Limited Review Report

Naturgy Energy Group S.A. and Subsidiaries
Interim Condensed Consolidated Financial Statements and
Interim Consolidated Management Report
for the six-month period ended
June 30, 2020

Ernst & Young, S.L.
Edificio Sarrià Forum
Avda. Sarrià, 102–106
08017 Barcelona
España

Tel: 933 663 700
Fax: 934 053 784
ey.com

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

LIMITED REVIEW REPORT ON INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the shareholders of Naturgy Energy Group, S.A. At the request of Management

Report on interim condensed consolidated financial statements

Introduction

We have carried out a limited review of the accompanying interim condensed consolidated financial statements (hereinafter the interim financial statements) of Naturgy Energy Group, S.A. (hereinafter the Parent) and Subsidiaries (hereinafter the Group), which comprise the condensed consolidated balance sheet at June 30, 2020, the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement, and the explanatory notes thereto, for the six-month period then ended. The Parent's directors are responsible for the preparation of said interim financial statements in accordance with the requirements established by International Accounting Standard (IAS) 34, "Interim Financial Reporting," as adopted by the European Union for the preparation of interim condensed financial reporting as per article 12 of said Royal Decree 1362/2007. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

Scope of the review

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

Conclusion

During the course of our limited review, which under no circumstances can be considered an audit of accounts, no matter came to our attention which would cause us to believe that the accompanying interim consolidated financial statements for the six-month period ended June 30, 2020 have not been prepared, in all material respects, in accordance with the requirements established in International Accounting Standard (IAS) 34, "Interim Financial Reporting," as adopted by the European Union in conformity with article 12 of said Royal Decree 1362/2007 for the preparation of interim condensed financial statements.

Emphasis of matter paragraph

We draw attention to the matter described in accompanying explanatory Note 2, which indicates that the above-mentioned accompanying interim financial statements do not include all the information that would be required for complete consolidated financial statements prepared in accordance with International Financial Reporting Standards, as adopted by the European Union. Therefore, the accompanying interim financial statements shall be read in conjunction with the consolidated financial statements of Naturgy Energy Group, S.A. and Subsidiaries for the year ended December 31, 2019. Our conclusion is not modified in respect of this matter.

Report on other legal and regulatory requirements

The accompanying interim consolidated management report for the six-month period ended June 30, 2020 contains such explanations as the Parent's Directors consider necessary regarding significant events which occurred during this period and their effect on these interim financial statements, of which it is not an integral part, as well as on the information required in conformity with article 15 of Royal Decree 1362/2007. We have checked that the accounting information included in the above-mentioned management report agrees with the interim financial statements for the six-month period ended on June 30, 2020. Our work is limited to verifying the interim consolidated management report in accordance with the scope described in this paragraph, and does not include the review of information other than that obtained from the accounting records of Naturgy Energy Group, S.A. and its Subsidiaries.

Paragraph on other issues

This report has been prepared at the request of the Management of Naturgy Energy Group, S.A. with regard to the publication of the half yearly financial report required by article 119 of the consolidated text of the Securities Market Law enacted by Royal Decree 4/2015 of October 23.

ERNST & YOUNG, S.L.
(Signature on the original in Spanish)

Alfredo Eguiagaray

July 22, 2020

Naturgy
Condensed interim consolidated accounts as at 30 June 2020

Contents **Page**

Naturgy
Interim consolidated balance sheet **(million euros)**

	30.06.2020	31.12.2019
Assets		
Intangible assets *(Note 5)*	7,200	7,713
Goodwill	3,166	3,202
Other intangible assets	4,034	4,511
Property, plant and equipment *(Note 5)*	19,120	19,647
Right-of-use assets *(Note 5)*	1,393	1,416
Investments recorded using the equity method *(Note 6)*	896	731
Non-current financial assets *(Note 7)*	500	738
Other non-current assets *(Note 8)*	1,171	581
Deferred tax assets	1,556	1,525
NON-CURRENT ASSETS	**31,836**	**32,351**
Non-current assets held for sale *(Note 9)*	-	73
Inventories	490	796
Trade and other receivables *(Note 8)*	3,941	4,900
Trade receivables	2,923	3,911
Other receivables	922	708
Current tax assets	96	281
Other current financial assets *(Note 7)*	569	333
Cash and cash equivalents	4,457	2,685
CURRENT ASSETS	**9,457**	**8,787**
TOTAL ASSETS	**41,293**	**41,138**
EQUITY AND LIABILITIES		
Share capital	984	984
Share premium	3,808	3,808
Own shares	(499)	(321)
Reserves	6,754	6,687
Profit for the period attributed to the parent company	334	1,401
Interim dividend	-	(754)
Other equity components	(1,528)	(1,254)
Equity attributed to the parent company	**9,853**	**10,551**
Non-controlling interest	**3,344**	**3,425**
EQUITY (*Note 10*)	**13,197**	**13,976**
Deferred revenues	893	898
Non-current provisions *(Note 11)*	1,143	1,169
Non-current financial liabilities *(Note 12)*	17,102	15,701
Borrowings	15,677	14,252
Lease liabilities	1,424	1,446
Other financial liabilities	1	3
Deferred tax liabilities	2,253	2,249
Other non-current liabilities	642	492
NON-CURRENT LIABILITIES	**22,033**	**20,509**
Liabilities related to non-current assets held for sale *(Note 9)*	8	46
Current provisions *(Note 11)*	222	291
Current financial liabilities *(Note 12)*	2,329	2,286
Borrowings	2,012	2,081
Lease liabilities	209	198
Other financial liabilities	108	7
Trade and other payables	3,231	3,744
Trade payables, suppliers	2,558	3,118
Other payables	588	593
Current tax liabilities	85	33
Other current liabilities	273	286
CURRENT LIABILITIES	**6,063**	**6,653**
TOTAL EQUITY AND LIABILITIES	**41,293**	**41,138**

Notes 1 to 23 contained in the Notes to the Condensed interim consolidated accounts and the Appendixes are an integral part of the Consolidated balance sheet as at 30 June 2020 and 31 December 2019.

Naturgy
Interim consolidated statement of income (million euros)

	For the six-month period ended 30 June	
	2020	**2019** [(1)]
Revenue *(Note 13)*	8,781	11,589
Procurements *(Note 14)*	(5,848)	(8,292)
Other operating revenue	63	64
Personnel expenses *(Note 15)*	(526)	(479)
Other operating expenses *(Note 16)*	(627)	(732)
Profit/(loss) on disposals of fixed assets	3	5
Release of fixed asset grants and other to income	24	21
EBITDA	**1,870**	**2,176**
Depreciation, amortisation and impairment losses *(Notes 5 & 17)*	(789)	(792)
Impairment of credit losses	(101)	(62)
Other results	15	20
EBIT	**995**	**1,342**
Financial revenues	56	47
Financial expenses	(329)	(373)
Variations in fair value of financial instruments	(4)	(5)
Exchange differences	(2)	-
NET FINANCIAL INCOME *(Note 18)*	**(279)**	**(331)**
Equity-accounted affiliates	3	38
PROFIT BEFORE TAXES	**719**	**1,049**
Corporate income tax *(Note 19)*	(165)	(227)
NET PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS	**554**	**822**
Net profit for the period from discontinued operations, net of taxes (Note 9)	(47)	(21)
CONSOLIDATED NET PROFIT FOR THE PERIOD	**507**	**801**
Attributable to:		
Parent company	334	592
From continuing operations	381	613
From discontinued operations	(47)	(21)
Non-controlling interest	173	209
	507	**801**
Basic and diluted earnings per share in euros from continuing operations attributable to the equity holders of the parent company *(Note 10)*	0.40	0.62
Basic and diluted earnings per share in euros attributable to the equity holders of the parent company *(Note 10)*	0.35	0.60

(1) The Consolidated income statement for the six-month period ended 30 June 2019 was restated due to application of IFRS 5 (Notes 2.5 & 9).

Notes 1 to 23 contained in the Notes to the Condensed interim consolidated accounts and the Appendixes are an integral part of the Consolidated statement of income for the six-month periods ended 30 June 2020 and 2019.

Naturgy
Interim consolidated statement of comprehensive income **(million euros)**

	For the six-month period ended 30 June 2020	2019
CONSOLIDATED NET PROFIT FOR THE PERIOD	**507**	**801**
OTHER COMPREHENSIVE INCOME RECOGNISED DIRECTLY IN EQUITY	**(196)**	**139**
Items that will not be transferred to profit/(loss):		
Other financial liabilities at fair value with changes through other comprehensive income	(4)	6
Actuarial gains and losses and other adjustments	(3)	5
Tax effect	1	(1)
Items that will subsequently be transferred to profit/(loss):		
Cash flow hedges	428	(20)
Exchange differences	(563)	135
Tax effect	(51)	5
Companies recorded using the equity method	(4)	9
Cash flow hedges	-	-
Exchange differences	(4)	*9*
Tax effect	-	-
RELEASES TO INCOME STATEMENT	**(211)**	**13**
Cash flow hedges	(240)	19
Exchange differences	-	-
Tax effect	29	(6)
Companies recorded using the equity method	-	-
Cash flow hedges	-	-
Exchange differences	-	-
Tax effect	-	-
OTHER COMPREHENSIVE INCOME FOR THE PERIOD	**(407)**	**152**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**100**	**953**
Attributable to:		
The parent company	58	723
From continuing operations	106	727
From discontinued operations	(48)	(4)
Non-controlling interest	42	230

Notes 1 to 23 contained in the Notes to the Condensed interim consolidated accounts and the Appendixes are an integral part of the Consolidated statement of comprehensive income for the six-month periods ended 30 June 2020 and 2019.

Naturgy
Interim statement of changes in consolidated equity (million euros)

	Equity attributed to the parent company											
	Share capital	Share premium	Own shares	Reserves and accumulated gains	Profit for the year	Exchange differences	Cash flow hedges	Financial assets at fair value	Other equity components	Subtotal	Non-controlling interest	EQUITY
Balance at 31/12/2018	**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	-	-	-	4	592	123	(2)	6	127	**723**	230	**953**
Transactions with shareholders or owners	**-**	**-**	**(277)**	**(3,412)**	**2,822**	**27**	**-**	**-**	**27**	**(840)**	**(280)**	**(1,120)**
Dividend distribution (*Note 10*)	-	-	-	(3,387)	2,822	-	-	-	-	**(565)**	(345)	**(910)**
Transfer of dependent company	-	-	-	-	-	-	-	-	-	-	-	-
Transactions with own shares and equity instruments *(Note 10)*	-	-	(277)	-	-	-	-	-	-	**(277)**	(4)	**(281)**
Share-based payments	-	-	-	2	-	-	-	-	-	**2**		**2**
Other transactions with shareholders or owners *(Note 10)*	-	-	-	(27)	-	27	-	-	**27**	-	69	**69**
Other changes in equity	**-**	**-**	**-**	**4**	**-**	**-**	**-**	**-**	**-**	**4**	**(18)**	**(14)**
Other changes	-	-	-	4	-	-	-	-	-	**4**	(18)	**(14)**
Balance at 30/06/19	**1,001**	**3,808**	**(602)**	**7,156**	**592**	**(911)**	**7**	**(216)**	**(1,120)**	**10,835**	**3,579**	**14,414**
Total comprehensive income for the year	-	-	-	(89)	809	(200)	297	(231)	(134)	**586**	122	**708**
Transactions with shareholders or owners	**(17)**	-	**281**	**(1,134)**	-	-	-	-	-	**(870)**	**(231)**	**(1,101)**
Dividend distribution (*Note 10*)	-	-	-	(754)	-	-	-	-	-	**(754)**	(231)	**(985)**
Capital reduction	(17)	-	400	(383)	-	-	-	-	-	-	-	-
Transactions with own shares and equity instruments (*Note 10*)	-	-	(119)	-	-	-	-	-	-	**(119)**	-	**(119)**
Share-based payments	-	-	-	3	-	-	-	-	-	**3**	-	**3**
Other transactions with shareholders or owners (*Note 10*)	-	-	-	-	-	-	-	-	-	-	-	-
Other changes in equity	-	-	-	-	-	-	-	-	-	-	**(45)**	**(45)**
Other changes	-	-	-	-	-	-	-	-	-	-	(45)	**(45)**
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	-	-	-	(2)	334	(437)	167	(4)	(274)	**58**	42	**100**
Transactions with shareholders or owners	**-**	**-**	**(178)**	**818**	**(1,401)**	**-**	**-**	**-**	**-**	**(761)**	**(113)**	**(874)**
Dividend distribution (*Note 10*)	-	-	-	816	(1,401)	-	-	-	-	**(585)**	(113)	**(698)**
Transfer of dependent company	-	-	-	-	-	-	-	-	-	-	-	-
Transactions with own shares and equity instruments *(Note 10)*	-	-	(178)	-	-	-	-	-	-	**(178)**	-	**(178)**
Share-based payments	-	-	-	2	-	-	-	-	-	**2**	-	**2**
Other transactions with shareholders or owners *(Note 10)*	-	-	-	-	-	-	-	-	-	-	-	-
Other changes in equity	**-**	**-**	**-**	**5**	**-**	**-**	**-**	**-**	**-**	**5**	**(11)**	**(6)**
Other changes	-	-	-	5	-	-	-	-	-	5	(11)	**(6)**
Balance at 30/06/20	**984**	**3,808**	**(499)**	**6,754**	**334**	**(1,548)**	**471**	**(451)**	**(1,528)**	**9,853**	**3,343**	**13,196**

Notes 1 to 23 contained in the notes to the Condensed interim consolidated accounts and the Appendixes are an integral part of the Statement of changes in consolidated equity as at 30 June 2020 and 31 December 2019.

Naturgy
Interim consolidated cash flow statement **(million euros)**

	For the six-month period ended 30 June	
	2020	**2019**
Profit before taxes	**719**	**1,049**
Adjustments to results	**953**	**1,020**
Depreciation, amortisation and impairment losses	789	794
Other adjustments to net profit	164	226
Changes in working capital	**720**	**808**
Other cash flows from operating activities:	**(373)**	**(421)**
Interest paid	(348)	(398)
Interest receipts	15	11
Dividend receipts	21	73
Corporate income tax paid	(61)	(107)
CASH FLOWS FROM OPERATING ACTIVITIES (1)	**2,019**	**2,456**
Investment payments:	**(835)**	**(966)**
Group companies, associates and business units	-	(10)
Property, plant and equipment and intangible assets	(795)	(935)
Other financial assets	(40)	(21)
Proceeds from divestitures:	**111**	**80**
Group companies, associates and business units	59	28
Property, plant and equipment and intangible assets	14	12
Other financial assets	38	40
Other cash flows from investing activities:	**25**	**27**
Other investment receipts/(payments)	25	27
CASH FLOWS FROM INVESTING ACTIVITIES (1)	**(699)**	**(859)**
Receipts and payments on equity instruments:	**(176)**	**(288)**
Issue/disposal	8	-
Acquisition	(184)	(288)
Receipts and (payments) on financial liability instruments:	**1,721**	**1,177**
Issuance	4,525	5,293
Repayment and redemption	(2,804)	(4,116)
Dividends paid and remuneration on other equity instruments	**(731)**	**(706)**
Other cash flows from financing activities	**(76)**	**(11)**
CASH FLOWS FROM FINANCING ACTIVITIES (1)	**738**	**172**
Other changes in cash and cash equivalents	(194)	3
Effect of fluctuations in exchange rates	(92)	1
VARIATION IN CASH AND CASH EQUIVALENTS	**1,772**	**1,773**
Cash and cash equivalents at beginning of the period	**2,685**	**1,716**
Cash and cash equivalents at the end of the period	**4,457**	**3,489**

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

Notes 1 to 23 contained in the Notes to the Condensed interim consolidated accounts and the Appendix are an integral part of the Consolidated cash flow statement for the six-month periods ended 30 June 2020 and 2019.

Notes to the condensed interim consolidated accounts

Note 1. General information

Naturgy Energy Group, S.A. is a public limited company that was incorporated in 1843. Its registered office is located at Avenida de San Luis 77, Madrid. On 27 June 2018, the Shareholders' Meeting resolved to change the company's name to Naturgy Energy Group, S.A. (it was formerly Gas Natural SDG, S.A.).

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

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

Note 4 includes financial information by operating segment.

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

Note 2. Basis of presentation and accounting policies

2.1. Basis of presentation

The consolidated annual accounts of Naturgy for 2019 were adopted by the Shareholders' Meeting on 26 May 2020.

These condensed interim consolidated accounts of Naturgy as at 30 June 2020 were authorised by the Board of Directors on 21 July 2020 pursuant to IAS 34 "Interim financial reporting" and should be read together with the consolidated annual accounts for the year ended 31 December 2019, which were drawn up in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council ("IFRS-EU").

As a result, it was not necessary to replicate or update certain notes or estimates contained in the aforementioned consolidated annual accounts. Instead, the accompanying selected notes to the accounts include an explanation of significant events or movements in order to explain any changes in the consolidated financial situation and results of operations, comprehensive income, changes in equity and cash flows of Naturgy between 31 December 2019, the date of the above-mentioned consolidated annual accounts, and 30 June 2020.

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

2.2. Main risks and uncertainties

The main risks and uncertainties are disclosed in the Consolidated annual accounts for 2019 and in section 2 of the Consolidated directors' report as at 30 June 2020. Note 3 details the main impacts of the current situation resulting from COVID-19 in the six months period ended 30 June 2020.

2.3. Seasonality

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

2.4. Accounting policies

The accounting policies applied in these interim accounts are the same as those applied in the consolidated annual accounts for the year ended 31 December 2019.

New IFRS-EU and IFRIC interpretations

As a result of their approval, publication and entry into force on 1 January 2020, the following standards, amendments and interpretations 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)	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	They change certain specific hedge accounting requirements to mitigate the possible effects of the uncertainty caused by the IBOR reform.	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 the interim accounts.

Additionally, the following amendment and standard have been approved by the IASB and is pending adoption by the European Union:

Standards issued by the IASB and yet to be adopted by the European Union		
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 June 2020
IFRS 17, “Insurance contracts”	New standard that replaces IFRS 4.	1 January 2021

None of these standards and modifications have been applied in advance. No significant impact is expected from the application of these modifications.

2.5. Comparability

As a result of the initiation of the procedure which is expected to lead to the liquidating of the gas distribution business in Peru and of the cessation of electricity generation by coal-fired plants in Spain described in Note 9 "Non-current assets and disposal groups of assets held for sale and discontinued operations", the income statement for the six-month period ended 30 June 2019 has been restated for purposes of comparability, in compliance with IFRS 5.

The effects of the restatement on the Consolidated income statement for the six-month period ended 30 June 2019 are as follows:

<u>Consolidated income statement June 2019</u>

	2019	Application of IFRS 5 (Note 9)	2019
Net sales	11,639	(50)	11,589
Procurements	(8,341)	49	(8,292)
Other operating revenue	67	(3)	64
Personnel expenses	(501)	22	(479)
Other operating expenses	(740)	8	(732)
Profit/(loss) on disposals of fixed assets	5	-	5
Release of fixed asset grants to income and other	21	-	21
EBITDA	2,150	26	2,176
Depreciation, amortisation and fixed-asset impairment losses	(794)	2	(792)
Impairment due to credit losses	(62)	-	(62)
Other results	20	-	20
EBIT	1,314	28	1,342
Financial revenues	48	(1)	47
Financial expenses	(374)	1	(373)
Variations in fair value of financial instruments	(5)	-	(5)
Exchange differences	-	-	-
NET FINANCIAL REVENUES/(EXPENSES)	(331)	-	(331)
Equity-accounted affiliates	38	-	38
PROFIT BEFORE TAXES	1,021	28	1,049
Income tax	(220)	(7)	(227)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS	801	21	822
Profit for the period from discontinued operations, net of taxes	-	(21)	(21)
CONSOLIDATED PROFIT FOR THE PERIOD	801	-	801
Attributable to:			
Parent company	592	-	592
From continuing operations	592	21	613
From discontinued operations	-	(21)	(21)
Non-controlling interest	209	-	209
Basic and diluted earnings per share in euros from continuing operations attributable to the equity holders of the parent company	0.60	0.02	0.62
Basic and diluted earnings per share in euros attributable to the equity holders of the parent company	0.60	-	0.60

2.6. Consolidation scope

Six-month period ended 30 June 2020

The sale of 47.9% of Ghesa Ingeniería y Tecnología, S.A. was completed on 20 January 2020 (Note 9).

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 interim consolidated accounts.

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 which means the entry into force of the agreement that establishes the joint control of said company. Following the acquisition of the aforementioned stake, which was completed on 30 April 2020 (Note 6) and the fulfilment of the remaining conditions, in July 2020 the transaction has been completed (Note 23).

The sale of Iberafrica Power Limited (Note 9) was completed on 3 April 2020, without a material impact on the income statement.

Six-month period ended 30 June 2019

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.

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 10), the reversal of the commitment and the resulting increase in non-controlling interests were recognised.

Note 3. Implications of COVID-19

The spread of COVID-19 has had unprecedented effects worldwide. The confinement of a large proportion of the world's population has resulted in a decline in economic activity that has led to widespread declines in macroeconomic indices, energy demand and the prices of the main energy variables. There is still limited visibility regarding the duration and scale of the crisis. Nevertheless, the interim financial information presents appropriately the financial position of Naturgy and the information required to understand the performance of the businesses with respect to the consolidated annual accounts for 2019. Below are detailed the main implications of COVID-19 for the interim consolidated accounts as at 30 June 2020.

Significant accounting estimates and judgements

The main accounting estimates and relevant assumptions are detailed in Note 3.4.24 of the Consolidated annual accounts for 2019.

Impairment of non-financial assets

The assumptions used to determine the recoverable value of the CGUs are detailed in Note 5 to the Consolidated annual accounts for 2019.

At 30 June 2020, Naturgy had not modified the Strategic Plan 2018-2022 that was approved in June 2018 nor had there been relevant regulatory changes with an impact on the cash flow estimates used in the impairment tests performed in 2019.

In this context, for most of the CGUs the cash flows considered in the impairment test performed in 2019 were not updated. Nevertheless, a sensitivity analysis of the CGUs was performed with different scenarios for the discount rate, considering in particular the market risk premium and deleveraged beta in the current scenario and updating and the long-term growth rate. That analysis revealed, for those CGUs where the recoverable amount analysis did not differ significantly from the carrying amount in the latest test, a recoverable amount greater than or equal to the net carrying amount as at 30 June 2020.

Impairment of financial assets

The impairment of financial assets is based on an expected loss model. 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.

In the simplified model, credit losses expected over the duration of the contract are recorded 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.

At 30 June 2020, Naturgy had considered the impact on the macroeconomic factors of the current health crisis, based specifically on the correlation of the evolution of GDP and its effect on the client portfolio, as well as the measures for consumer protection approved in the various countries, and had updated the calculations of expected credit losses accordingly.

Risk management

Risk management is described in detail in note 19 to the Consolidated annual accounts for 2019. The main aspects of financial risk are updated as at 30 June 2020 below:

Interest rates

The purpose of interest rate risk management is to balance floating- and fixed-rate borrowings in order to reduce borrowing costs within the established risk parameters. A total of 81% of Naturgy's debt at 30 June 2020 is at fixed interest rates, while exposure to floating interest rates is limited.

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.

In connection with the transition under the IBOR reform, Naturgy has begun a review process of its exposure by identifying the products and contracts where there is a potential impact and monitoring regulatory developments and their potential implications for the systems and operating records. On the basis of the amendments to IFRS 9 and IFRS 7 released by the IASB in September 2019, Naturgy availed itself of the temporary relief for hedges directly affected by the interest rate benchmark reform.

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
30 June 2020	+50	(18)	79
	-50	18	(79)
31 December 2019	+50	(13)	70
	-50	13	(70)

Exchange rate

In order to mitigate exchange rate risk, Naturgy finances its investments in local currency as far as possible. Furthermore, where possible, it tries to match costs and revenues 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 currencies other than the functional currency are managed through financial swaps and exchange rate insurance within the limits approved for hedging instruments.

Additionally, net assets of foreign companies whose functional currency is not the euro are subject to exchange rate 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 non-material.

The impact of exchange rate fluctuations on the translation of the main items in the accounts as at 30 June 2020 was as follows:

Million euro	**% change vs. 2019 ***	**EBITDA**	**Net sales**	**Net financial debt**
USD	-2.7%	8	37	26
MXN	9.3%	(10)	(20)	(97)
BRL	24.0%	(26)	(119)	(89)
ARS	62.2%	(27)	(172)	4
CLP	17.3%	(32)	(188)	(151)
Others	-	-	(2)	2
Total		**(87)**	**(464)**	**(305)**

* Cumulative average exchanges rates except for Argentina for which closing exchange rates apply as Argentina is considered to be an hyperinflationary economy.

Commodity prices

A large portion of Naturgy's operating expenses is linked to gas purchased to supply customers or generate electricity in combined cycle plants. Therefore, Naturgy is exposed to variations in gas prices, which are basically linked to the price of crude oil and its derivatives and to the hub prices for natural gas.

The exposure to these risks is managed and mitigated by natural hedging by monitoring its position in such commodities, trying to balance purchase and supply obligations and diversifying and managing procurement contracts. When it is not possible to achieve a natural hedge, the position is managed, within reasonable risk parameters, through derivatives to reduce exposure to price risk, which are generally designated as hedging instruments.

Prices in the gas supply business are driven by global demand dynamics, particularly by trends in the Asian countries. In this situation, trends in procurement costs may not reflect the variation of prices in such highly competitive environments, which may have an adverse impact on margins.

To address this, Naturgy has taken measures to review contracts as a result of substantial changes in the reference markets by using the ordinary and extraordinary reopener mechanisms in those contracts, even though, if a negotiated agreement is not reached, the decision of an arbitration procedure may be delayed in time.

The sensitivity of profit and equity (Other equity items) to fair value changes in derivatives arranged to hedge commodity prices and derivatives used for trading purposes is analysed below:

	Increase/decrease in gas price	Effect on profit before tax	Effect on equity before tax
30 June 2020	+10%	-	(11)
	-10%	-	11
31 December 2019	+10%	-	(82)
	-10%	-	82

	Increase/decrease in electricity price	Effect on profit before tax	Effect on equity before tax
30 June 2020	+10%	(4)	(53)
	-10%	4	53
31 December 2019	+10%	(2)	(52)
	-10%	2	52

Commodity volumes

The reduction in demand for gas before and after the COVID crisis and the possible reduction in demand as a result of the energy transition might result in a mismatch between procurement and demand volumes. Most procurement contracts allow for flexibility in volumes over a number of time horizons, and the company is availing itself of those facilities. The company is also negotiating with its suppliers to further reduce volumes in the framework of trade negotiations.

Credit risk

With regard to credit risk in relation to trade receivables, these are reflected in the consolidated balance sheet net of provisions for impairment due to expected credit losses estimated by Naturgy on the basis of available information about past events (such as customer payment behaviour), current conditions and forward-looking factors (e.g. macroeconomic factors such as GDP, unemployment, inflation, interest rates, etc.) that might impact the credit risk of Naturgy's debtors in accordance with the prior segregation of customer portfolios.

Credit risk relating to trade accounts receivable is historically limited given the short collection periods from customers, since they cannot accumulate a significant amount of debt before their supply is suspended for non-payment, in accordance with the applicable regulations.

As a result of COVID-19, governments have adopted a number of transitional measures to ensure the basic supply of energy, ranging from deferral of payment by certain customer segments to a prohibition on cutting off the supply.

An ageing analysis of financial assets and related expected losses as at 30 June 2020 and 31 December 2019 is set out below:

30 June 2020	Total	Current	0-180 days	180-360 days	More than 360 days
Expected loss ratio	21.8%	1.0%	12.2%	52.0%	96.5%
Trade receivables	3,738	2,326	598	152	662
Expected loss	815	24	73	79	639

31 December 2019	Total	Current	0-180 days	180-360 days	More than 360 days
Expected loss ratio	16.7%	1.7%	11.2%	48.3%	95.6%
Trade receivables	4,696	3,277	660	151	608
Expected loss	785	57	74	73	581

Liquidity risk

Available liquidity at 30 June 2020 and 31 December 2019 is analysed below:

Liquidity source	Available funds 2020	Available funds 2019
Available credit lines	5,549	5,352
Undrawn loans	-	-
Cash and cash equivalents	4,457	2,685
Total	**10,006**	**8,037**

There is also additional available capacity to issue debt in the capital markets for Euros 5,548 million.

Naturgy's long-term credit rating is as follows:

	2020	2019
Standard & Poor's	BBB	BBB
Fitch	BBB	BBB

Bank borrowings totalling Euros 4,257 million (Euros 4,658 million as at 31 December 2019) and outstanding bonds amounting to Euros 37 million are subject to the fulfilment of certain financial ratios.

Most of the drawn financial debt carries a change-of-control clause which would be triggered if any of the following events occurred simultaneously: failure of any of the core shareholders to retain a significant stake; loss of investment grade rating from the credit rating agencies; or inability to fulfil the financial obligations under the contract.

Specifically, the bonds issued, in a volume of Euros 8,941 million (Euros 8,725 million at 31 December 2019), could be accelerated if such a change in control triggered a downgrade of more than two full notches in at least two of the company's three ratings, and all the ratings fell below investment grade, provided that the rating agency stated that the rating downgrade resulted from the change of control.

There are also loans for an amount of Euros 1,636 million that could be accelerated in the event of a change of control (Euros 1,791 million as 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 date of presenting these interim accounts, Naturgy is not in breach of its financial obligations or of any type of obligation that could give rise to the acceleration of its financial commitments.

Other impacts on the interim accounts

Naturgy has not received state aid to palliate the impact of COVID-19 or any tax advantages. Additionally, it has not renegotiated leases such as to have an impact on the right-of-use assets and associated recognised liabilities.

Naturgy did not implement any furloughs or layoffs as a result of COVID-19.

Since the COVID-19 crisis began, Naturgy has prioritised its commitment to people and society and has taken a number of steps to mitigate the economic impact of the pandemic, such as the deferral of payment of electricity, gas and services bills for SMEs, private individuals and self-employed workers, supply free of charge to temporary hospitals (Madrid Convention Centre and Barcelona Trade Fair) and hotels converted to care homes, and other measures addressed to its suppliers that are SMEs or self-employed workers, who can apply for immediate payment of their invoices for the second quarter of the year. All these measures help palliate the impact of the decline in revenues and to enhance liquidity for the affected parties.

Additionally, to express its recognition of, and gratitude to, healthcare workers and members of the police, army and fire service, Naturgy offered them one year of repair services free of charge for gas and electricity failures and breakdowns in gas and electrical appliances, even where they are not Naturgy customers. Naturgy also offered all its customers free telemedicine services by videoconference during these months.

Taken together, these measures had a negative impact estimated at Euros 2 million in the Consolidated interim income statement, and entailed financing invoices for an estimated amount of approximately Euros 28 million.

Note 4. Segment financial information

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

The new Strategic Plan 2018-2022, approved by the Board of Directors on 27 June 2018, resulted in a new approach in which business segments are managed independently with full responsibility stablishing the following operating segments:

- Gas and Electricity:
  - Supply of gas, electricity and services: its objective is to manage a new integrated business model for gas, electricity and services, maximising the value of the portfolio by focusing on the customer and with high growth potential in services and solutions.
  - International LNG trading: includes both the trading and maritime transportation of liquefied natural gas.
  - Electricity generation Europe: includes both conventional generation (hydroelectric, coal [discontinued], nuclear and combined cycle) and renewable generation (wind, small hydro, solar and cogeneration), all in Spain at present.
  - Electricity generation International: includes the electricity generating fleet of Global Power Generation (GPG), located in Latin America (Brazil, Chile, Costa Rica, Mexico, Panama, Dominican

Republic and Puerto Rico, the latter carried by the equity method via EcoEléctrica LP) and Australia.

- Infrastructure EMEA:
  - Gas distribution Spain: encompasses the regulated gas distribution business in Spain.
  - Electricity distribution Spain: encompasses the regulated electricity distribution business in Spain.
  - Maghreb Infrastructures: Manages the Maghreb-Europe gas pipeline and the stake in Medgaz.
- Infrastructure Latin America South: includes the regulated gas distribution business in Argentina, Brazil, Chile and Peru [discontinued] and the regulated electricity distribution business in Argentina and Chile, as well as the gas supply business in Chile.
- Infrastructure Latin America North: This includes the regulated gas distribution business in Mexico and the regulated electricity distribution business in Panama.
- Remainder. Consists basically of the Unión Fenosa Gas business (equity method), the operating expenses of the parent company and the expenses defined in the Lean project.

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

6-month period ended 30 June 2020	Gas & Electricity					Infrastructure EMEA				Infrastructure LatAm South					Infrastructure LatAm North					
	Supply	LNG	Generation Europe	International generation	Total	Gas Networks Spain	Elec. Networks Spain	Maghreb Infr.	Total	Argentina	Brazil	Chile	Peru	Total	Mexico	Panama	Total	Other	Eliminations	Total
Consolidated revenue	3,302	993	392	341	5,028	547	396	41	984	284	547	1.263	-	2,094	263	408	671	4	-	8,781
Revenues between segments	856	-	-	7	863	22	17	96	135	1	-	-	-	1	5	-	5	83	(1,087)	-
Revenues between segments	96	257	300	-	653	-	-	-	-	-	-	-	-	-	-	-	-	-	(653)	-
Revenues by segment	4,254	1,250	692	348	6,544	569	413	137	1,119	285	547	1.263	-	2,095	268	408	676	87	(1,740)	8,781
Procurements by segment	(3,947)	(1,143)	(284)	(153)	(5,527)	(39)	-	-	(39)	(174)	(404)	(906)	-	(1,484)	(132)	(315)	(447)	(7)	1,656	(5,848)
Net personnel expenses	(85)	(13)	(62)	(16)	(176)	(73)	(61)	(3)	(137)	(22)	(11)	(46)	-	(79)	(10)	(4)	(14)	(120)	-	(526)
Other operating revenues/expenses	(95)	(4)	(168)	(27)	(294)	(55)	(57)	(9)	(121)	(47)	(27)	(87)	-	(161)	(7)	(19)	(26)	(19)	84	(537)
EBITDA	127	90	178	152	547	402	295	125	822	42	105	224	-	371	119	70	189	(59)	-	1,870
Other results					-				-			-		-	-		-	15	-	15
Depreciation, amortisation and impairment charges	(32)	(65)	(156)	(55)	(308)	(148)	(122)	(28)	(298)	(8)	(26)	(75)	-	(109)	(23)	(24)	(47)	(27)	-	(789)
Allocation to provisions	(52)				(52)	(1)	-	-	(1)	(6)	(5)	(24)		(35)	(4)	(8)	(12)	(1)	-	(101)
EBIT	43	25	22	97	187	253	173	97	523	28	74	125	-	227	92	38	130	(72)	-	995
Net financial income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(279)
Results of companies recorded by the equity method	-	-	-	18	18	-	-	2	2	-	-	5	-	5	-	-	-	(22)	-	3
Profit before taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	719
Income tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(165)
Profit/(loss) for the year from continuing operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	554
Profit/(loss) for the year from discontinued operations	-	-	(35)	-	(35)	-	-	-	-	-	-	-	(12)	(12)	-	-	-	-	-	(47)
Profit for the year	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	507
Investments in property, plant and equipment and intangible assets (Note 5) (2)	18	4	61	145	228	34	80	-	114	12	17	100	-	129	12	50	62	19	-	552

6-month period ended 30 June 2019 (1)	Gas & Electricity					Infrastructure EMEA				Infrastructure LatAm South					Infrastructure LatAm North					
	Supply	LNG	Generation Europe	International generation	Total	Gas Networks Spain	Elec. Networks Spain	Maghreb Infr.	Total	Argentina	Brazil	Chile	Peru	Total	Mexico	Panama	Total	Other	Eliminations	Total
Consolidated revenue	4,950	1,476	193	451	7,070	573	413	39	1,025	308	881	1,528	-	2,717	322	448	770	7	-	11,589
Revenue between segments	859	77	-	5	941	42	22	126	190	-	-	-	-	-	11	-	11	61	(1,203)	-
Revenues between segments	249	-	596	-	845	-	-	-	-	-	-	-	-	-	-	-	-	-	(845)	-
Revenues by segment	6,058	1,553	789	456	8,856	615	435	165	1,215	308	881	1,528	-	2,717	333	448	781	68	(2,048)	11,589
Procurements by segment	(5,661)	(1,377)	(409)	(242)	(7,689)	(41)	-	-	(41)	(202)	(709)	(1,093)	-	(2,004)	(188)	(350)	(538)	(5)	1,985	(8,292)
Net personnel expenses	(71)	(12)	(52)	(19)	(154)	(61)	(60)	(3)	(124)	(15)	(14)	(59)	-	(88)	(10)	(4)	(14)	(99)	-	(479)
Other operating revenues/expenses	(128)	(6)	(183)	(31)	(348)	(70)	(53)	(8)	(131)	(48)	(33)	(95)	-	(176)	(20)	(20)	(40)	(10)	63	(642)
EBITDA	198	158	145	164	665	443	322	154	919	43	125	281	-	449	115	74	189	(46)	-	2,176
Other results					-				-			-		-	-		-	20	-	20
Depreciation, amortisation and impairment charges	(36)	(60)	(138)	(59)	(293)	(150)	(121)	(16)	(287)	(6)	(31)	(79)	-	(116)	(25)	(20)	(45)	(51)	-	(792)
Allocation to provisions	(38)	-	-	-	(38)	1	1		2	(9)	(1)	(9)	-	(19)	(6)	(3)	(9)	2	-	(62)
EBIT	124	98	7	105	334	294	202	138	634	28	93	193	-	314	84	51	135	(75)	-	1,342
Net financial income	-	-	-	-	-	-	-	17	-	-	-	-	-	-	-	-	-	-	-	(331)
Results of companies recorded by the equity method	-	-	8	24	32	-	1	-	1	2	-	16	-	18	1	-	1	(14)	-	38
Profit before taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,049
Income tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(227)
Profit/(loss) for the year from continuing operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	822
Profit/(loss) for the year from discontinued operations	-	-	(18)	-	(18)	-	-	-	-	-	-	-	(3)	(3)	-	-	-	-	-	(21)
Profit for the year	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	801
Investments in property, plant and equipment and intangible assets (Note 5) (2)	20	2	250	64	336	84	86	1	171	19	16	87	1	123	18	48	66	3	-	699

(1) The Consolidated income statement for the six-month period ended 30 June 2019 was restated due to application of IFRS 5 (Notes 2.5 & 9).
(2) Includes investment in property, plant and equipment and intangible assets (Note 5).

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

Movements in intangible assets and property, plant and equipment during the six-month period ended 30 June 2020 are as follows:

	Goodwill	Other intangible assets	Total intangible assets	Property, plant and equipment	Right-of-use assets
Gross cost	3,202	7,792	**10,994**	**36,421**	**1,942**
Depreciation fund and impairment losses	-	(3,281)	**(3,281)**	**(16,774)**	**(526)**
Net carrying amount at 31/12/19	**3,202**	**4,511**	**7,713**	**19,647**	**1,416**
Investment	-	61	**61**	**491**	**73**
Divestment	-	-	**-**	**(7)**	**(6)**
Depreciation and amortisation	-	(159)	**(159)**	**(550)**	**(80)**
Exchange differences	(36)	(388)	**(424)**	**(487)**	**(6)**
Changes in consolidation scope	-	-	**-**	**(7)**	**-**
Reclassifications and other	-	9	**9**	**33**	**(4)**
Net carrying amount at 30/06/20	**3,166**	**4,034**	**7,200**	**19,120**	**1,393**
Gross cost	3,166	7,239	**10,405**	**36,227**	**1,968**
Depreciation fund and impairment losses	-	(3,205)	**(3,205)**	**(17,107)**	**(575)**
Net carrying amount at 30/06/19	**3,166**	**4,034**	**7,200**	**19,120**	**1,393**

Note 4 provides a breakdown of investments by operating segment, the most significant being the investments in developing renewable energy farms and the recurring investments in the planning and development of the gas and electricity distribution network.

At 30 June 2020, Naturgy had recognised fixed asset investment commitments totalling Euros 317 million, basically for the construction of renewable generation facilities in Spain and Australia, the development of the distribution network and other gas infrastructure and the development of the electricity distribution network in Latin America.

At 30 June 2019, the "Depreciation, amortisation and impairment expenses" item under "Property, plant and equipment" contained an amount of Euros 20 million relating to impairment of a number of assets.

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

	1.1.2020	Exchange differences	30.06.2020
Gas & Electricity	1,647	1	1,648
Renewable generation Spain	743	-	743
Supply of gas, electricity and services	443	-	443
International generation Mexico	449	2	451
International generation Chile	4	1	5
International generation Brazil	8	(2)	6
Infrastructure EMEA	1,070	-	1,070
Electricity distribution Spain	1,070	-	1,070
Infrastructure Latin America South	331	(32)	299
Gas distribution Brazil	17	(5)	12
Gas distribution Chile	63	(4)	59
Electricity distribution Chile	251	(23)	228
Infrastructure Latin America North	154	(5)	149
Gas distribution Mexico	21	(4)	17
Electricity distribution Panama	133	(1)	132
Total	**3,202**	**(36)**	**3,166**

Note 6. Investments in companies

Associates and joint ventures

The main change in the "Investments recorded using the equity method" item relates to the agreement to sell 50% of the stake in Medina Partnership, S.A.U., the company holding Medgaz, S.A., to GEPIF (see Note 2.6.), which provides for joint control over Medina by the two partners and resulted in this stake, including its holding in Medgaz, being carried by the equity method.

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 dividends received, resulting in an increase in its stake of 14.95 points to 49%, with Naturgy's effective stake being 24.5%.

The value of Medina recorded using the equity method amounts to Euros 184 million as at 30 June 2020.

Note 7. Financial assets

Set out below is a breakdown of financial assets as at 30 June 2020 and 31 December 2019, by nature and category:

30 June 2020	**Fair value through other comprehensive income**	**Fair value through profit or loss**	**Amortised cost**	**Total**
Equity instruments	32	-	-	**32**
Derivatives	26	-	-	**26**
Other financial assets	-	-	442	**442**
Non-current financial assets	**58**	**-**	**442**	**500**
Derivatives	21	7	-	**28**
Other financial assets	-	-	541	**541**
Current financial assets	**21**	7	**541**	**569**
Total financial assets as at 30/06/2020	**79**	**7**	**983**	**1,069**

31 December 2019	**Fair value through other comprehensive income**	**Fair value through profit or loss**	**Amortised cost**	**Total**
Equity instruments	35	190	-	**225**
Derivatives	9	20	-	**29**
Other financial assets	-	-	484	**484**
Non-current financial assets	**44**	**210**	**484**	**738**
Derivatives	5	-	-	**5**
Other financial assets	-	-	328	**328**
Current financial assets	**5**	**-**	**328**	**333**
Total financial assets as at 31/12/2019	**49**	**210**	**812**	**1,071**

Financial assets recognised at fair value as at 30 June 2020 and 31 December 2019 are classified as follows:

	30 June 2020				**31 December 2019**			
Financial assets	**Level 1 (listed price in an active market)**	**Level 2 (observable variables)**	**Level 3 (unobservable variables)**	**Total**	**Level 1 (listed price in an active market)**	**Level 2 (observable variables)**	**Level 3 (unobservabl e variables)**	**Total**
Fair value through other comprehensive income	-	47	32	**79**	-	14	35	**49**
Fair value through profit or loss	-	7	-	**7**	-	210	-	**210**
Total	**-**	**54**	**32**	**86**	**-**	**224**	**35**	**259**

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 removal of the members of the governing body and the general manager, and their replacement by a special agent appointed by the Superintendence. On 14 March 2017 the

Superintendence announced the decision to liquidate Electricaribe. On 22 March 2017 Naturgy initiated arbitration proceedings before the Court of the United Nations Commission for International Trade Law (UNCITRAL) and on 15 June 2018 it lodged a complaint in which it claimed approximately USD 1,600 million. On 4 December 2018, the Republic of Colombia submitted its answer to the complaint and filed a counterclaim for approximately USD 500 million, the viability of which is considered remote.

Given the difficulty of assessing the fair value due to the specific situation of this asset, its carrying amount is based on the latest available annual accounts, which disclose an attributed equity value of Euros 25 million for the 85.4% shareholding (Euros 28 million at 31 December 2019).

Fair value through profit and loss

- Equity instruments:

  As at 31 December 2019, this item included the value of the 14.9% stake in Medgaz, S.A., the company that operates the undersea pipeline between Algeria and Spain, for an amount of Euros 190 million as at 31 December 2019 whose fair value was determined on the basis of the price in the agreement for the sale of 34.05% referred to in Note 6. As detailed in Note 2.6., in April 2020 an agreement was reached for the sale of 50% of Medina Partnership, S.A.U. (the company holding the stake) which established joint control over that company, as a result of which it, and the stake in Medgaz, are now carried by the equity method.

Amortised cost

At 30 June 2020, "Other financial assets" includes:

- The temporary mismatches between electricity system revenues and costs, which are funded by Naturgy pursuant to Law 24/2013 of 26 December, in the amount of Euros 102 million (Euros 151 million as at 31 December 2019). This amount will be recovered through the electricity system settlements. The amount of the mismatch pending receipt following the settlements for the year generates a recovery right in the following five years 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 the same year.

- The amount outstanding under the agreement to sell 50% of Medina Partnership, S.A.U. to BlackRock Global Energy & Power Infrastructure Fund (GEPIF) (Note 2.6), i.e. Euros 190 million that has been collected on July 2020 after completing the operation (Note 23).

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

The breakdown of "Other non-current assets" and "Trade and other receivables" as at 30 June 2020 and 31 December 2019, by nature and category, is as follows:

30 June 2020	Fair value through other comprehensive income	Fair value through profit or loss	Amortised cost	Total
Derivatives	423	-	-	**423**
Other assets	-	-	748	**748**
Other non-current assets	**423**	**-**	**748**	**1,171**
Derivatives	526	1	-	**527**
Other assets	-	-	3,414	**3,414**
Current trade and other receivables	**526**	**1**	**3,414**	**3,941**
Total	**949**	**1**	**4,162**	**5,112**

31 December 2019	Fair value through other comprehensive income	Fair value through profit or loss	Amortised cost	Total
Derivatives	247	-	-	**247**
Other assets	-	-	334	**334**
Other non-current assets	**247**	**-**	**334**	**581**
Derivatives	305	-	-	**305**
Other assets	-	-	4,595	**4,595**
Current trade and other receivables	**305**	**-**	**4,595**	**4,900**
Total	**552**	**-**	**4,929**	**5,481**

Financial assets recognised at fair value as at 30 June 2020 and 31 December 2019 are classified as follows:

	30 June 2020				31 December 2019			
Financial assets	**Level 1 (listed price in an active market)**	**Level 2 (observable variables)**	**Level 3 (unobservable variables)**	**Total**	**Level 1 (listed price in an active market)**	**Level 2 (observable variables)**	**Level 3 (unobservable variables)**	**Total**
Fair value through other comprehensive income	-	949	-	**949**	-	552	-	**552**
Fair value through profit or loss	-	1	-	**1**	-	-	-	**-**
Total	**-**	**950**	**-**	**950**	**-**	**552**	**-**	**552**

Fair value through other comprehensive income

Non-current derivative financial assets at fair value through other comprehensive income include the changes in market value of two contracts between the Australian group company Crookwell Development Pty Ltd (Crookwell) and the distributor ActewAGL (ACT) and between the Australian group company Berrybank Developement Pty Ltd (Berrybank) and the State of Victoria (Australia) whereby Crookwell and Berrybank undertake to sell on the market, at the spot price, the output from the plants owned by them and to settle with ACT and the State of Victoria the difference between the price of each delivery and a fixed price for a specific volume of MW amounting to Euros 154 million (Euros 111 million as at 31 December 2019) of which Euros 150 million are classified as non-current (Euros 109 million as at 31 December 2019). The contracts cover the sale price of the plants' output for a period of 20 years in the first case and 15 years in the second and have been recorded as cash-flow hedges.

They also include operational derivatives hedging gas prices (Note 3) amounting to Euros 756 million (Euros 427 million as at 31 December 2019), of which Euros 273 million are classified as non-current (Euros 138 million as at 31 December 2019).

Amortised cost

As at 30 June 2020, the accumulated balances for electricity and gas sales yet to be invoiced are included under "Trade receivables" and amount to Euros 1,468 million (Euros 1,618 million at 31 December 2019).

As a result of the decline in gas and electricity demand (Note 3 Commodity volumes), the Company is availing itself of the flexibility mechanisms in the procurement contracts which accrue entitlement to volumes not delivered, which are recognised under this heading, and payment obligations, recognised under "Supplier accounts payable".

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

At 30 June 2020, the non-current assets held for sale correspond to the gas distribution business in Peru.

On 27 April 2020, the Shareholders' Meeting of Naturgy Perú, S.A., the gas distribution subsidiary in Peru, approved the financial statements for the year 2019, which disclose that equity amounts to less than one-third of capital stock; the meeting also resolved not to increase capital, which entails commencing a process of filing for insolvency. In this situation, it is foreseen that the company will go into liquidation, which entails the distribution of its assets to its owners and, consequently, in accordance with IFRS 5, requires that it be classified under "non-current assets and liabilities held for sale". At that date, those assets were recognised at the expected liquidation fair value, with no significant impact in the Interim consolidated income statement. In addition, since this is a significant line of business or geographical area of operation that is separate from the rest, it was classified as a discontinued operation, as a result of which all the revenues and expenses of this business in the six-month periods ended 30 June 2020 and 2019 (Note 2.5) are presented under "Profit for the year from discontinued operations, net of taxes".

On 30 June 2020, Naturgy's fleet of coal-fired plants in Spain ceased operating since the necessary investment to reduce emissions had not been made and, consequently, they did not fulfil the applicable new emission limits. Since this is a group of assets that are to be abandoned, under a coordinated closure plan, and they represent a significant separate line of business in accordance with IFRS 5, this line was classified as a discontinued operation, and all revenues and expenses pertaining to this business for the six-month periods ended 30 June 2020 and 2019 (Note 2.5) are disclosed under "Profit for the year from discontinued operations, net of taxes".

As 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).

The sale of Ghesa Ingeniería y Tecnología, S.A. for Euros 24 million was completed on 20 January 2020, generating a capital gain before tax of Euros 15 million that is recognised under "Other income".

The sale of the electricity generation business in Kenya was completed on 3 April 2020. The amount of the transaction, including the cancellation of an intercompany loan, was Euros 35 million and it did not have a material impact on the Consolidated income statement.

Additionally, during 2019, Naturgy sold the electricity distribution business in Moldova, which was classified as held for sale as 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 were components classified as held for sale which represented a significant and separate line of business or area of operation. Therefore, all revenues and expenses pertaining to these lines of business for the six-month period ended 30 June 2019 were reported under "Profit for the year from discontinued operations, net of taxes".

As at 30 June 2020, the detail of assets classified as held for sale and the associated liabilities is as follows:

2020	Gas distribution Peru	Total
Intangible assets	-	-
Property, plant and equipment	-	-
Investments recorded using the equity method	-	-
Non-current financial assets	-	-
NON-CURRENT ASSETS	**-**	**-**
Inventories	-	-
Trade and other receivables	-	-
Other current financial assets	-	-
Cash and cash equivalents	-	-
CURRENT ASSETS	**-**	**-**
TOTAL ASSETS	**-**	**-**
Grants	-	-
Non-current provisions	-	-
Non-current financial liabilities	-	-
Deferred tax liabilities	-	-
NON-CURRENT LIABILITIES	**-**	**-**
Current provisions	8	8
Trade and other payables	-	-
Other current liabilities	-	-
CURRENT LIABILITIES	**8**	**8**
TOTAL LIABILITIES	**8**	**8**

As at 31 December 2019, the detail by nature of assets classified as held for sale and the associated liabilities is as follows:

2019	International electricity Kenya	Ghesa	Total
Intangible assets	-	-	-
Property, plant and equipment	42	-	42
Investments recorded using the equity method	-	12	12
Non-current financial 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
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**

The breakdown by type of the “Profit for the year from discontinued operations, net of taxes” item in the consolidated income statement for the six-month period ended 30 June 2020 is as follows:

2020	Gas distribution Peru	Coal-fired generation Spain	Total
Net sales	6	71	77
Procurements	(4)	(75)	(79)
Other operating revenue	-	1	1
Personnel costs	(1)	(28)	(29)
Other operating expenses	(2)	(16)	(18)
Release of fixed asset grants and other to income	-	-	-
EBITDA	**(1)**	**(47)**	**(48)**
Depreciation, amortisation and impairment charges	(1)	-	(1)
Impairment of credit losses	-	-	-
Other results	-	-	-
EBIT	**(2)**	**(47)**	**(49)**
Financial revenues	-	-	-
Financial expenses	(1)	-	(1)
Variations in fair value of financial instruments	-	-	-
Exchange differences	(1)	-	(1)
NET FINANCIAL REVENUES/(EXPENSES)	**(2)**	**-**	**(2)**
Equity-accounted affiliates	-	-	-
PROFIT BEFORE TAXES	**(4)**	**(47)**	**(51)**
Income tax	(8)	12	4
	(12)	**(35)**	**(47)**
PROFIT FOR THE YEAR			
Attributable to:			
Parent company	(12)	(35)	(47)
Non-controlling interest	-	-	-

The breakdown by type of the "Profit for the year from discontinued operations, net of taxes" item in the consolidated income statement for the six-month period ended 30 June 2019 is as follows:

2019	Electricity distribution Moldova	International electricity Kenya	Gas distribution Peru	Coal-fired generation Spain	Total
Net sales	155	18	5	45	223
Procurements	(126)	(5)	(4)	(45)	(180)
Other operating revenue	-	-	-	3	3
Personnel costs	(4)	(2)	(1)	(21)	(28)
Other operating expenses	(7)	(2)	(1)	(7)	(17)
Release of fixed asset grants and other to income	-	-	-	-	-
EBITDA	**18**	**9**	**(1)**	**(25)**	**1**
Depreciation, amortisation and impairment charges	-	-	(2)	-	(2)
Impairment of credit losses	-	-	-	-	-
Other results	(14)	(6)	-	-	(20)
EBIT	**4**	**3**	**(3)**	**(25)**	**(21)**
Financial revenues	-	-	-	1	1
Financial expenses	(1)	(1)	(1)	-	(3)
Variations in fair value of financial instruments	-	-	-	-	-
Exchange differences	-	-	-	-	-
NET FINANCIAL REVENUES/(EXPENSES)	**(1)**	**(1)**	**(1)**	**1**	**(2)**
Equity-accounted affiliates	-	-	-	-	
PROFIT BEFORE TAXES	**3**	**2**	**(4)**	**(24)**	**(23)**
Income tax	(3)	(2)	1	6	2
PROFIT FOR THE YEAR	**-**	**-**	**(3)**	**(18)**	**(21)**
Attributable to:					
Parent company	-	-	(3)	(18)	(21)
Non-controlling interest	-	-	-		-

Set out below is a breakdown of total comprehensive income from this business during the six-month periods ended 30 June 2020 and 2019:

2020	Gas distribution Peru	Coal-fired generation Spain	Total
Consolidated profit/(loss) for the year	**(12)**	**(35)**	**(47)**
Other comprehensive income recognised directly in equity:			
Financial assets at fair value through other comprehensive income	-	**-**	**-**
Exchange differences	(1)	**-**	**(1)**
Transfers to the income statement			
Exchange differences	-	**-**	**-**
Total comprehensive income for the year	**(13)**	**(35)**	**(48)**

2019	Electricity distribution Moldova	International electricity Kenya	Gas distribution Peru	Coal-fired generation Spain	Total
Consolidated profit/(loss) for the year	**-**	**-**	**(3)**	**(18)**	**(21)**
Other comprehensive income recognised directly in equity:				**-**	
Financial assets at fair value through other comprehensive income	-	-	-	**-**	**-**
Exchange differences	(5)	1	-	**-**	**(4)**
Transfers to the income statement			**-**	**-**	
Exchange differences	-	-	-	**-**	**-**
Total comprehensive income for the year	**(5)**	**1**	**(3)**	**(18)**	**(25)**

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

	For the six-month period ended 30 June	
Cash flow from:	**2020**	**2019**
Operation	(29)	10
Investment	-	(1)
Financing	(66)	-

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

Note 10. Attributed

Share capital and share premium

The variations during the first half of 2020 and in 2019 in the number of shares and the share capital and share premium accounts were as follows:

	Number of shares	Share capital	Share premium	Total
1 January 2019	**1,000,689,341**	**1,001**	**3,808**	**4,809**
Change	-	-	-	-
30 June 2019	**1,000,689,341**	**1,001**	**3,808**	**4,809**
Capital reduction	(16,567,195)	(17)	-	(17)
31 December 2019	**984,122,146**	**984**	**3,808**	**4,792**
Change	-	-	-	-
30 June 2020	**984,122,146**	**984**	**3,808**	**4,792**

All of the outstanding shares are fully paid up and have the same political and economic rights.

On 5 August 2019, capital was reduced 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 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 Euro 1 each.

There were no changes in the number of shares or in the "Share capital" and "Share premium" accounts during the first half of 2020.

Own shares

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

	Number of shares	Amount (million euro)	% Capital
1 January 2019	**14,037,332**	**321**	**1.4**
Share ownership plan	332,382	7	-
2018 buyback programme	11,169,458	279	1.1
Delivered to employees	(310,812)	(7)	-
30 June 2019	**25,228,360**	**600**	**2.5**
Capital reduction	(16,567,195)	(400)	(1.6)
2019 buyback programme	5,162,320	121	0.5
Disposals	-	-	-
31 December 2019	**13,823,485**	**321**	**1.4**
Share ownership plan	470,000	8	-
2019 buyback programme	9,346,025	178	0.9
Delivered to employees	(455,797)	(8)	-
30 June 2020	**23,183,713**	**499**	**2.3**

Of the total own shares as of 30 June 2020, Euros 299 million correspond to those acquired by Naturgy Energy Group, S.A. under the share buyback programme (Euros 121 million as of 31 December 2019) and Euros 200 million to those acquired through a group affiliate for the long-term variable incentive plan (Note 15 of the Consolidated annual accounts as at 31 December 2019).

2020

Transactions with own shares of Naturgy Energy Group, S.A. relate to:

- 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. During the first half of 2020, 470,000 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 buyback programme: the Board of Directors of Naturgy Energy Group, S.A. approved a share buy-back 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, was ratified by the shareholders at the Shareholders' Meeting on 26 May 2020. As at 30 June 2020, a total of 14,508,345 own 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 own shares at an average price of Euros 23.3 per share, with a cost of Euros 121 million as at 31 December 2019).

On 26 May 2020, the Shareholders' Meeting approved a reduction of the capital of Naturgy Energy Group, S.A. of at most Euros 21,465,000, corresponding to (i) the 465,000 treasury shares that the Company held at close of market on 24 July 2019; and (ii) the 21,000,000 additional shares, with par value of Euro 1 each, which were acquired and may 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.

Consequently, the capital reduction ("Capital Reduction") would be for at most Euros 21,465,000 through the cancellation of at most 21,465,000 shares of Euro 1 par value each, representing approximately 2.18% of the Company's capital stock at the time of adoption of this resolution.

On 21 July 2020, the Board of Directors of Naturgy Energy Group, S.A. has resolved to reduce capital by 14,508,345 own shares of Euro 1 par value each.

2019

Transactions with own shares of Naturgy Energy Group, S.A. relate to:

- 2018 buyback programme: Under the Strategic Plan 2018-2022, the Board of Directors of Naturgy Energy Group, S.A. approved a share buy-back programme, which was published on 6 December 2018, with a maximum investment of Euros 400 million through 30 June 2019, representing approximately 1.8% of share capital, was ratified by the shareholders at the Shareholders' Meeting on 5 March 2019. As at 30 June 2019, a total of 16,567,195 own 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 (5,397,737 own shares at an average price of Euros 22.42 per share, with a total cost of Euros 121 million as at 31 December 2018).

- 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. During the first half of 2019, 332,382 own shares were acquired for an amount of Euros 7 million for delivery to the participants of the Plan (354,422 own shares for an amount of Euros 7 million during the first half of 2018), and 310,812 shares were delivered, leaving a surplus of 21,570 shares.

- 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 cancellation of the 2,998,622 treasury shares with a par value of Euros 1 each which had been acquired by the close of trading on 6 December 2018 under the authorisation granted by the Shareholders' Meeting on 14 May 2015 under item fourteen on the agenda, the purpose being to buy back shares for possible cancellation; and

  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 (registration number 272.237).

  In this respect, as Naturgy Energy Group, S.A. had acquired a total of 13,568,573 shares as 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 resolved 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 Euros 1 each.

- 2019 buyback programme: As 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.

Movements during 2019 in own shares of Compañía General de Electricidad, S.A. and CGE Gas Natural, S.A. were as shown below; the balance was zero as at 31 December 2019:

		Number of shares	Million euro
	Compañía General de Electricidad, S.A.	**CGE Gas Natural, S.A.**	
1 January 2019	**4,087,225**	**-**	**4**
Acquisitions	-	-	-
Cancelled	(1,936,176)	-	(2)
30 June 2019	**2,151,049**	**-**	**2**
Acquisitions	-	-	-
Disposals and other	(2,151,049)	-	(2)
31 December 2019	**-**	**-**	**-**

Earnings per share

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

	30/06/20	**30/06/19**
Income attributable to equity holders of the parent company	334	592
Weighted average number of ordinary shares outstanding	964,142,889	981,561,321
Profit/(loss) per share from continuing operations (in Euros):		
- Basic	0.40	0.62
- Diluted	0.40	0.62
Profit/(loss) per share from discontinued operations (in Euros):		
- Basic	(0.05)	(0.02)
- Diluted	(0.05)	(0.02)

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

	2020	**2019**
Weighted average number of ordinary shares	984,122,146	1,000,689,341
Weighted average number of treasury shares	(19,979,257)	(19,128,020)
Weighted average number of shares outstanding	964,142,889	981,561,321

Basic earnings per share are the same as diluted earnings per share since there were no instruments susceptible of conversion into ordinary shares during those years and the conditions for including the shares under the incentive described in the section on Share-based payments of Note 15 of the consolidated annual accounts as at 31 December 2019 in the calculation of diluted earnings per share were not met.

Dividends

Set out below is a breakdown of the payments of dividends made in the six-month periods ended 30 June 2020 and 2019:

	30.06.2020			30.06.2019		
	% of par value	Euros per share	Amount [(1)]	% of par value	Euros per share	Amount [(1)]
Ordinary shares	60%	0.60	585	57%	0.57	565
Other shares (non-voting, redeemable, etc.)	-	-	-	-	-	-
Total dividends paid	**60%**	**0,60**	**585**	**57%**	**0,57**	**565**
a) Dividends charged to income statement	60%	0,60	585	57%	0,57	565
b) Dividends charged to reserves or share premium account	-	-	-	-	-	-
c) Dividends in kind	-	-	-	-	-	-

[(1)] At 30 June 2020, this item includes the Euros 5 million dividend collected from group company Naturgy Alfa Investments, S.A.U. (Euros 5 million as at 30 June 2019).

30 June 2020

At a meeting on 4 February 2020, the Board of Directors of Naturgy Energy Group, S.A. approved the distribution of income set out in Note 15 to the consolidated annual accounts for the year ended 31 December 2019. Following the declaration of a state of alarm and in order to safeguard the safety and health of all shareholders, employees and contractors, the company decided to postpone the Shareholders' Meeting scheduled for 17 March 2020.

To prevent that postponement from having a negative impact on shareholders, particularly the 70,000 minority shareholders, at a meeting on 16 March 2020 the Board of Directors of Naturgy Energy Group, S.A. declared a third interim dividend out of 2019 income in the amount of Euros 0.593 per share for all shares not classified as direct treasury shares on the date of distribution, paid on 25 March 2020.

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

Income after taxes as at 31 December 2019		4,415
Allocation to reserves		-
Maximum distributable amount		4,415
Interim dividend out of 2019 income		754
Forecast maximum interim dividend payment [(1)]		584
Cash resources	1,100	
Unused credit facilities	4,807	
Total liquidity		5,907

(1) Amount based on total shares outstanding

Subsequently, on 15 April 2020, the Board of Directors approved a new proposal for the distribution of the Company's net profit for 2019, for submission to the General Meeting:

BASIS OF DISTRIBUTION

Basis of distribution ….. 4,415

DISTRIBUTION:

TO DIVIDEND: Amount whose gross amount will be equal to the sum of the following amounts (the "Dividend"):

(i) Euros 1,330 million corresponding to the three interim dividends out of 2019 income paid by the Company, which together amount to Euros 1.36 per share, by the number of shares not classified as direct treasury shares on the corresponding dates; and

(ii) The amount obtained by multiplying Euros 0.010 per share by the number of shares not classified as direct treasury shares on the date on which the shareholders of record entitled to collect the dividend are determined (the "Final dividend").

The Final Dividend will be paid via entities that are members of Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear), and to that end the Board of Directors is empowered, with express powers to subdelegate to the director(s) that it sees fit, to take all steps that may be necessary or advisable to perform the distribution, particularly, without limitation (i) setting the date on which the shareholders entitled to collect the dividend are determined, and the date of payment; (ii) determining the final amount of the Final Dividend; and (iii) designating the institution to act as payment agent.

TO RETAINED EARNINGS: Determinable amount to be obtained by subtracting the amount allocated to Dividends from the Basis for Distribution.

Total distributed 4,415

The Shareholders' Meeting held on 26 May 2020 approved the final dividend of Euros 0.01 per share for all shares not classified as direct treasury stock on the date of distribution; this dividend was paid in full on 3 June 2020.

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

On 21 July 2020, the Company’s Board of Directors declared an interim dividend of Euros 0.310 per share out of 2020 results, for shares not classified as direct treasury shares on the date on which the dividend was paid, payable on 29 July 2020.

On the date the interim dividend was declared, the Company had the necessary liquidity to make the payment, as required by the Spanish Capital Companies Act. The provisional liquidity statement drawn up by the directors on 21 July 2020 is as follows:

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

(1) Amount based on total shares outstanding

30 June 2019

The Shareholders' Meeting held on 5 March 2019 approved a supplementary dividend of Euros 0.570 per share for all shares not classified as direct treasury stock on the date of distribution; this dividend was paid in full on 20 March 2019.

On 23 July 2019, the Company’s Board of Directors declared an interim dividend of Euros 0.294 per share out of 2019 results, for all shares not classified as direct treasury stock on the date of distribution, that was paid in full in cash on 31 July 2019.

Naturgy Energy Group, S.A. had, at the date of declaring the interim dividend, sufficient liquidity to pay the dividend, in accordance with the provisions of the Spanish Capital Companies Act. The provisional liquidity statement drawn up by the directors on 23 July 2019 is as follows:

Profit after tax		838
Allocation to reserves		-
Maximum distributable amount		838
Forecast maximum interim dividend payment (1)		294
Cash resources	1,395	
Unused credit facilities	5,035	
Total liquidity		6,430

(1) Amount based on total shares outstanding

Other equity components

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

The “Exchange differences" item includes the exchange differences described in Note 3.4.2 to the 2019 consolidated annual accounts as a result of the euro's fluctuation against the main currencies of Naturgy's overseas companies.

Non-controlling interest

Movements in non-controlling interests during the six-month period ended 30 June 2020 are as follows:

Balance at 31 December 2019	**3,425**
Total comprehensive income for the period	42
Distribution of dividends	(113)
Payment of remuneration on other equity instruments	(17)
Capital increase/decrease	8
Other	(2)
Balance at 30 June 2020	**3,343**

Note 11. Provisions

The breakdown of provisions at 30 June 2020 and 31 December 2019 is as follows:

	30/06/20	**31/12/19**
Provisions for employee obligations	518	537
Other provisions	625	632
Total non-current provisions	**1,143**	**1,169**
Total current provisions	**222**	**291**
Total	**1,365**	**1,460**

The “Other provisions” heading mainly includes provisions set up to cover obligations derived from decommissioning and tax claims, as well as lawsuits and arbitration, insurance and other liabilities. Note 22 contains further information on contingent liabilities.

Note 12. Interest-bearing debt

Set out below is a breakdown of financial liabilities, excluding “Trade and other payables”, as at 30 June 2020 and 31 December 2019, by nature and category:

30 June 2020	Creditors and payables	Hedging derivatives	Total
Bank borrowings	6,190	-	**6,190**
Bonds and other negotiable securities	9,337	-	**9,337**
Derivatives	-	150	**150**
Lease liabilities	1,424	-	**1,424**
Other financial liabilities	1		**1**
Non-current financial liabilities	**16,952**	**150**	**17,102**
Bank borrowings	1,515	-	**1,515**
Bonds and other negotiable securities	452	-	**452**
Derivatives	-	45	**45**
Lease liabilities	209	-	**209**
Other financial liabilities	108	-	**108**
Current financial liabilities	**2,284**	**45**	**2,329**
Total financial liabilities at 30/06/2020	**19,236**	**195**	**19,431**

31 December 2019	Creditors and payables	Hedging derivatives	Total
Bank borrowings	5,485	-	**5,485**
Bonds and other negotiable securities	8,668	-	**8,668**
Derivatives	-	99	**99**
Lease liabilities	1,446	-	**1,446**
Other financial liabilities	3	-	**3**
Non-current financial liabilities	**15,602**	**99**	**15,701**
Bank borrowings	941	-	**941**
Bonds and other negotiable securities	1,112	-	**1,112**
Derivatives	-	28	**28**
Lease liabilities	198	-	**198**
Other financial liabilities	7	-	**7**
Current financial liabilities	**2,258**	**28**	**2,286**
Total financial liabilities at 31/12/2019	**17,860**	**127**	**17,987**

As at 30 June 2020, the "Other current financial liabilities" item includes the temporary mismatches between revenues and costs in the gas system that have accumulated in 2019 and 2020, amounting to Euros 99 million. As at 31 December 2019, those mismatches amounted to Euros 27 million and were recognised under "Other financial assets" since they were being financed by Naturgy.

Financial liabilities recognised at fair value as at 30 June 2020 and 31 December 2019 are classified as follows:

	30 June 2020				**31 December 2019**			
Financial liabilities	**Level 1 (listed price in an active market)**	**Level 2 (observable variables)**	**Level 3 (unobservable variables)**	**Total**	**Level 1 (listed price in an active market)**	**Level 2 (observable variables)**	**Level 3 (unobservabl e variables)**	**Total**
Hedging derivatives	-	195	-	**195**	-	127	-	**127**
Total	**-**	**195**	**-**	**195**	**-**	**127**	**-**	**127**

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

	Carrying amount		**Fair value**	
	30/06/20	**31/12/19**	**30/06/20**	**31/12/19**
Issuance of bonds and other negotiable securities	9,337	8,668	10,207	9,575
Bank borrowings and other financial liabilities	6,191	5,488	6,284	5,550

The fair value of the listed bond issues is estimated on the basis of their quoted price (Level 1). The fair value of loans with fixed interest rates is estimated on the basis of the discounted cash flows over the remaining term of such debt. The discount rates were determined based on market rates available at 30

June 2020 and 31 December 2019 for borrowings with similar credit and maturity characteristics. These valuations are based on the quoted price of similar financial instruments in an official market or on observable information in an official market (Level 2).

In the first half of 2020 and 2019, the movements in debt securities were as follows:

	01/01/2020	Issuances	Buy-backs or redemptions	Business combinations	Interest, exchange rate, etc.	30/06/2020
Issued in a European Union Member State which required the filing of a prospectus	**8,542**	2,050	(1,834)	-	(82)	**8,676**
Issued in a European Union Member State which did not require the filing of a prospectus	**-**	-	-	-	-	**-**
Not issued in a European Union Member State	**1,238**	-	(4)	-	(121)	**1,113**
Total	**9,780**	**2,050**	**(1,838)**	**-**	**(203)**	**9,789**

	01/01/2019	Issuances	Buy-backs or redemptions	Business combinations	Interest, exchange rate, etc.	30/06/2019
Issued in a European Union Member State which required the filing of a prospectus	**9,289**	3,499	(3,236)	-	(67)	**9,485**
Issued in a European Union Member State which did not require the filing of a prospectus	**-**	-	-	-	-	**-**
Not issued in a European Union Member State	**1,469**	-	(203)	-	48	**1,314**
Total	**10,758**	**3,499**	**(3,439)**	**-**	**(19)**	**10,799**

The total amount drawn under the Euro Medium Term Note (EMTN) programme stands at Euros 8,941 million (Euros 8,725 million as at 31 December 2019). The programme limit as at 30 June 2019 is Euros 12,000 million. Issues under that programme in the first six months of 2020 are as follows:

Issue	Nominal value	Maturity	Coupon %
April 2020	1,000	2026	1.250
May 2020 (*)	150	2029	0.750

(*) November 2019 issuance increase

Additionally, two bonds with an average coupon of 5.07% for a total amount of Euros 934 million matured in the first half of 2020.

In the first half of 2020, issues under the Euro Commercial Paper (ECP) programme totalled Euros 900 million (Euros 3,499 million in the same period of 2019) with no outstanding issues as at 30 June 2020 or 31 December 2019.

The group continues working to strengthen its financial profile; in this line, the main financing transactions completed in the first half were as follows:

- Issuance of a Euros 1,000 million 5-year bond with a 1.25% coupon.
- New loans and credit lines in Spain amounting to Euros 1,225 million and Euros 530 million, respectively. In overseas businesses, new loans and credit lines amounting to an equivalent of Euros 487 million and Euros 66 million, respectively.
- Refinancing of credit lines in Spain to the equivalent of Euros 2,310 million and refinancing borrowings and credit lines in other countries amounting Euros 208 million and Euros 87 million, respectively.
- Euros 150 million bond tap maturing on November 2029.

Naturgy also has a comfortable maturity profile and balance sheet position, as well as flexibility in capex and opex to enable it to weather the current economic situation.

Note 13. Net sales

The breakdown of this heading in the first half of 2020 and 2019 is as follows, by category, with the relevant operating segment reporting structure:

For the period ended 30 June 2020	Gas & Electricity	Infrastructure EMEA	Infrastructure LatAm South	Infrastructure LatAm North	Other	Total
Sales of gas and access to distribution networks	1,937	562	1,018	249	-	3,766
Sales of electricity and access to distribution networks	1,662	384	1,026	406	-	3,478
LNG sales	993	-	-	-	-	993
Registrations and facility checks	5	7	3	2	-	17
Assignment of power generation capacity	160	-	-	-	-	160
Meter and facility rental	149	22	4	-	-	175
Other revenues	122	9	43	14	4	192
Total	**5,028**	**984**	**2,094**	**671**	**4**	**8,781**

For the period ended 30 June 2019 (1)	Gas & Electricity	Infrastructure EMEA	Infrastructure LatAm South	Infrastructure LatAm North	Other	Total
Sales of gas and access to distribution networks	3,058	585	1,524	302	-	5,469
Sales of electricity and access to distribution networks	1,998	401	1,124	447	-	3,970
LNG sales	1,553	-	-	-	-	1,553
Registrations and facility checks	36	14	5	5	-	60
Assignment of power generation capacity	135	-	-	-	-	135
Meter and facility rental	151	21	5	-	-	177
Other revenues	139	4	59	16	7	225
Total	**7,070**	**1,025**	**2,717**	**770**	**7**	**11,589**

(1) The consolidated income statement for the six-month period ended 30 June 2019 was restated due to application of IFRS 5 (Notes 2.5 & 9).

Reporting by geographic area

Naturgy's revenue for the first half of 2020 and 2019, by country, is analysed below:

	For the period ended 30 June 2020	2019 (1)
Spain	3,847	4,986
Rest of Europe	1,049	1,346
France	487	772
Portugal	258	236
Turkey	144	24
Ireland	81	66
United Kingdom	61	30
Italy	4	11
Belgium	-	76
The Netherlands	-	57
Germany	-	45
Rest of Europe	14	29
Latin America	3,240	4,348
Chile	1,379	1,628
Brazil	567	907
Mexico	551	723
Panama	409	449
Argentina	252	315
Puerto Rico	41	192
Dominican Republic	30	85
Other Latin America	11	49
Other	645	909
United States	160	98
India	150	165
China	91	121
South Korea	69	101
Pakistan	15	58
Japan	10	116
RoW	150	250
Total	**8,781**	**11,589**

(1) The consolidated income statement for the six-month period ended 30 June 2019 was restated due to application of IFRS 5 (Notes 2.5 & 9).

Note 14. Procurements

Set out below is a breakdown of this heading for the six-month period in 2020 and 2019:

	For the period ended 30 June	
	2020	**2019 (1)**
Energy purchases	4,972	7,223
Access to transmission networks	685	815
Other purchases and changes in inventories	191	254
Total	**5,848**	**8,292**

(1) The consolidated income statement for the six-month period ended 30 June 2019 was restated due to application of IFRS 5 (Notes 2.5 & 9).

Note 15. Personnel costs

Set out below is a breakdown of this heading for the six-month period in 2020 and 2019:

	For the period ended 30 June	
	2020	**2019 (1)**
Wages and salaries	294	322
Termination benefits	168	98
Social security costs	51	53
Defined contribution plans	15	16
Share-based payments	2	2
Own work capitalised	(33)	(49)
Other	29	37
Total	**526**	**479**

(1) The consolidated income statement for the six-month period ended 30 June 2019 was restated due to application of IFRS 5 (Notes 2.5 & 9).

The average number of employees of Naturgy for the six-month periods ended 30 June 2020 and 2019 is as follows:

	For the period ended 30 June	
	2020	**2019**
Men	7,505	8,327
Women	3,612	3,742
Total	**11,117**	**12,069**

The average number of employees of Naturgy includes the average number of employees in joint ventures which, pro-rated by the company's percentage stake, was 188 (190 as at 30 June 2019).

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

	For the period ended 30 June	
	2020	**2019**
Discontinued operations	174	1,015
Equity-accounted companies	235	827

Note 16. Other operating expenses

Set out below is a breakdown of this heading for the six-month period in 2020 and 2019:

	For the period ended 30 June	
	2020	**2019** [(1)]
Taxes	180	185
Operation and maintenance	160	168
Advertising and other commercial services	61	87
Professional services and insurance	50	48
Supplies	27	33
Construction or refurbishment services	24	30
Services to customers	24	32
Leases	5	9
Other	96	140
Total	**627**	**732**

[(1)] The consolidated income statement for the six-month period ended 30 June 2019 was restated due to application of IFRS 5 (Notes 2.5 & 9).

Note 17. Depreciation, amortisation and impairment losses

Set out below is a breakdown of this heading for the six-month period in 2020 and 2019:

	For the period ended 30 June	
	2020	**2019** [(1)]
Depreciation and amortisation charge	789	772
Impairment losses	-	20
Total	**789**	**792**

[(1)] The consolidated income statement for the six-month period ended 30 June 2019 was restated due to application of IFRS 5 (Notes 2.5 & 9).

Note 5 to the consolidated annual accounts as at 31 December 2019 includes information about impairment losses on non-financial assets that were recognised in 2019.

Note 18. Net financial income

Set out below is a breakdown of this heading for the six-month period in 2020 and 2019:

	For the period ended 30 June	
	2020	**2019** [(1)]
Dividends	5	8
Interest income	12	10
Other financial revenues	39	29
Total financial revenues	**56**	**47**
Cost of borrowings	(297)	(316)
Interest expense for pension plans	(6)	(8)
Other financial expense	(26)	(49)
Total financial expense	**(329)**	**(373)**
Fair value of financial instruments:	(4)	(5)
Equity instruments	-	9
Derivative financial instruments	(4)	(14)
Net exchange differences	(2)	-
Net financial income	**(279)**	**(331)**

[(1)] The consolidated income statement for the six-month period ended 30 June 2019 was restated due to application of IFRS 5 (Notes 2.5 & 9).

Note 19. Tax situation

The corporate income tax expense is as follows:

	For the period ended 30 June 2020	2019 [(1)]
Current-year tax	153	198
Deferred tax	12	29
Total	**165**	**227**

(1) The consolidated income statement for the six-month period ended 30 June 2019 was restated due to application of IFRS 5 (Notes 2.5 & 9).

The effective tax rate as at 30 June 2020, based on the best estimate of the effective tax rate for the full year, was 23.0%, compared with 21.5% in the same period of the previous year as 2019 included the positive impact of the tax revalue carried out in Argentina (Revaluo Impositivo Law number 27430).

Note 20. Information on transactions with related parties

Related parties are as follows:

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

  Based on this definition, the significant shareholders of Naturgy are Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona ("la Caixa"), Global Infrastructure Partners III (GIP) and related companies, and CVC Capital Partners SICAV-FIS, S.A. (through Rioja Acquisitions, S.à.r.l.).

- Directors and executives of the Company and their immediate families. The term "director" means a member of the Board of Directors; "executive" means the Executive Chairman's direct reports and the Internal Audit Director. Transactions with directors and executives are disclosed in Note 21.

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

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

For the six-month period ended 30 June 2020	**Significant shareholders**			**Group companies**
Expenses and revenues (in thousand Euros)	**"la Caixa" Group**	**CVC Group**	**GIP Group**	
Financial expenses	-	-	-	-
Leases	-	-	-	3
Receipt of services	4	-	-	7,472
Purchases of goods (1)	-	-	5,048	115,690
Total expenses	**4**	**-**	**5,048**	**123,165**
Financial revenues	-	-	-	22
Provision of services	-	-	-	7,030
Sale of goods (1)	1,088	10,238	-	28,432
Other revenues	-	-	-	738
Total revenues	**1,088**	**10,238**	**-**	**36,222**

	Significant shareholders			**Group companies**
Other transactions (in thousand Euros)	**"la Caixa" Group**	**CVC Group**	**GIP Group**	
Acquisition of property, plant and equipment, intangible assets or other assets	-	-	-	-
Finance agreements: loans and capital contributions (lender)	-	-	-	1,818
Dividends and other profits distributed (2)	144,936	121,118	120,683	-

For the six-month period ended 30 June 2019	**Significant shareholders**			**Group companies**
Expenses and revenues (in thousand Euros)	**"la Caixa" Group**	**CVC Group**	**GIP Group**	
Financial expenses	-	-	-	-
Leases	-	-	-	3
Receipt of services	5	-	-	4,800
Purchases of goods (1)	-	-	-	195,778
Total expenses	**5**	**-**	**-**	**200,581**
Financial revenues	-	-	-	36
Provision of services	-	-	-	8,813
Sale of goods (1)	828	-	-	52,046
Other revenues	-	-	-	985
Total revenues	**828**	**-**	**-**	**61,880**

Other transactions (in thousand Euros)	Significant shareholders			Group
	“la Caixa” Group	CVC Group	GIP Group	companies
Acquisition of property, plant and equipment, intangible assets or other assets	-	-	-	-
Finance agreements: loans and capital contributions (lender)	-	-	-	2,156
Dividends and other profits distributed (2)	145,005	114,489	114,079	-

(1) Includes basically purchases and sales of energy. In the case of group companies, relates basically to transactions with Unión Fenosa Gas.

(2) As at 30 June 2019, the dividend to “la Caixa” included an amount of Euros 28,520 thousand paid to Energía Boreal 2018, S.A.

Note 21. Information on members of the Board of Directors and senior management personnel

Board of Directors Remuneration

Remuneration accrued to the members of the Board of Directors of Naturgy Energy Group, S.A. by virtue of their membership of the Board and Board committees totalled Euros 1,978 thousand as at 30 June 2020 (Euros 1,978 thousand as at 30 June 2019).

The Board of Directors has 12 members, the Audit and Control Committee has 7 members, the Appointments, Remuneration and Corporate Governance Committee has 7 members and the Sustainability Commission has 5 members.

For the executive functions carried out in the six-month period ended 30 June 2020, the Executive Chairman earned Euros 1,352 thousand, although the amount of annual variable remuneration will be paid as a contribution to the pension plan, as established contractually (Euros 1,651 thousand as at 30 June 2019).

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled Euros 206 thousand at 30 June 2020 (Euros 203 thousand at 30 June 2019).

Senior management remuneration

For the sole purposes of the information contained in this section, “senior management personnel” refers to the executives who report directly to the company's chief executive, and also the Internal Audit Director. At 30 June 2020, 14 people make up this group, without taking into account the Internal Audit Director (12 people at 30 June 2019, and 11 at 31 December 2019). Three new executives who are direct reports to Executive Chairman, joined the category in June 2020.

Amounts earned by executives in respect of fixed remuneration, annual variable remuneration, multi-year variable remuneration and other items totalled Euros 4,479 thousand (Euros 5,550 thousand as at 30 June 2019).

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled Euros 668 thousand as at 30 June 2020 (Euros 773 thousand as at 30 June 2019).

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

The Board members and senior management personnel did not carry out any transactions outside the ordinary course of business or other than on arm's-length terms with Naturgy Energy Group, S.A. or with group companies.

Note 22. Litigation and arbitration

In relation to the information in the section on lawsuits and arbitration in Note 35 “Litigation, arbitration, guarantees and commitments” in the consolidated annual accounts for the year ended 31 December 2019, the following changes took place in the litigation and arbitration risks situation in the first half of 2020:

Unión Fenosa Gas

On 27 February 2020, Naturgy announced an agreement with ENI and the Arab Republic of Egypt to amicably resolve the disputes involving Unión Fenosa Gas (a company owned 50% by Naturgy and 50% by ENI) which was subject to certain conditions and dates that had not been met at 23 April 2020, as a result of the agreement lapsed. In any case, execution of the arbitration finding in favour of Unión Fenosa Gas in the amount of USD 2,000 million that was issued by the ICSID on 31 August 2018 is ongoing. To date the arbitration finding has been homologated in the United Kingdom and in the Netherlands.

Qatar Gas arbitration

In June 2020, a second arbitration decision was issued, in addition to that issued in February 2018, that concluded the claim filed in 2015 against Qatar Liquefied Gas Company Limited whose main conclusion is a 3.65% increase in the gas price paid in Spain. The decision also allows that gas to be commercialised in a number of European terminals (France, UK, Belgium and The Netherlands). This arbitration decision did not have a material impact on the Consolidated interim accounts.

Note 23. Subsequent events

As at 15 July 2020, BlackRock Global Energy & Power Infrastructure Fund has completed the acquisition of the 50% stake in Medina Partnership, S.A.U., which, after the acquisition of a 34,05% in Medgaz to CEPSA Holding LLC, holds a 49% interest in Medgaz (Note 2.6).

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APPENDIX I: REGULATORY FRAMEWORK

In relation to the regulatory framework described in the consolidated annual accounts for the year ended 31 December 2019, the following aspects for the first half of 2020 within Europe are worth noting:

On 21 January 2020, the Spanish Cabinet approved a Declaration in the face of the Climate and Environmental Emergency in Spain, under which the Executive undertook, in the first 100 days, to:

- Present to Parliament a draft law ensuring the attainment of zero net emissions no later than 2050, by promoting for this purpose a 100% renewable electricity system, a fleet of passenger cars and commercial vehicles that emits 0 grams of CO_2 per kilometre, an agriculture system that is neutral in CO_2 equivalent emissions, and a tax, budgetary and financial system that is compatible with the need to decarbonise the economy and society.
- Define our country's long-term decarbonisation trend, which assures attainment of the climate neutrality goal by 2050 at the latest.
- Present the second National Plan for Adaptation to Climate Change.
- Drive the transformation of our industrial and services sector model through Fair Transition Agreements and accompanying legislation.

On 28 February 2020, the Spanish government published Order TED/171/2020, of 24 February 2020, which updated the remuneration parameters for standard installations that are applicable to certain facilities for the production of electricity from renewable sources, cogeneration and waste, for application in the regulatory period between 1 January 2020 and 31 December 2025.

On 6 March 2020, the CNMC published its Resolutions dated 26 February 2020 provisionally setting the remuneration for electricity distribution and transmission companies for 2020. A resolution on remuneration for 2020 is expected to be approved; however, until such a remuneration resolution is approved and comes into effect, the first settlements in 2020 must be made in accordance with the remuneration approved in Order IET/980/2016, of 10 June, for distributors, and Order IET/981/2016, of 15 June, for transmitters, which established the remuneration for 2016, the last remuneration that was approved and which has been applied in the intervening years.

On 6 March 2020, the Ministry for the Energy Transition and Demographic Challenge (MITERD) published the Spanish Gas System Preventive Action Plan 2018-2023, which sets out the strategy to minimise the identified risks in order to ensure the supply of gas to all customers in the gas market, particularly to protected customers.

Royal Decree 463/2020, of 14 March 2020, declaring a state of alarm in order to manage the health crisis situation caused by COVID-19, was published on 14 March 2020; it contained a number of items that affect Naturgy:

- Guarantee of the supply of electricity, petroleum derivatives and natural gas: The delegated competent authorities may take the necessary measures to ensure the supply of electricity, petroleum derivatives and natural gas.
- Critical operators of essential services: The critical operators of essential services provided for in Law 8/2011, of 28 April, which established measures for the protection of critical infrastructure, must take the necessary steps to ensure the provision of the essential services that they provide. This requirement must also be adopted by those companies and suppliers who, though not classified as critical, are essential to ensure the supply to the population and the essential services.
- Suspension of administrative deadlines: Deadlines for procedures vis-à-vis the agencies of the public sector were suspended and the counting of time periods was halted. Counting of time periods will resume once the Royal Decree, or any extension of same, lapse.

Royal Decree-Law 8/2020, of 17 March, published on 18 March 2020, provides for extraordinary urgent measures to address the economic and social impact of COVID-19. With this Royal Decree-Law, the Government prohibited cutting off the supply of water, electricity and natural gas to vulnerable consumers for a period of one month, which may be extended.

Order TED/287/2020, of 23 March, published on 26 March 2020, establishes the obligation to make contributions to the National Energy Efficiency Fund in 2020.

On 31 March 2020, the Ministry for the Energy Transition and Demographic Challenge (MITERD) resolved to refer the Integrated National Energy and Climate Plan (PNIEC) 2021-2030 to the European Commission.

Royal Decree-Law 11/2020, of 31 March, published on 1 April 2020, adopts urgent supplementary measures in the social and economic sphere to address COVID-19, including:

- Entitlement to collect benefits for self-employed workers who have ceased operations or experienced a loss of revenues due to COVID-19.
- Guaranteed supply of electricity, oil derivatives, natural gas and water.
- Entitlement by consumers and users to cancel certain contracts without penalty.
- Flexibility in electricity supply contracts for self-employed workers and companies.
- Flexibility in natural gas supply contracts.
- Suspension of electricity, natural gas and petroleum derivatives bills.

On 3 April 2020, the CNMC published a Circular establishing the methodology for determining the remuneration for natural gas distribution. The methodology will be used to establish the annual remuneration over the next regulatory period, which begins on 1 January 2021 and ends on 31 December 2026. For the next regulatory period, the methodology establishes an update of the current model based on the companies' activities, performing a gradual adjustment during the regulatory period. The Circular also contains a provision establishing that the CNMC will conduct an assessment of the remuneration model before the end of the regulatory period in order to check whether companies are receiving an appropriate return in the terms established by Law 18/2014.

On 15 April 2020, the CNMC published its Resolution of 3 April 2020 establishing the detailed procedure for developing the market mechanisms for assigning gas system capacity.

On 28 April 2020, the CNMC published a Decision to issue a Report on the proposed decision by the Directorate-General of Energy Policy and Mines authorising Naturgy Generación, S.L.U. to close units 1 and 2 of the La Robla (León) thermal power plant. The plant must be closed within 12 months from the date of the Decision.

On 30 April 2020, the Official Gazette of the Catalonia Autonomous Region published Law 5/2020, of 29 April, on tax, financial, administrative and public sector measures and the creation of the tax on facilities with an environmental impact. This Law creates a tax on facilities with an environmental impact; this tax is levied on the impact on, alteration to, or risk of deterioration of, the environment caused by the activities to which it refers, which include the production, storage or transformation of electricity and the transmission of electricity by means of the fixed components for electricity supply.

On 4 May 2020, the Ministry for the Energy Transition and Demographic Challenge opened a period of public consultation on the 2nd National Plan for Adaptation to Climate Change 2021-2030 (PNACC).

On 19 May 2020, the Cabinet referred the Draft Law on Climate Change and the Energy Transition (PLCCTE) to Parliament. This commenced the process through Parliament of a text that will constitute the regulatory and institutional framework for steadily adapting the country to the need to address climate change and will facilitate and orient the decarbonisation of the Spanish economy through 2050; this decarbonisation process must be socially fair.

On 15 June 2020, the CNMC published a Decision to issue a Report on the proposed decision by the Directorate-General of Energy Policy and Mines authorising Naturgy Generación, S.L.U. to close units 2 and 3 of the Narcea thermal power plant in the municipal of Tineo (Asturias). The closure must take place within 12 months from the date of the Decision.

Royal Decree-Law 23/2020, approving energy-related and other measures to revive the economy, was published on 24 June 2020. It sets out a battery of measures to provide a fast and orderly boost to the energy transition towards a 100%-renewable electricity system and to favour a revival of the economy in line with the European Green Deal. Among other measures, this legislation eliminates barriers to the mass deployment of renewable energy sources, defines new business models and promotes energy efficiency, sets milestones and timeframes so as to avoid speculation in the use of network access permits, creates a new auction system that provides stability to investors and allows all consumers to benefit from the savings achieved by integrating renewables into the system and allows prior years' surpluses to be injected into the system in order to guarantee liquidity and mitigate the mismatches produced by the COVID-19 crisis.

The Resolution by the Spanish Directorate-General for Energy Policy and Mines (DGPEyM) dated 23 June 2020, issuing the last resort tariff (TUR) for natural gas applicable in the third quarter of 2020, was published on 30 June 2020. The average TUR was reduced by 5.1% due to the reduction in the cost of gas.

Royal Decree-Law 26/2020, of 7 July, providing measures to revive the economy in the face of the impact of COVID-19 in the area of transport and housing, was published on 8 July. This Royal Decree-Law extended, until the end of September 2020, the prohibition on cutting off water, electricity or gas supplies from dwellings classified as first homes, and it prolonged the automatic extension of the electricity subsidy to 30 September 2020.

New regulatory developments in the international arena are as follows:

In Chile, on 30 April 2020, the Ministry of Energy issued a decree setting prices for generation and transmission, effective from 1 November 2018, and the corresponding Expansion Plans for the medium-sized systems operated by Empresa Electrica de Magallanes, S.A.

On 29 May, the CNE determined the scope of the exclusive line established in the Short Law on Distribution (Law No. 21.194), covering the transmission of electricity via distribution networks, the purchase and sale of energy and capacity for regulated end users, the use of distribution network facilities that allow the injection, withdrawal or management of electricity, the delivery of services subject to established rates and services provided using infrastructures or resources essentially necessary to provide the foregoing services, whose shared use with other services is indispensable or efficient.

As for the Mexican natural gas industry, on 12 March 2020, the energy regulator (Comisión Reguladora de Energía — CRE) issued a Decision to temporarily suspend the provisions of Decision A/024/2018 on open access and the provision of the transportation by pipeline and storage of natural gas, specifically with respect to the fees for the performance of open seasons or other mechanisms that allow the assignment of capacity. The purpose is to assess industry best practices and determine the appropriate regulatory scheme for facilitating the assignment of capacity so as to enable a secondary market to develop.

The CRE also issued decisions A/010/2020 (24 March), A/014/2020 (7 April), A/015/2020 (30 April) and A/018/2020 (29 May 2020), which suspend deadlines and legal terms in the CRE as a means of preventing and combating the spread of coronavirus COVID- 19. The deadlines were suspended from 24 March 2020 and will be re-established once the health authorities determine there is no epidemic risk in the gradual, cautious and orderly opening of the activities related to the Federal Public Administration.

As for the electricity industry, on 4 March 2020, the CRE published a "Decision whereby the Energy Regulatory Commission issues the criteria for calculating the total number of Clean Energy Certificates available to cover the total amount of the Clean Energy Obligations for each of the first two years of validity of those Obligations, and issues the Methodology for Calculating the Implicit Price of Clean Energy Certifies referred to in Transitional Provision 22 of the Energy Transition Law".

On 1 May 2020, the National Energy Control Centre (CENACE) published the "Decision to guarantee the efficiency, quality, reliability, continuity and security of the National Electricity System as a result of the declaration of the virus SARS-CoV2 (COVID-19) as an epidemic".

On 15 May 2020, the Energy Secretariat (SENER) published the "Decision to issue the policy on the reliability, security, continuity and quality of the national electricity system".

In Argentina, Law 27.541, of 21 December 2019, established a 180-day freeze on gas price increases. Necessity and Urgency Decree no. 543/2020 extended that deadline by an additional 180 calendar days based on the impossibility of advancing with the renegotiation or review of tariffs as established in Law 27.541 because of the health emergency and the imposition of preventive social lockdown measures during the COVID-19 pandemic.

As part of the measures linked to the pandemic and the resulting health emergency, Necessity and Urgency Decree no. 311/2020 prohibited service cuts for users covered by that measure for delay or non-payment of up to three consecutive or non-consecutive bills that matured after 1 March 2020. By virtue of the extension, Decree No. 543/2020 expanded the prohibition on service cuts to up to 6 unpaid bills.

At the request of the Energy Secretariat in notes NO-2020-25148550-APN-SE#MDP, NO-2020-35503828-APN-SE#MDP and NO-2020 3941272 APN-SE#MDP, the decisions resulting from the auction in February 2020 were extended until September of this year, in line with the extension established in Decree no. 543/020 to ensure normal supply of priority natural gas demand in the current year.

In June 2020, the Energy Secretariat issued a number of Decisions approving the transfers of quotas 2 through 7 of the payment for the accumulated daily differences in the terms of Article 7 of Decree no. 1.053/2018.

In Panama, the National Authority of Public Services (ASEP) issued regular decisions with partial monthly tariff updates of the Charge for the Variation in Fuel Prices (CVC) on the basis of the energy cost differential in the months of January through May 2020. Additionally, in accordance with Article 145 of the Tariff system during the period, the ASEP approved the biannual update (January-June and July-December 2020) of the tariffs in effect during the current four-year period (June 2018 to June 2022).

Additionally, Decisions AN 16.047 and 16.048 of 27 March 2020 applied a CVC equivalent to a 5% reduction in billing to customers in the months of April to May 2020 because of the national emergency resulting from COVID-19.

As a result of the National State of Emergency declared by Cabinet Decision no. 11 of 13 March 2020 due to the effect of the COVID-19 pandemic, the National Government and ASEP adopted a number of exceptional measures during the period, among which we highlight the following:

- Law 152 of 4 May 2020, suspending payment for utilities such as electricity for a period of four months, from March to June 2020, ordered that payments be prorated over a period of three years, interest free, and defines the criteria for benefiting from the moratorium.
- Decision AN 16.095, of 21 May 2020, approving transitional measures to be implemented and applied by Participants in the Wholesale Electricity Market. It empowers distributors experiencing a reduction in revenues because of the effects of the moratorium for users to reduce, in proportion, the payment of their debts to the wholesale market and transmission services in the months of March through June 2020. The balances may be deferred for 36 months, interest free, commencing in July 2020.
- Cabinet Resolutions No. 19 of 31 March 2020 and No. 31 of 13 June 2020 authorised the temporary adoption of extraordinary contributions by the Tariff Stabilisation Fund (FET), charged to the State, to mitigate the cost of billing end customers, through extraordinary discounts of 50% and 30% of their billings, depending on the defined tariff range. The extraordinary contributions will apply in the quarters from April to June and from June to September 2020.

ANNEX II: CHANGES IN CONSOLIDATION SCOPE

The main consolidation scope changes during the first half of 2020 are as follows:

Company name	Transaction category	Effective date of transaction	Voting rights acquired/derecognised (%)	Voting rights after the transaction (%)	Consolidation method after the transaction
CER's Commercial Corp (Panama)	Disposal	2 January	25.0	-	-
Eólica Tramuntana 21, S.L.	Liquidation	7 January	60.0	-	-
Eólica Tramuntana 22, S.L.	Liquidation	7 January	60.0	-	-
Eólica Tramuntana 23, S.L.	Liquidation	7 January	60.0	-	-
Gas Natural Fenosa LNG International, Ltd	Liquidation	15 January	100.0	-	-
Ghesa Ingeniería y Tecnología, S.A.	Disposal	20 January	47.9	-	-
Clover Financial and Treasury Services, DAC.	Liquidation	7 February	100.0	-	-
Lean Corporate Services, S.L.	Disposal	9 March	25.0	75.0	Full
Lean Customer Services, S.L.	Disposal	9 March	25.0	75.0	Full
Lean Grids Services, S.L.	Disposal	30 March	25.0	75.0	Full
Mataró Energía Sostenible, S.A.	Disposal	2 April	51.1	-	-
Iberafrica Power, Ltd	Disposal	3 April	100.0	-	-
Medina Partnership, S.A.U.	Disposal	30 April	50.0	50.0	Equity method
Medgaz, S.A.	Acquisition	30 April	34.1	49.0	Equity method

The main changes in the consolidation scope in 2019 were as follows:

Company name	Transaction category	Effective date of transaction	Voting rights acquired/ derecognised (%)	Voting rights after the transaction (%)	Consolidation method after the transaction
Naturgy IT, S.L.	Incorporation	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.	Reduction in stake	31 May	14.1	70.9	Full
Sistemas de Administración y Servicios, S.A. de C.V.	Reduction in stake	31 May	14.0	71.0	Full
Comercializadora Metrogas, S.A. de CV	Reduction in stake	31 May	14.1	70.9	Full
Energía y Confort Administración de Personal, S.A. de	Reduction in stake	31 May	13.5	71.5	Full
Administradora de Servicios de Energía México, S.A. de	Reduction in stake	31 May	14.1	70.9	Full
Naturgy Servicios, S.A. de C.V.	Reduction in stake	31 May	14.1	70.9	Full
CH4 Energía S.A. de C.V.	Reduction in stake	31 May	7.1	35.4	Equity method
Gas Natural Vehicular del Norte Asociación en	Reduction in stake	31 May	7.3	36.4	Equity method
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.	Disposal	31 July	100.0	-	-
Red Unión Fenosa, S.A.	Disposal	31 July	100.0	-	-
Medina Partnership, S.A.U.	Incorporation	9 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	0.0	74.0	Full
Ryan Corner Development Finco Pty Ltd	Capital increase	12 September	0.0	74.0	Full
Berrybank Development Pty, Ltd	Capital increase	12 September	0.0	74.0	Full
Ryan Corner Development Pty, Ltd	Capital increase	12 September	0.0	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.	Disposal	1 October	100.0	-	-
Los Andes Huarpes, S.A.	Liquidation	19 November	98.0	-	-
Molinos de la Rioja, S.A.	Disposal	3 December	33.3	-	-
Molinos del Cidacos, S.A.	Disposal	3 December	33.3	-	-
Desarrollo de Energías Renovables de la Rioja, S.A.	Disposal	3 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 Des. de Generación México,	Liquidation	31 December	100.0	-	-

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Naturgy

Consolidated Directors' Report as at 30 June 2020

Consolidated Directors' Report as at 30 June 2020

1. Business evolution and results

The consolidated income statement for the six-month period ended 30 June 2019 was restated due to application of IFRS 5 presenting gas distribution business in Peru and coal electricity generation in Spain as discontinued operations (see Note 2.5 and 9 of the Consolidated Interim Financial Statements as at 30 June 2020).

1.1. Executive summary

	Reported			Ordinary		
	1H 2020	**1H 2019**	**%**	**1H 2020**	**1H 2019**	**%**
Ebitda	1,870	2,176	(14.1)	2,037	2,291	(11.1)
Net income	334	592	(43.6)	490	703	(30.3)
Capex	552	699	(21.0)	-	-	-
Net borrowings (at 30/06) [1]	14,920	15,268	(2.3)	-	-	-
Free Cash Flow after minorities	1,101	1,448	(24.0)	-	-	-

1 Comparative information as at 31 December 2019.

Summary- First Half 2020 Results

The impact of the COVID-19 has been particularly acute during the second quarter of 2020 in the form of lower gas and power demand in Spain and LatAm, a more challenging scenario in International LNG and relevant foreign currencies depreciation in key LatAm regions.

First half 2020 results have also been affected by the new regulatory framework and lower remuneration in electricity distribution Spain, as well as the volume capacity step down in the EMPL, effective since February 2020.

As a result, ordinary Ebitda stood at Euros 2,037 million in First half 2020, down 11.1% vs. previous year, while ordinary Net Income reached Euros 490 million in the same period, down 30.3% vs. First half 2019.

Total capex amounted to Euros 552 million in the period, down 21.0% vs. previous year. This reduction is mainly due to the lower growth investments in Spanish gas networks as a result of months of confinement and a slowdown in renewable developments in Spain.

As of 30 June 2020, Net debt amounted to Euros 14,920 million, after the Euros 764 million used for shareholder remuneration during the period. As a result Net debt / LTM Ebitda stood at 3.5x compared to 3.3x as of 31 December 2019.

In light of the challenging operating environment, Naturgy has undertaken decisive steps to adapt the company to the current context.

Key management focus areas

Reduce the Group's risk profile

During the first half of the year, Naturgy started to take steps to derisk its business portfolio by renegotiating its gas procurement contracts based on the ordinary and extraordinary review mechanisms contemplated in such agreements. This process will ultimately result in a better alignment of the contracts with the prevailing market conditions.

Moreover, the company has also increased its available liquidity to Euros 10,006 million at the end of June, up to Euros 1,969 million vs. December 2019. This level, together with the cash generated from operations, allows the group to comfortably face its financial obligations for the foreseeable future.

Redefine and optimize operations

The first half of the year also saw an acceleration of the 2018-2022 efficiency plan. As it stands, Naturgy expects to complete its Euros 500 million efficiencies target by the end of 2020, two years ahead of its initial target. These efforts will help to partially compensate for the challenging energy scenario and the impact of the COVID-19 outbreak.

Bolster ESG commitments

Beyond the efforts undertaken to support and protect the interests of its stakeholders during the COVID-19 outbreak, detailed further on in this report, Naturgy has also taken decisive steps during the first six months of the year to further its ESG commitments.

In its recently issued New Global Environmental Policy 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 created 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.

During the first half of the year, Naturgy also continued to progress on governance matters and particularly on gender parity, appointing Lucy Chadwick and Isabel Estapé as new Board members, representing GIP and Criteria respectively.

Reinforce the team and adapt the organization

In order to kickstart the second stage of its transformation, the company is in the process of reorganizing its businesses around three strategic areas which will drive future development: Energy and Grid Management, Renewable Energy, and Retail Marketing. Together, these areas 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.

All in all, the first half results highlight some of the weaknesses in our portfolio, but also the company's agility in dealing with challenges. We believe the time is now ripe to accelerate our transformation and are taking decisive steps to move forward.

COVID-19

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.

The evolution of GDP estimates for 2020 has gradually deteriorated during the second quarter of 2020 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 -3.7%, -8.0% and -5.6% for the World, the Eurozone and the USA respectively.

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 have decreased on average by 8.5% and 9.7% respectively during the first half the year when compared to previous year. Similarly, electricity and gas demand across the Latin American regions where the Group operates have experienced a decrease on average of -3.7% and -13.9% respectively, during the first half of the year compared to the previous year.

Furthermore, and since the appearance of the COVID-19, LatAm currencies have significantly depreciated against Euro and its evolution from here remains uncertain. This has had a negative effect of Euros 87 million and Euros 23 million on the consolidated Group ordinary Ebitda and Net Income respectively during the period and compared to the previous year.

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 34% and 53% respectively during First half 2020 vs. First half 2019) as well as a decrease in wholesale electricity prices (Spanish pool has decreased by 44% on average during the first half of the year compared to the average of First half 2019).

COVID-19 company initiatives

Naturgy has proactively taken a number of key measures to address and mitigate the impacts of the COVID-19 on its operations and performance, as well as to support and protect the interests of all its stakeholders.

On 25 February, 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 wellbeing 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. More recently, a comprehensive roadmap for a gradual and safe return to work premises has been established by the company.

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 during in the second quarter of the year.

During these uncertain times, Naturgy has also focused on reinforcing liquidity and optimizing its financial liabilities.

These efforts have translated into Euros 10,006 million available liquidity including cash and equivalents and committed undrawn credit lines as at the end of First half 2020. Since the beginning of the year liquidity has been indeed reinforced in Euros 1,969 million. Furthermore, the Group has a comfortable debt maturity profile and balance sheet position, in addition to capex and opex flexibility to navigate the current environment. Additionally, the group subsidiaries have continued to increase their autonomy and self-funding, having issued debt on a subsidiary level to replace intra-group funding as planned.

Naturgy remains committed to shareholder remuneration and its dividend policy. During the second quarter of 2020 and following the approval of its 2019 Annual Shareholders' Meeting (AGM), the company completed the payment, on 3rd of June 2020, of its 2019 total dividend commitment amounting to Euros 1.37 per share (5% higher than in 2018). Naturgy has also approved the first 2020 interim dividend of Euros 0.31 per share expected to be paid on 29 July.

At the end of the first quarter of 2020, the company agreed to temporarily suspend its share buy-back programme until there was greater visibility about how long the crisis caused by COVID-19 would last and how serious it would be. In relation to this, the Board of Directors of Naturgy Energy Group, S.A. held on 21 July 2020 has approved the amortization of 14,508,345 shares, with a nominal value of Euro 1 each.

1.2. Key comparability factors and non-ordinary items

Perimeter changes

As of 30 June 2020, the coal generation in Spain and gas distribution activities in Peru have been restated as discontinued operations, with a contribution of Euros -35 million and Euros -12 million respectively. These activities would have contributed Euros -47 million and Euros -1 million respectively to ordinary Ebitda in First half 2020, if not reclassified.

The main transactions completed in 2020 with an impact in comparability in the First half 2020 vs. First half 2019 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 from the CNMC for the acquisition of the 34.05% stake in Medgaz, Naturgy decided to exercise 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 has been completed.

- On April 2020 Naturgy completed the sale of Iberafrica Power in Kenya.

The main transactions completed in 2019 with an impact in comparability in the First half 2020 vs. First half 2019 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. The contribution of this asset to First half 2019 results was not material.

- On July 2019, CGE, Naturgy's subsidiary in Chile, completed an asset swap in Argentina, whereby CGE will now control and consolidate 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 disposal of Transemel, an electricity transmission subsidiary in Chile, was completed.

Non-ordinary items

The non-ordinary items are summarized below:

Euros million	**Ebitda**		**Net income**	
	1H 2020	**1H 2019**	**1H 2020**	**1H 2019**
Restructuring costs	(168)	(98)	(123)	(72)
Asset write-down	-	-	-	(20)
CNMC CGT fine	-	(20)	-	(20)
Sales of land and buildings	1	3	1	2
Interest in companies sales	-	-	13	20
Discontinued operations	-	-	(47)	(21)
Total	**(167)**	**(115)**	**(156)**	**(111)**

- At the Ebitda level, non-ordinary impacts in First half 2020 amounted to Euros -167 million, corresponding mostly to restructuring costs derived from the implementation of the efficiency plan.

- At the Net Income level, non-ordinary items in First half 2020 amounted to Euros -156 million. In addition to the restructuring costs previously mentioned, there has been an impact of Euros -47 million in discontinued operations, as well as net capital gains of Euros 14 million, mainly coming from the sale of Ghesa, a partially owned engineering company (Euros 13 million).

Foreign exchange impact

Exchange rate fluctuations in the period are summarized as follows:

	FX Accumulated Average 1H20	% Change	Ebitda	Net income
USD/€	1.10	-2.7%	8	4
MXN/€	23.66	9.3%	(10)	(3)
BRL/€	5.38	24.0%	(26)	(6)
ARS[1]/€	78.79	62.2%	(27)	(14)
CLP/€	894.37	17.3%	(32)	(4)
Others	-	-	-	-
Total			**(87)**	**(23)**

[1] Exchange rate as at 30 June 2020 as a consequence of considering Argentina as an hyperinflationary economy

1.3. Consolidated results

	reported			ordinary		
	1H 2020	1H 2019	% 2020 /2019	1H 2020	1H 2019	% 2020 /2019
Net Sales	8,781	11,589	(24.2)	8,781	11,589	(24.2)
Ebitda	**1,870**	**2,176**	**(14.1)**	**2,037**	**2,291**	**(11.1)**
Depreciation, amortisation and impairment expenses	(789)	(792)	(0.4)	(789)	(772)	2.2
Impairment of credit losses	(101)	(62)	62.9	(101)	(62)	62.9
Other results	15	20	(25.0)	-	-	-
EBIT	**995**	**1,342**	**(25.9)**	**1,147**	**1,457**	**(21.3)**
Financial result	(279)	(331)	(15.7)	(279)	(331)	(15.7)
Profit/(loss) of companies measured under the equity method	3	38	(92.1)	3	38	(92.1)
Income tax	(165)	(227)	(27.3)	(201)	(247)	(18.6)
Income from discontinued operations	(47)	(21)	-	-	-	-
Non-controlling interest	(173)	(209)	(17.2)	(180)	(214)	(15.9)
Net Income	**334**	**592**	**(43.6)**	**490**	**703**	**(30.3)**

Net sales totaled Euros 8,781 million in First half 2020, 24.2% below First half 2019, mainly as a result of lower energy demand caused by the COVID-19 outbreak, notably during 2Q20, as well as lower energy prices in the period compared to First half 2019. Furthermore, macro uncertainty caused by COVID-19 has had a negative impact on the evolution of LatAm currencies as shown in the table above.

Ebitda

As a result of the above, Consolidated ordinary Ebitda in the period reached Euros 2,037 million, a 11.1% decrease vs. First half 2019, with liberalized activities and Infra South LatAm most impacted. Additionally, the already expected lower contribution from EMPL, the new regulatory framework in Spanish electricity distribution, and the lower demand in gas distribution Spain due to COVID-19, have all weighed during the period.

Compared Ebitda by business is as follows:

	Reportado			Ordinario		
	2020	2019	Variación (%)	2020	2019	Variación (%)
Gas & Power	547	665	(17.7)	599	708	(15.4)
Infraestructure EMEA	822	919	(10.6)	895	970	(7.7)
Infraestructure LatAm South	371	449	(17.4)	377	450	(16.2)
Infraestructure LatAm North	189	189	-	191	190	0.5
Rest	(59)	(46)	28.3	(25)	(27)	(7.4)
Total	**1,870**	**2,176**	**(14.1)**	**2,037**	**2,291**	**(11.1)**

EBIT

The depreciation, amortisation and impairment expenses at 30 june 2020 amounted Euros 789 million (Euros 792 million as at 30 June 2019).

Impairment of credit losses amounted Euros 101 million through the Euros 62 million of the previuos year, an increase of 62.9%.

EBIT of the first semester of 2020 amounted to Euros 995 million.

Financial result

Euros million	2020	2019	Variation (%)
Cost of net financial debt	(285)	(306)	(6.9)
Other financial expenses/income	6	(25)	-
Financial result	**(279)**	**(331)**	**(15.7)**

The financial result amounted to Euros -279 million, down 15.7%. This reduction is mainly explained by the continued debt optimization efforts and liability management exercises carried out in the period. As a result, average cost of gross financial debt (cost of IFRS16 debt not included) for First half 2020 improved to 2.8% vs. 3.2% in First half 2019, 81% of gross debt is at fixed rates.

Equity-accounted affiliates

Equity-accounted affiliates contributed Euros 3 million in 2020 mostly as a result of the holding in Ecoelectrica (Euros 18 million), CGE subgroup affiliates (Euros 5 million) and the Medgaz entry (Euros 3 million) matched by the negative result of UF GAS (Euros -22 million).

Income tax

The effective tax rate as of 30 June 2020, based on the best estimate for the full year, stood at 23.0%, slightly higher than in First half 2019 (21.6%).

Income from discontinued operations

Contribution from discontinued operations stood at Euros -47 million in First half 2020 following the restatement of gas distribution activities in Peru (Euros -12 million) and coal generation in Spain (Euros -35 million).

Non-controlling interest

The non-controlling interest breakdown is as follows:

	2020	2019	Variation (%)
EMPL	(21)	(30)	(30.0)
Nedgia	(31)	(38)	(18.4)
Other interest	(91)	(111)	(18.0)
Other equity instruments	(30)	(30)	-
Total	**(173)**	**(209)**	**(17.2)**

The decrease in EMPL and Nedgia follows 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 basically the accrued interest on perpetual subordinated notes (hybrids).

Net income

Net ordinary income in the first half of 2020 amounted to Euros 490 million, down 30.3% previous year.

1.4. Analysis of results by segment

1.4.1. Gas & Power

Ebitda	Reported			Ordinary		
	2020	2019	Variation (%)	2020	2019	Variation (%)
Supply of gas, electricity and services	127	198	(35.9)	164	217	(24.4)
International LNG	90	158	(43.0)	92	159	(42.1)
Generation Europe	178	145	22.8	190	167	13.8
Generation International	152	164	(7.3)	153	165	(7.3)
Total	**547**	**665**	**(17.7)**	**599**	**708**	**(15.4)**

Ordinary Ebitda declined 15.4% during the period, driven by lower demand and energy prices. In particular, Gas, Power & services sales were affected by lower gas prices and demand compared to the previous year, while International LNG's performance was impacted by the challenging energy scenario and a temporary increase of shorter term sales due to ongoing contract renegotiations. Europe power generation grew supported by the higher contribution from renewable assets, while International power generation has remained relatively stable despite lower excess sales in the merchant segment.

1.4.1.1. Supply of gas, electricity and services

Results

	2020	2019	%
Net sales	4,254	6,058	(29.8)
Procurement	(3,947)	(5,661)	(30.3)
Gross margin	**307**	**397**	**(22.7)**
Other revenues	9	13	(30.8)
Net personnel expenses	(85)	(71)	19.7
Taxes	(13)	(31)	(58.1)
Other expenses	(91)	(110)	(17.3)
Ebitda	**127**	**198**	**(35.9)**
Depreciation, amortisation and operating provisions	(84)	(74)	13.5
Operating income	**43**	**124**	**(65.3)**

Ordinary Ebitda reached Euros 164 million in First half 2020, 24.4% lower than in First half 2019. Lower gas sales and margins in all segments, affected by the state of alarm and a very depressed gas price environment, were only partially compensated by higher margins in power supply on the back of lower pool prices, as well as by operational improvements.

Main aggregates

The main aggregates in the supply activity are as follows:

	2020	2019	%
Gas sales (GWh)	**88.654**	**116.130**	**(23,7)**
Industrial clients	60.076	73.003	(17,7)
Residential Spain	12.926	15.460	(16,4)
Electricity	8.263	8.345	(1,0)
Third parties	7.389	19.323	(61,8)
Electricity sales (Gwh)	**11.506**	**12.750**	**(9,8)**
Liberalized market	8.956	10.256	(12,7)
VPSC (Voluntary Price for Small Consumers)	2.551	2.494	2,2
Residential contracts (Spain) (thousands, a 30/06)	**10.861**	**11.227**	**(3,3)**
Gas	3.919	4.082	(4,0)
Electricity	4.125	4.342	(5,0)
Services	2.817	2.803	0,5
Number contracts per client	**1,55**	**1,53**	**0,0 pp**
Market share of gas contracts (Spain)	**49,3**	**52,8**	**(3,4 pp)**

Gas sales declined by 23.7% in First half 2020, notably in sales to third parties and industrial clients (-61.8% and -17.7% respectively) impacted the COVID-19 scenario; retail sales fell as well (-16.4%) amid mild climate conditions compared to First half 2019.

Power sales fell by 9.8% in First half 2020 as a result of lower sales in the liberalized market (-12.7%), following our strategy to focus on margins and reduce fixed-price selling contracts to match our infra-marginal production. VPSC sales increased by 2.2%.

1.4.1.2. International LNG

Results

	2020	2019	%
Net sales	1,250	1,553	(19.5)
Procurement	(1,143)	(1,377)	(17.0)
Gross margin	**107**	**176**	**(39.2)**
Other revenues	1	1	-
Net personnel expenses	(13)	(12)	8.3
Taxes	-	-	-
Other expenses	(5)	(7)	(28.6)
Ebitda	**90**	**158**	**(43.0)**
Depreciation, amortisation and operating provisions	(65)	(60)	8.3
Operating income	**25**	**98**	**(74.5)**

Ordinary Ebitda reached Euros 92 million, down 42.1% vs. First half 2019, as a result of a challenging scenario which was exacerbated by a temporary increase of procurement volumes due to ongoing contract renegotiations.

Main aggregates

	2020	2019	%
Gas sales (GWh)	63,239	60,556	4.4
Shipping fleet capacity (m^3)	1,641,641	1,811,741	(9.4)

As of 30 June 2020, contracted sales for 2020 and 2021/2022 stand at 98% and 79% respectively.

Naturgy is renegotiating its gas procurement contracts based on the ordinary and extraordinary review mechanisms contemplated in such agreements, to better align its procurement costs with the prevailing market conditions.

1.4.1.3. Generation Europe

Includes power generation in Spain, also conventional and renewable.

Results

	2020	2019	%
Net sales	692	789	(12.3)
Procurement	(284)	(410)	(30.7)
Gross margin	**408**	**379**	**7.7**
Other revenues	8	4	100.0
Net personnel expenses	(62)	(52)	19.2
Taxes	(105)	(92)	14.1
Other expenses	(71)	(94)	(24.5)
Ebitda	**178**	**145**	**22.8**
Depreciation, amortisation and operating provisions	(156)	(138)	(13.0)
Operating income	**22**	**7**	**-**

First half 2020 Ordinary Ebitda amounted to Euros 190 million, up 13.8% vs. First half 2019 on the back of higher renewable installed capacity and renewable and hydro production, together with CCGTs margin improvement on ancillary markets and lower procurement costs. These where offset by higher generation taxes and lower nuclear production.

Main aggregates

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

Market prices

	2020	2019	%
Forward Price (€/MWh)[1]	42.9	55.2	(22.3)
Pool Price (€/MWh)[2]	29.0	51.8	(44.0)

[1] Monthly average of the 12-month forward Spanish base prices in the Iberian Energy Derivatives Exchange (OMIP) in the period.
[2] Average price in the daily power generation market.

Installed capacity

	2020	2019	%
Installed capacity (MW):	13,783	13,069	5.5
Generation	11,748	11,751	-
Hydroelectric	1,951	1,954	(0.2)
Nuclear	604	604	-
Coal (1)	1,766	1,766	-
CCGTs	7,427	7,427	-
Renewable and cogeneration output	2,036	1,318	54.5
Wind	1,625	1,051	54.5
Small hydroelectric	111	109	1.3
Cogeneration and other	301	158	90.9

(1) Considered as discontinued operations.

Electric energy produced and Electricity sales

	2020	2019	%
Electric energy produced (GWh)	12,184	12,417	(1.9)
Generation	9,975	10,975	(9.1)
Hydroelectric	1,983	1,325	49.7
Nuclear	1,921	2,204	(12.8)
Coal [(1)]	958	654	46.4
CCGTs	5,114	6,792	(24.7)
Renewable and cogeneration output	2,208	1,442	53.1
Wind	1,583	1,049	51.0
Small hydroelectric	305	296	3.0
Cogeneration and other	320	97	227.9
Market share of generation	16.4	16.4	(0.1) pp

[(1)] Considered as discontinued operations.

Total production decreased by 1.9%, although unevenly split: renewable and hydro production increased 53.1% and 49.7% respectively, while CCGT and nuclear production decreased by 24.7% and 12.8%, the latter affected by maintenance programmed shutdowns. The coal production increase (+46.4%) is explained by the burning of the remaining coal inventory, prior to the final shutdown of operations.

Pool prices decreased 44.0% vs. First half 2019, averaging Euros 29.0/MWh in the period, as a result of higher hydro and renewable production, and lower gas prices.

Naturgy continued to increase its exposure to renewables. As such, installed capacity as of 30 June 2020 reached 2,036 MW, a 54.5% increase over First half 2019.

1.4.1.4. Generation International (GPG)

Results

	2020	2019	%
Net sales	348	456	(23.7)
Procurement	(153)	(242)	(36.8)
Gross margin	**195**	**214**	**(8.9)**
Other revenues	-	2	(100.0)
Net personnel expenses	(16)	(19)	(15.8)
Taxes	(2)	(2)	-
Other expenses	(25)	(31)	(19.4)
Ebitda	**152**	**164**	**(7.3)**
Depreciation, amortisation and operating provisions	(55)	(59)	(6.8)
Operating income	**97**	**105**	**(7.6)**

Ordinary Ebitda in the period reached Euros 153 million, down 7.3% vs. First half 2019. Cost efficiencies and higher margins in PPA sales were offset by lower merchant activity in the Dominican Republic and Mexico on top of lower demand and prices linked to COVID-19.

The breakdown of the Ebitda by country is as follows:

	2020	2019	Change (%)	FX	Adjusted change (%)
Mexico	131	127	3.1	2	1.6
Rest	21	37	(43.2)	(2)	(37.8)
Total	**152**	**164**	**(7.3)**	**-**	**(7.3)**

Main aggregates

Installed capacity

	2020	2019	%
Installed capacity (MW)	**3,202**	**3,169**	**1.0**
Mexico (CCGT)	2,398	2,365	1.4
Mexico (wind)	234	234	-
Brazil (solar)	153	153	-
Costa Rica (hydroelectric)	101	101	-
Panama (hydroelectric)	22	22	0.3
Dominican Republic (oil-fired)	198	198	-
Australia (wind)	96	96	-

Electric energy produced and availability factor

	2020	2019	%
Electric energy produced (GWh)	**7,670**	**9,160**	**(16.3)**
Mexico (CCGT)	6,596	7,796	(15.4)
Mexico (wind)	398	336	18.4
Brazil (solar)	132	138	(4.1)
Costa Rica (hydroelectric)	148	137	7.7
Panama (hydroelectric)	34	23	48.9
Dominican Republic (oil-fired)	228	610	(62.7)
Australia (wind)	135	120	12.7
Availability factor (%)			
Mexico (CCGT)	98.2	93.1	5.1 pp
Costa Rica (hydroelectric)	99.4	98.0	1.3 pp
Panama (hydroelectric)	95.7	83.2	12.5 pp
Dominican Republic (oil-fired)	88.2	90.6	(2.4) pp

1.4.2. Infrastructure EMEA

	Reported			Ordinary		
Ebitda	**2020**	**2019**	**Variation (%)**	**2020**	**2019**	**Variation (%)**
Gas Distribution Spain	402	443	(9.3)	442	469	(5.8)
Electricity Distribution Spain	295	322	(8.4)	328	347	(5.5)
Infrastructure Magreb	125	154	(18.8)	125	154	(18.8)
Total	**822**	**919**	**(10.6)**	**895**	**970**	**(7.7)**

Ordinary Ebitda reached Euros 895 million (-7.7%) in First half 2020, mainly as a result of (i) lower volumes in gas distribution due to the COVID-19, notably in the industrial segment, (ii) the lower regulated revenues in electricity distribution under the new regulatory framework starting in 2020, and (iii) the already expected lower contribution from the EMPL following the capacity step-down.

1.4.2.1. Gas distribution Spain

Results

	2020	2019	%
Net sales	569	615	(7.5)
Procurement	(39)	(41)	(4.9)
Gross margin	**530**	**574**	**(7.7)**
Other revenues	18	20	(10.0)
Net personnel expenses	(73)	(61)	19.7
Taxes	(13)	(16)	(18.8)
Other expenses	(60)	(74)	(18.9)
Ebitda	**402**	**443**	**(9.3)**
Depreciation, amortisation and operating provisions	(149)	(149)	-
Operating income	**253**	**294**	**(13.9)**

Ordinary Ebitda reached Euros 442 million, down 5.8% vs. First half 2019. Lower sales during the period due to the impact of the COVID-19 in the industrial segment as well as mild weather on the retail segment were only partially compensated by efficiencies.

Main aggregates

	2020	2019	%
Sales – TPA (GWh)	93,247	107,446	(13.2)
Distribution network (km)	56,779	56,766	-
Increase in connection points (thousand)	(2)	(7)	(72.3)
Connection points (thousand) (at 30/06)	5,404	5,396	0.1

Total gas sales (excluding LPG) decreased by 13.2%, while connection points remained stable (+0.1%) vs. First half 2019.

1.4.2.2. Electricity distribution Spain

Results

	2020	2019	%
Net sales	413	435	(5.1)
Procurement	-	-	-
Gross margin	**413**	**435**	**(5.1)**
Other revenues	9	8	12.5
Net personnel expenses	(61)	(60)	1.7
Taxes	(14)	(15)	(6.7)
Other expenses	(52)	(46)	13.0
Ebitda	**295**	**322**	**(8.4)**
Depreciation, amortisation and operating provisions	(122)	(120)	1.7
Operating income	**173**	**202**	**(14.4)**

First half 2020 Ordinary Ebitda amounted to Euros 328 million, a 5.5% decrease vs. First half 2019 primarily due to the lower financial remuneration approved in the new regulatory period.

Main aggregates

	2020	2019	%
Sales – TPA (GWh)	14,146	15,704	(9.9)
Connection points (thousand) (at 30/06)	3,765	3,750	0.4
Opex/km (€/km)	1,460	1,585	(7.9)
ICEIT (minutes)	18	17	5.9

Unitary opex per km of installed network continue to improve, decreasing 7.9% during the period to 1,460 €/km.

1.4.2.3. Infrastructure Magreb

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

Results

	2020	2019	%
Net sales	137	165	(17.0)
Procurement	-	-	-
Gross margin	**137**	**165**	**(17.0)**
Other revenues	-	-	-
Net personnel expenses	(3)	(3)	-
Taxes	-	-	-
Other expenses	(9)	(8)	12.5
Ebitda	**125**	**154**	**(18.8)**
Depreciation, amortisation and operating provisions	(28)	(16)	75.0
Operating income	**97**	**138**	**(29.7)**

First half 2020 Ordinary Ebitda decreased by 18.8% to Euros 125 million. The decrease is mainly explained by the reduction in revenues following the lower contracted capacity after the expiration of one of the contracts. This has been partially offset by higher tariffs and FX impact (Euros 3 million).

Main aggregates

The main aggregates in international gas transportation are as follows:

	2020	2019	%
Gas transport-EMPL (GWh):	12,195	31,183	(60.9)
Portugal-Morocco	5,818	12,957	(55.1)
Spain (Naturgy)	6,377	18,226	(65.0)

1.4.3. Infrastructure Latin America South

	Reported			Ordinary		
Ebitda	**2020**	**2019**	**Variation (%)**	**2020**	**2019**	**Variation (%)**
Electricity Chile	125	163	(23.3)	129	162	(20.4)
Gas Chile	99	118	(16.1)	100	118	(15.3)
Brazil gas	105	125	(16.0)	105	126	(16.7)
Gas Argentina	29	39	(25.6)	30	39	(23.1)
Electricity Argentina	13	4	225.0	13	5	160.0
Total	**371**	**449**	**(17.4)**	**377**	**450**	**(16.2)**

Ordinary Ebitda amounted to Euros 377 million in the period, 16.2% lower than First half 2019, primarily driven by lower energy demand due to the COVID-19 and the negative FX evolution (Euros -82 million) across LatAm regions.

According to the criteria established by IAS 29 "Financial Information in Hyperinflationary Economies", the Argentine economy should be considered as hyperinflationary. As a result, potential FX differences arising from 30 June 2020 will be applied to the accumulated 2020 results, which will also be updated by inflation rates.

1.4.3.1. Electricity Chile

Results

	2020	2019	%
Net sales	1,007	1,126	(10.6)
Procurement	(779)	(846)	(7.9)
Gross margin	**228**	**280**	**(18.6)**
Other revenues	6	6	-
Net personnel expenses	(34)	(45)	(24.4)
Taxes	(3)	(3)	-
Other expenses	(72)	(75)	(4.0)
Ebitda	**125**	**163**	**(23.3)**
Depreciation, amortisation and operating provisions	(67)	(57)	17.5
Operating income	**58**	**106**	**(45.3)**

First half 2020 Ordinary Ebitda reached Euros 129 million, down 20.4% vs. First half 2019. Higher margins from tariff indexation have been offset by: i) FX impact (Euros -22 million), ii) lower sales from COVID-19 impact and perimeter changes, and iii) higher losses.

Main aggregates

The key physical aggregates in this business are as follows:

	2020	2019	%
Electricity sales (GWh):	7,682	7,774	(1.2)
Electricity sales	5,512	5,874	(6.2)
TPA	2,171	1,900	14.2
Connection points (thousand) (at 30/06)	3,033	2,965	2.3
Electricity transmitted (GWh)	6,348	7,210	(12.0)
Transmission network (km, at 30/06)	3,656	3,528	3.6

At the operating level, the business experienced growth in connection points (+2.3%). On the flipside, electricity distribution sales decreased by 1.2%, while sales from the transmission activity decreased by 12.0%, after divesting Transemel.

1.4.3.2. Gas Chile

Includes the activities of gas distribution and supply.

Results

	2020	2019	%
Net sales	256	402	(36.3)
Procurement	(127)	(247)	(48.6)
Gross margin	**129**	**155**	**(16.8)**
Other revenues	1	1	-
Net personnel expenses	(12)	(14)	(14.3)
Taxes	(1)	(1)	-
Other expenses	(18)	(23)	(21.7)
Ebitda	**99**	**118**	**(16.1)**
Depreciation, amortisation and operating provisions	(32)	(31)	3.2
Operating income	**67**	**87**	**(23.0)**

Ordinary Ebitda totaled Euros 100 million, 15.3% lower than in First half 2019. The positive tariff indexation has not been sufficient to offset the impact of lower demand following COVID-19 and the negative FX impact (Euros -9 million).

Main aggregates

	2020	2019	%
Gas sales (GWh)	17,319	24,079	(28.1)
Gas distribution sales (GWh)	4,664	4,970	(6.2)
Gas commercialization sales (GWh)	1,191	4,952	(75.9)
TPA (GWh)	11,464	14,157	(19.0)
Distribution network (km)	7,851	7,680	2.2
Increase in connection points (thousand)	5	8	(37.2)
Connection points (thousand) (at 30/06)	650	635	2.4

Total gas sales decreased (-28.1%), mainly as a result of the COVID-19 impact. Connection points increased by 2.4%.

1.4.3.3. Gas distribution Brazil

Results

	2020	2019	%
Net sales	547	881	(37.9)
Procurement	(404)	(709)	(43.0)
Gross margin	**143**	**172**	**(16.9)**
Other revenues	13	11	18.2
Net personnel expenses	(11)	(14)	(21.4)
Taxes	(3)	(2)	50.0
Other expenses	(37)	(42)	(11.9)
Ebitda	**105**	**125**	**(16.0)**
Depreciation, amortisation and operating provisions	(31)	(32)	(3.1)
Operating income	**74**	**93**	**(20.4)**

Ordinary Ebitda totaled Euros 105 million, 16.7% lower than in First half 2019, following lower overall gas demand after COVID-19, and a negative FX impact of Euros -24 million; these negatives have been partially offset by tariff indexation in Rio and lower energy losses.

Main aggregates

	2020	2019	%
Gas activity sales (GWh)	27,278	31,703	(14.0)
Gas sales	17,597	28,195	(37.6)
TPA	9,681	3,508	176.0
Distribution network (km)	8,107	7,715	5.1
Increase in connection points (thousand)	6	9	(34.4)
Connection points (thousand) (at 30/06)	1,141	1,125	1.4

As stated above, overall gas sales decreased significantly (-14.0%), affected by the COVID-19, particularly in the industrial, VNG and power generation segments (down -14.1% ,-22.1% and -11.4% respectively).

Connection points grew 1.4% in the period.

1.4.3.4. Gas Argentina

Results

	2020	2019	%
Net sales	224	244	(8.2)
Procurement	(145)	(160)	(9.4)
Gross margin	**79**	**84**	**(6.0)**
Other revenues	11	16	(31.3)
Net personnel expenses	(17)	(11)	54.5
Taxes	(14)	(12)	16.7
Other expenses	(30)	(38)	(21.1)
Ebitda	**29**	**39**	**(25.6)**
Depreciation, amortisation and operating provisions	(13)	(14)	(7.1)
Operating income	**16**	**25**	**(36.0)**

First half 2020 Ordinary Ebitda amounted to Euros 30 million, down 23.1% vs First half 2019. The higher contribution to Ebitda of Gasnor has been offset by the negative FX impact (-Euros 19 million) and lower gas sales following COVID-19 impact, specially acute in the vehicle and industrial segments.

Main aggregates

The main aggregates in this area are as follows:

	2020	2019	%
Gas activity sales (GWh)	36,482	38,363	(4.9)
Gas sales	17,605	13,740	28.1
TPA	18,877	24,623	(23.3)
Distribution network (km)	38,867	26,304	47.8
Increase in connection points (thousand)	11	7	54.5
Connection points (thousand) (at 30/06)	2,240	1,672	33.9

Gas activity sales decrease 4.9% while connection points increased by 33.9% vs. First half 2019, the latter driven by a strong increase in gas connections as a consequence of the asset swap made in the last quarter of 2019.

1.4.3.5. Electricity Argentina

Results

	2020	2019	%
Net sales	61	64	(4.7)
Procurement	(29)	(42)	(31.0)
Gross margin	**32**	**22**	**45.5**
Other revenues	2	3	(33.3)
Net personnel expenses	(5)	(4)	25.0
Taxes	(7)	(8)	(12.5)
Other expenses	(9)	(9)	-
Ebitda	**13**	**4**	**225.0**
Depreciation, amortisation and operating provisions	(1)	(1)	-
Operating income	**12**	**3**	**300.0**

First half 2020 Ordinary Ebitda amounted to Euros 43 million, down 2.3% vs First half 2019 due to the higher contribution to Ebitda from April-19 electricity tariff update.

Main aggregates

The main aggregates in this area are as follows:

	2020	2019	%
Electricity sales (GWh)	951	940	1.1
Connection points (thousand) (at 30/06)	239	236	1.4

The electricity sales increased 1.1% while the connection points increased 1.4% vs First half 2019.

1.4.4. Infrastructure Latin America North

	Reported			Ordinary		
Ebitda	**2020**	**2019**	**Variation (%)**	**2020**	**2019**	**Variation (%)**
Gas distribution Mexico	119	115	3.5	120	116	3.4
Electricity distribution Panama	70	74	(5.4)	71	74	(4.1)
Total	**189**	**189**	**-**	**191**	**190**	**0.5**

First half 2020 Ordinary Ebitda amounted to Euros 191 million, in line with First half 2019, on the back of a strong first quarter and tariff updates in Mexico, later impacted by COVID-19. Panama remained stable due lower demand which was compensated by FX and lower energy losses compared to previous year.

1.4.4.1. Gas distribution Mexico

Results

	2020	2019	%
Net sales	268	333	(19.5)
Procurement	(132)	(188)	(29.8)
Gross margin	**136**	**145**	**(6.2)**
Other revenues	16	7	128.6
Net personnel expenses	(10)	(10)	0.0
Taxes	(1)	-	-
Other expenses	(22)	(27)	(18.5)
Ebitda	**119**	**115**	**3.5**
Depreciation, amortisation and operating provisions	(27)	(31)	(12.9)
Operating income	**92**	**84**	**9.5**

First half 2020 Ordinary Ebitda increased 3.4% to Euros 120 million. The positive evolution of the business was driven mainly by higher margins and tariff updates. Sales reduction in all segment lines and FX impact (Euros -9 million) hamper growth.

Main aggregates

	2020	2019	%
Gas activity sales (GWh)	21,260	29,949	(29.0)
Gas sales	10,383	11,391	(8.9)
TPA	10,877	18,558	(41.4)
Distribution network (km)	22,762	22,572	0.8
Increase in connection points (thousand)	(20)	(84)	(76.9)
Connection points (thousand) (at 30/06)	1,641	1,711	(4.1)

Connection points decreased by 4.1%, as a result of the commercial strategy aimed at improving customer profitability.

1.4.4.2. Electricity distribution Panama

Results

	2020	2019	%
Net sales	408	448	(8.9)
Procurement	(315)	(350)	(10.0)
Gross margin	**93**	**98**	**(5.1)**
Other revenues	2	1	100.0
Net personnel expenses	(4)	(4)	-
Taxes	(2)	(2)	-
Other expenses	(19)	(19)	-
Ebitda	**70**	**74**	**(5.4)**
Depreciation, amortisation and operating provisions	(32)	(23)	39.1
Operating income	**38**	**51**	**(25.5)**

First half 2020 Ordinary Ebitda amounted to Euros 71 million, down 4.1% vs. First half 2019, driven by lower demand from COVID-19 impact, and lower margins, which have been partially offset by positive FX impact (Euros 2 million).

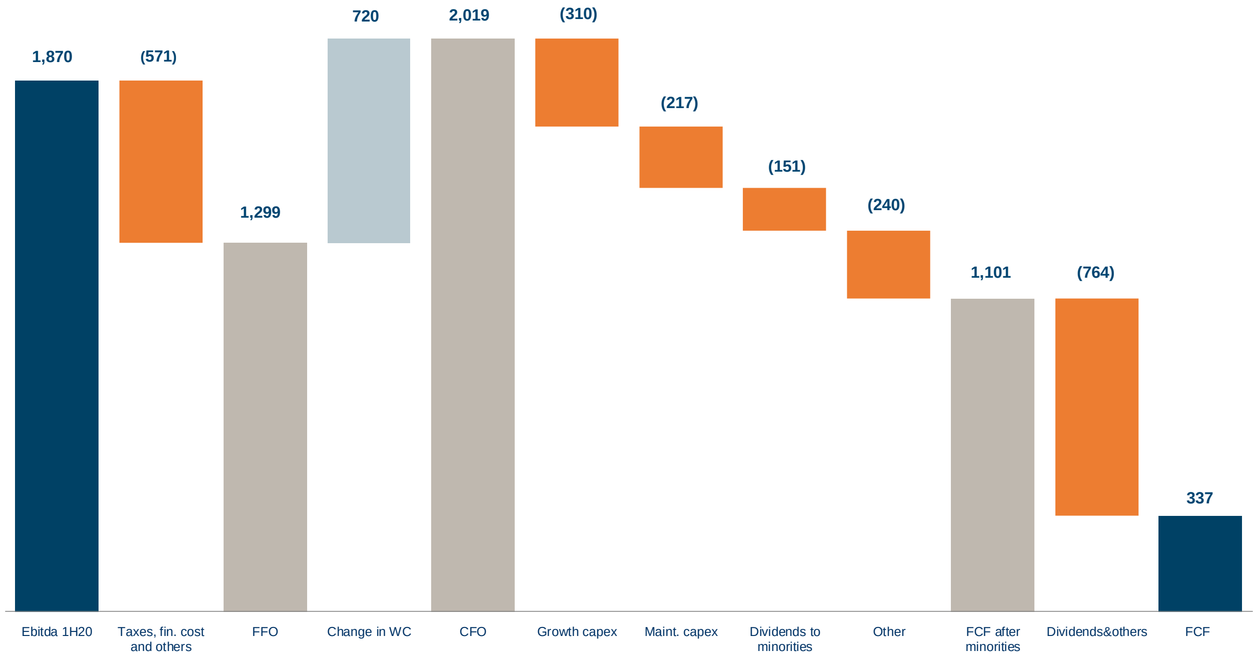
Main aggregates

	2020	2019	%
Electricity sales (GWh):	2,483	2,698	(8.0)
Electricity sales	2,139	2,458	(13.0)
TPA	344	240	43.2
Connection points (thousand) (at 30/06)	702	681	3.1

Electricity sales decreased by 8.0% and connection points grew by 3.1%.

1.5. Cash flow

The evolution of cash flow in the six-month period ended at 30 June 2020 is as follows:



Note: Capex net of cessions and contributions

First half 2020 free cash flow after minorities amounted to Euros 1,101 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 580 million) and the share buy-back program (Euros 184 million).

Capex

The breakdown of net investments by type is as follows:

	2020	2019	%
Investments in property, plant and equipment and intangible assets (Capex)	552	699	(21.0)
Other investment receipts/(payments)	(25)	(27)	(7.4)
Total net investments (Net Capex)	**527**	**672**	**(21.6)**

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

	Growth Capex			Maintenence Capex			Capex		
	2020	2019	% 2020/ 2019	2020	2019	% 2020/ 2019	2020	2019	% 2020/ 2019
Gas & Electricity	**186**	**270**	**(31.1)**	**42**	**66**	**(36.4)**	**228**	**336**	**(32.1)**
Supply of gas, electricity and services	13	19	**(31.6)**	5	2	**150.0**	18	21	**(14.3)**
International LNG	3	-	**-**	1	2	**(50.0)**	4	2	**100.0**
Generation Europe	35	219	**(84.0)**	26	31	**(16.1)**	61	250	**(75.6)**
International generation	135	32	**321.9**	10	31	**(67.7)**	145	63	**130.2**
Infrastructure EMEA	**47**	**97**	**(51.5)**	**67**	**74**	**(9.5)**	**114**	**171**	**(33.3)**
Gas distribution Spain	20	71	**(71.8)**	14	13	**7.7**	34	84	**(59.5)**
Electricity distribution Spain	27	26	**3.8**	53	60	**(11.7)**	80	86	**(7.0)**
EMPL	-	-	**-**	-	-	**-**	-	1	**(100.0)**
Infrastructure LatAm South	**71**	**67**	**6.0**	**58**	**56**	**3.6**	**129**	**123**	**4.9**
Electricity distribution Chile	40	15	**166.7**	36	30	**20.0**	76	45	**68.9**
Gas Chile	21	37	**(43.2)**	3	5	**(40.0)**	24	42	**(42.9)**
Gas distribution Brazil	6	8	**(25.0)**	11	9	**22.2**	17	17	**-**
Gas Argentina	2	4	**(50.0)**	8	12	**(33.3)**	10	16	**(37.5)**
Electricity Argentina	2	3	**(33.3)**	-	-	**-**	2	3	**(33.3)**
Gas distribution Peru	-	-	**-**	-	-	**-**	-	-	**-**
Infrastructure LatAm North	**30**	**38**	**(21.1)**	**32**	**27**	**18.5**	**62**	**65**	**(4.6)**
Gas distribution Mexico	6	14	**(57.1)**	6	4	**50.0**	12	18	**(33.3)**
Electricity distribution Panama	24	24	**-**	26	23	**13.0**	50	47	**6.4**
Remainder	**-**	**-**	**-**	**19**	**4**	**375.0**	**19**	**4**	**375.0**
Total	**334**	**472**	**(29.2)**	**218**	**227**	**(4.0)**	**552**	**699**	**(21.0)**

Maintenance capex in the first half of 2020 amounted to Euros 218 million compared to Euros 227 million in 2019, a 4.0% decrease as a consequence of optimizing investment processes.

Growth capex in the period represented over 60% of total capex and amounted to Euros 334 million in First half 2020.

Growth capex in First half 2020 includes the following:

- A total of Euros 35 million invested during the period in the construction of different renewable projects in Spain, with 63 MW put into operation in First half 2020.

- Euros 135 million invested in the development of 180 MW of wind capacity in Australia and 324 MW of wind and solar capacity in Chile that will come into operation in the following months.

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 Mubalada 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 Medgaz stake and the fulfillment of the rest of conditions, on July 2020 the transaction has been completed.

Last, 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 USD 62 million. The operation has not contributed with significant capital gains.

1.6. Financial position

Net debt as of 30 June 2020 stood at Euros 14,920 million, down Euros 348 million over the Net debt figure as of year-end 2019, after the Euros 764 million allocated to dividend payment and share buy-back. Net debt/LTM Ebitda stands at 3.5x, in line with the ratio as of 31 December 2019 (3.3x).

During First half 2020, the most relevant financing operations were the following:

- Issue of a Euros 1,000 million bond with a tenor of 5 years at a 1.25% coupon.
- 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 487 million and Euros 66 million respectively.
- Refinancing of credit lines in Spain for a total of Euros 2,310 million, and refinancing of loans and credit lines for a total equivalent of Euros 208 million and Euros 87 million respectively in the international businesses.
- Euros 150 million bond tap maturing on November 2029.

Liquity (Million euros)

Liquidity as of 30 June 2020 stood at Euros 10,006 million, including Euros 4,457 million in cash and cash equivalents and Euros 5,549 million in undrawn credit lines. In addition, the ECP program is completely undrawn as of 30 June 2020.

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

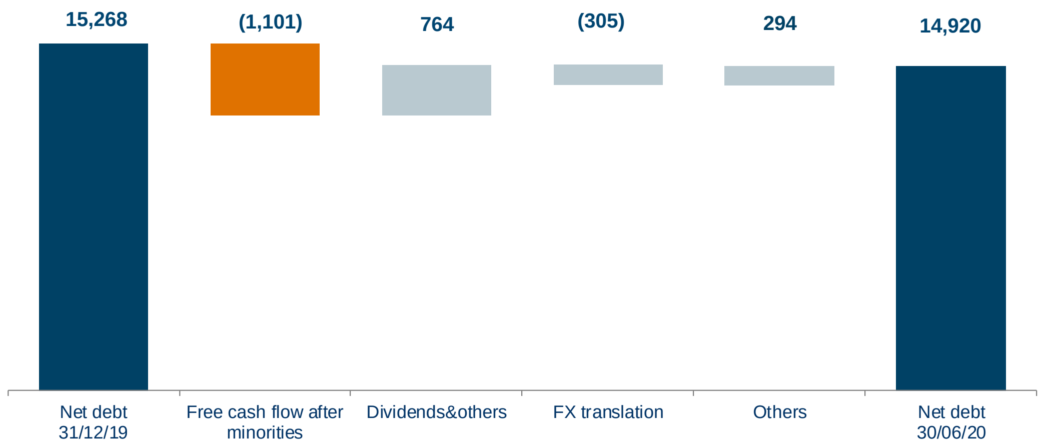
	Group		Chile		Brazil	Argentina	Mexico	Panama	Holding & others
	Jun'20	**Dic'19**	**CLP**	**USD**	**BRL**	**ARS**	**MXN**	**USD**	**EUR/USD**
Cash and cash equivalents	4,457	2,685	400	66	149	58	117	110	3,557
Undrawn committed credit lines	5,549	5,352	-	-	23	-	31	-	5,495
Total	**10,006**	**8,037**	**400**	**66**	**172**	**58**	**148**	**110**	**9,052**

Weighted average maturity of the undrawn credit lines stands over 2 years, according to the following detail:

	2020	2021	2022	2023	2024	siguientes
Undrawn committed credit lines	39	50	2.861	2,194	294	111

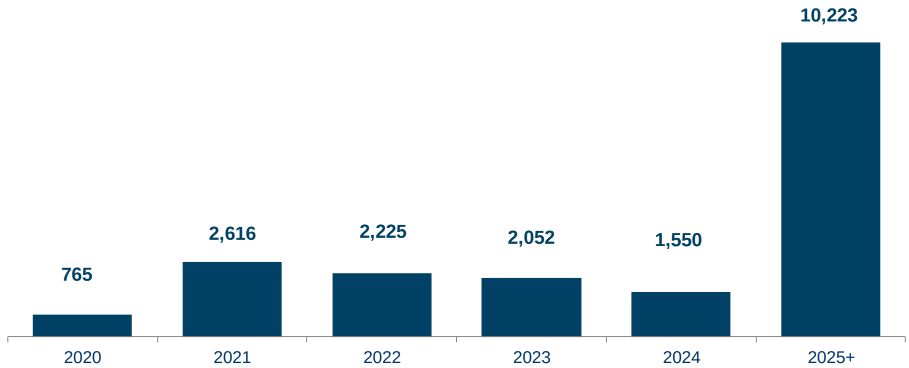
Net debt evolution (Million euros)

The net debt evolution from 31 december 2019 to 30 june 2020 is as follows:



Gross debt maturities

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	6.6	7.1
Net financial debt / LTM Ebitda [1]	Times	3.5	3.3

1 Comparative information at 31 December 2019.

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:

		Group		Chile		Brazil	Argentina	Peru	Mexico	Panama	Holding & others
		Jun'20	Dec'19	CLP	USD	BRL	ARS	USD	MXN	USD	EUR/USD
Net financial debt	MEuro	14,920	15,268	1,648	(10)	118	(32)	302	634	12,260	14,920
Average cost of gross debt [(1)]	%	2.8	3.2	5.1	5.3	5.0	46.9	7.8	4.3	1.8	2.8
% Fixed (Gross debt)	%	81	86	66	43	7	36	37	67	89	81

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

2. Main risks and uncertainties

2.1. Regulatory and legal risk

2.1.1. Regulatory 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.

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.

2.1.2. 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.

2.2. Business risk

2.2.1. 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 performed 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 repricing 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.

2.2.2. 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 not 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 anticipated 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 loss of price competitiveness by the contracts might have a temporary 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 hydroelectric 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 with the goal of correcting any deviation in the most cost-effective way possible.

2.2.3. 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 loss of competitive and market share until such time as those prices are realigned or the negotiation or 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, 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.

2.2.4. Climate change and energetic transition

In addition to the gas and electricity volume risks referred to in section 2.2.2, there is also the effect of climate change. Demand for electricity and natural gas is linked to the climate. 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 CO_2 emissions.

2.3. <u>Operational risk</u>

2.3.1. Insurable risks

Naturgy's activities are exposed to various operational risk 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 to Naturgy facilities or properties or destruction of same.

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 program 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 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.

2.3.2. Cybersecurity

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 data or customer information, 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.

2.3.3. Image and reputation

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 Strategic 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 approved in the first half of 2019, 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 axes 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

2.3.4. Environment

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

2.4. Macroeconomic risk and country risk

2.4.1. 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.

Currently, 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.

2.4.2 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 and
  - Political and macroeconomic instability.
  -

- Middle East and Maghreb

  Naturgy has both company-owned assets and major gas procurement contracts in several countries of the Maghreb and the Middle East, particularly Egypt. Political instability in the zone may result in physical damage to the assets of Naturgy's investee companies or the obstruction of the operations of those or other companies, interrupting the Group's gas supply.

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

2.5. Financial risk

Financial risk (interest rate, exchange rate, credit, liquidity and price risk of commodities and related financial instruments) is expanded upon in Note 19 to the Consolidated Financial Statements for 2019 and in Note 3 to the Interim Consolidated Financial Statements as of 30 June 2020.

2.6. Main opportunities

Naturgy's main opportunities are as follows:

- **Renewable generation**: Increase renewable capacity internationally, given that renewable energies are cost-competitive and considering Naturgy's presence in growth markets.

- **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 by optimising for different energy scenarios guaranteeing supply and making it possible to seize any opportunities for arbitrage that arise. Naturgy is one of the world's leading LNG operators and a key player in the Atlantic and Mediterranean.

- 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 new business opportunities in new markets.

- **Technological development and innovation:** Naturgy focuses on research, development and innovation as a means of generating a reliable, sustainable energy supply.

3. Subsequent events

Events after the closing date, i.e. 30 June 2020, are described in Note 23 to the condensed interim consolidated financial statements.

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Glossary of terms

Naturgy's' financial disclosures contain magnitudes and metrics drafted in accordance with International Financial Reporting Standards (IFRS) and others that are based on the Group's disclosure model, referred to as Alternative Performance Metrics (APM), which are viewed as adjusted figures with respect to those presented in accordance with IFRS.

The chosen APMs are useful for persons consulting the financial information as they allow an analysis of the financial performance, cash flows and financial situation of Naturgy, and a comparison with other companies.

Below is a glossary of terms with the definition of the APMs. Generally, the APM terms are directly traceable to the relevant items of the interim consolidated balance sheet, interim consolidated income statement, interim consolidated statement of cash flows or notes to the interim financial statements of Naturgy. Terms which cannot be directly cross-referenced are reconciled in the Glossary below.

Alternative Performance Metrics	Definition and terms	Reconciliation of values at 30.06.2020	Reconciliation of values at 30.06.2019 (*)	Relevance
Ebitda	"Operating profit"(2)	Euros 1,870 million	Euros 2,176 million	Measure of earnings before interest, taxes, depreciation and amortisation and provisions
Ordinary Ebitda	Ebitda - Non-ordinary items (7)	2,037 = Euros 1,870 million + 167	2,291 = Euros 2,176 million + 115	Ebitda corrected of impacts like restructuring costs and other non-ordinary items considered relevant for a better understanding of the underlying results of the Group.
Ordinary Net income	Attributable net income of the period (2)– Non-ordinary items(7)	Euros 490 million = 334 + 156	Euros 703 million = 592 + 111	Attributable Net Income corrected of impacts like assets write-down, discontinued operations, restructuring costs and other non-ordinary items considered relevant for a better understanding of the underlying results of the Group.
Investments (CAPEX)	Investments in intangible assets (4) + Investments in property, plant & equipment (4)	Euros 552 million = 61 + 491	Euros 699 million = 69 + 630	Realised investments in property, plant & equipment and intangible assets.
Net Investments (Net CAPEX)	CAPEX (5) + Other charges and payments from investments activities (3)	Euros 527 million = 552 -25	Euros 672 million = 699 -27	Total investments (CAPEX) net of the cash received from other investing receipts (cessions and contributions).
Gross financial debt	"Non-current financial liabilities"(1) + "Current financial liabilities"(1)	Euros 19,431 million = 17,102 + 2,329	Euros 17,987 million = 15,701 + 2,286	Current and non-current financial debt
Net financial debt	Gross financial debt(5)– "Cash and cash equivalents"(1) – "Derivative financial assets"(4) (Note 8)	Euros 14,920 million = 19,431 - 4,457 – 54	Euros 15,268 million = 17,987 - 2,685 – 34	Current and non-current financial debt less cash and cash equivalents and derivative financial assets
Leverage (%)	Net financial debt(5) / (Net financial debt(5) + "Net equity"(1))	53,1% = 14,920 / (14,920 + 13,197)	52,2% = 15,268 / (15,268 + 13,976)	The ratio of external funds over total funds
Cost of net financial debt	"Cost of financial debt"(4) (Note 17) – "Interest revenue"(4) (Note 17)	Euros 285 million = 297 - 12	Euros 306 million = 316 - 10	Amount of expense relative to the cost of financial debt less interest revenue
Ebitda/Cost of net financial debt	Ebitda(5)/ Cost of net financial debt(5)	6.6x = 1,870 / 285	7.1x = 2,176 / 306	Ratio between Ebitda and net financial debt
Net financial debt/LTM Ebitda	Net financial debt(5) / Ebitda in the last four quarters(5)	3.5x = 14,920 / 4,298	3.3x = 15,268 / 4,562	Ratio between net financial debt and Ebitda
Free Cash Flow after minorities	Free Cash Flow (5)+ Dividends and other (4) + Acquisitions of treasury shares (4)+ Inorganic investments payments(4)	Euros 1,101 million = 337 + 580 + 184 + 0	Euros 1,448 million = 592 + 560 + 288 + 8	Cash flow generated by the Company available to pay to the shareholders (dividends or treasury shares), the payment of inorganic investments and debt payments.
Free Cash Flow	Cash flow generated from operating activities (3) + Cash flows from investing activities (3) + Cash flow generated from financing activities (3) – Receipts and payments on financial liability instruments (3)	Euros 337 million = 2,019 – 699 + 738 - 1,721	Euros 592 million = 2,456 – 859 + 172 - 1,177	Cash flow generated by the Company available to pay the debt.

(*)The consolidated income statement for the six-month period ended 30 June 2019 was restated due to application of IFRS 5 (Notes 2.5 & 9).

(1) Consolidated balance sheet line item.
(2) Consolidated income statement line item.
(3) Consolidated statement of cash flows line item.
(4) Figure detailed in the notes to the consolidated financial statements.
(5) Figure detailed in the APMs.
(6) Figure detailed in the Directors' Report.
(7) Comparative information at 31 December 2019.

8. The non-ordinary items are summarized below:

	Ebitda		Net income	
Euros million	**1H 2020**	**1H 2019**	**1H 2020**	**1H 2019**
Restructuring costs	(168)	(98)	(123)	(72)
Asset write-down	-	-	-	(20)
CNMC CGT fine	-	(20)	-	(20)
Sales of land and buildings	1	3	1	2
Interest in companies sales	-	-	13	20
Discontinued operations	-	-	(47)	(21)
Total	**(167)**	**(115)**	**(156)**	**(111)**

Limited Review Report

Naturgy Energy Group, S.A.
Interim Condensed Separate Financial Statements and
Interim Separate Management Report
for the six-month period ended
June 30, 2020

Ernst & Young, S.L.
Edificio Sarrià Forum
Avda. Sarrià, 102–106
08017 Barcelona
España

Tel: 933 663 700
Fax: 934 053 784
ey.com

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

LIMITED REVIEW REPORT ON INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS

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

Report on the interim condensed separate financial statements

Introduction

We have carried out a limited review of the accompanying interim condensed separate financial statements (hereinafter the interim financial statements) of Naturgy Energy Group S.A. (hereinafter the Company), which comprise the condensed balance sheet at June 30, 2020, the condensed income statement, the condensed statement of changes in equity, the condensed cash flow statement, and the explanatory notes thereto, for the six-month period then ended. The Company's directors are responsible for the preparation of said interim financial statements in accordance with the accounting principles and minimum content set forth in articles 12 and 13 of Royal Decree 1362/2007, and in Circular 3/2018 of the Spanish National Securities Market Commission. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

Scope of the review

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

Conclusion

During the course of our limited review, which under no circumstances can be considered an audit of accounts, no matter came to our attention which would cause us to believe that the accompanying interim financial statements for the six-month period ended June 30, 2020 have not been prepared, in all material respects, in accordance with the accounting principles and minimum content set forth in articles 12 and 13 of Royal Decree 1362/2007, and in Circular 3/2018 of the Spanish National Securities Market Commission for the preparation of interim condensed financial statements.

Emphasis of matter paragraph

We draw attention to the matter described in accompanying explanatory Note 2, which indicates that the above-mentioned accompanying interim financial statements do not include all the information that would be required for complete financial statements prepared in accordance with the applicable regulatory framework for financial information. Therefore, the accompanying interim financial statements shall be read in conjunction with the separate financial statements of Naturgy Energy Group, S.A. for the year ended December 31, 2019. Our conclusion is not modified in respect of this matter.

Report on other legal and regulatory requirements

The accompanying interim separate management report for the six-month period ended June 30, 2020 contains such explanations as the Directors consider necessary regarding significant events which occurred during this period and their effect on these interim financial statements, of which it is not an integral part, as well as on the information required in conformity with article 15 of Royal Decree 1362/2007. We have checked that the accounting information included in the above-mentioned management report agrees with the interim financial statements for the six-month period ended on June 30, 2020. Our work is limited to verifying the interim separate management report in accordance with the scope described in this paragraph, and does not include the review of information other than that obtained from the accounting records of Naturgy Energy Group, S.A.

Paragraph on other issues

This report has been prepared at the request of the Management of Naturgy Energy Group, S.A. with regard to the publication of the half yearly financial report required by article 119 of the consolidated text of the Securities Market Law enacted by Royal Decree 4/2015 of October 23.

ERNST & YOUNG, S.L.
(Signature on the original in Spanish)

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Alfredo Eguiagaray

July 22, 2020

Naturgy Energy Group, S.A.

Condensed interim accounts as at 30 June 2020

Contents **Page**

Naturgy Energy Group, S.A.
Interim balance sheet

	(million euros)	
	30/06/20	**31/12/19**
NON-CURRENT ASSETS	**32,943**	**33,257**
Intangible assets	3	3
Other intangible assets	3	3
Property, plant and equipment	114	124
Land and buildings	103	112
Other property, plant and equipment	11	12
Long-term investments in group companies and associates *(Note 4)*	32,271	32,754
Equity instruments	16,505	16,552
Loans to companies	15,766	16,202
Long-term investments *(Note 5)*	9	10
Equity instruments	5	5
Other financial assets	4	5
Other non-current assets	357	189
Deferred tax assets	189	177
CURRENT ASSETS	**4,247**	**2,708**
Trade and other receivables	834	843
Trade receivables	82	54
Trade receivables, group companies and associates	80	255
Sundry receivables	671	350
Current tax assets	--	183
Other receivables from Public Administrations	1	1
Short-term investments in group companies and associates *(Note 4)*	685	666
Loans to companies	580	527
Other financial assets	105	139
Short-term financial assets *(Note 5)*	48	24
Derivatives	21	1
Other financial assets	27	23
Short-term prepayments and accrued expenses	1	1
Cash and cash equivalents	2,679	1,174
Cash at banks and in hand	1,109	474
Other cash equivalents	1,570	700
TOTAL ASSETS	**37,190**	**35,965**

Notes 1 to 14 are an integral part of the condensed interim accounts.

Naturgy Energy Group, S.A.

Interim balance sheet

	(million euros)	
	30/06/20	**31/12/19**
EQUITY ***(Note 6)***	**19,614**	**19,853**
SHAREHOLDERS' FUNDS	**19,688**	**19,914**
Capital	984	984
Authorised capital	984	984
Share premium	3,808	3,808
Reserves	11,573	11,573
Legal and required by articles	300	300
Other reserves	11,273	11,273
Own shares and equity instruments	(299)	(121)
Profit for the year	535	4,415
Retained earnings	3,076	--
Interim dividend	--	(754)
Other equity instruments	11	9
ADJUSTMENTS FOR CHANGES IN VALUE	**(74)**	**(61)**
Hedging operations	(74)	(61)
NON-CURRENT LIABILITIES	**14,020**	**11,892**
Long-term provisions	451	459
Long-term obligations to employees	265	272
Other provisions	186	187
Long-term borrowings *(Note 7)*	2,934	1,835
Bank borrowings	2,824	1,744
Derivatives	109	90
Other financial liabilities	1	1
Long-term payable to group companies and associates *(Note 8)*	10,063	9,197
Deferred tax liabilities	216	211
Other liabilities	356	189
Long-term accruals and deferred revenues	--	1
CURRENT LIABILITIES	**3,556**	**4,220**
Short-term borrowings *(Note 7)*	254	271
Bank borrowings	235	253
Derivatives	19	16
Other financial liabilities	--	2
Short-term payable to group companies and associates *(Note 8)*	2,395	3,168
Trade and other payables	906	780
Trade payables, suppliers	65	237
Trade payables, group companies and associates	94	131
Sundry payables	671	355
Personnel (outstanding remuneration)	29	36
Current tax liabilities	29	--
Other amounts payable to Public Administrations	18	21
Short-term prepayments and accrued expenses	1	1
TOTAL EQUITY AND LIABILITIES	**37,190**	**35,965**

Notes 1 to 14 are an integral part of the condensed interim accounts.

Naturgy Energy Group, S.A.

Interim income statement **(million euros)**

	30/06/20	30/06/19
Net sales *(Note 9)*	1,129	2,234
Sales	313	1,110
Revenues from equity instruments of group companies and associates	639	918
Revenues from marketable securities and other financial instruments of group companies and associates	177	206
Procurements	(312)	(1,112)
Consumption of goods	(312)	(1,109)
Raw materials and other consumables	--	(3)
Other operating revenues	87	115
Ancillary and other operating revenues	86	115
Operating grants released to the income statement	1	--
Personnel expenses	(78)	(84)
Wages, salaries and related expenses	(69)	(70)
Social security	(6)	(10)
Provisions	(3)	(4)
Other operating expenses	(88)	(103)
External services	(88)	(103)
Depreciation and amortisation	(8)	(39)
Impairment and results on disposals of fixed assets *(Note 4)*	(48)	16
Impairment of, and losses on, equity instruments of group companies and associates	(48)	(5)
Gain/(loss) on disposals of equity interests in group companies and associates	--	21
EBIT	**682**	**1,027**
Financial revenues	4	1
Negotiable securities and other financial instruments	4	1
- Third parties	4	1
Financial expenses	(169)	(206)
Borrowings from group companies and associates	(144)	(187)
Borrowings from third parties	(25)	(19)
Variation in fair value of financial instruments	1	(7)
Trading portfolio, etc.	1	(7)
Exchange differences	(2)	--
NET FINANCIAL REVENUES/(EXPENSES)	**(166)**	**(212)**
PROFIT BEFORE TAXES	**516**	**815**
Income tax	19	23
PROFIT FOR THE YEAR	**535**	**838**
Basic and diluted earnings per share in euro	0.55	0.85

Notes 1 to 14 are an integral part of the condensed interim accounts.

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

	30/06/20	30/06/19
PROFIT FOR THE YEAR	**535**	**838**
REVENUE AND EXPENSE RECOGNISED DIRECTLY IN EQUITY	**(15)**	**(38)**
Valuation of available-for-sale financial assets	--	(1)
Cash flow hedges	(23)	(52)
Actuarial gains and losses and other adjustments	2	2
Tax effect	6	13
RELEASES TO INCOME STATEMENT	**4**	**4**
Cash flow hedges	6	5
Tax effect	(2)	(1)
TOTAL REVENUE AND EXPENSE RECOGNISED IN EQUITY	**524**	**804**

Notes 1 to 14 are an integral part of the condensed interim accounts.

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

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserves	Own shares and equity instruments	Profit or loss brought forward	Retained earnings	Profit for the year	Interim dividend	Other instruments	Adjustments for changes in value	Total
Balance at 01/01/2019	**1,001**	**3,808**	**8,009**	**(121)**	**--**	**--**	**5,282**	**(730)**	**4**	**(27)**	**17,226**
Total recognised revenues and expenses	--	--	(40)	--	--	--	4,415	--	5	(34)	**4,346**
Transactions with shareholders or owners											
- Capital reduction	(17)	--	(383)	400	--	--	--	--	--	--	**--**
- Distribution of dividends	--	--	--	--	(565)	--	--	(754)	--	--	**(1,319)**
- Transactions with own shares and equity instruments	--	--	--	(400)	--	--	--	--	--	--	**(400)**
Other changes in equity	--	--	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 revenues and expenses	--	--	--	--	--	--	535	--	2	(13)	**524**
Transactions with shareholders or owners											
- Capital reduction	--	--	--	--	--	--	--	--	--	--	--
- Distribution of dividends	--	--	--	--	(9)	--	--	(576)	--	--	**(585)**
- Transactions with own shares and equity instruments	--	--	--	(178)	--	--	--	--	--	--	**(178)**
Other changes in equity	--	--	--	--	9	3,076	(4,415)	1,330	--	--	**--**
Balance at 30/06/2020	**984**	**3,808**	**11,573**	**(299)**	**--**	**3,076**	**535**	**--**	**11**	**(74)**	**19,614**

Notes 1 to 14 are an integral part of the condensed interim accounts.

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

(million euros)	30/06/2020	30/06/2019
Profit for the year before tax	**516**	**815**
Adjustments to results	**(595)**	**(885)**
Depreciation and amortisation	8	39
Impairment adjustments	48	5
Change in provisions	--	3
Profit/(loss) on derecognitions and disposals of financial instruments	(1)	(20)
Financial revenues	(820)	(1,125)
Financial expenses	169	206
Exchange differences	--	(1)
Variation in fair value of financial instruments	(1)	7
Other revenues and expenses	2	1
Changes in working capital	**(75)**	**35**
Debtors and other receivables	(23)	173
Other current assets	--	1
Creditors and other payables	(52)	(139)
Other cash flows from operating activities	**832**	**976**
Interest paid	(240)	(252)
Dividend receipts	674	939
Interest receipts	170	215
Income tax receipts/(payments)	228	74
Cash flows from operating activities	**678**	**941**
Investment payments	**(380)**	**(343)**
Group companies and associates	(211)	(334)
Property, plant and equipment	(1)	(3)
Other financial assets	(168)	(6)
Divestment receipts	**412**	**820**
Group companies and associates	407	819
Property, plant and equipment	4	--
Other financial assets	1	1
Cash flows from investing activities	**32**	**477**
Receipts and payments on equity instruments	**(185)**	**(288)**
Acquisition of own equity instruments	(185)	(288)
Receipts and payments on financial liability instruments	**1,565**	**108**
Issuance	3,984	4,314
Bank borrowings	1,225	--
Payable to group companies and associates	2,592	4,314
Other payables	167	--
Repayment/redemption of	(2,419)	(4,206)
Bank borrowings	(166)	(155)
Payable to group companies and associates	(2,244)	(4,039)
Other payables	(9)	(12)
Dividend payments	**(585)**	**(565)**
Cash flow from financing activities	**795**	**(745)**
NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS	**1,505**	**673**
Cash and cash equivalents at the beginning of the year	1,174	722
Cash and cash equivalents at year-end	2,679	1,395

Notes 1 to 14 are an integral part of the condensed interim accounts.

Notes to the condensed interim accounts - Table of contents

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 offices are at Avda. de San Luis 77, Madrid. On 27 June 2018, the Shareholders' Meeting resolved to change the company's name to Naturgy Energy Group, S.A. (it was formerly Gas Natural SDG, S.A.).

The company's corporate purposes, as per its articles of association, comprise the following activities:

a) All types of activities related to the gas and electricity business and any other type of existing energy source, the production and selling of electrical, electro-mechanical and electronic equipment and components, planning and execution of construction projects, management of architectural, civil engineering, utilities and gas and hydrocarbon distribution works in general; management of communications, telecommunications, gas or hydrocarbon distribution networks in general, and the purchase, sale and maintenance of electrical and gas appliances; as well as business consulting and energy planning services and the rationalisation of energy use, research, development and exploitation of new technologies, communications, computing and industrial security systems; training and selection of human resources and real estate management and development.

b) The activity as a holding company, incorporating companies or holding shares as a shareholder in other companies no matter what their corporate purpose or nature, by subscribing, acquiring and holding shares, equity instruments or any other securities deriving from the same, subject to compliance with the legal requirements in each case.

The Company's main ordinary activity is the administration and management of its shareholdings in subsidiaries. It also has contracts to supply gas to other Naturgy companies and, in the electricity area, it acted as representative of the Naturgy generation and supply companies vis-à-vis 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 index.

Note 2. Basis of presentation and main risks and uncertainties

2.1. Basis of presentation

The annual accounts for 2019 were adopted by the Shareholders' Meeting on 26 May 2020.

The selected interim financial information was prepared in accordance with the accounting principles and standards set out in Royal Decree 1362/2007, of 19 October, implementing Law 24/1988, of 28 July, on the Securities Market, and with National Securities Market Commission Circular 3/2018, of 28 June, on regular disclosures by issuers with securities listed in regulated markets with respect to the half-yearly accounts, interim directors' reports and any quarterly financial reports.

As a result, it was not necessary to replicate or update certain notes or estimates contained in the company's annual accounts. Instead, the accompanying selected notes to the accounts contain an explanation of events or changes that are significant for explaining any changes in the financial position and results of operations, comprehensive income, changes in equity and cash flows of the Company between 31 December 2019, the date of the above-mentioned annual accounts, and 30 June 2020.

At 31 December 2019, the Company recognised negative working capital in the amount of Euros 1,512 million. In this respect, the Company's liquidity projections for the coming year together with the amounts available under credit lines ensure coverage of working capital.

The figures set out in these condensed interim accounts are expressed in million euros, unless otherwise stated.

The condensed interim consolidated accounts were authorised by the Board of Directors on 21 July 2020 in accordance with IAS 34 "Interim Financial Reporting". The main figures disclosed in the consolidated accounts are as follows:

Total assets	41,293
Equity attributed to the parent company	9,853
Non-controlling interest	3,344
Net sales	8,781
Net income after tax attributed to the parent Company	334

2.2. Main risks and uncertainties

The main risks and uncertainties are disclosed in the annual accounts for 2019 and in section 3 of the directors' report as at 30 June 2020.

The spread of COVID-19 has had unprecedented effects worldwide. The confinement of a large proportion of the world's population has resulted in a reduction in economic activity that has led to widespread declines in macroeconomic indices, energy demand and the prices of the main energy variables. There is still limited visibility regarding the duration and scale of the crisis. Nevertheless, the interim financial information presents appropriately the financial position of Naturgy and the information required to understand the performance of the businesses with respect to the annual accounts for 2019. The main impacts of the current situation resulting from COVID-19 in the six months ended 30 June 2020 are detailed below.

Significant accounting estimates and judgements

The significant accounting estimates and assumptions are detailed in Note 3.19 of the annual accounts for 2019.

Asset impairment

The assumptions used to determine the recoverable value of the CGUs is detailed in Note 4 to the annual accounts for 2019.

At 30 June 2020, Naturgy had not modified the Strategic Plan 2018-2022 that was approved in June 2018 nor had there been material regulatory changes with an impact on the cash flow estimates used in the impairment tests performed in 2019.

In this context, for most of the CGUs the cash flows considered in the impairment test performed in 2019 were not updated. Nevertheless, a sensitivity analysis of the CGUs was performed with different scenarios for the discount rate, considering in particular the market risk premium and deleveraged beta in the current scenario and updating the long-term growth rate. The result of this analysis is that for investments in group companies and associates in which the carrying amount in the last test coincided with the recoverable value, the recoverable value continues to be equal to or greater than the carrying amount at 30 June 2020.

Risk management

Risk management is described in detail in note 14 to the annual accounts for 2019. The main aspects of financial risk are updated as at 30 June 2020 below:

Interest rates

The purpose of interest rate risk management is to balance floating- and fixed-rate borrowings in order to reduce borrowing costs within the established risk parameters. A total of 60% of Naturgy's debt at 30 June 2020 is at fixed interest rates, while exposure to floating interest rates is limited.

The sensitivity of income 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
30 June 2020	+50	(6)	56
	-50	6	(56)
31 December 2019	+50	(2)	50
	-50	2	(50)

Exchange rate

In order to mitigate exchange rate risk, Naturgy finances its investments in local currency as far as possible. Furthermore, where possible, it tries to match costs and revenues 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 currencies other than the functional currency are managed through financial swaps and exchange rate insurance within the limits approved for hedging instruments.

Additionally, net assets of foreign companies whose functional currency is not the euro are subject to exchange rate 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 non-material.

Commodity prices

The Company purchases gas for supply to other Naturgy companies.

A large portion of Naturgy's operating expenses is linked to gas purchased to supply customers or generate electricity in combined cycle plants. Therefore, Naturgy is exposed to variations in gas prices, which are basically linked to the price of crude oil and its derivatives and to the hub prices for natural gas.

The exposure to these risks is managed and mitigated by natural hedging by monitoring its position in such commodities, trying to balance purchase and supply obligations and diversifying and managing procurement contracts. When it is not possible to achieve a natural hedge, the position is managed, within reasonable risk parameters, through derivatives to reduce exposure to price risk, which are generally designated as hedging instruments.

Prices in the gas supply business are driven by global demand dynamics, particularly by trends in the Asian countries. In this situation, trends in procurement costs may not reflect the variation of prices in highly competitive environments, which may have an adverse impact on margins.

To address this, Naturgy has taken measures to review contracts as a result of substantial changes in the reference markets by using the ordinary and extraordinary reopener mechanisms in those contracts, even though, if a negotiated agreement is not be reached, the decision of an arbitration procedure may be delayed in time.

Commodity volumes

The reduction in demand for gas before and after the COVID crisis and the possible reduction in demand as a result of the energy transition might result in a mismatch between procurement and demand volumes. Most procurement contracts allow for flexibility in volumes over a number of time horizons, and the company is availing itself of those facilities. The company is also negotiating with its suppliers to further reduce volumes in the framework of trade negotiations.

Credit risk

Credit risk relating to trade accounts receivable is historically limited given the short collection periods from customers, since they cannot accumulate a significant amount of debt before their supply is suspended for non-payment, in accordance with the applicable regulations.

As a result of COVID-19, governments have adopted a number of transitional measures to ensure the basic supply of energy, ranging from deferral of payment by certain customer segments to a prohibition on cutting off the supply.

Liquidity risk

At 30 June 2020, liquidity amounted to Euros 8,062 million (Euros 6,132 million at 31 December 2019), including cash and cash equivalents in the amount of Euros 2,679 million (Euros 1,174 million in 2019) and available bank loans and credit lines in the amount of Euros 5,383 million (Euros 4,958 million in 2019).

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

	2020	2019
Standard & Poor's	BBB	BBB
Fitch	BBB	BBB

Other impacts on the interim accounts

Naturgy has not received state aid to palliate the impact of COVID-19 or any tax advantages. Additionally, it has not renegotiated leases such as to have an impact on results.

Naturgy has not implemented any furloughs or lay-offs as a result of COVID-19.

Since the COVID-19 crisis began, Naturgy has prioritised its commitment to people and society and has taken steps to mitigate the economic impact of the pandemic, such as the deferral of payment of electricity, gas and services bills for SMEs, private individuals and self-employed workers, supply free of charge to temporary hospitals (Madrid Convention Centre and Barcelona Trade Fair) and hotels converted to care homes, and other measures addressed to its suppliers that are SMEs or self-employed workers, who can apply for immediate payment of their invoices for the second quarter of the year. All these measures help to palliate the impact of the decline in revenues and to enhance liquidity of those affected.

Additionally, to express its recognition of, and gratitude to, healthcare workers and members of the police, army and fire service, they have been offered them one year of repair services free of charge for gas and electricity failures and breakdowns in gas and electric appliances, even where they are not Naturgy customers. Naturgy also offered all its customers free telemedicine services by videoconference during these months.

Taken together, these measures had a negative impact estimated at Euros 2 million in the consolidated interim income statement, and entailed financing invoices for an estimated amount of approximately Euros 28 million.

Note 3. Accounting policies

The main accounting policies and valuation standards applied by the Company to prepare these interim accounts are the same as for the Company's annual accounts for the year ended 31 December 2019.

Note 4. Investments in group companies and associates

Investments in group companies and associates are detailed below:

	30/06/2020	31/12/2019
Equity instruments	16,505	16,552
Loans	15,766	16,202
Non-current	**32,271**	**32,754**
Loans	580	527
Other financial assets	105	139
Current	**685**	**666**
Total	**32,956**	**33,420**

The changes in the period in investments in group companies and associates are as follows:

	Holdings in group companies	Loans to group companies	Holdings in associates	Total
Balance at 01/01/2019	**15,227**	**15,657**	**10**	**30,894**
Additions	--	1	--	1
Divestments	(589)	(282)	(6)	(877)
Reclassification	--	198	--	198
Provisions/reversal of provisions	(5)	--	--	(5)
Exchange differences	--	(1)	--	(1)
Balance at 30/06/2019	**14,633**	**15,573**	**4**	**30,210**
Additions	3,962	3,363	--	7,325
Divestments	(1,732)	(2,133)	--	(3,865)
Reclassification	--	(601)	--	(601)
Provisions/reversal of provisions	(315)	--	--	(315)
Balance at 31/12/2019	**16,548**	**16,202**	**4**	**32,754**
Additions	2	--	--	2
Divestments	(1)	(1)	--	(2)
Reclassification	--	(435)	--	(435)
Provisions/reversal of provisions	(48)	--	--	(48)
Balance at 30/06/2020	**16,501**	**15,766**	**4**	**32,271**

Six-month period ended 30 June 2020

The main transactions performed by the Company in the six-month period ended 30 June 2020 were as follows:

Corporate transactions

- Monetary contribution in the amount of Euros 2 million to offset losses at the company Lean Grids Services, S.L. A 25% stake in that company was subsequently disposed of, without a material impact on the income statement.

- Disposal of 25% of the capital of Lean Corporate Services, S.L and Lean Customer Services, S.L., without an impact on the income statement.

- Liquidation of the company Clover Financial and Treasury Services, D.A.C. without an impact on the income statement.

Six-month period ended 30 June 2019

The main transactions performed by the Company in the six-month period ended 30 June 2019 were as follows:

Corporate transactions

- Sale of a 45% stake in Torre Marenostrum, S.L. for Euros 28 million, generating a capital gain before tax of Euros 20 million.

- The distribution of the share premium by group company Global Power Generation, S.A. in the amount of Euros 589 million was recognised as a reduction in the carrying amount of that holding.

Asset impairment

In the six-month period ended 30 June 2020, in order to adapt the recoverable value of the stake in Naturgy Participaciones, S.A.U., impairment was recognised in the amount of Euros 37 million under "Impairment of, and losses on, equity instruments of group companies and associates" in the income statement. The accumulated amount of impairment at 30 June 2020 was Euros 49 million.

Additionally, the following impairments were recognised for equity instruments in group companies and associates:

- Euros 19 million relating to the impairment of the 50% interest in Unión Fenosa Gas, S.A. as a result of developments in the carrying amount of that company.

- Euros 1 million for the impairment of other holdings.

Impairment was also reversed on the following assets:

- Euros 5 million on the stake in General de Edificios y Solares, S.L. as a result of the favourable agreement reached in February 2020 in connection with the suit by Altamira Real Estate, S.A.

  The accumulated impairment recognised for the stake in General de Edificios y Solares, S.L. amounted to Euros 13 million at 30 June 2020.

- Euros 2 million in impairment of the holding in Unión Fenosa Minería, S.A., recognised on the basis of equity.

  The accumulated impairment recognised for the stake in Unión Fenosa Minería, S.A. amounted to Euros 242 million at 30 June 2020.

- Euros 1 million for the holding in Naturgy Finance B.V. and Euros 1 million for the holding in Naturgy LNG, S.L., recognised on the basis of equity.

  The accumulated impairment recognised at 30 June 2020 for the stake in Naturgy Finance B.V. and Naturgy LNG, S.L. amounted to Euros 2 million and Euros 0 million, respectively.

In the six-month period ended 30 June 2019, impairments of shareholdings in group companies and associates amounting to Euros 5 million were recognised under “Impairment of, and losses on, equity instruments of group companies and associates” in the income statement, which are detailed as follows:

- Euros 10 million relate to the impairment of the 50% interest in Unión Fenosa Gas, S.A.

- Euros 1 million for the impairment of other holdings.

  Additionally, impairment was reversed on the following assets:

- Euros 3 million for the interest in Naturgy Informática, S.A. as a result of good performance in the first half of 2019.

The accumulated impairment recognised for the stake in Gas Natural Informática, S.A. amounted to Euros 136 million at 30 June 2019.

− Euros 3 million for the interest in Naturgy Participaciones, S.A.U. on the basis of equity.

Non-current loans to group companies at 30 June 2020 amounted to Euros 15,766 million maturing in 2022 (at 31 December 2019: Euros 16,202 million maturing in 2021).

The variations in the loans and other current financial assets in the first half of 2020 and in 2019 are as follows:

	Loans to group companies	Other financial assets	Total
Balance at 01/01/2019	**740**	**57**	**797**
Additions	342	135	477
Divestments	(959)	(53)	(1,012)
Reclassifications/Transfers	405	--	405
Exchange differences	(1)	--	(1)
Balance at 31/12/2019	**527**	**139**	**666**
Additions	217	101	318
Divestments	(406)	(135)	(541)
Reclassifications/Transfers	242	--	242
Balance at 30/06/2020	**580**	**105**	**685**

There are no significant differences between the carrying amounts and fair values of the Loans to group companies and other receivables.

"Loans to group companies" include loans to group companies amounting to Euros 254 million (Euros 298 million at 31 December 2019) and the balances of cash pooling with subsidiaries, as centralised cash manager for Naturgy, amounting to Euros 264 million (Euros 175 million at 31 December 2019). This item also includes accrued outstanding interest in the amount of Euros 62 million (Euros 54 million at 31 December 2019).

Loans to group companies and associates accrued interest at 30 June 2020 at a rate of 2.23% (2.46% in 2019) in the case of non-current loans and 1% (1% in 2019) in the case of current loans.

At 30 June 2020, outstanding dividends receivable amounted to Euros 100 million and were recognised under "Other current financial assets" (Euros 135 million at 31 December 2019).

Note 5. Financial assets

The detail of financial assets by category is as follows:

30 June 2020	Available-for-sale financial assets	Loans and receivables	Assets at fair value through profit and loss	Hedging derivatives	Total
Equity instruments	5	--	--	--	5
Other financial assets	--	4	--	--	4
Non-current financial assets	**5**	**4**	**--**	**--**	**9**
Derivatives	--	--	--	21	21
Other financial assets	--	27	--	--	27
Current financial assets	**--**	**27**	**--**	**21**	**48**
Total	**5**	**31**	**--**	**21**	**57**

31 December 2019	Available-for-sale financial assets	Loans and receivables	Assets at fair value through profit and loss	Hedging derivatives	Total
Equity instruments	5	--	--	--	5
Other financial assets	--	5	--	--	5
Non-current financial assets	**5**	**5**	**--**	**--**	**10**
Derivatives	--	--	--	1	1
Other financial assets	--	23	--	--	23
Current financial assets	**--**	**23**	**--**	**1**	**24**
Total	**5**	**28**	**--**	**1**	**34**

Available-for-sale financial assets

All the financial assets that are available for sale at 30 June 2020 and 31 December 2019 relate to unlisted equity holdings.

Loans and receivables

The balance at 30 June 2020 relates entirely to deposits and guarantees provided, and had increased by Euros 3 million with respect to the previous year.

Hedging derivatives

Hedging derivatives are detailed in Note 14. "Risk management and derivative financial instruments" in the Company's annual accounts for 2019.

The variation at 30 June 2020 is due to updating the valuation after arranging new hedging derivatives for an amount of Euros 21 million.

Note 6. Equity

Share capital and share premium

The variations during the first half of 2020 and in 2019 in the number of shares and the share capital and share premium accounts were as follows:

	Number of shares	Share capital	Share premium	Total
1 January 2019	**1,000,689,341**	**1,001**	**3,808**	**4,809**
Change	--	--	--	--
30 June 2019	**1,000,689,341**	**1,001**	**3,808**	**4,809**
Capital reduction	(16,567,195)	(17)	--	(17)
31 December 2019	**984,122,146**	**984**	**3,808**	**4,792**
Change	--	--	--	--
30 June 2020	**984,122,146**	**984**	**3,808**	**4,792**

All of the outstanding shares are fully paid up and have the same political and economic rights.

On 5 August 2019, capital was reduced 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 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 Euro 1 each.

There were no changes in the number of shares or in the "Share capital" and "Share premium" accounts during the first half of 2020.

Own shares

Movements involving the Company's own shares during the first half of 2020 and in 2019 are as follows:

	Number of shares	Million euro	% Capital
1 January 2019	**5,397,737**	**121**	**0.5**
Share ownership plan	332,382	7	--
Delivered to employees	(310,812)	(7)	--
2018 buyback programme	11,169,458	279	1.1
30 June 2019	**16,588,765**	**400**	**1.6**
Capital reduction	(16,567,195)	(400)	(1.6)
Acquisitions	5,162,320	121	0.5
31 December 2019	**5,183,890**	**121**	**0.5**
Share ownership plan	470,000	8	--
Delivered to employees	(455,797)	(8)	--
2019 buyback programme	9,346,025	178	0.9
30 June 2020	**14,544,118**	**299**	**1.4**

<u>2020</u>

The transactions with the Company's own shares are as follows:

- Share ownership plan: Executing the resolutions adopted by the Shareholders' Meeting of the Company 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 the Company, subject to an annual limit of Euros 12,000. During the first half of 2020, 470,000 own 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 buyback programme: the Board of Directors of Naturgy Energy Group, S.A. approved a share buy-back 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 own 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 own shares at an average price of Euros 23.3 per share, with a cost of Euros 121 million at 31 December 2019).

On 26 May 2020, the Shareholders' Meeting approved a reduction in the capital of Naturgy Energy Group, S.A. of at most Euros 21,465,000, corresponding to (i) the 465,000 treasury shares that the Company held at close of market on 24 July 2019; and (ii) the 21,000,000 additional shares, with par value of Euro 1 each, which were acquired and may 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.

Consequently, the capital reduction ("Capital Reduction") will be for at most Euros 21,465,000 through the cancellation of at most 21,465,000 shares of Euro 1 par value each, representing approximately 2.18% of the Company's capital stock at the time of adoption of this resolution.

On 21 July 2020, the Board of Directors of Naturgy Energy Group, S.A. resolved to reduce capital by 14,508,345 own shares of Euro 1 par value each.

2019

Transactions with the Company's own shares were as follows:

- 2018 buyback programme: Under the Strategic Plan 2018-2022, the Board of Directors of Naturgy Energy Group, S.A. approved a share buy-back programme, which was published on 6 December 2018, with a maximum investment of Euros 400 million through 30 June 2019, representing approximately 1.8% of share capital, which was ratified by the shareholders at the Shareholders' Meeting on 5 March 2019. At 30 June 2019, a total of 16,567,195 own 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 (5,397,737 own shares at an average price of Euros 22.42 per share, with a total cost of Euros 121 million, as at 31 December 2018).

- 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. During the first half of 2019, 332,382 own shares were acquired for an amount of Euros 7 million for delivery to the participants of the Plan (354,422 own shares for an amount of Euros 7 million during the first half of 2018), and 310,812 shares were delivered, leaving a surplus of 21,570 shares.

- 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 cancellation of the 2,998,622 treasury shares with a par value of Euros 1 each which had been acquired by the close of trading on 6 December 2018 under the authorisation granted by the Shareholders' Meeting on 14 May 2015 under item fourteen on the agenda, the purpose being to buy back shares for possible cancellation; and

    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 Euro 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 (registration number 272.237).

    In this respect, as Naturgy Energy Group, S.A. had acquired a total of 13,568,573 shares as 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 resolved 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 of 984,122,146 shares with a par value of Euros 1 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.

Dividends

Set out below is a breakdown of the payments of dividend made in the six-month periods ended 30 June 2020 and 2019:

	30/06/2020			30/06/2019		
	% of par value	**Euros per share**	**Amount**	**% of par value**	**Euros per share**	**Amount**
Ordinary shares	60.3%	0.603	585	57%	0.570	565
Other shares (non-voting, redeemable, etc.)	--	--	--	--	--	--
Total dividends paid	**60.3%**	**0.603**	**585**	**57%**	**0.570**	**565**
a) Dividends charged to income	60.3%	0.603	585	57%	0.570	565
b) Dividends charged to reserves or share premium account	--	--	--	--	--	--
c) Dividends in kind	--	--	--	--	--	--

30 June 2020

At a meeting on 4 February 2020, the Board of Directors of Naturgy Energy Group, S.A. approved the proposed distribution of income set out in Note 11 to the annual accounts for the year ended 31 December 2019. Following the declaration of a state of alarm and in order to safeguard the safety and health of all shareholders, employees and contractors, the company decided to postpone the Shareholders' Meeting scheduled for 17 March 2020.

To prevent that postponement from having a negative impact on shareholders, particularly the 70,000 minority shareholders, at a meeting on 16 March 2020 the Board of Directors of Naturgy Energy Group, S.A. declared a third interim dividend out of 2019 income in the amount of Euros 0.593 per share for all shares not classified as direct treasury shares on the date of distribution, payable on 25 March 2020.

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

Income after taxes as at 31 December 2019		4,415
Allocation to reserves		--
Maximum distributable amount		4,415
Interim dividend out of 2019 income		754
Forecast maximum interim dividend payment (1)		584
Cash resources	1,100	
Unused credit facilities	4,807	
Total liquidity		5,907

(1) amount based on total shares outstanding

Subsequently, on 15 April 2020, the Board of Directors approved a new proposal for the distribution of the Company's net profit for 2019, for submission to the General Meeting:

BASIS OF DISTRIBUTION

Basis of distribution ….. 4,415

DISTRIBUTION:

TO DIVIDEND: Amount, whose gross amount will be equal to the sum of the following amounts (the "Dividend"):

(i) Euros 1,330 million corresponding to the three interim dividends out of 2019 income paid by the Company, which together amount to Euros 1.36 per share, by the number of shares not classified as direct treasury shares on the corresponding dates; and

(ii) The amount obtained by multiplying Euros 0.010 per share by the number of shares not classified as direct treasury shares on the date on which the shareholders of record entitled to collect the dividend are determined (the "Final dividend").

The Final Dividend will be paid via entities that are members of Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear) and, to that end the Board of Directors is empowered, with express powers to subdelegate to the director(s) that it sees fit, to take all steps that may be necessary or advisable to perform the distribution, particularly, without limitation (i) setting the date on which the shareholders entitled to collect the dividend are determined, and the date of payment; (ii) determining the final amount of the Final Dividend; and (iii) designating the institution to act as payment agent.

TO RETAINED EARNINGS: Determinable amount to be obtained by subtracting the amount allocated to Dividends from the Basis for Distribution.

Total distributed 4,415

The Shareholders' Meeting held on 26 May 2020 approved the final dividend of Euros 0.010 per share for all shares not classified as direct treasury shares on the date of distribution; this dividend was paid in full on 3 June 2020.

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

On 21 July 2020, the Company's Board of Directors declared an interim dividend of Euros 0.310 per share out of 2020 results, for shares not classified as direct treasury shares on the date on which the dividend was paid, payable on 29 July 2020.

On the date the interim dividend was declared, the Company had the necessary liquidity to make the payment, as required by the Spanish Capital Companies Act. The provisional liquidity statement drawn up by the directors on 21 July 2020 is as follows:

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

(1) amount based on total shares outstanding

30 June 2019

The Shareholders' Meeting held on 5 March 2019 approved a supplementary dividend of Euros 0.570 per share for all shares not classified as direct treasury shares on the date of distribution; this dividend was paid in full on 20 March 2019.

On 23 July 2019, the Company's Board of Directors declared an interim dividend of Euros 0.294 per share out of 2019 results for all shares not classified as direct treasury shares on the date of distribution, that was paid in full cash on 31 July 2019.

On the date the interim dividend was declared, the Company had the necessary liquidity to make the payment, as required by the Spanish Capital Companies Act. The provisional liquidity statement drawn up by the directors on 23 July 2019 is as follows:

Profit after tax		838
Allocation to reserves		--
Maximum distributable amount		838
Forecast maximum interim dividend payment (1)		294
Cash resources	1,395	
Unused credit facilities	5,035	
Total liquidity		6,430

(1) amount based on total shares outstanding

Note 7. Interest-bearing debt

The breakdown of borrowings at 30 June 2020 and 31 December 2019 is as follows:

	30/06/20	31/12/19
Borrowings from financial institutions	2,824	1,744
Derivatives	109	90
Other financial liabilities	1	1
Non-current borrowings	**2,934**	**1,835**
Borrowings from financial institutions	235	253
Derivatives	19	16
Other financial liabilities	--	2
Current borrowings	**254**	**271**
Total	**3,188**	**2,106**

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

	Carrying amount		Fair value	
	30/06/20	31/12/19	30/06/20	31/12/19
Bank borrowings, derivatives and other financial liabilities	2,934	1,835	2,945	1,835

The fair value of loans with fixed interest rates is estimated on the basis of the discounted cash flows over the remaining term of such debt. The discount rates were determined based on market rates available at 30 June 2020 and 31 December 2019 for borrowings with similar credit and maturity characteristics.

The changes in interest-bearing debt are as follows:

Balance at 01/01/2019	**2,286**
Additions	49
Decrease	(160)
Balance at 30/06/2019	**2,175**
Additions	--
Decrease	(69)
Balance at 31/12/2019	**2,106**
Additions	1,250
Decrease	(168)
Balance at 30/06/2020	**3,188**

Bank borrowings

The main variations in interest-bearing debt in the first half of 2020 are due basically to a Euros 1,225 million increase in bank debt (Euros 3 million in 2019).

Interest-bearing debt bore interest in the first half of 2020 at an average effective rate of 1.04% (0.82% in 2019), including the derivative instruments assigned to each transaction.

At 30 June 2020, the balance of bank debt includes Euros 9 million of outstanding interest (Euros 6 million at 31 December 2019).

Institutional funding

The company has a loan from Instituto Oficial de Crédito (ICO) arranged in a number of instruments for a total amount of Euros 190 million (Euros 200 million in 2019).

Additionally, the European Investment Bank (EIB) has granted financing to Naturgy in the amount of Euros 1,635 million which was fully drawn as at 30 June 2020 and matures between 2021 and 2037 (Euros 1,791 million drawn at 31 December 2019). That loan may be accelerated in the event of a change of control plus a rating downgrade, with special repayment terms that are longer than those relating to early termination events. Additionally, Euros 1,409 million (Euros 1,459 million at 31 December 2019) are subject to covenants.

Note 8. Payable to group companies and associates

Debt to group companies relates mainly to issues by Naturgy Capital Markets, S.A. and Naturgy Finance, B.V. under the European Medium Term Notes (EMTN) programme. It also includes the debt to Naturgy Finance B.V. for perpetual bonds amounting to Euros 1,500 million (Euros 1,500 million at 31 December 2019) and the debt to Unión Fenosa Preferentes, S.A. relating to preference shares in the amount of Euros 110 million (Euros 110 million at 31 December 2019).

It also includes accrued unmatured interest in the amount of Euros 108 million (Euros 179 million in 2019) and cash pooling balances with group companies amounting to Euros 1,590 million (Euros 1,637 million in 2019).

The detail of Debt to group companies due to bond issues by Naturgy Finance, B.V. and Naturgy Capital Markets, S.A. is as follows:

30 June 2020

Programme/Company	Country	Year arranged	Currency	Programme limit	Drawn-down nominal amount	Available	Issuances per year
Euro Commercial Paper (ECP) programme							
Naturgy Finance B.V.	Netherlands	2010	Euro	1,000	--	1,000	900
European Medium Term Notes (EMTN) programme							
Naturgy Capital Markets, S.A. and Naturgy Finance B.V.	Netherlands/ Spain	1999	Euro	12,000	8,941	3,059	1,150

31 December 2019							
Programme/Company	**Country**	**Year arranged**	**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							
Naturgy Capital Markets, S.A. and Naturgy Finance B.V.	Netherlands/ Spain	1999	Euro	8,725	8,725	--	750

Funding transactions at 30 June 2020

- The total amount drawn under the Euro Medium Term Note (EMTN) programme, whose limit is Euros 12,000 million at 30 June 2020 following the roll-over in April 2020 stood at Euros 8,941 million (Euros 8,725 million at 31 December 2019). Two bonds with an average coupon of 5.07% for a total amount of Euros 934 million matured in the first half of 2020.

  A Euros 1,000 bond was issued on 15 April 2020, maturing in January 2026 with a 1.250% coupon. Likewise, on 19 May 2020, an expansion of a Novembre 2019 issue was made for Euros 150 million, maturing in November 2029 with a 0.75% coupon.

- In the first half of 2020, issues under the Euro Commercial Paper (ECP) programme totalled Euros 900 million (Euros 4,444 million at 31 December 2019). There were no issues outstanding under the ECP programme at 30 June 2020 or 31 December 2019.

Funding transactions at 30 June 2019

- The total amount drawn under the Euro Medium Term Note (EMTN) programme stands at Euros 9,268 million as at 30 June 2019. The programme limit at 30 June 2019 was Euros 15,000 million. Additionally, two bonds with an average coupon of 3.896% for a total amount of Euros 440 million matured in the first half of 2019.

- In the first half of 2019, issues under the Euro Commercial Paper (ECP) programme totalled Euros 3,499 million. At 30 June 2019, the outstanding balance of issues under the ECP programme stood at Euros 500 million.

Note 9. Net sales

The breakdown of the Company's revenues from ordinary activities in the six-month periods ended 30 June 2020 and 30 June 2019 is as follows:

	30/06/20	**30/06/19**
Domestic market	871	1,984
Exports:	258	250
- European Union	257	239
- OECD countries	--	9
- RoW	1	2
Total	**1,129**	**2,234**

The dividends paid by Group companies are as follows:

	30/06/20	30/06/19
Holding Negocios Gas, S.A.	222	151
Naturgy Distribución Latinoamérica S.A.	141	173
Naturgy Iberia, S.A.	100	59
Sagane, S.A.	75	240
Holding Negocios Electricidad, S.A.	73	--
Naturgy Inversiones Internacionales, S.A.	25	108
Naturgy Capital Markets, S.A.	3	4
UFD Distribución Electricidad, S.A.	--	152
Global Power Generation, S.A.	--	31
Total	**639**	**918**

Note 10. Workforce structure

The average number of Company employees is as follows:

	30/06/20	30/06/19
Men	277	458
Women	325	566
Total	**602**	**1,024**

Note 11. Information on transactions with related parties

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

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

  Based on this definition, the significant shareholders of Naturgy are Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona ("la Caixa"), Global Infrastructure Partners III (GIP) and related companies, and CVC Capital Partners SICAV-FIS, S.A. (through Rioja Acquisitions, S.à.r.l.).

- Directors and executives of the Company and their immediate families. The term "director" means a member of the Board of Directors; "executive" means the Executive Chairman's direct reports and the Internal Audit Director. Transactions with directors and executives are disclosed in Note 12.

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

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

Six-month period ended 30 June 2020	**Significant shareholders**		
Expenses and revenues (in thousand Euros)	**"la Caixa" Group**	**CVC Group**	**GIP Group**
Receipt of services	1	--	--
Total expenses	**1**	**--**	**--**
Other transactions (in thousand Euros)			
Dividends and other profits distributed (1)	144,936	121,118	120,683

Six-month period ended 30 June 2019	Significant shareholders		
Expenses and revenues (in thousand Euros)	**"la Caixa" Group**	**CVC Group**	**GIP Group**
Receipt of services	1	--	--
Total expenses	**1**	**--**	**--**

Other transactions (in thousand Euros)			
Dividends and other profits distributed (1)	145,005	114,489	114,079

(1) At 30 June 2019, the dividend to "la Caixa" includes an amount of Euros 28,520 thousand paid to Energía Boreal 2018, S.A.

Note 12. Information on members of the Board of Directors and senior management personnel

Board of Directors Remuneration

Remuneration accrued to the members of the Board of Directors of Naturgy Energy Group, S.A. by virtue of their membership of the Board and Board committees totalled Euros 1,978 thousand at 30 June 2020 (Euros 1,978 thousand at 30 June 2019).

The Board of Directors 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.

For the executive functions carried out in the six-month period ended 30 June 2020, the Executive Chairman earned Euros 1,352 thousand, although the amount of annual variable remuneration will be paid as a contribution to the pension plan, as established contractually (Euros 1,651 thousand in 2019).

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled Euros 206 thousand at 30 June 2020 (Euros 203 thousand at 30 June 2019).

Senior management remuneration

For the sole purposes of the information contained in this section, "senior management personnel" refers to the executives who report directly to the company's chief executive, and also the Internal Audit Director. At 30 June 2020, 14 people make up this group, without taking into account the Internal Audit Director (12 people at 30 June 2019 and 11 people at 30 December 2019). Three new executives who are direct reports to Executive Chairman, joined the category in june 2020.

Amounts earned by executives in respect of fixed remuneration, annual variable remuneration, multi-year variable remuneration and other items totalled Euros 4,479 thousand (Euros 5,550 thousand at 30 June 2019).

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled Euros 668 thousand at 30 June 2020 (Euros 773 thousand at 30 June 2019).

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

The Board members and senior management personnel did not carry out any transactions outside the ordinary course of business or other than on arm's-length terms with Naturgy Energy Group, S.A. or with group companies.

Note 13. Litigation and arbitration

In relation to the information in the section on Contingent liabilities for litigation and arbitration in Note 27 "Contingent liabilities and commitments" in the annual accounts for the year ended 31 December 2019, the following changes took place in the litigation and arbitration risks situation in the first half of 2020:

Unión Fenosa Gas

On 27 February 2020, Naturgy announced an agreement with ENI and the Arab Republic of Egypt to amicably resolve the disputes involving Unión Fenosa Gas (a company owned 50% by Naturgy and 50% by ENI) which was subject to certain conditions and dates that had not been met at 23 April 2020, as a result of the agreement lapsed. In any case, execution of the arbitration finding in favour of Unión Fenosa Gas in the amount of USD 2,000 million that was issued by the ICSID on 31 August 2018 is ongoing. To date the arbitration finding has been homologated in the United Kingdom and in the Netherlands.

Qatar Gas arbitration

In June 2020, a second arbitration decision was issued, in addition to that issued in February 2018, that concluded the claim filed in 2015 against Qatar Liquefied Gas Company Limited whose main conclusion is a 3.65% increase in the gas price paid in Spain. The decision also allows that gas to be commercialised in a number of European terminals (France, UK, Belgium and The Netherlands). This arbitration decision did not have a material impact on the interim accounts.

Note 14. Subsequent events

There were no significant events between 30 June 2020 and the date of authorisation of these condensed interim accounts.

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Naturgy Energy Group, S.A.

Condensed interim directors' report as at 30 June 2020

Naturgy Energy Group, S.A.

Directors' report for the six-month period ended 30 June 2020

1. Business performance

Naturgy Energy Group, S.A. is a holding company whose main ordinary activity is the administration and management of holdings in subsidiaries. As a result, its earnings arise fundamentally from dividends and revenues from finance provided to companies in the Naturgy group. It also has contracts to supply gas to other Naturgy companies and, in the electricity area, it acted as representative of the Naturgy generation and supply companies vis-à-vis the Electricity Market until 1 June 2019.

2. Significant events in the first half of 2020

2.1. Key figures from the income statement

Performance in the first half of 2020 is basically attributable to revenues accrued on equity instruments of group companies.

Earnings performance in the first half of 2019 was attributable basically to revenues accrued on equity instruments of group companies and the gain on disposals of equity instruments following the sale of Torremarenostrum (Note 3).

Revenues in the six-month period ended 30 June 2020 amounted to Euros 1,129 million, of which Euros 313 million were from the sale of gas and electricity, Euros 639 million were dividends collected from group companies and associates, and Euros 177 were from finance provided to Naturgy group companies (Euros 2,234 million as at 30 June 2019, of which Euros 1,110 million were from the sale of gas and electricity, Euros 918 million were dividends collected from group companies and associates, and Euros 206 million were from finance provided to Naturgy group companies).

The Euros 1,105 million reduction in revenues (reduction of Euros 70 million in 2019) is the net outcome of:

- A reduction of Euros 797 million in sales, basically due to the transfer of the proxy market in 2019 and the assignment of certain gas contracts to other group companies (decrease of Euros 471 million as at 30 June 2019, basically due to adverse performance by electricity sales and the transfer of the proxy market and of certain gas contracts to other group companies).

- Reduction of Euros 279 million in dividends collected from subsidiaries in the first half, mainly from Sagane, S.A., Naturgy Distribución Latinoamerica, S.A., UFD Distribución Electricidad, S.A., Naturgy Inversiones Internacionales, S.A. and Global Power Generation, S.A.U. (an increase of Euros 592 million in dividends from subsidiaries in the first half of 2019, mainly from Sagane, S.A., Naturgy Distribución Latinoamerica, S.A., UFD Distribución Electricidad, S.A. and Holding Negocios de Gas, S.A.).
- A reduction of Euros 29 million in financial revenues on funding to subsidiaries (reduction of Euros 51 million as at 30 June 2019).

Procurements amounted to Euros 312 million in the period (Euros 1,112 million as at 30 June 2019), basically for the purchase of gas, i.e. a Euros 800 million decrease, in line with sales performance.

Other operating revenues amounted to Euros 87 million, net personnel expenses to Euros 78 million, operating expenses to Euros 88 million, depreciation and amortisation to Euros 8 million, and impairment of holdings in group companies and associates to Euros 48 million, with the result that EBIT in the period amounted to Euros 682 million, a Euros 345 million reduction with respect to same period of the previous year.

As at 30 June 2019, other operating revenues amounted to Euros 115 million, net personnel expenses to Euros 84 million, operating expenses to Euros 103 million, depreciation and amortisation to Euros 39 million, and impairment and gain/loss on fixed asset disposals to Euros 16 million, with the result that EBIT in the period amounted to Euros 1,027 million.

Financial income was negative in the amount of Euros 166 million, compared with Euros 212 million in the same period of 2019. This reduction was due basically to the cancellation of loans and other funding transactions with Naturgy group companies.

Income before taxes amounted to Euros 516 million and income tax to Euros 19 million, with the result that net profit for the period was Euros 535 million, compared with Euros 838 million in the same period of the previous year.

3. Main risks and uncertainties

3.1. <u>Regulatory and legal risk</u>

3.1.1. Regulatory 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.

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.

3.1.2. 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.

3.2. <u>Business risk</u>

3.2.1. 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 performed 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 repricing 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.

3.2.2. 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 not 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 anticipated 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 loss of price competitiveness by the contracts might have a temporary 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 hydroelectric 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 with the goal of correcting any deviation in the most cost-effective way possible.

3.2.3. 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 loss of competitive and market share until such time as those prices are realigned or the negotiation or 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, 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.

3.2.4. Climate change and energetic transition

In addition to the gas and electricity volume risks referred to in section 3.2.2, there is also the effect of climate change. Demand for electricity and natural gas is linked to the climate. 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 support the production of the Electric System. 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 CO_2 emissions.

3.3. <u>Operational risk</u>

3.3.1. Insurable risks

Naturgy's activities are exposed to various operational risk 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 to Naturgy facilities or properties or destruction of same.

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 program 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 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.

3.3.2. Cybersecurity

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 data or customer information, 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.

3.3.3. Image and reputation

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 Strategic 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 approved in the first half of 2019, 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 axes 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

3.3.4. Environment

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.

3.4. <u>Macroeconomic risk and country risk</u>

3.4.1. 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.

Currently, 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.

3.4.2 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 and
  - Political and macroeconomic instability.

- Middle East and Maghreb

  Naturgy has both company-owned assets and major gas procurement contracts in several countries of the Maghreb and the Middle East, particularly Egypt. Political instability in the zone may result in physical damage to the assets of Naturgy's investee companies or the obstruction of the operations of those or other companies, interrupting the Group's gas supply.

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

3.5. Financial risk

Financial risk (interest rate, exchange rate, credit, liquidity and price risk of commodities and related financial instruments) is expanded upon in Note 14 to the Financial Statements for 2019 and in Note 2 to the Interim Financial Statements as of 30 June 2020.

3.6. Main opportunities

Naturgy's main opportunities are as follows:

- **Renewable generation**: Increase renewable capacity internationally, given that renewable energies are cost-competitive and considering Naturgy's presence in growth markets.

- **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 by guaranteeing supply and making it possible to seize any market opportunities that arise. Naturgy is one of the world's leading LNG operators and a key player in the Atlantic and Mediterranean.

- 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 new business opportunities in new markets.

- **Technological development and innovation:** Naturgy focuses on research, development and innovation as a means of generating a reliable, sustainable energy supply.

Nota 4. Subsequent events

The significant events that occurred after 30 June 2020 are described in Note 14 to the condensed interim accounts as at 30 June 2020.

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