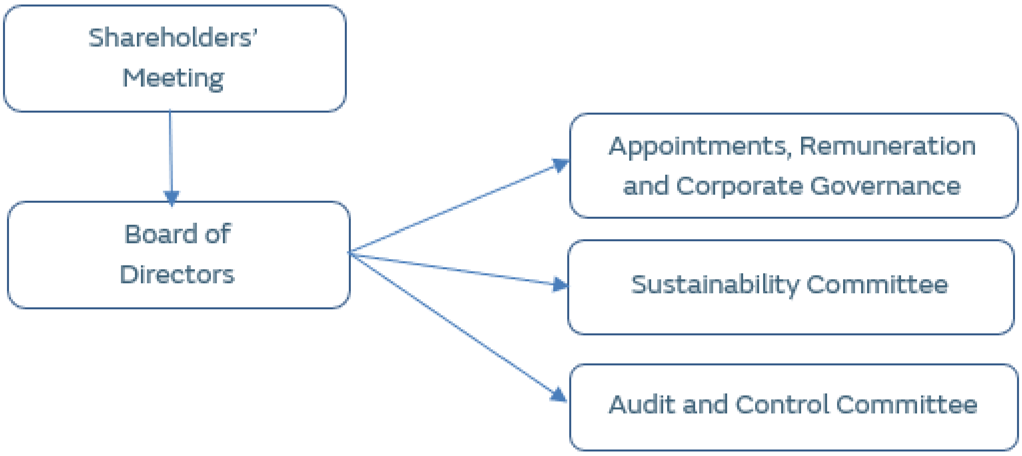
(1) Held through Criteria Caixa S.A.U.

(2) Global Infrastructure Partners III, which is managed by Global Infrastructure Management LLC, holds its stake indirectly via GIP III Canary 1, S.à.r.l.

(3) Through Rioja Acquisitions S.à.r.l.

(4) Capital Research and Management Company, which owned 3.0% of capital as of 31 December 2019, is not included on the grounds that it is floating capital as the stake occasionally rises above or falls below the 3% threshold.

Naturgy's governance structure is as follows:



3.2. Shareholders' Meeting

Any person who is a shareholder of record five days before the Shareholders' Meeting is entitled to attend the Meeting.

3.3. Board of Directors

The Board of Directors of Naturgy operates via plenary meetings and committees, in accordance with the requirements of the Capital Companies Act. Accordingly, the Board of Directors of Naturgy has an Audit and Control Committee, an Appointments, Remuneration and Corporate Governance Committee, and a Sustainability Committee, whose functions are as set out in the Act; a majority of members of the committees are independent directors.

Risk prevention and corporate responsibility are within the remit of the Board of Directors, which is the most senior body with responsibility for approving corporate governance and corporate responsibility policies. Each year, by drafting the respective reports, it reviews and approves disclosures of the risks and opportunities in those areas.

The main issues addressed by the Board of Directors in 2020 are as follows:

- Reflection on strategy
- 2020 Budget and continuous operational oversight
- Monitoring the COVID-19 crisis
- Monitoring the Company's activities
- Portfolio rotation plan
- Health and safety issues

- Financial and accounting information
- Risk map
- Shareholder remuneration
- Corporate governance: improvements in aspects of corporate governance in order to adapt to the recommendations in the CNMV's June 2020 Good Governance Code of Listed Companies, and approval of the annual reports on corporate governance and director remuneration, among other mandatory reports
- Notice of the Shareholders' Meeting: motions proposed by the Board, reports and supplementary documentation
- Selection and proposals for appointments in the governing bodies
- Employee remuneration
- Funding strategy
- Analysis of the main projects
- Cybersecurity

The Board of Directors of Naturgy has 12 members, the Audit and Control Committee has 7 members, the Appointments, Remuneration and Corporate Governance Committee has 7 members, and the Sustainability Committee has 5 members.

The composition of the Board of Directors and its sub-committees on 31 December 2020 is as follows:

Board of Directors		Audit and Control Committee	Appointments, Remuneration and Corporate Governance Committee	Sustainability Committee	Director category	Date first appointed to the Board
Executive Chairman	Mr. Francisco Reynés Massanet				Executive	06/02/2018
Lead director	Mr. Ramón Adell Ramón	Member	Chairman		Independent	18/06/2010
Director	Ms. Isabel Estapé Tous	Member		Member	Proprietary	16/03/2020
Director	Mr. Marcelino Armenter Vidal		Member		Proprietary	21/09/2016
Director	Mr. Francisco Belil Creixell	Chairman	Member		Independent	14/05/2015
Director	Ms. Helena Herrero Starkie	Member		Chairman	Independent	05/04/2016
Director	Mr. Rajaram Rao		Member		Proprietary	21/09/2016
Director	Rioja S.à.r.l, Mr. Javier de Jaime Guijarro		Member		Proprietary	08/01/2019
Director	Mr. Pedro Sáinz de Baranda Riva	Member	Member		Independent	27/06/2018
Director	Mr. Claudio Santiago Ponsa		Member	Member	Independent	27/06/2018
Director	Ms. Lucy Chadwick	Member		Member	Proprietary	16/03/2020
Director	Theatre Directorship Services Beta, S.à.r.l., Mr. José Antonio Torre de Silva López de Letona	Member		Member	Proprietary	18/05/2018
Secretary (not a director)	Mr. Manuel García Cobaleda	Secretary (not a director)	Secretary (not a director)	Secretary (not a director)	N/A	29/10/2010

3.4. Management structure

Naturgy's management structure consists of three business units (Energy and Networks, Renewables and New Businesses, and Supply) as well as corporate units to ensure centralised control.

Senior Management is defined as meaning the executives who report directly to the Executive Chairman, Mr. Francisco Reynés Massanet. As of 31 December 2020, it comprised the following departments:

Business Units

Energy and Networks, managed by Mr. Pedro Larrea Paguaga
Renewables and New Businesses, managed by Mr. Jorge Barredo López
Supply, managed by Mr. Carlos Francisco Vecino Montalvo

Corporate Units

Information Systems, managed by Mr. Rafael Blesa Martínez
Capital Markets, managed by Mr. Steven Fernández Fernández
Planning, Control and Administration, managed by Mr. Jon Ganuza Fernández de Arroyabe
Company and Board Secretariat, managed by Mr. Manuel García Cobaleda
Sustainability, Reputation and Institutional Relations, managed by Mr. Jordi García Tabernero
People and Organisation, managed by Mr. Enrique Tapia López

4. Forecast Group Performance

4.1. Foundations of strategy

The Business Plan 2018-2022, unveiled in London on 28 June 2018, established the group's business model, which is focused on value creation.

Through the Plan, Naturgy is focused on responding to its own industrial model, based on:

- Treating the energy transition as an opportunity.
- Being a flexible, competitive company.
- Transforming via digitalisation.
- Placing the customer at the centre of the model.

Treating the energy transition as an opportunity

Naturgy believes that natural gas and renewable energies will play a very important role in the transition to energies that produce lower CO2 emissions, as needed to meet the targets set in the 2015 Paris Agreement on climate change.

Moreover, Naturgy's infrastructure assets will play a vital role over the next few years in the process of electrification and of improving energy efficiency, supporting greater electrification and greater penetration by gas in countries where the company already operates.

Being a flexible, competitive company

Solid, tangible levers have been defined for achieving the efficiency goals set out in the Business Plan:

- Organisation: the businesses will be autonomous units with full responsibility for their results, while seeking to optimise company personnel. To this end, a number of changes have been implemented at the organisational level in both corporate governance and the organisational structure in order to facilitate decision-making and the business units' autonomy and responsibility, while always guaranteeing control by the parent company.
- Process re-engineering: reviewing service contracts with suppliers, establishing new cooperation relations with suppliers where necessary to achieve automation or outsource non-core tasks.
- Asset management: search for best practices to optimise asset maintenance based on predictive models and centres of excellence.

Naturgy presented an efficiency plan and undertook to cut annual operating expenses by Euros 500 million by 2022.

Transforming via digitalisation

The following key levers for digitalisation have been defined for 2022:

- Customer relations: 75% of services to be provided via digital channels and 20% penetration via Internet of Things (IoT).
- Processes and operations: Over 80% automation of internal processes and operations.
- Remote control of assets: Achieve 80% coverage of assets with sensors and remote control by 2022, from 56% at the end of 2017.
- Advanced analysis techniques: Data-driven management to be implemented in over 90% of processes Group-wide. The main projects to be undertaken in this connection will be in the following areas: develop predictive models for asset maintenance; use models to pursue customer segmentation, predict churn and apply advanced pricing approaches.

These projects are vital in driving the Group's transformation.

Placing the customer at the centre of the model

Enhance our commitment to the customer by placing them at the centre of Naturgy's strategy based on:

- A single customer experience model
- Defining services and solutions that provide added value to the customer.
- Improving customer segmentation.
- Innovation and digitalisation.

Key factors in this connection are technological innovations such as smart apps, smart meters, remote control, autoproduction of electricity, energy storage.

4.2. Value creation

The main objective of the Business Plan 2018-2022 is to guide the company towards value creation and lay the foundations for the Group's new industrial model. Naturgy's commitment to value creation is underpinned by four basic pillars: simplicity and accountability, optimisation, discipline in investment, and shareholder remuneration.

Simplicity and accountability

1. Corporate governance and organisation structure

In the area of corporate governance, major changes were made in 2018, such as reducing the number of members in the Board of Directors from 17 to 12 (the executive chairman, six proprietary directors and five independents).

The organisation structure was redesigned and a leaner corporate structure was adopted, the goal being for the businesses to operate autonomously with full responsibility, leaving corporate functions to focus on value-added processes and on ensuring centralised control.

A new Opex & Capex Committee was created with the task of ensuring the execution of the company's efficiency plan and for fulfilling the discipline in capital expenditure criteria set in the Business Plan.

With these changes, Naturgy simplified its corporate governance to streamline decision-making and redesigned its organisational structure to attribute greater autonomy and responsibility to the individual businesses.

2. Strategic positioning

Naturgy defined its strategic positioning on the basis of the following criteria:

	Where to invest	Where to divest
Markets	– Big markets with growth potential. – Where Naturgy has significant market share or critical mass. – That offer legal certainty. – Stable macroeconomic environments (e.g. EU, North America, OECD countries).	– Markets that are small and/or offer little growth potential. – High regulatory risk. – Highly concentrated. – Volatile macroeconomic environments.
Businesses	– Electricity or gas grids. – Renewables. – Sale of electricity under contract. – Customer services. – Controlling stakes.	– Low level of integration or synergy with the rest of the Group. – Unhedged volatility. – Non-controlling stakes.
Profitability	Above hurdle rate	Below hurdle rate

Naturgy's long-term strategic vision is to operate in fewer core geographies, maintaining the benefits of diversification but reducing its exposure to non-core or higher risk markets, increasing the weight of electricity in its mix of business vs. gas, and maintain a regulated profile that provides visibility and stability to your cash generation in the long term.

Optimisation

Financial strategy focuses on reducing Opex, optimising Capex and applying strict discipline in investments, pursuing organic development. All optimisation measures will be supervised by the Opex & Capex Committee.

Under the Business Plan 2018-2022, the company continued to optimise the businesses through additional efficiency measures, with the commitment to cut annual operating expenses by Euros 500 million in 2022. These efficiencies are focused on an analysis of the company's non-core activities and on the assignment of operational functions within each of the business units, all supported by digitalisation processes.

Disciplined investment

Four golden rules were defined to ensure value creation and profitable growth in both organic and inorganic investments:

– Establishment of a hurdle rate of return, setting minimum profitability targets for businesses, activities and countries so as to ensure value creation.
– A clear positioning focused on target markets and businesses.
– Industrial leadership via controlled subsidiaries.
– Risk management, minimising the volatility of commodity prices and exchange rates.

The objective of marked financial discipline is to strengthen the free cash flow that will sustain the investment and industrial growth of the group as well as an attractive and sustainable shareholder remuneration.

Shareholder remuneration

The company increased the dividend charged to 2018 earnings by 30% to Euros 1.30 per share.

Under the Business Plan 2018-2022, Naturgy made a commitment to its shareholders to increase the cash dividend by at least 5% per year until the end of the period and to pay dividends in three instalments:

1. at the end of the first half of the year (20% of the total dividend)
2. at the end of the third quarter (35%)
3. after the Shareholders' Meeting (the remaining 45%)

To reinforce the new shareholder remuneration policy, in the event that the company cannot find inorganic investments that meet the hurdle rate, it established that it can allocate a maximum of Euros 2 billion to buying back treasury shares, capped at Euros 400 million per year. As a consequence of the impact caused by COVID-19 and the level of uncertainty associated with future energy demand and other key variables, Naturgy decided to interrupt its own share buy-back program during 2020, to preserve greater flexibility and financial strength during the health crisis.

4.3. Implementation of the Business Plan 2018-2022

At present, Naturgy is working on the elaboration of a new strategic plan that reflects, among other things, the deterioration contrasted in the second half of the year derived from COVID-19 and with an impact on demand, macroeconomic scenario and commodity prices.

During 2020 Naturgy has continued to implement the strategic pillars established in the 2018-2022 Plan.

It has deepened to optimise and automate core processes and strengthen the company's position, focused on the financial structure and progress in the ESG commitments.

The main progress achieved in this connection includes:

<u>Business portfolio</u>

Throughout 2020, Naturgy deepened its transformation strategy through asset rotation with the aim not only of streamlining the portfolio but also of advancing determinedly in reducing risk profile and becoming a leader in the Energy Transition.

In November 2020, Naturgy reached an agreement to sell its 96.04% stake in Chilean company Compañía General de Electricidad (CGE) to Chinese state-owned company State Grid International Development Limited (SGI) for a total of Euros 2,570 million, fixed in euros and payable in cash once the transaction is completed.

In December 2020, Naturgy reached an agreement to amicably resolve the disputes affecting Unión Fenosa Gas (UFG), a company owned 50% each by Naturgy and ENI. The parties ratified the agreement whereby Naturgy will receive a series of cash payments and most of the assets outside Egypt, excluding UFG's commercial activities in Spain.

These agreements evidence Naturgy's ability to simplify and reduce the risk of its business position in order to allocate capital and resources to those businesses that maximise value creation for all its stakeholders.

<u>Reducing the Group's risk profile</u>

During the first half of the year, Naturgy began taking steps to reduce risk in its business portfolio by renegotiating its gas procurement contracts based on the ordinary and extraordinary review mechanisms contained in the contracts. Ultimately, this process will lead to a better alignment between the contracts and current market conditions.

The company also increased its liquidity to approximately Euros 10,000 million at the end of December, nearly Euros 2,000 million more than at the end of 2019. That figure, coupled with operating cash flow, enables the Group to comfortably meet its financial obligations in the foreseeable future.

Strengthening the team and adapting the organisation

Continuing with the transformation process, in 2020 Naturgy reorganised its businesses into three strategic areas: Energy and Networks, Renewables and New Businesses, and Supply. This new organisation provides greater visibility on business performance, and Naturgy hired three world-class executives with a proven track record and experience to manage them.

Redefining and optimising operations

The efficiency plan 2018-2022 was also accelerated. Naturgy currently expects to achieve its goal of Euros 500 million in efficiencies by the end of 2020, two years ahead of schedule. These efforts will partly offset the difficulties in the energy market and the impact of COVID-19.

Strengthening the ESG commitments (Environmental, Social, Governance)

In addition to efforts to support and protect stakeholders during the COVID-19 pandemic, Naturgy made decisive moves to implement its ESG commitments.

The Environment Plan adopted in December 2019 established new goals for reducing greenhouse gas emissions (cutting the CO2 intensity of power generation and increasing the proportion of power generated from renewable sources). The closure of the company's coal-fired power plants in June 2020 and the plans to replace them with new renewable plants will contribute to these objectives.

The company also created a Sustainability Committee at Board level to monitor progress and the company's role in the energy transition, together with all aspects and indicators related to the environment, health and safety and social responsibility.

5. Sustainable innovation

Management vision and approach

Innovation is one of Naturgy's key growth levers, as it enables it to adopt new or best practices, new business models and technologies that make the company more efficient and competitive. Always to the fore, putting the customer at the centre of what it does.

The approach to innovation enables risks to be transformed into opportunities, as a contribution to the creation of an agile company capable of riding the wave of constant transformation.

Naturgy considers that innovation is indispensable in order to achieve its strategic objectives.

In 2020, Naturgy's innovation model evolved and was integrated into the Renewables and New Businesses division, which will foreseeably expedite the process of implementing more disruptive business models.

Investment in innovation (million euro)

In 2020, a total of Euros 37 million were spent on innovation (Euros 36 million in 2019), as indicated below:

	2020	2019
Investment in innovation	37	36

Innovation governance

Roadmaps are designed for all the strategic lines of innovation, including guidelines and targets in both the short and long term, which contribute to the company's sustainability. This approach also ensures that innovation activities and projects are implemented in a coherent manner, with follow-up and assessment using consistent indicators.

The Innovation Model is based on six strategic innovation lines:

- Renewable generation and storage
- Advanced management of distribution assets
- Renewable gas and hydrogen
- Distributed generation and storage
- Sustainable mobility
- Customer solutions

Renewable generation and storage

Naturgy has a clear vision: to fulfil the commitment to combating climate change, the company's energy mix must evolve steadily towards an emissions-free model while always guaranteeing security and quality of supply.

Renewable energies will play a very important role in this new zero-emissions model and, to ensure continuity of supply, they must be supported by reliable storage systems. Consequently, the development of energy storage technologies is an essential part of this process.

The La Nava photovoltaic test area in Ciudad Real (Spain) was developed in 2020 for the purpose of testing solar panels, trackers and other equipment and assessing design parameters for photovoltaic solar generation facilities.

In the area of storage, development continued in 2019 of the project to hybridise the La Vega I & II wind farm with storage facilities; the goal is to demonstrate the technical feasibility of a manageable hybrid installation that can provide multiple electrical services to the farm itself and the grid; the facility was energised in the Autumn of 2020.

Advanced management of distribution assets

The energy transition marks a path towards a more distributed, more sustainable system with greater customer participation. This entails a new paradigm of electricity distribution based on distributed generation, electrification of demand, and the connection of electric vehicles. In this context, digitalisation is a key driver of the solutions to the challenges facing electricity distribution. The gas network also facilitates the integration of sustainable new technologies such as renewable gas.

SPIDER 2.0 was the most emblematic project in 2020 in the area of advanced management of electricity network assets. The project seeks to develop a sophisticated platform to aggregate information from conventional network devices, new IoT devices and weather, property and traffic data to achieve advanced network operation.

In the field of gas networks, and on a more global scale, Ris3CAT encompasses 3 projects with the participation of 48 partners to develop network digitalisation tools: sensorisation, predictive models and advanced asset management.

Renewable gas and hydrogen

Activities in the area of renewable natural gas were focused on developing green hydrogen and biomethane.

Biomethane is a fuel that is equivalent to natural gas but is obtained from renewable resources such as biomass or organic waste and, consequently, is neutral in terms of CO2 emissions. Therefore, it is a form of energy that contributes to the fight against climate change; it is part of the “circular economy” since it involves efficient waste management; and it also enables society to produce, distribute and consume autochthonous gas, which contributes to developing the local economy.

Actions to promote the use of renewable gas have focused on the production of biomethane from biogas and on methanisation with hydrogen, and developing pilot projects to research this type of gas in order to maximise production and reduce costs.

One of the company's success stories in this area is the Public-Private Renewable Gas Unit, developed with EnergyLab and the Public Sewage Treatment Company in the municipality of Bens (A Coruña, Spain), which obtained funding in order to continue research and development. This new phase will see completion of the work done to date on the combined biogas/biomethane research unit, which has achieved major results such as commissioning of a membrane based scrubber at the Bens wastewater plant and the first biological methanisation plant in Spain. There will also be a focus on other renewable gases, such as green hydrogen and bio-syngas, so as to assess their impact on existing infrastructure and end users.

Another success was the construction of a biomethane upgrading plant at the "Elena" landfill, a sealed landfill producing biogas located at the emblematic Parc de L’Alba development in Cerdanyola del Vallès. Installation of the plant makes it possible to stop flaring the biogas and make use of the renewable gas in the gas grid.

Distributed generation and storage

The publication of Royal Decree 244/2019, which regulates the new conditions for electricity autoproducers, represents an opportunity for the development of distributed generation based on photovoltaic solar energy in Spain.

The decline in the price of photovoltaic technology makes autoproduction increasingly affordable. This competitive advantage is enhanced by the possibility of joint ownership of autoproduction facilities offered by that Royal Decree. In 2020, a number of projects to explore new business models related to energy communities and the energy aggregator model were explored.

Sustainable mobility

During 2020, the company began a plan to install electric car charging stations along main roads in order to position itself as a national leader in sustainable mobility. It also continued to focus on the national rollout of a network of natural gas filling stations open to the public. Naturgy focuses particularly on improving the energy and economic efficiency of the filling stations, undertaking research in order to introduce storage technologies into both electric and natural gas filling stations.

In the field of liquefied natural gas, work continued on the LNG ON Wheels® project, a solution that will facilitate the supply of LNG through tanker trucks that connect directly to a ship or other supply infrastructure, making it possible to transport LNG to areas that were not previously accessible.

Customer solutions

Innovation makes it possible to create value for customers, by focusing on them, providing them with more sustainable solutions based on digital technologies and streamlining and transforming the relationship and communication with them.

The Smart client initiative seeks to personalise customer service using technologies such as artificial intelligence (AI) and the internet of things (IoT). During 2020, work was done on the Start4Big open innovation initiative (Smart IoT Labs) to develop a pilot project for identifying business opportunities in processing data from home sensorisation.

The Smart Channel initiative seeks to adapt the communication approach to the new digital reality by accelerating the digitalisation of communication channels using such technologies as Artificial Intelligence. The pilot test concluded in 2020 and Pepe, Naturgy's virtual assistant based on natural language processing driven by artificial intelligence, was deployed to automate customer care processes.

6. Non-financial information statement

The non-financial information statement for the year 2020, referred to in articles 262 of the Capital Companies Law and 49 of the Commercial Code, is presented in a separate report called “Sustainability report and Non-financial information statement 2020”, in which it is indicated, expressly, that the information contained in said document is part of the Naturgy Group's consolidated directors’ report (Appendix II).

This document is subject to verification by an independent verification service provider and is subject to the same approval, deposit and publication criteria as the Naturgy Group's consolidated directors’ report.

7. Additional information

7.1 Treasury shares

Movements during 2020 and 2019 involving the Company’s treasury shares are as follows:

	Number of shares	In million euro	% Capital
At 1 January 2019	**5,397,737**	**121**	**0.5**
Share Acquisition Plan	332,382	7	—
Delivered to employees	(310,812)	(7)	—
2018 buyback programme	11,169,458	279	1.1
Capital reduction	(16,567,195)	(400)	(1.6)
2019 buyback programme	5,162,320	121	0.5
At 31 December 2019	**5,183,890**	**121**	**0.5**
Share Acquisition Plan	470,000	8	—
Delivered to employees	(455,797)	(8)	—
2019 buyback programme	9,346,025	178	0.9
Capital reduction	(14,508,345)	(298)	(1.4)
At 31 December 2020	**35,773**	**1**	**—**

There were no gains or losses on transactions with treasury shares in 2020 and 2019.

On 5 March 2019, the shareholders in general meeting authorised the Board of Directors to purchase, within at most five years, in one or more operations, for good and valuable consideration, shares of the company that are fully paid-up, provided that the nominal value of the shares acquired directly or indirectly, added to those already held by the Company and its subsidiaries, does not exceed 10% of share capital or any other limit established by law. The price or value of the consideration may not be less than the par value of the shares nor higher than their listed market price.

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

Transactions with the Company's treasury shares relate to:

2020

– Share ownership plan: Executing the resolutions adopted by the Shareholders' Meeting of Naturgy Energy Group, S.A. on 5 March 2019, as part of the Share Ownership Plan 2020-2023, the plan for 2020 for employees of Naturgy in Spain who voluntarily applied was implemented. The Plan enables participants to receive part of their remuneration in the form of shares in Naturgy Energy Group, S.A., subject to an annual limit of Euros 12,000. In 2020, 470,000 treasury shares were acquired for an amount of Euros 8 million for delivery to the participants in the Plan; 455,797 shares were delivered, leaving a surplus of 14,203 shares.

– 2019 share buyback programme: the Board of Directors of Naturgy Energy Group, S.A. approved a share buyback programme, which was published on 24 July 2019, entailing a maximum investment of Euros 400 million through 30 June 2020, representing approximately 2.1% of share capital at the date of disclosure, which was ratified by the shareholders at the Shareholders' Meeting on 26 May 2020. At 30 June 2020, a total of 14,508,345 treasury shares had been acquired under this programme at an average price of Euros 20.6 per share, representing a total cost of Euros 299 million (5,162,320 treasury shares at an average price of Euros 23.3 per share, with a cost of Euros 121 million as at 31 December 2019), which were allocated to reducing capital.

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

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

    b. the 21,000,000 additional shares, with par value of Euro 1 each, which had been acquired and could continue to be acquired for cancellation by the Company under the share buyback programme ("Buyback programme") approved by the Company in accordance with Regulation (EU) No. 596/2014 on market abuse and disclosed as price-sensitive information on 24 July 2019 (registration number 280.517), with a deadline for acquisition of 30 June 2020, inclusive.

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

2019

– Share ownership plan: 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 2019. The Plan enables participants to collect part of their 2019 compensation in the form of shares of the Company, up to a limit of Euros 12,000 per year. In 2019, 332,382 treasury shares were purchased for Euros 7 million and 310,812 were delivered, leaving a remainder of 21,570 treasury shares.

– 2018 buyback programme: Within the Business Plan 2018-2022, the Board of Directors of Naturgy Energy Group, S.A. approved a share buyback programme, which was published on 6 December 2018, with a maximum investment of Euros 400 million to 30 June 2019, representing approximately 1.8% of share capital, which may be cancelled if so decided by the shareholders at the annual general meeting to be held in the first half of 2019. At 30 June 2019, a total of 16,567,195 treasury shares had been acquired under this programme at an average price of Euros 24.13 per share, i.e. a total cost of Euros 400 million, which were allocated to reducing capital.

– Capital reduction: At a meeting on 23 July 2019, the Company's Board of Directors resolved to implement the capital reduction resolution approved at the annual general meeting of shareholders held on 5 March 2019, whereby it approved a reduction in the share capital of Naturgy Energy Group, S.A. by the amount resulting from the sum of:

  a. Euros 3 million through the redemption of 2,998,622 treasury shares with a par value of 1 euro each which had been acquired at the close of trading on 6 December 2018.

  b. the aggregate par value, up to a maximum of Euros 16 million, corresponding to the amortisation of the up to 16,000,000 additional shares with a par value of Euros 1 each acquired for amortisation under the share buyback programme approved under Regulation (EU) No. 596/2014 on market abuse and disclosed as price-sensitive information on 6 December 2018.

  In this respect, as Naturgy Energy Group, S.A. had acquired a total of 13,568,573 shares at 30 June 2019 under the approved buyback programme referred to above, the Board of Directors set the figure for the capital reduction at Euros 17 million (the "Capital Reduction") and agreed to implement this reduction. The Capital Reduction was carried out through the cancellation of 16,567,195 treasury shares with a par value of 1 euro each, representing approximately 1.65% of the Company's share capital at the time of adoption of the resolution in question. Following the capital reduction share, capital stood at Euros 984 million, made up 984,122,146 shares with a par value of 1 euro each.

– 2019 share buyback programme: At 31 December 2019, a total of 5,162,320 treasury shares had been acquired under this programme at an average price of Euros 23.3 per share, representing a total cost of Euros 121 million.

Note 11 of the Notes to the Annual Accounts contains full information on treasury shares.

7.2. Disclosure of delays in payment to suppliers. Additional Provision 3 “Duty of disclosure” of Law 15/2010/5 July

The total amount of payments made during the year, with details of payment periods, in accordance with the maximum legal limit under Law 15/2010 of July 5, which laid down measures against late payment, is as follows:

	2020	2019
	Amount	**Amount**
Total payments (thousand euro)	458,021	1,947,320
Total outstanding payments (thousand euro)	18,284	18,540
Average supplier payment period (days) (1)	32	18
Transactions paid ratio (days) (2)	32	17
Transactions pending payment ratio (days) (3)	38	30

(1) Calculated on the basis of amounts paid and pending payment.

(2) Average payment period in transactions paid during the year.

(3) Average age, suppliers pending payment balance.

7.3. Subsequent events

Events subsequent to the end of the period are described in Note 30 of the Notes to the Annual Accounts.

8. Annual Corporate Governance Report

Attached as an Appendix and forming an integral part of this Directors' Report is the Annual Report on Corporate Governance 2020, as required by article 526 of the Capital Companies Act.

ANNUAL CORPORATE GOVERNANCE REPORT
FOR LISTED COMPANIES

IDENTIFICATION OF ISSUER

ENDING DATE OF REFERENCE FINANCIAL PERIOD | 2020

C.I.F. A-08015497

Registered Name:

NATURGY ENERGY GROUP, S.A.

Registered Office:

Avenida de San Luis, 77 – 28033 Madrid

A OWNERSHIP STRUCTURE

A.1 Complete the following table on the company's share capital:

Date of last change	Share capital (€)	Number of shares	Number of voting rights
21/07/2019	969.613.801	969.613.801	969.613.801

Please indicate if there are different types of shares with different rights associated:

YES NO **X**

Class	Number of shares	Face value	Number of voting rights	Rights and obligations

				conferred by

A.2 List the direct and indirect holders of significant ownership interests in your company at year-end, excluding directors:

Name or company name of shareholder	% voting rights attributed to the shares		% voting rights through financial instruments		% of total voting rights
	Direct	Indirect	Direct	Indirect	
GLOBAL INFRASTRUCTURE MANAGEMENT LLP		20,6%			20,6%
SOCIÉTÉ NACIONALE POUR LA RECHERCHE, LA PRODUCTION, LE TRANSPORT, LA TRANSFORMATION ET LA COMMERCIALISATION DES HYDROCARBURES	4.1%				4.1%
FUNDACIÓN BANCARIA CAIXA D'ESTALVIS i PENSIONS DE BARCELONA (LA CAIXA)		24,84%			24,8%
CVC Capital Partners SICAV-FIS S.A.		20,7%			20,7%

Detail of the indirect holding:

Name or company name of the indirect holder	Name or company name of the direct holder	% voting rights attributed to the shares	% voting rights through financial instruments	% of total voting rights
GLOBAL INFRASTRUCTURE MANAGEMENT LLP	GIP III CANARY 1, S.À R.L.	20,6%		20,6%
FUNDACIÓN BANCARIA CAIXA D'ESTALVIS i PENSIONS DE BARCELONA (LA CAIXA)	CRITERIA CAIXA S.A.U	24,8%		24,8%
CVC Capital Partners SICAV-FIS S.A.	RIOJA ACQUISITION S.À R.L.	20.7%		20,7%

Indicate the most significant changes in the shareholder structure occurred during the year:

Name or company name of shareholder	Date of the transaction	Description of the transaction

A.3 Complete the following tables regarding the members of the company's Board of Directors who hold voting rights over the company shares:

Name or company name of Director	% voting rights attributed to the shares		% voting rights through financial instruments		% of total voting rights	% voting rights that can be transferred through financial instruments	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
MR. FRANCISCO REYNES MASSANET		0.008			0.008		
RIOJA S.Á.R.L	0				0		
THEATRE DIRECTORSHIP SERVICES BETA, S.à.r.l.	0				0		
MRS. LUCY CHADWICK	0				0		
MR. PEDRO SAINZ DE BARANDA RIVA		0.002			0.002		
MR. RAMÓN ADELL RAMÓN	0.002				0.002		
MRS. ISABEL ESTAPÉ TOUS	0,0005				0		
MR. CLAUDIO SANTIAGO PONSA	0				0		
MR. MARCELINO ARMENTER VIDAL	0.001				0.001		
MR. FRANCISCO BELIL CREIXELL	0.001				0.001		
MRS. HELENA HERRERO STARKIE	0				0		
MR. RAJARAM RAO	0				0		

% total voting rights held by the Board of Directors	0.014%

Detail of the indirect holding

Name or company name of Director	Name or company name of the direct holder	% voting rights attributed to the shares	% voting rights through financial instruments	% of total voting rights	% voting rights that can be transferred through financial instruments
Mr. Francisco Reynés Massanet	FRINVYCO, SL	0.008			
Mr. Pedro Sainz de Baranda Riva	INVERSORES DE TORNÓN S.L.	0.002			

Observations:

A.4 Indicate, where applicable, the family, commercial, contractual or corporate relations which could exist between the owners of significant stakes, provided they are known by the company, unless they are irrelevant or arise from normal trading activities, excluding those enquired about in section A.6:

Name or company name of related parties	Relationship type	Brief outline

Observations:

See section A. 7

A.5 Indicate, where applicable, the commercial, contractual or corporate relations which could exist between the holders of significant shares and the company and/or its group, unless they are irrelevant or arise from normal trading activities:

Name or company name of related parties	Relationship type	Brief outline

CRITERIA CAIXA S.A.U	COMMERCIAL	The existing relationships derive from ordinary commercial traffic and are referred to in section D.2 and in the annual accounts.
CVC Capital Partners SICAV-FIS S.A.	COMMERCIAL	The existing relationships derive from ordinary commercial traffic and are referred to in section D.2 and in the annual accounts.
GIP III CANARY 1, S.À R.L.	COMMERCIAL	The existing relationships derive from ordinary commercial traffic and are referred to in section D.2 and in the annual accounts.

A.6 Describe the relationships, unless they are scarcely relevant to the two parties that exist between the significant shareholders or those represented on the board and the directors, or their representatives, in the case of legal entity administrators.

Explain, where appropriate, how significant shareholders are represented. Specifically, give details of those directors who have been appointed on behalf of significant shareholders, those whose appointment would have been promoted by significant shareholders, or who are linked to significant shareholders and/or entities of their group, with a specification of the nature of such relationships. In particular, mention shall be made, where appropriate, of the existence, identity and position of board members, or representatives of directors, of the listed company, who are, in turn members of the administrative body, or their representatives, in companies that hold significant holdings in the listed company or in entities of the group of said significant shareholders.

Name or company name of related director or representative	Name or company name of significant related shareholder	Company name of the significant shareholder group	Description of the relationship/position
MR. MARCELINO ARMENTER VIDAL	CRITERIA CAIXA S.A.U	Criteria Caixa SAU	Proprietary/Managing Director
		Caixa Capital Risc, S.G.E.I.C. S.A.	Vice-President – Managing Director
		Inmo Criteria Caixa, S.A.U.	Director
		Mediterránea Beach & Golf S.A.U.	Chairman and Managing Director

		Saba Infraestructuras, S.A.	Director
		Caixa Innvierte Industria, S.C.R., S.A.	Physical Person representing the Sole Administrator
		Criteria Industrial Ventures, S.A.	Physical Person representing the Sole Administrator
		Criteria Venture Capital, S.I.C.C. S.A.	Physical Person representing the Sole Administrator
MRS.ISABEL ESTAPÉ TOUS	CRITERIA CAIXA S.A.U	Fundación Bancaria Caixa d'Estalvis I Pensions de Barcelona	Proprietary/Patroness
		Criteria Caixa S.A.U	Director
Mrs. LUCY CHADWICK	GLOBAL INFRASTRUCTURE MANAGEMENT LLP		Proprietary/Employee
MR. RAJARAM RAO.	GLOBAL INFRASTRUCTURE MANAGEMENT LLP		Proprietary/Shareholder
MR. JAVIER DE JAIME GUIJARRO	CVC Capital Partners SICAV-FIS S.A.		Proprietary
MR. JOSÉ ANTONIO TORRE DE SILVA LÓPEZ DE LETONA	CVC Capital Partners SICAV-FIS S.A.		Proprietary/Employee

A.7 Indicate whether or not the company has been notified of parallel shareholders agreements that affect it as per Articles 530 and 531 of the Spanish Corporate Enterprises Act. Where applicable, give a brief description and list the shareholders associated with the agreement:

YES **X** NO

Parties to parallel shareholders agreements	% of share capital affected	Brief outline of agreement	Expiration date of the agreement, if there is one

CRITERIA CAIXA S.A.U GIP III CANARY 1, S.À R.L.	45,4%	The agreement reported in Relevant Fact No. 242612 of 12/09/2016 specifies that the intervening parties assume certain undertakings concerning corporate governance of the Company and which are for the purpose of respecting the rights to proportional representation both on the Board as well as on Committees.	
ALBA EUROPE S.À R.L. RIOJA CAPITAL RESEARCH AND MANAGEMENT COMPANY INVESTMENT S.À R.L,	20,7%	The agreement reported in Relevant Fact No. 265818 of 18 May 2018 was modified on 1 August 2019 to include the new shareholder, Rioja Acquisitions SARL replacing Rioja Bidco Shareholdings (Relevant Fact Nº 281047). This Agreement affects 1.- The proposal for designation of directors in representation of Rioja Acquisitions Sarl, 2.-The adoption of decisions on the Board at the Meeting, and 3.- The system for transfer of shares.	

Indicate whether or not the company is aware of the existence of concerted actions among its shareholders. Give a brief description as applicable:

YES NO **X**

Parties to concerted action	% of share capital affected	Brief description of the concerted action	Expiry date of the concerted action, if there is one

If any modification or cancellation of said agreements or concerted actions have taken place during the year, please make express mention of this:

NOT APLICABLE

A.8 Indicate whether any individual or legal entity currently exercise control or could exercise control over the company in accordance with Article 5 of the Securities Market Act. If so, identify:

YES NO **X**

Name or company name

Observations

A.9 Complete the following table on the company's treasury share:

At year-end:

Number of direct shares	Number of indirect shares (*)	% of total share capital
35.733	8,639,595	0,895%

OBSERVATIONS

Explain the significant changes over the year:

Details of significant changes
On 21 July 2020, the Company's Board of Directors agreed to implement the capital reduction agreement, approved by the Company's Annual General Meeting held on 26 May 2020, through the amortisation of 14,508,345 own shares with a par value of one euro each.

A.10. Give details of the terms and conditions corresponding to the General Meeting of Shareholders current mandate to the Board of Directors for issuing, repurchasing or assigning own shares.

1.- The General Meeting of Shareholders held on 5 March 2019, in item 5 on the Agenda, authorised the Board of Directors to agree to acquire company shares by onerous title and to do so within a deadline of five (5) years, under the following conditions:

Fifth.- To authorise the Board of Directors so that over a term of five (5) years it can acquire by onerous title, on one or several occasions, fully paid-out shares in the Company, so that the nominal value of the shares directly or indirectly acquired, when added to those that the Company and its shareholders already hold never exceeds 10% of the subscribed capital, or any other that were to be legally established for the same. The price or value of the consideration cannot be less than the nominal value of the shares nor exceed its price or value on the Stock Exchange. The Board are hereby authorised to delegate the current authorisation to the person(s) whom they deem fit. The current authorisation extends to the acquiring of shares in the Company for the named companies.

For the purposes of Article 146 of the Spanish Corporate Enterprises Act (Ley de Sociedades de Capital), the shares acquired under the current authorisation, as well as those that the Company and its subsidiaries already hold, may be delivered, either in full or part, directly or as a result of the exercising of option rights, to employees or administrators of the Company or companies in its Group.

This authorisation replaces and renders null and void, to the extent of the unused portion, the authorisation granted by the Board of Directors by the General Meeting of Shareholders held on 14 May 2015 to acquire by onerous title shares in the Company.

2.- The General Meeting of Shareholders on 26 May 2020, in item 8 on the Agenda, authorised the Board of Directors to agree on a reduction in share capital in 2020 through redemption of a maximum of 21.465.000 own shares by implementing a Share Buy-Back programme.

"Eight.- Reduce the amount of share capital of NATURGY ENERGY GROUP, S.A. (hereinafter, "the Company") up to a maximum of €21,465,000, corresponding to (i) 465,000 Own Shares held by the Company on close of the Market on 24 July 2019; and (ii) 21,000,000 additional shares, each with a nominal value of one euro acquired or to be acquired for redemption by the Company pursuant to the Own-Shares Buy-Back Programme (hereinafter the "Buy-Back Programme"), approved by the Company under the EU Regulation Nº 596/2014 on market abuse and published as Relevant Fact on 24 July 2019 (Registry Number 280,517), whose closing acquisition date expires on 30 June 2020, inclusive.
As a result, the maximum amount of the reduction in share capital (the "Share Capital Reduction") is €21,465,000, through the redemption of up to a maximum of 21,465,000 Own Shares with a nominal value of one euro each, proportional, approximately 2.18% of the share capital of the Company at the time of the adoption of the resolution. Accordingly, on 22 April 2020 the Company held in Own Shares 14.508.345 shares, acquired under the terms of the aforementioned Programme for redemption.
The definitive amount of the Share Capital Reduction shall be fixed by the Board of Directors of the Company depending on the definitive number of shares that are finally acquired pursuant to the Buy-Back Programme under the conditions established in the following section."

3.- The General Meeting of Shareholders held on 20 April 2017, in item fourteen (14) on the Agenda, authorised the Board of Directors to agree to the increase in share capital within a deadline of no more than five (5) years, under the following conditions:

*"**FOURTEEN.-** Authorisation for the Board of Directors, with powers to delegate said authorisation upon the Executive Committee, in accordance with the provisions of Section 297.1 b) of the Spanish Corporate Enterprises Act, in order that, within the maximum period of five (5) years, if deemed necessary, the share capital may be increased up to a maximum amount equivalent to half of the share capital at the time of the authorisation, with provision for incomplete share subscription, by way of the issue of ordinary, preferential or redeemable shares, with or without voting rights, with or without share issue premiums, by one or more share capital increase procedures and when and in the amount that is deemed necessary, including the power to waive, as the case may be, the preferential share subscription rights up to the limit of 20% of the share capital at the time of this authorisation herein , and to re-draft the corresponding Articles of the Articles of Association and to revoke the authorisation provided by the Ordinary Shareholders Meeting of 20 April 2012.*

1) *Taking into account the current amount of the share capital, to authorise the Board of Directors, with powers to delegate said authorisation upon the Executive Committee, to increase the share capital by the sum of FIVE HUNDRED MILLION THREE HUNDRED AND FORTY-FOUR THOUSAND SIX HUNDRED AND SEVENTY EUROS (€500,344,670.-.) within the period of five (5) years, as from today's date (20/04/2017), by means of monetary payments, by one or more share capital increase procedures and when and in the amount that is deemed necessary by the Board of Directors, by way of the issue of ordinary, preferential or redeemable shares, with or without voting rights, with or without share issue premiums, without the need for any new authorisation of the General Shareholders Meeting, as well as to modify the Articles of Association that are required for the share capital increase or increases that are carried out by virtue of the aforementioned authorisation, with provision for incomplete share subscription, and all of the foregoing in accordance with the provisions of Section 297.1 b) of the Corporate Enterprises Act, and to revoke the authorisation provided by the Shareholders Meeting of 20 April 2012.*

2) *The Board of Directors is expressly empowered, with powers to delegate this to the Executive Committee, to fully or partially exclude the preferential subscription right with regard to all or any of the issuances agreed in accordance with the provisions of this authorisation. This power is limited to the fact that the exclusions of the pre-emptive subscription right do not exceed, as a whole, 20% of the Company's current share capital.*

A.11 Estimated floating capital:

	%
Estimated floating capital	29.7

A.12 Indicate whether there is any restriction (statutory, legislative or of any other nature) on the transferability of securities and/or any restrictions on the voting

rights. In particular, the existence of any type of restrictions that may make it difficult to take control of the company through the acquisition of its shares in the market, as well as those authorisation or prior notification systems that apply to acquisitions or transfers of financial instruments of the company through sectoral regulations, will be reported.

YES **X** NO

Description of the restrictions
As a Company that incorporates certain regulated and quasi-regulated assets and activities into its Group, the acquisition of NATURGY ENERGY GROUP S.A. shares may be subject to the provisions laid down in Additional Provision 9 of Law 4/2013, of 4 June, governing the National Commission on Markets and Competition. Given its nature as a major operator in the gas and electricity markets, the holding of its shares is subject to the restrictions laid down in article 34 of Decree-Law 6/2000, governing Urgent Measures to intensify competition in the goods and services markets. Royal Decree-Laws 8/2020, 11/2020 and 34/2020 have established certain restrictions on foreign investment - including intra-Community investment - which affect NATURGY ENERGY GROUP S.A., both because it is a listed company and because it operates in a sector subject to investment control.

A.13 Indicate whether the General Meeting of Shareholders has agreed to take up measures of neutralisation against a takeover bid by virtue of the provisions laid down in Law 6/2007.

YES NO **X**

If appropriate, explain the measures approved and the terms under which the restrictions would not be enforceable:

A.14 Indicate whether the company has issued securities not traded in a regulated market of the European Union.

YES NO **X**

If appropriate, indicate the different types of shares and, for each type of share, the rights and obligations conferred.

B GENERAL MEETING OF SHAREHOLDERS

B.1 Indicate and, where applicable, give details of whether the quorum required for constitution of the General Meeting of Shareholders differs from the system of minimum quorums established in the Corporate Enterprises Act ("LSC" in Spanish).

YES NO **X**

	% quorum different to that laid down in Article 193 LSC for general cases	% quorum different to that laid down in Article 194 LSC for special cases
Quorum required for the first call to meeting		
Quorum required for the second call to meeting		

Description of the differences

B.2 Indicate and, as applicable, describe any differences between the company's system of adopting corporate agreements and the framework established in the Corporate Enterprises Act ("LSC" in Spanish):

YES NO **X**

Describe how the system differs from that of the LSC.

	Reinforced majority other than that laid down by Article 201.2 LSC for the cases of 194.1 LSC	Other cases of reinforced majorities
% laid down by the institution for the adoption of agreements		
Describe the differences		

B.3 Indicate the rules governing amendments to the company's Articles of Association. In particular, indicate the majorities required to amend the Articles of Association and, if applicable, the rules for protecting shareholders' rights when changing the Articles of Association.

The amendment of the Articles of Association is regulated in article 6.2 of the Articles of Association and in article 12 of the Regulations on the General Meeting of Shareholders, which is supplemented with the corresponding provisions of the Corporate Enterprises Act.

The shareholders constituted in a duly convened General Meeting of Shareholders, shall generally decide by simple majority vote on the matters which fall to the terms of reference of the Meeting. In such case an agreement shall be deemed adopted when it obtains more votes in favour than against of the share capital either present or represented.

All shareholders, including dissidents and those that have not taken part in the meeting, are subject to the resolutions of the General Meeting of Shareholders.

In order for the ordinary or extraordinary General Meeting of Shareholders to validly agree the issue of bonds convertible into shares or bonds that give bondholders a share in company profits, the increase or reduction of share capital, the removal or limitation of the preferential subscription right for new shares or convertible bonds, as well as the transformation, merger, spin-off or global assignment of assets and liabilities, the transfer of the company’s registered office abroad and, in general, any modification to the Articles of Association, will require, at the first call to meeting, the attendance of shareholders, either present or represented, that hold at least fifty percent (50%) of the subscribed share capital with voting rights. In the second call to meeting, it will be sufficient for twenty-five (25%) of the share capital to be present.

The modification of the Articles of Association must be agreed by the General Meeting of Shareholders and requires the concurrence of the following requisites:

1) The Board of Directors or, where appropriate, the shareholders that make the proposal, must compile a written report with justification for the amendment.

2) The call to meeting must clearly express the proposed points of change, as well as the right all shareholders have to examine, at the registered office, the full text of the proposed modification and a report on this. They also have the right to ask for handover or free-of-charge sending of said documents.

3) The agreement must be adopted by the General Meeting of Shareholders in accordance with the provisions set out in these Articles of Association.

4) Under the circumstances, the agreement must be set out in a public deed, which will be registered with the Mercantile Registry and published in the Official Bulletin of the Mercantile Registry.

B.4 Indicate the attendance data of the General Meetings held during the financial year to which this report refers and that of the previous financial year:

	Attendance data				
Date of General Meeting of Shareholders	**% physical presence**	**% represented**	**% remote voting Electronic Vote**	**Other**	**Total**
27/06/2018	68.69%	15.13%	0%	0%	83.82%
Of the floating capital 2018	0.2%	15.1%	0%	0%	15.3%
05/03/2019	72.12%	13.06%	0%	0%	85.18%
Of the floating capital 2019	2.55%	13.06%	0%	0%	15.61%
26/05/2020	64,07%	11,39%	0%	0%	75,46%

Of the floating capital 2020	1,40%	11,39%	0%	0%	12,79%

B.5 Indicate whether at the General meetings held during the year there has been any item on the agenda that, for whatever reason, has not been approved by the shareholders.

Yes □ No X

Agenda items that have not been approved	% of votes against (*)

(*)<u>**If the non-approval of the item is for a reason other than a vote against, this will be explained in the part of the text and "n/a" will be placed in the "% of votes against" column".**</u>

B.6 Indicate whether or not there is a statutory restriction to the minimum number of shares required to attend the General Meeting of Shareholders.

YES NO **X**

Number of shares required to attend the General Meeting of Shareholders	
Number of shares required to vote remotely	

OBSERVATIONS

B.7 Indicate whether it has been established that certain decisions, other than those established by Law, which involve the acquisition, disposal, the contribution to another company of essential assets or other similar operations must be submitted to approval of the general meeting of shareholders.

YES NO **X**

Explanation of the decisions that must be submitted to the board other than those established by law

B.8 Indicate the URL of the company and the means of access to corporate governance content and other information concerning the general meetings and which must be made available to shareholders through the company's website.

With regard to the Corporate Governance section, the path is as follows: https://www.naturgy.com/accionistas_e_inversores/gobierno_corporativo/normas_de_gobierno
With the following itinerary www.naturgy.com → Shareholders and Investors → Corporate Governance.

With regard to the General Meeting of Shareholders section, the itinerary is as follows:
https://www.naturgy.com/accionistas_e_inversores/gobierno_corporativo/junta_ge

neral_de_accionistas, with the following itinerary www.naturgy.com → Shareholders and Investors → General Meeting of Shareholders.

C STRUCTURE OF THE COMPANY'S MANAGEMENT

C.1 Board of Directors

C.1.1 Maximum and minimum number of directors stipulated in the Articles of Association and the number set by the General Meeting of Shareholders:

Maximum number of directors	15
Minimum number of directors	11
Number of directors set by the General Meeting of Shareholders	12

Observations

C.1.2 Complete the following table with Board members' details.

Name or company name of Director	Representative	Type of director	Position on the board	Date of first appointment	Date of last appointment	Election procedure	Date of birth
Mr. Francisco Reynés Massanet		Executive	Chairman	06/02/2018	27/06/2018	Agreement General Meeting of Shareholders	08-04-1963
Mr. Ramón Adell Ramón		Independent	Coordinating Director	18/06/2010	27/06/2018	Agreement General Meeting of Shareholders	09-01-1958
Mrs Isabel Estapé Tous		Proprietary	Director	16-03-2020	26-05-2020	Acuerdo Junta General de Accionistas	05-04-1957
Mr. Marcelino Armenter Vidal		Proprietary	Director	21/09/2016	26-05-2020	Agreement General Meeting of Shareholders	02-06-1957
Mr. Francisco Belil Creixell		Independent	Director	14/05/2015	27/06/2018	Agreement General Meeting of	24-05-1946

						Shareholders	
Mrs. Helena Herrero Starkie		Independent	Director	04/05/2016	26-05-2020	Agreement General Meeting of Shareholders	13-06-1959
Mr. Rajaram Rao		Proprietary	Director	21/09/2016	26-05-2020	Agreement General Meeting of Shareholders	03-04-1971
RIOJA S.à.r.l	Mr. Javier de Jaime Guijarro	Proprietary	Director	01/08/2019	26-05-2020	Agreement General Meeting of Shareholders	26-11-1964
Mr. Claudio Santiago Ponsa		Independent	Director	27/06/2018	27/06/2018	Agreement General Meeting of Shareholders	20-09-1956
Mr. Pedro Sainz De Baranda		Independent	Director	27/06/2018	27/06/2018 (accepted 6-07-2018)	Agreement General Meeting of Shareholders	23-03-1963
Mrs Lucy Chadwick		Proprietary	Director	16-03-2020	26-05-2020	Acuerdo Junta General de Accionistas	11-02-1967
THEATRE DIRECTORSHIP SERVICES BETA, S.à.r.l.	Mr. José Antonio Torre de Silva López de Letona	Proprietary	Director	18/05/2018	27/06/2018	Agreement General Meeting of Shareholders	23-10-71

Total number of directors	12

Indicate the removals from office due to resignation, dismissal or for any other reason that have occurred on the Board of Directors during the reporting period:

Name or company name of Director	**Category of director**	**Date of last appointment**	**Date of vacancy**	**Specialist committees**	**Indicate whether**

	at time of vacancy			of which he or she was a member	the removal from office occurred before the end of the mandate
D. Enrique Alcántara-García Irazoqui	Dominical	20/04/2017	16-03-2020	CAU	YES
Scott Stanley	Dominical	05-03-2019	16-03-2020	CNR	YES

Reason for the dismissal, when it has occurred before the end of the term of office and other observations; information on whether the director has sent a letter to the other members of the board and, in the case of dismissals of non-executive directors, an explanation or opinion of the director who has been dismissed by the AGM
Mr. Stanley resigned from his position as a director of the Company and member of the Appointments and Remuneration Committee, by means of a communication sent to the Chairman of the Board, with effect from 16 March Mr. Stanley did not send any specific communication to the other members of the Board but the President informed the Board members that the reason he had communicated was to enable a greater presence of women in the Board. Mr. Alcántara presented his resignation as a proprietary director and member of the Audit and Control Committee at the beginning of the Board meeting held on 16 March 2020. Mr Alcántara explained his reasons to the other members of the Board during that meeting which included encouraging a greater presence of women on the Board.

C.1.3 Complete the following tables on board members and their respective categories:

EXECUTIVE DIRECTORS

Name or company name of Director	Position in the company's management structure	Profile
Mr. Francisco Reynés Massanet	Executive Chairman	Engineering and international business profile: Industrial Engineer, specialising in mechanics, with a degree from the Polytechnic University of Barcelona, and an MBA from IESE; he has also completed Senior Management programmes in the United States and Germany.

Total number of executive directors	1
% of the entire board	8.33%

OBSERVATIONS

EXTERNAL PROPRIETARY DIRECTORS

Name or company name of Director	Name or title of significant shareholder represented by the director or that has proposed the director's appointment	Profile
Mrs Isabel Estapé Tous	CRITERIA CAIXA S.A.U	Economic and business profile: Graduate in Economics and Business Studies. Notary Public. Director of Criteria Caixa and Patron of la Caixa. She is also a full member of the Royal Academy of Economic and Financial Sciences.
Mr. Marcelino Armenter Vidal	CRITERIA CAIXA S.A.U	Economics and business profile: Degree in Business Administration and Management and Master's degree in Business Administration and management from ESADE.
Mr. Rajaram Rao	GIP III Canary 1 S.à r.l..	IT, economics and international business profile: Qualified Electronic and Telecommunications Engineer. He also holds an MBA from the University of Delhi and a Master's degree in Finance from the London Business School.
Rioja S.à.r.l. (Mr. Javier de Jaime Guijarro)	Rioja Acquisitions Sarl, S.L.U	Economics and business profile: Graduate in law from the Comillas University (ICADE) and MB from Houston University.
Mrs. Lucy Chadwick	GIP III Canary 1 S.à r.l.	International business and economic profile: She is a member of GIP's senior management. Formerly Director General of International and Environment at the UK Department for Transport.
THEATRE DIRECTORSHIP SERVICES BETA, S.à.r.l. (Mr. Jose Antonio Torre de Silva López de Letona).	Rioja Acquisitions S.a.r.l	Economics and business profile: Degree in industrial Engineering from the Higher Technical School of the Comillas Pontifical University (ICAI) and MBA from the University of Navarre (IESE).

Total number of proprietary directors	6
% of the entire board	50.00%

OBSERVATIONS

EXTERNAL INDEPENDENT DIRECTORS

Name or company name of Director	Profile
Mr. Ramón Adell Ramón	Expert financial and accounting profile: Doctorate in Economics and Business Administration. Lawyer. Professor of Financial Economics and Accounting at the University of Barcelona. An academic from the Royal Academy of Economic and Financial Sciences of Spain and Honorary Member of the European Doctorate Degree Holders and Dr. H.C. (Consedoc).
Mr. Claudio Santiago Ponsa	IT and international business profile; energy sector: Degree in Computer Engineering from the Autonomous University of Barcelona (UAB) and International executive programme (INSEAD) through the Executive International Business at Georgetown University.
Mr. Francisco Belil Creixell	Engineering and international business profile: Senior Engineer. He has been CEO of the Southwest Europe region at Siemens and Chairman of the German Chamber of Commerce for Spain and the Federation of the Spanish Chemical Industry.
Mr. Pedro Sainz de Baranda Riva	Engineering and international business profile; capitals market: Mining Engineer from the University of Oviedo, PhD in Engineering, Rutgers University of New Jersey and an MBA from the Sloan School of Management of Massachusetts Institute of Technology (MIT).
Mrs. Helena Herrero Starkie	IT, and R&D&i and international business profile: Degree in Chemical Sciences. She is the Chairperson and CEO of Hewlett Packard (HP) for Spain and Portugal.

Total number of independent directors	5
% total of the board	41.66%

OBSERVATIONS

Indicate whether or not any director qualified as independent receives from the company, or from its group, any amount or benefit for an item other than remuneration as director, or holds or has held, over the last year, a business relationship with the company or any other group company, whether in their own name or as a significant shareholder, director or senior executive of an entity that maintains or has maintained any such relationship.

Where appropriate, include a reasoned statement from the board on the grounds why it believes this director many perform his/her duties as an Independent Director.

Name or company name of Director	Description of the relationships	Reason statement

OTHER EXTERNAL DIRECTORS

Identify all other external directors and explain why these cannot be considered proprietary or independent directors and detail their relationships with the company, its executives or shareholders:

Name or company name of Director	Reasons	Company, executive or shareholder with whom the relationship is maintained	Profile

Total number of external directors	
% total of the board	

OBSERVATIONS

List any changes in the category of each director which have occurred during the year:

Name or company name of Director	Date of change	Former category	Current category

OBSERVATIONS

C.1.4 Complete the following table with information regarding the number of female directors at the close of the last four financial years, and their category:

	Number of female directors				% of total directors of each type			
	Financial year Q	Financial year Q-1	Financial year Q-2	Financial year Q-3	Financial year Q	Financial year Q-1	Financial year Q-2	Financial year Q-3
Executive	0	0	0	0	0	0	0	0
Proprietary	2	0	0	0	33,33%	0	0	0
Independent	1	1	1	3	20%	20%	20%	50 %
Other external	0	0	0	0	0	0	0	0
Total:	3	1	1	3	25%	8,33%	8,33%	17,65%

OBSERVATIONS

C.1.5 Indicate whether the company has diversity policies in relation to the Board of Directors of the company with regard to issues such as age, gender, disability, or professional training and experience. Small and medium-sized enterprises, in accordance with the definition contained in the Accounts Auditing Law, will at least have to report the policy they have established in relation to gender diversity.

Yes **No** **Partial policies X**

If yes, describe these diversity policies, their objectives, the measures and the way in which they have been applied and their results over the year. Also indicate the specific measures adopted by the Board of Directors and the Appointments and Remuneration Committee to achieve a balanced and diverse presence of directors.

If the company does not apply a diversity policy, explain the reasons why

Description of the policies, objectives, measures and manner in which they have been applied, as well as the results obtained
Naturgy's Director Selection Policy includes guidelines aimed at selecting candidates whose appointment fosters professional, expertise and gender diversity on the Board of Directors. In any case, it should be noted that said Policy is applied with full respect to the right of proportional representation legally recognised to shareholders. The Appointments and Remuneration Committee ensures that the selection procedures do not include any implicit bias that could involve any discrimination whatsoever.

During the Shareholders' Meeting of 26 May 2020, it was made public the Company's commitment to implement measures that favour gender diversity in the composition of the Board of Directors and announced at the General Shareholders' Meeting the objective of achieving 30% by the end of 2020 and 40% by the end of 2021 of female presence. Throughout 2020, the resignation of some of the proprietary directors allowed substantial progress to be made in terms of gender diversity, with all vacancies being filled by women: Ms Isabel Estapé to fill the vacancy of Mr Alcántara and Ms Lucy Chadwick to fill the vacancy of Mr Stanley. Both appointments were made by cooption at the Board meeting held on 16 March 2020 and subsequently ratified and appointed at the Shareholders' Meeting held on 26 May 2020. The same Shareholders' Meeting agreed to appoint Helena Herrero, whose term of office had expired, for a new term. In conclusion, 100% of the vacancies produced during 2020 have been filled by women.

C.1.6 Explain the measures which, where appropriate, have been agreed by the Appointments Committee so that the selection procedures are unaffected by any implicit bias that hampers the selection of female directors, and which shows that the company purposefully seeks and includes women that satisfy the professional profile sought among the potential candidates and to achieve a balanced presence of women and men. Also indicate whether these measures include encouraging the company to have a significant number of senior managers:

Explication of the measures
The Appointments and Remuneration Committee is tasked with reviewing the necessary skills of candidates required for each vacancy, in compliance with the requirements needed for each category of director and the incorporation process of new members, forwarding the opportune reports or proposals to the Board as necessary. For covering new vacancies, selection processes shall be guaranteed that are not subject to implicit bias that prevents the selection of female directors, with special value placed on, under the same conditions and among potential candidates, women who meet the professional profile being sought. In February 2020, the Board of Directors approved a modification to the Director Selection Policy, incorporating a competence matrix that reflects the Company's needs in terms of the skills, knowledge and experience required on the Board. This matrix should be used in the selection processes for board members. Following the approval in June 2020 by The National Securities Market Commission (CNMV) of the amendment of the Code of Good Governance for listed companies, at its meeting on 24 November the Board of Directors once again reviewed the Director Selection Policy, in

order to consider the implementation by the Company of measures that encourage the appointment of a significant number of top executives..

When, despite the measures adopted, the number of female directors is zero or few, explain the reasons for this:

Explanation of the reasons
In 2020 the Company has made a significant effort to increase the number of female directors. Thus, the three vacancies that occurred during the year were filled by women. However, it is important to consider that the Company's Appointments and Remuneration Committee is bound to respect the legally recognised right to proportional representation of its shareholders.To this end, it can only deploy fully their right of proposal in relation to Independent Directors, as done in relation to the process for selecting candidates to cover the position of Independent Director whose mandate had expired.

C.1.7 Explain the Appointments Committee's on the verification of compliance with the policy aimed at promoting an appropriate composition of the Board of Directors.

The Appointments and Remuneration Committee has verified that the Policy for the selection of Directors has been complied with as regards the provision of existing vacancies on the board, all within the framework of the Company's shareholding structure, which imposes respect of certain legal requirements of proportional representation of the shareholders. The recommendations of good corporate governance must conform to this condition, of an imperative character. The Committee has verified that in the selection processes for directors, the balance of criteria such as: i) expertise, ii) skills, iii) diversity and iv) experience has been taken into account.

The percentage of female profiles among independent directors represents 25% of the total. The Commission's conclusion is that it should be further increased as new vacancies are filled

C.1.8 Where applicable, explain why proprietary directors have been appointed at the request of shareholders whose shareholding in the capital is less than 3%:

Name or company name of shareholder	Explanation

Indicate whether or not formal requests have been accepted for presence on the board from shareholders whose holding is equal to or higher than that of others for whom proprietary directors have been appointed. If so, explain why these requests have not been answered:

YES NO **X**

Name or company name of shareholder	Explanation

C.1. 9 Indicate, in the event that they exist, the powers and faculties delegated by the Board of Directors to directors or to board committees:

Name or company name of the director or committee	Brief outline
Mr. Francisco Reynés Massanet	He has delegated extensive powers of representation and administration in accordance with the nature and requirements of the position of Executive Chairman.

C.1.10 List the Members of the Board of Directors, if any, who hold office as Administrators or representatives of Administrators or Directors in other companies belonging to the listed company's group:

Name or company name of Director	Company name of group entity	Position	Do they have executive duties?

C.1.11 Identify, where applicable, the directors or representatives of legal persons of your company, who are members of the Board of Directors or director representatives, legal persons of other companies listed on regulated stock exchanges in Spain other than those of your group, that have been reported by the company:

Name or company name of Director	Corporate name of the listed company	Position
Mr. Ramón Adell Ramón	Oryzon Genomics, S.A.	Director

Mrs. Lucy Chadwikc	Nuovo Transport Viaggiatori (NTV) Italo SpA	Director
Mr. Pedro Sainz de Baranda Riva	Gestamp Automocion, S.A.	Director

C.1.12 Indicate and, where appropriate, explain whether the company has established rules about the maximum number of company Boards on which its directors may sit, identifying how this is regulated where appropriate:

YES NO **X**

Explanation of the rules and identification of the document where it is regulated

C.1.13 Indicate the amounts of the following items relating to the overall remuneration of the Board of Directors:

Overall remuneration earned by the Board of Directors during the year (thousands of euros)	7.134
Cumulative amount of rights of current directors in pension scheme (thousands of euros)	7.298 (*)
Cumulative amount of rights of former directors in pension scheme (thousands of euros)	0

OBSERVATIONS
(*) It includes the amount corresponding to the variable remuneration 2018 and 2019 that are settled as a contribution to the Executive Chairman´s Social Security Plan as it is beneficiary.

C.1.14 Identify members of senior management who are not also executive directors, and indicate the total remuneration they earned during the year:

Name or company name	Position/s
Mr. Carlos Francisco Vecino Montalvo	Marketing Manager
Mr. Pedro Larrea Paguaga	Manager Energy Management and Networks
Mr. Jorge Barredo Lopez	Manager Renewables, Innovation and New Business
Mr. Enrique Tapia Lopez	People and Organisation Manager
Mr. Rafael Blesa Martinez	Information Systems Manager
Mr . Manuel García Cobaleda	General and Board Secretary
Mr. Jordi García Tabernero	Sustainability, Reputation and Institutional Relations Manager
Mr. Steven Fernández	Financial Market Manager
Mr. Jon Ganuza Fernandez De Arroyabe	Manager Planning, Control and Administration

Total remuneration of senior management (in thousands of euros)	23.659

OBSERVATIONS
The executives who report directly to the Executive Director have been listed Mr. Manuel Fernández Álvarez, Mr. Carlos Javier Álvarez Fernández and Ms. Rosa Mª Sanz García ended their employment relationship with the company on 31 July 2020 and Mr. Carlos Ayuso Salinas left his position as Internal Audit Director on that date.

C.1.15 Indicate whether or not there has been any modification to the regulations of the board during the year:

YES x NO

Description of modifications
At the meeting of 24 November 2020, Articles 10, 11, 24, 25, 26 were amended and a new Article 27 was added to (i) adapt it to the new Good Governance recommendations of the CNMV (ii) update the name of the Board's committees and incorporate the new Sustainability Committee.

C.1.16 Indicate the procedures for appointing, re-electing, evaluating and removing directors. Provide details of the competent bodies, the procedures to be followed and the criteria applicable in each procedure.

The procedures for the appointment, re-election, evaluation and removal of directors are regulated in Article 7 of the Articles of Association and in Articles 9 and 10 of the Regulations for the Organisation and Functioning of the Board of Directors and its Committees, supplemented by the provisions of Article 529 decies of the Spanish Corporate Enterprises Act ("LSC" in Spanish).

1.- Appointment and re-election:

The General Meeting of Shareholders is competent for appointing directors and establishing the number thereof, subject to the limits stipulated in Article 7 of the Articles of Association.

If vacancies were to arise during the term for which the Directors were appointed, the Board shall be entitled to designate, using the co-option system, the persons to occupy these vacancies until the first General Meeting of Shareholders is held.

The status of Shareholder is not required to be appointed Director.

Anyone who is in any of the situations that, pursuant to prevailing legislation, prevents such characterisation, cannot be proposed, appointed or qualified as Independent Directors.

It will be necessary to appoint persons who not only satisfy legal provisions and those laid down in the Articles of Association for the position, but who have a prestigious position and are equipped with the professional skills and expertise required to perform their duties.

Directors are appointed and re-elected in accordance with a formal and transparent procedure and the proposals which the Board of Directors submits to the General Meeting of Shareholders, as well as appointments adopted by the Board by virtue of its powers of co-option, must be made subject to a proposal from the Appointments and Remuneration Committee in the case of Independent Directors, or a report for the remaining Directors. When the Board does not follow the recommendations of said committee, it will have to explain the reasons and record the said reasons in the Minutes.

In addition, the Board of Directors, on the proposal of the Appointments and Remuneration Committee and in line with the recommendations of the Guide of the CNMV on Appointment and Remuneration Committees, approved in their meeting in October 2019 a Competency Matrix, for which assistance was provided by an Independent Expert. The Policy for selecting Directors was modified on 4 February 2020 to include the need for preparing and taking into consideration this Competency Matrix in all processes for selecting Directors.

2.- Re-election:

Directors elected as of 27 June 2018, will hold office for a maximum term of four (4) years, and may be re-elected (those elected up to that date had a term of three (3) years).

The Independent Directors shall not remain in their post for a period of more than twelve (12) years.

3.- Replacement or removal:

Directors shall be replaced in their position for the length of the term for which they were appointed, unless they are re-elected, and when so determined by the General Meeting of Shareholders by virtue of the powers granted thereto. Likewise, directors shall be replaced in all other circumstances where applicable pursuant to the Law, the Articles of Association and Regulations of the Board of Directors.

Directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deemed it appropriate, in the following cases:

a) When Executive Directors step down from their executive positions.

b) When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these Regulations.

c) When they commit a serious breach of their obligations as directors, jeopardising the interests of the Company.
d) When circumstances arise that may affect the credit or reputation of the Company or, in any other way, put the Company's interests at risk
e) When the reason why they were appointed as independent, executive or proprietary directors is no longer applicable.

In any case, the Board of Directors pays special attention to issues of diversity and not only gender diversity, within the framework of full respect for the right of shareholders as recognised by the Law on Proportional Representation. As explained in previous sections, the Directors selection policy as revised on February 2020 incorporates a Competency Matrix to be used in all processes for covering the position of Director and wich has already been used in the process of covering the position of 1 independent director and 2 proprietary directors whose re-election/appointment whose re-election/appointment was submitted for approval to the General Meeting of Shareholders held on 26 May 2020.

In this regard, the Board of Directors approved a new modification to the Director Selection Policy to expressly include the Company's commitment to gender diversity, providing for the implementation by the Company of measures that encourage the appointment of a significant number of female senior executives.

C.1.17 Explain, if applicable, to what extent this annual evaluation has prompted significant changes in its internal organisation and the procedures applicable to its activities:

Description of modifications
In June 2020, the CNMV published new Good Governance recommendations. Some of these were already being complied with by the Company, but others required the adaptation of some policies or the approval of new ones, which were agreed by the board on 24 November 2020: - General policy on the communication of economic, financial, non-financial and corporate information - Policy for the selection of Directors on aspects related to the promotion of diversity in senior management. - Risk policy - Shareholder and investor communication policy In addition, the Board Regulations were modified and the distribution of powers among the three Board Committees was reviewed

Describe the evaluation process and the areas evaluated by the Board of Directors, assisted by an outsourced consultant, regarding the operation and composition of its committees, and any other area or aspect that has been subject to evaluation.

Description of the evaluation process and areas evaluated
In the year 2020 the Board's evaluation was carried out by an external consultant. As part of this evaluation process, the directors have completed a series of questionnaires regarding the operation of the Board and its committees and have held personal interviews with the external consultant.

Following the evaluation process, the external consultant concluded that the Council and the Committees are functioning to a high degree of satisfaction, but that there are a number of views on the Council that require further reflection.

With regard to the exceptional situation resulting from the health crisis caused by the Covid-19, the advisor stressed that all the directors have highly valued the Board's performance during the most critical months of the crisis, highlighting in particular the holding of weekly meetings of the Company's top management body, which, in turn, has been constantly informed of the Company's situation in all relevant aspects, thus facilitating decision-making by the Board during a large part of this exceptional financial year 2020.

In relation to the composition of the governing bodies, in general terms, it has been satisfactorily qualified in the understanding that the Board and the committees have an adequate degree of knowledge and experience that favours their appropriate functioning and correct decision making and this despite the fact that the sector in which the Company carries out its activity is highly regulated and extremely complex

Some of the recommendations, such as the allocation of clear competences to each of the Commissions, have already been implemented in 2020 and others, such as the reinforcement of training plans, will be implemented in 2021.

C.1.18 Explain, for any of the years in which the evaluation has been assisted by an external advisor, the business relationship the adviser or any group company maintains with the company or any group company.

NONE

C.1.19 Indicate the cases in which directors must resign.

Directors shall be replaced in their position for the length of the term for which they were appointed, unless they are re-elected, and when so determined by the General Meeting of Shareholders by virtue of the powers granted thereto. Likewise, directors shall be replaced in all other circumstances where applicable pursuant to the Law, the Articles of Association and Regulations of the Board of Directors.

Directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deems it appropriate, in the following cases:

a. When Executive Directors step down from their executive positions.

b. When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these Regulations.

c. When they commit a serious breach of their obligations as directors, jeopardising the interests of the Company d. When circumstances arise that may affect the credit or reputation of the Company or in any other way jeopardise the interests of the Company. e. When the reason why they were appointed as Independent, Executive or Proprietary Directors is no longer applicable.

C.1.20 Are qualified majorities other than those prescribed by law required for any type of decision?

YES **X** NO

Where appropriate, describe the differences.

Description of the differences
Article 7.4 of the Regulations of the Board of Directors states the following: "4.- The resolutions must be adopted with the vote of the absolute majority of the directors who attend, whether present or represented, unless the Law, the Articles of Association or these Regulations establish an enhanced majority. In particular, the favourable vote of more than two thirds of the directors, whether present or represented, will be required for the valid adoption of resolutions on the following matters reserved for the plenary session of the Board and, therefore, non-delegable: a) The acquisition or disposal of assets belonging to the Company (regardless of the legal means used for this purpose and, in particular, even if they are carried out through merger, spin-off or other operations of subsidiaries) in excess of Euros 500,000,000, unless its approval corresponds to the General Meeting of Shareholders or is carried out in execution of the budget or strategic or business plan of the Company. b) The approval of the budget and the strategic or business plan of the Company. c) The modification of the dividend distribution policy and the approval of a new one. d) The subscription, modification, renewal, non-renewal or termination by the Company of financing or refinancing agreements for an amount exceeding Euros 500,000,000. e) The subscription, modification, renewal, non-renewal or termination by the Company of any material contract, other than those provided for in section d) above, whose amount exceeds Euros 500,000,000 in the case of gas supply contracts and of Euros 200,000,000 in the case of other contracts. f) The material changes in the accounting and tax criteria and policies of the Company, unless they are due to modifications of applicable

legislation or compliance with the guidelines and criteria set by the competent authorities in the matter. g) The reformulation of the Company's annual accounts, unless such reformulation is due to a modification of applicable legislation or compliance with the guidelines and criteria set by the competent authorities in the matter. h) Capital investments (capex) not provided for in the Company's annual budget for an amount exceeding Euros 200,000,000 euros. i) The modification of the matters of paragraph a) to i) or modification of the enhanced majority of the vote required for any of them."

C.1.21 Indicate if there are specific requirements other than those relating to directors in order to be appointed as Chairman of the Board of Directors.

YES NO **X**

Description of requirements

C.1.22 Indicate whether the Articles of Association or the Board Regulations establish any age limit for Directors:

YES NO **X**

	Age limit
Chairman	
Chief Executive Officer	
Director	

Observations

C.1.23 Indicate whether the Articles of Association of the Board regulations set a limited term, or other requirements stricter than those legally determined, or office for independent directors different to the one established in the regulations:

YES NO **X**

Additional requirements and/or maximum number of years of in office	

C.1.24 Indicate whether the Articles of Association or Board Regulations stipulate specific rules on appointing a proxy to the Board, the procedures thereof and, in particular, the maximum number of proxy appointments a Director may hold. Also indicate whether there are any restrictions as to what categories may be appointed as a proxy other than those stipulated by law. Where appropriate, give a brief description of these rules.

As established in Article 7.5 of the Articles of Association “Directors who cannot attend may delegate their representation to another Director, with or without instructions to vote, and must notify the Chairman or the Secretary.”

In addition, Article 7.3 of the Regulations of the Board states: “Each Director shall be entitled to confer his/her representation to another Director, there being no limit on the number of representations held by each member for attending the Board meeting. Absent Directors’ representations can be conferred by means of any written document, or any electronic means, addressed to the Chairman’s Office or the Board Secretary before the beginning of the session”.

Likewise, in the Board Meeting held in October 2019, it was agreed to instruct the Directors so that, in general, and in line with recommendation 27 of the Code of Good Governance of Listed Companies, they include voting instructions in proxy representations.

C.1.25 Indicate the number of board meetings held during the year. Also indicate, where applicable, how many times the Board has met without the Chairman being present. When calculating the number, representations made with specific instructions shall be considered as attendance.

Number of board meetings	24
Number of board meetings without the Chairman attending	0

Observations
During the months of March, April and May, the frequency of the Board of Directors' meetings was increased to weekly in order to better monitor the COVID crisis

Indicate the number of meetings held by the Coordinating Director with the rest of the Directors, without the attendance or representation of any Executive Director.

Number of meetings	0

Observations
Since the Coordinating Director is also the Chairman of the Appointments, Remuneration and Corporate Governance Committee and had held this position on the Audit and Control Committee, of which he is still a member, he has usually had contacts with the non-executive directors and especially with the Independent Directors, both as regards remuneration issues as well as corporate governance in general, which have made it unnecessary to convene formal meetings.

Indicate the number of meetings held by the different board committees over the year:

Number of meetings of the Executive Committee	0
Number of meetings of the Audit and Control Committee	10
Number of meetings of the Appointments and Remuneration Committee	9
Number of meetings of the Appointments Committee	
Number of meetings of the Remuneration Committee	
Number of meetings of the Sustainability Committee	4

Observations

C.1.26 Indicate the number of board meetings held during the year with all Members in attendance:

Number of meetings attended in person by at least 80% of the Directors	23
% of attendance over the total number of votes during the year	99,3%
Number of meetings with attendance in person, or representations made with specific instructions of all the Directors	23
% votes cast with attendance in person and representations made with specific instructions, on total votes during the year	99,3%

Observations

C.1.27 Indicate whether the consolidated and individual annual accounts submitted for authorisation for issue by the Board are certified previously.

YES **X** NO

Identify, where applicable, the person(s) who has/have certified the company's individual and consolidated annual accounts in order to be drawn up by the Board:

Name	**Position**
Mr. Carlos Javier Álvarez Fernández	Chief Financial Officer, until July 31
Mr. Jon Ganuza	Director of Planning, Control and Administration, since July 31

C.1.28 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated annual accounts it prepares from being laid before the General Meeting of Shareholders with a qualified audit report.

By virtue of those established in Article 529.4 of the Corporate Enterprises Act and in the Articles of Association, and of the competences attributed by the Board of Directors, the Audit and Control Committee is responsible for, among others, the functions of informing the General Meeting of Shareholders about the issues that arise in relation to those matters that fall within the remit of the Committee and, in particular, on the result of the audit, explaining how this has contributed to the integrity of the financial reporting and the role that the Committee has played in that process, as well supervising the process of preparation and presentation of mandatory financial reporting and submitting recommendations or proposals to the administrative body, aimed at safeguarding its integrity. To this end, the Audit and Control Committee has supervised the process of preparing financial information and has engaged in fluid dialogue with the external auditor, with the utmost respect for its independence, where it has been informed of the Audit Plan, of the preliminary and final results of the auditor's analyses, and where its independence has been specifically ensured. In any case, it is noteworthy that in financial year 2020 no accounting qualifications have been made.

C.1.29 Is the Secretary of the Board also a Director?

YES NO **X**

Complete if the secretary is not also a Director:

Name or corporate name of the Secretary	Representative
Mr. Manuel García Cobaleda	-

Observations

C.1.30 Indicate the specific mechanisms introduced by the Company to preserve the independence of the External Auditors, as well as, if any, mechanisms to preserve the independence of financial analysts, investment banks and rating agencies, including how the legal provisions have been implemented in practice.

Among the legal functions that correspond to the Audit and Control Committee are to establish the appropriate relations with the external auditor to receive information on those issues that may pose a threat to its independence, for examination by the committee, and any others related to the process for conducting the accounts audit and, where appropriate, the authorisation of services other than those prohibited, under the terms set out in Articles 5, paragraph 4, and 6.2.b) of Regulation (EU) No. 537/2014, of 16 April, and as set out in section 3 of chapter IV of title I of Law 22/2015, of 20 July, on Accounts Auditing, on the independence

regime, as well as those other communications provided for in the audit legislation of accounts and in the auditing standards. In all cases, on an annual basis, the Audit and Control Committee shall receive from the Auditors written confirmation of their independence vis-à-vis the company or entities related to it directly or indirectly, in addition to detailed and individual information on additional services of any kind rendered to these entities by the aforementioned auditors or person or entities related to them in conformity with the provisions of auditing legislation.

Issuing annually, prior to the issuance of the audit report, a report expressing an opinion on whether the independence of the auditors or audit companies is compromised. This report shall in all cases include a reason assessment of each of the additional services provided, as referred to in the previous section, considered separately and in their totality that consists of services other than statutory audits and how they relate to the requirement of independence or to the regulatory legislation of the activity on auditing of accounts.

Likewise, the Board of Directors has entrusted the Audit and Control Committee with, inter alia, the following functions: to ensure that the remuneration of the external auditor for its work does not compromise its quality or independence and ensure that the company and the external auditor respect the standards in force on the provision of services other than auditing, the limits on the concentration of the auditor's business and, in general, the other rules governing the independence of auditors.

The company's relations with financial analysts and investment banks are based on the principles of transparency, simultaneity and non-discrimination as well as the existence of specific and different agents for each collective.

In addition, the company shall take special care not to compromise or interfere with the independence of the financial analysts in respect of the services offered by investment banks, in accordance with the internal codes of conduct established by them and designed to separate their analysis and assessment services.

C.1.31 Indicate whether the company has changed its external audit firm during the year. If appropriate, identify the incoming and outgoing auditors:

YES NO **X**

Outgoing auditor	Incoming auditor

Observations
The company has agreed to propose to the shareholders' meeting to be held in March 2021, the appointment of KPMG as the auditor for the 2021

ditches, replacing E&Y which has been the external auditor of the accounts for the period 2018-2020.

In the case of disagreements with the outgoing auditor, explain the content of the said disagreements:

YES NO **X**

Explanation of the disagreements

C.1.32 Indicate if the audit company performs other tasks for the company and/or its group other than auditing activities and the percentage of the fees billed to the company and/or its group:

YES **X** NO

	Company:	Group	Total
Amount of tasks other than auditing activities (in thousands of euros)	127	110	237
Amount of tasks other than auditing/Amount billed by the audit company (%)	14,50%	3,20%	5,50%

Observations

C.1.33 Indicate if the auditor's report on the annual accounts corresponding to the previous year involves reservations or exceptions. Where applicable, indicate the reasons given by the Chairman of the Audit and Control Committee to

YES NO **X**

Explication of the reasons and direct link to the document made available to shareholders at the time of the call in relation to this matter

C.1.34 Indicate the number of consecutive years during which the current audit firm has been auditing accounts of the Company. Also indicate the percentage of the number of years audited by the current audit company over the total number of years that the annual accounts have been audited:

	Individual	Consolidated

Number of years without interruption	3	3

	Individual	Consolidated
Number of years audited by the current audit company / Number of years the company has been audited (in %)	10%	10%

Observations

C.1.35 Indicate, and give details if any, whether there are procedures for directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies:

YES **X** NO

Details of the procedure
Articles 6.2 and 6.3 of the Regulations of the Board of Directors state: "2- Notices convening sessions shall be issued by the Chairman or the Secretary, or by the Deputy Chairman on order of the Chairman, and may be effected by any of the channels set out in the Articles of Association. The notification shall include the place and the agenda of said meeting and shall be issued, at least five (5) days before the meeting is to be held, specifying the agenda of the meeting. In the event of an emergency duly justified by the Chairman and thus appreciated by the Board at the start of the meeting, a call to meeting will be made by telephone, fax, email or any other telematic means, with sufficient notice to allow the directors to participate in the meeting. Prior to each meeting the directors shall be furnished with the information and documentation considered to be pertinent or relevant regarding the subjects to be addressed in the Board Meeting. Directors shall also be furnished with the Minutes of the previous meeting, regardless of whether said minutes have been approved or not. The Chairman shall be authorised to establish the order of the day, except in the event of the compulsory convening in which case the agenda of the convened meeting will include the issues indicated by the Directors who request it. 3.- The Board Meeting shall have a quorum, without being previously convoked, if all the directors are present or represented and unanimously accept that the board meeting be held". The procedure followed involves sending, usually a week in advance, the call to meeting, the agenda and any information that is available and may be useful for more accurate knowledge of the matters to be discussed in the Board Meeting. The rest of the documentation is sent as it becomes available - normally 5 days in advance, except for those that, for example, for reasons of urgency do not allow such advance notice. To this end, the Board's documentation is made available to the directors through a electronic platform, which allows them permanent access to it. The Directors have access to the documentation of all bodies of the Board,

irrespective of whether or not they are members of a Committee. In addition, Directors are provided with other information relevant to the exercise of their functions (relevant events, new regulations, access to press reviews, etc) through the platform.

Furthermore, the matters dealt with by the Board are usually presented by the managers responsible for the proposals, so that the Board Members can directly request clarifications, data or opinions from them in relation to the points dealt with in the session and can directly appreciate their qualifications for the position.

Finally, the Directors may request the additional information they deem necessary for the exercise of their duties through the Board Secretary.

C.1.36 Indicate and, where applicable, give details of whether or not the Company has laid down rules that oblige the Directors to report and resign when situations occur that affect them, whether or not they are related to their actions in the company itself, which may damage the company's credit and reputation:

YES **X** NO

Explain the rules
In accordance with Article 11.4 of the Board Regulations, the Director is subject to the duty of loyalty under the terms established in prevailing legislation and, in particular, section e) of said article 11.4, establishes that the Director shall inform the Company of any kind of legal or administrative claim or any claim of any nature in which he/she is involved which, due to its significance, could have a serious bearing on the reputation of the Company. The Board shall examine the matter and adopt the appropriate measures in the Company's interest and with the required urgency. Also, the Article 10.2 of the Board Regulations establishes that Directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deems it appropriate, in the following cases: a) When Executive Directors step down from their executive positions. b) When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these Regulations. c) When they commit a serious breach of their obligations as directors, jeopardising the interests of the Company. d) When circumstances arise that may affect the credit or reputation of the Company or, in any other way, put the Company's interests at risk. e) When the reason why they were appointed as independent, executive or proprietary directors is no longer applicable.

C.1.37 Unless there are special circumstances that have been recorded in the minutes, indicate whether the Board has been informed of or has otherwise become aware of any situation that affects a director, whether or not it is related to his or her actions in the company, that could damage the company's credit and reputation:

YES NO **X**

Director's name	Criminal Case	Observations

In the above case, indicate whether the board of directors has examined the case. If the answer is affirmative, explain in a reasoned manner if, in view of the specific circumstances, any measure has been adopted, such as the opening of an internal investigation, requesting the resignation of the director or proposing his dismissal.

Indicate also whether the Board's decision has been supported by a report from the Appointments Committee

YES NO **X**

Decision taken/action taken	Reasoned explanation

C.1.38 Detail the major agreements, entered into by the company based on the takeover, and the effects of these agreements.

An important part of the Naturgy investee companies with shareholders outside the group contain change of control clauses whereby the other shareholder is entitled to choose to acquire the shareholdings in the event of change of control of the holding company of the Naturgy Group.

On the hand, most of the outstanding financial debt includes a clause related to the change of control, either by acquiring more than 50% of the voting shares or by obtaining the right to appoint the majority of Members of the Board of NATURGY ENERGY GROUP, S.A. These clauses are subject to additional conditions, whereby their activation depends on the simultaneity of the same of the following events: The significant reduction of the credit rating caused by the change of control, or the loss of the investment grade by the rating agencies: the inability to meet the financial obligations of the contract, material damage to the creditor, or a material adverse change in solvency. These clauses entail the repayment of the debt, although they usually have a longer period than that granted in the event of early termination.

More specifically, the bonds issued, with an approximate value of Euros 8.4 billion (standard practice in the Euromarket), would be susceptible to early maturity providing that the change of control causes a fall of two or more full notches in at least two of the three ratings it had or all of the ratings fall below investment grade, and providing the Rating Agency explains that the reduction of the credit rating is caused by the change of control.

There are also loans for an amount of approximately Euros 2 billion, linked almost entirely to long-term infrastructure financing with funds from the European Investment Bank, which could be subject to early repayment in the event of a change of control. To activate these clauses, in addition to the change of control event a reduction of the rating is required, and they have special repayment terms for the debt that are longer than those of early termination cases

.

C.1.39 Identify, individually, when referring to Directors and in aggregate form in all other cases, and provide detailed information on agreements between the Company and its officers, executives and employees that provide indemnities for the event of resignation, unfair dismissal or termination as a result of a takeover bid or other type of operations.

Number of beneficiaries	19
Beneficiary type	**Description of the agreement**
Executive Chairman	The Chairman's contract establishes compensation for the cessation or non-renewal of the position of Director for the overall mount of two years of: (i) fixed total annual cash remuneration, (ii) the annual variable remuneration and (iii) according to the concept of multi-year variable remuneration, a lump sum equivalent to 1.25 of the fixed total annual cash remuneration. This concept will only be multiplied by a full year if, at the time of accrual, the minimum profitability target of the LTI plan has not been reached; the second full year can be recovered if the minimum target was finally reached at the end of the plan. The compensation will not be payable in the event of serious and culpable breach of their professional obligations that causes significant damage to the interests of Naturgy. Furthermore and as a post-contractual non-competition agreement, compensation equivalent to one year's fixed remuneration has been established. The contract of the Executive Chairman sets out the termination of the contract and the payment of compensation if he forfeits his executive functions and will continue as non-executive Chairman. In this case, the compensation provided is

	identical to that of the previous section, but reduced by half, that is, one full year.
Executives	The contracts signed with 13 executives contain a clause that establishes a minimum compensation of one full year of fixed remuneration in some cases and two full years of compensation in others in certain cases of termination of the relationship, which include certain cases of change of control, unfair dismissal or the cases set out in Articles 40, 41 and 50 of the Workers' Statute. These contracts also contain a clause which sets out compensation equivalent to one year's fixed remuneration for post-contractual non-competition for a period of two years. In addition, 1 executive have compensation agreements whose amounts entitle them to receive a minimum compensation of one fixed full year of remuneration in some cases and two full years of compensation in other in certain cases of termination of the relationship, which include unfair dismissal or the cases set out in Articles 40, 41 and 50 of the Workers' Statute. Moreover, there are compensation agreements with 4 other executives, equivalent to one year's fixed remuneration for post-contractual non-competition for a period of two (s) years.

Indicate whether, beyond the cases stipulated by the regulations, these contracts have to be reported and/or approved by the bodies of the company or its group. If so, specify the procedures, assumptions foreseen and the nature of the bodies responsible for their approval or communication:

	Board of Directors	**General Meeting of Shareholders**
Body that authorises the clauses	YES	NO

		YES	**NO**
Is the General Meeting of Shareholders informed of the clauses?		X	

Observations
In relation to the clauses of management personnel, the Appointments and Remuneration and the Board are informed of their terms and beneficiaries. The main terms of the contracts of the executives who report directly to the executive director are approved by the Board.

C.2. Committees of the Board of Directors

C.2.1 Give details on the board committees, their members and the proportion of executive, proprietary and independent directors:

EXECUTIVE COMMITTEE

Name	Position	Category

% of executive directors	
% of proprietary directors	
% of independent directors	
% of other external directors	

Observations
IT DOES NOT APPLY AS THE EXECUTIVE COMMITTEE NO LONGER EXISTS

Explain the committee’s duties, other than those already described in section C.1.9, and describe the procedures and rules for the organisation and operation of the organisation. For each of these functions, indicate your most important actions during the year and how you have exercised in practice each of the functions attributed to you, whether by law, by the Articles of Association or by other corporate agreements..

NOT APPLICABLE.

AUDIT COMMITTEE

Name	Position	Category
Mr. Francisco Belil Creixell	Chairman	Independent
Mr. Ramón Adell Ramón	Board Member	Independent
Mrs. Isabel Estapé Tous	Board Member	Proprietary
Mr. Pedro Sainz de Baranda Riva	Board Member	Independent
Mrs. Helena Herrero Starkie	Board Member	Independent
Mrs. Lucy Chadwick	Board Member	Proprietary
Theatre Directorship Services Beta, S.À.R.L., represented by Mr. José Antonio Torre de Silva López de Letona	Board Member	Proprietary

% of proprietary directors	42.86%
% of independent directors	57.14%
% of other external directors	-

Observations

Explain the functions, including, if applicable, those additional to those legally envisaged, which have been attributed to this committee, describe the procedures and rules for the organisation and functioning of the same. For each of these functions, indicate its most important actions during the year and how it has exercised in practice each of the functions attributed to it either in the law or in the articles of association or other corporate resolutions.

a) Functions of the Audit and Control Committee:

1.- Drawing up the report on the functioning of the Audit and Compliance Committee.

2.- To supervise related-party transactions.

3.- To ensure that the Board of Directors endeavours to present the accounts to the General Meeting of Shareholders without limitations or qualifications in the audit report and that, in those cases in which the auditor has included a qualification in its audit report, the Chairman of the Audit and Compliance Committee clearly explains to the General Meeting the opinion of the Audit and Compliance Committee on its content and scope, making a summary of said opinion available to the shareholders at the time of publication of the notice of the meeting, together with the rest of the proposals and reports of the Board, a summary of said opinion.

4.- Approval of the annual work plan of the Internal Audit Unit, and supervision, on an annual basis, of the activities of the said Unit.

5.- In relation to the information and control systems:

(a) Supervise the process of preparation and the integrity of financial and non-financial information, as well as the systems of control and management of financial and non-financial risks relating to the company and, where appropriate, to the group, including operational, technological, legal, social, environmental, political and reputational risks or risks related to corruption, reviewing compliance with regulatory requirements, the appropriate delimitation of the scope of consolidation and the correct application of accounting criteria.

(b) Ensure the independence of the unit that assumes the internal audit function; propose the selection, appointment and removal of the head of the internal audit service; propose the budget for that service; approve or propose approval to the board of the internal audit orientation and annual work plan, ensuring that its activity is focused primarily on relevant risks, including reputational risks; receive regular information on its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.

(c) Establish and supervise a mechanism which, while guaranteeing confidentiality and even anonymity, enables employees and other persons related to the company to report any potentially significant irregularities, including financial, accounting or any other type of irregularity related to the company, that they may notice within the company or its group, (d) In general, ensure that the policies and systems established for internal control are effectively applied in practice.

6.- In relation to the external auditor.

(a) In the event of resignation of the external auditor, to examine the circumstances giving rise to such resignation.
(b) Ensure that the external auditor's remuneration for his work does not compromise his quality or independence.
(c) Supervise that the company notifies the CNMV of the change of auditor and accompanies it with a statement on the possible existence of disagreements with the outgoing auditor and, if any, their content.
(d) Ensure that the external auditor holds an annual meeting with the full board of directors to report to it on the work performed and on developments in the company's accounting and risk situation.
(e) Ensure that the company and the external auditor comply with current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other regulations on auditor independence.

To summon any employee or manager of the Company, and even arrange for them to appear without the presence of any other manager.

8.- To analyse and inform the Board of Directors on the economic conditions and accounting impact and, in particular, if appropriate, on the exchange ratio, in relation to the structural and corporate modifications that the Company plans to carry out.

9.- Supervision of the exercise of the functions of the internal risk control and management department.

In relation to the supervision of compliance with the Codes of Conduct.

(a) Supervision of compliance with the company's internal codes of conduct.
(b) Supervision of the application of the general policy relating to the communication of economic-financial and non-financial information.
(c) assessing all aspects of the company's non-financial risks, including operational, technological, legal, social, environmental, environmental, political and reputational risks

(d) Coordination of the reporting of non-financial and diversity information in accordance with applicable regulations and international benchmarks.

b) Procedures, and organisational and operational rules

in accordance with Article 26 of the Regulations of the board

The Audit and Control Committee shall comprise a minimum of three (3) and a maximum of seven (7) Directors appointed by the Board of Directors from among the non-executive directors, and one of them will be appointed taking into account their knowledge and experience in issues of accountancy, audit or both. Its members shall leave their post when they do so in their capacity as Directors or as agreed by the Board of Directors.

The Board of Directors shall elect the Chairman from amongst the members of the Committee, the majority of whom will have the status of Independent Director; the Chairman shall not have the casting vote. The post of Secretary of the Committee will be held by the person who is the Secretary of the Board of Directors, if there is one.

The Committee shall hold meetings whenever necessary in order to issue its reports or proposals, and will be convened by its Chairman on his own initiative or upon prior request of two of its members. At least four (4) meetings per year must be held. The Committee may invite to its meetings any executive or employee it deems appropriate.

c) Main actions taken during the year 2020.

In the exercise of its powers during the financial year it has reported and/or adopted proposals, among others, on the following matters:

- External audit of the individual and consolidated annual accounts
- Supervision of the process of preparing economic information.
- Tax and litigation situation.
- Independence of the Auditor.
- Related operations.
- Verification of the criminal prevention system.
- Supervision of risk control systems and specific risk analysis
- Supervision of internal control and internal audit systems
- Naturgy insurance programme
- Monitoring of treasury stock operations
- Compliance Action Plan
- Supervision of Internal Audit and selection of the new manager
- Proposal for the appointment of an external auditor for the period 2021-23

Identify the Directors who are Members of the Audit and Control Committee who have been appointed Chairman on the basis of

knowledge and experience of accounting or auditing, or both, and state the date that said Director was appointed Chairman.

Name of Directors with experience	MR. RAMÓN ADELL RAMÓN
Date of appointment as Chairman	27/06/2018

OBSERVATIONS

APPOINTMENTS AND REMUNERATION COMMITTEE

Name	**Position**	**Category**
Mr. Ramon Adell Ramon	Chairman	Independent
Mr. Francisco Belil Creixell	Board Member	Independent
Mr. Pedro Sainz de Baranda Riva	Board Member	Independent
Mr. Claudio Santiago Ponsa	Board Member	Independent
Mr. Marcelino Armenter Vidal	Board Member	Proprietary
Mr. Rajaram Rao	Board Member	Proprietary
RIOJA S.à.r.l represented by Mr. Javier de Jaime Guijarro	Board Member	Proprietary

% of proprietary directors	42.86%
% of independent directors	57.14%
% of other external directors	-

Observations

Explain the committee's duties, describe the procedure, and organisational and operational rules. For each of these functions, indicate its most important actions during the year and how it has exercised in practice each of the functions attributed to it either in the law or in the articles of association or other corporate resolutions.

a) Duties of the Appointments, Remuneration and Corporate Governance Committee:

The Committee has the powers set out in Law and those entrusted to it by the Board of Directors in a general or specific manner.

The Board of Directors has entrusted it with the following functions:

1. Make proposals and report on Corporate Governance initiatives.

2. Prepare the report on the operation of the Appointments and Remuneration Committee.

3. Verify the policy for the selection of Board members and report on it in the Annual Corporate Governance Report.

4. Prepare a report in the event of the separation of an independent board member, before the statutory period for his/her appointment has expired.

5. Prepare a report in the event that the Board of Directors proposes the adoption of measures when it is aware that the actions of a Board member could damage the credit and reputation of the company or when he/she is considered to be under investigation in a criminal case R-22, Organise and coordinate the periodic evaluation of the Board of Directors and of the Chief Executive Officer of the Company.

6. Verify the independence of the external consultant selected to carry out the evaluation of the Board and its committees.

7. Propose to the Board of Directors the basic conditions of senior management contracts.

8. Verify compliance with the remuneration policy established by the Company.

9. Periodically review the remuneration policy applied to board members and senior management, including the share based remuneration systems and their application, as well as ensuring that their individual remuneration is proportionate to that paid to the other board members and senior management of the company.

10. Ensure that any conflicts of interest do not undermine the independence of the external advice provided to the committee.

11. Verify the information on directors' and senior executives' remuneration contained in the various corporate documents, including the annual report on directors' remuneration.

12. Supervise compliance with the company's corporate governance rules, ensuring that the corporate culture is aligned with its purpose and values.

13. The evaluation and periodic review of the adequacy of the company's system of corporate governance, in order for it to fulfil its mission of promoting the corporate interest and taking into account, as appropriate, the legitimate interests of other stakeholders.

14. Prepare a report on the remuneration systems that award shares, options or financial instruments when the director requests their sale before the three-year period from their award in order to deal with extraordinary situations that may arise.

<u>b) Procedures, and organisational and operational rules</u>

in accordance with Article 25 of the Regulations of the Board:

The Appointments, Remuneration and Corporate Governance Committee shall comprise a minimum of three (3) and a maximum of seven (7) Directors appointed by the Board of Directors from among the non-executive directors, and at least one of them will be appointed taking into account their knowledge and experience in issues of accountancy, audit or both. Its members shall leave their post when they do so in their capacity as Directors or as agreed by the Board of Directors.

The majority of members of the Committee will hold the status of Independent Director, from among which the Board of Directors will elect the Chairman of the same, who will not have a casting vote. The post of Secretary of the Committee will be held by the person who is the Secretary of the Board of Directors, if there is one.

The Committee shall hold meetings whenever necessary in order to issue its reports or proposals, and will be convened by its Chairman on his own initiative or upon prior request of two (2) of its members. At least four (4) meetings per year must be held. The Committee may invite to its meetings any executive or employee it deems appropriate.

c) Main actions taken during the year 2020:

The Appointments and Remuneration Committee has focused its actions on three fundamental aspects:

i) i) Corporate governance: i) The modifications made by the CNMV to its corporate governance recommendations published in June 2020 have been analysed in detail and proposals for measures to adapt to its recommendations have been drawn up. The Board has approved all of these proposals. ii) The Committee has worked intensively on the Board's assessment process, which this year was carried out with the help of an external advisor. iii) Different measures have been proposed to amend the Board's regulations to advance alignment with best corporate governance practices

ii) ii) Remuneration: the Committee has been responsible for implementing the Directors' Remuneration Policy approved by the 2020 General Shareholders' Meeting, as well as for supervising the management team's remuneration policy.

iii) iii) Appointments: the Committee (i) proposed the re-election of Director Helena Herrero and reported favourably on the incorporation of Director Lucy Chadwick and Isabel Estapé and (ii) examined the profile of the three new executives who have joined the company, reporting directly to the executive director

APPOINTMENTS COMMITTEE

Name	Position	Category

% of proprietary directors	
% of independent directors	

% of other external directors

Observations

Explain the committee's duties, including, if applicable, those additional to those legally established, which this committee has been assigned, and describe the procedures and rules of organisation and operation of the same. For each of these functions, indicate your most important actions during the year and how you have exercised in practice each of the functions attributed to you, either by law or by the statutes or other corporate resolutions.

REMUNERATION COMMITTEE

Name	Position	Category

% of proprietary directors	
% of independent directors	
% of other external directors	

Explain the committee's duties, including, if applicable, those additional to those legally established, which this committee has been assigned, and describe the procedures and rules of organisation and operation of the same. For each of these functions, indicate your most important actions during the year and how you have exercised in practice each of the functions attributed to you, either by law or by the statutes or other corporate resolutions.

_____SUSTAINABILITY_______ COMMITTEE

Name	Position	Category
Helena Herrero Starkie	Chairman	Independent
Claudi Santiago Ponsa	Board Member	Independent
Isabel Estapé Tous	Board Member	Proprietary
Theatre Directorship Services Beta, S.À.R.L., representada por Don Jose Antonio Torre de Silva Lopez de Letona	Board Member	Proprietary

Lucy Chadwich	Board Member	Proprietary

% of proprietary directors	60%
% of independent directors	40%
% of other external directors	**0**

Explain the committee's duties, describe the procedure and organisation and operational rules. For each of these functions, indicate your most important actions during the year and how you have exercised in practice each of the functions attributed to you either by law or by the statutes or other corporate resolutions.

In accordance with Article 26 of the Rules of Organization of the Board of Directors and its committees, the Sustainability Committee will be made up of a minimum of three and a maximum of six Board Members, appointed by the Board of Directors from among the non-executive Board Members, taking into account the knowledge, skills and experience of the Board Members and the tasks of the Committee.

Its members will resign when they cease to be Board members or when the Board of Directors so decides.

In full compliance with the principle of proportional representation, the majority of the members of the Sustainability Committee will be considered to be independent directors. If this is not possible, at least two of the members of the Sustainability Committee will be considered to be independent directors. The Board of Directors will elect the Chairman of the Committee who will have the category of Independent Board Member and will not have a casting vote. The Secretary of the Committee will be the Secretary of the Board of Directors although the Vice-Secretary, if any, may act as Secretary of the Committee.

The Sustainability Committee will have the powers assigned to it by the Board of Directors.

The Committee, called by its Chairman, will meet when necessary to issue the reports or proposals within its competence or when deemed appropriate by its Chairman or at the request of two of its members and at least three times a year. The Commission may invite any manager or employee it considers appropriate to attend its meetings.

The powers granted to it by the Board of Directors are as follows:

1. To propose to the Board of Directors the approval of a Sustainability Policy
2.To propose to the Council the objectives and guidelines of the Group in the field of environment, health and safety and social responsibility, included in the Sustainability Plan.
3. Periodically analyse indicators in the field of environment, health and safety and social responsibility
4. The review of the information published by Naturgy to the market in relation to sustainability

5. The supervision of compliance with the policies and rules of society in environmental and social matters.
6. he evaluation and periodic review of the environmental and social policy of the society, in order that they fulfil their mission of promoting the social interest and take into account, as appropriate, the legitimate interests of other stakeholders.
7. Monitoring that society's environmental and social practices are in line with the set strategy and policy.
8. Monitoring the implementation of the general policy on communication with shareholders and investors, proxy advisors and other stakeholders, as well as monitoring how the institution communicates and engages with small and medium-sized shareholders.

The most relevant actions in 2020 were:

(i) Health and safety: the Commission has reviewed the incidents and accidents that occurred during the exercise, with a view to drawing lessons from the incidents
(ii) Sustainability: the Commission has reviewed the sustainability plan and in particular the environmental plan
(iii) External verification: the Commission has examined the way in which third parties appreciate Naturgy's efforts in this field, as well as the acknowledgements received by Naturgy
iv) Naturgy Foundation: The Commission has supervised the performance of the Naturgy Foundation
(v) 2021-25 projections: The Commission has supervised the preparation of the medium-term projections - 2021-25 period - for sustainability

C.2.2 Complete the following table on the number of female directors on the various board committees at the end of the past four years:

	Number of female directors							
	Financial Year 2020		Financial Year 2019		Financial Year 2018		Financial Year 2017	
	Number	%	Number	%	Number	%	Number	%
Executive Committee	-	-	-	-	-	-	1	10%
Audit Committee	3	42,86%	1	14,28%	1	14,28%	2	28,57%
Appointments and Remuneration Committee	0	0%	0	0%	0	0%	1	20%
Appointments Committee	-	-	-		-	-		
Remuneration Committee	-	-	-		-	-		
Sustainability Committee	3	60%	-		-	-	-	-

C.2.3 Indicate, where applicable, the existence of committee regulations, the location at which they are available for consultation and the

modifications that have been made during the financial year. Also indicate whether any annual report on each committee's activities has been voluntarily drafted.

The Board Committees are regulated in the Articles of Association and in the Regulations for the Organisation and Functioning of the Board of Directors of NATURGY and its Committees.

Both documents are published on the Company's website (www.naturgy.com) →Shareholders and investors →Corporate governance →Corporate governance standards.

The Executive Committee, the Audit and Control Committee and the Appointments, Remuneration and Corporate Governance Committee have all drawn up a report on the quality and effectiveness of their performance over the previous year.

D RELATED-PARTY TRANSACTIONS AND INTRA-GROUP TRANSACTIONS

D.1 Explain, if applicable, the procedures for approving related party or intra-group transactions.

Procedures for approving related party transactions
In accordance with art. 3II h) of the Board of Regulations, among the powers that cannot be delegated by the Board but that may be adopted by the Executive Committee or by the CEO(s) for reasons of urgency duly justified and which must be ratified in the first Board Meeting to be held after the adoption of the decision is the approval, following a report from the Audit and Control Committee, of the operations that the Company or its group companies carry out with Directors, under the terms established in prevailing legislation, or with main shareholders, individually or in concert with others, of a significant stake, including shareholders represented on the Board of Directors of the Company or other companies that are part of the same group or with persons related to them. In some circumstances and to a limited extent, the Board has granted generic authorisations for transactions related to one of its shareholders, always in matters of a minor nature linked to the ordinary trade of the Company, and with the requirement that they be carried out under arm's length conditions and with the obligation to report the use of such authorisation to the Audit and Control Committee every year.

D.2 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders:

Nombre o denominación social del accionista significativo	Nombre o denominación social de la sociedad o entidad de su grupo	Naturaleza de la relación	Tipo de la operación	Importe (miles de euros)
CRITERIA CAIXA S.A.U	Naturgy Energy Group, S.A.	Comercial	Recepción de servicios	23
Gip III Canary 1, S.À R.L.	Naturgy Energy Group, S.A.	Comercial	Compra de bienes	9.085
CRITERIA CAIXA S.A.U	Naturgy Energy Group, S.A.	Comercial	Venta de bienes	2.362
CVC Capital Partners Sicav-Fis S.A.	Naturgy Energy Group, S.A.	Comercial	Venta de bienes	272
CRITERIA CAIXA S.A.U	Naturgy Energy Group, S.A.	Comercial	Dividendos y otros beneficios distribuidos	339.625
CVC Capital Partners Sicav-Fis S.A.	Naturgy Energy Group, S.A.	Comercial	Dividendos y otros beneficios distribuidos	283.813
Gip III Canary 1, S.À R.L.	Naturgy Energy Group, S.A.	Comercial	Dividendos y otros beneficios distribuidos	282.795

Observations

D.3 Detail those transactions that are significant because of their amount or which are materially relevant, performed between the company or entities within its group and the company's administrators or executives:

Name or Company Name of the Administrators or Executives	Name or Company Name of the Related Party	Relationship	Nature of the Operation	Amount (thousands of euros)
Pedro Sainz de Baranda Riva	Internacional Olivarera S.A.	Accionista	Comercial - Venta de bienes	178

Observations

D.4 Report on the significant transactions carried out by the company with other companies belonging to the same group, provided that they are not eliminated in the process of drafting the consolidated financial statements and are not part of the company's usual trading in terms of its purpose and conditions.

Under all circumstances, report any intra-group transaction performed with entities established in countries or territories considered to be a tax haven:

Company Name of the Entity of the Group	Brief description of the Operation	Amount (thousands of euros)

Observations

D.5 Detail the significant transactions carried out between the company or entities of its group and other related parties, which have not been reported in the previous sections.

Company Name of the Entity of the Group	Short description of the operation	Amount (thousands of euros)

Observations

D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its directors, management or significant shareholders.

1.- Directors:

In accordance with the Regulations of the Board:

The Director is subject to the duty of loyalty under the terms established in prevailing legislation and, in particular:

In accordance with the regulations, the Director must inform the other members of the Board of his or her conflict of interest and must abstain from participating in the vote.

In the cases in which a situation of conflict of interest has been observed, the affected Board Member(s) have been absent from the meeting when the point on the agenda they have a conflict of interest with has been dealt with and the Secretary has ensured that these Board Members have not been able to access the affected information either.

2.- Directors and executives:

On the other hand, pursuant to Article 3 and 4of the Internal Code of Conduct in Matters relating to the Securities Markets and Treasury Stock Policy (ICC), persons with management responsibilities and insiders, during certain periods of time will refrain from carrying out transactions on their own or for the account of a third party, directly or indirectly on the Affected Securities (i) Transferable securities issued by companies of the NATURGY Group, which are traded on a secondary market or other regulated markets, in multilateral trading systems or in other organised secondary markets, or for which an application for admission to trading on one of these markets or systems has been made. (ii) financial instruments and contracts of any kind giving the right to acquire or sell the securities referred to in (i) above (iii) The financial instruments and contracts whose underlying are the securities indicated in (i)(iv) For the sole purpose of

the rules of conduct regarding privileged information contained in Title III of these Regulations, the securities and financial instruments issued by other companies or entities other than the NATURGY Group, regarding which there is Privileged Information The Supervisory Body, upon written request, describing and justifying the Personal Operation to be carried out and that the specific operation cannot be carried out at any other time than a limited period may authorise Persons with Management Responsibilities to perform personal transactions on Affected Securities in the periods in which there is a general prohibition when certain circumstances are given and justified in the ICC itself. The Supervisory Body will inform the Audit and ControlCommittee at least once a year about the authorisations that have been requested. For their part, pursuant to section 4.10 of the Code of Ethics, employees must inform the company in the event that they or their close relatives participate or will participate on the governing bodies of other companies that may clash with the interests of Naturgy. In the performance of their professional responsibilities, employees must act with loyalty and defend the interests of the group. Furthermore, they must avoid situations that may give rise to a conflict between personal interests and the interests of the company. Accordingly, Naturgy employees must refrain from representing the company and participating in and influencing decisions in any situation in which they directly or indirectly have a personal interest. 3.- Significant shareholders: It will be the responsibility of the Board of Directors, pursuant to a report from the Audit and Control Committee, to approve transactions carried out by the company or the companies in its Group with directors under the terms set forth in the current applicable legislation or with shareholders who, individually or in conjunction with others, hold a significant stake, including shareholders represented on the company's Board of Directors or the board of other companies belonging to the same group or with persons associated with them.

D.7 Indicate whether the company is controlled by another entity within the meaning of Article 42 of the Commercial Code, whether listed or not, and has, directly or through its subsidiaries, business relationships with such entity or any of its subsidiaries (other than those of the listed company) or carries out activities related to those of any of them.

YES NO **X**

Indicate whether the respective areas of activity and any business relationships between the listed company or its subsidiaries on the one hand and the parent company or its subsidiaries on the other have been publicly defined:

YES NO

Report on the respective areas of activity and any business relationships between, on the one hand, the listed company or its subsidiaries and, on the other hand, the parent company or its subsidiaries, and identify where these aspects have been publicly reported

Indicate the mechanisms laid down to solve possible conflicts of interests between the other parent company of the listed company and the other companies in the group:

Mechanisms for solving possible conflicts of interests

E CONTROL SYSTEMS AND RISK MANAGEMENT

E.1 Describe the control and risk management system in place at the company, including fiscal risks.

The Risk Management System works in a comprehensive and continuous way, and integrates the corporate visions of Corporate Governance, Risks and Compliance of the Company, enabling a full overview of the Group's processes, the existing controls over these and the associated risk.

The system ensures the independence of the control and risk management functions attributed to each of the responsible bodies and units, and is responsible for determining thresholds for the main risk categories in order to define the overall risk profile of the Company, guaranteeing the predictability of its performance in all relevant aspects for its stakeholders.

The main objective of global risk management is to ensure that the most relevant risks are correctly identified, assessed and managed, to ensure that the level of risk exposure assumed by Naturgy in the performance of its activities is consistent with the global profile of defined objective risk and with the achievement of the annual and strategic objectives.

Following the organisational change in the Company, the Audit and Control Committee has started to examine an update of the risk assessment and monitoring system.

E.2 Identify the bodies responsible for preparing and implementing the control and risk management system, including fiscal risks.

Audit Committee

A body supervising the efficiency of internal control and risk management systems. It ensures that the foregoing identify the different types of risks and the measures planned to mitigate them and to address them should they materialise.

Risk Committee

Is responsible for determining and reviewing the main risk profile of the company. Likewise, it supervises that the organisation as a whole understands and accepts their responsibility when identifying, assessing and managing the most relevant risks. **Risk Control Units** Responsible for monitoring, controlling and reporting the assumed risk and ensuring the maintenance of the main risk profile established. Noteworthy units include the Corporate Units of: Planning and Risks and Internal Audit and the Business Units of Risk Management and Business Planning and Risks.. **Business Units and Corporate Areas** They are responsible for the application of the main principles of the Control and Risk Management Global Policy and the management of the risk in their areas of responsibility: observing, reporting, managing and mitigating the different risks.

E.3 Indicate the main risks, including fiscal, to the extent that those derived from corruption are significant (the latter being understood to be within the scope of Royal Decree Law 18/2017) which may prevent the company from achieving its business targets.

	Description	Management
Market risk		
Gas price	Volatility in international markets which determine gas prices.	Physical and financial hedges. Portfolio management
Electricity price	Volatility in electricity markets in Iberia and Europ	Physical and financial hedges. Optimisation of generation park.
Gas volume	Gap between gas supply and demand.	Optimisation of contracts and assets. Trading.
Electricity volume	Reduction in available thermal gap. Uncertainty in the volume of renewable production	Optimisation of commercialisation/generation gap.
Regulation	Exposure to revision of criteria and levels of return recognised for regulated activities.	Heightened intensity of communication with regulatory bodies. Adjusting efficiencies and investments to recognised rates.

Exchange rates	Volatility in international currency markets.	Geographical diversification. Hedges through financing in local currency and derivatives. Monitoring of the net position.
Interest rates and credit spread	Volatility in financing rates.	Financial hedges. Diversification in financing sources.
Legal	Uncertainty arising from the potential outcome of litigation, arbitration or open legal claims.	Analysis and mitigation of legal risks affecting the company's operations and corporate governance. Hiring of top-level legal firms. Provisioning with criteria of prudence
Fiscal	Ambiguity or subjectiveness in the interpretation of the prevailing fiscal regulations, or through a relevant change to the same.	Consultations with independent expert organisations. Recruitment of leading consultancy firms. Adhesion to the Code of Good Tax Practices. Allocation of provisions with criteria of prudence.
Credit risk		
Credit	Uncertainty over the evolution of ratios of payment default conditioned by the economic cycle.	Customer solvency analysis to define specific contractual conditions. Admission and collection process.
Operational risks		
Operational: image and reputation	Deterioration in perception of stakeholders regarding the company's reputation as a result of the behaviour of the company or its employees, including those related to corruption, and their influence on results.	Identification and tracking of potential reputation events. Transparency in communication.
Operational: insurable.	Accidents, damages or non-availabilities in assets of Naturgy.	Ongoing improvement plans. Optimisation of total cost of risk and hedging.
Operational: environment	Exceeding environmental limits or damage to ecosystems and biodiversity produced naturally or by human action.	Emergency plans in installations with risk of environmental accidents. Specific insurance policies. Complete environmental management.

Operational: climate change	Uncertainty arising from the energy transition (regulation, market, technologies, ...) and the physical impacts of climate change.	Corporate positioning with regard to climate change. Active participation on influence forums.
Operational: cybersecurity	Malicious attacks or accidental events affecting data, computer networks or technology	Implementation of security measures. Analysis of events and application of remedies Training
Compliance risk		
Reputational and criminal risk	Administrative and criminal sanctions. Deterioration of the reputational image of NATURGY.	Crime Prevention Model. Ethics Code and Anticorruption Policy. Whistleblowing Channel. Compliance Training.
Thrid-Party risk	Administrative and criminal sanctions. Damage derived from contractual breach.	Third-Party Due Diligence Procedure

E.4 Identify if the company has a risk tolerance level, including tax risks.

The company has levels of risk tolerance established at corporate level for the main kinds of risks.

The risk assessment process lies in identifying the risks, generally by those businesses that are subject to risk exposure. This identification takes place at the time the risk exposure originates. However, an in-depth review is carried out every year by the Risk Control Units to ensure proper identification of all risk exposures, whether current or future.

It is the Risk Control Unit’s responsibility to assess the risks identified, based on:

a) Risk position: definition and characteristics.
b) Impact variables.
c) Qualitative and quantitative severity of the risk occurring.
d) Probability of risk occurring.
e) Defined mitigation controls and mechanisms, and their effectiveness.

Lastly, it will propose a tolerance level for the types identified, which will be approved by the Risk Committee.

E.5 Identify any risks, including tax risks, which have occurred during the year.

The risks that have materialised during the financial year have been inherent to the activity carried out, such as: exposure to regulatory risks, volatility of fuels and of the pool in Spain, the exchange, interest, credit or counterparty rates.

The risk control mechanisms have enabled the company to keep their impact within the established tolerance range, defined by means of the current risk limits.

Faced with uncertainty in the domestic and worldwide economic outlook, the company will seek to position itself in countries that promote legal security, economic developments in stable macroeconomic environments that ensure steady growth that contributes to the generation of value and profitability of business and enterprise, balance the weight of its businesses in its mix of activities, and it will place greater focus on increasing the contribution of regulated activities and a more electric profile.

E.6 Explain the response and monitoring plans for the main risks the company is exposed to, including tax risks, as well as the procedures followed by the company to ensure that the board of directors responds to new challenges.

The risks regarding the performance of Naturgy are set out in the company's Corporate Risk Map, containing:

- Definition and characteristics of the main risk factors.
- Evolutionary aspects of the Corporate Risks Map.
- Impact variables.
- Main measurement methodologies used for each kind of risk.
- Qualitative, quantitative and probable severity of the risk materialising.
- Defined controls and their effectiveness.

The Risk Control Units and other specific areas (Regulation, Environment and Social Responsibility, Generation) perform periodic measurements of the evolution of main risks, duly giving the opportune instructions in the event of observing levels of exposure or trends in risk evolution that could exceed the established tolerance.

F INTERNAL SYSTEMS OF CONTROL AND RISK MANAGEMENT WITH REGARD TO THE INTERNAL CONTROL SYSTEMS OVER FINANCIAL REPORTING (ICFR)

Describe the mechanisms that make up your entity's internal control system and management of risks with regard to the financial information reporting process (ICFR).

F.1 The company's control environment

Report on, duly detailing their main characteristics, at least:

F.1.1. Which bodies and/or functions are in charge of: (i) the existence and upkeep of an appropriate and effective ICFR; (ii) its implementation; and (iii) its supervision.

Naturgy has defined its Internal Control System over Financial Reporting (hereinafter "ICFR") in the "Global Policy and General Procedure of the Internal Control System over Financial Reporting (ICFR) General Standard of Naturgy".

As part of the ICFR, Naturgy has defined, in the foregoing **Global Policy and General Procedure**, the responsibilities model of the same. This model revolves around the following seven areas of responsibility:

- Board of Directors: The Board is responsible for the existence of an appropriate and efficient ICFR, the supervision of which is delegated upon the Audit and Control Committee.

  The Board Regulations of Naturgy Energy Group, S.A. and its Committees, in Article 3 Section II, establish that the determination of the risk control and management policy, including tax risk, and supervision of the internal information and control systems are, among others, a matter that cannot ordinarily be delegated by the Board of Directors.

- Audit and Control Committee: Among other tasks, this committee is responsible for supervision of the ICFR. Article 26 Section 2 of the Board Regulations states that the Committee has the powers set out in Law and those entrusted to it by the Board of Directors in a general or specific manner. Thus, Article 529.14 of the Spanish Corporate Enterprises Act sets out in section 4.b) that the Audit and Control Committee will have the function of supervising the effectiveness of the company's internal control, internal audit and risk management systems, as well as discussing with the Accounts Auditor the significant weaknesses of the internal control system detected in performance of the audit. In particular and in relation to the reporting and control systems, the Audit and Control Committee is responsible for, inter alia, the supervision of the preparation process and integrity of the financial information related to the company and, where applicable, the group, reviewing compliance with the standard requirements, the appropriate definition of the consolidation perimeter and the correct application of accounting criteria. For the performance of some of these duties, the Audit and Control Committee is supported by the Internal Auditing Unit.

- Planning, Control and Administration Unit: This department is responsible for the design, implementation and operation of the ICFR. For the performance of this function, it is supported by the corporate Internal Control of Financial Reporting team.

- Administration and Operational Monitoring of the Business Unit: is responsible for the implementation and functioning of the ICFR. For the performance of this function it is supported by the team responsible for the Internal Control of Financial Reporting of the business.

- Internal Auditing Unit: In general, it is responsible for assisting the Audit and Control Committee in the ongoing review and assessment of the effectiveness of the Internal Control System in all areas of Naturgy, providing a systematic and rigorous approach for the monitoring and improvement of processes and for the assessment of operational risks and controls associated to these, including those corresponding to the ICFR and the Crime Prevention Model.

- Compliance Unit, responsible of the Crime Prevention Model at NATURGY, provides information and support to the Audit and Control Committee on the control model. Proper compliance with SCIIF model guarantees the Crime Prevention Model to avoid possible crimes related to financial information..

- Business, Services and Project Units involved in the financial reporting process. These are responsible for carrying out the processes and maintaining daily operations to ensure that the control activities implemented are performed, evaluate them, with the established periodicity, and carry out the Annual Certification of the SCIIF.

F.1.2. Whether or not the following elements exist, particularly with regard to the procedure for financial reporting:

- **Departments and/or mechanisms responsible for: (i) the design and review of the organisational structure; (ii) the clear definition of the lines of responsibility and authority, with an appropriate distribution of tasks and duties; and (iii) that there are sufficient procedures for proper dissemination at the entity.**

The design and review of the organisational structure of top tier management, as well as definition of the lines of responsibility, are carried out by the Board of Directors, through the CEO and the Appointments and Remuneration Committee.

As a result of the push down of functions, specifically Internal Control of Financial Information, the responsibilities, previously centralized in the Planning, Control and Administration Department, have been decentralized to each of the business countries regarding the implementation and operation of the SCIIF Model.

In this sense, the Planning, Control and Administration Department is responsible for establishing the criteria and principles for the design and organization of the operation of the SCIIF (with the Internal Financial Information Control team), through the SCIIF Global Policy and General Procedures and the rest of the internal regulatory body. (indicated in section F.1.1.)

In this process, the Administration and Operational Monitoring units of the businesses are responsible for the implementation and operation of the SCIIF (with the business's Internal Financial Information Control team).

As a result, with the new operating model and organizational changes, where each business is involved in the preparation of its financial information, there is no longer a single NATURGY Financial Information Interrelationship Map, there being different Interrelationship Maps in each of the critical business processes. These Interrelationship Maps are prepared by the Administration and Operational Monitoring Units of the business, done under the supervision of the Internal Control of Corporate Financial Information team, which also prepares the Interrelationship Maps for the transversal and corporate processes.

In this regard, there are six main areas that Naturgy has taken into consideration in compiling the interrelationships map of the critical processes involved in preparing the financial information:

(i) the information required to prepare the financial reporting;
(ii) the parties in charge that are either the source or recipient of the financial reporting and
(iii) the distribution of tasks among the different organizational units
(iv) the scope of this distribution to all group companies
(v) the frequency of information transfer
(vi) the information systems that are involved in the drafting process and for the issue of the financial reporting;

Thus, using the Interrelationships Maps of Naturgy, the processes that have an impact on the preparation of financial reporting are clearly defined, both the operational processes that have a relevant impact on financial reporting, as well as those processes associated to the administrative and accounting function, and those Managers involved in the same.

- **Code of Conduct, approval body, level of dissemination and instruction, principles and values included (indicating whether or not there are specific mentions to the register of operations and the preparation of financial reporting), the body in charge of analysing breaches and proposing corrective actions and fines.**

The undertakings of Senior Management of Naturgy include focusing their efforts on ensuring that operations are carried out within an environment of professional and ethical practices, not only through the introduction of mechanisms targeted at preventing and detecting fraud committed by employees, or inappropriate practices that could lead to sanctions, fines or which could damage the image of Naturgy, but also reinforcing the importance of ethical values and integrity among its professionals.

In this regard, Naturgy has a Code of Conduct (hereinafter "Code of Ethics"), which was approved by the Board of Directors. This code is mandatory for all employees of NATURGY ENERGY GROUP S.A. and for all investee companies in which Naturgy holds management control.

The Code of Ethics sets out the general ethical principles for Naturgy as a whole, setting out the values to be pursued in practice throughout the organisation, and which includes: (i) purpose; (ii) scope of application (involving all members of Naturgy); (iii) governing criteria of conduct at Naturgy (declaration of the group's style of governance); (iv) conduct guidelines (declaration of key values of Naturgy); (v) acceptance and compliance of the code; (vi) Code of Ethics Committee and (vii) enforceability.

The Code of Ethics considers integrity and responsibility in the exercise of professional activities to constitute a fundamental general criteria for conduct at Naturgy. More specifically, it sets out a series of action guidelines to a greater or lesser extent related to the reliability of the financial reporting and to compliance with applicable regulations, and in particular:

- Respect for the law, human rights and ethical values (Section 4.1)
"Naturgy undertakes the commitment of acting at all times in accordance with applicable laws, with the internal regulatory system established with internationally accepted ethical practices, with total respect towards human rights and public liberties (...)"

- Processing of information and knowledge (Section 4.11):
"All employees that enter any kind of information in the group's IT systems must ensure that this information is rigorous and reliable.

In particular, all the group's economic transactions should be clearly and precisely set out in the corresponding registries, via the pertinent accounts, and in all transactions performed, including all income and incurred expenses.

Employees of Naturgy shall refrain from any practice that contravenes the undertaking to clearly and accurately reflect all financial transactions in the group's Accounts".

Naturgy has also established an Anti-Corruption Policy, which is compulsory for all employees of all the companies which make up the Naturgy group with majority shareholding and those in which it has responsibility in its operation and/or management. The Anti-Corruption Policy is understood to be an extension of Chapter 4.7. "Corruption and Bribery" of the Code of Ethics of the group, which has the purpose of establishing the principles which must be used to guide the conduct of all employees and administrators of the companies of Naturgy with regard to the prevention, detection, investigation and remedy of any corrupt practice within the organisation.

Likewise, to reinforce this commitment to compliance, since January 2019, Naturgy has a Compliance Policy whose objectives are: to promote a culture of compliance and zero tolerance to regulatory breaches; as well as to ensure, through prevention, detection, supervision, training and response activities, the organisation's compliance in all its activities and operations with all applicable regulations, both external regulations and the internal regulatory system, thus avoiding possible sanctions, economic losses and reputational damage.

The Code of Ethics Committee of NATURGY has as its principal mission promoting its dissemination and application throughout the group, and to provide a channel of communication to all employees in order to receive enquiries and notifications regarding breaches of the Code of Ethics and the Anti-Corruption Policy.

The Committee is chaired by the Compliance Unit and is formed by representatives of different units involved in the monitoring of compliance of the Code of Ethics and the Anti-Corruption Policy.

The Committee regularly reports to Senior Management and to the Audit and Control Committee. The nature of the committee is to provide reports and recommendations, proposing corrective measures to those units in charge of providing solutions to problems through practical application of the Code of Ethics and the Anti-Corruption Policy, and simultaneously acting as a bridge between these units and employees.

The sanction regime, where necessary, is established by the Human Resources Unit.

To favour not only the exercise of said responsibility but also knowledge and dissemination of the Code of Ethics, this code is available in nine languages:

- Externally: Naturgy corporate website.
- Internally, on the group's Naturalnet platform.

In addition, online training courses through the Corporate University of Naturgy are developed, which are mandatory for all employees of Naturgy.

Through the Code of Ethics Committee, Naturgy periodically carries out campaigns for the Code of Ethics Compliance Declaration, Anti-Corruption Policy, Conflict of Interest and Compliance Policy to disclose the guidelines governing the conduct expected from all employees, to circulate the mechanisms that exist to make enquiries and notifications, and to periodically formalise the commitment of all the employees of the group in accordance with the ethical guidelines and principles of integrity.

Naturgy, to encourage the knowledge of the Code of Ethics among its Suppliers and collaborating companies sets out a clause in the General Terms and Conditions of Contracting in which it promotes practices which are in keeping with the guidelines for conduct included in the Code of Ethics of Naturgy, and informs them of where they can find the Code of Ethics of the group, along with information in the enquiries channel and notifications on aspects related to the Code of Ethics. Furthermore, in 2016 the Code of Ethics for Suppliers was approved and published, the purpose of which is to establish the guidelines that must govern the ethical behaviour of Suppliers, Contractors and External Collaborators of Naturgy. This Code sets out the commitments provided for under the United Nations Global Compact as well as under the Code of Ethics, the Human Rights Policy, the Corporate Responsibility Policy and the Anti-Corruption Policy of Naturgy.

- **Whistleblowing channel, which enables communication to be sent to the Audit and Control Committee concerning any irregularities of a financial and accounting nature, along with any possible breaches of the Code of Conduct and irregular activity within the organisation, and state whether said channel is confidential whether it allows for anonymous communications while respecting the rights of the complainant and the accused.**

NATURGY has a Whistleblowing Channel, accessible to all its employees and third parties at the next web www.naturgy.ethicspoint.com.

The aforementioned Whistleblowing Channel corresponds to an open channel (web platform accessible from any device), accessible to all Naturgy employees and interested third parties, to deal with matters related to the Ethics Code. This channel allows all group employees, suppliers and collaborating companies to collect or provide information on any matter related to the Code of Ethics and Anti-Corruption Policy. They can also get in touch through the channel to communicate in good faith and confidential conduct contrary to the Code.

All communications made through the channel are absolutely confidential and can be anonymous, respecting the limitations established in the Personal Data Protection regulations. In this regard, the Compliance unit has access, in the first instance, to all the information on all the queries and notifications received from the group through the procedure for operating the code of ethics channel.

Naturgy's Corporate Responsibility Report 2020 provides more detailed information on the Code of Ethics, the Anti-Corruption Policy, the Compliance Policy, the activities of the Ethics and Compliance Committee and the use of the communication channel

- **Training programmes and periodic retraining for personnel involved in the preparation and review of financial reporting, as well as the assessment of the ICFR, which at least cover the accounting, audit, internal control and risk management standards.**

The need to have a sufficient and, above all, updated qualification of those professionals involved in the preparation and review of financial reporting, as well as in the assessment of the ICFR, make it essential to implement an appropriate training plan, by which those persons in charge of each area have the knowledge required to perform the different functions included in the process of preparing and reviewing financial reporting.

To this end, Naturgy has the Corporate University, which is responsible for the strategic management of Training and Management Talent, with the People units of each business being responsible for managing the knowledge and development of persons in all areas of the company. It integrates the model, the channels, the programmes and the training and learning actions of the group, introducing methodologies and training experiences with criteria of quality, impact, efficiency and cost optimisation.

The Corporate University has a quality management system pursuant to the ISO 9001:2015 standard, renewed in 2020 and with CLIP (Corporate Learning Improvement Process) accreditation from the European Foundation for Management Development (EFMD) since 2003 and last renewed in 2018 for a five-year period. This certificate recognises the quality of learning and development processes of people of corporate education organisations.

The aims of the Corporate University are, among others: to guarantee the adequacy of the position/person, the acquisition of knowledge linked to new needs of the organisation, compliance with prevailing legislation and the development of skills and abilities related to the Naturgy leadership and culture model; based on placing an updated and quality training offer at the disposal of employees.

With the implementation of the Evolution - Success Factors platform as a training management tool, to improve and adapt training to the demands of employees and businesses, employees and their managers have been involved in defining the training required for their position and/or professional development; in addition, all employees have direct access to all the online training of the company’s catalogue, with a model of institutes and knowledge areas and a set of channels and platforms for disseminating specific content.

Naturgy's strategic plan is a challenge for the whole organisation. In this context, the Corporate University is one of the transformation levers, at the service of people and business, to contribute to the creation of value and the achievement of the company's objectives.

In 2020, we continue to evolve our organisational model, adapting to strategic objectives and priorities, with greater accountability for business and a governance role for corporate areas.

The relevant programmes performed in 2020 included:

- Those related to increasing the company's digital profile.Programmes such as the one called, Digital Culture through The Valley platform and different asynchronous resources, the science analyst programme, oriented to the technification of digital profiles, or the digital skills programme, where different programming languages (SQL, Phyton...) and different platforms (AWS and Azure) are worked on.

- Those that attend to future challenges and market trends, such as, innovation strategy, new forms of data visualization where training has been given in Power BI and other visualization tools, new forms of work organization with SCRUM, SaFe training or the Productivity Program, oriented to the best practices to be more efficient and effective.

- Those who promote leadership with the role of a lever for transformation and the Group's vision, programmes such as take the lead, aimed at female and inclusive leadership, influencing distance, the leader's journey, focused on the drive for transformational leadership or various communication actions that work on the great challenges of communication in the current environment.

On the other hand, transversal programmes have been implemented, which promote and develop the culture and values of the company, through high impact focused programmes: Safety in our daily life, emotional fitness, safe return, code orange, sustainability week, etc.

The specific knowledge for the economic-financial area has several objectives, among them, to homogenize the economic-financial processes developed in any area of the organization; to update the accounting and financial criteria, risk management, management control, international regulations and technical knowledge of the tax area; as well as to provide sufficient knowledge on company valuation, financial derivatives and financial statement analysis.

In total, in 2020 more than 300 professionals from the economic-financial areas dedicated nearly 1,500 hours to training in specific contents, highlighting, among other things, financing of renewable energies, tax innovations, analysis of taxes, accountability, finance, remuneration of distribution and regulation applicable to generation technologies and cybersecurity..

F.2 Assessment of financial reporting risks

Provide information, at least, on the following:

F.2.1. What are the main characteristics in the risk identification process, including risks of error or fraudulent practices, with regard to:

- **If the process exists and it is documented.**

The approach used by Naturgy to carry out the financial reporting risk identification and analysis process is set out in three interrelated matrices:

- A matrix for defining the scope of the financial reporting.
- A matrix of risks associated with the financial reporting.
- A matrix of financial reporting control activities

The matrix for defining the scope of the financial reporting has the purpose of identifying the accounts and breakdowns which have an associated significant risk, whose potential impact on financial reporting is material and therefore requires special attention. In this regard, a series of quantitative variables (account balance and variation) and qualitative variables (complexity of transactions: changes and complexity in standards; need to use estimates or forecasts; application of judgement and qualitative importance of the information) have been taken into account in the process of identifying accounts and significant breakdowns. The methodology for preparing the scope matrix has been outlined in a technical instruction entitled "Matrix for defining scope of financial reporting of Naturgy".

For each one of the accounts/significant breakdowns identified in the scope matrix, the critical processes and sub processes associated have been defined, and the risks which might give rise to errors in financial reporting have been identified, covering the objectives for the control of existence and occurrence; integrity; valuation; presentation, breakdown and comparability; and rights and obligations, in the "Risks matrix of financial reporting of Naturgy".

Within the risk identification process defined by Naturgy in its ICFR, problems relating to fraud have been considered to be a very important element. In this regard, the fraud risk control policy of Naturgy is supported by three basic pillars:

- Fraud prevention.
- Fraud detection.
- Investigation and management of fraud situations.

Preventative anti-fraud controls, from the perspective of financial reporting, have been defined, and are classified into two categories. Those called active controls, which are considered to be barriers for restricting or preventing access to valuable assets by persons who might attempt to commit fraud. On the other hand, passive controls aim to prevent fraud by way of dissuasive measures.

Lastly, both the general control activities as well as the process control activities, which consist of the policies and procedures included in all stages of the financial reporting process and which can assure its reliability, are set out in the "Matrix of activities of control for financial reporting in Naturgy".

The ICFR of Naturgy is a dynamic system, so its periodic updating is a fundamental process to comply at all times with the goal of the same, viz., to ensure that the group's financial reporting is reliable. In particular, the definition matrix of the scope thereof is updated yearly.

- **If the process covers all the financial reporting objectives (existence and occurrence; integrity; assessment; presentation, breakdown and comparability; and rights and obligations), if it is updated and how frequently.**

Naturgy, being aware of the importance of having a tool to ensure adequate control of ICFR management, implemented, in 2013, the SAP GRC Process Control, for the comprehensive management of documentation, assessment and oversight of internal control in Naturgy processes. This implementation, which was performed within the framework of the programme for improving the efficiency of Naturgy, was initially carried out in all Spanish companies with majority shareholdings in which the company is held responsible for its operation and/or management. In 2014 the implementation was carried out in the Share Economic and Financial Services Centre of Latin America; in 2015 the implementation extended to Mexico and France; in 2016 the tool was implemented in Holland, in 2017 in Panama and Brazil. For the implementation of SAP GRC Process Control, both on a national and international level, users responsible for the key controls of the ICFR and of the Internal Auditing Unit have provided support. .

It is noteworthy to mention that, during the year 2015, the scope of the corporate ICFR model was extended to countries which have recently been included in the group, such as Chile, as a result of the acquisition in November 2014 of the Chilean group Compañía General de Electricidad, S.A. (CGE). Additionally, during 2018, this was extended to companies in Ireland and Singapore, respectively that have a relevant presence in terms of international commercialisation of LNG. Lastly, in 2019 the scope of the corporate model for the renewable energy business was extended to Australia. These additions strengthen and reinforce Internal Control in Naturgy.

The ICFR model of Naturgy is integrated in SAP GRC Process Control, except for the scope definition matrix. This application identifies the General Controls of Management, the General Environment Controls and the General Computer Controls, the critical processes, their associated risks and the control activities used to mitigate them, set out in the aforementioned risks matrices and controls. The units responsible for carrying out the control activities are also identified and integrated in the process structure.

The benefits provided by the implementation of SAP GRC Process Control include the following:

- It centralises all the ICFR documentation and management of Naturgy in a uniform way.

- It integrates the internal control of financial reporting in business and transversal processes, allowing each responsible organisational unit to regularly assess its controls, providing the necessary evidence and, every year, execute the ICFR internal certification process.

- It uses work flows and forms for managing control activities, the documentation of evidence of the execution thereof and for the action plans.

- It allows documentary access to evidence of controls in respect of processes and viewing of the result of the assessment in a user-friendly and immediate way.

- It is a support tool for the ICFR supervision process by Internal Auditing and External Auditing.

It allows both external and internal information required for reporting on the ICFR to be obtained and support.

Since 2013, the control evaluation requests have been performed in the following years according to the established schedules in SAP GRC Process Control, whereby the units involved in ICFR were asked to provide evidence of the controls performed, in accordance with the frequency stipulated in each case. If applicable, this assessment allows weaknesses, and the action plans necessary, to be identified and completed.

- **The existence of a process for the identification of the consolidation perimeter, taking into account, among other aspects, the possible existence of complex corporate structures, instrumental or special purpose entities.**

Part of the critical processes identified includes the process of identifying the consolidation perimeter of Naturgy and it has been described in a technical instruction called "Consolidated closing cycle of Naturgy". Said document sets out the process for the monthly update of the perimeter, in accordance with the corporate operations of the period, and the units involved therein are defined. This process of identification and update of the perimeter is of fundamental importance for the drafting of the consolidated financial reporting of Naturgy.

- **If the process takes other types of risks into account (operating, technological, financial, legal, reputational, environmental, etc.) insofar as they affect the financial statements.**

  The risks matrix has taken into account the risks associated with reaching the objectives of financial reporting, considering, in that identification, the effects of other kinds of risks (for example: operating, technological, financial, reputational, etc.) which form part of the Corporate Risk Map of Naturgy.

- **Which governing body of the company supervises the process.**

  The Audit and Control Committee is responsible for supervising the efficiency of the ICFR. In order to carry out this function, the Audit and Control Committee uses the Internal Audit Unit and the External Audit (see section F.5).

F.3 Control activities

State, duly detailing their main characteristics, whether, at least, the following aspects exist:

F.3.1. Procedures for the review and authorisation of financial reporting, and the description of ICFR, to be published on the securities markets, indicating their supervisors, and the documentation which describes the flow of activities and controls (including those relating to risk of fraud) of the different types of transactions which can have a material impact on the financial statements, including the closing of accounts procedure and the specific review of relevant judgements, estimates, valuations, and protection.

Naturgy conducts regular reviews of the financial information prepared and of the description in the ICFR according to the different levels of responsibility, guaranteeing the quality of this description.

As a first level of review, the persons responsible for the closing of accounts of each company of Naturgy, within the Administration and Operational Monitoring of the Business units, review the financial reporting drawn up to ensure it is reliable and certify the reasonableness of the individual annual accounts.

Ultimately, the responsible for Planning, Control and Administration certifies the reasonability of the individual and consolidated annual accounts of NATURGY ENERGY GROUP, S.A. presented to the Board of Directors for approval.

Furthermore, as indicated in the "Global Policy for the Internal Control System of Financial Reporting (ICFR)" of Naturgy, control activities defined by the group in its ICFR comply with the basic objective of ensuring that the financial reporting of Naturgy represents the true and fair image of the group.

The control activities defined in the ICFR include both general controls and controls over critical processes.

While they do not allow a sufficient degree of control to be achieved over the group's processes, general controls are mechanisms that enable a series of key targets to be obtained for the achievement of an effective ICFR; in other words, they describe the policies and guidelines designed to protect Naturgy's ICFR in its entirety.

In addition, all the critical processes identified have been documented by means of the control activities matrix and by the pertinent descriptive technical descriptions of the processes. These critical processes, their associated risks and the control activities which mitigate them, as well as the descriptive documentation of the aforesaid processes, are identified in the ICFR management tool, SAP GRC Process Control. In this regard, Naturgy has identified all the processes necessary to draw up the financial information, using relevant judgements, estimates, valuations and forecasts, all of them being considered to be critical. The Audit and Control Committee is regularly informed of the main hypotheses used to estimate the financial reporting which depends on relevant judgements, valuations and projections.

The following information has been included in the documentation included in SAP GRC Process Control of the critical processes and control activities:

- Process description.
- Process information flow chart.
- Map of systems which interact in the process.
- Description of financial reporting risks associated with the different processes and control objectives.
- Definition of control activities to mitigate risks identified and their attributes.
- Descriptions of persons responsible for processes and control activities.

The following classifications of control activities have also been identified in the definition of control activities, in accordance with the five following criteria:

- Scope: depending on the scope of the control activities, they can be divided into:
  - General control activities.
  - Processes control activities.
- Level of automation: depending on the level of automation of the control activities, they can be divided into automatic and manual.
- Nature of the activity: depending on the nature of the control activities, they can be divided into preventive or detection activities.
- Frequency: depending on the recurrence which the activity has over the course of time, for example; annual, monthly, weekly, daily, etc.

Lastly, the ICFR of Naturgy includes the definition of the annual internal certification model of the controls identified in the critical processes which have to be performed by the business, services and projects units involved in the process of drawing up financial information. The Internal Control for Financial, Corporate and Business Reporting teams are responsible for launching and monitoring this certification process. In order to carry out this internal certification process, the units taking part use the functionalities integrated in the SAP GRC Process Control application for managing the ICFR of Naturgy (see section F.2.1). In the case of not having the tool, the certification is done manually guaranteeing the same premises.

The Internal Audit Unit is responsible for reviewing and assessing the conclusions regarding the compliance and effectiveness of the annual internal certifications process of the units which are responsible for carrying out the controls, review of the weaknesses and action plans designed for their correction.

F.3.2. Internal control policies and procedures on information systems (inter alia, on access security, control of changes, operation thereof, operating continuity and separation of functions) which support the relevant processes of the company in drawing up and publishing financial information.

For the critical processes associated with the drawing up and publication of the financial reporting of Naturgy which have been defined in the ICFR of the group, the control activities which operate in information systems have been defined, both for those used directly in preparing their financial information and for those which are relevant in the process or control of the transactions included in it.

At general level, within the reporting systems map of Naturgy, a series of policies have been defined and implemented to guarantee the following aspects:

- Security of access to both data and applications.
- Control of changes in applications.
- Correct operation of applications.
- Availability of data and continuity of applications.
- Adequate separation of functions.
- The correct regulatory compliance (GDPR)

a) Secure access:

A series of measures have been defined at different levels to guarantee confidentiality and to prevent unauthorised access to data and/or applications. Most internal users are managed and authenticated in a centralised way in the OIM (Oracle Identity Manager) Directories, which ensure they remain confidential.

The company has two main Data Processing Centres (DPC) in Madrid, to facilitate availability of information systems in the event of any contingency. Only authorised staff are able to access these facilities, all accesses are registered, and they are subsequently inspected to check for any possible anomalies.

Communications with these systems include systems such as Firewall, IPS (Intrusion Prevention System) and antivirus (signature and behaviour based) to internally reinforce control against threats.

Email and other information repositories are in the cloud (O365), where a layer of anti-malware protection (signatures and behaviour) is deployed, as well as a cloud security tool (CASB).

At the computer level, all PCs and servers have deployed a state-of-the-art anti-virus (EPP) and a detection and response tool (EDR).

A password policy that establishes a set of requirements for their definition and maintenance has been included in the Identity Management Model: minimum length, complexity, impossibility for repeating the password, maximum and minimum validity, encrypted, user blocks after period of inactivity, etc.

In addition, the Company is working on the implementation of Multiple-Factor Authentication (MFA) access model to make more robust access controls and identity assurance. The MFA is being deployed in O365, IOM, external and internal VPN, in the latter there is already an equipment certificate control implemented.

Furthermore, the CyberSOC (Security Operations Centre) is monitoring all the alerts created by failed or abnormal access attempts, applying to this information an intelligence level that analyses and interprets the data relating to said attempts (timestamp, location...), enabling decisions to be taken early on that prevent hypothetical unauthorised access, such as blocking accounts, filtering on access, password change. In 2020, the team has been increased by adding a Threat Hunting service, so that possible commitments that have not yet generated alerts are proactively and continuously identified.

Likewise, the Company is working on the creating and updating of the BRS (Business Recovery Systems) of the main information systems, for the recovery and restoration of critical interrupted functions.

Finally, at application, operating system and database level, the user-password combination is used as preventative control. At a data level, profiles have been defined that limit access thereto. Naturgy is developing a project for the definition and implementation of users/roles/profiles matrix for the enhancement of the segregation of functions that ensures the procedures for access to systems and data.

b) Change control:

A change management methodology has been developed and implemented based on best practices, setting out the precautions and validations which are necessary to limit risk in that process.

Some of the main aspects it includes are as follows:

- Approval by the Technical Committee, Changes Committees and Business.
- Carrying out tests in the different environments before passing to production.
- Specific environments for the development and tests tasks.
- Roll-back procedures.
- Separation of functions in most of the environments between development and production teams.
- Monitoring and control in any phase of development.
- User manuals and training courses.
- Regular maintenance of changes documentation.

c) Operation:

To guarantee that operations are carried out correctly, monitoring is conducted at four levels:

- All interfaces between systems are monitored to ensure they are correctly executed.
- At perimeter level, there are different availability indicators to prevent interruptions in communications.
- Automatic validations on the data entered so that they are in line with expectations based on their nature, rank, etc.
- Of the infrastructures which support applications.

There is also an internal Help Desk service which final users can contact, and they also have management tools at their disposal to report any kind of discrepancy.

d) Availability and continuity:

The majority of the systems have a high degree of local availability, and the servers thereof are situated in the same DPC, and in certain cases, in the support DPC for critical aspects. The high availability of information systems allows them to remain available should any incidents arise.

A backup copy is made regularly, and temporarily kept in a temporary secure location based on the legal requirements established for each system. The data are copied and stored in different locations, so preventing any loss of information. In order to restore these data there is a specific procedure, although tests are not carried out regularly.

e) Segregations of functions:

Access to the Information Systems is defined based on roles and profiles which define the functionalities to which a user must have access. These profiles are used to limit user access to Information Systems.

f) Regulatory compliance: GDPR

Naturgy complies with the provisions of Regulation (EU) 2016/679 of the European Parliament and the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and the free movement of such data, and with the provisions of Organic Law 3/2018, of 5 December, on the Protection of Personal Data and the guarantee of digital rights, as well as with the other provisions on data protection, to grantee the protection of data of a personal nature of its directors, employees, customers, suppliers, shareholders, investors and other stakeholders.

Naturgy, when it is the Data Controller, performs as many actions as necessary to comply with the legislation on data protection including and not limited to the following:

- It processes personal data in a lawful, sincere and transparent manner.
- It collects data for specific, explicit and legitimate purposes.
- It minimises the data subject to processing.
- It updates the data, providing data subjects with simple systems for this update.
- It limits the data storage periods.
- It applies appropriate technical and organisational measures to guarantee the security, integrity and confidentiality of the data.
- It obtained the consent of the data subject for processing whenever necessary.
- It introduces simple and adequate mechanisms so that the data subject, directly or through their legal or voluntary representation, can exercise their rights pursuant to prevailing legislation.
- It chooses data processors that offer sufficient guarantees to apply appropriate technical and organisational measures so that data processing is carried out in compliance with the requirements of relevant legislation. In addition it signs agreements with these data processes through which the data processor will only process data in accordance with the instructions given by the data controller, and will not apply the data or use them for any purpose other than then one set out in this agreement, and will not disclose them, even for safeguarding purposes, to third parties.
- It keeps a record of data-processing activity.
- It carries out impact assessments it deems appropriate.
- It has a collegiate body that acts as Data Protection Office.

- It makes the appropriate queries with the Spanish Data Protection Agency (AEPD) on issues of international transfers of personal data.
- It performs audits to grantee compliance with data protection regulations.
-

Under Article 32 of the GDPR that conditions security measures to the technology, Naturgy adopts the measures deemed technically appropriate that guarantee the security of personal data and avoids alteration, loss, processing or unauthorised access guaranteeing the confidentiality, integrity and availability of the data.

Naturgy carries out two-yearly audits of their Information Systems with the objective of complying with that set forth in the Regulation, as well as in all the procedures and instructions related to data protection.

F.3.3. Internal control policies and procedures for supervising the management of activities subcontracted to third parties, and those assessment, calculation or valuation questions entrusted to independent experts, which could have a material impact on the financial statements.

Naturgy has developed a series of policies and procedures used to supervise the management of activities subcontracted to third parties, all of which are approved by the levels established in the group, which include a “Global Policy for External Contracting”, a “Global Policy for Quality Suppliers” and the procedures which implement them, and the “Counterparty Due Diligence Procedure (corruption and reputational risks)”.

In this context, in the “Global Policy for External Contracting”, Naturgy sets out the general principles which have to be applied to all contracting of goods and services, guaranteeing a uniform, efficient and sustainable quality model for managing the Procurement process in Naturgy.

This Policy also determines the responsibilities of the different units in the contracting process, establishing a series of compulsory objectives that assure control over contracting activities to third-parties, as part of the same promoting productive and long-lasting relationships with suppliers, implementing impartial mechanisms of assessment, selection and monitoring, ensuring that the supply chain complies with the principles provided for in the Supplier Code of Ethics, that the suppliers must ratify and the terms of which are sourced from the Code of Ethics of Naturgy, from the Human Rights Policy, from the Health and Safety Policy, from the Anti-Corruption Policy, as well as from internationally recognised principles of good governance. Likewise, initial evaluation of the contracting of the suppliers is compulsory to minimise exposure to risk of the companies, in accordance with the activity and environment in which they operate. For this purpose, the Company evaluates, inter alia, legal, financial, quality, safety, environmental and corporate responsibility aspects. In certain critical processes an additional level of control is required, that is referred to as “certification”, which is supported by documentary evidence and/or audits in order to secure the quality of the goods and services that are acquired.

In the global Policy for suppliers and the procedure that it develops, the general principles which have to be applied to the assessment, monitoring and development of the suppliers, as well as the quality offered of the products and services acquired or installed, guaranteeing a homogeneous, efficient and sustainable model in Naturgy are established. The establishment of procedures and controls that guarantee the compliance of requirements set out in the specifications by potential suppliers and awarded contractors and furthermore also requires the certification of the suppliers of certain services or materials identified as of high-risk (operating risk, legal risk, health and safety risk, quality risk, and environmental-social-governance risk). The approval process may unveil anomalies that lead to a plan of corrective actions, or the non-approval of the supply, which would prevent such supplier from performing this activity for Naturgy. Furthermore, the measurement of performance is carried out by means of satisfaction surveys of the service provided by suppliers that carry out high risk activities, with special attention on health and safety aspects. The necessary corrective measures or actions plans are established, as the case may be.

The Business Units carry out the supervision and quality control of its suppliers to determine if they offer the levels of quality required to the works. If not, they send the proposals for the withdrawal of certification/authorisation to supplier/products/persons as a result of the deficiencies in the performance of services or products.

The main areas which affect the critical processes of the financial information that Naturgy ha subcontracted to third parties are as follows:

- Certain processes of the Systems area.
- Reading and measuring processes.
- Certain processes in the Sales area.
- Logistics operator.
- Payroll and staff management process.
- Works management and maintenance of the distribution networks.
- Certain generation activities

Naturgy uses experts in works which are used for support to valuations, judgements or accounting calculations, only when they are registered in the corresponding Professional Colleges, or have an equivalent certification, show their independence and are companies which the market considers to be prestigious.

Naturgy has also defined the “Counterparty Due Diligence Procedure” which, in general terms, is designed to cover the main legal and reputational risks involved in business relations with third parties, and in particular, covering misconduct associated with the risk of corruption.

In addition it will be carried out from suppliers with a commercial relationship with Naturgy by using a screening tool to detect the exposure to reputational risk of the counterparties and make decisions based on the risk detected in coordination with the Compliance Unit.

The Internal Auditing Unit of Naturgy audits the processes and correct application of the Procurement, Suppliers and Counterparty Due Diligence Policies and Procedures and, if breaches are detected then the pertinent corrective actions are taken.

F.4 Information and communication

State, duly detailing their main characteristics, whether, at least, the following aspects exist:

F.4.1. **A specific function responsible for defining accounting policies (area or department of accounting policies), keeping them up to date, and resolving doubts or conflicts arising from their interpretation, keeping fluid communications with the persons responsible for operations in the organisation, as well as a manual of accounting policies which is up to date and communicated with the units through which the entity operates.**

One of the responsibilities, inter alia, of the The Planning, Control and Administration Unit, via the Accounting Planning Unit, is to keep the accounting policies applicable to the group to date. In this regard, it is responsible for updating the "Naturgy Accounting Plan", which includes the group's accounting criteria and accounts plan and an analysis of the accounting changes which might have an impact on the financial report of Naturgy.

The "Naturgy Accounting Plan" is usually updated every year. Both the accounting criteria on the basis of changes in the IFRS-EU standards applicable and the group's accounting structure are reviewed in the updates, ensuring the traceability between the Individual Account Plans of the group's subsidiaries and the Accounting Plan of Naturgy, that constitutes the basis for the drafting of the different financial reporting to be provided to external bodies as well as the Management Control information.

Once the Accounting Plan is updated, it is disseminated to all the personnel of the organisation via the Naturgy Intranet. Furthermore, after the updated accounting plan is published on the Intranet, an on-line alert is sent to users who access the Intranet, thus informing all the staff of the update.

On the other hand, the Accounting Planning Unit is responsible for analysing the EU-IFSR regulations that might have a significant impact on financial statements and for reporting to the Naturgy management affected by any such regulatory changes. It is also entrusted with the task of resolving questions regarding the account entry of specific transactions that may be considered by those responsible for Naturgy financial reporting.

F.4.2. **Mechanisms for the capture and preparation of financial information with uniform formats, applied and used by all units of the company of the group, used to support the main financial statements and the notes, as well as the information set out in detail on the ICFR.**

The complete economic-financial management model of Naturgy guarantees that the administrative and accounting processes are uniform by means of centralising the administrative transactional and accounting processes and in Economic-Financial Shared Services Centres (Lean Corporate Services) and the accounting processes in the Administration and Operational Monitoring of the Business units; as well as the use of SAP as a support system in the majority of the companies which form part of the group. The companies which do not use SAP are obliged to follow the criteria established by the group to ensure that such processes are uniform.

The most important features of the aforesaid model are as follows;

- It is unique for all countries and businesses;
- It includes the legal, fiscal, mercantile and regulatory requirements of the countries;
- It includes internal control requirements;
- It is used as a base for obtaining information furnished to Management Staff and to official bodies;

- It is supported by a certain organisational model and unique economic and financial reporting processes and systems for all countries and businesses.

The IFRS-EU financial statements of each country are obtained directly through the local account-group account assignment and the registration of IFRS-EU adjustments in the SAP application.

As part of the group ICFR, the interrelationships map of all the critical processes for drawing up financial information of Naturgy has been defined. The aforesaid map defines a number of things, including the reporting systems which take part in the process of drawing up and issue of financial information both from the standpoint of individual closing of accounts and the closing of the consolidated accounts.

Accordingly, in the processes of drawing up the consolidated financial reporting and its breakdowns in the ambit of the Naturgy group, the SAP BPC application is used, which is a SAP application for managing the consolidation process.

The information is uploaded in the two systems automatically and directly, once the month is closed.

The use of this two systems help in managing the consolidation process in tasks such as:

- Standardisation of the information.
- Validation of the information.

The preparation of the consolidated financial reporting is done centrally in the Consolidation Unit, which ensures the integration, uniformity, coherence and streamlining of Naturgy’s consolidated financial statements.

Naturgy also has local accounts plans to comply with accounting, fiscal, mercantile and regulatory requirements established by the different laws of the countries in which it operates. Those local accounting plans are conflated into a group accounting plan, which is unified and homogeneous for the purposes of consolidation and reporting of financial information.

In 2020, the Single European Electronic Format (SUEF) has been adopted for the preparation of the individual and consolidated Annual Financial Report in accordance with the European Commission Delegated Regulation 2019/815 of 17 December 2018.

F.5 Supervision of the functioning of the system

Report on, duly detailing their main characteristics, at least:

F.5.1. The supervision activities of the ICFR carried out by the Audit and Control Committee and whether the company has an internal audit function which includes the responsibility of supporting the committee in its task of supervising the internal control system, including the ICFR. Information will also be provided on the scope of the assessment of ICFR carried out during the year and on the procedure through which the party responsible for carrying out the assessment notifies its results, if the company has an action plan with details of the possible corrective measures, and if its impact on financial information has been taken into account.

The Audit and Control Committee has the powers that are provided for by Law, as well as the specific or general powers that are delegated upon it by the Board of Directors. The powers thereof include the following:

- Supervising the preparation and integrity of the financial information related to the Company and, where applicable, the Group, reviewing compliance with the standard requirements, the appropriate definition of the consolidation perimeter and the correct application of the accounting criteria.
- Overseeing the effectiveness of the internal control of the Company, internal audit, and risk management systems, including tax risks, and discuss with the Auditors the significant weaknesses of the internal control system detected during the carrying out of the audit.
- Notifying the General Meeting of Shareholders regarding the questions that are raised thereby in relation to the aspects for which the Committee is responsible.
- Submitting to the Board of Directors proposals for the selection, appointment, re-election and replacement of the External Auditor, as well as the conditions of their contracting and regularly collecting information on the Audit Plan and its execution, in addition to preserving its independence in the exercise of its functions.
- Establishing the appropriate relations with the Accounts Auditor to receive information on any issues which could jeopardise their independence, to be examined by the Committee, and any other matters relating to the progress of the audit, as well as any communications required pursuant to legislation governing accounts auditing and auditing standards. In any event, the Committee must receive, annually, from the External Auditors the declaration of their independence in relation to any directly or indirectly related parties, as well as the information regarding the additional services of any type whatsoever provided thereby and the corresponding professional fees received from said entities by the External Auditor or by the persons or related parties thereof, in accordance with the provisions of accounts audit legislation.
- Annually issue, prior to the issue of the audit report, a report giving an opinion on the independence of the Auditors. This report shall in all cases include a valuation of the additional services provided, as referred to in the previous section, considered separately and in their entirety, consisting of services other than statutory audits and how they relate to the requirement of independence or to the regulatory legislation on auditing.
- Ensuring the independence of the unit handling the internal audit function; approve its priorities and work programmes, ensuring that its focuses primarily on the main risks the Company is exposed to; receive regular reports on its activities; and verify that senior management is acting on the findings and recommendations of its reports. Propose to the Chairman of the Board of Directors the selection, appointment, re-election and removal of the person responsible for the internal audit service, as well as proposing the budget for that service, with the final decision corresponding to the Chairman of the Board of Directors.

In order to be able to comply with its responsibilities, the Audit and Control Committee has the information and documentation provided by the Internal Audit, Control of the Planning, Control and Administration Unit, the Business Administration and Operational Monitoring Units and the External Auditor.

The Internal Audit function is established in Naturgy as a means of independent and objective assessment and for this reason the Internal Audit

Unit, reports to the Audit and Control Committee of NATURGY ENERGY GROUP S.A.

It has the task of guaranteeing the continuous review and improvement of the Group’s internal control system, as well as safeguarding compliance with external and internal norms and the Control Models established in order to safeguard the effectiveness and efficiency of operations, and to mitigate the main risks in each one of the fields in which the Group operates. Likewise, it is responsible for the report of the internal audit activity to the Audit and Control Committee.

In the performance of its activity, Internal Auditing methodically reviews the internal control system of the Group’s processes in all areas, and also assesses the risks and controls associated to these processes, (including those established in the ICFR and the Crime Prevention Model), through definition and execution of the Annual Internal Audit Plan, to improve effectiveness and efficiency of these. It also provides support to the divisions in achieving their objectives.

The Annual Internal Audit Plans are drawn up principally on the basis of the Corporate Strategic Plan, the company's processes the risk areas included in the Risk Map, the Internal Control System of Financial Reporting (ICFR) Scope Matrix, the results of previous years’ audits and the proposals from the Audit and Control Committee and from top-tier management.

In accordance with the group policies, it is expected that the Internal Control System governing the ICFR of Naturgy is fully supervised by Internal Auditing in a period of five (5) years.

The methodology for the assessment of risks is in accordance with best corporate governance practices, based on the conceptual framework of the COSO Report (Committee of Sponsoring Organisations if the Treadway Commission) and on the basis of the types of risks defined in the company’s Corporate Risk Map.

The risks associated with the processes are prioritised by assessing their incidence, relative importance and degree of control. Depending on the findings, the company designs an action plan with corrective measures that enable mitigation of residual risks identified with a potential impact above the tolerable or accepted risk established.

Internal Auditing is supported by the implementation of a SAP environment corporate application which it uses to manage and document internal audit projects in accordance with the defined methodology.

More specifically and with regard to the Internal Control System on Financial Reporting (ICFR), Internal Auditing is in charge of:

- Supervising the general model of the system for Internal Control of Financial Reporting (ICFR) and the effectiveness of the associated controls, through the execution of the Annual Audit Plan within a multi-year time frame (in full within a period of five (5) years).

- Supervising the certification process performed by those parties responsible for the ICFR controls (in full within a period of five (5) years).
- Within the scope defined, inform the Audit and Control Committee of the results and the weaknesses identified in the ICFR, presenting the main

aspects detected in the internal audits of the ICFR and their monitoring, related to the general model and the controls governing ICFR processes.

With regard to the Crime Prevention Model, the Internal Audit Area is in charge of its annual supervision to make reasonably sure that the model is efficient and effective at preventing, identifying and mitigating the occurrence of crimes provided for under applicable legislation.

The main processes revised by the Internal Audit in 2020 were as follows:

- Gas Networks: Network Construction, Collection and Commissioning, Network Maintenance, Billing, Reading, Emergency Care, Home Operations, Irregularity Management.
- Electricity Networks: Network Development, Network Maintenance, Logistics, Reading, TPA Contracting, TPA Invoicing.
- Generation: Operation and Maintenance of Generation Assets, Development and Start-up of New Projects, Management of Generation Assets, Management of Warehouses. Dismantling and Closing of Assets,
- Marketing (Gas, Electricity and Services): Attraction and Contracting, Product Management, Construction and Commissioning of Energy Facilities.
- Gas Supply: Invoicing and Payment of Gas Purchases, Negotiation and Contracting.
- LNG: Technical management of ships.
- Customer Service: Invoicing, Collection, Unpaid Management, Customer Service, TPA Invoicing
- Energy Management: Demand Estimation and Gas Procurement
- Management of Physical Resources: Approval of Suppliers
- Internal Control Management: Follow-up of corrective actions, SCIIF
- Information Systems Management: Cybersecurity, Business Continuity Plan
- Management of Economic and Financial Resources: Treasury Stock, Economic-Administrative Management of Operations, Processing of Expenses and Investments.
- Human Resources Management: Administration and People Services
- Review of the Group's regulatory system
- Ethical Code Channel
- Criminal Prevention Model.
- General Data Protection Regulations
- Continuous Audit

41% of the reviewed processes correspond to Spain with the remaining 59% to the international ambit.

Controls on the above processes relating to the Financial Information, were reviewed in accordance with the work methodology described above.

F.5.2. **If the company has a discussion procedure through which the accounts auditor (as established in the TAS), the internal audit function and other experts can inform the company senior management and the Audit and Control Committee or administrators of significant weaknesses in internal control identified during the annual accounts review processes or others which might have been entrusted to them. The company shall also state whether it has an action plan to try to correct or mitigate the weaknesses observed.**

As set out in Article 6 of the Council Regulation:

The Board shall meet at least eight times a year and, at the Chairman's initiative, as many times as he deems appropriate for the proper functioning of the Company or when at least 1/3 of the Board members request it.

In order to obtain the necessary information for the exercise of their duties, the members of the Board of Directors have the Audit and Control Committee, whose functions include knowledge and supervision of the process of preparing the regulated financial information, as well as the effectiveness of the internal control system.

In accordance with the Company's By-Laws and the Code of Conduct for the Board of Directors and its Committees, the Audit and Control Committee will be made up of a minimum of three and a maximum of seven Board members, appointed by the Board of Directors from among the non-executive directors, and at least one of these will be appointed taking into account his or her knowledge and experience in accounting and/or auditing matters. Its members shall leave the Board when they cease to be directors and when the Board of Directors so decides. The majority of the committee members shall have the status of independent directors. At 31 December 2020 the Committee is made up of seven directors, three proprietary and four independent, one of whom is also the Chairman.

The Board of Directors will elect the Chairman of the Committee, who will not have a casting vote. The Secretariat of the Committee will correspond to the Secretariat of the Board of Directors.

The Committee, which is convened by its Chairman, meets when necessary to issue the reports for which it is responsible or when deemed appropriate by its Chairman or requested by two of its members and at least four times a year. The Commission may invite any manager or employee it deems appropriate to attend its meetings.

The sphere of activity of the Audit and Control Committee extends to:

- NATURGY ENERGY GROUP, S.A.
- Companies controlled by NATURGY ENERGY GROUP, S.A.

However, the Audit and Control Committee of NATURGY ENERGY GROUP S.A. respects the functions of the Audit and Control Committees of the investee companies and therefore does not exercise functions with respect to the areas of the latter, which have, for example, their own internal audit service that reports directly to them. In these cases, the Audit and Control Committee of NATURGY ENERGY GROUP S.A. has supervisory functions, but not direct control

The Internal Audit Unit regularly reports to the Audit and Control Committee on the actions taken to ensure that Naturgy complies with all the policies, standards and controls of the processes established by the top-tier Management of the Group.

The relationship between the Internal Auditor and the Audit and Control Committee is as follows:

- The Chief Internal Auditor reports fully to the Audit and Control Committee (setting the annual budget, approving the annual audit plan and supervising its monitoring, setting the fixed remuneration, setting and evaluating the variable remuneration and proposing it to the Executive

Chairman for dismissal and appointment) and reports only to the General Secretariat for administrative and management purposes.

- The same scheme applies to the internal auditors in their full functional dependence on the Chief Internal Auditor, to whom they also report hierarchically.
- This has an exception in those group companies that have their own Audit Committee. In these cases, the functional and hierarchical dependence will be on these committees, but the chief internal auditor must be able to give them instructions to ensure that the internal audit function is carried out in a homogeneous manner in all the companies of the group, must be consulted on the dismissal and appointment and the variable remuneration of these auditors must be consistent with the variable remuneration of the other auditors.

The internal auditor in particular presents to the Audit and Control Committee:

- The Annual Internal Audit Plan for the committee's approval.
- The degree of execution of the Internal Audit Plan and the main conclusions and recommendations included in the Internal Audit Reports.
- The assessment and the effectiveness of the Control System and assessment of operational and Internal Control risks of Naturgy (including those referring to ICFR and the Crime Prevention Model), including corresponding to Action Plans to improve the level of internal control.
- The level of implementation by the audited units of the corrective measures appearing in the Auditor's Reports, in particular those proposed by the Audit and Control Committee.

The external auditor may at any time approach both the management team (normally through the Director of Planning, Control and Administration) and the Audit and Control and Administration Committee (normally through the Chairman or Secretary of the Committee).

The External Auditor informs the Audit and Control Committee of the weaknesses in internal control detected during the audit. The External Auditors also report on the main conclusions they have reached in the review of internal control, regarding the risks assessment and action plans.

Finally, the External Auditor, in addition to meeting periodically with the Audit and Control Committee, also meets with the Board of Directors in plenary session before the latter formulates the Annual Accounts.

The Director of Compliance also has the ability to address the Audit and Control Committee or the Management Committee directly if he deems it necessary. He may also address the management team as the Director of Compliance chairs the Ethics and Compliance Committee whose members are members of the Management Committee.

F.6 Other relevant information.

As indicated in section F.3.1. above, as part of the model for the assessment of the Internal Control System of Financial Reporting of Naturgy, it has been decided to carry out an internal certification process whereby, through SAP GRC Process Control, the Business, Services and Projects Units which are involved in the process of drawing up financial reporting guarantee that the identified controls are applied within their processes and that they are valid and sufficient. They also inform the Internal Control of Financial Reporting team of the weaknesses and/or shortcomings detected and of changes arising in their processes so as to assess if they need to develop new controls or modify existing ones.

During the 2020 year, Naturgy carried out the annual internal certification process, whereby changes were identified in a limited number of processes. Importantly, those changes did not necessitate a modification of the control activities previously identified, so that the risks associated with the preparation and reporting of financial reporting were considered to be covered in the critical processes affected. The main magnitudes of this process, relating to ongoing activities, were as follows:

	Spain	International	Total
Business and corporate units	206	179	385
Processes identified	55	147	202
Controls certified	872	1.020	1.892

The discontinued activity of the electricity distribution business in Chile covers a total of 33 critical processes of consolidated scope in Naturgy, with a total of 272 controls certified by 25 organisational business units.

Likewise, action plans have been identified due to weaknesses in the evidence of controls, which amount to 10, of which 3 are in Spain. During financial year 2020, 33% of the action plans identified in 2019 were resolved, with new plans emerging during 2020. In the discontinued activity of the electricity distribution business in Chile, 17% of the action plans identified in 2019 have been resolved, leaving a total of 29 action plans at December 2020. In any event, the sub-processes affected by these action plans do not significantly affect the quality of financial information.

F.7 Report of the external auditor

State:

F.7.1. If the ICFR information submitted to the markets has been reviewed by the External Auditor, in which case the company will have to include the corresponding report as an annex. Otherwise, it will have to explain why.

Naturgy has deemed it pertinent to ask the External Auditor to issue a report referring to the information on the Internal Control System of Financial Reporting (ICFR).

G DECREE OF COMPLIANCE WITH THE CORPORATE GOVERNANCE RECOMMENDATIONS

State the degree of compliance of the Company in respect of the recommendations regarding the Good Governance Code of Listed Companies.

If any recommendations are not followed or are followed partially, it will be necessary to include a detailed explanation of the reasons why so that the shareholders, investors and the market in general, have sufficient information to be able to assess the company's actions. General explanations are not acceptable.

1. **The Articles of Association of listed companies should not limit the maximum number of votes that can be issued by the same shareholder or contain other restrictions that prevent the company from being taken over through the purchase of its shares on the market.**

   Compliant **X** Explain

2. **When the listed company is controlled, pursuant to the meaning established in Article 42 of the Commercial Code, by another listed or non-listed entity, and has, directly or through its subsidiaries, business relationships with that entity or any of its subsidiaries (other than those of the listed company) or carries out activities related to the activities of any of them, this is reported publicly, with specific information about:**

   a) **The respective areas of activity and possible business relationships between, on the one hand, the listed company or its subsidiaries and, on the other, the parent company or its subsidiaries.**

   b) **The mechanisms established to resolve any conflicts of interest that may arise.**

   Compliant Partially compliant Explain Not applicable **X**

3. **During the annual general meeting the Chairman of the Board should verbally inform shareholders in sufficient detail of the most relevant aspects of the Company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:**

   a) **Changes taking place since the previous annual general meeting.**

   b) **The specific reasons for the Company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.**

   Compliant **X** Partially compliant Explain

4. **The company should define and promote a policy for communication and contact with shareholders and institutional investors within the framework of their involvement in the company, as well as with proxy advisors, that complies in full with the rules on market abuse and gives equal treatment to shareholders who are in the same position. The company should make said policy public through its website, including information regarding the way in which it has been implemented and the parties involved or those responsible its implementation.**

   Further, without prejudice to the legal obligations of disclosure of inside information and other regulated information, the company should also have a general policy for the communication of economic-financial, non-financial and corporate information through the channels it considers appropriate (media, social media or other channels) that helps maximise the dissemination and quality of the information available to the market, investors and other stakeholders.

   Compliant **X** Partially compliant Explain

5. **The Board of Directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription to rights for an amount exceeding 20% of capital at the time of such delegation.**

When the Board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

Compliant **X** Partially compliant Explain

6. **Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the ordinary general meeting, even if their distribution is not obligatory:**

   a) **Report on auditor independence.**

   b) **Reports on the operation of the Audit and Control Committee and the Appointments and Remuneration Committee.**

   c) **Audit Committee report on related party transactions.**

   D) **Report on corporate social responsibility policy.**

   Compliant **X** Partially compliant Explain

7. **The company should broadcast its general meetings on the corporate website.**

   The company should have mechanisms that allow the delegation and exercise of votes by electronic means and even, in the case of large-cap companies and, to the extent that it is proportionate, attendance and active participation in the general shareholders' meeting.

   Compliant **X** Partially compliant Explain

8. **The Audit and Control Committee should strive to ensure that the financial statements that the board of directors presents to the general shareholders' meeting are drawn up in accordance to accounting legislation. And in those cases where the auditors includes any qualification in its report, the chairman of the Audit and Control Committee should give a clear explanation at the general meeting of their opinion regarding the scope and content, making a summary of that opinion available to the shareholders at the time of the publication of the notice of the meeting, along with the rest of proposals and reports of the board.**

   Compliant **X** Partially compliant Explain

9. **The Company should disclose its conditions and procedures for admitting share ownerships, the right to attend the General Meeting of Shareholders and the exercise or delegation of voting rights, and display the permanently on its website.**

   Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

   Compliant **X** Partially compliant Explain

10. **When an accredited shareholder exercises the right to supplement the Agenda or submit new proposals prior to the General Meeting of Shareholders, the company should:**

    a) **Immediately circulate the supplementary items and new proposals.**

    b) **Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that the new agenda items and alternative proposals can be voted on in the same terms as those submitted by the Board of Directors.**

c) **Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the Board of Directors, with particular regard to presumptions or deductions about the direction of the votes.**

d) **After the General Meeting of Shareholders, disclose the breakdown of votes on such supplementary items or alternative proposals.**

Compliant Partially compliant Explain Not applicable **X**

11. **In the event that the company plans to pay for attendance at the General Meeting of Shareholders, it should establish a general, long-term policy in this respect.**

Compliant Partially compliant Explain Not applicable **X**

12. **The Board of Directors should perform its duties with unity of purpose and independent judgement, affording the same treatment to all Shareholders in the same position. It should be guided at all times by the company's best interests, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.**

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the board community and the natural environment.

Compliant **X** Partially compliant Explain

13. **The Board of Directors should be an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five (5) and fifteen (15) members.**

Compliant **X** Partially compliant Explain

14. **The board of directors should approve a policy aimed at promoting an appropriate composition of the board that:**

a) **Is concrete and verifiable.**

b) **Ensures that appointment or re-election proposals are based on a prior analysis of the Board's needs.**

c) **Favours diversity of knowledge, experience, age and gender. Therefore, measures that encourage the company to have a significant number of female senior managers are considered to favour gender diversity.**

The results of the prior analysis of competences required by the board should be written up in the nomination committee's explanatory report, to be published when the general shareholders' meeting is convened that will ratify the appointment and re-election of each director.

The Appointments Committee should run an annual check on compliance with this Policy and set out its findings in annual corporate governance report.

Compliant **X** Partially compliant Explain

15. Proprietary and independent directors should constitute an ample majority on the Board of Directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

Further, the number of female directors should account for at least 40% of the members of the board of directors before the end of 2022 and thereafter, and not less than 30% previous to that.

Compliant Partially compliant **X** Explain

The number of executive directors is 1 and therefore meets the minimum requirement.

Finally, with regard to the number of female directors, the policy for the selection of directors ensures that the selection procedures are not subject to any implicit bias that could imply any discrimination, within the framework of full respect for the shareholders' right to proportional representation as recognised by law. The policy for selecting Board members is aimed at ensuring adequate diversity in the composition of the Board of Directors, which means that Board members have different and complementary professional profiles and careers, in the conviction that this diversity will result in a better functioning of the Board. Within this framework the Board pays attention to gender diversity issues.

The Company shares the objective of increasing the presence of women on the Board to at least 30% in 2020 and 40% in 2021, and to this end 100% of the vacancies (three) that have arisen during 2020 have been filled by female directors, reaching 25%.

16. The percentage of proprietary directors out of all non-executive directors should not be greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

This criterion can be relaxed:

a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.

b) In companies with a plurality of shareholders represented on the Board but not otherwise related.

Compliant **X** Explain

17. Independent directors should be at least half of all Board members.

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30% of capital, independent directors should occupy, at least one third (1/3) of the Board places.

Compliant Explain **X**

The company comfortably meets the objective of having a higher percentage of independent directors than the free float percentage. The Company has three (3) shareholders who do not act in concert and who have a shareholding equal to or greater share than 20%. All three have exercised their legal right to proportional representation, so by legal imposition it is impossible to comply with the recommendation.

At present, the number of independent directors is five (5) out of a total of twelve (12) directors, in other words, they represent 41.6% of the directors which is a percentage much higher than the free float. Conversely, the significant shareholders of the Company hold, as a whole, 66.1% of the capital and have proposed 50% of the Directors (in total 6 out of 12). While this is maintained, out of respect for the legal mandate of proportionality, the number of independent directors cannot be equal to half of the total number of directors. In any case, the figure of five (5), apart from quantitatively being the one according to the law, has qualitative relevance: a modification of the Board Regulations has established that, for matters of greater relevance, an enhanced majority of more than two thirds (2/3) is required, which amounts to a possibility of blocking the set of independent directors.

18. The companies should publish the following information about their directors on their website and keep the said information up-to-date.

a) Background and professional experience.

b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.

c) Statement of the director class to which they belong; in the case of proprietary directors indicating the shareholder they represent or have links with.

d) Dates of their first appointment as Board member and subsequent re-elections.

e) Shares held in the company, and any options on the same.

Compliant **X** Partially compliant Explain

19. The annual corporate governance report, with prior verification by the Appointments Committee is to provide an explanation for the reasons proprietary directors were appointed at the behest of shareholders whose stake in the company is less than 3% of share capital, and reasons given for the rejections of formal requests for board representation from shareholders who have successfully requested the appointment of proprietary directors.

Compliant Partially compliant Explain Not applicable **X**

20. Proprietary directors are to submit their resignation when the shareholder whom they represent fully disposes of their stake. They should also present their resignation, in the corresponding number, when the said shareholder lowers his/hers shares in the company to a level that requires a reduction in the number of his/her proprietary directors.

Compliant **X** Partially compliant Explain Not applicable

21. The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the Articles of Association, except where just cause is found by the Board, based on a report from the Appointments Committee. In particular, it shall be understood that there is just cause when the director takes on new offices or assumes new obligations that prevent them from devoting the time necessary to perform the duties of the office of director, breaches the duties inherent to their position or is affected by one of the circumstances that

cause them to lose their independent status in accordance with the provisions of applicable law.

The removal of independent directors may also be proposed as a consequence of offers for the takeover, merger or similar corporate actions affecting the company that may involve a change in the company's capital structure, whenever such changes in the Board of Directors arise under application of the proportionality criterion pointed out in Recommendation 16.

Compliant **X** Explain

22. **Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, related or not to their actions within the company, and tendering their resignation as the case may be, and, in particular, to inform the board of any criminal charges brought against them and the progress of any subsequent trial.**

    When the board is informed or becomes aware of any of the situations mentioned in the previous paragraph, the board of directors should examine the case as soon as possible and, attending to the particular circumstances, decide, based on a report from the nomination and remuneration committee, whether or not to adopt any measures such as opening of an internal investigation, calling on the director to resign or proposing his or her dismissal. The board should give a reasoned account of all such determinations in the annual corporate governance report, unless there are special circumstances that justify otherwise, which must be recorded in the minutes. This is without prejudice to the information that the company must disclose, if appropriate, at the time it adopts the corresponding measures.

Compliant **X** Partially compliant Explain

23. **All directors are to clearly express their opposition when they consider that any proposal subject to the decision of the Board of Directors may be detrimental to corporate interests. The independent directors and other directors who are not affected by the potential conflict of interest are to voice their opposition in a special manner whenever such decisions may be of detriment to shareholders not represented on the Board of Directors.**

    When the Board makes material or reiterated decisions about which director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

    The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

Compliant **X** Partially compliant Explain Not applicable

24. **Directors who give up their position before their tenure expires, through resignation or resolution of the general meeting, should state the reasons for this decision, or in the case of non-executive directors, their opinion of the reasons for the general meeting resolution, in a letter to be sent to all members of the board.**

    This should all be reported in the annual corporate governance report, and if it is relevant for investors, the company should publish an announcement of the

departure as rapidly as possible, with sufficient reference to the reasons or circumstances provided by the director.

Compliant **X** Partially compliant Explain Not applicable

25. The Appointments Committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The Board of Directors regulations should lay down the maximum number of company Boards on which Directors can serve.

Compliant Partially compliant **X** Explain

Owing to the high level of participation and attendance at the sessions of the governing bodies by the Members of the Board, to date the company has not established any rules on the number of Boards on which the said Directors can sit.

26. The Board should meet with the necessary frequency to properly perform its functions, eight (8) times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each Director may propose the addition of initially unscheduled items.

Compliant **X** Partially compliant Explain

27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, Directors should delegate their powers of presentation with the appropriate instructions.

Compliant X Partially compliant Explain

28. When Directors or the Secretary express concerns about some proposal or, in the case of Directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the Minutes if the person expressing them so requests.

Compliant **X** Partially compliant Explain Not applicable

29. The Company should provide suitable channels for Directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the Company's expense.

Compliant **X** Partially compliant Explain

30. Regardless of the knowledge Directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

Compliant **X** Partially compliant Explain Not applicable

31. The Agendas of the Board Meetings should clearly indicate on which items Directors must arrive at a decision, so that they can study the matter beforehand or gather together the material they need for its resolution.

For reasons of urgency, the Chairman may wish to present decisions or resolutions for Board approval that were not on the Agenda. In such exceptional circumstances, their inclusion will require express prior consent, duly recorded in the Minutes, from the majority of the Directors in attendance.

Compliant **X** Partially compliant Explain

32. **Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the Company and its Group.**

Compliant **X** Partially compliant Explain

33. **The Chairman, as the person charged with the efficient functioning of the Board of Directors, in addition to the functions assigned by Law and the Company's Articles of Association, should prepare and submit to the Board a schedule of meeting dates and agendas; organise and coordinate regular assessments of the Board and, where appropriate, the Company's Chief Executive Officer; exercise leadership of the Board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each Directors, when circumstances so advise.**

Compliant **X** Partially compliant Explain

34. **When a coordinating independent Director has been appointed, the Articles of Association or Board of Directors regulations should grant him or her the following powers over and above those conferred by law: chair the Board of Directors in the absence of the Chairman or Deputy Chairmen, give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those that have to do with the company's corporate governance; and coordinate the Chairman's succession plan.**

Compliant Partially compliant **X** Explain Not applicable

The Coordinating Director has all the recommended functions attributed (chair the Board of Directors in the absence of the Chairman, give voice to the concerns of non-executive directors, coordinate the succession plan of the Chairman, etc.), except for the relationship with investors.

The Board of Naturgy as such pays special attention on matters relating to Investor relations, as set forth in Article 4 of the Regulation, amongst others. In view of this, the Company, within the scope of the new Strategic Plan, have developed a substantial line of action based on the alignment the interests between Directors and Shareholders. Accordingly, the Board have decided to assign this function to the Executive Chairman and have created a Capital Markets Department reporting directly to the same that has a unit that specialises in Investor Relations.

35. **The Board Secretary should strive to ensure that the Board's actions and decisions take into account the good governance recommendations contained in the Good Governance Code of relevance to the Company.**

Compliant **X** Explain

36. **The Board in a plenary session should assess once a year, adopting, where necessary, an Action Plan to correct deficiencies identified in:**

The quality and efficiency of the Board's operation.

The performance and composition of its Committees.

The diversity of the composition and competence of the Board of Directors

e) The performance of the Chairman of the Board of Directors and the Company's Chief Executive.

f) **The performance and contribution of each Director, with particular attention to the Chairmen of Board Committees.**

The assessment of Board Committees should start from the reports they submit to the Board of Directors, while that of the Board itself should start from the report of the Appointments Committee.

Every three (3) years, the Board of Directors should engage an External Advisor to assist in the assessment process, whose independence should be verified by the Appointments Committee.

Any business relationships that the Consultant or any other company of its group maintains with the company or any company of its group must detailed in the annual corporate governance report.

The process followed and areas assessed should be detailed in the annual corporate governance report.

Compliant **X** Partially compliant Explain Not applicable

37. **When there is an executive committee, there should be at least two nonexecutive members, at least one of whom should be independent; and its secretary should be the secretary of the board of directors.**

Compliant Partially compliant Explain Not applicable **X**

38. **The Board is kept informed at all times of the business addressed and resolutions made by the Executive Committee and that all Members of the Board receive a copy of the Minutes of the Executive Committee meetings.**

Compliant Partially compliant Explain Not applicable **X**

39. **All members of the Audit and Control Committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters, both financial and non-financial.**

Compliant **X** Partially compliant Explain

40. **Listed companies should have a unit in charge of the internal audit function, under the supervision of the Audit and Control Committee, to assure the correct functioning of the reporting and internal control systems. This unit should report functionally to the non-executive Chairman of the Audit and Control Committee.**

Compliant Partially compliant **X** Explain

The company considers it more appropriate for the functional unit to be of the Commission as a whole and not of the President of the Commission, since the functions that make up such a unit are preached from the Commission as a whole and not only from the President.

Thus, this Committee sets the annual budget, approves the annual audit plan and supervises its monitoring, and proposes its termination and appointment to the Executive Chairman. Finally, together with the Appointments, Remuneration and Corporate Governance Committee, the fixed remuneration of the Chairman, and determines, after evaluation, the variable remuneration.

It reports to the General Secretariat for administrative and management purposes only

41. The head of the unit handling the internal audit function should present an annual work programme to the Audit and Control Committee, for approval by this committee or the board, inform it directly of any incidents or scope limitations arising during its implementation, the results and monitoring of its recommendations, and submit an activities report at the end of each year.

Compliant **X** Partially compliant Explain Not applicable

42. The Audit and Control Committee have the following functions over and above those legally assigned:

1. With respect to internal control and reporting systems:

a) Monitor and evaluate the preparation process and the integrity of the financial and non-financial information, as well as the control and management systems for financial and non-financial risks related to the company and, where appropriate, to the group – including operating, technological, legal, social, environmental, political and reputational risks or those related to corruption – reviewing compliance with regulatory requirements, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles..

b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment and removal of the head of the internal audit service; propose the service's budget; approve or make a proposal for approval to the board of the priorities and annual work programme of the internal audit unit, ensuring that it focuses primarily on the main risks the company is exposed to (including reputational risk); receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

c) Establish and supervise a mechanism that allows employees and other persons related to the company, such as directors, shareholders, suppliers, contractors or subcontractors, to report irregularities of potential significance, including financial and accounting irregularities, or those of any other nature, related to the company, that they notice within the company or its group. This mechanism must guarantee confidentiality and enable communications to be made anonymously, respecting the rights of both the complainant and the accused party.

d) In general, ensure that the internal control policies and systems established are applied effectively in practice

2. With regard to the External Auditor:

a) In the event of resignation of the External Auditor, the Committee should investigate the issues giving rise to the resignation.

b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.

c) Ensure that the company notifies any change of external auditor through the CNMV, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.

d) Ensure that the External Auditor has a yearly meeting with the Board in plenary session to inform them of the work undertaken and developments in the company's risk and accounting positions.

e) **Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.**

Compliant X Partially compliant Explain

43. **The Audit and Control Committee may call any of the Company's employees or managers, and also have them appear without the presence of any other executive.**

Compliant X Partially compliant Explain

44. **The Audit and Control Committee should be informed on any structural or corporate operations that the Company is planning, so the Committee can analyse the same and report to the Board beforehand on its economic conditions and accounting impact, and, when applicable the exchange rate ratio proposed.**

Compliant X Partially compliant Explain Not applicable

45. **The risk control and management policies should identify at least:**

a) **The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks, and risks relating to corruption), with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.**

b) **A risk control and management model based on different levels, of which a specialised risk committee will form part when sector regulations provide or the company deems it appropriate.**

c) **The level of risk that the company considers acceptable.**

d) **The measures in place to mitigate the impact of identified risk events should they occur.**

e) **The internal control and reporting systems to be sued to control and manage the above risks, including the contingent liabilities and off-balance sheet risks.**

Compliant X Partially compliant Explain

46. **That, under the direct supervision of the Audit and Control Committee or, as the case may be, of a specialised Committee of the Board of Directors, there is an internal function of control and risk management exercised by a unit or internal department of the company that has been assigned expressly the following functions:**

a) **Ensure the proper functioning of the risk management and control systems and, in particular, that all important risks affecting the Company are identified, managed and quantified adequately.**

b) **Participate actively in the preparation of risk strategies and in key decisions about their management.**

c) **Ensure that risk control and management systems mitigate risks adequately within the framework of the policy defined by the Board of Directors.**

Compliant X Partially compliant Explain

47. Members of the Appointments and Remuneration Committee - or of the Appointments Committee and Remuneration Committee, if separately constituted - should have the right mix of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be Independent Directors.

Compliant **X** Partially compliant Explain

48. Large cap companies should operate separately constituted Appointments Committees and Remuneration Committees.

Compliant Explain **X** Not applicable

The Company believes that, at least in its case, it is neither necessary nor effective to separate the powers of the Appointments and Remuneration Committee into two Committees, on of Appointments and the other Remuneration. The existence of a single Committee does not harm or limit the exercise of the powers granted by law to the Appointments and Remuneration Committee, which also allows the Company to optimise costs insofar as this avoids the accrual of additional remuneration to the Directors called to be part of the two split committees. Furthermore, the Company considers that such splitting could be counter-productive, given that for the Company the presence of a significant number of Independent Directors on the Board Committees is relevant. Given the restrictions on the number of Independent Directors imposed under prevailing legislation in application of the principle of proportional representation, the number of Independent Directors on the Board of Directors is currently five (5). In order for there to be a significant number of Independent Directors on the two separate Committees, in addition to the Audit and Control Committee (where they must be the majority by legal provision), an overload of work derived from a new Committee would be imposed on said Directors.

In addition, in the financial year 2020, the Board of Directors has decided to create a new Committee, the Sustainability Committee, which reaffirms the inappropriateness of splitting the Appointments, Remuneration and Corporate Governance Committee.

49. The Appointments Committee should consult with the Chairman of the Board of Directors and Chief Executive Officer, especially on matters relating to Executive Directors.

When there are vacancies on the Board, any Director may approach the Appointments Committee to propose candidates they consider suitable.

Compliant **X** Partially compliant Explain

50. The Remuneration Committee should operate independently and have the following functions in addition to those assigned by Law:

a) Propose to the Board of Directors the standard conditions for Senior Executive contracts.

b) Monitor compliance with the remuneration policy set by the Company.

c) Periodically review the remuneration policy for Directors and Senior Executives, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other Directors and Senior Executives to the Company.

d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.

e) **Verify the information on remuneration of Directors and Senior Executives contained in the various corporate documents, including the Annual Report on Directors' Remuneration.**

Compliant **X** Partially compliant Explain

51. **The Remuneration Committee should consult with the Chairman of the Board of Directors and Chief Executive Officer, especially on matters relating to Executive Directors.**

Compliant **X** Partially compliant Explain

52. **The terms of reference of supervision and control should be set out in the Board of Director's regulations and aligned with those governing legally mandatory Board Committees as specified in the preceding sets of recommendations. They should include at least the following terms:**

a) **Committees should be formed exclusively by non-executive Directors, with a majority of Independent Directors.**

b) **Committees should be chaired by an Independent Director.**

c) **The Board should appoint the members of such committees with regard to the knowledge, skills and experience of its Directors and each Committee's terms of reference; discuss their proposals and reports; and provide report backs on their activities and work at the first board plenary following each committee meeting.**

d) **The may engage external advice, when they feel it necessary for the discharge of their functions.**

e) **Meeting proceedings should be recorded/notified in the Minutes and a copy made available to all Board Members.**

Compliant Partially compliant **X** Explain Not applicable

53. **The task of supervising compliance with the policies and rules of the company in the environmental, social and corporate governance areas, and internal rules of conduct, should be assigned to one board committee or split between several, which could be the Audit and Control Committee, the nomination committee, a committee specialised in sustainability or corporate social responsibility, or a dedicated committee established by the board under its powers of selforganisation. Such a committee should be made up solely of non-executive directors, the majority being independent and specifically assigned the following minimum functions.**

Compliant Partially compliant **X** Explain

The Audit and Control and Appointments, Remuneration and Corporate Governance Committees carry out some of the supervisory functions referred to in this recommendation and are made up of a majority of independent directors.

In addition, the Company's Board of Directors created the Sustainability Committee in financial year 2020, which has been entrusted with the exercise of supervision and control functions in environmental and social matters.

The Commission is composed of 5 members, of whom 2 are independent and one of whom chairs the Commission. This number is considered to be sufficient in view of the

Committee's functions and in order not to overburden the independent directors by belonging to more than 2 Committees simultaneously

54. **The minimum functions referred to in the previous recommendation are as follows:**

    a) Monitor compliance with the company's internal codes of conduct and corporate governance rules, and ensure that the corporate culture is aligned with its purpose and values.

    b) Monitor the implementation of the general policy regarding the disclosure of economic-financial, non-financial and corporate information, as well as communication with shareholders and investors, proxy advisors and other stakeholders. Similarly, the way in which the entity communicates and relates with small and medium-sized shareholders should be monitored.

    c) Periodically evaluate the effectiveness of the company's corporate governance system and environmental and social policy, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.

    d) Ensure the company's environmental and social practices are in accordance with the established strategy and policy.

    e) Monitor and evaluate the company's interaction with its stakeholder groups.

Compliant **X** Partially compliant Explain

55. **Environmental and social sustainability policies should identify and include at least.**

    a) The principles, commitments, objectives and strategy regarding shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of corruption and other illegal conducts.

    b) The methods or systems for monitoring compliance with policies, associated risks and their management.

    c) The mechanisms for supervising non-financial risk, including that related to ethical aspects and business conduct.

    d) Channels for stakeholder communication, participation and dialogue.

    e) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Compliant X Partially compliant Explain

56. **Directors' remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.**

Compliant **X** Explain

57. **Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.**

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Compliant X Partially compliant Explain

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.

b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.

c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate their contribution to long-term value creation. This will ensure that the performance measurement is not based solely on one-off, occasional or extraordinary events.

Compliant Partially compliant **X** Explain Not applicable

In setting the variable remuneration, the Board has considered it appropriate to combine variable remunerations with different time horizons and metrics: on the one hand, annual variable remuneration whose metrics, linked to operational objectives, respond to a classic incentive model, which fits with the limits and precaution set out in this recommendation. On the other hand, remuneration with a long-term horizon has been introduced (it expires in July 2023), which has now been aligned with the return the shareholder would receive, and therefore does not tally exactly with the more traditional models of remuneration. The Board considers that, in the long term, the best and simplest metric of the performance of the Executive Chairman is the one referring to dividends distributed and changes to the share price.

59. The payment of the variable components of remuneration is subject to sufficient verification that previously established performance, or other, conditions have been effectively met. Entities should include in their annual directors' remuneration report the criteria relating to the time required and methods for such verification, depending on the nature and characteristics of each variable component.

Additionally, entities should consider establishing a reduction clause ('malus') based on deferral for a sufficient period of the payment of part of the variable components that implies total or partial loss of this remuneration in the event that prior to the time of payment an event occurs that makes this advisable.

Compliant **X** Partially compliant Explain Not applicable

60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Compliant **X** Compliant partially Explain Not applicable

61. **A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.**

Compliant **X** Partially compliant Explain Not applicable

62. **Following the award of shares, options or financial instruments corresponding to the remuneration schemes, executive directors should not be able to transfer their ownership or exercise them until a period of at least three years has elapsed.**

Except for the case in which the director maintains, at the time of the transfer or exercise, a net economic exposure to the variation in the price of the shares for a market value equivalent to an amount of at least twice his or her fixed annual remuneration through the ownership of shares, options or other financial instruments.

The foregoing shall not apply to the shares that the director needs to dispose of to meet the costs related to their acquisition or, upon favourable assessment of the nomination and remuneration committee to address an extraordinary situation..

Compliant Compliant partially Explain **X** Not applicable

The long-term incentive applicable to the Executive Chairman and other relevant executives of the Company brings into line the interest of the executives with those of the shareholders through a mechanism that contemplates a deferral in the payment of the incentive more than five (5) years after its approval. Accordingly, it is unnecessary to introduce an additional period of limitation to the transfer of shares when the plan expires and the shares are handed over.

63. **Contractual arrangements should include provision that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.**

Compliant **X** Partially compliant Explain Not applicable

64. **Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.**

For the purposes of this recommendation, payments for contractual termination include any payments whose accrual or payment obligation arises as a consequence of or on the occasion of the termination of the contractual relationship that linked the director with the company, including previously unconsolidated amounts for long-term savings schemes and the amounts paid under post-contractual non-compete agreements.

Compliant Partially compliant **X** Explain Not applicable

Compensation due to termination respects the foregoing recommendation of two (2) years of the director's total annual remuneration (fixed remuneration, annual variable and multi-year variable in terms detailed in the annual report on remunerations).

Conversely, the Executive Chairman has the right to compensation for non-competition that is of a different legal nature to the payment for termination of contract, since it involves compensation for the post-contractual non-competition agreement that it assumes. The amount of this compensation is one year's fixed remuneration.

H OTHER INFORMATION OF INTEREST

1. **If there is any other relevant aspect in corporate governance in the company or in the group companies which has not been included in the rest of the sections of this report, but which it was necessary to include to show more complete and reasoned information on the governance structure and practices in the company or its group, briefly indicate them here.**

2. **In this section, you may include any information or clarification with regard to the previous sections of this report to the extent that they are relevant and non-repetitive.**

   More specifically, indicate whether your company is subject to any corporate governance legislation other than Spanish law, and if so, include any information that is mandatory and different from that requested herein.

3. **The Company will also be able to indicate if it has voluntarily subscribed to other codes of ethical principles or good practices, at international or sector level, or in any other field. In that case, indicate the code in question and the date it was subscribed to. In particular, mention whether there has been adherence to the Code of Good Tax Practices of 20 July 2010.**

   The Board of Directors, at its meeting on 17 September 2010, agreed to the adhesion of NATURGY to the Code of Good Tax Practice. In accordance with the provisions of this Code, it is expressly stated that NATURGY has effectively complied with its content and, in particular, that at the meeting held on 2 February 2021, the Board was informed, through the Audit and Control Committee, of the situation and the tax policies followed by the Group during financial year 2020.

   Likewise, the Board of Directors, at its meeting on 29 January 2019 and with the favourable report of the Audit and Control Committee, approved the Tax Strategy and Policy for the Control and Management of Tax Risks, which regulates the basic principles that should guide NATURGY's tax function, as well as the main lines of action to mitigate and guide the correct control of tax risks.

This Annual Corporate Governance Report was approved by the Board of Directors of the Company at a meeting on 2 February 2021.

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

YES NO **X**

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