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, 2019

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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, 2019, 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 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, 2019 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 Royal Decree 1362/2007 for the preparation of interim condensed financial statements.

Domicilio Social: C/Raimundo Fernández Villaverde, 65. 28003 Madrid -Inscrita en el Registro Mercantil de Madrid, tomo 9.364 general, 8.130 de la sección 3ª del Libro de Sociedades, folio 68, hoja nº 87.690-1, inscripción 1ª, Madrid 9 de Marzo de 1.989. A member firm of Ernst & Young Global Limited. C.I.F. B-78970506.

*Emphasis of matter paragraph*

We draw attention to the matter described in accompanying explanatory Note 3, which indicates that the above-mentioned accompanying interim financial statements do not include all the information that would be required for 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, 2018. 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, 2019 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, 2019. 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 Royal Legislative Decree 4/2015, of October 23, approving the consolidated text of the Securities Market Law enacted by Royal Decree 1362/2007.

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

Alfredo Eguiagaray

July 24, 2019

# Naturgy

# Condensed interim consolidated financial statements at 30 June 2019

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

| | 30/06/2019 | 31/12/2018 |
|---|---|---|
| **ASSETS** | | |
| Intangible assets *(Note 5)* | 7,888 | 7,845 |
| Goodwill | 3,225 | 3,215 |
| Other intangible assets | 4,663 | 4,630 |
| Property, plant and equipment *(Note 5)* | 19,679 | 20,707 |
| Right-of-use assets (Note 3.4.4 and 5) | 1,417 | - |
| Investments recorded using the equity method | 809 | 816 |
| Non-current financial assets *(Note 6)* | 905 | 910 |
| Other non-current assets (note 7) | 303 | 334 |
| Deferred tax assets | 1,743 | 1,689 |
| **NON-CURRENT ASSETS** | **32,744** | **32,301** |
| Non-current assets held for sale *(Note 8)* | 285 | 202 |
| Inventories | 694 | 850 |
| Trade and other receivables | 4,194 | 5,134 |
| Trade receivables | 3,734 | 4,415 |
| Other receivables | 335 | 534 |
| Current tax assets | 125 | 185 |
| Other current financial assets *(Note 6)* | 326 | 428 |
| Cash and cash equivalents | 3,489 | 1,716 |
| **CURRENT ASSETS** | **8,988** | **8,330** |
| **TOTAL ASSETS** | **41,732** | **40,631** |
| **EQUITY AND LIABILITIES** | | |
| Share capital | 1,001 | 1,001 |
| Share premium | 3,808 | 3,808 |
| Own shares | (602) | (325) |
| Reserves | 7,156 | 11,290 |
| Profit for the period attributed to the parent company | 592 | (2,822) |
| Interim dividend | - | (730) |
| Other equity components | (1,120) | (1,274) |
| **Equity attributed to the parent company** | **10,835** | **10,948** |
| **Non-controlling interest** | **3,579** | **3,647** |
| **EQUITY** (*Note 9*) | **14,414** | **14,595** |
| Deferred income | 895 | 863 |
| Non-current provisions *(Note 10)* | 1,127 | 1,125 |
| Non-current financial liabilities *(Note 11)* | 15,258 | 13,352 |
| Borrowings | 13,871 | 13,352 |
| Lease liabilities | 1,387 | - |
| Deferred tax liabilities | 2,232 | 2,149 |
| Other non-current liabilities (Note 3.4.4) | 312 | 1,540 |
| **NON-CURRENT LIABILITIES** | **19,824** | **19,029** |
| Liabilities related to non-current assets held for sale (Note 8) | 167 | 93 |
| Current provisions (Note 10) | 227 | 297 |
| Current financial liabilities *(Note* 11*)* | 3,081 | 2,079 |
| Borrowings | 2,838 | 2,068 |
| Lease liabilities | 224 | - |
| Other financial liabilities | 19 | 11 |
| Trade and other payables | 3,503 | 4,067 |
| Trade payables | 2,828 | 3,267 |
| Other payables | 584 | 767 |
| Current tax liabilities | 91 | 33 |
| Other current liabilities (note 3.4.4) | 516 | 471 |
| **CURRENT LIABILITIES** | **7,494** | **7,007** |
| **TOTAL EQUITY AND LIABILITIES** | **41,732** | **40,631** |

*Notes 1 to 22 contained in the notes to the condensed interim consolidated accounts and the Appendix are an integral part of the consolidated balance sheet as at 30 June 2019 and 31 December 2018.*

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

| | For the six-month period ended 30 June | |
|---|---|---|
| | **2019** | **2018** |
| Revenue *(Note 12)* | 11,639 | 12,176 |
| Procurements *(Note 13)* | (8,341) | (8,907) |
| Other operating income | 67 | 83 |
| Personnel expenses *(Note 14)* | (501) | (464) |
| Other operating expenses *(Note 15)* | (740) | (911) |
| Profit/(loss) on disposals of fixed assets | 5 | 6 |
| Release of fixed asset grants to income and other | 21 | 21 |
| **EBITDA** | **2,150** | **2,004** |
| Depreciation, amortisation and impairment losses *(Notes 5 and 16)* | (794) | (5,165) |
| Impairment of credit losses | (62) | (63) |
| Other results | 20 | - |
| **EBIT** | **1,314** | **(3,224)** |
| Financial income | 48 | 56 |
| Financial expenses | (374) | (362) |
| Variations in fair value of financial instruments | (5) | (1) |
| Exchange differences | - | 1 |
| **NET FINANCIAL INCOME** *(Note 17)* | **(331)** | **(306)** |
| Profit/(loss) of companies measured under the equity method | 38 | (559) |
| **PROFIT BEFORE TAXES** | **1,021** | **(4,089)** |
| Corporate income tax *(Note 18)* | (220) | 926 |
| **NET PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS** | **801** | **(3,163)** |
| Net profit for the year from discontinued operations, net of taxes (Note 8) | - | (15) |
| **CONSOLIDATED NET PROFIT FOR THE PERIOD** | **801** | **(3,178)** |
| Attributable to: | | |
| the parent company | 592 | (3,281) |
| From continuing operations | 592 | (3,307) |
| From discontinued operations | - | 26 |
| Non-controlling interest | 209 | 103 |
| | **801** | **(3,178)** |
| Basic and diluted earnings/(loss) per share in euros from continuing operations attributable to the equity holders of the parent company *(Note 9)* | 0.60 | (3.31) |
| Basic and diluted earnings/(loss) per share in euros attributable to the equity holders of the parent company *(Note 9)* | 0.60 | (3.28) |

*Notes 1 to 22 contained in the notes to the condensed interim consolidated accounts and the Appendix are an integral part of the consolidated income statement for the six-month periods ended 30 June 2019 and 2018.*

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

| | For the six-month period ended 30 June 2019 | For the six-month period ended 30 June 2018 |
|---|---|---|
| **CONSOLIDATED NET PROFIT FOR THE PERIOD** | **801** | **(3,178)** |
| **OTHER COMPREHENSIVE INCOME RECOGNISED DIRECTLY IN EQUITY** | **139** | **(462)** |
| **Items that will not be transferred to profit/(loss):** | | |
| Other financial liabilities at fair value with changes through other comprehensive income | 6 | (164) |
| Actuarial gains and losses and other adjustments | 5 | (2) |
| Tax effect | (1) | 1 |
| **Items that will subsequently be transferred to profit/(loss):** | | |
| Cash flow hedges | (20) | (119) |
| Exchange differences | 135 | (212) |
| Tax effect | 5 | 30 |
| Companies recorded using the equity method | 9 | 4 |
| *Cash flow hedges* | - | *1* |
| *Exchange differences* | *9* | *3* |
| *Tax effect* | - | - |
| **RELEASES TO INCOME STATEMENT** | **13** | **59** |
| Cash flow hedges | 19 | 72 |
| Exchange differences | - | - |
| Tax effect | (6) | (13) |
| Companies recorded using the equity method | - | - |
| *Cash flow hedges* | - | - |
| *Exchange differences* | - | - |
| *Tax effect* | - | - |
| **OTHER COMPREHENSIVE INCOME FOR THE PERIOD** | **152** | **(403)** |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | **953** | **(3,581)** |
| Attributable to: | | |
| The parent company | 723 | (3,637) |
| From continuing operations | 727 | (3,649) |
| From discontinued operations | (4) | 12 |
| Non-controlling interest | 230 | 56 |

*Notes 1 to 22 contained in the notes to the condensed interim consolidated accounts and the Appendix are an integral part of the consolidated statement of comprehensive income for the six-month periods ended 30 June 2019 and 2018.*

## Naturgy

**Interim consolidated statement of changes in 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 31/12/2017** | **1,001** | **3,808** | **(9)** | **9,574** | **1,360** | **(899)** | **(54)** | **(47)** | **(1,000)** | **14,734** | **3,571** | **18,305** |
| Impact of first-time application of new standards (Note 3.4) | - | - | - | 10 | - | | | (14) | (14) | **(4)** | (13) | **(17)** |
| **Balance at 01/01/18** | **1,001** | **3,808** | **(9)** | **9,584** | **1,360** | **(899)** | **(54)** | **(61)** | **(1,014)** | **14,730** | **3,558** | **18,288** |
| Total comprehensive income for the year | - | - | - | (1) | (3,281) | (167) | (29) | (159) | (355) | **(3,637)** | 56 | **(3,581)** |
| **Transactions with shareholders or owners** | **-** | **-** | **3** | **1,705** | **(1,360)** | **-** | **-** | **-** | **-** | **348** | **184** | **532** |
| Dividend distribution (*Note 9*) | - | - | - | 689 | (1,360) | - | - | - | **-** | **(671)** | (269) | **(940)** |
| Transfer of dependent company | - | - | - | - | - | - | - | - | **-** | **-** | - | **-** |
| Transactions with own shares and equity instruments | - | - | 3 | - | - | - | - | - | **-** | **3** | (5) | **(2)** |
| Other transactions with shareholders or owners | - | - | - | 1,016 | - | - | - | - | **-** | **1,016** | 458 | **1,474** |
| **Other changes in equity** | **-** | **-** | **-** | **1** | **-** | **-** | **-** | **-** | **-** | **1** | **(20)** | **(19)** |
| Other changes | - | - | - | 1 | - | - | - | - | **-** | **1** | (20) | **(19)** |
| **Balance at 30/06/18** | **1,001** | **3,808** | **(6)** | **11,289** | **(3,281)** | **(1,066)** | **(83)** | **(220)** | **(1,369)** | **11,442** | **3,778** | **15,220** |
| Total comprehensive income for the year | - | - | - | 16 | 459 | 5 | 92 | (24) | 73 | **548** | 154 | **702** |
| **Transactions with shareholders or owners** | **-** | **-** | **(319)** | **(746)** | **-** | **-** | **-** | **22** | **22** | **(1,043)** | **(245)** | **(1,288)** |
| Dividend distribution (*Note 9*) | - | - | - | (729) | - | - | - | - | **-** | **(729)** | (236) | **(965)** |
| Transfer of dependent company | - | - | - | (22) | - | - | - | 22 | **22** | **-** | (9) | **(9)** |
| Transactions with own shares and equity instruments | - | - | (319) | - | - | - | - | - | **-** | **(319)** | **-** | **(319)** |
| Share-based payments | | | | 5 | | | | | **-** | **5** | **-** | **5** |
| Other transactions with shareholders or owners | - | - | - | - | - | - | - | - | **-** | **-** | **-** | **-** |
| **Other changes in equity** | **-** | **-** | **-** | **1** | **-** | **-** | **-** | **-** | **-** | **1** | **(40)** | **(39)** |
| Other changes | - | - | - | 1 | - | - | - | - | **-** | **1** | (40) | **(39)** |
| **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 9*) | - | - | - | (3,387) | 2,822 | - | - | - | **-** | **(565)** | (345) | **(910)** |
| Transfer of dependent company | - | - | - | - | - | - | - | - | **-** | **-** | - | **-** |
| Transactions with own shares and equity instruments *(Note 9)* | - | - | (277) | - | - | - | - | - | **-** | **(277)** | (4) | **(281)** |
| Share-based payments | - | - | - | 2 | - | - | - | - | **-** | **2** | | **2** |
| Other transactions with shareholders or owners *(Note 9)* | - | - | - | (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** |

*Notes 1 to 22 contained in the notes to the condensed interim consolidated accounts and the Appendix are an integral part of the consolidated statement of changes in equity as at 30 June 2019 and 31 December 2018.*

**Naturgy**
**Interim consolidated cash flow statement (Million euro)**

| | For the six-month period ended 30 June | |
|---|---|---|
| | **2019** | **2018** |
| **PROFIT BEFORE TAXES** | **1,021** | **(4,089)** |
| **Adjustments to results** | **1,048** | **5,990** |
| Depreciation, amortisation and impairment losses | 794 | 5,165 |
| Other adjustments to net income | 254 | 825 |
| **Changes in working capital** | **808** | **(203)** |
| **Other cash flows from operating activities:** | **(421)** | **(454)** |
| Interest paid | (398) | (417) |
| Interest collected | 11 | 10 |
| Dividend received | 73 | 82 |
| Corporate income tax paid | (107) | (129) |
| **CASH FLOWS FROM OPERATING ACTIVITIES (1)** | **2,456** | **1,244** |
| **Cash flows from investing activities:** | **(966)** | **(959)** |
| Group companies, associates and business units | (10) | (27) |
| Property, plant and equipment and intangible assets | (935) | (898) |
| Other financial assets | (21) | (34) |
| **Proceeds from divestitures:** | **80** | **1,121** |
| Group companies, associates and business units | 28 | 1,080 |
| Property, plant and equipment and intangible assets | 12 | 5 |
| Other financial assets | 40 | 36 |
| **Other cash flows from investing activities:** | **27** | **29** |
| Other receipts/(payments) from/(of) investing activities | 27 | 29 |
| **CASH FLOWS FROM INVESTING ACTIVITIES (1)** | **(859)** | **191** |
| **Receipts and payments on equity instruments:** | **(288)** | **1,493** |
| Issue/refund | - | 1,500 |
| Acquisition | (288) | (7) |
| **Receipts and (payments) on financial liability instruments** | **1,177** | **(2,284)** |
| Issue | 5,293 | 6,742 |
| Repayment and redemption | (4,116) | (9,026) |
| **Dividends paid and remuneration on other equity instruments** | **(706)** | **(295)** |
| **Other cash flows from financing activities** | **(11)** | **(78)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES (1)** | **172** | **(1,164)** |
| **Other changes in cash and cash equivalents** | 3 | (21) |
| **Effect of fluctuations in exchange rates** | 1 | 17 |
| **VARIATION IN CASH AND CASH EQUIVALENTS** | **1,773** | **267** |
| Cash and cash equivalents at beginning of the period | 1,716 | 3,225 |
| Cash and cash equivalents at the end of the period | 3,489 | 3,492 |

(1) Includes cash flows from continuing and discontinued operations (Note 8).

*Notes 1 to 22 contained in the notes to the condensed interim consolidated accounts and the Appendix are an integral part of the consolidated statement of cash flows for the six-month periods ended 30 June 2019 and 2018.*

## 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 (supply, liquefaction, regasification, transport, storage, distribution and sale), electricity (generation, transport, distribution and sale) and any other existing source of energy. It may also act as a holding company and in this respect may incorporate or hold shares in other entities, no matter what their corporate 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 on the continuous market and form part of the Ibex35.

### Note 2. Regulatory framework

In relation to the regulatory framework described in the consolidated annual accounts for the year ended 31 December 2018, the following aspects for the first half of 2019 within Europe are worth noting:

Royal Decree 18/2019, of 25 January, implementing aspects related to the application of the greenhouse gas emission rights trading regime in the period 2021-2030, was published on 26 January 2019. The purpose of this Royal Decree is to prepare the entry into force in Spain of the new phase of the European Union Emissions Trading System (EU ETS), which will be applicable between 2021 and 2030. The EU ETS is one of the main instruments used by the European Union to achieve its goal of reducing greenhouse gas (GHG) emissions by at least 40% in 2030 compared with 1990 values, in line with the commitments made by the European Council in 2014 and as part of the EU's contribution to the 2015 Paris Agreement.

On 20 February 2019, Spain's National Commission for Markets and Competition (CNMC) published the calendar for the regulatory Circulars that may affect the aspects of energy policy planned for 2019.

Order TEC/332/2019, of 20 March, establishing the obligations in connection with contributions to the National Energy Efficiency Fund in 2019, the total amount to be contributed in 2019 being Euros 203.03 million, was published on 26 March 2019.

The Directorate-General of Energy Policy and Mines (DGPEM) Resolution of 22 March 2019, which published the last resort tariff (TUR) for natural gas entailing a 5.9% decline in the average TUR with respect to the first quarter of 2019, was published on 30 March 2019.

On 5 April 2019, the Ministry for the Ecological Transition approved the National Strategy against Energy Poverty 2019-2024, in compliance with the mandate established in Article 1 of Royal Decree-Law 15/2018, of 5 October, on urgent measures for the energy transition and consumer protection, which entrusted the Government with drawing up such a Strategy.

Royal Decree 244/2019, of 5 April, regulating the administrative, technical and economic conditions for autoproducers of electricity, was published on 6 April 2019. The Royal Decree classifies and defines the different types of autoproducers. The pre-existing regulations contemplated only the case of individual autoproducers connected to an internal network, whereas the new regulation allows for collective autoproduction, so that several consumers can associate themselves with a given power plant.

Order TEC/406/2019, of 5 April, establishing guidelines for energy policy to the CNMC, and setting out recommendations from the Ministry for the Ecological Transition in relation to Circulars planned for 2019, was published on 9 April 2019.

Royal Decree 317/2019, of 26 April, which defines the mitigation measure equivalent to participation in the emission trading regime in the period 2021-2025 and regulates certain aspects related to the exclusion of low emission facilities from the greenhouse gas trading scheme, was published on 30 April 2019.

In Mexico, Official Mexican Standard NOM-009-ASEA-2017, Administration of the integrity of pipelines for the collection, transport and distribution of hydrocarbons, petroleum and petrochemicals, establishing the requirements that must be met for the administration of pipeline integrity in order to maintain Industrial Safety, Operational Safety and protection of the environment, was published on 25 January 2019.

On 31 January 2019, the National Centre for Energy Control (CENACE) announced a Decision to cancel the SLP 1/2018 long-term auction as instructed by the Secretary of Energy.

Resolution No. A/011/2019 of the Energy Regulatory Commission, amending the Internal Regulation of the Energy Regulatory Commission (CRE) to change the structure of the CRE, as well as the functions of the various areas, was published on 11 April 2019.

On 3 June 2019, the Ministry of Energy published the National Electric System Development Programme 2019-2033, which details the annual planning of electricity infrastructure over a 15-year horizon.

In Panama, National Public Services Authority (AN) Resolution no. 13040 approving the tariff specifications of Empresa de Distribución Eléctrica de Chiriqui, S.A. and Empresa de Distribución Eléctrica Metro Oeste, S.A., was published on 28 December 2018. The Maximum Allowable Revenues (IMP) for the period January 2019 - June 2022 had previously been established by AN resolutions No. 12959 of 27 November 2018 and No. 13004 of 12 December 2018.

An amendment to the Procedure for Application of the System of Selling Prepay Meters was approved on 21 March 2019.

In Brazil, Order no. 151, of 1 March 2019, establishing the calendar of auctions for electricity generation for the period 2020-2021, was published on 6 March 2019.

## Note 3. Basis of presentation and accounting policies

### 3.1. Basis of presentation

The consolidated annual accounts of Naturgy for 2018 were adopted by the Shareholders' Meeting on 5 March 2019.

These condensed interim consolidated accounts of Naturgy as at 30 June 2019 were authorised by the Board of Directors on 23 July 2019 pursuant to IAS 34 “Interim financial reporting” and should be read together with the consolidated annual accounts for the year ended 31 December 2018, 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 2018, the date of the above-mentioned consolidated annual accounts, and 30 June 2019.

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

### 3.2 Main risks and uncertainties

The main risks and uncertainties are disclosed in the 2018 consolidated annual accounts and in the section 2 of the consolidated directors' report at 30 June 2019. During the six-month period ended 30 June 2019, there were no significant changes in the business or economic environment, or in the regulatory environment, that could lead to significant amendments on Naturgy's assets and liabilities as at 30 June 2019.

### 3.3 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.

### 3.4 Accounting policies

The accounting policies applied in these interim consolidated accounts are the same as those applied in the consolidated annual accounts for the year ended 31 December 2018, except for the adoption of the new EU-IFRS, interpretations and amendments that came into force on 1 January 2019.

The main amendments resulting from the adoption of the new IFRS refer essentially to IFRS 16, as detailed below:

#### 3,4.1 Leases

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

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

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

**Lessee**

In contracts where Naturgy is the lessee, it recognises an asset for the right-of-use and a financial liability for the lease (Notes 3.4.2 and 3.4.3).

**Lessor**

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

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

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

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

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

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

### 3,4.2 Right-of-use assets

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

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

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

### 3,4.3 Financial liabilities for leases

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

The incremental borrowing rate used by Naturgy is distinguished for homogeneous portfolios of leases, countries and contract terms. The weighted average incremental borrowing rate at the presentation date was 2.6% in Spain and 9.0% in Latin America.

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

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

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

### 3.4.4 New IFRS-EU standards and IFRIC interpretations

As a result of their approval, publication and entry into force on 1 January 2019, the following standards, interpretations and amendments adopted by the European Union have been applied:

| Standards adopted by the European Union | | Entry into force for years commencing |
|---|---|---|
| IFRS 16, "Leases" | New standard that replaces IAS 17. | 1 January 2019 |
| IFRS 9 (Amendments), "Prepayment features with negative compensation" | Enables entities to measure some prepayable financial instruments at amortised cost. | 1 January 2019 |
| IFRIC 23, "Uncertainty over income tax treatments" | Clarifies recognition and measurement under IAS 12 in cases of uncertainty as to whether the tax authorities accept a certain tax treatment used by the entity. | 1 January 2019 |
| IAS 19 (Amendment) "Plan amendment, curtailment or settlement": | These changes require the use of updated actuarial assumptions to determine the service costs for the current year and net interest for the remainder of the year. | 1 January 2019 |
| IAS 28 (Amendment), "Long-term interests in associates and joint ventures" | Clarifies the application of IFRS 9 to long-term interests in associates or joint ventures where the equity method is not used. | 1 January 2019 |
| Annual improvements to IFRS, Cycle 2015-2017 | Minor changes to various standards. | 1 January 2019 |

Of these standards, interpretations and amendments, only IFRS 16 has a material impact on the interim financial statements.

**IFRS 16 - "Leases"**

IFRS 16 "Leases" replaces IAS 17, IFRIC 4, SIC-15 and SIC-27 and lays down the principles for accounting for leases under a single balance sheet model for all leases. IFRS 16 came into force on 1 January 2019 and was not adopted early.

Naturgy elected not to apply the new standard early, and chose to apply the modified retrospective approach, on the basis of which no comparative figures from previous years have been restated and the impacts were recognised as of 1 January 2019.

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

Naturgy has applied the following policies, estimates and criteria:

- The exemption from the recognition of leases in which the underlying asset is of low value (less than US$ 5,000) or the lease term is short (less than or equal to 12 months) has been applied.

- The practical solution indicated in paragraph C3, Appendix C of IFRS 16 has been applied, which stipulates that it is not necessary to reassess whether a contract is, or contains, a lease at the date of initial application.

- It was decided not to separately recognise lease and non-lease components for those asset classes where those components are not material with respect to the total value of the lease.

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

- An incremental effective borrowing rate was applied for homogeneous portfolios of leases, countries and contract terms. The weighted average incremental borrowing rate at the date of initial application was 2.6% in Spain and 8.7% in Latin America.

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

Impact of IFRS 16 implementation

- **Impact of IFRS 16 implementation at 1 January 2019**

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

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

In summary, the impact of the adoption of IFRS 16 on the consolidated balance sheet at 1 January 2019 is as follows:

| | Amount (million euros) | Adjustments |
|---|---|---|
| Right-of-use assets | 1,458 | a) b) |
| Property, plant and equipment | (1,134) | b) |
| **NON-CURRENT ASSETS** | **324** | |
| Equity attributed to the parent company | - | |
| Non-controlling interest | - | |
| **EQUITY** | **-** | |
| Financial liabilities for non-current leases | 1,443 | a) b) |
| Other non-current liabilities | (1,186) | b) |
| **NON-CURRENT LIABILITIES** | **257** | |
| Financial liabilities for current leases | 199 | a) b) |
| Other current liabilities | (132) | b) |
| **CURRENT LIABILITIES** | **67** | |

The effects on the consolidated balance sheet at 1 January 2019 derived from the adoption of IFRS 9 and IFRS 16, explained above, are as follows:

**Consolidated balance sheet (million euro)**

| | 1.1.2019 | IFRS 16 | 1.1.2019 IFRS 16 |
|---|---|---|---|
| **ASSETS** | | | |
| **NON-CURRENT ASSETS** | **32,301** | **324** | **32,625** |
| **CURRENT ASSETS** | **8,330** | **-** | **8,330** |
| **TOTAL ASSETS** | **40,631** | **324** | **40,955** |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| Equity attributed to the parent company | 10,948 | - | 10,948 |
| Non-controlling interests | 3,647 | - | 3,647 |
| **EQUITY** | **14,595** | **-** | **14,595** |
| **NON-CURRENT LIABILITIES** | **19,029** | **257** | **19,286** |
| **CURRENT LIABILITIES** | **7,007** | **67** | **7,074** |
| **TOTAL EQUITY AND LIABILITIES** | **40,631** | **324** | **40,955** |

The reconciliation between the operating lease commitments disclosed in "Contractual Commitments" of Note 35 at 31 December 2018 and the liabilities recognised at 1 January 2019 in the initial application of IFRS 16 is as follows:

| | Amount (in euros millions) |
|---|---|
| Operating lease commitments at 31 December 2018 broken down in (Note 35 Consolidated annual accounts) | 476 |
| Discounted using the corresponding interest rate | (79) |
| Short-term low-value leases | (37) |
| Adjustments resulting from different treatment of extension and termination options and others | (36) |
| **Lease liabilities recognised as at 1 January 2019** | **324** |

- **Effect of IFRS 16 implementation on the interim consolidated income statement at 30 June 2019**

The impact of applying IFRS 16 on the interim consolidated income statement at 30 June 2019 was a reduction in operating expenses and, consequently, an increase in gross operating profit of Euros 44 million, as the lease payments were recorded under this operating expense heading, offset by an increase in amortisation of the recognised new right-of-use asset amounting to Euros 40 million and an increase in financial expenses relating to new leases liabilities of Euros 6 million, with the result that consolidated income for the year was not materially affected.

- **Effect of IFRS 16 implementation on the consolidated cash flow statement at 30 June 2019**

The impact of applying IFRS 16 on the consolidated cash flow statement at 30 June 2019 was an increase in cash flows from operating activities of Euros 44 million as a result of the increase in gross operating profit, offset by an increase in interest payments of new financial liabilities of Euros 6 million and a decrease in cash flows from financing activities in the amount of Euros 40 million relating to repayment of the principal under lease new liabilities, with the result that cash flow was not affected.

Amounts recognised in the balance sheet and income statement

Naturgy has signed lease contracts in which it is the lessee of the following categories of underlying assets:

- Gas carriers under long and medium-term charter.
- Constructions (offices, premises, warehouses, parking spaces, ...)
- Land for energy use for combined cycle power plants, wind farms, photovoltaic farms, switching centres, and propane (LPG) and liquefied natural gas (LNG) installations.
- Vehicles.

The right-of-use asset in leases of specific vessels is not capitalised since the term is short or the lease payments are variable. Likewise, lease contracts for land for energy use where the payment varies as a function of output are not capitalised.

Naturgy's activity as a lessor in contracts that qualify as finance leases is not significant and includes most notably trade receivables for the assignment of the right to use gas and electricity facilities.

The breakdown of right-of-use assets and finance lease liabilities and the changes in the six-month period ended 30 June 2019 are as follows:

| | Right-of-use asset (Note 5) | | | | | |
|---|---|---|---|---|---|---|
| | **Land and buildings** | **Gas tankers** | **Vehicles** | **Other intangible assets** | **Total** | **Lease financial liabilities (Note 11)** |
| **First-time application of IFRS 16 at 01.01.19** | **261** | **1,176** | **19** | **2** | **1,458** | **1,642** |
| Additions | - | 36 | - | - | **36** | **36** |
| Depreciation and amortisation charge | (16) | (56) | (5) | - | **(77)** | **-** |
| Interest accrued | - | - | - | - | **-** | **50** |
| Exchange differences | - | - | - | - | **-** | **5** |
| Payments | - | - | - | - | **-** | **(122)** |
| **Net carrying amount at 30.06.19** | **245** | **1,156** | **14** | **2** | **1,417** | **1,611** |

The amounts recognised in the consolidated income statement at 30 June 2019 are as follows:

| | Six-month period ended 30 June 2019 |
|---|---|
| Procurement expenses — vessel leases at short term or with variable payments | 17 |
| Lease expenses — short-term or low-value leases | 8 |
| Lease expenses — leases with variable payments | 1 |
| Amortisation of right-of-use asset | 77 |
| Interest expenses on finance leases liabilities | 50 |
| Financial revenues from interest on finance lease assets | 1 |

The standards, amendments and interpretations that will come into force for annual periods commencing after 1 January 2020 are described below:

| Standards issued by the IASB and yet to be adopted by the European Union | | Entry into force for years commencing |
|---|---|---|
| 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 |
| IAS 1 and IAS 8 (Amendment). Definition of 'materiality' | New definition of materiality, to ensure consistency among all the standards. | 1 January 2020 |
| IFRS 17, “Insurance contracts” | New standard that replaces IFRS 4. | 1 January 2021 |

None of these standards or amendments has been applied early.

### 3.5 Consolidation scope

2019

In April 2019, Naturgy sold a 45% stake in Torre Marenostrum, S.L. to Inmobiliaria Colonial for Euros 28 million, generating a capital gain of Euros 20 million.

In May 2019, after the purchase option granted in 2003 to Sinca Inbursa, S.A. (here on Inbursa) de C.V. on 14.125% of Naturgy México, S.A. de C.V. and 14% of Sistemas de Administración, S.A. de C.V. had expired without being exercised by Inbursa at the end (Note 9), liabilities were derecognised and there was recognised the increase in non-controlling interest.

2018

In February 2018, following approval by the competition authorities, the sale of the gas distribution and supply companies in Italy was completed.

In March 2018, through its subsidiary Global Power Generation, Naturgy agreed to the acquisition of two solar photovoltaic projects in Brazil that became operational in December 2018.

In March 2018, following approval by the competition authorities, the sale of a 20% minority interest in the company Holding de Negocios de Gas, S.A., which owns the gas network assets in Spain, was completed.

In May 2018 the deadline expired for the acceptance of the tender offer for Gas Natural S.A. ESP, thereby completing the sale of the remaining 41.9% of the gas distribution business in Colombia.

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

- Gas and 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 of liquefied natural gas and maritime transportation.
    - Electricity generation Europe: includes both conventional generation (hydroelectric, coal, nuclear and combined cycle) and renewable generation (wind, small hydro, solar and cogeneration), all in Spain at present.
    - Electricity generation International: includes the electricity generating fleet of Global Power Generation (GPG), located in Latin America (Brazil, Chile, Costa Rica, Mexico, Panama, Dominican Republic and Puerto Rico, the latter carried by the equity method via EcoEléctrica LP) and Australia.
- Infrastructure EMEA:
    - Gas distribution Spain: encompasses the regulated gas distribution business in Spain.
    - Electricity distribution Spain: encompasses the regulated 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 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) and the corporation operating expenses.

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

| 6-month period ended 30 June 2019 | 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 | 238 | 451 | **7,115** | 573 | 413 | 39 | **1,025** | 308 | 881 | 1,528 | 5 | **2,722** | 322 | 448 | **770** | **7** | **-** | **11,639** |
| 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 | 834 | 456 | **8,901** | 615 | 435 | 165 | **1,215** | 308 | 881 | **1,528** | **5** | **2,722** | 333 | 448 | **781** | **68** | **(2,048)** | **11,639** |
| Procurements by segment | (5,661) | (1,377) | (455) | (242) | **(7,735)** | (41) | - | - | **(41)** | (202) | (709) | (1,093) | (3) | **(2,007)** | (188) | (350) | **(538)** | **(5)** | **1,985** | **(8,341)** |
| Net personnel expenses | (71) | (12) | (73) | (19) | **(175)** | (61) | (60) | (3) | **(124)** | (15) | (14) | (59) | (1) | **(89)** | (10) | (4) | **(14)** | **(99)** | **-** | **(501)** |
| Other operating income/expenses | (128) | (6) | (186) | (31) | **(351)** | (70) | (53) | (8) | **(131)** | (48) | (33) | (95) | (2) | **(178)** | (20) | (20) | **(40)** | **(10)** | **63** | **(647)** |
| EBITDA | 198 | 158 | 120 | 164 | **640** | 443 | 322 | 154 | **919** | 43 | 125 | **281** | (1) | **448** | 115 | 74 | **189** | **(46)** | **-** | **2,150** |
| Other results | | | | | **-** | | | | **-** | | | - | | **-** | - | | **-** | **20** | **-** | **20** |
| Depreciation, amortisation and impairment charges | (36) | (60) | (138) | (59) | **(293)** | (150) | (121) | (16) | **(287)** | (6) | (31) | (79) | (2) | **(118)** | (25) | (20) | **(45)** | **(51)** | **-** | **(794)** |
| Allocation to provisions | (38) | | | | **(38)** | 1 | 1 | | **2** | (9) | (1) | (9) | | **(19)** | (6) | (3) | **(9)** | **2** | **-** | **(62)** |
| EBIT | 124 | 98 | (18) | 105 | **309** | 294 | 202 | 138 | **634** | 28 | 93 | **193** | (3) | **311** | 84 | 51 | **135** | **(75)** | **-** | **1,314** |
| 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 | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **1,021** |
| Income tax | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | **-** | **-** | **(220)** |
| Profit/(loss) for the year from continuing operations | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **801** |
| Profit/(loss) for the year from discontinued operations | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | |
| Profit for the year | **-** | | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **801** |
| Investments in property, plant and equipment, intangible and rights of use assets (Note 5) (1) | **20** | **38** | **250** | **64** | **372** | **84** | **86** | **1** | **171** | **19** | **16** | **87** | **1** | **123** | **18** | **48** | **66** | **3** | **-** | **735** |

| 6-month period ended 30 June 2018 | 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 | 5,640 | 1,760 | 145 | 425 | **7,970** | 576 | 412 | 36 | **1,024** | 321 | 735 | 1,435 | 2 | **2,493** | 277 | 377 | **654** | **35** | **-** | **12,176** |
| Revenue between segments | 971 | 35 | - | 8 | **1,014** | 36 | 15 | 121 | **172** | - | - | - | - | **-** | - | - | **-** | **94** | **(1,280)** | **-** |
| Revenues between segments | 157 | - | 767 | - | **924** | - | - | - | **-** | - | - | - | - | **-** | - | - | **-** | **-** | **(924)** | **-** |
| Revenues by segment | 6,768 | 1,795 | 912 | 433 | **9,908** | 612 | 427 | 157 | **1,196** | 321 | 735 | **1,435** | **2** | **2,493** | 277 | 377 | **654** | **129** | **(2,204)** | **12,176** |
| Procurements by segment | (6,457) | (1,555) | (465) | (243) | **(8,720)** | (41) | - | - | **(41)** | (203) | (563) | (1,009) | (1) | **(1,776)** | (159) | (305) | **(464)** | **(28)** | **2,122** | **(8,907)** |
| Net personnel expenses | (64) | (2) | (56) | (19) | **(141)** | (43) | (39) | (2) | **(84)** | (17) | (20) | (73) | (1) | **(111)** | (16) | (6) | **(22)** | **(106)** | **-** | **(464)** |
| Other operating income/expenses | (192) | (5) | (225) | (30) | **(452)** | (96) | (72) | (12) | **(180)** | (58) | (42) | (142) | (2) | **(244)** | (24) | (21) | **(45)** | **38** | **82** | **(801)** |
| EBITDA | 55 | 233 | 166 | 141 | **595** | 432 | 316 | 143 | **891** | 43 | 110 | **211** | (2) | **362** | 78 | 45 | **123** | **33** | **-** | **2,004** |
| Other results | | | | | **-** | | | | **-** | | | - | | **-** | - | | **-** | **-** | **-** | **-** |
| Depreciation, amortisation and impairment charges | (31) | (36) | (4,147) | (82) | **(4,296)** | (146) | (119) | (26) | **(291)** | (2) | (30) | (79) | (46) | **(157)** | (20) | (17) | **(37)** | **(384)** | **-** | **(5,165)** |
| Allocation to provisions | (30) | | | | **(30)** | (2) | - | | **(2)** | (7) | (2) | (12) | - | **(21)** | (8) | (2) | **(10)** | | **-** | **(63)** |
| EBIT | (6) | 197 | (3,981) | 59 | **(3,731)** | 284 | 197 | 117 | **598** | 34 | 78 | **120** | (48) | **184** | 50 | 26 | **76** | **(351)** | **-** | **(3,224)** |
| Net financial income | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | **(306)** |
| Results of companies recorded by the equity method | - | | 7 | (7) | - | - | - | - | - | - | - | 15 | - | 15 | - | - | - | **(574)** | - | **(559)** |
| PROFIT BEFORE TAXES | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(4,089)** |
| Income tax | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | **-** | **-** | **926** |
| Profit/(loss) for the year from continuing operations | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(3,163)** |
| Profit/(loss) for the year from discontinued operations | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(15)** |
| Profit for the year | **-** | | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(3,178)** |
| Investments in property, plant and equipment and intangible assets (Note 5) (1) | **35** | **380** | **109** | **99** | **623** | **94** | **90** | **1** | **185** | **27** | **35** | **170** | **6** | **238** | **35** | **45** | **80** | **19** | **-** | **1,145** |

(1) Includes investment in property, plant, equipment and intangible and right of use 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 2019 are as follows:

| | Goodwill | Other intangible assets | Total intangible assets | Property, plant and equipment | Right-of-use assets |
|---|---|---|---|---|---|
| Gross cost | 3,215 | 7,683 | **10,898** | **36,970** | **-** |
| Sinking fund and impairment losses | - | (3,053) | **(3,053)** | **(16,263)** | **-** |
| **Carrying amount at 31.12.18** | **3,215** | **4,630** | **7,845** | **20,707** | **-** |
| **Impact of first-time application of IFRS 16 (Note 3.4.4)** | **-** | **-** | **-** | **(1,134)** | **1,458** |
| Gross cost | - | - | - | **(1,498)** | **1,822** |
| Sinking fund and impairment losses | - | - | - | **364** | **(364)** |
| **Carrying amount at 01.01.19** | **3,215** | **4,630** | **7,845** | **19,573** | **1,458** |
| Investment | - | 69 | **69** | **630** | **36** |
| Divestment | - | - | **-** | **(9)** | **-** |
| Depreciation, amortisation and impairment losses | - | (144) | **(144)** | **(573)** | **(77)** |
| Exchange differences | 15 | 109 | **124** | **126** | **-** |
| Reclassifications and other (1) | (5) | (1) | **(6)** | **(68)** | **-** |
| **Carrying amount at 30.06.19** | **3,225** | **4,663** | **7,888** | **19,679** | **1,417** |
| | | | | | |
| Gross cost | 3,225 | 7,863 | **11,088** | **35,975** | **1,857** |
| Sinking fund and impairment losses | - | (3,200) | **(3,200)** | **(16,296)** | **(440)** |
| **Carrying amount at 30.06.19** | **3,225** | **4,663** | **7,888** | **19,679** | **1,417** |

(1) Mainly includes transfers to "Non-current assets held for sale" of Empresa de Transmisión Eléctrica Transemel S.A at the date on which this classification is applied, June 2019 (Note 8).

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 2019, Naturgy had recognised fixed asset investment commitments totalling Euros 469 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.

As at June 2019, item “Depreciation, amortisation and impairment losses”, in “Property, plant and equipment”, includes the amount of Euros 20 Million relating to the full impairment of various assets.

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

| | 1.1.2019 | Exchange differences | Transfer held for sale | 30.06.2019 |
|---|---|---|---|---|
| Gas & Electricity | 1,639 | 4 | - | 1,643 |
| Renewable generation Spain | 743 | - | - | 743 |
| Supply of gas, electricity and services | 443 | - | - | 443 |
| International generation Mexico | 441 | 3 | - | 444 |
| International generation Chile | 4 | - | - | 4 |
| International generation Brazil | 8 | 1 | - | 9 |
| Infrastructure EMEA | 1,070 | - | - | 1,070 |
| Electricity distribution Spain | 1,070 | - | - | 1,070 |
| Infrastructure Latin America South | 356 | 10 | (5) | 361 |
| Gas distribution Brazil | 17 | - | - | 17 |
| Gas distribution Chile | 68 | 2 | - | 70 |
| Electricity distribution Chile | 271 | 8 | (5) | 274 |
| Infrastructure Latin America North | 150 | 1 | - | 151 |
| Gas distribution Mexico | 20 | - | - | 20 |
| Electricity distribution Panama | 130 | 1 | - | 131 |
| **Total** | **3,215** | **15** | **(5)** | **3,225** |

## Note 6. Financial assets

Set out below is a breakdown of financial assets as at 30 June 2019 and 31 December 2018, by nature and category:

| At 30 June 2019 | Fair value through other comprehensive income | Fair value through profit and loss | Amortised cost | Total |
|---|---|---|---|---|
| Equity instruments | 268 | 94 | - | **362** |
| Derivatives | 8 | 14 | - | **22** |
| Other financial assets | - | - | 521 | **521** |
| **Non-current financial assets** | **276** | **108** | **521** | **905** |
| Derivatives | 2 | - | - | **2** |
| Other financial assets | - | - | 324 | **324** |
| **Current financial assets** | **2** | - | **324** | **326** |
| **Total financial assets at 30.06.2019** | **278** | **108** | **845** | **1,231** |

| At 31 December 2018 | Fair value through other comprehensive income | Fair value through profit and loss | Amortised cost | Total |
|---|---|---|---|---|
| Equity instruments | 262 | 85 | - | **347** |
| Derivatives | 11 | 7 | - | **18** |
| Other financial assets | - | - | 545 | **545** |
| **Non-current financial assets** | **273** | **92** | **545** | **910** |
| Derivatives | 6 | 24 | - | **30** |
| Other financial assets | - | - | 398 | **398** |
| **Current financial assets** | **6** | 24 | **398** | **428** |
| **Total financial assets at 31.12.2018** | **279** | **116** | **943** | **1,338** |

Financial assets recognised at fair value at 30 June 2019 and at 31 December 2018 are classified as follows:

| | 30 June 2019 | | | | 31 December 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| **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 | - | 10 | 268 | **278** | - | 17 | 262 | **279** |
| Fair value through profit or loss | - | 14 | 94 | **108** | - | 31 | 85 | **116** |
| **Total** | **-** | **24** | **362** | **386** | **-** | **48** | **347** | **395** |

### Fair value through other comprehensive income

- Equity instruments:

  Mainly includes the 85.4% interest in Electrificadora del Caribe, S.A. ESP (Electricaribe). On 14 November 2016, the Superintendence for Residential Public Services of the Republic of Colombia (“the Superintendence”) reported the government take-over of Electricaribe, a Naturgy investee, as well as the separation of the members of the governing body and the general manager, and their replacement by a special agent appointed by the Superintendence. On 14 March 2017 the Superintendence announced the decision to liquidate Electricaribe. On 22 March 2017 Naturgy initiated arbitration proceedings before the Court of the United Nations Commission for International Trade Law (UNCITRAL) and on 15 June 2018 it lodged a complaint in which it claimed approximately 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.

  At 31 December 2018, this holding was valued at Euros 253 million. 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 253 million for the 85.4% shareholding, entailing the recognition of a decrease in the fair value of this investment of Euros 163 million. The value of this holding was updated as at 30 June 2019 on the basis of the fluctuations in the Colombian peso and stands at Euros 259 million.

### Fair value through profit and loss

- Equity instruments: the 14.9% stake in Medgaz, S.A., the company that operates the undersea pipeline between Algeria and Spain, for an amount of Euros 94 million (Euros 85 million as at 31 December 2018) whose fair value is determined by discounting the cash flows from future dividends.

### Amortised cost

At 30 June 2019, the "Amortised cost" item mainly included:

- Temporary mismatches between gas system revenues and costs accumulated in 2017, 2018 and 2019, funded by Naturgy pursuant to Law 18/2014 of 17 October, in the amount of Euros 28 million (Euros 138 million as at 31 December 2018). This amount will be recovered through the gas system settlements. The amount outstanding following the settlements for the year, which is financed by the Company, can be collected in the following five years, plus interest at a market rate. The amount of this financing has been recognised in long-term and short-term items based on the estimated recovery period.

- The temporary mismatches between electricity system revenues and costs funded by Naturgy pursuant to Law 24/2013 of 26 December, in the amount of Euros 102 million (Euros 81 million as at 31 December 2018). 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.

## Note 7. 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 2019 and 31 December 2018, by nature and category, is as follows:

| At 30 June 2019 | Fair value through profit and loss | Fair value through other comprehensive income | Amortised cost | Total |
|---|---|---|---|---|
| Derivatives | - | 120 | - | **120** |
| Other assets | - | - | 183 | **183** |
| **Other non-current assets** | **-** | **120** | **183** | **303** |
| Derivatives | 3 | 74 | - | **77** |
| Other assets | - | - | 4,117 | **4,117** |
| **Current trade and other receivables** | **3** | **74** | **4,117** | **4,194** |
| **Total** | **3** | **194** | **4,300** | **4,497** |

| At 31 December 2018 | Fair value through profit and loss | Fair value through other comprehensive income | Amortised cost | Total |
|---|---|---|---|---|
| Derivatives | - | 162 | - | **162** |
| Other assets | - | - | 172 | **172** |
| **Other non-current assets** | **-** | **162** | **172** | **334** |
| Derivatives | - | 45 | - | **45** |
| Other assets | - | - | 5,089 | **5,089** |
| **Current trade and other receivables** | **-** | **45** | **5,089** | **5,134** |
| **Total** | **-** | **207** | **5,261** | **5,468** |

Financial assets recognised at fair value at 30 June 2019 and at 31 December 2018 are classified as follows:

| | 30 June 2019 | | | | 31 December 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Level 1 (listed price in an active market)** | **Level 2 (observable variables)** | **Level 3 (unobservable variables)** | **Total** | **Level 1 (listed price on active markets)** | **Level 2 (observable variables)** | **Level 3 (unobservable variables)** | **Total** |
| Fair value through profit and loss | **-** | 3 | **-** | **3** | **-** | **-** | **-** | **-** |
| Fair value through other comprehensive income | - | 194 | - | **194** | - | 207 | - | **207** |
| **Total** | **-** | **197** | **-** | **197** | **-** | **207** | **-** | **207** |

### 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. 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 a cash-flow hedges.

### Amortised cost

At 30 June 2019, the accumulated balances for electricity and gas sales yet to be invoiced are included under "Trade receivables" and amount to Euros 2,015 million (Euros 1,748 million at 31 December 2018).

## Note 8. Non-current assets and disposal groups of assets held for sale and discontinued operations

At 30 June 2019 and 31 December 2018, non-current assets held for sale relate to the electricity generation business in Kenya and the electricity distribution business in Moldova.

- As a result of the strategic review of its businesses, Naturgy commenced a competitive process for the sale of 100% of Iberafrica Power Limited, in Kenya. On 27 June 2018, Naturgy reached a sale agreement with AEP Energy Africa Limited for a total enterprise value of US$ 62 million. Following several deferrals, notice was given to AEP of termination of the agreement in March 2019 and the sale process continues. To estimate the fair value less costs to sell as required by IFRS 5, the level 3 valuation was updated using the bids received less selling costs.

- In April 2019, Naturgy signed an agreement with Duet Private Equity Limited for the sale of 100% of its electricity distribution subsidiaries in Moldova, which were classified as held for sale as at 31 December 2017. The transactions values the equity in the subsidiaries at Euros 141 million, including dividends prior to closure of the transaction (Euros 48 million in 2018 and Euros 68 million in 2019), which is expected to take place in the next few weeks. For the estimation of the fair value minus the sale costs required by IFRS 5, the Level 3 valuation was updated taking into account the sale price minus the selling costs.

As Naturgy has sold or has a firm commitment to sell these assets, which are clearly identified, the process is under way and it is considered that the sale is highly probable, or the sale has already been completed, the accounting balances of these assets and liabilities were transferred to "Non-current assets held for sale" and "Liabilities related to non-current assets held for sale", in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations". In addition, it was considered that these are discontinued operations as they are components classified as held for sale which represent a significant and separate line of business or area of operation. Therefore, all revenues and expenses pertaining to these lines of business for the six-month periods ended 30 June 2019 and 2018 are disclosed under "Profit for the year from discontinued operations, net of taxes".

Additionally, as at 30 June 2019, this item also includes 100% of the subsidiary Empresa de Transmisión Eléctrica Transemel, S.A. that carries out electricity transportation activity in Chile which is in an ongoing sale process, the holdings in the associated companies of Compañía General de Electricidad, S.A. (CGE), that carries on the distribution of electricity activity in Argentina (Note 22). Since in both cases the expected sale value of these holdings exceeds their net carrying amount, no valuation impact was recognised according to IFRS 5. On the other hand, by not representing a business line or a significant exploitation geographical area separated from the rest, it has not been considered as interrupted operations.

The following businesses were sold in the first half of 2018:

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

- On 17 November 2017, Naturgy entered into a binding agreement with Brookfield Infrastructure for the sale of its 59.1% interest in Gas Natural SA ESP, a Colombian company engaged in the distribution and retail supply of gas, for 1,678,927 million Colombian pesos (Euros 468 million). In the first phase, which was completed in December 2017 by means of a number of sale transactions on the Colombian stock exchange, the holding was reduced to 41.9%. On 1 June 2018, the tender offer for Gas Natural, S.A. ESP was settled, completing the sale of the outstanding 41.9% for Euros 334 million, equivalent to the net carrying amount of the dividends received, with the result that there was no impact on the consolidated income statement.

- On 27 June 2018. Naturgy reached a preliminary agreement for the sale of its 70% interest in Kangra Coal Proprietary Limited (mining business in South Africa) to Menar Holding. To estimate the fair value less costs to sell as required by IFRS 5, a Level 3 valuation was made taking into account the price of the sale offer received less costs to sell. Given that previously, in March 2018, an impairment of Euros 140 million had been projected, the result of the reduction in the carrying amount of the resulting investment amounting to Euros 141 million did not have a significant additional impact, nor did the final sale of the company. The transaction was completed in December 2018 after the deadlines had passed, the procedures established in the shareholder agreement had been completed, and the necessary approvals had been obtained from the regulator and the competition authorities.

At 30 June 2019, the detail by nature of assets classified as held for sale and the associated liabilities is as follows:

| **2019** | **Electricity distribution Moldova** | **International electricity Kenya** | **Empresa de Transmisión Eléctrica Transemel S.A.** | **Associated companies of CGE (electricity distribution Argentina)** | **Total** |
|---|---|---|---|---|---|
| Intangible assets | 1 | - | 26 | - | 27 |
| Property, plant and equipment | 61 | 41 | 72 | - | 174 |
| Investments recorded using the equity method | - | - | - | 12 | 12 |
| Non-current financial assets | 1 | - | - | - | 1 |
| **NON-CURRENT ASSETS** | **63** | **41** | **98** | **12** | **214** |
| Inventories | - | 8 | - | - | 8 |
| Trade and other receivables | 30 | 10 | 9 | - | 49 |
| Other current financial assets | - | 1 | - | - | 1 |
| Cash and cash equivalents | 13 | - | - | - | 13 |
| **CURRENT ASSETS** | **43** | **19** | **9** | **-** | **71** |
| **TOTAL ASSETS** | **106** | **60** | **107** | **12** | **285** |
| | | | | | |
| Grants | 9 | - | - | - | 9 |
| Non-current provisions | 1 | - | - | - | 1 |
| Non-current financial liabilities | - | - | 9 | - | 9 |
| Deferred tax liabilities | 1 | 9 | 8 | - | 18 |
| **NON-CURRENT LIABILITIES** | **11** | **9** | **17** | **-** | **37** |
| Current financial liabilities | - | 30 | 17 | - | 47 |
| Trade and other payables | 35 | 2 | 3 | - | 40 |
| Other current liabilities | 38 | 5 | - | - | 43 |
| **CURRENT LIABILITIES** | **73** | **37** | **20** | **-** | **130** |
| **TOTAL LIABILITIES** | **84** | **46** | **37** | **-** | **167** |

At 31 December 2018, the detail by nature of assets classified as held for sale and the associated liabilities is as follows:

| 2018 | Electricity distribution Moldova | International electricity Kenya | Total |
|---|---|---|---|
| Intangible assets | 1 | - | 1 |
| Property, plant and equipment | 64 | 41 | 105 |
| Non-current financial assets | 1 | - | 1 |
| Deferred tax assets | 1 | - | 1 |
| **NON-CURRENT ASSETS** | **67** | **41** | **108** |
| Inventories | - | 8 | 8 |
| Trade and other receivables | 35 | 10 | 45 |
| Cash and cash equivalents | 41 | - | 41 |
| **CURRENT ASSETS** | **76** | **18** | **94** |
| **TOTAL ASSETS** | **143** | **59** | **202** |
| | | | |
| Grants | 9 | - | 9 |
| Non-current provisions | 1 | - | 1 |
| Deferred tax liabilities | 1 | 9 | 10 |
| **NON-CURRENT LIABILITIES** | **11** | **9** | **20** |
| Current financial liabilities | 3 | 30 | 33 |
| Trade and other payables | 33 | 2 | 35 |
| Other current liabilities | - | 5 | 5 |
| **CURRENT LIABILITIES** | **36** | **37** | **73** |
| **TOTAL LIABILITIES** | **47** | **46** | **93** |

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 | Total |
|---|---|---|---|
| Net sales | 155 | 18 | 173 |
| Procurements | (126) | (5) | (131) |
| Other operating income | - | - | - |
| Personnel costs | (4) | (2) | (6) |
| Other operating expenses | (7) | (2) | (9) |
| Release of fixed asset grants to income and other | - | - | - |
| **EBITDA** | **18** | **9** | **27** |
| Depreciation, amortisation and impairment charges | - | - | - |
| Impairment of credit losses | - | - | - |
| Other results | (14) | (6) | (20) |
| **EBIT** | **4** | **3** | **7** |
| Financial income | - | - | - |
| Financial expenses | (1) | (1) | (2) |
| Variations in fair value of financial instruments | - | - | - |
| Exchange differences | - | - | - |
| **NET FINANCIAL REVENUES/(EXPENSES)** | **(1)** | **(1)** | **(2)** |
| Equity-accounted affiliates | - | - | - |
| **PROFIT BEFORE TAXES** | **3** | **2** | **5** |
| Income tax | (3) | (2) | (5) |
| **PROFIT FOR THE YEAR** | **-** | **-** | **-** |
| Attributable to: | | | |
| the parent company | - | - | - |
| 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 2018 is as follows:

| 2018 | Gas distribution Italy | Gas distribution Colombia | Electricity distribution Moldova | Gas supply Italy | International electricity Kenya | Mining South Africa | Total |
|---|---|---|---|---|---|---|---|
| Net sales | 7 | - | 149 | 36 | 17 | 41 | 250 |
| Procurements | - | - | (123) | (30) | (7) | (21) | (181) |
| Other operating income | 2 | - | - | 1 | 1 | - | 4 |
| Personnel costs | (1) | - | (5) | (2) | (1) | (11) | (20) |
| Other operating expenses | (3) | - | (7) | (1) | (4) | (8) | (23) |
| Release of fixed asset grants to income and other | - | - | - | - | - | - | - |
| **EBITDA** | **5** | **-** | **14** | **4** | **6** | **1** | **30** |
| Depreciation, amortisation and impairment charges | - | - | - | - | - | (13) | (13) |
| Impairment of credit losses | - | - | - | (1) | - | - | (1) |
| Other results [1] | 58 | - | (73) | 130 | (7) | (141) | (33) |
| **EBIT** | **63** | **-** | **(59)** | **133** | **(1)** | **(153)** | **(17)** |
| Financial income | - | - | 1 | - | - | 1 | 2 |
| Financial expenses | - | - | (1) | - | (2) | (1) | (4) |
| Variations in fair value of financial instruments | - | - | - | - | - | - | - |
| Exchange differences | - | - | - | - | - | - | - |
| **NET FINANCIAL REVENUES/(EXPENSES)** | **-** | **-** | **-** | **-** | **(2)** | **-** | **(2)** |
| Equity-accounted affiliates | - | 7 | - | - | | | 7 |
| **PROFIT BEFORE TAXES** | **63** | **7** | **(59)** | **133** | **(3)** | **(153)** | **(12)** |
| Income tax | (1) | | (2) | (1) | (2) | 3 | (3) |
| **PROFIT FOR THE YEAR** | **62** | **7** | **(61)** | **132** | **(5)** | **(150)** | **(15)** |
| Attributable to: | | | | | | | |
| the parent company | 62 | 7 | (61) | 132 | (4) | (110) | 26 |
| Non-controlling interest | - | - | - | - | (1) | (40) | (41) |

[1] Includes the capital gain on the sale of the holding in Italy (Euros 188 million) and the impacts of the impairment to adjust the carrying amount of the investment to fair value less costs of sale as well as the impairment recognised previously.

Set out below is a breakdown of the total comprehensive income from this business during the six-month periods ended 30 June 2019 and 2018:

| 2019 | Electricity distribution Moldova | International electricity Kenya | Total |
|---|---|---|---|
| **Consolidated profit/(loss) for the year** | **-** | **-** | **-** |
| **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** | **(4)** |

| 2018 | Gas distribution Italy | Gas distribution Colombia | Electricity distribution Moldova | Gas supply Italy | International electricity Kenya | Mining South Africa | Total |
|---|---|---|---|---|---|---|---|
| **Consolidated profit/(loss) for the year** | **62** | **7** | **(61)** | **132** | **(5)** | **(150)** | **(15)** |
| **Other comprehensive income recognised directly in equity:** | | | | | | | |
| Financial assets at fair value through other comprehensive income | - | - | - | - | - | (18) | **(18)** |
| Exchange differences | - | - | 8 | - | - | (8) | **-** |
| **Transfers to the income statement** | | | | | | | |
| Exchange differences | - | - | - | - | - | - | **-** |
| **Total comprehensive income for the year** | **62** | **7** | **(53)** | **132** | **(5)** | **(176)** | **(33)** |

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:** | **2019** | **2018** |
| Operation | 31 | 48 |
| Investment | - | (6) |
| Financing | - | - |

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

## Note 9. Net equity

### Share capital and share premium

There were no changes in the number of shares or in the "Share capital" and "Share premium" accounts during the first half of 2019 or during 2018.

On 22 February 2018, Repsol, S.A. concluded an agreement with Rioja Bidco Shareholdings, S.L.U., a company controlled by funds advised by CVC, for the sale of 20.072% of the capital of Naturgy Energy Group, S.A. On 18 May 2018, the transaction was completed and Repsol, S.A. ceased to be a shareholder of that company.

### Own shares

Movements during the first half of 2019 and 2018 involving own shares of Naturgy Energy Group, S.A. are as follows:

| | Number of shares | In million euro | % Capital |
|---|---|---|---|
| **At 1 January 2019** | **14,037,332** | **321** | **1.4** |
| Acquisitions | 11,501,840 | 286 | 1.1 |
| Delivered to employees | (310,812) | (7) | - |
| Disposals | - | - | - |
| **At 30 June 2019** | **25,228,360** | **600** | **2.5** |

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

No own shares were disposed of in the first half of 2019. In the first half of 2018, the loss on transactions involving own shares amounted to Euros 0.1 million, recognised under “Other reserves”.

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

- Long-term variable incentive plan: During 2018, Naturgy acquired 8,639,595 own shares at an average price of Euros 23.15/share for a total of Euros 200 million, the objective of which is to cover the potential delivery of shares derived from the increase in the value of the shares involved in the long-term variable incentive plan.

- Share 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, whose amortisation 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 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 have been given to, there being a 21,570 shares surplus.

On 23 July 2019, the Company's Board of Directors resolved to execute the capital reduction approved by the Shareholders' Meeting on 5 March 2019, by virtue of which it resolved to reduce the capital stock of Naturgy Energy Group, S.A. by the amount resulting from the sum of:

a) Euros 3 million, through the amortisation 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 amortisation; 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).

Accordingly, insofar as Naturgy Energy Group, S.A. has acquired a total of 13,568,573 shares under the buyback programme approved in item b, the Board of Directors set the amount of the capital reduction at Euros 17 million (the "Capital Reduction") and resolved to proceed with that reduction. The Capital Reduction will be carried out through the amortisation of 16,567,195 own shares with a par value of Euros 1 each, representing approximately 1.65% of the Company's capital stock at the time of adoption of this resolution. After the Capital Reduction, the share capital will be established at 984 million euros and will be composed of 984,122,146 shares with a nominal value of 1 Euro each.

Movements during 2019 and 2018 in own shares of Compañía General de Electricidad, S.A. and CGE Gas Natural, S.A. are as follows:

| | | Number of shares | In million euro |
|---|---|---|---|
| | **Compañía General de Electricidad, S.A.** | **CGE Gas Natural, S.A.** | |
| **At 1 January 2019** | **4,087,225** | **-** | **4** |
| Acquisitions | - | - | - |
| Amortisation | (1,936,176) | - | (2) |
| **At 30 June 2019** | **2,151,049** | **-** | **2** |

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

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

On 30 November 2017 an extraordinary shareholders' meeting was held by Compañía General de Electricidad S.A. which approved the merger between the company and its subsidiaries CGE Distribución S.A., Compañía Nacional de Fuerza Eléctrica, S.A. and Empresa Eléctrica Atacama, S.A. As a result of this operation the shareholders of both companies were allowed a right of withdrawal, under which they could sell their shares to the company. This right was exercised by a total of 60 shareholders holding 1,936,176 shares.

On 31 May 2018 an extraordinary shareholders' meeting was held which approved the merger by absorption of Empresa Eléctrica de Arica S.A., Empresa Eléctrica de Iquique S.A. and Empresa Eléctrica de Antofagasta S.A. into Compañía General de Electricidad S.A. As a result of this operation the shareholders of both companies were allowed a right of withdrawal, under which they could sell their shares to the company. This right was exercised by 66 shareholders holding 2,151,049 shares.

Treasury shares resulting from exercising the right of withdrawal must be disposed of in the securities market within a maximum of one year, at the end of which they must be amortised if they have not been sold. In 2019, capital stock was reduced since 1,936,1876 own shares had not been subscribed for by the deadline of one year from their payment date (5,105,914 shares in 2018).

**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.

| | 30.06.19 | 30.06.18 |
|---|---|---|
| Income attributable to equity holders of the parent company | 592 | (3,281) |
| Weighted average number of ordinary shares outstanding | 981,561,321 | 1,000,462,104 |
| Profit/(loss) per share from continuing operations (in Euros): | | |
| - Basic | 0.60 | (3.31) |
| - Diluted | 0.60 | (3.31) |
| Profit/(loss) per share from discontinued operations (in Euros): | | |
| - Basic | - | 0.03 |
| - Diluted | - | 0.03 |

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

| | 2019 | 2018 |
|---|---|---|
| Weighted average number of ordinary shares | 1,000,689,341 | 1,000,689,341 |
| Weighted average number of treasury shares | (19,128,020) | (227,237) |
| Weighted average number of shares outstanding | 981,561,321 | 1,000,462,104 |

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, Note 14 of Consolidated Annual Accounts al 31 december 2018, in the calculation of diluted earnings per share were not met as at 30 June 2019.

**Dividends**

Set out below is a breakdown of the payments of dividends made in the six-month period ended 30 June 2019 and 2018:

| | 30.06.2019 | | | 30.06.2018 | | |
|---|---|---|---|---|---|---|
| | % of Nominal | Euros per share | Amount [1] | % of Nominal | Euros per share | Amount |
| Ordinary shares | 57% | 0.57 | 565 | - | - | - |
| Other shares (non-voting, redeemable, etc.) | - | - | - | - | - | - |
| **Total dividends paid** | **-** | **-** | **-** | **-** | **-** | **-** |
| a) Dividends charged to income statement | - | - | - | - | - | - |
| b) Dividends charged to reserves or share premium account | - | - | - | - | - | - |
| c) Dividends in kind | - | - | - | - | - | - |

[1] It includes an amount of Euros 5 million of the dividend collected by the group company Naturgy Alfa Investments, S.A.U.

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, payable on 31 July 2019.

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

| | | |
|---|---|---|
| Profit after tax | | 838 |
| Reserves to be recognised | | - |
| 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

30 June 2018

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

The Company's Board of Directors declared an interim dividend for 2018 of Euros 0.280 per share, which was paid entirely in cash on 31 July 2018.

**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 2018 consolidated annual accounts as a result of the euro's fluctuation against the main currencies of Naturgy's foreign companies.

**Non-controlling interest**

Movements in non-controlling interests during the six-month period ended 30 June 2019 are as follows:

| **Balance at 31 December 2018** | **3,647** |
|---|---|
| Total comprehensive income for the period | 230 |
| Distribution of dividends | (345) |
| Payments for remuneration on other equity instruments | (18) |
| Expiration of Naturgy Mexico put option | 69 |
| Amortisation of own shares CGE, S.A. | (4) |
| **Balance at 30 June 2019** | **3,579** |

As of 31 December 2018 it was included in the heading “Other current liabilities” the purchase commitment without a Premium made on 22 September 2008 and renewed on june 2013 to Sinca Inbursa, S.A. de C.V. (Inbursa) covering the 14.125% of Naturgy México, S.A. de C.V. (previously Gas Natural México, S.A. de C.V.) and the 14% of Sistemas de Administración, S.A. de C.V. amounting 69 euro million.

The put option expired in May 2019 without Inbursa having exercised it so the liability cancellation and the increase on Non-controlling interest has been recorded as a patrimonial transaction as this was a variation in stakes that did not entail a loss of control, entailing an increase in the balance of the "Non-controlling interests" account in the amount of Euros 69 million, a reduction in "Other liabilities" in the amount of Euros 69 million, a negative impact on "Reserves" in the amount of Euros 27 million and a positive impact on "Exchange differences" in the amount of Euros 27 million.

## Note 10. Provisions

The breakdown of provisions at 30 June 2019 and 31 December 2018 is as follows:

| | 30.06.19 | 31.12.18 |
|---|---|---|
| Provisions for employee obligations | 410 | 431 |
| Other provisions | 717 | 694 |
| **Total non-current provisions** | **1,127** | **1,125** |
| **Total current provisions** | **227** | **297** |
| **Total** | **1,354** | **1,422** |

The "Other provisions" heading mainly includes provisions set up to cover obligations derived from decommissioning and tax claims, as well as lawsuits and arbitration, insurance and other liabilities. Note 21 contains further information on contingent liabilities.

## Note 11. Borrowings

Set out below is a breakdown of financial liabilities, excluding "Trade and other payables", at 30 June 2019 and 31 December 2018, by nature and category:

| At 30 June 2019 | Creditors and payables | Hedging derivatives | Total |
|---|---|---|---|
| Bank borrowings | 4,883 | - | **4,883** |
| Bonds and other negotiable securities | 8,889 | - | **8,889** |
| Derivatives | - | 99 | **99** |
| Lease liabilities (Note 3.4.4) | 1,387 | - | **1,387** |
| **Non-current financial liabilities** | **15,159** | **99** | **15,258** |
| Bank borrowings | 884 | - | **884** |
| Bonds and other negotiable securities | 1,910 | - | **1,910** |
| Derivatives | - | 44 | **44** |
| Lease liabilities (Note 3.4.4) | 224 | - | **224** |
| Other financial liabilities | 19 | - | **19** |
| **Current financial liabilities** | **3,037** | **44** | **3,081** |
| **Total financial liabilities at 30.06.2019** | **18,196** | **143** | **18,339** |

| At 31 December 2018 | Creditors and payables | Hedging derivatives | Total |
|---|---|---|---|
| Bank borrowings | 3,534 | - | **3,534** |
| Bonds and other negotiable securities | 9,763 | - | **9,763** |
| Derivatives | - | 55 | **55** |
| **Non-current financial liabilities** | **13,297** | **55** | **13,352** |
| Bank borrowings | 1,043 | - | **1,043** |
| Bonds and other negotiable securities | 995 | - | **995** |
| Derivatives | - | 30 | **30** |
| Other financial liabilities | 11 | - | **11** |
| **Current financial liabilities** | **2,049** | **30** | **2,079** |
| **Total financial liabilities at 31.12.2018** | **15,346** | **85** | **15,431** |

Financial liabilities recognised at fair value at 30 June 2019 and at 31 December 2018 are classified as follows:

| | 30 June 2019 | | | | 31 December 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| **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 (unobservable variables)** | **Total** |
| Hedging derivatives | - | 143 | - | **143** | - | 85 | - | **85** |
| **Total** | **-** | **143** | **-** | **143** | **-** | **85** | **-** | **85** |

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

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | **30.06.19** | **31.12.18** | **30.06.19** | **31.12.18** |
| Issuance of bonds and other negotiable securities | 8,889 | 9,763 | 10,011 | 10,529 |
| Bank borrowings and other financial liabilities | 4,883 | 3,534 | 4,922 | 3,570 |

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 2019 and 31 December 2018 for borrowings with similar credit and maturity characteristics. These valuations are based on the listed price of similar financial instruments in an active market or on observable information in an active market (Level 2).

In the first half of 2019 and 2018, the movements in debt securities were as follows:

| | At 01/01/2019 | Issuances | Buy-backs or redemptions | Business combinations | Interest, exchange rate, etc. | At 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** |

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

The total amount utilised in the Euro Medium Term Note (EMTN) programme stands at Euros 9,267 million (Euros 9,708 million at 31 December 2018). The programme limit at 30 June 2019 is Euros 15,000 million (Euros 15,000 million at 31 December 2018). 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 (Euros 3,044 million in the same period of 2018). As at 30 June 2019, the outstanding balance of issues under the ECP programme stood at Euros 500 million (there were no outstanding issues at 31 December 2018).

The increase in the section “Bank borrowings” mainly corresponds to the formalization by the subsidiary Global Power Generation S.A. of a new syndicated loan for USD 1,500 million (Euros 1,318 million) with a 5 year maturity. This amount includes a USD 125 million credit line (Euros 110 million) which has not been drawn down and a tranche in Mexican Pesos for Euros 163 million which has been drawn down by the subsidiary Fuerza y Energía Bii Hioxo S.A. de C.V. In addition, the subsidiary Crookwell Developement Pty Ltd (GPG Australia) has disposed a new loan for Euros 98 million with a 7 refinanceable year maturity and Naturgy Mexico S.A. de C.V. has disposed new loans for Euros 92 million for 3 years.

## Note 12. Net sales

The breakdown of this heading in the first half of 2019 and 2018 is as follows, by category with the relevant operating segment reporting structure:

| For the period ended 30 June 2019 | Gas & Electricity | Infrastructure EMEA | Infrastructure LatAm South | Infrastructure LatAm North | Other | Total |
|---|---|---|---|---|---|---|
| Sales of gas and access to distribution networks | 3,058 | 585 | 1,529 | 302 | - | 5,474 |
| Sales of electricity and access to distribution networks | 2,043 | 401 | 1,124 | 447 | - | 4,015 |
| 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** | **7,115** | **1,025** | **2,722** | **770** | **7** | **11,639** |

| For the period ended 30 June 2018 | Gas & Electricity | Infrastructure EMEA | Infrastructure LatAm South | Infrastructure LatAm North | Other | Total |
|---|---|---|---|---|---|---|
| Sales of gas and access to distribution networks | 3,179 | 579 | 1,336 | 258 | 5 | 5,357 |
| Sales of electricity and access to distribution networks | 2,536 | 404 | 1,069 | 376 | - | 4,385 |
| LNG sales | 1,795 | - | - | - | - | 1,795 |
| Registrations and facility checks | 13 | 19 | 6 | 6 | - | 44 |
| Assignment of power generation capacity | 137 | - | - | - | - | 137 |
| Meter and facility rental | 164 | 16 | 6 | - | - | 186 |
| Other revenues | 146 | 6 | 76 | 14 | 30 | 272 |
| **Total** | **7,970** | **1,024** | **2,493** | **654** | **35** | **12,176** |

*Reporting by geographic area*

Naturgy's revenue for first half of 2019 and 2018 by country is analysed below:

| | For the period ended 30 June | |
|---|---|---|
| | **2019** | **2018** |
| Spain | 5,031 | 5,775 |
| Rest of Europe | 1,346 | 1,394 |
| France | 772 | 746 |
| Portugal | 236 | 222 |
| Belgium | 76 | 77 |
| Ireland | 66 | 88 |
| The Netherlands | 57 | 66 |
| Germany | 45 | 44 |
| United Kingdom | 30 | 64 |
| Italy | 11 | 42 |
| Rest of Europe | 53 | 45 |
| Latin America | 4,353 | 3,836 |
| Chile | 1,628 | 1,507 |
| Brazil | 1,039 | 761 |
| Mexico | 591 | 654 |
| Panama | 449 | 379 |
| Argentina | 315 | 337 |
| Puerto Rico | 192 | 98 |
| Dominican Republic | 85 | 81 |
| Other Latin America | 54 | 19 |
| Other | 909 | 1,171 |
| India | 165 | 180 |
| China | 121 | 213 |
| Japan | 116 | 169 |
| South Corea | 101 | - |
| Pakistan | 58 | 112 |
| Rest | 348 | 497 |
| **Total** | **11,639** | **12,176** |

### Note 13. Procurements

Set out below is a breakdown of this heading for the six-month period in 2019 and 2018:

| | For the period ended 30 June | |
|---|---|---|
| | **2019** | **2018** |
| Energy purchases | 7,272 | 7,683 |
| Access to transmission networks | 815 | 1,021 |
| Other purchases and changes in inventories | 254 | 203 |
| **Total** | **8,341** | **8,907** |

### Note 14. Personnel costs

Set out below is a breakdown of this heading for the six-month period in 2019 and 2018:

| | For the period ended 30 June | |
|---|---|---|
| | **2019** | **2018** |
| Wages and salaries | 324 | 366 |
| Termination benefits | 110 | 24 |
| Social security costs | 55 | 61 |
| Defined contribution plans | 16 | 21 |
| Share-based payments | 2 | - |
| Own work capitalised | (49) | (56) |
| Other | 43 | 48 |
| **Total** | **501** | **464** |

The average number of employees of Naturgy for the six-month periods ended 30 June 2019 and 2018 is as follows:

| | For the period ended 30 June | |
|---|---|---|
| | **2019** | **2018** |
| Men | 8,540 | 10,198 |
| Women | 3,763 | 4,284 |
| **Total** | **12,303** | **14,482** |

The average number of employees of Naturgy and of the joint ventures, pro-rated by the company's percentage stake, was 190 (191 as at 30 June 2018).

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 8) or of companies carried by the equity method, as detailed below:

| | **2019** | **2018** |
|---|---|---|
| Discontinued operations | 781 | 2,351 |
| Equity-accounted companies | 827 | 824 |

## Note 15. Other operating expenses

Set out below is a breakdown of this heading for the six-month period in 2019 and 2018:

| | For the period ended 30 June | |
|---|---|---|
| | **2019** | **2018** |
| Taxes | 188 | 237 |
| Operation and maintenance | 171 | 188 |
| Advertising and other commercial services | 87 | 101 |
| Professional services and insurance | 49 | 67 |
| Supplies | 33 | 39 |
| Construction or refurbishment services | 34 | 56 |
| Services to customers | 32 | 36 |
| Leases | 9 | 34 |
| Other | 137 | 153 |
| Total | **740** | **911** |

## Note 16. Depreciation, amortisation and impairment losses

Set out below is a breakdown of this heading for the six-month period in 2019 and 2018:

| | For the period ended 30 June | |
|---|---|---|
| | **2019** | **2018** |
| Depreciation and amortisation charge | 774 | 832 |
| Impairment losses | 20 | 4,333 |
| **Total** | **794** | **5,165** |

In Note 5 of the consolidated annual accounts as of 31 December 2018 is included information on 2018 impairment losses on non-financial assets.

## Note 17. Net financial income

Set out below is a breakdown of this heading for the six-month period in 2019 and 2018:

| | For the period ended 30 June | |
|---|---|---|
| | **2019** | **2018** |
| Dividends | 8 | 8 |
| Interest income | 9 | 12 |
| Other financial revenues | 31 | 36 |
| **Total financial revenues** | **48** | **56** |
| Cost of borrowings (1) | (317) | (286) |
| Interest expense for pension plans | (8) | (6) |
| Other financial expense | (49) | (70) |
| **Total financial expense** | **(374)** | **(362)** |
| Fair value of financial instruments: | (5) | (1) |
| Equity instruments (Note 6) | 9 | - |
| Derivative financial instruments | (14) | (1) |
| Net exchange differences | - | 1 |
| **Net financial income** | **(331)** | **(306)** |

(1) The 2019 figures include interest on finance leases which are classified under Financial Debt as a result of the entry into force of IFRS 16 (Note 3.4.4). In 2018 interest expenses from financial leases was included in Other financial expenses (34 million euros).

## Note 18. Tax situation

The corporate income tax expense is as follows:

| | For the period ended 30 June 2019 | 2018 |
|---|---|---|
| Current-year tax | 191 | 5 |
| Deferred tax | 29 | (931) |
| **Total** | **220** | **(926)** |

The effective tax rate as at 30 June 2019, based on the best estimate of the effective tax rate for the full year, was 21.5%, compared with 21.7% in the same period of the previous year, without considering the non-recurring impacts occurred in the first half of 2018:

- Part of the asset impairments and write-downs recognised as at 30 June 2018 will be tax deductible in future periods and, accordingly, temporary differences have been identified, recognising deferred tax revenue in the amount of Euros 904 million.

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

## Note 19. Information on transactions with related parties

Related parties are as follows:

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

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

- 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 20.

- 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 2019** | **Significant shareholders** | | | |
|---|---|---|---|---|
| **Expenses and revenues (in thousand Euros)** | **“la Caixa” Group** | **Rioja Bidco/ CVC** | **GIP Group** | **Group companies** |
| 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** |

| | **Significant shareholders** | | | |
|---|---|---|---|---|
| **Other transactions (in thousand Euros)** | **“la Caixa” Group** | **Rioja Bidco/CVC** | **GIP Group** | **Group companies** |
| Acquisition of property, plant and equipment, intangible assets or other assets | - | - | - | - |
| Finance agreements: loans and capital contributions (lender) (2) | - | - | - | 2,156 |
| Dividends and other profits distributed (3) | 145,005 | 114,489 | 114,079 | - |

| **For the six-month period ended 30 June 2018** | **Significant shareholders** | | | | **Group companies** |
|---|---|---|---|---|---|
| **Expenses and revenues (in thousand Euros)** | **“la Caixa” Group** | **Repsol Group (*)** | **Rioja Bidco/ CVC (**)** | **GIP Group** | |
| Financial expenses | - | - | - | - | 2 |
| Leases | - | - | - | - | 3 |
| Receipt of services | 7 | 3,944 | - | - | 5,717 |
| Purchases of goods (1) | - | 160,003 | - | - | 170,737 |
| **Total expenses** | **7** | **163,947** | **-** | **-** | **176,459** |
| Financial revenues | - | - | - | - | 2,178 |
| Provision of services | 36 | 20,545 | - | - | 11,612 |
| Sale of goods (1) | 1,215 | 367,115 | - | - | 12,951 |
| Other revenues | - | - | - | - | 1,052 |
| **Total revenues** | **1,251** | **387,660** | **-** | **-** | **27,793** |

| | **Significant shareholders** | | | | **Group companies** |
|---|---|---|---|---|---|
| **Other transactions (in thousand Euros)** | **“la Caixa” Group** | **Repsol Group (*)** | **Rioja Bidco/ CVC(**)** | **GIP Group** | |
| Acquisition of property, plant and equipment, intangible assets or ot | - | 295 | - | - | - |
| Finance agreements: loans and capital contributions (lender) (2) | - | - | - | - | 2,810 |
| Dividends and other profits distributed | - | - | - | - | - |

(*) Up to 17 May 2018.
(**) Since 18 May 2018.

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

(2) Includes cash and cash equivalents.

(3) 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 20. Information on members of the Board of Directors and senior management personnel

### Board of Directors Remuneration

Remuneration accrued to the members of the Board of Directors of Naturgy Energy Group, S.A. by virtue of their membership of the Board and Board committees totalled Euros 1,978 thousand at 30 June 2019 (Euros 2,435 thousand at 30 June 2018).

The Board of Directors has 12 members, the Audit Committee has 7 members and the Remuneration Committee has 7 members.

On 6 February 2018, the Board of Directors agreed to appoint a new Executive Chairman upon the departure of the former Chief Executive Officer and Chairman.

The amounts accrued to the Executive Chairman for executive functions in the form of fixed remuneration, annual variable remuneration, multi-year variable remuneration and other items totalled Euros 465 thousand, Euros 1,180 thousand and Euros 6 thousand, respectively (Euros 359 thousand, Euros 789 thousand and Euros 4 thousand, respectively, between 6 February 2018 and 30 June 2018).

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled Euros 203 thousand at 30 June 2019 (Euros 216 thousand at 30 June 2018).

Additionally, given that the Board of Directors agreed to terminate the Chief Executive Officer contract on 6 February 2018, the amounts as at 30 June 2018 included (i) the amounts accrued to the previous Chief Executive Officer for executive functions performed through 6 February 2018, in the form of fixed remuneration, annual variable remuneration, multi-year variable remuneration and other items totalling Euros 130 thousand, Euros 115 thousand, Euros 898 thousand and Euros 4 thousand, respectively and (ii) the stipulated indemnity consisting of three years' total remuneration and the compensation for the non-compete clause consisting of one year's total remuneration: Euros 14,248 thousand. Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled Euros 18 thousand as at 30 June 2018.

### Executive management remuneration

For the sole purposes of the information contained in this section, “executive management personnel” refers to the executives who report directly to the company's chief executive, and also the Internal Audit Director. At 30 June 2019, 13 people make up this group (12 people at 30 June 2018 and 14 at 31 December 2018). One person left this group in 2019 (in April).

Remuneration accrued to executive management personnel of fixed remuneration, annual variable remuneration, multi-year variable remuneration and other items totalled Euros 3,183 thousand, Euros 1,853 thousand, Euros 331 thousand and Euros 183 thousand respectively at 30 June 2018 (Euros 3,012 thousand, Euros1.397 thousand, Euros 0 thousand and Euros 52 thousand at 30 June 2018).

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled Euros 773 thousand at 30 June 2019 (Euros 729 thousand at 30 June 2018).

### Transactions with members of the Board of Directors and executive management personnel

The Board members and executive 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 21. Litigation and arbitration

The only changes with respect to the disclosures in the Litigation and arbitration section of Note 35 "Litigation, arbitration, guarantees and commitments" to the consolidated annual accounts for the year ended 31 December 2018 refer to the challenge to the energy subsidy ("bono social") 2014-2016: the Constitutional Court upheld the Administration's appeal, although the Supreme Court has not yet determined the impact. Consequently, there were no material changes in the status of litigation and arbitration in the first six months of 2019.

## Note 22. Subsequent events

On 5 July 2019, Spain's National Markets and Competition Commission (CNMC) published the first drafts of the circulars that will establish the methodology for remunerating regulated electricity and gas distribution from 2020 and 2021, respectively. The CNMC has opened a period for submissions that is initially set to conclude on 9 August. Through this process, the company will try to ensure that the new remuneration framework continues to provide a remuneration that is reasonable and predictable over the long term, both for investments already undertaken and for future investments.

On 10 July 2019, Chilean group company Compañía General de Electricidad, S.A. (CGE) reached an agreement with Argentinean company Cartellone Energía y Concesiones, S.A. (CECSA) to exchange the shares held by CGE in the electricity distribution companies in Argentina (Empresa de Distribución Eléctrica de Tucumán, S.A., Empresa Jujeña de Energía, S.A. and Empresa Jujeña de Sistemas Energéticos Dispersos, S.A.) for the shares held by CECSA in the gas distribution companies in Argentina (Gasnor, S.A. and Gasmarket, S.A.). The sale price amounted to Euros 40 million and is the same as the acquisition price, subject to closing terms and conditions and no significant impacts are expected in the consolidated financial statements. Under this contract, the ownership interest in the gas distribution companies will increase from 50% to 100% and the company will cease to own the electricity distribution companies, which were classified as available for sale as at 30 June 2019 (Note 8).

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# APPENDIX I: CHANGES IN CONSOLIDATION SCOPE

The main consolidation scope changes during the first half of 2019 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** |
|---|---|---|---|---|---|
| Naturgy IT, S.L. | Incorporation | 9 January | 100.0 | 100.0 | Full |
| Compañía General de Electricidad, S.A. | Amortisation of own shares | 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. (1) | Reduction in stake | 31 May | 14.1 | 70.9 | Full |
| Sistemas de Administración y Servicios, S.A. de C.V. (1) | Reduction in stake | 31 May | 14.0 | 71.0 | Full |
| Comercializadora Metrogas, S.A. de CV (1) | Reduction in stake | 31 May | 14.1 | 70.9 | Full |
| Energía y Confort Administración de Personal, S.A. de C.V. (1) | Reduction in stake | 31 May | 13.5 | 71.5 | Full |
| Administradora de Servicios de Energía México, S.A. de CV (1) | Reduction in stake | 31 May | 14.1 | 70.9 | Full |
| Naturgy Servicios, S.A. de C.V. (1) | Reduction in stake | 31 May | 14.1 | 70.9 | Full |
| CH4 Energía S.A. de C.V. (1) | Reduction in stake | 31 May | 7.1 | 35.4 | Equity method |
| Gas Natural Vehicular del Norte Asociación en Participación (1) | Reduction in stake | 31 May | 7.3 | 36.4 | Equity method |
| Naturgy Ingeniería Nuclear, S.L. | Incorporation | 6 June | 100.0 | 100.0 | Full |

(1) See Notes 3.5 and 9.

The main changes in the consolidation scope in 2018 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 |
|---|---|---|---|---|---|
| Compañía General de Electricidad, S.A. | Amortisation of own shares | 1 February | 0.3 | 95.8 | Full |
| Gas Natural Italia S.P.A. | Disposal | 22 February | 100.0 | - | - |
| Nedgia, S.P.A. | Disposal | 22 February | 100.0 | - | - |
| Gas Natural Vendita Italia, S.P.A. | Disposal | 22 February | 100.0 | - | - |
| Cilento Reti Gas, S.R.L. | Disposal | 22 February | 60.0 | - | - |
| Guimarania I Solar Spe Ltda. | Acquisition | 16 March | 100.0 | 100.0 | Full |
| Guimarania II Solar Spe Ltda. | Acquisition | 16 March | 100.0 | 100.0 | Full |
| Holding de Negocios de Gas, S.A. | Disposal | 19 March | 20.0 | 80.0 | Full |
| Global Power Generation Brasil Geraçao de Energía Ltda. | Incorporation | 3 April | 100.0 | 100.0 | Full |
| Tratamiento Cinca Medio, S.L En liquidación | Acquisition | 5 April | 10.0 | 90.0 | Full |
| Tratamiento Almazán, S.L, En liquidación | Acquisition | 5 April | 10.0 | 100.0 | Full |
| Sociedad de Tratamiento La Andaya, S.L., en liquidación | Acquisition | 5 April | 5.0 | 65.0 | Full |
| Sociedad de Tratamiento Hornillos, S.L. en liquidación | Acquisition | 5 April | 5.6 | 100.0 | Full |
| Gasoducto del Pacífico (Cayman) Ltd. en liquidación | Liquidation | 16 April | 56.7 | - | - |
| Societat Eòlica de l'Enderrocada, S.A. | Capital reduction | 10 May | 0.2 | 79.8 | Full |
| Serviconfort Colombia, S.A.S. | Disposal | 1 June | 100.0 | - | - |
| Gas Natural, S.A. ESP | Disposal | 1 June | 41.9 | - | - |
| Gas Natural del Oriente, S.A. ESP | Disposal | 1 June | 54.5 | - | - |
| Gas Natural Cundiboyacense, S.A. ESP | Disposal | 1 June | 77.5 | - | - |
| Gas Natural Servicios, S.A.S. | Disposal | 1 June | 100.0 | - | - |
| Gas Natural del Cesar, S.A. ESP | Disposal | 1 June | 62.2 | - | - |
| Compañía General de Electricidad, S.A. | Merger | 30 June | 1.5 | 95.8 | Full |
| Gas Natural Fenosa Ingeniería y Desarrollo de Gen., S.A. en liquidación | Liquidation | 1 July | 100.0 | - | - |
| Energética del Norte, S.A. | Incorporation | 2 July | 47.9 | 47.9 | Equity method |
| Compañía Española de Industrias Electroquímicas, S.A. | Disposal | 31 July | 100.0 | - | - |
| Soluziona Technical Services, Llc. en liquidación | Liquidation | 30 September | 100.0 | - | - |
| Compañía General de Electricidad, S.A. | Merger | 1 October | 0.1 | 95.9 | Full |
| Naturgy Alfa Investments, S.A.U | Incorporation | 10 October | 100.0 | 100.0 | Full |
| Gas Natural Fenosa Ingeniería y Desarrollo de Gen., S.A.S. en liquidación | Liquidation | 29 October | 100.0 | - | - |
| Naturgy Infraestructuras EMEA, S.L. | Incorporation | 7 November | 100.0 | 100.0 | Full |
| Palencia 3 Investigación Desarrollo y Explotación, S.L. | Liquidation | 14 November | 63.9 | - | - |
| Eólica Tramuntana, S.L. | Capital increase | 28 November | 5.8 | 65.8 | Proportionate |
| Gas Natural Fenosa Ingeniería y Desarrollo de Gen., S.A. En Liquidación | Disposal | 30 November | 100.0 | - | - |
| Naturgy Gas and Power, S.L.U. | Incorporation | 12 December | 100.0 | 100.0 | Full |
| Kangra Coal (Proprietary), Ltd. | Disposal | 14 December | 100.0 | - | - |
| Unión Fenosa South Africa Coal (Proprietary), Ltd | Disposal | 14 December | 100.0 | - | - |
| Welgedacht Exploration Company Ltd | Disposal | 14 December | 100.0 | - | - |
| Sociedad de Tratamiento La Andaya, S.L. En liquidación | Acquisition | 20 December | 35.0 | 100.0 | Full |

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**Naturgy**

**Consolidated Directors' Report as at 30 June 2019**

## Consolidated Directors' Report as at 30 June 2019

## 1. Business evolution and results

### 1.1. Executive summary

| | Reported | | | Ordinary | | |
|---|---|---|---|---|---|---|
| | **1H2019** | **1H2018** | **%** | **1H2019** | **1H2018** | **%** |
| Ebitda | 2,150 | 2,004 | 7.3 | 2,277 | 2,105 | 8.2 |
| Net income | 592 | (3,281) | - | 692 | 532 | 30.1 |
| Capex [(1)] | 699 | 1,145 | (39.0) | - | - | - |
| Net borrowings (at 30/06) [(2)] | 14,826 | 15,309 | (3.2) | - | - | - |
| Free Cash Flow after minorities | 1,448 | 2,589 | (44.1) | - | - | - |

(1) Including Euros 380 million related to two LNG tanker in time-charter regime incorporated during the first half of 2018 (non-cash investments).

(2) As of 31 December 2018, with IFRS 16 adjusted.

**Summary**

- The end of the first half of 2019 marks the first year of operation since the company launched its new Strategic Plan 2018-22, laying the foundations of its value creation strategy.

- The first six months of the year have been marked by the solid performance of the Infrastructure businesses and the stability in Gas & Power despite a more challenging energy scenario when compared against the previous year.

- On the Infrastructure side, relevant tariff updates in Latin America, recognizing the FX and inflation movements during 2018, together with stability in the European operations, have contributed to an overall strong performance in the period.

- In Gas & Power, the first half results have been driven by a notable improvement in G&P services sales, which has experienced a strong margin recovery in power supply, more than offsetting a more challenging scenario in International LNG and Europe Power generation. The company’s new commercial policies and de-risking efforts, together with efficiencies, have also helped offset the global decline in gas prices during the period.

**CNMC proposals for consultation**

On July 5, 2019 the National Commission on Markets and Competition (CNMC) published the first drafts of the regulatory memos for consultation that will establish the remuneration methodology of the regulated activity of electricity and gas distribution from 2020 and 2021 respectively. The CNMC has opened an allegation process which ends, in principle, on August 9. Through this process, the company will try to ensure that the new remuneration framework continues to recognize a reasonable and predictable remuneration in the long term, both for investments already executed as well as for future ones.

**Progress on Strategic Plan 2018-2022**

During the first half of the year Naturgy has continued to make steady progress on the development of its value creation strategy, based on 4 key pillars:

1. **Simplicity & accountability:**

The company has continued to hone its business positioning as envisioned in its Strategic Plan, exiting from non-core businesses and geographies. A few examples of this include the agreement to dispose 100% of its Moldovan electricity distribution and commercialization subsidiaries or the sale of the interest in Kangra coal mine in South Africa.

Moreover, the company has signed an agreement for the disposal of Transemel, an electricity transmission asset in Chile. It has also entered into an asset swap in Argentina, improving its competitive position in the region where it operates.

All in all, Naturgy continues to demonstrate its ability to simplify its business positioning and geographical footprint of the Group, with a view to allocate its capital and resources to those businesses which maximize long term value creation for its stakeholders.

2. **Optimization:**

The efficiencies achieved since the launch of the Strategic Plan are noticeable across the businesses and will remain a key driver of performance going forward. In this respect, the company has incurred capture costs of Euros 110 million during first half of 2019, accounting for the bulk of non-ordinary effects in the period. Naturgy has accelerated on the delivery of its efficiency plan and expects to deliver at least Euros 150 million in efficiencies by year end, exceeding its initial commitment of Euros 100 million for 2019. The company reiterates its total commitment of Euros 500 million efficiencies by 2022.

In terms of de-risking, visibility in the Infrastructure LatAm businesses has improved as a result of the recent tariff updates, and the company has continued to work on improving the risk profile of its merchant activities. As such, in International LNG, for example, Naturgy has already secured approximately 90% of its LNG volumes for the year while in Power supply, it has continued to reduce its portfolio of fixed price sales contracts with a view to reduce pool price risk by matching fixed contracts to the company's infra marginal production via PPA's.

3. **Capital discipline:**

Naturgy's solid results and increased focus on cash flow generation, has allow it to reduce its net debt levels in the period, despite the cash outflows related to shareholder remuneration and the investments in the development of its renewable projects and networks businesses. During the last twelve months the company has allocated 70% of its total capex to renewables and electricity networks. Naturgy continues to develop its awarded renewable projects while continuing to build an additional pipeline whose development will ultimately be subject to the company's Golden Rules of investment.

4. **Shareholder remuneration:**

The company has approved a dividend payment of 0.294 Euros/share on 31 July 2019, corresponding to the first interim dividend of 2019 out of the total 1.37 Euros/share dividend committed for 2019, which represents a 5% increase vs. 2018. Furthermore, the company has completed the first tranche of Euros 400 million of its share buyback program. The board of directors has approved the cancelation of the shares acquired under this program, expected to take place during the month of August and authorized the launch of the new Euros 400 million tranche until the end of June 2020, in the absence of any inorganic opportunities which meet the company's strict profitability criteria.

**Summary of the period results**

- Business performance during first half 2019 has been marked by the solid performance of the Infrastructure businesses and the stability in Gas&Power, despite the development of a more challenging scenario vs. last year.

- Ebitda in first half 2019 reached Euros 2,150 million after non-ordinary effects. Stripping these out, ordinary ebitda rose 8% to Euros 2,277 million mainly supported by the improvement in the Infrastructure businesses and the efficiencies across businesses.

- Net income in first half 2019 amounted to Euros 592 million while ordinary Net income rose 30% to Euros 692 million, supported by the activity improvement and lower depreciation and amortization.

- Total capex amounted to Euros 699 million in the period, mainly reflecting ongoing investments in renewable projects as well as investments in remunerated networks, consistent with our golden rules of investment. Since the launch of the Strategic Plan 2018-2022 a year ago, Naturgy has invested approximately 70% of its capex in renewables and electricity networks, consistent with its long term electrification ambitions.

- As of 30 June 2019, net debt amounted to Euros 14,826 million, down 3% vs. 31 December 2018, thanks to the increased focus on cash flow generation of the company and despite the Euros 560 million dividend payment and Euros 288 million in shares bought back during the first half of the year. As a result, Net Debt / LTM ebitda declined to 3.6x from 3.8x as of 31 December 2018.

- All in all, the first half 2019 results continue to illustrate Naturgy's progress towards the successful implementation of its 2018-2022 Strategic Plan.

**1.2. Key comparability factors and non-ordinary items**

**Perimeter changes**

The main transactions completed in 2018 with an impact in comparability between the first half of 2019 vs. the first half 2018 results are the following:

- The disposal of the gas distribution and supply business in Italy, together with the transfer of the gas supply contract. The contribution of these businesses in the first half of 2018 was Euros 194 million recognised under "Income from discontinued operations" in the consolidated income statement.
- The disposal of the remaining 41.9% of the gas distribution business in Colombia. The contribution of this business in the first half of 2018 was Euros 7 million recognised under "Income from discontinued operations" in the consolidated income statement.
- The sale of a 20% minority stake in the gas distribution business in Spain for Euros 1,500 million, which resulted in an increase of Euros 1,016 million in the "Equity" caption in the consolidated balance sheet as of 30 June 2018, but with no relevant impact on the consolidated income statement for comparison purposes.
- In December 2018 the sale of Kangra Coal was completed for an equity value of Euros 28 million. The contribution of this business in the first half 2018 was Euros -150 million, including a write-down of the investment for Euros -141 million, recognised under "Income from discontinued operations" in the consolidated income statement.

In addition, on 27 June 2018 Naturgy reached an agreement to sell its entire stake in Iberafrica Power, in Kenya, to AEP Energy Africa Limited with an estimated enterprise value of USD 62 million. Nevertheless, and after several deadline extensions, in March 2019 the agreement was terminated, restating the disposal process. The contribution of this business in the first half of 2018 was Euros-5 million, including a write-down of the investment for Euros -7 million, recognized under "Income from discontinued operations" in the consolidated income statement.

On 12 April 2019 Naturgy announced an agreement for the sale of 100% of its interests in its Moldova electricity distribution activities. The transaction values the Companies equity at Euros 141 million (including pre-closing dividends) and is not expected to generate significant capital gains for Naturgy. The contribution of this business in the first half of 2018 was Euros-61 million, including a write-down of the investment for Euros -73 million, recognised under “Income from discontinued operations" in the consolidated income statement.

Last, on April 2019 Naturgy completed the sale of 45.0% of its interests in its associated affiliate Torre Marenostrum, S.L. to Inmobiliaria Colonial for Euros 28 million, generating capital gains of Euros 20 million.

## Non-ordinary items

The non-ordinary items are summarized below:

| | Ebitda | | Net income | |
|---|---|---|---|---|
| **Euros million** | **1H2019** | **1H2018** | **1H2019** | **1H2018** |
| Gas transport cost & procurement retroactivity | - | (38) | - | (28) |
| Chile non-ordinary expenses | - | (32) | - | (20) |
| Restructuring costs | (110) | (24) | (82) | (22) |
| Asset write-down | - | - | (20) | (3,831) |
| Discontinued operations and non-controlling interests | - | - | - | 44 |
| Chile mergers tax effect | - | - | - | 42 |
| CNMC CGT fine | (20) | - | (20) | - |
| Sales of land and buildings[1] | 3 | 6 | 22 | 4 |
| Others | - | (13) | - | (2) |
| **Total** | **(127)** | **(101)** | **(100)** | **(3,813)** |

[1] 2019 includes Torremarenostrum capital gains.

- At the Ebitda level, non-ordinary impacts in the first half of 2019 amount to Euros 127 million negative, the bilk of them corresponding to capture costs derived from the implementation of the efficiency plan and the CNMC penalty.

- At the Net income level, non-ordinary items in the first half of 2019 amount to Euros 100 million negative, mostly driven by the same concepts mentioned above.

## Foreign exchange impact

Exchange rate fluctuations in the period are summarized as follows:

| June 2019 | Accumulated Average | % Change | Ebitda | Net income |
|---|---|---|---|---|
| USD/€ | 1.13 | (6.6) | 31 | 10 |
| MXN/€ | 21.65 | (6.2) | 8 | 2 |
| BRL/€ | 4.34 | 4.8 | (7) | (1) |
| ARS[1]/€ | 48.59 | 86.2 | (36) | (23) |
| CLP/€ | 762.78 | 3.0 | (7) | (2) |
| Others | - | - | 1 | - |
| **Total** | **-** | **-** | **(10)** | **(14)** |

[1] Exchange rate as at 30 June 2019 as a consequence of considering Argentina as an hyperinflationary economy

### 1.3. Consolidated results

| | reported | | | ordinary | | |
|---|---|---|---|---|---|---|
| | **1H2019** | **1H 2018** | **% 2019 /2018** | **1H 2019** | **1H 2018** | **% 2019 /2018** |
| Net Sales | 11,639 | 12,176 | (4.4) | 11,639 | 12,176 | (4.4) |
| **EBITDA** | **2,150** | **2,004** | **7.3** | **2,277** | **2,105** | **8.2** |
| Depreciation, amortisation and impairment expenses | (794) | (5,165) | (84.6) | (774) | (832) | (7.0) |
| Impairment of credit losses | (62) | (63) | (1.6) | (62) | (63) | (1.6) |
| Other results | 20 | - | - | - | - | - |
| **EBIT** | **1,314** | **(3,224)** | **(140.8)** | **1,441** | **1,210** | **19.1** |
| Financial result | (331) | (306) | 8.2 | (331) | (312) | 6.0 |
| Profit/(loss) of companies measured under the equity method | 38 | (559) | (106.8) | 38 | 13 | - |
| Income tax | (220) | 926 | (123.8) | (247) | (203) | 22.0 |
| Income from discontinued operations | - | (15) | (100.0) | - | - | - |
| Non-controlling interest | (209) | (103) | 102.9 | (209) | (176) | 18.8 |
| **Net Income** | **592** | **(3,281)** | **(118.0)** | **692** | **532** | **30.1** |

Net sales totaled Euros 11,639 million in the first half of 2019, 4.4% below the first half of 2018, mainly as a result of lower energy prices and volumes sold in the liberalized businesses that offset the growth in the infrastructure activity.

**<u>Ebitda</u>**

Consolidated ebitda in the period amounted to Euros 2,150 million, a 7.3% increase vs. the same period of 2018, supported by a solid performance in the infrastructure businesses, the new commercial strategy in supply activity and efficiency gains. Stripping out non-ordinary effects, ordinary EBITDA grew by 8.2%.

Compared Ebitda by business is as follows:

| | Reportado | | | Ordinario | | |
|---|---|---|---|---|---|---|
| | **2019** | **2018** | **Variación (%)** | **2019** | **2018** | **Variación (%)** |
| Gas & Power | 640 | 595 | 7.6 | 695 | 639 | 8.8 |
| Infraestructure EMEA | 919 | 891 | 3.1 | 970 | 898 | 8.0 |
| Infraestructure LatAm South | 448 | 362 | 23.8 | 449 | 400 | 12.3 |
| Infraestructure LatAm North | 189 | 123 | 53.7 | 190 | 121 | 57.0 |
| Rest | (46) | 33 | - | (27) | 47 | - |
| **Total** | **2,150** | **2,004** | **7.3** | **2,277** | **2,105** | **8.2** |

**<u>EBIT</u>**

The depreciation, amortisation and impairment expenses at 30 june 2019 amounted Euros 794 million (Euros 5,165 million in the exercise 2018 because of the impairment of assets of Euros 4,333 million booked in the second quarter of the year).

Impairment of credit losses amounted Euros 62 million through the Euros 63 million of the previuos year, a decrease of 1.6%.

EBIT of the first semester of 2019 amounted to Euros 1,314 million.

**<u>Financial result</u>**

| **Euros million** | **2019** | **2018** | **Variation (%)** |
|---|---|---|---|
| Cost of net financial debt | (308) | (274) | 12.4 |
| Other financial expenses/income | (23) | (32) | (28.1) |
| **Financial result** | **(331)** | **(306)** | **8.2** |

The Financial result amounted to Euros -331million (+8.2%) driven by a higher cost of financial debt that, due to the application of IFRS 16, in the first half of 2019 includes Euros 50 million (in the first half of 2018 financial leases cost was registered as other financial expenses and amounted to Euros 34 million). The average cost of gross financial debt for the first half of 2019 stands at 3.2% (without taking into account NIIF 16 expenses), and 81% of gross debt is at fixed rates.

**Equity-accounted affiliates**

Equity-accounted affiliates contributed Euros 38 million in 2019 mostly as a result of the holding in Ecoelectrica (Euros 25 million) and CGE subgroup affiliates (Euros 18 million).

**Income tax**

The effective tax rate as of 30 June 2019 stood at 21.5%.

**Income from discontinued operations**

In first half of 2019 there was no contribution from discontinued operations. The discontinued operations of the first half of 2018 contributed to the consolidated income statement as detailed below:

| | **2018** |
|---|---|
| Colombia gas | 7 |
| Italy | 194 |
| Kenya | (5) |
| Moldova | (61) |
| Kangra | (150) |
| **Total** | **(15)** |

**Non-controlling interest**

The non-controlling interest breakdown is as follows:

| | **2019** | **2018** | **Variation (%)** |
|---|---|---|---|
| EMPL | (30) | (26) | 15.4 |
| Nedgia | (38) | (20) | 90.0 |
| Other interest | (111) | (27) | - |
| Other equity instruments | (30) | (30) | - |
| **Total** | **(209)** | **(103)** | **-** |

In other interest are included: International Power Generation, gas distribution companies in Chile, Brazil, Mexico and Argentina, and the electricity distribution companies in Chile and Panama.

In other equity instruments are included accrued interest on perpetual subordinated notes.

**Net income**

Net ordinary income in the first half of 2019 amounted to Euros 692 million, up 30.1%, excluding non-ordinary items.

### 1.4. Analysis of results by segment

#### 1.4.1. Gas & Power

| | Reported | | | Ordinary | | |
|---|---|---|---|---|---|---|
| **Ebitda** | **2019** | **2018** | **Variation (%)** | **2019** | **2018** | **Variation (%)** |
| Supply of gas, electricity and services | 198 | 55 | 260.0 | 216 | 98 | 120.4 |
| International LNG | 158 | 233 | (32.2) | 159 | 233 | (31.8) |
| Generation Europe | 120 | 166 | (27.7) | 154 | 167 | (7.8) |
| Generation International | 164 | 141 | 16.3 | 166 | 141 | 17.7 |
| **Total** | **640** | **595** | **7.6** | **695** | **639** | **8.8** |

Ordinary ebitda advanced 8.8% during the period, with a strong performance from Gas, power and service sales as well as International power generation. International LNG and Europe power generation were negatively affected by lower sales and margins during the period.

##### 1.4.1.1. Supply of gas, electricity and services

**Results**

| | 2019 | 2018 | % |
|---|---|---|---|
| Net sales | 6,058 | 6,768 | (10.5) |
| Procurement | (5,661) | (6,457) | (12.3) |
| **Gross margin** | **397** | **311** | **27.7** |
| Other revenues | 13 | 4 | - |
| Net personnel expenses | (71) | (64) | 10.9 |
| Taxes | (31) | (32) | (3.1) |
| Other expenses | (110) | (164) | (32.9) |
| **Ebitda** | **198** | **55** | **-** |
| Depreciation, amortisation and operating provisions | (74) | (61) | 21.3 |
| **Operating income** | **124** | **(6)** | **-** |

Ordinary ebitda reached Euros 216 million in the first half 2019 from Euros 98 million in the first half 2018 mainly as a result of i) higher power margins resulting from the company’s new commercial strategy which has reduced exposure to fixed price contracts, (ii) efficiencies and iii) higher gas margins that offset the lower sales in the Spanish industrial and retail segments due to higher average temperatures.

**Main aggregates**

The main aggregates in the supply activity are as follows:

| | 2019 | 2018 | % |
|---|---|---|---|
| **Gas sales (GWh)** | **116,131** | **126,587** | **(8.3)** |
| Industrial clients | 73,003 | 85,316 | (14.4) |
| Residential Spain | 15,460 | 17,535 | (11.8) |
| Electricity | 8,345 | 7,317 | 14.0 |
| Third parties | 19,323 | 16,419 | 17.7 |
| **Electricity sales (Gwh)** | **12,751** | **18,328** | **(30.4)** |
| Liberalized market | 10,257 | 15,709 | (34.7) |
| PVPC | 2,494 | 2,619 | (4.8) |
| **Residential contracts (Spain) (thousands, a 30/06)** | **11,227** | **11,655** | **(3.7)** |
| Gas | 4,082 | 4,208 | (3.0) |
| Electricity | 4,342 | 4,588 | (5.4) |
| Services | 2,803 | 2,859 | (2.0) |
| Number contracts per client | 1.53 | 1.52 | - |
| Market share of gas contracts (Spain) | 52.2 | 53.8 | -1.7 p.p. |

Gas sales declined by 8.3% in the first half of the year mainly as a result of lower sales in the Spanish residential and industrial segments (-11.8% and -14.4% respectively), partially compensated by higher sales to CCGTs (+14.0%) and third parties (+17.7%).

Power sales fell by 30.4% in the period mostly resulting from lower sales in the liberalized market (-34.7%) following our strategy to focus on margins and reduce fixed-price selling contracts to match our infra-marginal production. PVPC sales declined by 4.8%.

#### 1.4.1.2. International LNG

**Results**

| | 2019 | 2018 | % |
|---|---|---|---|
| Net sales | 1,553 | 1,795 | (13.5) |
| Procurement | (1,377) | (1,555) | (11.4) |
| **Gross margin** | **176** | **240** | **(26.7)** |
| Other revenues | 1 | 1 | - |
| Net personnel expenses | (12) | (2) | - |
| Taxes | - | - | - |
| Other expenses | (7) | (6) | 16.7 |
| **Ebitda** | **158** | **233** | **(32.2)** |
| Depreciation, amortisation and operating provisions | (60) | (36) | 66.7 |
| **Operating income** | **98** | **197** | **(50.3)** |

Ordinary ebitda reached Euros 159 million, down 31.8%, as a result of lower volumes and margins in the period. As mentioned in the past, market conditions in the first half of 2018, and during year 2018 as a whole, were extraordinary and should not be extrapolated for year 2019.

The contribution to EBITDA from the maritime transport activity amounted to Euros 84 million in the first half of 2019 (Euros 68 million in the first half 2018).

**Main aggregates**

| | 2019 | 2018 | % |
|---|---|---|---|
| Gas sales (GWh) | 60,556 | 76,793 | (21.1) |
| Shipping fleet capacity ($m^3$) | 1,811,741 | 1,463,149 | 23.8 |

Volumes sold declined by 21.1% vs. the same period of 2018 because of the reduction in short-term sales (-49.6%). Long-term sales continue to show a healthy growth (+56.5%) supported by the commercial efforts intended to reduce margin volatility.

### 1.4.1.3. Generation Europe

Includes power generation in Spain, also conventional and renewable.

**Results**

| | 2019 | 2018 | % |
|---|---|---|---|
| Net sales | 834 | 912 | (8.6) |
| Procurement | (455) | (465) | (2.2) |
| **Gross margin** | **379** | **447** | **(15.2)** |
| Other revenues | 7 | 8 | (12.5) |
| Net personnel expenses | (73) | (56) | 30.4 |
| Taxes | (95) | (138) | (31.2) |
| Other expenses | (98) | (95) | 3.2 |
| **Ebitda** | **120** | **166** | **(27.7)** |
| Depreciation, amortisation and operating provisions | (138) | (4,147) | - |
| **Operating income** | **(18)** | **(3,981)** | **-** |

First half of 2019 ordinary ebitda amounted to Euros 154 million, down 7.8%, mainly driven by: i) lower margins in CCGTs as a result of higher costs resulting from an increase in $CO_2$ prices, ii) lower hydro production, and iii) lower capacity payments.

**Main aggregates**

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

Market prices

| | 2019 | 2018 | % |
|---|---|---|---|
| Forward Price (€/MWh)[1] | 50.6 | 45.8 | 10.5 |
| Pool Price (€/MWh)[2] | 51.8 | 50.1 | 3.4 |

[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

| | 2019 | 2018 | % |
|---|---|---|---|
| Installed capacity (MW): | 13,069 | 12,719 | 2.8 |
| Generation | 11,751 | 11,569 | 1.6 |
| Hydroelectric | 1,954 | 1,954 | - |
| Nuclear | 604 | 604 | - |
| Coal | 1,766 | 2,010 | (12.1) |
| CCGTs | 7,427 | 7,001 | 6.1 |
| Renewable and cogeneration output | 1,318 | 1,150 | 14.7 |
| Wind | 1,051 | 982 | 7.1 |
| Small hydroelectric | 109 | 110 | (0.5) |
| Cogeneration and other | 158 | 58 | - |

Electric energy produced and Electricity sales

| | 2019 | 2018 | % |
|---|---|---|---|
| Electric energy produced (GWh) | 12,417 | 13,280 | (6.5) |
| Generation | 10,975 | 11,849 | (7.4) |
| Hydroelectric | 1,325 | 2,335 | (43.3) |
| Nuclear | 2,204 | 2,060 | 7.0 |
| Coal | 654 | 1,203 | (45.6) |
| CCGTs | 6,792 | 6,251 | 8.7 |
| Renewable and cogeneration output | 1,442 | 1,431 | 0.8 |
| Wind | 1,049 | 1,079 | (2.8) |
| Small hydroelectric | 296 | 316 | (6.4) |
| Cogeneration and other | 97 | 36 | - |
| Market share of generation | 16.4 | 16.9 | (0.4) p.p. |

Total production declined by 6.5%, although unevenly split; hydro production fell by 43.3%, while other renewable and thermal production increased by 0.8% and 1.4% respectively.

Pool prices remained stable vs the same period of 2018, averaging €51.8/MWh in the semester, up 3.4% vs. the first half of 2018, despite a more thermal generation mix.

Naturgy continues to increase its renewable exposure through the development of 667MW of wind and 250MW of solar projects awarded in the Spanish auctions, all of which are expected to come into operation during 2019. As such, the operating installed capacity as of 30 June 2019 reached 1,318MW, a 14.7% increase over one year prior.

### 1.4.1.4. Generation International (GPG)

### Results

| | 2019 | 2018 | % |
|---|---|---|---|
| Net sales | 456 | 433 | 5.3 |
| Procurement | (242) | (243) | (0.4) |
| **Gross margin** | **214** | **190** | **12.6** |
| Other revenues | 2 | 2 | - |
| Net personnel expenses | (19) | (19) | - |
| Taxes | (2) | (1) | 100.0 |
| Other expenses | (31) | (31) | - |
| **Ebitda** | **164** | **141** | **16.3** |
| Depreciation, amortisation and operating provisions | (59) | (82) | (28,0) |
| **Operating income** | **105** | **59** | **78,0** |

Ordinary ebitda in the period reached Euros 166 million, up 17.7%. This growth was supported by new installed capacity put into operation in 2018 in Brazil and Australia, as well as by better margins of excess energy sales in Mexico and merchant sales in Dominican Republic. The above were partially offset by lower PPA revenues in Mexico.

The breakdown of the ebitda by country is as follows:

| | 2019 | 2018 | Change (%) | FX | Adjusted change (%) |
|---|---|---|---|---|---|
| Mexico | 127 | 122 | 4.1 | 8 | (2.5) |
| Rest | 37 | 19 | 94.7 | 1 | 89.5 |
| **Total** | **164** | **141** | **2.2** | **9** | **9.9** |

## Main aggregates

Installed capacity

| | 2019 | 2018 | % |
|---|---|---|---|
| **Installed capacity (MW)** | **3,169** | **2,912** | **8.8** |
| Mexico (CCGT) | 2,365 | 2,289 | 3.3 |
| Mexico (wind) | 234 | 234 | - |
| Brazil (solar) | 153 | 68 | |
| Costa Rica (hydroelectric) | 101 | 101 | - |
| Panama (hydroelectric) | 22 | 22 | - |
| Dominican Republic (oil-fired) | 198 | 198 | - |
| Australia (wind) | 96 | - | - |

Electric energy produced and availability factor

| | 2019 | 2018 | % |
|---|---|---|---|
| **Electric energy produced (GWh)** | **9,160** | **8,980** | **2.0** |
| Mexico (CCGT) | 7,796 | 7,847 | (0.6) |
| Mexico (wind) | 336 | 362 | (7.1) |
| Brazil (solar) | 138 | 67 | - |
| Costa Rica (hydroelectric) | 137 | 154 | (10.7) |
| Panama (hydroelectric) | 23 | 40 | (43.5) |
| Dominican Republic (oil-fired) | 610 | 510 | 19.6 |
| Australia (wind) | 120 | - | - |
| **Availability factor (%)** | | | |
| Mexico (CCGT) | 93.1 | 90.8 | 2.2 p.p. |
| Costa Rica (hydroelectric) | 98.0 | 99.3 | -1.3 p.p. |
| Panama (hydroelectric) | 83.2 | 81.8 | 1.4 p.p. |
| Dominican Republic (oil-fired) | 90.6 | 93.9 | -3.3 p.p. |

### 1.4.2. Infrastructure EMEA

| | Reported | | | Ordinary | | |
|---|---|---|---|---|---|---|
| **Ebitda** | **2019** | **2018** | **Variation (%)** | **2019** | **2018** | **Variation (%)** |
| Gas Distribution Spain | 443 | 432 | 2.5 | 469 | 437 | 7.3 |
| Electricity Distribution Spain | 322 | 316 | 1.9 | 347 | 318 | 9.1 |
| Infrastructure Magreb | 154 | 143 | 7.7 | 154 | 143 | 7.7 |
| **Total** | **919** | **891** | **3.1** | **970** | **898** | **8.0** |

Ordinary ebitda reached Euros 970 million (+8.0%) in the first half of the year as a result of a good performance across all businesses and efficiencies.

### 1.4.2.1. Gas distribution Spain

**Results**

| | 2019 | 2018 | % |
|---|---|---|---|
| Net sales | 615 | 612 | 0.5 |
| Procurement | (41) | (41) | - |
| **Gross margin** | **574** | **571** | **0.5** |
| Other revenues | 20 | 20 | - |
| Net personnel expenses | (61) | (43) | 41.9 |
| Taxes | (16) | (16) | - |
| Other expenses | (74) | (100) | (26.0) |
| **Ebitda** | **443** | **432** | **2.5** |
| Depreciation, amortisation and operating provisions | (149) | (148) | 0.7 |
| **Operating income** | **294** | **284** | **3.5** |

Ordinary ebitda in 2019 increases 7.3% amounting to Euros 469 million, mainly driven by lower opex from efficiency improvements and higher volumes.

**Main aggregates**

| | 2019 | 2018 | % |
|---|---|---|---|
| Sales – TPA (GWh) | 107,446 | 102,730 | 4.6 |
| Distribution network (km) | 56,766 | 55,871 | 1.6 |
| Increase in connection points (thousand) | (7) | 20 | - |
| Connection points (thousand) (at 30/06) | 5,396 | 5,391 | 0.1 |

Gas sales and connection points grew by 4.6% and 0.1% respectively.

### 1.4.2.2. Electricity distribution Spain

**Results**

| | 2019 | 2018 | % |
|---|---|---|---|
| Net sales | 435 | 427 | 1.9 |
| Procurement | - | - | - |
| **Gross margin** | **435** | **427** | **1.9** |
| Other revenues | 8 | 8 | - |
| Net personnel expenses | (60) | (39) | 53.8 |
| Taxes | (15) | (14) | 7.1 |
| Other expenses | (46) | (66) | (30.3) |
| **Ebitda** | **322** | **316** | **1.9** |
| Depreciation, amortisation and operating provisions | (120) | (119) | 0.8 |
| **Operating income** | **202** | **197** | **2.5** |

Ordinary ebitda on the first half of 2019 amounted to Euros 347 million, a 9.1% increase with respect to the first half of 2018 due to efficiency gains and the accrual of new investments brought into operation.

**Main aggregates**

| | 2019 | 2018 | % |
|---|---|---|---|
| Sales – TPA (GWh) | 15,704 | 16,294 | (3.6) |
| Connection points (thousand) (at 30/06) | 3,750 | 3,730 | 0.5 |
| Opex/km (€/km) | 1,585 | 1,780 | (11.0) |
| ICEIT (minutes) | 17 | 25 | (30.1) |

Unitary opex per km of installed network continue to improve, decreasing 11.0% during the period to 1,585 €/km.

### 1.4.2.3. Infrastructure Magreb

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

**Results**

| | 2019 | 2018 | % |
|---|---|---|---|
| Net sales | 165 | 157 | 5.1 |
| Procurement | - | - | - |
| **Gross margin** | **165** | **157** | **5.1** |
| Other revenues | - | - | - |
| Net personnel expenses | (3) | (2) | - |
| Taxes | - | - | - |
| Other expenses | (8) | (12) | (33.3) |
| **Ebitda** | **154** | **143** | **7.7** |
| Depreciation, amortisation and operating provisions | (16) | (26) | (38.5) |
| **Operating income** | **138** | **117** | **17.9** |

During the first half of 2019 ordinary ebitda increased by 7.7% to Euros 154 million. Growth was mainly explained by positive FX impact (Euros 10 million) and tariff update, despite the significant reduction in transported gas because of lower demand. The above illustrates the low sensitivity of ebitda to volume.

**Main aggregates**

The main aggregates in international gas transportation are as follows:

| | 2019 | 2018 | % |
|---|---|---|---|
| Gas transport-EMPL (GWh): | 31,183 | 71,066 | (56.1) |
| Portugal-Morocco | 12,957 | 20,398 | (36.5) |
| Spain (Naturgy) | 18,226 | 50,668 | (64.0) |

### 1.4.3. <u>Infrastructure Latin America South</u>

| | Reported | | | Ordinary | | |
|---|---|---|---|---|---|---|
| **Ebitda** | **2019** | **2018** | **Variation (%)** | **2019** | **2018** | **Variation (%)** |
| Electricity Chile | 163 | 124 | 31.5 | 162 | 144 | 12.5 |
| Gas Chile | 118 | 87 | 35.6 | 118 | 98 | 20.4 |
| Brazil gas | 125 | 110 | 13.6 | 126 | 109 | 15.6 |
| Argentina gas and electricity | 43 | 43 | - | 44 | 51 | (13.7) |
| Peru gas | (1) | (2) | (50.0) | (1) | (2) | (50.0) |
| **Total** | **448** | **362** | **23.8** | **449** | **400** | **12.3** |

Ordinary ebitda amounted to Euros 449 million in the period, 12.3% higher than the previous year, driven by tariff updates and efficiencies, and despite an adverse currency effect (Euros -46 million).

### 1.4.3.1. Electricity Chile

**Results**

| | 2019 | 2018 | % |
|---|---|---|---|
| Net sales | 1,126 | 1,077 | 4.5 |
| Procurement | (846) | (789) | 7.2 |
| **Gross margin** | **280** | **288** | **(2.8)** |
| Other revenues | 6 | 6 | - |
| Net personnel expenses | (45) | (58) | (22.4) |
| Taxes | (3) | (4) | (25.0) |
| Other expenses | (75) | (108) | (30.6) |
| **Ebitda** | **163** | **124** | **31.5** |
| Depreciation, amortisation and operating provisions | (57) | (61) | (6.6) |
| **Operating income** | **106** | **63** | **68.3** |

First half of 2019 ordinary ebitda reached Euros 162 million, up 12.5% vs.first half of 2018, mainly as a result of i) higher regulated revenues and tariff indexation, and ii) lower opex from efficiency improvements. On the opposite side, the exchange rate impact amounted to Euros-5 million.

**Main aggregates**

The key physical aggregates in this business are as follows:

| | 2019 | 2018 | % |
|---|---|---|---|
| Electricity sales (GWh): | 7,774 | 7,675 | 1.3 |
| Electricity sales | 5,874 | 6,377 | (7.9) |
| TPA | 1,900 | 1,298 | 46.4 |
| Connection points (thousand) (at 30/06) | 2,965 | 2,893 | 2.5 |
| Electricity transmitted (GWh) | 7,210 | 7,573 | (4.8) |
| Transmission network (km, at 30/06) | 3,528 | 3,528 | - |

At the operating level, the business experienced growth in connection points (+2.5%) and a slight decrease in overall electricity sales (-1.7%) considering the transmission activity.

### 1.4.3.2. Gas Chile

Includes the activities of gas distribution and supply.

**Results**

| | 2019 | 2018 | % |
|---|---|---|---|
| Net sales | 402 | 359 | 12.0 |
| Procurement | (247) | (222) | 11.3 |
| **Gross margin** | **155** | **137** | **13.1** |
| Other revenues | 1 | 1 | - |
| Net personnel expenses | (14) | (14) | - |
| Taxes | (1) | (1) | - |
| Other expenses | (23) | (36) | (36.1) |
| **Ebitda** | **118** | **87** | **35.6** |
| Depreciation, amortisation and operating provisions | (31) | (28) | 10.7 |
| **Operating income** | **87** | **59** | **47.5** |

Ordinary ebitda totaled Euros 118 million, 20.4% more than the first half of 2018, driven by i) higher supply volumes in all segments, ii) higher supply margins in sales to distributors and power generators, and iii) tariff indexation, efficiency improvements and good performance of the retail/commercial segment in the distribution activity.

**Main aggregates**

| | 2019 | 2018 | % |
|---|---|---|---|
| Gas sales (GWh) | 24,709 | 23,988 | 0.4 |
| Gas distribution sales (GWh) | 4,970 | 5,222 | (4.8) |
| Gas commercialization sales (GWh) | 4,952 | 3,102 | 59.6 |
| TPA (GWh) | 14,157 | 15,664 | (9.6) |
| Distribution network (km) | 7,680 | 7,358 | 4.4 |
| Increase in connection points (thousand) | 8 | 12 | (27.9) |
| Connection points (thousand) (at 30/06) | 635 | 614 | 3.3 |

Gas sales remained stable (+0.4%), after the demand increase in the supply activity was offset by a reduction in gas distributed, mostly to the industrial/power generation segments. Connection points increased by 3.3%.

### 1.4.3.3. Gas distribution Brazil

**Results**

| | 2019 | 2018 | % |
|---|---|---|---|
| Net sales | 881 | 735 | 19.9 |
| Procurement | (709) | (563) | 25.9 |
| **Gross margin** | **172** | **172** | **-** |
| Other revenues | 11 | 24 | (54.2) |
| Net personnel expenses | (14) | (20) | (30.0) |
| Taxes | (2) | (2) | - |
| Other expenses | (42) | (64) | (34.4) |
| **Ebitda** | **125** | **110** | **13.6** |
| Depreciation, amortisation and operating provisions | (32) | (32) | - |
| **Operating income** | **93** | **78** | **19.2** |

First half of 2019 ordinary ebitda increased 15.6% to Euros 126 million on the back of tariff indexation and efficiency improvements, which were partially offset by exchange rate impact (Euros -6 million) and lower demand, in particular for electricity generation.

**Main aggregates**

| | 2019 | 2018 | % |
|---|---|---|---|
| Gas activity sales (GWh) | 31,703 | 35,461 | (10.6) |
| Gas sales | 28,195 | 28,850 | (2.3) |
| TPA | 3,508 | 6,611 | (46.9) |
| Distribution network (km) | 7,715 | 7,627 | 1.1 |
| Increase in connection points (thousand) | 9 | 19 | (54.6) |
| Connection points (thousand) (at 30/06) | 1,125 | 1,109 | 1.4 |

Overall gas sales were down 10.6% driven by lower demand from power generation and industrial segments, and lower sales to the retail segment due to mild weather; connection points grew 1.4% in the period.

### 1.4.3.4. Gas and electricity distribution Argentina

#### Results

| | 2019 | 2018 | % |
|---|---|---|---|
| Net sales | 308 | 321 | (4.0) |
| Procurement | (202) | (203) | (0.5) |
| **Gross margin** | **106** | **118** | **(10.2)** |
| Other revenues | 19 | 20 | (5.0) |
| Net personnel expenses | (15) | (17) | (11.8) |
| Taxes | (20) | (25) | (20.0) |
| Other expenses | (47) | (53) | (11.3) |
| **Ebitda** | **43** | **43** | **-** |
| Depreciation, amortisation and operating provisions | (15) | (9) | 66.7 |
| **Operating income** | **28** | **34** | **(17.6)** |

Ordinary ebitda in the first half of 2019 amounted to Euros 44 million, a 13.7% decrease over the same period of 2018 mainly as a result of the negative exchange rate impact (Euros -36 million). Not considering this impact, ebitda would have grown over 56.9% on the back of i) the final application of the new tariff framework in April 2018, ii) tariff indexation, and iii) gas sales growth.

#### Main aggregates

The main aggregates in this area are as follows:

| | 2019 | 2018 | % |
|---|---|---|---|
| Gas activity sales (GWh) | 38,363 | 34,576 | 10.9 |
| Gas sales | 13,740 | 14,138 | (2.8) |
| TPA | 24,623 | 20,438 | 20.5 |
| Distribution network (km) | 26,304 | 25,965 | 1.3 |
| Increase in connection points (thousand) | 7 | 8 | (13.6) |
| Connection points (thousand) (at 30/06) | 1,672 | 1,659 | 0.8 |

Overall sales and connection points grew in the period by 10.9% and 0.8% respectively, the former driven by industrial, GNV and TPA.

### 1.4.4. Infrastructure Latin America North

| | Reported | | | Ordinary | | |
|---|---|---|---|---|---|---|
| **Ebitda** | **2019** | **2018** | **Variation (%)** | **2019** | **2018** | **Variation (%)** |
| Gas distribution Mexico | 115 | 78 | 47.4 | 116 | 76 | 52.6 |
| Electricity distribution Panama | 74 | 45 | 64.4 | 74 | 45 | 64.4 |
| **Total** | **189** | **123** | **53.7** | **190** | **121** | **57.0** |

First half 2019 ordinary ebitda amounted to Euros 190 million, up 57.0%, on the back of positive regulatory impacts, higher demand, and efficiency improvements.

### 1.4.4.1. Gas distribution Mexico

#### Results

| | 2019 | 2018 | % |
|---|---|---|---|
| Net sales | 333 | 277 | 20.2 |
| Procurement | (188) | (159) | 18.2 |
| **Gross margin** | **145** | **118** | **22.9** |
| Other revenues | 7 | 4 | 75.0 |
| Net personnel expenses | (10) | (16) | (37.5) |
| Taxes | - | (1) | - |
| Other expenses | (27) | (27) | - |
| **Ebitda** | **115** | **78** | **47.4** |
| Depreciation, amortisation and operating provisions | (31) | (28) | 10.7 |
| **Operating income** | **84** | **50** | **68.0** |

The first half 2019 ordinary ebitda increased 52.6% to Euros 116 million.The positive evolution of the business was driven by i) the annual indexation update, ii) demand growth, iii) better supply margins, and iv) efficiency improvements. In addition to these, there was a positive Euros 7 million exchange rate impact.

#### Main aggregates

| | 2019 | 2018 | % |
|---|---|---|---|
| Gas activity sales (GWh) | 29,949 | 27,343 | 9.5 |
| Gas sales | 11,391 | 10,379 | 9.7 |
| TPA | 18,558 | 16,964 | 9.4 |
| Distribution network (km) | 22,572 | 22,204 | 1.7 |
| Increase in connection points (thousand) | (84) | 31 | - |
| Connection points (thousand) (at 30/06) | 1,711 | 1,804 | (5.1) |

The new commercial strategy, aimed at improving customer profitability, explains the reduction in connection points (-5.1%).

### 1.4.4.2. Electricity distribution Panama

#### Results

| | 2019 | 2018 | % |
|---|---|---|---|
| Net sales | 448 | 377 | 18.8 |
| Procurement | (350) | (305) | 14.8 |
| **Gross margin** | **98** | **72** | **36.1** |
| Other revenues | 1 | 1 | - |
| Net personnel expenses | (4) | (6) | (33.3) |
| Taxes | (2) | (3) | (33.3) |
| Other expenses | (19) | (19) | - |
| **Ebitda** | **74** | **45** | **64.4** |
| Depreciation, amortisation and operating provisions | (23) | (19) | 21.1 |
| **Operating income** | **51** | **26** | **96.2** |

Ordinary ebitda for the period ended at 30 june 2019 amounted to Euros 74 million, 64.4% higher than in the same period of 2018.

The positive evolution was due to the tariff update under the new regulatory period and the higher demand / temperatures as well as efficiency improvements. A Euros 5 million positive exchange rate impact added to the good operational performance.

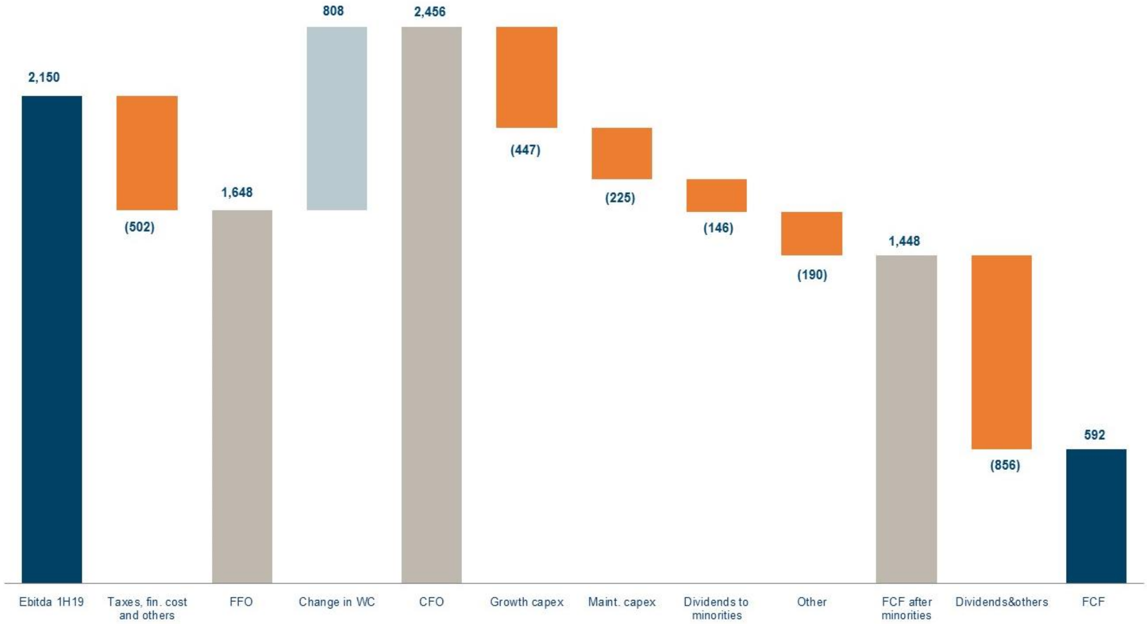
**Main aggregates**

| | 2019 | 2018 | % |
|---|---|---|---|
| Electricity sales (GWh): | 2,698 | 2,545 | 6.0 |
| Electricity sales | 2,458 | 2,434 | 1.0 |
| TPA | 240 | 111 | - |
| Connection points (thousand) (at 30/06) | 681 | 656 | 3.8 |

Electricity sales and connection points grew by 6.0% and 3.8% respectively.

**1.5. Cash flow**

The evolution of cash flow in the six month period ended at 30 June 2019 is as follows:




First half of 2019 free cash flow after minorities amounted to Euros 1,448 million. In addition to the stronger operating results, the company experienced a positive evolution of its working capital, which is explained by an increased focus on working capital management as well as other seasonal circumstances occurring in the period.

Free cash flow after minorities was mostly allocated to the payment of dividends and net debt reduction.

**Capex**

The breakdown of net investments by type is as follows:

| | 2019 | 2018 | % |
|---|---|---|---|
| Investments in property, plant and equipment and intangible assets | 699 | 1,145 | (39.0) |
| Financial assets | - | 35 | - |
| **Total gross investments** | **699** | **1,180** | **(39.0)** |
| Divestments and others. | (27) | (2,609) | - |
| **Total net investments** | **672** | **(1,429)** | **-** |

Investments in property, plant and equipment and intangible assets amounted to Euros 699 million in the first half of 2019, a 39.0% decrease with respect to the same period of the previous year due to it included the recognition of two new gas carriers under finance lease (Euros 380 million: one in March 2018 and the other in June 2018).

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

| | Growth Capex | | | Maintenence Capex | | | Capex | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2019 | 2018 | % 2019/ 2018 | 2019 | 2018 | % 2019/ 2018 | 2019 | 2018 | % 2019/ 2018 |
| **Gas & Electricity** | **270** | **547** | **(50.6)** | **66** | **76** | **(13.2)** | **336** | **623** | **(46.1)** |
| Supply of gas, electricity and services | 19 | 17 | 11.8 | 2 | 18 | (88.9) | 21 | 35 | (40.0) |
| International LNG | - | 380 | (100.0) | 2 | - | - | 2 | 380 | (99.5) |
| Generation Europe | 219 | 79 | - | 31 | 30 | 3.3 | 250 | 109 | - |
| International generation | 32 | 71 | (54.9) | 31 | 28 | 5.3 | 63 | 99 | (36.4) |
| **Infrastructure EMEA** | **97** | **108** | **(10.2)** | **74** | **77** | **(3.9)** | **171** | **185** | **(7.6)** |
| Gas distribution Spain | 71 | 83 | (14.5) | 13 | 11 | 18.2 | 84 | 94 | (10.6) |
| Electricity distribution Spain | 26 | 25 | 4.0 | 60 | 65 | (7.7) | 86 | 90 | (4.4) |
| EMPL | - | - | - | 1 | 1 | - | 1 | 1 | - |
| **Infrastructure LatAm South** | **67** | **127** | **(47.2)** | **56** | **111** | **(49.5)** | **123** | **238** | **(48.3)** |
| Electricity distribution Chile | 15 | 32 | (53.1) | 30 | 74 | (59.5) | 45 | 106 | (57.5) |
| Gas Chile | 37 | 57 | (35.1) | 5 | 7 | (28.6) | 42 | 64 | (34.4) |
| Gas distribution Brazil | 8 | 21 | (61.9) | 9 | 14 | (35.7) | 17 | 35 | (51.4) |
| Gas Argentina | 4 | 7 | (42.9) | 12 | 15 | (20.0) | 16 | 23 | (30.4) |
| Electricity Argentina | 3 | 4 | (25.0) | - | 1 | (100.0) | 3 | 4 | (25.0) |
| Gas distribution Peru | - | 6 | (100.0) | - | - | - | - | 6 | - |
| **Infrastructure LatAm North** | **38** | **52** | **(26.9)** | **27** | **28** | **(3.6)** | **65** | **80** | **(18.8)** |
| Gas distribution Mexico | 14 | 28 | (50.0) | 4 | 7 | (42.9) | 18 | 35 | (48.6) |
| Electricity distribution Panama | 24 | 24 | - | 23 | 21 | 9.5 | 47 | 45 | 4.4 |
| **Remainder** | **-** | **2** | **(100.0)** | **4** | **17** | **(76.5)** | **4** | **19** | **(78.9)** |
| **Total** | **472** | **836** | **(43.5)** | **227** | **309** | **(26.5)** | **699** | **1,145** | **(39.0)** |

Maintenance capex in the first half of 2019 amounted to Euros 227 million, compared to Euros 309 million in the first half of 2018, a 26.5% reduction resulting from capex optimization, most importantly in the infrastructure businesses, and certain delays in maintenance capex to the second half of the year.

Growth capex in the first half of 2019 represented approximately 70% of total capex, and amounted to Euros 472 million, up from last year's Euros 836 million. This reduction is explained mostly by the acquisition in that period of two gas carriers under financial lease for Euros 380 million. Growth capex includes the following:

- A total of Euros 219 million invested during the period in the construction of different renewable projects in Spain (wind and solar), with 138 MW already put in operation in the first half of 2019 and other 777 MW expected to come into operation during the year.
- Euros 24 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 before the third quarter of 2020 and the first quarter of 2021 respectively.

## Divestments

No significant divestments were made during the first half of 2019. Nevertheless, on 12 April 2019 Naturgy announced an agreement for the sale of 100% of its interests in its Moldova electricity distribution activities. The transaction values the Companies equity at Euros 141 million (including pre-closing dividends) and is not expected to generate significant capital gains for Naturgy.

**1.6. Financial position**

Net debt as of 30 June 2019, already considering IFRS 16 adjustments, stood at Euros 14,826 million, down Euros 483 million over the net debt figure reported as of year-end 2018, and despite the Euros 848 million allocated to dividend payment and share buy-back, and the Euros 80 million increase due to exchange rate translation impact. As a result, Net debt/LTM ebitda declined to 3.6x from 3.8x as of 31 December 2018.

Naturgy advances on the optimization of its capital structure as outlined in its 2018-2022 Strategic Plan, and continues the process of optimizing the financing allocated into each of the business units in order to increase accountability and funding autonomy in the same currency where cash flows are originated, and gain increased flexibility. Some of the operations fulfilled in the period ended at 30 June 2019 in accordance with this policy are the following:

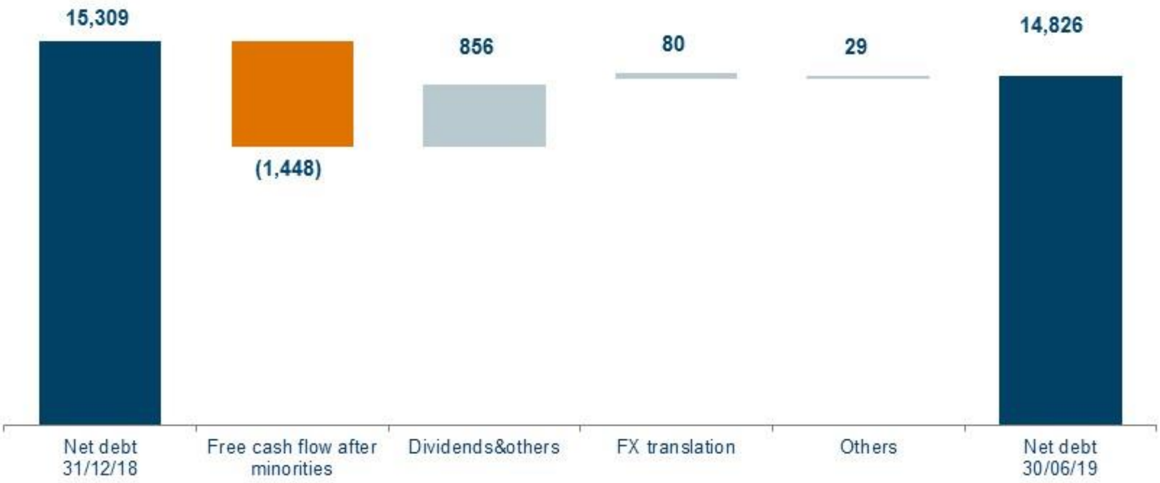
- GPG formalized a new syndicated loan for USD1,500 million with 5 years maturity (extendable for two more years) at a very competitive cost.

- A loan for Euros 98 million was disposed to finance renewable assets in Crockwell (Australia) with a 7 year maturity.

- Naturgy Mexico signed a credit line in Mexican pesos for an equivalent of Euros 69 million and disposed loans for Euros 92 million with a 3 year maturity.

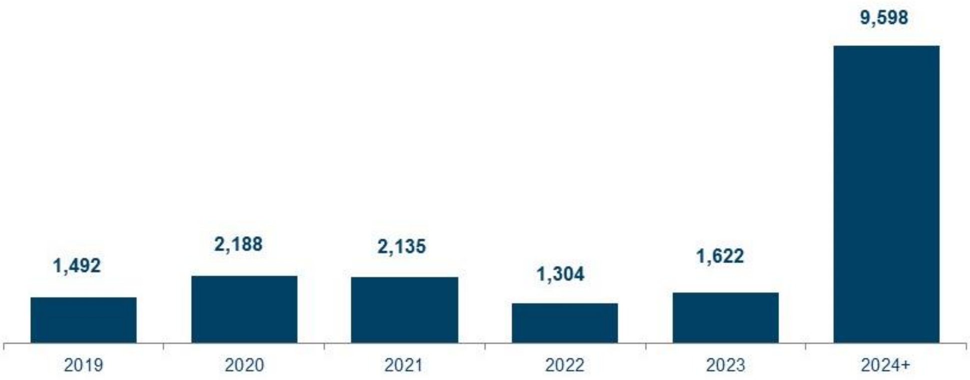
**Net debt evolution (Million euros)**

The net debt evolution from 31 december 2018 to 30 june 2019 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:

| | | 2019 | 2018 |
|---|---|---|---|
| Ebitda/Net financial cost | Times | 7.0 | 7.5 |
| Net financial debt / LTM ebitda | Times | 3.6 | 3.8 |

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'19 | Dec'18 | CLP | USD | BRL | ARS | USD | MXN | USD | EUR/USD |
| Net financial debt | MEuro | 14,826 | 15,309 | 1,960 | 34 | 195 | 3 | 60 | 357 | 554 | 11,663 |
| Average cost of gross debt (1) | % | 3.2 | 3.1 | 5.8 | 5.6 | 7.7 | 66.6 | 3.4 | 8.9 | 4.4 | 2.2 |
| % Fixed (Gross debt) | % | 81 | 87 | 75 | 36 | 10 | 14 | 7 | 52 | 60 | 92 |

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

## 2. Main risks and uncertainties

### 2.1. Operating risks

#### 2.1.1. Regulatory risk

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

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

On 5 July 2019, Spain's National Markets and Competition Commission (CNMC) published the first drafts of the circulars that will establish the methodology for remunerating regulated electricity and gas distribution from 2020 and 2021, respectively. The CNMC has opened a period for submissions that is initially set to conclude on 9 August. Through this process, the company will try to ensure that the new remuneration framework continues to provide a remuneration that is reasonable and predictable over the long term, both for investments already undertaken and for future investments.

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

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

#### 2.1.2. Gas and electricity volume risk

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

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

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

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

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

### 2.1.3. Operational risk

#### a) Insurable risks

Naturgy's activities are exposed to a variety of operational risks such as faults in the distribution network, in electricity generation facilities and in gas carriers, explosions, polluting emissions, toxic spillage, fire, adverse weather conditions, contractual breaches, sabotage or accidents affecting the gas distribution network or electricity generation assets, and other damage and force majeure circumstances that might cause bodily harm and/or material damage, affecting or destroying Naturgy's facilities or property.

Naturgy might also have to respond to third-party claims for bodily harm and/or other damage caused in the ordinary course of business. Such claims could result in the payment of indemnities under legislation applicable in the countries in which Naturgy operates.

Although Naturgy has an Insurance Program of proven efficiency that covers its operational exposure, the emergence of events such as those mentioned might impact Naturgy's financial situation and results. This may be due to coverage limitations, the amount of deductibles and/or increases in premiums to satisfy the insurance market.

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

#### b) Image and reputation

Naturgy 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. The previous Sustainability Plan, which began in 2016, is being replaced by a Sustainability Plan that runs through 2022, which is currently being drawn up and will be approved by the Board of Directors. This Plan takes account of the stakeholders (shareholders, customers, employees, environment, suppliers, and society) within the framework of integrity and transparency. The Plan puts into practice and realises the commitments in the Corporate Responsibility Policy approved by the Board of Directors.

#### c) Environment

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 building in 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 minimize 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.

**d) Climate change**

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

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

Naturgy forms part of a number of work groups at European level, enabling strategy to be adapted to new regulations in advance. The company also forms part of clean development projects designed to reduce $CO_2$ emissions.

**e) Geopolitical exposure**

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

- Latin America

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

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

- Middle East and Maghreb

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

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

### 2.2. Financial risks

Financial risks (interest rate, exchange rate, commodity price, credit and liquidity risk) are detailed in Note 18 to the 2018 Consolidated Annual Accounts.

### 2.3. 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.

- **Generation mix:** Naturgy's generating fleet, which is dominated by CCGTs, has the necessary flexibility to adapt to different market situations and is a valuable asset for seizing opportunities related to volatility in prices and demand volume in the gas and electricity 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. 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, many of them with stable flows that are independent of commodity prices, making 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 2019, are described in Note 22 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 30.06.2019 | Reconciliation of values at 30.06.2018 | Relevance |
|---|---|---|---|---|
| Ebitda | "Operating profit"(2) | Euros 2,150 million | Euros 2,004 million | Measure of earnings before interest, taxes, depreciation and amortisation and provisions |
| Ordinary Ebitda | Ebitda - Non-ordinary items (7) | 2,277 = Euros 2,150 million + 127 | 2,105= Euros 2,004 million + 101 | 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 692 million = 592 + 100 | Euros 532 million = -3,281 + 3,813 | 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 699 million = 69 + 630 | Euros 1,145 million = 121 + 1,024 | Realised investments in property, plant & equipment and intangible assets. |
| Net Investments | CAPEX (5) + Financial investments (6)– Proceeds from divestitures of PPE and intangible assets (6)- Other proceeds/(payments) of investments activities (6). | Euros 672 million = 699 + 0 – 27 – 0 | Euros -1,429 million = 1,145 + 35 – 2,609 | Total investments net of the cash received from divestments and other investing receipts. |
| Gross financial debt | "Non-current financial liabilities"(1) + "Current financial liabilities"(1) | Euros 18,339 million = 15,258 + 3,081 | Euros 15,928 million = 13,711 + 2,217 | 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 14,826 million = 18,339 - 3,489 – 24 | Euros 12,362 million = 15,928 - 3,492 – 74 | 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)) | 50.7% = 14,826 / (14,826 + 14,414) | 44.8% = 12,362 / (12,362 + 15,220) | 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 308 million = 317 - 9 | Euros 274 million = 286 - 12 | Amount of expense relative to the cost of financial debt less interest revenue |
| Ebitda/Cost of net financial debt | Ebitda(5)/ Cost of net financial debt(5) | 7.0x = 2,150 / 308 | 7.3x = 2,004 / 274 | Ratio between Ebitda and net financial debt |
| Net financial debt/LTM Ebitda | Net financial debt(5) / Ebitda in the last four quarters(5) | 3.6x = 14,826 / 4,165 | 3.2x = 12,362 / 3,889 | 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 1,448 million = 592 + 560 + 288 + 8 | Euros 2,589 million = 2.555 + 0 + 7 + 27 | 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 592 million = 2,456 – 859 + 172 - 1,177 | Euros 2,555 million = 1,244 + 191 - 1,164 + 2,284 | Cash flow generated by the Company available to pay the debt. |

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

7. The non-ordinary items are summarized below:

| | Ebitda | | Net income | |
|---|---|---|---|---|
| **Euros million** | **2019** | **2018** | **2019** | **2018** |
| Gas transport cost & procurement retroactivity | - | (38) | - | (28) |
| Chile non-ordinary expenses | - | (32) | - | (20) |
| Restructuring costs | (110) | (24) | (82) | (22) |
| Asset write-down | - | - | (20) | (3,831) |
| Discontinued operations and non-controlling interests [1] | - | - | - | 44 |
| Chile mergers tax effect | - | - | - | 42 |
| CNMC CCGT Fine | (20) | - | (20) | - |
| Sales of land and buildings | 3 | 6 | 22 | 4 |
| Others | - | (13) | - | (2) |
| **Total** | **(127)** | **(101)** | **(100)** | **(3,813)** |

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, 2019

Building a better working world

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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, 2019, 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, 2019 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.

Domicilio Social: C/Raimundo Fernández Villaverde, 65. 28003 Madrid -Inscrita en el Registro Mercantil de Madrid, tomo 9.364 general, 8.130 de la sección 3ª del Libro de Sociedades, folio 68, hoja nº 87.690-1, inscripción 1ª, Madrid 9 de Marzo de 1.989. A member firm of Ernst & Young Global Limited. C.I.F. B-78970506.

*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, 2018. 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, 2019 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, 2019. 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 Royal Legislative Decree 4/2015, of October 23, approving the consolidated text of the Securities Market Law enacted by Royal Decree 1362/2007.

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

Alfredo Eguiagaray

July 24, 2019

# Naturgy Energy Group, S.A.

## Condensed interim financial statements as at 30 June 2019

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**Naturgy Energy Group, S.A.**
**Interim balance sheet**

| | | (million euros) |
|---|---|---|
| | **30.06.19** | **31.12.18** |
| **NON-CURRENT ASSETS** | **30,594** | **31,317** |
| Intangible assets | 4 | 32 |
| Goodwill | -- | 27 |
| Other intangible assets | 4 | 5 |
| Property, plant and equipment | 131 | 141 |
| Land and buildings | 119 | 127 |
| Other property, plant and equipment | 12 | 14 |
| Long-term investments in group companies and associates | 30,210 | 30,984 |
| Equity instruments | 14,637 | 15,237 |
| Loans to companies | 15,573 | 15,657 |
| Long-term investments | 16 | 17 |
| Equity instruments | 5 | 5 |
| Other financial assets | 11 | 12 |
| Other non-current assets | 69 | 81 |
| Deferred tax assets | 164 | 152 |
| **CURRENT ASSETS** | **2,983** | **2,225** |
| Trade and other receivables | 416 | 661 |
| Trade receivables | 19 | 101 |
| Trade receivables, group companies and associates | 208 | 366 |
| Sundry receivables | 163 | 129 |
| Current tax assets | 26 | 65 |
| Short-term investments in group companies and associates | 1,138 | 797 |
| Loans to companies | 513 | 740 |
| Other financial assets | 625 | 57 |
| Short-term financial assets | 33 | 44 |
| Derivatives | -- | 8 |
| Other financial assets | 33 | 36 |
| Short-term prepayments and accrued expenses | 1 | 1 |
| Cash and cash equivalents | 1,395 | 722 |
| Cash at banks and in hand | 1,395 | 722 |
| **TOTAL ASSETS** | **33,577** | **33,542** |

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

**Naturgy Energy Group, S.A.**
**Interim balance sheet** **(million euros)**

| | 30.06.19 | 31.12.18 |
|---|---|---|
| **EQUITY** | **17,186** | **17,226** |
| **SHAREHOLDERS' FUNDS** | **17,249** | **17,253** |
| Capital | 1,001 | 1,001 |
| Authorised capital | 1,001 | 1,001 |
| Share premium | 3,808 | 3,808 |
| Reserves | 11,996 | 8,009 |
| Legal and required by articles | 300 | 300 |
| Other reserves | 11,696 | 7,709 |
| Treasury shares | (400) | (121) |
| Profit for the year | 838 | 5,282 |
| Interim dividend | -- | (730) |
| Other equity instruments | 6 | 4 |
| **ADJUSTMENTS FOR CHANGES IN VALUE** | **(63)** | **(27)** |
| Available-for-sale financial assets | (1) | -- |
| Hedging operations | (62) | (27) |
| **NON-CURRENT LIABILITIES** | **12,025** | **13,085** |
| Long-term provisions | 464 | 478 |
| Long-term post-employment obligations | 241 | 256 |
| Other provisions | 223 | 222 |
| Long-term borrowings | 1,918 | 2,040 |
| Bank borrowings | 1,821 | 1,985 |
| Derivatives | 96 | 54 |
| Other financial liabilities | 1 | 1 |
| Long-term payable to group companies and associates | 9,361 | 10,273 |
| Deferred tax liabilities | 212 | 212 |
| Other liabilities | 69 | 81 |
| Long-term accruals and deferred income | 1 | 1 |
| **CURRENT LIABILITIES** | **4,366** | **3,231** |
| Short-term borrowings | 257 | 246 |
| Bank borrowings | 242 | 233 |
| Derivatives | 12 | 9 |
| Other financial liabilities | 3 | 4 |
| Short-term payable to group companies and associates | 3,564 | 2,283 |
| Trade and other payables | 544 | 701 |
| Trade payables, suppliers | 148 | 249 |
| Trade payables, group companies and associates | 102 | 267 |
| Sundry payables | 171 | 129 |
| Personnel (outstanding remuneration) | 13 | 29 |
| Current tax liabilities | 13 | -- |
| Other amounts payable to Public Administrations | 97 | 27 |
| Short-term prepayments and accrued expenses | 1 | 1 |
| **TOTAL EQUITY AND LIABILITIES** | **33,577** | **33,542** |

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

**Naturgy Energy Group, S.A.**
**Interim income statement** **(million euros)**

| | 30.06.19 | 30.06.18 |
|---|---|---|
| Revenue | 2,234 | 2,164 |
| Sales | 1,110 | 1,581 |
| Income from equity instruments of group companies and associates | 918 | 326 |
| Income from marketable securities and other financial instruments of group companies and associates | 206 | 257 |
| Supplies | (1,112) | (1,585) |
| Consumption of goods | (1,109) | (1,581) |
| Raw materials and other consumables | (3) | (4) |
| Other operating revenues | 115 | 189 |
| Ancillary and other operating revenues | 115 | 188 |
| Operating grants released to the income statement | -- | 1 |
| Personnel costs | (84) | (122) |
| Wages, salaries and related expenses | (70) | (97) |
| Social security | (10) | (19) |
| Provisions | (4) | (6) |
| Other operating expenses | (103) | (151) |
| External services | (103) | (151) |
| Depreciation and amortisation | (39) | (48) |
| Impairment and results on disposals of fixed assets | 16 | 5,450 |
| Gain/(loss) on disposals of property, plant and equipment | -- | 2 |
| Impairment of, and losses on, equity instruments of group companies and associates | (5) | (4,074) |
| Gain/(loss) on disposals of equity interests in group companies and associates | 21 | 9,522 |
| **EBIT** | **1,027** | **5,897** |
| Financial revenues | 1 | 14 |
| Negotiable securities and other financial instruments | 1 | 14 |
| - In third parties | 1 | 14 |
| Financial expenses | (206) | (279) |
| Borrowings from group companies and associates | (187) | (208) |
| Borrowings from third parties | (19) | (71) |
| Variation in fair value of financial instruments | (7) | -- |
| Trading portfolio, etc. | (7) | -- |
| **NET FINANCIAL INCOME/(EXPENSE)** | **(212)** | **(265)** |
| **PROFIT BEFORE TAXES** | **815** | **5,632** |
| Income tax | 23 | (35) |
| **PROFIT FOR THE YEAR** | **838** | **5,597** |
| Basic and diluted earnings per share in euro | 0.85 | 5.59 |

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

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

| | 30.06.19 | 30.06.18 |
|---|---|---|
| **PROFIT FOR THE YEAR** | **838** | **5,597** |
| | | |
| **INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY** | **(38)** | **(6)** |
| Valuation of available-for-sale financial assets | (1) | -- |
| Cash flow hedges | (52) | (8) |
| Actuarial gains and losses and other adjustments | 2 | -- |
| Tax effect | 13 | 2 |
| | | |
| **RELEASES TO INCOME STATEMENT** | **4** | **3** |
| Cash flow hedges | 5 | 4 |
| Tax effect | (1) | (1) |
| **TOTAL INCOME AND EXPENSE RECOGNISED IN EQUITY** | **804** | **5,594** |

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

**Interim statement of changes in equity** **(million euros)**

## STATEMENT OF CHANGES IN EQUITY

| | Share capital | Share premium | Reserves | Treasury shares | Profit or loss brought forward | Profit for the year | Interim dividend | Other instruments | Adjustments for changes in value | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 01.01.2018** | **1,001** | **3,808** | **7,971** | **--** | **--** | **1,023** | **(330)** | **--** | **(7)** | **13,466** |
| Total recognised revenues and expenses | -- | -- | 15 | -- | -- | 5,282 | -- | 4 | (20) | **5,281** |
| Transactions with shareholders or owners | | | | | | | | | | |
| - Dividend distribution | -- | -- | -- | -- | (670) | -- | (730) | -- | -- | **(1,400)** |
| - Trading in own shares and equity instruments | -- | -- | -- | (121) | -- | -- | -- | -- | -- | **(121)** |
| Other changes in equity | -- | -- | 23 | -- | 670 | (1,023) | 330 | -- | -- | **--** |
| **Balance at 31.12.2018** | **1,001** | **3,808** | **8,009** | **(121)** | **--** | **5,282** | **(730)** | **4** | **(27)** | **17,226** |
| Total recognised revenues and expenses | -- | -- | -- | -- | -- | 838 | -- | 2 | (36) | **804** |
| Transactions with shareholders or owners | | | | | | | | | | |
| - Dividend distribution | -- | -- | -- | -- | (565) | -- | -- | -- | -- | **(565)** |
| - Trading in own shares and equity instruments | -- | -- | -- | (279) | -- | -- | -- | -- | -- | **(279)** |
| Other changes in equity | -- | -- | 3,987 | -- | 565 | (5,282) | 730 | -- | -- | **--** |
| **Balance at 30.06.2019** | **1,001** | **3,808** | **11,996** | **(400)** | **--** | **838** | **--** | **6** | **(63)** | **17,186** |

*Notes 1 to 8 are an integral part of the condensed interimfinancial statements.*

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

| | 30.06.2019 | 30.06.2018 |
|---|---|---|
| **Profit for the year before tax** | **815** | **5,632** |
| **Adjustments to results** | **(885)** | **(5,711)** |
| Fixet asset depreciation/amortisation | 39 | 48 |
| Impairment adjustments | 5 | 4,074 |
| Change in provisions | 3 | -- |
| Profit/(loss) on write-offs and disposals of fixed assets | -- | 2 |
| Profit/(loss) on write-offs and disposals of financial instruments | (20) | (9,522) |
| Financial income | (1,125) | (597) |
| Financial expenses | 206 | 279 |
| Exchange differences | (1) | -- |
| Variation in fair value of financial instruments | 7 | -- |
| Other income and expenses | 1 | 5 |
| **Changes in working capital** | **35** | **(146)** |
| Debtors and other receivables | 173 | (155) |
| Other current assets | 1 | 1 |
| Creditors and other payables | (139) | 8 |
| **Other cash flows from operating activities** | **976** | **1,512** |
| Interest paid | (252) | (357) |
| Dividend received | 939 | 1,570 |
| Interest collected | 215 | 258 |
| Income tax collections/(payments) | 74 | 41 |
| **Cash flows from operating activities** | **941** | **1,287** |
| **Amounts paid on investments** | **(343)** | **(13,640)** |
| Group companies and associates | (334) | (13,628) |
| Property, plant and equipment | (3) | (6) |
| Other financial assets | (6) | (6) |
| **Amounts collected from divestments** | **820** | **16,490** |
| Group companies and associates | 819 | 16,474 |
| Property, plant and equipment | -- | 1 |
| Other financial assets | 1 | 15 |
| **Cash flows from investing activities** | **477** | **2,850** |
| **Collections and payments on equity instruments** | **(288)** | **--** |
| Acquisition of own equity instruments | (288) | -- |
| **Collections and payments on financial liability instruments** | **108** | **(3,126)** |
| Issuance | 4,314 | 4,098 |
| Bank borrowings | -- | 177 |
| Payable to group companies and associates | 4,314 | 3,921 |
| Repayment/redemption of | (4,206) | (7,224) |
| Bank borrowings | (155) | (1,862) |
| Payable to Group companies and associates | (4,039) | (5,354) |
| Other payables | (12) | (8) |
| **Dividend payments** | **(565)** | **--** |
| **Cash flow from financing activities** | **(745)** | **(3,126)** |
| **NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS** | **673** | **1,011** |
| Cash and cash equivalents at the beginning of the year | 722 | 1,553 |
| Cash and cash equivalents at year-end | 1,395 | 2,564 |

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

## Notes to the condensed interim accounts - Table of contents

## Nota 1. General information

Naturgy Energy Group, S.A. ("the Company"), the parent company of the Naturgy group ("Naturgy"), was incorporated as a public limited company in 1843 and its registered office for corporate purposes is 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 projects, civil engineering works, public services and gas and hydrocarbon distribution 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 purposes or nature, by subscribing, acquiring and holding shares, stakes or any other securities deriving from the same, subject to compliance with the legal requirements in each case.

The Company's main ordinary activity is the administration and management of its shareholdings in subsidiaries. It also has contracts to supply gas to other Naturgy companies and in the electricity area it acted as representative of the Naturgy generation and supply companies before the Electricity Market until 1 June 2019.

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

## Nota 2. Basis of presentation and accounting policies

### 2.1. Basis of presentation

The annual accounts for 2018 were adopted by the Shareholders' Meeting on 5 March 2019.

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 National Securities Market Commission Circular 1/2008, of 30 January, on regular disclosures by issuers with securities listed in regulated markets with respect to the half-yearly accounts, interim directors' reports and, as the case may be, quarterly financial reports, as amended by Circular 5/2015, of 28 October, and later by Circular 3/2018, of 28 June, of the National Securities Market Commission and should be read along with the accounts for the year ended 31 December 2018.

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 include 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 2018, the date of the above-mentioned accounts, and 30 June 2019.

At 30 June 2019, the Company recorded working capital which was negative by Euros 1,383 million. In this respect, the Company's liquidity projections for the coming year together with the amounts available under credit lines ensure coverage of the working capital.

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

The condensed interim consolidated accounts were authorised by the Board of Directors on 23 July 2019 in accordance with IAS 34 "Interim Financial Reporting". The main figures disclosed in the consolidated accounts are as follows:

| | |
|---|---|
| Total assets | 41,732 |
| Equity attributed to the parent company | 10,835 |
| Non-controlling interest | 3,579 |
| Revenue | 11,639 |
| Net income after tax attributed to the parent Company | 592 |

### 2.2. Main risks and uncertainties

Note 3 "Significant events in the period" describes the main changes affecting the Company's equity and results in the six-month periods ended 30 June 2019 and 2018.

That same note also describes the main changes in the economic assumptions used to draw up the new Strategic Plan 2018-2022, which was approved in June 2018, and other factors that arose in the period that resulted in the recognition of impairment of the carrying amounts of holdings in group companies and associates as at 30 June 2018.

During the six-month period ended 30 June 2019, there were no significant changes in the business or economic environment, or in the regulatory environment, that could lead to significant amendments on the Company’s assets and liabilities as at 30 June 2019.

### 2.3. 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 2018.

## Nota 3. Significant events in the period

**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.

**Other significant transactions**

- Acquisition of own shares and equity instruments for Euros 279 million in accordance with the share repurchase programme published on 6 December 2018 in the framework of the Strategic Plan 2018-2022. The accumulated amount as at 30 June 2019 was Euros 400 million.

**Funding transactions**

- The total amount utilised in the Euro Medium Term Note (EMTN) programme stands at Euros 9,267 million (Euros 9,708 million at 31 December 2018). The programme limit at 30 June 2019 is Euros 15,000 million (Euros 15,000 million at 31 December 2018). 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. As at 30 June 2019, the outstanding balance of issues under the ECP programme stood at Euros 500 million (there were no outstanding issues at 31 December 2018).

**<u>Six-month period ended 30 June 2018</u>**

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

**Corporate transactions**

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

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

  - On 7 February 2018, Holding de Negocios de Gas, S.A. increased its share capital by issuing 15,000 new shares with a par value of Euros 1 each and an issue premium of Euros 499,999 per share. Those new shares were subscribed and paid in full entirely by the Company, in the amount of Euros 7,500 million.

  - On 7 February 2018 the Company granted an intercompany loan of Euros 6,000 million to Holding de Negocios de Gas, S.A. This loan matures between 7 and 12 years and bears interest at a market rate.

  - Using the funds it had received, on 7 February 2018, Holding de Negocios de Gas, S.A. acquired, from the Company, 100% of the shares of Nedgia, S.A. (formerly called Holding Negocios Regulados Gas Natural S.A., it is the company that owns the Spanish gas distribution companies) for Euros 11,518 million, determined as the fair value from the price per share set in the aforementioned agreement for the sale to the consortium, and backed by a fairness opinion from JP Morgan and Morgan Stanley, which acted as financial advisers on the transactions and concluded that the value was reasonable from a financial standpoint. In accordance with the provisions of paragraph 1 of Recognition and Valuation Standard 21 of the Spanish Chart of Accounts, the transaction was accounted for at fair value and generated a profit of Euros 9,537 million. The Company also cancelled the loans granted to the Spanish distribution companies in the amount of Euros 1,982 million, since Holding de Negocios de Gas, S.A. had granted that funding for the same amount to the Spanish gas distribution companies.

  - On 14 February 2018, Holding Negocios de Gas, S.A. acquired, from Nedgia, S.A., 100% of Gas Natural Transporte SDG, S.L. and Gas Natural Redes de GLP, S.A. for Euros 165 million, determined as the fair value from the price set in the aforementioned agreement for the sale to the consortium, following distribution by Nedgia, S.A. of a dividend amounting to Euros 165 million charged to the share premium account.

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

- Capital reduction through the reimbursement of contributions in Clover Financial and Treasury Services, D.A.C. in the amount of USD 200 million. The reduction in the shareholding generated a Euros 10 million profit due to the exchange rate effect.

- The distribution of reserves by Global Power Generation, S.A. and Holding de Negocios de Gas, S.A. amounting to Euros 67 million and Euros 464 million, respectively, was recognised as a decrease in the carrying amount of the shareholdings.

**Other significant transactions**

- On 22 February 2018, Repsol, S.A. concluded an agreement with Rioja Bidco Shareholdings, S.L.U., a company controlled by funds advised by CVC, for the sale of 20.072% of the capital of Naturgy Energy Group, S.A. On 18 May 2018, the transaction was completed and Repsol, S.A. ceased to be a shareholder of that company.

- The temporary mismatches between gas system revenues and costs accumulated in 2017, funded by Naturgy pursuant to Law 18/2014 of 17 October, were recognised under “Other financial assets". This amount was acquired by the Company from the Naturgy distribution companies and will be recovered through gas system settlements as it generates the right to the recovery of this amount in the following five years, plus a market interest rate. The amount of this financing was recognised based on the estimated recovery period.

  After receiving settlements for 2017, the gas industry deficit was observed to be progressing satisfactorily and the amount of the mismatch for 2017 was adjusted by Euros 14 million at 30 June 2018. Subsequently, on 31 December 2018, in accordance with CNMC settlement 15/2017, the deficit was corrected to the final amount of Euros 9 million.

**Funding transactions**

- In January 2018 Naturgy issued bonds under its Euro Medium Term Notes (EMTN) programme for an amount of Euros 850 million maturing in 10 years and with a 1.5% coupon, the proceeds of which were used in a tender offer for Euros 916 million of bonds maturing between 2019 and 2023, which entailed a net disbursement of Euros 66 million. Additionally, two bonds with an average coupon of 4.59% for a total amount of Euros 1,099 million matured in the first half of 2018.

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

**Impairment of assets**

In the six-month period ended 30 June 2018, impairments of shareholdings in Group companies and associates amounting to Euros 3,820 million were recognised under “Impairment of, and losses on, equity instruments of group companies and associates” in the income statement, arising from the re-measurement of future cash flow estimates based on Strategic Plan 2018-2022 approved on 27 June 2018 or by other factors arising in the period, which are detailed as follows:

- An amount of Euros 2,947 million for the holding in Naturgy Generación, S.L.U..

  Due to the existence of evidence of impairment, following the approval of the new Strategic Plan and taking into account external reports by analysts that indicate a value for the electricity business in Spain which is lower than the relevant carrying value, an impairment analysis was carried out.

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

The main assumptions used were as follows:

| | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| **Spain's GDP** | 2.70% | 2.20% | 1.90% | 1.70% | 1.70% |
| **Pool price (Euros /MWh)** | 58.5 | 56.8 | 54.8 | 51.3 | 50.3 |
| **Brent (USD/bbl)** | 75.3 | 75.5 | 71.0 | 67.8 | 65.6 |
| **Henry Hub gas price (USD/MBtu)** | 2.9 | 2.8 | 2.7 | 2.7 | 2.7 |
| **Coal (API2 CIF ARA) (USD/t)** | 89.6 | 88.0 | 85.2 | 82.9 | 81.9 |
| **$CO_2$ Euros /t** | 14.0 | 16.1 | 16.3 | 16.6 | 17.0 |

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

- Electricity generated. Market demand trends have been estimated based on the consensus of several international bodies. The share has been estimated based on Naturgy's market share in each technology and on the expected evolution of each technology's share of the total market, assuming an average water year. The main variation with respect to past projections is a decrease in conventional output in line with the expected future trend in the conventional generation mix.

- Electricity price. Market electricity prices were calculated using models that cross expected demand with supply forecasts, taking into account the foreseeable evolution of generation capacity in Spain, based on industry forecasts. The main variation with respect to the past projections corresponds to the fact that this analysis produced price paths which, as a consequence of the aforementioned high uncertainty surrounding energy policy in Spain, have been adjusted downwards on average with futures curves and analysts' forecasts. The sources used for analyst projections are the CERA IHS indices.

- Fuel costs. Estimated by reference to long-term supply contracts entered into by Naturgy, forecast evolution of price curves and market experience. The main variation with respect to past projections is an increase in the cost of emission rights based on the evolution of futures curves and analysts' forecasts (CERA IHS).

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

- Taxes established by Law 15/2012.

In addition, a long-term growth rate of 1.9% and a pre-tax discount rate of 7.0% were used.

The accumulated impairment recognised as at 30 June 2018 for the stake in Naturgy Generación, S.L.U. amounted to Euros 2,947 million.

− Euros 710 million relate to the impairment of the 50% interest in Unión Fenosa Gas.

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

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

- Gas volumes to be obtained from each source. The main reasons for the differences between the past and current cash flow projections relate to the decrease in the volumes of gas to be supplied from Egypt and to be liquefied in the plant during the period of the Strategic Plan 2018-2022, due to the fact that the agreement with EGAS had not yet materialised and considering the aforementioned delays in the arbitration proceedings.

- Gas procurement costs. Based on the prices of the long-term contracts entered into by Unión Fenosa Gas and the expected price trends in spot markets, on the basis of the variation in the gas volume composition as a result of the situation in Egypt.

- Selling price of natural gas. Measured using predictive modelling based on the forecast performance of price curves and experience in the markets where Unión Fenosa Gas operates.

In addition, a long-term growth rate of 1.9% and a pre-tax discount rate of 15.1% were used.

The accumulated impairment recognised for the 50% stake in Unión Fenosa Gas amounted to Euros 2,081 million as at 30 June 2018.

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

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

- Euros 34 million for the impairment of other holdings.

Impairment was also recognised on the following assets:

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

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

- Euros 11 million in impairment of the holding in Naturgy Participaciones, S.A.U., recognised on the basis of equity.

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

## Nota 4. Other information

### Workforce structure

The average number of Company employees is as follows:

| | 30.06.19 | 30.06.18 |
|---|---|---|
| Men | 458 | 833 |
| Women | 566 | 918 |
| **Total** | **1,024** | **1,751** |

### Own shares

Movements in the first half of 2019 and the first half of 2018 involving the Company's own shares are as follows:

| | Number of shares | In million euro | % Capital |
|---|---|---|---|
| **At 1 January 2019** | **5,397,737** | **121** | **0.5** |
| Acquisitions | 11,501,840 | 286 | 1.1 |
| Share ownership plan | (310,812) | (7) | -- |
| **At 30 June 2019** | **16,588,765** | **400** | **1.6** |

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

No own shares were disposed of in the first half of 2019. In the first half of 2018, the loss on transactions involving own shares amounted to Euros 0.1 million, recognised under "Other reserves".

Executing the resolutions adopted by the Shareholders' Meeting of the Company on 20 April 2017, the Share Ownership Plan 2017-2018-2019 for Naturgy employees in Spain who voluntarily applied was implemented for 2019. 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 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 own shares have been given to, there being a 21,570 shares surplus.

Within 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, whose amortisation 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 cost of Euros 121 million as at 31 December 2018).

On 23 July 2019, the Company's Board of Directors resolved to execute the capital reduction approved by the Shareholders' Meeting on 5 March 2019, by virtue of which it resolved to reduce the capital stock of Naturgy Energy Group, S.A. by the amount resulting from the sum of:

a) Euros 3 million, through the amortisation 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 amortisation; 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).

Accordingly, insofar as Naturgy Energy Group, S.A. has acquired a total of 13,568,573 shares under the buyback programme approved in item b, the Board of Directors set the amount of the capital reduction at Euros 17 million (the "Capital Reduction") and resolved to proceed with that reduction. The Capital Reduction will be carried out through the amortisation of 16,567,195 own shares with a par value of Euros 1 each, representing approximately 1.65% of the Company's capital stock at the time of adoption of this resolution. After the Capital Reduction, the share capital will be established at 984 million euros and will be composed of 984,122,146 shares with a nominal value of 1 Euro each.

**Dividends**

Set out below is a breakdown of the dividend payments in the first half of 2019 and the first half of 2018:

| | 30/06/2019 | | | 30/06/2018 | | |
|---|---|---|---|---|---|---|
| | **% of Nominal** | **Euros per share** | **Amount** | **% of Nominal** | **Euros per share** | **Amount** |
| Ordinary shares | 57% | 0.57 | 565 | - | - | - |
| Other shares (non-voting, redeemable, etc.) | - | - | - | - | - | - |
| **Total dividends paid** | **57%** | **0.57** | **565** | **-** | **-** | **-** |
| a) Dividends charged to income statement | 57% | 0.57 | 565 | - | - | - |
| b) Dividends charged to reserves or share premium account | - | - | - | - | - | - |
| c) Dividends in kind | - | - | - | - | - | - |

<u>30 June 2019</u>

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, payable 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 |
| Reserves to be recognised | | -- |
| 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

30 June 2018

The motions before the Shareholders' Meeting held on 27 June 2018 included the approval of a supplementary dividend of Euros 0.670 per share for a total of Euros 671 million, which was paid entirely in cash on 5 July 2018.

On 24 July 2018, the Company's Board of Directors declared an interim dividend of Euros 0.28 per share out of 2018 results, which was paid entirely in cash on 31 July 2018.

### Litigation and arbitration

The only changes with respect to the disclosures in the Litigation, arbitration, guarantees and commitments section of Note 27 "Contingent liabilities and commitments " to the consolidated annual accounts for the year ended 31 December 2018 refer to the challenge to the energy subsidy ("bono social") 2014-2016: the Constitutional Court upheld the Administration's appeal, although the Supreme Court has not yet determined the impact. Consequently, there were no material changes in the status of litigation and arbitration in the first six months of 2019.

## Nota 5. Revenue

The breakdown of the Company's revenues from ordinary activities in the six-month periods ended 30 June 2019 and 30 June 2018 is as follows:

| | | 30.06.19 | 30.06.18 |
|---|---|---|---|
| Domestic market | | 1,984 | 1,945 |
| Exports: | | 250 | 219 |
| - | European Union | 239 | 214 |
| - | OECD countries | 9 | 4 |
| - | Other countries | 2 | 1 |
| **Total** | | **2,234** | **2,164** |

The dividends paid by Group companies are as follows:

| | 30.06.19 | 30.06.18 |
|---|---|---|
| Sagane, S.A. | 240 | 2 |
| Naturgy Distribución Latinoamérica S.A. | 173 | 23 |
| UFD Distribución Electricidad, S.A. | 152 | 29 |
| Holding Negocios Gas, S.A. | 151 | 173 |
| Naturgy Inversiones Internacionales, S.A. | 108 | -- |
| Naturgy Iberia, S.A. | 59 | -- |
| Global Power Generation, S.A.U. | 31 | 20 |
| Naturgy Capital Markets, S.A. | 4 | 5 |
| Clover Financial and Treasury Services, D.A.C. | -- | 32 |
| Naturgy Aprovisionamientos, S.A. | -- | 24 |
| General de Edificios y Solares, S.L. | -- | 11 |
| Naturgy Finance, B.V. | -- | 3 |
| Unión Fenosa Minería, S.A. | -- | 2 |
| Naturgy Almacenamientos Andalucía, S.A. | -- | 1 |
| Other | -- | 1 |
| **Total** | **918** | **326** |

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

### Board of Directors Remuneration

Remuneration accrued to the members of the Board of Directors of Naturgy Energy Group, S.A. by virtue of their membership of the Board and Board committees totalled Euros 1,978 thousand at 30 June 2019 (Euros 2,435 thousand at 30 June 2018).

The Board of Directors has 12 members, the Audit Committee has 7 members and the Remuneration Committee has 7 members.

On 6 February 2018, the Board of Directors agreed to appoint a new Executive Chairman upon the departure of the former Chief Executive Officer and Chairman.

The amounts accrued to the Executive Chairman for executive functions in the form of fixed remuneration, annual variable remuneration, multi-year variable remuneration and other items totalled Euros 465 thousand, Euros 1,180 thousand and Euros 6 thousand, respectively (Euros 359 thousand, Euros 789 thousand and Euros 4 thousand, respectively, between 6 February 2018 and 30 June 2018).

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled Euros 203 thousand at 30 June 2019 (Euros 216 thousand at 30 June 2018).

Additionally, given that the Board of Directors agreed to terminate the Chief Executive Officer contract on 6 February 2018, the amounts as at 30 June 2018 included (i) the amounts accrued to the previous Chief Executive Officer for executive functions performed through 6 February 2018, in the form of fixed remuneration, annual variable remuneration, multi-year variable remuneration and other items totalling Euros 130 thousand, Euros 115 thousand, Euros 898 thousand and Euros 4 thousand, respectively and (ii) the stipulated indemnity consisting of three years' total remuneration and the compensation for the non-compete clause consisting of one year's total remuneration: Euros 14,248 thousand. Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled Euros 18 thousand as at 30 June 2018.

### Senior management remuneration

For the sole purposes of the information contained in this section, "senior management personnel" refers to the executives who report directly to the company's chief executive, and also the Internal Audit Director. At 30 June 2019, 13 people make up this group (12 people at 30 June 2018 and 14 at 31 December 2018). One person left this group in 2019 (in April).

Remuneration accrued to senior management personnel of fixed remuneration, annual variable remuneration, multi-year variable remuneration and other items totalled Euros 3,183 thousand, Euros 1,853 thousand, Euros 331 thousand and Euros 183 thousand respectively at 30 June 2018 (Euros 3,012 thousand, Euros1.397 thousand, Euros 0 thousand and Euros 52 thousand at 30 June 2018).

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled Euros 773 thousand at 30 June 2019 (Euros 729 thousand at 30 June 2018).

### 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.

## Nota 7. Information on transactions with related parties

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

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

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

- 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 6.

- 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 euro:

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

| | Significant shareholders | | |
|---|---|---|---|
| **Other transactions (in thousand Euros)** | **"la Caixa" Group** | **Rioja Bidco/CVC** | **GIP Group** |
| Dividends and other profits distributed (1) | 145,005 | 114,489 | 114,079 |

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

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

(*) Since 1 January 2018, only transactions with Fundación La Caixa and Criteria are reported.
(**) Up to 17 May 2018.
(***) Since 18 May 2018.

## Nota 8. Subsequent events

On 5 July 2019, Spain's National Markets and Competition Commission (CNMC) published the first drafts of the circulars that will establish the methodology for remunerating regulated electricity and gas distribution from 2020 and 2021, respectively. The CNMC has opened a period for submissions that is initially set to conclude on 9 August. Through this process, the company will try to ensure that the new remuneration framework continues to provide a remuneration that is reasonable and predictable over the long term, both for investments already undertaken and for future investments.

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# Naturgy Energy Group, S.A.

**Condensed interim directors' report as at 30 June 2019**

**Naturgy Energy Group, S.A.**

**Directors' report for the six-month period ended 30 June 2019**

## Nota 1. Business performance

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

## Nota 2. Significant events in the first half of 2019

### Key figures from the income statement

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

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

Revenues in the six-month period ended 30 June 2019 amounted to Euros 2,234 million, of which Euros 1,110 million were basically 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 (Euros 2,164 million as at 30 june 2018, of which Euros 1,581 million were basically from the sale of gas and electricity, Euros 326 million were dividends collected from group companies and associates, and Euros 257 million were from finance provided to Naturgy group companies).

The Euros70 million increase in revenue is the net result of:

- A reduction of Euros 471 million in sales, basically due to the adverse performance by electricity sales and the transfer of the representation market and certain gas contracts to other group companies (increase of Euros Euros 87 million through 30 June 2018 basically due to good performance by the gas market).

- Increase of Euros 592 million in dividends from subsidiaries in the first half, mainly from the companies Sagane, S.A. Naturgy Distribución Lationamerica, S.A, UFD Distribución Electricidad, S.A. and Holding Negocios de Gas, S.A. (a decrease of Euros 281 million through 30 june 2018 in the dividends received from subsidiaries in the first half, , mainly from the companies Gas Natural Comercializadora, S.A., Gas Natural Servicios SDG, S.A. and Sagane, S.A.).

- A reduction of Euros 51 million in financial revenues on funding to subsidiaries (increase of Euros 36 million through 30 June 2018).

Procurements amounted to Euros 1,112 million in the year (Euros 1,585 million as at 30 june 2018) , basically for the purchase of gas and electricity, a Euros 473 million decrease, in line with sales performance.

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, a Euros 4,870 million reduction with respect to same period of the previous year.

At 30 june 2018, other operating revenues amounted to Euros189 million, net personnel expenses to Euros 122 million, operating expenses to Euros 151 million, depreciation and amortisation to Euros 48 million, and impairment and gain/loss on fixed asset disposals to Euros 5,450 million, with the result that EBIT in the period amounted to Euros 5,897 million.

Financial income was negative in the amount of Euros 212 million, compared with Euros 265 million in the same period of 2018. This reduction was due basically to the cancellation of loans and other funding transactions with Naturgy group companies.

Income before taxes amounted to Euros 815 million and income tax to Euros 23 million, with the result that net profit for the period was Euros 838 million, compared with Euros 5,597 million in the same period of the previous year.

**Note.3 Subsequent events**

Subsequent events are described in Note 8 of the condensed Interim Financial Statements as at 30 June 2019.

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