



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

**(Together with the consolidated annual accounts
and consolidated directors' report of Naturgy
Energy Group, S.A. and subsidiaries for the year
ended 31 December 2022)**

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



KPMG Auditores, S.L.
Paseo de la Castellana, 259C
28046 Madrid

Independent Auditor's Report on the Consolidated Annual Accounts

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

To the shareholders of Naturgy Energy Group, S.A.

REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

Opinion

We have audited the consolidated annual accounts of Naturgy Energy Group, S.A. (the "Parent") and subsidiaries (together the "Group"), which comprise the consolidated balance sheet at 31 December 2022, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and consolidated notes.

In our opinion, the accompanying consolidated annual accounts give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of the Group at 31 December 2022 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for Opinion

We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Annual Accounts* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those regarding independence, that are relevant to our audit of the consolidated annual accounts pursuant to the legislation regulating the audit of accounts in Spain. We have not provided any non-audit services, nor have any situations or circumstances arisen which, under the aforementioned regulations, have affected the required independence such that this has been compromised.

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



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Key Audit Matters

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

Revenue recognition: Unbilled energy supplied

See notes 2.4.23, 2.4.25 and 10 to the consolidated annual accounts

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>The Group's businesses that carry out energy supply activities must make estimates of unbilled supplies to end customers in the period between the last meter reading and the end of the reporting period. At 31 December 2022 the Group has recognised revenue from unbilled energy supplied in an amount of Euros 1,634 million.</p> <p>The amount of unbilled energy supplied is estimated based on internal and external information that is compared with the readings contained in the management systems used by the businesses. Revenue is calculated by multiplying the volume of estimated unbilled consumption, a process that is subject to a high degree of uncertainty, by the tariff agreed for each customer.</p> <p>Determining unbilled energy supplied requires the use of estimates by Group management with the application of criteria, judgements and assumptions in its calculations, so the recognition of revenue from unbilled energy supplied has been considered a key audit matter.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none">– Analysing the design and implementation and the operating effectiveness of the key controls related to the calculation of the unbilled energy supplied.– Evaluating the reasonableness of the calculation model used by comparing the estimates made at the close of the previous period and actual invoicing data (retrospective analysis).– Assessing the reasonableness of the volume of unbilled energy through an analysis of historical information and other available internal and external data.– Evaluating a selected sample of the tariffs applied by comparing them with the data contained in the customer contract databases.– We also assessed whether the disclosures in the consolidated annual accounts meet the requirements of the financial reporting framework applicable to the Group.



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Recoverability of non-current assets See notes 2.4.6, 2.4.25 and 4 to the consolidated annual accounts	
<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>At 31 December 2022 the Group has recognised intangible assets including goodwill, property, plant and equipment, and right-of-use assets for amounts of Euros 5,972 million, Euros 17,379 million and Euros 1,162 million, respectively, allocated to the cash-generating units (CGUs) detailed in note 4 to the consolidated annual accounts.</p> <p>Under IFRS-EU, the recoverable amount of assets must be analysed when indications of impairment have been identified. Goodwill, intangible assets with indefinite useful lives and in-process intangible assets are not amortised, but are instead tested for impairment at least on an annual basis.</p> <p>The recoverable amount of the non-current assets indicated in the preceding paragraphs is generally calculated using methodologies based on discounted cash flows, the estimation of which requires the use of a high degree of judgement by management and the use of assumptions and estimates. Where fair value is used, market values offered by third parties have been applied. Due to the high level of judgement required, the uncertainty associated with these estimates and the significance of the amount of non-current assets, this has been considered a key audit matter.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> - Evaluating the design and implementation of the key controls related to the process of estimating the recoverable amount. - Assessing the appropriateness of the composition of the CGUs based on our understanding of management of the business. - Analysing the reasonableness and consistency of the assumptions and cash flows included in the pricing models with those considered in the business plans approved by the governing bodies. - Evaluating the reasonableness of the methodology used to calculate value in use and the main assumptions considered, with the involvement of our valuation specialists. - Comparing the cash flow forecasts estimated in prior years with the actual cash flows obtained. - Evaluating the sensitivity of the recoverable amount to changes in certain assumptions that can be considered reasonable. - Comparing the fair value with the offers received from third parties, where fair value less costs to sell has been used as the recoverable amount of the CGU. - We also assessed whether the disclosures in the consolidated annual accounts meet the requirements of the financial reporting framework applicable to the Group.



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Commitments to purchase natural gas and liquefied natural gas for own use

See notes 2.4.8 and 36 to the consolidated annual accounts

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>At 31 December 2022 the Group has long-term contractual commitments to purchase natural gas and liquefied natural gas amounting to Euros 83,300 million. These contracts are signed and held to meet the Group's expected need for receiving or delivering gas in accordance with periodical purchase and sale forecasts. Consequently, the Group classifies these contracts as for "own use", adhering to the exception established by the standard enabling them to be recognised as executory contracts, and they are therefore excluded from the scope of IFRS 9 Financial Instruments.</p> <p>The assessment of long-term gas supply contracts to determine whether they should be classified as for "own use" requires management to exercise judgement as regards forecast supply and demand in the short, medium and long term, and the fulfilment of the contractual clauses. Consequently, this has been considered a key audit matter.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none">- Evaluating the design and implementation of the key controls linked to the process of assessing the requirements for classifying these contracts as for "own use".- Reading and analysing a significant sample of natural gas and liquefied natural gas supply contracts signed by the Group.- Analysing whether these supply contracts meet the definition of "own use" stipulated in the applicable financial reporting framework based on an analysis of the conditions set out therein, the quantities acquired during the year, minimum contract quantities and the reasonableness of the Group's gas sales forecasts.- We also assessed whether the disclosures in the consolidated annual accounts meet the requirements of the financial reporting framework applicable to the Group.

Other Information: Consolidated Directors' Report

Other information solely comprises the 2022 consolidated directors' report, the preparation of which is the responsibility of the Parent's Directors and which does not form an integral part of the consolidated annual accounts.



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Our audit opinion on the consolidated annual accounts does not encompass the consolidated directors' report. Our responsibility regarding the information contained in the consolidated directors' report is defined in the legislation regulating the audit of accounts, as follows:

- a) Determine, solely, whether the consolidated non-financial information statement and certain information included in the Annual Corporate Governance Report and the Annual Report on Directors' Remuneration, as specified in the Spanish Audit Law, have been provided in the manner stipulated in the applicable legislation, and if not, to report on this matter.
- b) Assess and report on the consistency of the rest of the information included in the consolidated directors' report with the consolidated annual accounts, based on knowledge of the Group obtained during the audit of the aforementioned consolidated annual accounts. Also, assess and report on whether the content and presentation of this part of the consolidated directors' report are in accordance with applicable legislation. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report them.

Based on the work carried out, as described above, we have observed that the information mentioned in section a) above has been provided in the manner stipulated in the applicable legislation, that the rest of the information contained in the consolidated directors' report is consistent with that disclosed in the consolidated annual accounts for 2022, and that the content and presentation of the report are in accordance with applicable legislation.

Directors' and Audit and Control Committee's Responsibilities for the Consolidated Annual Accounts

The Parent's Directors are responsible for the preparation of the accompanying consolidated annual accounts in such a way that they give a true and fair view of the consolidated equity, consolidated financial position and consolidated financial performance of the Group in accordance with IFRS-EU and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

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

The Parent's audit and control committee is responsible for overseeing the preparation and presentation of the consolidated annual accounts.



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Auditor's Responsibilities for the Audit of the Consolidated Annual Accounts

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

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

As part of an audit in accordance with prevailing legislation regulating the audit of accounts in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's Directors.
- Conclude on the appropriateness of the Parent's Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.



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

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

From the matters communicated to the audit and control committee of the Parent, we determine those that were of most significance in the audit of the consolidated annual accounts of the current period and which are therefore the key audit matters.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

European Single Electronic Format _____

We have examined the digital files of Naturgy Energy Group, S.A. and its subsidiaries for 2022 in European Single Electronic Format (ESEF), which comprise the XHTML file that includes the consolidated annual accounts for the aforementioned year and the XBRL files tagged by the Company, which will form part of the annual financial report.

The Directors of Naturgy Energy Group, S.A. are responsible for the presentation of the 2022 annual financial report in accordance with the format and mark-up requirements stipulated in Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 (hereinafter the "ESEF Regulation").

Our responsibility consists of examining the digital files prepared by the Directors of the Parent, in accordance with prevailing legislation regulating the audit of accounts in Spain. This legislation requires that we plan and perform our audit procedures to determine whether the content of the consolidated annual accounts included in the aforementioned digital files fully corresponds to the consolidated annual accounts we have audited, and whether the consolidated annual accounts and the aforementioned files have been formatted and marked up, in all material respects, in accordance with the requirements of the ESEF Regulation.

In our opinion, the digital files examined fully correspond to the audited consolidated annual accounts, and these are presented and marked up, in all material respects, in accordance with the requirements of the ESEF Regulation.

Additional Report to the Audit and Control Committee of the Parent _____

The opinion expressed in this report is consistent with our additional report to the Parent's audit and control committee dated 20 February 2023.



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Contract Period

We were appointed as auditor of the Group by the shareholders at the ordinary general meeting on 9 March 2021 for a period of three years, from the year ended 31 December 2021.

KPMG Auditores, S.L.

On the Spanish Official Register of Auditors ("ROAC") with No. S0702

(Signed on original in Spanish)

Eduardo González Fernández

On the Spanish Official Register of Auditors ("ROAC") with No. 20,435

20 February 2023

Annual Consolidated
Financial Report
2022



CONSOLIDATED ANNUAL ACCOUNTS

Consolidated Balance Sheet
Consolidated Income Statement
Consolidated Statement of Comprehensive Income
Consolidated Statement of Changes in Equity
Consolidated cash flow statement
Notes to the consolidated annual accounts

This 2022 Annual Report is a translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish language version prevails.

Naturgy Consolidated Balance Sheet

(million euro)

	Note	31.12.2022	31.12.2021
ASSETS			
Intangible assets	5	5,972	5,734
Goodwill		2,998	2,950
Other intangible assets		2,974	2,784
Property, plant and equipment	6	17,379	16,587
Right-of-use assets	7	1,162	1,229
Investments recorded using the equity method	8	656	630
Non-current financial assets	9	493	394
Other non-current assets	10	496	416
Derivatives		180	126
Other assets		316	290
Deferred tax assets	21	2,210	2,267
NON-CURRENT ASSETS		28,368	27,257
Non-current assets held for sale	11	—	40
Inventories	12	1,828	878
Trade and other receivables	10	5,801	5,714
Trade receivables for sales and services		5,152	4,780
Other receivables		349	339
Derivatives		210	454
Current tax assets		90	141
Other current financial assets	9	408	395
Cash and cash equivalents	13	3,985	3,965
CURRENT ASSETS		12,022	10,992
TOTAL ASSETS		40,390	38,249
EQUITY AND LIABILITIES			
Capital		970	970
Share premium		3,808	3,808
Treasury shares		(201)	(204)
Reserves		4,871	4,757
Profit for the period attributed to the parent company		1,649	1,214
Interim dividend		(679)	(679)
Other equity items		(2,844)	(3,977)
Equity attributed to the parent company		7,574	5,889
Non-controlling interests		2,405	2,984
EQUITY	14	9,979	8,873
Deferred income	15	926	889
Non-current provisions	16	1,656	1,146
Non-current financial liabilities	17	13,999	15,114
Borrowings		12,689	13,786
Lease liabilities		1,309	1,325
Other financial liabilities		1	3
Deferred tax liabilities	21	1,951	1,787
Other non-current liabilities	19	2,100	1,118
Derivatives		1,664	730
Other liabilities		436	388
NON-CURRENT LIABILITIES		20,632	20,054
Liabilities related to non-current assets held for sale	11	—	26
Current provisions	16	700	589
Current financial liabilities	17	2,302	1,698
Borrowings		2,110	1,493
Lease liabilities		177	196
Other financial liabilities		15	9
Trade and other payables	20	6,562	6,803
Trade payables		4,471	3,407
Other payables		414	559
Derivatives		1,624	2,704
Current tax liabilities		53	133
Other current liabilities	19	215	206
CURRENT LIABILITIES		9,779	9,322
TOTAL EQUITY AND LIABILITIES		40,390	38,249

The accompanying Notes 1 to 39 and Appendices are an integral part of the consolidated balance sheet at 31 December 2022 and 2021.

Naturgy Consolidated Income Statement

(million euro)

	Note	2022	2021
Net sales	22	33,965	22,140
Procurements	23	(27,194)	(16,529)
Other operating income	24	183	119
Personnel expenses, net	25	(547)	(940)
Other operating expenses	26	(1,511)	(1,315)
Gain/(loss) on disposals of fixed assets	27	8	5
Release of fixed asset grants to income and other	15	50	49
GROSS OPERATING PROFIT		4,954	3,529
Depreciation, amortisation and impairment losses	4, 5, 6, 7, 12 & 28	(1,532)	(1,462)
Impairment due to credit losses	10	(228)	(99)
Other results	29	(111)	133
OPERATING PROFIT/(LOSS)		3,083	2,101
Financial income		164	200
Financial expenses		(837)	(598)
Variations in fair value of financial instruments		13	14
Net exchange differences		(5)	(10)
NET FINANCIAL INCOME /(EXPENSE)	30	(665)	(394)
Profit/(loss) of entities recorded by equity method	8	128	90
PROFIT/(LOSS) BEFORE TAXES		2,546	1,797
Corporate income tax	21	(697)	(358)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		1,849	1,439
Profit for the year from discontinued operations, net of taxes	11	(23)	117
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR		1,826	1,556
Attributable to:			
The parent company		1,649	1,214
From continuing operations		1,672	1,101
From discontinued operations		(23)	113
Non-controlling interests	14	177	342
Basic and diluted earnings per share in euros from continuing operations attributable to the equity holders of the parent company		1.74	1.14
Basic and diluted earnings per share in euros from discontinued operations attributable to the equity holders of the parent company		(0.02)	0.12
Basic and diluted earnings per share in euros attributable to the equity holders of the parent company		1.72	1.26

The accompanying Notes 1 to 39 and Appendices are an integral part of the consolidated income statement for the years ended 31 December 2022 and 2021.

Naturgy	(million euro)		
Consolidated Statement of Comprehensive Income	Note	2022	2021
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR		1,826	1,556
OTHER COMPREHENSIVE INCOME RECOGNISED DIRECTLY IN EQUITY			
Items that will not be transferred to profit/(loss):		73	128
Financial assets at fair value through other comprehensive income	9	—	(17)
Actuarial gains and losses and other adjustments	16	97	51
Tax effect	21	(24)	94
Items that will subsequently be transferred to profit/(loss):		1,222	(2,238)
Cash flow hedges	18	1,449	(3,031)
<i>Gains / (Losses) per valuation</i>		(3,618)	(4,053)
<i>Releases to income statement</i>		5,067	1,022
Currency translation differences		(14)	285
<i>Gains / (Losses) per valuation</i>		(14)	(50)
<i>Releases to income statement</i>		—	335
Equity-consolidated companies	8	17	31
<i>Currency translation differences - Gains / (Losses) per valuation</i>		17	22
<i>Currency translation differences - Releases to income statement</i>		—	9
Tax effect	21	(230)	477
OTHER COMPREHENSIVE INCOME FOR THE YEAR		1,295	(2,110)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		3,121	(554)
Attributable to:			
The parent company		2,856	(827)
From continuing operations		2,833	(1,283)
From discontinued operations		23	456
Non-controlling interests		265	273

The accompanying Notes 1 to 39 and Appendices are an integral part of the consolidated statement of comprehensive income for the years ended 31 December 2022 and 2021.

Naturgy Consolidated Statement of Changes in Equity

(million euro)

	Equity attributed to the parent company (Nota 14)										Non-controlling interests (Note 14)	Equity
	Share capital	Share premium	Treasury shares	Reserves and retained earnings	Profit/(loss) for the year	Currency translation differences	Cash flow hedges	Financial assets at fair value	Other equity items	Subtotal		
Balance at 01.01.2021	970	3,808	(201)	5,695	(347)	(1,561)	114	(450)	(1,897)	8,028	3,237	11,265
Total comprehensive income for the year	—	—	—	39	1,214	324	(2,492)	88	(2,080)	(827)	273	(554)
Operations with shareholders or owners	—	—	(3)	(1,633)	347	—	—	—	—	(1,289)	(371)	(1,660)
Dividend distribution	—	—	—	(1,637)	347	—	—	—	—	(1,290)	(371)	(1,661)
Capital reduction	—	—	—	—	—	—	—	—	—	—	—	—
Trading in treasury shares	—	—	(3)	—	—	—	—	—	—	(3)	—	(3)
Share-based payments	—	—	—	4	—	—	—	—	—	4	—	4
Other transactions with shareholders or owners	—	—	—	—	—	—	—	—	—	—	—	—
Other changes in equity	—	—	—	(23)	—	—	—	—	—	(23)	(155)	(178)
Other changes	—	—	—	(23)	—	—	—	—	—	(23)	(155)	(178)
Balance at 31.12.2021	970	3,808	(204)	4,078	1,214	(1,237)	(2,378)	(362)	(3,977)	5,889	2,984	8,873
Total comprehensive income for the year	—	—	—	74	1,649	(89)	1,222	—	1,133	2,856	265	3,121
Operations with shareholders or owners	—	—	3	42	(1,214)	—	—	—	—	(1,169)	(303)	(1,472)
Dividend distribution	—	—	—	50	(1,214)	—	—	—	—	(1,164)	(303)	(1,467)
Capital reduction	—	—	—	—	—	—	—	—	—	—	—	—
Trading in treasury shares	—	—	3	—	—	—	—	—	—	3	—	3
Share-based payments	—	—	—	(8)	—	—	—	—	—	(8)	—	(8)
Other transactions with shareholders or owners	—	—	—	—	—	—	—	—	—	—	—	—
Other changes in equity	—	—	—	(2)	—	—	—	—	—	(2)	(541)	(543)
Other changes	—	—	—	(2)	—	—	—	—	—	(2)	(541)	(543)
Balance at 31.12.2022	970	3,808	(201)	4,192	1,649	(1,326)	(1,156)	(362)	(2,844)	7,574	2,405	9,979

The accompanying Notes 1 to 39 and Appendices are an integral part of the statement of changes in equity for the years ended 31 December 2022 and 2021.

Naturgy		(million euro)	
Consolidated cash flow statement			
	Note	2022	2021
Profit/(loss) before tax		2,546	1,797
Adjustments to income:	31	3,057	1,520
Depreciation, amortisation and impairment losses	4, 5, 6, 7, 12 & 28	1,532	1,462
Other adjustments to net profit	31	1,525	58
Changes in working capital	31	(272)	(1,117)
Other cash flow generated from operations:	31	(1,089)	(1,199)
Interest paid		(520)	(488)
Interest collected		87	32
Dividends collected		106	121
Income tax paid		(762)	(864)
CASH FLOW GENERATED FROM OPERATING ACTIVITIES (1)		4,242	1,001
Cash flows into investing activities:		(1,769)	(1,056)
Group companies, associates and business units	31	(17)	317
Property, plant and equipment and intangible assets		(1,687)	(1,204)
Other financial assets		(65)	(169)
Proceeds from divestitures:		209	2,891
Group companies, associates and business units	31	25	2,650
Property, plant and equipment and intangible assets		162	207
Other financial assets		22	34
Other cash flows from investing activities:		74	61
Other proceeds from investing activities	15	74	61
CASH FLOWS FROM INVESTING ACTIVITIES (1)		(1,486)	1,896
Receipts/(payments) on equity instruments:		(503)	(29)
Issue/ Disposal	31	—	—
Acquisition	31	(503)	(29)
Receipts and payments on financial liability instruments:		(842)	(1,103)
Issue	31	783	1,632
Repayment and amortisation	31	(1,625)	(2,735)
Dividends paid (and remuneration on other equity instruments)	14	(1,500)	(1,707)
Other cash flows from financing activities		(9)	(12)
CASH FLOW GENERATED FROM FINANCING ACTIVITIES (1)		(2,854)	(2,851)
Other changes in cash and cash equivalents	31	—	(57)
Effect of fluctuations in exchange rates		118	49
VARIATION IN CASH AND CASH EQUIVALENTS		20	38
Cash and cash equivalents at beginning of the year	13	3,965	3,927
Cash and cash equivalents at year end	13	3,985	3,965

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

The accompanying Notes 1 to 39 and Appendices are an integral part of the consolidated cash flow statement for the years ended 31 December 2022 and 2021.

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Notes to the consolidated annual accounts of Naturgy for 2022

Note 1. General information

Naturgy Energy Group, S.A. is a public limited company that was incorporated in 1843. Its registered office is located at Avenida de America 38, Madrid, Spain. On 27 June 2018, the shareholders, in general meeting, agreed to change the company's business name to Naturgy Energy Group, S.A., formerly Gas Natural SDG, S.A.

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

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

Note 3 includes financial information by operating segment.

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

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

On 10 February 2022, Naturgy reported the decision by its Board of Directors concerning the launch of the Géminis project, consisting of a very significant reorganisation of the corporate group of which Naturgy Energy Group, S.A. is the parent company. This project specifically envisages the partial spin-off of Naturgy Energy Group, S.A. under the provisions of Title III (Article 68 et seq.) of Law 3/2009 of 3 April on structural modifications in trading companies (LME), which will give rise to two large groups listed on the Spanish Stock Exchanges with clearly differentiated business profiles and with the same shareholder composition, at least initially, as a result of the proposed operation.

The first of the groups resulting from the proposed spin-off would be headed by Naturgy itself (MarketsCo after the spin-off) as the spun-off company, and would bring together on an integrated basis the deregulated businesses encompassing renewable energies development, the portfolio of energy customers and associated services, conventional generation facilities and management of wholesale energy markets. The second of the groups resulting from the proposed spin-off is to be headed by a newly created company and beneficiary of the operation (NetworksCo) which will bring together all the businesses engaging in the management of regulated gas and electricity distribution and transport infrastructures.

The Gemini project was designed to simplify and focus the management of each business group in order to accelerate the Group's Strategic Plan, driving growth and their contribution to the energy transition. However, at the date of preparation of these consolidated annual accounts the Gemini project had been delayed and no information on the related time-frame can be provided. The analysis carried out to date confirms the suitability and strategic sense of the Gemini project although its implementation schedule will have to be adjusted to the current volatile market environment, developments in the European energy industry and regulatory uncertainties, many of which have yet to be defined.

As a result, the Board of Directors does not consider, at 31 December 2022, that the conditions for the materialisation of the Gemini project are very probable, as is required by accounting regulations for the net assets subject to the spin-off to be classified as held for sale and for any distribution to be made to shareholders.

On 26 January 2021, Global InfraCo O (2), S.à.r.l., wholly owned by the Australian fund IFM (IFM GIF), announced the terms and conditions of the partial voluntary offer to acquire shares in Naturgy Energy Group, S.A. for a maximum of 220 million shares, equivalent to 22.689% of Naturgy's share capital ("the Offer"). On 18 February 2021, it was admitted for processing by the Spanish National Securities Market Commission (CNMV).

The Offer price of 23 €/share was adjusted to 22.37 €/share due to the supplementary dividend of 0.63 €/share paid by Naturgy on 17 March 2021 and finally to 22.07 €/share due to the supplementary dividend of 0.30 €/share paid by Naturgy on 4 August 2021.

On 18 March 2021, the Mexican Federal Competition Commission (COFEC) unanimously and unconditionally authorised the business concentration that would result from the Offer, thus fulfilling one of the conditions to which the Offer was subject.

On 8 September 2021, the CNMV authorised the partial voluntary offer. Previously, on 3 August 2021 the offeror obtained authorisation from the Council of Ministers for the foreign direct investment in Spain, subject to certain conditions which were accepted by the offeror.

On 14 October 2021 the acceptance level of the offer was released, consisting of 105,021,887 shares which represented 10.83% of Naturgy's share capital, and the offeror decided to waive the 17% minimum acceptance condition. The offer was settled on 19 October 2021 and IFM GIF became a significant shareholder of Naturgy.

Note 2. Basis of presentation and accounting policies

2.1. Basis of presentation

The consolidated annual accounts of Naturgy Energy Group, S.A. for 2021 were approved by the shareholders at a general meeting held on 15 March 2022.

The consolidated annual accounts for 2022, which were drawn up and signed by the Board of Directors of Naturgy Energy Group, S.A. on 14 February 2023 and subsequently reformulated, on February 20, 2023, will be submitted, along with those of the investee companies, to the approval of the respective General Meetings. It is expected that they will be adopted without any change.

Following the presentation of Naturgy's results for the year 2022, held on February 15, 2023, different requests for clarifications have been received from users of Naturgy's financial information in relation to the reassessment in 2022 of the effectiveness of the accounting hedges of gas sales, explained in said presentation. These requests have motivated the inclusion of additional information in note 18 of Naturgy's Consolidated Annual Accounts, after the formulation of the Board on February 14, 2023, with the aim of improving and facilitating the understanding of the financial information to be published. As a consequence of this, Naturgy's Consolidated Annual Accounts for the 2022 financial year have been reformulated by the Board of Directors on February 20, 2023.

The consolidated annual accounts of Naturgy for 2022 have been prepared on the basis of the accounting records of Naturgy Energy Group, S.A. and the other companies in the Group, in accordance with the provisions of International Financial Reporting Standards adopted by the European Union (hereinafter "IFRS-EU"), as per (EC) Regulation 1606/2002 of the European Parliament and of the Council.

These consolidated annual accounts were drawn up using the historical cost method and, as appropriate, the criteria for fair value recognition of financial assets at fair value through profit or loss and through other comprehensive income, derivative financial instruments, business combinations, the application of inflation to the historical cost of assets in economies classified as hyperinflationary, and defined-benefit pension plans.

These consolidated annual accounts fairly present the consolidated equity and consolidated financial situation of Naturgy at 31 December 2022, and the consolidated results of its operations, the changes in the consolidated statement of comprehensive income, changes in consolidated equity and the consolidated cash flows of Naturgy for the year then ended.

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

2.2. New IFRS-EU and IFRIC interpretations

Standards that came into force on 1 January 2022

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

Standards adopted by the European

IFRS 16 (amendment) "Covid-19-Related Rent Concessions beyond 30 June 2021"	Continue to provide lessees with a practical exemption as a result of the Covid-19 pandemic while allowing them to continue to provide useful information about their leases to users of the financial statements.	1 April 2021
IAS 37 (amendment) "Provisions, Contingent Liabilities and Contingent Assets: Provisions for business contracts"	It specifies that the direct cost of fulfilling a contract comprises the incremental costs of contract performance and an allocation of other costs that are directly related to contract performance.	1 January 2022
IAS 16 (amendment) "Property, Plant and Equipment: Consideration in advance of intended use"	It prohibits deducting from the cost of an item of property, plant and equipment any revenue from the sale of goods produced while the entity is preparing the asset for its intended use.	1 January 2022
Annual Improvement Project 2018-2020	Various minor amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	1 January 2022
IFRS 3 (amendment) "Reference to the Conceptual Framework"	It aligns the definitions of assets and liabilities in a business combination with those contained in the conceptual framework.	1 January 2022

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

The amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform: Phase 2" came into effect in 2021, addressing the uncertainties related to the reform of interbank rates (IBOR indices) by avoiding disruption of existing hedging relationships through temporary exceptions to the application of certain specific hedge accounting requirements. Naturgy adopted the temporary exceptions established as a result of the Benchmark Interest Rate Reform (hereinafter, IBOR reform) to the application of the specific hedge accounting requirements for hedging relationships that were in place at 1 January 2021 or those designated subsequently that are directly affected by the IBOR reform (Note 18).

These amendments to IFRS 9 Financial Instruments (known as "phase 2") apply from the time the amendments to financial contracts become effective, which will occur mainly in 2023 when most of the Libor-dollar benchmarks cease being issued.

In particular, a hedging relationship is considered to be directly affected by the IBOR reform if the reform creates uncertainty about:

- The benchmark interest rate designated as the hedged risk of the hedging relationship (whether specified contractually or otherwise), or
- The term or the amount of the flows associated with the benchmark interest rate of the hedged item or hedging instrument.

The main amendments resulting from the adoption of the new IFRS refer essentially to the amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, as detailed below:

Specific policies relating to the benchmark interest rate reform

In order to assess whether there is an economic relationship between the hedging instrument and hedged item, Naturgy assumes that the benchmark variable interest rate has not been altered as a result of the IBOR (Interbank Offered Rates) reform.

Naturgy will cease to apply those temporary exceptions in the assessment of the economic relationship between the hedging instrument and the hedged item when the uncertainty arising from the IBOR reform with respect to the benchmark interest rate, the term or the amount of its interest settlements disappears, or when the hedging relationship is discontinued.

The overall reform of benchmark interest rates is a material issue that is monitored continuously by Naturgy since interbank interest rates (IBOR) are used as a reference in the group's funding contracts and derivative financial instruments.

Naturgy uses interest rate derivatives (mainly interest rate swaps) to hedge cash flows. Some derivative financial instruments are indexed to floating interest rates that have been affected by the IBOR reform, mainly Euribor and Dollar Libor.

Moreover, part of Naturgy's bank funding at 31 December 2022 and 31 December 2021 is indexed to one or more of those indices.

With respect to Euribor, a new hybrid calculation methodology was developed and approved by the authorities in 2019. Consequently, it is not necessary to amend existing contracts and, likewise, it is understood that those financial instruments indexed to Euribor are not exposed to a high degree of uncertainty at 31 December 2022 or 31 December 2021.

In the case of the Dollar Libor index, in order to ensure a non-disruptive transition of contracts referenced to this index that were signed prior to that date, the cessation of publication for most of the index's maturities has been postponed to June 2023. For this reason, the main market players (regulators, central banks, banks, institutions, etc.) continue to work on defining the equivalences between these indices and the new benchmark RFR (risk-free rates). This situation generates a degree of uncertainty regarding the benchmark rates for bank financing and interest rate derivatives held by Naturgy. For the hedging transactions arranged with these derivatives, Naturgy has applied the temporary exceptions introduced by IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (amendments) "Interest Rate Benchmark Reform".

Given the uncertainty during the transition period, Naturgy is continuously monitoring the IBOR reform and has implemented an action plan to minimise any potential negative impact, by identifying the affected transactions, quantifying their notional amount and reviewing the contract language with the counterparties. In this context, at 31 December 2022, the nominal amount of hedging instruments indexed to IBOR indexes, excluding Euribor, is as follows:

	Currency	Notional (million USD)	
		31/12/2022	31/12/2021
Interest rate swaps indexed to Dollar Libor	USD	944	946

The derivative financial instruments are governed by the Master Agreements of the International Swaps and Derivatives Association (ISDA). The "ISDA 2020 IBOR fallbacks protocol", published by the ISDA on 23 October 2020, came into force on 25 January 2021. The Naturgy Group companies that hold these IBOR-linked swaps have either agreed with their counterparties or are negotiating the amendment of the documentation to ensure that the transition from IBOR to SOFR takes place consistently between the derivative and the corresponding underlyings.

At 31 December 2022 and 31 December 2021, the nominal amount of debts with credit institutions and debt or other marketable securities indexed to IBOR indexes, excluding Euribor, is as follows:

	Currency	Notional (million USD)	
		31/12/2022	31/12/2021
Bank funding indexed to Dollar Libor	USD	2,114	2,349

In the same line as interest rate swaps, financing operations have either been altered to incorporate clauses to replace the IBOR benchmark or are in the process of being altered with the relevant financial institutions.

The new financing and hedging operations with financial swaps in dollars that may be indexed to an IBOR index carried out by Naturgy Group companies in 2022 have already been agreed with SOFR-linked rates.

Finally, it should be noted that Naturgy is permanently monitoring any new developments in this final phase of the global benchmark interest rate reform process brought in by the authorities and other parties involved in the markets concerned.

Standards that will enter force on or after 1 January 2023

The standards, amendments and interpretations that will come into force for annual periods commencing on or after 1 January 2022 are described below.

Standards adopted by the European Union		Entry into force for annual periods commencing
IFRS 17 "Insurance Contracts"	New standard that replaces IFRS 4.	1 January 2023
IAS 8 (amendment) "Definition of Accounting Estimates"	New definition of accounting estimates.	1 January 2023
IAS 1 (amendment) "Disclosure of Accounting Policies"	Elaborates on the criteria for disclosing material accounting policies.	1 January 2023
Standards issued by the IASB and yet to be adopted by the European Union		Entry into force for years commencing
IAS 1 Presentation of Financial Statements (amendment)	Classification of liabilities as current and non-current.	1 January 2023
IAS 12 (amendment) "Deferred Taxes relating to Assets" and IAS 12 (amendment) "Deferred Taxes Relating to Assets and Liabilities arising from a Single Transaction"	Limits the exemption on initial recognition for deferred tax assets and liabilities for certain one-time transactions.	1 January 2023
IFRS 17 (amendment) "Initial Application of IFRS 17 and IFRS 9—Comparative Information"	Transitional option relating to comparative information on financial assets presented upon initial application of IFRS 17.	1 January 2023

None of these standards or amendments was applied early. No significant impact is expected from the implementation of these amendments.

2.3. Comparability

The information contained in these notes to the consolidated annual accounts for the year 2022 includes the information relating to the year 2021 for comparative purposes. No events that might affect the comparability of the information took place in 2022.

2.4. Accounting policies

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

2.4.1. Consolidation

a. Subsidiaries

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

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

The profit or loss of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or until the effective date of disposal.

In the consolidation process, transactions and balances between Naturgy's subsidiaries and unrealised gains relating to non-Group third parties are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Non-controlling interests in the equity and profit or loss of the subsidiary companies is broken down under "Non-controlling interests" in the consolidated balance sheet and "Profit attributable to non-controlling interests" in the consolidated income statement.

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

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

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

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

Identifiable assets acquired and liabilities or contingent liabilities incurred or assumed as a result of the transaction are stated initially at acquisition date fair value.

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

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

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

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

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

In relation to the acquisition of holdings in entities over which Naturgy already had control, or the sale of shareholdings without loss of control, the difference between the price paid or received and the net carrying amount is recognised in equity and not as goodwill or profit or loss.

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

The sale options given to minority shareholders of subsidiary companies in relation to shareholdings in these companies are stated at the current value of the reimbursement, i.e., their exercise price and are carried under "Other liabilities".

The subsidiaries' accounting policies have been adapted to Naturgy's accounting policies for transactions and other events that, being similar, took place in similar circumstances.

The subsidiaries' financial statements that are used in the consolidation process are as of the same reporting date and for the same period as those of Naturgy.

b. Joint arrangements

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

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

Joint operations

Holdings in joint operations are proportionately consolidated, so that the assets and liabilities assigned to joint operations are recognised in the consolidated balance sheet in accordance with their specific nature and in proportion to Naturgy's percentage interest. Revenues and expenses from joint operations are reflected in the consolidated income statement in accordance with their nature and in proportion to Naturgy's percentage interest.

Jointly-controlled entities

Holdings in jointly-controlled entities are recognised by the equity method.

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

At each reporting date, Naturgy determines whether there is objective evidence of the impairment of its investment in a joint venture. If impairment is identified, Naturgy calculates the amount of the impairment loss as the difference between the joint venture's recoverable amount and carrying amount, recognising it in the item "Profit/(loss) from equity-consolidated companies" in the consolidated income statement.

c. *Associates*

Associates are all entities over which Naturgy has significant influence and the ability to participate in financial and operational decisions, but not control or joint control. This is generally the case when the holding is between 20% and 50% of the voting rights.

Investments in associates are accounted for by the equity method as set out above.

d. *Consolidation scope*

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

Appendix II lists the main consolidation scope changes in 2022 and 2021, the most salient of which are detailed below.

2022

On 8 February, 33.33% of Infraestructuras San Servan SET 400, S.L. was acquired and on 8 March 2022, 100% of Montalto di Castro Solar, S.R.L. was acquired. On 15 July 2022, 100% of Foggia Solar, S.r.l. was acquired. These acquisitions had no material impact on the consolidated annual accounts. On 15 November, 13.77% of Infraestructuras San Servan SET 400, S.L. was sold.

In May 2022, through its subsidiary Naturgy Renovables, S.L.U., Naturgy acquired an additional 50% of Desarrollo de Energías Renovables de Navarra, S.A. and P.E. Cinseiro, S.L., thereby obtaining a 100% controlling interest. These companies are now consolidated as subsidiaries (Note 32).

In December 2022, the sale of 100% of the holding in Naturgy Almacенamientos Andalucía, S.A. was completed, generating a pre-tax loss of Euros 2 million. The assets of Petroleum Oil & Gas España, S.A. were also sold, generating a pre-tax profit of Euros 5.4 million (Notes 11 and 29).

On 12 December 2022 the operation that merged Unión Fenosa Gas, S.A. with Naturgy Aprovisionamientos, S.A is registered with an accounting effective date settled in the beginning of 2022. For these purposes, the merger balance sheet of Unión Fenosa Gas, S.A. at 31 December 2021 and the inclusion in Naturgy Aprovisionamientos, S.A.'s financial statements of the accounting movements generated in the year by the merged company have been taken into consideration. This operation had no material impact on the consolidated annual accounts.

2021

On 14 January 2021, Naturgy, through its wholly-owned subsidiary Naturgy Solar USA, LLC, acquired the entire equity of US company Hamel Renewables, LLC, which owns a portfolio of 8 GW of solar projects together with 4.6 GW of energy storage projects located in 9 US states (Note 32).

In February 2021 Naturgy completed the sale of a 60% interest in Lean Corporate Services, S.L., Lean Customer Services, S.L., Lean Grids Services, S.L. and Naturgy IT, S.L. Previously, in 2020, it had disposed of an initial 25%, which enabled strategic partners to participate in the delivery of the related services. Therefore, after the sale of 60%, Naturgy retains a 15% stake in those companies, meaning that it has ceased to control those companies; this did not have a material impact on the consolidated annual accounts.

In March 2021, Naturgy, ENI and the Arab Republic of Egypt completed the agreement reached on 1 December 2020 to amicably resolve the disputes affecting Unión Fenosa Gas (UFG). As a result, UFG received a number of cash payments and the majority of the assets located outside Egypt, excluding UFG's supply business in Spain. This also entailed the termination of the annual gas supply contract of around 3.5 bcm for supplying combined cycle plants in Spain that was due to end in 2029, while maintaining its contract with Oman which expires in 2025. At the same time, Naturgy acquired the remaining 50% of UFG for Euros 466 million with the result that it now owns 100%, having gained control and fully consolidated it as a subsidiary (Note 32). The transaction produced a capital gain of Euros 127 million, recognised under "Other results" in the consolidated income statement (Note 29), as it was classified as a business combination carried out in stages.

The 40% interest in Cogeneración del Noroeste, S.L. was disposed of in June 2021 (Note 8 and 29).

On 13 July 2021, Mobilgaz S.A.S., the French company that had previously received the assets corresponding to the natural gas for vehicle fuel business from Gas Natural Europe, S.A.S., was sold for an amount of Euros 11 million. This transaction produced capital gain of Euros 7 million which was recognized under "Other results" in the consolidated income statement (Note 29).

The 96.04% interest in Compañía General de Electricidad S.A. (CGE) in Chile, the company that engages in the electricity network business in Chile, was sold to State Grid International Development Limited (SGID) for a total purchase price (equity value) of Euros 2,570 million on 26 July 2021. This transaction generated a capital gain of Euros 64 million in 2021, which was recognised under "Profit from discontinued operations" in the consolidated income statement (Note 11).

The sale of 100% of Irish company Naturgy Ltd., which engages in gas and electricity supply in Ireland, was completed for Euros 38 million on 20 December 2021. This transaction resulted in a capital loss of Euros 8 million, recognised under "Other results" in the consolidated income statement (Note 29).

On 23 December 2021 a 100% interest in Parque Eólico El Almendro, S.L.U. with a capacity of 44 MW was acquired, on the same date as the start of the commercial operation on which it was conditional (Note 32).

As a result of Naturgy's corporate reorganisation process, the purpose of which is to restructure the activities carried out by various companies belonging to the same corporate group, minimising and diversifying risks and simplifying and adapting the current corporate structure to make the vision of each activity clearer and simpler, in October 2021 Naturgy Generación, S.L.U. spun off the combined cycle electricity generation activity to Naturgy Ciclos Combinados, S.L.U. and the nuclear, coal and fuel oil electricity generation activity to Naturgy Térmica, S.L.U. with effect for accounting purposes from 1 January 2021. These operations had no material impact on the consolidated annual accounts.

2.4.2. Foreign currency transactions

Items reported in the consolidated annual accounts of each of Naturgy's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated annual accounts are presented in euros, which is the parent company's presentation currency.

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

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

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.

- Income and expenses for each income statement are translated at monthly average exchange rates, unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions.
- All the currency translation differences are recognised in the Consolidated Statement of Comprehensive Income, and the cumulate amount under the heading Cumulative translation adjustments in equity.

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

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

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

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

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

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

From 1 January 2018:

- An adjustment to revenue and expense items was made to apply the variation in inflation from the date they were recognised in the income statement, and to reflect the losses derived from the net monetary position.
- The translation into euro of the figures thus adjusted in the consolidated annual accounts is performed applying the year end peso/euro exchange rate.

The exchange rates against the euro (EUR) of the main currencies of Naturgy companies at 31 December 2022 and 2021 have been as follows:

	31.12.2022		31.12.2021	
	Closing Rate	Average accumulated Rate (1)	Closing Rate	Average accumulated Rate (1)
US Dollar (USD)	1.07	1.04	1.13	1.18
Argentinian Peso (ARS)	189.70	189.70	116.94	116.94
Brazilian Real (BRL)	5.64	5.38	6.31	6.38
Chilean Peso (CLP)	910.75	917.61	968.99	898.36
Mexican Peso (MXN)	20.86	20.94	23.14	23.98
Australian Dollar (AUD)	1.57	1.50	1.56	1.57

(1) In Argentina, the closing exchange rate was used because Argentina is classified as a hyperinflationary economy.

2.4.3. Intangible assets

a. Goodwill

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

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

Impairment of goodwill cannot be reversed.

b. Concessions under IFRIC 12 and other similar concessions

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

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

Assets under this heading are depreciated using the straight-line method over the duration of the concession.

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

c. Computer software

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

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

d. *Research costs*

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

e. *Customer acquisition costs*

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

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

f. *Other intangible assets*

Other intangible assets mainly include the following:

- The costs of licences for renewable generation facilities, mainly acquired as part of a business combination, which are amortised over their remaining useful lives.
- Gas supply contracts and other contractual rights purchased as part of a business combination, which are valued at fair value and amortised over the contract term that does not differ significantly from the expected consumption pattern.

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

2.4.4. Property, plant and equipment

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

a. *Cost*

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

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

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

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

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

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

The future costs which Naturgy must meet in relation to the closure and decommissioning of certain facilities are included in the value of the assets at their discounted present value by means of the corresponding provision (Note 2.4.19).

Revenues from the sale and the costs of items arising during the period over which the property, plant and equipment are brought into operation are recognized in consolidated profit or loss as from 1 January 2022.

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

b. Depreciation

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

	Estimated useful life (years)
Buildings	33-50
Gas tankers	25-30
Gas transportation and distribution network	20-40
Hydroelectric plants	14-65
Combined cycle gas turbine: (CCGT)	35-40
Nuclear energy plants	44-47
Wind farms	25-30
Photovoltaic farms	25-30
Electricity transmission network	30-40
Electricity distribution network	18-40
Computer hardware	4
Vehicles	6
Other	3-20

The hydroelectric plants are covered by temporary administrative concessions. Upon termination of the terms established for the administrative concessions, the plants revert to the Government in proper condition, which is achieved by stringent maintenance programs. The calculation of the depreciation charge for the hydro-electric plants differentiates between the different types of assets of which they are composed, distinguishing between investments in civil works (which are depreciated on the basis of the concession period), electro-mechanical equipment (40 years) and the other fixed assets (14 years), taking into account, in any event, the use of the plant and the maximum term of the concessions (expiring between 2023 and 2063).

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

In July 2021, Naturgy completed technical surveys to estimate the useful lives of the wind and photovoltaic farms and it modified their useful lives prospectively from 25 to 30 years effective 1 July 2021. The effect of this change in estimated useful lives on the "Depreciation/amortisation and impairment losses" account in the 2021 consolidated income statement was a reduction of depreciation by Euros 15 million. In 2022, this change in the useful life of the wind farms and photovoltaic plants resulted in a decrease in depreciation of Euros 31 million.

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

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

2.4.5. Right-of-use assets

Naturgy recognises a right-of-use asset on the lease commencement date (Note 2.4.20). 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 an estimate of any decommissioning costs to be incurred in relation to the asset. The right-of-use asset is recognised subsequently for the cost less accumulated amortisation and any impairment (note 2.4.6), and is adjusted to reflect any subsequent re-measurement of the liability 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. For such leases, Naturgy recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless there is another systematic basis which better represents the timeframe in which the economic benefits of the leased asset are consumed.

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 if the cost of the right-of-use asset reflects that Naturgy expects to exercise a purchase option, the right-of-use asset is amortised over the useful life of the underlying asset. Amortisation begins on the lease commencement date.

2.4.6. Non-financial asset impairment losses

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

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

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

For those CGUs that required an impairment analysis, the cash flows are based on the best forward-looking information available for the coming years, extended as far as a ten-year period or by the remaining useful life for certain assets and concessions, on the basis of regulations and expected market evolution, drawing on available industry forecasts and past experience of price trends and production volumes.

The extension by the additional years to reach a period of ten years for the cash flow projections or by the remaining useful life of the assets and concessions is explained by the fact that in many cases long-term energy sale agreements have been concluded, long-term estimated price curves are available that are used in the Group's ordinary operations (for contracts, hedging, etc.), the electricity and gas supply business is influenced by long-term government policies and is based on stable customer relations, there are lengthy regulatory periods and, in the case of electricity and gas transport and distribution concessions, because the mechanism for calculating the new tariff that the relevant regulator will use at the beginning of the new regulatory period is foreseen.

Naturgy believes that its projections are reliable and that it can reliably predict additional cash flows beyond the initial projections.

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

The parameters taken into account to determine the growth rates, which represent the long-term growth of each line of business, are in line with the long-term growth of the country, obtained from inflation estimates from various sources: analyst consensus (Bloomberg), the International Monetary Fund (IMF), the Organisation for Economic Cooperation and Development (OECD), Central Banks, other government agencies and the European Commission for the period 2023-2025 and from 2026 onwards, the Economist Intelligence Unit (EIU).

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

- Risk-free rate: Based on the sovereign bond yield, bearing in mind country risk, currency and market of reference for the CGU, as well as surveys and other sources of information (Damodaran, EIU, etc.).
- Market risk premium: Premium based on surveys and other sources of information (Kroll, Damodaran, Pablo Fernández, etc.).
- Deleveraged Beta: Based on estimated betas for each CGU based on comparables (Bloomberg).
- Cost of financial debt: comprises the functional currency interest rate swap, with a term of 10 to 30 years, plus a spread for credit risk.
- Debt-equity ratio: Based on industry comparables.

A CGU may contain a right-of-use asset and a lease liability. In the impairment test, the liability is included when determining the recoverable amount of the CGU, if it is determined that if the CGU is available, the buyer should assume the lease liability. In this case, the treatment is as follows:

- If the recoverable value is determined using the value in use, the value of the lease liability is considered both in the value of the tested assets and in their value in use; without considering the cash outflows linked to the lease contracts in the test flows, but directly deducting the value in use by the book value of the lease debt.
- If the recoverable value is determined using fair value less costs to sell, the value of the lease liability is considered in the value of the tested assets; and the recoverable value is determined as what would be obtained by disposing of the assets of the CGU and the liabilities linked to the rights of use. The liability is discounted using the interest rate implicit in the lease.

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

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

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

2.4.7. Financial assets and liabilities

Financial assets

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

Purchases and sales of investments are recognised on the trade date, which is the date on which Naturgy undertakes to purchase or sell the asset.

Upon initial recognition, they are classified in the following categories:

a. Financial assets at amortised cost

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

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

b. Financial assets at fair value through profit or loss

These are assets acquired for short-term sale. Derivatives form part of this category unless they are designated as hedges. These financial assets are stated, both initially and in later valuations, at their fair value, and the changes in their value are taken to the Consolidated Income statement for the year.

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

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

c. Equity instruments at fair value through other comprehensive income

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

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

- Level 1: Valuations based on the quotation price of identical instruments in an official market. The fair value is based on quoted market prices at the balance sheet date.

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

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

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

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

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

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

Financial liabilities

Upon initial recognition, they are classified in the following categories:

a. Financial liabilities at amortised cost

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

In the event of contractual modifications of a liability at amortised cost that do not result in derecognition, the modified contractual flows of the refinanced debt are discounted at the original effective interest rate, and the resulting difference with respect to the original carrying amount is recognised in consolidated income statement or loss on the date of the modification.

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

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

In addition, trade and other current payables are financial liabilities that fall due in less than twelve months; they are initially recognised at fair value, do not accrue explicit interest, and are carried at their nominal value.

b. Financial liabilities at fair value through profit or loss

These are liabilities acquired for short-term sale. Derivatives form part of this category unless they are designated as hedges. These financial liabilities are stated both at inception and afterwards at their fair value, and the changes in this value are taken to the consolidated income statement for the year.

2.4.8. Derivatives and other financial instruments

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

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

In order for each hedging operation to be considered effective, Naturgy documents that the economic relationship between the hedging instrument and the hedged asset is aligned with its risk management objectives. When defining the hedging operation, the hedging ratio, understood as the amount of the hedged item divided by the amount of the hedging item, is calculated and any potential causes of ineffectiveness are determined, which are normally linked to changes in the expected dates of the purchase and sale transactions, a reduction in the volumes hedged and decoupling with respect to the indices hedged in the purchase and sale transactions.

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

- Derivatives listed on an official market are calculated on the basis of their year-end quotation (Level 1).
- Derivatives that are not traded on official markets are calculated on the basis of the discounting of cash flows based on year-end market conditions or, in the case of non-financial items, on the best estimate of the forward price curves of such items (Level 2 and 3).

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

As described in Note 2.2., Naturgy adopted the temporary exceptions, established as a result of the Interest Rate Benchmark Reform, from the application of specific hedge accounting requirements to hedging relationships existing at 1 January 2021 or those designated subsequently that are directly affected by the IBOR reform.

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

For accounting purposes, the operations are classified as follows:

1. Derivatives eligible for hedge accounting

a. Fair value hedge

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

b. Cash flow hedges

The portion identified as an effective hedge of fair value changes in derivatives that are designated and qualify as cash flow hedges is recognised in equity under other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in consolidated income statement under the relevant heading based on the nature of the hedged item. An ineffective portion is considered to exist when the change in value of the hedging instrument, in absolute terms, is greater than the change in value of the hedged item.

When derivatives are arranged, the hedging ratio, understood as the amount of the hedged item divided by the amount of the hedging item, is calculated and any potential causes of ineffectiveness are determined, which are normally linked to changes in the expected dates of the purchase and sale transactions, a reduction in the volumes hedged and decoupling with respect to the indices hedged in the purchase and sale transactions.

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

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

- The gain or loss relating to the effective portion of interest rate swaps is recognised as a financial expense at the same time as the interest expense on the hedged loans.
- When a hedging instrument covers a forecast transaction, the accumulated amounts remain in equity until the forecast transaction takes place. When the forecast transaction does not occur, the amount accumulated in equity is immediately reclassified to income for the period.

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

If this amount is a loss and it is not expected to be recovered, it will be reclassified immediately to consolidated income statement as a reclassification adjustment.

c. Hedges of net foreign investments

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

2. Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. The changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognized immediately in the consolidated income statement.

In addition, commodity derivatives not considered as hedges for accounting purposes are recorded in operating profit as they essentially constitute a hedge because of the match between the critical terms of the derivative and the hedged item.

3. Energy purchase and sale agreements

In the normal course of business, Naturgy enters into energy purchase and sale agreements which in most cases include “take or pay” clauses by virtue of which the buyer takes on the obligation to pay the value of the energy contracted irrespective of whether the buyer receives it or not. These agreements are executed and maintained in order to meet the needs to receive or take physical delivery of energy that are projected by Naturgy in accordance with periodic energy purchase and sale estimates, which are monitored systematically and adjusted in all cases through physical delivery. Consequently, these are contracts for “own use” and therefore fall outside the scope of IFRS 9.

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

Naturgy classifies as held-for-sale all the assets and related liabilities for which active measures have been taken to sell them, they are available for sale in their current situation, and the sale is highly likely to take place within the following twelve months.

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

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

Non-current assets held for sale are disclosed as follows on the consolidated balance sheet: the assets are carried under a single account "Non-current assets held for sale" and the liabilities are also carried under a single account called "Liabilities linked to non-current assets held for sale".

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

The income statement from discontinued activities is presented in a single line on the consolidated income statement called "Profit for the year from discontinued operations net of taxes".

2.4.10. Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using weighted average cost.

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

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

Emission allowances are stated at the lower of weighted average acquisition price and net realisable value. When the allowances are delivered, they are derecognised against the provision recorded when the CO2 emissions took place (Note 2.4.19).

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

2.4.11. Share capital

Share capital is represented by ordinary shares.

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

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

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

2.4.12. Share-based payments

Share-based payments settled in shares are valued on the basis of the fair value of the equity instruments granted on the grant date. In addition, the effects of changes that increase the fair value of share-based payment arrangements will be recognised.

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

The amounts recognised in consolidated equity are not subsequently re-measured as a result of trends in external market conditions.

2.4.13. Earnings per share

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

Diluted earnings per share are calculated as the quotient between consolidated profit for the year attributable to the ordinary equity holders of the company adjusted by the effect attributable to potential ordinary shares with a dilutive effect and the average number of ordinary shares outstanding during this period, adjusted by the weighted average number of ordinary shares that would be issued if all the potential ordinary shares were converted into ordinary shares of the Parent Company. For these purposes, conversion is considered to take place at the beginning of the period or at the time of issue of the potential ordinary shares, if they were issued during the reporting period.

2.4.14. Borrowings and equity instruments

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

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

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

2.4.15. Preference shares and subordinated perpetual debentures

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

- They do not include the contractual obligation for the issuer to repurchase them, under conditions involving certain amounts and at certain dates or determinable amounts and at determinable dates, or the right of the holder to demand their redemption.
- The payment of interest is at the discretion of the issuer.
- The parent company controls the remuneration policy that determines cash outflows.

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

2.4.16. Deferred income

This heading mainly includes:

- Capital grants received, relating basically to agreements with Regional Governments for the gasification or electrification of municipalities and other investments in gas or electricity infrastructure, for which Naturgy has met all the conditions established and which are stated at the amount granted. The amounts allocated are recognised in income statement systematically over the useful life of the subsidised asset, offsetting the amortisation expense.
- Revenue received for the construction of facilities for connecting to the gas or electricity distribution network (connections), which is recognised for the cash amount received, as well as such facilities received under assignment, which are recognised at fair value. The allocated amounts are recognised systematically in income statement over the useful life of the facilities.

2.4.17. Value of adjustments for deviations in market price, pursuant to Article 22 of Royal Decree 413/2014

On 22 October 2021, the CNMV issued a communiqué establishing the criteria for recognising the value of adjustments for deviations in the market price in accordance with Article 22 of Royal Decree 413/2014, of 6 June, which regulates electricity generation from renewable energy sources, cogeneration and waste (RD 413/2014).

The value of the adjustments for deviations in the market price includes the differences arising each year between the revenue from energy sales at the price estimated by the regulator at the beginning of each regulatory semi-period and the actual average market price in that year.

Following the approach established by the CNMV in 2021, Naturgy generally recognises each market deviation, whether positive and negative, arising under RD 413/2014 as assets and liabilities in the consolidated balance sheet.

However, if, according to our best estimates of the future evolution of energy market prices, it would be highly probable that market returns in excess of those established in RD 413/2014 would be obtained over the residual regulatory life of the facilities and, consequently, abandoning this remuneration regime would not have significantly more adverse economic consequences than remaining in it, only assets in that situation are recognised.

In the case of a facility that is in the last semi-period of its regulatory life, or where Naturgy has given notice of early abandonment of the remuneration regime established in RD 413/2014, an asset or liability will be recognised in each year for the net accumulated amount of the positive and negative deviations generated in that semi-period up to the closing date of that year.

2.4.18. Provisions for employee benefits

a. Post-employment pension obligations and similar

- Defined contribution plans

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

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

The contributions made have been recorded under Personnel expenses on the consolidated income statement.

- Defined benefit plans

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

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

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

Past-service costs are recognized immediately in the consolidated income statement under "Personnel expenses".

b. Other post-employment obligations

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

c. Termination benefits

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

2.4.19. Provisions

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

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

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

Naturgy must incur costs for dismantling its production facilities, including the cost of the work required to prepare the land on which they are located. In the case of nuclear power plants, all of which are located in Spain, it covers the costs incurred by the plant operator from the end of its useful life until the public business entity Empresa Nacional de Residuos Radiactivos, S.A. (ENRESA) takes over the decommissioning and waste management.

For these purposes, the estimated present value of these costs is recognised as an increase in the value of the asset by credit to "Provisions" at the beginning of the asset's life. This estimate is reviewed regularly to ensure that the provision reflects the present value of all estimated future costs. The value of the asset is adjusted only for variances from the initial estimate. For facilities that have reached the end of their useful lives and the decommissioning stage has commenced, the provision is recognised in the income statement for the period.

Naturgy applies a risk-free rate to discount the provision as the future cash flows estimated to meet the obligation reflect the specific risks of the related liability. The risk-free rate used pertains to yields on government bonds of sufficient depth and creditworthiness at the end of the reporting period, in the same currency and with a similar maturity to the obligation. The variation in the provision arising from discounting is recorded against "Financial expenses" in the consolidated income statement.

In contracts in which the obligations undertaken include unavoidable costs greater than the economic benefits expected to be received from them, the expenses and respective provisions are recognised in the amount of the present value of the existing difference. The unavoidable costs of the contract will reflect the lower net costs of terminating the contract, i.e. the lower of the cost of complying with the terms of the contract and the compensation derived from non-compliance. As from 1 January 2022, Naturgy has considered that the costs directly related to a contract comprise the incremental costs of contract performance and an allocation of other costs that are directly related to contract performance.

In order to cover the obligation concerning the delivery of CO2 emission allowances for emissions made during the year, the heading Current provisions record the CO2 allowances to be delivered valued at acquisition cost for allowances purchased recorded under Inventories and, if not all necessary emission allowances are held, at fair value for allowances pending purchase.

2.4.20. 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 extension or termination option 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-evaluates whether a contract is, or contains, a lease only if the terms and conditions of the contract change.

Lessee

In contracts where Naturgy is the lessee, it recognises an asset for the right-of-use and a financial liability for the lease (Notes 2.4.5. and 2.4.21.).

Lessor

Naturgy will classify each lease contract in which it is the lessor as either an operating lease or a finance lease.

A lease will be classified as a finance lease when Naturgy transfers substantially all the risks and rewards incidental to the ownership of an underlying asset to the customer. A lease will be classified as an operating lease if substantially all the risks and rewards incidental to the ownership of an underlying asset are not transferred.

- 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 benefit from the underlying asset.
- Finance leases: Naturgy will recognise an account receivable in its balance sheet for an amount equal to the present value of lease receipts, plus the non-assured residual value, discounted using the interest rate implicit 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). It will apply the lease payments against the gross investment to reduce both the principal and the accrued financial income.

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

2.4.21. Lease financial liabilities

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

The incremental interest rate for financing used by Naturgy is differentiated based on the portfolio of similar leases, country and contract term. The weighted average incremental borrowing rate for 2022 was 5.1% in Spain and 10.9% in Latin America.

The lease payments to be made will include the fixed payments less any lease incentives, variable 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.

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

Subsequently, the lease financial liability will be increased by the interest on the lease liability and reduced by the payments made. The liability will be remeasured if there are changes in the amounts payable and the terms of the lease.

2.4.22. Corporate income tax

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

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

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

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

Deferred income tax assets and tax credits are recorded only when there are no doubts as to their future recoverability through the future taxable profits that can be used to offset temporary differences and implement the tax credits.

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

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

2.4.23. Recognition of income and expenses

a. General

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

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

Five steps are established for the recognition of revenue:

1. Identify the customer's contract(s).
2. Identify the performance obligations.
3. Determine the price of the transaction.
4. Allocate the transaction price to the performance obligations.
5. Recognise the revenue according to the fulfilment of each obligation.

Based on this recognition model, sales are recognised when products are delivered to the customer and have been accepted by the customer, even if they have not been invoiced, or if applicable, services are rendered, and it is probable that the economic benefits associated with the transaction will flow to the entity. Revenue for the year includes the estimate of the energy supplied that has not yet been invoiced.

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

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

b. Revenue from gas transportation and distribution network access

National Commission for Markets and Competition (CNMC) Circular 4/2020, of 31 March 2020, established the methodology for determining the remuneration for natural gas distribution applicable from 1 January 2021.

The remuneration for the regulated gas distribution activity is set annually for each distribution company based on the customers connected to them and the volume of gas supplied.

CNMC Circular 9/2019, of 12 December 2019 lays down the methodology for determining the remuneration of natural gas transportation facilities and liquefied natural gas plants as from 1 January 2021.

The annual remuneration for the regulated gas transportation activity is set taking into account the investment and operating costs of these facilities.

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

Royal Decree 1184/2020 of 29 December 2020, which lays down the methodologies for calculating gas system charges, regulated remuneration for basic underground storage facilities and the fees charged for their use, provides that, as from 1 October 2021, settlements will be made by gas year and by activity, differentiating between revenues from the application of tolls, fees and charges.

Subsequently, Order TED/1022/2021 of 27 September 2021 was published to further develop this Royal Decree, regulating the procedures for settling regulated activity remuneration, charges and quotas with specific destinations in the gas sector.

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

The CNMC Resolution of 20 May 2021, published in the Official State Gazette on 03 June 2021, established the remuneration for regulated gas transportation and distribution activities for the 2022 gas year (1 October 2021 to 30 September 2022).

The CNMC Resolution of 19 May 2022, published in the Official State Gazette on 25 May 2022, established the remuneration for regulated gas transportation and distribution activities for the 2023 gas year (1 October 2022 to 30 September 2023).

Both remunerations are financed by revenues from tolls and fees for network use. These tolls and fees are set annually, in accordance with CNMC Circular 6/2020, which lays down the method for calculating natural gas transportation, local network and regasification tolls, published in July 2020.

The 2021 gas system remuneration period ended 2022 with a surplus according to the final settlement for that year approved on 28 July 2022 by the CNMC, which has been applied as a partial early amortisation of the deficit from 2014 in accordance with Law 18/2014.

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

c. *Revenues from gas sales*

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

Royal Decree-Law 17/2021, of 14 September, on urgent measures to mitigate the impact of the escalation of natural gas prices on retail gas and electricity markets, limits the increase in the gas cost to be charged in the natural gas last resort tariff applicable from 1 October 2021 to 35% of the current value (Appendix IV). In the review at 1 January 2022, the maximum increase in the raw material cost compared to the figure applicable under the review at 1 October 2021 is set at 15%.

The difference between the raw material cost increase and the increase allocated in the tariff will be recovered in the reviews taking place after 1 January 2022, with a limit of 15% in the raw material cost increase.

The procedure for the recovery of the amounts owed cannot be terminated until the last resort supply companies have recovered the full amount owed, including any applicable interest. These payments will be covered out of billings under the last resort tariff and, failing that, they will be classified as a mismatch between revenues and costs in the gas system, in accordance with the provisions of Article 61 of Law 18/2014, of 15 October, approving urgent measures for growth, competitiveness and efficiency (as introduced by Royal Decree-Law 27/2021). However, this exceptional limit has been extended by successive Royal Decree-Laws until 31 December 2023, also modifying, under Royal Decree-Law 18/2022 of 18 October, the mechanism for recovering the amounts owed to last resort supply companies in order for them to be covered by the National Budget.

Under the previous regulations, Naturgy recognised as revenue the raw material cost variances not included in the last resort tariff applied from 1 October 2021 (Note 10).

Exchanges of gas that have been done with other supplier companies are considered collaboration contracts between same sector companies and are not included in the net sales because they don't have the consideration of customer contracts.

The amount of gas sales is recorded as revenue at the time of delivery to customers, based on the quantities supplied and including an estimate of energy supplied but not yet read on customers' meters (Note 2.4.25.).

d. Revenue from electricity transmission and distribution network access

The remuneration for electricity distribution and transmission has been set annually by the Ministry for the Ecological Transition (until 2019) and by the CNMC (since 2020), applying the approved methodology which recognises remuneration for investment and remuneration for asset operation and maintenance.

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

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

In 2022, the transmission and distribution remuneration for 2017 to 2019 and some orders relating to remuneration for previous years were approved:

- Order TED/490/2022 of 31 May implemented the Supreme Court judgement whereby Order IET/980/2016 of 10 June, which set the remuneration of electricity distribution companies for 2016, was declared to be damaging to the public interest.
- Order TED/749/2022 of 27 July approved the remuneration of distribution companies for 2017, 2018 and 2019, as well as the incentive for reducing distribution losses for 2016.
- Order TED/1343/2022 of 23 December approved the remuneration of companies owning electricity transmission facilities for 2017, 2018 and 2019.

At the date of publication of these consolidated annual accounts, the remuneration for years 2020 onwards, for which the CNMC is responsible, has not been published.

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

In 2021 there was a revenue surplus in the industry which, in accordance with the provisions of Royal Decree-Law 17/2022, has been applied to cover temporary mismatches between revenues and system costs in 2022.

e. Revenue from the sale of electricity

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

The amount of electricity sales is recognised as revenue at the time of delivery to customers, based on the quantities supplied and including an estimate of energy supplied but not yet read on customers' meters (Note 2.4.25.).

In accordance with the provisions of Royal Decree 413/2014 (RD 413/2014), renewable energy generation facilities in Spain receive certain incentives (specific remuneration regime). RD 413/2014 establishes that certain remuneration parameters will be updated by ministerial order in each regulatory semi-period. In this regard, Order TED/171/2020 established the remuneration parameters for estimating these incentives for the 2020-2022 regulatory period.

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

The remuneration parameters for the regulatory half-period (1 January 2020 to 31 December 2022) were regulated under Order TED/171/2020, although Article 5 of RDL 6/2022, on an extraordinary basis, subdivided the current regulatory half-period and thus created a new half-period between 1 January 2022 and 31 December 2022. As a result, and notwithstanding the adjustment to be made for the half-period commencing on 1 January 2023, RDL 6/2022 mandates the approval of a ministerial order updating the remuneration parameters established in Order TED/171/2020 of 24 February for 2022, no later than 31 May 2022, which materialised in Order TED/1232/2022 of 2 December.

Although RDL 6/2022 established that the adjustment mechanism for market deviations would not apply to energy generated from 2023 onwards in order to encourage forward contracting, RDL 10/2022 subsequently reintroduced the adjustment for market price deviations. As a result, for 2023 and subsequent years this mechanism includes references to forward market products in the annual average price of the daily and intraday market.

The accounting treatment for market price deviations applied by Naturgy conforms to “Criteria to record the value of the adjustments for deviations to the market price” (Vadjm), in accordance with article 22 Real Decreto 413/2014” published by the CNMV on 22 October 2021 (Note 2.4.17.), whereby:

- As a general rule, the positive and negative market deviations arising under RD 413/2014 are recognised in the consolidated balance sheet with a balancing entry in revenue. The amount of the liabilities will be limited to the amount of the deviations at the price that would have enabled the minimum profitability guaranteed by the Royal Decree to be obtained, up to the limit of the facility's net asset value (NAV).
- However, if, according to Naturgy's best estimates of the future evolution of energy market prices, it would be highly probable that market returns in excess of those established in RD 413/2014 would be obtained over the residual regulatory life of the facilities and, consequently, abandoning this remuneration regime would not have significantly more adverse economic consequences than remaining in it, the general approach is not followed and only the asset is recognised in the event of positive market deviations. The following facilities are in this situation:
 - a. Facilities for which, at the date of closing of these consolidated annual accounts, considering the estimated market prices for 2023 and subsequent years, inclusion in the premium regime is indifferent either because the NAV (as defined in RD 413/2014) has already been fully recovered or because it is estimated that the observable prices will not give rise to the supplementary remuneration for investment (Rinv) from 2023 onwards. In either case, these facilities would have achieved the reasonable returns established by RD 413/2014 before the end of their regulatory useful life.
 - b. Facilities which, at the date of closing of these consolidated annual accounts, will need to be supplemented by Rinv until the end of their regulatory useful life but for which abandoning the remuneration system would not have significantly more adverse economic consequences than remaining in it. The threshold established by the Group to determine whether the economic consequences are not materially adverse was calculated as the difference between the present value of the cash flows of these facilities if they remain in the specific remuneration regime or they abandon it, where this difference is less than or equal to 5%.

The Group regularly reviews the foreseeable future evolution of market prices as well as other qualitative factors and determines whether abandoning the remuneration system would have significantly more adverse economic consequences than remaining in the system and whether the facility remains within the aforementioned threshold. Otherwise, the general approach is applied.

At the end of the asset's regulatory life, positive adjustments net of negative adjustments arising in the last regulatory semi-period are recognised, based on their balance, in asset or liability accounts with a balancing entry in revenue. At the date of closing of these consolidated annual accounts, there were no facilities in the last semi-period of their regulatory useful life.

Although for some facilities it is estimated that abandoning the remuneration system would not have significantly more adverse economic consequences than remaining in it, they have not abandoned it nor are there any plans to do so in the short term, mainly because it does not generate material additional obligations other than those inherent to efficiently managing the facilities and power generation.

Naturgy has estimated market prices over the remaining regulatory useful lives of the facilities based on internal estimates used in Naturgy's normal budgeting operations, which are in line with the market consensus.

f. Other revenues

Naturgy has power generation capacity assignment contracts with the Federal Electricity Commission for its combined-cycle plants in Mexico (CFE), for a 25-year term as from the commencement of commercial operations. These contracts stipulate a pre-established collection schedule for the assignment of power supply capacity. As Naturgy has the capacity to operate and manage the plants and retains the rewards and risks of operations, taking relevant decisions that will affect future cash flows, these contracts represent provisions of services and are thus recognised on a percentage-of-completion basis.

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

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

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

If the contract revenues cannot be estimated reliably, revenues are only recognised for an amount equivalent to the costs incurred in the period, provided that those costs can be recovered. The contract margin is not recognised until there is certainty that it will materialise based on cost and revenue planning.

2.4.24. Cash flow statement

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

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

2.4.25. Significant accounting estimates and judgments

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

- a. Intangible assets and property, plant and equipment (Notes 2.4.3 and 2.4.4)

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

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

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

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

c. Derivatives, other financial instruments and gas purchase and sale contracts (Note 2.4.8)

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

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. Naturgy uses a variety of methods and makes assumptions that are based on market conditions existing at each consolidated balance sheet date:

- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.
- The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the consolidated balance sheet date.
- The fair value of commodity derivatives is calculated by using the curves of forward prices quoted in the market at the consolidated balance sheet date. For the purpose of measuring the effective portion of the commodity hedges, the Group has taken into account the current situation in the gas markets, considering the discounts applied in physical gas sales on the benchmark indices to which the hedges are associated and considering that this market volatility will extend until 2024.

In the course of its business, Naturgy has contracts for the purchase and sale of gas. The evaluation to determine their qualification as “own use” contracts requires the application of judgments by the management in relation to the gas supply and demand forecasts, which are followed up systematically.

For disclosure purposes, it is assumed that the carrying amount of trade and other receivables less expected impairment losses approximates their fair value. The fair value of other financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to Naturgy for similar financial instruments.

d. Provisions for employee benefits (Note 2.4.18)

The calculation of the pension expense, other post-employment benefit expenses and other post-employment liabilities requires a number of assumptions to be made. Naturgy estimates at each year end the provision necessary to meet its pension liabilities and the like, in accordance with the advice from independent actuaries. The changes affecting such assumptions may result in the recording of different amounts and liabilities. The most significant assumptions for the measurement of pension or post-retirement benefit liabilities are energy consumption by beneficiaries during retirement, retirement age, inflation and the discount rate employed. Social security coverage assumptions are also essential to determine other post-retirement benefits. Future changes to these assumptions will have an impact on future pension costs and liabilities.

e. Provisions (Note 2.4.19)

Naturgy makes an estimate of the amounts to be settled in the future, including amounts relating to contractual obligations, business contracts derived from them, pending litigation, future dismantling and decommissioning of certain facilities, land restoration, and other liabilities. These estimates are subject to the interpretation of current events and circumstances, projections of future events and estimates of their financial effects, as well as the outcome of negotiations associated with gas supply contracts.

f. Corporate income tax (Note 2.4.22.)

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

g. Revenue recognition (Note 2.4.23.)

Revenues from the sale of energy are recognised when the good is delivered to the customer based on regular meter readings. They also include an estimate of the energy supplied but not yet billed at the closing date, due to the fact that it has not been measured in the normal course of the meter reading cycle.

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

- Prices: determined as a function of the prices for different customer types based on the estimated consumption curves.
- Consumption: based on estimated daily consumption derived from seasonally-adjusted historical profiles for the various customer types and other factors than can be measured and affect consumption.
- Volume of energy purchased by the Group's supply companies to meet demand.

Naturgy has sufficient experience and sufficiently well-developed information systems to guarantee the accuracy of the estimates recorded for this item under Net sales in the consolidated income statement, as well as compliance with the relevant accounting legislation. Historically, no material adjustments have been made relating to the amounts recognised as unbilled revenues and none are expected in the future.

Certain aggregates for the electricity and gas system, including those relating to other companies which allow for the estimate of the overall settlement of the electricity system that must materialise in the respective final payments, could affect the calculation of the shortfall in the settlements of electricity and gas regulated activities in Spain.

h. Determining lease terms (Note 2.4.20.)

In determining the lease term, Naturgy considers all relevant facts and circumstances that create a significant economic incentive for the lessee to exercise the renewal option or not to exercise the termination option. Renewal or termination options are only included in the determination of the lease term if it is reasonably certain that the lease will be extended or not terminated. If any significant event or significant change in circumstances arises that could affect the determination of the term, Naturgy reviews the valuations made when determining the lease term.

i. COVID-19

The spread of COVID-19 has entailed significant challenges for commercial activities and has introduced a high degree of uncertainty concerning world-wide business activity and energy demand, particularly during 2020 and 2021.

The global recovery that commenced in the second half of 2021 continued in 2022. Some impacts have continued to be felt, however, such as those arising from the measures imposed in China under its "zero COVID" policy, leading to disruptions in the supply chain of technology components in Europe which are necessary, for instance, for maintaining strong investment growth in renewable energy.

During 2022, countries have also gradually lifted the mobility restrictions imposed to curb the spread of the pandemic. While this has boosted business activity it has also led to a certain resurgence of infections, such as in China towards the end of the year. This has resulted in certain countries considering, or already implementing, restrictions on the entry of travellers from China. This increase in infections could negatively impact China's economic growth and again put pressure on global supply chains.

The Group tracks the impact of the COVID health crisis on the economic cycle in the short and long term, with the aim of minimising the possibility of any further deterioration or sudden recovery in the economic conditions in the markets in which it operates having material adverse effects on the Group's business, prospects, financial situation and results.

The prospects set out in the corresponding notes were considered when making the estimates and assumptions that are necessary to draw up the consolidated annual accounts.

j. Estimated revenue from renewable energy generation facilities under the specific remuneration scheme

In accordance with the provisions of Royal Decree 413/2014 (RD 413/2014), renewable energy generation facilities in Spain receive certain incentives (specific remuneration regime). RD 413/2014 establishes that certain remuneration parameters will be updated by ministerial order in each regulatory semi-period.

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

To determine the accounting adjustment for deviations in the market price of renewable generation facilities subject to the specific remuneration regime, Naturgy, in accordance with its best estimate of future energy market prices, estimates the Net Present Value (NPV), as well as the return on investment to be obtained in each of the standard facilities (TI) in which the Group operates in Spain in the recalculation of remuneration parameters of the next regulatory half-period.

These estimates together with the analysis of other qualitative factors determine whether leaving the remuneration scheme would not have significantly more adverse economic consequences than remaining in the scheme and therefore the general accounting treatment is not applied and the asset is only recognised in the event of positive market deviations. The amount relating to negative deviations not recognised for this reason at 31 December 2022 and 31 December 2021 is Euros 145 million and Euros 104 million, respectively.

The estimate of future market prices at 31 December 2022 for 2023 and subsequent years is as follows:

	2023	2024	2025	2026	2027
Prices Euro/MWh	172.4	144.1	149.5	120.1	91.7

k. Climate change and the Paris Agreement

Naturgy's 2021-2025 Strategic Plan includes a number of goals set by the Group in order to comply with the objectives of the Paris and Glasgow Summits for restricting the global temperature increase to below 2 °C and achieving climate neutrality by 2050, and with the Sustainable Development Goals (SDGs) of the United Nations. Upon completion of the Strategic Plan, the Group's greenhouse gas emissions are expected to be reduced by 24% (Scope 1, 2 and 3 emissions) compared with 2017.

The key factors envisaged for achieving these goals include the following:

- No coal-fired electricity has been generated in 2022 or 2021 due to the closure in the first half of 2020 of all Naturgy's coal-fired power plants, which implies a significant reduction in emissions of CO₂ and other atmospheric pollutants.
- The Strategic Plan provides for investments in renewable energies, in particular in solar photovoltaic, onshore wind and storage technology, as well as the development of innovation projects for distributed generation, biogas and hydrogen, and sustainable mobility
- Additionally, investments are also envisaged to adapt existing grid infrastructures that will play an essential role in the energy transition.

These investments will contribute to the future objective of transforming the energy mix envisaged in the PNIEC, which is also aligned with the European objective of achieving climate neutrality by 2050.

Information on the Group's decarbonisation strategy is disclosed in the group 2022 Non-Financial Information Statement, which is prepared in line with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) to which Naturgy has adhered.

These consolidated annual accounts have been prepared taking into account the decarbonisation commitments undertaken by Naturgy, in addition to the risks and uncertainties related to climate change and the decarbonisation of the economy. The IASB publication "Effects of climate-related issues on financial statements" concerning the impact of climate change on the application of IFRS in financial reporting has been taken into account in its preparation.

The main estimates and accounting judgements made by Naturgy's management and directors when preparing the 2022 consolidated annual accounts related to the expected effects of climate change and the energy transition are described below.

1. Recoverability of non-financial assets

As described in Note 2.4.6., the cash-flow projections used in the non-financial asset impairment tests are based on the best available forward-looking information and reflect the investment plans in place in each CGU at the time for maintaining the CGUs' operating capacity. These projections are in line with Naturgy's strategy that takes into consideration the objectives of the Paris Agreement and have therefore been prepared based on the range of economic conditions that might exist in the foreseeable future in relation to climate change and the energy transition. The projections have taken into account the expected impact on wholesale and retail electricity market prices resulting from the entry into operation of new renewable generation facilities and developments in gas, oil and emission allowance prices, as well as expected demand.

Regarding emission rights, most of Naturgy's thermal electricity generation facilities in Spain are regulated by the European Emission Trading Directive. Naturgy carries out comprehensive portfolio management for the acquisition of emission allowances equivalent to the verified emissions of its combined cycle and cogeneration facilities, regulated by the European Emissions Trading Directive, Phase IV 2021-2030. This phase takes into account the CO₂ emission reduction target of 55% by 2030 compared with 1990, in line with the 2050 goal of zero net emissions set out in the European Green Deal. For this supply, Naturgy actively participates in both the primary market, through auctions, and in the secondary market. These emissions relate mainly to the combined cycle gas plants in Spain and represent 89.6% of Naturgy's direct emissions (scope 1) in 2022.

In Mexico, the Emissions Trading System (ETS) Test Programme has been implemented, which includes emissions from combined cycle power plants. This test phase began in 2020 and ended in 2022. Installations registered in the ETS must submit allowances equivalent to the tonnes of CO₂ they emit. Currently, Naturgy's combined cycle plants in Mexico are registered in the ETS and have received emission allowances from the authority for 2020 and 2021.

The CO₂ prices considered in the impairment test are detailed in Note 4. Other relevant information on emission allowance costs in 2022 and 2021 is disclosed in Note 16. Other current and non-current provisions.

The estimated cash flows for each CGU, as required by accounting regulations, take into account the current condition of the assets without considering future improvements and therefore do not include future investments due to technological changes or any strategic investments foreseen in the energy transition.

Naturgy will continue to update its operational plans and pricing outlook to take into account changes in the economic environment and the pace of the energy transition.

2. Group's main assets subject to climate change and energy transition risk:

Coal-fired power plants

As mentioned above, in 2022 and 2021 the Group has not generated any coal-fired electricity due to the closure in the first half of 2020 of all Naturgy's coal-fired power plants. These facilities are fully depreciated/provisioned at 31 December 2022. Their decommissioning commenced following the closure and is expected to be completed by the end of the first quarter of 2025.

Combined cycle gas power plants

In Spain, it is important to bear in mind that the operation of these plants is included in the Integrated National Energy and Climate Plan (PNIEC), aligned with the European objective of achieving climate neutrality by 2050, and that they are an essential factor in ensuring the growth of renewable energies in the national electricity system since they form the back-up for ensuring the electricity supply in the event of any lack of wind, sunlight or water. The Group's gas-fired combined cycle plants (in Spain and Mexico) currently represent the most eco-efficient generation technology available to provide the necessary back-up for renewable energies and enable their widespread implementation, which is key to the energy transition.

At 31 December 2022, the carrying value of these fixed assets is Euros 1,942 million, of which Euros 994 million relates to combined cycle plants in Spain. The carrying value of the total combined cycle generation facilities in Spain is estimated for 2030, 2040 and 2050 at Euros 522 million, Euros 219 million and zero, respectively. The carrying value, excluding goodwill, of the combined cycle plants in Mexico is estimated for 2030, 2040 and 2050 at Euros 613 million, Euros 289 million and zero, respectively.

The use of external projections based on lower energy prices compared with the assumptions used by Naturgy and indicated in Note 4 could have an impact on the recoverability of the carrying value of these assets recognised in the balance sheet at 31 December 2022. See the sensitivity analysis in Note 4 below.

Hydroelectric power plants

At 31 December 2022, the carrying value of these fixed assets in Spain was Euros 982 million. The recoverable value of these assets could be affected by a larger than expected hypothetical future reduction in hydroelectricity due to climate change, particularly in run-of-river plants. The assumptions used in the hydroelectric power generation CGU impairment test includes developments in hydraulicity and their impact on hydrographic flows and therefore on production.

Renewable energy assets

At 31 December 2022, the carrying value of these fixed assets is Euros 4,999 million, of which Euros 4,141 million relates to assets in Spain. The main perceived risk is the potential negative future evolution of solar and wind resources, which are the key variables in the performance of this line of business. There may also be reductions in the remuneration arrangements for renewable energies and lower prices in marginal wholesale markets due to an increase in renewable production with reduced variable costs. In the impairment tests for 2022, no changes in the remuneration arrangements yet to be approved have been considered and the forecasts for solar and wind resources have been taken into account.

Electricity and gas transportation and distribution assets

At 31 December 2022, the carrying value of these fixed assets is Euros 13,740 million, of which Euros 8,950 million relates to assets in Spain. These regulated assets are considered to be resilient to the energy transition. Increases in temperature and a higher frequency of extreme weather events could lead to increased technical losses, deterioration in service quality levels, higher operating and maintenance costs and higher annual investments, albeit in volumes that can be easily assumed via the multi-year tariff reviews of these regulated businesses. The investment and response plans already in place, accumulated experience and network design (meshing and undergrounding of lines) would act as mitigating measures. A potential massive development of distributed generation would be partially offset by the increasing electrification of the economy (e.g. electric cars) and investments in smart grids.

Supply

The supply business CGU has net operating assets totalling Euros 1,431 million at 31 December 2022. The impact of climate change and the energy transition on the supply business is considered to be minor, as potential negative impacts from efficiency measures and temperature changes could be offset by the higher growth that is expected to result from the electrification of the economy.

In terms of transition risks, the Group's current positioning, resulting from its investment focus on renewables and grids, provides it with favourable situation for facing these risks. The Group considers that the opportunities arising from the decarbonisation of the global economy (growth in renewables, investment in smart integrating grids, transport electrification, green hydrogen, etc.) outweigh the risks.

3. Useful lives of non-financial assets

The calculation of useful lives (Note 2.4.4) takes into account the objectives of the National Integrated Energy and Climate Plan (PNIEC) and the energy transition, the protocol signed with Enresa in the case of nuclear plants and the terms of administrative concessions in the case of hydroelectric plants.

As mentioned in the previous section, a very significant percentage of the carrying amount of combined cycle plants at 31 December 2022 will be depreciated by 2030, and they will be fully depreciated in 2050.

The energy transition and the rate at which it progresses may impact the remaining useful lives of assets, although remaining useful lives are reviewed annually.

4. Decommissioning provisions

The energy transition and the pace at which it progresses may also bring forward the decommissioning of combined cycle plants. Most of the combined cycle plants in Spain are expected to start decommissioning in the period 2042-2046.

Hydroelectric plants are covered by the temporary administrative concession regime. On completion of the terms of administrative concessions, the facilities must revert to the Government in good condition and this is ensured through maintenance programmes. Therefore, no decommissioning provisions need to be recorded.

In addition to the timeframe of decommissioning and restoration activities, Naturgy has also taken into account the discount rate in line with the average remaining useful life of these assets.

Estimates of decommissioning costs are based on the regulatory and external environment that is knowable at the current date.

5. Recoverability of deferred tax assets

Sufficient taxable profits are expected to be generated within the planning period to ensure the recovery of the deferred tax assets recognised for accounting purposes at 31 December 2022. The estimate of the recoverability of these assets has been made using the same judgements and assumptions as those used to calculate the recoverable amount of non-financial assets.

6. Regulation

The Paris Agreement has had a major impact on the development of new climate policies and the adoption of new regulations. The European Union (EU), having assumed the commitment to climate neutrality by 2050 and "The European Green Deal" which embodies the EU's new growth strategy, has approved various regulations in this area. Spain has also issued regulations relating to these matters and therefore climate change and energy transition rules are constantly evolving and could have negative effects on the Group's activities.

7. Dividend payment

Climate change risks are not expected to affect the Company's capacity to pay dividends to shareholders due to strong cash generation and existing reserves.

In the case of regulated lines of business, a scenario in which the conditions for maintaining the current rate of investment continue to exist is compatible with the levels of dividend payments that may be observed to date. However, in the case of deregulated lines of business, their future capacity to pay dividends is difficult to foresee due to unknown risks and uncertainties that could cause actual results, performance or events to differ substantially from those envisaged in the Group's projections.

8. Physical risks

The design and construction of Naturgy's assets includes the mitigation of physical risks, whether or not related to climate change, and the associated costs are included in the initial recognition of these assets in the consolidated balance sheet. Naturgy recognises the need for a more comprehensive analysis and assessment of the climate-change resilience of all its assets, while continuing to monitor this issue to ensure that its operations are safe and that the Group's facilities can continue to operate in extreme weather conditions. In recent years, there have been no weather events causing significant repercussions on operations or major financial damage. These physical risks are assessed for all the Group's assets and are considered in impairment tests through the generation/utilisation rates of each asset.

In the long term, the Naturgy's business portfolio is expected to evolve in line with the energy transition. Decision-making on the future business portfolio will be guided by the pace of the Company's progress as it moves towards meeting the objectives of the Paris Agreement. Setting the energy system on the path to net zero emissions will require unprecedented coordinated action between energy suppliers, consumers and, above all, governments.

I. Military conflict between Russia and Ukraine

On 24 February 2022, war broke out between Russia and Ukraine. There has not been an invasion of a European country since the middle of the last century, and it has had devastating humanitarian consequences and major implications for the world economy and financial markets.

Following Russia's invasion of Ukraine, the European Union and countries such as the United States, Australia, Japan and the United Kingdom have imposed unprecedented measures and sanctions on Russia. These measures, as well as the sanctions introduced by Russia as a response, have had a global impact, leading to rises in commodity prices, inflationary pressures, supply chain constraints and volatility in financial and commodity markets.

One of the most deeply affected sectors is the energy industry, with significant increases in oil and gas prices. Faced with a possible gas shortage caused by the conflict, prices in the European gas market have risen sharply and the seriousness of the situation has also generated considerable market volatility, with the corresponding impact on electricity prices. These difficulties have also increased due to the higher level of technological risk to which companies and governments are exposed, which has also led to the adoption of defensive measures and stringent internal controls to protect digital infrastructures.

Considering the scenario in question and in compliance with the recent recommendations by the European Securities and Markets Authority (ESMA) dated 13 May 2022 and 28 October 2022, respectively, Naturgy is monitoring the status and evolution of the situation generated by the crisis in order to manage potential risks. The analyses carried out aim to assess the indirect impacts of the conflict on business activity, the financial situation and economic performance, with particular reference to the generalised increase in commodities prices and the reduced availability of material supplies from areas affected by the conflict. In this context, as part of its diversified portfolio, Naturgy is party to a long-term contract concluded in 2013 with an international consortium for the supply of gas originating in Russian formed by Novatek (50.1%), TotalEnergies (20%), CNPC (20%) and Silk Road Fund (9.9%) which is not affected by any sanctions. In 2022, volume under this contract accounted for 14% of Naturgy's global supply. In addition, Naturgy has no counterparties potentially affected by the sanctions.

Likewise, Naturgy has no holdings in companies operating in Russia or Belarus, or investments in these countries. Nor does it record any cash or cash equivalent balances that are unavailable as a result of the above measures and sanctions. For further details on interest rate, commodity price, credit and liquidity risks, see Note 18.

As this scenario is constantly evolving and as it is difficult to predict the extent or duration of the conflict's impact, Naturgy constantly monitors the relevant macroeconomic and business variables in order to obtain the best estimate of potential impacts in real time, also taking into account recommendations by national and international supervisory bodies on the matter.

Note 3. Segment financial information

Naturgy organises its business around three strategic areas: Energy and Network Management, Renewables and New Business, and supply. This organisation improves the visibility of development in the lines of business and enables the operating segments to be redefined based on the following criteria:

– Energy and Network Management:

- Iberian Networks:
 - Gas networks Spain: encompasses the regulated gas distribution business in Spain.
 - Electricity networks Spain: encompasses the regulated electricity distribution business in Spain.
- Latin American networks:
 - Gas and electricity networks in Argentina.
 - Gas networks in Brazil.
 - Gas and electricity networks and supply in Chile (the latter considered as a discontinued activity until its sale in July 2021, see Note 11).
 - Gas networks in Mexico.
 - Electricity networks in Panama.
- Energy Management:
 - International LNG: includes both the sale of liquefied natural gas and the sea transport business.
 - Markets and supplies: includes supply and other gas infrastructure management and sales to high energy-intensive consumers. Since 2021, following the operation described in Note 2.4.1.d., it has also included the activity of Unión Fenosa Gas, S.A. (which merged with Naturgy Aprovevisionamientos, S.A. with effect from 1 January 2022), which was accounted for using the equity method until March 2021 and subsequently fully consolidated.
 - Gas pipelines: Manage the Maghreb-Europe gas pipelines (until the end of the concession in October 2021) and the Medgaz pipeline (accounted for using the equity method).
 - Thermal generation Spain: includes the management of conventional thermal generation (which uses fuel for heat generation and which is not covered by a special regime) in Spain (nuclear and combined cycle).
 - Thermal generation Latin America: includes management of conventional thermal generation facilities of Global Power Generation (GPG) in Mexico, Dominican Republic and Puerto Rico, the latter accounted for using the equity method through EcoEléctrica LP.

– Renewables and New Business:

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

– Supply:

- Its objective is to manage the commercial model for end customers for both gas and electricity, incorporating new technologies and services and developing the full potential of the brand.

– Other:

- Basically includes the corporation's operating expenses.

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

Segment financial information – Income statement

2022	Networks and Energy management														Renewables and New businesses							Supply	Rest	Eli.	Total
	Networks Spain			Networks Latam					Energy management						Spain & USA	Latam	Australia	Total							
	Gas net.	Electr. net.	Total	Argentina	Brazil	Chile	Mexico	Panama	Total	Markets and Procurem.	LNG	Pipelines (EMPL)	Europe CG	Latam CG					Total	Total					
Consolidated Net sales	1,041	803	1,844	572	1,932	895	1,035	891	5,325	6,748	5,937	—	3,309	1,080	17,074	24,243	214	125	32	371	9,349	2	—	33,965	
Net sales between segments	94	36	130	—	—	—	—	—	—	1,628	—	—	2,757	—	4,385	4,515	476	9	1	486	1,795	54	(6,850)	—	
Intersegment Net sales	—	—	—	—	—	—	—	—	—	10,505	(630)	—	(356)	—	9,519	9,519	—	—	—	—	—	—	(9,519)	—	
Net sales (by segment)	1,135	839	1,974	572	1,932	895	1,035	891	5,325	18,881	5,307	—	5,710	1,080	30,978	38,277	690	134	33	857	11,144	56	(16,369)	33,965	
Procurements (by segment)	(133)	(3)	(136)	(319)	(1,535)	(664)	(735)	(694)	(3,947)	(17,748)	(5,428)	—	(4,993)	(760)	(28,929)	(33,012)	(198)	(19)	—	(217)	(10,269)	(4)	16,308	(27,194)	
Personnel expenses, net	(52)	(44)	(96)	(53)	(21)	(27)	(17)	(9)	(127)	(27)	(12)	(9)	(58)	(19)	(125)	(348)	(49)	(14)	(3)	(66)	(68)	(65)	—	(547)	
Other operating income/expenses	(113)	(109)	(222)	(111)	(69)	(44)	(27)	(45)	(296)	25	(11)	2	(239)	(36)	(259)	(777)	(166)	(27)	(15)	(208)	(264)	(82)	61	(1,270)	
EBITDA	837	683	1,520	89	307	160	256	143	955	1,131	(144)	(7)	420	265	1,665	4,140	277	74	15	366	543	(95)	—	4,954	
Depreciation, amortisation & impairment losses	(390)	(252)	(642)	(6)	(52)	(58)	(55)	(54)	(225)	(20)	(83)	—	(99)	(83)	(285)	(1,152)	(156)	(65)	(12)	(233)	(100)	(47)	—	(1,532)	
Impairment due to credit losses	(1)	(11)	(12)	(3)	(26)	(2)	(8)	(12)	(51)	—	—	—	(23)	(1)	(24)	(87)	—	—	—	—	(141)	—	—	(228)	
Other results	—	—	—	—	—	(128)	—	—	(128)	3	—	—	—	—	3	(125)	9	—	—	9	—	5	—	(111)	
Operating profit/(loss)	446	420	866	80	229	(28)	193	77	551	1,114	(227)	(7)	298	181	1,359	2,776	130	9	3	142	302	(137)	—	3,083	
Profit/(loss) of entities recorded by equity method	—	1	1	—	—	18	2	—	20	18	—	19	—	50	87	108	20	—	—	20	—	—	—	128	

2021	Networks and Energy management														Renewables and New businesses							Supply	Rest	Eli.	Total
	Networks Spain			Networks Latam					Energy management						Spain & USA	Latam	Australia	Total							
	Gas net.	Electr. net.	Total	Argentina	Brazil	Chile	Mexico	Panama	Total	Markets and Procurem.	LNG	Pipelines (EMPL)	Europe CG	Latam CG					Total	Total					
Consolidated Net sales	1,129	802	1,931	515	1,288	620	776	727	3,926	3,681	2,880	69	1,892	1,013	9,535	15,392	128	141	21	290	6,457	1	—	22,140	
Net sales between segments	77	38	115	—	—	—	—	—	—	1,143	2	142	199	—	1,486	1,601	379	9	—	388	1,486	56	(3,531)	—	
Intersegment Net sales	—	—	—	—	—	—	—	—	—	3,405	534	—	—	—	3,939	3,939	—	—	—	—	—	—	(3,939)	—	
Net sales (by segment)	1,206	840	2,046	515	1,288	620	776	727	3,926	8,229	3,416	211	2,091	1,013	14,960	20,932	507	150	21	678	7,943	57	(7,470)	22,140	
Procurements (by segment)	(87)	—	(87)	(311)	(995)	(380)	(508)	(560)	(2,754)	(8,040)	(3,005)	—	(1,695)	(723)	(13,463)	(16,304)	(90)	(39)	—	(129)	(7,506)	(7)	7,417	(16,529)	
Personnel expenses, net	(144)	(136)	(280)	(46)	(19)	(26)	(20)	(10)	(121)	(39)	(25)	(9)	(86)	(16)	(175)	(576)	(82)	(20)	(2)	(104)	(141)	(119)	—	(940)	
Other operating income/expenses	(118)	(113)	(231)	(95)	(43)	(23)	(30)	(32)	(223)	(60)	(13)	(11)	(219)	(29)	(332)	(786)	73	(20)	(10)	43	(392)	(60)	53	(1,142)	
EBITDA	857	591	1,448	63	231	191	218	125	828	90	373	191	91	245	990	3,266	408	71	9	488	(96)	(129)	—	3,529	
Depreciation, amortisation & impairment losses	(291)	(248)	(539)	(5)	(46)	(59)	(52)	(46)	(208)	(17)	(181)	(47)	(84)	(63)	(392)	(1,139)	(152)	(29)	(10)	(191)	(80)	(52)	—	(1,462)	
Impairment due to credit losses	(3)	(7)	(10)	(12)	(13)	(6)	(5)	(5)	(41)	1	—	—	1	—	2	(49)	—	—	—	—	(50)	—	—	(99)	
Other results	—	—	—	—	—	—	4	—	4	127	(7)	—	—	—	120	124	2	—	—	2	7	—	—	133	
Operating profit/(loss)	563	336	899	46	172	126	165	74	583	201	185	144	8	182	720	2,202	258	42	(1)	299	(219)	(181)	—	2,101	
Profit/(loss) of entities recorded by equity method	—	1	1	—	—	9	1	—	10	(2)	—	12	—	54	64	75	15	—	—	15	—	—	—	90	

Segment financial information – Assets, liabilities and investments

2022	Networks and Energy management														Renewables and New businesses									
	Networks Spain			Networks Latam						Energy management					Spain & USA	Latam	Australia	Total	Supply	Rest	Eli.	Total		
	Gas net.	Electr. net.	Total	Argentina	Brazil	Chile	Mexico	Panama	Total	Markets and Procurem.	LNG	Pipelines (EMPL)	Europe CG	Latam CG									Total	Total
Operating assets (a)	3,070	5,187	8,257	320	1,008	2,015	848	1,444	5,635	3,275	1,794	—	2,012	1,278	8,359	22,251	3,977	808	916	5,701	2,637	286	(1,812)	29,063
Investments under equity method	—	6	6	—	—	30	3	—	33	54	—	199	10	271	534	573	78	—	—	78	—	5	—	656
Operating liabilities (a)	724	1,065	1,789	151	502	405	108	350	1,516	2,397	542	5	1,439	180	4,563	7,868	413	112	315	840	1,206	371	(1,812)	8,473
Investment in intangible assets (b)	16	34	50	41	57	1	14	1	114	4	—	—	3	1	8	172	9	5	2	16	131	14	—	333
Invest. in property, plant & equipment (c)	100	287	387	2	—	39	54	130	225	—	1	—	84	76	161	773	551	22	223	796	1	4	—	1,574
Business combinations (Note 32)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	58	—	—	58	—	—	—	58

2021	Networks and Energy management														Renewables and New businesses									
	Networks Spain			Networks Latam						Energy management					Spain & USA	Latam	Australia	Total	Supply	Rest	Eli.	Total		
	Gas net.	Electr. net.	Total	Argentina	Brazil	Chile	Mexico	Panama	Total	Markets and Procurem.	LNG	Pipelines (EMPL)	Europe CG	Latam CG									Total	Total
Operating assets (a)	3,373	5,077	8,450	269	845	1,878	773	1,300	5,065	2,741	1,546	3	1,636	1,199	7,125	20,640	3,515	720	787	5,022	2,673	312	(1,925)	26,722
Investments under equity method	—	7	7	—	—	23	3	1	27	40	—	192	13	263	508	542	82	—	—	82	—	6	—	630
Operating liabilities (a)	635	903	1,538	168	316	56	110	263	913	1,284	337	7	1,512	174	3,314	5,765	358	265	110	733	1,693	454	(1,925)	6,720
Investment in intangible assets (b)	18	29	47	31	28	1	11	2	73	5	1	—	5	—	11	131	7	1	1	9	136	12	—	288
Invest. in property, plant & equipment (c)	98	229	327	1	—	37	38	97	173	2	9	—	50	26	87	587	231	39	327	597	—	12	—	1,196
Business combinations (Note 32)	—	—	—	—	—	—	—	—	—	860	—	—	—	—	860	860	93	—	—	93	—	—	—	953

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

	2022	2021		2022	2021
Operating assets	29,063	26,722	Operating liabilities	8,473	6,720
Goodwill	2,998	2,950	Equity	9,979	8,873
Investments carried under the equity method	656	630	Non-current financial liabilities	13,999	15,114
Non-current financial assets	493	394	Deferred tax liabilities	1,951	1,787
Deferred tax assets	2,210	2,267	Liabilities related to non-current assets held for sale (Note 11)	—	26
Non-current assets held for sale (Note 11)	—	40	Current financial liabilities	2,302	1,698
Derivative financial instruments (Note 9 and 10)	390	580	Derivative financial instruments (Notes 19 and 20)	3,288	3,434
Public administrations (Note 10)	97	165	Dividend payable (Note 19)	14	25
Current tax assets	90	141	Public administrations (Note 20)	331	439
Other current financial assets	408	395	Current tax liabilities (Note 20)	53	133
Cash and cash equivalents	3,985	3,965	Total Equity and liabilities	40,390	38,249
Total assets	40,390	38,249			

(b) Includes the investment in "Intangible assets" (Note 5), broken down by operating segment

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

Reporting by geographic area

Naturgy's assets, which include operating assets in line with the criterion applied in the above breakdown, and investments recorded using the equity method are as follows based on their location:

	31.12.2022	31.12.2021
Spain	18,992	17,624
Latin America	8,025	7,274
Argentina	320	269
Brazil	1,127	958
Chile	2,377	2,316
Mexico	2,316	2,146
Panama	1,487	1,342
Latam Rest	398	243
Rest of Europe	1,441	1,385
Other	1,261	1,069
Australia	916	787
USA	345	131
Other countries	—	151
Total	29,719	27,352

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

	31.12.2022	31.12.2021
Spain	1,070	809
Latin America	442	312
Argentina	43	32
Brazil	57	28
Chile	63	75
Mexico	143	74
Panama	131	99
Latam Rest	5	4
Rest of Europe	—	2
Other	395	361
Australia	225	328
USA	170	33
Total	1,907	1,484

Net sales by geographical area are detailed in Note 22.

Note 4. Non-financial asset impairment losses

Definition of Cash Generating Unit

At 31 December 2022 and 2021, the Cash Generating Units (CGUs) are grouped following the business structure reorganisation carried out by Naturgy in 2020.

Energy and Network Management:

- Iberian Networks:
 - Gas networks Spain: Is a single CGU as the development, operation and maintenance of the gas distribution network is managed jointly.
 - Electricity networks Spain: This makes up a single CGU since the network comprises a group of interrelated assets the development, operation and maintenance of which is managed jointly.
- Latin American networks: A CGU is understood to exist for each business and country in which there are operations since the businesses are subject to different regulatory frameworks. It includes the regulated gas distribution business in Argentina, Brazil, Chile and Mexico and the regulated electricity distribution business in Argentina, Panama and Chile (until July 2021).
- Energy Management:
 - International LNG: There is considered to be a single CGU, since the supply of liquefied natural gas and the maritime transport activity are managed on a global level.
 - Markets and supplies: A CGU is considered to exist since it manages supply and other gas infrastructures, as well as sales to major energy-intensive consumers.
 - Gas pipelines: Includes the CGU which manages the Maghreb-Europe gas pipeline (until October 2021), as well as the CGU for the Medgaz gas pipeline.
 - Thermal generation Spain: A single CGU is considered to exist for thermal power generation in Spain (nuclear and combined cycle).
 - Thermal generation Latin America: A thermal power generation CGU is understood to exist in each country in which there are operations (Mexico, Dominican Republic and Puerto Rico) since the businesses are subject to different regulatory frameworks and are managed independently.

Renewables and New Business:

- Spain: One CGU is considered for renewable electricity generation (wind, mini-hydro, solar and cogeneration) and another CGU for hydroelectric power generation.
- USA: One CGU is considered which encompasses all projects in the country.
- Latin America: A renewable power generation CGU is understood to exist in each country in which there are operations (Brazil, Costa Rica, Mexico, Panama and Chile) since the businesses are subject to different regulatory frameworks and are managed independently.
- Australia: One CGU is considered which encompasses all projects in the country.
- New business: One CGU is considered encompassing new technology projects.

Supply:

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

The grouping of assets considered in the above CGUs has not changed since the previous estimate of their recoverable amount in 2021.

Information on tests performed

Naturgy has evaluated the recoverable value of the CGUs based on the Strategic Plan 2021-2025 approved by the Board of Directors and presented on 28 July 2021, adapted for regulatory updates and energy variables, taking into account the investment plans that maintain the production capacity of the assets of its lines of business and the market conditions in which they operate. The projection period has been extended to a period of 10 years or the remaining useful life for certain assets and concessions. Various potential future scenarios have also been considered when estimating cash flows, if they provide more relevant information to reflect possible future economic developments.

In general, the flows reflect Naturgy's current positioning to drive the energy transition and decarbonisation with a focus on digital transformation, with increasing investments in networks and renewables located in stable geographies and regulatory frameworks.

The current macroeconomic environment has also been considered, resulting from a combination of pandemic-related effects, inflation, rising interest rates, geopolitical risks and uncertainties. Naturgy's management model ensures that any signs of deterioration that could arise as a result of the current macroeconomic environment are identified in a timely manner, allowing action to be taken accordingly.

In particular, the following aspects should be highlighted for their relevance in the tests:

Effects of the Ukraine invasion and economic environment (Note 2.4.25):

Cash flows have taken into account volatility in international gas markets and transitory high electricity prices. In particular, the regulatory and fiscal measures derived from the response to the economic and social consequences of the war in Ukraine, the reduction in gas prices internalised for calculating prices in the electricity market, the mechanism for adjusting the production costs of marginal fossil fuel technologies in the production market (Iberian mechanism), the temporary energy tax provided for in Law 38/2022, and the commercial proposals to avoid high pool prices, have been considered in Spain.

With regard to the economic environment, rising interest rates and increased risk perception have particularly affected discount rates which have increased with respect to 2021, while rising inflation has been factored into cash flows with mainly short-term repercussions.

Climate change impact:

The cash flows projected in the impairment tests take into account greenhouse gas emission reduction targets and the impacts of climate change on the recoverability of non-financial assets. This is discussed in detail in Note 2.4.25.

Aspects of the projections used

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

- Gas and Electricity Networks Spain:
 - Remuneration. Amount and growth of remuneration. In relation to the regulatory framework, the future cash flows of these business lines have been reviewed taking into account the publications by the regulator in 2022, 2021 and 2020 described in Appendix IV on the remuneration methodology for the regulated electricity and gas distribution activity.
 - Operating and maintenance costs. Estimated on the basis of the historical cost of the network managed.
 - Investments. Considering the investments required to maintain the regular use of the network and the quality of supply, as well as the digitalisation of electricity networks and the estimated investment in line with sector requirements and the digital transition in the operation of gas networks.
 - In the case of LPG distribution assets, as there is evidence of impairment a fair value estimate has been considered to determine the recoverable amount of these assets.
- Latin American networks: for gas network CGUs in Brazil, Chile, Argentina and Mexico and electricity network CGUs in Argentina and Panama:
 - Variations in rates. Valuation of rates in each country, based on existing regulatory conditions and both current and expected rate reviews, taking into account the experience gained from previous rate reviews in each country.
 - Cost of raw materials and consumables. Estimated on the basis of predictive modelling based on an understanding of energy markets in each country. Additional consideration has been given to the implications for distributors of new regulations in the countries arising from volatility in gas and electricity prices detailed in Appendix IV.
 - Operating and maintenance costs. Estimated on the basis of the historical cost of the network managed.
 - Investments. Taking into account the necessary investments to maintain the regular use of the network and supply quality and safety.
- Thermal generation Spain:

The assumptions and projections affecting this CGU have been based on the best forward-looking information available to date, generally considering the possible effects on generation of the transition expected due to the increase in renewable energy sources set out in the rules on the first NECP in the Climate Change and Energy Transition Law detailed in Appendix IV. The above-mentioned projections consider a production path based on the NECP projections, which envisage the need for the total installed capacity of the combined cycle generation units in the projection timeframe (2031).

The assumptions taken into consideration are the following:

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Pool price €/MWh	167.7	172.4	144.1	149.5	120.1	91.7	83.2	81.0	81.0	81.6
Brent (USD/bbl)	101.2	83.5	78.5	74.5	78.6	80.6	81.6	83.2	85.0	86.9
Gas Henry Hub (USD/MMBtu)	6.4	4.5	4.3	4.4	4.9	5.2	5.2	5.1	4.9	4.9
CO2 €/t	80.9	82.7	86.6	91.8	100.3	108.7	117.1	125.5	131.3	136.7

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

- Electricity generated. Demand trends were estimated based on CNMC and analyst projections, considering also the existing contracts with Naturgy's supply companies. The share was estimated on the basis of Naturgy's market share in each technology and the expected performance of each technology's share in the total market, in line with the expected future evolution of the generation mix, maintaining the forecast decline in thermal production, offset by a mechanism that remunerates firm capacity, which is expected to be established when renewables penetration increases.
- Electricity price. Market electricity prices used have been calculated using models that cross expected demand with supply forecasts, taking into account the foreseeable evolution of generation capacity in Spain, based on sector forecasts, the development of the energy scenario on the basis of futures curves, and analysts' forecasts. The estimates also include the impact of existing contracts with the Group's supply companies.
- The projected flows take into account the extraordinary regulatory changes (Appendix IV) derived from the increase in electricity prices in the wholesale market, the most relevant being as follows:
 - The estimated impact of the reduction in the remuneration for non-emitting facilities by an amount proportional to the gas market price.
 - The production cost adjustment mechanism for the reduction of electricity prices regulated in RDL 10/2022 of 13 May, and the European Council regulation for the application of a Market Correction Mechanism due to excessive gas prices.
 - The temporary energy tax provided for in Law 38/2022, defined as a temporary public benefit, of 1.2% of revenue for 2022 and 2023.
- Fuel costs. Estimated on the basis of market prices.
- Operating and maintenance costs. Estimated from historical costs of the managed park.
- Taxes established by Law 15/2012 and extraordinary temporary suspensions.

– Thermal generation Latin America:

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

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

In the case of the Puerto Rico Generation CGU:

- The main estimates considered in the flows generated relate to the contract with Puerto Rico Electric Power Authority (PREPA), which will remain in force until the end of 2032.

– Renewables Spain:

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

The assumptions concerning changes in the pool price coincide with those considered in the Thermal Generation Spain CGU.

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

- Electricity generated.

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

For the hydroelectricity generation CGU, developments in hydraulicity and their impact on hydrographic flows and therefore on production are taken into account.

- Electricity price. Market electricity prices used have been calculated using models that cross expected demand with supply forecasts, taking into account the foreseeable evolution of generation capacity in Spain, based on sector forecasts, the development of the energy scenario on the basis of futures curves, and analysts' forecasts. The estimates also include the impact of existing contracts with the Group's supply companies.
- The projected flows take into account the extraordinary regulatory changes (Appendix IV) derived from the increase in electricity prices in the wholesale market, the most relevant being as follows:
 - The estimated impact of the reduction in the remuneration for non-emitting facilities by an amount proportional to the gas market price.
 - The reduction in the remuneration of facilities subject to the specific remuneration regime of RD 413/2014 approved for the 2022 regulatory period, as well as its estimate for subsequent years.
 - The measures envisaged to regulate water impounded for hydroelectric use.
 - The temporary energy tax provided for in Law 38/2022, defined as a temporary public benefit, of 1.2% of revenue for 2022 and 2023.
- Remuneration. For the renewable generation CGU facilities entitled to specific remuneration, the remuneration has been estimated on the basis of the remuneration parameters for the established regulated income period.
- Operating and maintenance costs. Estimated from historical costs of the managed park.
- Taxes established by Law 15/2012 and extraordinary temporary suspensions.
- Investments. The investments required to maintain the regular use of the facilities are taken into account.
 - Renewables USA: Management of the portfolio of 8 GW of solar projects together with 4.6 GW of energy storage projects acquired in 2021 (Note 32) commenced in 2022, and construction of the first facility has begun.
 - Renewables Latin America: includes the Brazil, Costa Rica, Mexico, Panama and Chile electricity generation CGUs
- Renewable electricity generation in Latin America is managed under energy sale-purchase contracts through stable business models which are not subject to fluctuation risks on the basis of market variables.
- Operating and maintenance costs. Estimated on the basis of historical costs and on the basis of best forecasts when no historical data are available.

- In the case of Renewables Chile, due to the situation in the electricity market in Chile the company Ibereólica Cabo Leones II S.A. has requested the suspension of the long-term electricity sale contract, and it has been suspended as a market operator since 8 October 2022 due to its failure to comply with the long-term contract. In this context, for the valuation of the recoverability of the assets, two weighted scenarios have been considered, considering, on the one hand, the suspension of the long-term electricity sale contract and the sale of the energy produced under market conditions and, on the other hand, the non-suspension of the long-term electricity sales contract.
- Renewables Australia:
 - Electricity generation in Australia is carried out over most of its useful life under energy sale-purchase contracts through stable business models which are not subject to fluctuation risks on the basis of market variables. Upon termination of the contracts, energy prices are set based on the market and are estimated on the basis of developments in the country's energy scenario, including the foreseeable evolution of the generation pool and taking into account expected supply and demand, and production costs.
 - Operating and maintenance costs. Estimated on the basis of historical costs and on the basis of best forecasts when no historical data are available.
- Supply:
 - Supply margin. Projections have been used on the evolution of the number of customers and unitary margins based on existing contracts and the knowledge of the markets in which it operates.

Discount rates and growth rates used

The pre-tax discount rates used in the impairment tests carried out in 2022 and 2021 are as follows:

Discount rate	2022	2021
Energy and network management		
Gas and electricity distribution Spain	6,4 %-6,7 %	4,7 %-5,4 %
Gas and electricity distribution Latin America	8,9 % - 22,8 %	7,7 % - 18,1 %
Gas distribution Argentina (1)	22.8%	18.1%
Thermal generation Spain	8.2%	7.1%
Thermal Generation Latin America (Mexico and Dominican Republic)	10,2%-13,1 %	9,0 %-12,5 %
Renewables and new business		
Spain renewable electricity generation	7.1%	5.4%
Hydroelectric generation Spain	6.8%	6.0%
Latin America Renewables	9,8 %-16,4 %	8,4 %-14,6 %
Australia Renewables	8.8%	7.7%
Australia USA	6.5%	—%
New business	7.8%	—%
Supply	7.4%	6.5%

(1) Rate determined in USD

The growth rates, determined as indicated in note 2.4.6, in the impairment tests carried out in 2022 and 2021 were as follows:

Discount rate	2022	2021
Energy and network management		
Gas and electricity distribution Spain	1,0 %-2,0 %	0,5 %-2,0 %
Gas and electricity distribution Latin America	2,1 %-12,6 %	2,0 %-8,8 %
Gas distribution Argentina	12.6%	8.8%
Thermal generation Spain	2.0%	2.0%
Thermal Generation Latin America (Mexico and Dominican Republic)	2.0%	2.0%
Renewables and new business		
Spain renewable electricity generation	2.0%	2.0%
Hydroelectric generation Spain	2.0%	2.0%
Latin America Renewables	2,1 %-3,3 %	2,0 %-3,3 %
Australia Renewables	2.9%	2.8%
Australia USA	2.1%	—%
New business	2.0%	—%
Supply	0.3%	0.5%

Results of the tests performed

As a result of the impairment tests carried out in 2022 and 2021, the recoverable amounts, calculated according to the methodology described in Note 2.4.6, have been higher than the carrying values recorded in these consolidated annual accounts except for:

2022

Impairment losses of Euros 148 million has been recorded under "Depreciation, amortisation and impairment losses" with the following breakdown:

- Gas networks Spain: impairment of Euros 112 million in Property, plant and equipment (Note 6) of LPG distribution assets. The recoverable amount calculated as the fair value of the LPG assets, which is equivalent to their book value, is Euros 125 million, that has been determined based on recent valuations of interested and duly informed parties, therefore it would be a level 2 fair value estimate.
- Renewable Generation Chile: due to the aforementioned situation in Cabo Leones, it has been registered an impairment of Euros 33 million of which Euros 25 million relates to Intangible assets (Note 5) and Euros 8 million to Property, plant and equipment (Note 6). The recoverable amount of Cabo Leones, calculated considering the different scenarios, which is equivalent to its book value, is Euros 188 million.
- Renewable Generation USA: The possible impacts of tariffs and other regulatory changes in the USA have been evaluated, confirming the viability of the projects acquired in 2021. Additionally, an impairment of 3 million euros has been recorded for intangible assets (Note 5) corresponding to one of the projects acquired, basically due to the cancellation of the long-term sales contract. The value of this project, determined according to its fair value, which is equivalent to its book value, is 26 million euros. The fair value determination has been made based on recent market transactions and the company's estimate is therefore a level 3 estimate.

Impairment in the amount of Euros 5 million was reversed in "Other financial income" (Note 30) in connection with the Generation assets in Costa Rica, within the Latin America Renewables business segment.

In addition, has been reversed the Euros 17 million impairment recognised in June 2022 under "Depreciation/ amortisation and impairment losses" (Notes 6 and 28) relating the impairment of cogeneration projects in the Renewables Spain business segment following the approval of regulatory measures in December governing the remuneration system for cogeneration facilities (Appendix IV).

2021

An impairment of Euros 22 million was recorded under "Depreciation/amortisation and impairment losses" in Property, plant and equipment (Note 6) for the impairment of projects in progress due their non-feasibility.

Additionally, an impairment reversal of Euros 13 million was recorded under "Depreciation/amortisation and impairment losses" for thermal generation assets in the Dominican Republic.

Sensitivity analysis

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

2022

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

- an increase in the discount rate of 50 basis points would entail an impairment of Euros 51 million.
- a decrease in the growth rate of 50 basis points would entail an impairment of Euros 10 million.
- a decrease in electricity output of 5% would entail an impairment of Euros 123 million.
- a decrease in the average electricity price of 1 €/Mwh over the remaining life of the facility together with the related variation in the cost of gas and CO2 would entail an impairment of Euros 51 million.

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

- an increase in the discount rate of 50 basis points would entail an impairment of Euros 51 million.
- a decrease in the growth rate of 50 basis points would entail an impairment of Euros 9 million.
- a 5% decrease in electricity produced would imply a deterioration of 81 million euros.
- a decrease in the average electricity price over the facility's remaining life of 1 euro/MWh would entail an impairment of Euros 9 million.

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

- an increase in the discount rate of 50 basis points would not entail any impairment.
- a decrease in the discount rate of 50 basis points would not entail any impairment.
- a decrease in electricity output of 5% would not entail any impairment.
- a 5% decrease in the electricity price would lead to a reduction in the value in use of the CGU by Euros 85 million, without generating impairment.

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

- an increase in the discount rate of 50 basis points would entail a decline in value of Euros 5 million.
- a decrease in the growth rate of 50 basis points would entail a decline in value of Euros 2 million.
- a decrease in the rate/remuneration trend of 5% would entail a decline in value of Euros 2 million.
- an increase in operating and maintenance costs of 5% would entail a decline in value of Euros 7 million.
- an increase in investments of 5% would entail a decline in value of Euros 3 million.

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

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

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

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

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

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

Renewable electricity generation Chile: The result of the sensitivity analysis is as follow:

- considering only the worst-case scenario, it would result in an additional impairment of Euros 25 million.

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

- an increase in the discount rate of 50 basis points would entail an impairment of Euros 2 million.

Other CGUs

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

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

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

Note 5. Intangible assets

The movement in 2022 and 2021 in intangible assets is as follows:

	Concessions IFRIC 12	Other concessions and similar	Computer software	Other intangible assets	Subtotal	Goodwill	Total
Gross cost	1,434	2,216	1,176	1,200	6,026	2,892	8,918
Amortisation fund and impairment losses	(794)	(780)	(918)	(851)	(3,343)	—	(3,343)
Carrying amount at 31.12.2020	640	1,436	258	349	2,683	2,892	5,575
Investment (Note 3)	58	—	115	115	288	—	288
Divestment	(2)	—	(1)	—	(3)	—	(3)
Depreciation charge (Nota 28)	(48)	(45)	(101)	(90)	(284)	—	(284)
Currency translation differences (1)	28	(70)	—	5	(37)	39	2
Business combinations (Note 32)	—	—	—	127	127	35	162
Reclassifications and other	7	—	1	2	10	(16)	(6)
Carrying amount at 31.12.2021	683	1,321	272	508	2,784	2,950	5,734
Gross cost	1,614	1,342	1,290	976	5,222	2,950	8,172
Amortisation fund and impairment losses	(931)	(21)	(1,018)	(468)	(2,438)	—	(2,438)
Carrying amount at 31.12.2021	683	1,321	272	508	2,784	2,950	5,734
Investment (Note 3)	93	—	127	113	333	—	333
Depreciation charge (Nota 28)	(56)	—	(98)	(118)	(272)	—	(272)
Impairment losses (Note 4)	—	—	—	(24)	(24)	(4)	(28)
Currency translation differences (1)	77	39	2	15	133	45	178
Business combinations (Note 32)	—	—	—	2	2	7	9
Reclassifications and other	1	—	5	12	18	—	18
Carrying amount at 31.12.2022	798	1,360	308	508	2,974	2,998	5,972
Gross cost	2,100	1,382	1,436	1,072	5,990	2,998	8,988
Amortisation fund and impairment losses	(1,302)	(22)	(1,128)	(564)	(3,016)	—	(3,016)
Carrying amount at 31.12.2022	798	1,360	308	508	2,974	2,998	5,972

(1) Includes the effect of inflation in Argentina (Note 2.4.2.).

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

As detailed in Note 4, the following impairments have been recorded as a result of the impairment tests performed in 2022:

- Renewable Generation Chile: impairment of Euros 25 million (Euros 22 million for other intangible assets and Euros 3 million for goodwill) (Note 28).
- Renewable Generation USA: impairment of Euros 3 million (Euros 2 million for other intangible assets and Euros 1 million for goodwill) (Note 28).

As a result of the impairment tests performed in 2021, no impairment losses were recorded.

“Concessions IFRIC 12” includes concessions regarded as intangible assets under IFRIC 12 “Service concession agreements” (Note 33).

The heading “Other concessions and similar” includes principally:

- Concessions with indefinite useful lives arising from business combinations are as follows:

	31.12.2022	31.12.2021
Electricity distribution Spain	684	684
Gas distribution Chile	657	617

The heading “Other intangible assets” mainly includes:

- Licences for renewable generation farms totalling Euros 183 million at 31 December 2022 (Euros 198 million at 31 December 2021). This includes Euros 42 million for Hamel Renewables in the USA (Euros 42 million at 31 December 2021) and Euros 18 million for Guimaranias in Brazil (Euros 18 million at 31 December 2021) (Note 32); at 31 December 2021 it also included Euros 21 million for Ibereólica Cabo leones II, S.A. which was impaired during 2022 (Note 4).
- Customer recognition costs recognised as assets under IFRS 15 amounting to Euros 147 million at 31 December 2022 (Euros 116 million at 31 December 2021).
- The value of gas supply contracts and other contractual rights acquired as a result of business combinations in Chile for an amount of Euros 69 million at 31 December 2022 (Euros 77 million at 31 December 2021) and Naturgy Aprovevisionamientos, S.A. (related to the Oman contract after its merge with Unión Fenosa Gas, S.A.) for an amount of Euros 49 million (Euros 78 million at 31 December 2021).

Movements in and the composition of goodwill by CGU or aggregated CGUs in 2022 and 2021 are set out below:

	01.01.2022	Currency translation differences	Transfer held for sale	Business Combination	31.12.2022
Networks and Energy management	1,752	43	—	—	1,795
Markets and Procurements	19	—	—	—	19
Electricity networks Spain	1,070	—	—	—	1,070
Thermal generation Mexico	444	29	—	—	473
Brazil gas networks	12	1	—	—	13
Chile gas networks	56	3	—	—	59
Mexico gas networks	19	2	—	—	21
Panama Electricity networks	132	8	—	—	140
Renewables and New businesses	771	2	(4)	7	776
Spain and USA	759	1	(1)	7	766
Latin America	12	1	(3)	—	10
Supply	427	—	—	—	427
Total	2,950	45	(4)	7	2,998

	01.01.2021	Currency translation differences	Transfer held for sale	Business Combination	31.12.2021
Networks and Energy management	1,694	39	—	19	1,752
Markets and Procurements	—	—	—	19	19
Electricity networks Spain	1,070	—	—	—	1,070
Thermal generation Mexico	410	34	—	—	444
Brazil gas networks	12	—	—	—	12
Chile gas networks	62	(6)	—	—	56
Mexico gas networks	18	1	—	—	19
Panama Electricity networks	122	10	—	—	132
Renewables and New businesses	755	—	—	16	771
Spain and USA	743	—	—	16	759
Latin America	12	—	—	—	12
Supply	443	—	(16)	—	427
Total	2,892	39	(16)	35	2,950

At 31 December 2022, Naturgy records investment commitments totalling Euros 19 million (Euros 14 million at 31 December 2021) relating basically to the development of the gas distribution network with concessions regarded as intangible assets under IFRIC 12.

The intangible assets include, at 31 December 2022, fully amortised assets still in use totalling Euros 595 million (Euros 572 million at 31 December 2021).

Note 6. Property, plant and equipment

The movements in the accounts in 2022 and 2021 under property, plant and equipment and their respective accumulated depreciation and provisions have been as follows:

	Land and buildings	Gas installations	Electricity generation plants	Plant for electricity transmission and distribution	Other Property, plant and equipment	PPE under construction	Total
Gross cost	439	11,477	13,640	7,222	467	949	34,194
Accumulated depreciation and impairment losses	(157)	(6,580)	(8,698)	(2,356)	(275)	—	(18,066)
Carrying amount at 31.12.2020	282	4,897	4,942	4,866	192	949	16,128
Investment (Note 3)	12	139	30	136	18	861	1,196
Divestment	(2)	(22)	(2)	—	(1)	(5)	(32)
Depreciation charge (Note 28)	(17)	(348)	(334)	(248)	(18)	(1)	(966)
Impairment losses (Note 4)	—	(8)	(9)	—	—	—	(17)
Currency translation differences(1)	2	(70)	93	66	(3)	15	103
Business combinations (Note 32)	2	—	63	—	5	—	70
Reclassifications and other (2)	2	(17)	693	228	(29)	(772)	105
Carrying amount at 31.12.2021	281	4,571	5,476	5,048	164	1,047	16,587
Gross cost	440	11,274	14,566	7,668	450	1,047	35,445
Accumulated depreciation and impairment losses	(159)	(6,703)	(9,090)	(2,620)	(286)	—	(18,858)
Carrying amount at 31.12.2021	281	4,571	5,476	5,048	164	1,047	16,587
Investment (Note 3)	14	149	103	180	29	1,099	1,574
Divestment	(1)	(8)	(2)	(1)	(1)	(30)	(43)
Depreciation charge (Note 28)	(16)	(354)	(344)	(268)	(13)	—	(995)
Impairment losses (Note 4)	—	(112)	(8)	—	—	—	(120)
Currency translation differences (1)	4	120	100	54	5	(1)	282
Business combinations (Note 32)	—	8	21	—	—	6	35
Reclassifications and other (2)	—	23	233	207	—	(404)	59
Carrying amount at 31.12.2022	282	4,397	5,579	5,220	184	1,717	17,379
Gross cost	457	11,762	15,125	8,241	422	1,717	37,724
Accumulated depreciation and impairment losses	(175)	(7,365)	(9,546)	(3,021)	(238)	—	(20,345)
Carrying amount at 31.12.2022	282	4,397	5,579	5,220	184	1,717	17,379

(1) Includes the effect of inflation in Argentina (Note 2.4.2.).

(2) Mainly includes:

- transfers to "Non-current assets held for sale" at the date on which this classification is applied in the movement for 2021 (Note 11).
- transfer to operation of fixed assets under construction.
- asset for plant decommissioning costs (Note 16).

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

As detailed in Note 4, following the impairment tests carried out in 2022 an impairment of Euros 112 million was recognised for liquefied petroleum gas (LPG) distribution assets in the Gas Networks Spain business line, and an impairment of Euros 8 million was recorded for Renewable Generation Chile assets. In 2021, impairment losses of Euros 22 million were recognised for property, plant and equipment for the impairment of projects in progress owing to their non-feasibility, and impairment losses of Euros 13 million were reversed in respect of thermal generation in the Dominican Republic (Note 11).

In September 2021, the natural gas distribution permits in the areas of Northwest Mexico and Sinaloa were sold for Euros 24 million. The carrying amount of the assets sold was Euros 20 million, generating a pre-tax gain of Euros 4 million (Note 29).

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

	31.12.2022	31.12.2021
Energy management and Networks	512	397
Energy management	231	215
Networks Spain	156	92
Networks Latam	125	90
Renewables and New business	1,203	648
Spain & USA	607	235
Latam	31	33
Australia	563	377
New businesses	2	3
Supply	2	2
Total	1,717	1,047

The increase in property, plant and equipment under construction in Spain and the USA is due to increased development activity at solar generation facilities acquired in the USA and Spain. In addition, there has been an increase in Australia due to investments in wind and solar generation facilities under development.

At 31 December 2022 and 2021, Naturgy had no significant real estate investments.

At 31 December 2022, property, plant and equipment include fully-depreciated assets still in use totalling Euros 2,855 million (Euros 2,523 million at 31 December 2021).

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

At 31 December 2022, Naturgy records investment commitments totalling Euros 950 million (Euros 314 million at 31 December 2021) relating basically to the construction of new renewable generation facilities and the development of the gas and electricity distribution network.

The financial expenses capitalised in 2022 in fixed assets projects during their construction total Euros 22 million (Euros 7 million in 2021). The financial expenses capitalised in 2022 account for 2.6% of total financial costs on net borrowings (1.3% in 2021). The average capitalisation rate for 2022 and 2021 was 2.5% and 2.9%, respectively.

Note 7. Right-of-use assets

Movements 2022 and 2021 in right-of-use asset accounts and the related accumulated depreciation and provisions are as follows:

	Land and buildings	Gas tankers	Vehicles	Other Property, plant and equipment	Total
Gross cost	334	1,639	16	52	2,041
Accumulated depreciation and impairment losses	(54)	(587)	(11)	(1)	(653)
Carrying amount at 31.12.2020	280	1,052	5	51	1,388
Additions	76	39	8	6	129
Depreciation charge (Note 28)	(31)	(157)	(5)	(2)	(195)
Currency translation differences	3	—	—	3	6
Business combinations	—	45	—	—	45
Reclassifications and other (1)	(2)	(139)	(2)	(1)	(144)
Carrying amount at 31.12.2021	326	840	6	57	1,229
Gross cost	404	1,358	18	59	1,839
Accumulated depreciation and impairment losses	(78)	(518)	(12)	(2)	(610)
Carrying amount at 31.12.2021	326	840	6	57	1,229
Additions	46	—	5	—	51
Divestments	(11)	—	(1)	—	(12)
Depreciation charge (Note 28)	(32)	(79)	(4)	(2)	(117)
Currency translation differences	4	—	—	3	7
Business combinations	2	—	—	—	2
Reclassifications and other	2	—	—	—	2
Carrying amount at 31.12.2022	337	761	6	58	1,162
Gross cost	439	1,191	20	62	1,712
Accumulated depreciation and impairment losses	(102)	(430)	(14)	(4)	(550)
Carrying amount at 31.12.2022	337	761	6	58	1,162

(1) In 2021 mainly includes the remeasurement of the lease liability for two vessels as a result of not considering the exercise of existing purchase options.

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

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

At 31 December 2022, "Gas tankers" includes nine vessels under long-term finance lease arrangements (Note 17).

Note 8. Investments in companies

Associates and joint ventures

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

	31.12.2022	31.12.2021
Associates	68	60
Joint ventures	588	570
Total	656	630

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

The most significant shareholdings correspond to EcoEléctrica L.P., the interest in Medgaz through Medina and, until March 2021, Unión Fenosa Gas, S.A. (merged with Naturgy Aprovechamientos, S.A. with effects from 1 January 2022)(Note 2.4.1.).

Movements during 2022 and 2021 in equity-consolidated investments, including a breakdown of the most significant shareholdings, are as follows:

	Unión Fenosa Gas	EcoEléctrica, L.P.	Medina/ Medgaz	Other joint ventures	Total joint ventures	Associates	Total
Value of shareholding 01.01.2021	262	252	188	59	761	52	813
Investment	—	—	—	2	2	—	2
Divestment	—	—	—	(8)	(8)	—	(8)
Shares of profits/(losses)	(5)	54	12	21	82	8	90
Dividends received	—	(64)	(8)	(6)	(78)	—	(78)
Business combination (Note 32)	(258)	—	—	41	(217)	—	(217)
Currency translation differences	1	21	—	—	22	—	22
Other comprehensive income	—	—	—	1	1	—	1
Reclassifications and other	—	—	—	5	5	—	5
Value of shareholding 31.12.2021	—	263	192	115	570	60	630
Investment	—	—	—	8	8	—	8
Divestment	—	—	—	(4)	(4)	—	(4)
Shares of profits/(losses)	—	51	19	50	120	8	128
Dividends received	—	(60)	(11)	(33)	(104)	—	(104)
Business combination (Note 32)	—	—	—	(20)	(20)	—	(20)
Currency translation differences	—	16	—	1	17	—	17
Other comprehensive income	—	—	—	—	—	—	—
Reclassifications and other	—	—	—	1	1	—	1
Value of shareholding 31.12.2022	—	270	200	118	588	68	656

In 2022, the main change in Investments accounted for using the equity method relates to the agreement reached with the Acciona group to separate the wind farms that they managed jointly through Desarrollo de Energías Renovables de Navarra, S.A., P.E. Cinseiro, S.L. and Explotaciones Eólicas Sierra de Utrera, S.L. (Note 32).

Under the agreement, Naturgy Renovables, S.L.U. acquired from the Acciona group an additional 50% of the companies Desarrollo de Energías Renovables de Navarra, S.A. and P.E. Cinseiro, S.L. as a result of which it attained a 100% controlling interest and consolidated them as subsidiaries. They therefore ceased to be recorded using the equity method.

In 2021, the main change in Investments accounted for using the equity method relates to the derecognition of the 50% interest in Unión Fenosa Gas, S.A. (UFG) derived from the purchase, in March 2021, of the additional 50% following the agreement reached with ENI and the Arab Republic of Egypt to amicably resolve the dispute (Note 2.4.1.), thereby achieving 100% ownership. This acquisition was treated as a business combination achieved in stages (Note 32). The value of the derecognised UFG shareholding amounted to Euros 258 million.

In addition, in June 2021 the 40% interest in Cogeneración del Noroeste, S.L. was sold for Euros 7 million, generating a pre-tax gain of Euros 2 million recognised under "Other results" (Note 29).

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

	31.12.2022		31.12.2021	
	EcoEléctrica, L.P. (50 %)	Medina/Medgaz (50 %)	EcoEléctrica, L.P. (50 %)	Medina/Medgaz (50 %)
Non-current assets	238	459	232	478
Current assets	41	30	43	22
Cash and cash equivalents	2	12	6	10
Non-current liabilities	(7)	(266)	(7)	(290)
Non-current financial liabilities	—	(199)	—	(219)
Current liabilities	(2)	(23)	(5)	(18)
Current financial liabilities	—	(14)	—	(13)
Net assets	270	200	263	192
Net borrowings (1)	(2)	201	(6)	222

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

	2022		2021		
	EcoEléctrica, L.P. (50 %)	Medina/ Medgaz (50 %)	Unión Fenosa Gas (50%)	EcoEléctrica, L.P. (50 %)	Medina/ Medgaz (50 %)
Net sales	83	72	108	83	61
Raw materials and consumables	—	—	(99)	—	—
Personnel expenses	(5)	(1)	(2)	(5)	(1)
Other operating income/expenses	(19)	(5)	(5)	(13)	(4)
Gross operating results	59	66	2	65	56
Depreciation, amortisation and impairment losses	(7)	(28)	(7)	(10)	(27)
Impairment due to credit losses	—	—	—	1	—
Operating profit	52	38	(5)	56	29
Net financial income/(expense)	1	(11)	(2)	—	(11)
Results of equity-consolidated companies	—	—	1	—	—
Profit/(loss) before tax	53	27	(6)	56	18
Corporate income tax	(2)	(8)	—	(2)	(6)
Attributed to non-controlling interests	—	—	1	—	—
Profit/(loss) attributed for the year from continuing operations	51	19	(5)	54	12
Share of profits	51	19	(5)	54	12

There are no contingent liabilities affecting interests in joint ventures.

At 31 December 2022 and 2021 there are no commitments to acquire interests in joint ventures. Contractual sales commitments as at 31 December 2022 and 2021 are as follows:

Sale	31.12.2022	31.12.2021
Energy sales	—	—
Energy transmission (1)	618	689
Provision of capacity assignment services (2)	932	866
Total contractual obligations	1,550	1,555

(1) Includes Medgaz's long-term gas transport commitments.

(2) Reflects service provision commitments under power generation capacity assignment contracts from EcoEléctrica L.P. to Puerto Rico Electricity Power Authority.

Certain investment projects related to interests in joint ventures have been financed by means of specific structures (project finance) which include pledges on the shares in the project companies. There are no outstanding balances for this type of financing at 31 December 2022 (Euros 6 million at 31 December 2021).

Joint operations

Naturgy participates in different joint operations that meet the conditions indicated in Note 2.4.1.b and which are described in Appendix I, section 3. The relevant interests in joint operations at 31 December 2022 and 2021 are as follows:

	2022	2021
Comunidad de Bienes Central Nuclear de Almaraz	11.3%	11.3%
Comunidad de Bienes Central Nuclear de Trillo	34.5%	34.5%
Comunidad de Bienes Central Térmica de Anllares	66.7%	66.7%

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

	31.12.2022	31.12.2021
Non-current assets	88	88
Current assets	78	69
Cash and cash equivalents	—	—
Non-current liabilities	(108)	(108)
Non-current financial liabilities	—	—
Current liabilities	(41)	(45)
Current financial liabilities	(11)	(14)
Net assets	17	4
Net borrowings (1)	11	14

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

	2022	2021
Net sales (1)	494	502
Operating expenses	(134)	(161)
Gross operating results	360	341
Depreciation, amortisation and impairment losses	(19)	(21)
Operating profit	341	320
Net financial income/(expense)	7	—
Profit/(loss) before tax	348	320
Corporate income tax	(87)	(80)
Profit/(loss) attributed for the year from continuing operations	261	240

(1) In order to reflect the contribution of the activity as a whole, the Net sales figure also includes income from nuclear energy sales pertaining to the joint venturers.

Note 9. Financial assets

Current and non-current financial assets classified by nature and category break down as follows at 31 December 2022 and 2021:

31.12.2022	Fair value through other comprehensive income	Fair value through income statement	Amortised cost	Total
Equity instruments	8	—	—	8
Derivatives (Note 18)	152	37	—	189
Other financial assets	—	—	296	296
Non-current financial assets	160	37	296	493
Derivatives (Note 18)	62	32	—	94
Other financial assets	—	—	314	314
Current financial assets	62	32	314	408
Total	222	69	610	901

31.12.2021	Fair value through other comprehensive income	Fair value through income statement	Amortised cost	Total
Equity instruments	14	—	—	14
Derivatives (Note 18)	16	37	—	53
Other financial assets	—	—	327	327
Non-current financial assets	30	37	327	394
Derivatives (Note 18)	—	—	—	—
Other financial assets	—	—	395	395
Current financial assets	—	—	395	395
Total	30	37	722	789

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

Financial assets	31.12.2022				31.12.2021			
	Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	Total	Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	Total
Fair value through other comprehensive income	—	214	8	222	—	16	14	30
Fair value through income statement	—	69	—	69	—	37	—	37
Total	—	283	8	291	—	53	14	67

The movement in 2022 and 2021 in financial assets carried at fair value based on the method applied to calculate their fair value is as follows:

	2022				2021			
	Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	Total	Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	Total
At 1 January	—	53	14	67	120	—	35	155
Additions	—	—	—	—	—	—	—	—
Changes recognised directly in equity	—	201	—	201	—	16	(25)	(9)
Changes recognised in income statement (1)	—	32	(6)	26	—	18	—	18
Business combination (Note 32)	—	—	—	—	—	19	—	19
Currency translation differences	—	(3)	—	(3)	—	—	—	—
Transfers and other	—	—	—	—	(120)	—	4	(116)
At 31 December	—	283	8	291	—	53	14	67

(1) In 2022 and 2021, this heading related entirely to derivatives.

Fair value through other comprehensive income

– Equity instruments:

At 31 December 2022, it included the 85.4% interest in Electrificadora del Caribe, S.A. ESP (Electricaribe). On 14 November 2016 the Superintendencia for Residential Public Services of the Republic of Colombia (“the Superintendencia”) 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 Superintendencia. On 14 March 2017 the Superintendencia 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 main hearings were held in December 2019 and an arbitration award was issued in March 2021 dismissing the claims of both Naturgy and the Colombian State.

In addition, on 24 March 2021 the Superintendence for Residential Public Services of the Republic of Colombia ordered the commencement of the company's liquidation process. As a result of this, plus the completion of the claim against the insurers which resulted in the receipt of Euros 8 million, the 85.4% interest in Electricaribe was valued at Euros 0 million at 31 December 2022 and 2021. Also, once the liquidation process began, a deferred tax asset of Euros 105 million was recognised for the tax loss that will be deductible once liquidation is completed. Both the Euros 25 million decrease in fair value and the tax effect were recognised in "Other accumulated comprehensive income" in 2021.

- Derivatives: relates to the valuation of hedging derivatives linked to financial liabilities amounting to Euros 214 million (Note 18), of which Euros 62 million is classified as current assets.

Fair value through income statement

- Derivatives: Under the agreement concluded in relation to Unión Fenosa Gas (Note 32), this company is entitled to a contingent payment for the sale of a gas supply contract with a fair value at the completion date estimated at Euros 19 million. The price adjustment referred to above will be charged in January 2024 based on the level reached by the average TTF price until settlement, subject to a maximum value, and therefore the fair value recorded for this item at 31 December 2022 amounts to Euros 37 million (31 December 2021: EUR 37 million).

Also included are derivatives linked to the financial liabilities of Ibereólica Cabo Leones II and GPG Solar Chile 2017 SPA amounting to Euros 32 million (Note 18).

Amortised cost

The breakdown at 31 December 2022 and 2021 is as follows:

	31.12.2022	31.12.2021
Commercial loans	15	16
Deposits and guarantees deposits	107	108
Other loans	174	203
Other non-current financial assets	296	327
Commercial loans	8	7
Electricity system income deficit	6	64
Gas system income deficit	73	23
Dividend receivable	3	2
Deposits and guarantees deposits	137	186
Other loans	87	113
Other current financial assets	314	395
Total	610	722

The breakdown by maturities at 31 December 2022 and 2021 is as follows:

Maturities	31.12.2022	31.12.2021
No later than 1 year	314	395
Between 1 year and 5 years	42	67
More than 5 years	254	260
Total	610	722

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

The heading “Gas system revenue deficit financing” includes temporary mismatches between gas system revenues and costs funded by Naturgy pursuant to Law 18/2014 of 17 October, amounting to Euros 73 million (Euros 23 million at 31 December 2021). This amount will be recovered through the gas system settlements. The amount pending receipt following the settlements for the year generates a recovery right in the following five years for the remaining amount financed, plus interest at a market rate. The amount of this financing has been entirely recognised as a short-term item on the understanding that it is a temporary mismatch that will be recovered through system settlements within one year.

The heading “Electricity system revenue deficit financing” includes temporary mismatches between electricity system revenues and costs funded by Naturgy pursuant to Law 24/2013 of 26 December, amounting to Euros 6 million (Euros 64 million at 31 December 2021). This amount will be recovered through the electricity system settlements. The amount pending receipt following the settlements for the year generates a recovery right in the following five years, plus interest at a market rate. The amount of this financing has been entirely recognised as a short-term item on the understanding that it is a temporary mismatch that will be recovered through system settlements within one year.

“Commercial loans” mainly include the credits for the sale of gas and electricity installations. The respective interest rates (between 5% and 8% for loans from 1 to 5 years) are adjusted to market interest rates for this type of loans and duration.

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

“Other loans” includes, basically:

- The value of generation concessions in Costa Rica that are deemed to be credits, pursuant to IFRIC 12 “Service concession arrangements” (Note 2.4.3.b and Note 33), in the amount of Euros 117 million (Euros 121 million at 31 December 2021), of which Euros 16 million is classified in current assets (Euros 16 million in 2021). These credits are classified under this heading as they represent an unconditional right to receive cash in fixed or determinable amounts.
- receivables of Euros 41 million relating to the guaranteed deferred payments under the agreement with the Egyptian government described in Note 32 (Euros 39 million at 31 December 2021), classified as current assets.
- receivables of Euros 57 million relating to the accrued electricity distribution remuneration pending collection under system settlements, which will be collected through these settlements from 2024 onwards (Euros 55 million at 31 December 2021), classified as non-current assets.

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

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

31.12.2022	Fair value through other comprehensive income	Fair value through income statement	Amortised cost	Total
Derivatives (Note 18)	180	—	—	180
Other assets	—	—	316	316
Other non-current assets	180	—	316	496
Derivatives (Note 18)	174	36	—	210
Other assets	—	—	5,591	5,591
Trade and other receivables	174	36	5,591	5,801
Total	354	36	5,907	6,297

31.12.2021	Fair value through other comprehensive income	Fair value through income statement	Amortised cost	Total
Derivatives (Note 18)	126	—	—	126
Other assets	—	—	290	290
Other non-current assets	126	—	290	416
Derivatives (Note 18)	392	62	—	454
Other assets	—	—	5,260	5,260
Trade and other receivables	392	62	5,260	5,714
Total	518	62	5,550	6,130

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

Financial assets	31.12.2022				31.12.2021			
	Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	Total	Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	Total
Fair value through other comprehensive income	23	331	—	354	58	460	—	518
Fair value through income statement	16	20	—	36	29	33	—	62
Total	39	351	—	390	87	493	—	580

Fair value through other comprehensive income

Derivatives at fair value through other comprehensive income under financial assets include operational gas price hedging derivatives amounting to Euros 310 million (Euros 386 million at 31 December 2021), of which Euros 159 million are classified as non-current (Euros 66 million at 31 December 2021) (Note 18).

At 31 December 2021 this includes the market value of the power purchase agreements of the Australian renewable wind power subsidiaries in the amount of Euros 60 million, of which Euros 47 million was classified as non-current. The PPAs are either with the government of the state in which they operate or with private companies, and they hedge the forward sale price of electricity for a given volume of MW and a given time period. They have been accounted for as a cash flow hedging instrument (Note 18) and at 31 December 2022 are included in liabilities under "Other non-current liabilities" (Note 19) and "Trade payables" (Note 20).

Amortised cost

	31.12.2022	31.12.2021
Receivable, revenue from capacity services	190	166
Other receivables	126	124
Other non-current assets	316	290
Trade receivables	6,006	5,570
Receivables with related companies (Note 34)	3	10
Provision for impairment due to debtor credit losses	(857)	(800)
Trade receivables for sales and services	5,152	4,780
Public Administrations	97	165
Prepayments	109	100
Sundry receivables	143	74
Other receivables	349	339
Current income tax asset	90	141
Trade and other receivables	5,591	5,260
Other non-current assets and trade and other receivables	5,907	5,550

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

The heading "Receivable, revenue from capacity services" relates to revenue yet to be billed in respect of the levelling of the term of the service contracts for electricity generation capacity assignment with the Mexican Federal Electricity Commission.

In May 2021, the Brazilian Federal Supreme Court issued a ruling in favour of CEG and CEG Rio, acknowledging the credit right for the amounts incorrectly paid due to the inclusion of the "Imposto sobre Operações relativas à Circulação de Mercadorias e Prestação de Serviços de Transporte Interestadual e Intermunicipal e de Comunicação" (ICMS) in the calculation base of the "Programas de Integração Social" (PIS) and the "Contribuição para Financiamento da Seguridade Social" (COFINS).

As a result, at 31 December 2022 Naturgy recorded a non-current asset of Euros 101 million (Euros 85 million at 31 December 2021) for the exclusion of the ICMS from the tax base, credited to an account payable recorded under "Other non-current liabilities" in the consolidated balance sheet (Note 19), on the understanding that the tax credit will be passed on to end customers through tariff reviews, although it will not be disbursed in the short term.

In general, the outstanding invoices do not accrue interest as they fall due in an average period of 23 days.

At 31 December 2022 the accumulated balances for electricity and gas sales yet to be invoiced are included under "Trade receivables" and amount to Euros 1,634 million (Euros 1,785 million at 31 December 2021). The forecasts for sales yet to be invoiced include the amount relating to the increase in the cost of raw materials included in the last resort tariff for natural gas yet to be passed on in the tariff, which amounts to Euros 277 million, as a result of the difference between the cost of raw materials calculated in accordance with the current methodology and that resulting from the application of Royal Decree-Law 17/2021 of 14 September, which will be recoverable in subsequent quarters by virtue of Royal Decree-Law 27/2021 of 23 November. This exceptional limit has been extended by successive Royal Decree-Laws until 31 December 2023, also modifying, under Royal Decree-Law 18/2022 of 18 October, the mechanism for recovering the amounts owed to last resort supply companies in order for them to be covered by the National Budget.

At 31 December 2022 Naturgy recorded unmatured balances totalling Euros 870 million (31 December 2021: Euros 942 million) which have been included in non-recourse factoring operations. These amounts have therefore been derecognised from the consolidated balance sheet at 31 December 2022 and 2021.

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

	2022	2021
At 1 January	(800)	(775)
Provision for impairment due to credit losses	(228)	(99)
Write offs	184	81
Currency translation differences	(13)	(7)
Transfers and other	—	—
At 31 December	(857)	(800)

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

At 31 December 2022, the Group records no non-current assets held for sale or any related liabilities.

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

Gas distribution in Peru

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

Finally, the liquidation of the company was completed in February 2022.

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

In November 2021 Naturgy reached an agreement to sell 100% of its interest in Naturgy Almacенamientos Andalucía, S.A., a company engaging in the regulated activity of underground gas storage and certain assets of Petroleum Oil & Gas España, S.A. located in Marismas (Huelva).

As Naturgy had a firm commitment to sell these assets that were clearly identified, the process was under way and it was considered that the sale was highly probable, the accounting balances of these assets were transferred to "Non-current assets held for sale" in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations". At the time of the transfer, the assets were measured at fair value determined on the basis of the selling price less costs to sell and as this value was higher than the carrying amount, no impact from the IFRS 5 valuation was recorded. In addition, as it does not represent a significant business line or geographical area of operation which is separate from the rest, this was not treated as a discontinued operation.

In December 2022, the sale of 100% of the holding in Naturgy Almacенamientos Andalucía, S.A. was completed, generating a pre-tax loss of Euros 2 million. The assets of Petroleum Oil & Gas España, S.A. were also sold, generating a pre-tax profit of Euros 5.4 million.

LPG supply points

In December 2021 Naturgy reached an agreement to sell 14,450 liquefied petroleum gas (LPG) supply points in Spain to Redexis. The agreement with Naturgy also included the transfer of the activity of Nedgia Balears, S.A., the company awarded the contract for the execution and operation of natural gas distribution facilities on the island of Menorca.

As Naturgy had a firm commitment to sell these assets that were clearly identified, the process was under way and it was considered that the sale was highly probable, the accounting balances of these assets were transferred to "Non-current assets held for sale" in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations". At the time of the transfer, the assets were measured at fair value determined on the basis of the selling price less costs to sell, which resulted in a loss of Euros 8 million being recognised in the consolidated income statement under "Depreciation and impairment losses on non-financial assets". In addition, as it does not represent a significant business line or geographical area of operation which is separate from the rest, this was not treated as a discontinued operation.

In 2022, these supply points were sold, as well as the transfer of the activity of the company Nedgia Balears, S.A., without generating any additional profit or loss.

Electricity distribution in Chile

On 13 November 2020 Naturgy reached an agreement to sell its 96.04% holding in Compañía General de Electricidad S.A. in Chile (CGE), a company engaging in the electricity network business in Chile, to State Grid International Development Limited (SGID) for a total purchase price (equity value) of Euro 2,570 million, set in euros and payable in cash upon completion of the transaction. Since this figure was higher than the carrying amount, no valuation impact was recognised under IFRS 5. On 26 July 2021, the sale of the investment was completed, generating a gain of Euros 64 million recorded under "Profit from discontinued operations" in the consolidated income statement.

As Naturgy had a firm commitment to sell these assets that were clearly identified, the process was under way and it was considered that the sale was highly probable, the accounting balances of these assets and liabilities in November 2020 were transferred to "Non-current assets held for sale" and "Liabilities related to non-current assets held for sale", in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations". In addition, it was considered that these were discontinued operations as they are components classified as held for sale which represented a significant and separate line of business or geographical area of operations. The income and expenses pertaining to this line of business in 2021 and 2020 are disclosed under "Profit for the year from discontinued operations after tax". At 31 December 2022 this heading includes the re-estimation (net of tax) of the indemnities agreed with the buyer in the sale made in 2021, amounting to Euros 23 million.

At 31 December 2021, the detail by nature of assets classified as held for sale and the associated liabilities is as follows:

2021	Marismas assets	GLP Assets Nedgia	Peru	Total
Intangible assets	—	—	—	—
Property, plant and equipment	13	20	—	33
Right-of-use assets	—	—	—	—
Non-current financial assets	—	—	—	—
Other non-current assets	—	—	—	—
Deferred tax assets	4	—	—	4
NON-CURRENT ASSETS	17	20	—	37
Inventories	—	—	—	—
Trade and other receivables	3	—	—	3
Other current financial assets	—	—	—	—
Cash and cash equivalents	—	—	—	—
CURRENT ASSETS	3	—	—	3
TOTAL ASSETS	20	20	—	40
Grants	—	—	—	—
Non-current provisions	—	—	—	—
Non-current financial liabilities	24	—	—	24
Deferred tax liabilities	—	—	—	—
Other non-current liabilities	—	—	—	—
NON-CURRENT LIABILITIES	24	—	—	24
Current financial liabilities	—	—	—	—
Trade and other payables	1	—	1	2
Other current liabilities	—	—	—	—
CURRENT LIABILITIES	1	—	1	2
TOTAL LIABILITIES	25	—	1	26

Breakdowns by nature of the heading “Profit for the year from discontinued operations net of taxes” in the consolidated income statement for 2021 are as follows:

2021	Electricity distribution Chile	Gas Distribution Peru	Total
Net sales	908	—	908
Procurements	(687)	—	(687)
Other operating income	17	2	19
Personnel expenses	(34)	—	(34)
Other operating expenses	(100)	—	(100)
GROSS OPERATING RESULTS	104	2	106
Impairment due to credit losses	(10)	—	(10)
Other results	64	—	64
OPERATING PROFIT/(LOSS)	158	2	160
Financial income	1	—	1
Financial expenses	(36)	—	(36)
NET FINANCIAL INCOME/(EXPENSE)	(35)	—	(35)
Profit/(loss) on equity method companies	—	—	—
PROFIT/(LOSS) BEFORE TAXES	123	2	125
Corporate income tax	(8)	—	(8)
PROFIT FOR THE YEAR AFTER TAXES FROM DISCONTINUED OPERATIONS	115	2	117
Attributable to:			
The parent company	111	2	113
Non-controlling interests	4	—	4

The total comprehensive income from this activity in the year ended 31 December 2021 breaks down as follows:

2021	Electricity distribution Chile	Gas Distribution Peru	Total
Consolidated profit/(loss) for the year	115	2	117
Other comprehensive income recognised directly in equity:			
Financial assets at fair value through other comprehensive income	—	—	—
Currency translation differences	4	—	4
Transfer to the income statement:			
Currency translation differences	335	—	335
Total comprehensive income for the year	454	2	456

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

2021	Electricity distribution Chile	Gas Distribution Peru	Total
Cash flow from:			
Operation	57	—	57
Investment	(81)	2	(79)
Financing	(110)	—	(110)

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

Note 12. Inventories

The breakdown of Inventories is as follows:

	31.12.2022	31.12.2021
Natural gas and liquefied gas	1,104	504
Coal and fuel oil	4	3
Nuclear fuel	53	52
CO2 emission allowances	598	256
Raw materials and other inventories	69	63
Total	1,828	878

At 31 December 2022 Naturgy has commitments for the acquisition of inventories amounting to Euros 40 million (Euros 31 million at 31 December 2021) corresponding to nuclear fuel.

Gas inventories basically include the inventories of gas deposited in underground storage units, sea transport, plants and pipelines, also including the valuation of the minimum security stocks and therefore restricted in their free disposal, in accordance with the provisions of the legislation, for an amount of 380 million euros as of December 31, 2022 (153 million euros as of December 31, 2021).

Accumulated inventory impairment at 31 December 2022 amounts to Euros 15 million (Euros 64 million at 31 December 2021). This impairment was generated by the sale of the Marismas assets of Petroleum Oil & Gas España, S.A. (Note 11).

Note 13. Cash and cash equivalents

Cash and cash equivalents breaks down as follows:

	31.12.2022	31.12.2021
Cash at banks and in hand	2,644	2,236
Short term investments (Spain and rest of Europe)	1,022	1,556
Short term investments (International)	319	173
Total	3,985	3,965

The investments in cash equivalents have contractual maturities of less than three months and a weighted effective interest rate of 0.91% at 31 December 2022 (0.13% at 31 December 2021). It includes short-term financial investments in deposits associated with CO2 emission allowances with a maturity of less than three months and an assured return.

At 31 December 2022 and 2021 there are no investments in sovereign debt, nor are there any significant restrictions on cash withdrawals.

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

Note 14. Equity

The main equity items are analysed below:

Share capital and share premium

The variations in 2022 and 2021 in the number of shares and share capital and share premium accounts have been as follows:

	Number of shares	Share capital	Share premium	Total
01.01.2021	969,613,801	970	3,808	4,778
Capital reduction	—	—	—	—
31.12.2021	969,613,801	970	3,808	4,778
Variation	—	—	—	—
31.12.2022	969,613,801	970	3,808	4,778

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

There were no movements in the number of shares or in the accounts "Share capital" and "Share premium" during 2022 and 2021.

The Company's Board of Directors, for a maximum term of five years as from 15 March 2022, is empowered to increase share capital by a maximum of 50% of the Company's share capital at the time of the authorisation, through one or more cash payments at the time and in the amount that it deems fit, issuing ordinary, privileged or redeemable shares with or without voting rights, with or without a share premium, without requiring any further authorisation from the shareholders, with the possibility of agreeing, as appropriate, the full or partial exclusion of preferential subscription rights up to a limit of 20% of share capital at the date of this authorisation, and to alter the By-laws as required due to the capital increase or increases performed by virtue of said authorisation, with provision for an incomplete subscription, in accordance with the provisions of Article 297.1.b) of the Spanish Companies Act. Additionally, based on this authorisation, it will carry out any necessary procedures and actions before domestic and overseas securities market agencies to request the listing, continuance and/or, as the case may be, delisting of the issued shares.

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

The most representative holdings in the share capital of Naturgy Energy Group at 31 December 2022 and 31 December 2021, in accordance with the public information available or the information released by the Company itself, are as follows:

Interest in share capital %	2022	2021
- Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona, "la Caixa" (1)	26.7	26.71
- Global Infrastructure Partners III (2)	20.6	20.6
- CVC Capital Partners SICAV-FIS, S.A. (3)	20.7	20.7
- IFM Global Infrastructure Fund (4)	14.0	12.2
- Sonatrach	4.1	4.1

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

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

(3) Through Rioja Acquisitions S.à.r.l.

(4) Through Global InfraCo O (2) S.à.r.l.

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

Naturgy's share price at the end of 2022 stood at Euros 24.31 (Euros 28.63 at 31 December 2021).

Reserves and retained earnings

"Reserves" includes the following reserves:

	2022	2021
Legal reserve	200	200
Statutory reserve	100	100
Capital Redemption Reserve	31	31
Other reserves and retained earnings	4,540	4,426
Voluntary reserve Naturgy Energy Group, S.A.	9,731	10,702
Other reserves and retained earnings	(5,191)	(6,276)
	4,871	4,757

Legal reserve

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

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

Statutory reserve

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

Capital redemption reserve

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

In addition, pursuant to Article 335 c) of the Spanish Companies Act a restricted Capital redemption reserve was created for an amount equal to the par value of the redeemed shares. The total accumulated capital redemption reserve amounts to Euros 31 million at 31 December 2022 and 2021.

Other reserves and retained earnings

Relates basically to voluntary reserves for retained earnings.

Share-based payments

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

On 25 November 2021, the Board of Directors of Naturgy decided, at the proposal of the Appointments, Remuneration and Corporate Governance Committee, to extend the LTI plan 2018-2022 with a new expiration date of 31 December 2025 for current executives, in order to contribute to the achievement of the Strategic Plan 2021-2025. The entry into force of the extension of the LTI was approved by Naturgy's shareholders in general meeting on 15 March 2022.

This extension amends the LTI approved under the Strategic Plan 2018-2022, which was to expire in July 2023, and maintains its direct link to the total return earned by the Company's shareholders in the period concerned.

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

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

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

In order to compensate for the delay in the collection of the LTI as a result of the time extension, Naturgy's Board of Directors established a compensation consisting of the payment of a cash amount to the beneficiaries who accepted the extension of the term until 2025 (Note 35).

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

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

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

As of the date of approval of the extension of the LTI, the LTI 2018-2022 and LTI 2018-2025 were measured using a valuation model based on a Monte Carlo simulation. The incremental value will be recognised for accounting purposes over the period running from the date of approval of the change, i.e. 15 March 2022, to 31 December 2025. The assumptions used in these valuations are as follows:

	ILP 2018-2022	ILP 2018-2025
Forecast share price volatility (1)	25.32 %	25.32 %
Plan duration (years)	1,38	3,80
Expected dividends	52.40 %	50.30 %
Risk-free interest rate	0.71 %	1.06 %

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

As a result of the time apportionment of the fair value estimate of the equity instruments granted over the term of the plan, an amount of Euros 7 million (Euros 4 million in 2021) has been recorded in the consolidated income statement for 2022 under Personnel expenses, credited to Reserves in the consolidated balance sheet.

Treasury shares

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

	Number of shares	Amount (million euro)	% Capital
01.01.2021	8,675,368	201	0.9
Share acquisition plan	127,453	3	—
31.12.2021	8,802,821	204	0.9
Share acquisition plan	15,000	—	—
Delivered to employees	(122,328)	(3)	—
31.12.2022	8,695,493	201	0.9

In 2022 and 2021, no gains or losses were made on transactions involving treasury shares.

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

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

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

2022

- Share acquisition plan: In accordance with the resolutions adopted by the shareholders of Naturgy Energy Group, S.A. at the general meeting held on 5 March 2019, within the Share Acquisition Plan 2020-2023, the one relating to 2021 addressed to Naturgy employees in Spain who decide voluntarily to take part in the Plan was set in motion in December 2021. The Plan enables participants to receive part of their remuneration in the form of shares in Naturgy Energy Group, S.A., subject to an annual limit of Euros 12,000. This plan was completed in January 2022 through the acquisition of 15,000 treasury shares in addition to those acquired in December 2021, for an amount of Euros 0.4 million. During January 2022, a total of 122,328 shares amounting to Euros 3 million were delivered to employees. The surplus of 20,125 treasury shares has been added to the 35,773 shares left over from the 2020 and 2019 Share Acquisition Plans.

2021

- Share Acquisition Plan: As mentioned in the previous paragraph, as part of the Share Acquisition Plan 2020-2023 the plan for 2021, aimed at Naturgy employees in Spain, was set in motion. In December 2021, 127,453 of the Company's own shares were acquired for Euros 3 million to be handed over to the employees taking part in the Plan in January 2022.

At 31 December 2022 and 2021 it also includes 8,639,595 treasury shares to cover the potential delivery of shares resulting from the increase in the value of the shares relating to the long-term variable incentive plan (see paragraph on share-based remuneration in this note).

Earnings per share

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

	31.12.2022	31.12.2021
Profit attributable to equity holders of the parent company	1,649	1,214
Weighted average number of ordinary shares in issue	960,908,336	960,934,956
Earnings per share from continuing operations (in euro):		
- Basic	1.74	1.14
- Diluted	1.74	1.14
Earnings per share from discontinued activities (in euro):		
- Basic	(0.02)	0.12
- Diluted	(0.02)	0.12

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

	2022	2021
Average number of ordinary shares	969,613,801	969,613,801
Average number of treasury shares	(8,705,465)	(8,678,845)
Average number of shares in issue	960,908,336	960,934,956

Basic earnings per share are the same as diluted earnings per share as there were no instruments that could be converted into ordinary shares during those years and at the 2022 year-end the conditions for considering the shares pertaining to the incentive described in the paragraph on Share-based remuneration in the calculation of diluted earnings are not met.

Dividends

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

	31.12.2022			31.12.2021		
	% of Nominal	Euros per share	Amount (1)	% of Nominal	Euros per share	Amount (1)
Ordinary shares	120 %	1.2	1,164	133 %	1.33	1,290
Other shares (without voting rights, redeemable, etc.)	—	—	—	—	—	—
Total dividends paid	120 %	1.2	1,164	133 %	1.33	1,290
a) Dividends charged to income statement or reminder	120 %	1.2	1,164	133 %	1.33	1,290
b) Dividends charged to reserves or share premium account	—	—	—	—	—	—
c) Dividends in kind	—	—	—	—	—	—

(1) Dividends paid net of those received by group companies amount to Euros 1,153 million and Euros 1,278 million at 31 December 2022 and 2021, respectively.

In addition, dividends paid to non-controlling interests in 2022 amounted to Euros 336 million (Euros 417 million in 2021) (see "Non-controlling interests" paragraph in this note), bringing dividend payments to Euros 1,500 million (Euros 1,707 million in 2021).

2022

On 3 February 2022, the Board of Directors approved the following proposal for the distribution of the Company's net profit for 2021 and retained earnings, for submission to the annual general meeting:

AVAILABLE FOR DISTRIBUTION

Profit.....	1,706
Retained earnings.....	1,778
Available for distribution.....	3,484

DISTRIBUTION:

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

- i. Euros 679 million ("the Total Interim Dividend"), corresponding to the two interim dividends for 2021 paid by Naturgy Energy Group, S.A., jointly equivalent to 0.70 euros per share for the number of shares that were not direct treasury shares on the relevant dates as approved by the Board of Directors in accordance with the interim accounting statements prepared and in accordance with the legal requirements, which revealed the existence of sufficient liquidity for the distribution of these interim dividends out of the profit for 2021, and
- ii. the amount obtained by multiplying 0.50 euros per share by the number of shares that are not direct treasury shares on the date on which the registered shareholders entitled to receive the supplementary dividend (the "Supplementary Dividend") are determined.

Euros 679 million of said dividend had already been paid on 4 August and 15 November 2021. The Supplementary Dividend will be paid in the amount per share indicated above through the entities that are members of Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear). Said dividend will be paid to shareholders as from 22 March 2022.

The Board of Directors is expressly empowered to delegate its powers to the director(s) it deems fit so that they may perform all the actions required to carry out the distribution and, in particular, without limitation, so that they may designate the entity that is to act as payment agent.

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

TOTAL DISTRIBUTED..... 3,484

This proposal for the distribution of profits and retained earnings prepared by the Board for approval by the annual general meeting includes a supplementary payment of Euros 0.50 per share for each qualifying share outstanding at the proposed date of payment.

Finally, the general meeting of shareholders held on 15 March 2022 approved a supplementary dividend of 0.50 euros per share for shares not classified as direct treasury stock on the distribution date, which was fully paid in cash on 22 March 2022.

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

On 11 August 2022, the Board of Directors of Naturgy Energy Group, S.A. resolved to pay an interim dividend of 0.3 euros per share out of 2022 profits, for shares not classified as direct treasury stock on the date of distribution, payable as from 18 August 2022.

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

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

1) Amount considering total shares issued

On 3 November 2022, the Board of Directors of Naturgy Energy Group, S.A. resolved to pay a second interim dividend of 0.40 euros per share out of 2022 results for shares not classified as direct treasury shares on the date on which the dividend was paid, this being 18 November 2022.

The Company had sufficient liquidity to pay the dividend at the approval date, in accordance with the provisions of the Spanish Companies Act. The provisional liquidity statement at 30 September 2022 drawn up by the Directors on 3 November 2022 was as follows:

Profit after tax		1,921
Reserves to be replenished		—
Maximum amount distributable		1,921
2021 Interim dividend		291
Forecast maximum interim dividend payment (1)		388
Cash resources	3,678	
Undrawn credit facilities	5,354	
Total liquidity		9,032

1) Amount considering total shares issued

On 14 February 2023, the Board of Directors approved the following proposal for the distribution of the Company's net profit for 2022 and retained earnings, for submission to the annual general meeting:

AVAILABLE FOR DISTRIBUTION

Profit.....	1,435
Retained earnings.....	2,320
Available for distribution.....	3,755

DISTRIBUTION:

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

i. Euros 679 million ("the Total Interim Dividend"), corresponding to the two interim dividends for 2022 paid by Naturgy Energy Group, S.A., jointly equivalent to 0.70 euros per share for the number of shares that were not direct treasury shares on the relevant dates as approved by the Board of Directors in accordance with the interim accounting statements prepared and in accordance with the legal requirements, which revealed the existence of sufficient liquidity for the distribution of these interim dividends out of the profit for 2022, and

ii. the amount obtained by multiplying 0.50 euros per share by the number of shares that are not direct treasury shares on the date on which the registered shareholders entitled to receive the supplementary dividend (the "Supplementary Dividend") are determined.

Euros 679 million of said dividend had already been paid on 18 August and 18 November 2022. The Supplementary Dividend will be paid in the amount per share indicated above through the entities that are members of Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear). Said dividend will be paid to shareholders as from **4 April 2023**.

The Board of Directors is expressly empowered to delegate its powers to the director(s) it deems fit so that they may perform all the actions required to carry out the distribution and, in particular, without limitation, so that they may designate the entity that is to act as payment agent.

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

TOTAL DISTRIBUTED..... 3,755

This proposal for the distribution of profits and retained earnings prepared by the Board for approval by the annual general meeting includes a supplementary payment of Euros **0.50** per share for each qualifying share outstanding at the proposed date of payment, **4 April 2023**. In this respect, in the event that at the time of distribution of the third and last payment of the proposed 2022 dividend (**Euros 0.50 per share**) the same number of treasury shares is maintained as at the 2022 year end (55,898 shares, see section on Treasury shares), the amount applied to retained earnings would be Euros **2,592** million.

2021

On 2 February 2021, the Board of Directors approved the proposal submitted to the general meeting of shareholders for the distribution of the Company's net profit for 2020 and retained earnings from previous years, detailed in Note 14 of the notes to the consolidated annual accounts for the year ended 31 December 2020.

Subsequently, the general meeting of shareholders held on 9 March 2021 approved a supplementary dividend of 0.63 euros per share for shares not directly held as treasury stock on the payment date, which was fully paid in cash on 17 March 2021. Following payment of the supplementary dividend, the amount allocated to Retained earnings was Euros 1,778 million.

On 27 July 2021, the Company's Board of Directors resolved to pay a first interim dividend of 0.30 euros per share out of 2021 results, for shares not classified as direct treasury shares on the date on which the dividend was paid. The dividend was paid in full in cash on 4 August 2021.

Finally, on 3 November 2021, the Board of Directors of Naturgy Energy Group, S.A. resolved to pay a second interim dividend of 0.40 euros per share out of 2021 results, paid on 15 November 2021, for shares not classified as direct treasury shares on the date on which the dividend was paid.

Other equity items

Movements in other equity items break down as follows:

	Financial assets at fair value	Hedging operations	Tax effect	Total asset and liability revaluation reserves	Currency translation differences	Total
31.12.2020	(451)	165	(50)	(336)	(1,561)	(1,897)
Change in value	(17)	(3,966)	735	(3,248)	(11)	(3,259)
Taken to income statement	—	1,022	(178)	844	335	1,179
Other	—	—	—	—	—	—
31.12.2021	(468)	(2,779)	507	(2,740)	(1,237)	(3,977)
Change in value	—	(3,603)	524	(3,079)	(89)	(3,168)
Taken to income statement	—	5,059	(758)	4,301	—	4,301
Other	—	—	—	—	—	—
31.12.2022	(468)	(1,323)	273	(1,518)	(1,326)	(2,844)

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

Non-controlling interests

Non-controlling interests	
Balance at 01.01.2021	3,237
Total comprehensive income for the year	273
Distribution of dividends	(371)
Payments return on other equity instruments	(58)
Non-controlling interest derecognition due to sale Chile electricity	(98)
Other changes	1
Balance at 31.12.2021	2,984
Total comprehensive income for the year	265
Distribution of dividends	(303)
Early redemption subordinated debenture issuance	(500)
Payments return on other equity instruments	(40)
Other changes	(1)
Balance at 31.12.2022	2,405

The main change in 2022 relates to the exercise of the early redemption option on the November 2014 subordinated debenture issuance in the amount of Euros 500 million.

The main change in 2021 relates to the derecognition of the non-controlling interest in the electricity network business in Chile due to its sale in July 2021 (Note 11).

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

Company	2022			2021		
	Attributed equity	Consolidated profit/(loss) for the year	Dividends and other reumerations	Attributed equity	Consolidated profit/(loss) for the year	Dividends and other reumerations
Metrogas, S.A.	351	(99)	—	425	23	30
Companhia Distribuidora de Gás do Rio de Janeiro, S.A.	95	14	9	82	33	46
Fuerza y Energía de Tuxpan S.A. de C.V.	109	14	—	101	14	20
Empresa de Distribución Eléctrica Metro Oeste, S.A.	107	3	—	99	8	3
Ecoelectrica L.P.	71	15	—	72	16	—
Europe Maghreb Pipeline, Ltd.	—	—	7	7	32	39
Gas Natural Mexico, S.A. de C.V.	43	11	41	74	11	22
Ceg Río, S.A.	41	13	13	36	10	3
Aprovisionadora global de energía, S.A.	42	50	35	28	7	11
Nedgia Catalunya, S.A.	133	38	—	145	41	—
Nedgia Madrid, S.A.	38	15	—	39	16	—
Other companies (1)	257	54	196	264	72	196
Subtotal	1,287	128	301	1,372	283	370
Preference shares	110	2	2	110	1	1
Subordinated perpetual debentures	1,008	47	540	1,502	58	58
Other equity instruments	1,118	49	542	1,612	59	59
Total	2,405	177	843	2,984	342	429

(1) 2022, includes dividends accrued of Euros 130 million distributed by Holding de Negocios de Gas, S.A. (Euros 119 million in 2021).

Dividends paid to non-controlling interests in 2022 amounted to Euros 336 million (Euros 417 million in 2021).

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

Company	31 december 2022			31 december 2021		
	Total assets	Non-current liabilities	Current liabilities	Total assets	Non-current liabilities	Current liabilities
Metrogas, S.A.	1,916	(965)	(105)	1,705	(620)	(75)
Companhia Distribuidora de Gás do Rio de Janeiro, S.A.	801	(395)	(189)	619	(218)	(214)
Fuerza y Energía de Tuxpan S.A. de C.V.	689	(153)	(45)	640	(144)	(38)
Empresa de Distribución Eléctrica Metro Oeste, S.A.	1,390	(768)	(264)	1,223	(632)	(257)
Ecoelectrica L.P.	277	(7)	(2)	273	(7)	(5)
Europe Maghreb Pipeline, Ltd.	1	—	—	30	—	(1)
Gas Natural Mexico, S.A. de CV	636	(357)	(131)	697	(357)	(85)
Ceg Río, S.A.	310	(130)	(76)	254	(77)	(84)
Aprovisionadora global de energía, S.A.	220	(48)	(83)	152	(48)	(48)
Nedgia Catalunya, S.A.	932	(107)	(109)	1,006	(109)	(122)
Nedgia Madrid, S.A.	318	(40)	(70)	307	(41)	(53)

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

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

Perpetual subordinated debentures

As at 31 December 2021, Naturgy Finance, B.V. had issued perpetual subordinated bonds for an aggregate amount of 1,500 million euros. In November 2022, Naturgy proceeded to exercise the early redemption option on the issue of subordinated bonds of November 2014 for an amount of 500 million euros.

Outstanding nominal				
Issuance	At 31.12.2022	At 31.12.2021	Early redemption option	Coupon
Nov 2014 (1)	—	500	2022	4.125%
Apr 2015	500	500	2024	3.375%
Nov 2021	500	500	2027	2.374%

(1) Settled in November 2022.

In November, Naturgy issued subordinated perpetual bonds for an amount of Euros 500 million, redeemable at the issuer's choice as from February 2027 and with an annual return of 2.374%. As part of the operation, a Euros 500 million repurchase of the subordinated perpetual bonds redeemable as from November 2022 was carried out. The repurchase price of 104.211% was determined on the basis of the purchase performance up to the first optional purchase date based on a settlement date of 24 November 2021. The difference between the repurchase price and the book value repurchased, together with the repurchase costs, were recognised in consolidated equity under "Reserves" and amounted to Euros 25 million.

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

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

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

The interest accrued during 2022 amounts to Euros 48 million (2021: Euros 58 million) and has been recognised under "Non-controlling interests" in the consolidated income statement for 2022 and 2021.

Preference shares

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

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

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

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

Note 15 . Deferred income

The breakdown and the movements under this heading in 2021 and 2020 have been as follows:

	Capital grants	Revenues from pipeline networks and branch lines	Other	Total
01.01.2021	102	684	85	871
Amount received	1	52	8	61
Release to income	(5)	(34)	(10)	(49)
Currency translation differences (1)	—	3	—	3
Transfers and other	4	—	(1)	3
31.12.2021	102	705	82	889
Amount received	13	58	3	74
Release to income	(7)	(34)	(9)	(50)
Currency translation differences (1)	—	3	—	3
Transfers and other	2	—	8	10
31.12.2022	110	732	84	926

(1) Others includes the impact of hyperinflation in Argentina.

This heading mainly includes:

- Capital grants relating basically to agreements with the Regional Governments or other entities for the gasification or electrification of municipalities and other investments in gas infrastructure, for which Naturgy has met all the conditions established, are stated at the amount granted (Note 2.4.16).
- Revenue received for the construction of facilities for connecting to the gas or electricity distribution network (connections), which is recognised for the cash amount received, as well as such facilities received under assignment, which are recognised at fair value (Note 2.4.16).

Note 16. Provisions

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

	31.12.2022	31.12.2021
Provisions for employee obligations	344	430
Other provisions	1,312	716
Non-current provisions	1,656	1,146
Current provisions	700	589
Total	2,356	1,735

Provisions for employee obligations

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

	2022			2021		
	Pensions and other similar obligations	Other obligations with personnel	Total	Pensions and other similar obligations	Other obligations with personnel	Total
At 1 January	411	19	430	459	14	473
Appropriations/reversals charged to income statement	16	12	28	14	5	19
Payments during the year	(17)	(10)	(27)	(14)	—	(14)
Currency translation differences	5	—	5	1	—	1
Changes recognised directly in equity	(96)	—	(96)	(47)	—	(47)
Transfers and other applications	—	4	4	(2)	—	(2)
At 31 December	319	25	344	411	19	430

Pensions and other similar obligations

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

Breakdown by country	31.12.2022	31.12.2021	01.01.2021
Spain (1)	239	346	398
Brazil (2)	56	43	39
Chile (3)	5	4	7
Mexico (4)	15	14	13
Rest	4	4	2
Total	319	411	459

(1) Pension plans and other post-employment benefits in Spain

Most of Naturgy's post-employment obligations in Spain consist of the contribution of defined amounts to occupational pension plan systems. Nevertheless, at 31 December 2022 and 31 December 2021, it held the following defined benefit obligations for certain groups of workers:

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

(2) Pension Plans and Other post-employment benefits in Brazil

At 31 December 2022 and at 31 December 2021, the following benefits payable by Naturgy for certain employees in Brazil were still in effect:

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

(3) Pension plans and Other post-employment benefits in Chile

At 31 December 2022 and at 31 December 2021, the following benefits payable by Naturgy for certain employees in Chile were still in effect:

- Termination benefits for employees due to retirement, dismissal or death, calculated based on length of service.
- Length-of-service awards payable at 5, 10, 15, 20, 25 and 30 years of service.

(4) Pension Plans and Other post-employment benefits in Mexico

At 31 December 2022 and at 31 December 2021, the following benefits payable by Naturgy for certain employees in Mexico were still in effect:

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

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

	2022				2021			
	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
Present value of obligations								
At 1 January	956	106	4	16	1,068	111	7	15
Service cost for the year	3	—	—	1	5	—	—	1
Interest cost	14	11	1	1	5	7	—	1
Changes recognised in equity	(220)	7	—	(2)	(65)	(5)	(1)	1
Benefits paid	(64)	(10)	—	—	(57)	(8)	(1)	—
Currency translation differences	—	8	—	2	—	1	(1)	—
Transfers and other	—	—	—	—	—	—	—	(2)
At 31 December	689	122	5	18	956	106	4	16
Fair value of plan assets								
At 1 January	610	63	—	2	670	72	—	2
Expected yield	9	7	—	—	2	5	—	—
Contributions	—	3	—	—	—	2	—	—
Changes recognised in equity	(121)	—	—	—	(16)	(8)	—	—
Benefits paid	(48)	(10)	—	—	(46)	(8)	—	—
Currency translation differences	—	3	—	1	—	—	—	—
Transfers and other	—	—	—	—	—	—	—	—
At 31 December	450	66	—	3	610	63	—	2
Provisions for pensions and similar obligations	239	56	5	15	346	43	4	14

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

	2022				2021			
	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
Service cost for the year	3	—	—	1	5	—	—	1
Interest cost	14	11	1	1	5	7	—	1
Expected return on plan assets	(9)	(7)	—	—	(2)	(5)	—	—
Total charge to the income statement	8	4	1	2	8	2	—	2

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

	2022				2021			
	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
1 to 5 years	—	—	—	8	—	—	—	—
5 to 10 years	26	59	5	6	23	43	4	3
More than 10 years	213	—	—	1	323	—	—	11
Provisions for pensions and similar obligations	239	59	5	15	346	43	4	14

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

Years	2022				2021			
	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
Weighted average term of pension commitments	13.9	8.0	7.8	14.7	12.1	9.4	8.1	15.7

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

	2022				2021			
	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
At 1 January	346	43	4	14	398	39	7	13
Charge against the income statement	8	4	1	2	8	2	—	2
Contributions paid	(16)	(3)	—	—	(11)	(2)	(1)	—
Changes recognised in equity	(99)	7	—	(2)	(49)	3	(1)	1
Transfers	—	—	—	—	—	—	—	—
Currency translation differences	—	5	—	1	—	1	(1)	—
Other	—	—	—	—	—	—	—	(2)
Business Combinations	—	—	—	—	—	—	—	—
At 31 December	239	56	5	15	346	43	4	14

The amount of cumulative actuarial gains and losses recognised directly in equity is negative by Euros 65 million at 31 December 2022 (Spain: positive by Euros 25 million, Brazil: negative by Euros 74 million, Chile: negative by Euros 13 million, and Mexico: negative by Euros 3 million). At 31 December 2021, the cumulative negative figure was Euros 159 million (Spain: negative by Euros 74 million, Brazil: negative by Euros 67 million, Chile: negative by Euros 13 million, and Mexico: negative by Euros 5 million).

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

	2022				2021			
	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
Financial assumptions	(114)	(2)	—	(7)	(60)	(21)	(1)	—
Demographic assumptions	—	—	—	—	44	—	—	—
Experience	16	6	—	5	(33)	18	—	2
Limits on assets	(1)	3	—	—	—	6	—	—
At 31 December	(99)	7	—	(2)	(49)	3	(1)	2

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

% of total	2022				2021			
	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
Shares	— %	10 %	— %	— %	— %	15 %	— %	— %
Bonds	100 %	83 %	— %	100 %	100 %	79 %	— %	100 %
Real estate and other assets	— %	7 %	— %	— %	— %	6 %	— %	— %

Real yields on the plan-related assets in 2022, relating basically to Spain and Brazil, have been Euros 16 million (Euros 7 million in 2021).

The main annual actuarial assumptions used were as follows:

	31.12.2022				31.12.2021			
	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
Discount rate (1)	3,25 a 4,07%	9.89%	2.49%	10.25%	0,0 a 1,28%	9.07%	3.13%	8% - 8,25%
Expected return on plan assets (1)	3,25 a 4,07%	9.89%	n/a	10.25%	0,0 a 1,28%	9.07%	0.00	8.00%
Future salary increases (1)	2.00%	5.04%	2.00%	4.00%	2.00%	4.43%	2.00%	5.50%
Future pension increases (1)	2.00%	4.00%	n/a	4.00%	2.00%	3.40%	n/a	5.00%
Inflation rate (1)	2.00%	4.00%	11.40%	4.00%	2.00%	3.40%	4.90%	4.00%
Mortality table	PER2020 Col 1st order	AT-2000	RV-2014	EMSSA 2009	PER2020 Col 1st order	AT-2000	RV-2014	EMSSA 2009
Life expectancy:								
Men								
Retired in the current year	24.82	20.94	19.39	22.91	24.64	20.95	19.39	22.85
Retiring within 20 years	45.79	38.44	36.95	41.08	45.59	38.44	36.95	40.04
Women								
Retired in the current year	28.55	23.51	24.05	25.28	28.37	23.52	24.05	25.24
Retiring within 20 years	49.98	41.94	42.77	45.09	49.82	41.94	42.77	45.09

⁽¹⁾ Annual

These assumptions are equally applicable to all the obligations, irrespective of the origin of their collective bargaining agreements.

The interest rates used to discount post-employment commitments are applied based on the period of each commitment and the reference curve is calculated applying observable rates for high-credit-quality corporate bonds (AA) issued in the Eurozone.

Benefits payable and estimated contributions to be made for 2023 in million euros are as follows:

	Benefits				Contributions			
	Spain	Brazil	Chile	Mexico	Spain	Brazil	Chile	Mexico
Post-employment	41	10	—	—	20	—	—	—
Post-employment medical	—	—	—	—	3	4	—	—
At 31 December	41	10	—	—	23	4	—	—

The following table includes the effect of a 1% variation in the inflation rate, a 1% change in the discount rate and a 1% change in the cost of healthcare over the provisions and actuarial costs:

	Inflation 1%	Discount rate +1%	Healthcare +1%
Present value of obligations	38	(67)	10
Fair value of plan assets	17	(31)	—
Asset ceiling	—	(5)	—
Provision for pensions	21	(31)	10
Service cost for the year	1	(1)	—
Interest cost	3	6	1
Expected return on plan assets	2	1	(8)

Other obligations with personnel

Together with the approval of the Strategic Plan 2021-2025, the extension of the long-term incentive plan implemented with the Strategic Plan 2018-2022 was approved. Naturgy executives not included in the plan mentioned in Note 14. This change maintains the aim of aligning shareholders' interests, the materialisation of the Strategic Plan and executives' multi-year variable remuneration. The plan amendment extends the term of the plan until 31 December 2025 for certain serving beneficiaries in order to contribute to the achievement of the Strategic Plan 2021-2025.

In order to compensate for the delay in collection derived from the extension of the plan, a cash compensation was established which was paid upon the acceptance of the amendment and approval of the new LTI plan by the general meeting on 15 March 2022.

The provision for this commitment at 31 December 2022 totals Euros 25 million (Euros 19 million at 31 December 2021).

Other current and non-current provisions

Movements in current and non-current provisions are as follows:

	Non-current provisions			Current provisions	Total
	Due to facility closure costs	Other provisions	Total		
01.01.2021	383	196	579	246	825
Appropriations/reversals charged to income statement:					
– Appropriations due to financial update	3	—	3	—	3
– Appropriations charged to other headings of the Income statement	—	57	57	560	617
– Reversals	—	(7)	(7)	—	(7)
Appropriations/reversals charged to fixed assets	132	—	132	—	132
Payments	(9)	(24)	(33)	(256)	(289)
Business combinations	—	3	3	12	15
Currency translation differences	1	4	5	5	10
Transfers and other	(9)	(14)	(23)	22	(1)
31.12.2021	501	215	716	589	1,305
Appropriations/reversals charged to income statement:					
– Appropriations due to financial update	6	159	165	—	165
– Appropriations charged to other headings of the Income statement	3	429	432	638	1,070
– Reversals	(5)	(8)	(13)	(26)	(39)
Appropriations/reversals charged to fixed assets	25	—	25	—	25
Payments	(15)	(3)	(18)	(486)	(504)
Business combinations	5	—	5	(2)	3
Currency translation differences	3	2	5	4	9
Transfers and other	—	(5)	(5)	(17)	(22)
31.12.2022	523	789	1,312	700	2,012

The heading “Provisions due to facility closure costs” includes provisions for obligations arising from decommissioning, restoration and other costs related basically to electricity generation facilities.

During 2021, Naturgy recorded provisions for closure costs of renewable facilities amounting to Euros 132 million. Under the New Strategic Plan 2021-2025, Naturgy undertook the commitment to become a key player in the energy transition by revising its Global Environmental Policy and reinforcing the commitments undertaken, including the protection of biodiversity and the preservation of ecosystems. Following the review of this Policy, Naturgy assumed a commitment towards third parties to dismantle the above renewable facilities, recording the relevant provisions. In 2022 an additional Euros 25 million has been recorded.

The “Other provisions” heading includes provisions recognised to cover obligations derived mainly from tax claims, as well as lawsuits and arbitration, insurance and other liabilities. Provisions have been recorded during the year due to the development of certain civil, administrative and tax-related claims existing in various Group companies. At 31 December 2022, “Other non-current provisions” includes a Euros 319 million provision for the lawsuit between the Group company in Chile Metrogas, S.A. and Transportadora de Gas del Norte S.A., as described in Note 36.

The “Current provisions” heading relates mainly to CO₂ emissions estimated for the year in the amount of Euros 599 million at 31 December 2022 (Euros 258 million in 2021).

As indicated in Note 2.4.19., an onerous contract is one where the unavoidable costs of fulfilling the obligations exceed the economic benefits expected to be received from the contract. For these purposes, the unavoidable costs of the contract are considered to be the lower of the cost of complying with the contract terms and the amount of compensation or penalties resulting from non-compliance. In 2021, as a result of the increase in the cost of gas expected for 2022 due to the evolution of the energy scenario and its impact on the price reviews of the procurement contracts in place, Naturgy recognised withdrawal costs for business contracts for gas sales to customers amounting to Euros 234 million (Note 26). At 31 December 2022 Euros 22 million provision has been recorded for this concept.

The estimated payment periods for the non-current obligations provisioned in this item are Euros 809 million in between one and five years (Euros 353 million at 31 December 2021), Euros 70 million in between five and 10 years (Euros 147 million at 31 December 2021) and Euros 433 million after more than 10 years (Euros 215 million at 31 December 2021).

Note 17. Financial liabilities

The breakdown of borrowings at 31 December 2022 and 2021 is as follows:

	31.12.2022	31.12.2021
Issuing of debentures and other negotiable obligations	7,468	8,014
Borrowings from financial institutions	5,221	5,702
Derivative financial instruments (Note 18)	—	70
Lease liabilities (Note 2.4.21)	1,309	1,325
Other financial liabilities	1	3
Non-current borrowings	13,999	15,114
Issuing of debentures and other negotiable obligations	735	572
Borrowings from financial institutions	1,350	884
Derivative financial instruments (Note 18)	25	37
Lease liabilities (Note 2.4.21)	177	196
Other financial liabilities	15	9
Current borrowings	2,302	1,698
Total	16,301	16,812

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

Financial liabilities	31.12.2022				31.12.2021			
	Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	Total	Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	Total
Fair value through profit or loss	—	—	—	—	—	—	—	—
Hedging derivatives	—	25	—	25	—	107	—	107
Total	—	25	—	25	—	107	—	107

Other financial liabilities are measured at amortised cost.

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

	Carrying amount		Fair value	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Issuing of debentures and other negotiable securities	7,468	8,014	6,957	8,572
Loans from financial institutions and other financial liabilities	5,222	5,705	5,166	5,739

Bonds and other marketable securities are quoted and therefore their fair value is estimated on the basis of their quoted price (Level 1). In loans from financial institutions and other financial liabilities, the fair value of loans with fixed interest rates is estimated on the basis of the discounted cash flows over the remaining terms of such debt. The discount rates were determined based on market rates available at 31 December 2022 and 31 December 2021 on borrowings with similar credit and maturity characteristics. These valuations are based on the quotation price of similar financial instruments in an official market or on observable information in an official market (Level 2).

The following tables describe consolidated gross borrowings by instrument at 31 December 2022 and 31 December 2021 and their maturity profile, taking into account the impact of the derivative hedges.

	2023	2024	2025	2026	2027	2028 and later years	Total
31.12.2022							
Issuing of debentures and other negotiable securities							
Fixed	727	1,147	1,332	1,738	989	2,077	8,010
Floating	8	146	4	4	4	27	193
Institutional Banks and other financial institutions							
Fixed	92	92	92	92	92	776	1,236
Floating	42	18	5	2	2	25	94
Lease liabilities							
Fixed	177	158	143	135	99	774	1,486
Floating	—	—	—	—	—	—	—
Commercial Banks and other financial liabilities							
Fixed	661	219	214	1,156	33	35	2,318
Floating	595	754	818	774	5	18	2,964
Total Fixed	1,657	1,616	1,781	3,121	1,213	3,662	13,050
Total Floating	645	918	827	780	11	70	3,251
Total	2,302	2,534	2,608	3,901	1,224	3,732	16,301

	2022	2023	2024	2025	2026	2027 and later years	Total
31.12.2021							
Issuing of debentures and other negotiable securities							
Fixed	563	651	1,123	1,310	1,723	3,044	8,414
Floating	9	6	128	3	3	23	172
Institutional Banks and other financial institutions							
Fixed	101	80	91	91	91	870	1,324
Floating	161	29	18	17	3	24	252
Lease liabilities							
Fixed	196	127	126	105	115	852	1,521
Floating	—	—	—	—	—	—	—
Commercial Banks and other financial liabilities							
Fixed	321	427	350	207	1,111	205	2,621
Floating	347	495	674	271	676	45	2,508
Total Fixed	1,181	1,285	1,690	1,713	3,040	4,971	13,880
Total Floating	517	530	820	291	682	92	2,932
Total	1,698	1,815	2,510	2,004	3,722	5,063	16,812

Had the impact of the derivatives on borrowings been excluded, fixed-rate financial debt would amount to Euros 10,386 million at 31 December 2022 (Euros 1,114 million at 31 December 2021) and, at floating rates, Euros 5,890 million at 31 December 2022 (Euros 5,591 million at 31 December 2021).

The following table describes consolidated gross financial debt denominated by currency at 31 December 2022 and 31 December 2021 and its maturity profile, taking into account the impact of the derivative hedges:

	2023	2024	2025	2026	2027	2028 and later years	Total
31.12.2022							
Euro debt	1,461	1,890	1,719	1,948	1,109	2,886	11,013
Foreign Currency Debt:							
US Dollar	522	302	479	1,319	75	667	3,364
Chilean peso	113	68	81	159	22	—	443
Mexican peso	106	142	218	172	3	127	768
Brazilian real	68	116	98	52	5	52	391
Australian dollar	13	12	12	251	10	—	298
Argentinian peso	19	4	1	—	—	—	24
Total	2,302	2,534	2,608	3,901	1,224	3,732	16,301

	2022	2023	2024	2025	2026	2027 and later years	Total
31.12.2021							
Euro debt	1,145	1,410	1,894	1,564	1,934	3,976	11,923
Foreign Currency Debt:							
US Dollar	303	105	320	282	1,258	917	3,185
Chilean peso	52	132	68	21	126	—	399
Mexican peso	53	90	129	121	154	114	661
Brazilian real	125	66	88	5	5	50	339
Australian dollar	13	10	11	11	245	6	296
Argentinian peso	7	2	—	—	—	—	9
Total	1,698	1,815	2,510	2,004	3,722	5,063	16,812

Borrowings in euros in 2022 have borne an effective average interest rate of 1.53% (1.70% in 2021) while borrowings in foreign currency have borne an effective average interest rate of 6.84% in 2022 (5.01% in 2021) including derivative instruments assigned to each transaction.

The monthly average financial debt amounts to Euros 15,099 million (15,751 million euros in 2021) and has been calculated as the monthly average of financial debt excluding lease financial liabilities.

The monthly weighted average of the gross financial debt amounts to Euros 15,099 million (Euros 15,751 million in 2021) and has been calculated as the monthly average of the gross financial debt excluding the lease liabilities.

At 31 December 2022, Naturgy has credit facilities totalling Euros 5,623 million (Euros 5,542 million at 31 December 2021), of which Euros 5,497 million has not been drawn down (Euros 5,459 million at 31 December 2021).

Bank borrowings totalling Euros 3,950 million (Euros 3,944 million at 31 December 2021) and issued bonds amounting to Euros 208 million are subject to the fulfilment of certain financial ratios.

Most of the outstanding borrowings include a clause relating to a change in control, either by acquisition of more than 50% of the voting shares or by obtaining the right to appoint the majority of the members of the Board of Naturgy Energy Group, S.A. These clauses are subject to additional conditions and therefore their activation depends on the simultaneous occurrence of some of the following events: a material downgrade in the credit rating caused by the change in control, or the loss of investment grade status granted by rating agencies; inability to meet the financial obligations of the contract; a material detrimental event for the creditor; or a material adverse change in creditworthiness. These clauses involve the repayment of drawn-down debt, although they usually have a longer term than that granted in cases of early termination.

Specifically, the bonds issued, in a volume of Euros 7,656 million (Euros 8,110 million at 31 December 2021), as is habitual in the Euromarket, could be redeemed in advance provided that such a change in control triggers a downgrade of more than two full notches in at least two of the three ratings that it had obtained, and all the ratings fall below investment grade, and provided that the rating agency states that the rating downgrade results from the change in control.

There are also loans for an amount of Euros 1,353 million that could be subject to early repayment in the event of a change in control (Euros 1,536 million at 31 December 2021). Most of this amount is linked to infrastructure financing with funds from the European Investment Bank that require a rating downgrade in addition to the change in control, and have special repayment terms that are longer than those relating to early termination events.

At the date of preparation of these consolidated annual accounts, Naturgy is not in default with respect to its financial obligations or any type of obligation that could give rise to the early termination of its financial commitments, except for the Ibereólica Cabo Leones II S.A. and GPG Solar Chile 2017 S.p.A. projects where certain obligations under the financing agreements have not been fulfilled, but for which a waiver has been obtained that prevents early termination by the financing banks and whose debt has been classified as current.

Naturgy is in the process of continually optimising the financing assigned to each of the business units to enhance their accounting visibility and financial autonomy, and to obtain financing in the same currency as that in which the cash flows originate, in order to achieve greater flexibility.

The most relevant financial instruments are as follows:

Issuing of debentures and other negotiable securities

In 2022 and 2021 the evolution of the issues of debt securities has been as follows:

	At 1.1.2022	Issues	Buy-backs or redemptions	Adjustments, exch. rates & other	At 31.12.2022
Issued in a European Union Member State which required the filing of a prospectus	7,939	300	(754)	23	7,508
Issued in a European Union Member State which did not require the filing of a prospectus	—	—	—	—	—
Issued outside a European Union Member State	647	—	(7)	55	695
Total	8,586	300	(761)	78	8,203

	At 1.1.2021	Issues	Buy-backs or redemptions	Adjustments, exch. rates & other	At 31.12.2021
Issued in a European Union Member State which required the filing of a prospectus	8,738	280	(1,111)	32	7,939
Issued in a European Union Member State which did not require the filing of a prospectus	—	—	—	—	—
Issued outside a European Union Member State	503	220	(94)	18	647
Total	9,241	500	(1,205)	50	8,586

An analysis of the most relevant characteristics of the main issuance programmes for debentures and other negotiable securities by Naturgy is as follows, excluding the impact of accrued unpaid interest:

31.12.2022

Programme/Company	Country	Year formalised	Currency	Programme limit	Drawn-down nominal amount	Available	Issuances per year
Euro Commercial Paper (ECP) programme							
Naturgy Finance B.V.	Netherlands	2010	Euros	1,000	—	1,000	300
European Medium Term Notes (EMTN) programme							
Gas Natural Capital Markets, S.A. and Naturgy Finance B.V.	Netherlands/ Spain	1999	Euros	12,000	7,656	4,344	—
Negotiable bonds and Certificates Programme							
Guimaranía I solar SPE Ltda	Brazil	2020	Brazilian real	8	8	—	—
Sobral I Solar Energia SPE Ltda.	Brazil	2018	Brazilian real	21	21	—	—
Sertao I Solar Energia SPE Ltda	Brazil	2018	Brazilian real	21	21	—	—
Naturgy México S.A. de C.V.	Mexico	2011	Mexican peso	479	391	88	—
Naturgy BAN, S.A.	Argentina	2015	Argentinian peso	26	—	26	—
Grupo CGE	Chile	2015	Chilean peso	154	154	—	—

31.12.2021

Programme/Company	Country	Year formalised	Currency	Programme limit	Drawn-down nominal amount	Available	Issuances per year
Euro Commercial Paper (ECP) programme							
Naturgy Finance B.V.	Netherlands	2010	Euros	1,000	—	1,000	280
European Medium Term Notes (EMTN) programme							
Gas Natural Capital Markets, S.A. and Naturgy Finance B.V.	Netherlands/ Spain	1999	Euros	12,000	8,110	3,890	—
Negotiable bonds and Certificates Programme							
Guimaranía I solar SPE Ltda	Brazil	2020	Brazilian real	9	9	—	—
Guimaranía II Solar II SPE Ltda	Brazil	2018	Brazilian real	18	18	—	—
Sobral I Solar Energia SPE Ltda.	Brazil	2018	Brazilian real	18	18	—	—
Sertao I Solar Energia SPE Ltda	Brazil	2018	Brazilian real	18	18	—	—
Naturgy México S.A. de C.V.	Mexico	2011	Mexican peso	462	346	116	220
Naturgy BAN, S.A.	Argentina	2015	Argentinian peso	74	0	74	—
Grupo CGE	Chile	2015	Chilean peso	151	151	—	—

The breakdown of the nominal balance issued under the EMTN programme is as follows:

Issuance	Drawn-down nominal amount		Maturity	Coupon %
	31.12.2022	31.12.2021		
January 2013	396	396	2023	3.88
April 2013	—	454	2022	3.88
July 2013 (1)	101	101	2023	3.97
March 2014	412	412	2024	2.88
May 2014	154	154	2023	2.63
January 2015	401	401	2025	1.38
April 2016	600	600	2026	1.25
January 2017	1,000	1,000	2027	1.38
April 2017	742	742	2024	1.13
October 2017	300	300	2029	1.88
November 2017	800	800	2025	0.88
January 2018	850	850	2028	1.50
November 2019	900	900	2029	0.75
April 2020	1,000	1,000	2026	1.25
Total	7,656	8,110		

⁽¹⁾NOK 800 million as nominal value.

2022

There were no issues under the EMTN programme in 2022.

In 2022, a bond matured for a total amount of Euros 454 million with an average coupon of 3.88%.

In 2022, issues under the Euro Commercial Paper (ECP) programme totalling Euros 300 million (Euros 280 million in 2021) were carried out. There were no outstanding issues at 31 December 2022 or 31 December 2021.

2021

During 2021, no issues were made under this programme.

In 2021 two bonds have matured for a total amount of Euros 831 million and with an average coupon of 4.58%.

Borrowings from financial institutions

Loans from European credit institutions (commercial / institutional banks)

At 31 December 2022, bank borrowings (commercial banks) include bank loans of Euros 2,815 million (Euros 2,852 million at 31 December 2021).

The group continues to work on strengthening its financial profile; in this line, refinancing operations with credit institutions in Spain and in international business amounted to Euros 4,517 million and the equivalent of Euros 482 million, respectively, and mainly include:

- Exercising of the 1-year extension to 2025 of a Euros 2,000 million syndicated revolving credit facility with ESG metrics included in the pricing mechanism.
- Exercise of the 1 year extension to 2024 of a Euros 1,000 million syndicated revolving credit facility with ESG metrics included in the pricing mechanism.

Additionally, in connection with borrowings from institutional banks, the European Investment Bank (EIB) had granted financing that was fully drawn at 31 December 2022 in the amount of Euros 1,153 million maturing between 2023 and 2037 (Euros 1,336 million drawn at 31 December 2021). In addition, a loan is recorded from the Official Credit Institute (ICO) totalling Euros 140 million maturing in 2029 at the latest (Euros 160 million at 31 December 2021).

Naturgy also enjoys a comfortable debt maturity profile and balance sheet position, as well as flexibility in its capital expenditure and operating expenses for coping with the current economic scenario.

Loans from Latin American credit institutions (commercial / institutional banks)

At 31 December 2022 borrowings from various Latin American financial institutions totalled Euros 2,207 million (Euros 1,902 million at 31 December 2021). The geographic breakdown of these loans is as follows:

Country	31.12.2022	31.12.2021
Chile	648	562
Panama	846	754
Brazil	338	290
Mexico	352	287
Other	23	9
	2,207	1,902

Bank borrowings in other countries (commercial/institutional banks)

At 31 December 2022, debt with credit institutions in other countries amounted to Euros 256 million, mainly in Australia (Euros 265 million as at 31 December 2021).

Lease liabilities

The main finance lease liabilities recognised under this heading at 31 December 2022 and 31 December 2021 are as follows:

- Gas transport tankers to transport liquefied natural gas through finance lease agreements as the following detail:

Acquisition year	Capacity (m ³)	Duration (year)	Maturity	Ampliation option
2003	138,000	20	2023	—
2003	138,000	20	2023	—
2009	138,000	25	2029	5 years
2014	173,000	18	2032	—
2016	176,300	20	2036	—
2016	176,300	20	2036	—
2018	176,000	20	2037	—
2018	176,000	20	2037	—
2021 (1)	138,000	25	2029	5 years

(1) Acquired in the UFGas business combination (Note 32).

- Other relevant financial liabilities associated with lease contracts, which relate to the leases on office buildings and land for energy use linked to generation facilities. (Note 7).

Naturgy's activity as a lessor in contracts that qualify as finance leases is of little relevance, the main item being commercial collection rights for the assignment of the right to use gas and energy management facilities.

The effective average interest rate on the liabilities for finance lease agreements at 31 December 2022 is 6.4% (6.3% at 31 December 2021).

Note 18. Risk management and derivative financial instruments

Naturgy has a number of standards, procedures and systems for identifying, measuring and managing different types of risk which are made up of the following basic action principles:

- Guaranteeing that the most relevant risks are correctly identified, evaluated and managed.
- Appropriately segregating risk management functions at the operating level.
- Assuring that the level of risk exposure assumed by Naturgy in its business is in line with the objective global risk profile and with the achievement of its annual and strategic objectives.
- Ensuring the appropriate determination and review of the risk profile by the Risk Committee, proposing global limits by risk category, and assigning them to the Business Units.

Interest rate risk

The fluctuations in interest rates modify the fair value of the assets and liabilities that accrue a fixed interest rate and the cash flows from assets and liabilities pegged to a floating interest rate, and, accordingly, affect equity and profit, respectively.

The purpose of interest rate risk management is to balance floating and fixed borrowings in order to reduce borrowing costs within the established risk parameters.

Naturgy employs financial swaps to manage exposure to interest rate fluctuations, swapping floating rates for fixed rates.

The financial debt structure at 31 December 2022 and 2021 (Note 17), after taking into account the hedges arranged through derivatives, is as follows:

	31.12.2022	31.12.2021
Fixed interest rate	13,050	13,880
Floating interest rate	3,251	2,932
Total	16,301	16,812

The floating interest rate is mainly subject to the fluctuations of the EURIBOR, the LIBOR and the indexed rates of Mexico, Brazil, Argentina and Chile.

The sensitivity of results and equity (Other equity items) to interest rate fluctuations is as follows:

	Increase/decrease in interest rates (basis points)	Effect on profit before tax	Effect on equity before tax
2022	+50	(16)	47
	-50	16	(47)
2021	+50	(15)	78
	-50	15	(78)

In the context of the war in Ukraine, the European Central Bank decided to reduce its stimulus plan to purchase bonds started in March 2020 in response to rising inflation and proceed to raise interest rates. In the event of additional increases, it may lead to an increase in the cost of debt and limit access to capital markets. In any case, Naturgy's debt at a variable interest rate as of December 31, 2022 represents only 20% of the total.

Exchange rate risk

The variations in the exchange rates can affect the fair value of:

- Counter value of cash flows related to the purchase-sale of raw materials denominated in currencies other than local or functional currencies.
- Debt denominated in currencies other than local or functional currencies.
- Operations and investments in non-Euro currencies, and, accordingly, the counter value of equity contributed and results.

In order to mitigate these risks Naturgy finances, to the extent possible, its investments in local currency. Furthermore, it tries to match, whenever possible, costs and revenues indexed in the same currency, as well as amounts and maturities of assets and liabilities arising from operations denominated in non-Euro currencies.

For open positions, the risks in investments in non-functional currencies are managed through financial swaps and foreign exchange fluctuation insurance within the limits approved for hedging instruments.

The non-Euro currency with which Naturgy operates most is the US Dollar. The sensitivity of Naturgy's profits and equity (Other equity items) to a 5% variation (increase or decrease) in the US dollar/euro exchange rate for the derivatives it holds is as follows:

	Effect on profit before tax		Effect on equity before tax
2022	+5%	—	3
	-5%	—	(4)
2021	+5%	—	—
	-5%	—	—

Additionally, net assets of foreign companies that have a non-euro functional currency are subject to foreign exchange risk when their financial statements are translated to euros during the consolidation process. Exposure to risk countries where there is more than one exchange rate is immaterial.

Naturgy's equity at 31 December 2022 in Argentine pesos amounts to Euros 157 million (Euros 116 million at 31 December 2021). The pre-tax effect on equity of a 5% change in the Argentine peso/euro exchange rate would amount to Euros 8 million (Euros 6 million as at 31 December 2021).

Commodity price risk

An important part of Naturgy's operating profits are linked to the purchase of gas for supplying a diversified portfolio of customers.

These gas supply contracts are mostly signed on a long-term basis with purchase prices based on a combination of different commodity prices, basically crude oil and its derivatives and natural gas hubs.

However, selling prices to final customers are generally agreed on a short/medium term basis and are conditioned by the supply/demand balance existing at a given time in the gas market. This may imply a decoupling from gas supply prices.

Therefore, Naturgy is exposed to the risk of gas supply price fluctuations with respect to the selling price to end customers. Exposure to this risk is managed and mitigated by natural hedging, seeking to balance the commodity exposures of both prices. In addition, some supply contracts allow this exposure to be managed through volume flexibility and repricing mechanisms.

When it is not possible to achieve a natural hedge the position is managed, within reasonable risk parameters, through derivatives to reduce exposure to price decoupling risk, generally through hedging instruments. Nevertheless, ineffectiveness could occur in these hedges caused by the modification of the expected dates of the purchase and sale operations, the reduction with respect to the volumes covered and the decoupling with respect to the indexes covered in the purchase and sale operations.

In the integrated electricity businesses, the Group's aggregate exposure is determined by the strategic generation/supply positioning and by the final sales pricing policies in electricity supply.

Throughout 2022, raw materials prices have increased significantly due to the energy crisis resulting from the scarcity of raw materials caused the international blockade on Russia after the outbreak of war in Ukraine.

Finally, the Group is exposed to fluctuations in the price of CO₂ emission allowances, allocated to generation in its combined cycle plants. Naturgy invests part of its cash surpluses in CO₂-linked notes.

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

	Increase/decrease in gas price	Effect on profit before tax	Effect on equity before tax
2022	+10%	—	(303)
	-10%	—	303
2021	+10%	2	(327)
	-10%	(2)	327

	Increase/decrease in electricity price	Effect on profit before tax	Effect on equity before tax
2022	+10%	—	(129)
	-10%	—	129
2021	+10%	(1)	(102)
	-10%	3	106

Naturgy does not have any material investments in upstream businesses or raw materials production.

Business segment sensitivity to the prices of oil, gas, coal and electricity is explained below:

- Gas and electricity distribution. It is a regulated activity with revenue and profit margins are linked to distribution infrastructure management services rendered, irrespective of the prices of the commodities distributed.
- Gas and electricity. Profit margins on gas and electricity supply activities are directly affected by commodity prices. In this regard, Naturgy has a risk policy that stipulates the tolerance range, based on applicable risk limits, among other aspects. Measures employed to keep risk within the stipulated limits include active supply management, balanced acquisitions and sales formulae, and specific hedging so as to maximise the risk-profit relationship. Supplementary to the above-mentioned policy, Naturgy has mechanisms for ordinary and extraordinary price reviews, by means of the relevant clauses, with a large part of its supply portfolio. These clauses allow, in the medium term, the modulation of impacts in the event of any decoupling between Naturgy's selling prices in its markets and the evolution of prices in its supply portfolio.

Credit risk

Credit risk is defined as the potential loss resulting from the possible nonfulfillment of the contractual obligations of counterparties with which the Group does business.

Naturgy performs solvency analyses on the basis of which credit limits are assigned and any necessary provisions are determined. Based on these models, the probability of customer default can be measured and the expected commercial loss can be kept under control. In addition, credit quality and portfolio exposure are monitored on a recurring basis to ensure that potential losses are within the limits provided for by internal regulations. This allows a certain capacity to anticipate events in credit risk management.

With regard to credit risk in relation to trade receivables, these are reflected in the consolidated balance sheet net of provisions for impairment due to expected credit losses (Note 10) estimated by Naturgy on the basis of available information on past events (such as customer payment behaviour), current conditions and forward-looking factors (e.g. macroeconomic factors such as GDP, unemployment, inflation, interest rates, etc.) that might impact the credit risk of Naturgy's debtors in accordance with the prior segregation of customer portfolios.

Credit risk relating to trade accounts receivable is historically limited because, given the short collection periods of customers, significant amounts do not accumulate individually before supply can be suspended due to non-payment, in accordance with applicable regulations.

With respect to other exposures to counterparties in transactions involving financial derivatives and the investment of cash surpluses, credit risk is mitigated by carrying out such operations with reputable financial institutions in line with internal requirements. No significant defaults or losses arose in 2022 or 2021.

The main guarantees negotiated are bank guarantees, guarantees and deposits. At 31 December 2022, Naturgy had received guarantees totalling Euros 669 million to cover the risk of large industrial customers (Euros 576 million at 31 December 2021). In 2022, bank guarantees amounting to Euros 11 million were enforced (Euros 2 million at 31 December 2021).

At 31 December 2022 and 2021 Naturgy did not have significant concentrations of credit risk. The risk of concentration is minimised through diversification, managing and combining various areas of impact. Firstly, by having a customer base that is broadly distributed on an international scale; secondly, a diverse product range, from energy supply to the implementation of tailored energy solutions; thirdly, there are different customer types, such as residential customers, self-employed entrepreneurs and small and large businesses in both the public and private sectors and in different segments of the economy.

An ageing analysis of financial assets and related expected losses at 31 December 2022 and 31 December 2021 is set out below:

31.12.2022	Total	Current	0-180 days	180-360 days	More than 360 days
Expected loss ratio	14.3%	0.9%	19.0%	78.5%	92.2%
Trade receivables for sales and provisions of services	6,009	4,716	485	163	645
Expected loss	857	42	92	128	595
31.12.2021	Total	Current	0-180 days	180-360 days	More than 360 days
Expected loss ratio	14.3%	0.6%	5.7%	65.3%	90.5%
Trade receivables for sales and provisions of services	5,580	3,958	782	117	723
Expected loss	800	25	44	77	654

Movements in the expected loss provision are disclosed in Note 10.

Concerning supplier credit risk, the solvency of each supplier of products and services is guaranteed through the recurring analysis of their financial information, particularly prior to new engagements. To this end, the relevant assessment criteria are applied depending on the supplier's criticality in terms of service or concentration. This procedure is supported by control mechanisms and systems and supplier management.

At 31 December 2022, Naturgy has updated its credit risk management model based on economic forecasts in the main countries in which it operates, taking into account various factors including the war in Ukraine. The Group's consolidated Annual Accounts have not been significantly impacted by changes in its debtors' payment behaviour.

Liquidity risk

Naturgy has liquidity policies that ensure compliance with its payment commitments, diversifying the coverage of financing needs and debt maturities. A prudent management of the liquidity risk includes maintaining sufficient cash and realisable assets and the availability of sufficient funds to cover credit obligations.

Available cash resources at 31 December 2022 and 2021 are analysed below:

Liquidity source	Availability 2022	Availability 2021
Undrawn credit facilities (Note 17)	5,497	5,459
Undrawn loans	—	—
Cash and cash equivalents (Note 13)	3,985	3,965
Total	9,482	9,424

There is also additional unused capacity to issue debt in capital markets amounting to Euros 5,458 million (Euros 5,080 million at 31 December 2021) (Note 17).

The breakdown of the maturities of the financial liabilities at 31 December 2022 and 2021 is as follows:

	2023	2024	2025	2026	2027	2028 and later years	Total
31.12.2022							
Trade and other payables (Note 20)	6,562	—	—	—	—	—	6,562
Loans and other financial payables (1)	2,636	2,995	3,026	4,289	1,548	6,128	20,622
Financial derivatives	25	—	—	—	—	—	25
Total (2)	9,223	2,995	3,026	4,289	1,548	6,128	27,209

	2022	2023	2024	2025	2026	2027 and later years	Total
31.12.2021							
Trade and other payables (Note 20)	6,803	—	—	—	—	—	6,803
Financial liabilities (1)	2,110	2,209	2,875	2,338	4,030	7,353	20,915
Financial derivatives	37	23	5	11	—	31	107
Total (2)	8,950	2,232	2,880	2,349	4,030	7,384	27,825

(1) Includes cash flows related to financial liabilities, principal repayments and interest payments accruing each year, broken down by maturity. Does not include financial derivatives.

(2) The amounts are undiscounted contractual cash flows and, accordingly, differ from the amounts included in the balance sheet and in Note 17.

In an international context that is deeply influenced by the war in Ukraine, and within the framework of the Group's financial policy, the Naturgy has maintained the availability of funds to meet its obligations and to implement its business plans, guaranteeing at all times the optimum level of liquid resources and seeking to maximise efficiency in the management of financial resources.

Capital management

The main purpose of Naturgy's capital management is to ensure a financial structure that can optimise capital cost and maintain a solid financial position, in order to combine value creation for the shareholder with the access to the financial markets at a competitive cost to cover financing needs.

Naturgy considers the following to be indicators of the objectives set for capital management: maintaining, after the acquisition of Unión Fenosa, a long-term leverage ratio of approximately 50%.

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

	2022	2021
Standard & Poor's	BBB (*)	BBB
Fitch	BBB (*)	BBB

(*) S&P: Negative outlook; Fitch: Stable outlook

The leverage ratio is as follows:

	2022	2021
Net borrowings:	12,070	12,831
Non-current borrowings (Note 17)	13,999	15,114
Current borrowings (Note 17)	2,302	1,698
Cash and cash equivalents (Note 13)	(3,985)	(3,965)
Derivatives financial assets linked to financial liabilities (Note 18)	(246)	(16)
Equity:	9,979	8,873
Equity holders of the Company (Note 14)	7,574	5,889
Non-controlling interests (Note 14)	2,405	2,984
Leverage (Net borrowings / (Net borrowings + Equity))	54.7%	59.1%

Derivative financial instruments

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

	31.12.2022		31.12.2021	
	Assets	Liabilities	Assets	Liabilities
Hedging derivative financial instruments	332	1,664	142	800
Interest rate hedges				
Cash flow hedges	150	—	13	47
Interest and exchange rate hedges				
Cash flow hedges	—	—	—	23
Exchange rate hedges				
Cash flow hedges	2	—	3	—
Price of commodities hedges				
Cash flow hedges	180	1,664	126	730
Other financial instruments	37	—	37	—
Price of commodities	37	—	37	—
Derivative financial instruments – non current	369	1,664	179	800
Hedging derivative financial instruments				
Interest rate hedges	238	1,585	392	2,696
Cash flow hedges	46	—	—	37
Interest and exchange rate hedges				
Cash flow hedges	—	25	—	—
Exchange rate hedges				
Cash flow hedges	16	1	4	—
Fair value hedges	2	5	—	—
Price of commodities hedges				
Cash flow hedges	174	1,554	388	2,659
Other financial instruments	66	64	62	45
Price of commodities	34	64	62	45
Interest rate	32	—	—	—
Derivative financial instruments current	304	1,649	454	2,741
Total	673	3,313	633	3,541

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

“Other financial instruments” includes the derivatives not qualifying for hedge accounting.

As of December 31, 2022, asset derivatives linked to financial liabilities amount to 246 million euros (16 million euros as of December 31, 2021) corresponding to:

- interest rate derivatives amounting to 150 million euros in non-current assets and 78 million euros in current assets (13 million euros in non-current assets at December 31, 2021)
- cash flow exchange rate hedge derivatives amounting to 2 million euros in non-current assets and 16 million euros in current assets (3 million euros in non-current assets and 0 million euros in current assets) current as of December 31, 2021).

The impact on the consolidated income statement of derivative financial instruments is as follows:

	2022		2021	
	Operating results	Financial results	Operating results	Financial results
Cash flow hedge (1)	(5,818)	(20)	(999)	(35)
Fair value hedge	(26)	(3)	(6)	(3)
Other financial instruments	(35)	6	34	37
Total	(5,879)	(17)	(971)	(1)

(1) In 2022, "Net sales" includes Euros -767 million for ineffectiveness in gas sales hedging derivatives caused by a decoupling from hedged indices in sales transactions, and Euros -5 million for ineffectiveness in electricity sales hedging relationships in long-term contracts. The derivatives valuation causing said ineffectiveness is a negative sum of Euros 1,976 million, of which Euros 1,209 million correspond to the effective part and have been recognised in Other equity items (Note 2.4.8).

The breakdown of derivatives at 31 December 2022 and 2021, their fair value and maturities of their notional values is as follows:

(million euros)	31.12.2022							
	Fair	Notional value						
		value	2023	2024	2025	2026	2027	Subsequent years
INTEREST RATE HEDGES:								
Cash flow hedges:								
Financial swaps (EUR)	93	196	77	505	55	336	222	1,391
Financial swaps (USD)	59	—	2	2	671	2	25	702
Financial swaps (MXN)	5	—	—	—	85	—	—	85
Financial swaps (AUD)	39	4	4	4	3	5	191	211
Options (EUR)	—	40	—	—	—	—	—	40
EXCHANGE RATE HEDGES:								
Cash flow hedges:								
Foreign exchange insurance (USD)	2	154	—	—	—	—	—	154
Foreign exchange insurance (AUD)	14	160	85	—	—	—	—	245
Fair value hedges:								
Foreign exchange insurance (BRL)	—	15	—	—	—	—	—	15
Foreign exchange insurance (EUR) (1)	—	7	—	—	—	—	—	7
Foreign exchange insurance (USD)	(2)	117	—	—	—	—	—	117
INTEREST AND EXCHANGE RATE HEDGES:								
Cash flow hedges:								
Financial swaps (NOK)	(25)	101	—	—	—	—	—	101
COMMODITIES HEDGES:								
Cash flow hedges:								
Commodities price derivatives (EUR)	(17)	529	33	15	—	—	—	577
Commodities price derivatives (USD)	(2,562)	351	475	517	201	8	85	1,637
Commodities price derivatives (AUD)	(285)	58	91	113	114	115	1,143	1,634
OTHER:								
Commodities price derivatives (EUR)	(30)	7	—	—	—	—	—	7
Commodities price derivatives (USD)	37	—	37	—	—	—	—	37
Financial swaps (USD)	32	215	—	—	—	—	—	215
Total	(2,640)	1,954	804	1,156	1,129	466	1,666	7,175

(1) Arranged by companies using a functional currency other than the euro.

		31.12.2021						
		Notional value						
		Fair						
(million euros)	value	2022	2023	2024	2025	2026	Subsequent years	Total
INTEREST RATE HEDGES:								
Cash flow hedges:								
Financial swaps (EUR)	(59)	146	196	77	505	55	558	1,537
Financial swaps (USD)	(16)	3	5	5	7	638	179	837
Financial swaps (MXN)	1	—	—	—	—	77	—	77
Financial swaps (AUD)	3	3	4	4	4	3	197	215
Options (EUR)	—	—	40	—	—	—	—	40
EXCHANGE RATE HEDGES:								
Cash flow hedges:								
Foreign exchange insurance (USD)	4	195	—	—	—	—	—	195
Foreign exchange insurance (AUD)	3	—	125	—	—	—	—	125
Fair value hedges:								
Foreign exchange insurance (BRL)	—	9	—	—	—	—	—	9
Foreign exchange insurance (EUR) (1)	—	41	—	—	—	—	—	41
Foreign exchange insurance (USD)	—	121	—	—	—	—	—	121
INTEREST AND EXCHANGE RATE HEDGES:								
Cash flow hedges:								
Financial swaps (NOK)	(23)	—	101	—	—	—	—	101
COMMODITIES HEDGES:								
Cash flow hedges:								
Commodities price derivatives (EUR)	62	348	27	19	3	—	—	397
Commodities price derivatives (USD)	(2,844)	506	267	182	37	7	80	1,079
Commodities price derivatives (AUD)	(93)	44	68	92	112	113	1,249	1,678
OTHER:								
Commodities price derivatives (EUR)	(1)	13	—	—	—	—	—	13
Commodities price derivatives (USD)	55	44	2	37	—	—	—	83
Total	(2,908)	1,473	835	416	668	893	2,263	6,548

(1) Arranged by companies using a functional currency other than the euro.

The detail of the derivative financial instruments of commodities and the volumes (in physical units) by maturities as of December 31, 2022 and 2021, is as follows:

31/12/2022	Fair value (Euros million)	Physical units						Subsequent years	Total
		2023	2024	2025	2026	2027			
Procurements hedges									
Gas (TBTU)	196	129	106	85	28	—	—	348	
Electricity (GWh)	23	448	193	149	—	—	—	790	
Sales hedges									
Gas (TBTU)	(2,819)	83	59	63	28	—	—	233	
Electricity (GWh)	(264)	1,542	2,699	3,241	3,240	3,239	30,694	44,655	
Others (non hedge)	7	—	—	—	—	—	—	—	
Total	(2,857)								

31/12/2021	Fair value (Euros million)	Physical units						Subsequent years	Total
		2022	2023	2024	2025	2026			
Procurements hedges									
Gas (TBTU)	369	249	83	53	8	—	—	—	393
Electricity (GWh)	52	618	114	114	96	—	—	—	942
Sales hedges									
Gas (TBTU)	(3,148)	190	82	52	8	—	—	—	332
Electricity (GWh)	(148)	1,516	1,867	2,699	3,241	3,240	33,933	—	46,496
Others (non hedge)	54	—	—	—	—	—	—	—	—
Total	(2,821)								

Note 19. Other current and non-current liabilities

The breakdown of this heading at 31 December 2022 and 2021 is as follows:

	31.12.2022	31.12.2021
Deposits and guarantees deposits	227	217
Derivative financial instruments (Note 18)	1,664	730
Other liabilities	209	171
Other non-current liabilities	2,100	1,118
Dividend payable	14	25
Expenses accrued pending payment	162	143
Other liabilities	39	38
Other current liabilities	215	206
Total other liabilities	2,315	1,324

There are no significant differences between the carrying values and the fair values of the items in the account "Other non-current liabilities".

The heading "Deposits and guarantee deposits" basically includes amounts received from customers under contracts for the supply of electricity and natural gas, deposited with the competent Public Administrations (Note 9) as stipulated by law, and amounts received from customers to secure supplies of liquefied natural gas.

"Derivative financial instruments" includes the market value of the Australian subsidiaries' power purchase agreements amounting to EUR 264 million at 31 December 2022 . At 31 December 2021 this value was recorded in financial assets (Note 10) and an amount of Euros 153 million was included under this heading. It also includes operating gas price hedging derivatives in the amount of Euros 1,400 million at 31 December 2022 (Euros 577 million at 31 December 2021).

At 31 December 2022, "Other liabilities" includes the balancing entry for the amounts receivable in Brazil with respect to PIS and COFINS described in Note 10, amounting to Euros 101 million (Euros 85 million at 31 December 2021).

Note 20. Trade and other payables

The breakdown at 31 December 2022 and 2021 is as follows:

	31.12.2022	31.12.2021
Trade payables	4,455	3,397
Trade payables with related parties (Note 34)	16	10
Trade payables	4,471	3,407
Derivative financial instruments (Note 18)	1,624	2,704
Public Administrations	331	439
Accrued wages and salaries	76	111
Other payables	7	9
Other payables	414	559
Current tax liabilities	53	133
Total	6,562	6,803

The fair value and carrying value of these liabilities do not differ significantly.

“Derivative financial instruments” includes the market value of the Australian subsidiaries' power purchase agreements amounting to Euros 21 million at 31 December 2022, which were recorded under financial assets at 31 December 2021 (Note 10). It also mainly includes commodities price hedging derivatives in the amount of Euros 1,597 million at 31 December 2022 (Euros 2,702 million at 31 December 2021).

Information on the average period of payment to suppliers

The average payment period has been drawn up in accordance with Law 15/2010, which establishes measures to combat late payment in commercial operations, as well as the modifications established in Law 18/2022, of 28 September, creation and growth of companies.

In accordance with the above regulations, the information to be included in the consolidated annual accounts in relation to the average payment period to suppliers in commercial operations is as follows:

	2022	2021
Total payments (million euro)	26,206	14,463
Total outstanding payments (million euro)	994	398
Average supplier payment period (days) (1)	18	19
Transactions paid ratio (days) (2)	18	20
Transactions pending payment ratio (days) (3)	21	16
Total payments within the period established in the delinquency regulations (Euros million) (4)	26,087	—
% of the amount paid within the period established in the delinquency regulations with respect to the total amount paid (4)	99.55 %	—
Number of invoices paid within the period established in the delinquency regulations (4)	21,308,793	—
% of invoices paid within the period established in the delinquency regulations with respect to the total invoices paid (4)	99.80 %	—

(1) Calculated on the basis of amounts paid and pending payment

(2) Average payment period in transactions paid during the year

(3) Average age, suppliers pending payment balance

(4) Information requirement according to Law 18/2022.

Note 21. Tax situation

Naturgy Energy Group, S.A. is the parent of Tax Consolidated Group 59/93, which includes all the companies resident in Spain that are at least 75% directly or indirectly owned by the parent company and that fulfil certain requirements, entailing the overall calculation of the group's taxable income, deductions and tax credits. The Tax Consolidated Group for 2022 is indicated in Appendix III.

The remaining Naturgy companies pay their taxes individually, in accordance with the schemes applicable to them.

Set out below is the reconciliation between corporate income tax recognised and the amount that would be obtained by applying the nominal tax rate in force in the parent company's country (Spain) to "Profit/(loss) before taxes" for 2022 and 2021:

	2022	%	2021	%
Profit/(loss) before tax	2,546		1,797	
Statutory tax	637	25.0%	449	25.0%
Effect of net results under equity method	(32)	(1.3%)	(23)	(1.3%)
Application of tax rates of foreign companies	40	1.6%	(30)	(1.7%)
Tax deductions	(20)	(0.8%)	(36)	(2.0%)
Other items (1)	72	2.8%	(2)	(0.1%)
Corporate income tax	697	27.4%	358	19.9%
Breakdown of current/deferred expense:				
Current-year tax	775		398	
Deferred tax	(78)		(40)	
Corporate income tax	697		358	

(1) Other items relate mainly to the non-deductibility of 5% of dividends

Income qualifying for the tax scheme for transfers of assets made in compliance with competition law (Additional Provision 4 of the revised CIT Act) and the investments in which it has been used in prior years are explained below:

Year of the sale	Amount obtained on the sale	Amount reinvested	Capital gain	Capital gain included in tax base	Capital gain pending inclusion in tax base
2002	917	917	462	20	442
2003	141	141	79	—	79
2004	292	292	177	11	166
2005	432	432	300	2	298
2006	310	310	226	—	226
2007	105	105	93	—	93
2009	161	161	87	—	87
2010	790	790	556	—	556
2011	468	468	394	1	393
2012	38	38	32	—	32
Total	3,654	3,654	2,406	34	2,372

The reinvestment was made in fixed assets related to economic activities carried out by the transferring Company or any other company included in the Consolidated Tax Group, by virtue of the provisions of article 75 of the Corporate Income Tax Act.

The breakdown of the tax effect relating to each component of “Other comprehensive income” of the Consolidated Statement of Comprehensive Income for the year is as follows:

	31.12.2022			31.12.2021		
	Gross	Tax effect	Net	Gross	Tax effect	Net
Fair value measurement of assets through other comprehensive income	—	—	—	(17)	105	88
Cash flow hedges	1,449	(230)	1,219	(3,031)	477	(2,554)
Currency translation differences	3	—	3	316	—	316
Actuarial gains and loss (Note 17)	97	(24)	73	51	(11)	40
Total	1,549	(254)	1,295	(2,681)	571	(2,110)

Set out below is an analysis of and movements in deferred taxes:

Deferred income tax assets	Provisions for employee benefit obligations	Provision for bad debts and other provisions	Tax credits (1)	Amortisation differences	Financial instrument and asset valuation	Other	Total
01.01.2021	242	686	52	452	80	123	1,635
Charged/(credited) to income statement	49	(32)	32	(21)	—	(6)	22
Business Combinations (Note 32)	—	43	16	—	—	7	66
Movements related to equity adjustments	(11)	105	—	—	471	—	565
Currency translation differences	1	1	(1)	7	17	(1)	24
Transfers and other	(4)	(18)	21	(19)	—	(25)	(45)
31.12.2021	277	785	120	419	568	98	2,267
Charged/(credited) to income statement	(29)	113	(19)	1	—	(3)	63
Business combinations (Note 32)	—	—	—	1	—	—	1
Movements related to equity adjustments	(24)	—	—	—	(232)	—	(256)
Currency translation differences	2	7	1	5	59	(1)	73
Transfers and other	—	24	—	70	—	(32)	62
31.12.2022	226	929	102	496	395	62	2,210

(1) At 31 December 2022 and 2021 the tax credits mainly relate to unused deductions. The recovery of these credits is reasonably assured as they are not subject to any time limit and pertain to companies that historically generate recurring profits.

Deferred income tax liabilities	Amortisation differences	Deferred gains	Business combination valuation (1)	Financial instrument and asset valuation	Other	Total
01.01.2021	573	207	620	110	283	1,793
Charged/(credited) to income statement	(4)	—	(23)	—	9	(18)
Business combinations (Note 32)	—	—	35	—	37	72
Movements related to equity adjustments	—	—	—	(6)	—	(6)
Currency translation differences	(20)	—	(14)	4	11	(19)
Transfers and other	(29)	—	1	—	(7)	(35)
31.12.2021	520	207	619	108	333	1,787
Charged/(credited) to income statement	34	—	(27)	—	(22)	(15)
Business combinations (Note 32)	—	—	4	—	—	4
Movements related to equity adjustments	—	—	—	6	—	6
Currency translation differences	18	—	16	6	12	52
Transfers and other	78	—	(2)	(1)	42	117
31.12.2022	650	207	610	119	365	1,951

(1) The heading "Business combination valuation" mainly includes the tax effect of the portion of the merger difference resulting from the absorption of Unión Fenosa, S.A. by Naturgy Energy Group, S.A. in 2009, allocated to net assets acquired, which will not have tax effects. It also includes the tax effect of the allocation of the acquisition price of CGE by Naturgy in 2014 and of various prior acquisitions completed by CGE.

Tax credits yet to be recognised totalled Euros 41 million at 31 December 2022 (Euros 49 million at 31 December 2021).

In July 2021 tax inspection proceedings were instigated against 9 companies in Group 59/93 in relation to corporate income tax and the same companies in Group 273/08 with respect to VAT. These proceedings are partial in nature in both taxes, the object of the verification being limited to certain aspects of the tax obligation. The periods under inspection for corporate income tax purposes (tax consolidation regime) are 2016 to 2019 and for VAT purposes (corporate group regime) from September 2017 to December 2020.

The companies that were notified of the instigation of inspection proceedings were: Naturgy Energy Group, S.A., Naturgy Informática, S.A., UFD Distribución de Electricidad, S.A., Naturgy Iberia, S.A, Gas Natural Comercializadora, S.A., Naturgy Generación, S.L, Naturgy Renovables, S.L, GPG Ingeniería y Desarrollo de Generación, S.L and Naturgy Engineering, S.L. However, This notification interrupts the limitation period for assessing the taxes for the periods mentioned above with respect to the entire tax group for corporate income tax purposes and the VAT group for VAT purposes.

In addition, within the same inspection procedure notice was received of the commencement of verification proceedings, also of a partial nature, in respect of personal income tax withholdings and payments on account of earned income. The inspection covers periods from September 2017 to December 2020.

During 2022 the scope of the above inspection proceedings was extended to include Naturgy Aprovisionamientos, S.A. for the same taxes and periods. Naturgy Energy Group, S.A. has also been notified of the commencement of inspection proceedings against Naturgy Energy Group, S.A. in respect of withholdings and payments on account of investment income received by non-resident entities, for the period April 2018 to December 2020.

At the date of preparation of these consolidated annual accounts all the above inspection proceedings are in progress, although the tax inspectorate has already issued assessments for the regularisation of personal income tax withholdings and payments on account of earned income with respect to five of the companies being inspected, which have been signed in agreement. The total tax liability, with a voluntary payment period ending in March 2023, amounts to Euros 1 million and has been fully provisioned.

Concerning tax-related appeals, on 29 September 2022 the ruling was received from the Central Economic-Administrative Court (TEAC) on an appeal against the tax assessments resulting from an inspection on corporate income tax for the periods 2011-2015, which were contested and which basically regularised the deduction for international double taxation. The TEAC rejected the appeal in its entirety. A contentious-administrative appeal has been lodged against that ruling with the National High Court, and the relevant complaint had yet to be formalised at the date of authorisation these consolidated annual accounts. The enforceability of the ruling has been suspended and the tax liability, which including accrued late payment interest totals Euros 18 million, has been fully provided for under "Provisions" (Note 16).

In accordance with Spanish tax legislation, at the date of preparation of these consolidated annual accounts, the Spanish Group's returns for the last four year for the principal taxes to which it is subject and which are not involved in the above-mentioned tax inspection are open to inspection.

In general, the other Naturgy companies are open to inspection for the following periods:

Country	Period
Argentina	2017-2022
Brazil	2018-2022
Chile	2017-2022
Mexico	2018-2022
Panama	2016-2022

As a result, among other things, of the different interpretations to which current tax legislation lends itself, additional liabilities could arise as a result of an inspection. Naturgy considers, however, that any liabilities that might arise would not significantly affect these consolidated annual accounts.

Naturgy assesses uncertain tax treatments and reflects the effect of uncertainty on taxable income (losses), tax bases, and unused tax losses or tax credits. Naturgy has adequate coverage for possible obligations deriving from a number of tax claims. There are no lawsuits or uncertain tax treatments which are individually significant.

On 31 December 2020, Law 11/2020 on the General State Budget for 2021 was published under which, among other measures, certain articles of Law 27/2014 on Corporate Income Tax were amended. The most relevant amendments relate to the limitation of the exemption of dividends and capital gains such that, with effect from 1 January 2021, only those derived from holdings of more than 5% of share capital will be exempt at 95%, thus eliminating those relating to holdings with an acquisition cost exceeding Euros 20 million (although a transitional arrangement is established for such holdings).

At the same time, the tax consolidation regime was modified by establishing the non-elimination of dividends distributed between companies in the same Tax Consolidation Group, which entails an effective tax rate of 1.25% for dividends received or capital gains generated in Spanish companies receiving dividends from companies in which a percentage of 5% or more is held, without prejudice to whether the distributing company and the receiving company belong to the same Tax Consolidation Group.

Related to this measure, and for the purposes of calculating the limitation on the deductibility of financial expenses in the case of holding companies in which dividends form part of operating profit, only dividends from entities in which the holding is equal to or greater than 5% will be considered, eliminating from the calculation those dividends from holdings in which the acquisition value of the holding was greater than Euros 20 million.

The National Budget Law for 2022 approved the amendment of Corporate Income Tax Law 27/2014, establishing a minimum tax rate of 15% of taxable income. Naturgy does not expect this change to have any impact on the Group as the deductions applied do not entail a reduction in the effective rate below this percentage.

Anticipating the implementation of the rules included in OECD Pillar Two, Directive (EU) 2022/2523 on ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups in the Union was adopted on 14 December 2022. The rules laid down by this Directive, which have yet to be transposed by Member States, will apply to financial years beginning on or after 31 December 2023 and establish a minimum taxation of 15% for all group companies in each country in which the group operates. If in any country the minimum 15% rate is not complied with, the difference must be paid in the country of residence of the parent company, Spain in our case. The impact of these regulations on the Group is considered to be negligible, as taxation in the various jurisdictions in which the Group operates is almost always above an effective rate of 15%.

On 28 December 2022, the Official State Gazette published Law 38/2022 approving, inter alia, the Temporary Energy Tax which consist of an extraordinary charge of 1.2% of the consolidated revenue of energy groups that are considered to be the main operator in any of the various energy sectors, in order to address the additional energy costs to be borne by the economy as a whole due to the extraordinary circumstances caused by the Russian invasion of Ukraine and the volatility of the energy markets.

It stipulates that, in the case of groups taxed under the tax consolidation regime, the obligation must be understood to refer to the consolidated group as a whole. It is also laid down that the amounts pertaining to the regulated natural gas distribution, electricity distribution and electricity generation activities will be eliminated from revenue.

The energy tax is payable in 2023 on the basis of the 2022 figures and in 2024 on the basis of the 2023 figures, with a partial payment of 50% between 1 and 20 February and the final payment between 1 and 20 September.

The Group is analysing, together with its advisors, the adequacy of this extraordinary tax to current legislation, reserving, where appropriate, the possibility of resorting to the courts of justice in the event that this analysis determines that said legality has been violated. This lien is considered a tax and its accounting record must follow the criteria established in IFRIC 21, so its accounting will occur on January 1, 2023 and 2024, to the extent that these are the accrual dates of the same. , and for the entire annual amount to be paid each year.

Law 38/2022 also brings in a change in the tax consolidation system with effects limited to fiscal year 2023, whereby the tax base of groups taxed under the consolidation scheme may only include 50% of individual tax losses, while the remaining 50% is to be applied over the following ten years. We do not expect this amendment to have a material impact on the Group's effective taxation.

Note 22. Net sales

The breakdown of this heading in the consolidated income statement for 2022 and 2021 is as follows, by category with the relevant operating segment reporting structure:

2022	Markets and Procurement	Networks Spain	Networks Latam	Energy management and Networks	Spain & USA	Latam	Australia	Renewables and New businesses	Supply	Rest	Total
Sales of gas and access to distribution networks	6,384	983	4,255	11,622	—	—	—	—	4,321	—	15,943
Sales of electricity and access to distribution networks	4,407	775	1,009	6,191	61	97	32	190	4,547	—	10,928
LNG sales	5,937	—	—	5,937	—	—	—	—	—	—	5,937
Registrations and facility checks	—	29	9	38	—	—	—	—	36	—	74
Assignment power generation capacity	343	—	—	343	—	—	—	—	—	—	343
Rentals meters and facilities	—	44	4	48	—	—	—	—	307	—	355
Other income	3	13	48	64	153	28	—	181	138	2	385
Total	17,074	1,844	5,325	24,243	214	125	32	371	9,349	2	33,965

2021	Markets and Procurement	Networks Spain	Networks Latam	Energy management and Networks	Spain & USA	Latam	Australia	Renewables and New businesses	Supply	Rest	Total
Sales of gas and access to distribution networks	3,299	1,071	3,057	7,427	—	—	—	—	3,067	—	10,494
Sales of electricity and access to distribution networks	3,122	775	819	4,716	54	114	21	189	2,943	—	7,848
LNG sales	2,795	—	—	2,795	—	—	—	—	—	—	2,795
Registrations and facility checks	—	—	4	4	—	—	—	—	35	—	39
Assignment power generation capacity	307	—	—	307	—	—	—	—	—	—	307
Rentals meters and facilities	—	—	4	4	—	—	—	—	299	—	303
Other income	12	85	42	139	74	27	—	101	113	1	354
Total	9,535	1,931	3,926	15,392	128	141	21	290	6,457	1	22,140

Reporting by geographical area

Naturgy's revenue by country of destination is analysed below:

	2022	2021
Spain	18,017	11,428
Rest of Europe	4,917	3,272
France	2,309	1,808
United Kingdom	687	330
Portugal	402	523
Greece	359	120
Italy	327	53
Poland	285	15
Netherlands	217	140
Croatia	149	—
Turkey	98	103
Ireland	—	180
Other Europe	84	—
Latin American	7,578	5,892
Mexico	2,056	1,768
Brazil	2,043	1,409
Argentina	939	507
Chile	915	890
Panama	896	725
Puerto Rico	523	490
Dominican Republic	115	88
Other Latin America	91	15
Other	3,453	1,548
Thailand	894	—
South Korea	662	94
USA	623	382
China	509	665
India	348	145
Japan	341	45
Australia	30	21
Taiwan	—	18
Other countries	46	178
Total	33,965	22,140

In accordance with the treatment described in Note 2.4.17., in 2021 "Net sales" included a negative adjustment of Euros 8 million for variations in market price in accordance with Article 22 of Royal Decree 413/2014, recognised under "Other non-current financial liabilities" in the consolidated balance sheet. This amount has been reversed during 2022.

Note 23. Procurements

The breakdown of this heading for 2022 and 2021 is as follows:

	2022	2021
Energy purchases	25,579	14,686
Access to transmission networks	1,328	1,309
Other purchases and changes in inventories	287	534
Total	27,194	16,529

2022 includes Euros 108 million relating to unpaid invoices claimed in connection with the provision for the litigation of the group company in Chile, Metrogas, S.A., described in Note 36.

Note 24. Other operating income

The breakdown of this heading for 2022 and 2021 is as follows:

	2022	2021
Other management income	120	72
Concession construction or improvements services (IFRIC 12) (Note 24)	63	45
Operating grants	—	2
Total	183	119

(1) Estimated fair value by reference to expenses incurred (Note 26), without margin

Note 25. Personnel expenses

The breakdown of this heading for 2022 and 2021 is as follows:

	2022	2021
Wages and salaries	451	457
Termination benefits	24	410
Social security costs	87	87
Defined contribution plans	24	28
Defined benefit plans (Note 16)	4	6
Share-based payments (Note 14)	7	4
Own work capitalised	(74)	(77)
Other	24	25
Total	547	940

In May 2021 the employees' trade union representatives and the company's management representatives reached an "Agreement on the Naturgy Group Voluntary Redundancy Scheme" to be implemented by 31 December 2021. 2021 Termination benefits include the costs associated with the Voluntary Redundancy Scheme relating to the actual terminations and confirmed agreements between the parties until 31 December 2021 which make the commitment irrevocable.

The average number of Naturgy employees was 7,210 in 2022 and 8,872 in 2021, analysed by category as follows:

	2022	2021
Executives	110	115
Middle management	788	1,932
Specialists	4,132	4,101
Operational staff	2,180	2,724
Total	7,210	8,872

The criterion for defining the "Middle Management" category was altered in 2022, restricting its use to subcategories with greater responsibility. As a result, there has been a transfer of personnel to the "Specialists" category.

The average number of employees in the year with disability equal to or greater than 33% is as follows, by category:

	2022	2021
Executives	—	—
Middle management	6	10
Specialists	34	53
Operational staff	45	47
Total	85	110

The number of Naturgy employees at the end of 2022 and 2021 broken down by category, gender and geographical area, is as follows:

	2022			2021		
	Men	Women	Total	Men	Women	Total
Executives	82	27	109	89	22	111
Middle management	545	246	791	1,220	379	1,599
Specialists	2,566	1,589	4,155	2,107	1,371	3,478
Workers	1,591	466	2,057	1,596	582	2,178
Total	4,784	2,328	7,112	5,012	2,354	7,366

	2022	2021
Spain	4,024	3,993
Rest of Europe	23	28
Latin American	3,017	3,152
Rest	48	193
Total	7,112	7,366

The number of employees in joint venture operations is included on a pro-rata basis depending on the relevant percentage interest, with regard to both the calculation of the average number of employees and the calculation of the number of employees at year end. At 31 December 2022, the number of employees at year end of these entities stood at 151 (158 at 31 December 2021) and the average number of employees was 153 (167 at 31 December 2021).

In both the calculation of the number of employees at the year end and the calculation of the average number of employees, the employees of companies classified as discontinued operations (Note 11) and the employees of companies consolidated using the equity method have not been taken into account, in accordance with the following breakdown:

	2022		2021	
	Number of employees at year end	Average number of employees	Number of employees at year end	Average number of employees
Discontinued operations (1)	21	25	24	42
Equity-consolidated companies	55	56	56	88

(1) The employees included correspond to the coal generation activity in Spain, interrupted in 2020.

Note 26. Other operating expenses

The breakdown of this heading for 2022 and 2021 is as follows:

	2022	2021
Taxes	338	161
Withdrawal costs of onerous contracts with gas customers (Note 16)	—	234
Operation and maintenance	307	254
Advertising and other commercial services	100	101
Professional services and insurance	122	101
Concession construction or improvements services (IFRIC 12) (Note 24)	63	45
Supplies	60	54
Services to customers	60	46
Lean services	139	150
Other	322	169
Total	1,511	1,315

The Supreme Court delivered a judgment in April 2021 on the application of the water royalty derived from Law 15/2012, declaring the nullity of its second transitional provision and paragraph 2 the first additional provision of Royal Decree 198/2015, on the grounds that they were both unlawful. The nullity of the aforementioned transitional provisions led to the recognition in 2021 of a Euros 191 million reduction in the heading "Taxes" in the consolidated income statement relating to the amounts paid as royalties in 2013 and 2020, and late-payment interest totalling Euros 30 million (Note 30). Euros 204 million had been received at 31 December 2021 including accrued interest..

In 2022 "Lean Services" included an impact of Euros 21 million for transformation costs (Euros 39 million in 2021).

Note 27. Profit/(loss) on disposals of fixed assets

The main impact in 2022 was the sale of the assets of the gas well exploration and production business and sales of condensates by Unión Fenosa Gas Exploración y Producción, S.A.U., which generated a capital gain of Euros 3 million.

In 2021 this basically related to the sale of the turbine at the Arrúbal combined cycle plant resulting in a gain on the disposal of fixed assets of Euros 6 million.

Note 28. Depreciation, Amortisation and impairment losses of non financial assets

The breakdown of this heading for 2022 and 2021 is as follows:

	2022	2021
Amortisation intangible assets (Note 5)	272	284
Depreciation PPE (Note 6)	995	966
Depreciation right-of-use assets (Note 7)	117	195
Intangible asset impairment (Notes 4 and 5)	28	—
PPE impairment (Notes 4 and 6)	120	17
Total	1,532	1,462

Note 29. Other results

In 2022 this consolidated income statement heading mainly included:

- profit from the agreement reached with Acciona regarding the additional 50% interest in Desarrollo de Energías Renovables de Navarra, S.A. and P.E. Cinseiro, S.L. (Notes 2.4.1. and 32) for Euros 9 million.
- Euros -128 million for loss of earnings resulting from the judgment against Metrogas in the claim filed by Transportadora de Gas del Norte S.A. (TGN) (Note 36).
- profit on the sale of the holding in Naturgy Almacенamientos Andalucía, S.A. and the sale of the assets of Petroleum Oil & Gas España, S.A. for Euros 3 million (Note 11).

In 2021 this consolidated income statement heading mainly included:

- the profit from the agreement reached with respect to the Unión Fenosa Gas holding (Notes 2.4.1. and 32) amounting to Euros 127 million (including Euros -9 million for translation differences and valuation reserves transferred to income).
- pre-tax capital gain of Euros 2 million on the sale of the 40% holding in Cogeneración Noroeste, S.L. (Note 8).
- pre-tax capital gain of Euros 4 million on the sale of the natural gas distribution permits in the North-West Mexico and Sinaloa areas for Euros 24 million (Note 6).
- pre-tax capital gain of Euros 7 million on the sale of Mobilgaz S.A.S. in France, a company that had previously received the assets pertaining to the vehicle natural gas business from Gas Natural Europe, S.A.S. (Note 2.4.1.).
- pre-tax capital loss of Euros 8 million on the sale of Naturgy Ltd. in Ireland, a gas and electricity supply company in Ireland (Note 2.4.1.).

Note 30. Net financial income /(expense)

The breakdown of this heading for 2022 and 2021 is as follows:

	2022	2021
Dividends	1	2
Interest income	67	19
Other financial income (1)	96	179
Total financial income	164	200
Cost of borrowings (2)	(568)	(510)
Interest expenses pension plans	(13)	(6)
Other financial expense (3)	(256)	(82)
Total financial expense	(837)	(598)
Variations in the fair value of financial instruments (4)	13	14
Net exchange differences	(5)	(10)
Net financial income/(expense)	(665)	(394)

(1) In 2021 this heading included a financial asset impairment reversal amounting to Euros 62 million. It also included late payment interest relating to the ruling on the 2013-2020 water royalty mentioned in Note 26.

(2) It includes the cost of lease financial liabilities (Euros 85 million in 2022 and Euros 92 million in 2021) and other refinancing costs (Euros 31 million in 2022 and Euros 29 million in 2021).

(3) Financial expenses relating to litigation by the Group company Chile Metrogas, S.A. and the associated with the claims concerning PIS and COFINS charges paid by the Brazilian companies described in Note 36 have been included in 2022.

(4) Includes changes in the fair value of equity instruments (Note 9) and changes in the value of derivative financial instruments (Note 18).

Note 31. Cash generated from operating activities and other cash-flow details

The breakdown of cash generated from operations in 2022 and 2021 is as follows:

	2022	2021
Profit/(loss) before tax	2,546	1,797
Adjustments to profit/(loss):	3,057	1,520
Depreciation, amortisation and impairment expenses (Notes 4, 5, 6 and 7)	1,532	1,462
Other adjustments to net income:	1,525	58
Net financial income (Note 30)	665	394
Profit of entities recorded by equity method (Note 8)	(128)	(90)
Release to income (Note 15)	(50)	(49)
Net variation in Provisions (1)	223	(30)
Pre-tax profit/(loss) from discontinued activities net of capital gains and impairment (Note 11)	—	—
Other result adjustments (2)	815	(167)
Changes in working capital (excluding the effects of adjustments in consolidation scope and exchange differences):	(272)	(1,117)
Inventories	(578)	(243)
Trade and other receivables	(246)	(2,105)
Trade and other payables	552	1,231
Other cash flows from operating activities:	(1,089)	(1,199)
Interest paid	(520)	(488)
Interest collected	87	32
Dividends received	106	121
Income tax paid	(762)	(864)
CASH FLOWS GENERATED FROM OPERATING ACTIVITIES	4,242	1,001

(1) Net variation of provisions includes, mainly, the amount registered during 2022 for the claim of invoices pending payment in relation to the provision for the litigation of the group company in Chile Metrogas, S.A. (Note 23).

(2) Other adjustments to the result include the ineffectiveness recorded for gas sales hedging derivatives (Note 18) as well as the amount for lost profits resulting from the conviction of Metrogas, S.A. (note 29).

Payments on investments in Group companies, associates and business units at 31 December 2022 and 2021 break down as follows:

	2022	2021
Acquisition Unión Fenosa Gas (Note 32)	—	395
Acquisition Hamel Renewables USA (Note 32)	—	(49)
Acquisition El Almendro (Note 32)	—	(29)
Acquisition Montalto	(1)	—
Acquisition Foggia Solar	(2)	—
Acquisition participaciones Acciona (Note 32)	(9)	—
Acquisition Infraestructuras San Servan	(5)	—
Total	(17)	317

Receipts due to divestments in Group companies, associates and business units at 31 December 2022 and 2021 break down as follows:

	2022	2021
Sale Chile electricity	—	2,591
Sale Mobiligaz	—	11
Sale Cogeneración del Noroeste	—	7
Sale Naturgy Ltd	—	38
Sale Almacenamientos Andalucía y activos Petroleum	16	—
Sale Tecnatom	6	—
Sale UTE Tramfang	1	—
Other	2	3
Total	25	2,650

The breakdown of payments for the acquisition of equity instruments at 31 December 2022 and 2021 is as follows:

	2022	2021
Naturgy Energy Group, S.A. treasury shares (Note 14)	—	—
Anticipated amortization of subordinated perpetual bond (Note 14)	(500)	—
Cost of hybrid debentures buy-back	—	(22)
Other	(3)	(7)
Total	(503)	(29)

Movements in borrowings in 2022 2021 are set out below, disclosing separately the changes that generate cash flows from those that do not:

	Generate cash flow			Do not generate cash flow		31.12.2022
	01.01.2022	Increase	Decrease	Currency translation differences	Transfers and other (1)	
Issuing of debentures and other negotiable obligations	8,586	300	(761)	53	25	8,203
Borrowings from financial institutions	6,586	476	(718)	202	25	6,571
Derivative financial instruments	107	—	—	1	(83)	25
Lease liabilities	1,521	—	(146)	68	43	1,486
Other financial liabilities	12	7	—	(3)	—	16
Total (Note 17)	16,812	783	(1,625)	321	10	16,301

	Generate cash flow			Do not generate cash flow		31.12.2021
	01.01.2021	Increase	Decrease	Currency translation differences	Transfers and other	
Issuing of debentures and other negotiable obligations	9,241	500	(1,205)	3	47	8,586
Borrowings from financial institutions	6,571	1,132	(1,313)	150	46	6,586
Derivative financial instruments	180	—	—	3	(76)	107
Lease liabilities	1,537	—	(184)	85	83	1,521
Other financial liabilities	10	—	(33)	(6)	41	12
Total (Note 17)	17,539	1,632	(2,735)	235	141	16,812

The heading “Other changes in cash and cash equivalents” includes:

	2022	2021
Consolidation perimeter changes	—	(57)
Held for sale transfers	—	—
Total	—	(57)

Nota 32. Business combinations

2022

Acquisition of renewable assets

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

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

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

The acquisition cost of the business combination was Euros 58 million. Goodwill has been calculated at Euros 7 million as the difference between the acquisition cost and interest in the fair value of the identifiable assets and liabilities existing at the transaction date.

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

	Fair value	Carrying amount
Property, plant and equipment (Note 6)	28	21
Right-of-use assets (Note 7)	2	2
Deferred tax assets	1	1
Commercial debts and others bills to receive the pay	34	34
Cash and other equivalent liquid assets	20	20
Total Assets	85	78
Provisions	5	5
Non-current financial liabilities (Note 17)	2	2
Deferred tax liability	3	1
Commercial debtors and other accounts payable	23	23
Other current liabilities	1	1
Total Liabilities	34	32

Fair value of net assets acquired	51	46
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Acquisition cost	58
Purchase price 50% additional	(29)
Cash and other equivalent liquid assets in the acquired subsidiary	(20)
Net acquisition cost	9

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

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

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

- The projects were valued following the revenue approach, principally with discounted cash flows, based on Level 3 input data, as these data were not observable in the market.
- The valuation was performed as a function of the investment's hurdle rate.

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

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

2021

Hamel Renewables

In January 2021, Naturgy, through its subsidiary Naturgy Solar USA, LLC, acquired 100% of Hamel Renewables Holdco, LLC, a vehicle company that owns a portfolio of 8 GW solar projects along with 4.6 GW of energy storage projects located in 9 US states and represents Naturgy's first investment in the US renewable energy market.

Additionally, as part of the transaction, Naturgy concluded a 5-year development agreement with Candela Renewables which has 20 years' experience in developing solar and energy storage projects in the US, including several of the projects in the portfolio acquired by Naturgy.

The transaction represents an enterprise value of USD 57 million for 100% of the vehicle company. Naturgy plans to invest up to USD 1,800 million over the next five years to achieve an operational capacity of 1.6 GW by 2025, while maintaining the possibility of developing the remaining projects of the acquired vehicle company up to a total of 8 GW of PV power by 2030.

The cost of the business combination amounted to Euros 62 million. The goodwill, amounting to Euros 8 million, was calculated as the difference between the acquisition cost and the fair value of the identifiable assets and liabilities on the transaction date.

The net assets acquired in January 2021 and goodwill break down as follows:

Acquisition cost	62	
Fair value of the net assets	54	
Goodwill (Note 5)	8	
	Fair value	Carrying amount
Intangible assets (Note 5)	42	3
Property, plant and equipment (Note 6)	7	7
Non-current financial assets (Note 9)	1	1
Cash and cash equivalents	13	13
TOTAL ASSETS	63	24
Non-current financial liabilities (Note 17)	1	1
Deferred tax liabilities (Note 21)	8	—
TOTAL LIABILITIES	9	1
Fair value of the net assets acquired	54	
Acquisition cost	62	
Cash and cash equivalents in the acquired company	13	
Net acquisition cost	49	

In the purchase price allocation process, assets susceptible of revaluation were identified from the balance sheet of Hamel Renewables Holdco, LLC and subsidiaries at the acquisition date, corresponding to intangible assets represented by the value of Euros 39 million relating to the generation of value of the project portfolio acquired. Deferred tax liabilities were also recognised in connection with the revaluation, with the goodwill not expected to be deductible as a contra-item.

The valuation of these net assets of Hamel Renewables Holdco, LLC and subsidiaries was basically carried out in accordance with the following methodology:

- The projects with the highest degree of development were valued following the revenue approach and in particular, through the discounted cash flow method, based on Level 3 inputs as the data were not observable on the market.
- The valuation was performed on the basis of the projects according to the required return on investment and flow projections based on revenue per MW of solar or storage capacity.
- The rest of the projects at a less advanced stage were appraised on the basis of the development bonuses considered in the valuation of the development platform, which were checked with the developer.

A consolidated loss of Euros 2 million for the period was contributed since the acquisition date. If the acquisition had taken place on 1 January 2021, the impact on consolidated revenue, EBITDA and consolidated profit attributable to equity holders of the Parent company for the period would have been immaterial.

Unión Fenosa Gas

In March 2021, Naturgy, ENI and the Arab Republic of Egypt completed the agreement reached on 1 December 2020 to amicably resolve the disputes affecting Unión Fenosa Gas (UFG). As a result, UFG received a number of cash payments for the sale of the assets in Egypt, UFG's business activities in Spain and one of its vessels, as well as the receipt of compensation agreed with the Egyptian government. The agreement with the Egyptian government included a four-year deferred amount, with the last maturity in September 2024, which was recognised at the guaranteed amount. The USD 90 million of the remaining instalments will be recognised upon collection. Simultaneously, Naturgy completed the acquisition of the remaining 50% holding in UFG for Euros 466 million, bringing Naturgy's holding to 100% and enabling it to obtain control. It now consolidates using the full consolidated method. This also entailed the termination of the annual gas supply contract of around 3.5 bcm for supplying combined cycle plants in Spain that was due to end in 2029, while maintaining the contract with Oman which expires in 2025.

The net assets acquired in January 2021 and goodwill break down as follows:

Acquisition cost	860
Fair value of the net assets	840
Goodwill (Note 5)	20

	Fair value	Carrying amount
Intangible assets (Note 5)	78	—
Right-of-use assets (Note 7)	45	45
Investments recorded using the equity method (Note 8)	41	9
Non-current financial assets (Note 9)	56	56
Deferred tax assets (Note 21)	66	66
Other current assets	172	172
Cash and cash equivalents	861	861
TOTAL ASSETS	1,319	1,209
Provisions (Note 16)	3	3
Non-current financial liabilities (Note 17)	106	106
Deferred tax liabilities (Note 21)	57	37
Current financial liabilities (Note 17)	77	77
Other current liabilities	236	236
TOTAL LIABILITIES	479	459

Fair value of the net assets acquired **840**

Acquisition cost (1)	860
Acquisition price for the additional 50%	(466)
Net carrying amount of the equity method value	(258)
Currency translation differences and other value adjustments	(9)
Transaction value (Note 29)	127

(1) Including the fair value of the previous participation

Based on the balance sheet of Unión Fenosa Gas, S.A. and subsidiaries at 10 March 2021, assets susceptible of revaluation were identified, consisting of intangible assets amounting to Euros 78 million representing the value of the supply contracts acquired and the value of the shareholding in Qalhat LNG S.A.O.C. Deferred tax liabilities were also recognised in connection with the revaluation, with the goodwill not expected to be deductible as a contra-item.

The consolidated profit for the period contributed since the acquisition date amounts to Euros 104 million. If the acquisition had taken place on 1 January 2021, the consolidated revenue, EBITDA and consolidated profit attributable to equity holders of the parent company for the period would have changed by Euros 197 million, Euros -14 million and Euros -16 million, respectively.

El Almendro Wind Farm

In December 2021, Naturgy, through its subsidiary Naturgy Renovables, S.L.U., acquired 100% of Parque Eólico El Almendro, S.L.U., owner of a 44 MW wind farm in commercial operation located in Huelva (Spain) and a 40 MW solar hybridisation project.

The transaction represents an enterprise value of Euros 69 million for 100% of the company. The acquisition cost of the business combination amounted to Euros 31 million and included Euros 7 million of contingent consideration conditional on the achievement of certain contract milestones. The goodwill, amounting to Euros 7 million, was calculated as the difference between the acquisition cost and the fair value of the identifiable assets and liabilities on the transaction date.

The net assets acquired in December 2021 and goodwill break down as follows:

Acquisition cost	31	
Fair value of the net assets	24	
Goodwill (Note 5)	7	
	Fair value	Carrying amount
Intangible assets (Note 5)	7	—
Property, plant and equipment (Note 6)	62	39
Trade and other receivables	1	1
Cash and cash equivalents	2	2
TOTAL ASSETS	72	42
Non-current financial liabilities (Note 17)	40	40
Deferred tax liabilities (Note 21)	7	—
Trade and other payables	1	1
TOTAL LIABILITIES	48	41
Fair value of the net assets acquired	24	
Acquisition cost	31	
Cash and cash equivalents in the acquired company	2	
Net acquisition cost	29	

In the purchase price allocation process, assets susceptible of revaluation were identified from the balance sheet of Parque Eólico El Almendro, S.L.U. at the acquisition date, consisting of intangible assets amounting to Euros 7 million which represents the solar hybridisation project acquired, and tangible assets amounting to Euros 22 million, representing the value of the wind farm acquired. Deferred tax liabilities were also recognised in connection with the revaluation, with the goodwill not expected to be deductible as a contra-item.

These net assets of Parque Eólico El Almendro, S.L.U. were basically valued using the following methodology:

- The operating wind farm and the hybridisation project were valued following the revenue approach and in particular, through the discounted cash flow method, based on Level 3 inputs as the data were not observable on the market.

- The main parameters used in the valuation were an IRR of 10% as the return required on the investment, and cash-flow projections based on income at estimated market price and the forecast operating and maintenance costs.

There was no contribution to net consolidated results in 2021 since the date of acquisition; if the acquisition had taken place on 1 January 2021, the impact on consolidated revenue, EBITDA and consolidated profit attributable to equity holders of the Parent company for the period would have been immaterial.

Note 33. Service concession agreements

Naturgy manages a number of concessions containing provisions for the construction, operation and maintenance of facilities, as well as connection and power supply obligations during the concession period, in accordance with applicable regulations (Appendix IV). There follow details of the concession period and the period remaining to the expiration of concessions that are not indefinite:

Company	Activity	Country	Concession period	Initial remaining period
Gas Natural BAN, S.A.	Gas distribution	Argentina	35 (extendable 10)	5
Gasnor, S.A.	Gas distribution	Argentina	35 (extendable 10)	5
Energía San Juan S.A.	Electricity distribution	Argentina	60	34
Companhia Distribuidora de Gás do Rio de Janeiro, S.A, Ceg Rio, S.A. and Gas Natural Sao Paulo Sul, S.A.	Gas distribution	Brazil	30 (extendable 20/30)	5-8
Unión Fenosa Generadora La Joya, S.A.	Electricity generation	Costa Rica	20	6 months
Unión Fenosa Generadora Torito, S.A.	Electricity generation	Costa Rica	20	up to 8
Naturgy Generación S.L.U., S.A. and Naturgy Renovables, S.L.	Hydraulic power generation	Spain	14-65	up to 41
Naturgy México S.A. de C.V. and Comercializadora Metrogas S.A. de C.V.	Gas distribution	Mexico	30 (extendable 15)	5-16
Empresa Distribuidora de Electricidad Metro Oeste, S.A. and Empresa Distribuidora de Electricidad Chiriqui, S.A.	Electricity distribution	Panama	15	6

Under the terms of the Convention signed in 1992 with the Government of Morocco, the concession for the exclusive use of the Moroccan section of the Maghreb-Europe Gas Pipeline ended on 31 October 2021 and ownership of the assets reverted to the government of Morocco.

As indicated in Note 2.4.3.b, Naturgy applies IFRIC 12 “Service concession arrangements”, the intangible asset model being applicable basically to the gas distribution activities in Argentina and Brazil, and to the electricity distribution activity in Argentina, while the financial asset model applies to the electricity generation business in Costa Rica.

The hydraulic power plant concessions in Spain (Note 2.4.4.) fall outside the scope of IFRIC 12, due among other reasons to the fact that power selling prices are set in the market. The other international concessions fall outside the scope of IFRIC 12 because the grantor does not control a significant residual interest in the infrastructure at the concession end date and simultaneously determines the service price. Concession assets are still recognised in “Property, plant and equipment”.

Note 34. Related party disclosures

Related parties are as follows:

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

Based on this definition, the significant shareholders of Naturgy are Fundació Bancaria Caixa d'Estalvis i Pensions de Barcelona ("la Caixa"), Global Infrastructure Partners III (GIP) and related companies, CVC Capital Partners SICAV-FIS, S.A. (through Rioja Acquisitions S.à.r.l.) and IFM Global Infrastructure Fund (IFM) through IFMGlobal InfraCo O (2), S.à.r.l.

- Directors and executives of the company, and their close relatives. The term "director" means a member of the Board of Directors and the term "senior management personnel" refers to personnel reporting directly to the Executive President and the Internal Audit Manager. Operations with directors and executives are disclosed in Note 35.
- Transactions between Group companies form part of ordinary activities and are effected at arm's length. Group company balances include the amount that reflects Naturgy's share of the balances and transactions with companies consolidated under the equity method.

Aggregate transactions with related parties are follows (thousand euro):

2022 Expense and Income (thousand euro)	Significant shareholders				Directors	Group companies
	"la Caixa" group	CVC group	GIP group	IFM		
Financial expenses	—	—	—	—	—	—
Leases	—	—	—	—	—	4
Receipt of services	1	—	—	—	—	1,880
Purchase of goods (1)	—	—	—	—	—	87,577
Other expenses	—	—	—	—	—	—
Total expenses	1	—	—	—	—	89,461
Financial income	—	—	—	—	—	1,141
Leases	—	—	—	—	—	—
Provision of services	—	—	—	—	—	237
Sale of goods (1)	2,944	2,076	—	—	258	78,198
Other income	—	—	—	—	—	1,322
Total income	2,944	2,076	—	—	258	80,898

Other transactions (thousand euro)	Significant shareholders				Directors	Group companies
	"la Caixa" group	CVC group	GIP group	IFM		
Acquisition of property, plant and equipment, intangible assets or other assets	—	—	—	—	—	—
Financing agreements: loans and capital contributions (lender)	—	—	—	—	—	—
Dividends and other profits distributed	310,752	241,030	240,165	157,387	—	—

Trade debtors and creditors (thousand euros)	Significant shareholders				Directors	Group companies
	"la Caixa" group	CVC group	GIP group	IFM		
Trade and other receivables	296	2	—	—	—	3,273
Trade and other payables	—	—	—	—	—	15,860

2021	Significant shareholders					Directors	Group companies
	"la Caixa" group (*)	CVC group	GIP group	IFM			
Expense and Income (thousand euro)							
Financial expenses	—	—	—	—	—	—	—
Leases	—	—	—	—	—	—	3
Receipt of services	—	—	—	—	—	—	2,607
Purchase of goods (1)	—	—	1,690	—	—	—	105,762
Other expenses	—	—	—	—	—	—	—
Total expenses	—	—	1,690	—	—	—	108,372
Financial income	—	—	—	—	—	—	1,224
Leases	—	—	—	—	—	—	—
Provision of services	—	—	—	—	—	—	3,446
Sale of goods (1)	2,298	1,689	—	—	—	225	89,702
Other income	—	—	—	—	—	—	1,154
Total income	2,298	1,689	—	—	—	225	95,526

Other transactions (thousand euro)	Significant shareholders				Directors	Group companies
	"la Caixa" group (*)	CVC group	GIP group	IFM		
Acquisition of property, plant and equipment, intangible assets or other assets	—	—	—	—	—	—
Financing agreements, loans and capital contributions(lender)	—	—	—	—	—	—
Dividends and other profits distributed	319,676	267,142	266,183	42,743	—	—

Trade debtors and creditors (thousand euros)	Significant shareholders				Directors	Group companies
	"la Caixa" group (*)	CVC group	GIP group	IFM		
Trade and other receivables	244	454	—	—	—	9,401
Trade and other payables	—	—	—	—	—	9,638

(1) Basically includes energy purchase and sale. In the case of group companies, basically corresponds to operations with Unión Fenosa Gas.

Note 35. Information on Board members and Management Committee

Remuneration of the members of the Board of Directors

The remuneration policy for the members of the Board of Directors was approved at the General Shareholders' Meeting held on 15 March 2022 and is periodically revised by the Board of Directors following a report from the Appointments and Remuneration Committee, in order to keep it aligned with the best practices in the reference market and with the objectives indicated in the Bylaws.

The amount accrued by the members the Board of Directors of Naturgy Energy Group, S.A., for belonging to the Board of Directors, Audit and Control Committee (ACC), Appointments, Remuneration and Corporate Governance Committee (ARGC) and Sustainability Committee (SC), totalled Euros 3,762 thousand (Euros 3,955 thousand in 2021). The amount for 2022 is detailed below (expressed in euros):

	Office	Board	ACC	ARGC	SC	Total
Mr. Francisco Reynés Massanet	Executive Chairman	1,100,000	—	—	—	1,100,000
Ms. Helena Herrero Starkie (1)	Coordinating Director	201,607	44,000	—	66,000	311,607
Mr. Ramón Adell Ramón (1)	Director	178,393	44,000	7,464	—	229,857
Mr. Enrique Alcántara-García Irazoqui	Director	175,000	—	44,000	—	219,000
Ms. Isabel Estapé Tous	Director	175,000	4,976	—	44,000	223,976
Ms. Lucy Chadwick	Director	175,000	4,976	—	44,000	223,976
Mr. Rajaram Rao	Director	175,000	—	44,000	—	219,000
Mr. Francisco Belil Creixell (2)	Director	19,792	7,464	4,976	—	32,232
Mr. Claudi Santiago Ponsa	Director	175,000	58,536	44,000	4,976	282,512
Mr. Pedro Sainz de Baranda Riva	Director	175,000	44,000	63,512	—	282,512
Mr. Jaime Siles Fernández-Palacios (3)	Director	155,208	—	—	39,024	194,232
Rioja S.à.r.l, Mr. Javier de Jaime Guijarro	Director	175,000	—	44,000	—	219,000
Theatre Directorship Services Beta, S.à.r.l, Mr. José Antonio Torre de Silva López de Letona	Director	175,000	44,000	—	4,976	223,976
		3,055,000	251,952	251,952	202,976	3,761,880

(1) Until 10 February 2022 Mr. Ramón Adell Ramón received remuneration as Coordinating Direct. From this date, Ms. Helena Herrero Starkie succeeds him in that position.

(2) Until 10 February 2022.

(3) From 11 February 2022.

In 2022, as in 2021, no amounts were received for other items.

At 31 December 2022 the Board of Directors comprised 12 members (12 members at 31 December 2021), the Audit and Control Committee had 5 members (7 members at 31 December 2021), the Appointments, Remuneration and Corporate Governance Committee had 5 members (7 members at 31 December 2021) and the Sustainability Committee had 4 members (5 members at 31 December 2021).

The members of the Board of Directors of Naturgy Energy Group, S.A., excluding the Executive Chairman, have not received remuneration from profit sharing, bonuses or indemnities, and have not been granted any loans or advances. Neither have they received shares or share options during the year, nor have they exercised options or have options to be exercised.

The members of the Board of Directors are covered with the same liability policy that insures all managers and directors of Naturgy. The premium paid in 2022 by Naturgy Energy Group, S.A. amounted to Euros 766 thousand (Euros 614 thousand in 2021).

Management Committee remuneration

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

At 31 December 2022, nine persons make up this group, excluding the Executive Chairman and the Internal Audit Director (nine persons at 31 December 2021). During 2022 there have been no movements in the Management Committee.

The amounts accrued by the Management Committee in 2022 with respect to fixed remuneration, variable remuneration and other items amounted to Euros 11,261 thousand (Euros 5,356 thousand, Euros 5,666 thousand and Euros 239 thousand, respectively) and to Euros 10,311 thousand in 2021 (Euros 5,106 thousand, Euros 4,997 thousand and Euros 208 thousand, respectively). As in 2021, the amount relating to the annual variable remuneration of the Executive Chairman will be settled as a voluntary contribution to the retirement pension plan of which he is a beneficiary, in accordance with the terms of the relevant agreement

As described in note 14, on November 25, 2021, the Naturgy Board of Directors decided, at the proposal of the Appointments, Remuneration and Corporate Governance Committee, the temporary extension of the ILP 2018-2022 (the original plan ended in July 2023), establishing its expiration on December 31, 2025 for current managers, in order to contribute to the achievement of the 2021-2025 Strategic Plan. The temporary extension of the ILP came into force with the approval of the Naturgy Shareholders' Meeting on March 15, 2022. In order to compensate for this temporary extension, the Board of Directors established in 2021 a payment on account on the value that would be received for the period of 5 years elapsed, which has meant 1,159 thousand euros per year. This amount was made available to employees in two tranches, part of which was set aside in 2021, as indicated in note 35 of the 2021 consolidated annual accounts, and the rest in 2022. Additionally, in November 2022 advances were paid for an amount of 238 thousand euros.

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled Euros 1,471 thousand in 2022 (Euros 1,458 thousand in 2021). The funds accrued for these contributions, including in the case of the Executive Chairman the amounts contributed voluntarily since 2018 together with the annual variable remuneration accrued in 2022 which will be settled as a contribution to a pension plan, amount to Euros 21,302 thousand at 31 December 2022 (Euros 16,916 thousand at 31 December 2021).

In 2022, as in 2021, Naturgy has not provided any new guarantees for loans to senior management personnel. No indemnities were received for departures from the Management Committee in 2022 (none in 2021).

The Chairman's contract was approved by the Board of Directors on 6 February 2018 and provides for a fixed remuneration component, an annual variable component and a long-term incentive plan, as well as other welfare benefits.

The Chairman's contract provides for an indemnity in the event of the termination or non-renewal of his directorship amounting to two years' total remuneration: total fixed remuneration, annual variable remuneration and the annualised part of long-term remuneration (equivalent to 1.25 times the total fixed remuneration). The indemnity will not be payable in the event of the serious and culpable nonfulfillment of his professional obligations causing significant harm to Naturgy's interests. In addition, as consideration for a post-contractual no-competition agreement with a duration of one year, an indemnity equivalent to one year's full fixed remuneration is provided for.

The contracts concluded with the members of the Management Committee (9) contain a clause providing for compensation equivalent to the legally established indemnity, which varies, depending on seniority, between two and three and a half years' salary. This clause applies to cases of unfair dismissal, as well as those referred to in Articles 40, 41 or 50 of the Workers' Statute, and in one of the contracts to certain situations involving a change in control. In addition, the 9 contracts contain a clause providing for compensation equivalent to one year's fixed remuneration for a post-contractual non-competition commitment lasting up to two years.

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

The Directors have the obligation to avoid conflicts of interest as established by the Board Regulations of Naturgy Energy Group, S.A. and Articles 228 and 229 of the Spanish Companies Law. Additionally, these articles require that conflicts of interest involving directors must be reported in the annual accounts.

In 2022 and 2021 the Directors of Naturgy Energy Group, S.A. have not notified the Board of Directors of any general situation of conflict of interest.

In transactions with related parties (significant shareholders) that have been submitted for approval by the Board, subject to a favourable report of the Audit Committee, any directors linked to the related party involved have abstained.

During 2022 and 2021, the members of the Board of Directors and the Management Committee have not carried out related-party transactions outside the ordinary course of business or transactions that have not been conducted under normal market conditions with Naturgy Energy Group, S.A. or Group companies.

Note 36. Litigation, arbitration, guarantees and commitments

The companies in the Naturgy Group are involved in certain judicial and extrajudicial disputes within the ordinary course of their activities. At the date of preparation of these consolidated annual accounts, the main litigation or arbitration in which Naturgy companies are involved are the following:

Claims for PIS and COFINS taxes in Brazil

In September 2005, the Rio de Janeiro Tax Administration rendered ineffective the recognition that it had previously issued, in April 2003, for the offset of receivables in respect of PIS and COFINS sales taxes paid by Companhia Distribuidora de Gás do Rio de Janeiro - CEG, in which Naturgy holds an interest of 54.2%. The administrative court confirmed that ruling in March 2007 and the company therefore filed a contentious-administrative appeal (Justicia Federal do Rio de Janeiro). Subsequently, notification of a public civil action against CEG relating to the same events was received on 26 January 2009. The total amount of this disputed tax liability at that date, including interest, was BRL 386 million (Euros 68 million), which updated to the current exchange rate would amount to BRL 487 million (Euros 86 million).

In November 2015 the Rio de Janeiro Federal Justice Department issued a first instance ruling partially upholding CEG's appeal, ordering the refund and the payment of the tax debt plus costs in the amount of BRL 105 million (Euros 19 million) and rejecting the imposition of default interest and fines. The ruling was appealed by the Federal Treasury of Brazil and by CEG before the Federal Court of Rio de Janeiro (Chamber of Appeal). On 5 October 2022, during a hearing before the fourth specialised chamber of the Federal Regional Court, one of the judges involved requested a more detailed examination of the records of the case, thereby delaying the judgment. The ruling on the appeal had yet to be issued at 31 December 2022.

Claim against Metrogas, S.A.

In 2011 and 2015, Transportadora de Gas del Norte S.A. (TGN) lodged various complaints against Metrogas, S.A. (Metrogas), a Chilean company 55.6% owned by Naturgy, before the civil and commercial courts of first instance in Argentina for supposed breach of contract in the transport of Argentinian gas to Chile during the Argentina gas crisis.

In April 2017, Metrogas received a judicial notice declaring a joinder of claims, meaning that the total amount claimed by TGN stands at USD 227 million (Euros 213 million) plus interest.

On 4 August 2022, Metrogas received a first instance ruling ordering it to pay TGN approximately USD 250 million (Euros 234 million) for unpaid invoices and early termination of contracts (loss of earnings), plus costs and interest. This judgment is not final and may be appealed against. Metrogas will therefore take all available action to defend its interests and lodge the relevant appeal.

At 31 December 2022, the risk associated with this case was provided for under "Non-current provisions" in the amount of Euros 319 million (Note 16).

Environmental incentive for coal plants in Spain

In 2007, the Spanish authorities introduced an environmental incentive to support the installation of new sulphur oxide filters in existing coal plants. In November 2017, the European Commission opened an investigation to determine whether this incentive complied with the European Union's state aid rules. As a result, a provision of Euros 19 million was recorded only for the amounts received from November 2017, leaving aside the sum of Euros 67 million relating to the period prior to 2017 when the Royal Decree was not in force.

On 8 September 2021, the European General Court dismissed the action for annulment brought by Naturgy against the Commission's decision (T-328/18). An appeal in cassation was lodged with the legal authorities against the General Court's ruling, which had yet to be ruled on at 31 December 2022. The European General Court's 2021 ruling is regarded as probable, which will require repayment of all the aid received.

Renewable generation

The permits for certain renewable wind or solar generation facilities that are under construction or completed have been appealed against before the courts and their viability might be affected in the event that the appeals are upheld. The risk is not expected to materialise in any of these cases, although a maximum impact of Euros 238 million has been estimated for all the facilities involved.

Additionally, claims have been filed against the administrative authorization for the Hawkesdale wind farm in Australia and the Bii Hioxo wind farm in Mexico, which, as in the previous cases, are not considered unlikely to succeed. The maximum impacts are estimated at AUD 150 million (Euros 96 million) and USD 230 million (Euros 216 million), respectively.

Electricaribe

On 14 November 2016 the Superintendence for Residential Public Services of the Republic of Colombia ("the Superintendence") reported the government take-over of Electricaribe, a Naturgy investee, as well as the removal of the members of the governing body and the general manager, and their replacement by a special agent appointed by the Superintendence. On 14 March 2017 the Superintendence announced the decision to liquidate Electricaribe. On 22 March 2017, Naturgy initiated arbitration proceedings before the Court of the United Nations Commission for International Trade Law (UNCITRAL) and on 15 June 2018 it lodged a complaint in which it claimed approximately USD 1,600 million. On 4 December 2018, the Republic of Colombia submitted its answer to the complaint and filed a counterclaim for approximately USD 500 million. In March 2021, an arbitration decision was issued that rejected the claims of both Naturgy and the Colombian State (Note 9).

Several Columbian government agencies have brought administrative and judicial procedures against the Naturgy group or its employees on behalf of Electricaribe, including the Public Prosecutor's Office, the Superintendence for Public Services and the Superintendence for Companies.

Naturgy's consolidated balance sheet at 31 December 2022 includes provisions for litigation, based on the best estimate made using the information available at the date of preparation of these consolidated annual accounts on their progress and ongoing negotiations, which cover the estimated risks. Naturgy therefore considers that no significant liabilities will be derived from the risks described in the relevant section of this Note.

Guarantees

Guarantees furnished by Naturgy at 31 December 2022 and 2021 are as follows:

- Guarantees provided to third parties, basically for investment commitments, construction and distribution network expansion, tenders, bids and business contracts amounting to Euros 1,796 million (Euros 2,535 million at 31 December 2021).
- Guarantees relating to the economic obligations resulting from its participation in the Spanish gas system (MIBGAS) and the Spanish electricity system (MEFF and OMIE) for Euros 720 million (Euros 513 million at 31 December 2021).
- Guarantees provided to public bodies, mainly for tax obligations amounting to Euros 119 million (Euros 122 million as at 31 December 2021).
- Guarantees for debt issues by group companies Naturgy Capital Markets, S.A., Gas Natural Finance, B.V. and Unión Fenosa Preferentes, S.A.U. totalling Euros 8,767 million (Euros 9,720 million at 31 December 2021).

- Guarantees for long-term (20 to 25 years) obligations under gas purchase and transport contracts and the chartering of gas tankers of group companies Naturgy LNG Marketing Ltd, Naturgy LNG, S.L., Naturgy LNG GOM Limited and Naturgy Aprovisionamientos, S.A. As of 31 December 2022, these contracts amounted Euros 10,265 million (Euros 9,437 million at 31 December 2021) valued based on the current market conditions of the raw materials and the currencies to which they are referenced.
- Parent Company Guarantees (PCGs) associated with the derivative instruments contracted amounting to Euros 1,267 million (Euros 779 million as at 31 December 2021)..

As the above guarantees are basically granted in order to guarantee the fulfilment of contractual obligations or investment commitments, the events that would lead to their execution, and therefore a cash disbursement, would be the nonfulfillment by Naturgy of its obligations in the ordinary course of its business, the probability of which is considered remote. Naturgy estimates that the liabilities not foreseen at 31 December 2022 if any, that could arise from guarantees furnished would not be significant.

Contractual commitments

The following tables present the contractual commitments for purchases and sales at 31 December 2022 (million euro):

Acquisition	Total	31.12.2021					and later years
		2023	2024	2025	2026	2027	
Energy purchases (1)	83,300	13,036	9,544	7,532	5,567	5,481	42,140
Energy transmission (2)	2,793	551	486	439	283	279	755
Investment (3)	969	948	20	1	—	—	—
Operating leases (4)	33	33	—	—	—	—	—
Nuclear fuel purchases	40	20	20	—	—	—	—
Total contractual obligations	87,135	14,588	10,070	7,972	5,850	5,760	42,895

Sale	Total	31.12.2021					and later years
		2023	2024	2025	2026	2027	
Energy sales (5)	20,757	3,546	2,146	1,971	1,379	1,384	10,331
Provision of capacity assignment services (6)	2,318	312	300	390	330	275	711
Total contractual obligations	23,075	3,858	2,446	2,361	1,709	1,659	11,042

1. Basically reflects the long-term commitments for natural gas purchases under gas supply contracts with take or pay clauses negotiated and held for “own use” (Note 2.4.8). Normally, these contracts are for 20-25 years, a minimum amount of gas to be purchased and revision mechanisms for prices indexed to international natural gas prices and regulated prices of natural gas in the countries of origin. The commitments according to these contracts have been calculated on the basis of natural gas prices at 31 December 2022.
2. Reflects the long-term commitments (20 to 25 years) for gas transport and electricity transmission calculated on the basis of prices at 31 December 2022. It also reflects operating costs identified for charter contracts for gas tankers under finance leases for the tankers currently in operation.
3. It reflects investment commitments basically for the construction of renewable generation plants in Spain, USA and Australia, the development of the distribution network and other gas infrastructures and the development of the electricity distribution network (Notes 5 and 6).
4. This mainly reflects commitments for short-term operating leases on vessels (expiring in 2023) or leases with variable instalments, as well as commitments for short-term leases on buildings, land tied to generation facilities with variable lease instalments, and other low-value leases.

The cost of these operating leases amounted to Euros 45 million in 2022 (Euros 41 million for 2021).

5. It basically reflects long-term commitments to sell natural gas under gas sale contracts, containing take-or-pay clauses, negotiated and held for “own use” (Note 2.4.8). The commitments have been calculated based on natural gas prices at 31 December 2022.
6. It reflects service provision commitments under power generation capacity assignment contracts in Mexico (Note 2.4.23). The commitments made in these contracts have been calculated based on prices at 31 December 2022.

Note 37. Auditors' fees

Fees for auditing and related services and other services in 2022 totalled Euros 6,309 thousand (Euros 4,235 thousand in 2021).

The fees accrued in thousand euro by the different companies trading under the KPMG brand in 2022 and 2021 are as follows:

	Thousand Euros					
	2022			2021		
	KPMG Auditores, S.L.	Rest KPMG network	Total	KPMG Auditores, S.L.	Rest KPMG network	Total
Auditing services	2,140	1,709	3,849	1,468	1,350	2,818
Assurance services and services related to the audit (1)	960	705	1,665	131	378	509
Tax services	—	563	563	—	392	392
Other services	—	89	89	15	380	395
Total fees	3,100	3,066	6,166	1,614	2,500	4,114

(1) Includes 1,165 thousand euros for the review/audit of the consolidated condensed interim consolidated financial statements to June 2022, related to the Geminii project. This amount is considered as auditing activities for the purposes of calculating the ratio "amount of tasks other than auditing activities / amount billed by the Audit company" included in Naturgy's 2022 Annual Corporate Governance Report.

Additionally, other audit firms have provided various Group companies with audit services amounting to Euros 143 thousand in 2022 (Euros 121 thousand in 2021).

The calculation of the auditor' fees for the current period and in the comparative analysis with the previous year does not take into account the fees relating to companies that have been reclassified to discontinued operations.

Note 38 . Environment

Environmental actions

Naturgy is aware of its activities' environmental impacts and therefore the Group pays particular attention to the protection of the environment and the efficient use of natural resources to meet energy demand. The Global Environmental Policy, which applies to all countries and businesses, and the Company's highest-ranking policy in favour of sustainable environmental development, the Corporate Responsibility Policy, define Naturgy's environmental action around eco-efficiency, the rational use of natural and energy resources, the minimisation of environmental impact, the promotion of innovation and the use of the best available technologies and processes. They also establish Naturgy's voluntary commitment to be a key player in the energy transition towards a circular and decarbonised economy model which, in line with the objectives of the Paris Agreement, drives climate action and biodiversity protection while promoting a fair and inclusive transition by generating and improving employment opportunities.

Naturgy's most immediate, specific and measurable responsibility towards the environment is set out in the Sustainability Plan, which lays down the objectives that guide the Group in its daily performance, in line with the SDGs set by the United Nations and the Strategic Plan defined for the period 2021-2025. Looking farther into the future, with a view to achieving climate neutrality by 2050 the company is committed to investing now in sustainable activities, many of which are eligible under the European Taxonomy:

- Constructing new renewable generation facilities to reach an installed capacity of close to 60% by 2025.
- Focusing on carbon-neutral renewable gases with a target of producing or injecting at least 1 TWh into gas networks by 2025.
- Protecting biodiversity, which is partly affected by the climate challenge, and overcoming the risk of a net loss of natural capital as a strategic priority.

In this respect, as stated in the Environmental Policy, Naturgy voluntarily assumes the commitment to be a key player in the energy transition towards a circular and decarbonised economy model, in line with the objectives of the Paris Agreement. Naturgy is therefore committed to becoming carbon neutral by 2050, reducing total Scope 1, 2 and 3 emissions in accordance with the 1.5 °C - 2 °C pathways of the Paris Agreement. To this end, Naturgy will focus on four strategic environmental axes:

- Environmental governance and management.
- Climate change and energy transition.
- Circular economy and eco-efficiency.
- Biodiversity and natural capital.

Detailed information on the Company's environmental management performance and results may be found in the chapter titled "The Opportunity of Environmental Challenges" in the Sustainability Report and Statement of Non-Financial Information for 2022. The most noteworthy milestones are summarised below.

Environmental governance and management

- As reflected in the Environmental Policy, Naturgy goes beyond compliance with legal requirements in environmental matters and adopts more ambitious actions and objectives to ensure respect for the environment. After identifying significant impacts, Naturgy conducts its environmental management based on the principle of prevention, taking the entire business value chain into account. For years, the company has had an integrated management system (IMS) for quality, environment, safety and health, with the environmental component being certified in line with the requirements of ISO 14001 and audited annually. This system aims to prevent pollution and reduce environmental impacts throughout the value chain, involving employees, suppliers and other stakeholders. In 2022, 97.9% of EBITDA derived from certified industrial activities.
- Naturgy continuously monitors environmental regulations in order to ascertain their potential repercussions on its business in advance. This makes it easier to define its position and adapt to new requirements. Monitoring is implemented through consultation and public information processes in the international, European and domestic spheres. We should highlight that there were no significant environmental sanctions (higher than Euros 10,000) in 2022.
- Concerning possible contingencies, indemnities and other environmental risks that may be incurred by the company, third-party liability insurance policies are in place to cover any damage that might arise.
- The company has obtained various external recognitions in environmental matters. It was classified by CDP as A- for its climate management in 2022 and has remained at the top of this index since 2011. It also won a business award for the Best Environmental Integration Initiative in the industry from "El Periódico de la Energía" for the Meirama Lake mining environmental recovery project.

Climate change and energy transition

- Naturgy is committed to being one of the key players in the energy transition towards a circular and decarbonised economy, as stated in the Environmental Policy. Naturgy operates at all times on the basis of a business model aligned with the maximum level of ambition under the Paris Agreement.

- In 2022, the total carbon footprint (scopes 1, 2 and 3) has been reduced by 16.5% with respect to 2021. Scope 1 emissions (direct emissions) were 14.7 million tCO₂eq, higher than the previous year due mainly to the increase in electricity production from combined cycle plants in Spain, as 2022 was a very dry hydraulic year. Indirect Scope 2 emissions were 0.4 million tCO₂eq and Scope 3 emissions were 110.1 million tCO₂eq. The latter have fallen by 19% for a number of reasons, the most relevant being the drop in demand for natural gas among end consumers.
- Renewable gases (biomethane and hydrogen) are the key lever for decarbonising Naturgy's gas business. In 2022, the company participated in biomethane projects, reaching a production or grid injection capacity of 0.22 TW.
- Approximately 9.9 TWh of renewable electricity was supplied in Spain with guarantees of origin certified by the CNMC under 1.3 million contracts, representing 49% of the energy purchased and an increase of 43% on the previous year. Neutral gas has also been sold, for which total direct and indirect emissions (generated from extraction to the point of consumption) have been offset in the voluntary market through the acquisition and voluntary offset of Certified Emission Reductions (CERs). The process for offsetting emissions using CERs is conducted in the European Emissions Registry and will be verified and certified by AENOR. The energy offset certificate for the previous calendar year can be consulted by calling customer service from April of the following year. An amount of 487,460 CERs (tCO₂eq) are available by the end of 2022, which is almost 3 times more than in the previous year.

Circular economy

- Concerning materials consumption, the volume of fuels used in 2022 has increased by 16% while the amount of other non-fuel materials has been reduced by 15% compared to 2021, the total amounts being 5.3 million tonnes and 6.7 thousand tonnes, respectively.
- Water is a natural resource used in the Company's processes to which particular attention is paid, through analyses of the risks related to water use, discharge quality control, ecological reservoir management, eco-efficiency and the reuse of water in processes, for instance through the integration of wastewater from other activities. On a global level, 920,6 hm³ have been collected, of which 18,8 hm³ have been consumed, and 902,0 hm³ have been returned to the environment in the form of discharges. In absolute terms, water abstraction (6%), consumption (24%) and discharge (5%) increased in 2022. This was mainly due to the very dry year in Spain, which meant that the combined cycle plants had to cover the shortfall in hydroelectric generation, producing 56% more electricity. To further interpret these results, and given that electricity generation is the activity that uses 99.9% of water resources, specific abstraction, consumption and discharge ratios have been calculated. These indicators, which reflect the amount of water needed to generate one unit of electricity, have improved compared to the previous year. Therefore, although in absolute terms abstraction, consumption and discharges have increased due to higher electricity generation, there has been a gain in eco-efficiency. In other words, less water is required to generate one unit of electricity.
- There has been a decrease compared to the previous year, in absolute terms, in emissions of the atmospheric pollutants SO₂ (-33%) and particulate matter (-50%). Absolute NO_x emissions have increased by 3% due to the increased operation of combined cycle plants, although in relative terms eco-efficiency has improved as specific emissions of this pollutant have decreased by 11%.
- In 2022, there has been a 4% reduction in total waste generated, mainly due to non-hazardous waste, which has decreased by 5%. Moreover, the percentage of recycled or recovered waste has increased significantly to 92%.

Biodiversity and natural capital

- In 2022, Naturgy implemented numerous actions in the natural capital and biodiversity area, all of which were aligned with the prevention, reduction in and compensation for our impacts, in order to progress in the commitment towards zero net loss in biodiversity and the enhancement of the value of the natural surroundings. Specifically, 345 biodiversity initiatives have been carried out on an international level, 20% of which are voluntary.

- 200 environmental studies have been carried out, particularly in relation to generation facilities (thermal, hydraulic and wind) and electricity distribution, in order to ascertain and monitor environment conditions. In the case of thermal and hydraulic power plants, sampling campaigns have been carried out to determine the physiochemical and biological quality of the aquatic environment (rivers, reservoirs, etc.). The latest studies confirm the normality observed throughout the sample series and conclude that the facilities analysed have an acceptable impact on the environment.
- In 2022, environmental restoration actions were carried out on 49.74 hectares. 31% of this area pertained to protected areas, habitats or species.

European taxonomy

The results of the taxonomy are as follows:

- The Revenue indicator (Euros 8,871 million) shows 25% eligibility.
- The Opex indicator (Euros 157 million) stands at 50% eligibility.
- The Capex indicator (Euros 1,274 million) stands at 67% eligibility. The result obtained in the Capex indicator reflects the solvency of a sustainable business model and the creation of long-term value for the planet and its inhabitants.

In terms of alignment, we may note that twelve of the fourteen eligible activities are 100% aligned with the EU Taxonomy following an analysis of the environmental criteria (substantial contribution, no significant harm to other environmental targets and compliance with minimum safeguards). The exceptions are electricity generation from gaseous fossil fuels and high-efficiency cogeneration of heat/cold and electricity from gaseous fossil fuels, both of which fail to meet the substantial contribution criterion due to the level of emissions required by Delegated Acts (EU) 2022/1214.

Environmental investment and expenditure

Environmental activities undertaken in 2022 amounted to Euros 846 million (Euros 759 million in 2021), of which Euros 660 million relate to environmental investments and Euros 186 million to expenditure on environmental management of facilities, excluding those relating to the carbon market. Among the investments made, the investments in new renewable projects should be noted, which will contribute to the energy transition and reduce specific emissions of CO₂ and other atmospheric pollutants.

Emissions

In 2022, consolidated CO₂ emissions from Naturgy's cogeneration and combined cycle plants subject to regulations governing the European emission trading system totalled 7.4 million tonnes of CO₂ (4.9 million tonnes of CO₂ in 2021).

Naturgy devises a strategy each year for managing transfers to its CO₂ emission allowance coverage portfolio, acquiring them through its active participation in both the primary and secondary markets.

Note 39. Events after the reporting date

On 14 February 2023, the Board of Directors adopted the proposal for the distribution of the Company's net profit for 2022 and prior-year retained earnings, which will be submitted to the annual general meeting as described in Note 14.

There have been no other material events after the reporting date.

Appendix I Naturgy companies

1. Subsidiaries

Company	Country	Activity	Method	Total %	
			of	%	%
			Consolidation (1)	Controlling interest (2)	Equity interest
Naturgy BAN, S.A.	Argentina	Gas distribution	F.C.	70.0	70.0
Gascart S.A.	Argentina	Gas distribution	F.C.	100.0	94.2
Gasnor S.A.	Argentina	Gas distribution	F.C.	100.0	94.2
Gasmarket S.A.	Argentina	Gas distribution	F.C.	100.0	94.2
Ceg Río, S.A.	Brazil	Gas distribution	F.C.	59.6	59.6
Companhia Distribuidora de Gás do Río de Janeiro, S.A.	Brazil	Gas distribution	F.C.	54.2	54.2
Gas Natural Sao Paulo Sul, S.A.	Brazil	Gas distribution	F.C.	100.0	100.0
Gas Natural Redes GLP, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Gas Natural Transporte SDG, S.L.	Spain	Gas distribution	F.C.	100.0	80.0
Nedgia Andalucía, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Nedgia Aragón, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Nedgia Balears, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Nedgia Castilla La Mancha, S.A.	Spain	Gas distribution	F.C.	95.0	76.0
Nedgia Castilla y León, S.A.	Spain	Gas distribution	F.C.	90.1	72.1
Nedgia Catalunya, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Nedgia Cegas, S.A.	Spain	Gas distribution	F.C.	99.7	79.8
Nedgia Galicia, S.A.	Spain	Gas distribution	F.C.	68.5	54.8
Nedgia Madrid, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Nedgia Navarra, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Nedgia, S.A.	Spain	Gas distribution	F.C.	100.0	80.0
Nedgia Rioja, S.A.	Spain	Gas distribution	F.C.	87.5	70.0
Comercializadora Metrogas, S.A. de CV	Mexico	Gas distribution	F.C.	100.0	70.9
Naturgy México, S.A. de C.V.	Mexico	Gas distribution	F.C.	70.9	70.9
UFD Distribución Electricidad, S.A.	Spain	Electricity distribution	F.C.	100.0	100.0
Empresa de Distribución Electrica Chiriqui, S.A.	Panama	Electricity distribution	F.C.	51.0	51.0
Empresa de Distribución Electrica Metro Oeste, S.A.	Panama	Electricity distribution	F.C.	51.0	51.0
Gas Natural Exploración, S.L.	Spain	Gas infrastructures	F.C.	100.0	100.0

Nueva Electricidad del Gas, S.A.U, En Liquidación	Spain	Gas infraestructures	F.C.	100.0	100.0
Petroleum Oil & Gas España, S.A.	Spain	Gas infraestructures	F.C.	100.0	100.0
Unión Fenosa Gas Exploración y Producción, S.A.U.	Spain	Gas infraestructures	F.C.	100.0	100.0
Europe Maghreb Pipeline, Ltd.	United Kingdom	Gas infraestructures	F.C.	77.2	77.2
Natural Energy, S.A.	Argentina	Gas supply	F.C.	100.0	100.0
Gas Natural Serviços, S.A.	Brazil	Gas supply	F.C.	100.0	100.0
Naturgy Aprovisionamientos, S.A.	Spain	Gas supply	F.C.	100.0	100.0
Naturgy LNG, S.L.	Spain	Gas supply	F.C.	100.0	100.0
Sagane, S.A.	Spain	Gas supply	F.C.	100.0	100.0
Gas Natural Europe, S.A.S. Soci��t�� en liquidation	France	Gas supply	F.C.	100.0	100.0
Naturgy LNG GOM Limited	Ireland	Gas supply	F.C.	100.0	100.0
Naturgy LNG Marketing Ltd	Ireland	Gas supply	F.C.	100.0	100.0
Naturgy Servicios, S.A. de C.V.	Mexico	Gas supply	F.C.	100.0	70.9
Naturgy LNG Singapore Pte. Ltd	Singapore	Gas supply	F.C.	100.0	100.0
Gas Natural Puerto Rico, Inc	Puerto Rico	Gas supply	F.C.	100.0	100.0
Naturgy LNG GOM, S.L.	Spain	Gas supply	F.C.	100.0	100.0
Comercializadora Regulada Gas & Power, S.A.	Spain	Gas and electricity supply	F.C.	100.0	100.0
Gas Natural Comercializadora, S.A.	Spain	Gas and electricity supply	F.C.	100.0	100.0
Naturgy Commodities Trading, S.A.	Spain	Gas and electricity supply	F.C.	100.0	100.0
Naturgy Iberia, S.A.	Spain	Gas and electricity supply	F.C.	100.0	100.0
Naturgy Clientes, S.A.	Spain	Gas and electricity supply	F.C.	100.0	100.0
Berrybank 2 Asset Pty Ltd	Australia	Electricity generation	F.C.	100.0	74.0
Berrybank 2 Asset Trust	Australia	Electricity generation	F.C.	100.0	74.0
Berrybank Development Pty, Ltd	Australia	Electricity generation	F.C.	100.0	74.0
Crookwell 3 Development Pty Ltd.	Australia	Electricity generation	F.C.	100.0	74.0
Crookwell Development Pty, Ltd	Australia	Electricity generation	F.C.	100.0	74.0
Hawkesdale Asset Pty Ltd	Australia	Electricity generation	F.C.	100.0	74.0
Hawkesdale Asset Trust	Australia	Electricity generation	F.C.	100.0	74.0
Ryan Corner Development Pty, Ltd	Australia	Electricity generation	F.C.	100.0	74.0
Cunderdin Development Finco Pty Ltd	Australia	Electricity generation	F.C.	100.0	74.0
Cunderdin Development Landco Pty Ltd	Australia	Electricity generation	F.C.	100.0	74.0
Cunderdin Development Pty Ltd	Australia	Electricity generation	F.C.	100.0	74.0
Global Power Generation Brasil Geracao de Energia Ltda	Brazil	Electricity generation	F.C.	100.0	75.0
Guimaranania I Solar Spe Ltda.	Brazil	Electricity generation	F.C.	100.0	75.0

Guimaranía II Solar Spe Ltda.	Brazil	Electricity generation	F.C.	100.0	75.0
Sertao i Solar Energía, SPE, Ltda	Brazil	Electricity generation	F.C.	85.0	63.8
Sobral i Solar Energía, SPE, Ltda	Brazil	Electricity generation	F.C.	85.0	63.8
Gestión y Servicios Cabo Leones II	Chile	Electricity generation	F.C.	51.0	38.3
GPG Generación Distribuida, S.p.A.	Chile	Electricity generation	F.C.	100.0	75.0
GPG Solar Chile 2017 SpA	Chile	Electricity generation	F.C.	100.0	75.0
Iberólica Cabo Leones II, S.A.	Chile	Electricity generation	F.C.	51.0	38.3
Inca de Varas I	Chile	Electricity generation	F.C.	100.0	75.0
Inca de Varas II	Chile	Electricity generation	F.C.	100.0	75.0
Parque Eólico Vientos del Pacífico, S.p.A	Chile	Electricity generation	F.C.	100.0	75.0
Almar Ccs, S.A.	Costa Rica	Electricity generation	F.C.	100.0	75.0
Unión Fenosa Generadora La Joya, S.A.	Costa Rica	Electricity generation	F.C.	65.0	48.8
Unión Fenosa Generadora Torito, S.A.	Costa Rica	Electricity generation	F.C.	65.0	48.8
Boreas Eólica 2, S.A.	Spain	Electricity generation	F.C.	89.6	89.6
Corporación Eólica de Zaragoza, S.L	Spain	Electricity generation	F.C.	68.0	68.0
Energías Ambientales de Somozas, S.A.	Spain	Electricity generation	F.C.	97.0	97.0
Energías Especiales Alcoholeras, S.A., En Liquidación	Spain	Electricity generation	F.C.	100.0	100.0
Eólica Tramuntana, S.L.	Spain	Electricity generation	F.C.	100.0	100.0
Explotaciones Eólicas Sierra de Utrera, S.L.	Spain	Electricity generation	F.C.	100.0	100.0
Global Power Generation, S.A.	Spain	Electricity generation	F.C.	75.0	75.0
J.G.C. Cogeneración Daimiel, S.L.	Spain	Electricity generation	F.C.	97.6	97.6
Naturgy Ciclos Combinados, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
Naturgy Future, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
Naturgy Generación, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
Naturgy Generación Térmica S.L.	Spain	Electricity generation	F.C.	100.0	100.0
Naturgy Renovables Canarias, S.L.	Spain	Electricity generation	F.C.	100.0	100.0
Naturgy Renovables Ruralia, S.L.	Spain	Electricity generation	F.C.	75.0	75.0
Naturgy Renovables, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
P.E. Nerea, S.L.	Spain	Electricity generation	F.C.	95.0	95.0
P.E. Peñaroldana, S.L.	Spain	Electricity generation	F.C.	95.0	95.0
Societat Eòlica de l'Enderrocada, S.A.	Spain	Electricity generation	F.C.	76.2	76.2
Tratamiento Cinca Medio, S.L.	Spain	Electricity generation	F.C.	90.0	90.0
Desarrollo de Energías Renovables de Navarra, S.A.	Spain	Electricity generation	F.C.	100.0	100.0
P.E. Cinseiro, S.L.	Spain	Electricity generation	F.C.	100.0	100.0
Montalto di Castro Solar S.R.L.	Italy	Electricity generation	F.C.	100.0	100.0

7V Solar Ranch, LLC.	USA	Electricity generation	F.C.	100.0	100.0
Camino Solar Ranch, LLC	USA	Electricity generation	F.C.	100.0	100.0
Bar C Solar, LLC	USA	Electricity generation	F.C.	100.0	100.0
Stonefield Solar, LLC	USA	Electricity generation	F.C.	100.0	100.0
Candela Renewables Hamel DevCo LLC.	USA	Electricity generation	F.C.	100.0	100.0
Canoe Creek Solar Project, LLC.	USA	Electricity generation	F.C.	100.0	100.0
Defiance County Solar Project, LLC	USA	Electricity generation	F.C.	100.0	100.0
Dugas Solar, LLC	USA	Electricity generation	F.C.	100.0	100.0
Front Range Midway Solar Project, LLC.	USA	Electricity generation	F.C.	100.0	100.0
Ft. Meade Solar, LLC	USA	Electricity generation	F.C.	100.0	100.0
Grimes County Solar Project, LLC.	USA	Electricity generation	F.C.	100.0	100.0
Half Moon Solar Project, LLC	USA	Electricity generation	F.C.	100.0	100.0
Hayden Run Solar Project, LLC.	USA	Electricity generation	F.C.	100.0	100.0
Knickerbocker Solar Project, LLC	USA	Electricity generation	F.C.	100.0	100.0
1780 Solar Project, LLC	USA	Electricity generation	F.C.	100.0	100.0
Mark Center Solar Project, LLC.	USA	Electricity generation	F.C.	100.0	100.0
Marshville Solar, LLC	USA	Electricity generation	F.C.	100.0	100.0
Yeager Solar, LLC	USA	Electricity generation	F.C.	100.0	100.0
Naturgy Candela Devco LLC	USA	Electricity generation	F.C.	100.0	100.0
Naturgy Solar Operation USA LLC	USA	Electricity generation	F.C.	100.0	100.0
Rough Hat 2 Solar, LLC	USA	Electricity generation	F.C.	100.0	100.0
Rough Hat Solar, LLC	USA	Electricity generation	F.C.	100.0	100.0
Saguache County Solar Project, LLC.	USA	Electricity generation	F.C.	100.0	100.0
Scioto Farms Solar Project, LLC.	USA	Electricity generation	F.C.	100.0	100.0
Stone Mill Solar, LLC	USA	Electricity generation	F.C.	100.0	100.0
Summer Shade Solar, LLC	USA	Electricity generation	F.C.	100.0	100.0
Vulcan Solar Project, LLC	USA	Electricity generation	F.C.	100.0	100.0
Spanish Israeli Operation and Maintenance Company, Ltd.	Israel	Electricity generation	F.C.	100.0	100.0
El Gritón Solar S.A. de C.V.	Mexico	Electricity generation	F.C.	80.0	60.0
Fuerza y Energía Bii Hioxo, S.A. de C.V.	Mexico	Electricity generation	F.C.	100.0	75.0
Fuerza y Energía de Hermosillo, S.A. de C.V.	Mexico	Electricity generation	F.C.	100.0	75.0
Fuerza y Energía de Naco Nogales, S.A. de C.V.	Mexico	Electricity generation	F.C.	100.0	75.0
Fuerza y Energía de Norte Durango, S.A de C.V	Mexico	Electricity generation	F.C.	100.0	75.0
Fuerza y Energía de Tuxpan, S.A. de C.V.	Mexico	Electricity generation	F.C.	100.0	75.0
GPG Energía México, S.A. de C.V.	Mexico	Electricity generation	F.C.	100.0	75.0

Energía y Servicios de Panamá, S.A.	Panama	Electricity generation	F.C.	51.0	38.3
Generadora Palamara La Vega, S.A.	Dominican Rep.	Electricity generation	F.C.	100.0	75.0
Naturgy Rinnovabili Italia, SRL	Italy	Electricity generation	F.C.	100.0	100.0
Naturgy Renouvelables France SAS	France	Electricity generation	F.C.	100.0	100.0
Foggia Solar SLR	Italy	Electricity generation	F.C.	100.0	100.0
Lignitos de Meirama, S.A.	Spain	Mining	F.C.	100.0	100.0
Naturgy Informática, S.A.	Spain	IT services	F.C.	100.0	100.0
Gas Natural Fenosa Engineering Brasil , S.A., En Liquidação	Brazil	Engineering services	F.C.	100.0	100.0
Operación y Mantenimiento Energy Costa Rica, S.A.	Costa Rica	Engineering services	F.C.	100.0	75.0
Naturgy Engineering, S.L.	Spain	Engineering services	F.C.	100.0	100.0
Naturgy Ingeniería Nuclear, S.L.	Spain	Engineering services	F.C.	100.0	100.0
GPG Ingeniería y Desarrollo de Generación, S.L.	Spain	Engineering services	F.C.	100.0	75.0
Operación y Mantenimiento Energy, S.A.	Spain	Engineering services	F.C.	100.0	75.0
Proyectos Balmes México, S.A. de C.V.	Mexico	Engineering services	F.C.	100.0	75.0
Gas Natural Fenosa Ingenieria México, S.A. de C.V., En Liquidación	Mexico	Electricity generation	F.C.	100.0	100.0
Unión Fenosa Operación México S.A. de C.V.	Mexico	Engineering services	F.C.	100.0	75.0
Operations & Maintenance Energy Uganda Ltd	Uganda	Engineering services	F.C.	100.0	75.0
Natural Re, S.A.	Luxembourg	Insurance	F.C.	100.0	100.0
Naturgy Alfa Investments, S.A.U	Spain	Financial services	F.C.	100.0	100.0
Naturgy Capital Markets, S.A.	Spain	Financial services	F.C.	100.0	100.0
Naturgy Participaciones, S.A.U.	Spain	Financial services	F.C.	100.0	100.0
Unión Fenosa Preferentes, S.A.U.	Spain	Financial services	F.C.	100.0	100.0
Naturgy Finance B.V.	Netherlands	Financial services	F.C.	100.0	100.0
Natural Servicios, S.A.	Argentina	Services	F.C.	100.0	100.0
Gas Natural do Brasil, S.A.	Brazil	Services	F.C.	100.0	100.0
Lean Grids Services Mexico, S.R.L.	Mexico	Services	F.C.	100.0	100.0
General de Edificios y Solares, S.L.	Spain	Services	F.C.	100.0	100.0
Naturgy Nuevas Energías, S.L.U.	Spain	Services	F.C.	100.0	100.0
Naturgy InnovaHub, S.L.	Spain	Services	F.C.	100.0	100.0
Administración y Servicios ECAP, S.A. de C.V.	Mexico	Services	F.C.	100.0	100.0
Administradora de Servicios de Energía México, S.A. de CV	Mexico	Services	F.C.	100.0	70.9
Energía y Confort Administración de Personal, S.A. de C.V.	Mexico	Services	F.C.	100.0	71.5
Sistemas de Administración y Servicios, S.A. de C.V.	Mexico	Services	F.C.	71.0	71.0
Naturgy Services, S.A.	Panama	Services	F.C.	100.0	100.0

Inversiones Hermill, S.A.	Dominican Rep.	Services	F.C.	100.0	100.0
Naturgy Argentina, S.A.	Argentina	Holding company	F.C.	100.0	100.0
Invergás, S.A.	Argentina	Holding company	F.C.	100.0	100.0
Global Power Generation Australia Pty, Ltd.	Australia	Holding company	F.C.	98.7	74.0
Berrybank 2 Hold Pty Ltd	Australia	Holding company	F.C.	100.0	74.0
Berrybank 2 Hold Trust	Australia	Holding company	F.C.	100.0	74.0
Berrybank Development Finco Pty Ltd.	Australia	Holding company	F.C.	100.0	74.0
Crookwell 3 Development Finco Pty Ltd.	Australia	Holding company	F.C.	100.0	74.0
Crookwell Development Finco Pty Ltd.	Australia	Holding company	F.C.	100.0	74.0
Hawkesdale Hold Pty Ltd	Australia	Holding company	F.C.	100.0	74.0
Hawkesdale Hold Trust	Australia	Holding company	F.C.	100.0	74.0
Ryan Corner Development Finco Pty Ltd	Australia	Holding company	F.C.	100.0	74.0
Paling Yards Development Finco Pty Ltd (PYDF)	Australia	Holding company	F.C.	100.0	74.0
Paling Yards Development Pty Ltd	Australia	Holding company	F.C.	100.0	74.0
Global Power Generation Chile, S.p.A.	Chile	Holding company	F.C.	100.0	75.0
GPG México Wind, S.L.U.	Spain	Holding company	F.C.	100.0	75.0
GPG México, S.L.U.	Spain	Holding company	F.C.	100.0	75.0
Holding de Negocios de Gas, S.A.	Spain	Holding company	F.C.	80.0	80.0
Holding Negocios Electricidad, S.A.	Spain	Holding company	F.C.	100.0	100.0
La Propagadora del Gas, S.A.	Spain	Holding company	F.C.	100.0	100.0
Naturgy Acciones, S.L.U.	Spain	Holding company	F.C.	100.0	100.0
Naturgy Distribución Latinoamérica, S.A.	Spain	Holding company	F.C.	100.0	100.0
Naturgy Electricidad Colombia, S.L.	Spain	Holding company	F.C.	100.0	100.0
Naturgy Infraestructuras EMEA, S.L.	Spain	Holding company	F.C.	100.0	100.0
Naturgy Inversiones Internacionales, S.A.	Spain	Holding company	F.C.	100.0	100.0
Naturgy Renewables USA Corp	USA	Holding company	F.C.	100.0	100.0
Naturgy Solar USA LLC	USA	Holding company	F.C.	100.0	100.0
First Independent Power (Kenya), Ltd.	Kenya	Holding company	F.C.	100.0	75.0
Unión Fenosa México, S.A. de C.V.	Mexico	Holding company	F.C.	100.0	75.0
Distribuidora Eléctrica de Caribe, S.A.	Panama	Holding company	F.C.	100.0	100.0
Generación Eléctrica del Caribe, S.A.	Panama	Holding company	F.C.	100.0	75.0
Buenergía Gas &Power, LLC	Puerto Rico	Holding company	F.C.	95.0	71.3
Agua Negra S.A.	Argentina	Electricity distribution	F.C.	100.0	100.0
Energía San Juan S.A.	Argentina	Electricity distribution	F.C.	100.0	100.0
CGE Argentina S.A.	Chile	Electricity distribution	F.C.	100.0	100.0

CGE Gas Natural, S.A.	Chile	Holding company	F.C.	92.3	92.3
Aprovisionadora Global de Energía, S.A.	Chile	Gas distribution	F.C.	60.2	55.6
Gas Sur S.A.	Chile	Gas distribution	F.C.	100.0	92.3
Innergy Holdings S.A.	Chile	Gas distribution	F.C.	60.0	55.4
Innergy Soluciones Energéticas S.A.	Chile	Gas distribution	F.C.	100.0	55.4
Innergy Transportes S.A.	Chile	Gas distribution	F.C.	100.0	55.4
Metrogas S.A.	Chile	Gas distribution	F.C.	60.2	55.6
Gasoducto del Pacífico (Argentina) S.A.	Argentina	Gas infrastructures	F.C.	56.7	52.4
Gasoducto del Pacífico S.A.	Chile	Gas infrastructures	F.C.	60.0	55.4
Centrogas S.A.	Chile	Services	F.C.	100.0	55.6
Empresa Chilena de Gas Natural S.A.	Chile	Services	F.C.	100.0	55.6
Financiamiento Doméstico S.A.	Chile	Services	F.C.	99.9	55.5
GN Holding Argentina Comercializadora, S.A.	Argentina	Holding company	F.C.	100.0	92.3
GN Holding Argentina, S.A.	Chile	Holding company	F.C.	100.0	92.3

(1) Consolidation method: F.C. Full Consolidation, P.C. Proportionate Consolidation, E.M. Equity Method.

(2) Parent company's interest in the subsidiary

(3) Companies recognised as held for sale

2. Joint ventures

Company	Country	Activity	Consolidation (1)	Controlling interest (2)	Equity interest
MEDGAZ, S.A.	Spain	Gas infrastructures	E.M.	49.0	24.5
Medina Partnership, S.A.	Spain	Holding company	E.M.	50.0	50.0
Gas Natural Vehicular del Norte Asociación en Participación	Mexico	Gas distribution	E.M.	51.3	36.4
Eléctrica Conquense, S.A.	Spain	Electricity distribution	E.M.	46.4	46.4
Eléctrica Conquense de Distribución, S.A.	Spain	Electricity distribution	E.M.	100.0	46.4
CH4 Energía S.A. de C.V.	Mexico	Gas supply	E.M.	50.0	35.4
ENER RENOVA, S.A.	Chile	Electricity generation	E.M.	40.0	40.0
Colectora la Serrata, S.L.	Spain	Electricity generation	E.M.	35.7	35.7
Infraestructuras Eléctricas La Mudarra, S.L	Spain	Electricity generation	E.M.	36.6	36.6
Nueva Generadora del Sur, S.A.	Spain	Electricity generation	E.M.	50.0	50.0
Toledo PV, A.E.I.E	Spain	Electricity generation	E.M.	33.3	33.3
ROBLA HUB, S.L.	Spain	Electricity generation	E.M.	50.8	50.8
Infraestructuras San Servan SET 400, S.L.	Spain	Electricity generation	E.M.	19.2	19.2
Instalaciones San Serván II 400, S.L	Spain	Electricity generation	E.M.	23.8	23.8
WIN4H2-R1, S.L.	Spain	Services	E.M.	50.0	50.0
Rice to Energy, S.L.	Spain	Services	E.M.	33.3	33.3
Evacuacion San Serván 400, S.L.	Spain	Electricity generation	E.M.	31.3	31.3
Gestión Integral de Reciclaje de Aerogeneradores, S.L	Spain	Electricity generation	E.M.	33.0	33.0
EcoEléctrica Holding, LLC.	Puerto Rico	Holding company	E.M.	50.0	35.6
EcoEléctrica, L.P.	Puerto Rico	Electricity generation	E.M.	100.0	35.6
EcoEléctrica LLC	Puerto Rico	Holding company	E.M.	100.0	35.6
Gasoducto GasAndes, S.A. (Argentina)	Argentina	Gas infrastructures	E.M.	43.5	24.2
Andes Operaciones y Servicios S.A.	Chile	Gas infrastructures	E.M.	50.0	27.8
Gas Natural Producción, S.A.	Chile	Gas infrastructures	E.M.	36.2	33.4
Gasoducto GasAndes, S.A. (Chile)	Chile	Gas infrastructures	E.M.	43.5	24.2
GNL Chile S.A.	Chile	Gas infrastructures	E.M.	33.3	18.5

(1) Consolidation method: F.C. Full Consolidation, P.C. Proportionate Consolidation, E.M. Equity Method.

(2) Parent company's interest in the subsidiary

3. Jointly-controlled assets and operations

Country	Activity	Method of Consolidation (1)	Method of Consolidation (1)	Total % interest	
				% Controlling interest (2)	% Equity interest
Bezana / Beguenzo	Spain	Gas infrastructures	P.C.	55.6	55.6
Boquerón	Spain	Gas infrastructures	P.C.	4.5	4.5
Casablanca	Spain	Gas infrastructures	P.C.	9.5	9.5
Chipirón	Spain	Gas infrastructures	P.C.	2.0	2.0
Montanazo	Spain	Gas infrastructures	P.C.	17.7	17.7
Rodaballo	Spain	Gas infrastructures	P.C.	4.0	4.0
Central Térmica de Anllares, A.I.E.	Spain	Electricity generation	P.C.	66.7	66.7
Centrales Nucleares Almaraz-Trillo, A.I.E	Spain	Electricity generation	P.C.	19.1	19.1
Comunidad de bienes Central Nuclear de Almaraz (Grupo I y II)	Spain	Electricity generation	P.C.	11.3	11.3
Comunidad de bienes Central Nuclear de Trillo (Grupo I)	Spain	Electricity generation	P.C.	34.5	34.5
Comunidad de bienes Central Térmica de Aceca	Spain	Electricity generation	P.C.	50.0	50.0
Comunidad de bienes Central Térmica de Anllares	Spain	Electricity generation	P.C.	66.7	66.7
UTE ESE Clece - Gas Natural	Spain	Services	P.C.	50.0	50.0

(1) Consolidation method: F.C. Full Consolidation, P.C. Proportionate Consolidation, E.M. Equity Method.

(2) Parent company's interest in the subsidiary.

4. Associates

Company	Country	Activity	Method	Total % interest	
			of Consolidation (1)	% Controlling interest (2)	% Equity interest
Qalhat LNG S.A.O.C. (Grupo Unión Fenosa Gas)	Oman	Gas infrastructures	E.M.	7.4	7.4
Sistemas Energéticos La Muela, S.A.	Spain	Electricity generation	E.M.	20.0	20.0
Sistemas Energéticos Mas Garullo, S.A.	Spain	Electricity generation	E.M.	18.0	18.0
Sociedade Galega do Medio Ambiente, S.A.	Spain	Electricity generation	E.M.	49.0	49.0
Bluemobility System, S.L. En Liquidación	Spain	Services	E.M.	20.0	20.0
Kromschroeder, S.A.	Spain	Services	E.M.	44.5	44.5

(1) Consolidation method: F.C. Full Consolidation, P.C. Proportionate Consolidation, E.M. Equity Method.

(2) Parent company's interest in the subsidiary

Appendix II Variations in consolidation scope

The main changes in the consolidation scope in 2022 were as follows:

Company name	Operation category	Effective date of operation	Voting rights acquired / eliminated (%)	Voting rights after the operation (%)	Consolidation method after the operation
Hamel Renewables Holdco LLC	Liquidation	19 january	100.0	—	—
Naturgy Perú, S.A	Liquidation	7 february	100.0	—	—
Infraestructuras San Servan SET 400, S.L.	Acquisition	8 february	33.3	33.3	Equity
Montalto di Castro Solar S.R.L.	Acquisition	8 march	100.0	100.0	Full
Metragaz, S.A.	Deconsolidation	31 march	76.7	—	—
Instalaciones San Serván II 400, S.L	Acquisition	7 april	23.8	23.8	Equity
WIN4H2-RI, SL	Acquisition	29 april	50.0	50.0	Equity
Cunderdin Development Finco Pty Ltd	Incorporation	8 april	100.0	100.0	Full
Cunderdin Development Landco Pty Ltd	Incorporation	8 april	100.0	100.0	Full
Cunderdin Development Pty Ltd	Acquisition	14 april	100.0	100.0	Full
Naturgy InnovaHub, S.L.	Incorporation	12 may	100.0	100.0	Full
Explotaciones Eólicas Sierra de Utrera, S.L.	Acquisition	31 may	25.0	100.0	Full
Desarrollo de Energías Renovables de Navarra, S.A.	Acquisition	31 may	50.0	100.0	Full
P.E. Cinseiro, S.L.	Acquisition	31 may	50.0	100.0	Full
Gasoducto Gasandes, S.A. (Argentina)	Disposal	15 june	3.5	24.2	Equity
Gasoducto Gasandes, S.A. (Chile)	Disposal	15 june	3.5	24.2	Equity
Rice to Energy, S.L.	Incorporation	30 june	33.3	33.3	Equity
Energías Especiales Alcoholeras, S.A.	Acquisition	12 july	18.0	100.0	Full
Evacuacion San Serván 400, S.L.	Acquisition	13 july	31.3	31.3	Equity
Gestión Integral de Reciclaje de Aerogeneradores, S.L	Incorporation	13 july	33.0	33.0	Equity
Foggia Solar Srl	Acquisition	21 july	100.0	100.0	Full
GN Servicios Económicos, SAS	Liquidation	14 july	100.0	—	—
Gas Natural Servicios Integrales, SAS	Liquidation	3 august	100.0	—	—
United Saudi Spanish Power and Gas Services, LLC	Liquidation	24 august	100.0	—	—
Infraestructuras San Servan SET 400, S.L.	Disposal	15 november	13.8	19.2	Equity
Naturgy Almacenamientos Andalucía, S.A.	Disposal	15 de december	100.0	—	—

The main changes in the consolidation scope in 2021 were as follows:

Company name	Operation category	Effective date of operation	Voting rights acquired / eliminated (%)	Voting rights after the operation (%)	Consolidation method after the operation
Naturgy Renewables USA Corp	Incorporation	14 January	100.0	100.0	Full
Naturgy Solar USA LLC	Incorporation	14 January	100.0	100.0	Full
Hamel Renewables Holdco LLC	Acquisition	14 January	100.0	100.0	Full
Hamel Renewables LLC	Acquisition	14 January	100.0	100.0	Full
Candela Renewables Hamel DevCo LLC.	Acquisition	14 January	100.0	100.0	Full
7V Solar Ranch, LLC.	Acquisition	14 January	100.0	100.0	Full
Mark Center Solar Project, LLC.	Acquisition	14 January	100.0	100.0	Full
Front Range Midway Solar Project, LLC.	Acquisition	14 January	100.0	100.0	Full
Grimes County Solar Project, LLC.	Acquisition	14 January	100.0	100.0	Full
Hayden Run Solar Project, LLC.	Acquisition	14 January	100.0	100.0	Full
Saguache County Solar Project, LLC.	Acquisition	14 January	100.0	100.0	Full
Scioto Farms Solar Project, LLC.	Acquisition	14 January	100.0	100.0	Full
Defiance County Solar Project, LLC	Acquisition	14 January	100.0	100.0	Full
Lonesome Camp Solar Project, LLC.	Acquisition	14 January	100.0	100.0	Full
Canoe Creek Solar Project, LLC.	Acquisition	14 January	100.0	100.0	Full
Auglaize County Solar Project, LLC.	Acquisition	14 January	100.0	100.0	Full
Yeager Solar, LLC	Acquisition	14 January	100.0	100.0	Full
Naturgy Ciclos Combinados, S.L.U.	Incorporation	26 January	100.0	100.0	Full
Naturgy IT, SL	Disposal	1 february	60.0	15.0	—

Company name	Operation category	Effective date of operation	Voting rights acquired / eliminated (%)	Voting rights after the operation (%)	Consolidation method after the operation
Lean Corporate Services, S.L.	Disposal	1 february	60.0	15.0	—
Lean Customer Services, S.L.	Disposal	1 february	60.0	15.0	—
Lean Grids Services, S.L.	Disposal	1 february	60.0	15.0	—
Lean Grids Services Chile SpA	Disposal	1 february	60.0	15.0	—
CGE Comercializadora SpA	Incorporation	11 february	96.0	96.0	Full
Unión Fenosa Gas, S.A.	Acquisition	10 february	50.0	100.0	Full
Nueva Electricidad del Gas, S.A.U, En Liquidación	Acquisition	10 march	50.0	100.0	Full
Unión Fenosa Gas Exploración y Producción, S.A.U.	Acquisition	10 march	50.0	100.0	Full
Unión Fenosa Gas Infraestructuras B.V.	Acquisition	10 march	50.0	100.0	Full
Qalhat LNG S.A.O.C.	Acquisition	10 march	3.7	7.4	Equity
Unión Fenosa Gas Comercializadora, S.A.	Disposal	10 march	50.0	—	—
Segas Services, S.A.E.	Disposal	10 march	40.7	—	—
Spanish Egyptian Gas Company S.A.E.	Disposal	10 march	40.0	—	—
Colectora la Serrata, S.L.	Acquisition	10 march	35.7	35.7	Equity
Naturgy Generación Termica, S.L.	Incorporation	7 april	100.0	100.0	Full
Naturgy Solar Operation USA LLC	Incorporation	17 may	100.0	100.0	Full
Mobilgaz, SAS	Incorporation	1 june	100.0	100.0	Full
Cogeneración del Noroeste, S.L	Disposal	3 june	40.0	40.0	—
Gas Natural Fenosa Engineering, S.A.S. (colombia)	Liquidation	17 june	100.0	100.0	—
Stonefield Solar, LLC	Incorporation	30 june	100.0	100.0	Full
Rough Hat Solar, LLC	Incorporation	30 june	100.0	100.0	Full
Rough Hat 2 Solar, LLC	Incorporation	30 june	100.0	100.0	Full
Dugas Solar, LLC	Incorporation	30 june	100.0	100.0	Full
Summer Shade Solar, LLC	Incorporation	30 june	100.0	100.0	Full
Ft. Meade Solar, LLC	Incorporation	30 june	100.0	100.0	Full
Knickerbocker Solar Project, LLC	Incorporation	30 june	100.0	100.0	Full
Marshville Solar, LLC	Incorporation	30 june	100.0	100.0	Full
Stone Mill Solar, LLC	Incorporation	30 june	100.0	100.0	Full
Half Moon Solar Project, LLC	Incorporation	30 june	100.0	100.0	Full
Vulcan Solar Project, LLC	Incorporation	30 june	100.0	100.0	Full
Bar C Solar, LLC	Incorporation	30 june	100.0	100.0	Full
Mobilgaz, SAS	Disposal	13 july	100.0	—	—
Compañía General de Electricidad, S.A.	Disposal	28 july	96.0	—	—
CGE Servicios, S.A.	Disposal	28 july	100.0	—	—
CGE Magallanes S.A.	Disposal	28 july	95.9	—	—
Empresa Eléctrica de Magallanes S.A.	Disposal	28 july	53.0	—	—
Energy Sur Ingeniería, S.A.	Disposal	28 july	52.8	—	—
Transformadores Tusan S.A.	Disposal	28 july	96.0	—	—
TV Red S.A.	Disposal	28 july	47.7	—	—
CGE Comercializadora SpA	Disposal	28 july	96.0	—	—
ROBLA HUB, S.L.	Incorporation	28 july	50.8	50.8	Equity
Paling Yards Development Finco Pty Ltd (PYDF)	Incorporation	21 september	100.0	100.0	Full
Paling Yards Development Pty Ltd	Incorporation	21 september	100.0	100.0	Full
Naturgy Rinnovabili Italia, SRL	Incorporation	27 july	100.0	100.0	Full
Naturgy Rinnovables France SAS	Incorporation	22 july	100.0	100.0	Full
UFG Infrastructures, BV.	Liquidation	28 october	100.0	100.0	Full
Naturgy Clientes, S.A.	Incorporation	28 october	100.0	100.0	Full
Naturgy LGN GOM	Incorporation	10 december	100.0	100.0	Full
El Almendro, SL	Acquisition	23 december	100.0	100.0	Full
Naturgy LTD	Disposal	20 december	100.0	—	—
Sociedad Gestora de Parques de Andalucía, S.A	Liquidation	29 december	21.0	—	—

Appendix III Naturgy tax group companies

The companies in the Naturgy tax group are as follows:

Naturgy Energy Group, S.A.	Societat Eòlica de l' Enderrocada, S.A.
Nedgia Cegas, S.A.	Naturgy Inversiones Internacionales, S.A.
Nedgia Andalucía, S.A.	Unión Fenosa Preferentes, S.A.U.
Nedgia Castilla La Mancha, S.A.	Naturgy Participaciones, S.A.U.
Nedgia Navarra, S.A.	Naturgy Engineering, S.L.
Nedgia Rioja, S.A.	Operación y Mantenimiento Energy, S.A.
Naturgy Iberia, S.A.	General de Edificios y Solares, S.L.
Petroleum Oil & Gas España, S.A.	GPG México, S.L.U.
Comercializadora Regulada Gas & Power, S.A.	Naturgy Electricidad Colombia, S.L.
Gas Natural Comercializadora, S.A.	GPG México Wind, S.L.U.
Naturgy Aprovisionamientos, S.A.	Nedgia Madrid, S.A.
Gas Natural Transporte SDG, S.L.	GPG Ingeniería y Desarrollo de Generación, S.L.
Gas Natural Exploración, S.L.	Global Power Generation, S.A.
Naturgy Renovables, S.L.U.	Nedgia Aragón, S.A.
Energías Ambientales de Somozas, S.A.	Nedgia Balears, S.A.
Tratamiento Cinca Medio, S.L.	Nedgia, S.A.
Boreas Eólica 2, S.A.	P.E. Nerea, S.L.
Naturgy Informática, S.A.	P.E. Peñarrodana, S.L.
Naturgy Renovables Canarias, S.L.	Gas Natural Redes GLP, S.A.
Naturgy Renovables Ruralia, S.L.	Naturgy Alfa Investments, S.A.U.
Naturgy Future, S.L.U.	Naturgy Infraestructuras EMEA, S.L.
Holding de Negocios de Gas, S.A.	Naturgy Nuevas Energías, S.L.U.
Sagane, S.A.	Naturgy LNG, S.L.
Naturgy Capital Markets, S.A.	Holding Negocios Electricidad, S.A.
La Propagadora del Gas, S.A.	Naturgy Ingeniería Nuclear, S.L.
Naturgy Commodities Trading, S.A.	Naturgy Ciclos Combinados, S.L.U.
Naturgy Distribución Latinoamérica, S.A.	Europe Maghreb Pipeline, Ltd.
Eólica Tramuntana, S.L.	Naturgy Generación Térmica S.L.
Naturgy Acciones, S.L.U.	Infraestructures Electriques de la Terra Alta, S.A.U.
Naturgy Generación, S.L.U.	Naturgy Clientes, S.A.
J.G.C. Cogeneración Daimiel, S.L.	Naturgy LNG GOM, S.L.
UFD Distribución Electricidad, S.A.	Energías Especiales Alcohólicas, S.A., En Liquidación
Lignitos de Meirama, S.A.	Naturgy InnovaHub, S.L.

Appendix IV. Regulatory framework

1. European Regulatory Environment

The European regulatory environment is underpinned by Regulation (EU) 2021/1119 establishing the framework for achieving climate neutrality, known as the European Climate Law, which sets a new net emissions reduction target of 55% in 2030 with respect to 1990 (against the former 40% target) and a climate neutrality emissions target in 2050, among other issues.

In order to achieve the new, more ambitious targets, a new package of legislative proposals known as the "Fit for 55 Package" has been under preparation since 2021, proposing adjustments to European climate, energy, land use, transport and tax policies. Among others matters, this legislative package proposes to amend the existing Directives and Regulations on emissions trading, promotion of renewable energy, energy taxation, energy efficiency and the internal market for natural gas, renewables and hydrogen. It also introduces new regulations on methane emissions. The package is expected to be approved during 2023.

European legislation focused in 2022 on the urgent measures to be taken to cope with high energy prices, mainly due to the war in Ukraine, in order to reduce their impact on consumers:

- Communication known as the European Commission's "RePowerEU Plan" of March 2022 with measures to mitigate the impact of energy prices and eliminate energy dependence on Russia in three main areas: i) energy savings, ii) diversification of natural gas suppliers and iii) accelerated deployment of renewable energies to replace fossil fuels in households, industry and electricity production.
- Regulation (EU) 2022/1032 of 29 June 2022 increasing the underground gas storage targets to 80% by 1 November 2022 and 90% for the following years in order to secure gas supplies during the winter affected by possible supply disruptions from Russia.
- Regulation (EU) 2022/1369 of 5 August 2022 on coordinated measures to reduce gas demand, which establishes a voluntary reduction of 15% of consumption (7% in Spain) between 1 August 2022 and 31 March 2023, which could be made mandatory in the event of a European alert.
- Regulation (EU) 2022/1854 of 6 October 2022 which sets a voluntary electricity consumption reduction target of 10% of gross electricity consumption and a mandatory target of 5% of peak consumption with a ceiling of 180 €/MWh for sub-marginal generation, allowing Member States to reduce this maximum price, and the introduction of solidarity levies for the fossil fuel sector.
- Council Regulation (EU) 2022/2576 of 19 December 2022 on enhancing solidarity through better coordination of gas purchases, reliable price benchmarks and exchanges of gas across borders.
- Council Regulation (EU) 2022/2578 of 22 December 2022 establishing a market correction mechanism to protect Union citizens and the economy against excessively high prices, which will apply for one year from 15 February 2023.
- Council Regulation (EU) 2022/2577 of 22 December 2022 laying down a framework to accelerate the deployment of renewable energy.

2. Regulation of the energy industry in Spain

2.1. Regulation of the natural gas industry in Spain

2.1.1. Main characteristics of the natural gas industry in Spain

The Spanish gas industry is regulated by Law 34/1998, of 7 October, on the hydrocarbons sector, Royal Decree-Law 13/2012, Law 18/2014, Royal Decree-Law 1/2019, and their enabling regulations.

In general, the Spanish gas industry is characterised by the following factors:

- It is an industry in which regulated and unregulated activities coexist. The regulated activities consist of transport, regasification, storage and distribution of natural gas. The non-regulated activities comprise generation, supply and retailing of natural gas.
- It establishes the principle of economic and financial sustainability of the electricity system and limits the annual mismatch between system revenues and costs.

- In compliance with EU legislation, the supply of natural gas in Spain has been fully liberalised with all Spanish consumers being free to choose their natural gas supplier since 1 January 2003, although a tariff of last resort is maintained for the lowest volume consumers.

2.1.2. Regulated activities in the natural gas industry

The main features of the regulated activities are: i) the need for prior administrative authorisation, which is regulated, ii) the allocation of remuneration by regulation, iii) specific obligations to allow third-party access to the network, and iv) specific rules governing unbundling.

2.1.2.1. Transmission

The transmission activity includes regasification, storage and transmission of gas in the strict sense through the basic very high pressure gas pipeline network:

The transport network is owned mainly by Enagás, S.A., although other companies, including various Naturgy investees, own a small proportion of it.

2.1.2.2. Distribution

Natural gas is transported from the very high pressure transport grid to the final consumer through the medium and low pressure grid.

The distribution business is based on a system of administrative authorisations that do not grant exclusive use rights. A zone distributor has preference to obtain authorisations for adjoining zones.

Distribution companies are confined to expanding and managing distribution networks; they cannot supply energy; supply companies are specifically authorised to supply energy.

2.1.2.3. LPG supply

As well as natural gas distribution, Naturgy supplies liquefied petroleum gas (LPG), as regulated by Law 34/1998 on the Hydrocarbons Sector. The Ministry for the Ecological Transition and Demographic Challenge (MITERD) establishes the tariffs for selling piped LPG to end consumers and the assignment prices of LPG at which it is purchased by piped LPG distributors, laying down the specific rates or a system for automatically calculating and updating them. These prices are published in monthly resolutions.

2.1.3. Economic regime applicable to regulated activities

Following the approval of Royal Decree-Law 1/2019, the CNMC was entrusted with approving the remuneration methodologies in the natural gas sector which were applicable from 31 December 2020, and it was empowered to establish the methodology for access and capacity assignment in the gas system. Accordingly, the CNMC approved the following Circulars that determine, inter alia, the methodologies for remunerating gas activities that are applicable in the 2021-2026 regulatory period:

- Circular 2/2019, of 12 November 2019, which established the methodology for calculating the financial yield on the regasification, transportation and distribution of natural gas.
- Circular 8/2019 of 12 December 2019, as amended by Circular 9/2021 of 15 December establishing the method and conditions for access and allocation in the natural gas system
- Circular 9/2019, of 12 December 2019, which establishes the methodology for determining the remuneration of natural gas transportation facilities and liquefied natural gas plants.
- Circular 4/2020, of 31 March, establishing the methodology for determining the remuneration for natural gas distribution.
- Circular 6/2020, of 22 July, establishing the methodology for calculating local grid transportation and regasification tolls for natural gas.
- Circular 8/2020, of 2 December, establishing the unit reference values for investment and for operation and maintenance for 2021-2026 and the minimum requirements for auditing investments and costs in natural gas transportation facilities and LNG plants.

- Circular 7/2021, of 28 July, establishing the methodology for calculating, overseeing, measuring and settling losses in the gas system.

Under the allocation of competences laid down in Royal Decree-Law 1/2019, the Ministry adopted Royal Decree 1184/2020 of 29 December establishing the methodologies for calculating the gas system charges, the regulated remuneration for basic underground storage facilities and the fees for their use.

In accordance with the methods mentioned above, the following resolutions were approved by the Ministry and the CNMC

- CNMC Resolution of 20 May 2021 establishing the remuneration for the 2022 gas year (1 October 2021 to 30 September 2022) for companies carrying out regulated activities related to liquefied natural gas plants, transportation and distribution of natural gas.
- CNMC Resolution of 19 May 2022 establishing the remuneration for the 2023 gas year for companies carrying out regulated activities related to liquefied natural gas plants, transportation and distribution of natural gas.
- CNMC Resolution of 27 May 2021 establishing the access tolls for the transportation networks, local networks and regasification for the 2022 gas year.
- CNMC Resolution of 19 May 2022 establishing the access tolls for the transportation networks, local networks and regasification for the 2023 gas year.
- Order TED/1023/2021, of 27 September, establishing the gas system charges and the remuneration and fees for basic underground storage facilities for the 2022 gas year.
- Order TED/929/2022, of 27 September, establishing the gas system charges and the remuneration and fees for basic underground storage facilities for the 2023 gas year.

In relation to renewable gases, Royal Decree-Law 14/2022 on measures for energy saving, efficiency and reduction of gas dependence allows direct lines to be established without prior authorisation and amends Royal Decree 1434/2002 to incorporate a procedure for connecting renewable gas plants to the grid until the CNMC approves the definitive procedure.

Subsequently, Royal Decree-Law 18/2022 on measures to enhance consumer protection and reduce gas consumption (Plan +SE) declared the direct connection networks of renewable gas plants to the grid to be of public utility and launched the deployment of smart gas meters for consumption of no more than 50 MWh.

2.1.4. Unregulated activities in the natural gas industry

2.1.4.1. Procurements

The supply of natural gas in Spain - in the form of gas or LNG - is mostly handled by gas operators such as Naturgy. Given the low relevance of natural gas production in Spain, although it is an unregulated activity, it is subject to two types of limit, basically to assure supply diversification and competition in the market: 1) no single country can supply more than 60% of the gas imported into Spain; and 2) no party or business group as a whole can supply natural gas for consumption in Spain in excess of 70% of national consumption, excluding self-consumption.

In relation to renewable gases, the approval of Royal Decree 376/2022 and Order TED/1026/2022 on guarantee of origin systems for gas from renewable sources should be noted.

2.1.4.2. Supply

The Law recognises the right of consumers connected to less than 4 bar who do not exceed a certain consumption threshold (50 MWh/year) to be supplied at a maximum price called the tariff of last resort (hereinafter TUR). The TUR is reviewed quarterly when cost variations so require, in accordance with the methodology established in Order ITC/1660/2009 of 22 June.

However, in view of the exceptional rise in international natural gas prices, Royal Decree-Law 17/2021, of 14 September, on urgent measures to mitigate the impact of the escalation of natural gas prices on retail gas and electricity markets, introduced an exceptional limitation on increases in the cost of the raw material to be passed on to the TUR during the last quarter of 2021 and the first quarter of 2022; this limitation was extended under successive Royal Decree-Laws until 31 December 2023. Royal Decree-Law 18/2022 of 18 October regulated the mechanism for recovering the amounts owed to last resort supply companies in order for them to be covered by the General State Budget.

Likewise, in order to allow domestic consumers with centralised boilers to benefit from a regulated tariff, the aforementioned Royal Decree-Law 18/2022 defined a new TUR tariff for community boilers on a temporary basis until 31 December 2023. It also includes certain flexibility measures applicable until 31 December 2023 in the contracting of gas for industry and the self-employed.

Organised gas market

The organised gas market was set up under Law 8/2015 and was subsequently developed by Royal Decree 984/2015 and other enabling regulations. The organised gas market managed by MIBGAS began operating in December 2015 with a view to encompassing the entire Iberian Peninsula, although products for delivery on the Portuguese side were not traded until March 2021.

Vulnerability

Royal Decree-Law 15/2018 published on 6 October 2018 brought in a thermal energy subsidy (“bono social térmico”), consisting of a single annual payment as direct assistance in paying for heating, hot water and cooking, to consumers that had availed themselves of the electricity subsidy (“bono social eléctrico”) at 31 December the previous year, irrespective of the fuel they use, or support for savings actions or improvements in energy efficiency. The amount to be received will depend on the degree of vulnerability and the climate zone. It is funded out of the General State Budget.

In view of the exceptional increase in natural gas prices since 2021, the amount of this aid and the budget allocation have increased and some of the measures adopted during the Covid-19 pandemic have been extended, such as the prohibition of supply cuts for vulnerable consumers or the flexibility measures for changes in the conditions of access contracts.

In addition, Royal Decree-Law 17/2022 on urgent measures in the energy area reduced VAT from 21% to 5% for all gas consumers until 31 December 2022, and was extended until 31 December 2023 by Royal Decree-Law 20/2022 of 27 December.

2.2. Regulation of the electricity industry in Spain

2.2.1. Main characteristics of the electricity industry in Spain

The regulation of the electricity industry in Spain was reformed through the publication of Law 24/2013 of 26 December on the Electricity Sector, which adapted the previous law (Law 54/1997 of 27 November) to the circumstances of both the economy and the electricity and energy industry in Spain.

The main characteristics of the electricity industry are as follows:

- It is an industry in which regulated and non-regulated activities coexist. The regulated activities consist of electricity transmission and distribution (as well as the operation of the system). The non-regulated activities comprise generation and sale of electricity.
- It establishes the principle of economic and financial sustainability of the electricity system and limits the mismatches due to income shortfalls.
- Revenues in the electricity industry derive from access tolls and other regulated prices, specific tax measures and, exceptionally, certain items in the General State Budget.

2.2.2. Regulated activities in the electricity industry

The regulated electricity transmission and distribution activities are characterised by the fact that access to them is subject to administrative authorisation, their remuneration is established by regulation, and their performance is subject to a number of specific obligations on the separation of activities into separate companies, with an obligation to maintain functional separation and to separate the brand and brand image, as in the case of the natural gas industry.

2.2.2.1. Transmission

Electricity transmission links the plants with the distribution networks and specific final customers. The transmission grid is owned mainly by REE, although other companies, including Naturgy's subsidiary UF Distribución de Electricidad, S.A., own a small proportion of the secondary transmission network.

2.2.2.2. Distribution

Electricity distribution includes all activities that bring electricity from the high tension grid to the final consumer.

2.2.3. Remuneration framework for regulated activities

Royal Decree 1047/2013 of 27 December and Royal Decree 1048/2013 of 27 December established the remuneration methodologies for transmission and distribution that were applied to set the annual remuneration for these activities until 2019, in accordance with Royal Decree-Law 1/2019, which transferred these powers to the CNMC, among other measures.

The CNMC then approved Circulars 5/2019, 6/2019 and 7/2019 of December 2019 which established the methodologies for calculating the remuneration for electricity transmission and distribution applicable for the 2020-2025 regulatory period. In addition, CNMC Circular 2/2019, of 12 November, established the method for calculating the financial yield on electricity transmission and distribution activities, based on WACC and in line with most European regulators.

In May, July and December 2022, the outstanding Ministerial Orders were approved for the remuneration relating to 2016, 2017, 2018 and 2019 for electricity transmission and distribution companies (Order TED/490/2022, Order TED/749/2022, Order TED/1311/2022 and Order TED/1343/2022)

The CNMC will now have to issue the final Resolutions that will correct those that it has approved provisionally in January each year, setting the remuneration of distribution companies and companies owning electricity transmission facilities for 2020, 2021 and 2022, in accordance with the provisions of the relevant Circulars.

The electricity system tolls and charges are approved annually in accordance with CNMC Circular 3/2020 of 15 January, which established the methodology for calculating electricity transmission and distribution tolls, and Royal Decree 148/2021 of 9 March, which laid down the methodology for calculating electricity system charges.

The values of the tolls and electricity system charges applicable as from 1 January 2022 were approved, respectively, by the CNMC Resolution of 16 December 2021, establishing the values of the tolls for access to the electricity transmission and distribution networks applicable as from 1 January 2022, and by Order TED/1484/2021, of 28 December, establishing the prices of the electricity system charges applicable as from 1 January 2022. Royal Decree-Law 6/2022 reduced the charges applicable from 31 March 2022 by 36% due to the lower remuneration of RECORE envisaged therein and established an 80% reduction in tolls for electro-intensive supplies until 31 December 2022.

The values of the tolls and electricity system charges applicable as from 1 January 2023 were approved, respectively, by the CNMC Resolution of 15 December 2022, establishing the values of the tolls for access to the electricity transmission and distribution networks applicable as from 1 January 2023, and by Order TED/1312/2022, of 23 December, establishing the prices of the electricity system charges applicable as from 1 January 2023. RDL 20/2022 maintained the 80% reduction in electro-intensive tolls until 30 June 2023, charged to the General State Budget.

2.2.4. Unregulated activities in the electricity industry

2.2.4.1. Electricity generation

Law 24/2013 of 26 December on the Electricity Sector provides that the production of electrical energy is to be subject to the rules of free competition, although the commissioning, modification, temporary closure, transfer and final closure of facilities is subject to prior administrative authorisation. The remuneration for this activity derives from its participation in the electricity production market, made up of the forward, daily and intraday markets, unorganised markets and other services related to the security of the electricity system, such as adjustment and balancing services.

The Law also provides for the possibility of establishing capacity mechanisms. These mechanisms are governed by provisions establishing an investment incentive. Any capacity mechanisms that are implemented must conform to the provisions of Regulation 2019/943 on the Internal Market in Electricity. In order to implement capacity mechanisms, it is necessary that the system be shown to be inadequate on the basis of a European coverage analysis that may be complemented by an analysis at national level.

In addition, electricity generation is subject to various taxes created by Law 15/2012 of 27 December on fiscal measures for energy sustainability: 7% tax on the value of electricity production, taxes on the production and storage of nuclear waste, and the water levy. During 2021, in view of the exceptional rise in electricity market prices, the application of the 7% tax on the value of electricity production was suspended by means of various Royal Decree-Laws until 31 December 2023.

Also, on an exceptional and temporary basis, Royal Decree-Law 17/2021 on urgent measures to mitigate the impact of the escalation of natural gas prices in the retail gas and electricity markets (elaborated upon by Royal Decree-Law 23/2021) introduced a reduction in the remuneration for the gas price internalised in the wholesale electricity market. That reduction applies to all power generation facilities in mainland Spain using technologies that do not emit greenhouse gases, have a capacity of more than 10 MW, are not covered by any specific remuneration framework, and were not allocated in any of the renewable auctions that have been held. However, energy covered by forward contracts, both physical and financial, was excluded from its scope, except for contracts signed as at 31 March 2022 at a fixed price above 67 €/MWh in accordance with the amendment to Royal Decree Law 6/2022.

This reduction, initially applicable from 16 September 2021 to 31 March 2022, has been extended through successive Royal Decrees until 31 December 2023

In May 2022, Royal Decree-Law 10/2022 temporarily established a mechanism for adjusting the production costs of marginal fossil fuel technologies in the production market (Iberian mechanism), the effect of which is a reduction equivalent to this adjustment in the bids made by these technologies in the market, with the consequent reduction in the matching price, guaranteeing that these facilities will recover the adjustment which is financed by the demand that benefits from it. This mechanism will be applicable until 31 May 2023. Following Royal Decree-Law 17/2022 on urgent measures in the energy area, cogeneration can choose between the remuneration established by RD 413/2014 or the adjustment mechanism of RDL 10/2022, an option that has been extended under Royal Decree-Law 20/2022 to certain waste-to-energy facilities

2.2.4.2. Renewable, high-efficiency cogeneration, and waste-to-power facilities

Royal Decree-Law 6/2022 of 29 March, which introduced the National Plan to respond to the consequences of the war in Ukraine, included an extraordinary review of the RECORE remuneration in 2022 by bringing forward the update of the remuneration parameters scheduled for 2023, which was used to reduce charges from 31 March 2022 onwards. This review took place through the publication on 14 December 2022 of TED Order 1232/2022 of 2 December, which updated the remuneration parameters for standard facilities applicable to certain electricity generation facilities using renewable energy sources, cogeneration and waste, for their application in 2022.

Subsequently, Royal Decree-Law 10/2022, amended Royal Decree 413/2014 by modifying the adjustment mechanism for deviations in the market price to also include forward, annual, quarterly and monthly market references in a way that is coherent with the weighting coefficients that are expected to be used for calculating the PVPC. It will apply to electricity generated from 1 January 2023.

The various Royal Decree-Laws adopted during 2022 have included measures aimed at expanding grid access and offtake capacity for renewable energy facilities, reducing administrative deadlines or eliminating authorisations and measures to facilitate storage and hybridisation.

Power generation facilities' access and connection to the electricity grids is regulated by the following instruments:

- Royal Decree 1183/2020 of 29 December on access and connection to the electricity transmission and distribution networks.
- CNMC Circular 1/2021, of 20 January, establishing the methodology and conditions for access and connection of electricity generating facilities to the transmission and distribution grids.

Various other measures have been taken to promote self-consumption, both for connection and to make contracting more flexible. In this respect, various measures are defined in Royal Decree-Law 14/2022 on energy efficiency and gas consumption reduction measures and Royal Decree-Law 18/2022 on measures to enhance consumer protection and reduce gas consumption as part of the +SE Plan.

2.2.4.3. Supply

Supply is fully deregulated and customers are free to choose their supplier. As a deregulated activity, supply is remunerated at a price freely agreed by the parties.

However, consumers with power equal to or less than 10 kW may opt to use the open market or continue consuming under a regulated price supply (PVPC). The criteria for setting the PVPC have been regulated by successive legal instruments; in any event, the PVPC must incorporate all additive costs, including the cost of generation, access tolls and supply costs.

With the aim of also taking steps in relation to demand in the wholesale market, Royal Decree-Law 17/2022 on urgent measures in the energy area introduced an active demand response service to be managed by the System Operator through annual auctions, the first of which was held on 1 November 2022.

In addition, electricity contracting for companies and the self-employed was made more flexible until 31 December 2023 (Royal Decree-Law 18/2022).

Vulnerability

Vulnerable consumers of electricity can avail themselves of an energy subsidy ("bono social") that is regulated in Article 45 of Law 24/2013 and Royal Decree 897/2017, which regulated the definition of vulnerable consumers, the energy subsidy and other forms of protection for residential consumers of electricity.

The subsidy consists of a discount of 25% on the electricity bill for vulnerable consumers and of 40% for very vulnerable consumers, subject to a cap on the amount of electricity consumed; both subsidies are means-tested on the basis of the household's total income and number of children. The regulations also lay down special conditions for consumers at risk of social exclusion.

As occurred in 2021, a number of Royal Decree-Laws were brought in in 2022 that extend or alter measures to protect vulnerable consumers. These measures include: the extension of the increase in discounts applicable to beneficiaries of the energy subsidy (“bono social”) from 25% to 60% and from 40% to 70% for the severely vulnerable, which were extended under RDL 18/2022 to 65% and 80%, respectively. The group of persons entitled to the energy subsidy (RDL 6/2022) has also been increased and a new social justice category has been created providing a 40% discount (RDL 18/2022) until 31 December 2023, as well as an increase in the limits on consumption qualifying for the subsidy.

A VAT reduction from 21% to 5% for <10 kW consumers was also introduced whenever the market price exceeds 45€/MWh and in all cases for consumers receiving the energy subsidy, which has been extended until 31 December 2023, as well as a reduction in electricity tax (from 5.1% to 0.5%, complying with the lower limits of the Directive) and the establishment of a Minimum Vital Supply that prohibits cutting off energy supplies due to non-payment for beneficiaries of the electricity subsidy for six months, in addition to the existing four-month period, guaranteeing a maximum power level.

The social protection measures established during the pandemic, such as supply guarantee and the prohibition on cutting off supplies to vulnerable consumers in the event of non-payment, have also been extended under RDL 2/2022 and subsequently under RDL 11/2022 until 31 December 2023.

The mechanism by which the energy subsidy will be funded by supply companies as a function of their share of customers that was established in Royal Decree-Law 7/2016 was annulled by the Supreme Court in February 2022, and Royal Decree-Law 6/2022 established a new funding mechanism under which the burden is shared by all players in the electricity system (generators, transmission companies, distribution companies, supply companies and consumers who buy directly in the market). The CNMC is entrusted with calculating the distribution each year and the Ministry is responsible for approving, by Order, the unit values to be applied each year by each player in each activity. Royal Decree Law 6/2022 included provisional unit values for each activity, applicable from its entry into force, which have been replaced by those approved in Order TED/733/2022.

2.2.4.4. Energy efficiency

Spanish Law 18/2014 established a national system of energy efficiency obligations under which an annual energy saving quota (saving obligation) is assigned to gas and electricity supply companies, oil product wholesalers and liquefied petroleum gas wholesalers. Royal Decree-Law 23/2020 extended the application of this national system until 2030.

The aggregate saving obligations are equal to the target allocated to Spain in Directive 2012/27/EU for the period 2014-2020, which were extended to 2030 by Directive 2018/27/EU.

The mechanism whereby liable parties must fulfil this obligation is through a monetary contribution to the National Energy Efficiency Fund (FNEE). Royal Decree 36/2023 of 24 January was published on 26 January 2023, establishing a System of Energy Saving Certificates as an alternative to the contribution to the FNEE.

Each year a ministerial order stipulates each liable party's obligations to make contributions to the National Energy Efficiency Fund. Order TED/220/2002 of 16 March established the obligations for 2022.

2.3. Other regulations in Spain

On 13 May 2021, the Congress of Deputies approved the Climate Change and Energy Transition Law (LCCYTE), which aims to achieve climate neutrality by 2050, and in any case, in the shortest possible time. It also establishes targets to be achieved by 2030:

- A 23% reduction in emissions with respect to 1990.
- Renewable energy to account for 42% of final energy consumption.
- 74% of power generation in the electricity system to be from renewable sources.
- A 39.5% increase in energy efficiency with respect to the baseline.

On 28 December, Law 38/2022 of 27 December was published in the Official State Gazette (BOE) establishing temporary energy taxes and taxes on credit institutions and financial credit establishments, as well as creating a temporary solidarity tax on large fortunes and amending certain tax regulations.

It defines a temporary non-tax public benefit of 1.2% of revenue for 2022 and 2023, the calendar years prior to the years in which the payment obligation arises (2023 and 2024), for the main operators in the energy sectors (electricity, gas and oil). Groups or entities with revenue under Euros 1,000 million in 2019 and those for which energy is not their core business (less than 50% of revenue in 2017, 2018 and 2019) are excluded from said benefit. Also excluded from the net taxable amount is revenue from regulated activities, understood as the supply at a price (PVPC for electricity and TUR for gas, bottled LPG and piped LPG), regulated income from the electricity and natural gas transmission and distribution networks, and all generation income subject to regulated remuneration and additional remuneration in non-mainland territories, including income received from the market and economic dispatch, respectively.

3. Regulation of the natural gas industry in Latin America

3.1. Main characteristics of the natural gas industry in Latin America

In all these countries, gas industry regulations are well-established and stable, and are implemented and administered by independent regulators.

- This is an industry in which regulated and unregulated activities coexist:
 - a. Regulated activities: natural gas transportation and distribution, and supply to customers at a regulated tariff.
 - b. Non-regulated activities: production, supply and delivery of natural gas to unregulated customers by supply companies.
- The principle of the economic and financial sustainability of regulated activities is reflected in periodic tariff updates to adjust for inflation and fluctuations in natural gas prices, and regulatory periods of 4 or 5 years in which Comprehensive Tariff Reviews are conducted in order to define the maximum tariffs for the entire tariff period. These tariffs must be approved by the regulatory body in each country, except in the case of Chile where the distribution company is free to set its own tariffs but must comply with a limit on the return on its investments.
- The degree of regulation of the supply of natural gas to customers in the open market varies in each country. Markets are currently being opened up to a greater number of customers, depending on the range of consumption, and access to the transmission grids is being liberalised. In all countries where Naturgy operates in the distribution area, supply to the residential market continues to be a regulated activity carried out by the distribution company.
- As the supply of natural gas to regulated tariff customers is the responsibility of the distribution companies, they must conclude supply contracts with various supply companies in order to obtain natural gas under appropriate conditions (volumes and flexibility) for supplying these customers.

3.1.2. Regulated activities in the natural gas industry in Latin America

The regulated activities in the countries where Naturgy operates (Mexico, Brazil, Argentina and Chile) are broadly similar: the distribution business is based on a concession regime regulated by law and concession agreements in each country, which specify, inter alia, the characteristics of the service, the scope of the regulated market, the return on investments and the updating of tariffs.

3.1.2.1. Transportation

This consists of transporting natural gas from entry points (LNG plants, well-heads, international pipeline entries) to the distribution companies' delivery points (city gates).

The transportation networks are owned by transport companies. Naturgy does not engage in this activity to any significant extent in any of these countries.

3.1.2.2. Distribution

Natural gas is transported from the very high pressure transport grid to the final consumer through the medium and low pressure grid.

The distribution activity is based on a system of fixed-term concession agreements which may be extended and which do not entail exclusive rights of use (there is generally no exclusivity in the concession areas).

Distribution companies' activities are restricted to expansion, distribution network management and the supply of natural gas to non-deregulated customers or deregulated customers that choose to be supplied by the distribution company.

Revenues from the distribution activity are obtained via tolls (distribution tariff) paid by all regulated market and open market customers connected to the distribution network.

The main characteristics of the regulated natural gas distribution activities are i) the need for a concession agreement ii) the conclusion of a natural gas supply contract between the distributor and a supply company for supplying regulated customers at the distributor's tariff iii) validation by the regulator of this supply contract and iv) access to the transportation network

3.1.3. Economic regime applicable to regulated activities in Latin America

3.1.3.1. Distribution in Brazil, Mexico and Argentina

In these countries the regulatory model is based on a price cap in which the Regulator sets the maximum tariffs for the following 5-year regulatory period (Annual Tariff Review). These maximum tariffs are based on economic sufficiency to adequately remunerate all costs, capital and operating expenses which distribution companies are required to incur in order to carry out the activities included in the concession agreement.

The calculation of these revenues is based on the projection of the investment plan, operating expenses, asset base, and depreciation for the 5-year tariff period. The rate of return at which the assets are remunerated is also calculated. The rate of return calculated is an actual rate, discounting the inflation forecast for the tariff period. Tariff updates are carried out at different intervals in each country to adjust for the effect of inflation and variations in natural gas prices.

3.1.3.2. Distribution Chile

In Chile, the regulatory model is based on the revenue cap system in which the distribution company is free to set tariffs. Each year, the regulatory body verifies the return obtained by the distribution company to ensure that it is below a specified limit (which varies based on asset age).

The rate of return consists of the discount rate that equals the present value of the flows associated with the distribution business margin (sales revenue less operating costs) with the value of the assets. In the event that the return exceeded the established rate, the Law would oblige the Regulator to set mandatory tariffs for low consumption customers.

The asset base is valued every 4 years using the new replacement value method.

The capped rate of return is calculated each year, also using an actual rate, and therefore the asset base is updated for inflation and the tariffs set by the distribution company may take this inflation adjustment into account.

3.1.4 Regulatory situation of natural gas distribution companies in Latin America

3.1.4.1. Brazil

The company has three separate concessions in Brazil, two in the state of Rio de Janeiro, and one in the state of São Paulo. Regulation in Brazil is based on a price cap model in which the regulator sets maximum tariffs with a gas price pass through. The tariffs in Brazil for 2018-2022 are those originally set for the previous regulatory period (2013-2017) although the tariffs for 2018-2022 are currently being negotiated.

On 24 March 2021, the Rio de Janeiro State regulator (AGENERSA) released Resolutions 4198/2021 and 4199/2021 with the outcome of the 4th Tariff review for CEG and CEG RIO, respectively. Subsequently, on 29 March 2021, AGENERSA suspended the validity and enforcement of the Resolutions for the 4th Tariff Review of CEG and CEG RIO to enable the Granting Authority to come to a decision on the Third Addendum. On 14 June 2021, AGENERSA issued its decision to maintain the effects of the Resolution that had been suspended, thereby re-establishing the procedural terms for the decisions contained therein. The concessionaires appealed against this decision and AGENERSA's Resolution is expected to be issued at end-January 2023.

In May 2021, the State of São Paulo regulator issued Deliberations 1160/2021 and 1161/2021 containing the outcome of the 3rd and 4th Tariff Reviews, respectively, for São Paulo Sul.

At federal level, Law 14.134/2021 (Gas Law) was published in April 2021, and Decree 10.712/2021, implementing Law 14.134, was published in June.

On 30 December 2021, Resolutions 4363/21 (CEG) and 4364/21 (CEG RIO) were issued which determined that the adjustment for inflation (IGP-M) is conditional on the conclusion of the fourth Five-Year Review. However, the concessionaires secured a precautionary court ruling which guaranteed the applicability of part of inflation for 2022.

3.1.4.2. Mexico

In **Mexico**, all the distribution areas in operation for which Naturgy is responsible (Monterrey, Nuevo Laredo, Toluca, Saltillo, CDMX and Bajío) have tariffs approved for the 2016-2020 five-year period. These tariffs will remain in force until the new tariffs (delayed by the pandemic) are approved. The tariff period for the Valle de México distribution zone ended on 31 July 2022. The business plan was submitted in May 2022 and therefore the current tariff will be maintained until the new tariff is approved. For the Tabasco, Campeche and Merida distribution areas the period ends in December 2023, and for Península it ends in June 2024. Mexico's regulatory framework continues to adapt to the energy reform implemented at the end of 2013, which liberalised natural gas supply and sale activities, and to the amendment made to the Hydrocarbons Law in 2021.

The Noroeste and Sinaloa concessions were sold in 2021, and the concession for piped distribution in Sistema Ixtlahuaca was granted. The business plan for the initial Ixtlahuaca tariff was submitted in January 2022. This zone currently operates using a conventional tariff approved by the regulator in March 2022.

3.1.4.3. Argentina

The company has two gas distribution concessions in **Argentina**, Naturgy BAN, S.A. (part of the province of Buenos Aires) and Gasnor, S.A. (provinces of Tucumán, Salta, Jujuy and Santiago del Estero). The regulatory model in Argentina is based on a price cap set by the regulator (ENARGAS) and is very similar to that in Mexico and Brazil, with the pass-through of gas costs.

The Decree of Necessity and Urgency (DNU) No. 1020/20 by the National Executive Power (PEN) dated 16 December 2020 commenced renegotiation of the comprehensive tariff review (RTI) that was in force, determined for the period April 2017 to March 2022, in accordance with the Law on Social Solidarity and Productive Reactivation of December 2019, which declared a public emergency in tariff and energy matters. This decree also provides for a transitional tariff regime within the framework of the renegotiation as an appropriate temporary solution for the benefit of users and also of distributors, based on the premise that the public services of natural gas transportation and distribution must be conducted in secure conditions and that it is necessary to guarantee the supply and also the continuity and affordability of those essential public services.

Within the framework of DNU No. 1020/20 and the Transitory Renegotiation Agreements - Transitional Tariff Regime concluded by the distribution companies in May 2021 for the approval of the adjustments to transitional distribution tariffs in that year, on 18 February 2022 the companies signed certain addenda to said agreements which were ratified by PEN Decree No. 91 of 22 February 2022, to establish new adjustments to the transitional distribution tariffs. These were effective from 1 March 2022 under Enargas Resolutions No. 64/22 for Naturgy BAN S. A. and No. 62/22 for Gasnor S.A. dated 23 February 2022.

The price of natural gas at the Point of Entry to the Transportation System (PIST) paid by priority demand users that distributors are obliged to supply is subsidised by the National State. In this respect, distributors conclude supply agreements with gas producers or suppliers based on the gas price set for users by the National State, following consultation in a non-binding public hearing. On 18 April 2022, through Resolutions 237/22 and 235/22, the Secretariat of Energy convened two public hearings for the purpose of: i) the treatment of new natural gas prices at the PIST, applicable from 1 June 2022 and ii) the implementation of segmentation in the granting of energy subsidies by the National State to natural gas service users for 2022-2023. Concerning the treatment of the new natural gas prices at the PIST, the Energy Secretariat published a technical report with the weighted average cost that would be applied at national level to supply priority demand during 2022 and scenarios involving the part of the subsidy that could be assumed by the National State.

On 27 May 2022, pursuant to Secretariat of Energy Resolution 403/22, it was ordered that supply contracts/agreements in force between gas distributors and gas suppliers within the framework of the Gas Ar Plan should be brought into line with gas prices at the PIST. ENARGAS subsequently issued Resolutions 212 and 213/22 whereby it approved the tariffs with the new gas prices for Gasnor and Naturgy BAN, respectively, to be applied as from 1 June 2022. These resolutions also envisaged natural gas price rebates for consumption in excess of the subsidised base block for residential users benefiting from the social tariff and for those relating to public welfare organisations.

Subsequently, on 16 June 2022, PEN Decree No. 332 established the subsidy segmentation regime for residential users of public electricity and piped natural gas utilities, with the aim of achieving reasonable energy prices that may be applied in line with criteria of fairness and distributive equity. It determined three levels of users based on household income in order to establish the part of the gas price to be assumed by the National State and the part to be paid by users. The levels defined are: Tier 1 higher income, Tier 2 lower income and vulnerable persons, and Tier 3 middle income (not included in Tiers 1 and 2). For this purpose, the Energy Secretariat set up an Energy Subsidies Access Register (RASE) in which the users of said public utilities that wish to receive subsidies and who meet certain requirements may register at any time.

In this context, the Ministry of Energy set wellhead gas prices (PIST) for the highest income Tier 1 residential users in three bi-monthly periods, in order to gradually eliminate the subsidies. In addition, ENARGAS approved tariffs with gradual increases in these prices, effective from 31 August, 31 October and 31 December 2022. Subsequently, in order to encourage rational consumption the Energy Secretariat established monthly consumption blocks for Tier 3 residential users, consisting of the subsidised volumes according to the tariff category and sub-zone, while for surplus consumption it stipulated that the unsubsidised supply cost would be applicable, i.e. the cost defined for the highest earning Tier 1 users.

It should be noted that the increases in natural gas prices at the PIST that were granted during 2022 despite having complied with the "pass through" mechanism, i.e. generating neither profits or losses from supply costs to tariffs, have been detrimental to distributors as the increases in distribution tariffs were established before the increases in gas prices were known. This involved, in particular, the costs of unaccounted gas, bank charges and bad debts. The distribution companies submitted their claims to ENARGAS and the Energy Secretariat for the establishment of a differential price for unaccounted gas or the inclusion of the higher associated costs generated by gas price increases at the PIST in the tariffs, without having received a favourable resolution to date.

On 14 November 2022, the Energy Secretariat, by means of Resolution SE No. 771/2022, convened a Public Hearing for 6 December 2022 in order to assess and determine the part of the natural gas price at the PIST to be assumed by the National State in 2023, and thus determine the part that end users would have to pay in their gas bill. The resulting report is not yet available.

Continuing with the background details of the distribution tariff adjustment, on 17 November 2022, in view of the imminent completion of the two-year period laid down by Article 2 of Decree 1020/20, both Naturgy BAN and Gasnor sent notes to ENARGAS with a copy to the Hydrocarbons Secretariat, with a view to reaching a Final Renegotiation Agreement. In these notes, they requested an urgent update of the transitional tariff relating to their distribution margins in order to take into account the effect of inflation and the consequent increases in the costs they have to incur to ensure the safe and reliable operation of the relevant assets, which were much higher than those envisaged when the tariff adjustments of June 2021 and March 2022 were approved. Subsequently, on 23 November 2022 and following on from these notes, both companies submitted to the Regulatory Body an analysis and quantification of the revenues required for the provision of piped natural gas distribution services, as stipulated in Decree 1020/20 and the respective Agreements and Addenda, which provided for the conclusion of a Final Renegotiation Agreement up to 17 December 2022 which would open a new tariff period.

On 7 December 2022, under Decree No. 815/22, the National Executive Power extended Decree 1020/20 for one year from its termination date. In addition, it extended the intervention of ENRE and ENARGAS for an additional one-year period from 1 January 2023 or until the new tariffs resulting from the Final RTI Agreements enter force, whichever occurs first.

As provided in said Decree, prior to the approval of the Addenda to adapt the Transitory Renegotiation Agreements with the natural gas transportation and piped gas distribution companies, ENARGAS convened a public hearing for 4 January 2023 under Resolution No. 523/22 in order to submit for consideration the transitory adjustment to the tariffs for the public piped gas distribution service, the inclusion in the tariffs of the price of gas purchased, and the corresponding Accumulated Daily Differences (DDA) between gas purchase and sale prices generated in previous periods. Both distributors will request a recalculation of the distribution margin from 1 February 2023.

3.4.1.4. Chile

In **Chile**, tariffs may be set freely subject to a cap on returns. Tariffs are therefore set by the distributor, which is also responsible for supply. Annual profitability may not exceed a specific rate of return. The Law that currently governs the natural gas industry is Decree with Force of Law No. 323 of 1931, of the Ministry of the Interior, "General Law on Gas Services", last amended by Law No. 20.999 published in the Official Gazette on 9 February 2017.

In this context, in July 2017, the National Energy Commission established the rules for the production of the Annual Profitability Report by concession areas of concessionaires of the public service of piped gas distribution, which will apply until the corresponding regulations are issued.

On 29 June 2022, a Bill aimed at improving the gas market was drawn up. In the natural gas area, the Bill establishes that distribution concession companies with gas purchase contracts signed with companies of the same business group or with related persons or entities must include the costs and revenues associated with the gas supply by their related supplier in their profitability test. The Bill under consideration would render inapplicable Transitional Article 12 of Law 20.999, on the basis of which the CNE verified the efficiency of the supply contract between Metrogas and its related company Aproveionadora Global de Energía S.A. The Bill provides for a reduction in the maximum rate of return allowed for assets over 20 years old, from 9% to 6%.

4. Regulation of the international electricity industry

4.1. Main characteristics of the international electricity industry

In all these countries, electricity sector regulations are well-established and stable; legislation is developed and administered by independent regulators.

- This is a sector in which regulated and unregulated activities coexist:
 - a. Regulated activities: transmission, distribution and supply of electricity to customers at a regulated tariff.
 - b. Non-regulated activities: generation and supply of electricity to unregulated customers by supply companies.
- The principle of the economic and financial sustainability of regulated activities is reflected in periodic tariff updates to adjust for inflation and regulatory periods of 4 or 5 years in which Comprehensive Tariff Reviews are conducted in order to define the maximum tariffs for the entire tariff period. These tariffs must be approved by regulators in each country.
- The degree of regulation of the electricity supply to customers in the open market varies in each country. In countries where Naturgy operates in the distribution area, namely Panama and Argentina, electricity supply to the residential market continues to be a regulated activity carried out by the distribution company.
- As the supply of electricity to regulated tariff customers is the responsibility of the distribution companies, they must conclude supply contracts with generators and supply companies to have the energy and capacity required to supply these customers.

4.2. Regulated activities in the international electricity industry (Latin America)

As in the natural gas industry, the electricity sectors in the countries where Naturgy provides distribution services, namely Panama and Argentina, are broadly similar: the distribution business is based on a concession regime regulated by law and under concession agreements in each country, which specify, inter alia, the characteristics of the service, the scope of the regulated market, the return on investments and the updating of tariffs.

Transmission

Electricity transmission links power generation plants and international transmission grids with distribution networks and customers. Naturgy's involvement in the transmission business is not relevant.

Distribution

Electricity distribution comprises all activities required to deliver energy from the high-voltage transmission grid to end consumers, as well as the supply of electricity at a regulated tariff to customers who are not in the free market (based on consumption and power range).

4.2.1. Remuneration framework for regulated activities

Remuneration in both Panama and Argentina is based on a price cap model. The regulatory body is responsible for setting the maximum tariffs for the following regulatory period (Annual Tariff Review). These maximum tariffs are based on economic sufficiency to adequately remunerate all costs, capital and operating expenses which distribution companies are required to incur in order to carry out the activities included in the concession agreement.

4.2.1.1. Panama

Although the regulatory model in force in Panama is a price cap, unlike in Argentina, income is calculated by projecting investments and operating expenses based on efficiency equations that are calculated based on the performance data of a group of companies (USA and Panama), i.e. it is a projective model whose parameters are based on a benchmarking process with comparable companies.

The rate of return calculated is an actual rate which discounts the inflation forecast for the tariff period, and therefore tariffs are updated to adjust for the effect of inflation (to the extent determined by the regulator) and variations in electricity prices.

The regulatory period in Panama is 4 years.

The range of potential fluctuations in this rate of return is established by law. The regulator sets the rate to be applied during the subsequent regulatory period based on an economic analysis. The upper limit in this range is the sum of 800 basis points and the 30-year US T-bond yield plus 200 basis points, while the lower limit is the sum of 800 basis points and the 30-year US T-bond yield minus 200 basis points.

4.2.1.2. Argentina

The regulatory model in Argentina for electricity distribution is very similar to the regulatory model for natural gas distribution. It is based on the price cap model where the regulator sets the maximum tariffs for the next regulatory period (5 years).

The calculation of these revenues is based on the projection of the investment plan, operating expenses, asset base, and depreciation for the 5-year tariff period. The rate of return at which the assets are remunerated is also calculated. The rate of return calculated is an actual rate, discounting the inflation forecast for the tariff period. Tariff updates are therefore carried out at different intervals in each country to adjust for the effect of inflation and variations in electricity prices.

As this is a price cap system relying on incentive-based remuneration, distribution companies make significant efforts during the regulatory period to reduce operating costs so that, at the end of the tariff period, customers may benefit from a reduction in tariffs in the following tariff period due to lower unit operating costs.

4.2.2. Regulatory situation of international electricity distribution companies (Latin America)

4.2.2.1. Panama

In Panama, Resolution of the Autoridad Nacional de los Servicios Públicos number 13040, published on 28 December 2018, approved the tariffs for Empresa de Distribución Eléctrica de Chiriqui, S.A. and Empresa de Distribución Eléctrica Metro Oeste, S.A. for the period 1 January 2019 to 30 June 2022. Previously, ASEP Resolutions No. 12959 of 27 November 2018 and No. 13004 of 12 December 2018 had established the Maximum Permitted Revenue (IMP) for the period July 2018 - June 2022.

On 31 March 2022, ASEP issued Resolution AN-17542, amended by Resolution AN-17554, to extend the validity of the tariffs applicable to regulated customers and for the use of the networks of the distribution companies EDEMET and EDECHI, approved for the period from 1 July 2018 to 30 June 2022, while the studies are being conducted for the new IMP from July 2022 to June 2026 and until the new tariffs are approved in compliance with all the transparency standards for public affairs. In this respect, it has been established that the electricity service tariff to be applied in the second half of 2022 must be updated in accordance with the Distribution Regulation, following the methodology of the TRI for 2018-2022.

Progress has been made in the process of studying and determining the new IMP for the period July 2022 - June 2026. The new tariffs are expected to be applied by 1 July 2023 at the latest.

In relation to the Tariff Stabilisation Funds (ordinary FET), the validity of which has been extended until December 2022 under Resolution No. 108 of 29 December 2020 and Resolution No. 35 of 6 April 2021, the extension during the first and second quarters of 2021 of the implementation of the extraordinary contribution to the Tariff Stabilisation Fund (FET) to be paid by the State was authorised, in order to reduce the cost billed to end customers. From the second quarter of 2021, the contributions were confined to users with low voltage tariffs and consumption of up to 750 kWh in order to maintain the same price paid in the first quarter of 2021.

On 6 July 2021, the State ordered another extension of those contributions for the third quarter of 2021 for the purpose of implementing the tariff update corresponding to the six-month period from July to December 2021.

In addition, the State adopted amendments to Cabinet Resolution No. 60 of 2015 to implement measures to reduce the state of emergency resulting from the Covid-19 pandemic, which consisted of an extraordinary FET granted by the State with the aim of reducing end-customers' electricity bills and achieving savings during the period 1 April 2020 to 31 December 2021. In this respect, the Ministry of Economy and Finance was authorised to seek the necessary resources and identify the total amounts for the extraordinary contributions to the Covid-19 FET in order to meet the commitments with the electricity distribution companies.

As a result of the persisting effects of the COVID-19 pandemic, the Cabinet issued monthly resolutions during 2022 to extend, until 31 December 2022, the scheme adopted for Extraordinary Contributions to the Tariff Stabilisation Fund (FET) in order to maintain this benefit for simple tariff customers (BTS) that consume from 0 to 750 kWh per month. The State will indemnify distribution companies with contributions to the Extraordinary Covid-19 FET from the National Treasury for the contributions made to their customers during the period January to December 2022.

Through ASEP Resolutions No. 17368 and No. 17367 of 29 December 2021, Empresa de Distribución Eléctrica Metro-Oeste, S.A. (EDEMET) and Empresa de Distribución Eléctrica Chiriquí, S.A. (EDEMET), respectively, were notified of the procedure for cancelling the balance of the partial monthly adjustments of the electricity tariffs for the second half of 2020 and the first half of 2021 through the semi-annual tariff update corresponding to the period January to June 2022. In accordance with Resolutions No. 17730 and No. 17731 of 21 June 2022, the partial monthly adjustments for the second half of 2021 were cancelled through the half-yearly tariff update for the period July to December 2022.

4.2.2.2. Argentina

In **Argentina**, each provincial jurisdiction has its own regulation to establish the Distribution Added Value (VAD). That is, each province is in charge of allocating the public electricity distribution service in its area. However, the values relating to the acquisition cost of energy, capacity and transmission are pass through values and are subject to national regulation.

The tariff scheme in the province of San Juan, where Naturgy operates through Energía San Juan S.A., consists of five-yearly Ordinary Tariff Reviews (RTO) and half-yearly Extraordinary Tariff Reviews (RTE). The latter restate the variables contained in the VAD, make market projections and make adjustments (between estimated and actual figures) to taxes, levies and charges that are not set out explicitly in the invoices for the service.

The RTO process envisaged in the Concession Agreement, which lays down the tariffs for the five-year period from 2021 to 2025, was completed early in 2021. Subsequently, public hearings have been systematically held for the four subsequent RTEs. The last of these (at 12/12/2022) has not yet been formally approved. However, the tariffs are applicable from 23 January 2023.

4.3. Unregulated activities in the international electricity industry

4.3.1. Generation

Naturgy, through its subsidiary Global Power Generation (GPG), operates as a power generator in Mexico, Panama, Costa Rica, the Dominican Republic, Puerto Rico, Chile, Brazil and Australia.

4.3.1.1. Costa Rica and Puerto Rico

The Group generates electricity under Power Purchase Agreements (PPA) with Instituto Costarricense de Electricidad (ICE) and Puerto Rico Electric Power Authority (PREPA), respectively, which are vertically integrated state-owned companies with exclusive responsibility for transmission, distribution and supply.

4.3.1.2. Panama

Electricity is sold through bilateral contracts with distributors as a result of auctions carried out by the Transmission Company (ETESA) and approved by the National Public Services Authority (ASEP), and on the market.

4.3.1.3. Dominican Republic

GPG has two fuel oil generation plants, Palamara with a capacity of 102 MW and La Vega with a capacity of 92.5 MW capacity. Both plants operate in the wholesale electricity market. These plants cover 3% of the country's demand.

4.3.1.4. Mexico

The company generates power under PPAs, and sells electricity as an Independent Power Producer (IPP) for sale to the Comisión Federal de Electricidad (CFE). Surpluses are delivered to partners and are traded on the Wholesale Electricity Market (MEM). In addition, financial energy transactions are carried out through bilateral contracts with third parties. These last two procedures were created under the 2013 Energy Reform. Additionally, the Bii Hioxo wind farm became operational during 2014, which delivers the power it generates to various partners for their own needs.

In Mexico, the energy sector is undergoing a process of redefinition following the publication of a new energy policy promoted by the President of Mexico with the aim of strengthening the State-owned productive industries as provided in the National Development Plan 2019-2024.

Within this context, important measures in the area of electricity generation were promulgated in 2019, such as the creation of a pilot emissions trading system for 2020-2022, the cancellation of long- and medium-term electricity auctions, and the merger of the CFE's power generation subsidiaries back into the CFE.

The Reform of the Electricity Industry Law (LIE) was published on 9 March 2021. The main changes were as follows: modification of the order of dispatch by technologies, the revision of IPP contracts, the creation of Physical Delivery of Energy and Capacity contracts between Basic Service Suppliers - CFE (Comisión Federal de Electricidad) and Generation - CFE, and the granting of Clean Energy Certificates regardless of the dates of entry into operation. However, this law was appealed against by companies operating in the sector and it has been definitively suspended.

The Reform to the Hydrocarbons Law was published on 4 May 2021; the main implications refer to the granting of permits that are contingent upon accreditation of the storage capacity determined by the Ministry of Energy (SENER), the revocation of permits in the event of repeat violations and fuel smuggling, and the possibility of suspension of permits due to imminent danger to national security, energy security or the national economy, establishing the procedure for the suspension of permits. That reform was suspended on 26 May.

The Reform of the Thirteenth Transitory Provision of the Hydrocarbons Law was published on 19 May 2021; it suspends the power granted to the Energy Regulatory Commission (CRE) to adapt to asymmetric regulation principles the sale of hydrocarbons, petroleum and petrochemicals, as well as commercialisation carried out by persons controlled by PEMEX or its subsidiaries. It also established that sales by Petróleos Mexicanos, its production subsidiaries, or a legal entity, on behalf and by order of the State, will be considered to be commercialisation in the terms of the provisions of the Hydrocarbons Law and its Regulations and, consequently, the principles of generality and non-discrimination provided therein must be observed. That reform was suspended on 21 June.

4.3.1.5. Chile

GPG won a tender in August 2016 to supply electricity to regulated customers under a long-term Power Purchase Agreement (PPA) with distributors with a duration of 20 years. To meet this commitment, GPG has developed and built two projects (wind and solar) which entered into commercial operation in 2021 with a total installed capacity of approximately 330 MW. GPG is also developing and constructing a number of small distributed power generation facilities (PMGD) with up to 9 MW of maximum capacity, which, in accordance with current regulations, have access to a regulated Stabilised Node Price for a term of up to 14 years; the total accumulated capacity of these projects is about 55 MW and they are expected to enter commercial operation in 2023.

4.3.1.6. Australia

GPG built and, since November 2018, has operated a 96 MW wind generation project under a 20-year contract, with regulated tariffs for energy fed to the system. In 2018, GPG was awarded 180 MW of generation capacity in a wind project that became operational in April 2021. In this case, the contract consists of a 15-year bilateral Power Purchase Agreement at a regulated tariff. In 2020, 361 MW of generation capacity in 3 wind projects was awarded, with commissioning dates estimated between August 2022, December 2022 and December 2024, implemented through three new PPAs with terms between 10 and 15 years at a regulated tariff. Finally, In 2021, a new wind power project with 58 MW of installed capacity was awarded with a 12-year PPA and a regulated tariff, expected to enter service at end-2023.

In 2022 GPG acquired a company through which it is building its first solar photovoltaic project of over 100 MW and a 55 MW battery. This project is expected to start operating in the first quarter of 2024. It is currently not covered by any PPA and if it does not conclude any such agreement before that date, it will sell its energy on the market.

4.3.1.7. Brazil

GPG operates in **Brazil** through four photovoltaic generation plants with a total capacity of 153 MW that came into operation in 2017 and 2018 and have 20-year contracts for the sale of reserve energy to Câmara de Comercialização de Energia Elétrica (CCEE).

Naturgy Energy Group, S.A. and subsidiaries
Annual financial report **2022**

CONSOLIDATED DIRECTORS' REPORT

Consolidated Directors' Report for the year ended 31 December 2022

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1. Company situation

1.1 Mission and values

Naturgy Energy Group, S.A. was incorporated in 1843. Its registered office is located at Avenida de América 38, Madrid.

Naturgy Energy Group, S.A. and subsidiaries (hereinafter, Naturgy) is a group engaged in the production, distribution and supply of energy and services. Our business model, focused on value creation, is committed to the sustainable development of society by ensuring a supply of competitive safe energy with maximum respect for the environment.

Naturgy operates in over 20 countries, supplies gas and electricity to more than 16 million customers, and has 16.2 GW of diversified generating installed capacity.

It operates in regulated and liberalized gas and electricity markets, and international activities are making a growing contribution, mainly in the following areas:

- Gas and electricity distribution
- Electricity generation and supply
- Infrastructure, procurement and supply of natural gas

Naturgy's **mission** is:

- To respond to the energy needs of society by offering quality and environmentally-friendly products and services.
- To respond to the needs of our shareholders by offering increasing and sustainable profitability.
- To respond to the needs of our employees by offering them the opportunity to develop their professional skills.

Meet the needs of ...	With a vision of ...	Based on our values
Our shareholders	Offering increasing sustainable profitability	
Our customers	Being leaders in continuous growth and with a multinational presence, offering high-quality products that respect the environment	<ul style="list-style-type: none"> - Customer focus - Commitment to results - Sustainability
Our employees	Offering opportunities for professional and personal development	<ul style="list-style-type: none"> - Interest in people - Social responsibility - Integrity
Society	Contributing positively through a commitment to global citizenship	

While not forgetting our roots and our more than 175 years of history, our vision for the future aims to transform the current business model and lay the foundations to continue creating value through the energy transition, focusing on renewable energy, developing renewable gas (hydrogen and biomethane) by leveraging the leading position in the conventional natural gas market, and promoting energy efficiency and the circular economy.

Transforming together

We are transforming the world through energy by resolutely tackling the challenges of the energy transition and the demands of society and our customers, and working with excellence, transparency and the talent of a committed team. And we aim to do this together: with our employees, customers, shareholders and partners. Based on the four values that constitute the company's DNA:

Forward Vision: innovating for a better tomorrow

We are transforming the world through innovation, proactivity and adaptability, addressing the challenges and seizing the opportunities of the energy transition, new business models and digitalisation.

People Oriented: transforming from the most human side

We are transforming the world through proximity, transparency and trust, through a firm commitment to people – employees, customers, shareholders and partners – and leveraging talent and passion to have a positive impact.

Excellence Driven: excellence in what we do

We are transforming the world through leadership, determination and continuous improvement, committed to generating value from each of our businesses and markets, and responding rigorously to the expectations of all stakeholders.

One Planet: for a more sustainable society

We are transforming the world through sustainability, respect and commitment to the environment, society and corporate governance, evidencing that we are a responsible company that contributes significantly to the progress, welfare and future of the planet.

1.2. Business model and organizational structure

Naturgy's business model is implemented through a large number of companies, mainly in Spain, Latin America (Argentina, Chile, Brazil, Mexico and Panama), United States of America and Australia.

Naturgy organizes its business around three strategic areas (Energy and Network Management, Renewables and New Businesses, and Supply) that lend visibility to business performance and serve as the basis for defining the following operational segments:

- Energy and Network Management:
 - Iberian Networks: covers the gas and electricity network businesses in Spain.
 - Latin American Networks: covers the gas network businesses in Argentina, Chile, Brazil and Mexico and the electricity network businesses in Argentina and Panama.
 - Energy management: covers LNG supply on an international scale, Markets and procurement, Gas pipelines, Thermal power generation in Spain, and Thermal power generation in Latin America (Mexico, Dominican Republic and Puerto Rico).

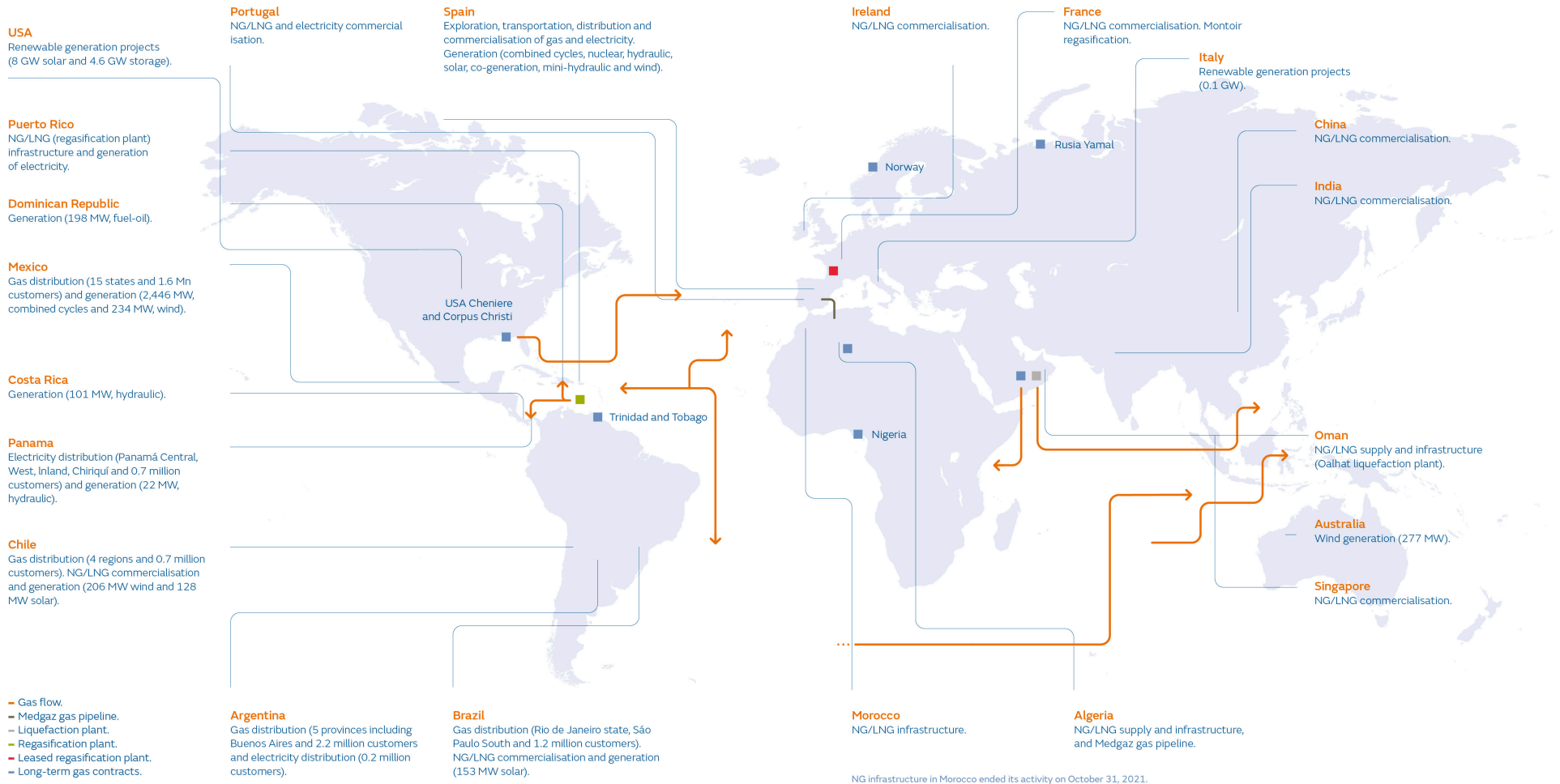
- Renewables and New Businesses:
 - Renewables Spain and USA: includes the management of facilities and generation projects for hydroelectric, wind energy, mini hydro, solar, cogeneration and new businesses. The activities included in this segment are carry out in Spain, extending the activity to the United States in 2021, when Naturgy acquired a portfolio of 8 GW of solar projects in the along with 4.6 GW of energy storage projects.
 - Renewables Latin America: includes the management of the facilities and renewable electricity generation projects of Global Power Generation (GPG) located in Latin America (Brazil, Chile, Costa Rica, Mexico and Panama).
 - Renewables Australia: includes the management of the facilities and the renewable electricity generation projects of GPG in Australia.

- Supply: deals with the supply to end customers of gas and, electricity, by adopting new technologies and services to develop the brand's full potential.

Throughout the value chain, Naturgy's business model stands apart as a leader in the gas sector and a key player in the electricity sector, in both cases guaranteeing the continuity of supply, which is essential to providing a quality service and fulfilling the company's social mission; providing a broad range of value-added services and fostering sustainable innovation to drive development.

Appendix I to the Consolidated Annual Accounts details the companies that form part of Naturgy and the activities in which they engage.

Geographic footprint



Business areas

Leadership in the gas business

Gas Networks				
	Gas distribution	Infrastructure	Procurement	Supply
	11 million distribution connections 136,272 km of network	LNG carriers on long-term lease Medgaz transportation pipeline	A supply portfolio totalling ~ 20 bcm	342.2 TWh of gas supplied
Our positioning	<p>Spain Leader in Spain with a 68% market share, distributing natural gas to 5.4 million customers in more than 1,100 municipalities in nine autonomous regions.</p> <p>Latin America Latin America's top distributor, catering for more than 5.8 million customers. Presence in Argentina, Brazil, Chile, Mexico and in five of the largest cities in Latin America.</p>	<p>Nine LNG carriers (1.43 Mm3).</p> <p>24.5% interest in Medgaz gas pipeline.</p> <p>Stake in the Ecoeléctrica regasification plant and Qalhat liquefaction plant.</p> <p>0.8 bcm of leased storage capacity.</p>	<p>Business model based on diversification and flexibility that has made Naturgy a global operator with a strong international profile.</p> <p>Naturgy has procurement contracts with suppliers worldwide, both in a gaseous state (NG) and in the form of liquefied natural gas (LNG).</p>	<p>Unique access to markets: 11 million customers and LNG sales in numerous countries worldwide.</p> <p>A global operator with the flexibility to tap markets offering attractive margins. 45.79 % market share in Spain.</p> <p>Competitive supply to combined cycle plants (CCGT).</p>
	Our strength	Naturgy is a leader in the markets where it operates, affording it an excellent platform for organic growth, in terms both of attracting new customers in municipalities with gas and of expanding networks to areas without gas.	Naturgy has an integrated gas infrastructure that affords it considerable stability, making its operations more flexible and enabling it to transport gas to the best business opportunities.	Naturgy has a diversified and flexible portfolio of procurement contracts, with price adjustment mechanisms.

A key player in the electricity business

Electricity Networks			
Electricity distribution	Thermal generation	Renewable generation	Supply
<p>4.8 million supply connections 155,060 km of network</p>	<p>10.6 GW of generating capacity</p>	<p>5.5 GW of generating capacity</p>	<p>23.5 TWh supplied</p>
<p>Our positioning</p> <p>Spain The third-largest operator in the Spanish market, where it distributes electricity to 3.8 million customers.</p> <p>Latin America Presence in Argentina and Panama 1 million customers).</p> <p>Naturgy has a leadership position in the markets where it operates.</p>	<p>Spain 8.0 GW of capacity (7.4 GW CCGT and 0.6 GW nuclear). Coal-fired power generation was discontinued in June 2020. Naturgy's market share is 19.35%.</p> <p>International 2.6 GW of capacity: 2.4 GW CCGT (Mexico) and 0.2 GW oil-fired (Dominican Republic).</p>	<p>Spain 4.4 GW of capacity (2.1 GW hydroelectric, 1.9 GW wind, 0.4 GW solar and 0.05 GW cogeneration). Naturgy's market share, excluding cogeneration, is 6.5%.</p> <p>International 1.1 GW of capacity: 0.1 GW hydroelectric (Costa Rica and Panama), 0.7 GW wind (Mexico, Chile and Australia), and 0.3 GW solar (Brazil and Chile).</p>	<p>Leader in the mainstream consumer and residential segments, with a total market share of 14.4% in Spain. One of the main traders in the Spanish market. A dual fuel supply and a broad range of value-added services.</p>
<p>Our strength</p> <p>Naturgy is efficient in terms of operation and maintenance costs in the electricity distribution business.</p>	<p>Naturgy has considerable know-how in the power generation technologies it operates and its infrastructure can adapt to the needs of each energy model and to the reality of each country.</p>	<p>Naturgy's good positioning growth oriented in Spain, Australia and United States will enable it to make the best of investment opportunities in generation in these geographies.</p>	<p>Naturgy has a leadership position in the combined supply of gas and electricity, resulting in important advantages, such as lower service costs, integrated customer care and lower acquisition costs, not to mention greater customer loyalty.</p>

1.3. Corporate governance model

Attached as an Appendix and forming an integral part of this Directors' Report are the Annual Report on Corporate Governance 2022 and the Annual Report of Director Remuneration 2022, as required by article 538 of the Capital Companies Act.

Corporate governance model

Naturgy is governed in accordance with the principles of efficacy and transparency in line with the main international recommendations and standards.

The corporate governance terms of reference comprise basically:

- Articles of Association (adopted in 2018, updated in 2022).
- Regulations of the Board of Directors and its committees (updated in 2022).
- Regulations of the General Meeting of Shareholders (adopted in 2018, updated in 2022).
- Human Rights Policy (updated in 2019).
- Code of Ethics (updated in 2021)

As of 31 December 2022 and 2021, the main shareholders of Naturgy are as follows:

	Interest in share capital %	
	2022	2021
- Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona, "la Caixa" (1)	26.7	26.7
- Global Infrastructure Partners III (2)	20.6	20.6
- CVC Capital Partners SICAV-FIS, S.A. (3)	20.7	20.7
- IFM Global Infrastructure Fund (4)	14.0	12.2
- Sonatrach	4.1	4.1

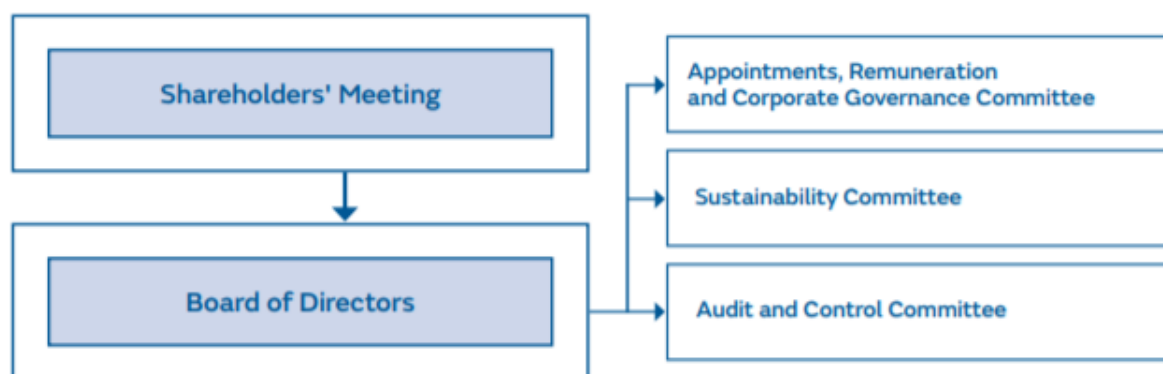
^{1.} Held through Criteria Caixa S.A.U.

^{2.} Global Infrastructure Partners III, which is managed by Global Infrastructure Management LLC, holds its stake indirectly via GIP III Canary 1, S.à.r.l.

^{3.} Through Rioja Acquisitions S.à.r.l.

^{4.} Through Global InfraCo O (2) S.à. r.l.

Naturgy's governance structure is as follows:



Shareholders' Meeting

Any person who is a shareholder of record five days before the Shareholders' Meeting is entitled to attend the Meeting.

Board of Directors

The Board of Directors of Naturgy operates via plenary meetings and committees, in accordance with the provisions of the Capital Companies Act. Accordingly, the Board of Directors of Naturgy has an Audit Committee, an Appointments, Remuneration and Corporate Governance Committee, and a Sustainable Committee, whose functions are substantially as set out in the Act. Independent directors make up the majority of the Audit and Control Committee. All of the Board committees are chaired by independent directors.

The Board of Directors and its committees engage in preventive risk management and consider aspects linked to corporate responsibility. The Board of Directors is highest body with responsibility for approving corporate governance and corporate responsibility policies. Each year, by authorising the respective reports, it reviews and approves the information on risks and opportunities in those areas.

The main issues considered by the Board of Directors and its committees in 2022, in the course of discharging their duties, are as follows:

- Monitoring, on an almost biweekly basis, of the trend in gas and electricity commodities in order to adapt the commercial, the procurement and the hedging policy to a changing reality.
- Promotion and supervision of the analysis work on the Gemini Project.
- Specific oversight of investments in renewable generation and regulatory changes.
- Supervision of the financial reporting process.
- Verification of the crime prevention system.
- Supervision of risk control systems and analysis of specific risks.
- Supervision of internal control and internal audit systems.
- The process of filling vacancies through proportional representation of the significant shareholders.
- The new configuration of the Board of Directors' committees in view of the reduction in the number of independent directors.
- Oversight of the sustainability plan with a focus on the climate action plan.
- Implementation of the Internal Control over Non-Financial Reporting (ICNFR) system.

The Board of Directors of Naturgy has 12 members, the Audit and Control Committee has 5 members, the Appointments, Remuneration and Corporate Governance Committee has 5 members, and the Sustainability Committee has 4 members.

The composition of the Board of Directors and its committees on 31 December 2022 is as follows:

Board of Directors		Audit and Control Committee	Appointments, Remuneration and Corporate Governance Committee	Sustainability Committee	Category of director	Seniority on Board
Executive Chairman	Mr. Francisco Reynés Massanet				Executive	6/02/2018
Lead director	Ms. Helena Herrero Starkie	Director		Chairman	Independent	04/05/2016
Director	Mr. Enrique Alcántara-García Irazoqui		Director		Proprietary	13/05/2021
Director	Ms. Lucy Chadwick			Director	Proprietary	16/03/2020
Director	Ms. Isabel Estapé Tous			Director	Proprietary	16/03/2020
Director	Mr. Ramón Adell Ramón	Director			Proprietary	11/02/2022
Director	Mr. Rajaram Rao		Director		Proprietary	21/09/2016
Director	Rioja S.à.r.l, Mr. Javier de Jaime Guijarro		Director		Proprietary	01/08/2019
Director	Mr. Pedro Sáinz de Baranda Riva	Director	Chairman		Independent	27/06/2018
Director	Mr. Claudio Santiago Ponsa	Chairman	Director		Independent	27/06/2018
Director	Theatre Directorship Services Beta, S.à.r.l., Mr. José Antonio Torre de Silva López de Letona	Director			Proprietary	18/05/2018
Director	Jaime Siles Fernández-Palacios			Director	Proprietary	11/02/2022
Secretary (not a director)	Mr. Manuel García Cobaleda	Secretary (not a director)	Secretary (not a director)	Secretary (not a director)	N/A	29/10/2010

Management structure

There is only one executive director, to whom the Board has delegated all its functions except those that the law or the Regulation of the Board of Directors do not permit to be delegated.

The executive director has organized Naturgy's management into three business units (Energy and Network Management, Renewables and New Businesses, and Supply) and several corporate units that deal with common and control matters.

As of 31 December 2022, the Management Committee is comprised of the Executive Chairman and the following:

Energy and Network Management Department, headed by Mr. Pedro Larrea Paguaga.

Renewables and New Businesses Department, headed by Mr. Jorge Barredo López.

Supply Department, headed by Mr. Carlos Francisco Vecino Montalvo.

Information Systems Department, headed by Mr. Rafael Blesa Martínez.
 Financial Markets Department, headed by Mr. Steven Fernández Fernández.
 Planning, Control and Administration Department, headed by Mr. Jon Ganuza Fernandez de Arroyabe.
 Company Secretariat and Secretariat of the Board of Directors, headed by Mr. Manuel García Cobaleda.
 Sustainability, Reputation and Institutional Relations Department, headed by Mr. Jordi García Tabernero.
 People and Organization Department, headed by Mr. Enrique Tapia Lopez.

There are also specific committees for a number of matters, notably the Energy Balance, Risks and Supply Committee, comprising most of the members of the Management Committee and some of the managers reporting directly to them, in order to monitor the evolution of energy commodities, both in the gas and electricity sectors, and the evolution of the indices. This Committee, in addition to monitoring, has taken on the role of making purchase, sale or hedging decisions that corresponded to the management level or has made proposals in the event that, due to its level of competence, they corresponded to the Board of Directors.

1.4. Regulatory environment

Appendix IV. Regulatory Environment of the consolidated annual accounts contains a description of the regulations governing the industry and the electricity and gas system in the markets in which Naturgy operates.

2. Business performance and results

Notes on financial disclosures

Naturgy's financial disclosures contain magnitudes drafted in accordance with International Financial Reporting Standards (IFRS), and Alternative Performance Metrics (APM), which are viewed as adjusted figures with respect to those presented in accordance with IFRS. The attached appendix 1 contains a definition of the APMs used.

2.1. Main aggregates

Main financial aggregates

	2022	2021	%
Net sales	33,965	22,140	53.4
Ebitda	4,954	3,529	40.4
Operating Profit	3,083	2,101	46.7
Income attributable to equity holders of the parent	1,649	1,214	35.8
Capital expenditure	1,907	1,484	28.5
Net financial debt (at 31/12)	12,070	12,831	(5.9)
Free cash flow after non-controlling interests	1,914	2,113	(9.4)

Key financials & metrics

	2022	2021
Leverage	54.7%	59.1%
EBITDA/Net financial debt cost	9.9x	7.2x
Net financial debt/EBITDA	2.4x	3.6x

Main stock market ratios and shareholder remuneration

	2022	2021
Total no. of shares ('000)	969,614	969,614
Average no. of shares ('000) ¹	960,908	960,935
Share price at 31/12 (Euros)	24.31	28.63
Market capitalisation at 31/12 (Euros million)	23,571	27,760
Earnings per share (Euros) ¹ attributable to the parent company	1.72	1.26
Dividend paid	1,164	1,290

¹ Calculated using the average number of outstanding shares in the year (average number of ordinary shares minus average number of treasury shares).

Key operating figures

Distribution	2022	2021
Gas distribution (GWh)	386,479	459,878
Electricity distribution (GWh)	34,033	36,411
Gas supply points ('000)	11,050	11,036
Electricity supply points ('000)	4,827	4,776
Gas distribution network (km)	136,272	135,640
Length of electricity transmission and distribution network (km)	155,060	153,981

Gas	2022	2021
Supply (GWh)	217,183	239,780
International LNG (GWh)	125,053	141,748
Total gas supply (GWh)	342,236	381,528

Electricity	2022	2021
Installed capacity thermal generation (MW)	10,675	10,675
Installed capacity renewable (MW)	5,513	5,221
Total installed capacity (MW)	16,188	15,896
Net production thermal generation (GWh)	37,485	30,891
Net production renewable (GWh)	9,544	10,863
Total net production (GWh)	47,029	41,754

Environmental and social performance

Environment	2022	2021
Power generation emission factor (t CO ₂ /GWh)	279	261
Greenhouse gas (GHG) emissions (M tCO ₂ eq) ¹	15.1	13.5
Emissions-free installed capacity (%)	37.5	36.3
Emissions-free net production (%)	29.4	35.4

Interest in people	2022	2021
No. of employees at year-end ²	7,112	7,366
Training hours per employee	35.9	28.8
Women representation (%) ³	32.7	32.0

Health and safety	2022	2021
No. of accidents leading to time lost	8	8
Frequency of accidents with time lost	0.12	0.1

Commitment to society and integrity	2022	2021
Economic value distributed (Euros million) ⁴	32,089	22,470
Nº of complaints received by the Ethics Committee	43	61

¹ GHG: greenhouse gases, measured as tCO₂ equivalent (scope 1 and 2).

² Does not include the number of employees at discontinued operations (21 persons in 2022 and 24 persons in 2021).

³ Does not include employees at discontinued operations.

⁴ As defined in Alternative Performance Metrics Annex I.

2.2. Executive summary

- Naturgy's EBITDA amounted to €4,954 million in 2022, i.e. 40.4% higher than in the previous year. It has been a volatile period in the energy market and commodity prices have soared, in both gas and electricity.
- The Networks business in Spain and LatAm reported EBITDA of €2,475 million in the period, which represents an increase of 8.7% compared to 2021, thanks to the operating efficiencies achieved in Spain after the completion of the 2021 restructuring plan and, in Latin America, to the tariff update that factors in inflation from prior periods, as well as positive exchange rate effects.
- The robust performance by the deregulated business drove the sharp increase in the Group's EBITDA, with the Energy Management and Supply businesses contributing the most growth in the period, while Renewables and New Businesses was affected by low hydroelectric power generation in Spain.
- Naturgy is committed to supporting its clients, particularly through challenging times, and it strives to anticipate society's needs and to provide stability in energy prices in the current context of volatility. As such, Naturgy was a first mover in contributing innovative solutions for its stakeholders, launching its Electricity Commitment initiative at a fixed price for three years, aimed at offsetting the volatility of electricity prices in the pool, and most recently in gas, offering a stable three year price for industrial customers, and a two year price for communities & SMEs. Furthermore, as the leading company in gas supply through regulated tariffs in Spain, with close to 1.3 million customers and a market share of around 75%, the company is committed to helping its consumers to benefit from the most competitive energy prices available. With this objective, the company has reinforced customer service means to attend consumers interested in the changing to the Last Resort tariff (TUR), multiplying by 12x the number of service agents. More than 60% of the company's customer base has taken advantage of the long-term price initiatives launched by Naturgy in 2022.
- Prudent financial management and capital discipline have been key to tackling market volatility and regulatory uncertainty in 2022. On the one hand, Naturgy has been able to maintain high liquidity during the period and, on the other, it reduced its net financial debt from €12,831 million at the end of 2021 to €12,070 million at the end of 2022, while investing €1,907 million and meeting its shareholder remuneration commitment of €1.2/share per year, as set out in the 2021-2025 Strategic Plan.
- Capex totalled €1,907 million in 2022, i.e. 28.5% higher than in the previous year. The Networks business and Renewables and New Businesses absorbed approximately 88% of this growth. Harnessing its cash flow generation capacity and the strength of its balance sheet, Naturgy plans to ramp up its investment programme in the next few years.
- Naturgy remains committed to developing renewable energies and reached more than 5.5 GW of installed capacity in the period. In Spain, Naturgy is developing projects to build approximately 30 wind farms and photovoltaic plants, equivalent to almost 1 GW of additional renewable capacity, which are expected to come on stream in the coming months.
- Lastly, with regard to shareholder remuneration, the Board of Directors will propose a final dividend of €0.50/share, subject to approval by shareholders at the General Meeting, in addition to the first and second interim dividends of €0.30/share and €0.40/share, respectively, paid in cash during 2022. In accordance with the 2021-2025 Strategic Plan, the total dividend will amount to €1.20/share in 2022.
- The energy transition is a major opportunity for Naturgy, and the company is committed to achieve carbon neutrality by 2050 at the latest. The company aims to restore natural capital and biodiversity through multiple initiatives, related to the prevention, reduction and compensation of its impacts. Accordingly, a total of 345 biodiversity initiatives were implemented in 2022.

Macroeconomic growth and energy demand

In 2022, demand for energy by the group's activities in Spain, Brazil and Mexico declined, reflecting different macroeconomic environments, weather conditions and energy trends in the countries where the group operates.

Electricity and gas demand in Spain decreased by an average of -9.2% and -15.3%, respectively, compared to 2021, to below pre-pandemic levels. Similarly, average demand in gas distribution activities in Mexico and Brazil experienced a downturn of -12.4% and -50.9%, respectively, compared to 2021. Conversely, demand for gas and electricity grew in the rest of the Latin American economies where the group operates, by 1.8% in Chile, 6.5% and 7.2% in Argentina (gas and electricity, respectively), and 3.9% in Panama (electricity).

In 2022, Latin American currencies performed differently than in 2021. The US dollar, Mexican peso and Brazilian real appreciated, while the Argentinian and Chilean pesos continued to depreciate against the euro. The performance of Latin American currencies generated a positive effect of €172 million on the group's EBITDA and €2 million on consolidated results in the year.

Evolution of commodity prices

Meanwhile, commodity prices have followed a more uniform, global trend across all regions, logging an unprecedented increase in both the gas and electricity markets, which has been exacerbated by the ongoing conflict between Russia and Ukraine.

Average Brent prices were 43% higher than in 2021, while gas prices at major hubs saw unprecedented increases, in particular TTF and JKM, which increased by ~3.4x and 2.3x, respectively, on average vs. 2021.

Meanwhile, wholesale electricity prices increased by ~1.5x on average compared to 2021, to record highs. These increases led to significant regulatory changes and continued uncertainty in Spain in the period.

Regulatory developments

In 2022, the Group was affected by intense regulatory activity and the publication of measures adopted by the Spanish government to mitigate the impact of high energy prices on consumers. See Appendix IV for more information. Regulatory framework of the consolidated annual accounts.

Gemini project

On 10 February 2022, Naturgy reported the decision by its Board of Directors concerning the launch of the Géminis project, consisting of a very significant reorganisation of the corporate group of which Naturgy Energy Group, S.A. is the parent company. This project specifically envisages the partial spin-off of Naturgy Energy Group, S.A. under the provisions of Title III (Article 68 et seq.) of Law 3/2009 of 3 April on structural modifications in trading companies (LME), which will give rise to two large groups listed on the Spanish Stock Exchanges with clearly differentiated business profiles and with the same shareholder composition, at least initially, as a result of the proposed operation.

The first of the groups resulting from the proposed spin-off would be headed by Naturgy itself (MarketsCo after the spin-off) as the spun-off company, and would bring together on an integrated basis the deregulated businesses encompassing renewable energies development, the portfolio of energy customers and associated services, conventional generation facilities and management of wholesale energy markets. The second of the groups resulting from the proposed spin-off is to be headed by a newly created company and beneficiary of the operation (NetworksCo) which will bring together all the businesses engaging in the management of regulated gas and electricity distribution and transport infrastructures.

The Gemini project was designed to simplify and focus the management of each business group in order to accelerate the Group's Strategic Plan, driving growth and their contribution to the energy transition. However, at the date of preparation of these consolidated annual accounts the Gemini project had been delayed and no information on the related time-frame can be provided. The analysis carried out to date confirms the suitability and strategic sense of the Gemini project although its implementation schedule will have to be adjusted to the current volatile market environment, developments in the European energy industry and regulatory uncertainties, many of which have yet to be defined.

As a result, the Board of Directors does not consider, at 31 December 2022, that the conditions for the materialisation of the Gemini project are very probable, as is required by accounting regulations for the net assets subject to the spin-off to be classified as held for sale and for any distribution to be made to shareholders

COVID-19 update

The spread of COVID-19 has entailed significant challenges for commercial activities and has introduced a high degree of uncertainty concerning world-wide business activity and energy demand, particularly during 2020 and 2021.

The global recovery that commenced in the second half of 2021 continued in 2022. Some impacts have continued to be felt, however, such as those arising from the measures imposed in China under its "zero COVID" policy, leading to disruptions in the supply chain of technology components in Europe which are necessary, for instance, for maintaining strong investment growth in renewable energy.

During 2022, countries have also gradually lifted the mobility restrictions imposed to curb the spread of the pandemic. While this has boosted business activity it has also led to a certain resurgence of infections, such as in China towards the end of the year. This has resulted in certain countries considering, or already implementing, restrictions on the entry of travellers from China. This increase in infections could negatively impact China's economic growth and again put pressure on global supply chains.

The Group tracks the impact of the COVID health crisis on the economic cycle in the short and long term, with the aim of minimising the possibility of any further deterioration or sudden recovery in the economic conditions in the markets in which it operates having material adverse effects on the Group's business, prospects, financial situation and results.

2.3. Key comparability factors

Reporting structure

The 2022 results follow the organisational structure: Energy and Network Management, Renewables and New Business and Supply, based on the following criteria:

- Networks includes all the gas and electricity network businesses in Spain and Latin America, including Chile gas, Brazil gas, Mexico gas, Panama electricity and Argentina gas and electricity.
- Energy management consists of: (i) markets and procurement, (ii) international LNG, (iii) gas pipelines (EMPL), (iv) thermal generation Spain and (v) thermal generation Latin America.
- Renewables and New Businesses include all renewable generation activities (including hydro generation in Spain) and international power generation, as well as new businesses.
- Supply includes all electricity sales to final customers in Spain as well as gas sales to final customers below 500 GWh in Spain.

Perimeter changes

There were no material transactions in 2022 affecting the comparability of the information for the period with that of 2021.

The main transactions completed in 2021 with an impact on comparability of 2022 results with those of 2021 are as follows:

- On 14 January 2021, Naturgy, through its wholly-owned subsidiary Naturgy Solar USA, LLC, acquired the entire equity of US company Hamel Renewables, LLC, which owns a portfolio of 8 GW of solar projects together with 4.6 GW of energy storage projects located in 9 US states.
- In March 2021, Naturgy, Eni and the Arab Republic of Egypt completed the agreement reached on 1 December 2020 to amicably resolve the disputes affecting Unión Fenosa Gas (UFG). As a result, a positive impact of €127 million was recorded in 2021 and the UFG assets assigned to Naturgy were fully consolidated.
- In July 2021, Naturgy completed the sale of its 96.04% stake in its Chilean power grid subsidiary, Compañía General de Electricidad S.A in Chile (CGE), to State Grid International Development Limited (SGID), resulting in a net capital gain of €64 million.

Foreign exchange impact

Exchange rate fluctuations and their effect are detailed below:

Currency	Average exchange rate	Change (%)	EBITDA	Income attributable to equity holders of the parent
USD/€	1.05	(11.0)%	33	(8)
MXN/€	21.2	(11.6)%	34	9
BRL/€	5.44	(14.7)%	45	10
ARS/€ (1)	189.7	62.2 %	(40)	(10)
CLP/€	917.92	2.2 %	(1)	(1)
Others	—	—	5	2
Total	—	—	76	2

⁽¹⁾ Exchange rate as at 31 December 2022 as a consequence of considering Argentina as an hyperinflationary economy.

2.4. Analysis of Consolidated results

	2022	2021	Change (%)
Net sales	33,965	22,140	53.4
Ebitda	4,954	3,529	40.4
Depreciation, amortisation and impairment expenses	(1,532)	(1,462)	4.8
Impairment of credit losses	(228)	(99)	130.3
Other results	(111)	133	(183.5)
Operating Profit	3,083	2,101	46.7
Net financial income/ (expenses)	(665)	(394)	68.8
Profit of entities recorded by equity method	128	90	42.2
Corporate income tax	(697)	(358)	94.7
Profit for the year from discontinued operations, net of taxes	(23)	117	(119.7)
Non-controlling interest	(177)	(342)	(48.2)
Income attributable to equity holders of the parent	1,649	1,214	35.8

Net sales

Net sales in 2022 totalled €33,965 million, a 53.4% increase on 2021, mainly as a result of rise in energy prices in the period, with a particularly positive impact on Energy Management activities.

Ebitda

EBITDA amounted to €4,954 million in 2022, i.e. 40.4% higher than in 2021, underpinned mainly by the increase in energy prices, in both gas and electricity, which was especially evident in the Energy Management business. The Networks businesses posted moderate growth, by harnessing operating efficiencies and due to the tariff update in LatAm, while renewable energies were affected by the low hydro power generation in Spain. The Supply business in Spain benefited from the price increases of both gas and electricity, partially offset by higher costs.

The comparative breakdown of EBITDA by business is as follows:

	2022	2021	Change
Energy management and networks	4,140	3,266	26.8%
Renewables and New businesses	366	488	(25.0%)
Supply	543	(96)	(665.6%)
Rest	(95)	(129)	(26.4%)
EBITDA	4,954	3,529	40.4%

Operating Profit

The "Depreciation, amortisation and impairment losses" item in 2022 amounted to -€1,532 million, i.e. 4.8% more than in 2021. This increase was driven mainly by the impairment in 2022 of property, plant and equipment and intangible assets for a total amount of -€148 million, corresponding to the impairment of liquefied petroleum gas (LPG) distribution assets (-€112 million), and renewable generation assets in Chile (-€32 million) and in the United States (€3 million), which partially offset the lower amortisation of right-of-use assets.

Provisions for non-performing loans amounted to -€228 million in 2022, a 130.3% increase with respect to 2021, as a result of higher energy prices and a larger expected loss, especially significant in the Supply business.

EBIT in 2022 amounted to €3,083 million, 46.7% more than 2021.

Net financial income

Euros million	2022	2021	Change (%)
Cost of net financial debt	(501)	(491)	2.0
Other financial expenses/income	(164)	97	(269.1)
Net financial income/ (expenses)	(665)	(394)	68.8

Financial expenses amounted to €665 million, a 68.8% increase with respect to 2021, mainly due to the financial effect of the provisions recorded in Chile for the litigation against Metrogas, S.A. and in Brazil for claims regarding PIS and COFINS contributions.

At 31 December 2022, 80% of gross financial debt was at fixed rates and 68% was denominated in euros.

Profit of entities recorded by equity method

Equity-accounted results amounted to €128 million, and corresponded to Ecoeléctrica (€51 million), Medina/Medgaz (€19 million), Qalhat (€18 million), other joint ventures (€32 million) and associates (€8 million).

Corporate Income tax

The effective tax rate in 2022 was 27.4%, i.e. higher than in 2021 (19.9%), mainly due to the application of foreign corporate tax rates and the non-deductibility of 5% of dividends.

Profit for the year from discontinued operations, net of taxes

Contribution from discontinued operations stood at Euros -23 million in 2022, due to the contribution from electricity distribution activities in Chile:

	2022	2021	Change
Gas distribution Peru	—	2	(100.0)
Electricity distribution Chile	(23)	115	(120.0)
Total	(23)	117	(119.7)

Income attributable to equity holders of the parent

Income attributable to equity holders of the parent in 2022 amounted to €1,649 million, up 35.8% on the previous year.

Non-controlling interests

The breakdown of income attributable to non-controlling interests is as follows:

	2022	2021	Change (%)
Europe Maghreb Pipeline, Ltd (EMPL)	—	(32)	(100.0)
Nedgia	(50)	(72)	(30.6)
Other affiliates (1)	(78)	(179)	(56.4)
Other equity instruments	(49)	(59)	(16.9)
Total	(177)	(342)	(48.2)

⁽¹⁾ Includes LatAm and Australia renewables, LatAm thermal and gas distribution in Chile, Brazil, Mexico and Argentina and electricity distribution in Panama.

The cease of EMPL's contribution is due to the termination of the gas infrastructure activity due to the end of the concession in October 2021 and that of Other affiliates is due the lower contribution of Latin American activities. The Other equity instruments caption includes the accrued interest on Deeply Subordinated Notes (hybrids) and is a 16.9% lower vs 2021 as a result of the €500 million hybrid redemption without replacement completed in November 2022.

2.5. Results by business unit

2.5.1. Energy Management and Networks

	2022	2021	Change (%)
Energy management and Networks	4,140	3,266	26.8
Networks Spain	1,520	1,448	5.0
Gas networks	837	857	(2.3)
Electricity networks	683	591	15.6
Networks LatAm	955	828	15.3
Chile gas	160	191	(16.2)
Brazil gas	307	231	32.9
Mexico gas	256	218	17.4
Panama electricity	143	125	14.4
Argentina gas	59	40	47.5
Argentina electricity	30	23	30.4
Energy management	1,665	990	68.2
Markets and procurement	1,131	90	1,156.7
International LNG	(144)	373	(138.6)
Pipelines (EMPL)	(7)	191	(103.7)
Spain thermal generation	420	91	361.5
LatAm thermal generation	265	245	8.2

EBITDA increased by 26.8% to €4,140 million in the period, driven mainly by the Energy Management business, due to the increase in international energy prices. The Thermal Generation business in Spain made a very positive contribution of €420 million, compared to €91 million in the previous period, due to the increase in sales volume and prices in the market. This growth was partially offset by a lower contribution from EMPL.

The LatAm Networks business benefited from tariff updates and the positive foreign exchange rate effect. Growth in Networks in Spain was mainly driven by efficiencies and the completion of the restructuring plan in 2021, which offset more sluggish gas demand and negative regulatory adjustments in gas distribution remuneration stemming from the 2021-2026 regulatory framework.

In accordance with the criteria outlined in IAS 29 "Financial Reporting in Hyperinflationary Economies", the Argentine economy should be considered as hyperinflationary. As a result, exchange rate fluctuations in the period have been applied to the 2022 results, which have also been updated in accordance with inflation rates.

2.5.1.1. Networks Spain

Spain gas networks

Results

	2022	2021	Change (%)
Net sales	1,135	1,206	(5.9)
Procurements	(133)	(87)	52.9
Gross margin	1,002	1,119	(10.5)
Other operating income	34	37	(8.1)
Personnel expenses, net	(52)	(144)	(63.9)
Taxes	(19)	(28)	(32.1)
Other operating expenses	(128)	(127)	0.8
EBITDA	837	857	(2.3)
Depreciation, provisions and other results	(391)	(294)	33.0
EBIT	446	563	(20.8)

EBITDA amounted to €837 million, a -2.3% decrease on 2021, as a result of lower demand across all segments, specifically in cogeneration as well as residential segment, due to less cold temperatures compared 2021. The expected adjustment of regulated remuneration under the current regulatory period 2021-2026 has been partially offset by a minor Opex.

The "Depreciation, amortisation and other results" item in 2022 amounted to -€391 million, i.e. 33.0% more than in 2021. This increase was driven mainly by the impairment in 2022 of property, plant and equipment corresponding to the liquefied petroleum gas (LPG) distribution assets (-€112 million).

Main aggregates

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

	2022	2021	Change (%)
TPA - Sales (GWh)	164,086	193,819	(15.3)
LPG Sales (tn)	72,051	80,238	(10.2)
Distribution network (km)	56,885	56,963	(0.1)
Increase in connection points, thousand	(12)	-30	(60.0)
Connection points (thousand) (at 31/12)	5,370	5,382	(0.2)

Gas sales, excluding LPG, fell by 15.3% compared to the previous year, while connection points remained relatively stable compared to 2021.

Spain electricity networks

Results

	2022	2021	Change (%)
Net sales	839	840	(0.1)
Procurements	(3)	—	—
Gross margin	836	840	(0.5)
Other operating income	21	19	10.5
Personnel expenses, net	(44)	(136)	(67.6)
Taxes	(26)	(29)	(10.3)
Other operating expenses	(104)	(103)	1.0
EBITDA	683	591	15.6
Depreciation, provisions and other results	(263)	(255)	3.1
EBIT	420	336	25.0

EBITDA in 2022 amounted to €683 million, a 15.6% increase vs. 2021, due to previous year figures were affected by the restructuring plan. Investment's growth was partly offset by negative regulatory impacts.

Main aggregates

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

	2022	2021	Change (%)
Sales - TPA (GWh)	26,676	29,393	(9.2)
Distribution network (km)	115,296	114,831	0.4
Connection points (thousand)(at 31/12)	3,820	3,797	0.6
ICEIT (minutes)	36	36	—

Electricity sales decreased by 9.2% compared to 2021 as a result of lower demand, although supply points increased by 0.6% compared to the previous year.

2.5.1.2. LatAm Networks

Gas Chile

Includes the activities of gas distribution and supply.

Results

	2022	2021	Change (%)
Net sales	895	620	44.4
Procurements	(664)	(380)	74.7
Gross margin	231	240	(3.8)
Other operating income	1	9	(88.9)
Personnel expenses, net	(27)	(26)	3.8
Taxes	(4)	(3)	33.3
Other operating expenses	(41)	(29)	41.4
EBITDA	160	191	(16.2)
Depreciation, provisions and other results	(188)	(65)	189.2
EBIT	(28)	126	(122.2)

EBITDA amounted to €160 million, i.e. 16.2% lower than in 2021. This decrease was mainly due to the €108 million provision booked as a result of the first instance conviction as the court ruled in favour of TGN. Significantly higher sales and margins in the supply business, underpinned by the energy scenario, were not sufficient to offset margins decrease in gas distribution as a result of the regulatory review.

Main aggregates

	2022	2021	Change (%)
Gas activity sales (GWh)	10,625	10,442	1.8
Gas sales (GWh)	1,461	784	86.4
TPA (GWh)	26,675	23,366	14.2
Distribution network (km)	8,248	8,160	1.1
Increase in connection points (thousand)	13	11	18.2
Connection points (thousand)(at 31/12)	679	666	2.0

Third-party supply sales increased by 86.4% to 1,461 GWh in 2022, and third-party access (TPA) sales rose 14.2% over the previous year, while gas distribution sales remained stable.

Over the course of 2022, the number of supply points increased by 2.0%, reaching 679 thousand points at year end, despite softer growth in new construction projects.

Gas Networks Brazil

Results

	2022	2021	Change (%)
Net sales	1,932	1,288	50.0
Procurements	(1,535)	(995)	54.3
Gross margin	397	293	35.5
Other operating income	36	18	100.0
Personnel expenses, net	(21)	(19)	10.5
Taxes	(5)	(2)	150.0
Other operating expenses	(100)	(59)	69.5
EBITDA	307	231	32.9
Depreciation, provisions and other results	(78)	(59)	32.2
EBIT	229	172	33.1

EBITDA amounted to €307 million, i.e. 32.9% higher than in 2021. Tariff updates and the positive impact of the exchange rate appreciation (€43 million) offset negative impacts on sales, especially in the Generation and TPA segments, as a consequence of a higher hydroelectric generation.

Main aggregates

The main aggregates in this area are as follows:

	2022	2021	Change (%)
Gas activity sales (GWh)	45,033	91,783	(50.9)
Gas sales	32,759	42,921	(23.7)
TPA	12,274	48,862	(74.9)
Distribution network (km)	8,275	8,223	0.6
Increase in connection points (thousand)	13	16	(18.8)
Connection points (thousand)(at 31/12)	1,175	1,162	1.1

Overall, gas sales shrank by 50.9% from 2021, primarily in Generation, due to higher rainfall and more sluggish industrial demand caused by the slow pace of economic recovery.

However, the number of supply points increased to 1,175 thousand points up 1.1% compared to the previous year.

Gas Networks Mexico

Results

	2022	2021	Change (%)
Net sales	1,035	776	33.4
Procurements	(735)	(508)	44.7
Gross margin	300	268	11.9
Other operating income	12	10	20.0
Personnel expenses, net	(17)	(20)	(15.0)
Taxes	—	—	—
Other operating expenses	(39)	(40)	(2.5)
EBITDA	256	218	17.4
Depreciation, provisions and other results	(63)	(53)	18.9
EBIT	193	165	17.0

EBITDA amounted to €256 million, an increase of 17.4% compared to 2021. This change was due mainly to higher margins in the supply business and the positive foreign exchange rate impact of €29 million. These positives were offset by lower sales in the residential segment..

Main aggregates

The main aggregates in this area are as follows:

	2022	2021	Change (%)
Gas activity sales (GWh)	47,000	53,660	(12.4)
Gas sales	22,900	23,684	(3.3)
TPA	24,100	29,976	(19.6)
Distribution network (km)	23,029	22,910	0.5
Increase in connection points (thousand)	(2)	(16)	(87.5)
Connection points (thousand)(at 31/12)	1,571	1,573	(0.1)

Due to high temperatures and drought, 2022 saw gas demand fall, pushing gas sales down by 12.4% compared to the previous year. Connection points remained stables (-0.1%).

Electricity Networks Panama

Results

	2022	2021	Change (%)
Net sales	891	727	22.6
Procurements	(694)	(560)	23.9
Gross margin	197	167	18.0
Other operating income	5	5	—
Personnel expenses, net	(9)	(10)	(10.0)
Taxes	(5)	(4)	25.0
Other operating expenses	(45)	(33)	36.4
EBITDA	143	125	14.4
Depreciation, provisions and other results	(66)	(51)	29.4
EBIT	77	74	4.1

EBITDA in 2022 amounted to €143 million, 14.4% higher than in 2021 driven by higher sales (+3.9%), tariff updates, and positive FX impact in the period (+€16m).

Main aggregates

The main aggregates in this area are as follows:

	2022	2021	Change (%)
Electricity business sales (GWh)	5,290	5,089	3.9
Electricity sales	4,358	4,213	3.4
TPA	932	876	6.4
Distribution network (km)	29,678	29,201	1.6
Connection points (thousand)(at 31/12)	752	730	3.0

In 2022, the number of supply points increased by 3.0% to 752 thousand points at year end.

Gas Networks Argentina

Results

	2022	2021	Change (%)
Net sales	444	415	7.0
Procurements	(256)	(261)	(1.9)
Gross margin	188	154	22.1
Other operating income	19	19	—
Personnel expenses, net	(40)	(35)	14.3
Taxes	(35)	(32)	9.4
Other operating expenses	(73)	(66)	10.6
EBITDA	59	40	47.5
Depreciation, provisions and other results	(7)	(14)	(50.0)
EBIT	52	26	100.0

In 2022, EBITDA amounted to €59 million, an increase of 47.5% from 2021. This growth was driven by an increase in demand across all segments, especially domestic, generation and TPA, and by the update of gas distribution tariffs. But the growth was partially offset by currency depreciation, with a negative exchange rate impact of -€26 million.

Main aggregates

The main aggregates in this area are as follows:

	2022	2021	Change (%)
Gas activity sales (GWh)	91,599	86,024	6.5
Gas sales	48,669	49,664	(2.0)
TPA	42,930	36,360	18.1
Distribution network (km)	39,835	39,384	1.1
Increase in connection points (thousand)	2	3	(33.3)
Connection points (thousand)(at 31/12)	2,255	2,253	0.1

Gas sales increased by 6.5%, mainly due to TPA, while supply points remained stable (+0.1%) compared to the previous year.

Electricity Networks Argentina

Results

	2022	2021	Change (%)
Net sales	128	100	28.0
Procurements	(63)	(50)	26.0
Gross margin	65	50	30.0
Other operating income	14	11	27.3
Personnel expenses, net	(13)	(11)	18.2
Taxes	(5)	(2)	150.0
Other operating expenses	(31)	(25)	24.0
EBITDA	30	23	30.4
Depreciation, provisions and other results	(2)	(3)	(33.3)
EBIT	28	20	40.0

EBITDA in 2022 amounted to €30 million, a 30.4% increase on 2021, mainly driven by the tariff update for inflation, weather-related growth in demand and an increase in supply points compared to the previous year. These effects were partially offset by the negative exchange rate effect of -€14 million.

Main aggregates

The main aggregates in this area are as follows:

	2022	2021	Change (%)
Electricity business sales (GWh)	2,067	1,929	7.2
Distribution network (km)	10,086	9,949	1.4
Connection points (thousand)(at 31/12)	255	249	2.4

Demand for electricity increased by 7.2% over the previous year and the number of supply points rose by 2.4% in 2022.

2.5.1.3. Energy Management

Markets and Procurement

Results

	2022	2021	Change (%)
Net sales	18,881	8,229	129.4
Procurements	(17,748)	(8,040)	120.7
Gross margin	1,133	189	499.5
Other operating income	62	23	169.6
Personnel expenses, net	(27)	(39)	(30.8)
Taxes	(2)	(1)	100.0
Other operating expenses	(35)	(82)	(57.3)
EBITDA	1,131	90	1156.7
Depreciation, provisions and other results	(17)	111	(115.3)
EBIT	1,114	201	454.2

Markets and procurements include all of the group's gas supply contracts and internal and external sales (except International LNG and gas sales to end customers below 500 GWh in Spain included in Supply).

EBITDA amounted to €1,131 million in 2022, a significant increase compared to 2021 (€90 million). This growth was driven primarily by higher selling prices internationally due to greater indexation to gas hub references, compared to longer term priced LNG procurement contracts.

Main aggregates

The main aggregates in this area are as follows:

	2022	2021	Change (%)
Gas supply (GWh)	142,961	134,674	6.2
CCGT	40,872	27,835	46.8
Third parties	102,089	106,839	(4.4)
Electricity sales (GWh)	1,734	1,725	0.5

Gas sales in 2022 came to 142,961 GWh, up 6.2% from the previous year.

International LNG

Results

	2022	2021	Change (%)
Net sales	5,307	3,416	55.4
Procurements	(5,428)	(3,005)	80.6
Gross margin	(121)	411	(129.4)
Other operating income	3	(3)	(200.0)
Personnel expenses, net	(12)	(25)	(52.0)
Taxes	(1)	(2)	(50.0)
Other operating expenses	(13)	(8)	62.5
EBITDA	(144)	373	(138.6)
Depreciation, provisions and other results	(83)	(188)	(55.9)
EBIT	(227)	185	(222.7)

EBITDA in 2022 amounted to -€144 million, compared with €373 million in 2021. This sharp drop is due mainly to the effect of the decoupling of TTF with physical gas sales that has led to reassess the effectiveness of hedging in LNG gas sales. This effect, together with the lower sales volume and higher maritime costs stemming from the macroeconomic scenario, significantly eroded the gross margin of this business, which was €532 million lower than in the previous year.

At 31 December 2022, contracted sales for 2023 and 2024-25 represented 69% and 78%, respectively, of total expected sales for the period.

Main aggregates

The main aggregates in this area are as follows:

	2022	2021	Change (%)
Gas sales (GWh)	125,053	141,748	-11.8%
Shipping fleet capacity (m3)	1,591,435	2,264,528	-29.7%

Pipelines

Results

	2022	2021	Change (%)
Net sales	—	211	(100.0)
Procurements	—	—	—
Gross margin	—	211	(100.0)
Other operating income	2	2	—
Personnel expenses, net	(9)	(9)	—
Taxes	—	—	—
Other operating expenses	—	(13)	(100.0)
EBITDA	(7)	191	(103.7)
Depreciation, provisions and other results	—	(47)	(100.0)
EBIT	(7)	144	(104.9)

This activity was discontinued on 31 October 2021, when the gas infrastructure concession ended.

Main aggregates

The main aggregates in this area are as follows:

	2022	2021	Change (%)
Gas transport - EMPL (GWh)	—	74,241	(100.0)
Portugal-Morocco	—	32,112	(100.0)
Spain (Naturgy)	—	42,129	(100.0)

Spain thermal generation

Results

	2022	2021	Change (%)
Net sales	5,710	2,091	173.1
Procurements	(4,993)	(1,695)	194.6
Gross margin	717	396	81.1
Other operating income	6	11	(45.5)
Personnel expenses, net	(58)	(86)	(32.6)
Taxes	(108)	(147)	(26.5)
Other operating expenses	(137)	(83)	65.1
EBITDA	420	91	361.5
Depreciation, provisions and other results	(122)	(83)	47.0
EBIT	298	8	3625.0

In 2022, EBITDA amounted to €420 million, a very significant increase compared to the €91 million in 2021, mainly due to the impact of higher electricity prices.

Pool prices in the daily power generation market increased by 1.5x compared to 2021, averaging 167.5 €/MWh over the period, on the back of higher gas and CO2 prices. Naturgy's operational excellence in combined cycle generation was a key competitive advantage to obtain higher margins in the period compared to competitors.

Main aggregates

The main aggregates in this area are as follows:

	2022	2021	Change (%)
Installed capacity (MW)	8,031	8,031	—
Nuclear	604	604	—
CCGTs	7,427	7,427	—
	2022	2021	Change (%)
Electric energy produced (GWh)	24,255	16,949	43.1
Nuclear	4,454	4,274	4.2
CCGTs	19,801	12,675	56.2

Thermal generation in Spain was positively impacted by low hydro production throughout 2022, higher power exports to France—due in part to the Spanish cap on gas prices—and the inherent intermittence of renewable generation. The above resulted in a substantial increase in CCGTs production to cover the shortfall in renewables and ensure energy supply in the system, particularly in Q4.

Total energy production increased significantly in 2022, mainly in combined cycles, with 56.2% growth.

Latin America thermal generation

Results

	2022	2021	Change (%)
Net sales	1,080	1,013	6.6
Procurements	(760)	(723)	5.1
Gross margin	320	290	10.3
Other operating income	2	4	(50.0)
Personnel expenses, net	(19)	(16)	18.8
Taxes	(1)	(1)	—
Other operating expenses	(37)	(32)	15.6
EBITDA	265	245	8.2
Depreciation, provisions and other results	(84)	(63)	33.3
EBIT	181	182	(0.5)

EBITDA for the period amounted to €265 million, i.e. 8.2% more than in 2021, mainly due to the positive foreign exchange rate impact of €32 million. Excluding the forex effect, the contribution to EBITDA was lower than in 2021 due to a lower availability factor at Mexican plants per planned outages and maintenance.

Main aggregates

The main aggregates in this area are as follows:

	2022	2021	Change (%)
Installed capacity (MW)	2,644	2,644	—
Mexico (CCGT)	2,446	2,446	—
Dominican Republic (Fuel)	198	198	—
	2022	2021	Change (%)
Electric energy produced (GWh)	13,230	13,942	(5.1)
Mexico (CCGT)	12,636	13,305	(5.0)
Dominican Republic (Fuel)	594	637	(6.8)

Total energy production decreased by 5.1%, due to both the combined cycle plants in Mexico, -5.0%, and other thermal plants, -6.8%.

2.5.2. Renewables and new business

	2022	2021	Change (%)
Renewables and New businesses	366	488	(25.0)
Spain & USA	277	408	(32.1)
Australia	15	9	66.7
LatAm	74	71	4.2

Renewables and New businesses includes the management of hydro, wind, mini-hydro, solar and cogeneration projects and new businesses.

EBITDA amounted to €366 million in 2022, down 25.0% on the previous year.

The new capacity that came on stream was not enough to offset the decline in hydroelectric production during the year, which was 43.5% lower than in 2021, and the cap on revenues, due to regulatory changes, from infra-marginal generation technologies.

Renewables Spain and USA

Results

	2022	2021	Change (%)
Net sales	690	507	36.1
Procurements	(198)	(90)	120.0
Gross margin	492	417	18.0
Other operating income	23	16	43.8
Personnel expenses, net	(49)	(82)	(40.2)
Taxes	(53)	145	(136.6)
Other operating expenses	(136)	(88)	54.5
EBITDA	277	408	(32.1)
Depreciation, provisions and other results	(147)	(150)	(2.0)
EBIT	130	258	(49.6)

EBITDA amounted to €277 million, i.e. 32.1% lower than in 2021, which is primarily explained by the one-off hydro canon recovery in Spain during FY21 (+€191m). Excluding this item, contribution was higher driven by new capacity additions coming into operation and higher prices, partially offset by lower hydro production during the year (-43.5%) and the negative effects from RD 6/22, limiting profits on infra-marginal generation technologies.

Main aggregates

The main aggregates in this area are as follows:

	2022	2021	Change (%)
Installed capacity (MW)	4,392	4,127	6.4
Hydroelectric	2,062	2,062	—
Wind	1,885	1,764	6.9
Solar	394	250	57.6
Cogeneration and others	51	51	—
	2022	2021	Change (%)
Electric energy produced (GWh)	6,652	7,971	(16.5)
Hydroelectric	1,978	3,498	(43.5)
Wind	4,058	3,863	5.0
Solar	425	268	58.6
Cogeneration and others	191	342	(44.2)
Market share of generation	4.8	5.3	-0,5 pp

At the end of 2022, installed capacity was 4,392 MW, having notched up an increase of 265 MW compared to 2021, of which 121 MW corresponded to wind technology and 144 MW to solar technology.

Renewable Australia

Results

	2022	2021	Change (%)
Net sales	33	21	57.1
Procurements	—	—	—
Gross margin	33	21	57.1
Other operating income	—	—	—
Personnel expenses, net	(3)	(2)	50.0
Taxes	(1)	—	—
Other operating expenses	(14)	(10)	40.0
EBITDA	15	9	66.7
Depreciation, provisions and other results	(12)	(10)	20.0
EBIT	3	(1)	(400.0)

EBITDA in the period was €15 million, up from €9 million in 2021.

The increased production (+5.3%) and the positive market valuation development of existing PPAs were partially offset by higher operating costs for the Berrybank wind farm, which began operating in April 2021.

Main aggregates

The main aggregates in this area are as follows:

	2022	2021	Change (%)
Installed capacity (MW)	277	277	—
Wind	277	277	—
	2022	2021	Change (%)
Electric energy produced (GWh)	810	769	5.3
Wind	810	769	5.3

Installed capacity at the end of 2022 was 277 MW, all of which was wind power. Naturgy continues to make progress in developing renewable assets in Australia and expects additional projects currently under development to come on stream in the coming months.

Renewables Latin America

Results

	2022	2021	Change (%)
Net sales	134	150	(10.7)
Procurements	(19)	(39)	(51.3)
Gross margin	115	111	3.6
Other operating income	14	11	27.3
Personnel expenses, net	(14)	(20)	(30.0)
Taxes	(5)	(2)	150.0
Other operating expenses	(36)	(29)	24.1
EBITDA	74	71	4.2
Depreciation, provisions and other results	(65)	(29)	124.1
EBIT	9	42	(78.6)

EBITDA for the period amounted to €74 million, 4.2% higher than in 2021, driven mainly by higher margins (except in Chile) and the positive foreign exchange rate effect.

The "Depreciation, amortisation and other results" item in 2022 amounted to -€65 million, i.e. 124.1% more than in 2021. This increase was driven mainly by the impairment in 2022 of property, plant and equipment corresponding to the renewable generation assets in Chile (-€32 million).

Main aggregates

The main aggregates in this area are as follows:

	2022	2021	Change (%)
Installed capacity (MW)	844	817	3.3
Mexico (Wind)	234	234	—
Brazil (Solar)	153	153	—
Chile (Solar)	128	101	26.7
Chile (Wind)	206	206	—
Costa Rica (Hydroelectric)	101	101	—
Panama (Hydroelectric)	22	22	—

	2022	2021	Change (%)
Electric energy produced (GWh)	2,082	2,123	(1.9)
Mexico (Wind)	630	694	(9.2)
Brazil (Solar)	278	290	(4.1)
Chile (Solar)	268	246	8.9
Chile (Wind)	293	327	(10.4)
Costa Rica (Hydroelectric)	499	462	8.0
Panama (Hydroelectric)	114	104	9.6

Installed capacity at the end of 2022 was 844 MW, following the completion of a solar project in Chile.

2.5.3. Supply

This business includes the management of sales to end customers in Spain, of gas (less than 500 GWh), electricity and services, incorporating new technologies.

Results

	2022	2021	Change (%)
Net sales	11,144	7,943	40.3
Procurements	(10,269)	(7,506)	36.8
Gross margin	875	437	100.2
Other operating income	10	8	25.0
Personnel expenses, net	(68)	(141)	(51.8)
Taxes	(89)	(50)	78.0
Other operating expenses	(185)	(350)	(47.1)
EBITDA	543	(96)	(665.6)
Depreciation, provisions and other results	(241)	(123)	95.9
EBIT	302	(219)	(237.9)

EBITDA amounted to €543 million in 2022, up significantly compared to 2021 due to the recovery of margins from the previous year's lows.

Gas supply benefited mainly from improved overall margins and competitiveness from 2021 lows, especially in the industrial segment following the withdrawal of some gas contracts and associated penalties in 2021 and despite lower demand in the industrial and residential segments compared to 2021.

Power supply margins also recovered from the lows of 2021, which was impacted by power market buys at elevated pool prices, impacting profitability in 2021. Electricity sales remained relatively stable (-1.8% in 2022), due to higher demand in the SME and residential segments, which logged growth of 31.7% and 4.0%, respectively, offset by the decline in the industrial segment (-16.1%).

Main aggregates

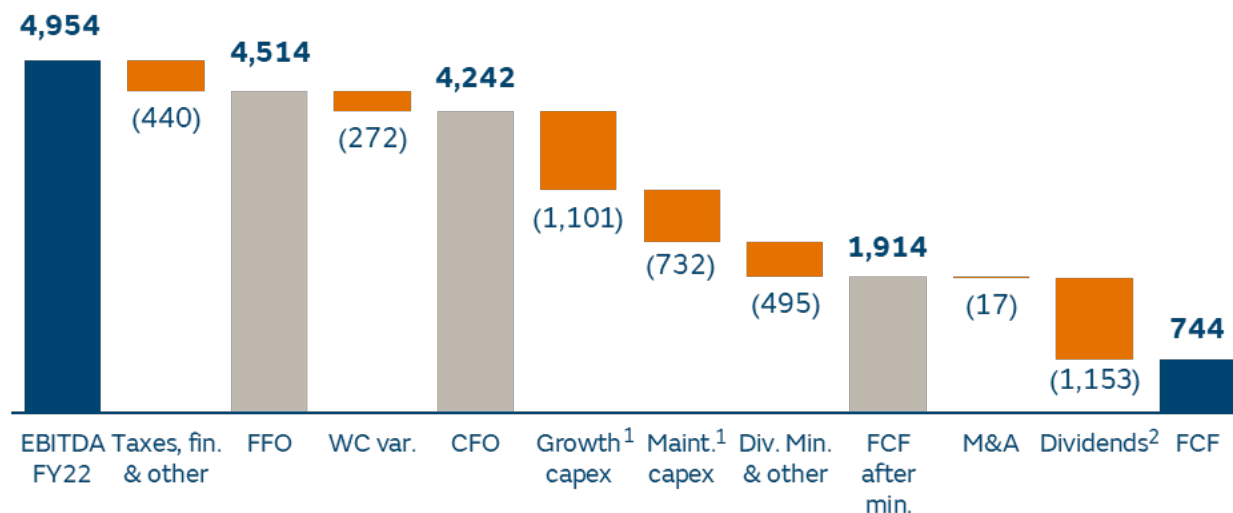
The main aggregates in this area are as follows:

	2022	2021	Change (%)
Gas sales (GWh)	74,222	105,106	(29.4)
Residential Spain	15,927	20,588	(22.6)
Industrial clients	55,183	82,337	(33.0)
SM&E	3,112	2,181	42.7
By segment	74,222	105,106	(29.4)
Liberalised	68,979	99,043	(30.4)
Regulated	5,243	6,063	(13.5)
Electricity sales (GWh):	21,786	22,196	(1.8)
Residential Spain	9,137	8,784	4.0
Industrial clients	8,805	10,495	(16.1)
SM&E	3,844	2,918	31.7
By segment	21,786	22,196	(1.8)
Liberalised	18,276	17,574	4.0
Regulated	3,510	4,622	(24.1)
Retail contracts (thousand)	10,897	10,615	2.7
Gas	3,658	3,669	(0.3)
Electricity	4,255	4,041	5.3
Services	2,984	2,905	2.7
Contracts per customer (Spain)	1.54	1.56	-0,0 pp
Gas contract market share (Spain)	45.8	45.9	-0,1 pp

At the end of 2022, the commercial action and brand image pushed the number of customers up to 10,897 thousand contracts, with especially sharp growth of 5.3% in electricity customers..

2.6. Cash flow

The evolution of cash flow in the year 2022 is as follows:



¹ Net of cessions and contributions

² The amount of dividends paid net of those received by Group companies.

Prudent financial management and capital discipline have been key to dealing with market volatility and uncertainty.

Free cash flow in 2022 after minority interests amounted to €1,914 million, underpinned by operating cash generation from deregulated activities. As a result, Naturgy reduced its net financial debt from €12,831 million at the end of 2021 to €12,070 million at the end of 2022, while investing €1,907 million and meeting its shareholder remuneration commitments of €1.2/share per year, as set out in the 2021-2025 Strategic Plan.

At 31 December 2022, the Net financial debt/EBITDA ratio stood at 2.4x compared to 3.6x the previous year.

Capital expenditure

The breakdown of net investments by type is as follows:

	2022	2021	%
Investments in property, plant and equipment and intangible assets (Capex)	1,907	1,484	28.5
Other proceeds from investing activities	(74)	(61)	21.3
Total net investments (Net Capex)	1,833	1,423	28.8

Investments in property, plant and equipment and intangible assets (Capex) amounted to €1,907 million in 2022, an increase of 28.5% year-on-year.

The breakdown of investment in property, plant and equipment and intangible assets, by line of business, is as follows:

	2022	2021	Change (%)
Energy management and Networks	945	718	31.6
Networks Spain	437	374	16.8
Gas networks	116	116	—
Electricity networks	321	258	24.4
Networks Latin America	339	246	37.8
Chile gas	40	38	5.3
Chile electricity	—	—	—
Brazil gas	57	28	103.6
Mexico gas	68	49	38.8
Panama electricity	131	99	32.3
Argentina gas	26	19	36.8
Argentina electricity	17	13	30.8
Energy management	169	98	72.4
Markets and Procurement	4	7	(42.9)
International LNG	1	10	(90.0)
Pipelines (EMPL)	—	—	—
Europe thermal generation	87	55	58.2
Latin America thermal generation	77	26	196.2
Renewables and New businesses	812	606	34.0
Spain & USA	560	238	135.3
Australia	225	328	(31.4)
Latam	27	40	(32.5)
Supply	132	136	(2.9)
Rest	18	24	(25.0)
TOTAL Capex	1,907	1,484	28.5

A breakdown between maintenance and growth investment in property, plant and equipment and intangible assets provides useful insight on the group's investment profile.

Maintenance investments (Capex) amounted to €736 million in 2022, compared to €532 million in 2021, an increase of 38.3% as a result of higher maintenance in generation plants, both thermal and renewable, and in LatAm Networks, the latter partially explained by currency appreciation.

Growth investments (Capex) in the period represent 61.4% of the total and amounted to €1,171 million in 2022 (€952 million in 2021). Growth investments (Capex) in 2022 include:

- A total of €750 million invested in the construction of various renewable projects, of which €502 million are in Spain, €225 million in Australia and €23 million in LatAm.
- €314 million invested in network development, of which €154 million in Spain and €160 million in LatAm (€66 million in Panama, €31 million in Chile, €14 million in Brazil, €22 million in Argentina and €27 million in Mexico).
- €107 million in the supply business.

In addition, Naturgy has reached several agreements that confirm its commitment to renewable growth:

- Naturgy remains committed to its renewables development strategy and attained more than 5.5 GW of installed capacity in the period. In Spain, Naturgy is developing projects to build approximately 30 wind farms and photovoltaic plants, equivalent to almost 1 GW of additional renewable capacity, which are expected to come on stream in the coming months.
- In Australia, a priority country for Naturgy, the group aims to reach an installed capacity of 2.2 GW by 2025, with an investment of close to €2,000 million, primarily for the development of wind and photovoltaic facilities and energy storage plants.
- In offshore wind energy, last April Naturgy reached an agreement with the Norwegian company Equinor for the analysis and development of offshore projects in Spain, such as the joint development of the FOWCA floating offshore wind project in the Canary Islands, consisting of more than 200 MW of floating offshore wind energy in the east of Gran Canaria.
- Naturgy is also leading renewable gas development in Spain as a key pillar of decarbonization in the short and medium term, and is currently working on hydrogen and biomethane projects with the objective of increasing the amount of renewables gases injected in its distribution network.

Divestments

Naturgy has not made any material divestments in 2022. In 2021, the main divestments were as follows:

- On 10 March 2021, Naturgy, Eni and the Arab Republic of Egypt completed the agreement reached on 1 December 2020 to amicably resolve the disputes affecting Unión Fenosa Gas (UFG). As a result, capital gains totalling €127 million were recognised under "Other income" and the UFG assets transferred to Naturgy were fully consolidated (100%).
- On 26 July 2021, Naturgy complete the sale of its entire stake (96.04%) in CGE Electricidad to State Grid International Development Limited (SGID) for €2,591 million.

2.7. Financial position

At 31 December 2022, net financial debt amounted to €12,070 million, i.e. €761 million below the balance at the end of 2021, evidencing the strong cash generation during the period.

In 2022, the most significant transactions and refinancing operations included:

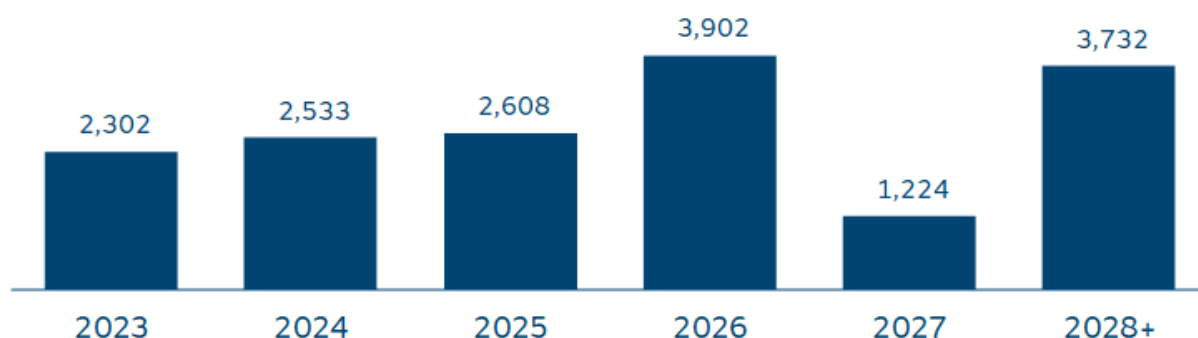
- Refinancing of loans and revolving credit lines in Spain for a total amount of €4,517 million and in international businesses for a total amount of €482 million, including:
 - Refinancing of a €2,000 million syndicated revolving credit facility by increasing the maturity by 1 year (until 2025). ESG metrics were included in the pricing mechanism.
 - Refinancing of a €1,000 million syndicated revolving credit facility by increasing the maturity by 1 year (until 2024). ESG metrics were included in the pricing mechanism.
 - Naturgy México S.A. de C.V. signed a new credit facility in Mexican pesos equivalent to €39 million, with a 3-year maturity and bearing interest at the Interbank Equilibrium Interest Rate (TIIE) + 0.75% (10.35%).
 - GPG Generación Distribuida Spa (Chile) has signed a mini-perm project finance loan in dollars equivalent to €44 million, with a maturity of 7 years, a 20-year underlying amortisation schedule and bearing interest at SOFR + 2.52%. Simultaneously, a swap was arranged to hedge the SOFR exposure for US\$35 million, at a fixed cost of +2.96%.

- On 18 November 2022, Naturgy exercised its early redemption option on €500 million of outstanding subordinated perpetual securities (hybrid) at 4.125%.

In addition, on 13 and 28 October, respectively, Standard & Poor's and Fitch reaffirmed Naturgy's 'BBB' long-term issuer credit rating. These rating confirmations took into account the aforementioned hybrid bond redemption, which involves the elimination of any equity content of the hybrids, and reflect, among others, the group's positive performance and its strong cash generation.

Gross debt maturities

The breakdown of the gross financial debt by maturity at 31 December 2022 is as follows:



Debt structure

The breakdown of net financial debt, average cost of gross financial debt and percentage of gross fixed financial debt by country and currency is as follows:

		Consolidated Group		Chile		Brazil	Argentina	Mexico	Panama	Holding & others
		2022	2021	CLP	USD	BRL	ARS	MXN	USD	EUR/ Others
Net financial debt	€m	12,070	12,831	336	(13)	130	(42)	537	726	10,396
Average cost of gross financial debt (1)	%	3.0	2.5	10.8	4.5	13.4	71.9	8.7	5.6	1.6
% fixed rated (gross financial debt)	%	80	83	80	19	1	5	45	22	91

¹ Excludes the cost of lease liabilities and other refinancing costs.

The main ratios applied to Net Financial Debt were as follows:

		2022	2021
EBITDA/Net financial debt cost	Times	9,9x	7,2x
Net financial debt/EBITDA	Times	2,4x	3,6x

3. Liquidity and capital

Capital management

The main purpose of Naturgy's capital management is to ensure a financial structure that can optimise capital cost and maintain a solid financial position, in order to combine value creation for the shareholder with the access to the financial markets at a competitive cost to cover financing needs.

Naturgy considers the following to be indicators of the objectives set for capital management: maintaining, after the acquisition of Unión Fenosa, a long-term leverage ratio of approximately 50%.

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

	2022	2021
Standard & Poor's	BBB (*)	BBB
Fitch	BBB (*)	BBB

(*) S&P: negative outlook; Fitch: stable outlook

As of 31 December 2022, net financial debt amounted to Euros 12,070 million and leverage stood at 54.7% (Euros 12,831 million and 59.1%, respectively, as of 31 December 2021).

Liquidity

Naturgy has liquidity policies that ensure compliance with its payment commitments, diversifying the coverage of financing needs and debt maturities. Prudent management of liquidity risk includes maintaining sufficient cash and realisable assets and the availability of sufficient funds to cover credit obligations.

Liquidity as of 31 December 2022 stood at Euros 9,482 million, including Euros 3,985 million in cash and equivalents and Euros 5,497 million in undrawn and fully committed credit lines. In addition, the ECP program is completely undrawn as of 31 December 2022.

The detail of the group's current liquidity as of 31 December 2022 and 2021 is as follows:

	Consolidated Group		Chile		Brazil	Argentina	Mexico	Panama	Holding & others
	2022	2021	CLP	USD	BRL	ARS	MXN	USD	EUR/Others
Cash and equivalents	3,985	3,965	107	97	173	66	48	105	3,389
Undrawn committed credit lines	5,497	5,459	—	—	39	—	15	34	5,409
Total	9,482	9,424	107	97	212	66	63	139	8,798

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

	2023	2024	2025	2026	2027	2028+
Undrawn committed credit lines	241	2,860	2,189	207	—	—

There is also additional unused capacity to issue debt in capital markets amounting to Euros 5,458 million.

4. Main risks, opportunities and uncertainties

4.1. Risk management model

Naturgy's risk management model seeks to ensure that the company's performance is predictable within an acceptable bounded range. The model quantifies the variability of performance and ensures that it is in line with strategically defined target levels in all aspects that are of importance to its stakeholders.

Core goals of the risk measurement and management model include ensuring that material risk factors are correctly identified, assessed and managed. The final objective is to ensure that the level of risk exposure assumed by Naturgy in the course of its business is consistent with the company's defined overall risk profile and the attainment of annual and strategic objectives.

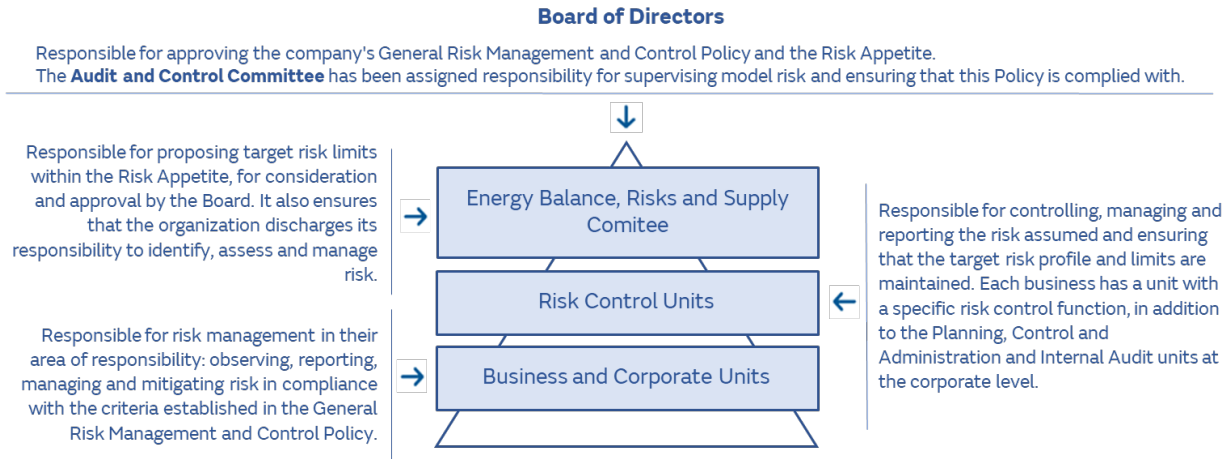
The Integrated Risk Management and Control System is structured as follows:

- Risk Governance & Management: risk governance and management mechanism for all risk classes and all businesses.
- Risk Assessment: methodology, procedure and process for identifying, assessing and measuring risks.
- Risk Appetite: definition of risk tolerance by setting limits for the main risk categories, by risk type and by business, as a function of the targets.
- Risk Reporting: regular systematic reporting and monitoring of risk at the various levels of management: Business Units, Corporate Units, Chairman's Office and Board of Directors.

Risk management bodies

Naturgy has a framework integrating the vision of governance, risks and compliance so as to provide a 360-degree view of the group's processes, existing controls and the associated risks.

To this end, it has a number of bodies with clearly identified areas of responsibility, making it possible to delimit the predictability and ensure the sustainability of the company's operational and financial performance.



Since the energy crisis at the beginning of 2022, the main risk for the Group is the variation of the different energy commodities and their indices. An Energy Balance, Risks and Supply Committee was therefore set up, comprising most of the members of the Management Committee and some of the managers reporting directly to them, in order to monitor the evolution of energy commodities, both in the gas and electricity sectors, and the evolution of the indices. This Committee, in addition to monitoring, has taken on the role of making purchase, sale or hedging decisions that corresponded to the management level or has made proposals in the event that, due to its level of competence, they corresponded to the Board of Directors. Finally, this Committee monitors the open position of the group as a whole on a combined basis for gas and electricity and for buy, sell and hedging positions.

A key task of the Risk Control Units within the risk control and management function is modelling the annual accounts to identify their main sensitivities, anticipate possible negative impacts, and adopt corrective or mitigating actions.

Comprehensive management

Naturgy analyses its overall risk profile on the basis of the potential impact on its annual accounts. In this way, it determines the maximum accepted level of risk exposure in order to manage it appropriately .

The tools that enable Naturgy to achieve continuous improvement in the process of identifying, characterising and determining its risk profile are:

- Global Risk Control and Management Policy: the most recent version was approved by the Board of Directors of Naturgy in November 2020. Its purpose is to establish the general principles and standards of behaviour required to ensure proper identification, reporting, assessment and management of Naturgy's exposure to risk.
- Corporate Risk Map: identifies and quantifies the risks which might affect Naturgy's performance, considering the characteristics of the risk position (impact variables, potential severity in quantitative and qualitative terms, likelihood of occurrence, and degree of management and control). It is updated and submitted to the Audit and Control Committee each year by the corporate-level Planning, Control and Administration unit.
- Other risk maps: these are developed by Naturgy's Business and Corporate units at their discretion following a common methodology, and they serve as the basis for the Corporate Risk Map.
- Risk Measurement System: The metrics used to assess risk depend on the nature of the risk:
 - Stochastic/probabilistic: a probabilistic simulation of price deviations within a confidence interval.
 - Deterministic/scenarios: expected impact of an event based on its probability.
 - Heatmaps: qualitative analysis of the risk on a factor basis.

Risk categories

Naturgy defines five risk types in its Corporate Risk Map: Economic, Financial, Operational, Reputational/Sustainability, and Strategic.

Types of economic and financial risk

Economic and financial risk are assessed by quantitative modelling.

Categories of economic risk

Risk factors with an impact on business results, caused by the volatility of exogenous factors, amendments to regulatory frameworks, or changes in demand with an impact on short-term results.

- **Commodity risk**, the uncertainty caused by variability in the prices of the energy and other commodities that the company uses.

- **Exchange rate risk**, the uncertainty associated with changes during the year in the exchange rates of the currencies in which Naturgy's businesses are denominated.
- **Regulatory risk**, the risk associated with reviews of the remuneration frameworks for the regulated businesses and/or updates to the specific remuneration parameters and/or amendments to the regulatory framework under which Naturgy businesses operate.
- **Volume risk**, risk associated with the variation of volumes produced, distributed and/or supplied due to variations in temperature, changes in customer behaviour as a result of climate change, and the macroeconomic or competitive environment with respect to the base scenario considered in the projections.
- **Margin/Price Risk**, understood as the price risk not contemplated under commodity risk created by changes in competitive pressure or unachieved margin assumptions.
- **Legal risk**, related to the eventual outcome of litigation, arbitration or legal claims against Naturgy in the year of analysis.
- **Operational risk**, associated with events of force majeure or accidents affecting persons, and with accidents, damage or non-availability of the company's operating assets, after coverage by Naturgy's insurance programme.

Financial risk categories

Risk factors with an impact on the company's cash flow and balance sheet caused by the volatility of financial variables, potential impact of counterparties, amendments to tax frameworks, and provisioning.

- **Credit risk**, unexpected loss due to uncertainty associated with the probability of non-payment of monetary obligations and/or deterioration of the credit quality of the end customers and counterparties with which Naturgy operates.
- **Interest rate risk**, variability of the company's financial expenses caused by changes in interest rates and in refinancing needs in the currencies in which Naturgy's debt is denominated.
- **Tax risk**, associated with the proper application of tax regulations, the complexity of their interpretation, and possible amendments, with a potential economic impact on the company's accounts.
- **Liquidity and solvency risk**, risk associated with a potential increase in the financing needs required to maintain the company's target rating.
- **Rating risk**, risk of a downgrade of the company's credit rating, considering that the company targets an anchor BBB rating.
- **Provisions risk**, risk of maintaining an excessive volume of provisions on the balance sheet, resulting in the risk that they may materialize and their effect on cash outflows.

Types of operational, reputational/sustainability and strategic risk

Operational, reputational/sustainability and strategic risk are generally assessed using heat maps.

Operational risk categories

Risk factors derived from operating the company's human and material assets.

- **Security risk**, understood as the residual risk associated with personal injury or material damage to critical facilities caused intentionally by a third party.
- **Business continuity and crisis management risk**, the risk of a service-level breach as a result of inadequacy or failure of processes, systems or performance by in-house or third-party staff.
- **Fraud risk**, derived from any intentional breach of the law by an employee or a third party to benefit themselves or the company, directly or indirectly, through the improper use of Naturgy resources or assets.
- **Cybersecurity risk**, arising from malicious attacks or accidental events with an operational impact that affect data, computer networks or technology.
- **Data protection risk**, the risk associated with breach of data protection obligations that may result in an administrative sanction or civil judgement.

- **Environmental risk**, associated with the possibility that natural phenomena or human action may result in regulatory environmental limits being exceeded or in damage to ecosystems and biodiversity.
- **Customer satisfaction risk**, risk of not offering the customer a distinctive value proposition that places the company in a privileged position to define new relationship models and address the digital transformation.
- **Health and safety risk**, understood as the risk of injury and health impairment for professionals of Naturgy or partner companies in connection with the business.

Reputational/Sustainability risk categories

Risk factors associated with behaviours that constitute a departure from good practices in the area of reputation, ESG commitment, compliance, people and climate change.

- **Reputational and ESG risk**, uncertainty in the evolution of stakeholders' perception of the company's reputation and its capacity to engage in business sustainably from an environmental, social and governance point of view.
- **Compliance risk**, risk of Naturgy suffering penalties, financial loss or loss of reputation as a result of non-compliance with legal obligations, as well as regulations, policies and other internal regulations applicable to its activities.
- **Climate change risk**, arising from the energy transition (changes to regulations, markets or technologies) and the physical impacts of climate change (acute and chronic).

Strategic risk categories

Risk factors associated with the company's business portfolio: Alignment with the energy transition, long-term commodity exposure, capital employed by geography (soft vs. hard currencies), business risk profile (exposure to regulated vs. merchant businesses).

4.2. Description of the main risks

Commodity risk

Electricity and gas volatility

A large portion of Naturgy's operating results are linked to gas purchased for supply to a diversified portfolio of customers.

Most gas procurement contracts are arranged on a long-term basis with purchase prices based on a combination of commodity prices, basically crude oil and its derivatives, and natural gas hub prices.

However, sale prices to end customers are generally arranged on a short/medium term basis and depend on the supply-demand balance in the gas market at any given time. This may result in decoupling with respect to gas procurement prices.

Consequently, Naturgy is exposed to variations in gas procurement prices with respect to the sale price to end customers. This exposure is managed and mitigated by natural hedging, as an attempt is made to balance the commodity exposures of both prices. Additionally, the main long-term procurement contracts allow us to manage this exposure through volume flexibility and price review mechanisms.

When it is not possible to achieve a natural hedge, the position is managed, within reasonable risk parameters, through derivatives (generally designated as hedging instruments) to reduce exposure to price decoupling risk. Nevertheless, ineffectiveness could occur in these hedges caused by the modification of the expected dates of the purchase and sale operations, the reduction with respect to the volumes covered and the decoupling with respect to the indexes covered in the purchase and sale operations.

In the vertically integrated electricity businesses, the company's aggregate exposure is determined by the strategic generation/supply positioning and by the final sale pricing policies in electricity supply.

The company is also exposed to the evolution of the price of CO2 emission allowances which are purchased for allocation to power generation by its combined cycle plants, and to spot investments of cash surpluses in CO2-linked notes.

Exchange rate risk

Naturgy has interests in several countries and is exposed to the exchange rate in each of their currencies, as well as to the US dollar.

Exchange rate risk is largely mitigated by financing investments in local currency. Naturgy tries to match costs and revenues in the same currency, as well as amounts and maturities of assets and liabilities arising from transactions denominated in non-Euro currencies.

Additionally, the exchange rate risk is managed by arranging financial derivatives within the limits approved for hedging instruments, the level of exposure and the risk appetite approved each year.

Margin/price risk

Liberalisation processes in Spain and other major markets have had a significant impact in terms of competitive pressure on final market prices, and on the definition of market shares.

In the electricity industry, the liberalisation of the European market has increased competition due to the entrance of new players, with an impact on the Spanish market, and might have an effect on the performance of the electricity supply and generation businesses.

Naturgy monitors and quantifies the sales margins of all its businesses, identifies material deviations from its spread assumptions and mitigates the risk by adapting sale and purchase formulas to all terms.

Gas and electricity volume risk

Some purchases of natural gas and liquefied natural gas (LNG) are made under long-term contracts that include clauses under which Naturgy is obliged to buy certain volumes of gas each year (take-or-pay clauses). In the event of a reduction in gas demand, Naturgy might be obliged by contract to pay the minimum amount to which it is bound under such clauses.

Moreover, in an alternative scenario where there is a shortage of gas or excess demand, the additional cost of short-term procurements might have a material adverse effect on the group's operating costs.

All volume risks are measured, monitored and quantified each year, and the company assesses the adequacy of hedges for those linked to climate (temperature, precipitation, etc.), which are managed in accordance with the approved policies and risk appetite.

In the area of electricity generation, Naturgy's earnings are exposed to volume variability, driven by electricity demand and the generation mix in the market, which is being particularly affected by the growing share of renewable energy production.

Naturgy manages its contracts and assets in an integrated manner, optimizing the energy balance.

Regulatory risk

Regulated and non-regulated activities coexist in the gas and electricity distribution businesses. The legislation applicable to the natural gas and electricity industries is typically subject to regular review by the competent authorities, which might have an impact on the remuneration for regulated activities, affecting Naturgy's business operations and financial position.

As a result of both the COVID-19 crisis and Russia's invasion of Ukraine, most of the authorities in the countries where Naturgy operates have established temporary regulatory measures that may affect regulated businesses.

Naturgy manages regulatory risk on the basis of regular communication with the regulators. In addition, in its regulated activities, Naturgy adjusts its costs and investments to the allowed rates of return for each business.

Operational risk

Naturgy's activities are exposed to various operational risks, such as breakdowns in the distribution network, accidents at electricity generation facilities, accidents in methane tankers, explosions, pollutant emissions, toxic spills, fires, adverse weather conditions, and breaches of contract.

Additionally, claims might be brought against Naturgy for personal injury and/or other damage arising in the ordinary course of its operations. Such claims could result in the payment of indemnities under the legislation applicable in the countries in which Naturgy operates.

Naturgy has an extensive insurance program to cover its operational exposure.

Cybersecurity risk

Naturgy is exposed to threats in connection with the availability, confidentiality, integrity and privacy of the information and technology that support business processes as well as the risk of non-compliance with regulations related to cybersecurity.

Such threats include unauthorised access and the use, disruption, modification or destruction of information as a result of terrorist acts, malicious attacks, sabotage and other intentional acts.

Naturgy has cybersecurity policies that establish vigilance, contingency and security plans, and has arranged insurance to cover this exposure.

Environmental risk

Environmental risk, associated with the possibility that natural phenomena or human action may result in obligatory regulatory environmental limits being exceeded or in damage to ecosystems and biodiversity. Naturgy pays special attention to environmental protection and the efficient use of natural resources, going beyond compliance with the legal requirements and involving suppliers and stakeholders, as well as promoting the responsible use of energy at both its own facilities and those of its customers.

Naturgy has identified the environmental risks at its facilities based on the reference standard: UNE 150008 in Spain. To prevent these risks, it has implemented a certified integrated management system that includes operational control and environmental management procedures. Naturgy has also implemented emergency plans at facilities and warehouses at risk of environmental accidents, including an action plan, means of containment, and regular drills. Naturgy arranges specific insurance policies to cover risks of this type.

Reputational and ESG risk

Naturgy has identified its stakeholder groups and subgroups and defines reputational risk as the gap between those groups' expectations and the Company's performance in the environmental, social and governance dimensions.

Naturgy has developed a Sustainability Plan that determines its commitments and lines of action in 2021-2025, accompanies the transformation of the company and is aligned with the Strategic Plan 2021-2025, in line with the commitments of the Corporate Responsibility Policy and the Sustainable Development Goals (SDGs). To ensure the reliability of information on environmental, social and governance aspects, Naturgy is implementing a system of Internal Control over Non-Financial Reporting (ICNFR).

As regards environmental aspects, the commitments of the Corporate Responsibility Policy are expanded upon in the global Environmental Policy, applicable to all geographies and businesses, which establishes four strategic environmental pillars:

- 1.Environmental governance and management
- 2.Climate change and energy transition
- 3.Circular economy and eco-efficiency
- 4.Natural capital and biodiversity

Climate change risk

In order to integrate the climate variable into Naturgy's strategic planning, climate change risks and opportunities are identified, measured and managed in accordance with the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD). The most outstanding result of this process is the incorporation of a series of goals into the new Strategic Plan 2021-2025, aligned with the Paris and Glasgow Summit objectives of limiting the global temperature increase to below 2°C and achieving climate neutrality by 2050, and with the United Nations Sustainable Development Goals (SDGs).

Following the TCFD taxonomy, climate change risk is derived from two risk factors: the energy transition, arising from changes in regulations, the market or technology, and the physical impacts of climate change, classified into acute physical impacts (increase in extreme weather events) and chronic physical impacts (sustained increase in average temperatures, and sea level rise).

Naturgy is a member of a number of working groups at European level, which will enable it to adapt its strategy in advance to new regulatory developments, and it participates in clean development projects aimed at reducing CO2 emissions.

In 2022, the EC published the REPowerEU Plan, aimed at reducing dependence on fossil fuels from Russia and accelerating the green transition. Naturgy is aligned with the EU's plan and sees the REPowerEU's investment drive as a meaningful opportunity to advance the energy transition.

Climate change risk is discussed in detail in note 2.4.25.k of the Consolidated Annual Accounts and in chapter 6 "The Opportunity of Environmental Challenges" of the Sustainability Report and Non-Financial Information Statement.

Other risks

Financial risks (interest rate, credit, liquidity and rating risk) and legal risks are discussed in Notes 18 and 36, respectively, to the Consolidated accounts.

Tax, compliance, data protection, business continuity, security and fraud risks are discussed in Chapter 5 "Integrity and Trust" of the Sustainability Report and Non-Financial Information Statement. Health & safety and Customer satisfaction risks are discussed in chapter 8 "Commitment and Talent" and chapter 7 "Customer Experience", respectively, of that same report.

Main risks: management, measurement and trends

Risk type	Description	Management approach	Metric	Trend
Commodity risk				
Commodity prices	Gas	Volatility in the international markets that determine the gas price.	Physical and financial hedges. Management of the procurement and sale portfolio.	Stochastic ↑ ↑ Mismatch between long-term contracts and hub prices.
	Electricity	Volatility in electricity markets.	Physical and financial hedges. Optimisation of the generation fleet and supply structure..	Stochastic ↑ ↑ Penetration by renewables with zero marginal cost and intermittent production.
Exchange rate risk				
Exchange rate	Volatility in international currency markets.	Geographic diversification. Hedging via local-currency funding and derivatives.	Stochastic ↑	Uncertainty about growth and inflation prospects in Latin America.
Regulatory risk				
Regulatory	Exposure to reviews of criteria and returns recognised for regulated activities and/or regulatory measures to mitigate emerging macroeconomic situations.	Step up communication with regulators. Adjust efficiency and capital expenditure to recognised rates.	Scenarios ↑	Pressure from regulators, as a function of the situation of the country/industry.
Volume risks				
Volume	Gas	Mismatch between gas supply and demand.	Optimisation of contracts and assets worldwide.	Deterministic / Stochastic ↑ ↑ Aggregate demand pressure. Risk of curtailment or interruption of supply.
	Electricity	Reduction of the available thermal gap. Uncertainty as to renewable production volume due to resource variability.	Optimisation of the supply-generation balance.	Stochastic ↑ Aggregate demand pressure.
Margin/price risk				
Margin/price	Risk created by changes in competitive pressure or margin optimisation scenarios.	Portfolio management by adapting long-term purchase and sale formulas.	Scenarios ↑	Reviews of long-term gas contracts

Risk type	Description	Management approach	Metric	Trend
Legal risk				
Legal	Uncertainty as to the eventual outcome of litigation, arbitration or legal claims.	Analysis and mitigation of legal risk affecting the company's operations and corporate governance. Engagement of top-level law firms. Recognition of provisions on a prudential basis.	Scenarios	The business units are affected by different laws in each country. ↔
Operational risk				
Insurable risks	Accidents, damage or non-availability of Naturgy assets.	Continuous improvement plans. Optimisation of the total cost of risk and hedges.	Stochastic	Growing tension in the insurance market in the face of the rising frequency and severity of extreme weather events, and cybersecurity claims. ↑
Credit risk				
Credit	Uncertainty associated with the probability of non-payment of monetary obligations and/or deterioration of the credit quality of end customers and counterparties.	Analysis of customer solvency in order to define specific contractual conditions. Debt collection process.	Stochastic	Increase in expected and unexpected losses due to the probability of default, given the inflation situation and the global energy crisis. ↑↑
Interest rate risk				
Interest rates and credit spreads.	Interest rate volatility on borrowings, both existing debt and refinancing.	Financial hedges. Diversification of funding sources.	Stochastic	Uncertainty about interest rate scenarios. ↑↑
Tax risk				
Tax	Ambiguity or subjectivity in the interpretation of current tax regulations, or material amendments to same. Approval of unexpected fiscal measures.	Queries to independent expert bodies. Engagement of top-level advisory firms. Adoption of the Code of Good Tax Practices. Recognition of provisions on a prudential basis.	Scenarios	Different business units are affected by different taxes. ↑
Liquidity, solvency, rating and provision risks				

Risk type	Description	Management approach	Metric	Trend
Liquidity, rating and provision risks	Financial risks associated with maintaining the company's rating, derived from liquidity conditions or other causes. Risks associated with excessive use of funds due to maintaining provisions.	Establishment of a target rating and ensuring sufficient liquidity to maintain it in the event of a potential adverse scenario.	Scenarios	Ratification of the target of an investment grade rating in the Business Plan 2021-2025 ↔
Security risk				
Security	Residual risk associated with personal injury or material damage to critical facilities caused intentionally by a third party.	Corporate positioning through the Security Policy, defining a specific protection model for Critical Infrastructures (CI). Engagement with the businesses, Centro Nacional para la Protección de Infraestructuras Críticas (CNPIC), Instituto Nacional de Ciberseguridad (INCIBE-CERT) and other bodies.	Heatmap/ Scenarios	Certification audits by the regulator (CNPIC) of critical operators, in which technology is of great importance. ↔
Business continuity and crisis management risk				
Business continuity and crisis management risk	Risk of failing to maintain service levels as a result of a shortcoming or failure in processes, systems or staff performance.	Annual internal audit plan Weakness detection. Implementation of improvement actions. Audit and Control Committee.	Heatmap/ Scenarios	Increase in the percentage of material recommendations that are implemented. ↑
Fraud risk				
Fraud	Risk derived from any intentional breach of the law by an employee or a third party to benefit themselves or the company, directly or indirectly, through the improper use of Naturgy resources or assets.	Control mechanisms through the Global Policy of the Internal Control System over Financial Reporting. Arrangement of hedges in the insurance market	Scenarios	Maintain low levels of fraud at Naturgy ↔
Cybersecurity risk:				

Risk type	Description	Management approach	Metric	Trend
Cybersecurity	Malicious attacks or accidental events that affect data, computer networks or technology.	Implementation of security measures; Event analysis and remediation measures; Training.	Scenarios/ Heatmaps	The cybernetic situation is becoming more demanding. Threat protection plan to mitigate the likelihood of these risks and their associated impact. ↑
Data protection risk				
Data protection	Uncertainty associated with breaches of data protection obligations that may result in an administrative sanction or civil judgement.	Action Plan by business area to mitigate the risk associated with each obligation based on priority and criticality. The company operates in line with the requirements of the General Data Protection Regulation (GDPR). Internal audit plan in connection with regular compliance reviews.	Heatmap/ Scenarios	Uncertainty and tightening regulatory requirements. ↑
Environmental risk				
Environment	Possibility that natural phenomena or human action may result in binding regulatory environmental limits being exceeded, resulting in damage to ecosystems or biodiversity.	Emergency plans at facilities with risk of environmental accident. Specific insurance policies. End-to-end environmental management.	Scenarios/ Heatmaps	Implementation of an Integrated Management System certified and audited each year by AENOR. ↔
Health and safety risk				
Health and safety	Risk of injury and health impairment for professionals of Naturgy or partner companies in connection with the business.	Health and safety management system. Safety plan aimed at controlling the six most critical risk factors in terms of accident frequency and severity: confined spaces, work at heights, electrical risk, tree felling and pruning, load handling, and road safety.	Heatmap/ Scenarios	Accident rates at partner firms. ↔
Reputational and ESG risk				

Risk type	Description	Management approach	Metric	Trend
Reputational and ESG	Impairment of stakeholders' perception of Naturgy due to environmental, social and governance issues.	Identification and tracking of potential reputation events. Transparency. Control mechanism through the system of Internal Control over Non-Financial Reporting.	Scenarios/ Heatmaps	Stabilisation of the RepRisk index scores. ↔
Compliance risk				
Reputational and crime risk	Administrative and criminal penalties. Impairment of Naturgy's reputation.	Crime prevention policy, Code of Ethics and Anticorruption Policy. Whistleblower channel. Training.	Heatmap/ Scenarios	Commission of criminal offenses, penalties, financial losses, loss of reputation, contracts and customers. ↑
Counterparty risk	Administrative and criminal penalties. Harm arising from breach of contract.	Counterparty Due Diligence Procedure. Training		
Climate change risk				
Climate change	Uncertainty arising from the energy transition (regulation, markets and/or technologies) and the physical impacts of climate change.	Corporate positioning via the Global Environmental Policy and Environment Plan, which strengthen governance in climate issues and energy transition targets.	Stochastic/ Scenarios/ Heatmaps	Future technology uncertainty. Increased requirements in connection with the coherence of financial reporting with the company's objectives in connection with mitigating climate change risk. ↑

Metrics used:

- Stochastic: production of trend lines for the main magnitudes, taking the maximum deviation from the benchmark scenario to be the risk, within a pre-set confidence interval. Those magnitudes are generally EBITDA, earnings after taxes, cash flow and value.
- Scenarios: analysis of the impact, with respect to the benchmark scenario, of a limited number of possible incidents.
- Heatmap: the main risk factors for each risk category are assessed to quantify the impact and probability of the identified risks.

4.3. Main opportunities and uncertainties

Naturgy views the energy transition as an opportunity to transform the business and promote the changes needed to achieve a low-carbon economy. In this context, and based on the 2021-2025 Strategic Plan, Naturgy's main opportunities are as follows:

- **A focus on stable geographies**, with low risk and strong currencies, making it possible to capture energy demand growth and maximise business opportunities in new markets.
- **Renewable generation**: growth in renewable generation capacity in line with the global energy transition.
- **Operation and growth in Networks**, based on solid regulatory frameworks with long-term visibility and focused on continuous improvement, digitalisation and automation.
- **Technological development and innovation**: development of innovation projects in hydrogen and hydrogen blending in gas grids, renewable gas, energy efficiency, sustainable mobility and the just transition.

- **Portfolio of natural gas and LNG procurements:** continuous review and optimization of procurement contracts, continuous risk management to ensure predictable cash flows, and adaptation of the LNG carrier fleet to enhance its flexibility.

There are horizontal uncertainties, such as the macroeconomic context and geopolitical exposure, which materialize and have an impact on many of the risk types described in the previous section.

Uncertainty in the macroeconomic context

In recent years, the global macroeconomic situation has been profoundly altered by the concatenation of two events of unprecedented complexity and depth. First was the emergence and development of the COVID-19 pandemic, and then came the increase in geopolitical tension in Europe as a result of Russia's invasion of Ukraine. Both events triggered a global crisis, and energy was one of the industries most affected, with significant increases in the price of natural gas and oil, the former to well above pre-war levels and with extreme volatility from day to day.

Naturgy is monitoring the current situation by constantly tracking macroeconomic and business variables in order to manage potential risks. The analyses carried out for this purpose assess the indirect impacts of the conflict on the business activity, financial situation and economic performance, with particular reference to the generalized increase in commodity prices and the reduced availability of material supplies from conflict-affected areas.

Naturgy has also taken the appropriate decisions to protect its customers' solvency and that of society as a whole by adopting price containment measures. With respect to gas contracts, a significant portion of the company's long-term procurements have entered their ordinary price review period; in the course of negotiations, the company seeks the best long-term interests of its shareholders, creditors and other stakeholders.

On the regulatory front, both European and national governments have issued regulations to mitigate the consequences of the war on end users of energy. The regulatory framework is described in Appendix IV of the Consolidated Accounts as of 31 December 2022.

External geopolitical exposure

Naturgy has interests in countries with varied political, economic and social environments, including notably three main geographies outside the European Union:

- Latin America

Uncertainty factors related to investment and business in Latin America include the influence of national governments on the economy, fluctuating economic growth rates, high levels of inflation and devaluation, depreciation or overvaluation of local currencies, a changing interest rate environment, as well as social tensions and political instability.

- Middle East and Maghreb

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

- China and Taiwan

The Asian market is emerging as a major source of geopolitical uncertainty, given the current heavy dependence of processed renewable component supply chains on Chinese exports. Interruptions in the supply of these components, due to transportation and distribution problems or direct import restrictions, might lead to an increase in material costs and delays in the commissioning of renewable energy projects in progress.

5. Subsequent events

Events subsequent to the end of the period are described in Note 39 of the Notes to the Consolidated Annual Accounts.

6. Forecast Group performance

6.1. Vision

Strategic pillars

On July 28, 2021, Naturgy presented the **2021-2025 Strategic Plan**, which addresses a new stage that aims to promote our industrial growth while maintaining financial discipline and taking advantage of the opportunities of the energy transition; and to become a best-in-class reference operator through the digitization of processes.

The new plan is based on five solid pillars to promote Naturgy's transformation:

1. Growth
2. Focus
3. *Best-in-class*
4. ESG (Environment, Society and Governance)
5. Culture

Growth

Our growth aims to be mainly organic, consistent with the energy transition and capable of taking advantage of asset rotation to accelerate the transformation.



- Mainly organic, maintaining capital discipline.
- Consistent with the energy transition.
- Opportunistic asset rotation to accelerate transformation.

Focus

We focus on renewable projects in early stages of development and stable geographies; also in network projects, with a prominent role of digitization and a stable regulatory framework.



- Renewables and networks.
- Stable geographies and regulatory frameworks.
- Volatility reduction in procurement commitments.

Best-in-class

We are committed to continuous improvement, increasing the digital footprint and reinventing relationships with our customers.



- Continuous improvement.
- Increasing digital footprint.
- Reinventing customer relationships.

ESG

We have a firm commitment to environmental and social matters. Our roadmap includes a Sustainability Plan with solid objectives in the environmental, social and governance fields, thus integrating ESG into the core of the company.



- Embedded at the core
- Aligned with SDG (sustainable development goals).
- Tangible targets to meet commitments.

Culture

Our corporate culture must intensify the passion of our professionals, allow us to establish our values and be aligned with our stakeholders.



- Fueling passion on our employees.
- Solidifying core values.
- Aligned with stakeholders..

Key investment objectives

In economic matters, our Strategic Plan pursues ambitious investment objectives, setting an estimated investment for this period of **14,000 million euros**.

This investment is established by maintaining financial discipline as a pillar and focusing on projects with predictable returns. On the other hand, 80% of the planned investment will be eligible according to the EU taxonomy of sustainable finance. This investment is aligned with the energy transition.

The investment is distributed as follows:

Renewables

Euros 8,700 million

- Proven generation technologies.
- Focus on attractive geographies.
- Commitment to innovation.
 - Distributed generation.
 - Biogas and hydrogen.
 - Sustainable mobility.

Networks

Euros 4,100 million

- Focus on solid frameworks with proactive regulatory management.
- Ongoing projects to achieve full automation and remote operation.
- Adapting existing infrastructures to play a key role in energy transition.

ESG at the core of our vision

The Strategic Plan is part of Naturgy's commitments to the environment, society and governance (ESG). Placing sustainability as the backbone of our strategy on our roadmap allows us to reduce our environmental impact, increase the involvement and commitment of all our stakeholders and endorse ourselves as a responsible company with the energy transition.

Our 2025 objectives in ESG are the following:

A Environment

Net Zero by 2050

- Reduce total CO2 emissions by 24% (2025 vs 2017).
- Protect Biodiversity, reaching a figure of more than 350 projects to preserve ecosystems.

S Social

Gender parity by 2030

- Enhance diversity, reaching more than 40% of women in management positions.
- Extending ESG throughout supply chain up to 95%.

G Governance

Management compensation aligned with ESG

- Variable pay of 10% linked with ESG objectives.
- Implement climate change risk reporting and taxonomy to maintain leadership positions in the sustainability indices.

6.2. Roadmap

Based on these strategic pillars, a roadmap is developed that is specified in economic objectives for each of the businesses.

Renewables

It is defined for the renewable business a growth strategy based on:

1. Stable geographies

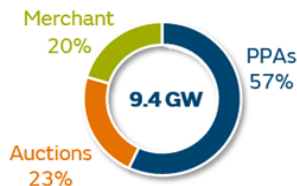
- Low risk and hard currency
- Solid regulatory frameworks
- Long-term visibility

2. Proven technologies

- Solar PV, onshore wind and storage
- 14 GW in operation by 2025
- Tangible pipeline with visibility

3. Customer base as a natural hedge

Balancing risks with new capacity (4.6 GW in 2020 to 14.0 GW in 2025)



New installed capacity

Networks

The following key transformation initiatives are defined for the network business:

1. Spain Electricity networks

- At the forefront of electricity networks digitalization
- Increasing investment commitments in line with sector requirements

2. Spain gas networks

- Networks digital transition to ensure best-in-class operations
- Commercial repositioning
- Accelerating contribution to decarbonization

3. LatAm networks

- Portfolio management
- Investments to guarantee maintenance and safety standards

Energy management

The following key transformation initiatives are defined for the energy management business:

1. Markets and procurements

- Progressive downsizing of procurements commitments
- Ongoing review and optimization of procurement contracts (oil to hub indexation transition)

2. International LNG

- Risk management to ensure predictable cash flows
- Downsizing of LNG tanker fleet under time charter
- Exploring value alternatives

3. Spain thermal generation

- Remote operation and bottom-up process review of CCGT fleet
- Mothballing of non-performing CCGTs
- Working on hybridization alternatives
- Proactive regulatory management (system back-up)

4. LatAm thermal generation

- New opportunities for excess capacity over PPAs
- Cost and investments efficiency
- Exploring value alternatives for Mexico CCGTs

Supply

The following key transformation initiatives are defined for the marketing business:

1. Boost competitiveness

- Market repositioning
- Integrated energy offering
- Refocusing of distribution channel strategy, including additional third party agreements
- Enhance profitability

2. Reinvent customer relationships

- Redefined customer service
- Enhanced data analysis and customer segmentation
- Increased loyalty through customer value management

3. Accelerate digital transformation

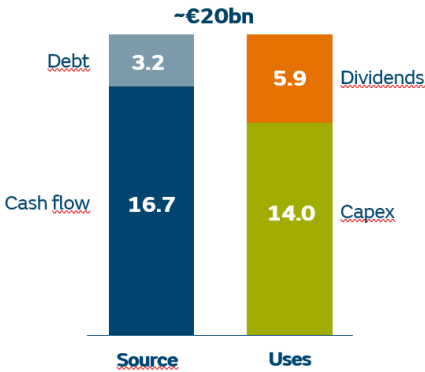
- Transition to a new, simpler and integrated digital platform
- Enhanced efficiency in every single operating process

6.3. Summary

Dividend policy and capital allocation

The dividend policy is set with the aim of maintaining a solid BBB rating throughout the period. In this way, a dividend of 1.20 euros per share per year is established, which will be reassessed in 2023 depending on the performance and execution of the transformation.

The allocation of capital for the period 2021-2025 detailed between origins and uses is as follows:



7. Sustainable innovation

Management vision and approach

The ecological transition to a carbon neutral economy is an opportunity in environmental, social and economic terms. It enables us to reduce our dependence on imported energy, improve our trade balance and move towards a prosperous modern economy. In this global context, meeting the challenge of climate neutrality requires the energy system to be transformed. Achieving this objective calls for a cross-cutting vision, moving from the conventional approach, in which the main energy uses (electricity, space heating, industrial heat, transportation) were analysed and managed individually, to a smart industry integration that flexibly combines renewable generation, storage, demand-side management and renewable fuel generation to optimize energy resources. This new energy model must be supported by:

- **Innovation**, which is a key lever for growth as it enables the adoption of best practices, new business models and technological solutions that contribute to process digitalization, automation and optimization, guaranteeing security and operational improvement and facilitating access to information for better decision-making, the aim being to create value and ensure the company's competitiveness over the long term. Always at the forefront and putting the customer at the centre of all its efforts.
- **Optimization of renewable energy generation** through innovative systems due to their superior energy efficiency; their ability to be integrated into the environment at a lower cost or with greater reliability. This will attract new players into the system to cover part of the energy needs of households, SMEs and public administrations.
- The **direct use of energy through manageable electricity consumption that provides flexibility** in, for example, air conditioning and mobility, as well as through **storage** for use later as electricity or heat, in daily or seasonal storage systems.
- The generation of **renewable gases**, such as **renewable hydrogen and biomethane**, for end uses where electrification is neither technically nor economically feasible. Hydrogen is an efficient and immediate decarbonization solution for intensive industry and transportation. In addition, the fact that it is an energy vector gives it great potential for energy storage and sectoral integration. Similarly, biomethane can replace natural gas without incurring abatement costs to adapt infrastructures or equipment.
- The **response to increasingly atomized markets**, with small, fast competitors, in both supply and generation, through smaller renewable plants that are closer to the point of consumption.

On this basis, Naturgy is undertaking an extensive investment program in renewable energies as a result of the 2021-2025 Strategic Plan and developing new lines of business in areas such as renewable gases, hydrogen and biomethane, storage and sustainable mobility; all of this to provide a broad range of value-added services and promote sustainable innovation as a driver of development. One example are the additional investment opportunities under the Next Generation EU programme focused on renewable gases, with projects such as La Robla and Meirama (green hydrogen plants), a network of hydrogen stations along Spain's main heavy goods transport routes, and the blending of hydrogen and natural gas in turbines and cogeneration engines.

Investment in innovation

In 2022, a total of Euros 58.9 million were spent on innovation (Euros 59 million in 2021), as indicated below:

	2022	2021
Investment in innovation	58.9	59

Main lines of innovation

The main lines of innovation on which Naturgy is currently working are described below:

Renewable gases

Basing the decarbonization of the economy predominantly on a high level of electrification supported by renewable energies presents technical limitations in certain energy-intensive industries, such as manufacturing and transportation.

Since electrification cannot cover the total energy demand, further integration of the electricity and gas sectors is an effective solution to achieve the decarbonization goals through the complementarity of renewable gases, gas infrastructure and electricity. The gas grid currently has considerable storage capacity and a reach and capillarity that enable it to transport large amounts of energy to where it is consumed; these aspects are essential for using renewable gases to decarbonize energy end-use at all points where natural gas is currently consumed.

The development of renewable gases, biomethane and hydrogen, is one of the strategic vectors of Naturgy's business and climate action plan, the aim being to significantly reduce greenhouse gas (GHG) emissions in the company's carbon footprint, to decarbonize the economy and create jobs in the areas affected by the closure of coal-fired power plants in 2018-2020 and, finally, to decarbonize all gas-consuming sectors, such as manufacturing, the residential sector and transport, focusing on the creation of green jobs in rural areas, in line with Spain's strategy against depopulation.

Renewable gases are present in the REPowerEU Plan, which aims to rapidly reduce dependence on Russian fossil fuels and advance the ecological transition. In this energy context, as one of the main operators of basic natural gas infrastructures, Naturgy has adopted a leading role to drive the development of the renewable gas value chain.

Biomethane

The production of renewable biomethane from livestock, agricultural or industrial organic waste, or from landfills and wastewater plants, is an excellent example of the circular economy in the energy sector, providing significant environmental benefits and a supplementary source of income for rural areas.

Naturgy is working on a portfolio of projects throughout the integrated value chain, including waste management, and biogas and biomethane production, distribution and supply.

Naturgy has experience in producing renewable gas on a commercial scale, acquired in projects conducted in recent years such as the Elena landfill, the Methamorphosis project in Vilasana (Lleida), and the Bens (A Coruña) wastewater treatment plant (WWTP).

Naturgy currently has a portfolio of 43 projects under way for producing biogas and upgrading to biomethane for injection into the natural gas grid:

- 9 projects using livestock waste (1,384 GWh/year).
- 4 projects using WWTP sludge (170 GWh/year).
- 21 industrial waste projects (673 GWh/year).
- 5 projects using the organic fraction of municipal solid waste (221 GWh/year).
- 4 projects using agricultural waste (299 GWh/year).

Hydrogen

Despite its usage difficulties, availability and technology cost, renewable hydrogen has a promising future. The REPowerEU Plan has reinforced Spain's roadmap, which sets a target of 4 GW of installed electrolysis capacity by 2030, i.e., 10% of the target set by the European Union. The support of government and the private sector will be essential for the implementation of large-scale projects to attain the expected technology path.

The renewable hydrogen value chain is at an incipient stage, with pilot projects to replace hydrogen obtained from fossil or other fuels. Not all sectors of the economy will adopt hydrogen at the same pace, due to the differences between uses and availability and to the cost of the end equipment.

Royal Decree 376/2022, which establishes a system of Guarantees of Origin (GoOs) for renewable hydrogen, their definition and the conditions for their issuance, will drive its deployment among industrial users with significant decarbonization needs, where electrification is difficult and whose location does not coincide exactly with the production site.

Green hydrogen is an energy vector capable of:

- Channelling large amounts of renewable energy from power generation to sectors where electrification is not a feasible option.
- Storing and managing energy on a massive scale over long periods of time, matching energy supply and demand.

Naturgy has been researching the development of hydrogen for years, as Spain's renewable energy potential, existing infrastructure and geostrategic position mean that the country has all the potential to become a hydrogen exporter in the future. Naturgy, an essential player in energy transmission and distribution, can contribute its global capacity and know-how throughout the value chain. This new energy can be exported via the current gas infrastructure, which would allow integration between the electricity and gas grids, resulting in a more efficient and resilient energy system.

In 2022, Naturgy worked on developing:

- Large renewable hydrogen production hubs linked to areas of just transition, especially in areas affected by the closure of thermal power plants, with the objective of driving the development of new markets for direct use by industry, injection into the gas grid for supply with guarantees of origin, mobility, and the production of H₂ derivatives.
- Onsite hydrogen production projects linked to electro-intensive industries that are difficult to electrify; one project being undertaken with a cement producer proposes to capture part of the CO₂ from the process and mix it with green hydrogen to produce methanol.

Storage

The geopolitical situation and the current energy crisis have further boosted renewable energy. Under Spain's Integrated National Energy and Climate Plan (PNIEC), renewables will account for 74% of the energy mix by 2030, but current European policies have triggered a revision of the PNIEC and its targets, to be released shortly, so as to step up the level of ambition, particularly in wind and photovoltaic.

This presents the energy system with the challenge of equipping itself with flexible tools to manage production, match generation and consumption, avoid sudden drops in production, and provide firm capacity to the system. In this scenario, storage is key to the security and quality of supply, and the main challenge is managing and integrating storage in both the electricity and balancing markets. This requires the development of new operating systems that will play a vital role in those projects' optimization and economic viability.

Naturgy has a potential portfolio of projects in excess of 200 MW for the next few years, of which more than 80 MW are already in the permitting process. These projects are being developed with Spanish technology partners and research centres, the aim being to create employment and strengthen the business fabric throughout the projects' value chain.

Work advanced on a number of initiatives in 2022:

- **Hybridization projects at power plants**, mainly wind and photovoltaic farms. The hybridization of storage with generation will enable the Spanish electricity grid to manage the renewable energy that is fed in, providing flexibility and firm capacity to the system.
- Deployment of **stand-alone storage** in key areas due to grid congestion or loss of firm capacity as a result of the closure of thermal power plants. At the technological level, the challenges are similar to those of hybridization projects in wind farms, mainly managing the control system to achieve optimal performance.

- Development of a **new storage model** to optimize, both economically and technically, the implementation of hybridized systems with storage in small power plants located in close proximity. Since there is currently no regulatory framework, it will be developed in the context of a regulatory test bed.

As the energy transition is one of the pillars of the Recovery Funds, significant support is expected for this type of project in order to accelerate the implementation of this new technology.

Sustainable mobility

In 2022, Naturgy maintained its commitment to sustainable mobility based on a range of technologies.

In gas, the infrastructure of natural gas vehicle (NGV) refuelling stations for public use continued to be rolled out at a national level, oriented towards a transformation to BioGNV, which is a growth vector for the energy transition in heavy goods transport.

In relation to electric mobility, recharging products for retail and industrial customers have been expanded, and significant progress has been made thanks to regulatory support and high demand. The minimal noise production and the zero local emissions of greenhouse gases such as CO₂ and other substances such as particulates and NO_x make this the most suitable technology for transporting people in urban areas as it does not affect air quality.

The most notable initiatives undertaken in 2022 include:

- Signature of the first contract covering **biomethane for vehicles**. Naturgy has agreed to supply up to 2GW/year of biomethane for water-cooler service company Aquaservice's last-mile delivery fleet. This fuel substitution will contribute to reducing emissions by up to 350 tCO₂/year, which is equivalent to taking 53,000 vehicles off the road in a city for one day. The biomethane comes from Naturgy's production facility at the Elena landfill.
- Supply of **renewable gas** to the first bus in Zaragoza. In partnership with the Zaragoza Area Transport Consortium, Automóviles Zaragoza, Scania and Calvera, Naturgy supplied 150 MWh of biomethane obtained by upgrading biogas from slurry digestion at the company's plant in Vilasana (Lleida). This biomethane was used to power a city bus, which ran for three months on the Zaragoza – Villamayor de Gállego route.
- Alliance for the development of **hydrogen mobility**. Signature of an agreement with Enagás subsidiary Scale Gas and Exolum to jointly study and develop infrastructures for the production, distribution and supply of green hydrogen in the mobility sector throughout the country. This is the first major hydrogen alliance for mobility corridors. The project will be called Win4H2. This agreement includes the development of a network of 50 hydrogen plants, which will offer homogeneous penetration of this energy vector in Spain, so that any user can opt for the green hydrogen solution with guaranteed supply at any point in mainland Spain.
- Signature of the protocol to promote decarbonization policies in the **Madrid Autonomous Region**, which seeks, among other objectives, to promote the deployment of electric recharging infrastructure.
- Collaboration with **FUTURED**, the platform of Spanish electricity grids, on electric mobility.

8. Annual Corporate Governance report

Attached as an Appendix and forming an integral part of this Directors' Report is the Annual Report on Corporate Governance 2022, as required by article 538 of the Capital Companies Act.

9. Annual Board Remunerations report

Attached as an Appendix and forming an integral part of this Directors' Report is the Annual Board Remunerations Report 2022, as required by article 538 of the Capital Companies Act.

10. Additional information

10.1. Treasury shares

Movements during 2022 and 2021 involving treasury shares of Naturgy Energy Group, S.A. are as follows:

	Number of shares	Amount (million euro)	% Capital
01.01.2021	8,675,368	201	0.9
Share acquisition plan	127,453	3	—
31.12.2021	8,802,821	204	0.9
Share acquisition plan	15,000	—	—
Delivered to employees	(122,328)	(3)	—
31.12.2022	8,695,493	201	0.9

In 2022 and 2021, no gains or losses were made on transactions involving treasury shares.

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

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

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

2022

- Share acquisition plan: In accordance with the resolutions adopted by the shareholders of Naturgy Energy Group, S.A. at the general meeting held on 5 March 2019, within the Share Acquisition Plan 2020-2023, the one relating to 2021 addressed to Naturgy employees in Spain who decide voluntarily to take part in the Plan was set in motion in December 2021. The Plan enables participants to receive part of their remuneration in the form of shares in Naturgy Energy Group, S.A., subject to an annual limit of Euros 12,000. This plan was completed in January 2022 through the acquisition of 15,000 treasury shares in addition to those acquired in December 2021, for an amount of Euros 0.4 million. During January 2022, a total of 122,328 shares amounting to Euros 3 million were delivered to employees. The surplus of 20,125 treasury shares has been added to the 35,773 shares left over from the 2020 and 2019 Share Acquisition Plans.

2021

- Share Acquisition Plan: As mentioned in the previous paragraph, as part of the Share Acquisition Plan 2020-2023 the plan for 2021, aimed at Naturgy employees in Spain, was set in motion. In December 2021, 127,453 of the Company's own shares were acquired for Euros 3 million to be handed over to the employees taking part in the Plan in January 2022.

At 31 December 2022 and 2021 it also includes 8,639,595 treasury shares to cover the potential delivery of shares resulting from the increase in the value of the shares relating to the long-term variable incentive plan (see paragraph on share-based remuneration in this note).

Note 14 of the Notes to the Consolidated Annual Accounts contains full information on treasury shares.

10.2. Disclosure of delays in payment to suppliers

The average payment period has been drawn up in accordance with Law 15/2010, which establishes measures to combat late payment in commercial operations, as well as the modifications established in Law 18/2022, of 28 September, creation and growth of companies.

In accordance with the above regulations, the information regarding the average payment period to suppliers in commercial operations is as follows:

	2022	2021
Total payments (million euro)	26,206	14,463
Total outstanding payments (million euro)	994	398
Average supplier payment period (days) (1)	18	19
Transactions paid ratio (days) (2)	18	20
Transactions pending payment ratio (days) (3)	21	16
Total payments within the period established in the delinquency regulations (Euros million) (4)	26,087	—
% of the amount paid within the period established in the delinquency regulations with respect to the total amount paid (4)	99.55 %	—
Number of invoices paid within the period established in the delinquency regulations	21,308,793	—
% of invoices paid within the period established in the delinquency regulations with respect to the total invoices paid (4)	99.80 %	—

(1) Calculated on the basis of amounts paid and pending payment

(2) Average payment period in transactions paid during the year

(3) Average age, suppliers pending payment balance

(4) Information requirement according to Law 18/2022.

Appendix I. Alternative performance metrics

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

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

Below is a glossary of terms with the definition of the APMs. Generally, the APM terms are directly traceable to the relevant items of the consolidated balance sheet, consolidated income statement, consolidated statement of cash flows or notes to the annual accounts of Naturgy. To enhance the traceability, a reconciliation is presented of the calculated values.

Alternative performance metrics	Definition and terms	Reconciliation of values at 31.12.2022	Reconciliation of values at 31.12.2021	Relevance
EBITDA	EBITDA = Revenue (2)– Procurements (2) + Other operating income (2)– Personnel expenses (2)– Other operating expenses (2) + Gain/(loss) on disposals of fixed assets (2) + Release of fixed asset grants to Income and other (2)	Euros 4,954 million	Euros 3,529 million	EBITDA (“Earnings Before Interest, Taxes, Depreciation and Amortization”) measures the Group’s operating profit before deducting interests, taxes, depreciations and amortizations. By dispensing with the financial, tax and accounting expenses magnitudes that do not entail a cash outflow, it allows evaluating the comparability of the results over time. It is an indicator widely used in the markets to compare the results of different companies.
Operating Expenses (OPEX)	Personnel expenses (2)+ Own work capitalised (4) (Note 25)+ Other operating expenses (2) - Taxes (4) (Note 26)	Euros 1,794 million =547 + 74 + 1,511 – 338	Euros 2,171 million =940 + 77 + 1,315 – 161	Measure of the expenses incurred by the Group to carry out its business activities, without considering costs that do not involve cash outflows and taxes. Amount allowing comparability with other companies.
Capital expenditure (CAPEX)	Investment in intangible assets (4) (Note 5)+ Investment in property, plant and equipment (4) (Note 6)	Euros 1,907 million = 333 + 1,574	Euros 1,484 million = 288 + 1,196	Measure of the investment effort of each period in assets of the different businesses, including accrued and unpaid investments. It allows to know the allocation of its resources and facilitate the comparison of the investment effort between periods. It is made up both of maintenance and growth investments (funds invested in the development or for the expansion of the Group’s activities).
Net capital expenditure (Net CAPEX)	CAPEX (5) - Other investment receipts/ (payments) (3)	Euros 1,833 million = 1,907 – 74	Euros 1,423 million = 1,484 – 61	Measure of the investment effort of each period without considering the assets transferred or contributed by third parties.
Gross financial debt	"Non-current financial liabilities" (1) + "Current financial liabilities" (1)	Euros 16,301 million = 13,999 + 2,302	Euros 16,812 million = 15,114 + 1,698	Measure of the Group’s level of financial debt. Includes current and non-current concepts. This indicator is widely used in capital markets to compare different companies.
Net financial debt	Gross financial debt (5)– “Cash and cash equivalents”(1) – “Derivative financial assets linked to financial liabilities”(4) (Note 18)	Euros 12,070 million = 16,301 - 3,985 – 246	Euros 12,831 million = 16,812 - 3,965 – 16	Measure of the Group’s level of financial debt including current and non-current items, after discounting the cash and cash equivalents balance and asset derivatives linked to financial liabilities. This indicator is widely used in capital markets to compare different companies.

Leverage (%)	Net financial debt (5) / (Net financial debt (5) + "Equity"(1))	54.7% = 12,070 / (12,070 + 9,979)	59.1% = 12,831 / (12,831 + 8,873)	Measure of the weight of external resources in the financing of business activity. This indicator is widely used in capital markets to compare different companies.
Cost of net financial debt	"Cost of borrowings"(4) (Note 30) – "Interest" Income (4) (Note 30)	Euros 501 million = 568 - 67	Euros 491 million = 510 - 19	Measure of the cost of financial debt without considering income from financial interests. This indicator is widely used in capital markets to compare different companies.
EBITDA/Cost of net financial debt	EBITDA(5)/ Cost of net financial debt (5)	9.9x = 4,954 /501	7.2x = 3,529 /491	Measure of the company's ability to generate operating resources in relation to the cost of financial debt. This indicator is widely used in capital markets to compare different companies.
Net financial debt/ EBITDA	Net financial debt (5) / EBITDA(5)	2.4x = 12,070/4,954	3.6x = 12,831/ 3,529	Measure of the Group's ability to generate resources to meet financial debt payments. This indicator is widely used in capital markets to compare different companies.
Market capitalisation	No. of shares ('000) outstanding at end of period(4) * Market price at end of period(4)	Euros 23,571 million = 969,614 * 24.31 euros	Euros 27,760 million = 969,614 * 28.63 euros	Measure of the company's market value based on the market price of its shares.
Free cash flow after non-controlling interests	Net Free cash flow (5)+ Parent company dividends net of collected by other group companies (4)+ Purchase of treasury shares (4)+ Investment payments (group companies, associates and business units) (3)	Euros 1,914 million = 744 + 1,153 + 0 + 17	Euros 2,113 million = 1,149 + 1,278 + 3 - 317	Measure of cash generation corresponding to operating and investment activities. It is used to evaluate funds available to pay dividends to shareholders, the payment of inorganic investments (acquisitions of companies or businesses) and to attend debt service.
Net free cash flow	Cash flow generated from operating activities (3) + Cash flows from investing activities(3) + Cash flows from financing activities(3) – Receipts and payments on financial liability instruments(3)	Euros 744 million = 4,242 - 1,486 – 2,854 + 842	Euros 1,149 million = 1,001 + 1,896 – 2,851 + 1,103	Measure of cash generation to assess the funds available to debt service.
Average cost of gross financial debt	("Cost of borrowings"(4) (Note 30) - cost of lease financial liabilities (4) (Note 30) - other refinancing cost (4) (Note 30)) / monthly average of financial debt (excluding lease financial liabilities) (4) (Note 17)	3.0% = (568-85-28) / 15,099	2.5% = (510 - 92 – 29) / 15,751	Measure of the effective interest rate of financial debt. This indicator is widely used in capital markets to compare different companies.
Liquidity	"Cash and cash equivalents"(1) + Undrawn credit facilities (4) (Note 18)	Euros 9,482 million = 3,985 + 5,497	Euros 9,424 million = 3,965 + 5,459	Measure of the Group's ability to face any type of payment.

Economic value distributed	Procurements (2) + Other operating expenses (includes Taxes) (2) + Income tax payments (3) + Personnel expenses (2) + Work carried out for fixed assets (4) + Financial expenses (2) + Dividends paid by the parent company (4) + Discontinued activities expenses before taxes (4)	Euros 32,089 million = 27,194 + 1,511 + 762 + 547 + 74 + 837 + 1,164 + 0	Euros 22,470 million = 16,529 + 1,315 + 864 + 940 + 77 + 598 + 1,290 + 857	Measure of the company's value considering the economic valuation generated by its activities, distributed to the different interest groups (shareholders, suppliers, employees, public administrations and society)
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- (1) Consolidated balance sheet line item.
- (2) Consolidated income statement line item.
- (3) Consolidated statement of cash flows line item.
- (4) Figure detailed in the Notes to the consolidated annual accounts.
- (5) Figure detailed in the APMS.
- (6) Figure detailed in the Directors' Report.

Appendix II. Non-financial information statement

Naturgy

Sustainability Report and Non- Financial Information Statement 2022

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01. Letter from the Chairman

[2-1] and [2-22]

Dear readers,

If 2022 had to be summed up in one sentence, it could perhaps be described as the year when we emerge from a pandemic and enter a global energy crisis whose duration we cannot yet imagine.

In addition to human casualties -which is the most important thing-, the social damage this conflict is causing, and the collateral effects on global energy markets, and especially in Europe, are significant. Higher energy prices have had a direct impact on end consumers and, as a key input for industry, have increased costs, leading to spiralling inflation and a slowdown in economic growth. In response, the European economic and monetary authorities have embarked on a path of successive upward revisions of euro interest rates which are expected to last until 2023 and may affect the borrowing and investment decisions of businesses and households.

While Europe's commitment to the transition to a low-carbon economy may initially have been questioned, the current context has highlighted the need for Europe to speed up the process of the energy transition and independence and to continue to invest in the development of new technologies such as renewable gases, storage and the accelerated deployment of renewable power stations.

Naturgy, a key player in the energy transition

To strengthen our commitment to the energy transition and decarbonisation of the economy, Naturgy joined the "CEO Climate Leaders" alliance last May. This alliance was created in 2014 to support and advance the Paris Agreement on climate change.

This is despite the fact that it has become very clear over the course of the year that diversification of gas supply sources is the key to energy security and that, to date, natural gas continues to play a fundamental role in meeting electricity demand, Naturgy wants to be a relevant player in the evolution of the sector towards a realistic energy transition that is compatible with our environment, and has therefore continued to develop the roadmap set out in its Strategic Plan.

Tangible and intangible investments have grown by almost 30% in 2022. Of the total invested, more than 60% has been allocated to growth, mainly to the construction of different renewable projects and the development of networks. It is worth noting that two thirds of the investments are eligible under the EU Taxonomy, thus demonstrating the soundness of a sustainable business model and the creation of long-term value for the planet and people.

Naturgy remains committed to its renewables development strategy and has reached more than 5.5 GW of operating capacity in the period. In Spain, in 2022, we have commissioned ten wind and photovoltaic plants, we have started work on a further nine facilities and we are developing construction projects for approximately 30 wind farms and photovoltaic plants which are expected to come on stream in the coming months. Outside Spain, it is worth highlighting the start of construction of the first photovoltaic plant in the United States which, with a surface area of more than 800 hectares, will be Naturgy's largest in the world.

We have also made the development of technologies such as hydrogen, offshore wind, biomethane and storage a reality in 2022. In the field of hydrogen, in partnership with Repsol and Reganosa, we have started to develop a renewable hydrogen hub of up to 200 MW in Meirama, one of the sites where we operated one of our coal-fired power stations for decades.

In addition, let me mention the Catalina project which, in consortium with other companies and aimed at the production of hydrogen and green ammonia, has the potential to create 5,000 jobs and avoid the emission of one million tonnes of CO2 per year. This project will connect Aragon's renewable resources with industrial consumption centres on the east coast of Spain through a sustainable infrastructure.

During 2022, Naturgy has reaffirmed its commitment to offshore wind energy and participates in the European consortium NextFloat that will test an innovative 6 MW floating wind system in the Mediterranean Sea to test its scalability and future commercial development. Moreover, we have reached an agreement with Equinor for the development of a 200 MW offshore wind farm in the Canary Islands.

According to recent studies, Spain's potential for biogas production is more than 160 TWh per year, which will cover almost half of the national demand for natural gas. This transition would require investment of more than Euros 40 billion - almost 4% of national GDP - and the creation of 62,000 direct and indirect jobs. Naturgy is firmly committed to this energy source, as evidenced by the fact that in 2022 there will already be four biomethane plants feeding biomethane into the grid in Spain, and one in Chile, generating 0.2 TWh.

In addition, I would like to highlight two of the most innovative projects being developed by the company. On the one hand, the construction of Naturgy's first hybrid solar and storage plant in Australia. On the other hand, aware of the medium-term needs posed by the dismantling of renewable generation facilities, Naturgy, together with other entities, participates in the GiraWind project, which has created the first company in Spain dedicated to the comprehensive dismantling of wind farms with the aim of reconditioning and recovering the largest possible volume materials.

These projects represent the future of Naturgy, and the commitment to renewable generation is already a reality, as evidenced by the fact that emission will represent almost 40% of our total installed capacity free installed generation capacity in 2022.

The company has also stepped up investment in its distribution networks, which are necessary not only to bring the product of these technologies closer to the end user, but also to guarantee security of supply and day-to-day operations. Our gas and electricity distribution networks, the fundamental assets of the company, are constantly being renovated to incorporate the best and most up-to-date technology, demonstrating Naturgy's commitment to the sustainability of its business and to adapting to the evolution of innovation.

Naturgy recognises that the fight against climate change must be combined with the promotion of the restoration of natural capital and biodiversity through initiatives aimed at preventing, reducing and offsetting impacts, in order to advance the commitment to no net loss of biodiversity and the enhancement of the value of natural environments. In this regard, in 2022 alone we implemented 345 biodiversity initiatives, 20% of which were voluntary, as well as environmental restoration actions on 50 hectares, of which more than 30% correspond to protected areas, habitats or species.

Naturgy, an agent for a just transition and on the side of its customers

Naturgy, despite the volatility and uncertainties, maintains its commitment to be close to all its stakeholders, including customers, citizens and shareholders, working to provide solutions and that have value-added in this turbulent context.

Thus, we have continued with the Compromiso (Commitment) Initiatives, with which Naturgy was a pioneer in the protection of customers affected by the volatility of energy prices. During 2022, we have launched Compromiso Gas Industrial, so that large consumers can count on a stable two-year supply, and a personalised and direct service exclusively to homeowners' associations. They complement the Compromiso Electricidad offer launched at the end of last year and demonstrate the company's commitment to social responsibility.

We have also reinforced our customer service channels by multiplying by twelve the number of agents who deal with requests to contract the Last Resort Tariff (LRT) for gas, currently the cheapest on the market, and we have set up a form on the website to make it easier for customers to switch to the LRT. Thanks to this, in the second half of 2022 Naturgy has managed to transfer around 150,000 customers to the LRT becoming the company with the most customers under this tariff in Spain, nearly 1.7 million.

Another major milestone in our commercial offering has been the promotion of self-consumption solutions, with the capacity to generate savings for consumers of up to 70% on their electricity bills.

As a company committed to the communities and the environment in which it operates, I would like to mention that Naturgy has continued to make progress in the decommissioning of the sites of the coal-fired power stations that the company closed in 2020 and has continued to work on the implementation of the associated support plans. In this regard, I would like to highlight the obtaining of the favourable Environmental Impact Statement (EIS) for the Meirama wind farm and our commitment to promoting jobs and training, which has been strengthened thanks to the agreement signed between the Just Transition Institute and the Naturgy Foundation.

2022, a key year in the implementation of the business vision

All these milestones in terms of technological development, deployment of renewables and social inclusion represent significant progress in the execution of our Strategic Plan and Sustainability Plan.

In February this year, the Board, at the proposal of the Management Committee, unanimously approved a project to boost Naturgy's role in the energy transition, promote investments, speed up its Strategic Plan, and generate value for its shareholders: the Gemini project. This project will involve the creation of two large, listed energy groups with clearly differentiated business profiles.

While the Board continues to monitor the progress of all the analyses of this project, which thus far confirm its strategic suitability, at the end of 2022, the current volatility of the markets, the evolution of the energy situation and the many regulatory uncertainties, make it advisable to slow-down and adapt the implementation timetable to how these events pan out.

Despite this, good progress in executing the strategy has been reflected in the company's bottom line. Specifically, in 2022, Naturgy has posted an EBITDA of Euros 4,954 billion with a net result of Euros 1,649 billion.

The Networks business in Spain and Latin America achieved an EBITDA of Euros 2.475 billion in the year, up 9% compared to 2021 due to operating efficiencies and, in Latin America, supported by the update of tariffs to reflect inflation in previous periods, as well as positive exchange rate effects.

The good performance of the deregulated business also explains the increase in the Group's EBITDA, with the Energy Management and Commercialisation businesses contributing most to the year's growth, while Renewables and New Businesses were affected by the low hydro production in Spain.

These results allow the company to reduce its debt and improve its net financial debt to Ebitda ratio from 3.6 x in 2021 to 2.4x, as well as maintain a high level of fiscal contribution with Euros 3,503 billion generated for public administrations and, at the same time, maintain its investment commitment.

Beyond financial results, our sustainability management has also been recognised by the market. As an example of this, the company has been recognised by Ecovadis with the Platinum medal, ranking Naturgy among the top 1% of all the companies scored by this rating platform. In addition, we have been recognised once again as a world leading company for our action against climate change by the prestigious Carbon Disclosure Project (CDP) index and for another year, uninterruptedly for two decades, Naturgy continues to appear on the FTSE4Good index.

Naturgy, a team of people up to the challenge

None of this would have been possible without the trust, work and commitment of the all people who are part of this corporate project with whom Naturgy maintains a strong commitment to their development through the promotion of inclusive leadership, a dynamic and recognised professional experience, a flexible organisational framework and its transforming culture, evidenced by the 20% increase in the number of hours devoted to training in 2022.

Furthermore, this commitment was made clear with the signing of the Collective Bargaining Agreement 2021-2024, where the promotion of work-life balance and gender diversity is one of its fundamental pillars. We highlight our commitment to incorporate new talent through programmes such as Flex & Lead and the management of diversity and equality. As a result of these initiatives, the proportion of women in the staff has increased and is now well over 30%.

For all these reasons, I would like to thank the trust, work and effort of all those persons who make this business project possible. The support of our shareholders, the loyalty of our customers and suppliers and, above all, the trust and commitment of all the professionals associated with Naturgy. Without a doubt, the achievements I mention in this letter, and those that appear throughout the report, belong to all of them.

Thank you all very much,

Francisco Reynés

02. Naturgy's vision for the future

1. Purpose and strategy

Transforming together, Naturgy's purpose, was formulated in 2021 in an economic and social context different to today's, although, almost two years on, it remains valid and seems more necessary than ever.

In 2022, the company has faced a threat to world peace unprecedented in the last 50 years, which has triggered a crisis in energy markets with severe economic consequences that have yet to end. Although it affects different regions asymmetrically, with Europe being the most affected continent, rising inflation due to raw materials prices, the economic slowdown and rising interest rates have a major impact on households and businesses.

All this is coupled with the increasingly urgent need to make progress in reducing greenhouse gas emissions to comply with the Paris Agreement and limit global warming as much as possible, in a way that minimises the impacts on people and nature.

Energy transition is therefore presented as a key tool for reducing energy and resource dependence, accelerate the fight against climate change and, if done in an inclusive and fair way, ensure social progress and human well-being.

Naturgy considers that the principles that should govern this energy transition are reflected in its company values: innovate for a better future (*Forward Vision*), working with excellence (*Excellence Driven*) from the most human side (*People Oriented*), and with the ultimate goal of contributing to a more sustainable society (*One Planet*).

To carry out this purpose and contribute to social transformation, the company has defined a Strategic Plan 2021-2025 based on five pillars: the search for organic growth, the focus on renewable and network activities, the continuous improvement of processes (in particular including customer relationship processes), the full integration of Environmental, Social and Governance (ESG) criteria in strategy and management, and the cultural transformation that makes all of this possible.

<p>Who are we?</p>	<p>Our business model</p>	<p>Naturgy Energy group, S.A. and its subsidiaries (hereinafter, Naturgy) is a group dedicated to the generation, distribution and commercialisation of energy and services present in more than 20 countries, 16 million customers and with an installed capacity of 16.2 GW and a diversified mix of electricity generation.</p>
<p>What are we like?</p>	<p>Our principles</p>	<ul style="list-style-type: none"> - Forward Vision: innovating for a better future. - People Oriented: transforming from the most human side. - Excellence Driven: working with excellence. - One Planet: for a more sustainable society.
<p>What do we seek to achieve?</p>	<p>Our purpose</p>	<p>Transforming together: transforming the world through energy, addressing the challenge of the energy transition and the demands of society and customers. Naturgy wants to do it together with its employees, customers, shareholders and partners.</p>
<p>How are we going to achieve this?</p>	<p>Our strategy</p>	<ul style="list-style-type: none"> - Grow: pursue organic growth consistent with the energy transition and deploy opportunistic asset rotation to speed up the transformation. - Focus on: renewables and networks activities in stable geographies and regulatory frameworks and reduce volatility in supply commitments. - To be a best-in-class company: to carry out continuous improvement processes, increasing the digital footprint and reinventing the relationship with customers. - Continue to incorporate ESG aspects: rooted in the essence of the company, aligned with the SDGs and guided by tangible goals to meet commitments. - Change the culture: drive passion in employees through core values and be aligned with different stakeholders.

Main investment objectives

In economic terms, our Strategic Plan pursues ambitious investment objectives, setting an estimated investment for this period of Euros 14,000 billion.

This investment is established by maintaining financial discipline and focusing on projects with predictable return. Moreover, 80% of the planned investment will be eligible according to the EU Taxonomy of sustainable finance. This investment is aligned with the energy transition.

The two main lines of investment are distributed as follows:

Renewables

Euros 8,700 million

- Proven generation technologies.
- Focus on attractive geographies.
- Commitment to innovation.
 - Distributed generation.
 - Biogas and hydrogen.
 - Sustainable mobility.

Networks

Euros 4,100 million

- Focus on solid frameworks with proactive regulatory management.
- Ongoing projects to achieve full automation and remote operation.
- Adaptation of existing infrastructures to play a key role in the energy transition.

ESG at the core of our vision

Naturgy's Strategic Plan, as well as the Sustainability Plan emanating thereof, reflect the company's commitment to the environment, society and governance (ESG). Placing sustainability as the backbone of our strategy on our roadmap allows us to reduce our environmental impact, increase the involvement and commitment of all our stakeholders and endorse us as a company committed to the energy transition.

Naturgy's contribution to the energy transition takes an approach where three complementary and mutually influential realities converge: Climate, Nature and People.

In addressing the energy transition, it is essential to understand the effects of climate change on biodiversity loss and the relevance of positive natural capital creation in reducing greenhouse gas emissions. However, the economic and social changes resulting from the energy transition, whether due to job losses, changes in living conditions in areas where new renewable technology projects are being developed or the possible consequences that this transition may have on energy prices, mean that any solution adopted to address climate and nature issues must take into account people and their dignity so that this sweeping change contributes to the creation of wealth and that the transition is just and does not lead to greater inequalities.

Our main objectives set out in the ESG Sustainability Plan to 2025 are as follows:

A Environmental

Zero net emissions by 2050

- Reduce total CO₂e by 24% (2025 vs 2017). Reduction in 2022, 24% vs 2017.
- Protecting biodiversity, reaching a total of more than 350 projects to preserve ecosystems. 345 initiatives carried out in 2022.

S Social

Gender parity by 2030

- Promote diversity, reaching more than 40% of women in management positions. 33.7% in 2022.
- Extend ESG policies in the supply chain to 95%. In 2022 achieved 82.7%.

Governance

ESG- aligned management remuneration

- Establish a 10% remuneration aligned with ESG objectives. Established in 2021.
- Implement climate change risk recommendations and methodology and the EU Taxonomy to maintain leading positions in sustainability indices. 90% covered in 2022.

The “Business Model” chapter of this report explains how Naturgy implements its strategy.

During 2022, significant progress has been made in the implementation of this Strategic Plan, as evidenced by the following key indicators:

Pillars of the Strategic Plan 2021-2025

Key achievements 2022

Growth

- Ebitda in 2022 exceeded Euros 4,954 million mainly as a result of volatile energy prices in the period. This strong Ebitda growth of 40.4% vs 2021 has been achieved by decoupling it from the carbon footprint, reducing it by 16.5%.
- Naturgy maintains its commitment to invest Euros 14 billion within the framework of its Strategic Plan 2021-2025. In 2022, investments grew by 28.5% year-on-year to Euros 1,907 million. 67% of total Capex is eligible according to EU Taxonomy.
- Naturgy has reduced its net debt position from Euros 12,831 million at the end of 2021 to Euros 12,070 million at the end of 2022, thus achieving a significant improvement in financial ratios such as the net debt/Ebitda ratio, which drops from 3,6x in 2021 to 2,4x in 2022.

Focus

- Naturgy already has 5.5 GW of renewable energy capacity in operation, of which 1 GW came into operation in 2022
- In 2022, with its new biomethane production plant in Vila-Sana, Naturgy took another step forward in its commitment to energy transition, local energy production and the circular economy, providing clean gas to the energy system and contributing to the sustainable management of agricultural and livestock waste.
- In 2022, Naturgy began construction of the 7V Solar Ranch facility, with a peak capacity of 300 MW, which will occupy an area of more than 800 hectares in the State of Texas and will be the company’s largest facility of this technology worldwide.
- Additionally, in 2022, Naturgy began construction of its world’s first hybrid solar and storage project in Australia. The project, called Cunderdin, will have a solar PV capacity of 125 MW and a battery energy storage system of up to 220 MWh.
- In 2022, Naturgy inaugurated the first battery storage centre, near Canberra, with a capacity of 10 MW and a storage capacity of 20 MWh, which will allow flexibility in the integration of renewables into the grid to reinforce supply at times of lower electricity production.

Best-in-class	<ul style="list-style-type: none"> - In 2022, Naturgy has created a new 100% digital marketing company that has enabled Naturgy's online business in Spain to multiply its digital sales 3.5x. - Launch of Naturgy Solar in 2022, an integral service that offers to all those people interested in the environment and savings a "turnkey" solution, taking advantage of the sun's resources, without worries and at an optimal cost. It is marketed in its version of individual and collective self-consumption to the internal network of homeowners' associations. This initiative has attracted 2,725 customers. - Naturgy was a pioneer in launching its Compromiso Luz (Electricity Commitment) initiative at €65/MWh for three years, aimed at mitigating the effects of the electricity pool price. More than 600,000 customers have been protected from price volatility with this initiative. Subsequently, in March 2022, Naturgy went ahead again and launched the Compromiso Gas Industrial (Industrial Gas Commitment) initiative, aimed at its industrial gas customers with a fixed price of
ESG	<ul style="list-style-type: none"> - Reduction of total greenhouse gas emissions by 24% since 2017. - 345 biodiversity initiatives in course on an international level, 20% of which are voluntary. Environmental restoration actions were carried out on 50 ha. 31% of this area corresponds to protected areas, habitats or species. - 26.2% of senior management positions are held by women. - 82.7% ESG audit coverage of purchase volume with high ESG risk.
Culture	<ul style="list-style-type: none"> - The company launched the Flex&Lead programme, aimed at the external recruitment of young talents with diverse profiles, aiming to attracting 300 young people by 2025. During the term of the programme, more than 150 people have joined 77% of whom are women. - In addition, to develop internal talent, the company has introduced the Internal Lead programme, designed to strengthen the managerial skills of technical profiles in the medium term. More than 180 of the company's professionals, 66% of whom are women, are already taking part in this programme. In 2022 the number of participants was 190 professionals, 57% of whom were women. - Signing of the Collective Bargaining Agreement 2021-2024, where the promotion of work-life balance and co-responsibility between men and women is one of its fundamental pillars. - The global model for measuring the satisfaction and commitment of Naturgy employees has been consolidated. Through regular organisational listening, actions are taken to continuously improve the employee experience. At the end of 2022, the company had 31% of employees as NPS promoters, 7 points more than in 2021. - A new cycle of 360° Assessment has been initiated as a key process in the company's

2. Commitment to sustainability

In short, as an energy company Naturgy has the capacity to make a key contribution to the social transformation and sustainable development of the communities in which it operates through its services. Specifically, and in relation to the sustainable development agenda currently in force (2030 Agenda and the United Nations Sustainable Development Goals), Naturgy contributes directly and positively to the achievement of the following goals:



Ensure universal access to affordable, reliable and modern energy, increase the use of renewable energy and promote energy efficiency. In 2022, Naturgy increased its installed capacity in renewable energies by more than 6% and works actively to offer society and its customers alternative forms of environmentally-friendly energy such as renewable gas.



Make cities and human settlements inclusive, safe, resilient and sustainable. Naturgy works actively to offer products and services to its customers that help improve energy efficiency and air quality in cities by making them healthier. The solutions and measures aimed at improving the energy efficiency of Naturgy's customers have led to savings in gas and electricity consumption equivalent to 1.6 TWh.



Take urgent action to combat climate change and its effects. In 2022, Naturgy reduced its total greenhouse gas emissions by 24% compared to the base year 2017.

However, Naturgy is aware that its ability to contribute to sustainable development also lies in the way it is managed internally. In other words, it is not only about what the company does, but also how it does it. Thus, for example, we understand:

- That working for the social integration of vulnerable groups helps reduce poverty, boosts economic growth and lessens social inequalities.
- That ensuring inclusiveness in the company contributes to a more diverse and egalitarian society.
- That digitalisation of its services contributes to innovation and infrastructure development.
- That governance, risk management and compliance standards affect the social stability of the communities in which the company operates.

Accordingly, Naturgy has defined a set of internal commitments, formalised in the Corporate Responsibility Policy, which emanate from the values that define the organisation. Listed below are the drivers of the Sustainability Plan, their alignment with Naturgy values, the commitments of the Corporate Responsibility Policy and the main SDGs to which they will contribute, both directly and indirectly.

Driver	Our values	SDG	Our commitments
Integrity and trust	Excellence Driven	8 10 12 16 17	Integrity and transparency Responsible supply chain
The opportunity of environmental challenges	Forward Vision	3 6 7 9 11 12 13 14 15	Responsible environmental management
	One Planet		
Customer experience	Excellence Driven	7 9 11 12 17	Service excellent
Commitment and Talent	Forward Vision	3 4 5 8 9 10	Interest in people
	People Oriented		Health and safety
Innovation and new business development	Excellence Driven	7 8 9 11 12	Commitment to results
		13 15 17	Service excellent
Social responsibility	People Oriented	1 3 7 8 10	Social commitment
	Excellence Driven	11 12 17	Responsible supply chain Integrity and transparency

In 2021 and fully integrated with the company’s Strategic Plan, the Sustainability Plan was also defined, setting out six levers of action and 74 goals to improve Naturgy’s management and performance in relation to those commitments in which a greater possibility of improvement has been identified.

03. Business model and sustainable strategy

[2-6]

Naturgy has been working for more than 175 years in the energy sector thanks to a business model that has been able to adopt the social, technological and economic changes that have taken place in the world. Its success in the face of environmental challenges and opportunities is the result of business management that is resilient to the different contexts of history and a transformational culture that drives people's daily lives.

The company is aware of the global challenge posed by the fight against climate change and has therefore transformed and refocused its business towards the energy transition through a strategy based on innovation and a sustainable business model that contributes to the social and environmental challenges facing humanity.

1. Organisational structure and businesses in which it operates

[2-1], [2-6], [IF-EU-000.A] and [IF-GU-000.A]

Naturgy Energy Group, S.A. was incorporated in 1843 and its registered office is at Avenida América, number 38, Madrid.

Naturgy Energy Group, S.A. and its subsidiaries (hereinafter Naturgy) is a group dedicated to the generation, distribution and commercialisation of energy and services. The group's business model, focused on value creation for all stakeholders, is committed to the sustainable development of society, guaranteeing the supply of competitive and safe energy with maximum respect for the environment.

Naturgy operates in over 20 countries, where it supplies gas and electricity to 16 million customers.. Our installed power is 16.2 GW and we offer a diversified mix of electricity generation. The company operates in the regulated and deregulated gas and electricity markets, both nationally and internationally, chiefly in the following areas:

- Gas and electricity distribution.
- Electricity generation and commercialisation.
- Gas infrastructure, procurement and commercialisation.

Business model

Naturgy's business model is implemented through a large number of companies mainly in Spain, Latin America (Argentina, Chile, Brazil, Mexico and Panama), Australia and, starting in 2021, the USA. In 2022, solar projects were acquired in Italy.

Naturgy organises its businesses around three strategic areas (Energy and Network Management, Renewables and New Businesses and Commercialisation), which provide visibility for the evolution of the company and on the basis of which the following operating segments are defined:

- Energy and Network Management:
 - Iberia Networks: comprises the gas and electricity network businesses in Spain.
 - Latin America Networks: includes the gas network business in Argentina, Chile, Brazil and Mexico and the electricity network business in Argentina and Panama.
 - Energy Management: includes the businesses of International LNG Commercialisation, Markets and Supplies, Pipeline Management, Thermal Generation Spain and Thermal Generation Latin America (Dominican Republic, Mexico and Puerto Rico).
- Renewables and New Businesses:
 - Renewables Spain and the United States: includes the management of the facilities and projects for the generation of hydropower, wind, mini-hydropower, solar, cogeneration and new projects. The activities included in this segment are performed in Spain, extending the activity to the United States in 2021, when Naturgy acquired a portfolio of solar projects and energy storage projects. 25 of these projects could be operational by 2026. In addition, solar projects have been acquired in Italy in 2022.

- Renewables Latin America: includes the management of renewable electricity generation facilities and projects of Global Power Generation (GPG) located in Latin America (Brazil, Chile, Costa Rica, Mexico and Panama).
- Renewables Australia: includes the management of the renewable electricity generation facilities projects for GPG located in Australia.
- Commercialisation: the goal is to manage the business model for end customers for gas, electricity and services, incorporating new technologies and services, as well as developing the full potential of the brand.

Throughout the value chain, Naturgy's Business Model stands apart as a leader in the gas sector and a key player in the electricity sector, in both cases ensuring the continuity of supply, which is essential to providing a quality service and fulfilling the company's social mission; providing a broad range of value-added services and fostering sustainable innovation to drive development.

Annex I to the Consolidated Annual Accounts has detailed information on the companies that form part of Naturgy and the activities they carry out.

Businesses in which it operates

Leadership in the gas business

[IF-EU-000.B] and [IF-EU-000.C]

	Networks	Gas		
	Gas distribution	Infrastructure	Procurement	Commercialisation
	11 million supply connections. 136,272 km of network.	Long term methane tankers.	~ 29 bcm supply portfolio.	327 TWh of gas supplied.
Our positioning	<p>Spain Leader in Spain with a 68% market share, distributing natural gas to more than 1,100 municipalities in nine autonomous regions and 5.4 million customers.</p> <p>Latin America Latin America's top distributor, catering for more than 5.6 million customers.</p> <p>Presence in Argentina, Brazil, Chile and Mexico and in five of the largest Latin American cities.</p>	<p>Nine methane tankers (1.43 Mm³).</p> <p>24.5% stake in the Medgaz gas pipeline.</p> <p>Stake in the Ecoeléctrica regasification plant and the liquefaction plant of Qalhat.</p> <p>0.8 bcm of company-owned storage capacity and 0.8 bcm of leased capacity.</p>	<p>Business Model based on diversification and flexibility that have made Naturgy a global operator with a strong international profile.</p> <p>Naturgy has procurement contracts with suppliers worldwide, both in a gaseous state (NG) and in the form of liquefied natural gas (LNG).</p>	<p>Access to 11 million customers and LNG sales in numerous countries worldwide.</p> <p>A global operator with the flexibility to tap markets offering attractive margins. 45,9% market share of gas contracts in Spain.</p> <p>Competitive supply to combined-cycle plants (CCGT).</p>
	Our strengths	<p>Naturgy is a leader in the markets where it operates, affording it an excellent platform for organic growth, in terms both of attracting new customers in municipalities with gas and of expanding networks to areas without gas.</p> <p>Investment and development of projects in new renewable, CO₂-neutral or even CO₂-negative gas technologies.</p>	<p>Naturgy has an integrated gas infrastructure that affords it considerable stability, making its operations more flexible and enabling it to transport gas to the best business opportunities.</p>	<p>A diversified and flexible portfolio of procurement contracts, with review mechanisms in the event of price mismatches.</p>

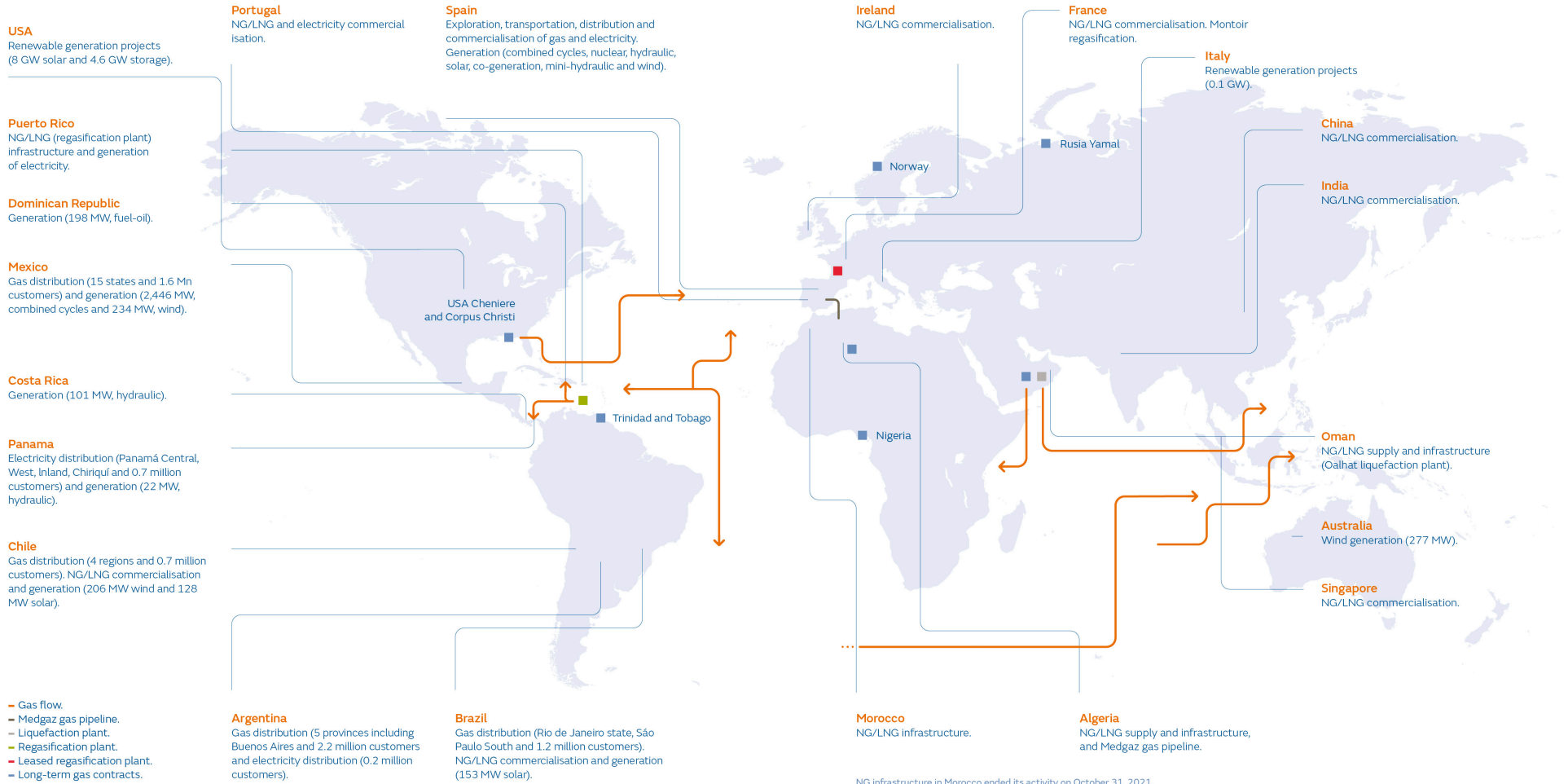
A key player in the electricity business

[IF-EU-000.B] and [IF-EU-000.C]

	Networks	Electricity		
	Electricity distribution	Thermal generation	Renewable generation	Commercialisation
	4,8 million supply connections. 155,060 km of network.	10.6 GW of generation capacity.	5,2 GW of generation capacity.	23,9 TWh supplied.
Our positioning	<p>Spain The third-largest operator in the Spanish market, where it distributes electricity to 3.8 million customers.</p> <p>Latin America Presence in Argentina and Panama (0.9 million customers).</p> <p>Naturgy is a leader in the markets where it operates.</p>	<p>Spain Capacity of 8.0 GW (7.4 GW combined cycle plants and 0.6 GW nuclear). In June 2020, the group abandoned the coal generation business. Naturgy's market share is 17.5%.</p> <p>International Capacity of 2.6 GW: 2.4 GW combined cycle plants (Mexico) and 0.2 GW oil-fired (Dominican Republic).</p>	<p>Spain Capacity of 4.1 GW (2.0 GW hydro, 1.8 GW wind, 0.2 GW solar and 0.1 GW cogeneration). Naturgy's market share excluding cogeneration is 6.1%.</p> <p>International Capacity of 1.1 GW: 0.1 GW hydroelectric (Costa Rica and Panama), 0.7 GW wind (Mexico, Chile and Australia) and 0.3 GW solar (Brazil and Chile).</p>	<p>Leader in the mainstream consumer and residential segments, with a total market share of 10% in Spain.</p> <p>One of the main traders in the Spanish market. A dual fuel supply and a broad range of value-added services.</p>
Our strengths	<p>Naturgy is an efficient operator in terms of operation and maintenance costs in the electricity distribution business.</p> <p>In July 2021, the sale of the electricity distribution business in Chile, an activity classified as held for sale, was completed.</p>	<p>The company has far-reaching knowledge in all generation technologies in which it operates and provides an infrastructure which is able to adjust to the needs of each energy model and the real situation in each particular country.</p> <p>Investment and development of projects in new renewable, CO2-neutral or even CO2-negative gas technologies.</p>	<p>Naturgy maintains a good growth-oriented positioning in Spain and Australia, which will allow it to take advantage of investment opportunities in generation in these geographies.</p> <p>In 2021, Naturgy acquired a portfolio of 8 GW solar projects in the United States along with 4.6 GW energy storage projects.</p>	<p>Being a leader in the combined commercialisation of natural gas and electricity affords the company major advantages, such as lower service costs, integrated customer care and lower acquisition costs, not to mention greater customer loyalty.</p>

2. Geographical presence

[2-1], [IF-EU-000.A] and [IF-GU-000.A]



3. Company situation

Evolution and results 2022

• Overall results

Net turnover	Net revenues for 2021 amounted to Euros 33,965 million, an increase of 53.4% compared to 2021, mainly as a result of the volatility of energy prices in the period, with a particularly positive impact on Energy Management activities.
Ebitda performance	Ebitda in 2022 will reach Euros 4,954 million, 40.4% more than in 2021, mainly supported by the increase in energy prices, impacting both gas and electricity, mainly affecting the Energy Management business. Networks Business achieved moderate growth, due to the capture of operating efficiencies and the international tariff update, while renewables were affected by the low hydropower production in Spain. Commercialisation activity in Spain has been influenced by the increase in prices, both in gas and electricity, partially offset by the increase in costs.
Debt ratio	Net debt amounted to Euros 12,070 million while net financial debt/Ebitda stood at 2.4 times compared to 3.6 times at 31 December 2021.
Free Cash-flow after minority interests	The 2022 free cash flow after minority interests amounted to Euros 1,914 million, supported by the liberalised activities. Naturgy has reduced its net debt position from Euros 12,831 million at the end of 2021 to Euros 12,070 million at the end of 2022, while making investments of Euros 1,907 million and meeting its shareholder remuneration commitments of €1.2/share per year, as set out in the Strategic Plan 2021-2025.
Completed transactions	<p>There have been no completed transactions in 2022 with an impact on comparability in 2022 vs 2021 results.</p> <p>The main transactions completed in 2021 with an impact on comparability in the 2022 results compared to 2021 are as follows:</p> <ul style="list-style-type: none"> – In March 2021, Naturgy, ENI and the Arab Republic of Egypt completed the agreement reached on 1 December 2020 to amicably resolve the disputes affecting Unión Fenosa Gas (UFG). As a result, a positive impact of Euros 127 million was recorded in 2021 and the UFG assets assigned to Naturgy were fully consolidated. – In September 2021, Naturgy completed the sale of its 96.04% stake in its Chilean electricity network subsidiary, Compañía General de Electricidad S.A in Chile (CGE), to State Grid International Development Limited (SGID), resulting in a net capital gain of Euros 64 million.

Investments

The tangible and intangible investments for 2022 totalled Euros 1,833 million, with an increase of 28.8% year-on-year.

Maintenance investments in 2022 amounted to Euros 736 million compared to Euros 532 million in 2021, a growth of 38.3% as a result of higher maintenance in generation plants, both thermal and renewable, and in Latin America Networks, the latter partially explained by the appreciation of the currency.

Growth Capex in the period represented 61.4% of total Capex and amounted to Euros 1,171 million. Growth Capex in 2022 includes the following:

- A total of Euros 750 million invested in the construction of different renewable projects, of which Euros 502 million in Spain, Euros 225 million in Australia and Euros 23 million in Latin America.
- Euros 314 million invested in network development, of which Euros 154 million in Spain and Euros 160 million in Latin America (Euros 66 million in Panama, Euros 31 million in Chile Euros 14 million in Brazil, Euros 22 million in Argentina and Euros 27 million in Mexico).
- Euros 106 million in commercialisation activity.

In addition, Naturgy has reached several agreements that confirm its commitment to renewable growth:

- Naturgy remains committed to its renewables development strategy and has reached more than 5.5 GW of operating capacity in the period. In Spain, Naturgy is developing construction projects for approximately 30 wind farms and photovoltaic plants, equivalent to almost 1 GW of additional renewable capacity, which are expected to come on stream in the coming months.
- In Australia, a priority country for Naturgy, the group aims to reach an installed capacity of 2.2 GW in 2025, with an investment of close to Euros 2,000 million, focused on the development of wind, photovoltaic and energy storage plants.
- In the field of offshore wind energy, last April Naturgy reached an agreement with the Norwegian company Equinor for the analysis and development of offshore projects in Spain, such as the joint development project of the Floating Offshore Wind Canarias (FOWCA), consisting of more than 200 MW of floating offshore wind energy in the east of Gran Canaria.
- Naturgy is also leading the development of renewable gas in Spain as a key pillar of decarbonisation in the short and medium term, working on hydrogen and biomethane projects with the aim of injecting renewable gas into its distribution networks.

Key financial and operational figures

Naturgy shares closed 2022 at a price of Euros 24.31 and stock market capitalisation of Euros 23,571 million, which represents a 15.1% decrease versus the previous year-end.

• Key financial figures

	2022	2021
Net turnover (million euro)	33,965	22,140
Gross operating profit or Ebitda (million euro)	4,954	3,529
Total investments (million euro)	1,907	1,484
Net profit (million euro)	1,649	1,214
Dividend paid (million euro)	1,164	1,290
Share price as at 31 December (euros)	24.31	28.63
Earnings per share (euros)	1.72	1.26

• Contribution to Ebitda by activity (%)

	2022	2021
Renewables, New Business and Innovation	7.4	13.8
Commercialisation	11.0	(2,7)
Energy and Network Management	83.6	92.6
Other	(1.9)	(3.7)

▪ **Stock market indicators**

	2022	2021
No. of shareholders (in thousands)	55	60
Share prices at 31/12 (euros)	24.31	28.63
Earnings per share (euros)	1.72	1.26
Share capital (No. of shares)	969,613,801	969,613,801
Stock market capitalisation (million euro)	23,571	27,760

▪ **Financial ratios**

	2022	2021
Debt (%) ⁽¹⁾	54.7	59.1
Ebitda / Cost of net financial debt	9,9x	7,2x
Net debt/Ebitda	2,4x	3,6x

⁽¹⁾ Net financial debt/(Net financial debt + Equity).

▪ **Profits earned by country (million euro)**

	2022	2021
Spain	1,502	512
Argentina	23	15
Brazil	61	62
Chile	(68)	151
Mexico	162	141
Panama	11	17
Rest of Latin America	53	56
Total Latin America	242	442
Rest of the world	(95)	260
Total	1,649	1,214

▪ **Main operational figures of Naturgy**

[IF-EU-000.A] and [IF-GU-000.A]

	2022	2021
Gas distribution sales (GWh)	386,464	459,878
Gas transmission/EMPL (GWh) ⁽¹⁾	0	74,241
Gas distribution supply points (in thousands)	11,050	11,036
Electricity distribution supply points (in thousands)	4,827	4,776
Gas distribution network (km)	136,272	135,640
Length of electricity distribution and transportation lines (km)	155,060	153,981
Electricity generated (GWh)	47,029	41,754

⁽¹⁾ The concession to operate the Maghreb gas pipeline ended on 10/31/2021 and, therefore, the associated Algerian gas contract.

Sharp decline in 2022 in sales of the gas distribution business, mainly in Spain and Brazil. In the case of Spain, because of a drop in demand from the industrial sector due to the price scenario and particularly warm temperatures in October and November, especially in addition to high energy prices. In Brazil, the causes have been, on the one hand, lower sales to generation due to higher rainfall and, on the other hand, lower industrial demand due to the slow economic recovery.

Total energy production increases significantly in 2022, mainly combined cycle. Thermal generation in Spain has been positively impacted by low hydro production throughout 2022, higher energy exports to France and the inherent intermittency of renewable generation. This context generated a larger thermal gap, which led to a substantial increase in the production of combined-cycle power stations to ensure the supply of energy to the system.

▪ **Gas supply and transportation (%)**

During 2021, the operating concession for the Maghreb pipeline and, therefore, the associated Algerian gas contract came to an end, the LNG bunkering contracts with Qatar were terminated and the group's LNG bunkering portfolio has been optimised, partly substituting LNG purchases in Europe. In relation to the Yamal (Russia) contract, the delivery programme has been maintained as established in the contract and subject to any measures that may be taken by the European authorities regarding the operations carried out by the companies with Russia. In 2022, no sanctions have been applied on this contract. In 2022, no sanctions have been applied on this contract.

	2022	2021
Others (LNG)	17.0	9.4
Nigeria	7.9	5.2
Trinidad and Tobago	6.7	6.7
USA	23.7	21.3
Others (NG)	1.0	6.5
Algeria	15.3	22.83
Oman/Egypt/Others ⁽¹⁾	13.8	11.94
Qatar	0.0	5.1
Norway	0.6	0.6
Russia	14.0	10.48

▪ **Renewable gas**

	2022	2021
Renewable gas production projects in service (number)	2	2
Renewable gas production or injection capacity (TWh) ⁽¹⁾	0.22	0.21

⁽¹⁾ The figure for 2021 has been changed from 0.14 to 0.21 to adjust it to the capacity of existing projects.

Renewable gases, including biomethane and hydrogen, are a key driver for the decarbonisation of Naturgy's gas business. More detailed information is provided in the chapters The opportunity of environmental challenges and Innovation and new business development.

▪ **Energy mix of Naturgy (%)**

	2022	2021
Thermal	1.2	1.2
Hydroelectric	12.8	13.1
Wind	16.1	15.6
Nuclear	3.7	3.8
Small hydro	0.7	0.7
Solar	4.2	3.2
Cogeneration	0.3	0.3
Combined-cycle	61.0	62.1

▪ **Installed capacity by source of energy (MW)**

	2022	2021
Nuclear	604	604
Coal	0	0
Combined-cycle	7,427	7,427
Cogeneration	51	51
Thermal power. Spain	8,082	8,082
Hydroelectric	1,951	1,951
Wind	1,885	1,764
Solar	394	250
Small hydro	111	111
Renewable power. Spain	4,341	4,076
Total installed capacity. Spain	12,423	12,158
Fuel-oil	198	198
Combined-cycle	2,446	2,446
Thermal power. International	2,644	2,644
Hydroelectric	123	123
Wind	717	717
Solar	281	254
Renewable power. International	1,121	1,094
Total installed capacity. International	3,765	3,738
Total installed capacity	16,188	15,896

▪ **Net production by energy source (GWh)**

[IF-EU-000.D]

	2022	%	2021	%
Nuclear	4,454	9 %	4,274	10 %
Coal	0	0 %	0	— %
Combined-cycle	19,801	42 %	12,675	30 %
Cogeneration	191	0 %	342	1 %
Thermal production. Spain	24,446	52 %	17,291	41 %
Hydroelectric	1,531	3 %	2,991	7 %
Wind	4,058	9 %	3,863	9 %
Solar	425	1 %	268	1 %
Small hydro	447	1 %	507	1 %
Renewable production. Spain	6,461	14 %	7,629	18 %
Total production. Spain	30,907	66 %	24,920	60 %
Fuel-oil	594	1 %	637	2 %
Combined-cycle	12,636	27 %	13,305	32 %
Thermal production. International	13,230	28 %	13,942	33 %
Hydroelectric	613	1 %	566	1 %
Wind	1,733	4 %	1,790	4 %
Solar	546	1 %	536	1 %
Renewable production. International	2,892	6 %	2,892	7 %
Total production. International	16,122	34 %	16,834	40 %
Total production	47,029	100 %	41,754	100 %

NB: Increased production in combined-cycle power stations due to lower hydropower and export of surplus outside the Iberian system.

▪ **Electricity produced using renewable sources broken down by country (GWh)**

	2022	2021
Chile	561	573
Costa Rica	499	462
Spain ⁽¹⁾	6,461	7,629
Mexico	630	694
Panama	114	104
Brazil	278	290
Australia	810	769
Total	9,353	10,521

(1) Lower contribution of hydropower partially offset by an increase in wind and solar generation.

▪ **Average efficiency by technology and regulatory system (%)**

	2022	2021
Combined-cycle (Spain)	53.6	52.8
Coal thermal (Spain)	0.0	0.0
Combined-cycle (International)	53.3	55.1
Fuel-oil (International)	40.7	40.5

▪ **Average availability factor by technology (%)**

	2022	2021
Hydroelectric (Spain)	92.7	87.3
Coal thermal (Spain)	0.0	0.0
Nuclear (Spain)	91.0	87.3
Combined-cycle (Spain)	87.7	82.2
Wind (Spain)	97.9	98.5
Solar (Spain)	99.2	99.1
Small hydro (Spain)	97.3	96.9
Cogeneration (Spain)	92.7	91.4
Hydroelectric (international)	94.7	95.5
Wind (international)	93.7	92.8
Solar (international)	97.4	96.3
Fuel-oil (international)	92.9	87.0
Combined-cycle (international)	89.7	96.5

▪ **Electrical energy losses in transport and distribution (%)**

	2022	2021
Spain	8.5	8.5
Argentina	13.2	13.3
Panama	13.6	14.5

4. Sustainability Plan

	Target 2025 ⁽¹⁾	2022	2021
Driver 1. Integrity and trust			
Sustainable financing and/or financing compatible with energy transitions (green finance, transition bonds...) (million euro)	5,492	6,923	6,337
Meetings held with ESG investors (number)	50	24	16
Implementation of the ESG risk quantification methodology (scale 0 low risk - 5 high risk)	1.9	2.0	2.1
Cost of resolving cybersecurity incidents (direct, indirect and reputational cost) (€) / IT disbursement (%)	0.3	0.0	0.0
Cybersecurity incidents / Millions of attacks (%)	4.7	2.8	3.7
Naturgy Energy Group BitSight International Index	790	730	690
Coverage level of ESG audits over purchase volume with high ESG risk (%)	95.0	82.7	72.2
Purchase volume with acceptance of the Code of Ethics (%)	95.0	95.4	94.2
Implementation of the Social Media Management and Use Policy	Implanted	In progress	No
Maintain and renew ISO37001 and UNE19601 Certification (anti-bribery and criminal compliance management)	Renew	Yes	Yes
Criminal indictments for corruption-related offences (number)	0	0	0
Annual external audit of the Crime Prevention Model in accordance with article 31 bis of the Criminal Code	Favourable outcome in all subject countries	Favourable outcome in all subject countries	Favourable outcome in all subject countries
Counterparties assessed on the basis of ESG risk (number) ⁽¹⁾	Pending definition	61	Not available
Non-financial indicators with qualifications (number)	0	0	0
Publish the Tax Transparency Report	Publish the Tax Transparency Report	In process	Not available
Degree of compliance with the new recommendations of the CNMV' Good Governance Code (%)	Absorb all modifications to the CNMV's recommendations that may arise and undertake to comply with any others that are not related to the composition of the shareholding structure and the right to proportional representation, or related to previously acquired commitments	81	81
Compliance with the critical infrastructure governance model (%)	95	87	40
Driver 2. The opportunity of environmental challenges			
Absolute GHG emissions Scope 1 and Scope 2 (million tCO ₂ eq)	11.4	15.1	13.5
Absolute GHG emissions Scope 3 (million tCO ₂ eq)	114.1	110.1	136.5
CO ₂ intensity in electricity generation (tCO ₂ /GWh)	171	279	261

Generation mix from renewable sources measured in installed capacity over the total of the group (%)	56	34	33
Renewable gas production or injection capacity (TWh) ⁽²⁾	1.0	0.22	0.21
Total water consumption (hm ³)	15.6	18.8	15.2
Total waste production (hazardous + non-hazardous) (kt)	110	94	98
Total waste recycled and recovered (hazardous + non-hazardous) (%)	75	92	57
Initiatives to improve biodiversity throughout the life cycle of the facilities (construction, operation, dismantling) (number)	350	345	302
Environmentally restored cumulative area (ha)	Pending definition	In progress	In progress
Activity with ISO 14001 environmental certification (% of Ebitda)	95.0	97.9	93.1
Calculation of Physical Climate and Energy Transition Risks at Corporate Level (50%) and at Business Unit Level (100%) (%)	100	50	50
Capex eligible and aligned with European Taxonomy (%)	80	67	61
Driver 3. Customer experience⁽²⁾			
Net Promoter Score (NPS) Spain commercialisation (global) (%)	40.0	20.8	18.5
Net Promoter Score (NPS) Spain electricity networks (telephone service) (%)	30.0	9.3	22.3
Net Promoter Score (NPS) Spain gas networks (telephone service) (%)	39.0	21.2	18.9
Net Promoter Score (NPS) Argentina (global) (%)	55.0	46.0	34.0
Net Promoter Score (NPS) Brazil (global) (%)	68.0	52.1	56.5
Net Promoter Score (NPS) Chile gas (global) (%)	70.0	56.2	64.3
Net Promoter Score (NPS) Mexico (global) (%)	27.0	39.4	11.8
Net Promoter Score (NPS) Panama (customer service) (%)	24.0	7.4	3.0
Global satisfaction with service quality (1-10)	8.0	7.6	7.5
No. of complaints registered / No. of contacts (%)	<3	4.8	4.8
Customers with online billing. Spain (%)	47.0	51.0	41.0
Contracts per customer. Spain (number)	1.65	1.54	1.56
Units with Crisis Management Plans prepared and tested (years/actual case), with respect to the total number of units/countries that should have one (%)	90	50	15
Partnerships with third parties providing value-added solutions for customers. Spain (number)	5	5	5
Interaction with digital channels (%)	53.8	57.5	48.7
Driver 4. Commitment and talent			
People trained out of the total number of employees included in talent transformation programmes (%)	75	83.5	69.9
Training per employee (hours)	>35,0	35.9	28.8
Unwanted rotation in key positions (structural positions) (%)	<0,5	1.5	0.9
Employees subscribed to the benefits platform (%)	49.7	55.9	8.9
Women in senior management positions (%) ⁽⁴⁾	>40	26.2	21.2

Geographic diversity in all management positions (of total) (%) ⁽⁵⁾	14	13	13
Diversity of skills (out of total) (%)	2.5	1.3	1.1
Staff under 30 years of age (%)	10	5	4
NPS promoter employees (%)	40	31	24
Own staff lost time accidents frequency rate (OSHA criterion)	0.12	0.12	0.10
Own staff lost time accident severity rate (OSHA criterion)	6.15	5.66	2.61
Absenteeism rate due to common contingency (%)	≤3.0	2.6	2.5
Staff working from home (%)	40	47	21
Weekly working hours carried out remotely (%) ⁽⁶⁾	30	Voluntary, maximum 40%	20
Staff eligible for the efficient vehicle leasing service. Spain (%)	36	37	19
Driver 5. Innovation and new business development			
Energy billed for mobility services (GWh)	1,377	933	939
Managed recharging points for NG-LNG vehicles (number)	19	13	12
Recharging points for electrical vehicles (number)	5,000	394	352
Customers acquired for self-consumption products (number)	2,886	2,725	560
Amount of stored energy (GWh)	>82	0	0
Energy storage solution projects (number)	>6	0	0
Renewable gas production projects in service (number)	>30	2	2
Signals remotely monitored / MW installed renewable technologies (number)	240	162	123
ICEIT. Spain (minutes)	36.4	35.4	35.8
Investment in innovation over Ebitda (%)	>2	1.2	2.8
Challenges and proofs of concept with start-ups in open innovation programmes ⁽⁷⁾ (number)	>100	3	5
Driver 6. Social responsibility			
Attendees at energy efficiency workshops in Spain (number)	7,900	3,942	3,861
Energy rehabilitations. Spain (number)	>5.000	3,625	2,514
Volunteers (number)	1,000	646	477
Collaborating social entities (number)	20	31	18
Initiatives with impact assessment (%)	100	33	0
Develop and implement a methodology for measuring natural and social capital	Measurement in 2021 with targets for improvement from first measurement	Elaborated	In progress
Total social investment ⁽⁸⁾ (million euro)	>8	11	10
Purchase volume assigned to local suppliers (%)	> 85,0	80.4	92.2

⁽¹⁾ The figure indicated for 2022 corresponds to activity since July 2022, when the counterparty risk assessment tool was implemented. Given the recent implementation of this system, once further information is available the company will define the target for 2025.

⁽²⁾ The figure for 2021 has been changed from 0.14 to 0.21 to adjust it to the capacity of existing projects.

⁽³⁾ Details of Customer experience indicators in chapter 12, Annexes, section Customer experience.

⁽⁴⁾ The percentage of women in executive and management positions is 33.7% (32.4% in 2021), in line with Naturgy's Sustainability Plan target of 40% by 2025.

⁽⁵⁾ Number of different nationalities within the group's executive and managerial personnel.

⁽⁶⁾ Figures for Spain.

⁽⁷⁾ The target 2025 will be reassessed in 2023 according to new criteria applied in 2022

⁽⁸⁾ Includes social investment in the local community and philanthropic investment. It is estimated that when a methodology for assessing social impact is available, these figures will vary and definitive objectives will be established.

Analysis of the main variations

The following sections of this report detail the most relevant events that occurred during 2022 that explain the evolution of each of the levers of the Sustainability Plan.

Emissions, CO₂ intensity and water consumption

In relation to environmental targets, in 2022 there has been an increase in direct emissions (scope 1) of greenhouse gases (GHG), CO₂ intensity in electricity generation and water consumption. The reason for these increases is that it has been a particularly dry year in Spain, with low production from hydropower plants, which has had to be offset by increased operation of combined-cycle power stations. These power stations, which act as a back-up for renewable generation when, as on this occasion, there is not enough water, wind or sun, lead to GHG emissions and water consumption, which explains the increase in the three indicators mentioned above compared to 2021.

Scope 3 GHG emissions have decreased mainly due to the fall in demand for natural gas in final consumption, mainly in Spain, due to the increase in raw material prices and to a lesser extent due to unusually high temperatures.

Renewable electricity generation, biomethane production and injection capacity

Both the increase in installed power generation capacity and biomethane production and injection capacity have increased, although this increase is expected to speed up in the coming years. In Spain, Naturgy is developing construction projects for approximately 30 wind farms and photovoltaic plants, equivalent to almost 1 GW of additional renewable capacity, which are expected to come on stream in the coming months. It also has 43 projects under development for the production of biogas from organic agricultural, urban and industrial waste and its subsequent enrichment process to produce biomethane for injection into the natural gas grid.

Net Promoter Score (NPS)

In 2022, in Spain, there have been significant variations in the NPS (Net Promoter Score) quality indicators due to the impact on commercial systems in the first quarter, regulatory changes (such as the gas cap or the change in VAT and modifications in the setting of the maximum increase in LRT to 15% by the government) and volatility in both gas and electricity prices. The latter factor has also occurred in Brazil and Chile. All these factors have transformed the customer care service by increasing both the volume of activity and the reasons for contact.

Accident indicators

With regard to the own staff lost time accidents frequency rate, it should be noted that the data for 2022 are not fully comparable to those for 2021, as last year's figures do not include the accidents of the subsidiary Gasnor, S.A. (Argentina). Taking these accidents into account, the frequency rate in 2021 is 0.13, with a slight improvement in 2022.

As for the severity index for lost-time accidents, the increase in the indicator is explained by the occurrence of several accidents that have led to long-term sick leave, due to the consequences or injuries resulting from them.

Challenges and proofs of concept with start-ups

The downward trend in the indicator on challenges and proofs of concept with start-ups in open innovation programmes is explained by the fact that there has been a change in strategy in relation to the Innovation department's projects, where more restrictive criteria have been applied when selecting projects than initially planned. A new target for 2025 in line with this new strategy will be set in the coming year.

5. Sustainable finance and taxonomy

[3-3]

(ESG investment and financing)

Sustainable financing and investor activities that take ESG criteria into account

It should be noted that, since 2012, Naturgy has been holding meetings with investors focused on assessing the group's ESG policies. Throughout 2022, Naturgy has continued with this activity, participating in meetings and engagement processes with several investors, including Santander, BNP Paribas, Amundi and Axa IM.

Likewise, since 2017 and in line with its sustainability commitment, Naturgy introduced a framework for the emission of Green Bonds targeted at financing renewable energies. Under this framework, on 15 November 2017, Naturgy issued a Green Bond for an amount of Euros 800 million, maturing in May 2025. The issue pays an annual coupon of 0.875%. At the close of December 2022, all the funds from the issue had been invested in the planned renewable projects. The Green Bond was approved by the Oekom rating agency, obtaining a B+ rating.

In the banking market, in 2022, Naturgy signed green loans totalling Euros 586 million, in addition to the Euros 5,537 million signed until 2021.

It should be noted that, with the loans signed in 2022, the sustainable financing target set for 2025 has already been exceeded, another example of the company's commitment to sustainability and the energy transition.

The following table shows the evolution of ESG indicators (environmental, social and governance) to which these sustainable financing instruments are linked.

ESG indicators of sustainable financing

	2022	2021
Direct GHG emissions: three-year average reduction (MtCO ₂ eq)	14.0	14.2
CO ₂ intensity of electricity generation: three-year average reduction (tCO ₂ /GWh)	279	287
Water consumption: three-year average reduction (hm ³)	18.0	18.4
Women in senior management positions ⁽¹⁾ (%)	26.2	21.2

⁽¹⁾ The percentage of women in executive and management positions is 33.7% (32.4% in 2021), in line with Naturgy's Sustainability Plan target of 40% by 2025.

Report on the Green Bond

Indicators of use of funds

As at 31 December 2021, the total number of projects assigned to Green Bonds issued on 15 November 2017 was 35, representing a total investment of Euros 800 million. These assigned funds represent 100% of the total amount obtained through the issuance of Green Bonds.

Technology	Location	Name of the project	Year put into practice	Status	Green Bond Financing 2022 (million €)	% Financed with Green Bond	Emissions prevented (tCO ₂)
Photovoltaic	Spain	C.F. CARPIO DE TAJO	2019	Operation	30.06	99%	36,792
Photovoltaic	Spain	C.F. LA NAVA	2019	Operation	30.18	99%	44,715
Wind	Spain	P.E. AMPLIACION EL HIERRO	2019	Operation	38.29	96%	56,931
Wind	Spain	P.E. BALCÓN DE BALOS	2018	Operation	6.21	50%	22,496
Wind	Spain	P.E. BARASOAIN	2019	Operation	43.22	89%	44,224
Wind	Spain	P.E. DORAMÁS	2018	Operation	1.88	49%	5,260
Wind	Spain	P.E. FUERTEVENTURA II	2018	Operation	2.96	50%	6,251
Wind	Spain	P.E. LA HARÍA	2018	Operation	2.00	50%	4,821
Wind	Spain	P.E. LA VAQUERÍA	2018	Operation	1.96	50%	5,035
Wind	Spain	P.E. MERENGUE	2019	Operation	42.71	99%	61,278
Wind	Spain	P.E. MIRABEL	2020	Operation	23.80	98%	36,707
Wind	Spain	P.E. MONCIRO	2019-20	Operation	36.37	96%	59,566
Wind	Spain	P.E. MONTAÑA PERROS	2018	Operation	1.92	50%	5,316
Wind	Spain	P.E. PEÑAFORCADA - CATASOL II	2019	Operation	11.01	98%	11,851
Wind	Spain	P.E. PILETAS I	2020	Operation	10.43	50%	26,270
Wind	Spain	P.E. SAN BLAS	2019-20	Operation	34.15	98%	46,191
Wind	Spain	P.E. TESO PARDO	2019	Operation	30.52	98%	42,132
Wind	Spain	P.E. TESORILLO	2019	Operation	30.12	98%	35,586
Wind	Spain	P.E. TIRAPU	2020	Operation	16.65	90%	18,211
Wind	Spain	P.E. TRIQUIVIJATE	2018	Operation	3.46	50%	8,805
Wind	Spain	P.E. VIENTOS DEL ROQUE	2018	Operation	3.52	50%	10,502
Wind	Spain	P.E. MONTEJO DE BRICIA (AMPLIACIÓN)	2019	Operation	6.87	88%	10,246
Wind	Spain	P.E. FRÉSCANO	2019	Operation	21.74	96%	27,127
Wind	Spain	P.E. SAN AGUSTÍN	2019	Operation	27.22	95%	40,920
Wind	Spain	P.E. MONTE TOURADO - EIXE	2019	Operation	41.79	98%	54,347
Wind	Spain	P.E. PASTORIZA - RODEIRO	2019	Operation	32.75	96%	69,847
Wind	Spain	P.E. SERRA DO PUNAGO - VACARIZA	2019-20	Operation	28.70	96%	49,014
Photovoltaic	Spain	C.F. PICON I	2019	Operation	33.65	97%	42,905
Photovoltaic	Spain	C.F. PICON II	2019	Operation	31.70	97%	42,638
Photovoltaic	Spain	C.F. PICON III	2019	Operation	30.46	95%	42,757
Wind	Spain	P.E. TOROZOS A	2019	Operation	36.98	97%	53,700
Wind	Spain	P.E. TOROZOS B	2019	Operation	30.32	96%	46,225
Wind	Spain	P.E. TOROZOS C	2019	Operation	35.71	96%	53,980
Wind	Spain	P.E. MOURIÑOS	2019	Operation	10.21	98%	17,773
Wind	Spain	INFRAESTRUCTURAS COMUNES	2019	Operation	30.48	73%	0
					800.0		1,140,420
					0		

Green Bond funds as reported at 31 December 2022 have been allocated in full to investments in eligible assets in accordance with the requirements of the Green Bond Framework, remaining unchanged from the projects included in the report at 31 December 2021.

The net funds of the bond issue were managed within the liquidity portfolio of Naturgy's treasury, in cash or other short-term liquidity instruments that did not include intensive greenhouse gas or other controversial activities. At year-end, Naturgy maintained a minimum cash level equivalent to the funds pending award of the Green Bond.

Environmental benefit indicators

The estimated environmental benefit of the Green Bond is expected to total 1,140,420 tCO₂/year in emissions prevented, based on a total of approximately 920.8 MW of installed capacity financed by the green bond, with associated production of 2,235 GWh/year.

The methodology used to calculate the emissions prevented in 2022 is the United Nations' ACM0002 for Clean Development Mechanisms: "Grid-connected electricity generation from renewable sources", through calculation according to option b) of the simple-adjusted OM. This method weights the Operating Margin Emission Factor of low operating cost sources along with base load and other sources depending on the number of hours each is marginal.

Actions in environmental and social matters

In the projects, sustainability has been considered throughout its life cycle, in partnership with the competent administrations and with participation of the different stakeholders. In the design stage, an environmental study has been carried out in all the projects, where information has been gathered about the environment (physical, biological, socio-economic and cultural). This study has served as a baseline to define the most environmentally and socially sustainable project alternatives, identify and assess the associated impacts and define the necessary prevention, mitigation and, if necessary, compensation measures.

During the construction phase, a thorough environmental and archaeological follow-up is carried out in order to ensure that the project is executed with the established environmental and social guarantees. During the operation stage, the facilities are covered by Naturgy's environmental management system, which is certified and externally audited pursuant to the UNE-EN ISO 14001 standard, which ensures control and compliance with environmental requirements, the prevention of environmental accidents and the ongoing improvement in the reduction of the company's impacts.

Glossary of indicators

Indicators for use of funds

Description of the financed projects	Description of the projects financed with Green Bonds, with details of generation technology, location (country), project name, year launched, completion status (1. Development, 2. Construction, 3. Operation and maintenance) at year-end.
Assigned Green Bond financing: Amount assigned (in euros) per project and in total	Sum attributable to Green Bonds invested in projects that meet the Green Bond eligibility criteria listed in the Naturgy Green Bond Framework (in euros million) at year-end.
% Financed with Green Bonds	Percentage of project investment attributable to Green Bonds at year-end.
Number of projects	Number of projects with financing attributable to funds from Green Bonds at year-end.
Total quantities assigned relative to total funds (%)	Percentage of the total investment attributable to Green Bonds across all projects relative to the total sum obtained through the issuance of Green Bonds (bond funds) at year-end.
Description of the use of non-invested funds	Description of the management of funds obtained through the issuance of Green Bonds that have not been assigned to any project, at year-end, in accordance with the “Naturgy Green Bond Framework”.

Environmental benefit indicators

Prevented greenhouse gas emissions (GHG)	CO ₂ emissions (tonnes of CO ₂ /year) expected to be prevented each year through renewable energy projects (wind and solar), calculated by multiplying expected energy production by a regional average emissions factor (peninsula and Canary Islands). This emissions factor has been calculated using the methodology used by UNFCCC Clean Development Mechanism (CDM) projects, which allow the use of either an average regional emissions factor excluding emissions from low cost/must-run power stations when generation from these stations represents less than 50% of the electricity system total (simple method) or an average emissions factor from the entire regional electricity mix (including emissions from low cost/must-run power stations) when generation from these stations represents more than 50% of the electricity system total (average method). The data used to calculate the applied emissions factor come from publicly available information sources based on official statistics.
Energy capacity	Total power (MW) corresponding to the projects expected to be financed by Green Bonds.
Energy production	Estimated annual electrical power generation (GWh/year) calculated by multiplying the energy capacity by the estimated average number of operating hours per year for each project expected to be financed by Green Bonds.

EU Taxonomy Report (Regulation 2020/852)

Introduction

To achieve the goals set out in the European Green Deal, the European Commission has committed to mobilise at least Euros 1 trillion for sustainable investment over the next ten years. The active participation of financial markets in financing the sustainable economy is essential for the European Union’s plans towards a low-carbon economy. To this end, the European Commission is driving forward a package of measures to help improve the flow of money into sustainable activities across the EU. One of these measures is the Taxonomy Regulation, Regulation (EU) 2020/852, a classification system for sustainable economic activities that defines what is sustainable and what is not, based on objective criteria. It provides a common language for investors and businesses to channel investments into more sustainable technologies and businesses that have a significant positive impact on the climate and the environment, and to promote compliance with the EU’s climate targets, the Paris Agreement and the UN Sustainable Development Goals.

In particular, it pursues the following environmental objectives:

- **Mitigation of climate change:** An activity is considered to make a significant contribution to mitigating climate change if that activity makes a substantial contribution to stabilising greenhouse gas concentrations in the atmosphere.

- **Adaptation to climate change:** Adaptation solutions that either significantly reduce the risk of adverse impacts of the current climate or provide for adaptation solutions that help avoid the risk of adverse impacts on people, nature or other assets.
- **Sustainability and protection of water and marine resources:** Contribute to the development of good status of waters, including surface waters and groundwater, or prevent their deterioration where they are already in a good condition.
- **Transition to a circular economy:** More efficient use of natural resources, in particular sustainable bio-based materials and other raw materials, in production by increasing the durability and accountability of products.
- **Pollution prevention and control:** By reducing emissions of pollutants into the atmosphere, improving air quality, eliminating waste, etc.
- **Protect and restore biodiversity and ecosystems:** Achieve favourable conservation status of natural and semi-natural habitats and species or prevent their deterioration where their conservation status is already favourable.

So far, the European Union has published delegated acts on climate change mitigation and adaptation.

The Taxonomy establishes two types of activity:

- **Eligibility:** an activity is eligible if it is one of the 72 activities listed in the regulation itself.
- **Alignment:** subset of eligible activities that are not only listed but also meet the criteria of a significant positive contribution to the climate criteria (mitigation and adaptation) and do not cause significant negative harm to the other criteria (water protection, circular economy, pollution prevention and biodiversity).

The regulation stipulates that three economic indicators must be reported: the percentage of eligible or adapted activities in the company's total turnover, Capex and Opex.

The disclosure of the Taxonomy has been conducted in a rigorous and consistent manner to determine the company's level of contribution to the defined environmental objectives and, at the same time, to provide shareholders and investors with security in the face of greenwashing. The technical requirements for the classification of activities were set out in the Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 and Delegated Regulation (EU) 2022/1214, supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives and complies with the minimum social safeguards.

Scope of the report

All the companies that make up the consolidation scope of the Naturgy group have been considered in the analysis carried out to establish the eligible activities under the criteria of the European Commission for the Taxonomy. Following the amendment of the publication of Delegated Regulation (EU) 2022/1214 of 19 March to include gas and nuclear activities, the scope of activities has been extended to include the generation of electricity from gaseous fossil fuels and high-efficiency cogeneration of heat/cold and electricity from gaseous fossil fuels. However, for Naturgy's purposes, this extension has not affected the volume of aligned activities (but it does for eligibility purposes) as it does not exceed the technical criteria of substantial contribution.

Results

The proportion of eligible and ineligible activities according to the European Taxonomy is shown below. The results have shown different degrees of eligibility according to the indicator.

The turnover indicator shows 26% eligibility, the Opex indicator rises to 50% eligibility and the Capex indicator reaches 67% eligibility. The result obtained for Capex demonstrates the solvency of a sustainable business model and the creation of long-term value in favour of the planet and people.

In terms of alignment, we observe that 12 of the 14 eligible activities are 100% aligned with the EU Taxonomy after performing the analysis of the environmental criteria (make a substantial contribution, do no significant harm to the rest of the environmental objectives and comply with the minimum safeguards). The exemptions are electricity generation and high-efficiency cogeneration of heat/cold and electricity from gaseous fossil fuels, both of which do not meet the substantial contribution criteria of Delegated Act (EU) 2022/1214 due to the required level of emissions per energy unit produced and because no technological improvements able to reduce said ratio are foreseen.

▪ **Turnover**

Economic activity	Code	Absolute turnover €M	Proportion of turnover %	Substantial contribution criteria				Do no significant harm criteria						Proportion of turnover that conforms to the taxonomy %	Category *
				Climate change mitigation %	Adaptation to climate change %	Climate change mitigation Yes/No	Adaptation to climate change Yes/No	Sustainability and protection of water and marine resources Yes/No	Transition to a circular economy Yes/No	Pollution prevention and control Yes/No	Protection and restoration of biodiversity and ecosystems Yes/No	Minimum guarantees Yes/No			
A. ELIGIBLE ACTIVITIES ACCORDING TO THE TAXONOMY															
A.1 Environmentally sustainable activities (conforming to the taxonomy)															
Manufacture of hydrogen	C20.11	0	0	100	0	N.a	Yes	Yes		Yes	Yes	Yes	100		
Electricity generation using solar photovoltaic technology	D35.11	84	0	100	0	N.a	Yes		Yes		Yes	Yes	100		
Electricity generation from wind power	D35.11	382	1	100	0	N.a	Yes	Yes	Yes		Yes	Yes	100		
Electricity generation from hydroelectric power	D35.11	189	1	0	100	Yes	N.a	Yes			Yes	Yes	100		
Electricity distribution and transportation	D35.12	1,727	5	100	0	N.a	Yes		Yes	Yes	Yes	Yes	100	F	
Storage of electricity		0	0	100	0	N.a	Yes	Yes	Yes		Yes	Yes	100	F	
Anaerobic digestion of sewage sludge	E37	0	0	100	0	N.a	Yes	Yes		Yes	Yes	Yes	100		
Anaerobic digestion of biowaste	E38.21	0	0	100	0	N.a	Yes	Yes		Yes	Yes	Yes	100		
Landfill gas capture and utilisation	E38.21	0	0	100	0	N.a	Yes			Yes	Yes	Yes	100		
Infrastructure enabling low-carbon road transport and public transport	F42.11	0	0	100	0	N.a	Yes	Yes	Yes	Yes	Yes	Yes	100	F	
Installation, maintenance and repair of charging stations for electric vehicles in buildings (and in parking spaces attached to buildings)	F42	0	0	100	0	N.a	Yes					Yes	100	F	
Installation, maintenance and repair of renewable energy technologies	F42	11	0	100	0	N.a	Yes					Yes	100	F	
Turnover from environmentally sustainable activities (conforming to the taxonomy) (A.1)		2,393	7												

A.2 Taxonomy-eligible but not environmentally sustainable activities (activities that do not conform to the taxonomy)							
Electricity generation from gaseous fossil fuels	D35.11	6,415	19	0	0	0	F
High-efficiency cogeneration of heat/cold and electricity from gaseous fossil fuels	D35.11	64	0	0	0	0	F
Turnover from taxonomy-eligible but not environmentally sustainable activities (activities that do not conform to the taxonomy) (A.2)		6,479	19				
Total A.1 + A.2		8,871	26				
B. INELIGIBLE ACTIVITIES ACCORDING TO THE TAXONOMY							
Turnover from ineligible activities according to the taxonomy (B)		25,094	74				
TOTAL A + B		33,965	100				

* F =
Facilitat
or

▪ **Capex**

Economic activity	Code	Absolute Capex €M	Capex ratio %	Substantial contribution criteria		Do no significant harm criteria								Proportion of Capex volume that conforms to the taxonomy %	Category *
				Climate change mitigation %	Adaptation to climate change %	Climate change mitigation Yes/No	Adaptation to climate change Yes/No	Sustainability and protection of water and marine resources Yes/No	Transition to a circular economy Yes/No	Pollution prevention and control Yes/No	Protection and restoration of biodiversity and ecosystems Yes/No	Minimum guarantees Yes/No			
A. ELIGIBLE ACTIVITIES ACCORDING TO THE TAXONOMY															
A.1 Environmentally sustainable activities (conforming to the taxonomy)															
Manufacture of hydrogen	C20.11	1	0	100	0	N.a.	Yes	Yes		Yes	Yes	Yes	100		
Electricity generation using solar photovoltaic technology	D35.11	422	22	100	0	N.a.	Yes		Yes		Yes	Yes	100		
Electricity generation from wind power	D35.11	253	13	100	0	N.a.	Yes	Yes	Yes		Yes	Yes	100		
Electricity generation from hydroelectric power	D35.11	11	1	0	100	Yes	N.a.	Yes			Yes	Yes	100		
Electricity distribution and transportation	D35.12	441	23	100	0	N.a.	Yes		Yes	Yes	Yes	Yes	100	F	
Storage of electricity		0	0	100	0	N.a.	Yes	Yes	Yes		Yes	Yes	100	F	
Anaerobic digestion of sewage sludge	E37	0	0	100	0	N.a.	Yes	Yes		Yes	Yes	Yes	100		
Anaerobic digestion of biowaste	E38.21	0	0	100	0	N.a.	Yes	Yes		Yes	Yes	Yes	100		
Landfill gas capture and utilisation	E38.21	0	0	100	0	N.a.	Yes			Yes	Yes	Yes	100		
Infrastructure enabling low-carbon road transport and public transport	F42.11	0	0	100	0	N.a.	Yes	Yes	Yes	Yes	Yes	Yes	100	F	
Installation, maintenance and repair of charging stations for electric vehicles in buildings (and in parking spaces attached to buildings)	F42	0	0	100	0	N.a.	Yes					Yes	100	F	
Installation, maintenance and repair of renewable energy technologies	F42	0	0	100	0	N.a.	Yes					Yes	100	F	
Capex of environmentally sustainable activities (conforming to the taxonomy) (A.1)		1,128	59												

A.2 Taxonomy-eligible but not environmentally sustainable activities (activities that do not conform to the taxonomy)								
Electricity generation from gaseous fossil fuels	D35.11	139	7	0	0		0	F
High-efficiency cogeneration of heat/cold and electricity from gaseous fossil fuels	D35.11	7	0	0	0		0	F
Capex of eligible activities conforming to the taxonomy but not environmentally sustainable (activities that do not comply with the taxonomy) (A.2)		146	8					
Total A.1 + A.2		1,274	67					
B. INELIGIBLE ACTIVITIES ACCORDING TO THE TAXONOMY								
Capex of ineligible activities according to the taxonomy (B)		633	33					
TOTAL A + B		1,907	100					

* F = Facilitator

▪ **Opex**

Economic activity	Code	Absolute Opex €M	Opex ratio %	Substantial contribution criteria		Do no significant harm criteria								Proportion of Opex volume that conforms to the taxonomy %	Category *
				Climate change mitigation %	Adaptation to climate change %	Climate change mitigation Yes/No	Adaptation to climate change Yes/No	Sustainability and protection of water and marine resources Yes/No	Transition to a circular economy Yes/No	Pollution prevention and control Yes/No	Protection and restoration of biodiversity and ecosystems Yes/No	Minimum guarantees Yes/No			
A. ELIGIBLE ACTIVITIES ACCORDING TO THE TAXONOMY															
A.1 Environmentally sustainable activities (conforming to the taxonomy)															
Manufacture of hydrogen	C20.11	0	0	100	0	N.a.	Yes	Yes		Yes	Yes	Yes	100		
Electricity generation using solar photovoltaic technology	D35.11	4	1	100	0	N.a.	Yes		Yes		Yes	Yes	100		
Electricity generation from wind power	D35.11	46	15	100	0	N.a.	Yes	Yes	Yes		Yes	Yes	100		
Electricity generation from hydroelectric power	D35.11	11	3	0	100	Yes	N.a.	Yes			Yes	Yes	100		
Electricity distribution and transportation	D35.12	58	19	100	0	N.a.	Yes		Yes	Yes	Yes	Yes	100	F	
Storage of electricity		0	0	100	0	N.a.	Yes	Yes	Yes		Yes	Yes	100	F	
Anaerobic digestion of sewage sludge	E37	0	0	100	0	N.a.	Yes	Yes		Yes	Yes	Yes	100		
Anaerobic digestion of biowaste	E38.21	0	0	100	0	N.a.	Yes	Yes		Yes	Yes	Yes	100		
Landfill gas capture and utilisation	E38.21	0	0	100	0	N.a.	Yes			Yes	Yes	Yes	100		
Infrastructure enabling low-carbon road transport and public transport	F42.11	0	0	100	0	N.a.	Yes	Yes	Yes	Yes	Yes	Yes	100	F	
Installation, maintenance and repair of charging stations for electric vehicles in buildings (and in parking spaces attached to buildings)	F42	0	0	100	0	N.a.	Yes					Yes	100	F	
Installation, maintenance and repair of renewable energy technologies	F42	2	1	100	0	N.a.	Yes					Yes	100	F	
Opex of environmentally sustainable activities (conforming to the taxonomy) (A.1)		121	39												

A.2 Taxonomy-eligible but not environmentally sustainable activities (activities that do not conform to the taxonomy)								
Electricity generation from gaseous fossil fuels	D35.11	33	11	0	0		0	F
High-efficiency cogeneration of heat/cold and electricity from gaseous fossil fuels	D35.11	3	1	0	0		0	F
Opex of eligible activities conforming to the taxonomy but not environmentally sustainable (activities that do not comply with the taxonomy) (A.2)		36	12					
Total A.1 + A.2		157	50					
B. INELIGIBLE ACTIVITIES ACCORDING TO THE TAXONOMY								
Opex of ineligible activities according to the taxonomy (B)		154	50					
TOTAL A + B		311	100					

* F = Facilitator

Eligibility analysis

From the analysis carried out by a transversal work team made up of people from different units, both from business and corporate areas, it is established that according to the Delegated Regulation (EU) 2020/852, the eligible activities within Naturgy's portfolio are the following:

- Hydrogen manufacture.
- Electricity generation using solar photovoltaic technology.
- Electricity generation from wind power.
- Electricity generation from hydropower.
- Generation of electricity from gaseous fossil fuels.
- High-efficiency cogeneration of heat/cool and power from gaseous fossil fuels.
- Electricity transmission and distribution.
- Electricity storage.
- Anaerobic digestion of sewage sludge.
- Anaerobic digestion of biowaste.
- Landfill gas capture and utilisation.
- Infrastructure enabling low-carbon road transport and public transport.
- Installation, maintenance and repair of charging stations for electric vehicles in buildings (and in parking spaces attached to buildings).
- Installation, maintenance and repair of renewable energy technologies.

These activities are integrated into the following businesses:

- Electricity distribution Spain (UFD).
- Electricity distribution Panama.
- Renewables Spain and the United States.
- Renewables International (GPG).
- New Business and Innovation.
- Commercialisation.
- Thermal Generation Spain.

Calculation of the main indicators

Calculation of turnover %

The proportion of turnover referred to in Article 8(2)(a) of Regulation (EU) 2020/852 shall be calculated as the share of net turnover derived from products or services, including intangibles, associated with economic activities that comply with the taxonomy (numerator), divided by net turnover (denominator) as defined in Article 2(5) of Directive 2013/34/EU.

Turnover shall include revenue recognised in accordance with International Accounting Standard (IAS) 1, paragraph 82(a), adopted by Commission Regulation (EC) No. 1126/2008.

In the case of Naturgy, the numerator includes the sum of the turnover (group 70 accounts from the General Accounting Plan) of the eleven activities mentioned above that are eligible according to the Taxonomy. The denominator corresponds to the total balance of the turnover of the Naturgy group.

The Naturgy Group believes that the spirit of the Delegated Act on the EU 2020/852 Taxonomy is to provide companies with a tool for the promotion and achievement of increased activity and sustainable investments. In this regard, as one of the benchmarks in renewable energy generation and vertically integrated energy sales, the Naturgy Group is considered a key player in the promotion and development of sustainability and environmental protection.

The Naturgy Group has estimated the indicators at consolidated group level in accordance with the provisions of Article 8 of the Taxonomy Regulation. However, to adequately reflect the spirit of the EU Taxonomy Regulation considering the vertical integration of its electricity activity, it has considered the need to adopt as a criterion in the preparation of the Turnover KPI the inclusion of sales of renewable electricity generated at its own facilities, which is not consumed by the company and is sold to third parties through marketers.

Based on the above, in the numerator of the turnover KPI of the table reported in this Statement on Non-Financial Information of the Naturgy Group, those sales of renewable electricity, generated and marketed “to end customers” through the Group’s commercialisation companies, whose production source is renewable, have been considered as eligible, as it is a vertically integrated activity.

In this regard, the Naturgy Group has introduced the necessary control measures to ensure the correct application of the accounting principles of consolidation in the estimation of the indicators, in line with the indications proposed in the guidelines for interpretation and implementation of the Frequently Asked Questions (FAQs) published by the EU Commission Delegated Regulation (02/02/22 and 19/12/22) and the ESMA (26/02/21). Specifically in the case of the turnover KPI, i) the Group has made the calculation only with sales to third parties outside the Group (considering the premise of vertical integration discussed above); ii) it has avoided double counting of revenues in its estimate, iii) and has ensured that the analysis is based on the Group’s consolidated revenue data without the inclusion of internal consumption or other additional ineligible services.

Accordingly, the total reported sales are detailed in Note 3 Segment Reporting in the Notes to the Consolidated Financial Statements 2022.

Calculation of the Capex %

The proportion of Capex referred to in Article 8(2)(b) of Regulation (EU) 2020/852 shall be calculated as the numerator divided by the denominator; the denominator being the additions to tangible and intangible assets during the relevant financial year before depreciation, amortisation and any new valuations, including those resulting from revaluations and impairments, for the relevant financial year, excluding changes in fair value. The denominator will also include additions to tangible and intangible assets resulting from business combinations.

For non-financial companies applying International Financial Reporting Standards (IFRS) as adopted by Regulation (EC) No. 1126/2008, Capex will cover costs that are accounted for in accordance with:

- a. IAS 16 Property, plant and equipment, paragraph 73 (e) (i) and (iii);
- b. IAS 38 Intangible Assets, paragraph 118 (e) (i);
- c. IAS 40 Investment Property, paragraph 76 (a) and (b) (for the fair value model);
- d. IAS 40 Investment Property, paragraph 79, (d), (i) and (ii), (for the cost model);
- e. IAS 41 Agriculture, paragraph 50 (b) and (e);
- f. IFRS 16 Leases, paragraph 53, (h).

For non-financial companies applying national generally accepted accounting principles (GAAP), Capex will integrate costs accounted for under applicable GAAP that correspond to costs included in capital expenditures by non-financial companies applying IFRS.

Leases that do not result in the recognition of a right to use the asset are not accounted for as Capex.

On the other hand, the numerator will be the portion of fixed asset investments included in the denominator which:

- a. is related to assets or processes that are associated with economic activities that conform to the taxonomy;
- b. is part of a plan to expand the economic activities that conform to the taxonomy or to allow economic activities eligible under the taxonomy to conform to the taxonomy (“Capex plan”) under the conditions specified in the second paragraph of this section 1.1.2.2 (on the “Capex plan”);
- c. is related to the purchase of production from economic activities that comply with the taxonomy and individual measures that enable the targeted activities to become low-carbon or lead to greenhouse gas reductions, in particular the activities listed in sections 7.3 to 7.6 of Annex I of the delegated act on climate, as well as other economic activities listed in delegated acts adopted pursuant to Articles 10(3), 11(3), 12(2), 13(2), 14(2) and 15(2) of Regulation (EU) 2020/852, and provided that those measures are implemented and operational within eighteen months.

In the case of Naturgy, the denominator will be the total Capex of the Naturgy group, which includes investments in intangible assets, investments in property, plant and equipment, investments in rights-of-use assets and assets transferred without consideration. In relation to the numerator, it will only be the aggregation of the Capex of the activities considered as taxonomically eligible.

Calculation of Opex %

The proportion of Opex referred to in Article 8(2)(b) of Regulation (EU) 2020/852 shall be calculated as the numerator divided by the denominator; including the latter to direct non-capitalised costs related to research and development, building renovation measures, short-term leases, maintenance and repairs, as well as other direct expenses related to the daily maintenance of property, plant and equipment by the company or a third party to whom activities are outsourced and which are necessary to ensure the continued effective operation of such assets.

Additionally, non-financial companies that apply national GAAP and do not capitalise right-of-use assets will include leasing costs in Opex.

On the other hand, the numerator will include the portion of operating expenses included in the denominator that:

- a. is related to assets or processes associated with economic activities that conform to the taxonomy, including training and other human resource adaptation needs, and direct non-capitalised costs representing research and development;
- b. is part of the Capex plan to expand the economic activities that conform to the taxonomy or to allow taxonomy-eligible economic activities to conform to the taxonomy within a predefined time frame, as set forth in the second paragraph of section 1.1.3.2 (on the “Capex plan”);
- c. is related to the purchase of production from economic activities that comply with the taxonomy and individual measures that enable the targeted activities to become low-carbon or lead to greenhouse gas reductions, as well as individual building renovation measures, as identified in delegated acts adopted pursuant to Articles 10(3), 11(3), 12(2), 13(2), 14(2) or 15(2) of Regulation (EU) 2020/852, and provided that those measures are implemented and operational within eighteen months.

In the case of Naturgy, the Opex indicator only considers non-capitalised direct costs related to research and development, short-term leases and maintenance and repairs. Due to limitations in the identification within the Opex concepts used in Naturgy’s internal accounting, other direct expenses related to the daily maintenance of tangible fixed assets, by the company or a third party to whom activities are subcontracted, and which are necessary to guarantee the continued and efficient operation of such assets, have been left out of the indicator. Thus, the denominator will include the expenditure of these three Opex items for the entire Naturgy group, while the numerator will be made up of the same items, but only for the activities recognised as eligible.

Alignment analysis

Naturgy has carried out the alignment analysis of Annex 1 of the environmental goal of climate change mitigation with the year-end data of 2022 for all eligible activities in its portfolio. In addition, for the activity of electricity generation from hydropower, it has carried out an analysis of the alignment of Annex 2 of the environmental goal of adaptation to climate change. This analysis consisted of applying the relevant technical criteria of EU Taxonomy and determining their alignment with each of its three requirements:

- Technical criterion of Substantial Contribution: under this criterion, 12 of the 14 activities detected as eligible were also aligned with the Taxonomy, either under the target of mitigation and/or adaptation to climate change. The activity of electricity generation from hydropower falls under the climate change adaptation goal and the other activities fall under the mitigation objective. The two activities that do not meet the Substantial Contribution technical criterion are electricity generation and high-efficiency cogeneration of heat/cold and electricity, both from gaseous fossil fuels, due to life cycle GHG emissions above 100 gCO₂eq/kWh.
- Do no significant harm criterion: after analysing the criteria required for each of the environmental objectives of the taxonomy for each activity, we can conclude that the eleven activities are aligned under this criterion. The eleven activities have a total of 36 do no significant harm criteria (across all environmental objectives) applicable to them and are assessed as aligned.

- Minimum safeguards: Naturgy relies on the company's Global Human Rights Policy, as well as on compliance with the regulatory framework of the different countries in which it operates to conclude that the minimum safeguard requirements are met.

Calculation of the main indicators

The calculation of the % of alignment varies significantly with respect to the calculation of the % of eligibility. In this case, the % is calculated individually per activity, with the denominator being the eligible amount (the numerator in the eligibility calculation), while the numerator will be the aggregate amount of the different facilities, projects, services or products of the indicator that are considered as aligned within EU taxonomy.

In the case of Naturgy, as mentioned above, 12 of the 14 eligible activities meet the three technical criteria, and are therefore 100% aligned.

Information consolidation process

The information consolidation process has been subject to analysis and control by the business units, in charge of reporting data by activities (eligibility) or by facilities, projects, services or products (alignment), by the corporate Consolidation unit, in charge of reporting the consolidated economic indicators, and by the Environment and Social Responsibility unit, in charge of coordinating and preparing the Taxonomy Report. The purpose of this is to ensure consistency in the criteria adopted for reporting the indicators, such as the treatment of intra-group transactions and the breakdown of the indicators by business segment or sub-segment.

04. Stakeholders of Naturgy

[2-25] and [2-29]

Naturgy's contribution to the SDG



Over the last decade, the regulator has become increasingly aware of the need for companies to openly incorporate stakeholder concerns into their decision-making so that they can effectively generate social good in the course of their activities. For example, both the National Securities Market Commission (CNMV) in Spain and, in 2022, the new European Union Due Diligence Regulation and EFRAG's draft European Sustainability Reporting Standards (ESRS), which emanate from the Corporate Sustainability Reporting Directive (CSRD), already establish recommendations and requirements for companies' governing bodies, and especially their boards of directors, to take into account the opinion of all stakeholders in their decision making, when determining company strategy and monitoring their performance.

As part of its sustainability management, Naturgy has been systematically incorporating the vision of stakeholders in its decision-making, by establishing two-way relationship and dissemination channels. Creating relationships of trust based on transparency and the creation of shared value is key to the development of competitive advantages for Naturgy and to contributing to the development of the communities in which it operates. Stakeholder management is therefore a source of opportunities and possible risks for the company.

For the preparation of this Sustainability Report and Statement of Non-Financial Information, Naturgy has taken into account the expectations of its stakeholders and has integrated them into its materiality analysis, as stated in chapter 11. About this report.

Stakeholder management is functionally dependent on Naturgy's Sustainability, Reputation and Institutional Relations Department, reporting directly to the company's chief executive. The functioning of these relationship and disclosure channels, and the results of the consultations and feedback received from stakeholders are regularly reported to the Sustainability Committee and the Board of Directors.

During 2022, Naturgy's directors have been informed about aspects such as employee and customer satisfaction levels, indicators of the level of attraction and commitment of employees (external rotation, spontaneous job applications), the perception of stakeholders in social and professional networks, consultations and communications received through corporate channels (especially the Code of Ethics), the results of the dialogue processes with shareholders and investors, or the results of the relationship processes with local stakeholders at project level, as well as the other indicators included in this chapter. This means that the Board of Directors has been able to ensure that the opinion of stakeholders is adequately reflected in Naturgy's commitments, strategies and management systems.

In general, stakeholder management is set out in the Corporate Responsibility Policy, which includes the company's commitments to its different audiences in the search for mutual benefit and assumes the obligation to establish channels of dialogue. At local level, this commitment is complemented by other specific management systems. In particular, Naturgy's relationship with local communities is also addressed in the company's Human Rights Policy, which includes a commitment to improving living conditions.

The company has a Social Relationship Model (SRM) that seeks to integrate social management as another discipline in the entire life cycle of generation projects, and which is described in further detail in the "Relationship with communities" section of this report.

Naturgy regularly reviews the identification and prioritisation of groups at corporate level. As a result of this exercise, Naturgy has currently identified the following stakeholders, for whom it has developed relationship and dissemination channels adapted to their characteristics and needs:

- Shareholders and investors.

- Suppliers.
- Business partners.
- Employees.
- Analysts.
- Market agents.
- Society.
- Public administration.
- Regulatory bodies.
- Financing groups.
- Customers.
- Insurance and reinsurance agencies.

Highlights of the year

- Francisco Reynés, Executive Chairman of Naturgy, joins the Alliance of CEO Climate Leaders of the World Economic Forum. The alliance brings together more than a hundred executives from multinationals in various sectors, united by their commitment to the energy transition and the decarbonisation of the economy.
- Participation in the 27th Conference of the Parties on Climate Change (COP27) held in Sharm El Sheikh (Egypt).
- Naturgy continues to be the reputational leader in its sector, with a value of 57.3 points (out of a scale of 100), according to the RepTrak Pulse index.
- Ecovadis, a global provider of corporate sustainability ratings, awarded Naturgy the platinum medal (its highest distinction) for its performance in environmental, social and governance issues.

1. Adapted communication channels

Dialogue with shareholders and investors

Naturgy has several of its own communication channels to offer the best service to all its stakeholders. Shareholders have at their disposal the corporate website with all the specialised financial information they need and also the shareholder office, which is the meeting and service point for non-controlling interests.

For its part, Naturgy continues to make available to analysts and investors the economic, financial and sustainability information that allows them to monitor the group's business project. Along this line, during 2022 representatives of the company's management team and the Rating and Capital Market Department held 140 meetings with analysts and institutional investors. It should be noted that the necessary caution in communicating with the markets following the launch of the Gemini project, announced in February 2022, has led to a slight reduction in the number of interactions with analysts and investors compared to the previous year.

• Communication channel indicators

	2022	2021
Meetings with shareholders and analysts	140	152

The number of contacts with investors during 2022 was unusually low compared to previous years, mainly due to the fact that work on the Gemini project was carried out internally for a large part of the year, which made it advisable to keep a low profile in the markets given the limited information that could be passed on to analysts and investors during the process.

It should be noted that, since 2012, Naturgy has been holding meetings with investors focused on assessing the group's ESG policies. Throughout 2022, Naturgy has continued with this activity, participating in meetings and engagement processes with several investors, including Santander, BNP Paribas, Amundi and Axa IM.

Dialogue with customers and related groups

	Frequency
Consultation actions	
Development of focus groups with customers to collect opinions and opportunities for improvement	Ongoing
Consumer surveys and monitoring of Internet users to find out the degree of digitalisation of the company and companies in the sector	Ongoing
Surveys on the customers' opinion in general and following contact	Ongoing
Surveys of reasons for abandonment (of energy and services)	Ongoing
Concept, price and product testing between customers in different markets	Occasional
Co-creation with specialists and consumers	Occasional
Active participation in forums related to energy vulnerability	Ongoing
Meetings with installer associations	Periodic
Proactive digital communications to customers and installers about progress in gas registration status. Both parties have visibility on milestones reached and next steps and become active subjects that contribute to shortening time frames	Occasional
Informative actions	
Regular meetings with public administrations (social services, energy poverty committees, etc.) and working groups with the administration	Ongoing
Regular meetings with officials and consumer protection agencies	Ongoing
Webinars with installers and associations to publicise the new services and features available on the website	Occasional
Sending of informative contents about the new functionalities and services offered on the website, as well as advice and news of interest	Periodic
Sending communications about the registration and contracting processes to improve the new customer's joining experience	Occasional
Sending informative content about agreements with third party companies that offer advantages and benefits to customers	Occasional
Development of focus groups - dynamics with Contact Centre agents/coordinators and back offices to gather feedback on main reasons for customer contact, management and process/operational pain points, and opportunities for improvement	Ongoing
Dynamics of listening to internal customer contacts (Voice, Mail, digital) to identify opportunities for improvement in processes, operations, training, etc.	Ongoing

Dialogue with employees

	Frequency
Consultation actions	
Meetings with the management team	Periodic
Virtual meetings between teams	Ongoing
Measuring NPS employee promoters and eNPS	Quarterly
Work environment survey	Monthly
Employee Satisfaction Survey (Happiness Index)	Daily
Incident and occupational accident reporting	Periodic
Informative actions	
Information in corporate communication channels	Ongoing
Direct informative e-mail to each employee	Periodic
Specific space on the Strategic Plan 21-25	Periodic

Dialogue with suppliers

	Frequency
Consultation actions	
Channel for complaints and queries on the Supplier Code of Ethics	Ongoing
Audits of ESG and audits on the approval of activities	Periodic
Development of action plans derived from performance assessments	Periodic
Relationship with strategic suppliers in order to strengthen partnerships	Ongoing
Survey on Naturgy's image and reputation (Brazil)	Occasional
Informative actions	
Supplier portal and supplier channel	Ongoing
Specific communication on new requirements for carbon footprint measurement at suppliers	Occasional
Communication and webinar for suppliers invited to participate in CDP Supply Chain	Occasional
Supplier development through Extended Academy training delivery	Ongoing
Communication on Business Courtesies Policy (Brazil)	Ongoing

Dialogue with society

	Frequency
Informative actions	
Energy Perspectives: a series of conversations that brings together figures recognised internationally for their experience, vision and knowledge of the energy sector and entrepreneurs, regulators, managers and academics	Periodic
Foundation publications on various subjects	Ongoing
Participation in forums and round tables related to the energy sector in general and ESG issues in particular	Ongoing
Participation as a leading company in the Social Impact Cluster spearheaded by Forética, a forum aimed at integrating social impact into corporate sustainability strategies	Ongoing

Environmental communication and awareness: dialogue with stakeholders

The principles of action of Naturgy's Global Environmental Policy include transparency, awareness, dissemination of knowledge on energy and the environment and constructive dialogue with stakeholders.

The activities developed in 2022 included the following:

- Participation in collaborative initiatives to improve the environment, including:
 - Sustainable Development and Environment Commission of the Confederation of Employers and Industries of Spain (CEOE).
 - Communication and Sustainability Commission of the Spanish Chamber of Commerce.
 - Circular Economy Commission of the Spanish Chamber of Commerce.
 - Forética's Business Council for Sustainable Development.
 - Forética's Climate Change, Circular Economy, and Biodiversity clusters.
 - Working Group on Natural Capital and Energy, together with other companies in the sector (Cepsa, EDP Spain, Enagás, Endesa, Red Eléctrica Group, Iberdrola and Repsol) to implement a standardised framework for assessing the natural capital impact of the Spanish energy sector.
- Inclusion in pacts and initiatives for the environment:
 - Biodiversity pact and participation in the Spanish Business and Biodiversity Initiative.
 - Pact for a Circular Economy of the Ministry for the Ecological Transition and the Demographic Challenge of Spain.
- Participation in congresses, round tables and media publications disseminating experiences and knowledge in the fields of climate change, energy transition, just transition, the circular economy and biodiversity. It is worth highlighting the participation in COP27, in the Net Zero Spanish Business Forum and the sponsorship of the National Environmental Congress (CONAMA) held in Spain in 2022.
- Organisation of webinars for internal and external dissemination on environmental and sustainability issues.
- Customers can access information to encourage energy saving and efficiency measures on the website.

As a cross-cutting measure, a specific working group, in which all businesses and countries participate, coordinates activities related to biodiversity and natural capital to promote the dissemination of good practices. Likewise, company employees and their families are invited to participate in environmental volunteer programmes that encourage the development of individual attitudes and behaviour of respect and protection of the natural environment.

The Naturgy Foundation has also carried out numerous initiatives to disseminate, train, inform and raise awareness in society on energy and environmental issues. For example, we collaborate with public administrations, universities, conservation associations, other companies in the sector and various entities in protection initiatives, as well as in the creation and dissemination of technical knowledge to improve the protection of biodiversity and the development of natural capital.

It should be noted that, to ensure effective communication with external stakeholders, a number of formal grievance mechanisms are in place within the company. There is great value in receiving environmental complaints in an orderly way, as it provides an opportunity to improve environmental management. During 2022, 1,153 environmental complaints or claims were registered, 988 of which were resolved during the year with no relevant actions required, the rest being in the process of resolution.

2. Presence in trade associations

[2-28]

Naturgy carries out permanent work with its stakeholders and its participation in associative entities is essential in contributing to social dialogue and the construction of better public policies sought by the company. The entities in which Naturgy participates include the Spanish Association of the United Nations Global Compact, Forética, and the Foundation for Environmental Sustainability (FUNSEAM).

Since 2019, Naturgy has had an Institutional Relations policy which, among other matters, regulates these initiatives. At the end of 2022 Naturgy was involved in more than 150 major partnerships with an investment of 2,575,829 Euros per year.

Given Naturgy's involvement and its strict commitment to sustainability and the fight against climate change, in 2020 it was decided to review and analyse the position in these areas of the main entities in which the company participates. The analysis made it possible to identify a group of entities with relevant actions in these matters¹ and another group with an uneven degree of formalisation of these commitments. We also ruled out that none of these associations is not aligned with the commitment that Naturgy has in the fight against climate change, in the many ways it can manifest itself.

This analysis was systematised following the update of Naturgy's Institutional Relations Policy, which has incorporated verification requirements regarding positioning in the fight against climate change as a prior step to joining new associative entities. This requirement responds to one of the climate action principles reflected in the latest revision of the Environment Policy, whereby participation in entities or alliances with third parties is conditional upon their alignment with the climate policies emanating from the Paris Agreement.

Lastly, it is worth mentioning that during the last year there have been no political contributions in coherence with the provisions of action principle 9 of the group's Code of Ethics.

¹ Some of the entities, with current membership, identified are: Asociación Empresarial Eólica, Asociación Empresarial para el Desarrollo del Vehículo Eléctrico (AEDIVE), Asociación Española de Gas Natural para la Movilidad (GASNAM), Spanish Chamber of Commerce, Círculo de Economía, Círculo de empresarios, Club Español de la Energía, Confederation of Employers and Industries of Spain (CEOE), Eurogas, European Biogas Association (EBA), Forética, Foment del Treball, Confederación de empresarios de Galicia (CEG), Fundación COTEC para la Innovación, Fundación de la Energía de la Comunidad de Madrid (FENERCOM), Fundación Empresa y Clima, FUNSEAM, Global Compact, Global Reporting Initiative, Groupe International des Importateurs du Gas Natural Liquefié (GIIGNL), International Gas Union (IGU), Plataforma Tecnológica Española de Redes Eléctricas (FUTUREDD), Associação Brasileira das Empresas Distribuidoras de Gás (Abegás), Asociación de Gas Natural (AGN Chile), Cámara Española de Comercio de la República Argentina (CECRA), Asociación Mexicana de Energía Eólica, Real Instituto Elcano, Sedigas, Unión Española Fotovoltaica (UNEF) and World Economic Forum, where it has joined the CEO Climate Leaders alliance.

3. Reputation and perception

Reputation is an indicator that Naturgy has incorporated into its process of measuring society's perception of the company's activity in general. The indicator comprises four concepts which are: esteem, admiration, good impression and trust (Reprtrak Pulse Model).

In this regard, in 2022 Naturgy continues to be the reputational leader in its sector, with a value of 57.3 points (on a scale of 100). This result places it above the other energy companies in Spain, confirming the company's good performance in the current context. The aspects in which Naturgy continuously stands apart from its competitors are product and conduct, which are the two axes that contribute most to the reputation of the companies in the sector.

Likewise, the Naturgy brand has achieved in 2022, according to studies conducted by GFK, its best results in terms of both suggested awareness (85%) and spontaneous awareness (48%). Consolidating its position as the third brand in the minds of consumers in the energy sector in all indicators, improving especially in the attributes of "renewable energy and care for the environment" and "contribution to society and offering solutions to combat energy poverty".

As regards brand value, in the latest study of the most valuable Spanish brands carried out by BrandZ, Naturgy holds 7th position, with a brand value of US dollars 4,680 million, being the only one in its sector to grow with respect to the previous year, specifically by 11%.

4. Indices and acknowledgements

Presence in sustainability indices

Various analysts and rating agencies regularly assess Naturgy's performance in environmental, social and good governance matters. In the sustainability assessment conducted by S&P Global in 2022, the company received a rating of 87 points out of 100. Although this score is an improvement on the score obtained in 2021 and represents the company's best score in the last 5 years, it has not allowed Naturgy to join the Dow Jones Sustainability Index. Despite this, Naturgy considers this circumstance as an opportunity to identify potential areas for improvement on which it is already working to regain the leadership position it has traditionally held in the index.

Nevertheless, the company continues to rank highly in other sustainability indices, analyst assessments and rating agencies:

- FTSE4GOOD Index, a member since its inception in 2001.
- The MSCI rating agency gives it the highest rating (AAA).
- Sustainalytics, in which it maintains a low risk profile compared to the 712 utilities evaluated.
- ISS ESG, in which it remains in the top 10% of companies in the sector.
- Moody's ESG solution gives a score of 60 out of a maximum of 100, which places Naturgy in an advanced performance category.
- Euronext Vigeo, Naturgy continues to be part of this index in its variants, Europe 120 and Euro 120, based on the assessment carried out by Moody's ESG solution.
- Ecovadis, a global provider of corporate sustainability ratings, awarded Naturgy the platinum medal for its performance in environmental, social and governance issues.
- CDP, Naturgy has been recognised once again as a world leading company for its action against climate change.

The presence of Naturgy on these sustainability indices, as well as the analysts' and rating agencies positive assessment endorses the efforts made by the company in areas of corporate responsibility and transparent reporting, and represents external recognition of its excellent evolution in these fields.



Acknowledgements

In 2022, Naturgy's work and team were recognised with various awards and accolades:

- Francisco Reynés was recognised as Leader of the Year by the digital media Merca2.
- El Periódico de la Energía has given Naturgy the business award for the Best Environmental Integration Initiative of the sector for the environmental mining recovery project of the Meirama Lake.
- The Naturgy Foundation was recognised in the 'Solidarity Company' category at the XXI Codespa 2021 Awards, for its social programmes to combat energy vulnerability.
- Naturgy won first prize in the brand category for its case for change and brand building at the 14th edition of the awards organised by the Spanish National Marketing Association.
- Naturgy won second prize in the advertising category at the 33rd edition of the La Vanguardia Advertising and Creativity Awards for its branded content campaign Neighbours of the world (Vecinos del mundo).
- Gas and electricity distributors in Spain received awards at the 10th edition of the enerTIC Awards, which recognised UFD's 'Automation of Procedures and Licences' project, in the R&D&I for Sustainability category, and Nedgia's 'Dynamic Maintenance' project, in the Zero Emission category.
- The Vocational Training Programme for Employability in the field of energy of the Naturgy Foundation received recognition from Forética as one of the 28 business initiatives that demonstrate the leadership of companies in the field of green employment and just transition.

In addition, the Commitment and Talent chapter details the recognitions and awards that Naturgy holds in relation to people management.

05. Integrity and trust

Naturgy's contribution to the SDG



One of Naturgy's guiding principles is to be a company where integrity and trust are the foundations on which the business model is based. The company also aspires to be responsible, transparent and committed to all its stakeholders (employees, suppliers, customers and the people in its working environment, among others).

In order to adequately manage risk, Naturgy has a set of rules, the cornerstone of which is the **Code of Ethics**, which is developed and supplemented by a set of policies that govern the conduct and management of the company by its directors, employees and suppliers. In addition to internal regulations, Naturgy has a number of safeguards in place, such as internal audits and a reporting channel.

The **corporate governance** of Naturgy is governed, in addition to integrity and trust, by the principles of efficiency and transparency in each of its actions, as established by the main recommendations and existing national and international standards. A well-developed human rights protection policy, the exercise of proper taxation, and the anti-fraud plans in place in the company are some examples of the measures developed to ensure these principles.

The Board of Directors is responsible for ensuring the good governance of the company. The Board, through its various committees, is responsible, inter alia, for overseeing the company's risk analysis, including environmental, social and ethical issues. In this regard, Naturgy's **Risk Management Model** seeks to ensure predictability of the company's performance in all relevant aspects for its stakeholders.

Among the existing risks, digitalisation takes on greater importance due to the increase of threats and risks related to information systems. This is why cybersecurity is becoming more important and Naturgy has a governance system in this area for the entire organisation.

Moreover, with digitalisation, ensuring privacy and data protection is also an important issue. Naturgy complies with the provisions of Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, as well as with all regulations related to this matter in Spanish legislation.

Naturgy, aware that the risk in relation to the integrity of the company goes far beyond its operations, has a policy for managing its supply chain, as inadequate performance by its suppliers and contractors in terms of the environment, health and safety, human rights, labour practices or corruption could damage the integrity of the company. Naturgy has systems in place to analyse and select suppliers, ensuring that the supply chain adheres to the principles set forth in the company's Code of Ethics through the **Supplier Code of Ethics**, in order to minimise these risks and ensure effective management.

1. Integrity and trust in 2022 at Naturgy

Evolution and results

▪ Integrity and transparency

[2-16] and [2-26]

	2022	2021
Communications received by the Ethics and Compliance Committee	61	96
No. of notifications received per 200 employees	1.2	1.7
Average time for resolving notifications (days)	78	74
Audit projects analysed on the basis of the risk of fraud	89	97
Notifications received in the area of human rights	0	0
Number of persons trained on the Human Rights Policy. Accumulated data ⁽¹⁾	7,205	6,948

⁽¹⁾ Accumulated data. 257 persons trained on the Human Rights Policy in 2022.

The increase in the average resolution time is due to a greater complexity in the investigation of the complaints received, although in any case, the resolution times are within the limits established by the Code of Ethics channel's operating regulations, which generally set them at 90 days.

▪ Code of Ethics notifications

	2022	2021
Queries	18	35
Complaints	43	61
Total	61	96

▪ Code of Ethics chapter to which complaints refer

	2022	2021
Respect for the individual	16	16
Corruption and bribery	12	21
Loyalty to the company and conflict of interest	1	8
Occupational health and safety	4	5
Environment and asset protection	1	2
Other	9	9
Total	43	61

NB: further information can be found in the Reporting channel section of this chapter.

▪ **Responsible supply chain management**

[204-1] and [414-2]

	2022	2021
Total number of suppliers ^{(1) (2)}	5,951	5,995
Total purchase volume awarded ^{(2) (3)} (million euro)	2,643	2,470
Assessment of ESG suppliers ⁽⁴⁾ (number)	6,065	6,101
Number of critical suppliers ⁽⁵⁾	1,241	1,247
Official-approval suspended suppliers (number)	1	0

(1) These data include information from Argentina, Australia, Brazil, Colombia, Costa Rica, Chile, the Dominican Republic, Morocco, Mexico, Panama, Spain and USA. The other supply chain indicators in the report do not include information from Australia, the United States and the Dominican Republic, as detailed information is not available. The information for Morocco relates to residual operations carried out before the cessation of activity in Morocco.

(2) There has been an increase in the volume of purchases awarded in Renewables and New Businesses and innovation, in line with the company's Strategic Plan 2021-2025.

(3) Environmental, Social and Governance (ESG). The ESG assessment of suppliers is carried out in the main subsidiaries of the group where the Achilles tool is implemented, and through which the business classification of suppliers is carried out. The number of ESG suppliers assessed includes both the awarded suppliers and the potential suppliers that have qualified to participate in a Naturgy bidding process.

	Target 2022	2022	2021
Purchase volume assigned to local suppliers ⁽¹⁾	> 85%	80.41 %	92.22 %
Coverage level of ESG audits over purchase volume with high ESG risk	> 75%	82.65 %	72.21 %
Percentage of purchase volume with acceptance of the Code of Ethics	> 95%	95.42 %	94.22 %

⁽¹⁾ Local supplier: supplier located in the same geographical area where the purchases are made.

The increase in procurement for the development of renewable projects and the global nature of the suppliers of products for these technologies has a direct impact on the volume of procurement from local suppliers, which is decreasing compared to 2021.

Highlights of the year

– **Compliance:**

- Implementation of a new company-wide Code of Ethics Channel tool that complies with the standards of the Whistleblowing Directive Bill.
- Approval by the Management Committee of the Corporate Services Policy, which reinforces existing control mechanisms on corruption and conflicts of interest.
- In 2022 Naturgy has taken a significant step forward in its due diligence procedures and third party risk analysis after the successful implementation of a new tool that integrates ESG issues, resulting from the joint work of the procurement, environment and social responsibility, and compliance areas.
- During 2022, there is no record of any human rights violations received through the Code of Ethics Channel or otherwise, so no remedial action was required in this area.

– **Corporate governance:**

- Review of the Director Selection Policy and other governance rules to adapt them to the latest developments in the Corporate Enterprises Act.
- Approval of a new Directors' Remuneration Policy aligned with Naturgy's Strategic Plan and aimed at promoting long-term profitability and sustainability.

– **Security and privacy:**

- Naturgy received 73 requests for information from the Spanish Data Protection Agency, all of which were duly dealt with and, at the date of writing this report, none of them had resulted in a sanction.
- Conducting cybersecurity incident response simulation exercises in each of the businesses and countries of operation on an annual basis.
- Zero infrastructure incidents.

– **Integrated and responsible management:**

- In 2022 AENOR audited the integrated quality, environment, health and safety management system (IMS), certified according to the requirements of the ISO 9001, ISO 14001 and ISO 45001 standards.

– **Supply chain:**

- Application of a new criterion in procurement processes, including a progressive assessment of the carbon footprint measurement of suppliers in bidding processes. In addition, and to contribute to the training of suppliers in ESG aspects, Naturgy is part, as a driving company, of the “Training Programme: Sustainable suppliers” in partnership with the Spanish UN Global Compact Network, focused on training SMEs suppliers of large companies in specific areas of the Ten Principles of the Global Compact and the Sustainable Development Goals (SDGs).

2. Compliance

[2-23] and [2-24]

Integrity and trust compliance is one of the challenges that Naturgy faces in a coordinated manner. The company is convinced that the entire organisation must have a uniform approach to action, framed within the company's [Code of Ethics](#) and under a compliance management model.

The body of regulations is based on the Code of Ethics, which is complemented by the [Supplier Code of Ethics](#), the Crime Prevention Model, the [Compliance Policy](#), the [Anti-Corruption Policy](#), the [Human Rights Policy](#) and other control standards and models that ensure the efficiency of operations in each of the company's areas.

Internal audit is the independent and objective assessment activity that ensures and safeguards the overall control system of the company and the external and internal regulations.

Part of being a company of integrity is observing and strictly complying with tax obligations. For this reason, Naturgy has a tax strategy and a [Tax Risks Control and Management Policy](#), that governs the basic principles for Naturgy's tax function and the main lines of action to mitigate and adequately control tax risks.

On the other hand, a commitment to integrity means not only understanding and managing one's own risks, but also taking into account the potential risks that the company's activities may have on people and the environment, and including them in decision-making. Against this backdrop, Naturgy's Human Rights Policy is of particular importance. The policy's ten commitments take into account the stakeholders who may be affected by the company's activities, particularly those who are most at risk.

The following sections detail each of the elements that Naturgy considers essential to meet the expectations of a responsible company.

1. Compliance management model

[2-23], [2-25] and [2-26]

As mentioned above, the compliance management model encompasses all the company's actions to ensure compliance with the precepts of integrity and trust. To this end, Naturgy has a model based on a series of commitments set out in its policies, supervisory bodies and safeguard mechanisms.

During 2022, a number of improvements were made to the compliance management system:

- In July, a new company-wide Code of Ethics Channel tool was introduced, which is more agile, traceable, with more secure and certified software in Europe and compliant with all the standards of the Whistleblowing Directive Bill. In this way, Naturgy is ahead of regulatory requirements and gets a head start on this issue.
- As an essential part of the due diligence processes and to improve the risk analysis of the counterparties with which the company has dealings, a new analysis tool has been successfully implemented which visually and globally covers all the risks associated with counterparties and which must be taken into account in any analysis (sanctions, adverse media, geopolitical risk, politically exposed persons, SOEs, ESG aspects, etc.).
- The implementation of this risk monitoring and analysis tool is part of a joint project with the purchasing, environment and social responsibility and compliance areas that aims to standardise the risk assessment of both suppliers and counterparties under the Counterparty Due Diligence Procedure. It represents a significant improvement in the ESG area by incorporating specific environmental, social and governance risk analyses into third party analyses that will determine the suitability of contracting with such third parties.
- On 24 November, the company's Management Committee approved a new Business Courtesies Policy that replaces the previous one to adapt it to the new business and social circumstances and which reaffirms Naturgy's commitment to the prevention, detection and eradication of irregularities related to breaches of the Code of Ethics, the Anti-Corruption Policy and the established internal rules. This policy reinforces existing control mechanisms on corruption and conflicts of interest.

Code of Ethics and related policies

[2-23]

The Code of Ethics of Naturgy, formulated and approved by the Board of Directors, is the document that establishes guidelines that must govern the ethical behaviour of managers and employees of the company in their daily work, with regard to relationships and interactions with all its stakeholders. The code sets out the undertakings entered into by Naturgy in the fields of good governance, corporate responsibility and questions of ethics and regulatory compliance.

Since 2005, when it was adopted, the Code of Ethics has been regularly renewed to adapt it to the new situations that affect the company. It was last updated in 2021.

In addition, the company has developed a set of rules with various guidelines that reinforce and extend the principles formulated in the Code of Ethics.

The main compliance policies approved by the company are as follows:

	What it is	Targets
Compliance Policy	It establishes the roles and responsibilities for the compliance management system. Effective from 2019.	<ul style="list-style-type: none"> – Promote a culture of compliance and zero tolerance of non-compliance. – Ensure, through prevention, detection, monitoring, training and response activities, the organisation's compliance with external and internal regulations. – Avoid possible sanctions, financial losses and reputational damage.
Anti-Corruption Policy	It establishes the principles for all employees and managers of Naturgy companies. This complies with national and international legislation in this matter.	Guide the conduct of employees and managers in the face of any corrupt practices within the company, through: <ul style="list-style-type: none"> – Prevention. – Detection. – Research. – Remedy.
Business Courtesies Policy	It establishes the conditions under which Naturgy's directors and employees may accept or offer business courtesies to business counterparties in the performance of their professional duties.	<ul style="list-style-type: none"> – Avoid improperly influencing their commercial, professional or administrative relations with both public and private entities. – It must comply with the principles set out in the Code of Ethics, the Compliance Policy and the Anti-Corruption Policy.
Conflict of Interest Policy	Its purpose is to implement the provisions of chapter 4.10. "Loyalty to the company and conflict of interest" in the Naturgy Code of Ethics, which establishes that Employees must act with loyalty and in the best interests of Naturgy.	<ul style="list-style-type: none"> – Establish the guidelines for action to be followed by Employees in the event of a conflict of interest situation, based on the principles of loyalty, abstention and transparency for the resolution of these situations. – It must comply with the principles set out in the Code of Ethics, the Supplier Code of Ethics, the Compliance Policy, the Anti-Corruption Policy and the Internal Code of Conduct on Matters Relating to Securities Markets and Treasury Stock Policy (ICC).
Counterparty Due Diligence Procedure	Its purpose is to ensure that all areas of the Naturgy group carry out analyses, corruption and reputational risk assessments and their monitoring in an efficient and uniform manner, when third parties are involved in the business relations of the companies that make up the Naturgy group.	<ul style="list-style-type: none"> – Comply with the principles set out in the Code of Ethics, the Crime Prevention Model, the Compliance Policy and the Anti-Corruption Policy.
Supplier Code of Ethics	Its purpose is to establish guidelines for the ethical behaviour of its suppliers, contractors and external collaborators.	<ul style="list-style-type: none"> – Comply with the principles set out in the Code of Ethics, the Crime Prevention Model, the Compliance Policy and the Anti-Corruption Policy. – It includes the commitments derived from the United Nations Global Compact. – It determines the guidelines for conduct in the social and labour, ethical and good governance, health and safety, environmental and quality areas.

The main policies in the area of compliance are accessible to all our stakeholders through our corporate website. In addition, the Counterparty Due Diligence Procedure is hosted in Naturgy's internal regulatory navigator tool and on the company's intranet, being accessible to all employees, thus facilitating their knowledge and application of the due diligence processes.

Supervisory bodies

The Ethics and Compliance Committee works to disseminate the Code of Ethics and it also functions as advisor in the event of any doubt or conflict concerning the same. The Ethics Committee is supported by the Compliance Unit by monitoring compliance with external regulations and the policies and procedures implemented in the group to mitigate the main risks in this area. These include legal, corruption and fraud.

Also, the Compliance Unit takes charge of the dissemination of the Code of Ethics of Naturgy by overseeing compliance with its provisions and the Anti-Corruption Policy. This unit reports regularly to the Ethics and Compliance Committee and the Audit and Control Committee (a delegated committee of the Board of Directors) on the activity carried out in the exercise of its functions. It also provides regular reports, covering the most relevant matters related to the dissemination of and compliance with the Code of Ethics and the Anti-Corruption Policy, and monitors their main indicators.

During 2022, the Ethics and Compliance Committee has held four working meetings, among which, in addition to analysing the monitoring of the main indicators in the area of compliance, special attention was paid to the monitoring of complaints received through the Code of Ethics Channel and the proposal of appropriate measures to close them, and also to the analysis of the counterparties that, due to the singularities presented, have been submitted for analysis by the Compliance Unit.

Safeguard mechanisms

[2-16]

In addition to the Code of Ethics and specific oversight bodies, the compliance management model is complemented by other safeguards to help minimise the potential risks from possible breaches. These mechanisms are:

- Crime Prevention Model.
- Channels for reporting possible non-compliances.
- Counterparty Due Diligence Procedure.
- Dissemination and training actions.

Crime Prevention Model

The company has an international Crime Prevention Model which is updated annually. Thus, in 2022, the model has continued to be adapted to the new organisational structure operated within Naturgy.

From an organisational standpoint, the Board of Directors assigned the functions of autonomous body, described in Organic Law 1/2015, to the Ethics and Compliance Committee, which is responsible for taking significant decisions in relation to the regular monitoring and supervision of the operation of and compliance with the Crime Prevention Model.

The Compliance Unit is in charge of managing the Crime Prevention Model and, in collaboration with the different units affected, assesses the risks in the models it develops.

Given the importance of having a tool that ensures proper management control of the Crime Prevention Model, a SAP GRC Process Control is administered and used for comprehensive management of the documentation, assessment and supervision of the model.

Each year, this model is assessed by an independent third party. During 2022, the AENOR UNE 19601 certifications relating to Criminal Compliance and ISO 37001 relating to Anti-bribery were renewed. With regard to the evaluation of the system by an independent third party expert, it will be carried out in the first months of 2023 in order to be able to fully measure the design and effectiveness of the Crime Prevention Model during the year.

Worldwide, Naturgy is also deploying crime prevention models gradually in countries with laws governing the civil liability of legal persons.

While the Crime Prevention Model identifies all criminal risks applicable to Naturgy in accordance with article 31 bis of the Criminal Code, the fight against fraud, corruption and the criminal risks related to money laundering are the most important ones, on which more information is provided below.

Anti-fraud and anti-corruption plans

[2-16]

Naturgy's mechanisms to ensure the proper implementation of the Anti-Corruption Policy and to prevent, detect, investigate and sanction cases of corruption:

- Monitoring of the operation and assessment of the effectiveness of the organisation, control and compliance models implemented in the different corporate and business areas of Naturgy, especially the Crime Prevention Model.
- Employees, as well as Naturgy's stakeholders, have at their disposal channels so that they can bring to the attention of the Ethics and Compliance Committee any non-compliance or irregular or suspicious behaviour in this area. Communications can be made on the Naturgy Code of Ethics website (<https://naturgy.integrityline.com/frontpage>). Through this channel, whose link is also accessible through Naturgy's corporate website, the Compliance Unit, together with the internal audit, resources or other areas of the company whose intervention is required, carries out the relevant investigations arising from reports of corruption and bribery. If the reported behaviour is confirmed, and in application of the Channel Operating Regulations of the Code of Ethics, the imposition of sanctions and the adoption of the corrective measures deemed appropriate are foreseen.
- Regular declaration by all employees, in which they must formally state that they know and comply with the principles established in the Code of Ethics, the Compliance Policy and the Anti-Corruption Policy was launched in 2022. Likewise, for those employees considered particularly exposed either because of their area of dedication or because of the position they hold in the company, the declaration is annual.
- Business courtesies policy, the purpose of which is to regulate the conditions under which Naturgy's directors, managers and employees may accept/offer business hospitality from/to third parties within the framework of the performance of their professional duties, which are legitimate, reasonable, proportional and appropriate to the level of the offeror and the recipient, so as to ensure effective compliance with the principles of objectivity, impartiality and transparency established in the Code of Ethics and in Naturgy's Anti-Corruption Policy. The Policy is established as a basic framework for anti-bribery compliance in accordance with the international standard UNE-ISO 37001, on anti-bribery management systems.
- Conflict of interest policy that seeks to establish mechanisms to identify situations of conflict of interest in order to minimise it so that it does not become a risk of fraud and corruption.

During 2022, in Spain, there were no confirmed cases of corruption received through the Code of Ethics Channel or otherwise, so no remediation measures had to be taken in this area.

Prevention of money laundering

[2-25]

Naturgy has the mechanisms, procedures and policies that seek to prevent and, where appropriate, detect and react to those possible breaches in the area of prevention of money laundering that are detected in the performance of its activity.

Prevention	Detection	Reaction and response
Code of Ethics. Anti-Corruption Policy. Counterparty Due Diligence Procedure. General standard for hiring external advisors. Procedure for granting signature levels. Internal Control Procedure for processing payments and cash movements PE.00004. GN-EF. Compliance Policy Committee on Expenditure and Investment (TOTEX)	Review and auditing of the Crime Prevention Model by an independent third party. Reviews of the Internal Audit Area. Internal control system on financial reporting. Reporting channel.	Code of Ethics Channel operating regulations. Disciplinary regime. Collaboration with competent authorities in each country when faced with suspicious situations.

Reporting channel

It is a mechanism that arises for Naturgy employees to acquire a high level of commitment to compliance with its Code of Ethics and Anti-Corruption Policy. Its breach is analysed according to internal disciplinary procedures, legal regulations and existing agreements.

In 2022, as mentioned above, a new Code of Ethics Channel tool has been implemented, which is more agile, traceable, with more secure and certified software in Europe and which complies with all the standards of the Whistleblowing Directive Bill. The new Channel is available through Naturgy's external website and the company's intranet (<https://naturgy.integrityline.com>).

Following the entry into force of the new Organic Law on Data Protection and Guarantee of Digital Rights, and in accordance with the provisions thereof, the Naturgy reporting channel allows for anonymous consultations and whistleblowing. In 2022:

- 37.2% (26% in 2021) of the notifications were related to the principle of respect for people, and they were all solved appropriately.
- No complaints were received concerning labour or child exploitation issues or in relation to the rights of local communities and human rights.
- Seven disciplinary situations (two misdemeanours and five serious offences) from complaints made to the Code of Ethics Committee, or from situations covered in the Code of Ethics or the Anti-Corruption Policy have been handled. These disciplinary situations have been resolved through temporary suspensions of employment and pay and reprimands. It was not necessary to repair damages relating to impacts caused by human rights cases.

Counterparty Due Diligence Procedure

Naturgy has a Counterparty Due Diligence Procedure to know and analyse the counterparties with whom the company operates and thus evaluate the associated corruption and reputation risks.

Through application of this Procedure, Naturgy ensures that all areas of the group carry out analyses, corruption and reputational risk assessments and their monitoring in an efficient and uniform manner, when third parties are involved in the business relations of the companies that make up the Naturgy group.

The application of this Procedure complements, and does not replace, the third-party assessments already established by Naturgy's regulatory body and which must be carried out by other units, such as Purchasing or Risks.

During 2022, a new risk analysis tool was implemented, as indicated in the main milestones section, and the preliminary compliance risk analyses were data processed by implementing initial risk assessment forms via the corporate intranet. Since the implementation of the tool in July 2022, all counterparties have been assessed for, among other things, corruption risks.

Dissemination and training actions

Naturgy regularly carries out training initiatives based on the programme with the aim of raising awareness of the importance of fighting against corruption and ensuring that directors, employees and suppliers are given enough and appropriate information to act accordingly. Some of these regular initiatives include the following:

- Update of the Naturgynet space dedicated to compliance.
- Periodic report to the Board of Directors on the activities of the Ethics and Compliance Committee (notifications received, activities carried out, etc.).
- Training course on Crime Prevention Model, Code of Ethics and Anti-Corruption Policy.
- Specific training in relation to the Crime Prevention Model and Anti-Corruption Policy for new employees and directors.
- Presentations in Boards of Directors and Management Committees of the Crime Prevention Model.

During 2022, and on the occasion of the implementation of the new risk analysis tools for counterparties and the new Code of Ethics channel, face-to-face training sessions were held in this area to raise awareness among the business units of the importance of due diligence processes and of reporting any breaches detected in the area of corruption through the Code of Ethics channel tool.

Additionally, the compliance area has held several webinars as part of the 5 months 5 causes programme, among which three are particularly relevant in this area:

- Webinar on corruption risks, which covered topics such as:
 - Know in which situations a corruption risk may occur
 - Know what risks I run as an individual and what risks the company runs (criminal and reputational)
 - Know the principles of the Anti-Corruption Policy
 - Know the principles of the Institutional Relations Policy
 - Know how I can apply the Business Courtesies Policy
 - Know the Conflict of Interest Policy
 - What should I do if I have any queries, concerns or to report non-compliance?
- Webinar on “the laws that apply to my activity and the crimes I can commit if I do not comply with them” which covered issues such as:
 - Criminal risks at Naturgy - Risk map
 - Consequences of non-compliance for Naturgy and people
 - Why is a Crime Prevention Model necessary?
 - The importance of a documented control system to mitigate risk
- And finally, a detailed explanation of the risks to which the company may be exposed when it does not know with whom it does business or whom it contracts as a basis for due diligence in all contracting.

Non-compliances and fines

[2-27], [417-2]

The penalties imposed on Naturgy with a value of more than Euros 10,000 and considered final in administrative proceedings during 2022 are detailed in this section. This is without prejudice to any legal action that may be taken against them and which could lead to their annulment.

In Spain, the electricity distribution company (UFD) has been fined a total of Euros 30,000 for delays in service provision. Finally, related to the commercialisation business, Naturgy has been fined Euros 19,500 for failing to comply in due time and form with the requirements formulated by the administration, two fines totalling Euros 34,500 for improper contracting of supply and maintenance contracts, five fines amounting to Euros 173,605 for introducing abusive clauses in contracts and two fines amounting to Euros 108,000 for breaches of data protection.

The company recorded no fines in 2022 for monopolistic practices or related to information and labelling of products and services.

Internal auditing

Assurance function of Internal Audit

For Naturgy, Internal Audit is an independent and objective assessment activity. For this reason, the Internal Audit Unit reports to the Audit and Control Committee of the Naturgy group.

Its mission is to guarantee the ongoing review and improvement of the group's internal control system, and to ensure compliance with external and internal regulations and the established control models. Its purpose is to safeguard the effectiveness and efficiency of operations and to mitigate the main risks in each of the company's areas. Likewise, it is responsible for drawing up the report on the internal audit activity to the Audit and Control Committee.

In the performance of its activity, Internal Auditing methodically reviews the internal control system of the group's processes in all areas, and also assesses the risks and controls associated with these processes, through definition and introduction of the Annual Internal Audit Plan.

The methodology for the assessment of risks is in accordance with best corporate governance practices, based on the conceptual framework of the COSO Report (Committee of Sponsoring Organisations of the Treadway Commission) and on the basis of the types of risks defined in the company's Corporate Risk Map.

In 2022, 127 (128 in 2021) internal audit projects were carried out, 89 (97 in 2021) of which corresponded to the review of processes associated with the main risks of the service and business executive departments at Naturgy. The analyses carried out reached 100% of the service and business executive departments. In the projects performed in 2022, no significant incidents related to corruption were detected.

Taxation

Tax policy

For Naturgy, the company's tax policy must have well-defined basic lines, so that all the players involved are clear about all the procedures to be followed and those that will be followed.

All of Naturgy's tax policies are aligned with:

- The **Naturgy Corporate Responsibility Policy**, in which one of the commitments and principles of action is to “adopt responsible business management practices and comply with all tax obligations in all jurisdictions in which the company operates, accepting the commitment to accountability and collaboration with the corresponding tax agencies.”
- The **Naturgy Code of Ethics** establishes that “all employees of the group must comply with the laws in force in the countries where they conduct their activities, thereby heeding the spirit and objectives of the laws and behaving ethically in all their actions.”
- The **Code of Best Tax Practices (CBTP)**, approved on 20 July 2010 by the Plenary session of the Large Companies Forum, a body established by the Spanish National Tax Agency with Spain's largest companies, including Naturgy Energy Group, S.A. The CBTP contains recommendations by the tax authorities, which Naturgy has adopted voluntarily, that are aimed at improving the application of the tax system by enhancing legal certainty, reducing litigation, fostering mutual co-operation based on good faith and legitimate trust, and the application of responsible tax policies.

Organisational principles ensure that the tax function is carried out in a global (with responsibility for all the group's tax matters in the various management areas), integrated (with a single criterion) and professional (expert teams) manner.

Tax strategy

Through the Audit Committee, the Board of Directors is responsible for overseeing compliance with the group's tax strategy. At a meeting on 26 January 2019, the Board of Directors approved the Tax Strategy and Tax Risks Control and Management Policy, which sets out the basic principles governing Naturgy's tax function and the main lines of action to mitigate and guide proper control of tax risks. The basic principles governing Naturgy's Tax Strategy are as follows:

- Responsible compliance with tax obligations.
- A low tax risk profile.
- Adoption of tax treatments based on economic reasons.
- Transparency of tax information.
- Co-operation with the Tax Authorities.

Tax Risks Control and Management Policy

The main lines of the Tax Risks Control and Management Policy are as follows:

- Clearly defined tax governance.
- Procedures for controlling the tax risk arising from Compliance.
- Procedures for assessing and controlling tax approaches where there is uncertainty.
- Oversight of the performance of the Tax Control Framework.
- Regular reporting of the tax situation to the Board of Directors.

Overall and integrated responsibility for the tax function is centralised in the Tax Unit. The entire group has common tax policies to allow for proper functioning and coordination between the different tax units of the company. In this way, they are developed under a single, common criterion, without prejudice to the peculiarities of each business and jurisdiction.

In order to perform these functions correctly, both the Tax Unit and the tax units have teams with academic and practical training in accounting, financial and tax matters that enable them to carry out their tasks satisfactorily.

To align Naturgy's tax policies with these principles, the group has a General Regulation governing the Tax Control Framework, designed in accordance with the guidelines of the Organisation for Economic Co-operation and Development (OECD) for multinational enterprises, and for the design and implementation of a Tax Control Framework.

Tax Risks and Tax Control Framework

Naturgy also has a risk map that specifically identifies the tax risks and issues regarding the interpretation or application of tax law. The main matters with a tax impact are detailed in Note 21 "Tax situation" in the notes to the Consolidated Annual Accounts.

Regarding the approach to tax risks, it is worth mentioning that all uncertain tax processes (adopted or those planned to be adopted in tax returns) (which the tax authorities may not accept), are assessed by applying a predefined methodology. Based on the assessments obtained and the defined risk tolerance level, a mitigation, communication and, if applicable, approval plan is established in accordance with the procedures and authorization levels documented in the General Regulation governing the Tax Control Framework.

Additionally, in the case of transactions that must be submitted to the Board for approval and other transactions with special tax risk, the Company and Board Secretary will inform the Board of Directors of the tax consequences before they are approved by the Board of Directors. The practical implementation of this section of the general standard is carried out by applying the provisions of Naturgy's General Procedure of the Tax Control Framework.

The compliance assessment of the fiscal governance and control framework takes place at year-end and prior to the preparation of the Consolidated Annual Accounts. The Board of Directors is presented with Naturgy's tax situation by the Company and Board Secretary, which includes, among other matters:

- The tax policies applied during the year.
- Tax information by country and information included in the annual financial report.
- Tax audits, litigation and tax risk mapping.
- Compliance with the obligations assumed by adherence to the Code of Good Tax Practices.
- The most relevant results of the monitoring of the functioning of the Tax Control Framework.

Finally, with regard to the mechanisms for reporting concerns, through the Code of Ethics, queries and/or complaints may be made regarding behaviour contrary to the rules of conduct published by the company or which, without being expressly regulated, any employee may consider that certain actions are contrary to the code of good tax practices approved by the Board of Directors.

Tax havens

The incorporation or acquisition of undertakings domiciled in countries or territories designated as tax havens must be reported to the Board of Directors via the Audit Committee.

At 2022 year-end, the Naturgy group did not have any company in a territory designated as a tax haven under the related Spanish regulations (Royal Decree 1080/1991, of 5 July, and Royal Decree 116/2003, of 31 January). Nor did it have any companies at the end of 2021.

Tax contribution

Naturgy attaches priority to its obligation to pay any taxes that are due under each territory's rules.

Naturgy's tax contribution in 2022 amounted to Euros 3,503 million (Euros 2,769 million in 2021). The following table shows the taxes actually paid by Naturgy in each country, distinguishing between those that involve an actual expense for the group ("own taxes"), and those that it withholds or that it passes on to the final taxpayer ("third-party taxes"):

	Own taxes						Third-party taxes									
	Income tax ⁽¹⁾		Others ⁽²⁾		Total		VAT		Hydrocarbons tax and Electricity tax		Others ⁽³⁾		Total		Total	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Spain	379	380	273	218	652	598	1,723	903	93	206	184	206	2,000	1,315	2,652	1,913
Argentina	9	18	4	6	13	24	2	2	0	0	5	14	7	16	20	40
Brazil	75	61	0	38	75	99	68	59	0	0	62	6	130	65	205	164
Chile	139	174	5	4	144	178	44	17	0	0	2	2	46	19	190	197
Mexico	95	145	8	0	103	145	67	22	0	0	0	2	67	24	170	169
Panama	10	11	0	6	10	17	1	2	0	0	1	0	2	2	12	19
Rest of LatAm	9	10	0	1	9	11	6	6	0	0	1	1	7	7	16	18
Total LatAm	337	419	17	55	354	474	187	108	0	0	71	25	258	133	612	607
Rest	46	65	3	3	50	68	153	109	35	70	2	2	189	181	238	249
Total	762	864	293	276	1,055	1,140	2,063	1,120	128	276	257	233	2,447	1,629	3,503	2,769

⁽¹⁾ Refers to income tax actually paid in the year as per the Cash-Flow Statement of the Consolidated Annual Accounts. Does not include accrued amounts. Information regarding the reconciliation between the registered Corporate Income Tax and that which would arise from applying the nominal rate of the tax applicable in the country of the parent company (Spain) on the pre-tax result is indicated in Note 21 "Tax Situation" of the Consolidated Annual Accounts.

⁽²⁾ Includes energy taxes in Spain, local taxes, social security payable by the company and other specific taxes of each country.

⁽³⁾ Basically includes tax withholdings from employees and employee social security contributions.

Information on revenues from sales to third parties and revenues from intra-group transactions with other tax jurisdictions in 2022 is not available on a country-by-country basis on completion of this report. The information will be available for the country-by-country statement submitted in December next year. For 2021 information, details are provided in Chapter 12. Annexes, section Integrity and trust.

Subsidies

The changes in capital subsidies received are detailed in Note 15 to the Consolidated Annual Accounts. Capital grants were received in 2022 in the amount of Euros 13 million (Euros 1 million in 2021). Operating subsidies received in 2022 are detailed in Note 24 to the Consolidated Annual Accounts; Euros 2 million were received (Euros 2 million in 2021).

Global Human Rights Policy

[3-3]

(Human rights)

The company's commitment to respecting and protecting human rights is set out in the Global Human Rights Policy, first approved in 2011. The policy is aligned with and accepts the UN Guiding Principles on Business and Human Rights. It was last updated and approved by the Board of Directors in 2019, and details the commitment made by Naturgy in both the Corporate Responsibility Policy and the Code of Ethics.

The ten commitments set out in the policy were defined on the basis of a human rights risk analysis, in which 33 risks were identified. This evaluation was carried out for all the countries where the company carries out some type of activity and with those responsible for each business or country the degree of exposure to this risk and the internal mechanisms available for its management were validated. Based on the risks identified, the commitments that Naturgy should establish to ensure adequate management to minimise the materialisation of these risks were defined.

These commitments include stakeholders that may be affected by the company's activities and, in particular, employees who work for Naturgy through third parties, indigenous peoples, communities surrounding its projects, children and, in general, vulnerable groups.

The Human Rights Policy is the company's response to growing demands in this field and is particularly applicable in locations in which local legislation does not provide a sufficient level of protection for human rights. In these cases, Naturgy undertakes to guarantee a level of protection equivalent to the other areas in which it carries on its business.

During 2022, and in view of the publication by the European Commission of its proposal for a directive on due diligence in matters of corporate sustainability, Naturgy has carried out an analysis of the requirements that this directive will imply once it is approved and the internal adaptations that will be necessary to comply with them. In addition, in anticipation of this, it continuously monitors developments during the processing process.

• Human Rights Policy Principles and risks identified

Commitment 1. Avoiding any practices which are discriminatory or which might compromise people's dignity

Risk 1. Failure to respect people	Failure to provide the necessary conditions to enable people to work in an environment where their dignity and rights are respected in the centres and activities of the group.
Risk 2. Discrimination	Failure to avoid discriminatory practices on grounds of gender, ethnic origin, creed, religion, age, disability, political affinity, sexual orientation, nationality, citizenship, civil status or socio-economic status in the processes and practices of the company regarding human resources issues.
Risk 3. Abuse, intimidation and violence	Failure to avoid cases of abuse, intimidation or violence among group employees.
Risk 4. Forced and compulsory labour	Failure to avoid resorting to forced labour or that company employees are unable to freely choose their job position.
Risk 5. Unjust detention	That employees can be detained on unjust or unfair grounds by the authorities or other organisations that use intimidation and violence.

Commitment 2. Eradication of child labour

Risk 6. Child labour	That the activities and operations of the group breach children's rights.
Risk 7. Minimum working age	The company does not ensure that the ages of all its employees exceeds the minimum working age.

Commitment 3. Ensure freedom of association and collective bargaining

Risk 8. Freedom of association	In those places where the institutional framework does not guarantee freedom of association and the right to collective bargaining, failure by the company to provide its employees with the conditions for them to meet and freely discuss issues related to their working or employment conditions.
Risk 9. Collective bargaining	Failure to ensure that its employees have the right to freedom of association, trade union membership and collective bargaining.
Commitment 4. Protecting employee health	
Risk 10. Health and safety of employees	Failure by the group's centres and activities to provide the right conditions for people to work in a safe and healthy environment.
Risk 11. Health and safety of third parties	The assets of the company damage the health or physical integrity of third parties through negligence by the group or the injured party.
Commitment 5. Ensure adequate employment and salary	
Risk 12. Dignified wage	Employees do not receive a dignified wage.
Risk 13. Working hours	Within the company, the limits regarding the number of hours worked per week and employees' right to rest are breached.
Risk 14. Rest	In those places where the institutional framework does not establish remuneration conditions or a right for people to take breaks, the company has not established measures in this regard.
Risk 15. Work-life balance	Failure by the company to facilitate conditions that enable people to maintain a proper balance between their personal and professional life.
Risk 16. Privacy	The company does not respect the right to privacy of its employees.
Commitment 6. Commitment towards people linked to suppliers, contractors and collaborating companies	
Risk 17. Suppliers, contractors and collaborating companies	The company works with suppliers, contractors and collaborating companies whose practices do not respect human rights.
Commitment 7: Respecting indigenous communities and traditional ways of life	
Risk 18. Rights of indigenous communities	The company violates the human rights and fundamental freedoms of the indigenous communities in the areas where it operates.
Risk 19. Indigenous territories	Failure by the company to recognise the right of indigenous communities to maintain their customs and social practices, as well as ownership of those territories that have been given to them legally, according to the provisions of ILO Convention 169.
Risk 20. Land procurement	During the procurement of land and other transactions or trade agreements with communities, the company fails to adequately inform them in advance or compensate them according to local law and practice and, in any case, in an objectively fair manner.
Risk 21. Assessing impacts	Failure by the company to have the necessary mechanisms to assess the potential impact and risk to the rights of communities in its projects.
Risk 22. Environmental impact	The activities of the group generate an unjustified negative impact on the environment.
Commitment 8. Protecting facilities and people on the basis of respect for human rights	

Risk 23. Background on security staff	The staff who protect the security of the facilities and operations of the group have been involved in the abuse of human rights.
Risk 24. Bad practices of security staff	The staff who protect the security of the facilities and operations of the group are involved in injustices and in the inhumane or degrading treatment of people.
Risk 25. Disproportionate use of force	The staff who protect the security of the facilities and operations make disproportionate or unjustified use of force.
Risk 26. Misuse of company assets	The resources and assets of the company are used to violate human rights as a consequence of security staff practices.
Risk 27. Involvement in abuse	The company is involved in the abuse of human rights committed by governmental security forces.
Commitment 9. Support and promote respect for human rights in the wider community	
Risk 28. Public commitment	That the commitment made by the company to human rights issues is not known publicly.
Risk 29. Freedom of opinion and expression	The company does not respect or promote the right to freedom of thought, conscience and religion and the freedom of opinion and expression within its field of activity.
Risk 30. Social rights of the community	Failure by the company to undertake actions or foster plans and/or activities in benefit of social rights, as a part of human rights, in the community where it operates.
Risk 31. Investment analysis	Failure by the company to have the necessary mechanisms to assess the potential impact on and risk to human rights of investment projects.
Risk 32. Partner analysis	The due diligence processes prior to the execution of collaboration agreements with third parties do not analyse the human rights policies and practices of partners.
Commitment 10. Helping to fight corruption and protect privacy	
Risk 33. Corruption	The activities of the company provide incentives for or foster public-private corruption.

Due diligence and risk assessment

Due diligence includes the continuous analysis of human rights risks and their consequences, whether through its own activities or through its business relationships, the establishment of commitments at all levels of the company and the assignment of responsibilities, the supervision and monitoring of the implementation of the policy, the training of the company's people in this respect, and the correction of any malpractice that may occur.

To monitor these risks, the company carries out regular evaluations of the risks identified. In order to make this assessment, those responsible for each business or country are asked to evaluate each of the risks identified, depending on the level of perceived risk and the degree of management of each issue by the company.

Compliance with the policy is the responsibility of each of the business and corporate areas. The company encourages the policy to be known and to be complied with using a communication and training plan, which includes a compulsory online course for all employees, seminars based around explaining principles of the policy and conflicts which could arise, and guidance sessions about the policy and its role in business activity. By the end of 2022, 7,205 people have taken the online human rights course.

Naturgy undertakes to engage the resources necessary to guarantee the effective implementation of this policy. In this regard, the company regularly analyses the human rights issues that are applicable to its activity and will introduce mechanisms that enable it to assess the risk of breach of these in the environments in which it operates.

The company introduces specific measures for management of potential impacts and risks to human rights from the projects and investments, and will ensure that sufficient resources are targeted at the implementation of the corrective measures identified. More detailed information can be found in chapter 10. Social Responsibility, section Relationship with communities.

In the due diligence processes prior to formalisation of collaboration agreements, also with governmental agencies, the company undertakes to assess the human rights policies and practices of its counterparts and to act in accordance with the principles laid out in the policy. During 2022, a new analysis tool was successfully implemented, including a human rights risk assessment of counterparties. More detailed information can be found in this chapter, in the section on Compliance.

Furthermore, as part of the usual assessment of suppliers process, the company includes issues related to human rights practices among the aspects to be evaluated and as a cause for exclusion in the event of an unsatisfactory response from the supplier. Furthermore, through acceptance of the Supplier Code of Ethics, suppliers undertake to observe and ensure compliance with human rights at all times, in particular those related to:

- Eliminating of all forms of forced or compulsory labour.
- Child labour.
- Respecting indigenous communities and traditional ways of life.
- Respecting people in general.

In this way, based on the commitments expressed in the Human Rights policy, the company establishes prevention mechanisms with respect to third parties with whom it establishes commercial relations that offer guarantees in relation to the extension of its own principles to the supply chain.

Any breaches of human rights are studied in accordance with the internal procedures, legal regulations and the prevailing agreements, and could give rise to disciplinary or employment measures as determined in the internal regulations and legislation.

Employees of Naturgy are obliged to report any breach of the undertakings set out in this policy to the company, confidentially and without fear of reprisals. In this regard, those people who, without being company employees, witness potential malpractice in this area may also report this.

• **Contents Index in accordance with the United Nations Guiding Principles Reporting Framework (UNGPRF)**

Indicator	Reference	Level of fulfilment
System of respect for Human Rights (A)		
A1. Policy commitment.	SRNFIS 2022. Global Human Rights Policy. Code of Ethics – pages 8-9.	Complete.
A1.1 Development of public commitment.	SRNFIS 2022. Global Human Rights Policy – pages 4-7.	Complete.
A1.2 Extent and scope of application of commitment.	SRNFIS 2022. Global Human Rights Policy – pages 3-4.	Complete.
A1.3 Form of communication of commitment.	SRNFIS 2022. Global Human Rights Policy – pages 7-9.	Complete.
A2. Embedding respect for Human Rights.	SRNFIS 2022. Global Human Rights Policy, page 8. Code of Ethics – pages 8-9. 2022 Annual Report on Remuneration.	Complete.
A2.1 Organisation of responsibility in the field of human rights.	SRNFIS 2022. Global Human Rights Policy, page 7.	Complete.
A2.2 Human rights issues escalated to the senior management and the governing board.	SRNFIS 2022. Global Human Rights Policy, page 8. 2022 Annual Report on Remuneration.	Partially.
A2.3 Raising employees' awareness about human rights issues.	SRNFIS 2022. Global Human Rights Policy, page 7. 2022 Annual Report on Remuneration.	Complete.

A2.4 Company's form of stating its commitment towards human rights in commercial relations.	SRNFIS 2022. Global Human Rights Policy, page 5 and 8.	Complete.
A2.5 Lessons learnt about human rights and consequences which have arisen as a result.	SRNFIS 2022..	Partially.
Defining a focus of reporting (B).		
B1. Statement of salient issues.	SRNFIS 2022..	Complete.
B2. Determination of salient issues.	SRNFIS 2022..	Complete.
B3. Choice of focal geographies.	SRNFIS 2022..	Complete.
B4. Additional negative impacts.	SRNFIS 2022. 2022 Internal Audit Report.	Complete.
Management of salient human rights issues (C).		
C1. Specific policies.	SRNFIS 2022.	Complete.
C1.1 Importance of human rights policy for persons responsible for implementing it.	SRNFIS 2022. Global Human Rights Policy, page 3.	Complete.
C2. Stakeholders commitment.	SRNFIS 2022.	Complete.
C2.1 Identification of stakeholders to take part in salient human rights issues.	SRNFIS 2022.	Partially.
C2.2 Stakeholders which have had relations with the company in connection to human rights.	SRNFIS 2022.	Complete.
C2.3 Influence of the stakeholders' vision regarding human rights issues.	SRNFIS 2022.	Partially.
C3. Assessing impacts.	SRNFIS 2022.	Complete.
C3.1 Patterns or trends in human rights impacts.	SRNFIS 2022.	Partially.
C3.2 Severe impacts on human rights.	SRNFIS 2022.	Complete.
C4. Integrating findings and taking action.	SRNFIS 2022.	Partially.
C4.1 Involvement by the company's parties in applying solutions and taking decisions regarding salient human rights issues.	SRNFIS 2022.	Complete.
C4.2 Tensions of human rights impacts.	SRNFIS 2022. Global Human Rights Policy, Commitment 6.	Partially.
C4.3 Actions taken to prevent or mitigate potential impacts on human rights.	SRNFIS 2022.	Complete.
C5. Tracking performance.	SRNFIS 2022.	Complete.
C5.1 Effective management of human rights issues.	SRNFIS 2022.	Complete.
C6. Remediation	SRNFIS 2022.	Partially.
C6.1 Means of claiming regarding human rights issues.	SRNFIS 2022. Global Human Rights Policy, page 8. Code of Ethics – pages 22-23.	Complete.
C6.2 People's capacity to make claims or complaints.	SRNFIS 2022. Global Human Rights Policy, page 8. Code of Ethics – pages 22-23.	Complete.
C6.3 Processing of claims and evaluation of effectiveness of results.	SRNFIS 2022. Global Human Rights Policy, page 8. Code of Ethics – pages 22-23. 2022 Audit and Control Report.	Complete.
C6.4 Patterns and trends in claims or complaints.	SRNFIS 2022.	Partially.
C6.5 Repairs in relation to any impact relating to human rights.	SRNFIS 2022.	Complete.

Mitigation and remediation

Through the mechanisms explained above, the Human Rights Policy and the procedures for the evaluation of its own and third party risks, Naturgy adopts a preventive approach in relation to the human rights risks identified.

Further details on the actions to mitigate the risks to Naturgy's employees (Risks 1 to 16) and the objectives established by Naturgy in matters relating to people's rights are described in chapter 8 Commitment and Talent, section Interest in people.

The Supplier Code of Ethics and a supply chain management based on risk assessment are the main tools to prevent the materialisation of risks on suppliers, contractors and collaborating companies, including companies that render security services at the facilities. The assessment of suppliers includes issues related to human rights practices that are used to exclude suppliers in the event of an unsatisfactory response. Further details of these actions are described in this chapter in the section Responsible Supply Chain.

The mitigation of risks relating to indigenous peoples (Risks 18 to 22) and communities in the company's project environments (Risks 28 to 32) is supported by the Social Relationship Model, which is described in more detail in chapter 10. Social Responsibility, section Relationship with communities.

Finally, the measures adopted to mitigate risk 33, relating to corruption, are extensively detailed in this chapter in the Compliance section.

During 2022, there is no record of any human rights violations received through the Code of Ethics Channel or otherwise, so no remedial action was required in this area.

3. Corporate governance

Corporate governance and its constant evolution

[2-9] and [3-3]

(Good corporate governance)

Naturgy's corporate governance is governed in accordance with the principles of efficiency, transparency and responsibility pursuant to the recommendations and best practices at national and international level and included in the main internal rules of the company:

- Articles of Association (updated in 2022).
- Regulations of the Board of Directors and its Committees (updated in 2022).
- Regulations of the General Meeting of Shareholders (updated in 2022).
- Human Rights Policy (updated in 2019).
- Code of Ethics (updated in 2021).

Notably, in 2022, the company has revised its set of governance rules to adapt them to the latest developments in the Corporate Enterprises Act:

- With regard to the holding of general meetings, to expressly include the possibility of holding general meetings exclusively by telematic means.
- In the approval regime for related party transactions.

In the actions carried out by the Board of Directors, there is a clear vocation for compliance with good governance standards, mainly with regard to aspects related to the evaluation of the strategic plan, decision-making, the establishment of control mechanisms, risk supervision, regulatory compliance and the monitoring of ethical, social and environmental issues in the performance of the company's activities. To this end, Naturgy frequently reviews its operations through internal audit and compliance procedures and uses its internal regulations to set out those practices that should lead to greater knowledge of the company's way of working.

• Stake (%)

	2022	2021
Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona, "la Caixa" ⁽¹⁾	26.7	26.7
Global Infrastructure Partners III ⁽²⁾	20.6	20.6
CVC Capital Partners SICAV-FIS, S.A. ⁽³⁾	20.7	20.7
IFM Global Infrastructure Fund ⁽⁴⁾	14.0	12.2
Sonatrach	4.1	4.1

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

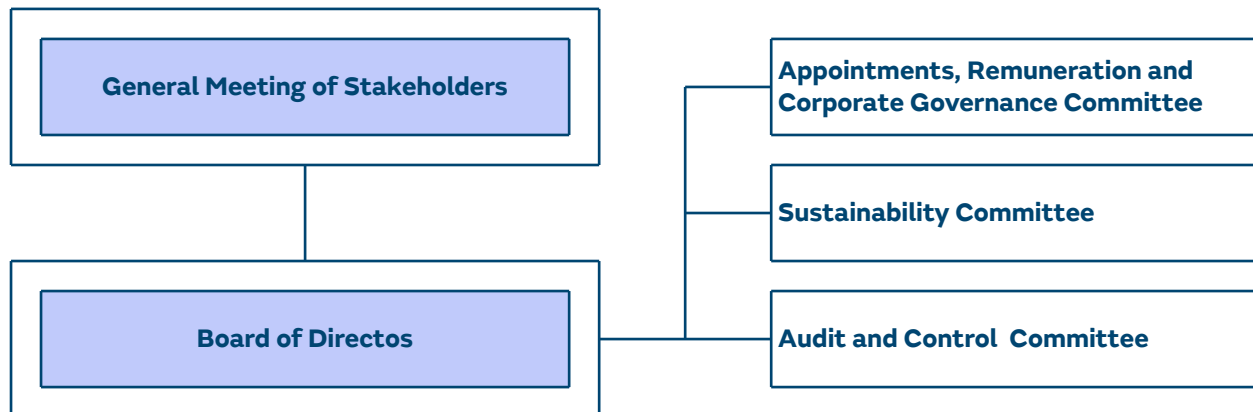
⁽²⁾ Global Infrastructure Partners III, which is managed by Global Infrastructure Management LLC, holds its stake indirectly via GIP III Canary 1, S.à.r.l.

⁽³⁾ Through Rioja Acquisition S.à.r.l.

⁽⁴⁾ Through Global InfraCo O (2) S.à. r.l.

Governing structure of Naturgy

[2-9], [2-15] and [2-25]



Since the Chairman of the Board of Directors of Naturgy is also the Executive Director, the company has appointed the figure of the Lead Director, in order to mitigate possible conflicts of interest. Thus, we have appointed Ms Helena Herrero, who is also an Independent Director, member of the Audit and Control and Appointments, Remuneration and Corporate Governance Committees, and Chair of the Sustainability Committee. Pursuant to article 529 Septies of the Corporate Enterprises Act, the Lead Director has the power to request the calling of board meetings or the inclusion of new items on the agenda, to coordinate and bring together the Non-Executive Directors and to direct, where appropriate, the periodic evaluation of the Chairman of the Board of Directors.

As established in the Regulations of the Board of Directors and its Committees, all members of the Board of Directors of Naturgy, including the Executive Chairman, are obliged by the Corporate Enterprises Act to:

- a) Abstain from participating in the deliberations and voting procedures in relation to resolutions or decisions in which they or any related party is subject to any direct or indirect conflict of interest. The foregoing shall exclude the obligation to abstain from resolutions or decisions that affect the Director in his or her capacity of director of the company, such as the designation or revocation thereof in relation to positions within the governing body or other similar positions.
- b) Adopt the measures necessary in order to avoid situations in which his or her interests, whether directly or indirectly in relation to any third party, may be subject to any conflict of interest with the company's interests and with his or her duties to the company.

In this regard, Naturgy's Directors' Remuneration Policy, approved in March 2022 by the General Meeting of Shareholders, includes, as a preventive measure for possible conflicts of interest, that the Executive Chairman does not participate in the debates of the Appointments, Remuneration and Corporate Governance Committee when they deal with aspects that may affect them in relation to remuneration.

Naturgy also has a Conflicts of Interest Policy, approved in May 2021 and applicable to all group employees, including the Executive Chairman. The policy establishes the guidelines to be followed by employees in the event of a conflict of interest, based on the principles of loyalty, abstention and transparency in resolving it.

Lastly, with regard to the actions aimed at monitoring and mitigating possible conflicts of interest, the Chairman of the Board of Directors must provide information on an annual basis, both in his capacity as a Board member and as an employee of the Naturgy group, on the existence of any conflict between their personal interests and those of the company.

Further information can be found in sections A and C of the Annual Corporate Governance Report 2022.

Management structure

[2-11]

The company's chief executive is also the Chairman of the Board of Directors and has responsibility for all the group's businesses. The group has a structure of directors and managers with the necessary powers to carry out both the company's own operations and its core management activities. Executives are defined as persons with management responsibilities who report directly to the Executive Chairman, Mr. Francisco Reynés Massanet.

As of 31 December 2022, the Management Committee is composed of the Executive Chairman:

- Energy and Network Management Department, managed by Mr. Pedro Larrea Paguaga.
- Renewables and New Business Department, managed by Mr. Jorge Barredo López.
- Commercialisation Department, managed by Mr. Carlos Francisco Vecino Montalvo.
- Information Systems Department, managed by Mr. Rafael Blesa Martínez.
- Capital Markets Department, managed by Mr. Steven Fernández Fernández.
- Planning, Controlling and Administration Department, managed by Mr. Jon Ganuza Fernández de Arroyabe.
- Company and Board Secretariat, managed by Mr. Manuel García Cobaleda.
- Sustainability, Reputation and Institutional Relations Department, managed by Mr. Jordi García Tabernero.
- People and Organisation Department, managed by Mr. Enrique Tapia López.

In addition, there are specific committees for different matters, with the energy balance, risk and commercialisation committee standing out, composed of most of the Management Committee members and part of the managers directly dependent on them, in order to monitor the evolution of energy commodities, both in the field of gas and electricity, and the evolution of indices. Said Committee, in addition to monitoring, has assumed the role of making purchase, sale or hedging decisions, which corresponded to the management level, or has made proposals in the event that, due to the level of competence, they corresponded to the Board of Directors.

Board of Directors

Duties

[2-10], [2-12], [2-13] and [2-14]

The Board of Directors is responsible for carrying out whatsoever action that may be necessary for the fulfilment of the corporate purpose laid down in the Articles of Association.

The Board of Directors is also responsible for approving corporate governance and corporate responsibility policies. Its activities include preventive risk management and the consideration of aspects linked to corporate responsibility. Every year, through the compilation of the respective reports, it also reviews and approves the information on risks and opportunities in these areas.

The Board of Directors exercises the powers attributed to it through the Law, the Articles of Association and the Regulations for the Organisation and Functioning of the Board. Specifically, the following general powers correspond exclusively to the Board of Directors, according to Article 3 of the Regulations:

- Non-delegable matters:
 - Those provided for in legislation as non-delegable.
 - Creation, investment and supervision of the management of personnel pension plans and any other undertakings involving personnel which imply long-term financial liabilities for the company.
 - The appointment and removal of senior managers who have a direct dependence on the Board or any of its members, as well as the introduction of basic conditions of their contracts, including their remuneration.
 - The matters subject to an enhanced majority contemplated in section 4 of Article 7 of the Regulations.
 - The approval of those related-party transactions whose competence has not been attributed by law to the General Meeting of Shareholders.

- Matters ordinarily non-delegable, but which may be adopted by the delegated bodies or persons, for reasons of urgency duly justified and which must be ratified at the first Board of Directors session held after the take-up of the resolutions, of which the following stand out:
 - The approval of management targets, the annual financing plan, the investment and financing policy, the corporate social responsibility policy.
 - The determination of the company's corporate governance policies, of the risk control and management policy, including tax risks, and supervision of the internal reporting and control systems.
 - The approval of the financial reporting which, due to its status as a listed company, must be made public periodically by the company.
 - The approval of investments or operations of a strategic nature.

In accordance with the provisions of article 6 of the Board of Directors' Operating Regulations, the Chairman of the Board of Directors is responsible for convening Board meetings, ordinarily with at least five days' notice. The call is made via a digital platform and, in addition to the meeting agenda, the information corresponding to each item on the agenda is included for review by the directors in advance of the date scheduled for the meeting.

The Chairman submits proposals for the adoption of decisions on matters within the Board's competence at the appropriate intervals. During the course of the meetings, the Board deliberates on the items submitted for its approval, adopting them in each case in accordance with the required majorities.

The company's chief executives have been invited to most of the meetings of both the Board of Directors and its Committees to present matters relating to their general managements or to respond to questions raised by the directors on matters within their competence.

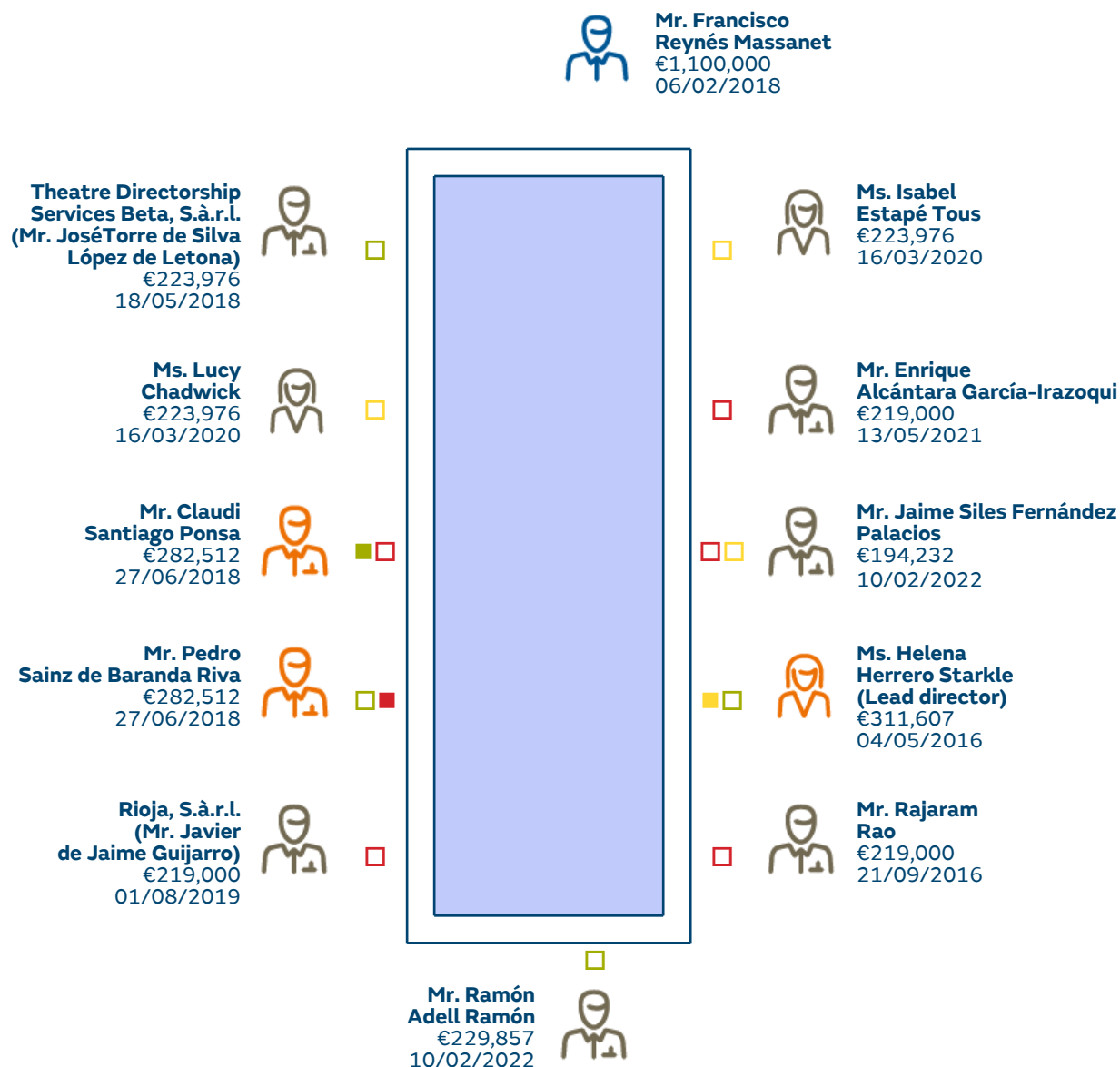
Both the deliberations of the Board of Directors and the resolutions adopted in each case are recorded in the Minutes drawn up for this purpose.

In 2020, Naturgy's Board of Directors agreed to create a new Committee, the Sustainability Committee, responsible for overseeing the company's evolution and role in the energy transition as well as in all its environmental, health and safety and social responsibility indicators.

The Sustainability Committee and the other specialised committees assume the competencies established by law and those entrusted by Naturgy's Board of Directors. Details of the functions and powers of each of these can be found in section C.2.1 of the Annual Corporate Governance Report 2022.

With regard to the functions performed by Directors in other entities, whether or not they are listed companies, the number of other positions, the significant commitments of each member and the nature of the same can be found in section C.1.11 of the Annual Corporate Governance Report.

Composition of the Board of Directors and its committees (at 31 December 2022)
 [2-9], [2-11] and [405-1]



Type of director

- Executive
- Proprietary
- Independent
- N/A

Type of committee

- Audit and Control Committee
- Appointments, Remuneration and Corporate Governance Committee
- Sustainability Committee

■ Chairperson of the Committee

□ Member of the Committee

⁽¹⁾ Mr. Francisco Belil Creixell resigned as Independent Director on 10 February 2022. The remuneration he received for the performance of his duties until that date: 32,232€.

⁽²⁾ Mr. Ramón Adell Ramón ceased to be an Independent Director on 10 February 2022.

Assessment and capacities of the Board of Directors

[2-18]

Pursuant to the recommendations laid down in the CNMV's Good Governance Code of Listed Companies and the Regulations of the Board of Directors of Naturgy, the quality and efficiency of the Board and of its Committees is assessed every year. Every three years, the assessment is carried out by an external consultant, whose independence is verified by the Appointments, Remuneration and Corporate Governance Committee.

An internal self-assessment process of the Board of Directors and its Committees was conducted in 2022. As part of this assessment process, all Directors completed a series of questionnaires on the functioning of the Board and its Committees, in which they were asked to give their assessment on issues related to the structure of the board and its functioning, its work in supervising aspects of internal audit, compliance, risks, or the monitoring of the company's strategic plan.

All board members have taken part in the self-assessment process and completed the corresponding questionnaires.

Of their contributions as a whole, the following stand out:

- i) In general, the high assessment obtained with respect to the functioning of the Board and its Committees.
- ii) In particular, the Directors' comments regarding: high professionalism and diversity of knowledge; very active functioning and an atmosphere conducive to the exchange of opinions; the Executive Chairman and his management team present good supporting information for analysis and decision-making and compliance with the formalities required in a collegiate body.

In addition, the following considerations have been received regarding areas for improvement:

- i) The ongoing training of Directors in a changing environment.
- ii) The need for greater focus on strategic issues and less focus on operational issues that has led to the special situation of 2022.

Both suggestions for improvement will be implemented in the course of 2023.

Diversity in the process of appointments and renewal of directors

[405-1]

The Naturgy Board of Directors comprises 12 members, of whom three are female. Among the Board members there is a diversity of professional experience and academic knowledge (engineers, lawyers, economists, among others), as identified in the Board's Competence.

▪ **Competence matrix**

[2-9] and [2-10]

	Mr. Ramón Adell	Ms. Isabel Estapé	Mr. Enrique Alcántara	Mr. Jaime Siles Fernández-Palacios	Ms. Helena Herrero	Mr. Javier de Jaime	Mr. Rajaram Rao	Mr. Francisco Reynés	Mr. Pedro Sainz de Baranda	Mr. Claudio Santiago	Ms. Lucy Chadwick	Mr. José Antonio Torre de Silva
Energy global trends / strategy / technology	■		■	■	■		■	■		■	■	
Infrastructure (investments in regulated environments)	■	■	■	■		■	■	■		■	■	■
B2C (customer experience and new services)	■				■	■			■			■
Operational excellence and processes optimisation	■				■			■	■	■		
Regulators / other public stakeholders relations	■	■	■	■			■	■			■	
International experience	■	■		■	■	■	■	■	■	■	■	■
Top management experience					■			■	■	■	■	
Accounting / Audit / Risk management	■	■	■	■	■	■	■	■	■	■	■	■
Corporate finance	■	■		■	■	■	■	■	■	■		■
Industrial and Energy technologies (Industrial Tech)								■	■	■	■	
Industrial and Energy technologies (Information Tech)					■			■	■	■	■	
Talent management and remuneration	■	■			■	■	■	■	■	■	■	■
Corporate governance and sustainability (ESG)	■	■	■	■	■	■	■	■	■	■	■	■
Climate change		■		■	■			■		■	■	■

Type of director

■ Executive. ■ Independent. ■ Proprietary.

Experience

■ Professional executive experience.
 ■ Experience as a director or indirect executive experience.

Naturgy's Board Member Selection Policy, revised in February 2022, ensures that appointments are diverse and free from any implicit bias that could imply any discrimination, and does not exclude any candidate on the basis of ideology, religion, belief, ethnicity, race, nation, gender, sexual orientation, family situation, illness or disability.

As vacancies arise on the Board or as directors' terms of office expire, and always with full respect for the shareholders' right to proportional representation, the company will deliberately seek and include among the potential candidates women who meet the professional profile sought, ensuring that the number of female directors is in line with the best practices established in both the CNMV's good governance recommendations and the European Directive on a better gender balance among directors of listed companies and related measures. The Appointments, Remuneration and Corporate Governance Committee will implement measures to ensure that this is achieved and to encourage the appointment of a significant number of women managers in the company.

Regarding the selection of candidates to become members of the Board, the process is based on an assessment by the Appointments, Remuneration and Corporate Governance Committee, which may seek external advice. The analysis is based on the company's needs and on the skills, knowledge and experience needed on the Board, as well as the alignment of the candidate with the principles, values and vision of Naturgy.

▪ **Breakdown of the Board of Directors by age (%)**

[2-9]

	2022	2021
Under 55 years of age (%)	25	25
Between the ages of 55 and 60 years (%)	33	25
Over 60 years of age (%)	42	50
Total (%)	100	100

▪ **Average remuneration of Directors (thousands of euros)**

	2022		2021	
	Men	Women	Men	Women
Executive ⁽¹⁾	1,100		1,100	-
Independent/Proprietary	238	253	256	270

⁽¹⁾ It does not include remuneration for executive functions.

▪ **Remuneration ratios within the organisation**

[2-21]

	2022	2021
Ratio of annual total remuneration of the highest paid person in the organisation to median annual total remuneration of all employees ⁽¹⁾	89.7	N/A

⁽¹⁾ Excluding the highest paid person.

To calculate the ratio we take the fixed and variable compensation of all employees and countries in euros, calculate the median of the total annual compensation and calculate the ratio.

Remuneration model of the Board of Directors

[2-19] and [2-20]

Remuneration of directors represents an issue of major importance in the company's good governance. In accordance with the current legal framework, Naturgy regularly reports on remuneration of members of the Board of Directors through its Integrated Annual Report, the Annual Accounts and the Annual Report on Remuneration of Directors, all publicly available.

Remuneration of directors for sitting on the collegiate decision-making bodies is considered as fixed remuneration. Only the Chairman of the Board of Directors receives remuneration based on the executive functions he performs outside of sitting on the Board.

The Board of Directors is responsible for determining the remuneration of each Director. For this purpose, it will take into account the functions and responsibilities attributed to each of them, their membership of Board Committees and any other objective circumstances it considers relevant. In this regard, the remuneration of directors must maintain a reasonable proportion with the importance and economic situation of the company, and the market standards of comparable companies.

The system of remuneration established must be targeted at promoting profitability and the long-term sustainability of the company and incorporate the precautions required to avoid the assumption of excessive risks and rewarding unfavourable results.

At the company's General Meeting of Shareholders held on 15 March 2022, a new Naturgy Directors' Remuneration Policy was approved, introducing a new remuneration framework aligned with the principles of Naturgy's Strategic Plan and aimed at promoting the long-term profitability and sustainability of the company.

Specifically, the annual variable remuneration of those Directors who perform executive functions is linked to the achievement of a combination of pre-set, specific and quantifiable targets, aligned with Naturgy's corporate interest and strategy, such as economic-financial variables, efficiency and profitable growth, quality and safety issues, sustainability, environment or good governance. The detail of the components that make up the fixed and variable remuneration of the Directors is included in the Annual Directors' Remuneration Report 2022 as well as in Naturgy's Directors' Remuneration Policy.

General Meeting of Shareholders

In the 2022 Ordinary General Meeting of Shareholders, the Annual Report on Remuneration of Board Members for 2021 was approved by a majority vote, as follows:

Number of shares that have cast valid votes	867,296,880
Total number of valid votes cast	867,296,880
Proportion of the share capital represented by valid votes (%)	89.44
Votes in favour (%)	90.90
Votes against (%)	4.20
Abstentions (%)	4.90
Quorum of attendance at the General Meeting of Shareholders (%)	90.34

The results of the vote can also be found on the company's website.

Issues dealt with at the General Meeting of Shareholders

The quorum of attendance at the meeting represented 90.3% of all shares in Naturgy.

Issue [2-10]	Nature of the issue (economic, social or environmental)	Conclusions drawn
Approval of the Annual Accounts and Directors' Report of Naturgy Energy Group S.A. for the year ended 31 December 2021.	Economic	Approved by a majority
Approval of the Consolidated Annual Accounts and Directors' Report of the Consolidated Group for the year ended 31 December 2021.	Economic	Approved by a majority
Approval of the Consolidated Non-Financial Information Statement, included in the Consolidated Directors' Report of Naturgy Energy Group, S.A.	Social/Environmental	Approved by a majority
Approval of the allocation of profits for the year ended 31 December 2021.	Economic	Approved by a majority
Approval of management performed by the Board of Directors in 2021.	Economic/Social/ Environmental	Approved by a majority
Approval of the Directors' Remuneration Policy of Naturgy Energy Group, S.A.	Economic	Approved by a majority
Approval of the Long-Term Incentive for the Executive Chairman and other Executives.	Economic	Approved by a majority
Consultative vote concerning the Annual Report on remuneration of members of the Board of Directors.	Social	Approved by a majority
Ratification and appointment of Mr. Enrique Alcántara García-Irazoqui as Proprietary Director.	Social	Approved by a majority
Ratification and appointment of Mr. Jaime Siles Fernández-Palacios as Proprietary Director	Social	Approved by a majority
Ratification and appointment of Mr. Ramón Adell Ramón as director as Proprietary Director	Social	Approved by a majority
Authorisation to reduce the period for calling Extraordinary General Meetings, in accordance with Article 515 of the Corporate Enterprises Act.	Social	Approved by a majority
Information on the modification of the Board Regulations.	Social	
Approval of the amendments to the Articles of Association.	Social	Approved by a majority
Approval of the amendments to the Regulations of the General Meeting of Shareholders.	Social	Approved by a majority
Delegation to the Board of Directors of the power to carry out capital increases within the limit established in article 297.1.b) of the Corporate Enterprises Act, within the legal period of five years from the date of this meeting, and with the power to exclude pre-emptive subscription rights, in whole or in part, in accordance with the provisions of article 506 of the Corporate Enterprises Act.	Social	Approved by a majority
Delegation of powers to supplement resolutions of the General Meeting of Shareholders.	Social	Approved by a majority

4. Risk management

[3-3]

(Business continuity)

Risk management model at Naturgy

Naturgy seeks, with its risk management model, to ensure that the company's performance is carried out within a limited and acceptable range of risks. To this end, it is essential to have a clear forecast of such risks, as well as to quantify the variability of the results in order to achieve the strategically defined targets in the aspects relevant to the company's stakeholders.

Essential elements of the risk measurement and management model include ensuring that relevant risk factors are correctly identified, assessed and managed. The ultimate aim is to ensure that the level of risk exposure assumed by Naturgy in the performance of its activities is consistent with the overall objective risk profile defined and with the achievement of the annual and strategic objectives.

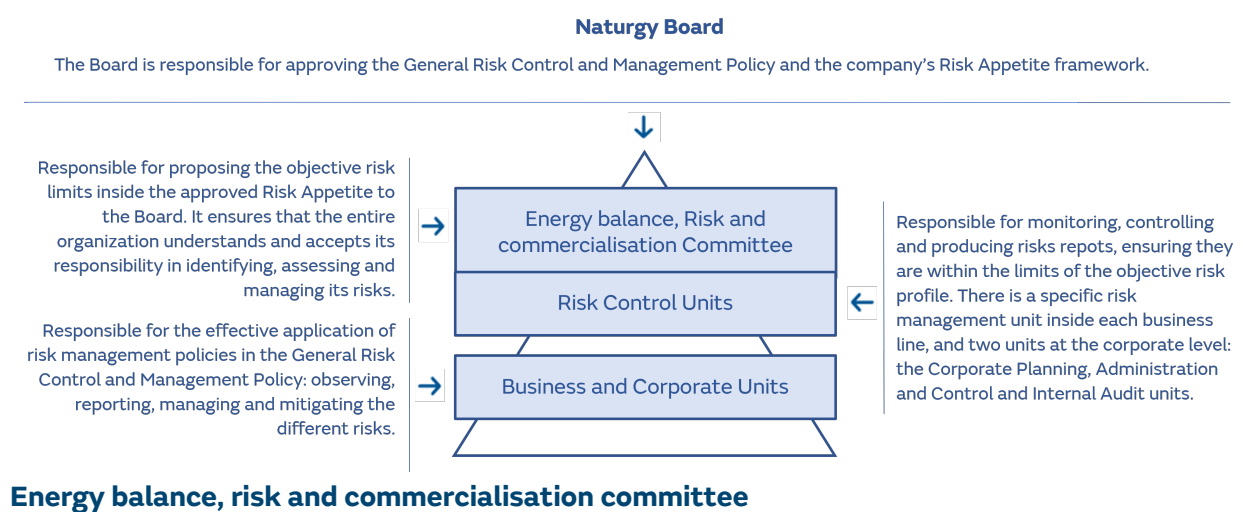
Risk management and control sections:

- Risk Governance & Management: risk governance and management mechanism for all types of risks and for all businesses.
- Risk Assessment: methodology, procedure and process for identifying, evaluating and measuring risks.
- Risk Appetite: definition of risk tolerance through the setting of limits for the most relevant risk categories, by nature of risk and by business according to objectives.
- Risk Reporting: systematic and periodic reporting and monitoring of risk at different management levels: Business Units, Corporate, Chairman's Office and Board.

Risk management bodies

Naturgy has a framework that integrates the vision of governance, risks and compliance, enabling an integrated overview of the group's processes, the existing controls over these and the associated risk.

To this end, it has different bodies, with clearly identified areas of responsibility, which ensures predictability and sustainability in the company's operational and financial performance.



Since the energy crisis in early 2022, the main risk for the group has been the variation of different energy commodities and their indices. An Energy Balance, Risk and Commercialisation Committee was therefore created, comprising most members of the Management Committee and some of the managers reporting directly to them, to monitor the evolution of energy commodities, both in the gas and electricity sectors, and the evolution of the indices. In addition to monitoring, this Committee has assumed the role of taking purchase, sale or hedging decisions that corresponded to management level or has made proposals in the event that, due to their level of competence, corresponded to the Board of Directors. Lastly, it monitors the open position of the group as a whole on a combined basis for gas and electricity and for buy, sell and hedging positions.

A key task of the Risk Control Units within the risk control and management function is the modelling of financial statements, aimed at identifying their main sensitivities and anticipating possible negative impacts and corrective or mitigating actions.

An integrated management

[2-23]

Naturgy analyses its global risk profile through its potential impact on its financial statements. This allows the company to determine the maximum accepted level of risk exposure, as well as the admissible limit for risk management.

The tools that enable the continuous improvement of the process for identifying, characterising and determining Naturgy's risk profile are the following:

- Global Risk Management and Control Policy: last approved by Naturgy's Board of Directors in November 2020. Its aim is to lay down the general principles and guidelines on behaviour to guarantee the appropriate identification, information, assessment and management of Naturgy's exposure to risk.
- Corporate Risk Map: identifies and characterises the risks to Naturgy's performance take into account the characteristics of the position at risk (impact variables, potential quantitative and qualitative severity, probability of occurrence and degree of management and control). Each year it is updated and presented by the corporate Planning, Control and Administration unit to the Audit and Control Committee.
- Other risk maps: promoted by Naturgy's Business and Corporate Units, at their discretion, in accordance and aligned with a common methodology, which serve as a basis for the Corporate Risk Map.
- Risk Measurement System: the metrics used for risk assessment depend on the nature of the risk:
 - Stochastic/probabilistic: probabilistic simulation of price deviations for a confidence interval.
 - Deterministic/scenario: expected impact of the event by its probability scenario.
 - Heat maps: qualitative risk analysis by factor.

Risks categories

Naturgy has defined five risk typologies in the 2022 Risk Map: economic, financial, operational, reputational/sustainability and strategic.

The categories for each risk typology are:

Economic	Financial	Operators	Sustainability reputation	Strategic
Commodity	Credit	Security	Reputational	Alignment with energy transition
Exchange rate	Interest rate	Business continuity	Environmental (E)	Long-term commodity exposure
Regulation	Taxation	Fraud	Social responsibility (S)	Capital employed by geography
Volume	Liquidity and solvency	Cybersecurity	Governance (G)	Risk profile regulated businesses
Margin / Price	Rating	Data protection	Compliance	Exposure to soft currency
Legal	Provisions	Environment	People	Exposure to merchant businesses
Operational		Customer satisfaction	Climate change	
		Health and safety		

For the economic and financial risk categories, the quantitative model type is applied, while for the operational and reputational/sustainability risk categories, a heat map assessment is generally applied.

Economic and financial risk typologies

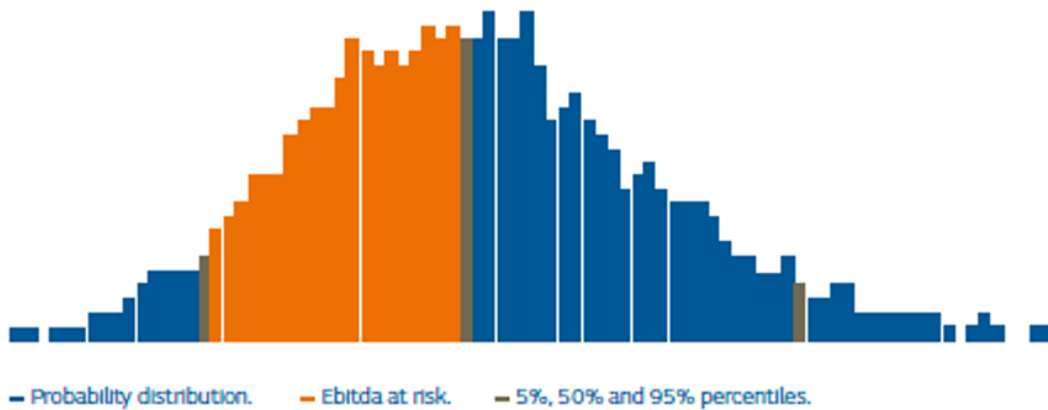
Risk factors with impact on business results and/or impact on the company's cash flow and balance sheet, caused by volatility of exogenous factors, modification of regulatory frameworks or variation of demand with impact on short-term results and by volatility of financial variables, potential impact of counterparties, modification of taxation frameworks or provisioning.

Commodity/exchange rate/interest rate risk

A random measure of the company's risk due to the variability of all prices of energy and financial goods and services with which the company operates:

The risk or CFaR is calculated by taking the highest deviation at a predetermined confidence level of each of the market variables with respect to the reference scenario.

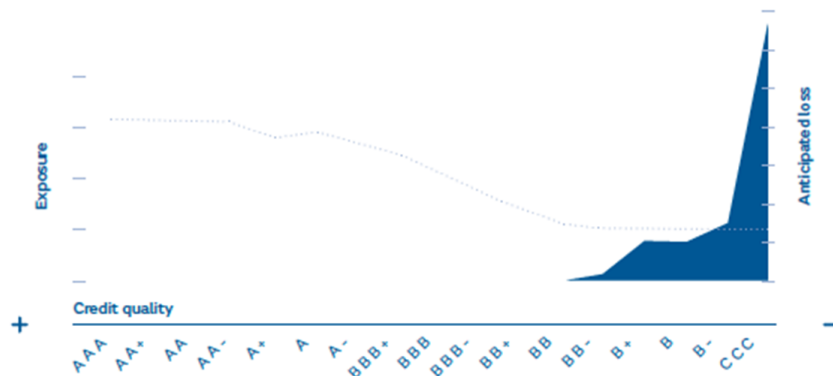
Graphical representation of the distribution of the company's annual Ebitda, its expected value and associated risk



Credit risk

The minimum amount of capital required to be held by an entity as a proportion of its asset base to meet the potential for default and depreciation of assets, in accordance with regulatory agency standards. In Naturgy, the target credit risk profile and the target expected loss are objective. Worse levels of credit quality mean the company's exposure has to be limited.

Distribution of the anticipated loss, which increases with the deterioration of customer credit quality



Operational risk

Risk associated with accidents or fortuitous events affecting people and accidents, damage or unavailability of the company’s operating assets, after the coverage by Naturgy’s insurance program.

Its fundamental magnitudes with regard to management are the level of retention and the breakdown of overall costs associated with the risk: premium, expected loss and unexpected loss.



Regulatory, volume, margin/price, legal and tax risks

Measures that determine the company’s risk, defined as the potential variation in Ebitda due to various factors: adverse evolution of demand because of changes in temperature and/or macroeconomic worsening of a country, adverse revision of the regulatory framework of a business, impact on taxes due to uncertainty regarding the acceptance of the tax treatment adopted in the tax returns filed or expected to be filed and uncertainty regarding the probable potential outcome of litigation, arbitration or legal claims filed against Naturgy.

Operational and reputational/sustainability risk typologies

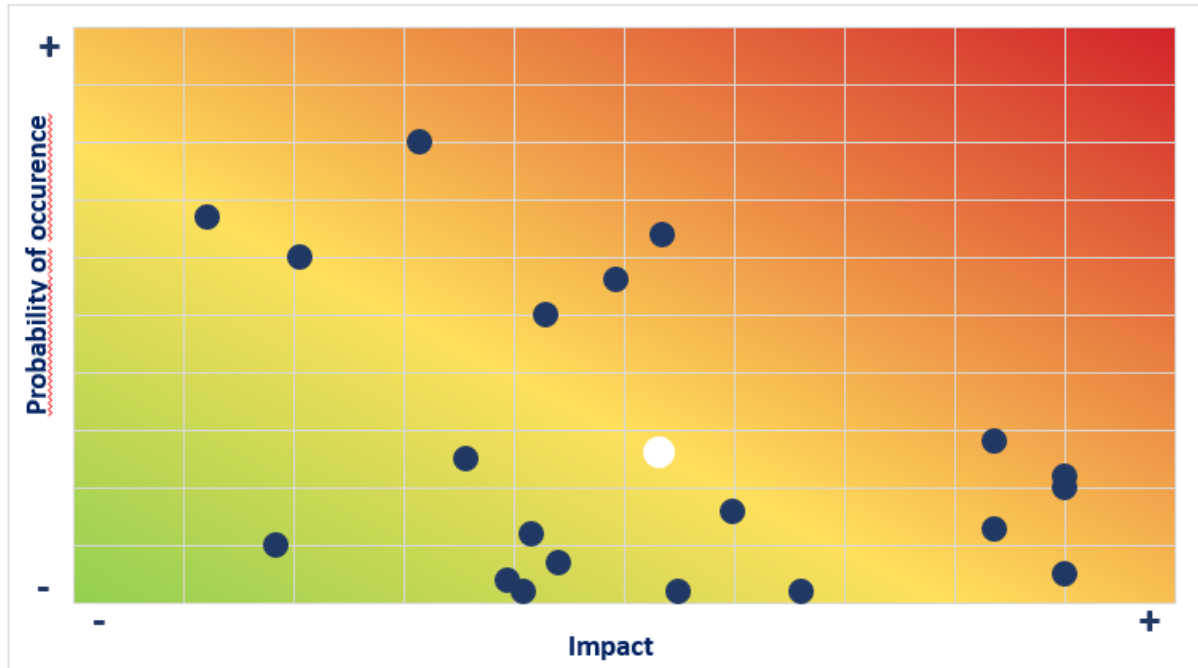
Environmental risk

Associated with the possibility that environmental limits set by the regulator may be exceeded naturally or by human action, or that ecosystems or biodiversity may be damaged.

Naturgy has identified the environmental risks in its facilities by using the reference standard—UNE 150008 in Spain—as its basis. To prevent these risks, the company has introduced an integrated system of management which sets out the operational control and environmental management procedures. This system is audited in-house and certified and audited annually by AENOR. In addition, Naturgy has introduced emergency plans at facilities and storage premises at risk of an environmental accident, including an action plan, containment measures and regular drills.

Risks involving security, business continuity and crisis management, fraud, cybersecurity, data protection, customer satisfaction, health and safety, compliance and people

The risk position is evaluated by means of heat maps, defining critical factors for each risk category, quantifying both the likelihood of occurrence and the impact of each factor, guaranteeing the homogeneity of the criteria used in their measurement.



Representative risk assessment figure

Reputational and ESG risk

The consideration of ESG factors and sustainability criteria in decision-making has taken on particular relevance in recent years. This risk includes uncertainty in the evolution of stakeholder perceptions of the company's reputation and its ability to develop sustainable business from an environmental, social and governance point of view.

Potential impact on business if not managed properly:

- Lower profitability, both in terms of business and investment, in the medium and long-term.
- Lower shareholder value.
- Less sustainable development.
- Negative social and environmental impact, along with a negative financial return.
- Worsening competitiveness.
- Worse assessment by analysts and investors.
- Increased costs of funding.

Mitigation actions carried out by Naturgy:

- Promote renewable energies, renewable gas and energy savings and efficiency as key elements towards a low-carbon model.
- Offering solutions for cities and land and maritime transport that reduce emissions and improve air quality.
- Innovate in technologies and business models that help reduce greenhouse gas emissions.
- Supporting international climate change negotiations and market mechanisms that foster the development of the most appropriate technologies at each stage of the energy transition.

Emerging risks

Of all the potential emerging risks, those considered to be of particular relevance to the company in 2022 are:

Cybersecurity risk or digital information security

Cybersecurity emerges as a consequence of an increasingly technological environment and a focus on progressive digitalisation. The increase in networked devices has forced organisations to establish new defence mechanisms to prevent attacks on the security of their information.

Potential impact on business if not managed properly:

- Loss of information due to theft of files vital to business operations.
- Phishing.
- Loss of trust.
- Loss of customers.
- Reputational damage.
- Stoppage of activity.
- Economic losses.

Climate change risk

[201-2]

Risk derived from energy transition (regulation, market, technologies) and the physical impacts of climate change (acute and chronic).

In order to integrate the climate variable into Naturgy's risk and opportunity management and strategic planning, the identification, measurement and management of climate change risks and opportunities are conducted in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Main opportunities and uncertainties

Naturgy sees the energy transition as an opportunity to transform the business and promote the changes needed to achieve a low-carbon economy. In this context, and based on the Strategic Plan 2021-2025, Naturgy's main opportunities are as follows:

- **Focus on stable, low-risk, strong-currency geographies** to capture growth in energy demand and maximize business opportunities in new markets.
- **Renewable generation:** increasing renewable generation capacity in line with the global energy transition.
- **Network operation and growth:** leveraged on solid regulatory frameworks with long-term visibility and focused on continuous improvement, digitalisation and automation
- **Technological development and innovation:** development of innovation projects in hydrogen and its blending in gas networks, renewable gas, energy efficiency, sustainable mobility and just transition.
- **Natural gas and LNG supply portfolio:** continuous review and optimisation of supply contracts, continuous risk management to ensure predictable cash flows, and adaptation of the LNG carrier fleet to enhance its flexibility.

There are uncertainties of a transversal nature, such as the macroeconomic context and geopolitical exposure, which materialise and have an impact on many of the risks included in the typologies described in the previous point.

Uncertainty of the macroeconomic context

The global macroeconomic scenario of recent years has been profoundly altered by the concatenation of two events of unprecedented complexity and depth. Initially, the outbreak and evolution of the COVID-19 pandemic and, subsequently, the rise of geopolitical tensions in Europe with Russia's invasion of Ukraine. Both events have led to a global crisis, one of the most affected sectors being the energy sector, with significant increases in the price of natural gas and oil, in the former to levels well above pre-war levels and with extreme volatility in daily prices.

Naturgy monitors the status and evolution of the current situation generated, with constant monitoring of macroeconomic and business variables, to manage potential risks. To this end, analyses assess the indirect impacts of the conflict on business activity, financial situation and economic performance, with particular reference to the across-the-board increase in raw material prices and, where appropriate, the reduced availability of material supplies from conflict-affected areas.

In this regard, Naturgy has taken actions aimed at mitigating the effects of rising energy prices on its customers and society as a whole. On the other hand, with regard to gas supply contracts, a significant part of those that expire in the long term have entered the ordinary price review period and in whose negotiations the company looks after the interests of its shareholders, customers and other stakeholders.

On the regulatory side, both European and national bodies have established various regulations to mitigate the consequences of the war on final energy consumers. The regulatory framework is described in Annex II to the consolidated financial statements as at 31 December 2022.

External geopolitical exposure

Naturgy has interests in countries with different political, economic and social environments, highlighting three main geographical areas outside the European Union:

- **Latin America:** Uncertainty factors linked to investment and business in Latin America include the influence of local governments on the economy, fluctuating economic growth rates, high levels of inflation and devaluation, depreciation or overvaluation of local currencies, a changing interest rate environment, as well as social tensions and political instability.
- **Middle East and Maghreb:** Naturgy has both its own assets and important gas supply contracts from different countries in Maghreb and the Middle East. Political instability in the area may result in both physical damage to assets of Naturgy's investee companies and obstruction of the operations of these companies or others involving an interruption of the group's gas supply.
- **China and Taiwan:** The Asian market emerges as a relevant geopolitical uncertainty factor, given the current heavy dependence of the supply chains of processed renewable components on Chinese exports. Interruptions in the supply of these components, due to transport and distribution problems or direct import restrictions, can lead to increased material costs and delays in the commissioning of ongoing renewable projects.

5. Security and privacy

[3-3]

(Cybersecurity and information security)

Privacy and security of personal data

Naturgy has defined a Personal Data Protection Policy that ensures proper processing of this data throughout its life cycle, from collection and processing through to removal.

This policy is communicated to all employees and is developed in a regulatory corpus aligned with all legal requirements, standards and internationally accepted best practices governing the processing of personal data. This policy applies to all organisational units and companies of the company that collect or process personal data, as well as to partners and suppliers that collaborate in such processing.

Naturgy complies with the provisions of Regulation (EU) 2016/679 of the European Parliament and the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and the free movement of such data, and with the provisions of Organic Law 3/2018, of 5 December, on the Protection of Personal Data and the guarantee of digital rights, as well as with the other provisions on data protection, to guarantee the protection of data of a personal nature of its directors, employees, customers, suppliers, shareholders, investors and other stakeholders.

Actions to comply with legislation

Naturgy, when it is the data controller, performs all necessary actions to comply with the legislation on data protection, which include the following, for merely illustrative purposes:

- It processes personal data in a lawful, sincere and transparent manner.
- It collects data for specific, explicit and legitimate purposes.
- It minimises the data subject to processing.
- It updates the data, providing data subjects with simple systems for this update.
- It limits the data storage periods.
- It applies appropriate technical and organisational measures to guarantee the security, integrity and confidentiality of the data.
- It obtains the consent of the data subject for processing whenever necessary.
- It introduces simple and adequate mechanisms so that the data subject, directly or through their legal or voluntary representation, can exercise their rights pursuant to prevailing legislation.
- It chooses data processors that offer sufficient guarantees to apply appropriate technical and organisational measures so that data processing is carried out in compliance with the requirements of relevant legislation. In addition, it signs agreement with these data processes through which the data processor will only process data in accordance with the instructions given by the data controller, and will not apply the data or use them for any purpose other than the one set out in this agreement, and will not disclose them, even for safeguarding purposes, to third parties.
- It keeps a record of data-processing activity.
- It carries out the impact assessments it deems appropriate.
- It has a collegiate body that acts as Data Protection Officer.
- It performs audits to guarantee compliance with data protection regulations.

In 2022, Naturgy received 73 requests for information from the Spanish Data Protection Agency, all of which were duly dealt with and, at the date of writing this report, none of them had resulted in a sanction.

	2022	2021
Requirements received from the Spanish Data Protection Agency (AEPD)	73	37

In relation to the evolution of the indicator of requirements received by the AEPD, the increase experienced in recent years is noteworthy. Given that it is the group companies dedicated to marketing that have received the majority of requests, it is reasonable to think that the increase is due to the increase in Naturgy's commercial activity. On the other hand, it should be borne in mind that there is a greater level of public awareness and awareness of personal data protection.

Pursuant to Article 32 of the General Data Protection Regulation (GDPR), which addresses security measures and technology, Naturgy adopts the technical measures designed to safeguard the security of personal data and to prevent them from being altered, lost, or being processed or accessed in an unauthorised way to guarantee the confidentiality, integrity and availability of the data.

In addition, there are procedures for updating and correcting new vulnerabilities of systems, to propitiate better proactive conduct in the prevention of security incidents, and in the analysis and management of information security risks.

Cybersecurity

Cybersecurity Governance/IT Security

The increase in risks and threats, as well as the fact that, in Spain, the infrastructures managed by the company are considered critical, make cybersecurity management a priority issue. In this regard, Naturgy has a global cybersecurity governance system for the entire organisation.

This matter is supervised by the Board of Directors, whose directors have profiles and knowledge in the information technology sector, which favours an overall view of these matters.

Cybersecurity is managed transversally throughout the organisation through the corporate function (Global Head Chief Information Security Officer), responsible for ensuring the correct strategic alignment of the policies and regulations applicable in each of the businesses, which in turn have specific cybersecurity officers (Business Information Security Officers). The corporate cybersecurity function is spearheaded by the Chief Information Officer, who is part of Naturgy's Management Committee.

Naturgy uses the BitSight Index, which allows organisations to examine their cybersecurity and compare it with that of other companies to determine the level of performance in this area. This indicator is changing the way organisations manage their information security by providing objective, verifiable and actionable security scores. In 2022, Naturgy obtained an average score of 730 on this index, which is based on a scale of 250 to 900, with 250 being the most basic and 900 the most advanced.

Finally, Naturgy maintains relations with third parties in the field of cybersecurity, such as the National Institute of Cybersecurity or the European Commission, participates in sectoral forums and collaborates with companies in the sector or others engaged in providing cybersecurity services.

Cybersecurity measures

Naturgy has an updated Cybersecurity Plan in accordance with the latest requirements and threats in this area. This plan seeks to increase the prevention, protection and investigation of cyber-attacks and, accordingly, to strengthen the company's resilience in digital environments in order to ensure the protection of all Naturgy's information assets. The plan is globally applicable and is based on three fundamental pillars: people, processes and technology.

One of the company's objectives is to align its own requirements with regulatory requirements. For this, Naturgy has a body of regulations that establishes the basic lines of action that must be complied with by employees in terms of information security. These regulations are updated periodically and a series of international standards and good practices, such as ISO 27001, NIST SP 500-53 or ISA 62441, are used as a control framework.

In order to integrate cybersecurity into projects from the early stages, Naturgy has a technical office of security projects that helps to include cybersecurity from the conceptualisation and design of projects. In this way, security baselines are defined based on international standards and best practices, such as ISO 27001, NIST SP 500-53, ISA 62441 or CCSA (Cloud Certification).

As regards cyber intelligence tasks, Hunting teams and the CyberSOC (Security Operations Centre) have continued to integrate new sources of cyber intelligence, as well as new use cases aligned with the MITRE Matrix, enabling early detection. In addition, and as a final step in this process, the company has defined a protection plan, consisting of the mitigation of those use cases that could be exploitable on its infrastructure, thus guaranteeing the minimisation of potential damages.

In addition, roles and responsibilities have been assigned in a global incident response plan—aligned with the crisis management plan—and end-user protection tools have been deployed. The capabilities of the threat hunting team, which analyses the environment, identifies new attack trends and thus enriches SOC's capabilities, have also been expanded.

In addition, Naturgy proactively performs, with the support of leading third parties in cybersecurity, periodic attack simulation exercises to prevent and resolve potential vulnerabilities and certify the robustness of the company's processes and systems.

Regarding the extension of the principles to the supply chain, Naturgy establishes cybersecurity criteria that are required in the processes of procurement or contracting third party services, and a qualification evaluation system is being implemented for the main suppliers that process company information.

Process and infrastructure

In the event of a cyber incident, and depending on its level of criticality, Naturgy mobilises and executes the appropriate levels of response, thus limiting its impact on the group, the value of the share, service provision and customer confidence. It is worthy of mention that there have been no infrastructure incidents during 2022 **that prevented business continuity.**

Naturgy has an incident response procedure that determines how to execute the global coordination of cybersecurity incidents based on the nature and criticality of the incidents that are managed, both locally and globally.

The procedure is based on the incident management documentation developed by NIST (National Institute for Standard and Technology - Special Publication (SP) 800-61).

In addition, the company has a Crisis and Technological Continuity Plan, which regulates the mechanisms to be implemented in the event of a serious security incident. These mechanisms help maintain the service level within predefined limits, establishing a minimum recovery period, analysing the results and reasons for the incident, and thus avoiding the interruption of corporate activities. The plan mitigates the financial impact and loss of critical information, as well as the reputational aspect.

Every year, Naturgy conducts cybersecurity incident response simulation exercises for each of the geographies and businesses. In this regard, there have been no infrastructure incidents during 2022.

It should be noted that the Naturgy group's Information Systems infrastructure and information security management systems are audited annually by external auditors during the auditing of the company's accounts. In addition, we carry out an annual cyberassessment (for each business and geography), which allows the company to evolve its level of maturity year after year, proposing and executing new lines of improvement.

Protection of strategic assets at Naturgy

[IF-EU-550a.1] and [IF-EU-540a.2]

Throughout 2022, the corporate Security and Cybersecurity units have monitored and supervised the processes established to protect their critical infrastructures, performing actions for the review/updating of applicable documentation, managing the incidents detected and maintaining dialogue with public and private bodies involved in these infrastructures.

During 2022, there have been no incidents of non-compliance with the group's regulations.

▪ **Integrity of gas supply infrastructure**

[IF-GU-540a.2], [IF-GU-540a.3] and [IF-GU-540a.4]

	2022					2021				
	Spain	Argentina	Brazil	Chile	Mexico	Spain	Argentina	Brazil	Chile	Mexico
Cast iron or puddled iron distribution pipes (%)	2	0	2	0	0	2	0	2	0	0
Unprotected steel distribution pipes (%)	0	0	5	0	14	0	0	5	0	15
Gas transmission pipelines inspected (%)	100	100	36	0	N/A	100	100	20	0	N/A
Gas distribution pipelines inspected (%)	49	80	68	7	89	51	73	80	0	92

NB: no data available for Chile.

Among the efforts made by the company to manage the integrity of the gas supply infrastructure, the actions carried out in Brazil and Mexico in recent years stand out:

- Creation of an instrumented inspection plan in transmission networks.
- Creation of maintenance plans for analysis of coatings in transmission and distribution networks.
- Creation of leak detection plans in distribution and transmission networks.
- Periodic monitoring of the cathodic protection system through a remote management system.
- Follow-up of maintenance indicators through periodic meetings.

Nuclear power stations

Naturgy owns or holds a percentage of several nuclear power stations in the country. The company owns 100% of the José Cabrera nuclear power station, a facility that operated between 1968 and 2006 with excellent results in the areas of nuclear safety, radiation protection and waste management.

In addition, Naturgy has the following ownership in the Almaraz I and II and the Trillo nuclear power stations:

Unit	Thermal power (MWt)	Ownership (%)
Trillo	3,010	34.5
Almaraz I	2,947	11.3
Almaraz II	2,947	11.3

In November 1999, the companies owning the Almaraz and Trillo nuclear power stations set up the Economic Interest group known as Centrales Nucleares Almaraz-Trillo, A.I.E. (CNAT), for the integrated operation, management and administration of both plants, maintaining unchanged their ownership stakes in each of them.

The production of electricity in nuclear power stations is a highly regulated activity. There are numerous national and international bodies working together with operators to define and implement effective management models that make this form of energy production a benchmark in terms of safety, reliability and respect for people and the environment.

Naturgy participates, either directly or indirectly through the coordination organisation of Spanish nuclear operators in the Nuclear Energy Committee, in international organisations of recognised prestige in the nuclear field, as well as in various national forums related to nuclear R&D, in order to ensure excellence in the operation of these assets and to guarantee the production of electricity with high levels of safety.

No other considerations should compromise the security of the company's facilities. This premise demands a commitment to a "safety culture" where safety issues are given the maximum attention they deserve because of their significance. Safety, understood in its broadest sense, encompasses aspects such as operational safety, radiation protection, respect for people and the environment, occupational risk prevention, maintenance of the physical safety of the facilities, safety and risk assessments and ongoing worker training.

CNAT has safety policies, supported by Naturgy, based on a "safety culture" that ensures:

- All the people who work at CNAT are true protagonists of prevention, and it is up to the management and middle management to take the lead.
- The health of all employees and the continuous improvement of the quality of their working life are guaranteed.
- All accidents can and must be avoided. Risk control is always a good investment.
- Training, information, consultation and participation of workers are essential elements of the company's prevention policy.
- Prevention forms part of all the activities of the organisation.
- The coordination of business activities is established and included in the corresponding procedures.
- Every accident and incident needs to be investigated and used as a source of learning. Any unsafe action or unsafe practice must be recognised, analysed and corrected.
- Compliance with prevailing legislation is ensured, both with regard to our own staff and that of contractors, subcontractors and suppliers.

In terms of quality, CNAT's commitment has been recognised by the Spanish Association for Standardisation (AENOR) through the awarding of the official certificate proving that the quality management system complies with the UNE EN ISO 9001:2015 standard for the production of electricity from nuclear energy. In 2021, AENOR carried out a follow-up audit of the certification with a satisfactory result. Furthermore, CNAT complies with the quality standard of reference in the nuclear sector, the UNE 73401 on quality assurance at nuclear facilities, which is the basis of the quality assurance manual, the requirements of which are permanently audited by the Nuclear Safety Council (CSN).

CNAT has had its environmental management system certified by AENOR since 2005, in accordance with the international standard UNE-EN-ISO-14001:2015. In 2021, the follow-up audit of the certification of the environmental management system of AENOR INTERNACIONAL S.A.U. was carried out. This certificate was renewed for the last time in 2020 and is valid until 2023.

6. Integrated and responsible management

Integrated management system

For years, Naturgy has had an integrated quality, environment, health and safety management system (IMS), certified according to the requirements of the ISO 9001:2015, ISO 14001:2015 and ISO 45001 standards. This system is audited externally every year. In 2022 this audit was conducted by AENOR for all businesses.

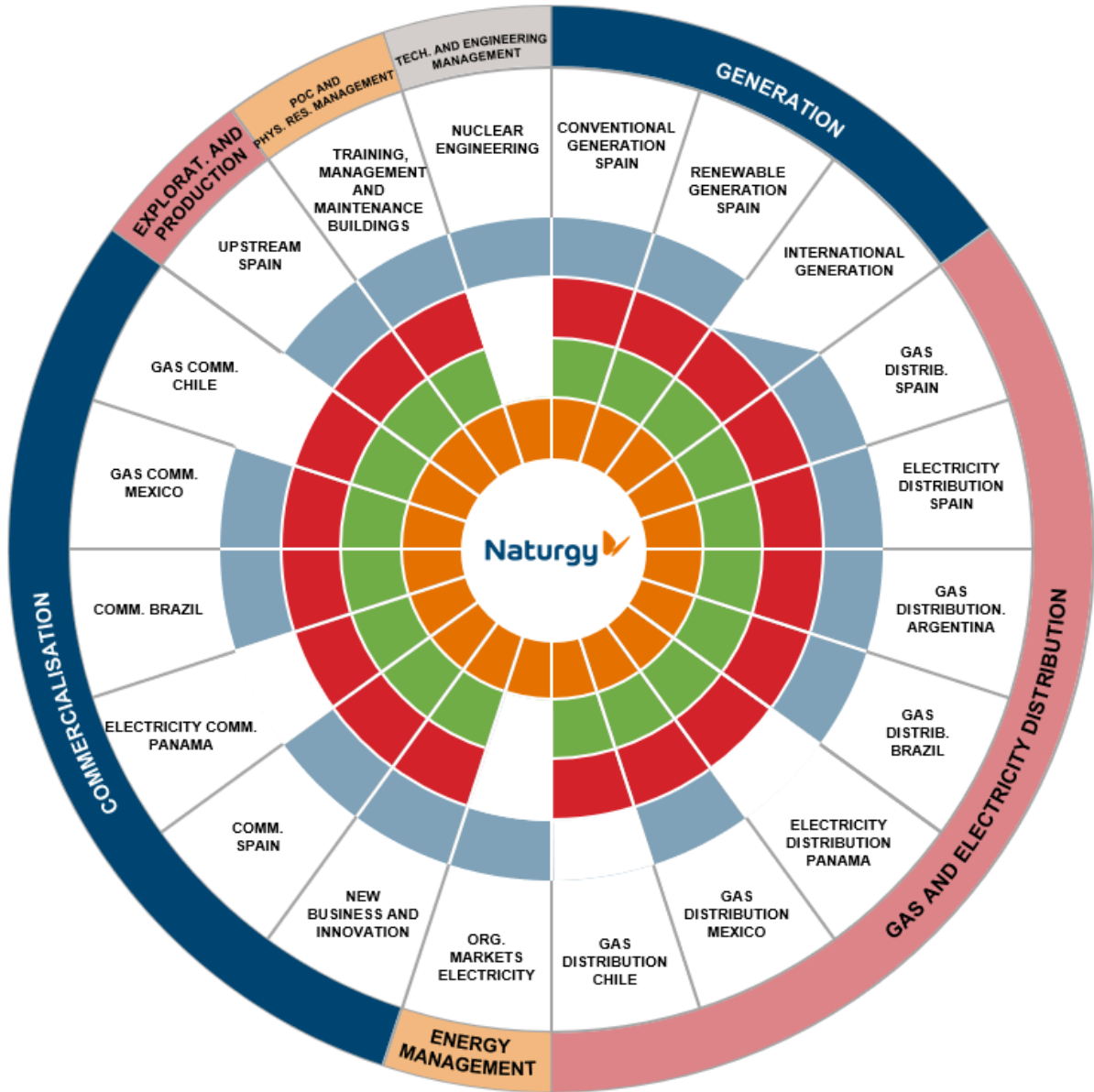
The scope certified by this system is the management of:

- Extraction and injection of natural gas.
- Electricity generation (thermal, hydraulic and renewable sources origin).
- Distribution of natural gas and electricity.
- Commercialisation of natural gas and electricity.
- Development and execution of engineering projects.
- Energy management in organised Iberian electricity markets.
- Corporate training activities.

As part of the IMS, the Healthy Company Integrated Management System is also audited and certified annually in the units in Spain, Argentina, Brazil, Chile, Mexico and the Dominican Republic, in accordance with the Healthy Company Model.

In addition, the energy services activity included in the commercialisation of natural gas and electricity in Spain is certified in the energy management system according to ISO 50001.

• **Quality, environment and health and safety certifications chart**
Ed. 37 (22/11/2022)



- Quality (ER) – ISO 9001
- Environment (EM) – ISO 14001
- Health and Safety (OSH) – ISO 45001
- Healthy Organisation (HO) - Healthy Organisation Model

7. Supply chain

[3-3]

(Responsible supply chain)

Suppliers and collaborating companies are key players in the optimum performance of the value chain of Naturgy, and the company therefore promotes relations based on trust, that are stable, sound and of mutual benefit, under the principles of transparency and risk management.

Suppliers are selected through objective and impartial assessment mechanisms, which ensure that the supply chain complies with the principles set out in the Supplier Code of Ethics. All suppliers must adhere to this Code and its content stems from Naturgy's Code of Ethics, Human Rights Policy, Health and Safety Policy, Environmental Policy and Anti-Corruption Policy, as well as internationally recognised principles of good governance.

This is because the risks to the company extend beyond its activity, as it can be severely impacted by an inadequate activity by its suppliers and contractors in terms of the environment, health and safety, human rights, labour practices or corruption. The management of these risks is included in the global supply chain management model which is based on the assessment of the risk factors intrinsic to the outsourcing of a service or the supply of a product. This allows us to put in place controls to minimise risks and to ensure a level of compliance by suppliers that is equivalent to the requirements that the group satisfies in the activities it performs internally.

The company performs the procurement of works, goods and services, as well as the assessment, monitoring and development of suppliers in accordance with the general principles established in its policies, rules and procedures, ensuring a uniform, efficient and sustainable model that goes beyond regulatory compliance with legislation.

Naturgy's commitments in relation to its supply chain are as follows:

- Extending Naturgy's culture to the supply chain, transmitting the objective of excellence in service, efficiency in resources and compliance with the company's principles of responsible action. Encouraging the incorporation of sustainability criteria in daily management.
- Fostering compliance with the codes and policies of Naturgy in the supply chain, in particular in the area of human rights, ethics, health and safety and the environment.
- Encouraging the hiring of suppliers from the country or region where the company performs its activities against similar competitiveness in other locations, thus supporting the generation of a positive social impact.
- Fostering practices that encourage traceability and fair trade of raw materials at source.

Naturgy suppliers according to the nature of their activity

[2-6]

In 2022, Naturgy set up trade relations with a total of 5,951 suppliers which accounted for a total expenditure of Euros 2,643 million. These data include information from Argentina, Australia, Brazil, Chile, Costa Rica, the Dominican Republic, Morocco, Mexico, Panama, Spain and USA. The remaining supply chain indicators in the report do not include information from Australia, USA and the Dominican Republic and the USA, which represent 5.73% of the total procurement volume awarded, as detailed information is not available. The information for Morocco relates to residual operations carried out before the cessation of activity in Morocco.

Approximately two thirds of the overall amount awarded corresponds to service suppliers that fundamentally take part in the following business areas:

- Development and maintenance of grids, both natural gas and electricity.
- Construction, operation and maintenance of energy plants.
- Commercial management services.

The remaining third corresponds to suppliers that provide materials required for the construction and maintenance of grids and plants, as well as those support services that complement the general activity. This activity was carried out mainly in Argentina, Australia, Brazil, Chile, Mexico, Panama and Spain, and to a lesser extent in Costa Rica, the Dominican Republic and the USA.

Management of the supply chain

[2-6] and [414-2]

Purchasing Model

The Purchasing and Supplier Management model introduces a management process with unified and overarching criteria for Naturgy's entire scope of operations. Key processes of these functions are centralised ensuring a global coordination that makes it possible to identify improvement opportunities.

The company supports the generation of positive social impact by promoting the contracting of suppliers from the country or region where the activities are carried out, preserving the group's reputation and ensuring Naturgy's sustainable principles of action in the purchasing and procurement processes.

The levers and measures that activate Naturgy's purchasing model are the following:

Activators

Naturgy's Policies and Codes

- Corporate Responsibility Policy.
- Human Rights Policy.
- Anti-Corruption Policy.
- Purchase Policy.
- Suppliers Policy.
- Code of Ethics.
- Supplier Code of Ethics.

Preventive

Naturgy Standards and Procedures

- Supplier tree according to risk level.
- ESG risks matrix.
- Supplier classification.
- Approval of suppliers.
- CSR Scoring.
- Reputational and economic-financial analysis.
- ESG audits.
- Environmental Questionnaires.
- Performance monitoring.
- Development of suppliers.
- Reputational monitoring of suppliers.

Corrective

Naturgy Standards and Procedures

- Audit corrective action plan.
- Performance monitoring corrective action plan.
- Revoke classification or approval of suppliers.
- Termination of contracts or reduction of suppliers' workload.

Elements to be highlighted in the management of the Naturgy supply chain

Corporate Responsibility Policy	It establishes commitments, actions and indicators for the responsible management of the company's supply chain.
Supplier Code of Ethics	Since 2016 all group suppliers have to adhere to the Supplier Code of Ethics.
Human Rights Policy	Naturgy's Human Rights Policy extends to the Supplier Code of Ethics. The assessment of suppliers includes issues related to human rights practices that are used to exclude suppliers in the event of an unsatisfactory response. In 2022, no breach of human rights at suppliers was detected.
Transparency in purchases and communication with suppliers	<p>In terms of procurement, Naturgy is committed to ensuring free competition, objectivity, impartiality, transparency and traceability throughout the procurement process:</p> <ul style="list-style-type: none"> – The use of secure electronic means for management of all tenders brings greater transparency to the procurement process and ensures information traceability. – Communication channels with the supplier that facilitate access to all the information necessary for their participation in the procurement processes <ul style="list-style-type: none"> ▪ A specific section for suppliers on the Naturgy website. ▪ The Supplier Portal, an online platform for transferring technical regulations to the supplier, notifying updates and managing orders. ▪ The Supplier Channel is the online tool available to the supplier to sort out any doubts or incidents or for any queries or suggestions.
Reporting channel	All suppliers, contractors and external collaborating companies can contact the Ethics and Compliance Committee of the company through the web channel published in the Naturgy Supplier Code of Ethics.

Measuring the carbon footprint in the supply chain

In terms of environmental sustainability, Naturgy has decided to go a step further by applying, from this year onwards, a new criterion in procurement processes, including a progressive assessment of the measurement of the carbon footprint of its suppliers in the bidding process. In this way, it incorporates climate change management into the performance assessment of the companies it works with.

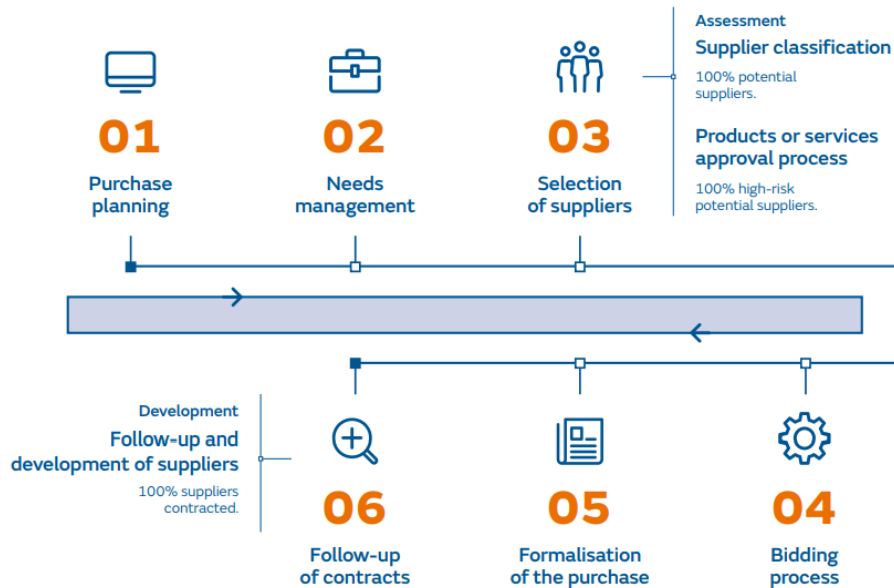
In implementing this requirement, the company has established two phases. In the first, implemented in 2022, suppliers are invited to voluntarily include as part of their technical bid a certificate verifying the measurement of their carbon footprint by an accredited entity. This information may be considered positively by Naturgy in the award decision. From 2023 and for purchases with a certain level of climate change risk, the presentation of this certificate will be mandatory.

In addition, since January 2022, Naturgy contractually requires that certain suppliers, depending on their risk derived from climate change or the amount of the contract for which they bid, report annually to the company on their degree of performance in climate matters through the completion of the CDP Supply Chain questionnaire.

Supply chain management process

In order to promote responsible management in the supply chain, Naturgy establishes a procurement process that aims to meet the needs of goods and services efficiently. It covers all stages of procurement, from identification of the need for a good or service to the follow-up of the management of contracts or orders.

Procurement is based on unified and universal contractual conditions for the entire scope of the group's activities, which include, among others, social and environmental clauses, anti-corruption clauses and ethical practices. The general terms and conditions of contracting and the country specific conditions are published on the relevant group websites.



Policies and procedures for supervising the management of subcontracted activities

Lines of action	Description
Global Outsourcing Policy	It sets out the general principles which have to be applied to all awarding or procurement of works, goods and services carried out by the group, guaranteeing a uniform, efficient and quality model for managing the procurement process.
Global Suppliers Policy	It represents the principles of the processes of assessment, approval, monitoring and development of suppliers. It guarantees sustainable management of the supply chain, identifying and assessing risk factors, evaluating suppliers and ensuring compliance with Naturgy’s corporate social responsibility commitments.
Counterparty Due Diligence Procedure	General principles include promoting responsible supply chain management and ensuring the group’s sustainability principles in purchasing and contracting processes. In particular, in environmental, social and good governance matters, we guarantee ethical behaviour and human and labour rights, transparency, full and fair opportunity, respect for the interests of stakeholders, respect for the principle of legality and international standards of behaviour, focus on needs, integration and continuous improvement, among others.
	It is designed to cover the main legal and reputation risks involved in business relations with third parties, and, in particular, covering misconduct associated with the risk of corruption.

Risk management of the supply chain

[407-1]

The process of global supply chain management is based on the assessment of risk factors that are intrinsic in outsourcing a service or supply of a product. This allows us to put in place controls to minimise risks and to ensure a level of compliance by suppliers that is equivalent to the requirements that the group satisfies in the activities it performs internally.

With the risk assessment of the 323 purchase categories that are managed worldwide, and after assessing the risks of 50 countries where the company usually contracts, we obtain the risk of each purchase category in accordance with its activity and the country where the activity is conducted.

This combination allows us to assign a high, medium or low risk to each purchase category, which is integrated into the map, thus obtaining the risk of each purchase category by country.

The company considers as critical suppliers those suppliers with a high level of risk in any of the assessed risk factors associated with the purchase categories they supply (Operational, ESG, Health and Safety, and Quality). Also included as non-substitutable critical supplier are technologists or suppliers of products or services that cannot be supplied by others or cannot be substituted, with which specific contractual conditions are established and validated by the specialised areas (Legal, Compliance, Cybersecurity, etc.) and which exceed Naturgy’s Single Contractual Model.

Risk factors

- Health and Safety Risk: potential risk of incorrect performance or failure of the service/product and the impact it would have on the life or physical integrity of people.
- Quality Risk: impact if the supplier fails to comply with the expected or agreed quality levels, which could lead to service/product failures, delays in execution or delivery times, increased costs or low customer satisfaction.
- ESG Risk: existing risk of purchasing products and/or contracting services that are not environmentally friendly, which are manufactured or generated under socially unfair conditions, or using labour practices that are ethically incorrect.
- Legal Risk: possibility of infringements and breaches by suppliers of laws, rules and practices that apply to them. To contract a supplier and for the contractual term, it is compulsory to prove compliance with the remuneration, tax and workers’ rights obligations, as well as to provide the civil liability coverage required in accordance with the product or service contracted for which vicarious liability may be claimed.
- Reputational Risk (Compliance): potential reputational damage that could result from the perpetration of a fraudulent or anti-competitive act by a supplier, contravening the ethical standard of compliance established in the Naturgy Supplier Code of Ethics.
- Financial Risk: economic impact on operations that may be incurred by the group in its service to customers as a result of a lack of continuity in supply or the deterioration of a good or service by suppliers that have been awarded contracts.
- Cybersecurity Risk: risk inherent in the processing of information assets, knowledge or data that are of value to the group and that could result in the failure of strategic infrastructures, leakage of confidential information, or technological and telecommunications interruptions.
- Data Protection Risk: risk to the rights and freedoms of natural persons arising from the processing of personal data and which may cause physical, material or immaterial damage.



In 2022, the number of suppliers with a valid contract in critical activities was 1,241, representing 55.5%¹ of the purchase volume. In addition, the company has identified 49 non-tier 1 critical suppliers (those who render services and/or provide products in tier 2 or above levels of the value chain), mainly corresponding to purchase categories of critical products that represent 1.61% of the overall purchase volume.

Naturgy assesses the ESG risk using a matrix that takes into account 20 environmental, social and good governance aspects of each of the purchasing categories and countries in which it operates.

¹ Does not include data from Australia, Dominican Republic and the USA.

Workers' rights are one of the aspects taken into account in the risk assessment. This aspect covers the following issues: work and free choice of profession or trade, freedom of association, collective bargaining, collective action, strike action, assembly, information, consultation and participation in the enterprise. In addition, the supplier code of ethics sets out specific guidelines to be followed by suppliers in relation to, inter alia, freedom of association and collective bargaining. 95.42% of the purchase volume awarded by Naturgy has the acceptance of the supplier's code of ethics.

Process map and sustainability criteria included in the ESG risk matrix

Risk Factors Environment	Risk Factors Good Governance	Risk Factors Social
Climate change. Pollution. Biodiversity. Water. Soil. Landscape · Territory · Heritage. Consumption of resources. Waste.	Fraud. Corruption. Competition. Terrorism. Professional ethics. Regulatory compliance.	Community well-being. Human Rights. Employee rights. Data protection. Safety and quality of products. Freedom.



ESG Risk Map (activity/country)

High level | Medium level | Low level

In this way, Naturgy identifies the suppliers with high risk in sustainability, considering those that reveal a high risk level in the Health and Safety and ESG factors. In 2022 the number of suppliers in this category was 408², representing 37.3% of the total purchase volume. 97.06% of these suppliers present a high Health and Safety risk as this is the predominant factor due to the nature of the activity carried out by Naturgy, construction, operation and maintenance of natural gas networks, electricity networks and power stations.

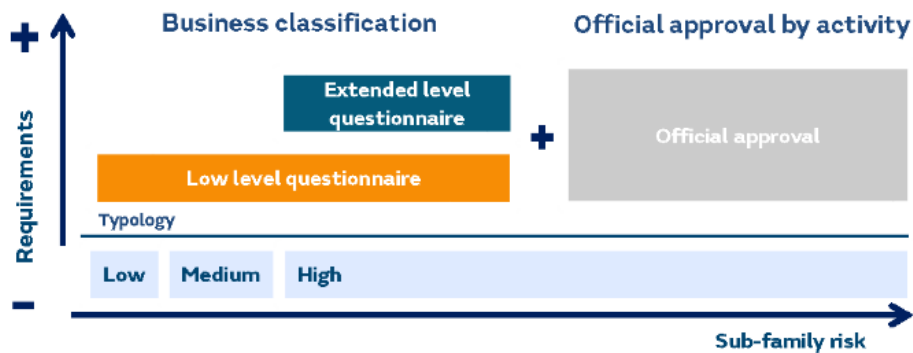
Supplier assessment process

[407-1] y [414-2]

Supplier assessment consists of business classification and approval processes by activity.

² Does not include data from Australia, Dominican Republic and the USA.

Risk map by purchase category



Business classification of suppliers

[409-1] and [414-1]

Based on the assessment of compliance at company level with Naturgy's requirements in the different risk factors. All suppliers must pass this process before maintaining commercial relations with Naturgy.

The supplier business classification model establishes:

- A basic level for suppliers with medium and low risk that ensures their adherence to the Naturgy's Supplier Code of Ethics and the declaration of compliance with the main legal, tax, organisational, environmental, social, health and safety, cybersecurity, compliance, quality and personal data processing criteria required by Naturgy.
- An extended level, for high-risk suppliers, which additionally requires an extended questionnaire and evidence of financial, sustainability, health and safety, and compliance information.

The company classification process also obliges all suppliers to declare compliance with minimum social, health and safety and labour practice requirements, and the abolition of traditional and emerging practices of forced labour and child labour.

The classification is managed by registering on the Achilles platform, the supplier classification system, and critical suppliers are required to register in the RePro Community of the energy sector in Southern Europe and South America.

Suppliers who do not answer satisfactorily to the minimum requirements will be considered unsuitable to work with Naturgy.

In 2022 Naturgy has conducted the ESG assessment of 6,065 suppliers, including potential and active ones. The latter have to be assessed on an annual basis.

The result of the process shapes a suppliers tree in which they are classified in accordance with the categories for which they are able to supply services or products, and according to the associated risk level. The weight of sustainability issues raised to high-risk level suppliers during the business classification process represents 63% of the total and compliance issues represent an additional 22.1%. The social factor takes into account not only the social aspects characteristic of the supplier's activity or product (community well-being, human rights, workers' rights, data protection, product safety and quality, freedom), but also the country risk where the work is carried out. Failure to comply with the established social minimums may be grounds for exclusion of the supplier.

In the countries of the group with the supplier classification model implemented through the Achilles platform, all new suppliers have to pass selection filters according to social criteria. It is a prerequisite for a supplier to maintain a contractual relationship with Naturgy. If all the group's countries are taken into account, including those in which this platform is not implemented, in 2022 the percentage of new suppliers that have passed selection filters according to social criteria was 67.6%.

For high-risk suppliers, RePro has a specific sustainability and compliance module and an objective scoring system that classifies suppliers into five categories -excellent, high, medium-high, medium-low and low-. Suppliers in the last two categories receive customised reports with recommendations for improvement.

The high risk rating process also includes the assessment of criminal, privacy and cybersecurity compliance issues through a compliance rating and corresponding customised recommendation report for each supplier.

In accordance with the company's Health and Safety Commitment, specific regulations have been introduced to classify the health and safety risk of suppliers, by defining objective aspects and assessment criteria, requirements for classification, selection and evaluation of bids in award processes.

Official approval and management of supplier quality

[409-1]

At Naturgy, all suppliers that perform critical activities —those defined with a high risk in any of the ESG, Quality and Health and Safety risk factors— must be approved.

The approval process is based on audits conducted at the supplier's facilities or by distance depending on the critical nature, to check compliance with the specific requirements defined for the service or material. If anomalies are detected during the audits, corrective actions must be introduced within the deadlines agreed between Naturgy and the supplier, and this deadline is always less than one year.

Naturgy also approves the non-tier 1 suppliers corresponding to categories of purchase of critical products, over which audits are conducted based fundamentally on quality-related aspects.

In 2022, 718 audits were performed on suppliers and subcontractors, of which 89 were conducted at their facilities (27 audits of approval and 62 inspections at source). If anomalies arise in the approval process, this may lead to a plan of corrective actions, or to the non-approval of the supplier, which would prevent such supplier from performing this activity for Naturgy.

85% of the approval audits carried out at the suppliers' premises has resulted in the need to submit a corrective action plan. On the other hand, in 2022, one supplier's approval has been suspended, withdrawn and the contractual relationship terminated for non-compliance with safety, quality and other requirements.

Monitoring, follow-up and development of suppliers

Monitoring of suppliers

- Criteria considered in monitoring

	<p>Since 2019 Naturgy has been monitoring online the reputation risks of the portfolio of suppliers with whom it maintains commercial relations. A screening tool has been used to detect exposure to counterparty reputational risk and to make decisions based on the risk detected in coordination with the Compliance Unit.</p>
Corporate image and reputation	<p>The monitored supplier base amounts to 5,873 at the end of 2022. In no case has there been evidence of an impact that has placed these suppliers at very high risk.</p> <p>In addition, reputational due diligence is performed on suppliers to analyse the alignment with Naturgy's corporate responsibility commitments.</p> <p>In 2022, 1 supplier was disqualified on the grounds of fraud or unethical practices.</p>
Economic-financial information	<p>The main potential or active suppliers of Naturgy are analysed from the economic-financial point of view in order to prevent contractual breaches by suppliers.</p> <p>In addition, in the assessment process the supplier's economic dependency ratio is measured with respect to Naturgy and is taken into account in the supplier's global scoring that can be used in the supplier's valuation during the contract award strategy.</p>

Monitoring of suppliers

- Monitoring mechanisms

Environmental specifications	<p>Naturgy has developed specific environmental specifications for suppliers and contractors that are attached to the corresponding contracts, based on the purchase category supplied and which include minimum environmental management requirements for application and monitoring during procurement.</p> <p>59.6% of the purchase volume from critical suppliers has an environmental management system with external certification.³</p>
Performance	<p>This is carried out with the most relevant suppliers and involves carrying out performance assessments to measure the operating units' level of satisfaction with suppliers and detailed aspects concerning quality, health and safety, operations and ESG.</p> <p>For those suppliers who perform activities classified as high risk, health and safety performance is measured using objective metrics and the method set out in Naturgy's "Health and Safety Standard: Assessment of performance of collaborating companies in health and safety issues". Thus, corrective actions are carried out on those suppliers whose assessment does not reach the standard set by the company.</p> <p>In 2022, 986 performance assessments were conducted on suppliers from Argentina, Brazil, Chile, the Dominican Republic, Mexico, Panama and Spain, with a total of 771 suppliers being assessed. The results and classification obtained are reported to the supplier, also specifying their weak points and areas for improvement. In 2022, action plans have been agreed with 104 suppliers whose score in the performance measurement proved insufficient..</p>
ESG audits <small>[409-1]</small>	<p>For suppliers classified as having a high level of risk, documentary evidence is required, and for those whose assessments of financial, people (working environment, recruitment practices, working hours, occupational risk prevention), reputational, compliance and corporate social responsibility (ethics and integrity, non-discrimination, community relations) risk criteria do not exceed the objective parameters established by the RePro Community, audits are carried out from the point of view of corporate responsibility. In 2022, ESG on-site audits were carried out on 66³ of the group's suppliers. In addition, Naturgy carries out ESG audits on the suppliers with the highest purchase volume classified as having a high ESG risk. In 2022, 82.7%³ of high ESG risk purchase volume was audited.</p> <p>Suppliers with significant findings on social, environmental and governance aspects require a corrective action plan for their resolution. Suppliers have a maximum of one year, and in case of non-compliance or unsatisfactory resolution, the company may terminate the contractual relationship.</p>

³ Does not include data from Australia, Dominican Republic and the USA.

For suppliers in critical procurement categories with current awards, self-assessment and quality control mechanisms are agreed upon prior to delivery of products or services, follow-up audits are conducted based on the risk level of the purchase category. The calibration of equipment is also checked and it is verified that the personnel who carry out high-risk activities are authorised or certified to carry them out, and accreditations or identifications are issued.

The products corresponding to critical categories are also subjected to inspections, technical acceptance and Factory Acceptance Test (FAT) at the production centres.

Development of suppliers

Naturgy's Corporate University, through its Extended Academy (EA), provides a training offer, both technical and managerial, to external collaborating companies, customers and suppliers. This encourages the improvement of operational efficiency, the incorporation of innovative methodologies and the development of skills aimed at excellence in operations and service.

The EA thus contributes to the establishment of a common planning and management model, favouring the professionalisation of companies that participate in the Naturgy value chain, with a recurrent activity of more than 12,000 annual participants and 27,000 hours of training. The number of unique participants in 2022 was 9,159.

Likewise, the relationship with strategic suppliers is managed in order to strengthen partnerships, in an environment of collaboration and efficiency, sharing information, aligning strategies, seeking continuous improvement and promoting innovation.

06. The opportunity of environmental challenges



The Global Environmental Policy, applicable to all countries and businesses, and the Corporate Responsibility Policy, the company's highest-ranking policy in favour of sustainable environmental development, define Naturgy's environmental action around eco-efficiency, rational use of natural and energy resources, minimisation of environmental impact, promotion of innovation and use of the best available technologies and processes. They also establish Naturgy's voluntary commitment to be a key player in the energy transition towards a circular and decarbonised economy model, which, in line with the goals of the Paris Agreement, drives climate action and the protection of biodiversity while at the same time promoting a just and inclusive transition through the generation and improvement of employment opportunities.

Naturgy's most immediate, specific and measurable responsibility towards the environment is set out in the Sustainability Plan, which establishes the objectives that guide the company in its daily performance, in line with the SDGs set by the United Nations and the Strategic Plan defined for the 2021-2025 period. On a more distant time horizon, with a view to achieving climate neutrality by 2050, the company is committed to investing today in sustainable activities, many of which are eligible under the European Taxonomy:

- Build new renewable generation facilities to reach an installed capacity of around 60% by 2025.
- Commit to carbon-neutral renewable gases with the aim of producing or injecting at least 1 TWh into the grids by 2025.
- Develop smart and adapted energy grids that play a key role in the energy transition.
- Protect biodiversity, which is partly affected by the climate challenge, and avoid the risk of net loss of natural capital as a strategic priority.

In this regard, as stated in the Environmental Policy, Naturgy voluntarily assumes the commitment to be a key player in the energy transition towards a circular and decarbonised economy model, in line with the goals of the Paris Agreement. Thus, the company is committed to becoming carbon neutral by 2050 at the latest, reducing total Scope 1, 2 and 3 emissions in accordance with the 1.5°C - 2°C pathways of the Paris Agreement. To this end, Naturgy will work on four strategic environmental axes:

- Governance and environmental management.
- Climate change and energy transition.
- Circular economy and eco-efficiency.
- Biodiversity and natural capital.

1. The opportunity of environmental challenges in 2022 at Naturgy

Evolution and results

• Responsible environmental management

	Target 2025	2022	2021	Base year 2017	Variation 2022 vs 2017
Activity with environmental certification according to ISO 14001 ⁽¹⁾ (%)	95	97.9	93.1	87.7	12 %
Calculation of Physical Climate and Energy Transition Risks at Corporate Level (50%) and at Business Unit Level (100%) (%)	100	n.a.	50.00	-	n.a.
Eligible Capex according to European Taxonomy (%)	80	67	61.21	-	n.a.
Absolute greenhouse gas (GHG) emissions - Scopes 1 and 2 (MtCO ₂ eq)	11.4	15.1	13.5	21.8	-31 %
Absolute greenhouse gas emissions (GHG) Scope 3 (MtCO ₂ eq)	114.1	110.1	136.5	142.6	-23 %
CO ₂ intensity in electricity generation (tCO ₂ /GWh)	171.0	279.3	261.0	388.0	-28 %
Installed capacity from renewable sources (%)	56	34	33	22.0	53 %
Renewable gas production or injection capacity (TWh) ⁽²⁾	1.00	0.22	0.21	-	n.a.
Water consumption (hm ³)	15.6	18.8	15.2	28.0	-33 %
Waste produced (kt)	110	94	98	824	-89 %
Recycled or recovered waste (%)	75	92	57	33	179 %
Initiatives to improve biodiversity (No.)	350	345	302	-	n.a.
Environmentally restored cumulative area (ha)	Pending definition	In progress	In progress	-	n.a.

⁽¹⁾ Percentage of Ebitda certified. The Ebitda used to calculate this percentage corresponds to the end of November.

⁽²⁾ The figure for 2021 has been changed from 0.14 to 0.21 to adjust it to the capacity of existing projects.

• Pathways target 2022

	2022 target value path	2022	2021
Direct GHG emissions Scope 1 (MtCO ₂ eq/year)	12.8	14.7	13.0
Indirect GHG emissions Scope 2 (MtCO ₂ eq/year)	0.5	0.4	0.5
Indirect GHG emissions Scope 3 (MtCO ₂ eq/year)	124.3	110.1	136.5
Emission intensity in electricity generation (tCO ₂ /GWh)	252.0	279.3	261.5
Emissions by leaks in gas networks (tCH ₄ /km network)	0.2	0.2	0.2
Total volume of water captured from the environment (hm ³)	710.2	920.6	872.4
Total water consumption (hm ³)	15.1	18.8	15.2
Total spill volume (hm ³)	772.2	902.0	857.6
Atmospheric emissions SO ₂ (kt)	1.6	0.8	1.2
Atmospheric emissions NO _x (kt)	9.5	8.1	7.9
Atmospheric particulate emissions (kt)	n.a.	0.1	0.2
Total waste (kt)	96.0	94.0	98.0
Non-hazardous waste (kt)	90.0	89.0	94.0
Hazardous waste (kt)	6.0	5.0	5.0
Recovery and recycling rate (%)	76.0	92.0	57.0

The reason for not meeting the 2022 target pathway values for GHG emissions scope 1, emissions intensity and volume of water captured, consumed and discharged into the environment is common. The low rainfall during the year in Spain, due to the drought, together with the closure of coal-fired power stations, has resulted in a significant increase in electricity production in combined-cycle power stations, which act as a backup for the lack of renewable resources. Therefore, Scope 1 GHG emissions and emission intensity in power generation have increased. In addition, these plants use water in their operation, which has resulted in an increase in water collection, consumption and discharge.

Highlights of the year

Governance and environmental management

Lines of action	Achievements and highlights in 2022
Environmental management	Increase in environmental actions (environmental investments and expenses) by 12% in 2022 compared to 2021, reaching a total of Euros 846.1 million.
Awards and recognition	Naturgy was externally recognised for its climate management, obtaining the A- rating from the CDP Climate, and has been present in the leadership band since 2011. Business award for the Best Environmental Integration Initiative in the sector for the Meirama Lake mining environmental recovery project by El Periódico de la Energía.

Climate change and energy transition

[IF-EU-110a.3]

Lines of action	Achievements and highlights in 2022
Carbon footprint reduction	In 2022 there is a reduction of the total carbon footprint (scopes 1, 2 and 3) of 16.5% compared to 2021.
GHG emission reductions from boiler replacement	249 boilers (industrial and community boilers) in Spain have been replaced with natural gas boilers, avoiding the emission of 191,431 tCO ₂ eq. In Spain, nearly 9.9 GWh of renewable electricity with guarantees of origin certified by the CNMC for 1.3 million contracts have been supplied, representing 49% of the energy purchased, and an increase of 43% compared to the previous year.
Innovation in low-carbon energy products and services	Neutral gas has also been marketed, for which the total direct and indirect emissions (generated from its extraction to the point of consumption) have been compensated in the voluntary market, through the acquisition and voluntary compensation of Certified Emission Reductions (CERs). The process of offsetting emissions with CERs is carried out in the European Emissions Registry and will be verified and certified by AENOR. The energy compensation certificate for the previous calendar year can be viewed by calling the customer service hotline from April of the following year. By the end of 2022, we expect to have 487,460 CERs certificates (tCO ₂ e), which represents a 3-fold increase compared to the previous year.

Circular economy and eco-efficiency

Lines of action	Achievements and highlights in 2022
Reducing waste and increasing the recovery rate	There has been a -4% reduction in the amount of waste managed compared to the previous year. Of this waste, 92% is recycled or recovered. This percentage has increased by 57% compared to the previous year.
Reuse of discharges	In six of Naturgy's combined-cycle power stations, a total of 21.7 hm ³ of discharges from urban areas or other industrial activities have been reused. Two of the plants reuse the discharge of vaporisation water from regasification plants (combined-cycle power stations of the Port of Barcelona and Cartagena, in Spain). The other four (Hermosillo, Naco and Durango combined-cycle power stations in Mexico and Málaga in Spain) reuse urban waste water, avoiding the use of 3.1 hm ³ of fresh water in high water stress areas.
Biomethane	In 2022, the biomethane production capacity in own plants and injection into Naturgy's gas networks amounted to 0.22 TWh. This is the biomethane produced in the plants at the Elena waste landfill site and at the Bens urban wastewater treatment plant, where the company has implemented an upgrading module for grid injection. Additionally, biomethane is being injected into the Spanish gas network, generated in the Torre Santamaría cattle farm and in the Biogasnalía plant that uses agri-food waste; and in Chile, from the La Farfana WWTP. In 2023, a new plant will come into operation at the Hostalets de Pierola landfill with a production capacity of 71 GWh/year.

Biodiversity and natural capital

Lines of action	Achievements and highlights in 2022
Progress towards no net loss of biodiversity [304-3]	345 biodiversity initiatives in course on an international level, 20% of which are voluntary. Environmental restoration actions were carried out on 50 ha. 31% of this area corresponds to protected areas, habitats or species.
Environmental studies	<p>200 studies have been conducted, particularly in the area of electricity generation facilities (thermal, hydropower and wind farms) and electric distribution in order to learn about and monitor the environmental and ecological status of the surrounding areas. In the case of thermal and hydropower plants, sampling campaigns have been carried out to determine the physical-chemical and biological quality of the aquatic environment (rivers, reservoirs, etc.).</p> <p>Recent studies confirmed the situation of normality observed in recent years, and concluded that the studied facilities had an acceptable impact on their environment.</p>
Environmental training and awareness-raising	Various environmental awareness-raising actions have been carried out. In Spain, together with GREFA, training sessions have been held for schools, both in person and online, with 1,344 schoolchildren and 72 teachers attending. In Argentina, the Sowing the Future (Sembrando Futuro) programme carried out various actions with a total of 446 participants.

2. Governance and environmental management

Governance

The Board of Directors, through the Sustainability Committee, is responsible for Naturgy's environmental governance. It regularly monitors management of risks and opportunities, as well as evolution of the company's environmental performance by monitoring key indicators and targets.

In this way, Naturgy demonstrates a serious commitment to responsible environmental management, based on the leadership of the management through the following premises:

- The Management Committee, led by the Chairman and senior management, regularly analyses proposals, monitors performance and validates sustainability action plans.
- An organisational structure that defines the environmental responsibilities of the different areas of the company. At corporate level, the function falls to the Environment and Social Responsibility Department, which reports to the Sustainability, Reputation and Institutional Relations Department, and reports directly to the Chairman. This corporate unit defines the policies and standards to be followed and carries out high-level monitoring of the evolution and results of the action plans, indicators and environmental objectives. In turn, the different businesses and areas have specific environmental management units to ensure daily operations, compliance with standards and continuous improvement of processes.
- The Sustainability Committee, with representation from all areas of the company, monitors indicators and defines and promotes the projects and actions necessary to ensure compliance with the objectives of the Sustainability Plan, including environmental objectives.
- The Environmental Operating Committee, involving all businesses and geographies, coordinates the activities carried out by the different units, and guarantees the uniform implementation of criteria and the dissemination of good environmental management practices.
- The integration of the environment into business processes, in all phases, from strategic decision making to risk and opportunity management, planning, design and execution of activities.
- An externally audited environmental management system certified under ISO 14001, based on environmental indicators and objectives for detailed monitoring and continuous improvement of processes.
- Annual action plans aligned with the environmental objectives.
- Methodologies and specific tools for environmental management.
- Innovation in technologies and business products and models that are eco-efficient and less intensive in CO₂.
- Responsible supply chain that integrates environmental criteria into the purchasing process.
- Communication, awareness and training of employees, collaborating companies and stakeholders on environmental issues.
- Preparation of regular reports on environmental performance and participation in international sustainability indices to ensure transparency and dissemination of results.
- Participation in associations and working groups aligned with Naturgy's environmental principles.

Environmental management

Naturgy goes beyond compliance with legal requirements in environmental matters and adopts more ambitious actions and goals to maintain respect for the environment. The company is aware that to meet society's demand for energy while protecting the environment, it is necessary to understand, prevent, reduce and control the environmental impact of its activities. To this end, its Environmental Policy establishes the following principles around its strategic environmental axis of Environmental Governance and Management:

- Ensure compliance with environmental legislation and more stringent voluntary requirements, in readiness for new regulations.
- Prevent pollution and reduce environmental impacts along the value chain by training employees and encouraging both their involvement and the involvement of collaborating companies and stakeholders.

- Integrate the environment into management of risks and opportunities, and on strategic decisions, as well as into mergers and acquisitions of assets through the performance of environmental due diligence.
- Establish targets that drive continuous improvement in environmental performance.
- Have an externally audited and certified environmental management system, in accordance with the criteria of the Global Policy of the Integrated Management System.
- Promote transparency, in line with international reporting standards, to facilitate communication with our stakeholders.
- Support the dissemination of knowledge and awareness on energy and environmental issues and to promote constructive and proactive dialogue with Public Administrations, NGOs, universities, customers and other stakeholders.

The most significant effects of the company's activities on the environment are the following:

- Impact on climate change.
- Pollution of air, water and soil.
- Consumption of non-renewable raw materials ¹.
- Biodiversity affected by habitat and species loss ².

Based on the identification of significant effects, Naturgy performs environmental management based on the principle of prevention, taking into consideration the entire business value chain. For years, the company has had an integrated management system (IMS) for quality, environment, health and safety certified in its environmental component according to the requirements of the ISO 14001 standard and audited each year. This system is aimed at preventing pollution and reducing environmental impacts throughout the value chain by involving employees, suppliers and other stakeholders. The processes certified through this system are:

- Electricity generation (thermal, hydraulic and renewable sources origin).
- Distribution of natural gas and electricity.
- Commercialisation of natural gas and electricity.
- Management of office buildings.
- Corporate training activities.
- Extraction and injection of natural gas.

The following table shows the processes by country with environmental management certified under the ISO 14001 standard.

¹ The impacts of water management are detailed in the section on circular economy and eco-efficiency.
² The section on biodiversity and natural capital details the main impacts on biodiversity.

• **Processes by country with certified environmental management**

	Electricity generation	Gas and electricity distribution	Commercialisation of natural gas and electricity	Management of office buildings	Extraction and injection of natural gas
Argentina		■			
Brazil		■	■		
Chile		■	■		
Costa Rica	■				
Spain	■	■	■	■	■
Mexico	■	■	■		
Panama	■	■	■		
Dominican Republic	■				

■ Certified.

In addition to the ISO 14001 certificates, the commercialisation activity in Spain has an ISO 50001 certificate, which certifies its energy management system. This activity has an appropriate energy policy and management, which translates into real and quantifiable savings in consumption.

In 2022, 97.9% of Ebitda comes from industrial activities with ISO 14001 environmental certification. This certification has been obtained after passing the external audits carried out by AENOR.

To ensure consistency and uniformity in the key environmental management processes, there are global methodologies and tools that are used in the company's different businesses and countries:

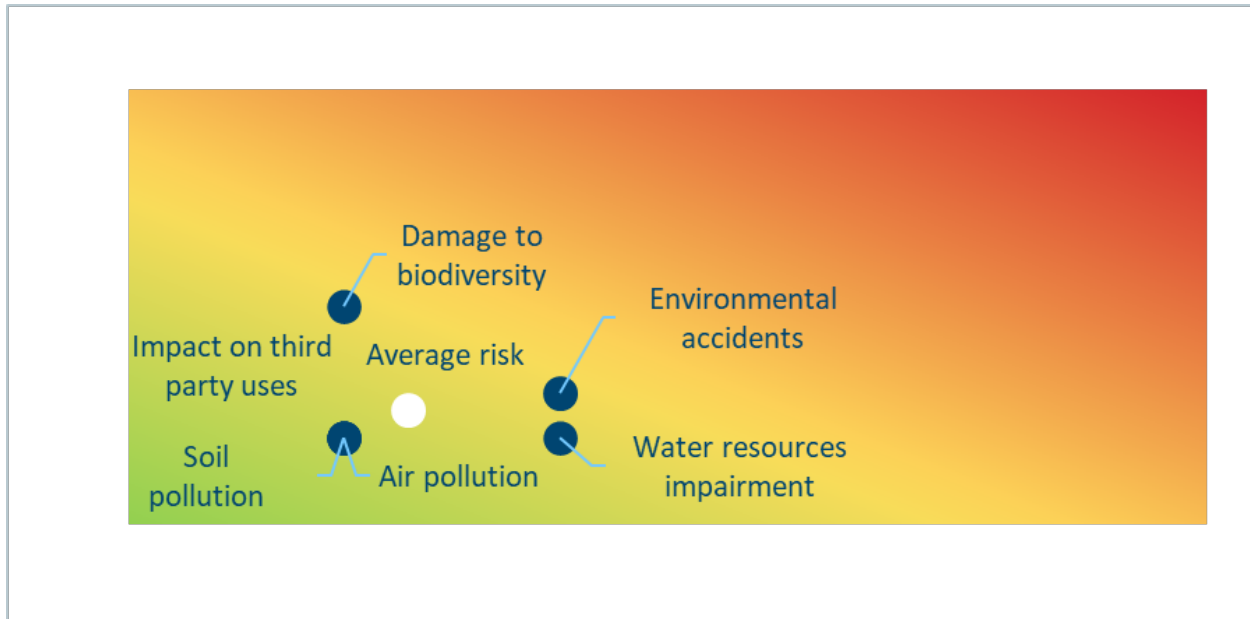
- Themis, to identify, register, monitor and manage compliance with legal requirements.
- Prosafty, for the recording and management of findings, non-conformities, observations, incidents, accidents, opportunities for improvement, and the monitoring of environmental management goals and action plans.
- Damas, to identify and assess the company's direct and indirect environmental aspects.
- Enablon, for the registration and centralised management of environmental indicators.
- Carbon footprint.
- Geographical information system for biodiversity.

Environmental risks³

[201-2] and [306-3]

Naturgy has identified the environmental risks in its facilities by using the reference standard as its basis (UNE 150008 in Spain). The following figure shows the most relevant risks, which are prevented through environmental management carried out under an ISO 14001 certified system. In addition, the company has emergency plans in facilities and warehouses at risk of environmental accidents, which in turn include action plans for eventualities, with means of containment and frequent drills.

³ Environmental and climate change risks are integrated into the overall model described in the "Risk Management" chapter. In this section, environmental risks are discussed in more detail, the latter being described in more detail in the section on "Climate change and energy transition: TCFD Report".



The Prosafety tool, among others, is used to manage these risks. It enables reporting on any activity or geography that may cause damage to the environment as well as analysing smaller environmental accidents and incidents that do not cause significant damage, but from which lessons can be learnt and larger events prevented. Prosafety also facilitates identification, analysis, development, implementation and exchange of preventive measures and best practices in risk management across all areas.

It is also important to cover potential environmental risks financially, with a financial provision to ensure this coverage. For this reason, Naturgy has a series of insurance policies with environmental coverage.

- Environmental liability insurance: limit contracted for a value of Euros 150 million per loss event and in the annual aggregate.
- Liability coverage for sudden and accidental pollution in the general public liability policy: limit of Euros 506 million per loss event.
- Protection and indemnity insurance: maximum limit of US Dollars 500 million per loss event, in accordance with the Rules of the UK P&I CLUB 2018 (Charterers), to cover the liabilities for pollution arising from chartering vessels.

Legal requirements and penalties

Naturgy continuously monitors environmental regulation in order to know, in advance, the impact it has on its activity. This makes it easier to define its positioning and adapt to new requirements. Monitoring is done using consultation and public information processes in the international, European and national context.

In 2022, there were no significant penalties (amount over Euros 10,000) in environmental matters.

Environmental investments and expenses

For Naturgy, environmental protection is a priority activity that deserves all means and economic resources without exception. For years, the company has been reporting environmental investments and expenditure according to its own methodology and, since last year, it has also reported economic information according to the Taxonomy Delegated Regulation, available in the section “Sustainable Finance”.

The environmental actions carried out in 2022 have reached a total of Euros 846.1 million (Euros 758.7 million in 2021), of which Euros 660.0 million correspond to environmental investments and Euros 186.1 million to expenses incurred in the environmental management of the facilities, excluding those resulting from the carbon market. Of specific note are the investments in new renewable energy projects, which will contribute to the energy transition and reduce direct emissions of CO₂ and other atmospheric pollutants.

The table below provides a breakdown of environmental investments and expenditures.

▪ Environmental investments (million euro)

	2022	2021
Governance and environmental management	0.1	0.1
Climate change and energy transition	648.4	590.2
Circular economy and eco-efficiency	5.3	6.4
Biodiversity and natural capital	6.2	2.3
Total	660.0	599.0

▪ Environmental expenses (million euro)

	2022	2021
Governance and environmental management	47.3	48.4
Climate change and energy transition	131.9	103.4
Circular economy and eco-efficiency	3.5	4.4
Biodiversity and natural capital	3.4	3.5
Total	186.1	159.7

Environmental training

To prevent and reduce negative impacts on the environment and improve control of operations, environmental training is another of the company’s key tools. Thus, Naturgy places special emphasis on training its employees by providing 2,837 hours of training to 1,258 participants in 2022, with a performance of 131.0% and 111.0% respectively with respect to the hours and participants in accordance with the plan.

Supply chain

One of the fundamental elements in the management of sustainability and the environment in Naturgy is the supply chain, i.e. suppliers, providers and external collaborators. Accordingly, the global purchasing and supplier management model (described in detail in section “Supply chain”) takes into account environmental criteria, including matters such as climate change, atmosphere, water, soil, landscape, territory, heritage, resource consumption, waste production and biodiversity.

The model is further complemented by specific tools such as CDP Supply Chain, which enables suppliers to be involved in the group’s climate action through the exchange, integration and analysis of key environmental indicators.

3. Climate change and energy transition: TCFD Report

[3-3]

(Climate change and energy transition)

The global energy transition is the great challenge to be met in order to reduce greenhouse gas (GHG) emissions and contribute to slowing down the climate change affecting the world.

Naturgy is committed to being one of the key players in the energy transition towards a circular and decarbonised economy model. To this end, its Environmental Policy establishes the following principles around its strategic environmental axis of climate change and energy transition:

1. Achieve climate neutrality by 2050 at the latest through the reduction of total scope 1, 2 and 3 emissions, setting intermediate targets aligned with the 1.5°C - 2°C reduction pathways of the Paris Agreement.
2. Align new investments with the goals of the Paris Agreement, promoting renewable and decarbonised energy, energy savings and efficiency, and climate adaptation.
3. Publish each year the carbon footprint in all its scopes, verified by an independent third party, establishing systems for monitoring and reducing emissions.
4. Integrate the climate variable into risk and opportunity management and strategic planning, in accordance with the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD).
5. Supporting international climate change negotiations and market mechanisms that foster the development of the most appropriate technologies at each stage of the energy transition.
6. Promote directly and through alliances with other players, climate policies aligned with the Paris Agreement, ensuring the permanence only in entities that meet this criterion and each year publishing the list of these entities.
7. Promote decarbonisation in line with the principles of just transition and involve the supply chain, promoting actions that reduce the carbon footprint of collaborating companies.

In line with these principles, the company has adopted the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) since 2017. The TCFD aims to improve disclosure of climate-related risks and opportunities and to provide stakeholders with the information necessary to conduct consistent analyses of the potential financial impacts of climate change.

Naturgy recognises the value of the recommendations and continues to work to align and improve the dissemination of qualitative and quantitative information with the four core elements of the TCFD: governance, strategy, risk management, metrics and objectives, set out in the report Recommendations of the Task Force on Climate-related Financial Disclosures, published in June 2017.

Climate change governance

The Board of Directors is the highest body responsible for climate change governance at Naturgy, and the Sustainability Committee is the body that oversees the company's performance in terms of environmental, social and corporate governance policies. It monitors the performance of key indicators, as well as the management of risks and opportunities.

The Sustainability Committee meets, whenever necessary, to issue reports or proposals within its competence, whenever its chairman deems it appropriate or when two of its members request it. In any case, the Committee must meet at least three times a year to monitor climate change and energy transition performance using the high-level indicators scorecard.

Its functions include monitoring the evolution of the Sustainability Plan indicators and, specifically, the specific climate change indicators - Scope 1, 2 and 3 emissions, intensity of emissions of electricity generation and installed renewable capacity, inter alia-.

The main decision taken by the Sustainability Committee in recent years has been to formally commit the company to the Net Zero 2050 target and the climate targets included in the 2021-2025 Sustainability Plan.

One of the key aspects of Naturgy's risk management is to ensure the resilience and sustainability of the business, which is why environmental and climate change risks are built into this global model. All the company's operational and geographic areas, businesses and projects are involved in climate governance, which is channelled through the Management Committee and the Sustainability Committee.

The Audit and Control Committee is the supreme body in charge of the efficacy of internal control and of the risk management systems. It approves the Corporate Risk Map, which includes climate change risks, and ensures compliance with the Global Risk Control and Management Policy approved by the Board of Directors.

The process of identifying, monitoring and assessing Naturgy's risks is governed by the Corporate Risk Map. This is the reflection spearheaded by the Risk Committee, which is published quarterly and focuses on characterising and quantifying the most relevant risks, mirroring the company's risk profile. The identification and characterisation of the risks take into account the characteristics of the position at risk, the impact variables, the potential quantitative and qualitative severity, the probability of occurrence and the degree of management and control. The graphic illustration of these risks through the Risk Map and conclusions are submitted to the supreme control body of the company, the Audit Committee, and approved every year.

In 2022, the Sustainability Committee has decided to make further progress in the quantification and monetisation of climate change risk until full implementation of the TFCF standard.

Governance agencies and responsibilities in climate change



(1) Oversees sustainability, environmental, social and corporate governance policies. It ensures that the company's actions are aligned with the energy transition and contribute to the 2030 Agenda of the Sustainable Development Goals.

(2) Oversees risk management systems, approves the Corporate Risk Map (including climate risks) and ensures compliance with the Global Risk Management and Control Policy.

(3) Ensures the application and monitoring of business and sustainability policies, strategies, plans and objectives, and proposes measures in the areas of energy transition, climate change and sustainable development.

(4) Determines and reviews the target risk profile and monitors its management by the units, including physical and transitory climate risks.

(5) Ensures, through monitoring and action proposals, the performance, implementation and improvement of policies, commitments and the Sustainability Plan, and, more specifically, environmental and climate change plans and objectives. Oversees the proper assessment and management of climate and ESG risks in accordance with the group's risk profile.

(6) Sets policies, indicators and targets for the environment, climate change and sustainability in general. In coordination with the businesses, it monitors developments, consolidates information and centralises reporting to the management committees and the Board of Directors. Continuously assesses the main climate and ESG risk factors.

(7) They apply general principles and strategies and develop plans, projects and activities to meet climate change and environmental objectives, as well as the other goals set out in the Sustainability Plan.

The variable remuneration of the Executive Chairman and the management team considers economic-financial, operational and sustainability aspects. The weight of objectives linked to sustainability or ESG aspects is 10%.

Naturgy has a firm commitment to transparency and dissemination of information related to climate change whereby the company participates in international reference indices on climate change. It should be noted that Naturgy has been recognised by the CDP Climate index for its climate management, remaining in the leadership band since 2011.

Naturgy has also voluntarily undertaken commitments to the fight against climate change by joining climate-related initiatives such as the Carbon Pricing Leadership Coalition (CPLC), Caring for Climate, the Climate Change Trust and Disclosure Statement, or the Statement of Support for the Task Force on Climate-related Financial Disclosures (TCFD).

In addition, to strengthen the company's commitment to the energy transition and the decarbonisation of the economy, the Chairman of Naturgy has joined the "CEO Climate Leaders" alliance in 2022 during the World Economic Forum in Davos. This alliance was created in 2014 to support and promote the Paris Agreement on climate change from the senior management of companies.

Climate strategy

Energy transition

Naturgy's climate change strategy includes the components of Nature and People, as they are complementary and mutually influential realities. This holistic vision is therefore based on three fundamental pillars:

- Reduce greenhouse gas emissions by transforming the generation mix and the gas and electricity business towards an increasingly decarbonised model.
- Creation of natural capital and restoration of ecosystems to maximise CO₂ capture and neutralise emissions, ensuring the protection of native fauna and flora and maximising co-benefits for local communities.
- A Just Transition, maximising the benefits of the transition to a low-carbon economy and minimising the negative impacts on business, workers and communities.

In this regard, the main lines of climate action reflected in the Strategic Plan 2021–2025 are:

- Promote renewable energies and encourage their integration through the development of smart networks.
- Ensure security of supply in the energy transition to 100% renewable energy, using gas combined-cycle power stations as back-up power. It is an eligible technology according to European taxonomy and with a reduced level of specific CO₂ emissions compared to conventional thermal generation.
- Develop renewable gases as a lever for decarbonisation of natural gas and in this way promote the circular economy through biomethane from organic waste and green hydrogen produced with surplus renewable electricity.
- Promote energy eco-efficiency in own and customers' facilities.
- Offer eco-efficient and carbon neutral products and services at competitive prices to our customers.
- Promote sustainable mobility that reduces GHG emissions and air pollution, helping to improve air quality.

Key ESG objectives Strategic Plan 2021–2025


		2020	2025	
Environment	➤ Emissions reduction	16%	24%	Reduction of tCO ₂ , (scopes 1+2+3) ¹
	➤ Biodiversity	265	> 350	Projects (#)
Net Zero by 2050				
Social	➤ Enhance diversity	27%	>40%	Women in management positions
	➤ Extending ESG throughout supply chain	70%	95%	Suppliers ESG audited
Gender Parity by 2030				
Governance	➤ ESG targets as a part of management incentives	3%	10%	Variable pay ESG linked
	➤ Climate change risks and taxonomy reporting	Partial	100%	TCFD & Taxonomy implementation
Management compensation aligned with ESG				

Strategic Plan 2021-2025 Investments: Two main lines of investment

Total Capex


€14.0bn

- > Focus on projects with predictable returns
- > Financial discipline as a cornerstone
- > 80% eligible investments according to Taxonomy



Renewables


€8.7bn



- > Proven generation technologies
- > Focus on attractive geographies
- > Commitment to innovation
 - Distributed generation
 - Biogas and hydrogen
 - Sustainable mobility

Networks

€4.1bn



- > Focus on solid frameworks with proactive regulatory management
- > Ongoing projects to achieve full automation and remote operation
- > Adapting existing infrastructures to play a key role in energy transition

Investments aligned with energy transition

Just energy transition

The energy transition in which society is immersed is so profound and urgent that it generates a series of undesirable consequences in communities, especially for workers who may see their jobs disappear. One example is the closure of coal-fired power stations.

In order for this transition to minimise the negative impacts on workers and their activity, a framework was proposed through the International Labour Organisation, which, under the concept of “just transition”, was agreed between governments, employers and trade unions.

In Spain, the just transition of the territories affected by the closure of thermal power stations is articulated under the “Agreement for a Just Energy Transition for thermal power stations undergoing closure”. It includes the commitment of the government of Spain, energy companies and trade unions to ensure employment and economic recovery of the areas affected by the closure of thermal power stations located in Aragon, Andalusia, Principality of Asturias, Castilla y León and Galicia. This agreement also establishes the commitment of the parties to work on the elaboration of Just Transition Agreements that include a participatory process of mobilisation and consultation for their elaboration.

Closure of plants and accompanying plans

Naturgy has drawn up accompanying plans for each of the closed plants. These plans detail the commitments made by the company:

- Proposals for new investments in renewable energies in the same territories.
- Outplacement plans for our own personnel.
- Prioritisation for the recruitment of workers from auxiliary companies in the decommissioning works.
- Search for investors.
- Participation in support plans to improve employability in new activities, including specific training plans.

During 2022 Naturgy has continued with the decommissioning process of the four coal-fired power stations under its management. At the close of 2022, the situation of the dismantling process at the different sites is as follows:

Facility	Degree of progress (%)	Revaluation and/or recycling rate (%)
CT Anllares	96	97
CT La Robla	73	83
CT Meirama	60	97
CT Narcea	20	88

Safety procedures and environmental measures that do not affect third parties and the environment have been prioritised in the dismantling work. To this end, demolition techniques are prioritised to minimise risks, and dismantling materials and equipment are reused and recycled.

As a result of the decommissioning, Naturgy has drawn up an investment plan in the affected areas that prioritises more efficient, less emitting and more environmentally friendly generation technologies. These alternative plans are focused on:

La Robla Site (Castilla y León)	Meirama Site (Galicia)	Narcea Site (Asturias)
<ul style="list-style-type: none"> – Development of photovoltaic parks and substation. – Green hydrogen plant together with Repsol. – Biomass plant promoted by Reolum. – Hydromagnesite manufacturing plant using the plant's desulphurisation facilities. 	<ul style="list-style-type: none"> – Meirama, As Encrobas and Teixos wind farms and substation. Favourable Environmental Impact Statement (EIS) obtained for the Meirama wind farms in November 2022 and As Encrobas in December 2022. – Development of Green Hydrogen production hub together with Repsol and Reganosa. – Biogas power station together with Repsol and Reganosa. 	<ul style="list-style-type: none"> – Transfer to Tineo Town Council of the village annexed to the power station to be used for social purposes, subject to obtaining aid for its rehabilitation.

Employment and training

As well as developing projects that help maintain economic and industrial activity in these areas, Naturgy's commitment includes the promotion of employment. In this regard, it should be noted that the closure of the plants was communicated both to the staff directly affected and to the workers' representatives. For the relocation of professionals, we sought to minimise the impact of the change of work centre, making the most of the means offered by Naturgy and the flexibility of the units and equipment. Accordingly, a large part of the staffing requirements for renewable technology development projects were covered by personnel from coal-fired power stations.

With regard to the employees of third parties, communication was established with the contractor companies to inform them of the next steps to be taken, as well as the channels for applying for employment in the decommissioning work. These channels have ensured equal opportunities based on allowing the companies awarded the decommissioning work in each of the work centres to identify the profiles they need.

As far as possible, for decommissioning work, priority has been given to hiring personnel residing in the municipalities where the sites are located or in nearby areas. A local employee is considered to be an employee who resides in the municipality of the sites or who resides in different municipalities and is registered in the job exchange of the Institute for Just Transition.

Site	Local employment (% of total number of persons hired)
La Robla	35
Meirama	33
Narcea	30

Job creation requires the training and preparation of people. Within the framework of the Alliance for Vocational Training of the Ministry of Education and Vocational Training and linked to the Vocational Training Programme for Employability, the Naturgy Foundation provides workshops aimed at teachers, students of training cycles and the unemployed and employees of the sector. Specific training in new energy technologies such as the installation and maintenance of photovoltaic panels, renewable gases or the digitalisation of electricity grids. In the section on the activity of the Naturgy Foundation in chapter 10. Social Responsibility, can be further developed in the development of this programme.

Along the same lines, in 2022 the Institute for Just Transition and the Naturgy Foundation have signed an agreement to collaborate on training, improving employability and gender equality in the energy sector. The protocol establishes the lines of collaboration between the two institutions in the fields of training and research to promote green employment in areas of just transition, as well as to strengthen the re-qualification of workers in such areas.

Management of climate change risks and opportunities

Climate risks assessment

With the aim of creating a common and globally consistent framework for the consideration of the economic risks resulting from global warming, the TCFD created by the FSB (Financial Stability Board) established in 2017 a definition and categorisation of these risks that has today become the global benchmark standard. Specifically the risks arising from physical impacts and those arising from the transition to a low-carbon economy:

Physical risks

They arise from the increasing severity and frequency of extreme weather events (acute physical risks) or from a gradual, long-term change in the Earth's climate (chronic physical risks). They can affect companies directly through damage to their assets or infrastructure or indirectly by disrupting their operations or making their activities unviable.

Transition risks

The commitments made by the signatories of the Paris Agreement and the consequent transition to a decarbonised production system imply a drastic transformation of the global economy through major changes in regulations, the market and technology. These changes carry significant risks for companies.

Regulatory developments related to climate change are evolving at an ever faster pace. These regulations generally seek to limit activities that contribute to climate change and to promote adaptation measures. This means that economic actors must adapt to the new regulation, which sometimes has a very significant impact on their strategy and their business and production models. Some examples of policies that entail a regulatory transition risk are the implementation of CO₂ pricing, the promotion and subsidisation of renewable and efficient energy sources or the setting of greenhouse gas emission reduction targets.

Climate change can affect the market in multiple ways, one of the main ones being changes in the supply and demand of products and services or increases in production costs. Changes in consumer behaviour that increase the demand for products classified as sustainable, or a decrease in the supply of certain resources due to increased scarcity, are examples of this type of market transition risks.

Technological innovations focused on the transition towards a low-carbon economy can have a significant impact on companies and economic sectors, as they imply anticipated losses of value on already developed infrastructures, as well as heavy investments in R&D&I and the incorporation of new technologies that are still in the evolutionary phase. Examples are technological improvements related to renewable energies, hydrogen and other renewable gases, CO₂ capture or energy efficiency.

In addition, there is a growing risk that a company will be sued for negligence in mitigating and adapting to its effects, or for lack of transparency about its risks, known as reputational transition risk.

Climate risk assessment methodology

The climate risk assessment model used by Naturgy is based on the following premises:

- First of all, it relies on its risk policies and corporate risk profile to identify what is an acceptable level of risk.
- Several time horizons have been considered: short term in reference to the Strategic Plan 2021-2025, medium term until 2030 and long-term (2030-2050), although the intermediate milestones are adapted to the evolution of the emission reduction objectives established at country level on each geography.
- Climate scenarios grouped by climate ambition have been used: business-as-usual, aligned with the Paris agreement and those that set more ambitious targets than the Paris agreement.

Under these premises, an assessment of the potential impact of the risks was carried out, considering how it could affect more qualitative aspects, such as reputation, ability to comply with regulations, and possible damage to health, safety, property or the environment. The impact and therefore the materiality of a risk is based on how critical it could be for business continuity. Additionally, an analysis by business and type of facility was performed in collaboration with MSCI, in order to assess the detailed risk of the company's infrastructure and business portfolio for the different climate scenarios.

Physical risk assessment

Climate-related physical risk affects all company facilities, to varying degrees. Particularly at risk are those infrastructures located in climate-sensitive and long-lived regions. Therefore, Naturgy's risk model is based on modelling the exposure and vulnerability of assets to different climate hazards:

Term	Definition
Exposure	The number of items that are prone to or subject to certain hazards and that may cause them to be affected.
Vulnerability Sensitivity Susceptibility	An asset's predisposition to be affected, including sensitivity or susceptibility to financial damage (or opportunities) and capacity to adapt.
Hazard Risk	Natural phenomenon in question: probability of occurrence and intensity of extreme weather events.

Physical risks are assessed at the level of facilities or asset types to ensure that they can be safely operated and accessed in extreme weather conditions and are manifested in assets mainly through the following financial impacts:

- **Damage to assets:** estimation of potential damage to assets resulting from catastrophic events, considering the variables of occurrence and intensity of the events.
- **Business interruption:** estimate of annual business interruption costs proportional to the number of days where the hazard intensity exceeds a relevant threshold. They assume that on each of these days a fixed proportion of income is lost, specific to each sector.

In addition, the use of scenario analysis is a major component of climate risk analysis, especially with regard to modelling extreme weather events. It is designed to provide a starting point that can indicate which scenario is most likely to materialise. The scenario analysis is aligned with TCFD recommendations.

The physical risk scenarios used in the models show how physical phenomena of the climate system change in response to increases in greenhouse gases, including variables such as temperature increases, sea level rise and changes in the frequency and severity of extreme weather events.

To this end, climate impacts are assessed over a 15-year period, based on the statistical extrapolation of 35 years of historical data, taking into account various scenarios of long-term GHG emission reductions and how these affect the occurrence of extreme climate events. The emission reduction scenarios used in such an analysis are the relative concentration pathway (RCP) scenarios defined by the Intergovernmental Panel on Climate Change (IPCC), specifically the Fifth Assessment Report (AR5)

AR5 defines scenarios as relative concentration pathways (RCPs) that provide a range of GHG emissions and concentrations that allow projections of future climates beyond the 21st century. A new set of four scenarios considering climate policies has been used in AR5:

- RCP 2.6, requires that carbon dioxide emissions would have started to decrease by 2020 and reach zero by 2100. It is likely to keep the global temperature increase below 2°C by 2100 compared to pre-industrial levels (1850-1900) and sees a 44% chance of limiting the temperature increase to below 1.5°C.
- RCP 4.5 is described by the IPCC as an intermediate scenario, emissions peak around 2040, then decline. An average temperature increase of about 2.7°C in 2100, compared to the period 1850-1900, is estimated.
- RCP 6, emissions peak around 2080 and then decrease. Temperature forecasts include continued global warming until 2100, resulting in a global temperature increase of 3-4°C by 2100
- RCP 8.5, emissions continue to increase throughout the 21st century. IPCC estimates that the global temperature increase from pre-industrial levels will be above 3°C, and with a 62% probability it will exceed 4°C.

The four scenarios are not forecasts, but a range of possibilities described in different research. RCP8.5 is considered to have high GHG emission rates. The RCP6.0 and RCP4.5 scenarios can be considered as medium mitigation scenarios, while RCP2.6 can be considered as the lowest degree of emissions.

One of the main differences between these scenarios is the development of emission reduction technologies. The climate effects of these reductions will be seen in 2050 and beyond, not in the short term, so the RCP scenarios diverge slowly over time and in the short term result in similar climate projections:

- The climate adapts slowly to direct emissions, i.e., the increase of GHG potential in the atmosphere is observed in forms of extreme weather only after at least a decade.
- Most scenarios do not count on drastic emission reductions right away, not even the most ambitious 1.5°C temperature increase scenarios.

Since the current analysis focuses on a time horizon of 15 years and the relevant changes occur in the long term, only the business-as-usual scenario RCP8.5 has been used, with a steady increase in GHG emissions throughout the 21st century, i.e. no specific measures are taken to combat climate change.

Transition risk assessment

The Climate Value-at-Risk (Climate VaR) methodology has been used, which aims to provide a quantitative and prospective analysis of how climate change may affect the profitability of an activity or a company, based on risks and opportunities. It provides information on how current and future climate policies and regulation, technological developments in terms of energy efficiency, new energy sources or carbon capture and the evolution in the supply and demand of decarbonised products and services or the increase in production costs could affect the company, based on the costs necessary to align the business model to these trends.

The Climate VaR model comprises four main sub-models:

- the climate VaR of direct or Scope 1 emissions, based on the reduction requirements and carbon price estimates, which are specific to each scenario.
- the climate VaR of electricity use or Scope 2 emissions calculates the potential risk that the company could face through its electricity consumption in a climate transition scenario.
- the climate VaR of the value chain, or scope 3 emissions, calculates the potential risk faced by an issuer from integrated activities within its value chain.
- climate VaR of technological opportunity: using granted patents as an indicator of innovative capacity to reduce emissions, it identifies which companies will be potential beneficiaries.

For the assessment of transition risks, Integrated Assessment Models (IAMs) of climate projections have been used to assess the effect of greenhouse gases (GHG):

- AIM/CGE - Asia Pacific Integrated Assessment Model / Computable General Equilibrium;
- GCAM - Global Change Assessment Model;
- IMAGE - Integrated Model to Assess the Global Environment, and
- NGFS - Network for Greening the Financial System.

In turn, these models consider different scenarios of social and economic drivers of GHG, the biogeochemical cycles and atmospheric chemistry that determine the fate of these emissions and the resulting effect of GHG on climate and human well-being. Within each of the models, the possible implications for the company of the most representative scenarios have been assessed:

Early action scenarios (AIM CGE 1.5°C and NGFS ORD):

- They envisage ambitious actions to achieve a net zero GHG emissions economy between 2050 and 2070.
- To achieve these ambitious targets, the AIM CGE model places special emphasis on the development of renewable energy, with 85% of electricity generation coming from renewable sources by 2050, while the NGFS model is more focused on the use of carbon capture technologies than on the development of renewables.
- These measures will offer a high chance of limiting global warming to around 1.5°C.

Gradual action scenarios (IMAGE):

- Model based on renewable energy generation (although to a lesser extent than the AIM/CGE scenarios), the use of carbon capture technologies and electrification of the transport sector with net zero emissions achieved by 2090.
- Emission reductions do not start until 2030.
- This results in a warming of 1.78°C by 2100.

Late action scenarios (AIM/CGE 3°C; NGFS DISORD):

- Scenarios of disruptive, sudden and unforeseen actions later. Climate policies are not introduced until 2030, and are more focused on the use of low-carbon technology. The result is an increased transition risk.

- Limited policy decisions with emissions slowly decreasing over time, but never reaching Net Zero, lead to a warming by the end of the century to 2.8°C.

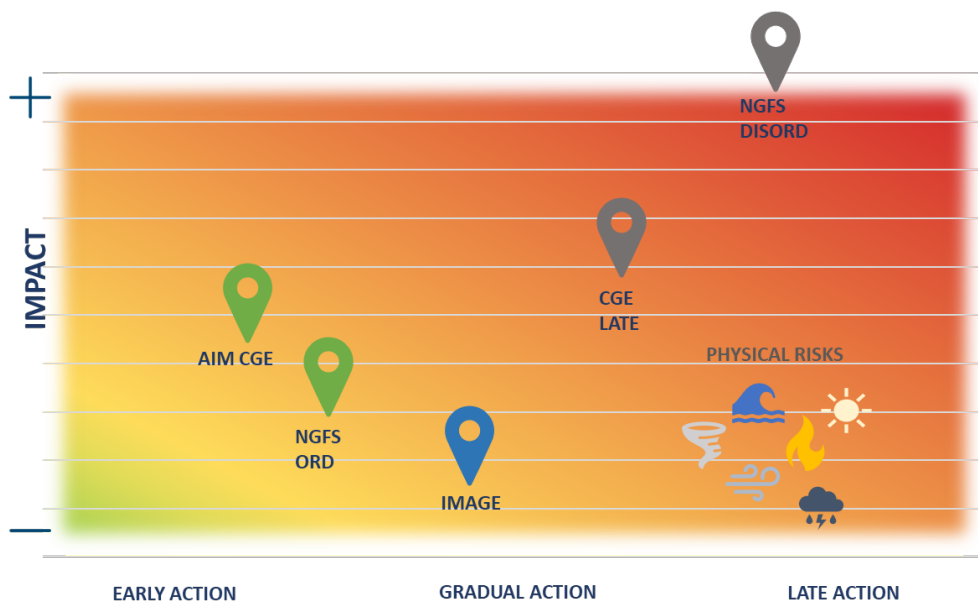
Underlying the most ambitious scenarios is a greater penetration of renewable generation, carbon capture technologies and electrification.

Emission reductions need to be higher in the most ambitious scenarios to limit warming, which translates into higher carbon prices and costs. This also translates into potential gains from higher technology opportunities, as it is assumed that the costs of reducing emissions are equal to the potential revenues that companies can earn through the sale of their low-carbon products and services. Early action scenarios envisage prices in 2025 of USD100/tCO₂eq rising to USD500-1,500//tCO₂eq in 2050, depending on the scenario.

On the other hand, even though in the late action scenarios CO₂ prices are estimated at around USD50/tCO₂eq to reach the range between USD100 and 600/tCO₂eq by 2050, in the long-term, physical and transition risks increase considerably.

Impacts of climate risks [201-2]

The following graph shows the impacts of the physical and transitional climate risks identified under the climate scenario analysis described above. The representation has been made in relative terms, given the degree of uncertainty and immaturity of existing assessment methodologies in analysing these risks. To date, the methodology used to quantify climate risks is not sufficiently robust, in accordance with Naturgy's risk assessment standards, and therefore, the quantitative results obtained with this methodology are not conclusive to determine the financial implications of these risks.



Legend:

ENERGY TRANSITION SCENARIOS		PHYSICAL RISKS			
	Early action		Coastal flooding		Tropical cyclones
	Gradual action		Extreme winds		Low river flows
	Late action		Extreme heat		Fire

The analyses carried out show, as can be seen on the table, that the sensitivity of the company is greater to transition risks than to physical ones, since the latter represent a much smaller impact, as they are less likely to occur and specific adaptation measures for mitigation have been designed to reduce their impact, as described in the following section.

The speed of the energy transition, understood as decarbonisation policies, consumer behaviour, technological innovation and social responsibility, will have a significant impact on the evolution of the energy mix and electricity demand:

- In case of ambitious scenarios and actions to reach the 1.5°C temperature increase target, the impact of transitional climate risks may increase in the short to medium term, as it would lead to higher CO₂ prices and higher cost efforts to achieve these reductions. In fact, Naturgy's annual carbon cost exposure is expected to increase over the next decade due to the implementation of more ambitious global decarbonisation regulations and their effect on the price of CO₂.
- On the other hand, late actions entail far higher transition risks in the long-term, as higher emission reductions at higher CO₂ prices have to be dealt with in less time. Similarly, physical risks would also increase both in terms of probability of occurrence and impact.

In terms of transition risks, Naturgy's positioning since 2018 and endorsed in the Strategic Plan 2021-2025 based on renewable energies and networks, places the company in a favourable position to face these risks.

In 2022, for short-, medium- and long-term planning, the average scenario described above, “gradual action”, has been chosen, consistent with the Paris and Glasgow Agreements and, at the Spanish level, also consistent with the Integrated Energy and Climate Plan 2021-2030 (PNIEC). This is described in Note 2.4.25.k - Climate Change and the Paris Agreement, from the 2022 Consolidated Annual Report, explaining the impacts of climate risks on the financial statements.

Scenario updates are planned alongside the PNIEC update during 2023 and, on a recurring basis, the company will continue to update its operational and energy transition plans based on the evolution of all factors influencing the assessment of climate risks.

In this way, Naturgy operates at all times on the basis of a business model aligned with the maximum level of ambition of the Paris Agreement, i.e. aligned with the goal of limiting the increase in global temperature preferably to 1.5°C or below 2°C, and to this end it has defined strategic lines and targets to put the company on track to achieve zero net emissions in its three scopes by 2050.

Climate risks assessment

[201-2]

For climate risks, Naturgy relies on the TCFD recommendations described above and on the company's risk management model detailed in section 5.4 of this report.

Naturgy has therefore implemented various mitigation and adaptation measures to limit impacts, reduce vulnerabilities and increase the resilience of its infrastructures and activities in the face of climate change or climate policies.

• **Main risks linked to climate change at Naturgy**

Identification			Risk management			
Type	Risk	Time horizon	Impact	Management and mitigation	Adaptation to climate change	

Acute physical risks	Tropical cyclones	Medium	Damage to facilities, loss of production and/or prolonged interruption of thermal and wind generation business.		Design of facilities guaranteeing their protection against rainfall variations, etc. For example, flood risk studies, dam safety, etc. Flood protection structures.
	Coastal flooding	Long	Damage to facilities, loss of production and/or prolonged interruption of the thermal generation business.	Physical risk mitigation: considered and integrated into the design and construction of assets. All facilities are designed to operate under extreme weather conditions.	
	Extreme winds	Medium	Damage to facilities, loss of production and/or prolonged interruption of the wind generation business.	Policies for property damage/loss of profit, environmental liability and land liability.	Implementation of measures in case of adverse weather warnings such as safe shutdowns of wind farms
	Extreme flooding	Short	Material damage to hydropower plants.	Emergency plans for all facilities, continuously updated. Emergency and flood management plans.	Construction of a dam at the Torito power station, designed to withstand considerable flooding. Construction of retaining walls and modification of the shaft aeration pipe to prevent water ingress in the event of flooding. Constant monitoring of the river channel by means of automatic cameras and aerial photography by drones.
	Increased frequency and severity of fires	Short	Damage to facilities, loss of production and/or prolonged interruption of business and power supplies. Electricity distribution.	Policies for: property damage/loss of profit, environmental liability and land liability. Innovation projects for the improvement of felling and pruning work for the maintenance of power line safety corridors.	The electricity distribution business in Spain has developed the GALA project, which consists of creating a digital model of the networks, using drone images to detect the areas of vegetation proximity and scheduling felling and clearing for the maintenance of the safety corridor.

Chronic physical risks	Effects of increased temperature		Reduced productivity / labour availability or changes in the efficiency of production processes in thermal generation and, in general, in outdoor operational activities and administrative (office) activities.	All facilities are designed to operate in extreme weather conditions, taking into account extreme weather events. All risks to employees are assessed, including the effects of heat waves.	Operational efficiency plan that establishes objectives to improve specific consumption in thermal power stations, compensating for efficiency losses due to temperature increases. Actions ("Fogging systems") to improve airflow and compensate for power reduction as a result of increased ambient temperature in thermal generation facilities. Adaptation of outdoor work plans and air conditioning to high temperatures. Hydration and personal protection guidelines
		Medium	Drop in demand for natural gas for heating (residential and commercial).		Increase the contribution of electricity vs. gas businesses.
	Changes in rainfall patterns and extreme variability of weather patterns.	Long	Changes in the generation dispatch. Changes in the price of electricity in the wholesale market. Low river flows.	Study of the impact of climate change on hydropower plants. Dominant position of combined-cycle power stations to support the production of electricity from renewable sources.	Hydropower plant repowering programme. Improving cooling water management systems to offset for possible reductions in river flows.

It is concluded that no significant costs are currently expected for carrying out adaptation measures. Going forward, the company will monitor and broaden the analysis to conduct a more comprehensive climate resilience assessment according to the evolution of different scenarios.

Identification

Risk management

Type	Hazard	Time horizon	Impact	Management and mitigation
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<p>Transition: policies and regulation</p>	<p>More demanding GHG emission reduction paths.</p> <p>Accelerated transition to decarbonisation.</p> <p>Variations in the carbon markets.</p> <p>Changes in environmental taxation.</p> <p>Electrification to the detriment of natural gas.</p>	<p>Medium</p>	<p>Naturgy's annual carbon cost exposure is expected to increase over the next decade due to the establishment of more ambitious regulations on decarbonisation targets and the estimated upward evolution of the carbon price. Particularly, in 2022, in order to comply with the EU emission rights, Naturgy has increased its cost by more than 100% compared to 2021 due to the increase in the carbon price and the generation mix derived from the climatology, as recognised in the 2022 Consolidated Annual Report (Note 16).</p>	<p>Measures to reduce the company's carbon intensity: divestment of high carbon intensity assets (coal mine in South Africa, fuel oil power generation in Kenya), coal plants closure, development of new renewable power, increasing the weight of electricity in the company's portfolio and boosting renewable gases.</p> <p>Positioning natural gas as support for renewables and as a substitute for high-emission fossil fuels (coal and/or oil derivatives) in the energy transition. In addition, participation in public policy-making and regulatory processes.</p>
<p>Transition: technological</p>	<p>Technological improvements, cost reductions or innovations that support the transition to a more efficient and low-carbon economic system. For example, implementation of large-scale electricity storage systems.</p>	<p>Medium</p>	<p>Harnessing new technologies to develop a decarbonised business model in line with society's expectations.</p> <p>However, if the company gets ahead of society, and risks investing in unsuccessful low-carbon technologies, markets or products, it could have a material adverse effect on its financial results.</p>	<p>Increase up to 14 GWh of installed renewable capacity by 2025.</p> <p>Distribute 1 TWh of biomethane by 2025.</p> <p>Promote the development of renewable gases (biomethane and green hydrogen), energy storage and other technologies for energy transition to a decarbonised economy.</p>
<p>Transition: market</p>	<p>Demand for new low-carbon products and services.</p> <p>Financing difficulties for projects not aligned with the reduction of greenhouse gas emissions.</p> <p>Loss in asset valuation (stranded assets).</p>	<p>Medium</p>	<p>If the company does not remain aligned with the preferences of customers and other stakeholders, it could affect its reputation and future profits.</p> <p>A failure to decarbonise in the face of investor and lender expectations could have a material adverse effect on the company's ability to use the funding in its future projects.</p>	<p>Development of new services (self-consumption, commercialisation of renewable electricity, PPAs) and low-carbon or carbon neutral products (Neutral Gas, neutral LNG, GoO in the gas sector).</p> <p>Increase in the weight of electricity in the company's portfolio and development of renewable gases.</p>

Transition: reputation	<p>Loss of relevance in climate change and sustainability indices due to failure to achieve the expected standard of climate management or reputational damage resulting from climate change impacts, which may negatively affect the valuation of company intangibles by stakeholders (shareholders, investors, customers or employees).</p>	Short	<p>Failure to decarbonise in line with the expectations of society, government and investors is a major risk to Naturgy's reputation as a responsible company and a leading energy company in the market. The impact of this risk includes shareholder divestment, increased regulatory scrutiny, tightening of financing or loss of customer share as a result of public interest group protests.</p>	<p>Naturgy's commitment to achieve net zero GHG emissions by 2050 and emission reduction targets and plans aligned with the Paris Agreement and climate policies. Presence in the main sustainability indices such as CDP Climate or Sustainalytics.</p>
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Management of climate change opportunities

Naturgy believes that the opportunities arising from the decarbonisation of the global economy (growth in renewables, investments in inclusive smart grids, greater electrification, sustainable mobility, biomethane development, green hydrogen, etc.) outweigh the risks.

As with risks, opportunities linked to climate change are also identified. Those considered in the Strategic Plan 2021-2025 are:

• **Main opportunities linked to climate change at Naturgy**

Opportunity	Opportunity management
Development of new renewable installed capacity (solar and wind)	<p>Development of new renewable projects to decarbonise power generation. Reduce investment costs compared to other technologies, with the possibility of financing through instruments such as Green Bonds.</p> <p>Positioning in a growing market linked to renewable energies (Power Purchase Agreement, Guarantees of Origin, etc.). In the medium-term, combined-cycle power stations represent the best possible back-up for renewable energy.</p>
Promotion and development of renewable gases	<p>The drive and innovation for the development of renewable gas (green hydrogen and biomethane) will provide a new energy product, which can replace natural gas, but with neutral CO₂eq emissions in a circular economy model.</p> <p>Renewable gas will maintain the value of distribution network assets in the long-term and decarbonise the energy that customers use with minimal changes to their facilities in a more efficient manner thanks to existing gas infrastructures.</p>
Smart and integrated networks (gas and electricity)	<p>The digitalisation and integration of electricity and gas networks will enable dynamic demand management, cost reduction, increased security of supply and the development of new services associated with big data.</p> <p>In addition, smart networks, coupled with renewable gas generation from surplus electricity generated on wind or solar farms, will enable energy storage by taking advantage of existing infrastructures, without the need for additional batteries, and on the scale required to meet seasonal variations in demand.</p>
Natural gas as energy for the energy transition	<p>Penetration of natural gas and LNG (liquefied natural gas) in carbon-intensive markets to replace high-emission fossil fuels (coal, oil), in line with the pace of the international climate agenda.</p> <p>Commercialisation of new products, such as neutral LNG or Neutral Gas, to offer customers a decarbonised alternative.</p>
Self-consumption	Development of new services to promote renewable self-consumption by customers.
Energy efficiency	Promotion of energy efficiency in both internal and customer processes, with a commitment to business models of energy service companies (ESCOs). Energy efficiency provides economic competitiveness and makes possible synergies with other sectors, as in the case of cogeneration.
Strengthening the position in the electricity business	Growth in the electricity distribution business associated with the growing trend towards electrification of the economy.
Digitalisation to provide new customer services	The use of technologies such as the Internet of Things (IoT) and artificial intelligence makes it possible to develop the figure of the active customer, that is, a customer that has tools for monitoring and controlling their facilities in order to consume energy more efficiently and integrate new services such as distributed renewable generation or electrical mobility.
Sustainable mobility	Penetration in the road and maritime mobility sector through the development of electric and gas solutions, which allow the reduction of CO ₂ emissions, the improvement of air quality and the obtaining of economic savings for users. In the case of maritime transport, LNG is the most eco-efficient alternative in terms of GHG emissions.
Positioning, governance and transparency	<p>Strengthening governance and policies on sustainability and climate change to meet the expectations of customers, investors and society in general.</p> <p>Transparency and good performance make it possible to improve the position with ESG investors and access to improved conditions of funding.</p>

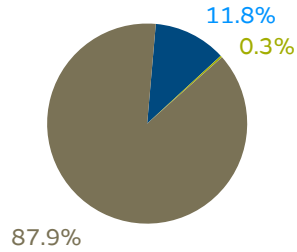
Objectives and metrics

[305-1] and [IF-EU-110a.3]

The carbon footprint at a glance

Footprint 2022

125.2 million
tCO₂ eq



Carbon footprint reduction between 2017 and 2022

↓ **28%** Emissions scopes 1 and 2

↓ **24%** Total carbon footprint (scopes 1, 2 and 3)

Scope 1
Direct emissions
14.7 MtCO₂eq

Scope 2
Indirect emissions
0.4 MtCO₂eq

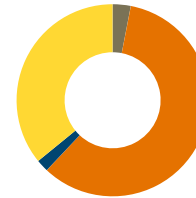
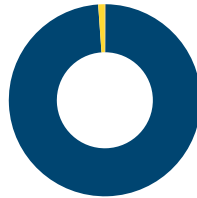
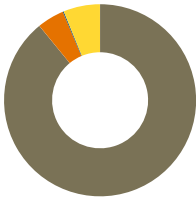
Scope 3
Other indirect emissions
110.1 MtCO₂eq



Scope 1 reduction between 2017 and 2022
↓ **28%**

Scope 2 reduction between 2017 and 2022
↓ **72%**

Scope 3 reduction between 2017 and 2022
↓ **23%**



89% fossil fuel power stations

98% losses in electricity distribution networks

95% customer emissions from gas distributed and commercialised

■ Electricity generation
■ Electricity distribution

■ Gas distribution
■ Procurement, LNG and gas commercialisation

Total offset emissions in 2022: 508,293 tCO₂eq

Carbon footprint inventory

[305-1], [305-2] and [305-3]

▪ Total GHG emissions (tCO₂eq)

[IF-EU-110a.1]

	2022	2021
Scope 1	14,741,483	12,965,240
Scope 2	363,489	487,067
Market	0	0
Location	363,489	487,067
Scope 3	110,079,558	136,450,026
Goods and services purchased	243,491	n/a
Capital goods		
Activities associated with upstream fuels and energy	28,990,579	33,167,755
Coal		
Natural gas	26,448,521	28,780,916
Oil	256,060	282,272
Electricity	2,285,998	4,104,567
Transport and distribution of goods		
Waste produced in the operation		
Business trips	1,212	362
Mobilisation of employees	5,489	5,685
Upstream leased goods		
Downstream transport and distribution		
Procedure for products sold		
Use of products sold: natural gas	80,838,787	103,276,224
End-of-life processing of products sold		
Downstream leased goods		
Franchises		
Investments		
Total	125,184,530	149,902,333

NB: for Scope 3 emissions, within the categories defined by the GHG Protocol, those weighing less than 1% have been excluded, as long as the sum of all of them does not exceed 5%.

Scope 1 emissions have increased by 1.8 MtCO₂eq. This increase in emissions is mainly due to two factors:

- The increase in electricity production from combined-cycle power stations in Spain, due to the fact that 2022 was a very dry year, amounted to 7,126 GWh. Conversely, cycle production in Mexico decreased by 669 GWh, resulting in a net increase in overall cycle production of 6,457 GWh. Considering the average emission factor of the cycles in Spain 2022 of 375 tCO₂eq/GWh this increase in production means an increase in emissions of 2.4 MtCO₂eq.
- The lower international LNG vehicle gas emissions meant a reduction of -0.5 MtCO₂eq.

Together, these two reasons justify an increase of 1.9 MtCO₂. The rest are small variations, mainly the decrease in electricity generation from cogeneration and the fuel oil plant in the Dominican Republic.

Scope 2 emissions have decreased by -0.1 MtCO₂eq. This decline is mainly due to two reasons:

- Increased electricity generation in Spain has meant that distributed energy is less than generated energy, which means that all Scope 2 and 3 emissions in Spain are 0 as they are already included in generation emissions. This represents a decrease of -0.25 MtCO₂eq.

- An increase in the emission factor of the Panama network from 187.5 tCO₂/GWh considered in the 2021 inventory (actual data for 2017 due to the lag in the availability of information) to 329.7 tCO₂/GWh considered in the 2022 footprint (actual data for the electricity mix in 2020), which has meant an increase in emissions of 0.14 MtCO₂eq. This variability in the emission factor of Panama's electricity mix is associated with the electricity demand and hydropower of the year in question.

Scope 3 emissions have decreased by -26.4 MtCO₂eq. This decline is mainly due to four factors:

- Indirect emissions from downstream end-use of gas vehicles (category A3.11) have been reduced by 22.6 MtCO₂eq due to falling demand for natural gas in final consumption, mainly in Spain due to higher commodity prices and to a lesser extent due to unusually high temperatures. The price increase has also affected wholesale gas demand in Europe. Likewise, in Chile and Brazil there has been a decrease in gas sold due to the inflationary trend in raw material prices combined with the weakness of Latin American currencies against the USD, which has led to an increase in gas prices at the domestic and industrial level and, consequently, a fall in consumption. As for the volume of international LNG sold, the reduction is explained by policies to secure gas supply in Europe together with global price levels, which have not favoured LNG arbitrage between different regions. Thus, the gas vehicle consumption outside the organisation (indirect consumption), after deducting own consumption and double bookkeeping, has been reduced from 564.79 TWh in 2021 to 441.42 TWh in 2022, which represents a reduction in emissions of 22.6 MtCO₂eq in terms of emissions;
- Upstream indirect emissions from gas vehicles (category A3.3) have been reduced by 2.4 MtCO₂eq due to less vehicular gas, partly offset by an increase in the upstream emission factor due to a higher weight of US LNG bunkering, associated with CH₄ emissions from fracking;
- Indirect emissions from supplied electricity (category A3.3) have been reduced by 2.7 MtCO₂eq for the reasons discussed for Scope 2 in Spain;
- The inclusion of a new Scope 3 category in purchases of goods and services (category A3.1) that could not be calculated in 2021 has led to an increase of 0.3 MtCO₂eq.

Together, these four reasons justify the decrease of 26.4 MtCO₂eq.

▪ **Inventory of GHG emissions Scopes 1, 2 and 3 by country (tCO₂eq)**

Country	Scope 1	Scope 2	Scope 3
Spain	8,283,931	0	39,127,919
Mexico	5,223,484	704	5,052,205
Chile	39,821	1,110	6,939,130
Dominican Republic	400,086	0	166,041
Argentina	760,194	89,729	20,293,008
Brazil	31,379	385	9,781,131
Panama	2,449	270,964	1,720,949
Costa Rica	0	0	15
Australia	140	597	56
Rest	0	0	26,999,104
Total	14,741,483	363,489	110,079,558

• **Inventory of GHG emissions Scopes 1, 2 and 3 by business area (tCO₂eq)**

	Scope 1	Scope 2	Scope 3
Generation Spain	7,529,298	0	2,124,769
International generation (GPG)	5,599,063	597	1,221,711
Procurement, LNG and Commercialisation	670,437	0	64,782,033
Gas distribution Spain	57,443	0	2,625
Electricity distribution Spain	21,150	0	0
EMPL&Up/mid	1,292	0	309
Gas distribution Argentina	758,965	2,300	18,924,343
Electricity distribution Argentina	24	86,941	565,531
Gas distribution Brazil	30,975	385	9,550,813
Gas distribution Chile	39,399	1,110	6,938,483
Gas distribution Mexico	23,336	209	3,995,373
Electricity distribution Panama	1,880	270,964	1,720,467
Corporate	8,221	984	253,102
Total	14,741,483	363,489	110,079,558

• **GHG emissions intensity ratio**

[305-4]

2022

	Electricity generation	Gas distribution	Electricity distribution	Gas infrastructure	Commercialisation	Corporate	Total
CO ₂ (tCO ₂ eq)	13,111,844	6,694	0	643,877	14,639	7,694	13,784,749
CH ₄ (tCO ₂ eq)	7,246	903,420	0	11,209	37	32	921,944
N ₂ O (tCO ₂ eq)	6,671	4	0	1,953	7	48	8,682
SF ₆ (tCO ₂ eq)	536	0	23,054	0	7	0	23,596
HFC (tCO ₂ eq)	2,065	0	0	0	0	447	2,511
PFC (tCO ₂ eq)	0	0	0	0	0	0	0
Total group	13,128,361	910,118	23,054	657,039	14,690	8,221	14,741,483
Net turnover (€M)							33,965
Ratio (tCO₂eq/€M)							434

2021

	Electricity generation	Gas distribution	Electricity distribution	Gas infrastructure	Commercialisation	Corporate	Total
CO ₂ (tCO ₂ eq)	10,917,161	12,251	0	1,119,606	14,533	7,549	12,071,100
CH ₄ (tCO ₂ eq)	6,196	844,124	0	6,696	36	73	857,124
N ₂ O (tCO ₂ eq)	5,987	6	0	5,155	8	99	11,255
SF ₆ (tCO ₂ eq)	1,355	0	22,983	0	8	0	24,346
HFC (tCO ₂ eq)	978	0	0	0	0	438	1,416
PFC (tCO ₂ eq)	0	0	0	0	0	0	0
Total group	10,931,676	856,380	22,983	1,131,456	14,584	8,160	12,965,240
Net turnover (€M)							22,132
Ratio (tCO₂eq/€M)							586

The reduction in the ratio of emissions by Annual Turnover (tCO₂eq/€M) is due to the fact that the increase in Scope 1 emissions in 2022 compared to the previous year (+14%) was lower than the recorded increase in net turnover for the same time period (+59%), resulting in a 27% lower intensity ratio.

Other climate change indicators

[305-1] and [IF-EU-110a.2]

	2022	2021
Emission intensity in electricity generation (tCO ₂ /GWh) ^(*)	279.3	261.46
Emissions associated with electric power supplies ^(**) (MtCO ₂ eq)	10.2	9.1
Installed emission-free electricity generation capacity (%)	37	36
Net electricity production free of emissions (%)	29	35
Total installed capacity in renewable electricity generation (MW)	5,462	5,170
Increase in installed capacity in renewable electricity generation compared to the previous year (%)	6	12
Emissions by leaks in gas networks (tCH ₄ /km network)	0.237	0.223
Emissions by leaks in gas networks (tCO ₂ eq/km network)	6.6	6.3

(*) This ratio corresponds to direct CO₂ emissions from electricity generation (Scope 1) divided by electricity produced.

(**) Emissions associated with electricity supplies include all customers, both retail and wholesale.

The emission intensity of electricity generation has worsened compared to the previous year due to the fact that 2022 has been a very dry year in Spain, which has increased the production of electricity from combined-cycle power stations and is slightly above the 2022 target path value 252 tCO₂/GWh.

As can be seen, emissions from gas leakage have increased by 6% in terms of tCH₄/km. This trend is reversed due to the updating of the fugitive emissions estimation methodology from a linear method with bibliographic emission factors by materials and pressure levels previously used to an event-based method in which the annual variations actually show the variation in the events that produce the leaks (breakages by third parties, network monitoring, leaks due to warnings or others). This event-based methodology has already been used in Spain and from 2022 will be used in all countries where Naturgy has gas distribution activities.

Climate balance sheet

The climate balance is an indicator that tries to value the emissions that have been avoided by Naturgy's assets, products and services against its total Carbon Footprint, including both direct and indirect emissions. The balance is calculated as the ratio of emissions avoided to emissions produced. It is therefore an indicator that, although it marks a trend indicating whether the group is moving towards or away from the global goal of climate neutrality, it does not represent the Net-Zero target set by the company or the concept of neutrality set out in the Paris Agreement.

The criteria used to quantify avoided emissions are as follows:

- Projects and activities must have quantifiable GHG emission and energy reductions against a baseline, which is defined on a case-by-case basis and measured over a specific period.
- The emissions prevented are calculated as the difference between the emissions of the “with project” and “without project” scenarios. Those from the “with project” scenario represent the actual level of GHG emissions. Those from the “without project” scenario represent the GHG emission levels that would have been achieved with other more emitting sources if the project were not implemented.
- The emission factors used for the “with project” and “without project” scenarios are obtained following the 2006 IPCC guidelines for the preparation of national GHG inventories.
- Calculations are made in accordance with the United Nations Framework Convention on Climate Change (UNFCCC) methodologies and tools for the Clean Development Mechanism (CDM) projects.

Climate balance sheet in figures

	2022	2021
Total emissions Scopes 1, 2 and 3 (MtCO ₂ eq)	125	150
Emissions prevented (MtCO ₂)	112	142
Climate balance sheet: emissions prevented/total emissions Scopes 1, 2 and 3 (%)	89	95

In 2022, the balance is 89%, lower than in 2021, mainly due to a decrease in natural gas final demand. The table below provides a breakdown of the associated emission reductions and energy savings.

• **Initiatives for reducing GHG emissions and associated energy savings**

[302-4], [302-5] y [305-5]

Emissions prevented ⁽¹⁾	Emissions prevented 2022 (tCO₂eq)	Energy savings 2022 (GWh)	Emissions prevented 2021 (tCO₂eq)	Energy savings 2021 (GWh)
Natural gas: reduction of CO₂ emissions by displacement of coal and oil derivatives, of higher emissions	102,483,501	152,812	131,921,464	180,198
Electricity production	76,619,897	134,852	86,212,063	150,327
Industry	14,945,839	6,579	22,576,604	10,183
Residential/Commercial	8,863,550	9,322	11,349,138	12,043
Transport	2,054,215	2,058	3,523,373	3,529
Cogeneration			8,260,286	4,116
Renewable energies: displacement of fossil fuel generation	6,295,743	23,667	6,295,866	22,959
Wind farms	3,326,930	12,663	3,411,485	12,387
Hydroelectric production	2,377,780	9,002	2,446,882	8,941
Photovoltaic production	562,079	2,002	437,499	1,631
Energy savings and efficiency in own and customers' facilities	835,969	2,664	1,128,579	2,197
Own facilities: Energy Efficiency Operations Plan				
Renewal of gas transmission and distribution networks	355,088	229	9	0
Actions in electricity distribution	28,125	114	0	0
CCGTs	292,542	1,439	69,359	358
Coal-fired power stations	0	0	0	0
Fuel oil-fired power stations	0	0	4,428	16
Customer facilities				
Energy services	160,214	882	235,213	1,293
Other				
Nuclear production	2,226,473	-5,265	2,446,339	-4,270
Total	111,841,686	173,879	141,792,248	201,084

⁽¹⁾ The emissions prevented are calculated as the difference between the emissions of the "with project" and "without project" scenarios. Using the 2006 IPCC emission factors for the development of national GHG inventories and UNFCCC methodologies and tools for Clean Development Mechanism (CDM) projects.

⁽²⁾ The emissions prevented from the use of natural gas in CHP in 2022 are included in electricity generation.

⁽³⁾ The emissions prevented from renewable gases have started to be calculated in 2022.

Climate neutrality target by 2050

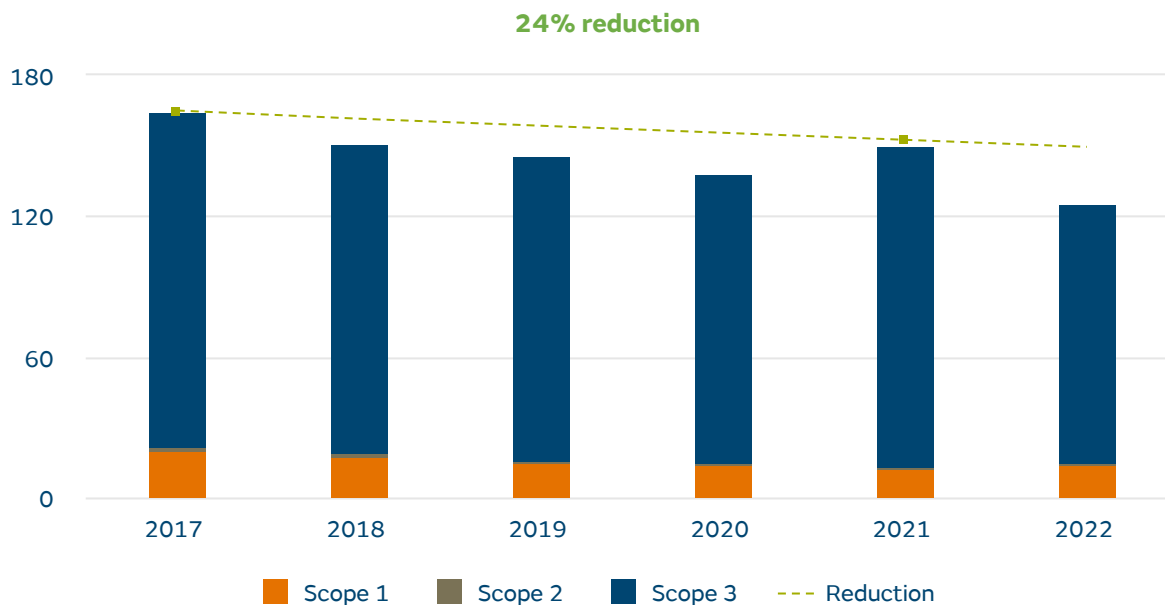
In the Strategic Plan 2021-2025, Naturgy is committed to achieving climate neutrality, i.e. zero net GHG emissions, by 2050. This target includes all scopes 1, 2 and 3 of the carbon footprint, all greenhouse gases and applies to all of the company's activities and geographies, with no exclusions. The priority is to reduce emissions as much as possible, considering, if necessary, the use of GHG emission absorption mechanisms to offset residual emissions.

Work is being done on emission reduction pathways in the three scopes with intermediate milestones to achieve net zero in 2050 according to the temperature scenarios of the Paris Agreement and in the case of Spain, additionally, with what is contemplated in the update of the National Integrated Energy and Climate Plan to 2030 (PNIEC) to be published in 2023.

The difficulty in establishing these intermediate paths is the current uncertainty of the evolution of new non-emitting technologies alternative to natural gas and the energy and climate change policies implemented in each country where the company is present.

	Emissions	Approval year	Base year	Target (% reduction)	Target (MtCO ₂ eq)	2022 (MtCO ₂ eq)	2022 (% compliance)	Base year (MtCO ₂ eq)
Neutrality 2050 (net zero)	MtCO ₂ e	2021	2017	↓100%	0.00	125.2	24 %	164.5

▪ **Evolution of the carbon footprint (MtCO₂eq)**



Intermediate targets for 2025 and 2030

Intermediate absolute emissions targets for 2025 and 2030

In 2015, Naturgy set targets to 2025 and 2030 taking 2012 as the base year to meet the requirements of the Science Based Target Initiative (SBTI) Tool v.8. The 2025 target has been deleted as a new target has been formulated for the Strategic Plan to 2025. The 2030 target is maintained as a medium-term goal aligned with science (Science Based Target).

- To reduce GHG Scope 1 and 2 emissions by 4.5% per year by 2030 compared to the base year 2012, a 56% decrease in absolute terms.

In 2021, with the approval of the Strategic Plan 2025, Naturgy approved new short-term emission reduction targets, included in the Sustainability Plan:

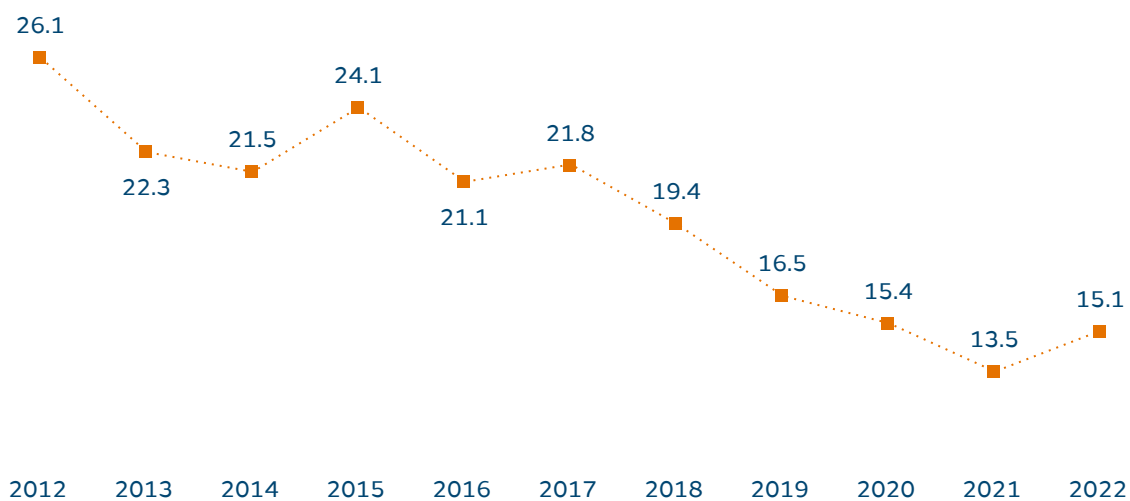
- To reduce GHG Scope 1 and 2 emissions by 48% in 2025 compared to the base year 2017.
- To reduce GHG Scope 3 emissions by 20% in 2025 compared to the base year 2017.

The targets set are aligned with the overall average reduction required under SBTi for a 1.5°C temperature increase scenario and for Scopes 1 and 2 and WB2DS for Scope 3.

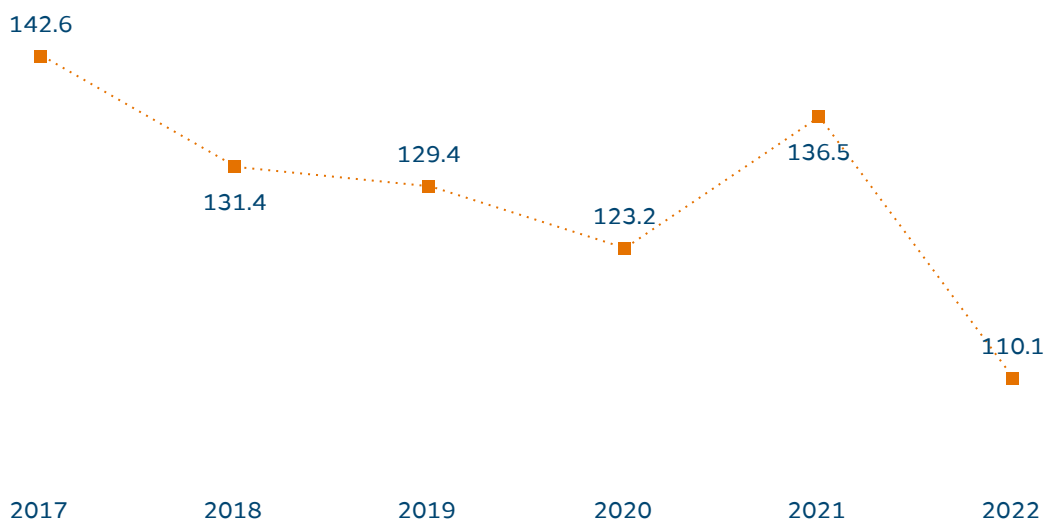
	Scope	Approval year	Base year	Target (% reduction)	Target (MtCO ₂ eq)	2022 (MtCO ₂ eq)	2022 (% compliance)	Base year (MtCO ₂ eq)
Strategic Plan 2025	A1+A2	2021	2017	↓48%	11.4	15.1	64 %	21.8
Strategic Plan 2025	A3	2021	2017	↓20%	114.1	110.1	114 %	142.6
2030 SBT ^(*)	A1+A2	2015	2012	↓56% (↓4,5% annual)	11.4	15.1	75 %	26.1

^(*)Objective reformulated in 2021 with values from the Strategic Plan 2025.

▪ **GHG Emissions Scopes 1 & 2 (MtCO₂eq)**



▪ **GHG Emissions Scope 3 (MtCO₂eq)**



Intermediate emissions intensity targets for 2025 and 2030

Emissions intensity targets are expressed as the amount of CO₂ emitted per electrical energy produced (tCO₂/GWh) and cover the activity of generation, which is responsible for nearly 90% of the group's direct emissions.

In 2015, Naturgy set emissions intensity targets to 2025 and 2030 taking 2012 as the base year to meet the requirements of the Science Based Target Initiative (SBTI) tool v.8. The 2025 target has been deleted as a new target has been formulated for the Strategic Plan to 2025. The 2030 target is maintained as a medium-term goal aligned with Science Based Target:

- Reduce the GHG emissions intensity of electricity generation by 4.8% per year by 2030 compared to the base year 2012, a 59% decrease in absolute terms.

In 2021, with the approval of the Strategic Plan 2025, Naturgy adopted a new short-term emission intensity reduction target, included in the Sustainability Plan:

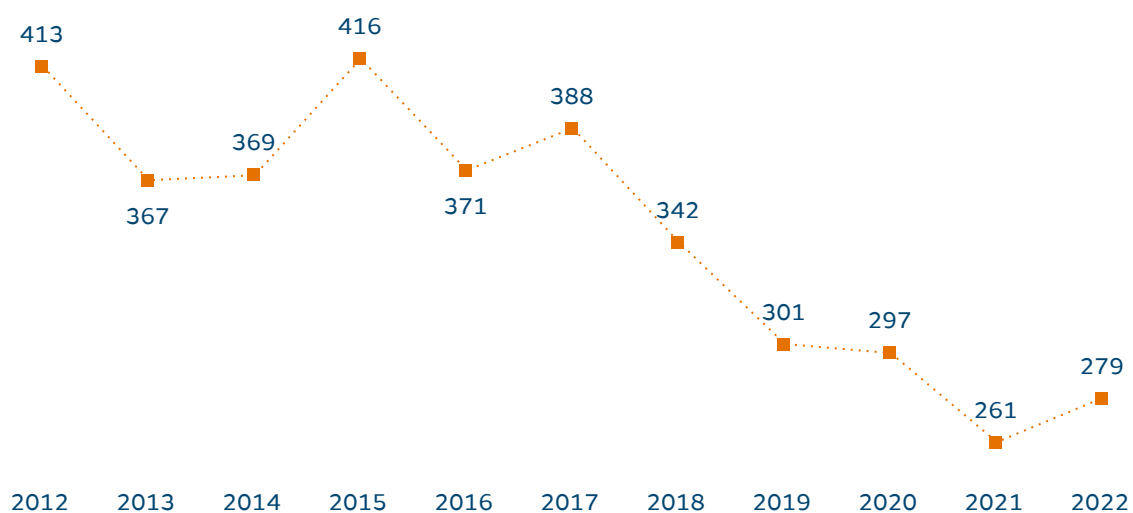
- Reduce the GHG emissions intensity of electricity generation by 56% by 2025 compared to the base year 2017.

The targets are aligned with the SBTi for a 1.5°C scenario.

	Approval year	Base year	Target (% reduction)	Target (tCO ₂ /GWh)	2022 (tCO ₂ /GWh)	2022 (% compliance)	Base year (tCO ₂ /GWh)
Strategic Plan 2025	2021	2017	↓ 56%	171	279	50 %	388
2030 SBT (*)	2015	2012	↓ 59% (↓ 4,8% anual)	171	279	55 %	413

(*) Objective reformulated in 2021 with values from the Strategic Plan 2025.

• Electricity generation carbon intensity (tCO₂/GWh)

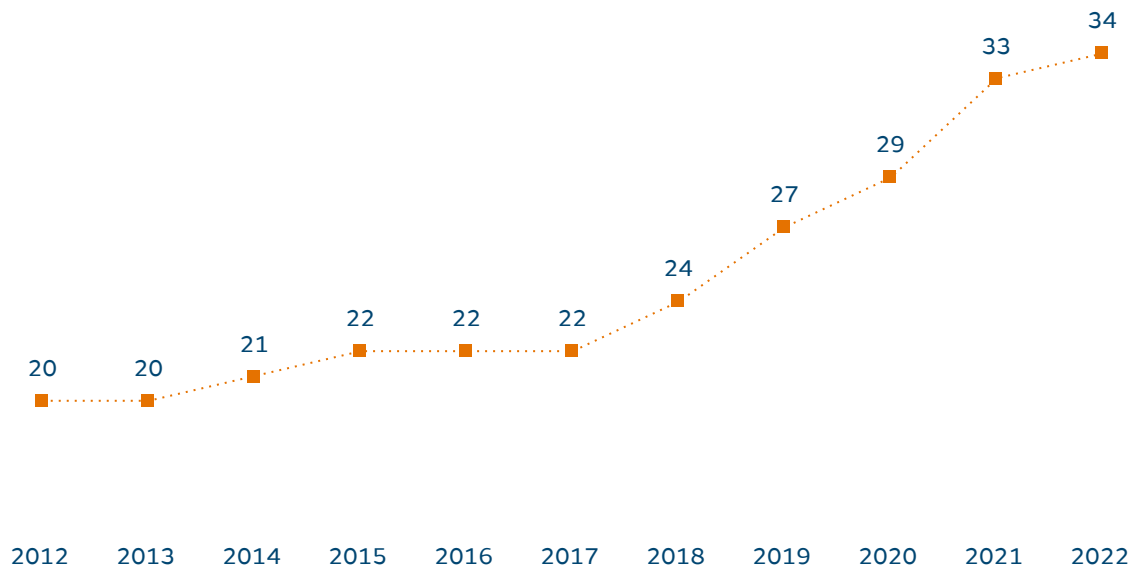


Renewable energy target

The commitment to renewable energies is one of the strategic lines for the reduction of emissions. Accordingly, one of the targets of the Strategic Plan is that of reaching a percentage of renewable installed power in the generation mix greater than 56% by 2025.

In Spain, Naturgy is building approximately 30 wind farms and photovoltaic plants with a capacity of 1GW, which will be commissioned in the coming months.

Renewable power (%)



Carbon Market

Price

Naturgy uses a reference carbon price associating a cost to CO₂ emissions of around €40/tCO₂. This price is used internally for:

- Strategic decision-making.
- Investment analysis.
- Identifying opportunities according to the degree of maturity in low-carbon technologies.
- Climate change and energy transition risk analysis, and stress testing.
- Analysis of climate change and GHG regulation.

This is an average unit price applicable to all the company's businesses.

Naturgy recognises the role of carbon pricing mechanisms as the most effective way to implement the fulfilment of committed GHG emission reduction targets.

Naturgy's GHG emissions offsetting

Emission offsetting is a voluntary instrument in the fight against climate change, which consists of the acquisition on the secondary market of emission credits from projects that reduce, avoid or eliminate GHG emissions into the atmosphere (CERs, VERs, etc.). These projects are implemented in developing countries as a form of crowdfunding for climate action, as the purchase of emission credits continues emission reductions and benefits local communities at the same time. Projects can be, for example, renewable energy (wind farms, biomass, hydropower) or climate change mitigation (landfill methane removal, energy efficiency initiatives or forestry projects).

Naturgy carries out various types of initiatives to offset emissions, among them the Neutral Gas and Neutral LNG, which offset emissions linked to the consumption of the fuel supplied to customers. Naturgy, within its residential portfolio, commercialises compensated gas to 22% of its portfolio through the Zen Tariff, Tariff by Use, Flat T Tariff and Online, which have an implicit eco attribute, and therefore offer customers an emission-neutral consumption.

In addition, through the COmpensa2 initiative, emissions from work centres and company travel are offset. The following table shows the amount of offset emissions.

• Emissions offsetting

	Emissions offset in 2022 (tCO₂eq)	Emissions offset in 2021 (tCO₂eq)
Neutral Gas	487,460	196,238
Neutral LNG	0	36,712
COmpensa2 Initiative	10,416	9,634
Scope 1 emissions from fuel use in workplaces (fixed sources and fleet)	8,221	8,160
Scope 2 emissions from electricity consumption in workplaces	984	1,112
Scope 3 emissions from business trips (air and train)	1,212	362
Total	508,293	252,218

Products to facilitate customer decarbonisation ^[416-1]

The energy transition is an opportunity to offer new products and services to customers who are increasingly committed to low carbon strategies. These include: carbon footprint calculation, offsetting of emissions through voluntary markets, emission reduction plans for customers, self-consumption solutions, management of Guarantees of Origin (GoO) for electricity, approaching the future market for energy saving certificates.

Among these products is the so-called “Neutral Gas”, created in 2017, which offers compensated gas to retail and wholesale customers, including the calculation of the footprint not only of the emissions from the end use of natural gas but of its entire life cycle from extraction. Clearing is done in voluntary markets, considering the customer’s needs in terms of technology, geography and social impact. This compensation is certified by an accredited third party. In 2022, 487,460 tCO₂ were offset, demonstrating the interest in this type of value-added products and services, and Naturgy’s commitment to offering more sustainable products. At present, all new registrations and tariff changes include electricity and neutral gas GoO and, in the near future, the company expects to be able to offer renewable gas GoO as well.

Another example is the Naturgy Solar initiative, launched in 2022 to promote self-consumption in all market segments, with the aim of enabling them to move towards decarbonisation. It is a comprehensive and customised solution to facilitate access to photovoltaic solar energy and self-consumption, which will enable customers to achieve savings of up to 70% on their electricity bill.

The new ‘Naturgy Solar’ initiative is aimed at private customers, homeowners’ associations, SMEs and companies, and offers a customised design, the management and processing of permits and subsidies, and payment facilities. The proposal provides customers with an flexible and simple solution, as well as a maintenance service. Naturgy also offers a price of €0.11/kWh for the purchase of surplus energy that the customer does not consume.



CO₂ emissions trading systems

Most of Naturgy’s thermal electricity generation facilities in Spain are regulated by the European Emissions Trading Directive, which establishes the rules for the acquisition of emission rights equivalent to verified emissions from its combined-cycle and cogeneration facilities, among others. This means that the Directive regulates the trading of this energy, which is why the company participates in the supply on the primary market through auctions, as well as on the secondary market.

The emissions covered come from the combined-cycle gas-fired power stations in Spain and account for 50% of Naturgy’s direct emissions (Scope 1) in 2022. The operation of these plants is included in the National Integrated Energy and Climate Plan (PNIEC), aligned with the European objective of climate neutrality by 2050.

In Mexico, the Emissions Trading System (ETS) Test Program has been implemented, which includes emissions from combined-cycle power stations. This test phase started in 2020 and ended on 31 December 2022 and includes the free allocation of 100% of the installations regulated by this cap & trade system, which emit more than 100,000 tCO₂/year. Installations registered in the ETS must submit emission allowances equivalent to the tons of CO₂ they emit. Currently, Naturgy's combined-cycle power stations in Mexico are registered in the ETS and have received the corresponding emission allowances from the authority.

• **CO₂ emissions covered by regulation or trading systems**

[IF-EU-110a.1]

	2022		2021	
	Emissions (MtCO ₂ eq)	Percentage share of total Scope 1 emissions (%)	Emissions (MtCO ₂ eq)	Percentage share of total Scope 1 emissions (%)
Total CO ₂ emissions affected by the regulations governing the European Emissions Trading System	7.4	50	4.9	38
Scope 1 emissions covered by emission limitation regulations	12.6	85	10.3	80
Scope 1 emissions covered by emission reporting regulations	14.7	100	13.0	100

4. Circular economy and eco-efficiency

[3-3]

(Circular economy and eco-efficiency)

Naturgy is committed to promoting the circular economy by following the following principles of action, which are included in the Environmental Policy:

- Boost the circular economy through the efficient use of resources (energy, water, etc.) and waste management to reduce environmental impacts.
- Promoting renewable gas as an energy and storage vector that facilitates the transition to a circular and carbon neutral economic model.

Energy and materials

Within the framework of the integrated management system, Naturgy implements management and control procedures aimed at minimising the consumption of energy and material resources. With regard to energy, Naturgy's commitment to renewables and the promotion of energy savings and efficiency, both in its own facilities and in homes, businesses and customer facilities, helps reduce environmental impacts.

The figures regarding energy consumption both inside and outside the organisation are given below¹.

• Total energy consumption within the organisation (GWh)

[302-1] and [IF-EU-000.E]

	2022	2021
Non-renewable fuels	90,405	78,821
Natural gas	75,597	64,289
Coal	0	0
Petroleum derivatives	2,262	2,493
Uranium	12,546	12,039
Renewable fuels		0
Electricity acquired for consumption	1,155	1,618
Renewable electricity generated (not included in the consumption of fuels)	9,353	10,521
Electricity and steam sold	-47,029	-41,940
Total	53,884	49,020

The following table shows the ratio of energy consumption to net turnover.

• Energy intensity within the organisation

[302-3]

	2022			2021		
	Energy consumption within the organisation (GWh)	Net turnover (million euro)	Ratio (GWh / net turnover)	Energy consumption within the organisation (GWh)	Net turnover (million euro)	Ratio (GWh / net turnover)
Total	53,884	33,965	1.59	49,020	22,132	2.21

¹ Energy consumption data have been extracted from direct measurements using conversion factors published by the Spanish Climate Change Office or other authoritative sources.

▪ **Energy consumption outside the organisation (GWh)**

[302-2]

	2022	2021
Final use of the natural gas commercialised	481,610	564,493
Electricity	14,004	23,048
Total	495,614	587,541

In 2022, there is a 10% change in the consumption of energy resources within the organisation due to increased generation from gas combined-cycle power stations. Outside the organisation, there has been a variation of -16%, due to the reduction in the end demand for natural gas.

▪ **Materials used, by weight or volume (Mt)**

[301-1]

Fuels	2022	2021
Natural gas	5.1	4.3
Coal	0.0	0.0
Petroleum derivatives	0.2	0.2
Uranium	0.00001	0.00001
Total fuels	5.2	4.5

▪ **Materials used, by weight or volume (kt)**

[301-1]

Other materials (non-combustible)	2022	2021
Lubricant/hydraulic oil	0.8	0.7
Sulphuric acid	1.1	1.4
Nitrogen	0.9	2.0
Sodium hypochlorite	0.6	0.5
Calcium hydroxide	0.7	0.7
Sodium hydroxide	0.7	0.9
Rest of other materials (*)	1.9	1.8
Total other materials	6.7	7.9

(*) Includes paper and toner consumption, which in 2022 amounted to 58 t and 0.9 t respectively, much lower than in 2021 (53.2 t and 0.6 t respectively).

With regard to the materials used, it is noted that there has been a variation in fuel consumption of 16% due to the increased operation of combined-cycle power stations. However, in other non-fuel materials the variation was -15% compared to 2021, reflecting an improvement in eco-efficiency.

Water

[303-1], [303-2] and [IF-EU-140a.3]

Sustainable water management

Water, an essential commodity for life, is one of the natural resources used in the company's processes. Water management merits special consideration, which Naturgy carries out through the analysis of the risks related to its use, based on the use of different methodologies and the consideration in the corporate risk map. In particular, it pays special attention to water consumption, water quality control in discharges, ecological management of reservoirs, and prioritises eco-efficiency and water reuse in processes, for example, by integrating waste water from other activities.

The table Potential impacts on biodiversity in the section Biodiversity and natural capital describes the main potential impacts that Naturgy's activities may have on the water resource.

Naturgy applies the precautionary principle to avoid possible negative impacts on water management. In the design phase of facilities, environmental impact studies are conducted, in which project alternatives and the natural environment are studied, paying special attention to water and its availability, both for the ecosystems and for the affected population. Consequently, necessary measures are included in the project design to ensure that the environmental and social impacts associated with water use are minimised.

In the environmental impact assessment process, both the project and the environmental impact study are subject to public information in order to have the participation and input of stakeholders. The result is an environmental authorisation that specifies the specific conditions of the project and guarantees water management adjusted to the local context of natural resource availability and compliance with public policies. Occasionally, where facilities are located in areas without local discharge requirements, internationally recognised standards, such as those established by the World Bank guidelines, are taken as a reference.

Once the facilities enter into construction or operation, the monitoring and analyses set out in the environmental studies take place, as well as the environmental authorisations to ensure the quality of the environment and the availability of the shared resource (guaranteed by the environmental management system). In addition, strict operational control and risk management procedures (environmental emergency plans, drills, etc.) are implemented to prevent incidents before they occur or minimise damage. In fact, 200 studies were conducted in 2022, especially in the field of electric power generation facilities (thermal, hydropower) to monitor the water impacts of the environment. In the case of thermal and hydropower plants, sampling campaigns have been carried out to determine the physical, chemical and biological characteristics of the aquatic environment (rivers, reservoirs, etc.). Recent studies confirmed the normal situation observed in recent years, and concluded that the facilities studied had an acceptable impact, as shown in the following table reporting the incidents that occurred.

▪ **Number of incidents of non-compliance related to water quantity or quality permits, standards and regulations**

[IF-EU-140a.2]

	2022	2021
Number of incidents	0	1

Beyond its own facilities, Naturgy pays attention to water risks in its supply chain. These are considered to be the result of the combination of activity risk (water risk inherent to the supplier's activity) and country risk (water risk inherent to the country or location of a given facility). Thus, this combination allows it to assign each category of purchases a level of risk: high, medium or low, considering high-risks critical. In addition, Naturgy has a life cycle analysis methodology to analyse the impact associated with the products and services that have the greatest impact on water in its value chain. It should also be noted that, through the CDP Supply Chain initiative, the company works with its main suppliers to improve water management.

▪ **Water collection, consumption and discharge (hm³)**

[303-3] and [303-5]

	2022	2021
Total volume of water captured from the environment	921	872
Total water consumption	19	15
Total volume discharged	902	858

Most of the total water collected by the company is returned to the environment, with consumption representing a very small percentage of the total, just 2%. The most relevant installations in relation to water management are thermal power stations, which are responsible for more than 99.89% of the company's total water consumption. It is important to highlight that all of them implement water management plans, endorsed by the ISO 14001 environmental certification, with which the fulfilment of improvement objectives is assessed each year and the monitoring of collection, consumption, discharge, accident prevention, etc. is maintained.

Globally, in absolute terms in 2022 there has been a significant increase in water collection (6%), water consumption (24%) and water discharge (5%). This was mainly due to a very dry year in Spain, which meant that the combined-cycle power stations had to cover the shortfall in hydropower generation, producing 43% more electricity. To further interpret these results, and given that electricity generation is the activity that uses 99.9% of water resources, the specific ratios of collection, consumption and discharge have been calculated. This indicator reflects the amount of water needed to generate one unit of electricity.

▪ **Water collection, consumption and discharge specific ratio (hm³/TWh)**

[303-3]

	2022	2021
Water captured from the environment	29.8	35.0
Water consumption	0.608	0.611
Discharge	29.2	34.4

As can be seen, in relation to the electrical energy generated, all the ratios have improved with year on year, so that although in absolute terms the collection, consumption and discharges have increased due to greater electricity generation, there has been a gain in eco-efficiency. In other words, less water is required to generate one unit of electricity.

The existence and magnitude of the associated impacts will depend not only on the amount of resource consumed but also on the source of water used. In this case, the main source of water used is seawater, which in 2022 accounts for more than 97% of the total. Wastewater from other industries or from urban sources accounts for 2.4% of the total, and is treated to be reused in the company's processes, thus avoiding the consumption of fresh water, especially in areas of scarcity.

▪ **Water collection by source (hm³)**

[303-3] and [IF-EU-140a.1]

	2022	2021
Surface water captured (sea ⁽¹⁾)	896.1	858.7
Surface water captured (rest ⁽²⁾)	2.1	1.5
Groundwater captured ⁽²⁾	0.4	0.5
Wastewater used from another organisation ⁽¹⁾	21.7	11.5
Water captured from the supply network ⁽²⁾	0.3	0.2
Total volume of water captured from the environment	920.6	872.4

⁽¹⁾ Total dissolved solids (TDS) > 1,000 mg/L.

⁽²⁾ Total dissolved solids (TDS) ≤ 1,000 mg/L.

▪ **Water collection by salinity (hm³)**

[303-3]

	2022	2021
Volume of water with TSD > 1,000 mg/l	917.8	870.2
Volume of water with TSD ≤ 1,000 mg/l	2.8	2.2
Total volume of water captured from the environment	920.6	872.4

▪ **Water consumption (hm³)**

[303-5] and [IF-EU-140a.1]

	2022	2021
Consumption of cooling water	16.3	11.8
Consumption of water in water/steam cycle	0.4	0.3
Consumption of water in other processes	1.8	2.7
Consumption of water in ancillary services and buildings	0.3	0.4
Total	18.8	15.2

As indicated, most of the water consumption occurs in thermal power stations, specifically in the cooling towers where it evaporates to enable cooling and is released into the atmosphere, reintegrating into the natural water cycle.

Once used, the different water flows are segregated according to their nature and those that require it are treated at the effluent treatment plants, eliminating the contaminants they contain (particles, oils, organic contamination, pH outside the range, etc.) until the appropriate conditions are reached for their discharge. Prior to discharge, effluents are analysed to ensure that the permissible limits are complied with and that there are no negative impacts on the aquatic ecosystem. This analysis and monitoring is not limited to the effluents alone; the plants also monitor the water in the environment receiving the discharges to ensure that there are no negative effects on the aquatic environment.

The treatment equipment and systems worked as planned in 2022, complying with environmental permits. In addition, studies of the receiving environment reveal that no significant impacts were generated in the aquatic ecosystems where the effluent discharges were made. Most discharges are into the sea (99.8% of the total), followed by waterways and the public sewerage system.

• **Water discharge (hm³)**

[303-4]

	2022	2021
Water discharged into the sea	900.4	855.9
Water discharged into waterways	1.3	1.4
Water discharged into the public sewerage system	0.3	0.3
Water discharged into septic tanks	0.0	0.0
Water discharged for use by an aquifer	0.0	0.0
Total volume discharged	902.0	857.6

NB: all discharges had a TDS concentration > 1,000 mg/L.

With regard to the pollutants released into the aquatic environment by discharges, the following table shows the weight of substances discharged into the water.

• **Weight of discharged substances (kg)**

Pollutant	Quantity discharged to water (kg)
Nitrogen and its compounds	21,853
Suspended solids	15,812
Sulphates	10,138
Nitrates	4,668
Phosphorus and its compounds	2,368
Oils and fats	1,427
Ammonium	1,070
Rest	176.6
Total	57,512

Impact reduction in high water stress areas

The impact of water use depends on three factors: the quantity of water used, the type of water used (seawater, freshwater, etc.) and the level of water stress in the area.

In terms of the amount of water consumed, combined-cycle power stations account for 98.8% of total consumption, with the remaining facilities accounting for insignificant values. To analyse the impact, these plants have been classified according to their level of water stress, using Aqueduct's global water risk mapping tool.

▪ Water use in combined-cycle power stations according to water stress levels

	Total	In areas of high water stress (>40%)	Fresh water collection in areas of high water stress
No. of facilities	15	10	2
Water collection (hm ³)	920	247.08	2.07

Note: plants are considered to be in water stress zones when water stress levels exceed 40%.

As can be seen, of the 15 combined-cycle power stations, 10 are located in areas of high water stress, of which only two have significant freshwater consumption (13% of all combined-cycle power stations). Most of the combined-cycle power stations were designed with a view to reducing the impact on areas with low water resources and operate with seawater or wastewater from other activities, and therefore do not consume fresh water. Accordingly, only 0.2% of the water captured by combined-cycle power stations corresponds to fresh water used in water-stressed areas.

▪ Water collection in high water stress areas

[303-3] and [IF-EU-140a.1]

Naturgy, aware of the situation of water stress or scarcity in the surroundings of some of its thermal plants, implements systems for the use of seawater or the reuse of waste water from cities or other industries in these facilities, which avoids fresh water being consumed and removes the pressure on this scarce resource. In fact, in 2022, fresh water captured (TDS ≤ 1,000 mg/l) in areas of high water stress amounted to only 2.26 hm³, which represents 24.55% of total water captured.

It should be noted that this year the mapping of facilities located in areas of high water stress has been improved using Aqueduct's global water risk tool. The change in methodology, as the new criterion is more restrictive, has been reflected in an increase in the number of facilities located in areas of high water stress compared to the previous year, which explains the increase in the percentage of freshwater collected in areas of high water stress shown in the following tables.

	Volume (hm ³)		Percentage of total water captured (%)	
	2022	2021	2022	2021
Total water captured in high water stress areas	247.08	236.25	26.84	27.08
Seawater ⁽¹⁾	223.47	224.80	24.27	25.77
Fresh surface water ⁽²⁾	2.08	0.03	0.23	0.00
Fresh groundwater ⁽²⁾	0.09	0.01	0.01	0.00
Water from another organisation (reuse) ⁽¹⁾	21.34	11.40	2.32	1.31
Water captured from the supply network ⁽²⁾	0.09	0.01	0.01	0.00
Water collection ⁽²⁾ in high water stress areas	2.27	0.05	0.25	0.01

⁽¹⁾ Total dissolved solids (TDS) > 1,000 mg/L.

⁽²⁾ Total dissolved solids (TDS) ≤ 1,000 mg/L.

▪ **Water collection in high water stress areas by salinity (hm³)**
[303-3]

	2022	2021	Percentage of total water captured (%)	
			2022	2021
Volume of water with TSD > 1,000 mg/l	244.8	236.2	26.59	27.07
Volume of water with TSD ≤ 1,000 mg/l	2.26	0.05	0.25	0.01
Total volume of water captured from the	247.1	236.2	26.84	27.08

The following tables show consumption and discharge in these areas.

▪ **Water consumption in areas of high water stress (hm³)**
[303-5]

	2022	2021	Percentage of total water consumption (%)	
			2022	2021
Consumption of cooling water	13.30	7.60	70.74	50.00
Consumption of water in water/steam cycle	0.30	0.20	1.60	1.32
Consumption of water in other processes	0.00	0.00	0.01	0.00
Consumption of water in ancillary services and buildings	0.10	0.30	0.53	1.97
Total	13.70	8.10	72.89	53.29

▪ **Water discharge in areas of high water stress (hm³)**
[303-4]

	2022	2021
Water discharged into the sea	232.51	227.90
Water discharged into waterways	0.94	0.60
Water discharged into the public sewerage system	0.03	0.01
Water discharged into septic tanks	0.00	0.00
Water discharged for use by an aquifer	0.00	0.00
Total volume discharged	233.48	228.51

Globally, in 2022 there has been an increase in water collection, consumption and discharge in high water stress areas, due both to the change in methodology by considering an updated and more restrictive criterion in the categorisation of water stress areas and to the increased activity of combined cycle power stations, which have operated more than in 2021.

Atmospheric emissions

[305-6], [305-7] and [IF-EU-120a.1]

▪ Total specific atmospheric emissions: Nitrogen oxides (NO_x), sulphur oxides (SO₂) and other significant air emissions (kt)

[305-7] and [IF-EU-120a.1]

	Total (kt)		Specific (g/kWh)	
	2022	2021	2022	2021
SO ₂	0.8	1.2	0.0	0.0
NO _x	8.1	7.9	0.2	0.2
Particles	0.1	0.2	0.0	0.0
Mercury	0.00001	0.00001	0.0000003	0.0000002
Lead*	n.a.	n.a.	n.a.	n.a.

NB:

- Lead does not apply since natural gas, which is mostly used as fuel, lacks this element and, since it is not formed in the combustion process, it is not emitted in the combustion gases.
- After analysis of populated areas, 100% of the pollutants meet the criterion "densely populated area" (area with a densely populated core and an adjoining territory that together have a population of at least 50,000 people).

The above data correspond to direct measurements made at the facilities. In absolute terms, there has been a decrease in emissions of SO₂ (-33%) and particulate matter (-50%), mainly due to the decrease in electricity generation from fuel-fired power stations. Absolute NO_x emissions have increased by 3% due to the increased operation of combined cycle power stations, although in relative terms, eco-efficiency has improved, as there has been a reduction in specific emissions of -11% for this pollutant.

▪ Emissions of ozone-depleting substances (ODS) (t)

[305-6]

	2022	2021
HCFC	0.01	0.09
Freon R22	0.20	0.22

The above data correspond to direct measurements of filling operations performed on equipment using these substances, showing an improvement in comparison with the previous year.

With regard to light and noise pollution, following the materiality analysis carried out, these issues have not been of relevance which is why no information is included in this regard. However, noise-producing facilities are equipped with silencers, insulation and other acoustic measures to ensure compliance with legal limits and reduce disturbance to the surrounding population and fauna, as well as monitoring and measurement programmes to ensure compliance with these requirements.

Waste

[306-1] and [306-2]

Naturgy has waste management procedures for its adequate minimisation, segregation, storage, recycling, control and final disposal. These procedures allow the company to report data on waste generated directly in its operations, including all businesses and countries where it operates. In relation to the waste produced by collaborating companies, they are required to manage it appropriately through the environmental specifications included in the contracting process; also, they must monitor the whole process throughout the duration of their services. This management, backed by ISO 14001 certification, minimises the impacts generated by waste, with the most significant residual impact being the possibility of environmental contamination as a result of accidental spills or dumping. The following table includes data with the main spillages that occurred in 2022. In all cases, the environmental incident procedure was activated and the spill was collected and the area cleaned. There have been no significant impacts on the environment, as most spillages were contained in Naturgy's facilities and there has been no deterioration of water courses or damage to biodiversity. While the area of land affected has increased by 442% compared to 2021, the number of events has been reduced (-29%) as well as the volume discharged accidentally (-61%).

• Spill table

[306-3]

2022					
Activity	No. of events	Nature of spill (no. of events)	Spill volume (m ³)	Surface area of natural soil affected (m ²)	Country (No. of events)
Renewable electricity generation	9	Oil (8) Oil and fuel (1)	0.4	115	Spain (9)
Gas and electricity distribution	11	Oil (10) Fuel (1)	1.4	91	Argentina (1) Spain (6) Panama (4)
Total	20	-	1.8	206	-

2021					
Activity	No. of events	Nature of spill (no. of events)	Spill volume (m ³)	Surface area of natural soil affected (m ²)	Country (No. of events)
Renewable electricity generation	7	Oil (6) Fuel (1)	0.2	20	Spain (6) Costa Rica (1)
Gas and electricity distribution	21	Oil (18) Oily waters (1) Fuel (1)	4.4	18	Spain (17) Panama (4)
Total	28	-	4.6	38	-

In accordance with the waste hierarchy, the company prioritises management aimed at prevention, reuse and recycling over other less sustainable alternatives such as incineration without energy recovery or landfill. This strategy is clearly defined in the Sustainability Plan, which includes two waste-related objectives for 2025: reducing waste by 87% from 2017 and achieving 75% of waste recovered or recycled.

• Waste managed (kt)

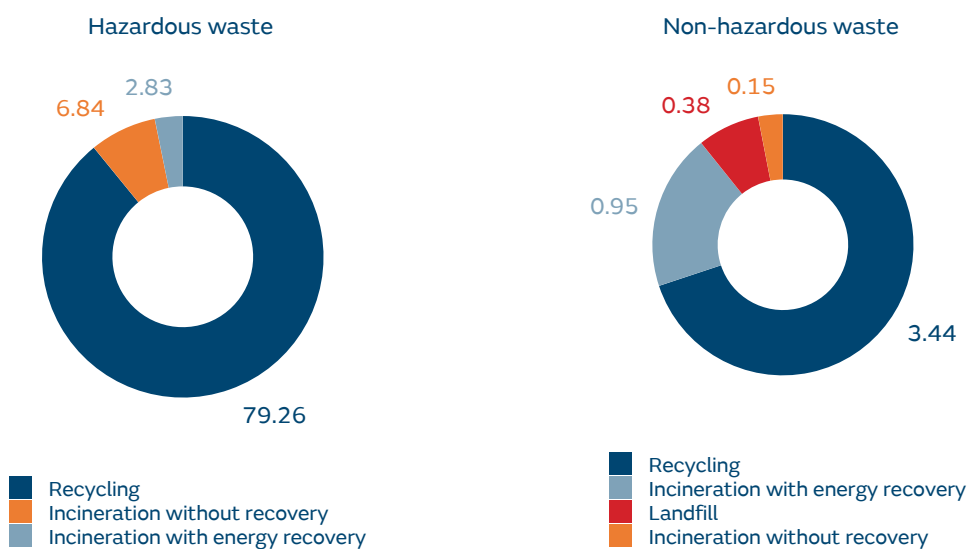
	2022	2021
Total waste (kt)	94	98
Non-hazardous waste (kt)	89	94
Hazardous waste (kt)	5	5
Recovery and recycling rate (%)	92	57

▪ **Waste by final disposal**

[306-4] and [306-5]

	2022	
	kt	%
Waste not for disposal		
Waste for recycling	82.70	88.1
Waste for incineration with energy recovery	3.77	4.0
Waste for disposal		
Waste for landfill	0.38	0.4
Waste for incineration without recovery	6.99	7.5

▪ **Waste by typology and final disposal in 2022 (kt)**



▪ **Non-hazardous waste managed (kt)**

	2022	2021
Soil and rubble	78.0	76.2
Sludge	5.7	12.0
Vegetable waste	1.8	1.1
Scrap	1.5	2.1
Assimilable to urban waste	0.6	0.6
Rest	1.3	1.5
Total	88.9	93.5

▪ **Hazardous waste managed (kt)**

	2022	2021
Hydrocarbons plus water	1.3	1.1
Sludge from oil and fuels	0.7	0.9
Solid waste contaminated with hydrocarbons	1.2	1.0
Used oil	0.4	0.5
Hydrocarbon-contaminated soils	0.3	0.4
Electronic waste	0.1	0.0
Rest	0.9	0.7
Total	4.9	4.6

▪ **Products sold for reuse (kt)**

	2022	2021
Sludge from oil and fuels	0.7	0.9
Total	0.7	0.9

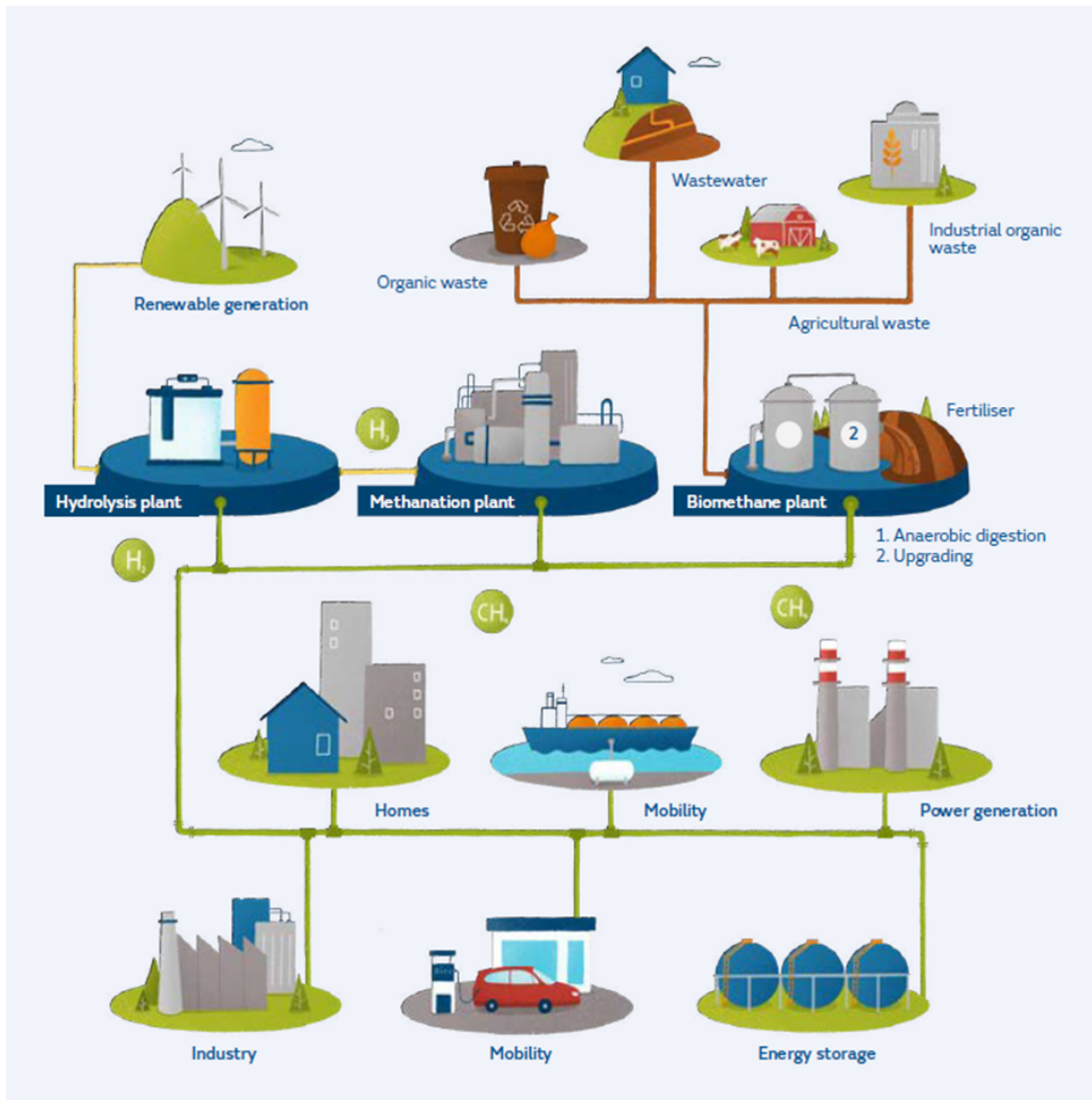
In 2022 the total amount of waste generated decreased -4% , mainly accounted for by non-hazardous waste-5%. In addition, the percentage of recycled or recovered waste has increased significantly, standing at 92%, 61% up on the previous year.

In 2022, Naturgy continued with the removal of polychlorinated biphenyls (PCB). Currently, 45 tonnes of dielectric oils with PCBs still have to be removed.

With regard to food waste, after the materiality analysis carried out, this aspect has not been among the relevant issues, which is why no information is included in this regard.

Renewable gas

Renewable gases are gaseous fuels that come from or are produced from renewable sources. Within the energy sector, biomethane, renewable hydrogen or synthetic gas obtained from renewable energy surpluses should be highlighted. One of Naturgy's strategic lines of action in circular economy is to promote this type of fuels, so that they gradually replace fossil gas, promoting a circular and decarbonised model, as they are neutral in greenhouse gas emissions. Naturgy has been developing new renewable gas projects for several years, as detailed in chapter 9.



This is a clear example of a circular economy, as it is produced from organic waste as problematic as livestock manure, slurry, manure, sewage sludge or household waste, thus avoiding undesirable effects on people and biodiversity through water pollution, bad smells, etc.

Biomethane is a solution to simultaneously achieve decarbonisation goals and reduce energy dependence on external sources. This is very relevant at the European level, as the REPowerEU plan sets ambitious targets for fossil gas reduction and the promotion of biomethane. This is a particularly interesting alternative in sectors where electrification is difficult due to the nature of the activities. The production of biomethane makes it possible to make use of a multitude of waste types, solving their management problems. Moreover, being closely linked to the rural world, it is a perfect ally for the achievement of the economic recovery agenda and the fight against the demographic challenge and the depopulation of rural areas.

Although there are differences between the figures for biomethane production potential in Spain depending on the source consulted, the country ranks third in Europe for its high potential. According to the Study of biomethane production capacity in Spain 2023, published by Sedigas, the total accessible biomethane potential in Spain would be 163 TWh/year, in line with other reports. The development of this potential would represent more than 40% of the annual demand.

Moreover, biomethane is a carbon-neutral fuel gas and can even have negative CO₂eq emissions. This is the case of biomethane from livestock waste, the current management of which causes GHG emissions. The transformation of this waste into renewable gas can avoid emitting 200%² of the CO₂eq emissions corresponding to the substituted fossil fuel into the atmosphere.

Considering a carbon footprint abatement ratio of 0.31 MtCO₂eq/TWh³, if the biomethane production potential of 163 TWh/year is exploited, this would lead to an abatement of more than 50 MtCO₂eq/year, which is equivalent to 23% of the national 2030 target of the Integrated National Energy and Climate Plan.

According to Sedigas estimates, from an economic point of view, the development of these plants would be equivalent to an investment of Euros 40.495 billion for the entire national territory, equivalent to 3.61% of national GDP. It would also have a significant positive impact on job creation, especially in rural areas, helping to meet the targets of the demographic challenge in Spain. In total, 21,736 direct jobs and 40,205 indirect jobs associated with the operation and maintenance of the biomethane plants would be generated, to which should be added 34,890 direct jobs and an estimated 465,200 indirect jobs associated with construction.

² Source: Renewable gases. An emerging energy vector (Alvaro Feliu Jofre and Xavier Flotats Ripoll). Naturgy Foundation.

³ Data calculated by the European Biogas Association and matching with figures used in the study "Biogas and biomethane as a key lever in the decarbonisation of the Spanish economy" (PwC, CIEMAT and Naturgy Foundation).

5. Biodiversity and natural capital

[3-3]

(Biodiversity and natural capital)

Commitment to biodiversity

Naturgy is committed to the preservation of biodiversity, natural capital and cultural heritage in the environment of its facilities, with special attention to protected areas and species, with the following actions (included in the Environmental Policy) as its operating principles:

- Respect natural capital, biodiversity and cultural heritage in the areas where the group operates, identifying, assessing and monitoring impacts and dependencies on biodiversity during the life cycle of the facilities.
- Integrate biodiversity in the design and operation of projects to progressively reduce negative environmental impacts, avoiding as far as reasonably possible carrying out activities near areas of high value for biodiversity and specially protected areas, implementing a preventive approach based on the hierarchy of impact mitigation (avoid, mitigate, restore and compensate) and promoting the development of nature-based solutions.
- Prevent vegetation disturbance as far as possible, avoiding deforestation in operating environments and encouraging mitigation of significant impacts on forests along the value chain.
- Achieve no net loss of biodiversity, promoting the net creation of natural capital whenever possible.

In this regard, Naturgy develops biodiversity initiatives in an integrated manner with the axes of the energy transition towards decarbonisation, climate, nature and people. As they are complementary and mutually influential realities, this approach takes a holistic view and focuses on building natural capital and restoring ecosystems to maximise CO₂ capture and neutralise emissions, ensuring the protection of native fauna and flora and maximising benefits for local communities.

Naturgy manages biodiversity with a clear preventive approach, considering the protection of nature in the design of new facilities, implementing operational controls throughout the useful life and making financial provisions for the future decommissioning of assets.

To conduct its activities, Naturgy needs a number of services provided by nature, also called ecosystem services. The identification of these dependencies at corporate level is highly relevant as it enables operations that are vulnerable to changes in the quantity and quality of these services to be identified with the implementation of actions aimed at their protection and conservation. The following table identifies the main dependencies identified.

• Biodiversity dependencies

	Generation		Production and injection			Distribution	
	Wind	Solar	Hydropower	Thermal	Biomethane	Electricity	Natural gas
Resources used in the process							
Non-mineral resources such as fuels (natural gas and others).				Very high			Very high
Renewable resources such as wind and solar radiation.	Very high	Very high					

Groundwater stored underground in aquifers, which comes from precipitation, snowmelt and freshwater streams.	Very low	Average	Low					
Surface water that comes from precipitation of water flows from natural sources.	Very low	Very high	Very high					
Services that make the process possible								
Maintenance of water flow through the hydrological cycle, that allows water to circulate through the atmosphere, land and oceans, responsible for recharging groundwater sources and maintaining surface water flows.		Very high	Average					
Water quality resulting from the maintenance of adequate chemical conditions of water, including rivers, lakes, groundwater sources and salt water, to ensure favourable living conditions for the biota.		Low	Low					
Pollination is a service provided by three main mechanisms: animals, water and wind. Most plants depend to some extent on animals acting as vectors, or pollinators, for pollen transfer.						Average		
Services that mitigate direct impacts								
Bioremediation, the natural process by which living organisms such as micro-organisms, plants, algae and some animals degrade, reduce and/or remove pollutants.		Low	Very low	High				
Filtration, which is the sequestration, storage and accumulation of pollutants by a variety of organisms including algae, animals, micro-organisms and plants.		Very low	Low					
Regulation of the chemical composition of the atmosphere, which through pollutant diffusion processes allows the maintenance of air quality.			Very high					
Protective services								
Nature's regulation of the global climate through the long-term storage of carbon dioxide in soils, plant biomass and oceans. At regional level, climate is regulated by ocean currents and winds, while at the local and micro level, vegetation can modify temperature, humidity and wind speed.	Very high	High	Very high	Very low	Average	High	Average	
Flood and storm protection provided by the buffering and attenuation effects of vegetation.	Average	Average	High	Average	Average	Average	Average	
Erosion protection and land stabilisation provided by vegetation cover, terrestrial, coastal and marine ecosystems, coastal wetlands and dunes. Vegetation on slopes also prevents avalanches and landslides, and mangroves, seagrasses and macroalgae provide protection against coastal erosion and sediment.	Average	Average	Very high	Low	Low	Average	Average	

KEY

Very high: the process is extremely vulnerable to interruptions. The degree of protection provided by the ecosystem service is critical and irreplaceable.

High: the process is vulnerable to interruptions. The degree of protection afforded by the ecosystem service is hardly substitutable.

Average: most of the time, the process can take place with limited disruption to the ecosystem service due to its resilience to disruption.

Low: most of the time, the process can take place even with the total interruption of the ecosystem service.

Very low: in general, the production process can take place even with a total disruption of the ecosystem service.

Source: ENCORE and own elaboration.

Impact on natural capital

Naturgy carries out an efficient management of natural capital based on reducing the impact on ecosystems by performing preliminary studies for new facilities, reducing emissions, resource consumption or waste production, and on developing direct actions on biodiversity.

With regard to new facilities, the precautionary principle is applied, carrying out preliminary environmental impact studies during the design phase. These studies analyse the environment of the sites, looking carefully at protected areas of high ecological value, adapting the location and components of the project to avoid or minimise negative impacts on biodiversity. In those cases in which it is not possible to completely avoid the impact, the required remedial or compensatory measures are introduced. The establishment of additional voluntary measures contributes to the knowledge and mitigation of the impacts caused by the facilities. The company also takes into consideration the opinion of the stakeholders present in the places where it operates.

To minimise these effects, the company applies operational control procedures and, at those facilities where there can be greater potential risk, we carry out environmental assessment studies and define environmental emergency plans to prevent the incident before it occurs, or to minimise any damage. We also regularly perform environmental emergency drills to test the procedures that have been defined.

In addition, there is a Geographic Information System, which integrates both the natural protected areas in each country and the facilities and biodiversity initiatives carried out. This tool allows the identification, quantification, management and monitoring of impacts on biodiversity.

The following table summarises the main impacts on biodiversity that may arise from the company's operation at the sites and adjacent areas. In the preparation of the table, the impacts that occur in the operation of the facilities have been considered. In the case of wind farms, photovoltaic plants, biomethane plants and power grids, the impacts produced in the construction phase have also been considered due to the new investments being made in these types of assets.

Potential impacts on biodiversity

[303-2] and [304-2]

	Wind power generation				Photovoltaic generation				Hydropower generation				Thermal generation				Biomethane production and injection				Electricity distribution				Gas distribution							
	Impact +/-	Materiality	Duration Scaled-up	Reversibility Recoverability	Impact +/-	Materiality	Duration Scaled-up	Reversibility Recoverability	Impact +/-	Materiality	Duration Scaled-up	Reversibility Recoverability	Impact +/-	Materiality	Duration Scaled-up	Reversibility Recoverability	Impact +/-	Materiality	Duration Scaled-up	Reversibility Recoverability	Impact +/-	Materiality	Duration Scaled-up	Reversibility Recoverability	Impact +/-	Materiality	Duration Scaled-up	Reversibility Recoverability				
Natural environment																																
Water use, including collection and consumption, especially of freshwater in water-stressed areas.	The greatest potential impact is from combined-cycle power stations, which require water on a permanent basis for their operation, especially for the cooling process. Although facilities located in water-stressed areas may induce a decrease in the resource, most of them have been designed to avoid freshwater consumption by using seawater or reusing discharges from other activities.				Negative				Very low				Temporary Localised Reversible Recoverable Negative				High				Permanent Extensive Reversible Recoverable Negative				Very high				Permanent Extensive Reversible Recoverable			
	Regulating or diversion hydropower plants can affect the amount of water available downstream. To minimise the impact, sufficient ecological flow is released to maintain both natural and socio-economic water uses.																															
	Photovoltaic power stations may occasionally consume water for washing the solar panels, although the volumes required are not high and dry cleaning alternatives can be implemented or with water from other areas in the event of water stress.																															

		Wind power generation		Photovoltaic generation		Hydropower generation		Thermal generation		Biomethane production and injection		Electricity distribution		Gas distribution			
		Impact +/-	Materiality	Duration Scaled-up	Reversibility Recoverability	Impact +/-	Materiality	Duration Scaled-up	Reversibility Recoverability	Impact +/-	Materiality	Duration Scaled-up	Reversibility Recoverability	Impact +/-	Materiality	Duration Scaled-up	Reversibility Recoverability
Land occupation and modification of terrestrial ecosystems, e.g. through vegetation clearance.	<p>The construction of new projects temporarily modifies the terrestrial habitat, except for the areas that are permanently occupied during the operation phase.</p> <p>The facilities that have the greatest impact on terrestrial ecosystems are photovoltaic plants and power lines. The construction of power lines involves the removal and permanent maintenance of a buffer strip devoid of tree vegetation. In any case, this is a reversible and recoverable impact, since, in addition to carrying out prior studies to select the alternative with the least impact, after completion of the works the affected areas are environmentally restored, except for those occupied by the installations, which are recovered after dismantling at the end of their useful life.</p> <p>Biomethane facilities are generally located inside other facilities (farms, water treatment plants, etc.), so their impact on land use is very limited.</p>	Negative	Low	Temporary Localised Reversible Recoverable	Negative	High	Permanent Localised Reversible Recoverable			Negative	Very low	Temporary Localised Reversible Recoverable	Average	Permanent Extensive Reversible Recoverable	Negative	Low	Temporary Localised Reversible Recoverable

		Wind power generation				Photovoltaic generation				Hydropower generation				Thermal generation				Biomethane production and injection				Electricity distribution				Gas distribution				
		Impact +/-	Materiality	Duration Scaled-up	Reversibility Recoverability	Impact +/-	Materiality	Duration Scaled-up	Reversibility Recoverability	Impact +/-	Materiality	Duration Scaled-up	Reversibility Recoverability	Impact +/-	Materiality	Duration Scaled-up	Reversibility Recoverability	Impact +/-	Materiality	Duration Scaled-up	Reversibility Recoverability	Impact +/-	Materiality	Duration Scaled-up	Reversibility Recoverability	Impact +/-	Materiality	Duration Scaled-up	Reversibility Recoverability	
Effects on marine ecosystems, e.g. due to the presence of infrastructure necessary for the process.	Water discharges from coastal combined-cycle power stations can have a permanent impact on the marine ecosystem in the dispersion area due to chemical contamination and, above all, due to the temperature increase of cooling discharges. However, in the design phase of the combined-cycle power stations, studies of the aquatic environment and discharge modelling have been carried out to include the necessary impact reduction measures.																													
									Negative																					
									Average																					
									Permanent Localised Reversible Recoverable																					

		Wind power generation				Photovoltaic generation				Hydropower generation				Thermal generation				Biomethane production and injection				Electricity distribution				Gas distribution					
		Impact +/-	Materiality	Duration	Scaled-up	Reversibility	Recoverability	Impact +/-	Materiality	Duration	Scaled-up	Reversibility	Recoverability	Impact +/-	Materiality	Duration	Scaled-up	Reversibility	Recoverability	Impact +/-	Materiality	Duration	Scaled-up	Reversibility	Recoverability	Impact +/-	Materiality	Duration	Scaled-up	Reversibility	Recoverability
Emission of air pollutants, such as NO _x , SO ₂ , particulate matter, etc.	When thermal power stations are in operation they emit air pollutants, mainly NO _x . During the design phase, atmospheric modelling was carried out to define a suitable location for the installations. This, together with the systems put in place to reduce these pollutants, ensures that pollution values in the environment remain within the acceptable levels set by legislation. This is evidenced by the air quality measurement networks installed around combined cycle power stations.													Negative																	
														High																	
														Permanent																	
														Extensive																	
														Reversible																	
														Recoverable																	

		Wind power generation		Photovoltaic generation		Hydropower generation		Thermal generation		Biomethane production and injection		Electricity distribution		Gas distribution		
		Impact +/-	Materiality	Duration Scaled-up	Reversibility Recoverability	Impact +/-	Materiality	Duration Scaled-up	Reversibility Recoverability	Impact +/-	Materiality	Duration Scaled-up	Reversibility Recoverability	Impact +/-	Materiality	Duration Scaled-up
Water pollution from discharges with temperature increases, chemical compounds or nutrients into the receiving water body.	<p>Hydropower plants may under certain conditions temporarily cause deterioration of quality downstream of the reservoir, e.g. reduction of dissolved oxygen. The impact is recoverable, and measures to improve water oxygenation have been included in the plants where necessary.</p> <p>Discharges from combined-cycle thermal power stations can reduce the quality of the receiving environment due to thermal (cooling discharges) and chemical (process discharges) pollution. To reduce the impact, environmental criteria have been considered in the design of the cooling systems, installing cooling towers where necessary and including the corresponding measures to keep pollutant levels within the limits set by legislation. In addition, discharge control is carried out by monitoring the main pollutants.</p> <p>Biomethane plants have a net positive impact, as the transformation of organic waste such as slurry or manure into biomethane avoids its deposition on land and avoids negative impacts on water pollution and ecosystems.</p>															
						Negative										
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						Temporary										
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						Average										
						Permanent										
						Extensive										
						Reversible										
						Recoverable										
						Positive										
						Average										
						Permanent										
						Extensive										
						Not applicable										

		Wind power generation		Photovoltaic generation		Hydropower generation		Thermal generation		Biomethane production and injection		Electricity distribution		Gas distribution											
		Impact +/-	Materiality	Duration Scaled-up	Reversibility Recoverability	Impact +/-	Materiality	Duration Scaled-up	Reversibility Recoverability	Impact +/-	Materiality	Duration Scaled-up	Reversibility Recoverability	Impact +/-	Materiality	Duration Scaled-up	Reversibility Recoverability								
Soil contamination from accidental spills or inadequate management of waste or materials likely to release pollutants.	<p>Localised incidents in the construction or operation of facilities, such as leaks or spills, may lead to soil contamination by oil or other residues. The quantity and hazardousness of these substances is very limited, and preventive management and monitoring measures avoid negative impacts.</p> <p>Biomethane plants have a net positive impact, as the transformation of organic waste such as slurry or manure into biomethane avoids land disposal and negative impacts due to soil contamination.</p>	Negative	Very low	Temporary Localised	Reversible Recoverable	Negative	Very low	Temporary Localised	Reversible Recoverable	Negative	Low	Temporary Localised	Reversible Recoverable	Positive	Average	Permanent Extensive	Not applicable	Negative	Low	Temporary Localised	Reversible Recoverable	Negative	Very low	Temporary Localised	Reversible Recoverable
Generation of hazardous, non-hazardous and inert solid waste.	<p>The construction or operation of facilities involves the production of waste. Its magnitude is not high given the quantity and characteristics of the waste produced and the environmental management system in place.</p> <p>Biomethane, on the other hand, involves the recovery of organic waste generated in other activities, and therefore has a clear positive impact.</p>	Negative	Very low	Permanent Localised	Reversible Recoverable	Negative	Very low	Permanent Localised	Reversible Recoverable	Negative	Very low	Permanent Localised	Reversible Recoverable	Positive	Average	Permanent Extensive	Not applicable	Negative	Low	Permanent Localised	Reversible Recoverable	Negative	Low	Permanent Localised	Reversible Recoverable

		Wind power generation	Photovoltaic generation	Hydropower generation	Thermal generation	Biomethane production and injection	Electricity distribution	Gas distribution
		Impact +/- Materiality Duration Scaled-up Reversibility Recoverability Impact +/-	Materiality Duration Scaled-up Reversibility Recoverability Impact +/-	Materiality Duration Scaled-up Reversibility Recoverability Impact +/-	Materiality Duration Scaled-up Reversibility Recoverability Impact +/-	Materiality Duration Scaled-up Reversibility Recoverability Impact +/-	Materiality Duration Scaled-up Reversibility Recoverability Impact +/-	Materiality Duration Scaled-up Reversibility Recoverability Impact +/-
Noise disturbance, light emissions, etc.	<p>Noise nuisance can occur during the operation of wind farms.</p> <p>In the vicinity of thermal power stations, noise and traffic nuisance may occur.</p> <p>In all cases, noise modelling is carried out in the design of the facilities to include the necessary measures to keep noise below the legal limits. In addition, measurements are regularly carried out to verify the effectiveness of the measures.</p>	Negative	Average	Temporary Localised Reversible Recoverable	Negative	Average	Permanent Localised Reversible Recoverable	

		Wind power generation		Photovoltaic generation		Hydropower generation		Thermal generation		Biomethane production and injection		Electricity distribution		Gas distribution		
		Impact +/-	Materiality	Duration Scaled-up	Reversibility Recoverability	Impact +/-	Materiality	Duration Scaled-up	Reversibility Recoverability	Impact +/-	Materiality	Duration Scaled-up	Reversibility Recoverability	Impact +/-	Materiality	Duration Scaled-up
Affect on wildlife	<p>In hydropower plants, the existence of the reservoir and the presence of the dam produce permanent alterations on aquatic fauna, affecting spawning areas or cutting off migratory flows. The impact can be irreversible, although it is recoverable through the adoption of measures such as ecological flow or the installation of devices to allow aquatic fauna to overcome the dam (fish ladders, etc.).</p> <p>The operation of wind farms poses a risk of collisions of birds and bats with wind turbines.</p> <p>The construction of photovoltaic plants may affect steppe birds present in the area, and power lines may cause collisions and electrocution of birds and bats on the power lines. During the design phase of all these projects, the presence of sensitive species is analysed, adapting the location and implementation of the facilities, including avoiding measures. In addition, environmental monitoring is carried out to implement additional measures if necessary.</p>	Negative	High	Permanent Localised Reversible Recoverable	Negative	Low	Permanent Localised Reversible Recoverable	Negative	High	Permanent Extensive Irreversible Recoverable		Negative	Average	Permanent Localised Reversible Recoverable		

		Wind power generation		Photovoltaic generation		Hydropower generation		Thermal generation		Biomethane production and injection		Electricity distribution		Gas distribution			
		Impact +/-	Materiality	Duration Scaled-up	Reversibility Recoverability	Impact +/-	Materiality	Duration Scaled-up	Reversibility Recoverability	Impact +/-	Materiality	Duration Scaled-up	Reversibility Recoverability	Impact +/-	Materiality	Duration Scaled-up	Reversibility Recoverability
Creation of favourable conditions for the establishment of invasive	The activities do not lead to the introduction of invasive alien species, although the reservoirs of the hydropower plants may create favourable conditions for their settlement.					Negative		Low	Temporary Localised Reversible Recoverable								
Social setting																	
Impact on landscapes.	The presence of higher installations, such as wind turbines, stacks of thermal power stations or electricity pylons, can lead to a reduction in the quality of the landscape. In the case of thermal power stations or power lines, when they are located in industrial or anthropised areas, the impact is reduced by visual integration. In most cases, the impact is irreversible and can be recovered by carrying out specific visual screening measures.	Negative	High	Permanent Extensive Reversible Recoverable	Negative	Average	Permanent Extensive Reversible Recoverable	Negative Positive Average	Permanent Extensive Reversible Recoverable	Low	Permanent Extensive Reversible Recoverable	Negative	Low	Permanent Extensive Reversible Recoverable			
	In the case of hydropower plants, the impact can be positive in flowing type reservoirs, where there is no dry band due to the mirror effect of the water sheet.																

		Wind power generation		Photovoltaic generation		Hydropower generation		Thermal generation		Biomethane production and injection		Electricity distribution		Gas distribution							
		Impact +/-	Materiality	Duration Scaled-up	Reversibility Recoverability	Impact +/-	Materiality	Duration Scaled-up	Reversibility Recoverability	Impact +/-	Materiality	Duration Scaled-up	Reversibility Recoverability	Impact +/-	Materiality	Duration Scaled-up	Reversibility Recoverability				
Affect on cultural heritage.	During the construction of new facilities there is a risk of permanent damage to archaeological remains located in the area. To avoid this, during the design phase, archaeological surveys and on-site monitoring performed during earthworks to detect and avoid affecting elements of cultural heritage. This risk is not significant for biomethane as it is located within other facilities (farms, water treatment plants).	Negative	Low	Temporary Localised	Irreversible Recoverable	Negative	Very low	Temporary Localised	Irreversible Recoverable			Negative	Low	Temporary Localised	Irreversible Recoverable	Negative	Very low	Temporary Localised	Irreversible Recoverable		
Job creation and induction of economic activities.	The construction and operation of the facilities involves job creation. In addition, income is generated in the municipalities from tax payments and indirect economic activities.	Positive	Average	Permanent Localised	Not applicable	Positive	Average	Permanent Localised	Not applicable	Positive	Average	Permanent Localised	Not applicable	Positive	Average	Permanent Localised	Not applicable	Positive	Low	Permanent Localised	Not applicable

Source: ENCORE and own elaboration.

Definitions:

- Impact: beneficial (+) or detrimental (-).
- Materiality: relevance of the impact.
- Duration: time that the impact would remain, being permanent when it is equal to or longer than the lifetime of the facility and temporary otherwise.
- Extent: area of influence of the impact. Localised if it is of a one-off nature, otherwise it is extensive.
- Reversibility: indicates the possibility of reconstruction of the factor affected by the project by natural means once the action has ceased to have an impact on the environment.
- Recoverability: indicates the possibility of recovery of the affected factor through corrective measures. Thus, an impact may be recoverable or irrecoverable.

NB: for positive impacts, reversibility and recoverability are not characterised, as they are not applicable concepts.

Affecting areas of high biodiversity or protected natural areas

[304-2]

In order to determine the area of the facilities adjacent to these types of spaces, consideration has been given not only to their physical limitations but also to a number of specific impact ratios according to type of facility. Consequently, the infrastructure is classified as interior (within areas of high biodiversity), adjacent (radius of impact within the protected space) or exterior when it is outside.

▪ Operations centres owned, leased or managed located within or adjacent to protected areas or zones of great value for biodiversity outside protected areas

Business	Type of operation	Location with regard to the protected area	Area (ha)		Value of biodiversity 2021
			2022	2021	
	Exploration	Within the area	510	510	RAMSAR, MAB, LIC, IBA, ENP, ZEPA
	Biomethane production and injection	Within the area and next to the area	0	-	
Gas					
	Transmission and distribution	Within the area and next to the area	9,721	9,892.15	PN, APA, PNAM, MNA, ARIE, RVS, RE, PE, RAMSAR, ZEPVN, ZH, ZREEN, ZIC, ZECIC, RNP, RN, PEIN, PR, PPU, PNA, PJNM, PJN, PPG, HP, MAB, ZEPA, IBA, OSPAR, RAMPE, ZEPIM, M, ZEC, PJNIN, RNC, EN, SIBE, ANP, ZPHE, PU, ZPECP, ZSCE
	Generation	Within the area and next to the area	20,657	20,630	PNA, MAB, LIC, ZEPA, IBA, ZEPVN, MNA, RN, RF, PPG, ZREEN, PEIN, CE
Electricity	Transmission and distribution	Within the area and next to the area	24,418	21,522	RAMSAR, ZIC(LIC/ZEC), ZEPA, ZEPVN, RN, RF, PR, PNA, MNA, M, MAB, IBA, HP, PPG, LIC, OSPAR, RAMPE, PN, RVS, RH, RFS, ARM, BP, AR, AUM

ACR: Regional Aquifers, Chile; AICA: Areas of Importance for Bird Conservation, Mexico; ANP: Protected Natural Area, Mexico; APA: Environmental Protection Area, Brazil; RA: Recreation Area, Panama; ARM: Managed Resources Area, Panama; ASP: Protected wildlife area, Chile; ASPP: Private protected wildlife area, Chile; AUM: Multi-use Area, Panama; BNP: Protected National Assets, Chile; PF: Protected Forest, Panama; CB: Biological corridor, Chile; CC: Contrafuerte Cordillerano, Chile; CE: Ecological Corridor, Dominican Republic; EN: Natural Enclave, Spain; NPA: Batuco Wetland, Chile; HP: Protected Wetland, Spain; IBA: Important Bird Area (important areas for bird and biodiversity conservation) (International); SCI: Site of Community importance, Spain; M: Microreserve, Spain; MAB: Biosphere Reserve, Spain, Chile; MNA: Natural monument, Chile, Panama, Spain, Mexico; PE: State Park (Mexico/Brazil); PEIN: Special Protection Plan, Spain; PI: International Park, Panama; PJN: Natural Site, Spain; PJNIN: Natural Site of National Interest, Spain; PJNM: Natural Municipal Site, Spain; PN: National Park, Brazil, Mexico, Spain, Panama, Argentina; PNA: Natural Park, Panama, Spain; PNAM: Municipal Natural Park, Argentina, Brazil; PPG: Protected Landscape, Panama, Spain; PPU: Periurban Park, Spain; PR: Regional Park, Spain; RAMPE: Spanish Network of Marine Protected Areas, Spain; RAMSAR: Wetlands of international importance especially as waterbird habitat (International); RB: Biological reserve, Brazil; RE: Mining Reserve, Brazil; RF: River Reserve, Spain; RFS: Forest Reserve, Panama; RH: Water Reserve, Panama; RNA: Natural Reserve, Chile; RN: Nature Reserve, Morocco, Spain; RNC: Partial Nature Reserve, Spain; RNP: Partial Nature Reserve, Spain; RNPV: Private Nature Reserve, Chile; RVS: Wildlife refuge, Panama, Brazil; SE: Strategic site, Chile; SN: Nature Sanctuary, Chile; SP: Priority Site, Chile; WET: Panoramic route, Dominican Republic; ZECIC: Special Conservation Areas, Spain; ZECIC: Special Conservation Area of Community Importance, Spain; SPA: Special Protection Areas for birds, Spain; ZEPVN: Special Area for the Protection of Natural Values, Spain; WET: Wetlands, Spain; ZIC: Area of Community Importance, Spain; ZPECP: Zone of Ecological Preservation of Population Centres, Mexico; ZPHE: Hydrological and Ecological Protection Zone, Mexico; ZREEN: Natura 2000 European Ecological Network Area, Spain; ZSCE: Zone Subject to Ecological Conservation, Mexico; ARIE: Relevant Area of Ecological Interest (Brazil); PU: Urban Park (Mexico).

The variation in the areas affected is due both to the construction of new infrastructure and to changes in the boundaries and extension of areas of protected natural spaces. When analysing the table above, it is also important to consider that 19,373.5 ha, 94% of the surface area of the Power generation category, within or next to protected areas, refers to hydropower plants in Spain that were built after 1910 and before the protection regimes for these areas existed. In fact, many of these reservoirs, previous to the protection figure, constitute natural highly valuable aquatic spaces, which have created the natural wealth in biodiversity and caused the area to be subsequently granted environmental protection.

Another indicator used is the number of protected species that potentially have their habitat in the areas affected by the operations.

▪ **IUCN Red List species and national conservation list species with habitats in areas affected by operations**

[304-4]

	2022				
	Critically endangered species	Endangered species	Vulnerable species	Almost threatened species	Least concern
Mammals	2	15	32	21	362
Birds	6	27	53	50	1228
Reptiles	6	19	18	18	428
Amphibians	20	22	20	9	192
Fish	18	40	31	20	325

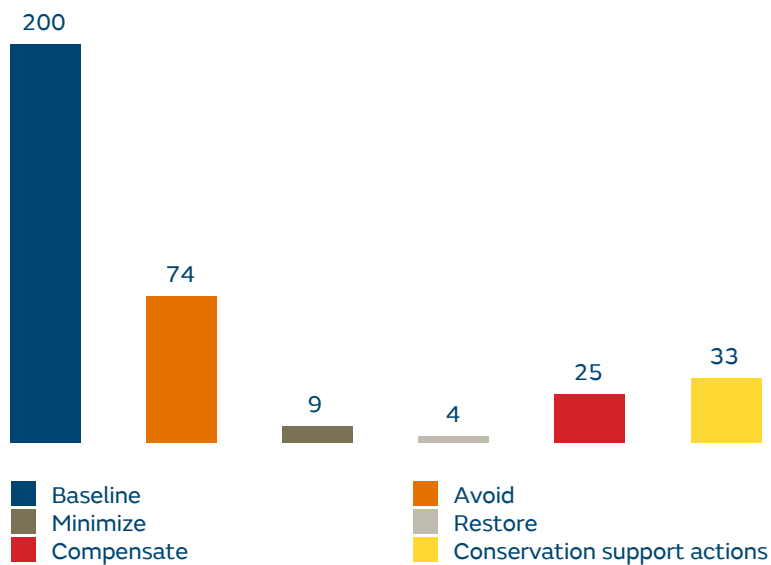
The International Union for Conservation of Nature (IUCN) conducts ongoing reviews of species listings. It should be noted that in 2022 there has been a significant increase in the number of species listed by IUCN compared to the previous year.

Biodiversity initiatives

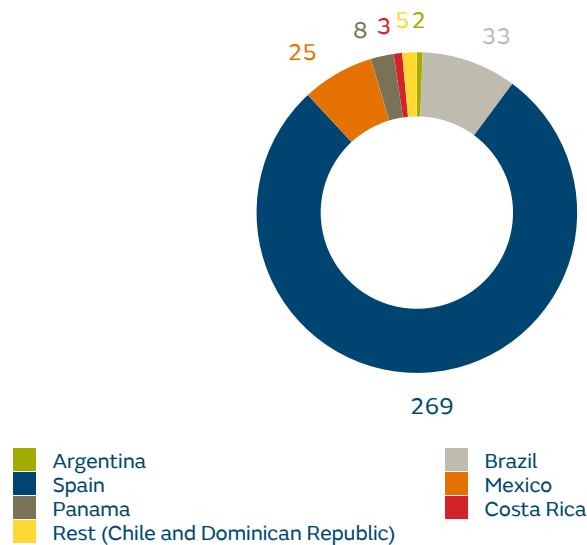
[304-3]

In order to reduce and compensate the negative impacts on biodiversity, Naturgy is developing various actions.

▪ **Biodiversity initiatives by type**



▪ **Biodiversity initiatives by country**



The following are lines of action and examples of initiatives that are being put into place to compensate or reduce the negative impacts on biodiversity:

▪ **Wildlife protection**

- Several wind farms have implemented measures to prevent bird collisions, such as blade painting or applications for real-time shutdown of wind turbines in the event of a collision risk.
- The systematic removal of carrion (dead livestock, etc.) is carried out in and around wind farms in order to prevent bird collisions, particularly of certain birds of prey such as vultures, which, precisely, are drawn to the carcasses to feed.
- Actions are being taken to reintroduce the bearded vulture (an endangered species) into the protected natural spaces of the Alto Tajo and Serranía de Cuenca. The project, which involves such activities as conducting prior studies and the installation of feeding points, is being carried out in coordination with the General Directorate on Biodiversity and Environmental Quality of the Ministry for the Ecological Transition and the Demographic Challenge, the provincial authorities of Guadalajara and Cuenca, and the representatives of the protected areas.
- Continued actions to improve the habitat of the capercaillie (an endangered species) in the Lago de Sanabria Natural Park, in partnership with Fundación Patrimonio Natural, among which is the creation of a breeding centre.
- Support to the wildlife recovery centre of Guadalajara of the Regional Government of Castilla La Mancha: housing of wildlife individuals, captive breeding programmes and temporary stays of individuals of species with reintroduction programmes.
- Together with GREFA and in collaboration with the environmental authorities, 47 Lesser Kestrels have been reintroduced, a migratory bird of prey catalogued as vulnerable due to the fact that their populations have been reduced by the transformations suffered in the countryside in recent decades.
- The regular capture of salmon, shad, eel and lamprey reaching the Frieira hydropower plant was continued in collaboration with the Xunta de Galicia. The captured specimens are used to restock the tributaries of the lower course of the River Miño that lie within a protected area, from where they will be able to return to the sea.
- Exit ramps and squirrel crossings have been installed, animal crossings have been adapted and game fencing has been improved in hydropower infrastructures to reduce negative impacts on wildlife.
- In more than 1,800 electricity pylons, actions have been taken to minimise the risk of electrocution of birds when they are used as perches. In addition, bird guards have been installed on several sections to reduce the risk of collision.

- To understand and reduce the risk of power lines on Bonelli's eagle (a vulnerable species), a strategic alliance with GREFA has been carried out, in the framework of which several specimens marked with GPS have been released in order to understand their movement patterns.
- Maintenance has been carried out on the biodiversity transformers which make use of disused electrical transformer buildings to provide breeding sites and shelter for different wild species (birds, bats, insects, etc.).

▪ **Ecosystem protection and restoration**

- A system for the early detection of fires in the vicinity of power lines has been developed in Spain. The alerts are generated through a system that uses real-time information from the EU's Copernicus and NASA satellites.
- Based on the inspections of power lines using drones, a system has been implemented to process the images using artificial intelligence to, among other things, detect nests or birds.
- We have participated in the WETLANDS4CLIMATE project, coordinated by Global Nature, to establish management guidelines for Mediterranean wetlands to function as carbon sinks, while maintaining their ecological integrity, functionality and providing the services of a healthy ecosystem.

▪ **Nature-based solutions**

- Within the framework of nature-based solutions, an innovative initiative is carried out using livestock for the maintenance of power line routes. The reduction of vegetation on power line routes is a necessary measure to ensure safety. Replacing machinery with indigenous livestock, with less impact on the environment, boosts traditional grazing and rural development. The project has been carried out together with the University of Santiago de Compostela, Redeia, Sociedad Galega de Pastos y Forrajes, Instituto Ourenano del Desarrollo and local councils.

▪ **Knowledge generation, dissemination and education**

- New environmental returns have been explored in the overhead power lines and gas pipelines: reuse through the ecosystem service of pollination. To this end, a review of existing scientific publications has been carried out, a report has been produced which is available on the website and several videos have been disseminated on social media.
- Presentation and public dissemination of the "Sectoral document on the energy and natural capital nexus", including the specific impacts and dependencies of the natural capital of the Spanish energy sector, including matrices by technology. This document is the result of three years' collaborative work by the most relevant companies in the Spanish energy sector (Cepsa, EDP España, Enagás, Endesa, Iberdrola, Naturgy, Redeia and Repsol), with the coordination of Azentúa and Ecoacsa, thanks to which a common methodology for the identification and valuation of natural capital, applicable to the global energy industry based on the Natural Capital Protocol, has been agreed upon.

Digitalisation of electrical grids to optimise management of vegetation on safety lanes (GALA project)

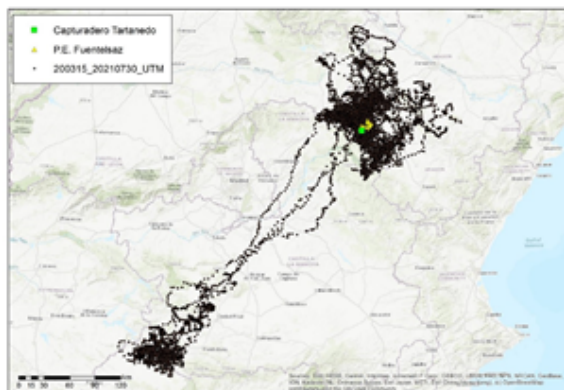
The GALA project implemented on power lines in Spain consists of using a digital terrain twin. It includes photo-interpretation of plant species to define the risk to the power line safety lane according to the growth speed of each species and its distance from the conductor, which enables felling and pruning plans to be fine-tuned. Specifically, it optimises the felled specimens, takes into account the location of the action with respect to protected areas and improves management of certain tree species, such as invasive species, helping to prevent their expansion.



Technological solutions for reducing bird collisions in wind farms

Innovative technological solutions have been implemented in wind farm projects to reduce their impact on birds:

- Marking of potentially affected birds (golden eagle, little bustard, stone curlew, black-winged kite, red kite, vultures) by means of GIS devices in order to know their distribution and flight patterns. The results are used to improve the design of the facilities and the measures to be implemented to reduce the impact in operation.
- Big Data analysis to find patterns and prevent collisions.
- Applications for real-time shutdown of wind turbines in the event of a collision hazard. For example, DT Bird devices, which automatically detect the presence of birds in real time using artificial vision, emit warning sounds to scare away birds at risk and, finally, automatically stop and reactivate the wind turbine to avoid a collision.



Promoting reforestation with protected and native species at Mexico’s combined-cycle power stations

Greenhouses have been built and commissioned within the Naco and Durango combined-cycle power stations. The aim is to reproduce protected species native to the area that will serve to promote reforestation programmes to improve the natural resources of the environment and improve the quality of life of the community. There are currently more than 4,500 seedlings ready for reforestation, which is planned as a subsequent phase of this initiative. It also contributes to local development, as it has facilitated professional internships in the project for five young biologists from the area. In addition, local training entities (Unisierra University and the Technological Institute of the Guadiana Valley) have collaborated with the project.



“Red List Rescue Mission” project in the Dominican Republic

The “Red List Rescue Mission” programme is a strategic alliance to rescue endangered species in the Dominican Republic, through their cultivation and preservation. It is promoted by the National Botanical Garden, the Ministry of the Environment, ECORED and the German cooperation agency GIZ. Naturgy has contributed by sponsoring the species *Pimenta ozua* (in danger of extinction), which grows in the Humadales del Ozama National Park. To this end, it has been involved in seed collection, nursery reproduction and planting, as well as awareness-raising activities on the value of the local flora.



Different environmental restoration actions have also been carried out. The following table is a summary of the most important actions taken in 2022.

▪ **Habitats protected or restored**
[304-3]

Country	Activity	Actions and objectives	Result: restored area (ha)	Benefits protected space or species	Validated by external independent professionals
Argentina	Gas distribution	Through the Sowing the Future (Sembrando Futuro) Programme, native trees were planted, and environmental awareness-raising activities conducted.	0.26	Yes	Yes
Spain	Renewable generation	Support to maintain and expand the practice of ecological lavandin (hybrid lavender) farming in order to protect the Dupont's lark (an endangered species) in partnership with Fundación Global Nature, the University of Guadalajara and the provincial authorities of Guadalajara. In addition to having a biodiversity objective, the project is oriented towards rural green development, with the production of high value-added essences.	1.00	Yes	Yes
Spain	Renewable generation	Reforestation, maintenance and environmental restoration in the surroundings of the new photovoltaic facilities, including the construction of ponds and troughs to promote biodiversity (amphibians and reptiles) and also as a water point for birds and livestock.	25.29	No	Yes
Spain	Conventional generation	As part of the project to dismantle the Anllares coal-fired power station and in the framework of the Just Transition commitments, the Anllarinos reservoir has been restored by planting native species adapted to the Upper Sil area.	11.00	Yes	Yes
Spain	Corporate	Through environmental volunteer actions organised by the Naturgy Foundation, employee volunteers have performed clearing up of lands and planting: in the Hito lagoon (a wetland declared a Nature Reserve in 2002, which serves as a refuge for the migration of cranes and flamingos) a perennial herbaceous plant typical of saline wetlands was planted, which helps stabilise the soil and provides shelter for numerous species of animals, helping to recover and improve the habitat. Yellow poppy seeds were also planted in the lagoons of El Porcal. It is a unique species in the region and provides a suitable habitat for butterflies. El Porcal is an area of high biological value at European level, with the largest lagoon in Madrid, home to more than 180 species of birds, mammals, amphibians and reptiles, many of which are in danger of extinction.	0.41	Yes	Yes
Brazil	Gas distribution	Regular maintenance to ensure the establishment of the specimens planted in the region of Sao Paolo for the recovery of the Atlantic Forest.	0.74	Yes	Yes
Chile	Renewable generation	Rescue of valuable plant specimens, relocation and environmental restoration in the surroundings of new wind farms.	2.44	Yes	Yes
Chile	Gas distribution	Native vegetation has been planted around the facilities, including the risks necessary to guarantee the survival of these new specimens.	2.90	Yes	Yes
Costa Rica	Renewable generation	Reforestation in the vicinity of hydropower plants, prioritising the area of the new containment dam. This dam was built as a climate adaptation measure to prevent damage to the facility caused by flooding of the river. Revegetation is a nature-based solution to prevent erosion in nature.	0.20	No	No

Panama	Electricity distribution	Various reforestation actions have been carried out in partnership with the Ministry of the Environment. These include the planting of <i>Pinus caribea</i> in the La Yeguada forest reserve, which is a protected area at the headwaters of the hydrological basin of the San Juan river. Mangroves have also been reforested within the Manglar Bahía de Chame protected area. The project has been supported by employee volunteers, and environmental awareness has also been promoted.	5.36	Yes	No
Dominican Republic	Conventional generation	“Red List Rescue Mission” project for the rescue of endangered species in the Dominican Republic, sponsoring the species <i>Ozua pepper</i> (in danger of extinction) in the Humadales del Ozama National Park.	0.14	Yes	Yes
Total restored area 2022 (ha)			49.74		
Target area restored 2022 (ha)			40.00		

07. Customer experience

Naturgy's contribution to the SDG



For Naturgy, customers are at the centre of all operations. In order to provide the quality service demanded by the company's standards, Naturgy takes the utmost care in the service it provides to its customers so that it is agile and efficient and a benchmark in the sector, as well as complying with legal and profitability requirements. To this end, it is essential to establish an active dialogue, as well as to get to know the needs, resolve doubts, claims and complaints in the most satisfactory way from the customer's point of view.

Providing a value offer adapted to customer needs is one of Naturgy's priorities. To this end, in recent years the company has, both in Spain and Latin America, been working to make the most of the opportunities that technology provides to digitalise product and service marketing processes, both to improve and streamline the processes that take place in the sales channel and to offer customers a simple and agile contracting experience that gives them autonomy.

In a year like 2022, where energy prices, especially in Spain, have been very high, Naturgy has set new prices on its portfolio of retail electricity customers and has lowered the price of its contracts during the term of these, proactively. The company has also introduced measures to make it easier for customers to transfer to the regulated gas tariff, which is cheaper. In addition, it has reinforced and extended the Commitment tariffs with which it anticipated the start of price rises in 2021.

Attention to vulnerable groups remains a priority. During 2022, the initiatives developed by the Naturgy Foundation and in Argentina, Brazil and Spain have been maintained.

Providing a customer service that meets the expectations of an increasingly demanding and better informed customer in a context of frequent regulatory changes is a challenge to which Naturgy continues to respond with a multi-channel service. Each year this service incorporates new channels adapted to technological changes and reinforces and improves the existing ones. As in the contracting of products and services, digitalisation, the automation of processes, the promotion of customer self-management and the standardisation of customer service across all channels so that the customer enjoys a unique omnichannel experience are the premises on which Naturgy's customer service model is based.

Finally, Naturgy carries out continuous inspection and assessment of all its working methods and facilities, ensuring continuous energy supply. Thanks to the automation and digitalisation of the network, the quality and service indicators that guarantee security of supply have been improved.

1. Customer experience in 2022 at Naturgy

Evolution and results

	2022	2021
Net Promoter Score (NPS) Spain commercialisation (global) (%)	20.8	18.5
Net Promoter Score (NPS) Spain electricity networks (telephone service) (%)	9.3	22.3
Net Promoter Score (NPS) Spain gas networks (telephone service) (%)	21.2	18.9
Net Promoter Score (NPS) Argentina (global) (%)	46.0	34.0
Net Promoter Score (NPS) Brazil (global) (%)	52.1	56.5
Net Promoter Score (NPS) Chile gas (global) (%)	56.2	64.3
Net Promoter Score (NPS) Mexico (global) (%)	39.4	11.8
Net Promoter Score (NPS) Panama (customer service) (%)	7.4	3.0

In 2022, in Spain, there have been significant variations in the NPS (Net Promoter Score) quality indicators due to the impact on commercial systems in the first quarter, regulatory changes (such as the gas cap or the change in VAT, modifications in the setting of the maximum increase in LRT to 15% by the government) and volatility in both gas and electricity prices. The latter factor has also occurred in Brazil and Chile. All these factors have transformed the customer care service by increasing both the volume of activity and the reasons for contact.

Highlights of the year

- In 2022, Naturgy's online business in Spain multiplied its digital sales by 3.5, amounting to 18.0% of sales with 365,027 new contracts for electricity, gas and value-added services. The figures for 2022 show a 20-point increase in conversion and a 25% improvement in contract activation.
- During 2022 the company has carried out several repricing actions on its portfolio of retail electricity customers, proactively lowering the price of their contracts. More than 500,000 customers have benefited from this action. It has also lowered the price in force for 6,000 Homeowners' Associations.
- Incorporation of improvements in the web-based customer service channel in the Latin American subsidiaries, taking advantage of digitalisation and automation.

2. An adapted value offer

2022 has been a year marked by a worsening of the increase in energy prices already started in 2021. In Spain, the average price of electricity in the daily wholesale market closed 2022 with an average price of more than Euros 165/MWh, which represents an increase of 50% compared to the average price in 2021; and with an average peak price of more than Euros 280/MWh in March 2022.

This rise in energy prices has been strongly influenced by the Russian invasion of Ukraine last February, which has caused an unprecedented hike in the price of natural gas on the market, as well as the weather conditions in Spain, which have reduced the entry into operation of renewable generation sources.

Faced with this scenario, the Spanish government, following an agreement with the European Commission, implemented the production cost adjustment mechanism to reduce electricity prices, colloquially known as the “Iberian exception”. A temporary mechanism, with a duration of 12 months, to limit the price of gas and lower the price of electricity in the Iberian Peninsula.

However, Naturgy, aware of this reality, has continued with the measures of attention to all its customers to mitigate its impact on domestic and commercial economies launched in 2021, when the price of energy began to rise, and has continued to support domestic customers while launching several initiatives to protect the commercial and industrial fabric.

Within this context, this year Naturgy has reaffirmed its commitment announced in November 2021 to allocate all available infra-marginal energy to supply electricity through all its tariffs at a competitive price (the residential price takes an energy cost signal much lower than those recorded in 2022). The infra-marginal allocated to its customers in 2022 was 10 TWh.

Furthermore, in view of the entry into force of the “Iberian exception” for Spain and Portugal, approved by the Spanish government and the European Union, Naturgy sent all its customers information notices on how this situation was going to affect them and when they would have to start paying the gas compensation fee.

Naturgy’s commercial strategy in Spain

In Spain, Naturgy sells energy through four marketers depending on the segment and market.

Free Market	Residential, Homeowners’ Associations and Businesses	Naturgy Iberia S.A Naturgy Clientes S.A.U
	Industrial	Gas Natural Comercializadora S.A.
Regulated market	Residential and Homeowners’ Associations	Comercializadora Regulada Gas & Power S.A

Naturgy’s commercial strategy is based on the following four value axes, which are described in detail throughout this section:

- Commit to the digitalisation of products and processes to simplify customer relations.
- Adapt the commercial supply to the context of high energy prices by making a committed proposal to customers to offer support measures.
- Develop innovative products and services tailored to customers’ needs.
- Adapt commercialisation and customer service processes to the reality of vulnerable groups.

Digitalisation of products and processes

The digitalisation of products and services is a key vector for customising the supply and customer service, two vital aspects to satisfy customers.

An aspect to be noted in 2022 is the creation of a new fully digital marketer that transforms all processes with a focus on simplicity and ease for the customer, offering a service that is more expeditious and closer at hand. A new fully digital customer service front end has been created where you can access all the information relating to your contracts, carry out procedures and follow up on them, receive notifications and communicate with Naturgy at all times, sharing the environment with the customer service agents who are available to assist you in anything you need.

Tools to strengthen the sales channel

Similarly, Naturgy has developed different applications and tools that help strengthen the sales channel, as well as tools that improve the customer experience throughout the contracting process, giving them autonomy.

BLUE, commercial knowledge manager

Implemented in October 2022 for all channels providing commercial services. The BLUE manager is a tool that:

- Hosts all procedures and sales support materials, product sheets, manuals, contracts, annexes of economic conditions, etc.
- Has an interactive search engine that allows an expeditious search of, for example, queries made by customers at the same time.
- Sends alerts on news and new content.
- Provides traceability on the opening of communications to ensure that you have the most updated version of your portfolio and campaigns.
- Concentrates access to the rest of the tools needed to carry out the commercial work.

Single Channel Customer Service (SCCS)

SAUC is a two-way communication platform available to all sales channels to deal with any type of incident in the channel, such as those related to sales, certification or after-sales processes.

In this way, Naturgy has a priority channel to solve incidents in the most representative processes of its activity within a limited time and with traceability.

Training and knowledge management for service and operational channels

During 2022, Naturgy has evolved towards a centralised and comprehensive knowledge management solution for its service and operation channels driven by technology via an Agora training platform (LMS), the evolution of the current CMS Sapiens and a monitored operation (MASVOZ + JIRA+ SD). Additionally, with the incorporation of a new supplier, we are working to promote the digital transformation of learning, with virtual platforms, new designs and development of e-learning content and the delivery of training programmes for all customer service channels and areas of operation.

Tools to improve the customer experience in contracting

In relation to the experience, perception and communication with its customers, Naturgy has promoted different projects aimed at improving their experience, achieving very positive results in the first months of implementation that augur an exponential leap in the personalised attention and service offered.

Darwin

This single, digital, omnichannel front end is a key part of the company's digital evolution in the coming years. The tool enables contracting of energy and services in all Naturgy's deregulated suppliers in Spain for the residential segment and SMEs; in any of the channels, either in person, by telephone or digitally.

This system has a two-fold objective: on the one hand, to put the user at the centre of the contracting process, offering an improved, simple and streamlined five-step contracting experience. And, on the other hand, to standardise, optimise and improve contracting data for all sales channels. In this way, the company has a simple, measurable and traceable procedure that is easier to maintain and evolve, and which improves activation times.

Solar simulator

A project to improve the solar simulator has been implemented, allowing customers to obtain a solar panel installation quote more quickly. In addition, communications with customers have been strengthened to improve the information they receive throughout the commercial process.

RoboCUR

RPA (Robotic Process Automation) that streamlines the contracting and transfer process for the group's last resort marketer. The ultimate aim is to facilitate and speed up as much as possible the activation of gas and electricity contracts under regulated tariffs, which is particularly relevant for vulnerable customers.

Improvements to other tools

As well as the aforementioned tools, during 2022 Naturgy has continued working to automate and digitalise other processes linked to commercial capture:

- Automation to incorporate to the sales channel the contacts from potential clients (leads), which will make it possible to establish much more personal relationships with potential customers and users.
- Reorganisation of the website content for customers in Spain (www.naturgy.es) by type of customer: businesses, homeowners' associations and large industrial customers. To this end, three new sections have been created, with product pages and content tailored to each segment. These changes simplify the customer journey and improve business indicators for business segments and homeowners' associations.

Finally, in the face of increasing digitalisation and automation of processes, it is important to have the capacity to analyse the large volume of information available to us. To this end, an agreement has been reached with Quantum Metric, a tool for behavioural analysis and continuous improvement of digital assets to improve the customer experience in digital environments.

In 2022, Naturgy's online business in Spain multiplied by 3.5 times its digital sales, amounting to 18.0% of sales with 365,027 new contracts for electricity, gas and value-added services. The figures for 2022 show a 20-point increase in conversion and a 25% improvement in contract activation.

Adapting the commercial supply

[IF-EU-420a.2] and [IF-EU-420a.3]

Naturgy remains committed to offering a commercial supply supporting the energy transition, based on eco-efficient, simple and customisable products, and maintains its traditional portfolio of services and equipment.

The commercial supply for 2022 includes the following:

- Green electricity commercialisation through the allocation of guarantees of origin equivalent to the previous year's consumption -managed by the CNMC-, and neutral gas with CO2 emissions offset with CERs (Certified Emission Reduction Certificates) -a process certified by AENOR-.
- Tariff contracting options: simple products for the home in which the customer can choose the option that best suits their needs (fixed price per kWh, with and without hourly discrimination or fixed monthly tariff, in electricity or fixed price or quota in gas).

- Improved power optimisation process to encourage customers to assess whether they can make any adjustments to save on their bill.
- Families of service and equipment products with the commitment to provide assistance within three hours anywhere in the territory 24 hours a day, 365 days a year. Naturgy offers the following four services: ServiGas (focused on gas supply and boiler), ServiElectric (focused on electrical supply and appliances), ServiHogar (focused on the home) and Servisolar (for self-consumption facilities).
- Promotion of self-consumption and the recharging of electric vehicles.
- Solutions for the renovation of equipment in the home to improve comfort and energy efficiency, including financing options, extended warranty and maintenance. In this regard, the measures aimed at improving the energy efficiency of Naturgy’s customers have led to savings in gas and electricity consumption equivalent to 1.6 TWh.
- For companies, Naturgy reaffirms itself as an essential partner for planning, installation and maintenance during the entire contract. It offers financing possibilities for the entire project, a suitable maintenance plan to obtain maximum efficiency for the business, total guarantee of the installation, 24 hour 365 day service, digital platform for managing consumption and renovation of the installation.

Actions aimed at adapting energy prices

During 2022 the company has carried out several repricing actions on its portfolio of retail electricity customers, proactively lowering the price of their contracts. More than 500,000 customers have benefited from this action. It has also lowered the price in force for 6,000 Homeowners’ Associations.

In addition, in line with the rest of the initiatives of the year, Naturgy goes a step further in its commitment to help its customers to pay the lowest possible price for their energy supplies and actively promotes the transfer to the Last Resort Tariff (LRT) of all those domestic customers of the company with an annual gas consumption of less than 50,000 KWh per year. Customers only had to access the form sent to them by the company and fill in the required data to confirm their identity, the ownership of the supply and the acceptance of the transfer of personal data to the regulated marketer that will be in charge of the supply following the changeover. In this way, customers cease to be customers of Naturgy Iberia, in the deregulated market, and begin to enjoy the cheaper Last Resort Tariff.

Products and services adapted to customers’ requirements and priorities

[IF-EU-420a.3] and [IF-GU-420a.2]

Innovative products and services in the home

Commitment Initiative	After the launch of the Commitment Tariff, and with the worsening of the energy market situation, the Naturgy group maintains its commitment to society and in January launched the electricity tariff with a guaranteed price for three years from the contracting for the residential market. It only passes on the CPI variations (upwards or downwards) and the variation of regulated costs. This initiative has also been extended to other markets such as the industrial market by 2022. In all cases the prices offered take an energy cost signal well below the market price for 2022.
Naturgy Solar	Integral service that offers to all those people interested in the environment and savings a “turnkey” solution, taking advantage of the sun’s resources, without worries and at an optimal cost. It is marketed in its version of individual and collective self-consumption to the internal network of homeowners’ associations.
Naturgy Recharge	Comprehensive and personalised electric mobility solution that allows customers to enjoy their electric vehicle charging point.
Friends & Naturgy	Naturgy product and service recommendation programme in which rewards are offered for each friend who recommends our customers and contracts with Naturgy.
Value-added services family	In 2022, in addition to the maintenance + repair service, Naturgy offset the CO2 emissions of all home service callouts.

Solution for installation of equipment in homes	Comprehensive offer for the installation of boilers, air conditioning equipment, heaters and water heaters that includes advice, installation, annual preventive maintenance and emergencies, extension of the manufacturer's warranty to five years and the possibility of financing.
SVE Xpress Parts	In our commitment to improve the experience of our customers, we have developed a new Servielectric modality that extends its current coverage to the cost of the parts of the main household appliances (Washer/Dryer, Fridge/Freezer, Dishwasher and Oven) in the event that their replacement is necessary.
SVG Comfort	A new feature has been added that allows quick and easy diagnosis of whether an analogue boiler has a fault, avoiding the need for customers to call to report that their equipment has stopped working properly.
Innovative products and services for businesses	
GAS Commitment Plan for Homeowners' Associations	As part of the Naturgy group's Commitment Initiatives, and following the worsening of the situation of the gas energy market during the first half of 2022, in July Naturgy enabled a gas tariff for Homeowners' Associations for a given volume of energy at a very competitive price that will be held for two years (the price with energy cost signal of Euros 75/MWh). With this, the company seeks to help homeowners' associations to cope with a situation of record prices.
GAS Commitment Plan for SMEs	As part of the Naturgy group's Commitment Initiatives, and following the worsening of the situation of the gas energy market, Naturgy enabled a gas tariff for SMEs for a limited volume of energy at a very competitive annual price (the price with an energy cost signal of Euros 99/MWh).
Fixed price plans	Stable price for a year adapted to the consumption of each customer, regardless of fluctuations in the market price of electricity, ensuring control and forecasting of annual expenditure. 100% ECO energy, when requested by the customer.
Variable price plans	Monthly plan that adapts to the wholesale electricity/gas market, for those customers who want to save while assuming a certain risk. 100% ECO energy, when requested by the customer.
Value-added services family	Maintenance services + repair of business equipment. Customisable based on the customers' needs.
Innovative products and services for industry and large customers	
Industrial Gas Commitment	Long-term natural gas tariff that offers industrial customers a stable and competitive price of Euros 55/MWh in the unit of energy cost. In a context of escalating raw material prices on international markets, we support the industrial sector by helping them to contain their energy budget for 3 years and consolidate their competitiveness.
Industrial Gas Commitment II	Medium-term natural gas tariff that offers industrial customers a stable and competitive price of Euros 95/MWh in the unit energy cost. In a context of escalating raw material prices on international markets, we support the industrial sector by helping them to contain their energy budget for 2 years and consolidate their competitiveness.
Innovative energy solutions for business, industry and large customers	
Gascomfort	Gascomfort is a production plant optimisation service through the renewal of equipment, or the transformation of the room and comprehensive management throughout the life of the contract. Equipment financing service, maintenance and 24/7 customer service.
Distribution solutions	Gas & distribution (gas commercialisation and hot water cost sharing service of the homeowners' associations without room management). The delivery service includes supply of equipment, reading, reports and replacement insurance in case of malfunction.
LNG option	A service that enables natural gas to be taken to customers that are some distance from the distribution network. It includes LNG supply, transport and logistics.
Naturgy Solar	Integral service of photovoltaic self-consumption, from design and installation to maintenance and management of the surplus.
Recharge	Comprehensive service for electric vehicle charging points. Complete installation, legalisation and subsidy management. Operation, maintenance and power supply included.

Adapting the processes to the reality of vulnerable groups

Serving vulnerable customers in Spain

Energy poverty is one of Naturgy's priorities. In order to be part of the solution, Naturgy has had an Energy Vulnerability Plan since 2017. This plan is developed from different areas of the company with two key players, the customer area and the Naturgy Foundation.

A key task carried out by the customer area is the identification of this group. In order to do this it is essential to collaborate with the social services of the municipalities, as they are the closest to these situations. For over five years, Naturgy has had an exclusive service channel for social services, facilitating dialogue and speeding up the procedures that these services need to carry out for vulnerable customers. In 2022, 71,277 emails were received and handled.

This channel allows for rapid identification and communication of vulnerable households. The social services contact the marketer and measures are taken to protect these customers. Likewise, in addition to identification, they can carry out various procedures to optimise the contracts of these customers, such as transfers to the regulated marketer, power adjustments, processing of the discount rate or debt instalments with more advantageous conditions than for other customers. In addition, identification of a vulnerable customer means that debt follow-up actions are halted and these customers are monitored on a more continuous basis.

Likewise, in compliance with RD 897/2017, which regulates the figure of the vulnerable consumer, the discount rate and other protection measures for domestic electricity consumers, each week Naturgy sends the list of electricity supply points to which payment has been requested to the authorities in each autonomous community. This enables the Autonomous Administrations to be aware of situations of non-payment so that the appropriate measures can be adopted.

In addition, Naturgy has another specific service for third sector entities. Through this channel, NGOs and social entities can also streamline procedures and carry out formalities, as well as receive advice on their users' contracts.

The action carried out by the company's energy marketers in Spain is supplemented by the initiatives carried out by the Naturgy Foundation. In the section Energy Vulnerability, in chapter 10. Social responsibility, detailed information is provided on the Foundation's activity in this area.

Serving vulnerable customers in Latin America

Argentina

In Argentina, vulnerable customers are identified by the public administration, according to criteria based on family income, registrable assets, social assistance, disability, etc. The State creates a register of customers who should receive tariff subsidies, classified into different levels, with the most vulnerable segment being Social Tariff customers located in cold areas (also defined by the State).

In 2022, the billing system has been adapted to comply with the provisions of PEN Decree No. 332/2022, which promotes the creation of the Registry of Access to Energy Subsidies (RASE), under the orbit of the Undersecretariat of Energy Planning of the National Secretariat of Energy. As of June 2022, this regulation established a regime for the segmentation of subsidies to residential users of electricity and natural gas services through the network, with the aim of achieving reasonable energy prices that can be applied according to criteria of fairness and distributive equity.

Each month, the distributor receives the register of subsidy beneficiaries. The file is processed so that the company's systems can properly identify the supply points subject to this special pricing and issue the subsidised bill according to the level assigned by the administration.

Brazil

In Brazil, vulnerable clients are registered in one of the government programmes for low-income citizens in vulnerable situations, the "Minha Casa Minha Vida" programme or the "Morar Carioca" programme.

The customer submits to the distribution company a series of documents proving that they meet the requirements to be a beneficiary of the social tariff for piped gas. The social tariff offers a discount on the first two consumption brackets of the current tariff table.

Beyond the discount on the bill, the management of vulnerable customers is the same as that of other customers in terms of collections, supply cuts or supply point management.

Energy affordability

[IF-EU-240a.1], [IF-GU-240a.1], [IF-EU-240a.2], [IF-GU-240a.2], [IF-EU-240a.4] and [IF-GU-240a.4]

In addition to the exceptional energy prices situation described at the beginning of the chapter, Naturgy also considers that energy affordability for customers is influenced by other external factors such as network availability (accessibility of electricity and gas connections), customer energy needs (climate, quality of buildings, type of appliances, etc.), energy costs (international product market, group generation mix, weather, etc.), disposable income of the population (GDP per capita, employment rate, energy poverty indicators, etc.), and energy policy and the regulatory environment. More information on the latter can be found in Annex IV. Regulatory framework of the Consolidated Management Report.

			2022	2021
Argentina	Gas business	Average retail rate (retail residential customers)	5.79	4.70
		Average retail rate (retail commercial customers)	5.25	3.84
		Average retail rate (personalised industrial customers)	7.63	6.97
		Average retail rate (personalised transmission service customers)	7.09	6.59
		Typical bill for 50 MMBTU (retail)	24	20
		Typical bill for 100 MMBTU (retail)	50	40
Brazil	Gas business	Average retail rate (retail customers)	39.41	33.01
		Average retail rate (personalised customers)	14.35	10.45
		Typical bill for 50 MMBTU (retail)	149	130
		Typical bill for 100 MMBTU (retail)	14,480	13,350
Chile	Gas business	Average retail rate (retail residential customers)	27.91	24.84
		Average retail rate (retail commercial customers)	23.54	17.28
		Average retail rate (personalised industrial customers) (1)	14.36	9.78
		Typical bill for 50 MMBTU (retail)	133	103
		Typical bill for 100 MMBTU (retail)	266	205
Spain	Gas business	Average retail rate (retail customers)	21.20	17.37
		Average retail rate (personalised customers)	26.45	8.81
		Typical bill for 50 MMBTU (retail)	1,060	869
	Electricity business	Typical bill for 100 MMBTU (retail)	2,120	1,737
		Average retail rate (retail customers)	0.26	0.20
		Average retail rate (personalised customers)	0.20	0.12
		Typical bill for 500 kWh (retail)	128	100
Typical bill for 1000 kWh (retail)	257	199		
Mexico	Gas business	Average retail rate (retail customers)	13.54	10.08
		Average retail rate (personalised customers)	12.59	9.40
		Typical bill for 50 MMBTU (retail)	677	504
		Typical bill for 100 MMBTU (retail)	630	1,008
Panama	Electricity business	Average retail rate (retail customers)	0.14	0.14
		Average retail rate (personalised customers)	0.03	0.03
		Typical bill for 500 kWh (retail)	19	16
		Typical bill for 1000 kWh (retail)	336	336

Calculation of average gas and electricity business rates in Spain:

- 2021: actual billing data Nov. 20 - Oct. 21 (as of statement date no actual data are available for Nov. - Dec. 21).
- 2022: actual billing data Dec. 21 - Nov. 22 (as of statement date no actual data are available for Dec. 22).
- The power and energy term is included (excluding VAT and other items).

Average exchange rates have been used for these data.

⁽¹⁾ Does not include NGVs, or LNG for single-customer satellite regasification plants

In relation to supply cuts, Naturgy reports on the number of customers disconnected, both gas and electricity, for non-payment and how many of them are reconnected within 30 days, once payment is made. Details of this information are available in Chapter 12. Annexes, section Customer experience.

3. Customer relations

[2-25]

Naturgy customers can interact with different areas of the company according to their needs. In Spain, marketing and distribution activities are clearly separated. Energy trading is liberalised, but gas and electricity distribution is regulated. However, distribution companies also provide some services directly to the customer, e.g. periodic inspection, and also deal with customer requests and complaints. In Latin America, gas and electricity distributors provide full customer service from supply to billing and customer service.

Customer service in Spain

Customer service in the commercialisation business

Naturgy, aware of its customer-centric approach, offers its current and potential customers a convenient and easy-to-use customer service model, which offers the necessary solutions to adapt to each type of customer.

Naturgy's customer service model is based on proximity and is multichannel. That is to say, it provides customer care by telephone, email, letter and guarantee office and, digitally, from the website, through social media (Twitter, Facebook and Instagram), via Chatbot and WhatsApp, as well as through face-to-face service thanks to more than 150 stores distributed throughout the national territory. In addition, Naturgy aims to ensure that the customer experience is uniform in all its channels.

In a context of proliferation of digital channels, Naturgy has provided its digital space with greater usability and more functionalities. For this reason, it has given greater relevance to Pepe, the virtual assistant, which is accessible both on the public website and in its spaces for customers in the Customer Area and in the Naturgy Customers App.

In 2022, customer service activity has increased, especially due to the context of high energy prices, the ongoing regulatory changes that have taken place and an increase in customer demands, widespread across the entire sector.

In 2022, Naturgy has continued working on the transformation of the global customer service model after observing customers' requests and suggestions. The evolution toward a Yo me Ocupo ("I'll Take Care of It") model provides the Naturgy agent with more tools and capabilities to be able to solve queries in one call. When this is not possible, the same agent takes on the case as their own and will follow it through to resolution and final communication.

This model seeks to achieve the challenge of differentiating Naturgy from the competition by leveraging an excellent customer service that ensures the customer resolves their requests in a timely manner through agent empowerment.

• **Naturgy customer service model**



Operating and training model

Seeks to anticipate needs that customers raise through predictive models and data analysis.

Technological model

Committed to a technological revolution that boosts self-management of customers.

Procurement and financial model

Building a model of partnerships with suppliers and an alignment of win-win targets.

• **Provision of customer experience**



Telephone channel • Digital channel • Face-to-face channel • Personal management • Face-to-face channel • Stores • Guarantee office management

In addition, the company has continued its work in the following areas:

- Ease and simplicity of management, looking for improvements in its processes and solutions.
- Promoting customer self-management and digitalisation. To this end, the company continues to develop and improve digital tools, focusing on automation with advanced bots in voice, social media and WhatsApp. These tools facilitate immediate responses and resolve customer needs in an expeditious way.
- Promoting the use of digital communications that contribute positively to the environment.

Main actions developed in 2022

- Naturgy has continued to improve its customer service management system aimed at home maintenance and assistance services through Salesforce, which automates communication with customers to make it easier for them to request services from different service channels. They also have at their disposal the video-assistance, which allows a diagnosis of their malfunctions so that there is a more efficient solution.
- Implementation of a new help section on the websites of the Regulated Marketer and Naturgy Iberia business, so that customers have answers to their FAQs in a single place, as well as the extension in scope of the Chatbot to cover the business segment of Naturgy Iberia.
- Focus on the customer care of special groups or more complex processes to reinforce its willingness to assist the customer and the proximity of the service.
- Increase of operational efficiency by developing robots (RPAs), which automate the management of back office tasks such as sending documentation to customers.
- Agents who provide value-added services have been provided with support tools such as the Pepe Chatbot for agents.
- Analysis of agents' conversations and development of an assessment model based on speech analytics. The processes have also been audited and the information systems introduced during 2021 have been consolidated, identifying proposals for improvement that will be implemented in future developments.
- Implementation of the FLEX incident and request management tool for communication between the different channels providing the customer service and the knowledge management provider. Among other advantages, the tool facilitates the traceability of queries and focuses on the issues for which the channels have doubts, allows real-time accessibility to the status of queries, favours anticipation, optimises interaction with the channels and speeds up and improves response times.

- Naturgy has promoted the bill as a communication channel with the customer, where it has been sending information and the company's commercial targets. It also publicises the energy efficiency measures and the various promotions it has carried out throughout the year.
- During this year, the “interactive bill” has been promoted, allowing the customer to interact to obtain historical, comparative and detailed information on the items being invoiced, something that this year, more than ever, has become a basic feature in customer planning.
- During the year, the increase in online billing was once again noteworthy, with a sustained growth of half a point per month (from 41% to 51% at the end of 2022) thanks to the digitalisation measures promoted by the company.

In the area of face-to-face care centres, work was carried out in 2022 on a number of improvement actions:

- Develop a scorecard of all store activity to improve management (activity, footfall, recruitment).
- Project to measure waiting times in 27 centres to improve the customer experience in relation to queues.
- Measurement of service quality in centres through methodologies such as the mystery customer, to ensure the quality and uniformity of customer service throughout the network.

Interaction on Digital Channels

Given the growing importance of Naturgy's digital channels in the relationship with its customers, below is information on the volume of activity recorded in 2022 in these channels.

The Naturgy Iberia app and website continue to increase the range of services on offer, such as the optimal power recommender, payment by cryptocurrencies, selection of the payment day, WhatsApp as a communication channel, boosting the chatbot and a new, far more intuitive bill summary for customers.

In total, more than 843,000 online requests were handled by chatbot, more than 190 cryptocurrency payments, 386,000 gas readings facilitated and around 897,000 instances of the Naturgy Clients app installed. Regarding online services, customers have made a total of 7.5 million queries and transactions through the digital platforms provided by the company.

The number of contracts registered in the customer area has increased from 1,935,700 in 2021 to 2,432,700 customers in 2022, including Naturgy Iberia and Regulated Marketer. In addition, www.naturgy.es has recorded more than 30.9 million sessions during 2022, www.comercializadoraregulada.es more than 6.8 million and 15.0 million sessions on apps.

Regarding social media, more than 222,000 fans/followers have been reached on Facebook, Twitter, Instagram and LinkedIn, generating more than 50 million content impressions and 150,000 interactions.

Customer service in the distribution network business

The main initiatives relating to customer service developed in 2022 in the field of gas and electricity distributors of the Naturgy group in Spain were as follows:

Gas distribution networks

- Digitalisation project of the largest volume process - Periodic Inspection - focused on improving customer self-management and increasing service hours, by automating calls with a Virtual Assistant and implementing a Chat Bot operating 24/7.
- Review of the management model to improve first contact resolution and consequently the customer experience, modifying call centre operations.
- Launch of a transversal CeX project involving all areas of the business to create synergies in favour of customer service, with digitalisation and transformation of processes as the main pillar.
- Redefinition of the follow-up model for customer complaints to reduce resolution times and give them an end-to-end perspective in the management of requests.

- Plan to raise awareness of the telephone service, by adapting the vocabulary and the service model, which allows us to empathise with the situation of our customers.
- Increased autonomy of the complaints management team to avoid referrals to third parties and improve processing times.

Electricity distribution networks

- Addition of new services and improvements to existing ones in the new private area in the digital services platform within the user relationship digitalisation initiative.
- Implementation of ININ (new contact centre tool: Interactive Intelligence), which will help work on improving FCR (First Contact Resolution) and NPS (Net Promoter Score) and further develop quality audits.
- Service in English.
- Simultaneous telephone and e-mail service.
- Development of the claims management model:
- Review and optimisation of the standard response catalogue.
- Implementation of a new claims root cause tree.
- Robotics and automatic closing of service requests.
- Digitalisation of the complaints handling process.
- Usability improvements to the service request management tool.

Customer service in Latin America

Customer service in the electricity and gas network business in Latin America follows the same premises as the model in Spain, based on taking advantage of the technological benefits of digitalisation to automate, streamline and simplify processes and offer customers an increasingly autonomous and multi-channel service experience. The main developments in this area in 2022 are listed below.

Argentina

- Virtual Office Channel (VO): a new version of the Virtual Office has been made available to customers with improvements that integrate all the interaction needs of customers with the distributor, the most important new features of which include:
 - It is a “full responsive” site, which allows customers/users to use the digital tool regardless of the device they use, be it a computer, a tablet or a mobile phone, accessing all the functionalities.
 - It allows access to any person, whether or not a Naturgy customer, guaranteeing its use by including an identity validator at the beginning of registration for access to the digital space.
 - It also allows you to search for and download invoices, consult current and historical consumption and enables you to make consumption payments by credit and debit card, as well as to automatically formalise payment plans online.
- Incorporation of an AI-based agent for the automatic answering of questions in the telephone service channel (fonoGas). Since its introduction, it has a response rate of more than 40% of the calls it receives, offering a full response to customer queries, without the need to refer the call to a teleoperator.
- Implementation of Salesforce: replacement of the various tools that had been used for customer service and management of procedures, queries and complaints with Salesforce, which brings greater agility and traceability to the customer service process.
- QR payments: we have added the QR code on the invoice so that customers can scan it from their mobile phone and pay online.

Brazil

- Improvement of the customer experience, increasing the capacity for self-management, reinforcing the “Minha Naturgy” portal that allows users to interact with the main services (search for a duplicate bill, look at debits, change the holder of the bills, split the debt, order gas or eliminate their supply contract) according to their preferences, at any time and from anywhere.
Throughout the year, the company registered more than 3.1 million contacts, 63% of which were through self-service on the “Minha Naturgy” portal, which already has more than 600,000 registered customers.
- Implementation of the DialMyApp (DMA) service. When the customer calls the call centre via a mobile device, the system presents callers with an alternative, cognitive, channel- and technology-agnostic solution. The system offers a series of service options by self-management channel on the mobile phone. Thanks to this service, more than 182,000 customers requesting telephone support in 2022 were encouraged to use the digital channel. By 2023, the goal is to further increase this service through IVR (Interactive Voice Response) automation.
- Implementation of Chat Bot via WhatsApp: customers seeking service on this platform are initially served by a Bot that can obtain bills, negotiate debts, request reconnection of gas or simply report bills that are outstanding.
- Increase of online invoicing and new payment methods: so far around 57% of the customer base already receive their bill by email. Debt instalments have also been facilitated and new payment methods have been introduced. Through “Minha Naturgy” and Chat, customers have the opportunity to pay their debt in up to 24 interest-free monthly instalments. In addition, it is possible for customers to pay their bill via PIX, a new type of securities transfer through banks, which means lower collection costs and faster collection.
- Agent training: an online training platform was developed for agents in all service channels. The training routes were divided according to the learning level of each agent. The tool allows remote monitoring of individualised usage.
- Complaints management: we have strengthened the PAControl complaints handling ring, which is responsible for ensuring end-to-end service with a team specialised in time control and quality of responses, backed by a technological support structure to achieve a high-level response. This has resulted in a significant improvement in the experience and an increase in satisfaction.

Chile

- Review of the Net Promote Score (NPS) measurement process, incorporation of new potential processes in the measurement that allow us to determine new areas for improvement in the experience of our customers with regard to the different services.
- Working table to improve the NPS rates of complaints and contact channels, maintaining current customer service standards.
- Redesign of the website, which incorporates an interface better adapted to the needs of users and improves accessibility to account payment services, online help centre and others.
- Introduction of improvements to the online help centre, incorporation of new functions that allow us to handle a greater number of requirements in an expeditious and convenient way for customers.

Mexico

- The Naturgy contigo (Naturgy with you) app has positioned itself as a stable payment option for the bill thanks to the incorporation of PayPal as a payment processor.
- Salesforce: integration of the tool in the customer acquisition process, digitalising the way in which Naturgy locates customers in order to put them into service. This unifies the management and customer service process on a single platform.
- Front Único: the consolidation of the incorporation of the customer service ring into the Call Centre service, which began in November 2021, was carried out, meaning that a single provider handles the customer service process via the telephone channel. This service integrates the process of domestic/commercial customer service, SME and industrial customer service, customer acquisition, customer service in social media and resolution of customer needs at the first contact. The IVR (Interactive Voice Response) used to receive calls in the Call Centre has been digitalised, which facilitates the exploitation of data generated by this service channel.
- Purecloud Genesys: This technological tool supports all the management of the Front Único for the customer service process and allows staff to control, manage and monitor in real time the telephone service process, carrying out preventive and corrective actions in daily management. The data generated facilitate the analysis to determine the behaviour of customers during their management cycle. Between this tool and Salesforce, omnichannel is generated.

Panama

- Face-to-face customer service: over 80 hours of training for face-to-face customer service agents who provide customer service in sales offices.
- Call Centre: relocation of the call centre from Colombia to Panama to comply with Law 194 of 31 December 2020, which states that the company had to relocate the call centre to national territory. The 10+ month project involved the planning, preparation and logistics of the move, involving many areas of the company. It included about 2 months' in-house training for new agents in charge of providing customer service over the phone, to reinforce the knowledge of the new local agents.
- Digital channel: continuation of the improvement plan and new functionalities of the Naturgy Panamá Clientes app, including those focused on increasing the information for photovoltaic customers, notification of anomalies in readings, notification of supply suspension and FAQs.

Management of complaints

[2-25]

The company manages claims and complaints from three different areas: commercialisation (residential, commercial and industrial) and gas and electricity distribution in Spain, Chile, Brazil, Argentina, Panama and Mexico. In the rest of the countries where the company is present, no complaints are handled as there are no end customers.

During 2022, the company managed a total volume of 2,111,738 complaints and claims, representing 4.8% of total customer contacts. The average global response time was 12 days.

In Spain, to improve the service to organisations, the data protection agency and attention to ARCO rights, the project to incorporate a new provider with a more specialised profile and greater capacity to provide tools to improve the service has been successfully completed.

In the event of complaints involving processes carried out by distributors (readings, quality of supply, new registrations, etc.) both for gas and electricity, these will be channelled through the Third Party Access Unit (TPA). Most claims are related to billing, contracting and collection.

In any case, in the area of claims or complaints, the organisation serves not only end customers, but also those who may have a claim or complaint about the action or inaction caused by its distribution assets (works in progress, technical elements on public roads, etc.).

▪ **Satisfactory claims resolution**

	2022	2021
Total complaints received in the year	2,111,738	1,734,799
No. of claims in portfolio	107,523	105,735
No. of complaints received /No. of contacts (%)	4.8	4.8
Mean Time to Resolve MTTR (days)	11.7	12.5

NB: The breakdown by business and country is reported in Chapter 12. Annexes, section Customer experience.

The increase in complaints indicators compared to the previous year is due to the fact that data for Brazil, Argentina, Mexico and Panama were not available at the time of publication of the report in 2021.

Customer's satisfaction and experience

▪ **Global satisfaction with service quality (on a scale of 0-10)**

	2022	2021
Spain (retail)	7.2	7.3
Spain (customised)	7.2	7.7
Argentina	8.7	8.3
Brazil	8.2	8.4
Chile (gas) ⁽¹⁾	5.3	5.9
Mexico	ND	6.6
Panama	8.2	7.3
Global satisfaction with service quality (1-10)	7.6	7.5

⁽¹⁾ Chile has been calculated based on a 1-7 scale, unlike other countries which used a 0-10 scale.

NB: in Spain the year was marked by various aspects which influenced satisfaction:

1. The changes in charges, both electricity and gas, which have led to billing problems and corresponding complaints.
2. The impact of the market situation in energy prices, which has a significant impact on the perception of the image of energy companies and consequently on the satisfaction rating.

To mitigate the exogenous effects that affect customer satisfaction, the following projects have been implemented, which in the second half of the year have led to a constant improvement in quality indicators:

- Kaizen - action plans with customer service agents to identify points for improvement, training and coaching actions for agents with the worst indicators, review of operations and arguments for the reasons for contact with the worst satisfaction.
- Kondo - call assessment plan by listening to internal Naturgy staff so that process managers identify improvements by listening to customers.
- FACE - communication plan of the principles of service and attitude that the agents must have when attending the client by means of visual image (posters, vinyls, etc.) for the customer service centres.
- Yo me Ocupo ("I'll Take Care of It") model - implementation in the second half of the year of a new customer service model that empowers agents to be more decisive in their care.
- Action plan - advanced analytics derived from operations and Close the Loop project that has enabled customer journeys to be mapped and improvement points to be identified for optimisation.
- Incorporation of WhatsApp for management of rejected requests in order to provide a better customer experience, given the ease of the channel to support the customer during its resolution.

In 2022, the Chatbot has an average satisfaction rate of 42% in its automated part, which has absorbed all the ups and downs of this turbulent year, with an exponential growth in the number of sessions, and an average of 48% satisfaction with the resolution when escalating to an agent.

4. A quality and reliability service

[2-25] and [416-1]

Another of Naturgy's maxims is to achieve a satisfactory level of quality, security and reliability of service through the maintenance of electricity and gas facilities and networks, in order to comply with the most demanding industry standards and with the regulatory requirements of the countries in which it operates.

To this end, Naturgy carries out a series of inspection and assessment actions with the help of working methods included in its procedures and also through collaboration with contractor companies. Accordingly, for the maintenance plan for each type of facility it designs and includes the necessary prevention and mitigation measures that provide a secure and continuous supply.

In recent years, the company has achieved an appreciable improvement in the main quality and service indicators thanks to preventive maintenance processes, increased automation and the digitalisation of the network. These indicators measure, inter alia, response times to a notification of a malfunction or anomaly, the stoppage time per customer or installed capacity, the kilometres of the grid and facilities inspected, and the number of incidents per kilometre of grid. These measurements include the average response time for top priority emergencies in the gas network in Spain, which is less than half an hour.

Furthermore, Naturgy partakes in several R&D&I projects for storage of energy in batteries, the digitalisation of the grid, the application of drones in the maintenance of facilities using artificial intelligence and the implementation of advanced analytical models in order to define the actions that encompass the predictive maintenance tasks of the main grid equipment.

In both Spain and Panama, the percentage of energy supplied with smart grid technology exceeds 99%. The details of this indicator are available in Chapter 12. Annexes, section Customer experience.

Continuity of electricity supply

[IF-EU-550a.2]

	Spain		Panama	
	2022	2021	2022	2021
ICEIT: Installed capacity equivalent interrupt time (hours)		0.60		42.37
SAIFI: Frequency of electrical power cuts (no. of interruptions by customer)		1.10		22.07
SAIDI: Average duration of electrical power cuts (hours)		1.04		1.09
ASIFI: No. of equivalent interruptions per installed capacity		0.84		20.65
CAIDI: Average customer outage duration (minutes) ^[IF-EU-550a.2]		56.46		177.00

The main reasons that have led to a decrease in the continuity of supply in Spain compared to 2021 have been the fires that ravaged mainly Galicia and to a lesser extent other areas of northern Spain, as well as some storms that caused the indicators not to improve compared to 2021 in the areas where Naturgy distributes.

To improve these indicators, Naturgy will invest more than Euros 300 million in various actions in 2023, a significant part of which will be aimed at digitising the grid to enable more efficient operation with the consequent improvement in service quality.

Fraud and impact on quality of supply

Naturgy's commitment to offer affordable energy also includes actions to put an end to energy fraud, which, beyond the economic impact, entails a series of damages for end users. These include:

- Reduced tax collection.
- Higher energy costs for end users.
- Unfair competition between companies.
- Risk for public safety from illegal connections.
- Discontinuities in supply due to network overload caused by illegal connections.

Among the investigation and anti-fraud actions carried out by Naturgy in collaboration with law enforcement agencies during 2022 in Spain, the number of interventions carried out for electricity fraud in illegal cannabis plantations (indoor) continues to increase year after year. In addition, in cooperation with the law enforcement, 20 anti-fraud operations were carried out for illegal connections in occupied dwellings, resulting in the termination of 250 connections.

It is relevant to mention the situation in the area called Cañada Real (Madrid, Spain), where the company has been working since 2021 in coordination with the Commissioner of Cañada Real, law enforcement and in collaboration with all social actors and administrations, such as the High Commissioner for Child Poverty of the Government of Spain, to resolve service interruptions caused by network overload due to non-located consumptions registered during last year.

08. Commitment and talent

Naturgy's contribution to the SDG



Naturgy maintains a firm commitment to its professionals and their development, through the promotion of inclusive leadership, a dynamic and recognised professional experience, a flexible organisational framework and its transforming culture as the cornerstones of its 360° people management strategy and professional value proposition.

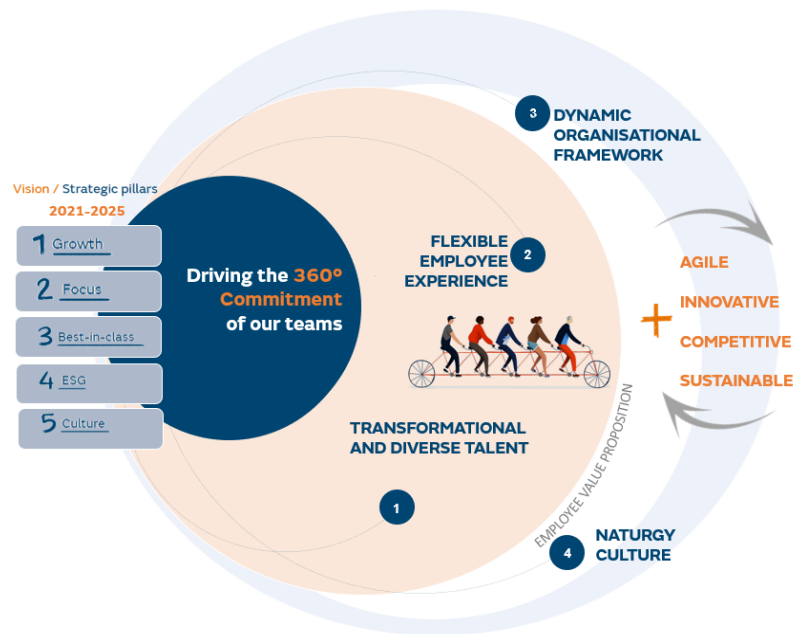
To promote a good working environment, Naturgy offers stable employment in a strategic sector with future prospects, deploying training and development processes in line with the goals of the company's current strategic plan and the challenges of the energy transition. Through the Corporate University, Naturgy employees and collaborators are able to expand and update their professional profile through an extensive range of content, tools and platforms, in multiple formats.

In this context of commitment, the company is prioritising the incorporation of new talent through programmes such as Flex & Lead, which allow young people with different profiles to have their first work experience in Naturgy, joining specialist teams in strategic business projects.

A further key aspect of Naturgy's human team management is diversity and equality, which promotes respect, dialogue, valuing differences and responsible behaviour as the basis for a safe and quality working environment. To this end, Naturgy's Code of Ethics establishes the mandatory guidelines that employees must follow in their daily work, and specifically in their interactions with stakeholders. Accordingly, the company establishes a series of mandatory protocols. In this context, we have established guidelines and protocols, such as those for the launching of job offers, which define how the offer, the interviews and all the processes involved in recruitment and hiring should be, ensuring equal opportunities.

With a comprehensive vision, Naturgy also maintains a strong commitment to the safety, well-being and health of people, focusing all its actions and policies to preserve, prevent and promote this responsibility, highlighting the leadership and prominence that all members of the company have, as an individual and collective commitment, which also extends to collaborating companies.

Likewise, the Health and Safety Action Plan for 2023 envisages the promotion of well-being and prevention in the physical and emotional health of employees and their families, through training, awareness-raising and the fostering of healthy habits.



1. Commitment and talent in 2022 at Naturgy

Evolution and results

• Interest in people

	2022	2021
Number of employees at 31/12/2021	6,982	7,231
Men/Women (%)	67/33	68/32
Women in senior management positions ⁽¹⁾ (%)	26.2	21.2
Staff under 30 years of age (%)	4.9	4.0
Personnel costs (million euro)	547	940
Annual investment in training (million euro)	3.8	5.0
NPS promoter employees (%)	31	24
Employees in collective bargaining agreement (%)	69.00	70.00

⁽¹⁾ The percentage of women in executive and management positions is 33.7% (32.4% in 2021), in line with Naturgy's Sustainability Plan target of 40% by 2025.

• Health and safety

	2022			2021		
	Total	Men	Women	Total	Men	Women
No. of lost time accidents (No. of employees)	8	7	1	8	7	1
Days lost due to lost time accidents	392	391	1	201	188	13
Deaths	0	0	0	0	0	0
Lost time accidents frequency rate	0.12	0.15	0.04	0.10	0.13	0.04
Lost time accidents severity rate	5.66	8.00	0.00	2.61	3.61	0.52

Highlights of the year

- Signing of the Collective Bargaining Agreement 2021-2024, where the promotion of work-life balance and co-responsibility between men and women is one of its fundamental pillars.
- The global model for measuring the satisfaction and commitment of Naturgy employees has been consolidated. Through regular organisational listening, actions are taken to continuously improve the employee experience.
- A new cycle of 360° Assessment has been initiated as a key process in the company's management and executive talent management. This multi-source, multi-dimensional assessment allows the organisation to profile the leadership skills of its professionals and is the start of a two-year development process.
- The Employee Care Service celebrated its tenth anniversary in 2022, consolidating its position as the single, centralised point of contact for employees with the organisation through a multi-channel approach.
- The People Analytics unit has started the gradual implementation of a new methodological strategy for the treatment of staff information, which has been specified in the transformation of the Staff Information Model, prescient analysis tools, and the development of a strategy of Minimum Viable Products (MVP).
- A total of 58,976 hours of training were given in the area of Occupational Risk Prevention in 996 classroom and online training actions with the participation of 20,671 people.
- The application of Business Analytics to documented safety inspections has been initiated, which represents a further step in the intelligent exploitation of information and safety data, improving the quality and safety guarantees of the work.
- The implementation of the Psychosocial Plan 2021-2022 has had a very positive impact on the control of psychosocial factors and the improvement of employee health and well-being.

2. Interest in people

Summary of awards obtained in 2022

Seals and certifications

Global FRC Certification

Since 2013 Naturgy has been the first company worldwide to obtain the global FRC Certificate, which recognises the achievements made in balancing the personal and professional life of its employees, enabling their human and social development.



Top Employer Spain 2022 Certification

Naturgy continues to be part of the group of leading companies in Spain because of the excellent conditions and environment offered to its employees and because of its special commitment and interest in people and their development.



Empowering Women's Talent Seal

This seal, awarded by Equipos & Talento, recognises the company's commitment to the empowerment of female talent, based on its adherence to its development and leadership programme, which promotes learning, networking, visibility and inspiration of diverse and female talent in companies.



CLIP certification

In 2018, the CLIP (Corporate Learning Improvement Process) accreditation, awarded by the European Foundation for Management Development (EFMD), which recognises the quality of learning and people development processes in business education organisations, was renewed for a period of 5 years.



Code of Generational Diversity Principle Certificate

In recognition of Naturgy's strategic focus on people management, based on equal opportunities, non-discrimination and respect for generational diversity.



Bequal Certification

In recognition of the management of excellence in diversity in different capabilities.



HDH Seal 2022

Human Digital Health Certificate that recognises success stories of TOP Companies with best practices in Digital Transformation focused on people, Corporate Well-being and Emotional Health, on four pillars: Corporate strategy; Global best practices; Staff training; Internal and external communication.



Healthy Company

Certificate that substantiates the implementation of a management system that promotes and protects the health, welfare and safety of employees.



Rankings y monitors

Top Diversity Company

Naturgy is part of the Top 40 companies in Spain, recognised by INTRAMA, for its commitment to diversity and equality, highlighting its 2022 programmes among the best practices for promoting the value of "the difference" in the management of talent and diverse teams.



MERCO TALENTO Ranking

In 2022, the 16th edition of Merco Talento Spain was published, a monitor of the 100 companies with the best capacity to attract and retain talent in the country. In this edition, Naturgy is once again positioned among the top three companies in the energy, gas and water sector. It also ranked fifth in terms of number of employees (between 3,001 and 6,000) and 34th in the overall assessment.



Actualidad Económica Ranking

Annual ranking of the 100 best companies to work for in Spain, in which Naturgy is ranked 63rd, highlighting the initiatives for talent management, training and improving the employee experience, mainly focused on well-being and both physical and emotional health.



Universum Ranking

Naturgy is positioned within the top 100 most attractive companies in Spain for Business students in 2022. It also ranked 38th among engineering students and 25th in Natural Sciences.



Awards

Health and Enterprise Awards

Naturgy's OHS team won second place, out of more than 40 projects and companies that applied for good practices in the field of wellness. This award, presented by the specialised media RRHHDigital, highlights the company's commitment to integrating training, technology, culture and regular listening, as levers to promote well-being in Naturgy, with a 360° commitment and vision.



Top 3 best health and wellness managers of the year

The general director of People and Organisation at Naturgy, Enrique Tapia, was distinguished in the Top 3 of the best health and wellness managers of 2022, by RRHHDigital, in recognition of his leadership and innovative drive for programmes to improve the employee experience and wellness at Naturgy, from a global vision



HDH Awards 2022

The HDH (Human Digital Health) Awards, organised by INTRAMA, identify, measure and recognise the most relevant initiatives of companies in digital transformation and business impact, focused on people and their well-being and health with a 360° vision, physically, psychologically and emotionally. Naturgy has obtained first place in the category: 'Digital transformation with a focus on human resources'.



Naturgy culture

The Naturgy culture frames the processes of the people model from consistency, global approach and leadership, giving meaning and projection to its organisational transformation.

With the strategic vision of a sustainable company, Naturgy continues to focus on the evolution of its spaces and work models, promoting a transformational culture, through three key concepts:



01

Team
Cohesion.
Leadership.
Enthusiasm.



02

Innovation
Evolution.
Digitalisation.
Agility.



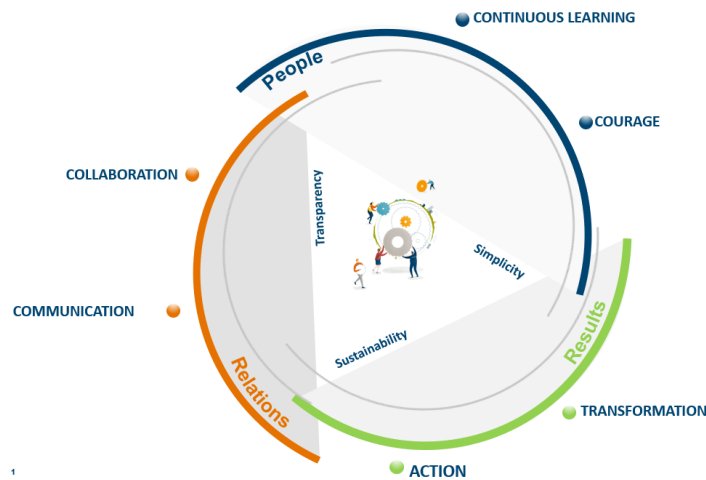
03

Working methods
Flexibility.
Collaboration.
Simplicity.

Naturgy, in its commitment to people's well-being, offers stable and quality employment, with an attractive and solid professional career. The profile of the company's professionals, in all countries and businesses, is that of a person with an interest in continuous learning, with rigour and professionalism, an innovative spirit and a commitment to the company's goals.

Competence model

In line with the people strategy, culture and leadership at Naturgy play a strategic role in driving the company's transformation project, through the global and transversal adoption of six competencies: (1) continuous learning, (2) courage, (3) communication, (4) collaboration, (5) action and (6) transformation; which make up Naturgy's Leadership Model, making it possible to gain in agility and competitiveness, acting with transparency, excellence and sustainability, in tune with its business challenges, values and cultural keys.



Diversity and equality

[3-3]

(Diversity and equality)

It is essential for Naturgy to promote diversity and equal opportunities among all employees who are part of the company. An environment of respect, listening and permanent dialogue is promoted in order to achieve the goals set in terms of gender and inclusion of people with disabilities. The promotion of this environment extends to suppliers and collaborating companies.

The company's commitment is reflected in its global vision, in the sustainability and people strategy, as well as in the Corporate Responsibility Policy, the Code of Ethics and the Protocol for the Prevention of Workplace, Sexual and Gender-based Harassment.

Naturgy's corporate Equality Plan for Spain, approved together with the Trade Union Representation and published in the Official State Gazette (BOE) under Registration No. 90100073112013, identifies the strengths to be maintained and shows the weaknesses to be corrected.

Aware of the need to continue working on equality and adaptation to the new environment and regulatory development, Naturgy is currently negotiating a renewal of the Equality Plan to continue advancing in equal opportunities between men and women, detecting new needs and developing proposals for action. Similarly, a new Prevention Protocol against sexual and gender-based harassment is also in the process of being negotiated.

Protocols

To ensure compliance with the Equality Plan and its commitment to diversity, Naturgy has introduced, among other measures, specific action protocols against harassment, good practices in communication for managers and professionals of the Business People team involved in a selection process and team management.

Naturgy's anti-harassment protocol establishes preventive actions to avoid these situations. These include:

- Communication to all employees of the existence of this protocol and its content.
- Training for the entire staff and, in particular, for managers with people in their charge.
- Obligation of employees to report any case of harassment to their manager.

The protocol provides a series of guarantees for those who need them:

- Anonymity of the whistleblower and protection of the identity of informants.
- Resolution of the process in the shortest possible time.
- Intervention by workers' representatives, if so requested.
- Impartiality of the process.
- Prohibition of reprisals.

The action procedure in the event of detecting any situation of harassment sets out two channels:

- Informal, non-binding procedure: the person concerned informs the alleged aggressor that their behaviour is inappropriate, offensive and interferes with their work. If it is not resolved in this way, the formal procedure will be followed.
- Formal procedure: the harassment situation is reported following these steps:
 - Notification to the Code of Ethics Committee or reporting to their superior or to the People Department.
 - Investigation: gathering information and conducting interviews with the affected parties and witnesses, if there are any.
 - Adoption of interim measures if necessary.

The procedure ends with a report of conclusions which must contain the resolution of the procedure, as well as the measures and the solution adopted in each case.

On the other hand, Naturgy, in the Protocol of good practices in selection processes, aims to avoid discrimination through the following measures:

- Recruitment: in the publication of vacancies, use of non-discriminatory and inclusive language, with requirements that guarantee equal conditions for candidates (gender, physique, race, disability, religion or personal beliefs).
- In the selection process: ensure that disabled candidates have the necessary accessibility to get to the interview. Avoid prejudices and stereotypes associated to gender, appearance, ethnic origin, disability, age, religion, religious beliefs of any kind. Avoid personal questions and, if necessary, justify them.
- On joining the company: Inform about equality and social benefit policies without discrimination. Offer career opportunities based on merits and capabilities.

Commitment to equality and diversity

Diversity management is part of Naturgy's commitment to a sustainable business project, and one committed to investing in and promoting the diverse talent of the organisation and the people who make it up. The company's commitment is based on three main lines of action:

- Culture focused on diversity: through environments and teams where listening and dialogue enrich the work and the way of achieving the goals set.
- Alignment with talent strategy: in its talent strategy, Naturgy incorporates annual goals for the different professional profiles. In doing so, it reinforces its commitment to equal opportunities and development for all the company's professionals.
- Priority SDG 5 - Gender equality: Naturgy understands diversity as a guarantee of the future, sustainability and growth of the business project. The more diverse the people who make up the teams are, the better the performance and the more agile, flexible and innovative the business are in meeting business challenges and offering value solutions for customers and society.

In addition to progress in these areas, Naturgy's efforts in the field of diversity are materialised through specific initiatives in four areas:

- Gender. Naturgy promotes the professional role of women to advance gender parity at all levels of the company. It does so through specific training actions, career development and leadership development programmes, and by prioritising this group in organisational developments.

- Generational. The company is also committed to generational balance through recruitment and development programmes for young professionals and intergenerational talent development programmes such as the Flex & Lead programme (see Attracting and developing diverse talent).
- Disability. This section promotes actions such as “Plan Familia”, “Plan Capacitas”, or “Plan Aflora”, as well as creating inclusive and awareness-raising practices. This commitment has been recognised by the Bequal Certification, awarded by the Bequal Foundation for excellence in diversity management in terms of different abilities.
- Functional. In this area, the aim is to achieve diversity among the company’s professionals through training, internal mobility and the performance of new professional functions.

Naturgy’s commitment to equality and diversity is reflected in the Sustainability Plan with a 2025 horizon, and is regularly monitored by the Sustainability Committee. Here we report progress in global female presence and promotion to managerial levels; geographic diversity, professional profiles and different skills. In addition to the Committee, these indicators and their evolution are reported in different monitors and certifications, such as the Dow Jones Sustainability Index and the Global Certification efr.

Boosting inclusive communication

Naturgy promotes diversity as a talent differentiator through a 360° strategy, culture and professional development programmes. This means it encourages and recognises inclusive leadership and the management of the different teams in an environment of open dialogue, valuing differences, promoting professional and personal relationships based on respect and equal treatment.

With this goal in mind, the Corporate University launched the Guide to Inclusive Communication in 2022, within the framework of the celebration of Diversity Week in March. This shares good practices and advice with the entire company, together with a special edition focused on communication for managers and people in charge of people, in the different teams and businesses. This guide has been recognised as a best practice in promoting diversity in Intrama’s Top Diversity Company report.

• **Women in senior management positions (%) ⁽¹⁾**
 [405-1]

	2022	2021
Argentina	0.0	0.0
Australia	28.6	0.0
Brazil	100.0	100.0
Chile	0.0	0.0
Colombia		0.0
Costa Rica		0.0
Spain	26.1	21.5
USA		0.0
France		0.0
Ireland		
Israel		0.0
Italy		
Luxembourg		0.0
Morocco		0.0
Mexico	0.0	0.0
Netherlands		0.0
Panama	0.0	0.0
Portugal		0.0
Puerto Rico		0.0
Dominican Republic		0.0
Singapore		0.0
Uganda		0.0
Total⁽¹⁾	26.2	21.2

Blank data means that there is no staff in Management Team.

⁽¹⁾ The percentage of women in executive and management positions is 33.7% (32.4% in 2021), in line with Naturgy's Sustainability Plan target of 40% by 2025.

• **Women by job (%)**

	2022	2021
Women in all management positions	30.9	30.0
Women in senior management positions ⁽¹⁾	26.2	21.2
Women in junior management positions	31.5	31.2
Women in all management positions in business units	32.0	31.4
Women in STEM positions in business units	36.1	30.4

The 2021 indicators have been recalculated using the same criteria as in 2022.

⁽¹⁾ The percentage of women in executive and management positions is 33.7% (32.4% in 2021), in line with Naturgy's Sustainability Plan target of 40% by 2025.

▪ **Employees with disabilities**

[405-1]

	2022		2021	
	Number	(%)	Number	(%)
Argentina	5	0.5	0	0.0
Australia	0	0.0	0	0.0
Brazil	11	3.0	11	2.9
Chile	2	0.3	3	0.5
Colombia	0	0.0	0	0.0
Costa Rica	0	0.0	0	0.0
Spain	64	1.6	61	1.6
USA	0	0.0	0	0.0
France	0	0.0	0	0.0
Ireland	0	0.0	0	0.0
Israel	0	0.0	0	0.0
Italy	0	0.0	0	0.0
Luxembourg	0	0.0	0	0.0
Morocco	0	0.0	2	2.4
Mexico	0	0.0	0	0.0
Netherlands	0	0.0	0	0.0
Panama	7	2.4	6	1.9
Portugal	0	0.0	0	0.0
Puerto Rico	0	0.0	0	0.0
Dominican Republic	0	0.0	0	0.0
Singapore	0	0.0	0	0.0
Uganda	0	0.0	0	0.0

NB: Employees have the option of not disclosing their disability in all countries. The number of employees with disabilities is only reported in those countries where employees chose to exercise their right to share this information.

Experience of Naturgy people

Flexibility and work-life balance

[401-2]

Naturgy is committed to the work-life balance of its employees. The Naturgy Collective Bargaining Agreement 2021-2024 includes this commitment, through the implementation of measures that significantly promote the aforementioned work-life balance, as well as co-responsibility between men and women.

These measures are also aimed at achieving real and effective equality between men and women.

Measures to promote work-life balance and co-responsibility include, among many others:

- Flexibility in start and finish times, as well as in the meal break period.
- Continuous working day from June to September (four months) and every Friday of the year.
- More extensive paid leave due to marriage, illness and death of family members.
- Paid leave not covered by legislation such as separation or divorce, marriage of children or leave for expectant mothers from the 38th week of pregnancy.
- Possibility of taking paid leave not necessarily on consecutive days.
- Reductions in working hours for personal reasons in cases other than those provided for by law.
- Possibility of accumulating breast-feeding periods.
- Adaptation of the weekly working day by one hour, as a measure to promote conciliation.
- Teleworking for one or two days a week, for those workers who carry out functions which by their nature can be performed remotely.

Comparison of employees entitled to childbirth and childcare leave and those who took this entitlement

	2022		2021	
	Men	Women	Men	Women
With right	130	76	111	45
That took it	100	72	110	44

NB: In Chapter 12. Annexes, section Commitment and talent, tables relating to childbirth and childcare leave are reported.

Global FRC Certification

Naturgy is the first company in the world to obtain the Global FRC Certification (Family Responsible Company) awarded in 2013 by the Másfamilia Foundation, after undergoing an exhaustive audit by AENOR. This certification substantiates the existence of a culture based on flexibility, respect and mutual commitment of Naturgy with its professionals, generating options that allow them to develop both personally and professionally, always within the framework of the business objectives.

In 2022, the management of the model continued to be deployed through 429 local measures, distributed in the different countries where the company operates, and also 22 measures of global application, all of them integrated into five groups of action, defined by the global efr Standard 1000/23: quality in employment, temporary and spatial flexibility, support for employees’ families, support for the personal and professional environment and equal opportunities.

Time Bank (Spain only)

Naturgy continues to provide its employees with the Time Bank, which is a space, both physical and virtual, where they can perform daily tasks. This increases the free time that can be devoted to aspects of personal life.

The range of services offered is structured in four blocks:

- Administrative tasks: advisory and assistance services for frequent administrative tasks.
- Advantage Club: exclusive virtual space with offers.
- Easylife space: outreach services and acquisition of products.
- Services available on a quotation basis.

The Naturgy Time Bank also has an easybox that allows you to manage different services through an interactive window office and a website. Access to these services is built into the My Benefits platform, on the corporate Intranet of Naturgy.

Employee Care Service (SAE)

The service, introduced in Spain and Latin America, has celebrated its tenth anniversary in 2022, consolidating itself as a single and centralised point of contact between the employees and the organisation. The SAE has a multi-channel approach, thanks to its online platform, which provides personalised attention and is accessible from any device in order to promote and facilitate its use. From the point of view of its functional scope, it covers both the core processes of the People and Organisation function (personnel and payroll administration, HR, prevention, health, training, talent, culture, organisation, media, medical services, security, etc.) and other transversal processes (customer service, Naturgy Foundation, internal communication, etc.) with the aim of accompanying the People Oriented strategy defined by the People and Organisation Management (P&O).

In 2022, it has continued to increase and develop the integrated service offering in the channel portfolio. It is worth highlighting the sweeping transformation carried out in the “My Employee Channel” service (employees as customers) and, in particular, the strengthening of the “Family & Friends” service, which has enabled us to add value to Naturgy’s customer service function in the environment of employees’ families and friends in a context of maximum difficulty and energy uncertainty.

Likewise, the service itself has implemented a new indicator analytical monitoring scheme that contributes to the development of the digitalisation strategy in the People and Organisation function, promoting the monitoring of all processes and the detection of areas for improvement.

Finally, the SAE continues to play an important role in informing and guiding the launch and implementation of new initiatives in the People field. The service highlights the adaptation of all measures and developments resulting from the recent signing of the 3rd Collective Bargaining Agreement of the Naturgy group, such as the implementation of teleworking.

Currently, the Net Promoter Score (NPS) of the service is 54.38%, 66,962 requests from employees have been answered and 89.50% of them have been resolved within the deadline.

Internal communication

In line with Naturgy's commitment to information, consultation and participation, any change that affects or which could affect labour relations is passed on to the social agents in full compliance with the deadlines established in prevailing legislation. Likewise, Naturgy has permanent open channels for the resolution of doubts and the transfer of information, beyond the established formal channels.

In the complex energy context that has characterised 2022, Naturgy's internal communication model has become a fundamental lever for transparency and cohesion among all teams, while at the same time it has promoted organisational alignment, continuing the evolution of online actions and support as well as the progressive recovery of face-to-face meetings, especially reinforced this year. In this regard, the more than 30 face-to-face meetings held in 2022 with a participation of more than 3,700 attendees stand out.

During the year, 51 meetings have been held between employees and the company's management, where those attending have received first-hand key messages from the company, having the opportunity to express their concerns and opinions at each level. These meetings have addressed current issues such as energy prices, electricity fraud, company results or cybersecurity, as well as labour issues such as occupational health and safety, employee experience or organisational changes.

Regarding the virtual media used, Naturgy has different channels for communication with its employees, such as Naturgynews (Naturgy's digital newspaper), Naturgynet (corporate intranet), or Teams and its specific tool NaturgyTeams, deployed at the end of 2021 and which communicates in pop-up format information of special relevance at a simple click.

In addition, in the 2022 financial year and in the field of internal communication, Naturgy has developed a specific action programme for the dissemination of the 3rd Collective Bargaining Agreement of the Naturgy group as well as the conditions for professionals outside the Agreement. This plan has been implemented with both virtual actions (with spaces in the main channels: Naturgynews and Naturgynet) as well as meetings that reached a face-to-face participation of more than 1,000 employees and visits to the different digital contents that exceeded 5,000 visits.

In a complementary manner, some businesses have their own internal communication channels, where corporate messages and focus points are reinforced from a local perspective.

All this has enabled the implementation of new programmes that promote progress in the company's strategic lines and cultural transformation, through the communication of organisational, business, sector and project milestones.

* More details on the "Naturgy Culture" indicators can be found in the Commitment and Talent section of Chapter 12. Annexes.

Our team

At the end of the 2022 financial year, Naturgy's human team was located in: Europe, Asia, America and Oceania.

▪ Number of employees by country

	2022	2021
Argentina	954	1,028
Australia	26	18
Brazil	372	375
Chile	601	638
Colombia	0	4
Costa Rica	19	15
Spain ⁽¹⁾	3,901	3,870
USA	4	0
France	3	12
Ireland	3	0
Israel	16	18
Italy	2	0
Luxembourg	1	1
Morocco	0	84
Mexico	694	697
Netherlands	1	1
Panama	297	315
Portugal	13	14
Puerto Rico	3	3
Dominican Republic	72	72
Singapore	0	6
Uganda	0	60
Total ⁽²⁾	6,982	7,231

(1) Managed staff: 3,901 people + 151 people in Spain from joint operating companies - 21 people from the coal-fired power stations = 4,031 consolidated staff.

(2) Managed staff: 6,982 people + 151 people in Spain from joint operating companies - 21 people from coal-fired plants = 7,112 consolidated staff (reported in the Annual Accounts).

The differences from the reported headcount in 2021 are due to business divestments in Morocco, Singapore and Uganda. The staff in Argentina and Chile have been reduced due to a number of voluntary redundancies.

▪ **Distribution of employees by age and country (%)**

[405-1]

	2022			2021		
	<30	30-50	>50	<30	30-50	>50
Argentina	3.7	49.2	47.2	4.5	50.0	45.5
Australia	7.7	80.8	11.5	0.0	94.4	5.6
Brazil	2.2	78.2	19.6	2.9	81.3	15.7
Chile	2.2	62.6	35.3	1.9	63.3	34.8
Colombia	0.0	0.0	0.0	0.0	75.0	25.0
Costa Rica	15.8	52.6	31.6	6.7	53.3	40.0
Spain	5.2	70.7	24.1	2.8	77.3	19.8
USA	0.0	75.0	25.0	0.0	0.0	0.0
France	66.7	33.3	0.0	0.0	100.0	0.0
Ireland	0.0	33.3	66.7	0.0	0.0	0.0
Israel	25.0	62.5	12.5	33.3	55.6	11.1
Italy	0.0	100.0	0.0	0.0	0.0	0.0
Luxembourg	0.0	0.0	100.0	0.0	0.0	100.0
Morocco	0.0	0.0	0.0	1.2	34.5	64.3
Mexico	6.1	80.5	13.4	5.3	82.4	12.3
Netherlands	100.0	0.0	0.0	100.0	0.0	0.0
Panama	10.4	67.7	21.9	7.6	67.3	25.1
Portugal	0.0	92.3	7.7	0.0	92.9	7.1
Puerto Rico	0.0	66.7	33.3	0.0	66.7	33.3
Dominican Republic	1.4	66.7	31.9	2.8	68.1	29.2
Singapore	0.0	0.0	0.0	0.0	100.0	0.0
Uganda	0.0	0.0	0.0	38.3	56.7	5.0
Total	4.9	68.2	26.8	3.8	71.7	24.5

▪ **Distribution of employees by country, gender and professional category (%)**
 [405-1]

	2022							
	Management team		Middle managers		Technicians		Operators	
	Men	Women	Men	Women	Men	Women	Men	Women
Argentina	0.2	0.0	4.4	1.2	25.2	11.6	44.0	13.4
Australia	0.0	0.0	19.2	7.7	61.5	11.5	0.0	0.0
Brazil	0.0	0.8	5.4	3.5	36.8	26.9	17.7	8.9
Chile	0.3	0.0	4.5	0.8	36.4	16.3	27.8	13.8
Colombia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Costa Rica	0.0	0.0	0.0	0.0	73.7	5.3	21.1	0.0
Spain	1.7	0.6	8.8	4.5	36.2	26.0	17.2	4.9
USA	0.0	0.0	75.0	25.0	0.0	0.0	0.0	0.0
France	0.0	0.0	33.3	0.0	33.3	33.3	0.0	0.0
Ireland	0.0	0.0	33.3	0.0	33.3	33.3	0.0	0.0
Israel	0.0	0.0	0.0	0.0	93.8	6.3	0.0	0.0
Italy	0.0	0.0	100.0	0.0	0.0	0.0	0.0	0.0
Luxembourg	0.0	0.0	0.0	0.0	0.0	100.0	0.0	0.0
Morocco	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Mexico	0.4	0.0	7.3	3.0	47.3	20.9	19.2	1.9
Netherlands	0.0	0.0	0.0	0.0	0.0	100.0	0.0	0.0
Panama	0.3	0.0	8.1	4.0	38.7	27.3	16.8	4.7
Portugal	0.0	0.0	0.0	7.7	30.8	61.5	0.0	0.0
Puerto Rico	0.0	0.0	0.0	0.0	66.7	33.3	0.0	0.0
Dominican Republic	0.0	0.0	0.0	0.0	23.6	19.4	54.2	2.8
Singapore	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Uganda	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	1.1	0.4	7.5	3.4	36.1	22.7	22.2	6.6

	2021							
	Management team		Middle managers		Technicians		Operators	
	Men	Women	Men	Women	Men	Women	Men	Women
Argentina	0.2	0.0	13.9	3.7	15.9	7.8	43.3	15.3
Australia	0.0	0.0	11.1	16.7	38.9	5.6	27.8	0.0
Brazil	0.0	0.5	5.3	4.3	29.9	22.7	25.6	11.7
Chile	0.5	0.0	15.0	5.3	25.5	12.4	26.5	14.7
Colombia	0.0	0.0	0.0	25.0	0.0	75.0	0.0	0.0
Costa Rica	0.0	0.0	0.0	0.0	20.0	0.0	73.3	6.7
Spain	1.9	0.5	19.4	6.0	29.1	22.9	14.8	5.5
USA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
France	0.0	0.0	25.0	0.0	25.0	33.3	0.0	16.7
Ireland	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Israel	0.0	0.0	11.1	0.0	61.1	0.0	27.8	0.0
Italy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Luxembourg	0.0	0.0	0.0	0.0	0.0	100.0	0.0	0.0
Morocco	0.0	0.0	38.1	1.2	22.6	7.1	21.4	9.5
Mexico	0.4	0.0	12.2	4.2	44.0	18.4	16.8	4.0
Netherlands	0.0	0.0	0.0	0.0	0.0	100.0	0.0	0.0
Panama	0.3	0.0	16.2	5.7	31.7	20.6	18.1	7.3
Portugal	0.0	0.0	0.0	7.1	28.6	64.3	0.0	0.0
Puerto Rico	0.0	0.0	0.0	0.0	66.7	0.0	0.0	33.3
Dominican Republic	0.0	0.0	20.8	1.4	9.7	18.1	47.2	2.8
Singapore	0.0	0.0	0.0	0.0	66.7	33.3	0.0	0.0
Uganda	0.0	0.0	0.0	1.7	41.7	6.7	43.3	6.7
Total	1.1	0.3	16.6	5.2	28.4	18.9	21.5	8.0

Working methods

[2-7]

• Breakdown of staff by contract type (%)

	2022					
	Permanent contracts		Temporary contracts		Employees by non-guaranteed hours	
	Men	Women	Men	Women	Men	Women
Argentina	73.8	26.2	0.0	0.0	0.0	0.0
Australia	80.8	19.2	0.0	0.0	0.0	0.0
Brazil	59.9	40.1	0.0	0.0	0.0	0.0
Chile	69.1	30.9	0.0	0.0	0.0	0.0
Colombia	0.0	0.0	0.0	0.0	0.0	0.0
Costa Rica	94.7	5.3	0.0	0.0	0.0	0.0
Spain	63.5	35.0	0.5	0.9	0.0	0.0
USA	75.0	25.0	0.0	0.0	0.0	0.0
France	66.7	33.3	0.0	0.0	0.0	0.0
Ireland	66.7	33.3	0.0	0.0	0.0	0.0
Israel	93.8	6.3	0.0	0.0	0.0	0.0
Italy	100.0	0.0	0.0	0.0	0.0	0.0
Luxembourg	0.0	100.0	0.0	0.0	0.0	0.0
Morocco	0.0	0.0	0.0	0.0	0.0	0.0
Mexico	56.9	18.0	17.3	7.8	0.0	0.0
Netherlands	0.0	100.0	0.0	0.0	0.0	0.0
Panama	64.0	36.0	0.0	0.0	0.0	0.0
Portugal	30.8	69.2	0.0	0.0	0.0	0.0
Puerto Rico	66.7	33.3	0.0	0.0	0.0	0.0
Dominican Rep.	77.8	22.2	0.0	0.0	0.0	0.0
Singapore	0.0	0.0	0.0	0.0	0.0	0.0
Uganda	0.0	0.0	0.0	0.0	0.0	0.0
Total	64.9	31.8	2.0	1.3	0.0	0.0

NB: The number and average number of contracts and their breakdowns (age, gender and professional category) are reported in Chapter 12. Annexes, section Commitment and talent.

2021

	Permanent contracts		Temporary contracts		Employees by non-guaranteed hours	
	Men	Women	Men	Women	Men	Women
Argentina	73.2	26.8	0.0	0.0	0.0	0.0
Australia	77.8	22.2	0.0	0.0	0.0	0.0
Brazil	60.8	39.2	0.0	0.0	0.0	0.0
Chile	67.6	32.4	0.0	0.0	0.0	0.0
Colombia	0.0	100.0	0.0	0.0	0.0	0.0
Costa Rica	93.3	6.7	0.0	0.0	0.0	0.0
Spain	64.8	34.4	0.3	0.5	0.0	0.0
USA	0.0	0.0	0.0	0.0	0.0	0.0
France	50.0	50.0	0.0	0.0	0.0	0.0
Ireland	0.0	0.0	0.0	0.0	0.0	0.0
Israel	100.0	0.0	0.0	0.0	0.0	0.0
Italy	0.0	0.0	0.0	0.0	0.0	0.0
Luxembourg	0.0	100.0	0.0	0.0	0.0	0.0
Morocco	81.0	17.9	1.2	0.0	0.0	0.0
Mexico	60.4	18.8	13.1	7.7	0.0	0.0
Netherlands	0.0	100.0	0.0	0.0	0.0	0.0
Panama	66.3	33.7	0.0	0.0	0.0	0.0
Portugal	28.6	71.4	0.0	0.0	0.0	0.0
Puerto Rico	66.7	33.3	0.0	0.0	0.0	0.0
Dominican Rep.	77.8	22.2	0.0	0.0	0.0	0.0
Singapore	66.7	33.3	0.0	0.0	0.0	0.0
Uganda	85.0	13.3	0.0	1.7	0.0	0.0
Total	66.2	31.3	1.4	1.0	0.0	0.0

Naturgy is committed to promoting a safe and quality work environment. Consistent with this vision, 96.7% of the company's contracts are permanent, and only occasionally are temporary contracts used for "accumulation of tasks and work/service". Similarly, 100% of Naturgy's employees have full-time contracts.

New employee hires and employee rotation

[401-1]

Consideration is given to:

- Rotation index: layoffs/average staff.
- Voluntary rotation index: voluntary layoffs/average staff.

• Rotation indices

	2022	2021
Rotation (%)	8.0	40.9
Voluntary rotation (%)	2.0	1.9

NB:

- The Voluntary Leaving Plan implemented in Spain in 2021 mainly explains the variation in this index with respect to the previous and subsequent years.
- Rotation indices by gender, age, professional category and country (and their various combinations) are reported in Chapter 12. Annexes, section Commitment and talent.

▪ **New employees hires**

	2022	2021
Argentina	8	2
Australia	9	7
Brazil	16	20
Chile	25	26
Colombia	0	0
Costa Rica	5	1
Spain	158	147
USA	1	0
France	3	0
Ireland	1	1
Israel	2	4
Italy	0	0
Luxembourg	0	0
Morocco	0	0
Mexico	50	51
Netherlands	0	0
Panama	27	8
Portugal	0	0
Puerto Rico	0	0
Dominican Republic	0	0
Singapore	0	0
Uganda	10	3
Total	315	270

NB: The breakdown of new employee hires and vacant positions filled by internal applications are reported in chapter 12. Annexes, section Commitment and talent.

▪ **Number of dismissals by age and gender**

	2022				2021			
	<30	30-50	>50	Total	<30	30-50	>50	Total
Men	2	50	51	103	6	97	23	126
Women	2	22	10	34	4	66	7	77
Total	4	72	61	137	10	163	30	203

NB: The breakdown by gender and professional category is reported in Chapter 12. Annexes, section Commitment and talent.

Labour relations

[2-30], [402-1], [403-7]

In labour relations, Naturgy's action principles are based on respect for trade union freedom, fundamental rights, respect for workers' representatives and collective bargaining.

Naturgy establishes multiple communication channels with the social part as a substantial part of the corporate action principles. The Naturgy group's 3rd Collective Bargaining Agreement, signed on 14 October 2022, reinforces these channels, establishing and articulating different committees to deal with the different aspects with an impact on labour relations. The signing of this 3rd Agreement also means a substantial improvement in the measures for reconciliation and flexible working hours, including teleworking.

On the other hand, the working conditions of personnel excluded from the collective bargaining agreement are included in their individual contracts. There is also a specific document on the company's intranet entitled "Compilation of conditions for excluded personnel" which includes the conditions common to the entire group.

To achieve health and safety goals, collaborative work across the organisation is essential for the improvement of activities and processes and, of course, for the achievement of optimal results. This is the reason why it is essential that workers are consulted and take part in the regular health and safety meetings held at all levels of the company, in order to establish, implement and maintain the specific processes and bodies at all levels of the organisation, facilitating the appointment of representatives and their participation in these.

The main issues formally discussed with the workers' representatives during 2022 are summarised as follows:

- Health and safety commitment.
- Analysis of accidents.
- Launch of new safety regulations.
- New Health and Safety Regulations.
- Meetings on labour measures and integrated health.
- Quarterly monitoring of preventive measures adopted.
- Negotiation meetings for the new collective bargaining agreement.
- Equality Plan negotiation meetings.
- Network Operations Centre service modification meetings.
- Distribution Control Centre service modification meetings.

In line with Naturgy's commitment to information, consultation and participation, any change that affects or which could affect labour relations is passed on to the social agents in full compliance with the deadlines established in prevailing legislation. In communications to employees, when there are no longer legally established deadlines, a minimum of two weeks' notice is observed. Likewise, Naturgy has permanent open channels for the resolution of doubts and the transfer of information, beyond the established formal channels.

• **Employees included and not included in the bargaining agreement**

	2022		2021	
	% Excluded	% Included	% Excluded	% Included
Argentina	27.4	72.6	26.9	73.1
Australia	38.5	61.5	11.1	88.9
Brazil	29.3	70.7	29.3	70.7
Chile	1.7	98.3	2.0	98.0
Colombia	0.0	0.0	100.0	0.0
Costa Rica	5.3	94.7	0.0	100.0
Spain	37.2	62.8	36.0	64.0
USA	100.0	0.0	0.0	0.0
France	100.0	0.0	75.0	25.0
Ireland	100.0	0.0	0.0	0.0
Israel	0.0	100.0	0.0	100.0
Italy	100.0	0.0	0.0	0.0
Luxembourg	0.0	100.0	0.0	100.0
Morocco	0.0	0.0	39.3	60.7
Mexico	19.7	80.3	21.1	78.9
Netherlands	0.0	100.0	0.0	100.0
Panama	55.6	44.4	55.6	44.4
Portugal	0.0	100.0	0.0	100.0
Puerto Rico	100.0	0.0	100.0	0.0
Dominican Republic	2.8	97.2	2.8	97.2
Singapore	0.0	0.0	0.0	100.0
Uganda	0.0	0.0	0.0	100.0
Total	31.0	69.0	30.0	70.0

Talent management and retention

[3-3]

(Talent development)

Naturgy's Strategic Plan 2021-2025 establishes continuous improvement, operational excellence, digital transformation and improved customer relations as the cornerstones, prioritising employee experience as the key to achieving these goals. In this context, the people who work at Naturgy and its "360° Commitment" are at the focus of the company's management, decisions and actions.

With this vision, and following the launch and global awareness of Naturgy's competencies model, in 2022 the 360° Evaluation process was launched which, through a self-assessment and the evaluation of the professional environment (manager, peers and collaborators), provides a personalised assessment of employees' competencies, as well as identifying strengths and areas for improvement. This process has involved a total of 1,765 professionals, distributed in Spain and other countries. This element of talent management in Naturgy represents a very valuable professional opportunity for the identification and setting of an Annual Development Goal (ODA) in tune with the transformation of the company.

Likewise, during 2022, the expert interview processes (internal and external) have continued, allowing the group's executive and management development profile to be updated, reviewed and oriented, encouraging feedback conversations and direct contrast with each professional, regarding leadership competencies, motivation drivers and career development interests. Over the year, 509 internal interviews and 261 external interviews were conducted.

Attracting and developing diverse talent

[404-2]

Naturgy has the Flex & Lead programme, aimed at hiring young people with or without work experience. This initiative aims to advance the intergenerational and gender balance in the company.

The recruitment target by 2025 is 297¹ young people with a skills profile marked by agility, flexibility and collaboration, with digital skills and a data-oriented mindset. The target for hiring women through the Flex programme (which targets young professionals with no previous experience) is 60%, and in the case of Lead (which connects young people with some professional experience) it is 70%. Likewise, both programmes aim to hire STEM profiles.

During the term of the programme, 167 young people have already joined Naturgy. Of this total, 100 new recruits will be recruited in 2022, with an average age of 24,4 years and 77% women.

Flex & Lead recruitment professional profiles:

	2022	2021
Business Administration/Law	15	14
Data Science	9	9
Industrial/Energy	59	40
Marketing	2	5
Other	15	12

The experience of new talent includes participation in major projects, internal mobility between business areas and participation in career acceleration processes.

Through the set of initiatives integrated into Flex & Lead, Naturgy develops the commitment to diversity acquired in the Strategic Plan 2021-2025. The company has set the following objectives for the same period:

- 40% female presence at the executive and middle management levels of the company's structure (starting from 23% in 2020 in Spain).
- 10% staff < 30 years of age (starting from 2.3% in 2020).

The management and results of both recruitment programmes are under the focus of Naturgy's Management Committee, to which it reports through a scorecard comprising all businesses and corporate areas. These indicators are also reported to the Board's Sustainability Committee, which assesses whether the goals set in the Sustainability Plan are being met.

Development of internal talent

One of Naturgy's main axes is the development of its professionals, and for this reason there is "Internal Lead Talent", which is the company's internal development programme. The programme is aligned with Flex & Lead's actions to secure the company's management pipeline, while ensuring gender, functional and generational diversity.

Since its first edition, around 200 professionals from the company's different businesses have been selected, with a gender balance close to 60%. Participants under 40 years old and with transformative vision and high potential were invited to participate in a process of self-assessment of skills, specific training and networking with senior managers and professionals from Naturgy and other companies, accelerating the development of their profiles and motivating them towards a professional management career.

Internal Lead Talent Collective 2022:

- No. of participants: 190
- Women participants: 57%.

¹ Updating the target for new positions approved in 2022.

Customised training journey

To ensure a professional experience connected to the business project, Naturgy has designed a customised training offer for the Flex & Lead and Internal Lead groups, as detailed in the “Training catalogue” section.

Training model

The training of professionals is one of Naturgy’s strategic levers for transformation and development in the company. Specifically, the Corporate University (CU) has positioned itself as the representative and backbone element of the training experience in Naturgy through the development of key knowledge, the connection with the latest trends and technologies as well as the development of skills and competencies linked to the leadership and cultural models of the company.

In recent years, the CU has strengthened its role of transversal governance and management, while simultaneously giving greater autonomy to the different businesses, giving them increasing responsibility in the definition and execution of their training plans and budgets, according to the particular requirements of each one.

The synchronicity between the Corporate University and the Global Training Policy is guaranteed through periodic monitoring committees, where visions, proposals and practices are exchanged, facilitating the influence and integration of training into key processes.

Corporate University [404-1]

• Corporate University’s figures

	2022	2021
Annual investment in training (million euro)	3.8	5.0
Annual investment in training per person (euro)	588	741
Training hours	232,445	193,416
Staff trained (%)	97.3	97.5

The lower annual investment in training is due to the closure of the Puente Princesa (Madrid) and Sant Cugat (Barcelona) training centers. However, training hours have been increased by 20% compared to 2021 due to the use of training without associated costs.

• Satisfaction

	2022	2021
Satisfaction surveys answered	46,413	55,864
Participants’ average satisfaction (0-10)	8.7	8.8
Average degree of application of knowledge and on-the-job skills (%)	74.4	78.1
No. of programmes with assessment of application (courses)	172	115
Average perception index (0-10)	8.2	7.8

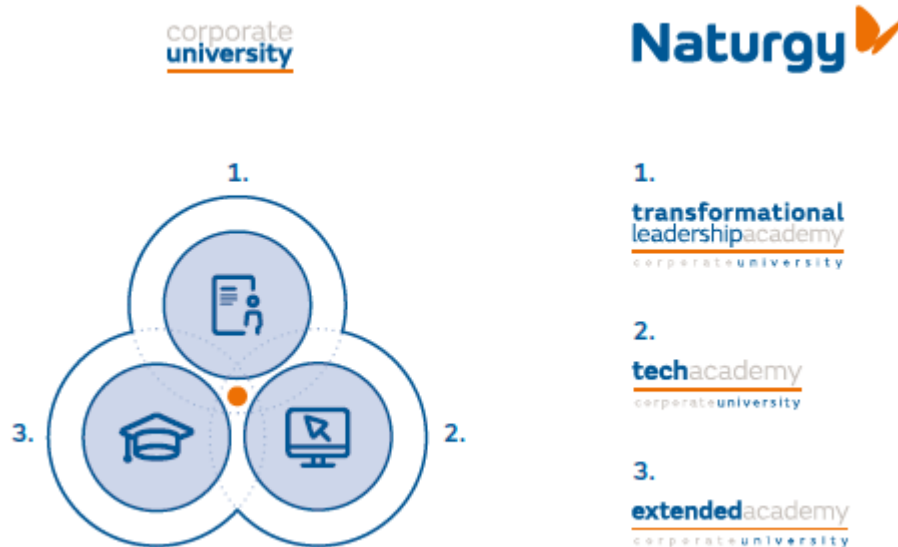
NB: the measurement model is not implemented in Chile.

• Staff trained (%)

	2022				2021			
	Managem ent team	Middle managers	Technicia ns	Operators	Managem ent team	Middle managers	Technicia ns	Operators
Men	96.4	99.6	97.7	95.6	87.2	84.2	80.3	73.0
Women	98.1	98.9	97.8	95.3	90.0	85.7	81.5	70.4
Total	96.9	99.5	97.8	95.6	88.1	84.5	80.8	72.3

NB: The breakdown of training hours per age and professional category is reported in Chapter 12. Annexes, section Commitment and talent.

The CU training model is deployed through its three academies in a supplementary and synergistic way, allowing the company to face the knowledge and skills challenges of the present and future: Transformational Leadership Academy (TLA); Tech Academy (TA); Extended Academy (EA).



– Transformational Leadership Academy (TLA)

Based on a vision of the future and linked to Naturgy’s Strategic Plan, in 2022 the TLA has continued its training deployment to ensure the leading role of company leaders in the transformation and achievement of business objectives, through its three axes:

- Digital Academy: its objective is to transform the professional profile in Naturgy towards more digital employees.
- New Energy: its vision is to develop managers and high potentials to face future challenges and be aware of market trends.
- Naturgy Leadership: with the aim of promoting the role of leadership as drivers and connectors of organisational and cultural change in the company.

– Tech Academy (TA)

The Tech Academy, in turn, transfers technical knowledge to the staff of each unit to ensure the development, quality and standardisation of the expert knowledge needed to deal with the current and future challenges in each of the company’s businesses.

– Extended Academy (EA)

Through this academy, the CU offers a wide range of training to external collaborating companies, customers and suppliers, both technical as well as management, enabling companies to improve their operating efficiency, incorporate innovative methodologies and develop skills focused on excellence in operations and service.

The EA thus contributes to the establishment of a common planning and management model, favouring the professionalisation of companies that participate in the Naturgy value chain, with a recurrent activity of 12,698 annual participants and 27,938 hours of training.

Likewise, the relationship with strategic suppliers is managed in order to strengthen partnerships, in an environment of collaboration and efficiency, sharing information, aligning strategies, seeking continuous improvement and promoting innovation.

Training catalogue

During 2022, new hybrid methodologies were adopted as part of the training model to better respond to business needs and provide professionals with interesting content that contributes to their commitment. Accordingly, the concept of multi-format, lifelong and collaborative learning has become a central key to the learning approach for professional and business success.

The training catalogue has promoted the agile and digital connection of knowledge, simultaneously reinforcing the identity and commitment of the company's professionals.

This year's programmes have been organised in the following areas:

1. Transversal programmes, with high impact on the commitment to the culture and values of the company:

- Transformation and value: "The Third Energy" is a synchronous training experience that puts employees on a first-person journey towards the rediscovery of personal energy, transforming it into a valuable resource to improve the organisation and the environment. The "Innovation Week" also took place.
- Well-being: El Gefe (happiness management), emotional fitness, healthy leadership, psychosocial risk workshops.
- Sustainability: "Environmental, Social and Digital Commitment Week", "Diversity Week", "Sustainability: SDG commitments".
- Cybersecurity: "Day-to-day security" and "Cybersecurity".

This knowledge is reinforced through monthly newsletters that systematically include online tools such as webinars. The topics covered include: health, compliance, digital transformation and culture, sustainability, work tools, among others.

2. Programmes to boost the company's digital profile:

- Digital culture: open programmes through The Valley business school that reinforce the company's digital vision and training projects with the hands-on model.
- Digital skills: programming languages such as Python, SQL, Visual Basic and others, Computational Thinking programme, which deals comprehensively with global data management processes. Full Data Analytics programme, and use of the Coursera platform, providing knowledge in digital skills, governance programmes and Data Quality.
- Digital Mindset: a five-week programme that uses webinars and online supplementary material to address the processes of digital transformation and impact on business models in the energy sector and its direct application in Naturgy. The goal is to get an overview of the digital landscape and a clearer idea of the basic elements of digitalisation and its application to the business model.

3. Programmes to connect with future challenges and market trends:

- Innovation strategy, new forms and tools for data visualisation, Power BI, new forms of work organisation with SCRUM training. Also included are broader programmes through The Power MBA platform, oriented towards best practices with a focus on process efficiency and effectiveness such as Productivity and Seijaku.

4. Leadership promotion programmes, as a lever for the group's transformation and vision:

- FutuHRe Management Insights, a transversal programme that promotes reflection and sharing to build a common reality.
- RefresH, Club de Mentores, and development programmes of CEDE (ICDL), Otto Walter, IMD, London Business School, IESE, ESADE, Naturgy Leadership Toolbox, Digital Mindset, Growing Up, Innovation Management.
- Visible Leaders Programme, aimed at female and inclusive leadership, with training focused on the challenges of communication, such as Impact Communication, Personal Development and Communication Skills Circuits.

5. Programmes for the development and projection of the company's young talent:

- Flex & Lead and Internal Lead, based on ad hoc training for each group, with significant actions such as My personal Brand and Learnability Experience.

2022

	Participants	Men (%)	Women (%)	No. of actions	Total hours
Flex	116	27	73	6	579
Internal Lead	191	43	57	5	3,002
Lead	36	19	81	5	178

Likewise, the Corporate University has reinforced the learning experience through the integration of lifelong learning platforms, such as Pharos and Coursera, which widely disseminate content and which adapt the training offer to the demand of the employees and the specific needs of the different businesses.

Quality certifications

The excellence in management of the Corporate University is supported by a Quality Management System based on ISO 9001:2015, renewed in 2020 for another three years. Likewise, since 2003, Naturgy has also had the CLIP (Corporate Learning Improvement Process) accreditation, awarded by the European Foundation for Management Development (EFMD), which recognises the quality of learning and people development processes in business education organisations. The last CLIP renewal was in 2018 for a five-year period.

People Analytics

During 2022, the People Analytics unit has begun the gradual implementation of a new methodological strategy for the treatment of staff information, which has been specified in the following lines of action:

- **Transformation of the Staff Information Model** with the aim of guaranteeing in the short term Naturgy's formal reporting needs in the area of People and Organisation and, in the medium term, the integration of information from all the processes in the area so that, through smart analysis, objective, valid and reliable conclusions can be drawn and the contribution of value to the company can be improved. The following transformation levers have already been activated:
 - Re-engineering and simplification of the processes and equipment involved in data processing at source, aligning Naturgy's service providers and business units with this strategy.
 - Design of a new automated, integrated and interactive reporting scheme in Power BI that provides a cross-sectional view as the main source of information.
 - Scheme for detecting shortcomings and specific data quality problems that is allowing areas for improvement in the management of People and Organisation processes to emerge.
- **Development of a Minimum Viable Products (MVPs) strategy** including specific initiatives with short-term results:
 - Weekly analytical monitoring scheme of the Employee Care Service (SAE) with the aim of accompanying the current People and Organisation strategy (People Oriented). Power BI product that allows the monitoring of those indicators that have the greatest impact on the management of all processes and their interaction with the employee. These are: recruitment, internal mobility, training, personnel and payroll administration, social benefits, labour relations, media, prevention, medical services, etc. The product is designed to offer three analytical views: service (supplier control), governance (process owners) and business (business units).
 - Power BI tool to monitor the centralised management of digital identities carried out by the Telematic Management Support Office (OSGT). The lifecycle of all digital certificates (issuance, delegation, renewal and revocation) is controlled for the company's internal units and their suppliers. In addition, a pilot project to quantify and monitor the traffic generated by these certificates on the network (public electronic offices) to dovetail with the company's digitalisation strategy.

- Tool to analyse, support and back up the vacancy streamlining process that the group is undertaking. The goal is to have a quantitative and qualitative inventory (typology of positions) of the incorporation needs in coherence with the targets and organisational sizing commitments of the different business units. A tool that connects with vital processes such as the Recruitment Committee (authorisation of new hires), formal internal mobility processes (publication of vacancies) or processes for attracting external talent.
 - Generation in Power BI of monthly, descriptive and comprehensive lists of the group's staff, as well as any variations with respect to previous periods, including new hires and people leaving and their causal classification. In addition, the current Monthly Staffing Report is also being redefined on the basis of a pilot project, with the goal of obtaining an interactive version that is more valuable in terms of analysis and scalability.
 - Development of specific analytics to monitor and control the valuation of jobs (VPTs) ensuring the coherence and consistency of the data in the information systems following the implementation of the new model in July 2022.
- **Prescriptive analytics.** For certain processes, the company identifies and proposes to the process owners lines of transformation that contribute to better management that affects people. The action with the greatest impact in this regard was the weekly analysis developed in “My Customer Channel” (SAE), together with the Customer Service team (premium service team), on the needs/suggestions that both employees and their families and friends (Family&Friends project) make as customers of Naturgy services (gas, electricity and other services). This is one of the transformation vectors of this channel and has taken the form of the implementation of a new service concept in the SAE based on simplification through the reduction of the number of teams involved, the integration of information and the redefinition of service processes.

Compensation and remuneration

▪ Breakdown of personnel costs (€M)

	2022	2021
Wages and salaries	451	457
Social Security costs	87	87
Definitive contribution plans	24	28
Definitive benefit plans	4	6
Work carried out for the company's fixed assets	(74)	(77)
Share-based compensation	7	4
Other	48	435
Total	547	940

The main difference that can be seen in the table of breakdown of personnel expenses compared to the previous year is explained by the Incentive Retirement Plan carried out by Naturgy in 2021 for an amount of 410 million euro registered under Other.

“My Benefits” Platform

This is where Naturgy manages and communicates the company’s compensation and benefits programmes to its employees. It has the following modules:

- **Flexible Compensation:** Flexible Compensation Plans (PCF) are voluntary and customised compensation systems that allow each employee to decide how to receive part of their annual compensation. Here, employees have access to their compensation data and can consult, simulate and contract a PCF.
- **Social Benefits System:** Naturgy offers services, within its remuneration strategies and through the My Benefits platform, that help people understand their retirement and find out about existing internal plans. This service provides personalised information on Naturgy’s social benefits initiatives.
- **Savings in personal insurance:** employees can take out personal insurance (home, life, car, death, etc.) with an excellent price-cover-service ratio and guaranteed by leading insurance companies. Furthermore, the tool makes it easy to compare prices and choose the insurance that best suits each individual.
- **Health Insurance:** the company has health insurance, which is one of the benefits most valued by employees.

Pension plans

[201-3]

In the case of Spain, the joint pension plan for Naturgy employees is a defined contribution plan for retirement and defined benefits in the event of death or incapacity whilst actively working. Employees are automatically added to the Plan as soon as they are registered.

The nature of the plan does not require a separate fund to pay the obligations of the plan. For retirement, each participant’s vested rights are used and for risk contingencies, although it is a defined benefit plan, it is not necessary to have an additional fund since the coverage is covered by an insurance policy tied to the pension plan.

The Plan currently has a net worth of more than Euros 504 million, which is distributed among approximately 3,859 active employees, and more than 4,850 beneficiaries and suspended participants.

Internationally, the guideline is to have retirement savings products and active death and disability cover. This area takes into account the particularities and social welfare needs of each country.

Reward

The Naturgy’s reward axis aims to provide a framework for classification, compensation, benefits and work environment, which drives and aligns professional performance with the strategy of Naturgy. In 2022, the evaluation of jobs within the scope of the collective bargaining agreement has been completed and the list of jobs is included in this document.

The company’s remuneration policy is governed by equality on an internal scale and competitiveness from the market point of view. Besides, there are two remuneration models, one for employees included in the collective bargaining agreement and another for those not included.

The annual variable remuneration, for its part, is based on uniform objectives for the whole group, with metrics differentiated according to the business unit, corporation or project to which it belongs.

Metrics include:

- Economic and financial targets.
- ESG objectives:
 - Safety and quality.
 - Diversity and gender.
- In addition, a qualitative objective that measures the “how” in achieving the targets is valued.

The management by objectives for management teams and employees not included in the collective bargaining agreement, and variable remuneration for sales agents, are methods in place at Naturgy as incentives for involvement in achieving the company's targets and a direct share in the profits.

The goals of the management team are aligned and linked to those of the company through, among others, the implementation of a long-term incentive programme (LTI). Through this programme, they can benefit from a variable bonus, provided that the return on the value of Naturgy in a specific period of five years is optimal for any shareholder of the company in the same period.

The remuneration package is supplemented with a social benefits system, which includes a pension plan and other social benefits.

Specifically, for staff located in Spain a flexible remuneration system is available that allows them to design their composition with respect to the existing offer in the country of products with tax improvements. Along these lines, the Total Compensation Plan, which allows employees to customise the composition and perception of the remuneration package offered by the company, continued to be in force. The entire staff in Spain is eligible for membership, which means that approximately 4,000 workers can join.

The plan is compatible with the flexible remuneration system, facilitating decisions on the composition of their remuneration package, and they may choose to monetise the benefits, maintain the corresponding benefit or allocate the amount to other benefits.

Average remuneration by age group, gender, and professional category

The tables of average and median fixed and variable remuneration, and average and median variable remuneration by professional category and gender can be found in the annexes. These pages show the fixed remuneration by professional category and the existing pay gap. All remuneration indicators are expressed in euros. The data reflect the situation at 31/12/2022 in annual terms.

▪ **Fixed remuneration**

	2022			
	Management team	Middle managers	Technicians	Operators
Argentina	159,005	81,837	30,260	20,440
Australia		100,218	70,951	
Brazil	117,611	47,448	22,084	14,582
Chile	180,883	113,563	37,466	21,063
Colombia				
Costa Rica			18,469	12,138
Spain	213,146	83,999	49,360	36,665
USA				
France				
Ireland				
Israel			42,074	
Italy				
Luxembourg				
Morocco				
Mexico	133,058	51,847	19,945	7,954
Netherlands				
Panama		60,451	23,252	16,801
Portugal			35,490	
Puerto Rico				
Dominican Republic			27,688	14,008
Singapore				
Uganda				

NB:

- Blank data are not published because there are no employees in that category or for confidentiality reasons.
- With regard to the information from Chile, the company GPG Chile has been excluded.
- Data are not comparable with 2021 due to a change in the classification of these categories: Middle Management (MM), Technicians (TE) and Operational Positions (OP). As a result of this amendment made in 2022, in which the positions of Team Managers, Unit Managers and Service Managers no longer form part of the group of Middle Managers, there has been a significant increase in the category of MM in comparison with 2021. If the 2021 criterion had been maintained, for example in Spain the 2022 figure would be 66,199€ for MI.
- The exchange rate used is as at the end of December 2022.

2021

	Management team	Middle managers	Technicians	Operators
Argentina	131,606	45,001	25,336	20,269
Australia				
Brazil	115,458	39,295	21,024	13,262
Chile	225,621	56,069	27,329	16,515
Colombia				
Costa Rica				
Spain	212,729	63,653	49,616	35,943
USA				
France		117,538	50,226	
Ireland				
Israel				
Italy				
Luxembourg				
Morocco		33,535	45,437	14,893
Mexico	104,150	39,171	16,616	8,706
Netherlands				
Panama	198,521	41,459	24,038	21,279
Portugal		80,882	33,988	
Puerto Rico				
Dominican Republic		17,698	27,200	11,281
Singapore				
Uganda				

NB:

- Blank data are not published because there are no employees in that category or for confidentiality reasons.
- With regard to the information from Chile, the company GPG Chile has been excluded.

Salary gap

[405-2]

The calculation of the salary gap has been done as follows:

$$\text{Salary gap} = \frac{\text{Men's average remuneration} - \text{Women's average remuneration}}{\text{Men's average remuneration}} \times 100$$

A percentage above zero represents the percentage that women are paid less than men. The tables below show the most relevant data for Naturgy.

The historical masculinisation of the sector and of the company itself, which was founded in 1843, brings with it a series of assumptions that impact the overall pay gap:

- Vertical and horizontal segregation of women in the staff, given its majority male composition.
- Lower representation of women in positions of higher responsibility and therefore higher pay. Women are mainly concentrated in management and support positions, while men occupy proportionally more business positions.
- Predominance of men in the most senior positions, which has an impact on pay.
- Men occupy the majority of technical and operational positions where all variable pay (shifts, standby, overtime, etc.) takes place, which explains many of the pay differentials.
- Need for diverse profiles, as well as STEM careers and technical training for the development of the company's business activities.

New for 2022, the information is presented with a greater level of detail and transparency by calculating a salary gap segmented by professional category and aggregated for the entire group. In order to provide the overall data by professional category, the mean and median salaries by country and professional category have been weighted according to the number of employees in that classification.

Due to the application of this new calculation methodology, and the changes introduced in the professional categories, it is not possible to calculate the data for 2021 in an analogous manner, so this comparison is not provided.

This exercise has been carried out for both total compensation (fixed and variable average) and variable compensation.

	2022			
	Management team	Middle managers	Technicians	Operators
Average fixed + variable salary gap (%)	29.7	4.8	5.9	5.3
Median fixed + variable salary gap (%)	17.9	-0.1	3.7	5.1
Average variable salary gap (%)	36.3	10.1	13.1	4.2
Median variable salary gap (%)	21.0	0.5	7.2	1.0

NB: details of the gaps by country in Chapter 12. Annexes, section Commitment and talent.

Satisfaction and commitment of the Naturgy team

The value proposition and professional experience in Naturgy is built and evolves on the basis of continuous listening to employees' satisfaction and the value they attach to the actions, services and programmes that the company makes available to them.

To measure the professional experience, climate and mood of its employees, Naturgy uses Happyforce as a tool and technological support to obtain the opinion and perception of those who work in the company. By 2022, this application has been consolidated as a global and cross-sectional measurement tool in all geographies and areas.

The results are captured in a digital and aggregated format, ensuring transparency and anonymity of responses. This cross-platform application also allows suggestions or ideas for improvement, as well as social recognition among peers, related to the competencies of the company's leadership model.

The metrics are analysed monthly by an agile and transversal work group - made up of the business and corporate people teams - who take on a proactive role in the design and implementation of concrete actions to improve the employee experience based on their feedback.

In this context, the indicator for monitoring employee satisfaction and engagement in Naturgy corresponds to the percentage of promoters (ratings of 9 and 10) on the question: "On a scale of 1 to 10, how likely is it that you would recommend Naturgy as a good place to work?" Its target rate - by 2025 - is 40% and currently stands at 31%.

Boosting recognition

As already mentioned, Happyforce has become a lever for the visibility and enhancement of the Leadership Model itself and its 6 competencies: Courage, Transformation, Communication, Continuous Learning, Action and Collaboration.

To encourage social recognition, specific campaigns have been conducted throughout the year, as well as spontaneous acknowledgements, and "seals" have been given out, which go beyond the virtual and generate greater closeness between employees, while generating dialogue between teams.

Listening that promotes improvement

As a result of listening through Happyforce, focus groups have been conducted with more than 400 employees to deepen the perceptions collected on the platform. From this initiative, 5 cross-cutting working groups have been deployed for the continuous improvement of the Naturgy employee experience, in cross-cutting areas such as well-being, leadership, communication, professional development and commitment.

This work has led to various actions throughout 2022, such as the relaunch of the Sports Club in Spain, the “Commitment” meetings for alignment with the businesses, employee visits to technical/operational facilities, the launch of an application for recording feedback, the relaunch of wellness platforms, among others.

3. Health and safety

[3-3]

(Occupational safety and well-being)

Naturgy maintains a strong commitment to the health and safety of people, so all its actions and policies are aimed at preserving, preventing and promoting this responsibility. But this commitment is also passed on to the other members of the company, as it is encouraged to be an individual commitment of both Naturgy employees and collaborating companies (CCs), spearheaded by senior management and assumed by the entire supply chain.

In terms of safety, Naturgy works continuously to prevent and mitigate impacts on the health and safety of workers directly linked through business relations, trying to maintain a risk-free working environment, or at least minimise such risks as much as possible. To this end, there are risk management mechanisms in place that involve everyone working in the company, including CCs.

The health and safety management system implemented in Naturgy includes several lines of action aimed at minimising the negative impact of accidents associated with the six most critical risk factors in terms of frequency and severity: confined spaces, work at height, electrical risk, felling and pruning of trees, handling loads and road safety. For this control there are tools developed to ensure integration at all levels of the organisation, from decision making to any activity that is carried out or instructed. This makes it possible to define a series of “red lines” for each of the six risk factors, non-compliance with which is subject to the application of the disciplinary regime.

Health, its promotion and care is another of Naturgy’s main axes, where attention to people is above all else. Measures are implemented, targeted at reducing the impact of activities by improving the quality of life, well-being and health of people within the communities where the company operates. With this target, investments are made in new strategies of health education and health promotion, which allow the workplace to become the area of transmission of healthy conduct for workers and their environment.

Strategy and policy

Global Health and Safety Policy and strategy foundations

Naturgy’s safety strategy is aligned with the Sustainable Development Goals (SDG 3. Good health and well-being and SDG 8. Decent work and economic growth) and is integrated into the 2021-2025 Sustainability Plan, contributing both directly and indirectly to the fulfilment of its goals.

It is based on the principle that nothing is more important than the health, safety and well-being of people and has been developed in collaboration with the business units to foster a culture of safety and health throughout the organisation.

The aim is to avoid and prevent accidents and damage to health, while providing a safe and healthy environment. To this end, the following commitments are made:

- Guarantee that health and safety are non-delegable individual duties, and that they are taken on by senior management through a visible collective commitment, proactively accepted and implemented by the entire organisation, and by our suppliers and collaborating companies.
- Establish health and safety as an individual responsibility and as a condition of employment at Naturgy and of the activity of its collaborating companies.
- Promote well-being by maintaining a working environment with safe and healthy working conditions by integrating occupational risk prevention, and the protection and promotion of health and well-being into business management.
- Prevent potential injury and damage to health by ensuring that any potential hazardous situations that could affect workers, suppliers, customers, the public and the safety of the premises are assessed and managed in an appropriate way to eliminate hazards and reduce risks.
- Establish a management model as a driver of the safety, health and well-being culture based on continuous learning, consultation and participation of workers and their representatives, analysis of accidents and incidents, dissemination of lessons learnt and health education and promotion.

- Incorporate health and safety targets and criteria into business processes, new projects, activities, facilities, products and services, and in the selection and assessment of suppliers and collaborating companies, non-compliance with which will condition the commencement or continuity of their activity.
- Be a benchmark in new strategies for health education, disease prevention and health promotion, enabling the workplace to become a vector for the transmission of healthy habits and behaviour, as well as a generator of positive influence on the health and well-being of workers, their families and their environment. Implement measures targeted at the continuous improvement of the quality of life, well-being and health of people within the organisation and the communities where the company operates.
- Provide the necessary resources and means to enable compliance with applicable legal requirements, as well as with the safety, health and well-being standards assumed by the organisation.

Naturgy's Global Health and Safety Policy was approved by the Board of Directors in 2019.

Five principles of health and safety

This vision is complemented by the assumption of five principles of safety and health management that govern all the activities and which are shared and extended to all CCs.



Health and safety management system

[403-1] and [403-8]

Naturgy has a group-wide Occupational Health and Safety Management System (OHSMS) developed in collaboration with all business units and focused on the areas of greatest risk criticality. This system covers 100% of employees and workers who are not employees and who carry out their activities in work centres owned by Naturgy. This system is integrated with the quality and environmental management systems that already exist at Naturgy and is audited and certified by third parties pursuant to the ISO 45001 specification.

Its scope is global, including all businesses and countries, and pivots on five main lines of action, as follows:

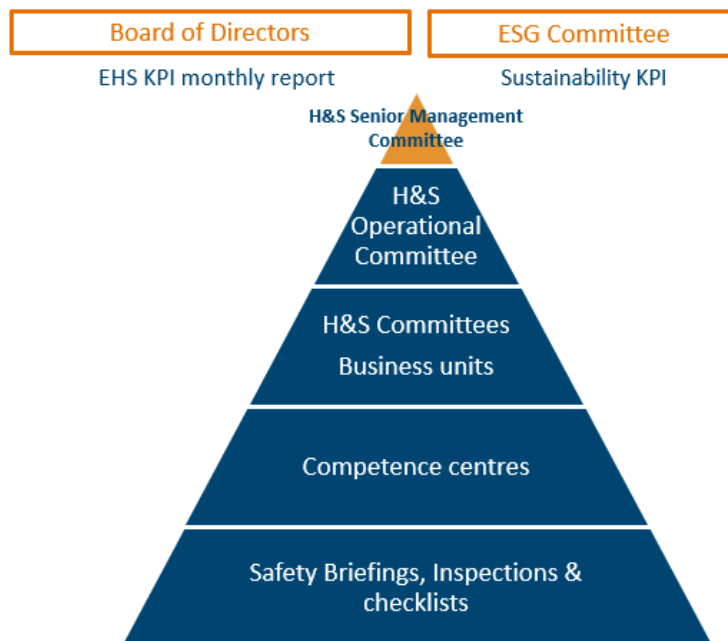


Health and safety governance at Naturgy

Naturgy's commitment to health and safety is directly linked to senior management and emanates from its Board of Directors. By strengthening this leadership in safety, the aim is to guarantee the application of the model in all businesses and activities, both in-house and outsourced.

Regarding the governance model, the Sustainability Committee of the Board of Directors is the supreme body responsible for the governance of sustainability and ESG aspects in Naturgy. It regularly monitors the management of health and safety risks and opportunities as well as their potential negative and positive impacts. It also approves the Sustainability Plan, assesses environmental, social and good governance performance and analyses the results of ESG indices, standards and trends in order to promote improvement actions and promote and approve projects that contribute to meeting the established objectives.

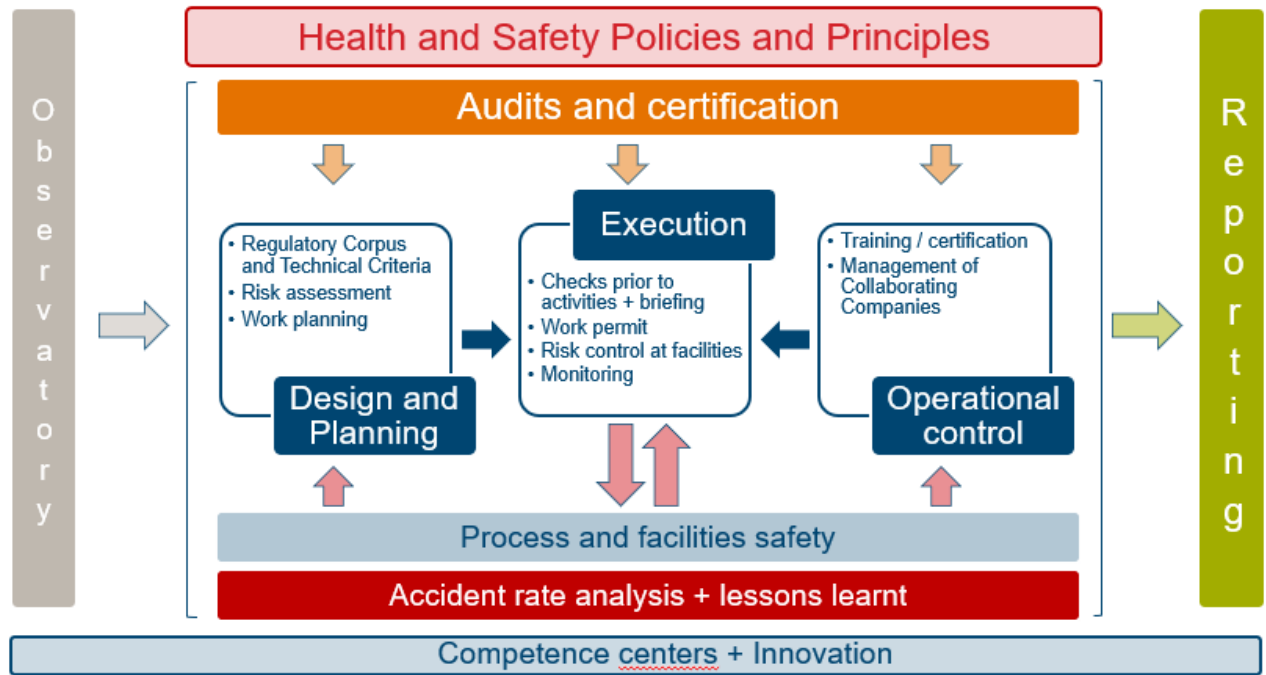
With this vision, the health and safety governance model is consolidated, with a top-down committee structure, which is adapted to the new business structures and guarantees that criteria are implemented uniformly throughout the organisation.



Development of the Occupational Health and Safety Management System

The normal development of the Occupational Health and Safety management system is structured on the basis of the following elements:

- An integrated occupational health and safety management system audited and certified by a third party, with scope for all businesses.
- The integration of health and safety in the value chain, including procurement, design and planning of activities and facilities.
- Action plans to address the most critical aspects, ensuring the implementation of preventive and/or corrective measures and strategic lines of work.
- Itineraries and training requirements tailored to the job.
- Uniform supervisory tools for the assessment and monitoring of risks, legal requirements, accidents and lessons learnt and their dissemination.
- Periodic reporting of health and safety performance, adjusted to the needs of the different stakeholders, with transparent and clear communication.
- Compliance with relevant international occupational health and safety standards and regulations, such as ISO 45001.
- Consultation and participation of workers or their representatives.
- A commitment to continually improve the occupational health and safety management system.
- The establishment of quantitative targets for the improvement of occupational health and safety performance, linked to the monitoring of the evolution of indicators and action plans arising from incidents and accidents.



Annual system audit plan

Annual internal and external audits and safety diagnostics are carried out to verify compliance with these systems, both in terms of their effectiveness and compliance with legislation. All the external audits carried out by AENOR concluded with a positive assessment of the level of implementation and integration of the management system in all the processes audited, which is effectively maintained and which complies with the obligations established by the legislation in force with a focus on improving performance in the area of occupational health and safety.

Consultation and participation

[403-2] and [403-4]

The main backbone of Naturgy's commitment to health and safety is the involvement and collaboration of the company's employees. To identify, correct and eliminate potential risk situations, it is essential that workers are involved through consultation and participation in safety, health and well-being issues. Furthermore, internal and external communication and participation in the development of the integrated quality, environment, safety and health management system allows for successful results.

Specifically, this system includes all groups identified by the definition of "worker" in the new 45001 standard.

Naturgy has established the following specific processes and bodies for consultation, participation and two-way communication with employees:

- Health and Safety Committees, a joint and collegiate body representing workers.
- Channels for participation and consultation—notice board, personalised letters, intranet, suggestion boxes, Employee Care Service (SAE)—through which anyone can propose ideas, make comments, complaints or improvements, without barriers or obstacles.
- Regular health and safety communication between unit managers and their teams in accordance with the Health and Safety Standard. These promote awareness and participation of all employees, also responding to their information needs through their lines of command.
- Enhancement of individual commitment through tools such as "Zero Tolerance", preventive safety observations and documented safety inspections.
- Code of Ethics channel, available to all employees, where they can make complaints about relevant safety breaches that require confidential and impartial treatment.

As required by ISO 45001, Naturgy guarantees disclosure of the results of the management system review by Management to the workers' representatives, encouraging their collaboration in the review and continuous improvement of the management system.

The Health and Safety Committee has the following competences:

- To take part in the elaboration, implementation and assessment of risk prevention plans and programmes.
- To discuss projects in the field of planning, organisation and development of work and protection and prevention activities, including training in preventive matters.
- To promote initiatives on methods and procedures for the effective prevention of risks, proposing to the company the improvement of conditions or the correction of existing deficiencies.
- To be directly aware of the situation regarding occupational risk prevention, making the visits it deems appropriate for this purpose.
- To be aware of the documents and reports relating to working conditions that are necessary for the performance of its duties.
- To be aware of and analyse the damage caused to the health or physical integrity of workers, in order to assess its causes and propose appropriate preventive measures.
- Provide suggestions and concerns in order to contribute to the proposal of secondary prevention and health promotion campaigns, as well as to promote the dissemination of information about what has been planned and agreed in this regard.
- To be aware of and disclose the annual report and programming of prevention services.

Health and Safety Committees meet on an ordinary basis at least once every quarter, and on an extraordinary basis when very relevant events occur or at the request of any of the parties.

Health and safety risks management

[403-2] and [403-7]

Health and Safety Action Plan 2021-2023

The Health and Safety Action Plan 2021-2023 was approved in 2021 with the main goal of drastically reducing the number of fatal accidents in the collaborating companies. It was prompted by a significant spike in fatalities associated with the operational activities of collaborating companies in 2020.

This Plan, which covers all geographies and businesses where the group operates, affects the entire safety management model, and identifies six transversal axes that are considered essential to consolidate Naturgy's safety culture.



The 5 cross-cutting lines of action

- 1.** Visible leadership and safety culture: strengthening leadership and awareness actions, fundamental pillars of Naturgy's safety culture.
- 2.** Collaborating companies: improving control over CCs and reducing the associated fatal accident rate.
- 3.** Digitalisation and reporting: improving safety through innovation and technology.
- 4.** Operational discipline and effort metrics: ensure compliance with legal requirements and the goals defined in the safety management model.
- 5.** Safety in large works and projects: guarantee the integration of safety in all phases of the decommissioning works of thermal power stations, and in new renewable energy generation projects from the design phase.

These five transversal axes are materialised in more than 30 specific lines of action, and are aimed at reinforcing the safety model in all businesses and improving the level of safety performance of CCs.

Common health and safety regulatory framework

At Naturgy, health and safety standards, procedures and technical rules of a transversal nature and applicable to the entire group are in place to ensure that activities are carried out under the same safety conditions in all areas and countries. It is the business units that ensure their dissemination and implementation, as well as proper application.

To achieve this goal, competence centres have been set up to collaboratively develop these corporate standards. This work promotes the commitment of the entire organisation and has a positive impact in improving safety, reducing accidents and achieving optimal results, while ensuring ongoing adaptation and review.

This common regulatory health and safety framework is complemented by technical and safety procedures and instructions by type of activity and through a system for managing work permits for risk activities.

Risk assessment and management mechanisms

[403-2]

The main strategies followed by Naturgy are based on avoiding risks and minimising those that cannot be eliminated. It has instruments for operational control that guarantee that the activity of its workers and collaborators is carried out in the most adequate conditions and in compliance with the contractual, voluntary or legal requirements.

Within Naturgy’s OHSMS, and as one of its key processes, the system used for identification of occupational hazards and risk assessment for the organisation’s employees has been defined through the corporate standard of identification, assessment and control of occupational risks. It sets out, among other issues:

- Guidelines for identifying hazards to which workers may be exposed.
- Methodology for risk assessment.
- Responsibilities associated with the execution of these processes and competencies of the staff involved.
- Participation of workers’ representatives.
- Frequency.
- Criteria for reporting results to employees.
- Criteria for review processes that ensure their effectiveness.

To ensure that all the information identified in this respect is also passed on in an appropriate way to the rest of the group of “workers” (contractors, suppliers, visitors, etc.), a process is coordinated with the contractors to ensure that these workers receive the relevant information on the hazards and risks, as well as on the health and safety measures to be applied in performance of the activity. This minimises the risks associated with the contracted activities and ensures that their level of safety is the same as that of in-house staff.

This process requires different actions that are applied depending on the type of contract, the activity contracted and the work centre where it is carried out, such as:

- Definition of health and safety contracting prerequisites.
- Setting up the corresponding means of coordination according to the type of activity contracted (documentary exchanges, coordination meetings, etc.).
- Control and supervision of the safety conditions in the performance of the works where necessary.

In the case of workers who are hired through a temporary employment agency, the worker is informed prior to their effective incorporation about the risks associated with the work to be carried out and the centre where they will perform it, as well as the protection and prevention measures against these risks.

Naturgy has developed and implemented operational controls that ensure effective management of occupational risks, in accordance with the standards. The performance in 2022 of these inspection, monitoring and control mechanisms implemented in all business units was as follows:

7,859 Preventive safety observations	22,533 Documented occupational safety inspections	3,554 Zero Tolerance records and preventive stoppages of work
100% Investigation of accidents and incidents that occurred	N/A Lessons learnt	N/A Safety contacts

Innovation in safety management

As part of its commitment to innovation and adaptation to a more digital environment, Naturgy has initiated the application of **Business Analytics to the documented safety inspections**. This tool is a further step in the intelligent exploitation of the information and safety data obtained in the performance of documented safety inspections. It has been developed in Power BI, is integrated in the Prosafety application and accessible to all Group businesses and countries.

Digital pre-check is an agile, simple and dynamic tool that integrates mobility and geolocation solutions applied to carrying out safety checks prior to carrying out dispersed work. Digital pre-check has made it possible to maximise the effectiveness of one of the most relevant impacts on work safety: "the time of planning immediately prior to the commencement of the work". This tool is characterised by:

- Digital approach to the preliminary safety check prior to work being carried out.
- Linking pre-check with the works to be performed.
- Minimum Health and Safety checks in accordance with internal regulations.
- Guidance to own staff and CCs (contractors and subcontractors).
- Provide information to supervisors, security coordinators and CCs managers for better control of operations and brigades in the field.

This new tool has made it possible to:

- Guarantee the quality and safety of our work.
- Monitor operational activity and allocated resources. (Geo-positioning)
- Continuous awareness of Health and Safety aspects (Risks, Preventive Measures)
- Develop action plans based on the analysis of work planning.
- Create interfaces with other applications and processes.
- Learn from experience through data analysis.

Its overall aim is to demonstrate that unsafe behaviours are not tolerated at Naturgy and that, if they are detected, the company gets involved in resolving them.

All these safety tools have a positive impact on the reduction and immediate correction of risk situations. Accordingly, all Naturgy personnel are responsible for detecting, resolving and reporting deviations as part of their commitment to safety.

Ultimately, all workers have the Code of Ethics channel where they can make complaints about important safety breaches that have to be treated confidentially, impartially and without fear of reprisal.

The findings emerging from Naturgy's monitoring mechanisms and periodic review of hazards and risks are incorporated into the management system to ensure the effectiveness of its function. In this way, the various conclusions and proposals, together with other relevant information, are brought together in a global Naturgy-level system review report. All this is done as set out by management in the review procedure, which defines the methodology and responsibilities.

Risk map and process safety management

[403-2]

Process safety is a necessary complement to occupational and industrial safety in order to manage all risks associated with the facilities and their operation. To this end, maintenance and verification programmes for regulatory compliance of facilities are carried out, in which special attention is paid to the compliance with process safety management standards aimed at ensuring the mechanical integrity of assets, management of changes - both in personnel and in technology and facilities - and adequate management of possible emergencies.

This process is carried out by each business unit because they have the most accurate and up-to-date view of the risks in their facilities, which allows them to focus on the highest risk situations and thus prioritise actions aimed at:

- Maintaining:
 - Facilities in good condition.
 - A reliable service.
 - Operating license.
 - Good relations with authorities and community.
 - Reputation.
 - Creating value and employment.
 - An image of lower risk for investors.

- Improving competitiveness, efficiency and costs.
- Avoiding:
 - Serious accidents and their consequences.
 - Material and equipment losses.
 - Environmental damage.
 - Interruptions in business operations.
 - Fines, penalties and compensation.
 - Costs of accident investigation and remedial action.

Main risks and opportunities

Within the framework of the OHSMS, Naturgy has duly identified and assessed the main risks and opportunities in order to take actions to prevent the materialisation of risks and take advantage of opportunities that can help improve its performance and reduce negative impacts on the health and safety of workers.

This global analysis is complemented by the analysis of specific business risks, mainly aimed at guaranteeing the safety of people, the integrity of assets and the continuity of operations.

RISK	CAUSES	ASSESSMENT*	ACTIONS TO ADDRESS
Loss of homogeneity of the criteria supported in the Occupational Health and Safety Management System (OHSMS).	Organisational model with greater business autonomy.	Moderate	Enhance the activity and content of the H&S operational committee and safety competence centres.
Inadequate maintenance of the OHSMS	Lack of coordination resources.	Tolerable	Matrix, hierarchical and functional organisation, with definition of business and corporate roles.
Loss of preventive culture, ineffectiveness in achieving goals.	Change with the inclusion of groups not trained in the Health and Safety Commitment. Rotation and inclusion of new	Tolerable	Promote health and safety leadership courses for new hires. Strengthen communication and leadership actions on safety in the framework of the Action Plan 2021-2023. Meetings with contractors, with special focus on those newly awarded in order to pass on Naturgy's values.
Heterogeneity in the implementation and monitoring of OHS within the group.	Greater business autonomy in OHS	Tolerable	Strengthen the activity and contents of the H&S operational committee and the safety competence centres, and the transversality of the actions associated with the OHS function. Define model of cross-cutting activities that are governed by functional hierarchy and require specific business resources for their development.
Inadequate reporting of OHS indicators and performance (i.e. reliability of data, roles and responsibilities)	Organisational changes.	Tolerable	Strengthen the governance model, awareness of H&S reporting requirements and the development of tools to facilitate reporting and data integrity.
Non-compliance with any legal requirement on OHS.	High volume of applicable legal requirements.	Tolerable	Migration of the Themis tool to Salem (new evolved version). Greater weighting in internal and external audits of the aspects of verification of compliance with legal requirements. Compliance controls and Crime Prevention Model.
Accident rate increase.	Lower level of demand and safety monitoring at collaborating companies.	Tolerable	Action Plan 2021-2023. Regular monitoring of indicators. Red safety lines and disciplinary regime applicable to CCs
Suppliers with high ESG risk	Subcontracting of high-risk operational activities	Moderate	Increasing the level of monitoring and control of subcontracted companies carrying out high-risk activities. Assessment of performance of CCs in health and safety issues Documentary control and carrying out random OSH audits.

* Risk assessment criteria as laid down in NT.00071.

OPPORTUNITIES	ASSESSMENT*	ACTIONS TO ADDRESS IT
Consolidation of the safety model based on ISO 45001, certified in 2020 and in force since the same year, promoting greater coordination and synergy between businesses.	Optimal	IMS Audit Plan 2023. Tender for the external audit process. Reinforcement of the multisite model incorporating the improvements identified in the previous stage. Development and maintenance of an effective and efficient management system.
Collaborative work model based on competence centres comprising personnel from the different business areas.	Optimal	Enhance the activity and contents of the H&S operating committee. Consolidate the organisational model of prevention based on competence centres.
Reinforcement of the preventive culture based on new ways of working (digitalisation, risk perception, organisation-based safety etc.).	Optimal	Enhance the use of digital tools such as BI, Serious and Fatal Injury Precursor (PLGF), and applied innovation to reduce risk exposure.
Enhance the model of self-diagnosis of the level of implementation of the IMS based on objective criteria (accountability of the business units).	Normal	Development of a tool that facilitates self-diagnosis of the level of compliance by business units.
Consolidation of centralised tools for the management of core safety processes.	Optimal	Centralised corporate tools (Prosafety, Control A, Themis). Design, evolution and efficient use of a single system.
Maintaining a certified, third-party audited management system supports compliance and the Crime Prevention Model.	Optimal	Keep OHS and Healthy Organisation certifications up to date. Develop a Power BI module to exploit audit findings.
Simplification of the Prosafety event module. Agility in communication, focus on relevant information and access to CCs.	Optimal	Implementation of the update of the Prosafety events module according to the revision of NT.00035. Mobility app for the initial reporting of events by the CCs.
Safety Action Plan 2023-2025.	Optimal	Conduct a security perception survey of the entire collective. Identify areas for improvement and actions to be developed in the Action Plan 2023-2025.

* OPTIMAL: the opportunity can clearly help improve the performance of the OHMS. NORMAL: the opportunity and its impact on the performance of the OHMS must be analysed and actions implemented considering the costs, level of effectiveness and the scope of the measures of the organisation.

Management and investigation of accidents and incidents

[403-2]

Investigating and analysing events is an essential action to carry out actions aimed at minimising risk situations and thus improving safety and reducing accident rates. In 2022, 3,231 incidents and accidents have been analysed and investigated and proactively reported throughout the organisation.

The basic criteria for the identification, treatment and investigation of the causes of accidents and incidents are defined in the standard “Process for reporting, investigation and follow-up of accidents and incidents”. They are also included in the procedure “Management of findings of the integrated management system”, when deviations are identified in the processes or non-conforming products and/or services are detected.

The investigation process starts as soon as the event becomes known. The persons in charge of the investigation, in order to know the circumstances in which it occurred, collect physical evidence and gather information, which is complemented by interviews, review of procedures, tests or analyses deemed necessary.

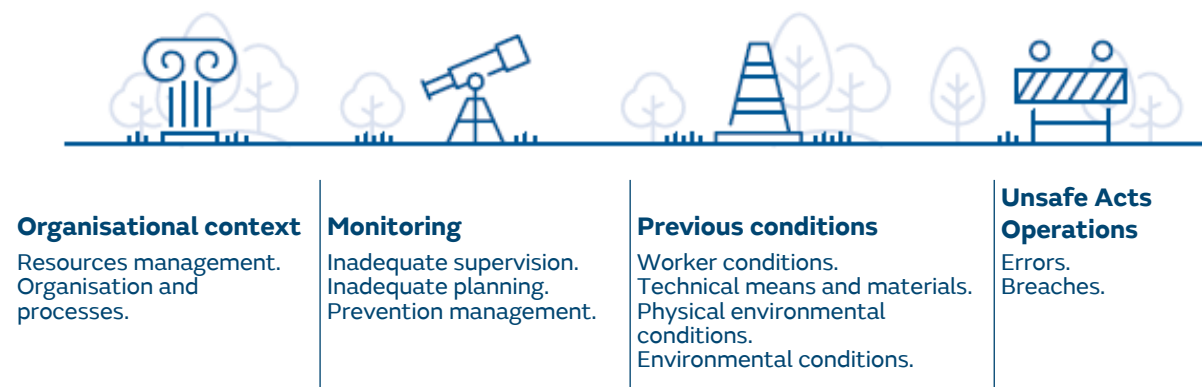
The purpose of the investigation throughout the process is:

- Identify the causes and contributing factors of the accident/incident: why.
- Identify, if appropriate, actions to be taken to reduce the risk of the event happening again: learning.

The processes of investigation involve participation by the workers’ line managers, those responsible for the activity, process or facility affected, workers involved, workers’ representatives and any other person who can provide relevant information to determine the causes that produced the event.

To facilitate the first purpose, Naturgy has a unified incident investigation system whose model is based on root cause analysis and optimised according to existing best practises and the HFACS (Human Factor Analysis Classification Scheme) methodology.

The model pivots on the following action areas:



This change helps in reporting and investigating accidents in the following ways:

- Optimising analysis and comparing between business units.
- Helping in the process of capturing information and disseminating lessons learnt.
- Enable root-causes to be reached through gradual reflection.
- Discriminating between responsibilities and analysing the hierarchical levels at which to act.
- Helping in adopting short and medium-term measures including the review of processes, activities and applicable standards.

In relation to the second purpose any finding arising from the research feeds into the risk assessment, so if the need is detected, a review of the risk assessment is carried out, recording the reason. It also opens the corresponding non-conformity, corrective and preventive actions of the integrated management system of quality, environment, health and safety, to restore compliance as soon as possible in order to minimise consequences and avoid a repetition.

The idea of Serious and Fatal Injury Precursors (PLGF), which contributes to both accident investigation and improvement implementation, is new to the Health and Safety Action Plan 2021-2023. This concept identifies a behaviour or condition that can lead to serious or fatal injury if not corrected. It also identifies high-risk situations where safety measures are absent, ineffective or not complied with and which, if maintained, could result in serious or fatal injury.

This new concept entails a change in the analysis and monitoring of accidents and incidents, the main negative impact of our activity on people. Its investigation process is even more exhaustive and control measures that act on these “precursors”, eliminating them or reducing their impact, are implemented rapidly.

▪ **Accident indicators**

[403-9], [403-10] and [IF-EU-320a.1]

	2022			2021		
	Total	Men	Women	Total	Men	Women
No. of recordable accidents (No. of employees)	12	11	1	9	8	1
No. of lost time accidents (No. of employees)	8	7	1	8	7	1
No. of accidents with serious consequences (No. of employees)	2	2	0	0	0	0
Deaths	0	0	0	0	0	0
Recordable accident frequency rate (TRIR)	0.17	0.24	0.04	0.12	0.15	0.04
Lost time accidents frequency rate	0.12	0.15	0.04	0.10	0.13	0.04
Frequency rate of accidents with serious consequences	0.03	0.04	0.00	0.00	0.00	0.00
Lost time accidents severity rate	5.66	8.00	0.00	2.61	3.61	0.52
Near miss frequency rate (NMFR)	5.76	-	-	4.74	-	-
Death frequency rate	0	0	0	0	0	0
No. of hours worked ⁽¹⁾	13,848,217	9,311,143	4,537,073	15,411,970	10,412,663	4,999,307
Occupational illnesses	1	1	0	2	2	0

⁽¹⁾ The international criteria of the American Gas Association has been used to calculate hours worked, which establishes 1960 hours per employee per year.

During 2022, the ratio of injuries per work-related accident was 0.26 and one occupational disease has been identified in Panama, corresponding to a lumbar hernia aggravated by the performance of the activity.

There have been no deaths associated with an occupational illness or disease of employees of the company. There is no record of any occupational illness or disease of staff of collaborating companies.

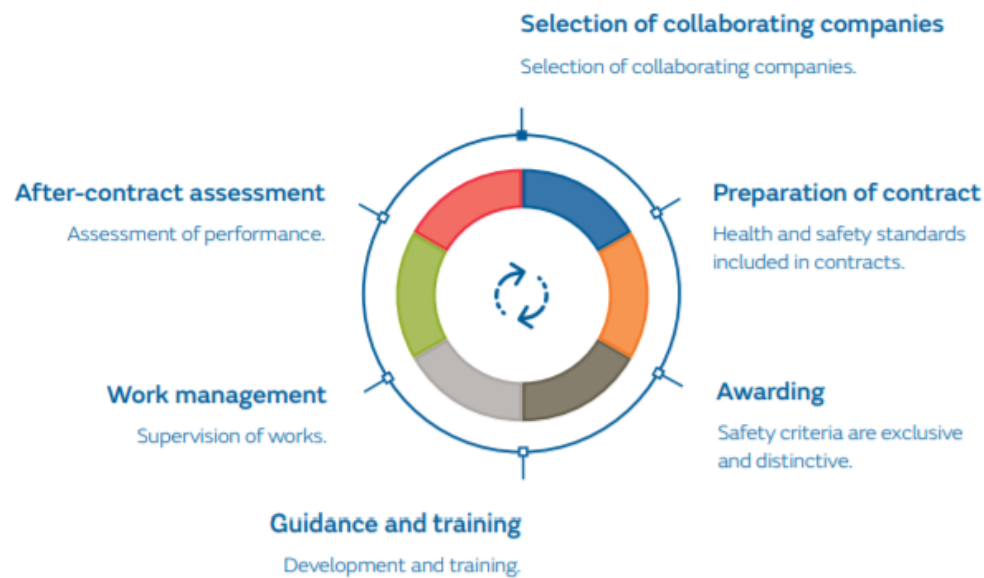
With regard to the evolution of the results, it should be noted that the data for 2022 are not fully comparable to those for 2021, as last year's figures do not include the accidents of the subsidiary Gasnor, S.A. (Argentina). Taking these accidents into account, the frequency rate in 2021 is 0.13, with a slight improvement in 2022.

As for the severity index for lost-time accidents, the increase in the indicator is explained by the occurrence of several accidents that have led to long-term sick leave, due to the consequences or injuries resulting from them.

Prevention of risks at collaborating companies: suppliers, contractors and subcontractors

Naturgy requires strict control by the CCs of the critical factors related to the most serious accidents. The following guidelines are applied to ensure this level of stringency and thus significantly reduce the accident rate in the CCs:

- They are not invited to the selection process if they do not meet the health and safety requirements.
- They can be disqualified if they do not meet the contractual safety and health requirements.
- Priority for employee training: demand of individual training certificate, verification of legal accreditations when required.
- Application of a sanctions regime if non-compliance is detected.



Naturgy has reinforced two tools that improve the safety proactivity of companies as part of the Health and Safety Action Plan 2021-2023 with the aim of eliminating accidents at the CCs:

- **Proposals for improvement of health and safety (HSP):** initiatives or improvement actions proposed by any person of Naturgy or its CCs to improve the safety of any process or activity. During 2022, 473 HSP have been presented with an impact on different business areas and which, after undergoing a process of analysis, assessment and implementation, generate a significant positive impact on the improvement of the safety of processes and activities.
- **Safety work stoppages tool:** any worker, whether they work at the company or at one of our CCs, may stop or not complete any activity in which they have detected situations of risk not foreseen in the established risk identification procedures. Its communication is included in the positive metric that recognises the safety proactivity of the CCs and generates a positive impact on the reduction of risk situations whose continuity or persistence over time could end up generating an accident affecting people. A total of 1,328 safety shutdowns were carried out in 2022.

▪ **Accident indicators of contractors**

	2022	2021
No. of lost time accidents	71	75
Days lost due to lost time accidents	3,235	1,941
Deaths	1	1
Lost time accidents frequency rate	0.31	0.37
Lost time accidents severity rate	13.95	9.5

In 2022, there has been an increase in the severity rate due to the occurrence of several accidents with long-term sick leave due to injuries resulting from the accidents.

As a result of the implementation of the Health and Safety Action Plan 2021-2023, there has been a significant decrease in the fatal accident rate in CCs, from four fatal accidents in 2020 (it does not include data from the Chilean company CGE, as it was deconsolidated at the end of the year), to one in 2021 and one in 2022. The objective for the coming years is to consolidate this trend and reach the goal of zero fatal accidents in Naturgy’s activities.

The fatal accident in 2022 occurred during the company's electricity distribution activities in Panama. While carrying out preventive maintenance work on a line position in an electrical substation, an operator received an electric shock and subsequent passage of current with fatal results.

The accident investigation process has defined different actions to be implemented both locally and transversally in all businesses involved in electricity distribution to try to avoid similar accidents (safety protocols for work in substation cubicles, work order communication protocol).

Safety among customers and society

One of Naturgy's fundamental commitments is the safety of people, involving not only employees but also suppliers, CCs, customers and other stakeholders, minimising the negative impact that its activities may have on the communities and geographical areas in which it operates.

With regard to customer safety, Naturgy establishes and maintains effective communication channels with its customers concerning:

- Information concerning the product/service, and its safety.
- Service Level Agreements.
- The consultations, contracts, handling registrations, cancellations and modifications.
- Customer feedback, including complaints.
- Incident management.
- Protocols for action in emergency situations/contingency actions.

These communication channels, especially the complaints and claims channel, provide very useful information to improve and increase satisfaction levels of customers in their relationship with Naturgy.

As for the dangers and risks of the products or services commercialised or provided, all applicable requirements are clearly determined. This is to develop products and services that respond to demand and improve the level of safety and satisfaction.

Requirements can be defined by the customer (needs and expectations), regulations, standards (internal and external) or be intrinsic to the service. For this purpose, a complete verification is carried out to ensure that what is purchased by the customer meets the standards of quality, safety, health and well-being of people, in addition to complying with the safety of the facilities.

		2022				2021			
Injuries and fatalities to the public involving company assets		Accidents (No.)	Injuries (No.)	Deaths (No.)	Legal actions (No.)	Accidents (No.)	Injuries (No.)	Deaths (No.)	Legal actions (No.)
Argentina	Gas business	5	1	3	2	16	5	2	5
	Electricity business	0	0	0	0	0	0	0	0
	Total	5	1	3	2	16	5	2	5
Brazil	Gas business	1	1	0	0	2	2	0	0
	Total	1	1	0	0	2	2	0	0
Chile	Gas business	0	0	0	0	0	0	0	0
	Electricity business	0	0	0	0	N/A	N/A	N/A	N/A
	Total	0	0	0	0	0	0	0	0
Spain	Gas business	20	87	2	3	28	90	7	25
	Electricity business	6	2	1	0	7	4	0	0
	Total	26	89	3	3	35	94	7	25
Panama	Electricity business	0	0	0	0	1	1	0	6
	Total	0	0	0	0	1	1	0	6
Mexico	Gas business	0	0	0	0	0	0	0	0
	Total	0	0	0	0	0	0	0	0
Total	Gas business	26	89	5	5	46	97	9	30
	Electricity business	6	2	1	0	8	5	0	6
	Total	32	91	6	5	54	102	9	36

Training and communication

[403-5]

Naturgy has designed training itineraries aimed at training workers on occupational hazards and the application of the necessary safety measures for the performance of their work. These itineraries highlight training associated with the most critical risk factors such as electrical risk, working at height, working in confined spaces, cargo handling, road safety, etc., as well as other activities aimed at improving the level of risk perception and health and safety leadership.

Employee health training has been geared towards empowering staff to deal with day-to-day stress. In addition, mental health care is promoted, as a result of the psychological effects of the pandemic, through courses on the management of emotions and mindfulness.

In 2022, a total of 58,976 hours of training were carried out in the area of Occupational Risk Prevention in 996 training actions (both on-site and virtual or with online training supports) and with the participation of 20,671 people. This intense training activity has a very positive impact on improving the safety performance of the group's workers.

In 2022, more than 50,000 hours of training were carried out in the area of Occupational Risk Prevention, half of them in classroom mode and the rest in virtual mode or with online training support. This intense training activity has a very positive impact on improving the safety performance of the group's workers.

Training of collaborating companies

Naturgy provides CCs with all the necessary learning to promote the health and safety culture that exists throughout the company. This is why courses specifically aimed at CCs are facilitated through the Corporate University.

Internal rules of global application have also been established in which coordination between operational business units and their CCs is promoted.

Dissemination

[403-4]

Within the framework of Naturgy's commitment to health and safety, the dissemination of its own and other people's events, learning and good practices occupy a prominent place on the intranet platform. The content of this dissemination is reaching contractor companies through the businesses.

At the same time, Naturgy promotes external dissemination actions aimed at improving the safety of the environment in which it carries out its activity, where the following activities are particularly important:

- Participation and leadership in national and international sector-specific and safety forums.
- Participation in a research project for the creation of a new psychosocial assessment instrument together with entities of the competent administration and 40 companies of recognised prestige.
- Collaboration with public administrations in safety awareness campaigns.
- Active sponsorship of safety conferences in the gas and electricity sectors.
- Promotion of sectorial accreditation models.
- Promotion of forums for the exchange and dissemination of best practices with collaborating companies.
- Carrying out joint safety meetings with collaborating companies.

Health

[403-7]

Naturgy is firmly committed to offering its employees a healthy working environment and well-being. The Comprehensive Medical and Health Assistance Unit is based on excellence and ongoing innovation to make available to employees, their relatives, CCs, customers and the social environment in which the company operates, a global, health and well-being strategy that encompasses everything necessary for their benefit, both with regard to prevention, promotion and healthcare, in a customised way, as well as training and information with regard to healthy habits, taking into account both individual needs as well as the particular circumstances of each country.

During 2022, COVID-19 management continued, maintaining the same preventive measures as in 2021, which consisted of answering telephone queries and managing the cases that arose, and who then continued to work from home without access to work centres in order to prevent occupational infections, thus improving on the measures proposed by the authorities that allowed access to work centres for people who tested positive.

Master Health Plan

This plan defines the strategic guidelines and establishes the general framework for action of Naturgy in the field of health care, ergonomics and psychosociology. The responsibilities under the plan correspond to each and every one of the business areas and countries within the group. In addition, comprehensive medical and health assistance services act as advisors for the development, monitoring and control of the plan in each of the areas.

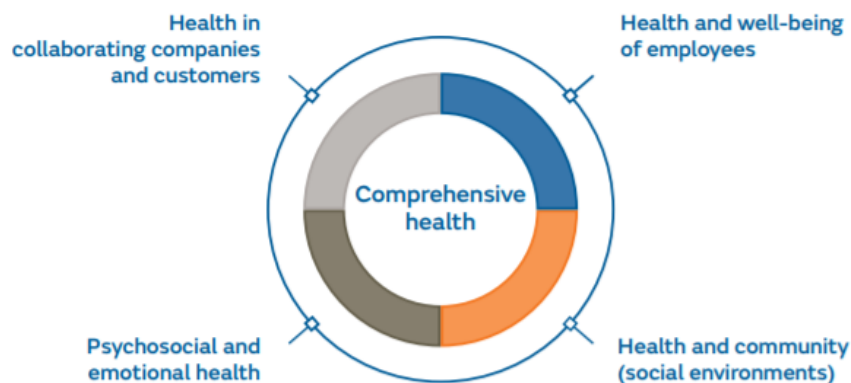
Master Health Plan targets

Standardised actions	Ensuring the health of workers, developing standardised actions and respecting differences inherent in each country.
Compliance with regulations	Monitoring compliance with the relevant regulations to each area in the field of health.
Development of activities by external collaborators	Coordinating the development of activities by external collaborators and establishing monitoring and control measurements.
Definition of indicators	Defining the indicators necessary to assess the implementation and development of the Master Health Plan, as well as all of the involved activities.
Lifelong learning	Ensuring continuous training of professionals in the activity, information about the latest technological developments and promoting creativity for innovation.

Actions for employees' health

Occupational health services for employees [403-3]

The Comprehensive Medical and Health Assistance Unit is formed by a multidisciplinary team, whose function is to guarantee the health and physical, psychological and social well-being of all workers, carrying out a set of activities related to health monitoring, ergonomics and applied psychosociology and the promotion of health beyond the workplace.



Every year, this unit defines lines of action and sets out the general framework for Naturgy's activities in the field of health, which it applies to all business areas at national and international level and ensures that processes and actions are carried out in a uniform way, respecting the inherent differences of each country.

This plan is implemented through the following lines of action:

- Integral health care in the workplace.
- Support for persons suffering from common illness and accidents.
- Preventive campaigns to combat the most prevalent diseases.
- Management of individual aspects of person-position interrelationship considering both the special sensitivities of the workers and the ergonomic needs.

- Prevention of psychosocial conflicts and promotion of psychological well-being.

As well as in three support or transversal axes that are:

- National and international coordination.
- Integrated management.
- Training and communication.

To guarantee the organisation and quality of Naturgy's employees health services, the company's objectives to improve the standards of occupational health services are reviewed each year and an action plan is drawn up on the basis of indicators.

Naturgy's medical services coordinate the activity of external prevention services, transferring the guidelines to be followed in terms of preventive campaigns, to manage health campaigns and Health Surveillance homogeneously for the whole territory. Each medical service is assigned a territorial area of influence to provide a response and solution to all incidents that arise, both in the performance of examinations and campaigns at the facilities of external collaborators. Employees have at their disposal the employee care service, which collects their doubts and incidents and passes them on to the Naturgy medical service responsible for their resolution by means of intermediation with external collaborators.

The Medical Assistance and Integral Health Unit systematically proceeds to the identification and analysis of any health-related aspect that may be susceptible to being taken into account.

Likewise, these activities are included in the annual process of internal and external audits of the integrated management system, as well as the audit of the Healthy Organisation certification (formerly known as Healthy Company). This is in addition to the company's own audits for accreditation with official bodies.

The integrated management system undergoes an annual review, so that its validity is ensured and its adaptation to Naturgy's Corporate Responsibility Policy is maintained. Other documentation, such as the results of internal and external audits, the results of process performance and the monitoring of area goals, are also taken into account for updating.

In addition, the Medical Assistance and Integral Health area monitors this activity and evaluates the results and impact achieved using several quantitative and qualitative methods and indicators. Among other things, the number of medical examinations, the number of injuries that are precursors to serious illnesses detected in time, staff participation in the campaigns, absenteeism rates, the number of psychosocially evaluated positions, the interventions carried out in this regard, the number of positions with ergonomic evaluation, ergonomic actions carried out at the request of workers, etc., are counted and evaluated.

Psychosocial risk assessment

During 2022, work has continued on the lines of action of the Psychosocial Plan 2021-2022, the structure of which is based on five interrelated pillars aimed at controlling psychosocial factors to improve the health and well-being of workers.

- Communication plan and information campaigns in order to promote awareness and sensitisation on psychosocial risks at all levels and spheres of the organisation.
- Implementation of a training plan on psychosocial factors with training actions aimed at managing the psychosocial risks identified in their own risk assessment, and training in skills and competences.
- Use of tools for measuring initial exposure and monitoring.
- Promotion of the participation and consultation of workers for the coordination of joint actions.
- Creation of multidisciplinary groups to seek synergies and facilitate the approach to the management of psychosocial factors, from an integral perspective, increasing creativity and innovation with actions associated with the resolution of psychosocial problems, improving health and well-being within the organisation.

In line with Naturgy's commitment to psychosocial risks, it should be noted that, at the beginning of 2020, a psychological support service was set up in Spain through a specialised telephone helpline run by the Trauma, Crisis and Conflict Unit of the Faculty of Psychology of the Autonomous University of Barcelona (UAB), which has continued throughout the pandemic years and also in 2022, as mental illness has been increasing in recent years and is now one of the most important causes of illness and absenteeism in the working population. For this reason, a multidisciplinary approach to psychological disorders is being planned for 2023 by both Naturgy's health and psychosocial professionals.

Healthy Organisation Model

[403-1] and [403-8]

Naturgy has taken a qualitative leap forward by achieving certification by AENOR as a "Healthy Organisation" in 2022, by evolving its management system (from the previous model of a healthy company following the guidelines of the World Health Organisation) to a model with a high-level organisational structure, thus reflecting the company's commitment to the existing international principles and recommendations that aim to continuously promote and protect the health, safety and well-being of its own workers, their families and the different communities where the company performs its business activity, with the participation of all stakeholders.

During the certificate validity period, AENOR conducts annual follow-up audits of the Healthy Organisation management system, to check whether it is being effectively implemented and whether the conditions that gave rise to its concession are being maintained.

The scope of the international implementation of this model extends to Argentina, Brazil, Chile, Mexico and the Dominican Republic. In addition, on the international stage, work has been carried out on the implementation of the Healthy Organisation Model in the Naturgy Integrated Management System, using the Enablon tool and a new format of the Management Review Report to manage its activity.

Workers' access to information about health issues in the company

Naturgy facilitates access by workers to all information about health topics in the company. Health managers apply a policy of personalised and committed attention to those health and well-being issues that, depending on the country, require both the attention of health professionals and the individual and collective awareness of workers. This policy extends to the family level.

The company's commitment to health and well-being also extends to other stakeholders such as customers and the communities where it operates, as shown, for example, by the energy and environmental volunteering actions and the company's commitments included in its strategic plan for actions to protect the environment and reduce its carbon footprint, among others.

Various channels of communication with members of the integrated health team are made available to employees:

- **Employee Care Service (SAE).** Employees access health services directly after the appointment request that is given through the employee care service. This service serves to directly resolve questions and requests in this area.
- **Communication.** An important effort is carried out to strengthen the culture of health and well-being of the company through awareness and communication, with the aim of educating people working at the company and their families about the importance of protecting their health and prevention to ensure future quality of life, under the view that the well-being of the employees is also the well-being of those around them. During 2022, this channel has been used on a daily/weekly basis in order to convey to employees the most relevant aspects.
- **Training.** The health model implemented has led Naturgy to promote the contents as part of the group's Corporate University, incorporating and developing the key training itineraries for this purpose.
- **Intranet.** Employees can access the comprehensive contents of the intranet on different subjects to care for their health: nutrition, mindfulness, or prevention of musculoskeletal injuries, among others. In 2022, with the pandemic over, the usual prevention campaigns have been resumed.
- **My Benefits Portal.** From this portal, which is accessible from different devices (PC, tablet and smartphone), employees access different health-related services such as their health insurance and policies, as well as informative content (videos / health contacts).

- **Consultation and participation.** All the actions and campaigns set out in the Annual Health Plan are submitted to the Health and Safety Committee so that the workers' representatives can express their opinion on the proposals of the health team and consult their doubts, as well as propose health campaigns that may be of interest to them.

Promotion of workers' health

[403-6]

The health model approach, described in the previous point, is supplemented by a series of additional campaigns and actions, going beyond mere legal compliance and work-related health, and directly impacting on individual aspects of workers that could pose a risk to their health.

These campaigns and actions seek to increase personal, physical and emotional well-being, and to combat risk factors and health stressors, resulting from a contemporary lifestyle and habits, encouraging Naturgy workers to enjoy an active and healthy aging. All information regarding these campaigns is updated and available to all employees on the intranet.

The year's planned actions are also disclosed together with the Annual Health Plan at the first Health and Safety Committee of this year, in which the plan is put forward for consultation and in which the workers' representatives participate. This information can be consulted on the organisation's prevention portal.

The most relevant actions carried out in this area are:

- Promote greater awareness and encourage self-responsibility as a pillar of living a healthy life.
- Raise awareness of positive habits and behaviours for the health of all people.
- Empowering workers to take care of themselves and their families' health, as well as to act as influencers in their social environment by providing them with continuously updated knowledge.

As regards employees and workers who are not employees but whose work or place of work is controlled by the organisation, Naturgy transfers its own protocols and procedures to external prevention services to provide suppliers with lines of action in the event of health problems that they can follow as a reference. In this way information flows both among its own and external workers and in the community in which the Naturgy group operates in the different countries.

Prevention campaigns and health promotion

Naturgy offers its employees a series of prevention and health promotion programmes through voluntary campaigns by the medical services. These campaigns are offered during medical examinations and are aimed at the most relevant health problems in the areas where Naturgy operates.

Campaigns as important as secondary prevention of cardiovascular risk, campaigns for the detection of pre-cancerous lesions (colon, prostate, gynaecological, or lung, in which Naturgy is pioneer, etc.), haematological or ocular diseases, are made available to employees.

Primary prevention is also present through vaccination campaigns (flu and communicable diseases such as tetanus or hepatitis) and primary prevention of cardiovascular risk campaigns: anti-smoking and addiction campaigns, management of overweight, diabetes and obesity, etc., in order to reduce the presence of risk factors for foreseeable diseases.

The actions of the health services in prevention campaigns and comprehensive health promotion activities consist of:

- Design, coordinate and disseminate actions aimed at preventing the onset of diseases (primary prevention) and/or detecting and neutralising diseases at an early stage, reducing their consequences and improving their prognosis (i.e. detection of pre-infarct cardiac alterations, detection and removal of pre-cancerous lesions such as colon polyps, as well as facilitating the rehabilitation treatment of minor muscle injuries to prevent their progression).
- Design informative campaigns on healthy lifestyles in order to train workers to improve their health and that of their families, as well as that of the communities where they live owing to its influence.
- Promote campaigns aimed at supporting the communities in which the group operates.

- Assess the effectiveness of these campaigns with the results obtained annually.
- Furthermore, professionals in the health area collaborate with the social benefits function in the optimisation of employee health insurance (review of health coverage and advice on updating the medical directory).

Campaigns are adapted to the health needs of the moment. The pandemic therefore took centre stage in the previous two years, with the focus in 2022 shifting back to more prevalent health problems such as cardiovascular disease and cancer.

Absenteeism

• Total lost hours

	2022	2021
Spain	196,071	200,250.35
Chile	62,024	69,503
Argentina	45,528	36,032
Brazil	7,882	10,114
Costa Rica	288	264
France	n.a.	727.5
Morocco	n.a.	1,971.39
Mexico	13,016	11,952
Panama	4,037	4,935
Peru	n.a.	0
Dominican Republic	2,256	2,571
Uganda	n.a.	2,192.8
Total	331,102	340,513.04

09. Innovation and new business development

[3-3]

(Technological and digital innovation)

Naturgy's contribution to the SDG



Naturgy sees innovation as a necessary tool in the fight against climate change and a key factor in the development of new energy solutions. Accordingly, the company's innovation model is designed to weave collaborative networks with the ecosystem to respond to the complexity of the environment and solve challenges in an expeditious and effective way.

To this end, the model is based on the following pillars:

- **Innovation is collaborative and open**, able to respond quickly to signs of change in the environment and evolve in complicated scenarios, able to transform mistakes into learning, and forecasting the future by understanding the past and observing the present.
- **Innovation is a key lever for growth** as it enables the incorporation of new or better practices, new business models and technological solutions that contribute towards digitalisation, automation and optimisation of processes, guaranteeing safety, operational improvement and facilitating access to information for better decision making. All this in order to place the customer at the centre to provide value-added and sustainable solutions and ensure the company's long-term competitiveness.
- **The generation of renewable gases such as renewable hydrogen or biomethane** for end uses where electrification is neither technically nor economically feasible. Hydrogen is an efficient and immediately decarbonising solution in intensive industry or transport. In addition, its quality as an energy vector gives it great potential as an instrument for energy storage and sector integration. Similarly, biomethane can be used to replace natural gas without incurring abatement costs for adapting infrastructure or equipment.
- **The optimisation of renewable energy generation** through innovative systems due to their improved energy efficiency and their ability to be integrated into the environment with lower costs or greater reliability. This promotes the entry of new agents into the system and the coverage of part of the energy needs of households, SMEs and public administrations.
- **The direct use of energy** through new manageable electricity consumption that provides flexibility, for example, in air conditioning or mobility, as well as through storage for later use.
- **The response to increasingly fragmented markets**, with small, fast-moving competitors, both commercial and generation, with renewable developments closer to customers and smaller in size.

To achieve the goals set, Naturgy has deployed a set of innovation tools based on the search for opportunities - acceleration and investment in operations - and the deployment of a portfolio of projects to broaden the company's industrial profile; incubator of start-ups, investment vehicle, etc.

The challenges presented by the energy transition represent an important business opportunity. Under this premise, and within the framework of the Strategic Plan 2021-2025, Naturgy is developing an extensive investment programme in renewable energies and in the development of new lines of business in areas such as renewable gases, storage and sustainable mobility.

Additionally, the NextGenerationEU funding programme and its application in Spain through the Recovery, Transformation and Resilience Plan represent a clear funding opportunity.

This Plan is a "country project" that aims to speed up the recovery of economic growth and job creation in Spain, so that this transformation is solid, sustainable, inclusive and resilient, responding to the country's main challenges over the next decade.

Two of these main challenges are the energy transition, for which the programme will dedicate 37% of the budget, and digital transformation, for which it will dedicate 33% of the budget.

Both challenges are shared by Naturgy in its Strategic Plan, which is why the company seeks to be a key player in the energy and digital transformation, which will accelerate the Transformation Plan itself. Recovery Funds are a great opportunity to be able to realise many projects and to be increasingly sustainable, innovative and competitive while having a positive impact on our environment and society.

Within the framework of the recovery programme, Naturgy has presented projects in the following areas:

- **Renewable gases**, mainly for the development of H₂ and biomethane production projects, with a model based on the development of hydrogen valleys and their interconnection with the gas network, whereby projects for the adaptation of existing gas networks are also envisaged.
- **New renewable generation technologies**, such as offshore wind power, or the development of energy storage systems, to favour the integration of renewable energies and lend flexibility to the system.
- **Digitalisation**, including projects to digitalise the company's electricity grids, improvements in the operation and maintenance of renewable generation infrastructures, systems for participation in electricity markets, as well as cross-cutting projects related to data and cybersecurity.
- **Energy Efficiency**, for the development of efficiency solutions and the promotion of self-consumption by industrial, tertiary and residential end customer. The projects proposed focus mainly on innovative solutions for shared self-consumption, accompanied by social measures that integrate training and rehabilitation, promoted by the Naturgy Foundation.
- **Just Transition**, to promote solutions that guarantee employment and the creation of activity in the territories affected by the closure of coal-fired power stations. There are projects for new renewable electricity and renewable gas power stations at Just Transition sites.
- **Sustainable mobility**, for the development of innovative projects to promote sustainable mobility, including charging infrastructure for bio-CNG, H₂ and electric vehicles.

1. Innovation and new business development in 2022 at Naturgy

Evolution and results

• Investment in innovation

Investment in innovation by type (€M)	2022	%	2021	%
Process innovation	33.0	55.9	39.0	66.1
Product innovation	16.8	28.5	11.0	18.6
Commercialization innovation	2.9	4.9	4.0	6.8
Organisational innovation	6.1	10.3	5.0	8.5
Social innovation	0.2	0.3	0.0	0.0
Total R&D&I	58.9	100.0	59.0	100.0

Highlights of the year

- Naturgy and Equinor have reached an agreement to work together on the analysis and opportunities of offshore wind in Spain. The agreement includes the development of the Floating Offshore Wind Canarias project, a floating offshore wind farm of approximately 200 MW east of Gran Canaria, as well as the progressive introduction of this technology in Galicia and Catalonia.
- Through its GiraWind project, Naturgy promotes, together with Ruralia, Postelétrica and Huso 29 renovables, the management of wind farm dismantling and the recovery of dismantled turbines.

2. Innovation planning and technology monitoring

Forumtech

Technology monitoring and competitive intelligence take place through Forumtech, involving over 140 people from the various business units and corporate areas. These groups, which have a markedly collaborative nature, share and analyse information with a comprehensive vision, bringing together the areas of: technology, commercial, regulatory, social and market aspects. Insights are generated that guide the innovation activity and contribute to the evolution and transformation of the business. They facilitate the take-up of new technologies and best practices, awakening ideas and facilitating the development of new opportunities.

Scouting and Open Innovation

During 2022 Naturgy received and analysed more than 300 opportunities for collaboration, mainly due to the work of scouting of start-ups where the company combines collaboration with the leading international scouters and active internal search. In addition, Naturgy actively participates in initiatives with other corporations in the search for solutions to joint challenges.

Connecting Energy

This year Naturgy has consolidated its start-up incubation programme for start-ups, successfully closing the first edition and launching the second edition in September. The programme enables Naturgy to make the knowledge and talent of its employees available to the entrepreneurial community, promoting the creation of new companies. Twelve projects are currently being developed, with the support of a team of about 30 Naturgy professionals, including mentors and specialists. Incubation allows Naturgy to participate in the development of new business models and knowledge of new technologies, strengthening ties with the entrepreneurial ecosystem.

Innovahub powered by Naturgy

In 2022 Naturgy launched a new company with the aim of participating in innovative projects of third parties. Innovahub promotes the execution of pilots of novel technologies created by start-ups, validating the technologies in an industrial environment and contributing to the consolidation of the business projects behind them.

In a second line of activity, Innovahub is the vehicle for testing new business models through the creation of new companies with third parties, in the form of a venture builder.

3. Outstanding projects in innovation

Nextfloat

Naturgy participates in an international consortium to promote the industrial and competitive development of offshore wind energy in Europe. The NextFloat project will implement and test for 54 months an innovative 6 MW floating wind power system in the Mediterranean Sea, off the coast of France (Mistral), to test its scalability and future commercial development.

The project has been supported by the European Union and will be funded with Euros 15.9 million by the Horizon Europe programme.

The prototype uses a disruptive technology that aims to make the floating platform on which the wind turbine sits lighter. It also includes a patented system, "PivotBuoy", which will allow the platform to passively orient itself to the wind, thus maximising its energy efficiency and minimising the impact on the seabed thanks to its "TLP" mooring system.

Naturgy will spearhead tasks related to the socio-economic study of the project, the environmental viability or the commercial exploitation plan of the technology. In addition, it will be in charge of the project's communication strategy.

GIRA Wind

Together with Ruralia, Postelétrica and Huso 29 renovables, Naturgy promotes the management of wind farm dismantling and the recovery of dismantled turbines. The initiative is primarily aimed at inspecting and overhauling turbines that have been in service for years, both as a whole and in the form of spare parts. Secondly, the processing of components that are not fit for further use, but which can be second-life raw materials.

In 2022, work began on the experimental plant in Almazán (Soria), where various technologies and processing lines will be tested. Subsequently, plants will be deployed in different locations, with the aim of maintaining a close relationship with the territories and their local agents.

Second phase of the renewable gas mixed unit project

Research project developed by Naturgy, the EnergyLab Technology Centre and Edar Bens (A Coruña). Funded by the Galician Innovation Agency (GAIN), it is financed by the European Union within the framework of the Galicia ERDF Operational Programme 2014-2020 for renewable gases research.

This new stage will complete the work done so far by the mixed unit for biogas and biomethane research, which has achieved notable results such as the commissioning of a membrane filtration plant and the first biological methanation plant in Spain at the Bens wastewater treatment facility. Research into other renewable gases such as green hydrogen and bio-syngas will make it possible to assess their impact on current infrastructure and end consumption points.

Five new lines of research will be developed within the project:

- Improved biogas production through co-digestion and nutrient recovery.
- Generation of green hydrogen through the energetic use of the treated water flow.
- Biohydrogen production through dark fermentation.
- Gasification of sewage sludge to obtain bio-syngas.
- Study of the impact of the use of different renewable gases and their mixtures (injection into the gas network and use in stationary and mobile applications).

VAutosin

Naturgy participates with the Catalonia Energy Research Centre (IREC) in a research project on the catalytic methanation process consisting of the synthesis of methane from carbon dioxide of biogenic or reused origin, and hydrogen of renewable origin. The approach stems from the experience gained in the previous CoSin project.

This project aims to rethink the current methanation technology by means of a novel reactor concept which, if successful, would allow a reduction of auxiliary equipment as well as a decrease in energy consumption, improving energy balances and economic cost.

Naturgy and IREC will test this new technology under real operating conditions in a biogas power station.

Zeppelin

Naturgy participates in the Zeppelin project, which aims to investigate a flexible set of technologies for the production and storage of green hydrogen by alternative routes to water electrolysis. It develops technologies based on the use of waste and by-products, seeking to improve production costs and efficiency.

This project addresses the different technological challenges linked to biogas and bioethanol reforming, dark fermentation, microbial electrolysis, gasification and H₂ storage, establishing new models for obtaining green hydrogen complementary to electrolysis with renewable energies, integrated into a decarbonised energy model under the principles of the circular economy and digitalisation.

Naturgy is leading the research and optimisation of H₂ production from thermochemical techniques, for which it is studying the gasification process from waste and the separation and purification processes of H₂ and syngas.

With a duration of approximately 38 months and the participation of a consortium of eight companies, Zeppelin is subsidised by the Centre for the Development of Industrial Technology (CDTI), within the framework of the 2021 call of the Science and Innovation Missions Programme (Recovery, Transformation and Resilience Plan). The project is funded by the European Union through the Next Generation EU Fund.

Sungreen Project

Naturgy will promote disruptive green hydrogen production technologies by means of a novel electrolysis technology in collaboration with the start-up Sungreen.

The aim of this project is to design, build, install and test a 50 kW prototype electrolyser to validate the technology and compare the results obtained with current commercial technologies. The Anion Exchange Membrane (AEM) technology promises a number of efficiency improvements and considerable cost reductions due to the reduced need to use scarce, exhaustible materials such as noble metals. Moreover, it is a technology that is easily adaptable to the variability of renewable energies, allowing for great flexibility and rapid response.

Business innovation projects

In the field of Naturgy's business, innovation projects are focused chiefly on developing projects that promote the digitalisation of the company, guaranteeing safety, operational improvement, and facilitating access to the best information in time and form for better decision-making, aimed at creating value and guaranteeing the company's long-term competitiveness.

Below are some examples of projects developed in the different business areas of Naturgy.

Network business in Spain

- UFD's rural battery project consists of a pilot to technically validate the electrochemical storage solution in rural environments for the rapid restoration of service when breakdowns occur.
- Creation of a predictive model based on the condition of the assets and which, through machine learning algorithms, allows Nedgia to make some of its main operations more efficient, such as network monitoring, LNG plant maintenance and dealing with emergencies.

Network business in Latin America

- Digitalisation of processes in Brazil for sales agents and implementation of a chatbot for customer service via WhatsApp.
- Digital transformation of commercial management processes in Chile

Conventional generation in Spain

Design and implementation of an automatic voltage control system and an automatic power reduction system in the combined cycle fleet. Both improvements are part of the system operator's plan to modernise the voltage control system and the integration of more renewable generation.

Renewable generation in Spain

Development and implementation of various improvements through automation and data analysis to improve event and anomaly detection and monitoring of solar PV plants and wind farms.

Commercialisation in Spain

Solution for fully digital billing in a Cloud infrastructure (AWS) and decoupled from traditional ERP systems and market, to simplify the reading and billing processes to allow greater agility in developments that require communication with customers and/or regulatory changes.

4. New business development

Renewable gases

The development of renewable gases, such as biomethane and hydrogen, is one of Naturgy's strategic vectors in its business and climate action plan. On the one hand, to reduce a significant part of the Greenhouse Gas (GHG) emissions that make up the company's carbon footprint. Similarly, in the just transition, to decarbonise the economy and create jobs in the areas affected by the closure of coal-fired power stations during the 2018-2020 period. Finally, for decarbonisation in certain energy-intensive sectors, such as industry and transport, and a focus for the creation of green jobs in rural areas, in line with the Spanish strategy against depopulation.

Moreover, given the current situation, renewable gases are present in the REPowerEU Plan, which aims to rapidly reduce dependence on Russian fossil fuels and advance the ecological transition. Thus, biomethane production targets for 2030, which were set at 17 bcm, are now 35 bcm, and renewable hydrogen production targets, previously 5.6 million tonnes, are now 20 million tonnes.

In this energy context, Naturgy, as one of the main operators of basic natural gas infrastructures, assumes its leading role as a driving agent for the development of the renewable gas value chain.

The biomethane opportunity

The production of biomethane, or renewable gas, from livestock, agricultural or industrial organic waste, or from landfills and wastewater plants, is an excellent example of the circular economy in the energy sector, providing significant environmental benefits and a complementary source of income for rural areas.

Environmental benefits

- It promotes the development of a productive process based on the use of renewable biological resources, which guarantees the efficient use of natural resources and reduces the generation of organic waste, promoting the conservation of biodiversity and ecosystems.
- It facilitates the decarbonisation of sectors that consume natural gas by replacing it with a fuel of biogenic origin and therefore neutral in CO₂ emissions. It also reduces emissions in sectors such as livestock, agriculture, waste management and water treatment through the recovery of organic waste, thus reducing their negative impact on ecosystems and the population.
- It contributes to the improvement of air quality by avoiding the combustion of these wastes, and reduces the environmental impact of chemical fertilisers by substituting them with the high quality fertiliser obtained: digestate.

Social and economic advantages

- Generation of employment, especially in rural areas, providing solutions to the demographic challenge and the depopulation of rural Spain.
- The livestock and food industry sectors have a significant weight in the Spanish economy, and the management of their organic waste offers a renewable and highly available resource.
- Cities can seize this opportunity to manage waste in a circular way to meet the region's reduction targets.
- Obtaining a high quality organic fertiliser that favours keeping waste within the productive cycle and that can be recovered in other sectors.
- First-rate national technology and engineering for obtaining biomethane, with R&D potential to take advantage of opportunities such as digitalisation of the tracking of waste used and certification of the guarantee of origin.

Advantages related to the energy transition

- Sustainable and renewable energy that contributes to the energy transition and security of supply.
- Reduction of external energy dependence.
- Manageable for continuous generation.
- Versatile energy source, valid for domestic, industrial, commercial and transportation uses.
- Exploitation of the existing natural gas infrastructure that allows universal consumption of a renewable and bio-based fuel that is produced in a distributed manner.

Lines of action in biomethane

Naturgy develops projects throughout the integrated value chain, from waste management and biogas production to the production and marketing of biomethane.

The company has experience in the development of renewable gas on a commercial scale, acquired in projects launched in recent years such as the Elena landfill, and new projects that are starting to take shape such as the Vilasana (Lleida) project and the one located in the wastewater treatment plant (WWTP) of Bens, in A Coruña, which is more innovative in nature.

In addition, Naturgy has 43 projects under development for the production of biogas and its subsequent enrichment process to produce biomethane for injection into the natural gas grid:

- 9 livestock waste projects (1,384 GWh/year).
- 4 WWTP sludge projects (170 GWh/year).
- 21 industrial waste projects (673 GWh/year).
- 5 urban solid waste organic fraction projects (221 GWh/year).
- 4 agricultural waste projects (299 GWh/year).

In addition to the development of the second phase of the Mixed Renewable Gas Unit project, mentioned in section 3 of this chapter, more detailed information is provided below on other projects of major interest developed during 2022.

Vila-Sana project in Lleida

This plant, which injects renewable gas into the grid, will become the company's third commercially operated facility in Spain. The plant, located on the Porgaporcs livestock farm (Vila-Sana, Lleida), will generate biomethane to supply the equivalent annual consumption of 3,150 homes and will prevent the emission into the atmosphere of around 2,500 tonnes of CO₂ per year, injecting 11.5 GWh/year into the gas distribution network.

With this plant, Naturgy takes another step forward in its commitment to energy transition, local energy production and the circular economy, providing clean gas to the energy system and contributing to the sustainable management of agricultural and livestock waste.

Rice Straw Project in Valencia

In 2021, Enagás, Genia Bioenergy and Naturgy's gas distributor Nedgia signed a protocol with the Regional Ministry of Agriculture, Rural Development, Climate Emergency and Ecological Transition of the Valencian Regional Government (Generalitat Valenciana) to promote a circular economy project that has continued in 2022. From rice straw, 87 GWh per year of renewable gas will be produced, equivalent to more than 15% of the natural gas consumption of the city of Valencia. This fully decarbonised gas will be purified and injected into the gas infrastructure, thus eliminating the emission of 150,000 tonnes of CO₂ into the atmosphere.

The project offers a solution to multiple environmental problems. Using the technique of anaerobic digestion, the waste is turned into renewable gas - which is injected into Nedgia's distribution network to be used for the same end uses as natural gas - as well as nutrients and fertiliser products that can be applied, again, in agriculture, creating a circular economy model.

The implementation of this initiative will also largely help to solve the environmental problem of poor air quality generated by the burning of rice straw around the city of Valencia and its metropolitan area, as well as the problems with irrigation channels and aquifers, and the degradation of water and soil due to anoxia and greenhouse gas emissions when the straw is left to rot in the open air, facilitating more sustainable agricultural uses in an environment with a high ecological value.

This pioneering initiative, which promotes investments for the improvement and sustainability of agricultural practices, can be applied in other rice-growing areas of Spain, such as the Ebro Delta, Extremadura or the Guadalquivir marshes, while promoting sustainable rural economic development and territorial cohesion in areas with demographic challenges.

The hydrogen opportunity

Despite the difficulties of use, availability and technological cost, renewable hydrogen has a promising future. The REPowerEU Plan has reinforced the roadmap in Spain which sets a target of 4 GW of installed electrolysis capacity by 2030, which is 10% of the target set by the European Union. The support of the administration and the private sector, especially those players already consuming grey hydrogen such as refineries and fertiliser producers, will be essential for the implementation of large-scale projects to meet the expected technological pathway.

Green hydrogen constitutes an energy vector capable of:

- Channelling large amounts of renewable energy from power generation to sectors where electrification is not a feasible option.
- Storing and managing energy massively and over long periods of time, matching energy supply and demand.

The natural gas transport and distribution infrastructure existing today in Spain can be used in the short term to transport hydrogen in the form of blending up to approximately 10% without the need for investment and, in the medium term, to transport pure hydrogen or in blends of more than 10% by adapting the compressor stations and other minor elements.

To promote the penetration of hydrogen as a renewable energy vector, it is necessary to develop its entire value chain, from its production to its use in the final demand sectors. The publication of Royal Decree 376/2022 establishing the creation of a system of Guarantees of Origin (GoO) for renewable hydrogen, its definition and issuance conditions, will favour deployment among industrial consumers with significant decarbonisation needs, where electrification is difficult and whose location does not coincide exactly with the place of production.

Lines of action in hydrogen

Naturgy has been researching the development of hydrogen for years due to the enormous potential it has for a country like Spain. The country can position itself as a strategic exporter of new renewable energy, capable of travelling long distances, transported on existing infrastructure and integrated with the grid for an efficient and resilient energy system. Naturgy, an essential player in energy transmission and distribution, can contribute its global capacity and knowledge throughout the value chain.

During 2022, the company has worked on the development of large renewable hydrogen production hubs linked to just transition zones, especially in areas affected by the closure of thermal power stations. The aim of the development of multi-demand hubs is to promote the development of new markets for direct consumption in industry, injection into the gas network for its commercialisation with guarantees of origin, mobility or production of H₂ derivatives.

For example, the company is working with Enagás on the development of a hydrogen plant in La Robla (León), in the vicinity of the thermal power station closed in 2020. The aim is to produce renewable hydrogen from a photovoltaic plant and an electrolyser with which to cover local consumption and enable future export to Northwest Europe. It will reduce GEI emissions and encourage the penetration of renewable energies in sectors that are difficult to electrify. The company has presented the project within the framework of the candidacy of projects of common European interest and proposes similar initiatives for hydrogen production from renewable energy in the areas of the former thermal power stations of Meirama (Galicia) and Narcea (Asturias), linked in this case to wind power stations.

In parallel, during 2022, Naturgy has worked on the development of onsite hydrogen production projects linked to the electro-intensive industry, which due to its characteristics is difficult to electrify. As an example, a project is being developed near a cement plant, where the capture of part of the CO₂ from its process is proposed, which would be mixed with green hydrogen for the production of methanol.

Hydrogen production project at Meirama

Naturgy, together with Repsol and Reganosa, has planned a renewable hydrogen hub of up to 200 MW in Meirama. In the initial phase of the project, which is scheduled for commissioning in 2025, 30 MW of power will be achieved. In the full development of the project, the plant will have an output of 200 MW and a total production of 30,000 tonnes of renewable hydrogen per year. The plant will supply the Repsol refinery in A Coruña and other consumers.

The project represents an opportunity for sustainable economic development in Galicia. Being located in the municipality of Cerceda in A Coruña, a Just Transition area affected by the closure of the Meirama thermal power station, the project will promote the creation of stable employment and the training of highly qualified professionals.

The renewable hydrogen generated will be targeted at industrial use to replace the conventional hydrogen currently used by the Repsol refinery. It will also be used in other industries, in injection into the gas grid for blending with natural gas, and in mobility. All these uses will reduce the area's carbon footprint and demonstrate the feasibility of mass production of renewable hydrogen and its distribution to the end consumer.

The project's innovation is present in all stages of the hydrogen production value chain: in the production plant itself, in its uses in industry, in injection into the gas network, in marketing through Guarantees of Origin (GoO) and in its use for sustainable mobility. It is a multi-demand project.

The project thus demonstrates the feasibility of large-scale deployment of renewable hydrogen to decarbonise industry, as well as the reuse of existing facilities in areas affected by the decommissioning of thermal power stations.

The hydrogen production plant will not only lead to a high level of job creation, but will also bring social benefits, thus contributing to the fulfilment of the United Nations Sustainable Development Goals.

Storage

The geopolitical scenario and the current energy crisis have further encouraged the promotion of renewable energies. The National Integrated Energy and Climate Plan (PNIEC) 2021-2030 foresaw that by 2030, 74% of the energy mix would be made up of renewables. In addition, European policies - such as REPowerEU - have led to a forthcoming review of the PNIEC and the targets set in the framework of the European Green Deal to 2030, to increase the level of ambition, particularly for wind and photovoltaic energy.

This situation presents the energy system with the challenge of equipping itself with flexible tools to manage production, match generation and consumption, avoid sudden drops in production and provide firm capacity to the system. In this scenario, storage is key to the security and quality of supply.

The development of storage systems, in particular batteries, although constantly improving, is now mature enough to support the development of renewables. Among battery technologies, lithium-ion (Li-Ion) batteries are currently one of the most efficient technologies, both technically and economically, and these are expected to grow the most. Even so, its main limitation is the price, so in energy markets that are not very mature in the use of this type of storage, it is necessary for projects to have public support for their development in the short term.

Although in recent years Naturgy has carried out Ion-Li and redox flow battery projects that have allowed the technology to be tested, the lack of regulation has not made it possible to test its operation in the Spanish electricity system. This is currently the main challenge: to achieve the management and integration of storage in the energy and balancing markets. This requires the development of new operating systems that will be key to the optimisation and economic viability of these projects.

Lines of action in storage

During 2022, work has been carried out on the development of several initiatives with the aim of developing a portfolio of storage projects that will enable compliance with the Strategic Plan, whose goal is the implementation of 120 MW of storage in Spain:

- **Hybridisation projects in generation**, mainly in wind farms and photovoltaic parks. The hybridisation of storage with generation will allow the renewable energy that is incorporated into the Spanish electricity system to be manageable, providing flexibility and firm capacity to the system.
- Deployment of **stand-alone storage** in key locations in areas of grid congestion or loss of firm capacity due to the closure of thermal power stations. At the technological level, the challenges are similar to those of hybridisation projects in wind farms, mainly the management of the control system to achieve optimal operation.
- Development of a **new storage model** to optimise economically and technically the implementation of hybridised systems with storage in small and geographically close farms. Since there is currently no regulatory framework to rely on, it will be developed within the context of a regulatory test bed.

Projects for more than 80 MW are currently in the pipeline, with a potential portfolio of more than 200 MW in the coming years. These projects have been developed with Spanish technology partners and research centres, to generate jobs and strengthen the business fabric throughout the value chain of the projects.

Given this situation and the fact that the energy transition is one of the pillars of the Recovery Funds, significant support is expected for this type of project. The grants are an opportunity to speed up the implementation of this new technology. A stable and favourable regulatory framework, together with the expected cost reduction, suggest that in the next 10 years the technology will be viable in the medium term without aid.

Sustainable mobility

In 2022, the commitment to sustainable mobility based on different technologies has continued.

In terms of gas, the company has continued its commitment to the deployment of a nationwide infrastructure of natural gas vehicle (NGV) refuelling stations for public use, aimed at achieving a BioNGV transformation.

Since natural gas has lower emissions than other fossil fuels, it can contribute to the decarbonisation of transport, especially in heavy transport, where electrification is not foreseeable in the short and medium term.

In addition, existing NGV refuelling station infrastructures can be used both for biomethane -favouring its development- and for hydrogen -either through blending with natural gas, or through synergies due to the similarity of their business model-, which allows them to share sites and their development. This is why BioNGV-oriented NGV continues to be a growth vector for the energy transition in heavy transport.

In the area of electric mobility, the lines of charging products for customers in the retail and industrial segments have been boosted, experiencing significant progress as a result of the regulatory drive and high demand.

The minimum noise generation and the zero local emission of greenhouse gases such as CO₂ and other substances such as particles and NO_x, make this technology (pure electric) the most suitable for transporting people in urban areas as it does not affect air quality.

The growth of electrified fleets is exponential both nationally and internationally. By the end of this decade, growth is expected to soar. In this context Naturgy wants to satisfy the different needs of electric recharging.

Lines of action on sustainable mobility

Among the initiatives highlighted in 2022, the following are noteworthy:

- **Signing of the first biomethane contract for vehicles.** Naturgy has agreed to supply up to 2 GW/year of biomethane for the last-mile delivery fleet of Aquaservice, a water distributor. This fuel substitution will contribute to an emissions reduction of up to 350 tCO₂/year, which is equivalent to taking 53,000 vehicles off the road in a city for one day. The biomethane comes from Naturgy's production facilities at the Elena landfill.

- **Supply of renewable gas to Zaragoza's first bus.** Through a consortium with the Zaragoza Area Transport Consortium, Automóviles Zaragoza, Scania and Calvera, Naturgy has supplied 150 MWh of biomethane from the company's plant in Vilasana (Lleida) for the purification of biogas, obtained from the digestion of slurry. This biomethane was used to propel a city bus, which ran for three months between Zaragoza and Villamayor de Gállego.
- **Alliance for the development of hydrogen mobility.** Signing of an agreement with Enagás, through its subsidiary Scale Gas, and Exolum, to jointly study and develop infrastructures for the production, distribution and supply of green hydrogen in the mobility sector throughout the country. This is the first major hydrogen alliance for mobility corridors. The project will be called Win4H2. This agreement includes the development of a network of 50 hydrogen plants, which will offer a homogeneous penetration of this energy vector in Spain, so that any user can opt for the green hydrogen solution with guaranteed supply in 100% of mainland Spain.
- **Signing of the protocol to promote decarbonisation policies in the Community of Madrid,** which seeks, among other aims, to promote the deployment of electric charging infrastructure.
- **Collaborations with FUTURED** - Plataforma Española de Redes de Eléctricas related to the electric mobility sector.

10. Social responsibility

[3-3]

(Social contribution and participation)

Naturgy's contribution to the SDG



Social responsibility is one of the cornerstones of the company's Sustainability Plan and reflects the commitment to society embodied in the Naturgy group's Corporate Responsibility Policy.

As a company committed to society and supplier of a basic commodity such as energy, Naturgy has the responsibility to offer a quality and continuous supply, as well as to understand and contribute to addressing the challenges associated with access to energy, both those that affect the most vulnerable groups and those that impact the territory as an indirect effect of the energy transition.

The company demonstrates its unwavering commitment by providing know-how and resources and by allocating part of its profits to social investment for the economic and social development of the areas where it operates.

To be able to contribute what is necessary in each place, Naturgy maintains a fluid and permanent dialogue with society, enabling it to be aware of the needs, expectations and doubts of the communities where it operates and to invite their involvement and participation in the programmes aimed at their well-being.

Ongoing collaboration with society also takes place through cultural, social, sustainability and environmental resources and programmes that the company uses to create wealth and prosperity for those around it.

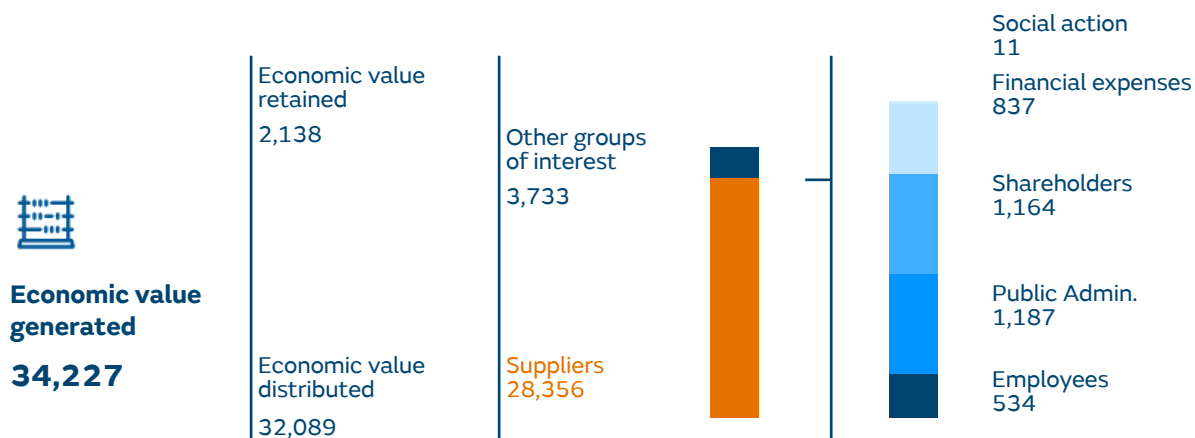
1. Social responsibility in 2022 at Naturgy

[203-1] and [203-2]

Evolution and results

• Economic value distributed. Detail by group of interest (million euro)

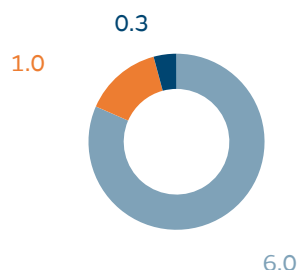
[201-1]



• Total social investment (million euro)

	2022	2021
Philanthropic investment (million euro)	7.4	7.0
Breakdown by type of action (%)		
Social	82.7	76.5
Environmental	2.3	3.7
Cultural	15.0	19.8
Sponsorship and social action activities (No.)	113.0	90.0
Social investment in the local community (million euro)	3.7	3.1
Total social investment (million euro)	11.0	10.1

• Philanthropic investment (million euro)



■ Amount for Donations

Financial contributions to foundations and non-profit organisations for which the company receives no compensation.

■ Amount for Partnerships

Financial contributions to foundations and non-profit organisations for which the company receives some compensation.

■ Amount for Sponsorships

Amount allocated to other types of entities, not necessarily non-profit making and for which the company receives some compensation.

Highlights of the year

During 2022, the main achievements in the field of Social Responsibility in Naturgy have been:

- **Energy vulnerability:**
 - Development of an advisory service on contracting and improving consumer habits for the population in vulnerable situations.
 - Consolidation of the social innovation line to incorporate renewable energies in the fight against vulnerability.
 - More than 3,600 homes rehabilitated, and 2,943 families assisted in energy volunteering.
- **Relationship with communities:**
 - Application of local community engagement programmes and impact assessments to 100% of the company's operations.
 - Development of more than 16 projects in five countries with local community engagement.
 - Implementation of the Social Rationing Model (SRM) in different territories in Spain and formation of a social management team with specialists located in the vicinity of Naturgy sites.
- **Sponsorship, social action, volunteering and Naturgy Foundation:**
 - Launch of The Win-Win Lab experience, an informative project that presents new energy technologies to favour the fixation of the population in the rural environment, through the creation of employment and the reinvigoration of activity.
 - More than 13,783 hours of corporate volunteering and 168,745 euros of employee wages raised during the Solidarity Day.
 - 134,309 beneficiaries of Naturgy training programmes.

2. Energy vulnerability

[3-3]

(Energy vulnerability)

Naturgy considers people to be the most important focal point, and even more so vulnerable groups in need of protection. For this reason, the company has an Energy Vulnerability Plan that constitutes its strategy to help alleviate this social scourge. The Plan was established in 2017 and has continued to evolve and adapt to the realities of each year. The plan is being worked on by different areas of the company with two key players: the Naturgy Foundation and the customer area. It seeks to go beyond compliance with prevailing legislation and promotes partnership agreements with the different public and private bodies involved, as an element on which the rest of the Plan's actions are based.

The goals of the Plan to alleviate vulnerability and energy poverty in Spain are:

- Improving management and customer relations in cases of energy vulnerability.
- Streamlining the exchange of information with town and city councils for better identification of situations of energy vulnerability.
- Implementing activities with entities that work to alleviate energy poverty cases and to detect vulnerabilities.
- As a result of the current global situation and in Europe in particular, with rising energy and fuel prices, adverse weather events, shortages of raw materials and logistical problems that have been occurring recently, the most vulnerable people are suffering the greatest negative impact today.

Energy vulnerability is a top priority for Naturgy. The actual and potential negative impacts identified are as follows:

- The right to adequate housing includes access to a modern energy source. Energy vulnerability therefore affects this basic right.
- People in vulnerable situations are affected physically and emotionally as they are unable to meet the most basic needs, such as energy supply. The lack of household temperature adaptation, both for cooling and heating, leads to the aggravation and development of illnesses. The emotional state of people is also affected, as well as the educational development of the younger population or the access to a job in the working age population.
- A larger vulnerable population means that more and more people have less and less spending capacity for other products or services. If this situation were to continue over time, it would lead to a reduction in demand, which would lead to the destruction of supply and therefore of the business fabric.
- As for the environment, energy vulnerability forces people in such a situation to look for other, sometimes more environmentally damaging, energy sources.

The price of energy, influenced by the international wholesale gas market, is having a negative impact on the price end-customers pay for electricity. However, there is no evidence that, as a result of the company's business relationships, there is a negative impact in terms of increased vulnerability. On the contrary, the company is doing everything possible to minimise the impact of the international gas market on electricity prices.

Naturgy has activated numerous mechanisms to help alleviate energy vulnerability. In 2022, in Spain, Naturgy continued signing agreements to protect vulnerable customers with different administrations to prevent cutting off customers. Measures taken to prevent, address, manage and facilitate the remediation of actual and potential negative impacts during the year have been:

- Energy Rehabilitation Solidarity Fund. It facilitates energy rehabilitation works for the housing of families in a situation of vulnerability. In 2022, the number of rehabilitated dwellings exceeded 3,600, with 1,111 dwellings being rehabilitated during the year. The management and selection of rehabilitated homes is carried out through agreements that Naturgy Foundation carries out with third sector entities that work with people at risk of vulnerability. In 2022, eleven agreements have been signed.
- The development of the social innovation line to incorporate renewable energies in the fight against vulnerability has been consolidated during the year. Seven projects have been initiated for the installation of photovoltaic power equivalent to 285 kWp (kilowatt peak), benefiting 1,847 people.

- Energy School. One of the causes of energy vulnerability is the lack of training and knowledge about energy among both the general population and the social technicians who accompany the population in vulnerable situations. That is why the Naturgy Foundation created the Energy School. It is a school where trainers provide training and workshops to vulnerable groups and social technicians, either in person or in a hybrid format. The topics covered range from the energy sector in general, understanding energy bills, energy efficiency tips, the discount rate, as well as all the latest news and legislative changes in energy matters. The School works mainly with town councils and is present in more than 700 municipalities. In 2022, 3,942 people have attended the School's training courses, 47% of whom are families and 53% are social technicians. In addition, a new service has been developed for some town councils, which consists of providing a regular advisory service to the population in a situation of vulnerability on their consumption and bills; and providing support to improve contracting and habits for efficient energy consumption. The webinars initiated during the pandemic period continue to be very useful and, in 2022, 6 webinars have been held with 857 attendees, covering the following topics: "Regulatory update of the discount rate", "The energy price", "Understanding the electricity bill", "Update on legal measures", "Good energy consumption habits at home" and again "Update: Discount Rate, LRT4 and the gas cap mechanism".
- Energy volunteering. The Naturgy Foundation manages the company's energy volunteering programme, so that employees who wish to do so, with their expert knowledge, can help vulnerable people to reduce their energy costs. To this end, online and face-to-face energy advice workshops are organised to help the most vulnerable users understand their bills, access the discount rate and learn about energy saving measures that can help them improve their energy use. These workshops have been developed under the agreements signed by the Foundation, but also at the request of other entities that have requested them, including the employees themselves and other business areas of the company. In 2022, 2,943 families have been assisted with energy volunteering.
- Monitoring of the discount rate. Naturgy has closed the year with 164,935 customers with the discount rate -a lower electricity bill regulated by the Government aimed at households considered vulnerable due to their socioeconomic situation-.
- Reinforcement of the company's customer service channels for vulnerable customers and the social entities that support them. Naturgy has a specific channel for social services. During 2022, it has handled 71,277 emails and 876 telephone calls. It has also reinforced the email channel to handle requests from social entities and the call centre. These channels can be used to carry out all the necessary procedures regarding vulnerable customers' contracts in order to optimise them or to consult any queries regarding consumption, bills or tariffs. It has reinforced the email channel to handle requests from social entities and the call centre. It has received 111,680 calls from vulnerable clients and has also dealt with 323 calls and 130 emails from the third sector.
- It continues to maintain the special conditions for splitting bills to help customers in a situation of vulnerability, enabling them to split the debt into a greater number of instalments.
- These actions are complemented by the study and publication of books such as those carried out in 2022: "Express energy rehabilitation. Analysis and contributions from social entities", an update of the publication "Express energy rehabilitation for vulnerable households. Low-cost solutions" and "Jobs in demand in the energy sector". These studies provide the Plan with a solid knowledge base on which to base its actions. In addition, the Naturgy Foundation is part of the advisory board of the Chair of Energy and Poverty of the Comillas Pontifical University, which is a privileged environment from which to give coherence to studies, legislative proposals, training and dissemination actions that help mitigate and, ideally, eradicate this problem.

These actions are complemented with the awarding of the prize of the II Edition of the Award for the Best Social Initiative in the Energy Field, through which the Foundation pursues a twin objective; on the one hand, to make visible the initiatives that other entities are carrying out to fight against energy vulnerability, and on the other hand, to provide resources to other social energy projects. 51 entities have participated by submitting their projects. A first prize of Euros 60,000 and a runner-up prize of Euros 30,000 were awarded.

In addition, the Naturgy Foundation has participated in two European projects to give greater visibility and strengthen its leadership in the implementation of programmes related to energy vulnerability, as well as to learn from good practices in other European countries and network with entities of various kinds. The Foundation continues to contribute to and participate directly in the SocialWatt project, which aims to help energy companies comply with the European Directive on energy efficiency through the design and implementation of action plans against energy poverty and the monitoring of these, and EPIU Getafe, which involves development of a new system for the smart detection of cases of energy vulnerability, with special emphasis on hidden energy poverty. The Naturgy Foundation is part of these European consortia, with the implementation of specific action plans.

The processes used to monitor the Plan's measures have been as follows:

- In the case of the Energy Rehabilitation Solidarity Fund, an audit is conducted every year of the rehabilitations performed, checking that all the planned actions have been carried out.
- Joint monitoring committees have also been set up, as well as a continuous dialogue with the entities with which agreements are signed to monitor compliance with the agreements, to continue improving and to make the necessary modifications to the processes.
- In the case of the Energy School and volunteering, user satisfaction surveys are carried out to check the usefulness of the sessions and to make modifications if necessary.

To ensure the correct progress of the Vulnerability Plan, annual indicators and goals up to 2025 have been incorporated into the company's Sustainability Plan.

The measures carried out this year, in line with the actions of previous years and thanks to the feedback received both from the organisations and the users of the school, volunteers and users of the volunteer activities, have demonstrated that the actions have been effective and help alleviate energy vulnerability.

In terms of lessons learnt, on the voluntary side we have seen that it is not only people who cannot pay their bills who are vulnerable, but also the elderly, refugees and migrants in a vulnerable situation. Consequently, these groups have been incorporated to the energy advice workshops. Participation in both studies and European projects has allowed us to make the lessons learnt in the Vulnerability Plan explicit and bring them to the attention of other entities and companies, as well as the European Commission itself.

The installation of renewable energy sources for vulnerable groups has provided us with many lessons learnt, highlighting the administrative management and the need to improve procedures, currently too cumbersome, for obtaining licences, deadlines and subsidies for these groups.

Obtaining the discount rate also requires support for vulnerable families due to the difficulty of the procedure. It is also necessary to ensure that the technology and the different possibilities for making household improvements reach these groups, which is not normally the case.

In terms of stakeholder participation, all the actions and measures we carry out to help alleviate vulnerability have been designed from the outset taking into account the needs of social entities, vulnerable people and the social services of the public bodies with which the Foundation collaborates. In addition, ongoing dialogue has been established with all these participants to know how their needs are changing and to be able to adapt the actions and measures of the Plan to the current reality. The seminars organised both to present the studies and to delve deeper into the problem of energy vulnerability present us with a space for relations and action with stakeholders, including groups of vulnerable families, third sector entities, public administration at different levels - local, regional, autonomous and state, the university, as well as other energy companies.

3. Relation with communities

Principles of action

[2-25], [203-1], [203-2], [411-1], [413-1] and [413-2]

Naturgy's Human Rights Policy includes respect for communities and the improvement of their living conditions; compliance requires the evaluation of the social impact of the company's activities and the definition of initiatives and programmes that manage the social impacts identified in the surrounding communities.

To this end, the company has a Social Relationship Model (SRM) that seeks to integrate social management as another discipline in the entire life cycle of generation projects, and is the framework for action based on the following principles for relations with communities:

- Naturgy is one with the territory: we recognise, respect and protect local values and idiosyncrasies.
- Naturgy communicates as equals: we encourage early and transparent communication and open accessible channels of active listening.
- Naturgy generates shared value: we promote actions that improve the quality of life in our environment.
- Naturgy offers opportunities: we are a driving force for development in the territory, and a driver for supporting local employment and training in the sector.

The SRM is an iterative process that unfolds throughout the life of the project, and relies on the application of methodological tools with a cross-cutting focus on communication, active listening and laying down roots.

Its implementation includes the following phased works:

1. Determination of the area of influence and environment of the activity: analysis of the social impacts that the activity may have on the communities.
2. Stakeholder mapping and classification: identifying communities affected by the company's activity, and finding out their needs and aspirations.
3. Analysis of risks and opportunities to support the design of shared value propositions that can be included in business planning.
4. Social Relations Plan (SRP): design and implementation of actions with a positive social impact, based on the opportunities identified in the dialogue with the communities.
5. Social Impact Assessment of the SRP.

In the locations where it wishes to undertake new investments, Naturgy carries out assessments of the positive impacts and effects that may be generated, both in local communities and in the territory, some of these are:

- Impact on human rights.
- Displacement or relocation of local communities.
- Modification to the traditional ways of life.
- Changes in the traditional uses of territory.
- Attracting new technologies.
- Creation of skilled and unskilled jobs.
- Temporary occupation of the communication routes.
- Impact on landscapes.
- Noise.

Implemented local community engagement, impact assessments and development programmes have been applied in 100% of the company's operations during 2022. These programmes include the use of specific participation plans, local community development programmes based on community needs, and social impact assessments and monitoring.

During 2022 Naturgy has not recorded any cases of violation of indigenous peoples' rights.

Featured projects

The projects underway during 2022 are listed below, and the most relevant are detailed hereunder:

Country	Projects
Australia	Crookwell II wind farm
	Berrybank I wind farm
	Berrybank II wind farm
	Hawksdale wind farm
	Ryan Corner wind farm
	Crookwell 3 wind farm
	Paling Yards wind farm
	Darlington wind farm
Brazil	Sobral I photovoltaic plant
Costa Rica	Torito hydroelectric power station
	La Joya hydroelectric power station
Mexico	Bíi Hioxo wind farm
	Tuxpan III & IV combined-cycle power station
	North Durango combined-cycle power station
	Naco Nogales combined-cycle power station
	Hermosillo combined-cycle power station
Dominican Republic	Palamara - La Vega fuel oil-fired power station
Spain	Various sites

Berrybank wind farm I (Australia)

Naturgy is carrying out a social commitment and profit-sharing plan with the local community near this 180 MW wind farm located in the state of Victoria, associated with the state government contract. The initiatives included are:

- Actions for community benefit. Actions with the participation of the neighbours.
- A person specifically appointed to take charge of the community involvement programme and to set up a community engagement committee.
- Training and internship programme.
- Scholarship programme with several universities.
- Project website.
- Newsletters, press releases and local print ads.

Bíi-Hioxo wind farm (Mexico)

The company collaborates permanently with the local community of this 234 MW wind farm in Juchitán de Zaragoza (Oaxaca). Thus, Naturgy develops programmes that respond to the needs of the community and contribute to improving living conditions. The action lines for 2022 have been:

- Restoration of sanctuaries.
- Restoration of common areas in local schools.
- Support to local cooperatives to promote productive development.
- Support to the population in the event of floods, COVID-19 and other contingencies.
- Endowment of a community house and various workshops with young people and children.
- Community development team supporting the community and attending the community house.

Tuxpan III & IV combined-cycle power station (Mexico)

The plan to support the communities around this 1,007 MW plant, located 30 km south of Tuxpan (Veracruz), continues to be developed. In particular, Naturgy has deployed a major community relations plan with the communities located on “Carretera de los Kilómetros” state highway from the kilometre point 0.000 to 16.000. The action lines for 2022 have been:

- Support plan for the restoration of community infrastructures along Los Kilómetros Highway community.
- Project for the conservation of priority species, at the Tortuguero camp in Playa Villamar.
- Support to the population and local health centres with food and medical supplies.
- Clean-up of the Chaco estuary.
- Community development team supporting the community.

Naco Nogales combined-cycle power station (Mexico)

The plan to support the communities around this 300 MW plant, located in the vicinity of the city of Agua Prieta (Sonora), has consisted of:

- Training and summer courses for young people in the community
- Community infrastructure improvement projects.
- Collection of germplasm and construction of a greenhouse with native species for reforestation. .
- Laying hens production project.

Sobral I photovoltaic plant (Brazil)

During 2022 the company continued implementing the Quilombola Basic Environmental Project (QBEP), associated to the Sobral I photovoltaic plant (30 MW) in the municipality of São João do Piauí (Piauí, Brazil), in order to create shared value and to have a positive social impact in the territories of Riacho dos Negros and Saco/Curtume. For the development of the QBEP, a close and ongoing relationship has been maintained with the community and local authorities, to identify, design and implement actions to promote economic and social development in the region. The project has various lines of action, which include a series of specific actions of which the following have been implemented:

- Recovery of infrastructures in the territory for community use, such as water pumps and public lighting.
- Launch of a productive project based on beekeeping production in the territory.
- University and technical study grants.

Various locations and territories in Spain

During 2022, work has been carried out on the implementation of the SRM in several territories in Spain, for which a social management team has been set up with specialists located in the vicinity of Naturgy’s sites. Each social manager is present in the territory in order to maintain a permanent and close dialogue with the project’s neighbours, creating two-way communication links and trust. Their work consists of informing, resolving doubts about the project, gathering information from the territory through participatory processes, and ensuring the proper implementation of the SRP, in coordination with Naturgy teams, local agents and stakeholders (neighbourhood communities, associations, local government, third sector entities and others).

4. Sponsorship, social action and volunteering

[413-1]

Sponsorship activity

Beyond its business activity, Naturgy collaborates with society through cultural, social, environmental and sustainability programmes. Its financial contributions strengthen the company's interest in being a positive part of each community and country where it does business.

This commitment is materialised in sponsorship and donation actions, whose activity and processes are defined with total transparency in the company's General Procedure of Sponsorship and Donations. The main lines of action are:

- Education, training and development: collaboration with entities dedicated to promoting and training young people.
- Environment and sustainability: collaboration with institutions dedicated to the preservation, conservation and rehabilitation of the environment, and also with entities that carry out educational activities on sustainability, energy and the environment. For example, support for the Group for the Rehabilitation of Native Fauna and their Habitat (GREFA), collaboration with Bosquia for the creation of a forest and collaboration with the International Foundation for the Restoration of Ecosystems (FIRE).
- Artistic and musical culture: in the field of cultural sponsorship, the promotion of music, art and education is of particular importance. In 2022, Naturgy has continued its collaboration with the Gran Teatre del Liceu and the Teatro Real.

Social action

Naturgy's social action activities are mainly focused on the geographical areas where it is present. In these areas, the company deploys its activities based on the contextual situations and the particular needs of the people who live there, especially those in situations of vulnerability.

The most pressing issues identified by the company push for greater awareness of environmental care and the use of energy resources. Accordingly, Naturgy carries out initiatives in energy, efficient use and safe management of water, electricity and gas.

The current context also leads the company to focus on child protection, especially for the most deprived children who depend on an incentive in the form of a scholarship or a particular budget to enable them to continue their educational activity.

For older unprotected groups, the company also carries out actions for their inclusion through education, retraining and training. Training and lectures on climate awareness and responsible consumption of resources (water, paper and energy) are given in all countries, and reforestation days have been held in protected habitats. In addition, specific programmes are carried out in each of the countries. Specifically, in Argentina, Brazil and Panama, it runs programmes aimed at the inclusion of groups in search of professional employment through the teaching of the gastronomy trade. In the case of Chile and Mexico, the action focuses on training through courses and lectures on the prevention of accidents involving the use of natural gas.

Volunteering

Naturgy's corporate volunteering is another key part of the strategy followed by the company in its commitment to people. Its programme is structured in three areas: energy, social and environmental. Over the course of 2022, 646 employees from Spain, Mexico, Panama, Brazil, Argentina and the Dominican Republic spent more than 13,783 hours on corporate volunteering with their companions.

Globally, 66 initiatives of a one-off, temporary or continuous nature, 28 social volunteering actions, 14 environmental volunteering actions and 24¹ energy volunteering actions, with the participation of 2,156 volunteers, were carried out. The number of beneficiaries dealt with amounted to 15,143 in 2022.

¹ Spain only.

One of the fastest growing areas is energy volunteering. Online energy advice workshops have continued and has been a return to face-to-face workshops, where the most vulnerable people are given advice to help them reduce their energy bills.

In 2022, 14 activities have been carried out to care for the natural environment, five of them in Spain, five in Argentina and four in Panama. Among the activities carried out, the volunteers planted trees and bushes to improve the selected habitats, removed invasive species and waste, built nest boxes and insect hotels and learnt how to ring birds, among other actions that completed the environmental volunteering activity of the year.

Different initiatives have also been launched to mark the Week of Environmental, Social and Digital Commitment, some of them promoting previous activities and others newly created: solidarity energy kilometres, training sessions on legislative changes in energy matters, advice on how to learn to speak in public, the “Wise Man for a Day” activity and motivational talks and workshops to encourage voluntary action.

With the aim of showing vocational training students what Naturgy is like from the inside and motivating them to continue their studies, the fifth edition of the volunteer coaching activity has been held with absolute success for the third consecutive year, and the mentoring activity - which was so successful in 2021 - has been held again. Volunteers act as mentors or coaches in one-to-one sessions with students, giving them an inside look at the company, simulating a job interview and drawing up an action plan.

Solidarity Day

In 1997, Naturgy employees created this association, which involves participants voluntarily donating a one-day fraction of their annual salary to projects targeted at promoting education and teaching children and young persons in those countries in which the company operates. For the Solidarity Day event, the company donates an amount equal to the amount donated by employees and assumes all management costs, so that 100% of the amount raised can be used for the annual selected project. Close to 917 employees around the world took part in the initiative.

In 2022 these employees donated approximately Euros 168,745 of their salaries and the company made an additional matching contribution, as well as assuming the costs of managing the association. Since its inception, Solidarity Day has raised Euros 3.4 million in employee donations and an equal amount contributed by the company.

This year, Solidarity Day financed the education of approximately 1,262 school, technical and university students as part of the ordinary projects being implemented in Argentina Brazil, Mexico, Moldova, Nicaragua, Panama, Chile, Portugal and Spain.

In addition, the association continued to donate computers no longer required by employees and which are in perfect working condition. These computers go to organisations and schools that use them to reduce the digital gap for the most vulnerable people. To date, more than 1,000 computers have been donated to more than 40 entities in Spain, Chile, Panama and Portugal.

5. Naturgy Foundation

The Naturgy Foundation is present in the countries where the company operates. Its functions include the dissemination, training, information and awareness-raising of society on energy and environmental issues through programmes related to the business and academic environment. It also develops social action programmes aimed primarily at alleviating energy vulnerability.

Dissemination of information and awareness-raising in society

Over the years, the Foundation has carried out various initiatives aimed at promoting debate on the energy sector, its current situation and its near future. Speakers of recognised national and international prestige have taken part in these. This year a total of 5,842 people attended.

The balance of the year's activities is as follows:

- 3 high-level Energy Prospectives conferences held, a joint initiative of the Naturgy Foundation and IESE Business School.
- 4 conferences organised jointly with the Spanish Chapter of the Club of Rome.
- Annual conference on geostrategy and energy together with the Real Instituto Elcano

Among the activities related to the dissemination of energy-related content, the presentation of books, studies and reports published and edited by the Foundation and prepared by experts in the field worldwide is particularly noteworthy. Online events enabled us to host webinars and presentations, both accompanied by summary videos that facilitated an approach to the publication in a simple way, with the main conclusions explained by the authors. These webinars were attended by more than 3,000 people.

Education and outreach

To ensure a fair and inclusive energy transition, Naturgy promotes training programmes that disseminate the innovation developed in the energy sector, promoting the change of energy model and the preservation of the environment, as well as efficient use and responsible consumption. Its educational programme has an innovative and up-to-date pedagogical offer, targeted at all levels of learning, based on the United Nations Sustainable Development Goals. Naturgy's training proposal is developed by professionals specialised in the teaching of STEM disciplines and has been recognised by competent administrations and institutions in the field of education and employment. As a result, the company's educational resources are considered a benchmark in the field by the educational community.

All programmes are developed as a priority where there are specific needs of both society and Naturgy businesses. Naturgy thus supports the commitments and actions of social relationship that the group acquires and that, with the education and training projects, allow the company to attend more directly to the citizens in the territory; providing value, commitment and tangible results that directly impact people.

Educación y divulgación en cifras

	2022	2021
Beneficiarios totales	134,309	144,927

With regard to the decrease in the number of beneficiaries, this is explained by the decrease in the viewing of online content

Efigy education

Educational programme aimed at pupils aged 3 to 18, based on the United Nations Sustainable Development Goals (SDGs) and aligned with the Just Transition Strategy and the Environmental Education Action Plan of the Ministry for the Ecological Transition and the Demographic Challenge (MITECO). Efigy Education provides the educational community with updated contents on new energy technologies with the aim of providing young people with specialised knowledge about the transition to a new, fair energy model, the preservation of the environment and responsible energy consumption.

Efigy Education's main challenge is to attract talent and increase STEM vocations in the energy sector, starting at an early age and ensuring gender equality. Naturgy's training proposal, recognised by the competent public administrations in the field of education and employment, as well as by specialised institutions and different social agents, has educational resources for all educational levels, which can be carried out in person, in the classroom, autonomously, or in digital format.

During 2022, the company has worked to continue complementing the educational work of public administrations, offering training solutions and developing numerous new, high-quality teaching resources.

Efigy Education in the classroom

In 2022, Naturgy has continued to carry out this itinerant action that offers face-to-face workshops, conducted by specialised educators, throughout Spain. The aim is to make a methodological resource available to all education centres that supports the work of teachers in teaching new energy technologies and the value of the transition towards a more sustainable and fairer energy model. These workshops are adapted to all stages of compulsory education and incorporate new didactic and pedagogical innovation methodologies that promote the development of technological vocations among young people, paying special attention and support to vulnerable or more complex groups.

This year, this itinerant action, which since its launch in 2018 has already reached more than 13,000 beneficiaries, visited the autonomous communities of Catalonia, Galicia, Madrid, Asturias, Extremadura, Andalusia and Murcia.

Efigy Education Digital

In 2022, Naturgy has continued to promote universal access to educational content and resources in digital format. Updating and expanding its educational offer, making Efigy Education Digital a constantly evolving programme that brings together all the educational resources that support teachers in Primary, Secondary, and Vocational Training on topics such as energy transition, circular economy, sustainability, efficient building, energy efficiency, air quality and new energy technologies, among others.

The more than 27,000 logins to educational apps, 28,138 views in informative videos and 20,203 accesses to the educational landings made during 2022 attest to the programme's success based on accessibility for any educational centre, whatever its reality, which promotes equal access and educational equity.

Efigy Girls: Promoting female STEM vocations

In 2022, Naturgy has remained part of the STEAM alliance for female talent promoted by the Spanish Ministry of Education and Vocational Training to promote female talent in the field of energy among young women. This alliance promotes the generation of concrete actions that help shape an education system free of gender stereotypes associated with certain vocations and professions, and that promotes female empowerment in STEM disciplines from an early age.

The Efigy Girls Programme is the main initiative developed by the Foundation to promote female talent in the field of energy. In the context of the First Lego League in Spain, eight female teams, made up of girls aged 10 to 16, have received support and mentoring from the Foundation with the aim of developing projects related to energy innovation and the theme of the challenge. In this context, Naturgy has provided the necessary material for the Efigy Girls teams to participate in the tournaments, while offering complementary training and advice to develop the projects in competition through the company's professionals. In the 2022 edition, the Foundation has sponsored teams from eight schools.

Efigy Planet: educational innovation for the energy of the future

This year has seen the establishment of the Efigy Planet educational tool among the primary school community. It is an interactive, didactic and innovative proposal, based on gamification and a reference among teachers in the field of energy, technologies, STEM disciplines and environmental sciences in the school curriculum.

Efigy Planet aims to make teaching about energy easier for teachers, facilitating the extension of curricular contents through an innovative educational resource based on blended learning and turning learning into a gamified experience.

This innovative teaching methodology allows each student to experience their own real learning process in an individualised way, according to their skills and abilities. In addition, the teacher can create training pathways according to the students' specific needs and can use the tool to assess their progress.

Efigy Technology Competition

The 4th edition of the Efigy Technology Competition was held in 2022. The initiative, aimed at students in the 3rd and 4th year of Compulsory Secondary Education throughout Spain, has the mission of promoting the values of energy efficiency and fostering technological vocations from an early age. As a core objective, students are asked to solve a challenge that contributes to the improvement of the planet through energy efficiency. This educational initiative aims to motivate and generate awareness and interest in energy, strengthening the research capacity of young people, awakening their curiosity and creativity, as well as facilitating teamwork and communication skills.

During this fourth edition, more than 1,000 3rd and 4th year ESO students from 11 autonomous communities took part.

After two editions in virtual format, due to the pandemic, the 4th edition of the Efigy Technology Contest returned to face-to-face format at a conference held at the headquarters of the Naturgy Foundation in Madrid on 12 May. The young participants shared and defended their school projects at a gala that could also be streamed.

The entities that have participated in the initiative are the following:

- Ministry for Ecological Transition and the Demographic Challenge (MITECO)
- Ministry of Education and Vocational Training
- Spanish Foundation for Science and Technology (FECYT)
- Consejo Superior de Investigaciones Científicas (CSIC) (Spanish National Research Council)
- Naturgy Foundation

In September, Naturgy launched the 5th edition of the competition, already consolidated as a successful academic proposal among the country's secondary schools.

Educational visits to Naturgy's generation facilities

As part of the Efigy Education programme, and as a new feature this year, a plan of educational visits to the company's energy generation plants has been promoted and established on a recurring basis, together with Naturgy's Renewables, New Business and Innovation management. The aim is to share with society our corporate commitment to an environmentally and socially just transition, in line with the United Nations Sustainable Development Goals. These visits are also part of Naturgy's transparency plan, as they open up to society one of the most important energy processes, its generation.

This activity allows visitors to discover the peculiarities of the operation of a power generation plant, its close relationship with the environment and the different professional profiles needed to carry out the operation of the plants, as well as their skills and competences. The activity can be carried out in a face-to-face or virtual format, depending on the type of generation plant desired. This activity is always led by a specialised educator and/or a technician, who promotes a shared reflection on energy with the pupils and visitors.

During 2022, visits have been organised to various hydroelectric power stations, wind farms and photovoltaic farms in Castilla La Mancha, Castilla y León, the Canary Islands, Andalusia and Extremadura.

Mentoring and initiatives to foster technology vocations

During 2022, Naturgy has continued its commitment to providing professional guidance to young people on the new challenges they face, in order to help them make decisions about their academic and professional future.

The mentoring programme and initiatives to promote technological vocations seeks to be an essential tool to understand and meet the demands of young people, fostering the attraction of talent to the energy sector.

Naturgy has maintained its participation in projects such as Projecte Vida Professional, promoted by Barcelona Activa; the 4th ESO + Company Programme, organised by the Autonomous Community of Madrid; EduTecEmprende of the Xunta de Galicia; the Aliança Magnet Programme, jointly with the Bofill Foundation and the Generalitat de Catalunya; and the Xcelence-Schools that Inspire Programme, of the Bertelsmann Foundation, among others.

Experiences in awareness-raising and technology dissemination

With the aim of contributing to the dissemination of technological and scientific culture in the field of energy among citizens, transmitting the values of energy efficiency, sustainability and the preservation of industrial heritage, Naturgy develops its own informative initiatives with which we participate in events and festivals in the educational sector in the field of technology, as well as conferences and celebrations of topics related to its lines of action. Naturgy's proposals are accompanied by educational activities led by environmental educators.

In 2022, the Foundation has worked to bring education and specialised knowledge to municipalities and cities throughout Spain, through proposals aimed at all audiences.

What air do we breathe in cities?

After touring this exhibition in different Spanish cities, Naturgy has adapted this proposal to digital format, with the aim of facilitating universal access to its contents through its web portal.

Through this awareness-raising experience, Naturgy highlights how the phenomenon of atmospheric pollution is a key factor that determines the health of people and the environment. The proposal represents an opportunity to become familiar with technical curricular content and allows students to learn about the phenomenon and become active agents in contributing to solutions to the environmental challenge.

The Win-Win Lab

Together with Naturgy's Renewables, New Business and Innovation unit, the company has launched The Win-Win Lab experience, a new informative project that presents how new energy technologies, set to play a leading role in the transition to a green economy, can favour the fixation of population in the territory, through the creation of jobs and the revitalisation of rural areas.

The Win-Win Lab is a laboratory of ideas that has travelled to different locations in rural Spain to raise awareness, experiment and generate solutions that, through innovation, promote the creation of shared value through the energy transition. This educational resource is fundamentally based on two of the basic principles of action of Naturgy's social relationship model: creating shared value and improving the quality of life of citizens, as well as offering training and improving employability in the energy sector.

The proposal was inaugurated in the framework of the Cotec Foundation's Unmissable #05 action, which took place in Otero de Herreros (Segovia) and was attended by HM The King. The initiative has visited several Spanish municipalities and has had more than 2,200 visitors.

Vocational training for employability

In the context of a just and inclusive energy transition and the technological development needed to implement it, the role of technical vocational training in energy is key to transferring the necessary knowledge and responding to the demands of the sector, promoting the improvement of employability. New jobs will appear and curriculum content must be balanced with the current and future needs of companies in the energy sector. The so-called green jobs are already a reality and Naturgy Foundation works to provide professionals and/or future professionals with access to quality training material.

Naturgy's training proposal adheres to the Alliance for Vocational Training promoted by the Ministry of Education and Vocational Training and is aligned with the Just Transition Strategy of the Just Transition Institute. It also has the recognition and collaboration of the Ministry of Education and Vocational Training and the State Public Employment Service (SEPE), the State Foundation for Employment Training (FUNDAE) and the National Institute of Qualifications (INCUAL).

The Foundation works together with the Ministries of Education and Employment of nine Spanish Autonomous Communities in the promotion of Vocational Training, with actions such as:

- The updating of curricular content.
- Provision of free courses for trainers, active and unemployed professionals in the areas affected by the closure of coal-fired power stations.

The training courses run by Naturgy provide training and certification of up-to-date technical knowledge in the sector in the areas of sustainable mobility, rehabilitation and sustainable building, renewable gases, digitisation of electricity grids, energy advice in vulnerable environments, installation and maintenance of photovoltaic panels, and green and digital gas networks, among others.

Milestones achieved during 2022:

- Addition of new technical training courses to the catalogue (courses on the installation and maintenance of photovoltaic panels and the management of green and digital gas networks).
- Naturgy has added the conceptualisation and development of new resources aimed at vocational training, such as the launch of volume two of the collection of theoretical-practical books "Vocational Education and Training in Energy, Vocational Training for Employability", entitled Digitalisation of electricity grids. Training for a decarbonised future and the adaptation of the publication into an e-learning course, together with the Universitat Oberta de Catalunya (UOC).
- Naturgy has offered two editions with grants in certified mode by the Universitat Oberta de Catalunya and the Naturgy Foundation of the e-learning course "Renewable gases: technologies, uses and benefits"; an edition in webinar format on energy consultancy in vulnerable environments for trainers from Castilla-La Mancha.
- Together with the Institute for Just Transition (ITJ) and Naturgy's Conventional Generation department, two courses have been given to improve the employability of people affected by the closure of coal-fired power stations in the energy rehabilitation of buildings and the installation and maintenance of photovoltaic panels.
- A course on energy consultancy in vulnerable environments was given to groups at risk of social exclusion, together with the Tomillo Foundation.
- A course on the use of thermographic cameras in sustainable building and renovation was given in Barcelona.

Vocational training for employability in figures

Milestones achieved during 2022:

- Beneficiaries: 23,606
- Educational centres in Spain linked to the training programmes: 160
- Hours of training provided: 539
- Agreements and certifications with autonomous regions: 9
- Collaborations with the Ministry of Education and Vocational Training, the State Public Employment Service (SEPE), the Institute for Just Transition and the Universitat Oberta de Catalunya.
- Training typologies: Sustainable building and rehabilitation; Renewable gases: technologies, uses and benefits; Energy consultancy in vulnerable environments; Photovoltaic panels: installation and maintenance for self-consumption; Digitisation of electricity grids; Green and digital gas networks; Energy rehabilitation of buildings (ITJ) and Thermographic camera workshop.
- Profile of the beneficiaries of the training: vocational training trainers, unemployed people, students and teachers of the different training modalities, teachers and technicians of the sector.

Collaboration agreement between the Institute for Just Transition and the Naturgy Foundation

The Secretary of State for Energy and the general manager of the Naturgy Foundation signed a protocol that establishes the lines of collaboration between the two institutions in the areas of training and research related to the promotion of employment and gender equality in the energy sector in Spain, especially in areas of just transition. In addition it envisages the possibility of collaborating in research and analysis programmes to identify the challenges and opportunities for access to employment in sectors linked to this change in the energy model.

The main lines of work of the agreement reinforce the IJT's action programmes, especially the activity developed around the coal mining and coal-fired power station employment exchanges, which bring together workers affected by the cessation of activity in these two sectors. They are also in line with the Just Transition Component 10 of the Recovery Plan, which includes a line of employment training grants for these groups.

Thanks to this agreement, together with the IJT, Naturgy has initiated the preparation of a pioneering study entitled 'The employment of women in the energy transition in Spain'. This is a quantitative and qualitative analysis that will provide detailed information on the current employment situation of women in sectors related to the energy transition, as well as the opportunities offered by the new investments planned in these sectors to promote equal employment.

The study has two objectives:

- To understand the evolution of female employment in quantitative and qualitative terms and to identify the obstacles women face in accessing employment in the main sub-sectors of the energy transition (renewable energies, green hydrogen, energy efficiency, energy refurbishment of buildings)
- To provide specific recommendations for measures to promote women's employment in this transition process.

11. About this report

This Sustainability Report and Statement of Non-Financial Information forms part of the Directors' Report and the Consolidated Directors' Report of Naturgy Energy Group, S.A. and subsidiaries for the 2022 financial year. It is subject to the same approval, deposit and publication criteria as these reports and has been verified by an independent verification service provider. By issuing this report, Naturgy Energy Group, S.A. complies with the provisions of Article 262 of the Corporate Enterprises Act and Article 49 of the Commercial Code as amended by Law 11/2018 of 28 December on non-financial reporting and diversity, which transposes Directive 2014/95/EU into Spanish law.

Materiality focus

For the preparation of this 2022 Sustainability Report and Non-Financial Information Statement, Naturgy has used as reference the standards of the Global Reporting Initiative standards (known as GRI Standards) and the Sustainability Accounting Standards Board (SASB), and has taken into account the requirements of Law 11/2018 on non-financial information.

The company considers that the report has been prepared with reference to the GRI Standards and has applied the universal GRI G3 standard "Material Topics 2021", which provides guidance on the identification of material topics. In addition, Naturgy has applied the GRI 11 sectorial standard: Oil and Gas Sector 2021 to identify those specific material aspects of this sector in which Naturgy performs part of its business activity.

Process of determining material topics

[2-14] and [3-1]

To identify potential and actual impacts, negative and positive, on the economy, the environment and people, including impacts on human rights in all activities, Naturgy uses the Datamaran® tool.

Datamaran® has a preliminary identification of aspects (topic mapping) which ensures that the determination of material topics is based on a complete description of the potential impacts a company has on people and the environment.

Besides, this tool provides the following advantages:

- Data-driven materiality analysis: Datamaran® is software that enables a comprehensive, data-driven process for monitoring external risks, including Environmental, Social and Governance (ESG) risks. The software technology provides real-time analysis of strategic, regulatory and reputational risks and opportunities. Its use strengthens understanding of ESG, geopolitical, technological and emerging issues, ensures alignment with the different expectations of internal and external stakeholders, and enhances the company's ability to monitor its evolution.
- Dynamic materiality based on diverse sources: the analysis takes into account information published by different companies from all sectors in their annual corporate reports, introduces into the analysis both mandatory regulations and other voluntary policy initiatives, as well as information published in traditional media and social networks. The analysis has focused on issues that experienced an increase in relevance and on the stakeholders (peers, industry, regulators, general public) that were behind this increase. This analysis, carried out regularly throughout the year, makes it possible to monitor issues that are in the process of materialising, based on a dynamic materiality perspective.
- General issues map adapted to Naturgy's reality: the 21 issues assessed in the materiality analysis have been built from an exhaustive map of 90 topics (topic mapping) included in the tool itself, so that all emerging issues of interest are taken into account in the diagnosis.

As a novelty in the 2022 financial year, Naturgy has anticipated the requirements of Directive 2022/2464 of 14 December 2022, applicable for the 2024 reporting year, on sustainability reporting by companies and the draft sustainability reporting standards submitted by the European Financial Reporting Advisory Group (EFRAG) to the European Commission, and has adopted a dual materiality approach that integrates two complementary perspectives:

- Inside-out view (hereafter impact materiality): analyses how the company’s activity impacts on the environment and society and how this impact is perceived by the different stakeholders.
- Outside-in view (hereafter financial materiality): analyses how sustainability issues affect the company’s performance, how they can affect value creation and how these issues are perceived by financial stakeholders.

The diagnosis has taken into account: the sustainability and financial reports of 111 energy companies operating in the main countries where Naturgy operates; nearly 2,000 regulatory initiatives, both mandatory and voluntary, applicable to the following sectors of electricity and gas utilities and electricity generators, and more than 22,000 news articles. All of this in the main countries where the company operates.

Naturgy considers that the methodology used, the criteria for selecting the sources consulted and the volume of data analysed ensure that the determination of the material topics has taken into account, in a balanced and representative way, the points of view of the main stakeholders.

Once material topics have been identified from both impact and financial perspectives, they are ranked in a matrix that combines both perspectives. In this way, priority has been given to material topics for the main stakeholders and those issues that are also key from a financial standpoint due to their influence on the company’s ability to create long-term value.

The process of determining the material topics as well as the outcome of the analysis has been overseen by the Sustainability Committee.

List of material topics at corporate level

[3-2]

Naturgy has identified fifteen material topics, which are detailed below:

Relevant issues

Circular economy and eco-efficiency	Environmental
Occupational safety and well-being of workers	Social
Business continuity	Economic
Cybersecurity and information security	Governance
Climate change and energy transition	Environmental
Diversity and equality	Social
Biodiversity and natural capital	Environmental
Human rights	Social
Good corporate governance	Governance
Talent development	Social
Social contribution and participation	Social
ESG investment and financing	Economic
Energy vulnerability	Social
Responsible supply chain	Social
Technological and digital innovation	Economic

NB: each country has a different prioritisation based on its corporate responsibility agenda.

Under the double materiality perspective, Naturgy considers that, of these fifteen issues, six of them are material from a financial perspective:

- Circular economy and eco-efficiency.
- Occupational safety and well-being of workers.
- Business continuity.
- Cybersecurity and information security.

- Diversity and equality.
- Climate change and energy transition.

As regards material topics identified in 2021, the following are identified as new material topics in 2022: Human Rights, Social Contribution and Participation, ESG Investment and Financing, Energy Vulnerability, Responsible Supply Chain and Digital and Technological Innovation. The increased relevance of these issues to stakeholders is consistent with regulatory trends and the growing interest in social issues in the wake of the COVID-19 pandemic, as well as the response of companies to these issues.

Management of material topics

Naturgy's management of material topics has been described throughout the different chapters of this report. For each issue, the following have been explained: the positive and negative impacts, real or potential, caused by Naturgy's activity; the commitments, policies and measures adopted to manage each issue and reduce or prevent negative impacts; the initiatives developed to enhance positive impacts, and the effectiveness of the measures through performance indicators.

Next, we identify for each material issue which business line it is most relevant in and in which chapter and/or section of the report the information on its management and performance can be found:

Material issues	Business lines				Management and performance
	Networks	Energy management	Renewables and new businesses	Commercialisation	Chapter and section of the report
Circular economy and eco-efficiency	■	■	■	■	The opportunity of environmental challenges - Circular economy and eco-efficiency
Occupational safety and well-being of workers	■	■	■	■	Commitment and talent-Health and safety
Business continuity	■	■	■	■	Business model
Cybersecurity and information security	■	■	■	■	Integrity and trust-Security and Privacy
Climate change and energy transition	■	■	■	■	The opportunity of environmental challenges-Climate change and energy transition: TCFD Report
Diversity and equality	■	■	■	■	Commitment and talent-Interest for people
Biodiversity and natural capital	■	■	■	■	The Opportunity of Environmental Challenges-Biodiversity and Natural Capital
Human Rights	■	■	■	■	Integrity and trust-Compliance
Good corporate governance	■	■	■	■	Integrity and trust-Corporate governance
Talent development	■	■	■	■	Talent development-Interest in people
Social contribution and participation	■	■	■	■	Corporate Responsibility-Relationship with communities Stakeholders of Naturgy
ESG investment and financing	■	■	■	■	Business model-Sustainable finance Business Model-Green Bond
Energy vulnerability				■	Social responsibility-Energy vulnerability
Responsible supply chain	■	■	■	■	Integrity and trust-Supply chain
Technological and digital innovation	■	■	■	■	Innovation and new business development

Material issues from a financial point of view

As indicated above, Naturgy follows dual materiality as a general principle to determine its most important sustainability impacts, risks and opportunities. In this regard, of the fifteen issues identified as relevant, six of them are also considered to be material from a financial point of view. In other words, Naturgy believes that their evolution can have a significant impact on the creation of long-term value, and that it is therefore necessary to manage them proactively, to capture opportunities and minimise any risks they could represent.

For each of these we set out below how the company sees these issues as making a particular contribution to long-term value creation.

Circular economy and eco-efficiency

Why is it material?	Promoting renewable gas as an energy and storage vector that contributes to the transition to a circular and low-carbon economic model. Basing the decarbonisation of the economy predominantly on a high level of electrification with renewable energy presents technical limitations in certain energy-intensive sectors. As electrification cannot meet all energy demand, further integration of electricity and gas is an effective solution to achieve decarbonisation goals. The gas grid currently has a high storage capacity, and a level of reach and capillarity that enables large amounts of energy to be transported to where it will be consumed. The development of renewable gases, biomethane and hydrogen is also part of the Just Transition Strategy. As one of the main operators of basic natural gas infrastructures, Naturgy assumes its leading role as a driving force in the development of the renewable gas value chain.
Business impact	Potential decrease in income and loss of asset value.
Supporting business strategy	The future of natural gas lies in achieving decarbonisation. Naturgy, in its Strategic Plan 2021-2025, sets ambitious targets for renewable gases with the implementation of projects in areas of just transition. In addition, Naturgy's circular economy strategy includes initiatives related to water and waste.
Long-term tracking metrics	Development of renewable gas projects for more than 1 TWh in 2025.

Occupational safety and well-being of workers

Why is it material?	As well as the company's legal responsibility to protect its workers from health and safety risks at work, a safe and healthy working environment represents a standard of ethical conduct. Providing good health and safety conditions in the workplace brings a number of key benefits, such as improved employee motivation and commitment, reduced costs of sick leave and accidents, improved productivity, better reputation and better valuation of the company by stakeholders.
Business impact	Increased costs due to more accidents, lower productivity and higher risk.
Supporting business strategy	Safety Plan 2021-2023 which, through six transversal axes and more than 30 specific lines of action, aims to reinforce the safety model in all business units and improve the level of safety performance of collaborating companies.
Long-term tracking metrics	Maintain frequency and severity rates among own staff in 2025 below 0.12 and 6.15 respectively. Occupational health and safety performance is part of the metrics assessed in the evaluation of employee performance.

Business continuity

Why is it material?	Acting in an essential sector such as the energy sector, operating critical infrastructures to guarantee the continuity and quality of supply and doing so in the current context, marked by the energy transition towards a decarbonised energy model, shows the need to have a business model capable of facing these challenges and adapting to future needs in such a way that business continuity is assured.
Business impact	Potential decrease in income and loss of asset value.
Supporting business strategy	Naturgy is immersed in a transformation process. The Strategic Plan 2021-2025 lays the foundations for this transformation. The strategy is focused on organic growth, consistent with the energy transition, which leverages opportunistic asset rotation to accelerate the transformation and put its focus on renewables.
Long-term tracking metrics	Total investment of 14 billion euros, estimated ordinary Ebitda to 2025 of around 4.8 billion euros.

Cybersecurity and information security

Why is it material?	Naturgy's transformation involves increasing its digital footprint, both in customer relations and in the management of its networks and assets in general. In this context, it is critical to have infrastructures and information systems that are secure and safe from threats. Naturgy is exposed to threats in relation to the availability, confidentiality, integrity and privacy of the information and technology that supports its business processes, as well as to the risk of non-compliance with regulations related to cybersecurity. Such threats include unauthorised access to and use, disruption, modification or destruction of information as a result of terrorist acts, malicious attacks, sabotage and other intentional acts.
Business impact	Potential decrease in revenues and potential increase in costs.
Supporting business strategy	Being a best-in-class operator is one of the company's strategic pillars through the transformation of its operations to simplify and digitise them. Over the next five years Naturgy will spend 1.2 billion to reposition its services through digitalisation of systems.
Long-term tracking metrics	Reach a level of 790 points in 2025 in the international BitSight index.

Climate change and energy transition

Why is it material?	Decarbonisation of energy supply is key in the fight against climate change. Naturgy, as a company present in multiple territories, is firmly committed to the fight against climate change. It also represents a strategic opportunity, as energy demand will be redirected towards those sources and suppliers with a less carbon-intensive mix.
Business impact	Potential decline in revenues, loss of asset value, reduced access to sources of finance.
Supporting business strategy	Naturgy's strategy for the next five years focuses on growth that contributes to the energy transition by focusing on renewable projects. The company has an investment target of Euros 8.7 billion on renewables, which will enable it to triple its installed renewable capacity to 14 GW of installed capacity. Naturgy's climate action is based on the management and integration of climate change risks and opportunities into the company's strategy. The key lines of action, goals and indicators aim to promote renewable energies, energy efficiency and renewable natural gas, as well as to offer innovative mobility solutions that contribute to the reduction of emissions and the improvement of air quality in cities.
Long-term tracking metrics	This target for investment in renewables is accompanied by emission reduction targets in the three scopes so that by 2025 the group's total emissions will have been reduced by 24% compared to 2017. In addition, Naturgy is committed to achieving zero net emissions by 2050.

Diversity and equality

Why is it material?	Having a diverse and inclusive work environment that integrates different perspectives and experiences enriches business management and helps build stronger business cultures that are ready to address future challenges. A diverse and inclusive work environment helps attract and retain the best talent, improves productivity and reduces reputational risks. Naturgy promotes the professional and personal development of all its employees, ensuring equal opportunities through its action policies and does not accept any kind of discrimination in the labour or professional field.
Business impact	Increased risks, lower productivity.
Supporting business strategy	Naturgy firmly believes in the exponential value of diversity. The more diverse people are and the more the value of this difference in teams is recognised, the better the company will be able to anticipate and adapt to each new challenge. In this context, the diversity strategy is a commitment to the organisation and people to invest in and promote diverse and transformative talent through programmes of integration, recognition and promotion of gender, age, disability and functional diversity. In the last two years, Naturgy's diverse talent management strategy has focused on advancing the balance of talent by generational brackets and on gender parity. Young talent plays a key role in the company's transformation through hiring programmes such as "Flex & Lead" and talent development like "Internal Lead Talent".
Long-term tracking metrics	More than 40% of women in management positions by 2025. Diversity and equality performance is part of the metrics assessed in the evaluation of employee performance.

Materiality of the aspects of Law 11/2018

The materiality analysis has shown that almost all the aspects required by Law 11/2018 on non-financial information are material for the specific activities performed by Naturgy. In this regard, according to the independent review report, this report has met all those aspects required by Law 11/2018 that are material to Naturgy.

Only food waste and light and noise pollution have not been identified as material. Food waste is not a relevant issue for the company because the company's activity is not linked to the food sector and the company does not engage in intensive food consumption. Likewise, the environmental risk analyses carried out by the company have determined that the company does not have a significant or relevant impact on light and noise pollution.

Scope of the information

[2-2] and [2-4]

Introduction to the scope of information

Following the recommendation of the international GRI Reporting standard, for the definition of the coverage of this report Naturgy has taken into account the companies over which it has the capacity to control, those over which it has significant influence and those activities relevant to the group from the Environmental, Social and Governance (ESG) points of view.

In the Consolidated Financial Report for 2022, specifically in Annex I, the set of companies in which Naturgy has an interest and which form part of the group's scope is detailed.

Temporary scope

The Sustainability and Non-Financial Reporting Report is published each year and covers a 12-month calendar year. This report covers information relating to 2022.

Frame of reference

The preparation of this report considers the following frames of reference, which condition its structure, scope and contents:

- The financial information published in this report must be consistent with the Annual Accounts, and therefore comply with the provisions of the corresponding Spanish and European regulations.

- Sustainability, or ESG, information, in application of the provisions of Law 11/2018, is prepared by applying a reporting standard or framework. Naturgy has chosen to use the ‘core’ option of the GRI Standards, taking into account the depth of this standard, its recognition and universality, and the experience in its application for more than a decade. For this year’s report Naturgy has updated the version of GRI reported to version 2021 and the new sectorial 11 of Oil and Gas.
- In addition, and on a voluntary basis, Naturgy also reports following the international SASB standard, which is part of the IFRS Foundation due to its relevance at international level.

Scope of the report

The financial and non-financial data of Naturgy Energy Group, S.A. and its subsidiaries -the Naturgy group- (hereinafter, Naturgy, the “company” or the “group”) presented in this report are consolidated and refer to all activities carried out during 2022 as a global gas and electricity operator through the companies listed in Annex I to the Consolidated Report for the year 2022, following these considerations:

- Those indicators that plot progress throughout the year must reflect information on companies outside the consolidation scope due to having been put up for sale except where indicated otherwise in a footnote, while the indicators that represent information at year-end will not include information in connection with such companies.
- As these are consolidated data, they do not generally include companies consolidated using the equity method (Annex I, sections 2 and 4).
- Except for the number of employees, the reported information on own staff refers to the countries in which Naturgy operates and where it has established companies with hired staff assigned to these countries and where the company performs centralised management of its human resources policies.
- With regard to the environment, the disclosures refer solely to those companies or activities that are at least 50% owned or controlled by the company, which have the capacity to influence environmental management and have the capacity to make a significant impact, based on global data.
- The companies that manage nuclear generation assets are included for the operating figures, but not for the other environmental figures, as these indicators were not available at the time the report was issued.
- With regard to the information contained in Chapter 7. Customer experience, it is necessary to bear in mind that the information reported for Latin American countries corresponds to those gas and electricity distribution companies that have the largest number of supply points, as this is considered to be the most relevant operational magnitude from the point of view of the information reported:
 - the information from Argentina only covers the activity carried out by the company Naturgy BAN, S.A.
 - the information from Brazil and Mexico covers the activity carried out by the following gas distribution companies: Ceg Río, S.A.; Companhia Distribuidora de Gás do Rio de Janeiro, S.A.; Gas Natural Sao Paulo Sul, S.A.; Naturgy México, S.A. de C.V. and Comercializadora Metrogas, S.A. de CV
 - the information from Panama covers the activity carried out by electricity distribution companies: Empresa de Distribución Eléctrica Chiriqui, S.A. and Empresa de Distribución Eléctrica Metro Oeste, S.A.
 - The information from Chile includes the activity carried out by Metrogas S.A.

Most of the companies for which no information is provided are companies with activities other than gas and electricity distribution. For those companies with gas and electricity distribution activities for which information is not provided, the company is working to be able to provide complete information in future years.

Scope limitations

Naturgy considers that this report provides a reasonable and balanced reflection of the company's environmental, social and governance performance. If a particular indicator could not be compiled in accordance with the scope of the report, explanatory notes are added at the foot of each table.

Throughout the report, when it is considered to facilitate the interpretation of the data, the scope of each of the indicators shown is specified, as well as relevant variations with respect to the previous year.

Changes to the scope

Changes in the consolidation scope in 2022 compared to 2021 are described in Appendix II of the Consolidated Annual Accounts.

Compliance with benchmark standards

[3-1]

The company has prepared its Sustainability Report and Statement of Non-Financial Information using the 2021 version of the Global Reporting Initiative (GRI) standards and the GRI 11 standard as a reference: Oil and gas sector 2021 to determine material topics. In addition, the company responds in this report to the indicators identified for the "Electric Utilities & Power Generators" and "Gas Utilities & Distributors" sectors by the SASB standards, which are under the supervision of the International Sustainability Standards Board (ISSB).

Naturgy considers that it has prepared this report in accordance with the Principles for the preparation of reports defined by GRI in its universal standard GRI 1 Foundation 2021, which are as follows:

- Accuracy: all the information in the report is necessary and given in sufficient detail for the company's stakeholders to be able to value its performance in an appropriate manner.
- Balance: the report clearly shows the positive and negative aspects of the organisation's performance, which enables a reasonable valuation thereof.
- Clarity: the information is presented in a way that is understandable and accessible. To enable its correct understanding, the use of technical terms is avoided. In addition, it uses graphs, diagrams, tables and indicators to describe the company's most relevant impacts and make it easier to read the document.
- Comparability: the information given in this report is consistent and makes it possible to analyse the evolution of the company performance over time and be compared with other companies.
- Completeness: the outline of contents have been defined with the help of those in charge of the key management areas of the company. This guarantees that essential aspects and impacts that each activity area of Naturgy has on its environment and on its own business targets have been taken into consideration.
- Sustainability context: the report analyses the company's performance in the context of the social, environmental and economic requirements of its social and market environments. The sections on vision and business model delve specifically into this area.
- Timeliness: Naturgy publishes its Sustainability Report and Non-Financial Information Statement annually, as soon as the information is available, so that the stakeholders have a good understanding of the company.
- Verifiability: the company has in place the information systems and internal controls to collect and analyse information from original sources, and to produce this report in a reliable, accurate and high quality manner for presentation to a third party.

The information on how Naturgy complies with its duty to human rights has been prepared in accordance with the United Nations Guiding Principles Reporting Framework, whose objective is for companies to report all information related to human rights, in line with the United Nations Guiding Principles on Business and Human Rights.

In addition, Naturgy responds to the information requirements derived from the Taxonomy Regulation, Regulation (EU) 2020/852 of the European Parliament and the Council of Europe that establishes a classification system for sustainable economic activities, which defines on the basis of objective criteria what is and what is not sustainable. Naturgy complies with the technical reporting requirements set out in the EU Taxonomy Delegated Acts (EU) 2021/2139 and 2022/1214 of the Commission complementing the aforementioned regulation and reports on the degree of eligibility and alignment of its activities according to the European taxonomy for climate change mitigation and adaptation objectives.

Lastly, Naturgy also issues the Green Bond report, which includes the environmental benefit indicators for the year based on the guidelines and procedures for the issuance of green bonds of the Green Bond Principles (accountability published by the International Capital Market Association).

Verification

[2-5]

The integrity, sound and truthful nature of the information given in this report are maintained by the policies and procedures included in Naturgy's internal control systems and their purpose includes guaranteeing the correct presentation of the company's information to third parties.

In these policies and in accordance with the Global Reporting Initiative recommendations, Naturgy commissions an annual verification of the contents of its report by an independent third party. This 2022 report has been verified by KPMG, which reviews the adaptation of the contents of the Sustainability Report and the Non-Financial Information Statement to the provisions laid down in the Global Reporting Initiative guidelines, Law 11/2018 on non-financial information and diversity and the SASB standards.

In addition, the company commissions the verification that the classification of activities has been prepared in accordance with the technical requirements defined in the EU Taxonomy Delegated Acts (EU) 2021/2139 and 2022/1214 of the Commission, which complement Regulation 2020/852 of the European Parliament and the Council of Europe.

As a result of the said process, an independent review report is drawn up to include the goals and scope of the review, as well as the verification procedures used and the corresponding conclusions, which can be consulted in the "Additional information" chapter of this report.

Reporting period, frequency and contact point

[2-3]

Naturgy publishes its Sustainability Report and Statement of Non-Financial Information on an annual basis. This report covers the period from 1 January to 31 December 2022, which matches the reporting periodicity of its Annual Accounts. This report has been published on February 21, 2023.

In addition to this report, Naturgy has published the following reports in 2022 which include both financial and non-financial information:

- Corporate Governance Report.
- Audit and Control Committee Report.

It should also be noted that Naturgy publishes local corporate responsibility reports in some of the main countries where it operates.

Readers can send their questions, queries or requests for information via the corporate website: <https://www.naturgy.com/inicio>.

12. Annexes

1. Non-financial indicators

Sustainability Plan

- **Indicators Driver 3. Customer experience**

	2022	2021
Customers with online billing. Commercialisation Spain (%)	51	41
Contracts per customer. Spain Marketing (number)	1.54	1.56
Interaction with digital channels. Commercialisation Spain (%)	44	49
Customers with online billing. Argentina (%)		44
Interaction with digital channels. Argentina (%)	54	N/A
Customers with online billing. Brazil (%)	57	51
Interaction with digital channels. Brazil (%)	88	84
Customers with online billing. Chile (%)	36	35
Interaction with digital channels. Chile (%)	6	7
Partnerships with third parties providing value-added solutions for customers. Chile (number)	0	0
Customers with online billing. Mexico (%)	0	N/A
Contracts per customer. Mexico (number)	1.36	N/A
Customers with online billing. Panama (%)	40	37

Integrity and trust

• Revenues from sales to third parties and intra-group transactions (€M)

		2021
Tax jurisdiction	Third parties	Related entity
Germany	0.4	0.0
Argentina	524.0	41.2
Australia	33.2	5.5
Belgium	-0.5	0.0
Brazil	1,629.1	3.4
Chile	25.1	0.8
Colombia	0.8	1.2
Costa Rica	37.2	1.2
Ecuador	-1.4	0.0
Spain	10,184.2	16,076.0
USA	0.1	0.0
France	1,664.7	0.0
Ireland	2,199.0	2,332.9
Israel	5.1	0.0
Kazakhstan	0.0	0.0
Luxembourg	31.4	0.0
Morocco	59.1	124.8
Mexico	1,694.0	242.8
Netherlands	0.0	253.4
Panama	776.0	24.5
Portugal	194.4	1.1
Puerto Rico	488.7	52.8
Dominican Republic	92.3	0.0
Singapore	452.8	206.8
Uganda	4.3	0.0
Uzbekistan	0.3	0.0

Note: data aggregated at country level; transactions between group companies within the same country are not eliminated.

Customer experience

▪ Customers disconnected due to non-payment

[IF-EU-240a.3] and [IF-GU-240a.3]

			2022	2021
Argentina	Gas business	Number of customer disconnections for non-payment of electricity supply	90,071	91,098
		% reconnected within 30 days	60.0	N/A
Brazil	Gas business	Number of customer disconnections for non-payment of electricity supply	8,324	7,945
		% reconnected within 30 days	93.0	88.0
Chile	Gas business	Number of customer disconnections for non-payment of electricity supply	22,317	130
		% reconnected within 30 days	72.5	45.4
Spain	Gas business	Number of customer disconnections for non-payment of electricity supply	3,614	4,404
		% reconnected within 30 days	77.1	76.5
	Electricity business	Number of customer disconnections for non-payment of electricity supply	19,263	21,772
		% reconnected within 30 days	91.4	88.4
Mexico	Gas business	Number of customer disconnections for non-payment of electricity supply	228,887	157,762
		% reconnected within 30 days	93.0	N/A
Panama	Electrical business	Number of customer disconnections for non-payment of electricity supply	66,178	60,631
		% reconnected within 30 days	96.1	99.8

▪ Complaints management by business and country

[2-25]

									2022
		Gas Distrib. Spain	Elec. Distrib. Spain	Commercialisation Spain	Argentina	Brazil	Chile	Mexico	Panama
Total complaints received in the year		302,144	341,636	1,119,079	22,748	60,647	10,993	210,074	37,184
No. of claims in portfolio		16,597	16,445	54,007	81	681	149	8,189	10,548
No. of complaints received / No. of contacts (%)		4.2	25.6	6.1	0.4	4.2	1.7	5.3	5.0
Mean Time to Resolve MTTR (days)		11.0	32.6	13.5	16.4	3.2	3.4	6.0	9.6

2021

	Gas Distrib. Spain	Elec. Distrib. Spain	Commercialisation Spain	Argentina	Brazil	Chile	Mexico	Panama
Total complaints received in the year	304,629	361,013	971,705	19,931	48,458	10,505		
No. of claims in portfolio	9,859	39,470	54,024	12		62		
No. of complaints received / No. of contacts (%)	4.7	27.1	6.6	0.4	3.6	1.8	3.4	5.0
Mean Time to Resolve MTTR (days)	11.0	18.0	11.0	14.1	4.0	4.2		

Note: 2021 data for Mexico and Panama are not available.

The increase in the Average Resolution Time (ART) of incidents in the Electricity Distribution business in Spain compared to 2021 is explained by the situation of energy prices, which has generated more contract modification operations in the year and, as a result, an increase in claims. In addition, in 2022, there was an IT problem that prevented Naturgy from billing and contracting for some weeks.

▪ **Electricity load supplied with smart grid technology (%/MWh)**

[IF-EU-420a.2]

	2022	2021
% electrical load from smart grids. Spain	99.6	99.4
% electrical load from smart grids. Panama	99.4	99.4

Commitment and talent

[401-3], [404-1] y [405-2]

• No. of employees entitled to leave for childbirth and child care

	2022			2021		
	Men	Women	Total	Men	Women	Total
Argentina	20	14	34	2	5	7
Australia	1	0	1	0	0	0
Brazil	7	3	10	2	6	8
Chile	8	7	15	6	11	17
Colombia	0	0	0	0	0	0
Costa Rica	0	0	0	0	1	1
Spain	65	35	100	83	18	101
USA	0	0	0	0	0	0
France	0	1	1	0	0	0
Ireland	0	0	0	0	0	0
Israel	1	0	1	1	0	1
Italy	0	0	0	0	0	0
Luxembourg	0	0	0	0	0	0
Morocco	0	0	0	3	1	4
Mexico	8	8	16	0	0	0
Netherlands	0	0	0	0	0	0
Panama	11	4	15	6	3	9
Portugal	9	3	12	0	0	0
Puerto Rico	0	0	0	0	0	0
Dominican Republic	0	1	1	0	0	0
Singapore	0	0	0	0	0	0
Uganda	0	0	0	8	0	8
Total	130	76	206	111	45	156

• **No. of employees who availed themselves of their right to childbirth and childcare leave**

	2022			2021		
	Men	Women	Total	Men	Women	Total
Argentina	2	14	16	2	5	7
Australia	0	0	0	0	0	0
Brazil	7	3	10	2	6	8
Chile	7	7	14	6	11	17
Colombia	0	0	0	0	0	0
Costa Rica	0	0	0	0	0	0
Spain	64	35	99	82	18	100
USA	0	0	0	0	0	0
France	0	0	0	0	0	0
Ireland	0	0	0	0	0	0
Israel	1	0	1	1	0	1
Italy	0	0	0	0	0	0
Luxembourg	0	0	0	0	0	0
Morocco	0	0	0	3	1	4
Mexico	8	8	16	0	0	0
Netherlands	0	0	0	0	0	0
Panama	11	4	15	6	3	9
Portugal	0	0	0	0	0	0
Puerto Rico	0	0	0	0	0	0
Dominican Republic	0	1	1	0	0	0
Singapore	0	0	0	0	0	0
Uganda	0	0	0	8	0	8
Total	100	72	172	110	44	154

▪ **Ratio of employees who returned to their position following childbirth and childcare leave and continue in the company one year after their leave**

	2022		2021	
	Men	Women	Men	Women
Argentina	100.0	100.0	100.0	100.0
Australia	0.0	0.0	0.0	0.0
Brazil	100.0	100.0	0.0	50.0
Chile	83.3	62.5	77.8	66.7
Colombia	0.0	0.0	0.0	0.0
Costa Rica	0.0	0.0	0.0	0.0
Spain	92.7	88.9	98.3	94.7
USA	0.0	0.0	0.0	0.0
France	0.0	0.0	0.0	0.0
Ireland	0.0	0.0	0.0	0.0
Israel	0.0	0.0	100.0	0.0
Italy	0.0	0.0	0.0	0.0
Luxembourg	0.0	0.0	0.0	0.0
Morocco	0.0	0.0	100.0	0.0
Mexico	87.5	72.7	100.0	100.0
Netherlands	0.0	0.0	0.0	0.0
Panama	0.0	0.0	0.0	0.0
Portugal	0.0	0.0	0.0	0.0
Puerto Rico	0.0	0.0	0.0	0.0
Dominican Republic	0.0	0.0	100.0	100.0
Singapore	0.0	0.0	0.0	0.0
Uganda	0.0	0.0	85.7	100.0
Total	92.7	82.2	88.6	87.5

(*) The total refers to data from Argentina, Brazil, Chile, Mexico and Spain.

▪ **No. of employees who did not return to work once their childbirth and childcare leave was complete**

[401-3]

	2022			2021		
	Men	Women	Total	Men	Women	Total
Argentina	0	0	0	0	0	0
Australia	0	0	0	0	0	0
Brazil	0	0	0	1	0	1
Chile	0	4	4	0	7	7
Colombia	0	0	0	0	0	0
Costa Rica	0	0	0	0	0	0
Spain	6	2	8	2	3	5
USA	0	0	0	0	0	0
France	0	0	0	0	0	0
Ireland	0	0	0	0	0	0
Israel	1	0	1	0	0	0
Italy	0	0	0	0	0	0
Luxembourg	0	0	0	0	0	0
Morocco	0	0	0	0	0	0
Mexico	0	0	0	0	0	0
Netherlands	0	0	0	0	0	0
Panama	0	0	0	0	0	0
Portugal	0	0	0	0	0	0
Puerto Rico	0	0	0	0	0	0
Dominican Republic	0	0	0	0	0	0
Singapore	0	0	0	0	0	0
Uganda	0	0	0	0	0	0
Total	7	6	13	3	10	13

▪ **Number of contracts by gender and type at 31 December**

	2022			2021		
	Men	Women	Total	Men	Women	Total
Indefinite full-time	4,531	2,222	6,753	4,787	2,265	7,052
Indefinite part-time	0	0	0	0	0	0
Total indefinite	4,531	2,222	6,753	4,787	2,265	7,052
Temporary full-time	138	91	229	104	75	179
Temporary part-time	0	0	0	0	0	0
Total temporary	138	91	229	104	75	179
Total full-time	4,669	2,313	6,982	4,891	2,340	7,231
Total part-time	0	0	0	0	0	0

▪ **Annual average of contracts by gender and type**

	2022			2021		
	Men	Women	Total	Men	Women	Total
Indefinite full-time	4,640	2,230	6,870	5,864	2,739	8,603
Indefinite part-time	0	0	0	0	0	0
Total indefinite	4,640	2,230	6,870	5,864	2,739	8,603
Temporary full-time	122	87	208	91	52	142
Temporary part-time	0	0	0	0	0	0
Total temporary	122	87	208	91	52	142
Total full-time	4,761	2,317	7,078	5,955	2,790	8,745
Total part-time	0	0	0	0	0	0

▪ **Number of contracts by age and type at 31 December**

	2022				2021			
	< 30 years	30-50 years	> 50 years	Total employees	18-35 years	36-50 years	> 50 years	Total employees
Indefinite full-time	259	4,624	1,870	6,753	219	5,063	1,770	7,052
Indefinite part-time	0	0	0	0	0	0	0	0
Total indefinite	259	4,624	1,870	6,753	219	5,063	1,770	7,052
Temporary full-time	85	140	4	229	55	121	3	179
Temporary part-time	0	0	0	0	0	0	0	0
Total temporary	85	140	4	229	55	121	3	179
Total full-time	344	4,764	1,874	6,982	274	5,184	1,773	7,231
Total part-time	0	0	0	0	0	0	0	0

▪ **Annual average of contracts by age and type**

	2022				2021			
	< 30 years	30-50 years	> 50 years	Total employees	< 30 years	30-50 years	> 50 years	Total employees
Indefinite full-time	235	4,836	1,798	6,870	246	6,023	2,334	8,603
Indefinite part-time	0	0	0	0	0	0	0	0
Total indefinite	235	4,836	1,798	6,870	246	6,023	2,334	8,603
Temporary full-time	74	131	3	208	24	115	3	142
Temporary part-time	0	0	0	0	0	0	0	0
Total temporary	74	131	3	208	24	115	3	142
Total full-time	309	4,968	1,802	7,078	270	6,138	2,337	8,745
Total part-time	0	0	0	0	0	0	0	0

• **Number of contracts by professional category and type at 31 December**

	2022				
	Management team	Middle managers	Technicians	Operators	Total
Indefinite full-time	103	758	3,912	1,980	6,753
Indefinite part-time	0	0	0	0	0
Total indefinite	103	758	3,912	1,980	6,753
Temporary full-time	0	3	191	35	229
Temporary part-time	0	0	0	0	0
Total temporary	0	3	191	35	229
Total full-time	103	761	4,103	2,015	6,982
Total part-time	0	0	0	0	0

	2021				
	Management team	Middle managers	Technicians	Operators	Total
Indefinite full-time	104	1,547	3,300	2,101	7,052
Indefinite part-time	0	0	0	0	0
Total indefinite	104	1,547	3,300	2,101	7,052
Temporary full-time	0	25	123	31	179
Temporary part-time	0	0	0	0	0
Total temporary	0	25	123	31	179
Total full-time	104	1,572	3,423	2,132	7,231
Total part-time	0	0	0	0	0

• **Annual average of contracts by professional category and type**

	2022				
	Management team	Middle managers	Technicians	Operators	Total
Indefinite full-time	104	755	3,907	2,104	6,870
Indefinite part-time	0	0	0	0	0
Total indefinite	104	755	3,907	2,104	6,870
Temporary full-time	0	3	173	32	208
Temporary part-time	0	0	0	0	0
Total temporary	0	3	173	32	208
Total full-time	104	757	4,081	2,137	7,078
Total part-time	0	0	0	0	0

	2021				
	Management team	Middle managers	Technicians	Operators	Total
Indefinite full-time	108	1,892	3,950	2,652	8,603
Indefinite part-time	0	0	0	0	0
Total indefinite	108	1,892	3,950	2,652	8,603
Temporary full-time	0	18	97	27	142
Temporary part-time	0	0	0	0	0
Total temporary	0	18	97	27	142
Total full-time	108	1,910	4,047	2,680	8,745
Total part-time	0	0	0	0	0

▪ **Rotation index by gender and age group (%)** ^[401-1]

		2022		2021	
<30	Men	24.8	<30	Men	26.0
	Women	15.7		Women	31.0
30-50	Men	6.1	30-50	Men	30.0
	Women	6.6		Women	36.8
>50	Men	10.8	>50	Men	60.0
	Women	8.9		Women	81.9

▪ **Voluntary rotation index by gender and age group (%)** ^[401-1]

		2022		2021	
<30	Men	7.7	<30	Men	5.2
	Women	7.9		Women	9.3
30-50	Men	1.9	30-50	Men	1.9
	Women	2.6		Women	2.2
>50	Men	0.5	>50	Men	1.0
	Women	0.2		Women	1.1

▪ **Rotation index by country (%)** ^[401-1]

	2022		2021	
	Rotation index	Voluntary rotation index	Rotation index	Voluntary rotation index
Argentina	8.3	2.2	8.6	3.4
Australia	14.2	14.2	0.0	0.0
Brazil	5.0	2.7	17.2	3.0
Chile	10.1	0.2	100.0	1.2
Colombia	100.0	100.0	18.6	0.0
Costa Rica	5.7	5.7	27.4	27.4
Spain	3.1	1.6	36.2	1.0
USA	0.0	0.0	0.0	0.0
France	100.0	0.0	100.0	23.5
Ireland	0.0	0.0	100.0	16.0
Israel	24.9	24.9	11.8	11.8
Italy	0.0	0.0		
Luxembourg	0.0	0.0	0.0	0.0
Morocco	100.0	0.0	6.9	6.9
Mexico	7.6	3.2	19.3	2.4
Netherlands	0.0	0.0	0.0	0.0
Panama	15.2	1.3	6.6	1.9
Portugal	7.3	7.3	6.9	6.9
Puerto Rico	0.0	0.0	31.7	0.0
Dominican Republic	0.0	0.0	2.8	2.8
Singapore	100.0	100.0	14.8	14.8
Uganda	100.0	12.5	5.0	5.0
Total	8.0	2.0	40.9	1.9

NB: 100% is reported when more people left than remained on the staff. It affects France, Morocco, Singapore and Uganda in 2022 due to the sale of the business.

Empty cells: there have been no people leaving in this category.

• **Rotation by professional category and gender**

[401-1]

	2022														
	Management team			Middle managers			Technicians			Operators			Total		
	M	W	Total	M	W	Total	M	W	Total	M	W	Total	M	W	Total
Argentina	0	0	0	2	1	3	20	9	29	35	15	50	57	25	82
Australia	0	0	0	0	0	0	2	1	3	0	0	0	2	1	3
Brazil	0	0	0	2	0	2	11	4	15	2	0	2	15	4	19
Chile	1	0	1	2	3	5	10	16	26	19	11	30	32	30	62
Colombia	0	0	0	0	1	1	0	3	3	0	0	0	0	4	4
Costa Rica	0	0	0	0	0	0	1	0	1	0	0	0	1	0	1
Spain	8	1	9	9	2	11	34	38	72	22	5	27	73	46	119
USA	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
France	0	0	0	3	0	3	3	6	9	0	0	0	6	6	12
Ireland	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Israel	0	0	0	0	0	0	4	0	4	0	0	0	4	0	4
Italy	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Luxembourg	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Morocco	0	0	0	4	1	5	19	9	28	46	5	51	69	15	84
Mexico	0	0	0	0	1	1	24	16	40	11	1	12	35	18	53
Netherlands	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Panama	0	0	0	2	0	2	10	11	21	18	4	22	30	15	45
Portugal	0	0	0	0	0	0	0	1	1	0	0	0	0	1	1
Puerto Rico	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Dominican Rep.	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Singapore	0	0	0	0	0	0	3	2	5	0	0	0	3	2	5
Uganda	0	0	0	0	0	0	52	9	61	9	0	9	61	9	70
Total	9	1	10	24	9	33	193	125	318	162	41	203	388	176	564
% Total	90.0	10.0		72.7	27.3		60.7	39.3		79.8	20.2		68.8	31.2	

• **Voluntary rotation by professional category and gender** ^[401-1]

2022

	Management team			Middle managers			Technicians			Operators			Total employees		
	M	W	Total	M	W	Total	M	W	Total	M	W	Total	M	W	Total
Argentina	0	0	0	0	0	0	5	6	11	8	3	11	13	9	22
Australia	0	0	0	0	0	0	2	1	3	0	0	0	2	1	3
Brazil	0	0	0	1	0	1	5	4	9	0	0	0	6	4	10
Chile	0	0	0	1	0	1	0	0	0	0	0	0	1	0	1
Colombia	0	0	0	0	0	0	0	2	2	0	0	0	0	2	2
Costa Rica	0	0	0	0	0	0	1	0	1	0	0	0	1	0	1
Spain	1	0	1	5	1	6	23	29	52	4	0	4	33	30	63
USA	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
France	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Ireland	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Israel	0	0	0	0	0	0	4	0	4	0	0	0	4	0	4
Italy	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Luxembourg	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Morocco	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Mexico	0	0	0	0	1	1	10	6	16	4	1	5	14	8	22
Netherlands	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Panama	0	0	0	0	0	0	2	2	4	0	0	0	2	2	4
Portugal	0	0	0	0	0	0	0	1	1	0	0	0	0	1	1
Puerto Rico	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Dominican Rep.	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Singapore	0	0	0	0	0	0	1	0	1	0	0	0	1	0	1
Uganda	0	0	0	0	0	0	4	0	4	1	0	1	5	0	5
Total	1	0	1	7	2	9	57	51	108	17	4	21	82	57	139
% Total	100.0	0.0		77.8	22.2		52.8	47.2		81.0	19.0		59.0	41.0	

• **Vacant positions filled by internal applications**

	2022	2021
Vacant positions filled by internal applications (*)	45.1	53.9

NB:

- The indicator is from Spain.
- The value of 2021 is calculated on the same basis as 2022.

• **New employees by gender and age group** ^[401-1]

		2022		2021	
<30	Men	94	<30	Men	48
	Women	91		Women	68
30-50	Men	77	30-50	Men	80
	Women	46		Women	58
>50	Men	4	>50	Men	11
	Women	3		Women	5
Total	Men	175	Total	Men	139
	Women	140		Women	131
	Total	315		Total	270

▪ **New employees by gender and business**

[401-1]

	2022					
	Men	% Men	Women	% Women	Total	% Total
Commercialisation	11	36.67	19	63.33	30	100.00
Corporate	2	20.00	8	80.00	10	100.00
Energy Management and Networks	97	53.89	83	46.11	180	100.00
Renewables and New Businesses	65	68.42	30	31.58	95	100.00
Total	175	55.60	140	44.40	315	100.00

▪ **New employees by gender, corporation and business**

[401-1]

	2022					
	Men	% Men	Women	% Women	Total	% Total
Corporate	2	20.00	8	80.00	10	100.00
Business	173	56.72	132	43.28	305	100.00
Total	175	55.56	140	44.44	315	100.00

▪ **Number of dismissals by gender and professional category**

[401-1]

	2022				
	Management team	Middle managers	Technicians	Operators	Total
Men	0	8	43	52	103
Women	1	1	27	5	34
Total	1	9	70	57	137

	2021				
	Management team	Middle managers	Technicians	Operators	Total
Men	0	16	69	41	126
Women	0	8	34	35	77
Total	0	24	103	76	203

▪ **Training hours per employee**

[404-1]

	2022	2021
Management team	30.6	31.5
Middle managers	46.2	37.3
Technicians	35.1	26.0
Operators	36.7	25.1
Total	35.9	28.8

NB: Training data only includes companies that have access to SuccessFactors. These companies represent 93% of the total staff.

▪ **Training hours by age (%)**

[404-1]

	2022			
	Management team	Middle managers	Technicians	Operators
<30	100.0	100.0	96.4	96.3
31-44	96.4	99.7	97.1	96.5
45-54	97.3	99.1	98.6	96.4
>55	95.8	100.0	97.7	91.6
Total	96.9	99.5	97.8	95.6

	2021			
	Management team	Middle managers	Technicians	Operators
<30	-	95.1	75.3	75.4
31-44	90.2	86.0	79.7	76.9
45-54	89.9	83.5	85.0	74.3
>55	74.0	80.4	69.9	60.1
Total	88.1	84.5	80.8	72.3

▪ **Training hours**

[404-1]

	2022	2021
Management team	25,620	26,577
Middle managers	27,774	53,214
Technicians	125,392	66,786
Operators	53,660	46,840
Total	232,445	193,416

▪ **Fixed remuneration by gender**

			2022
	Men	Women	Gap
Argentina	28,858	24,681	14.5%
Australia	77,253	85,456	-10.6%
Brazil	22,242	24,403	-9.7%
Chile	37,160	30,155	18.9%
Colombia			-
Costa Rica	17,190		n.a.
Spain	56,453	52,369	7.2%
USA			-
France			-
Ireland			-
Israel	42,536		n.a.
Italy			-
Luxembourg			-
Morocco			-
Mexico	20,893	22,120	-5.9%
Netherlands			-
Panama	27,698	25,697	7.2%
Portugal	40,587	38,538	5.0%
Puerto Rico			-
Dominican Republic	18,205	25,825	-41.9%
Singapore			-
Uganda			-

NB:

- Blank data are not published because there are no employees in that category or for confidentiality reasons.
- With regard to the information from Chile, the company GPG Chile has been excluded.
- Data are not comparable with 2021 due to a change in the classification of these categories: MM, TE and OP.
- The exchange rate used is as at the end of December 2022.

	2021		
	Men	Women	Gap
Argentina	26,575	28,626	-7.7%
Australia			-
Brazil	19,950	21,057	-5.5%
Chile	31,448	25,532	18.8%
Colombia			-
Costa Rica			-
Spain	55,686	51,544	7.4%
USA			-
France	79,547	48,047	39.6%
Ireland			-
Israel			-
Italy			-
Luxembourg			-
Morocco	30,664	34,266	-11.7%
Mexico	18,809	19,033	-1.2%
Netherlands			-
Panama	31,076	23,292	25.0%
Portugal	39,344	36,535	7.1%
Puerto Rico			-
Dominican Republic	15,568	21,402	-37.5%
Singapore			-
Uganda			-

NB:

- Blank data are not published because there are no employees in that category or for confidentiality reasons.
- With regard to the information from Chile, the company GPG Chile has been excluded.

▪ **Fixed remuneration by age range**

	2022		
	<30 years	30-50 years	>50 years
Argentina	18,397	24,527	31,872
Australia	60,537	81,169	74,656
Brazil	14,936	22,433	26,691
Chile	24,130	34,574	36,349
Colombia			
Costa Rica	10,399	19,115	17,207
Spain	32,387	50,961	71,637
USA			
France			
Ireland			
Israel	30,617	43,911	55,804
Italy			
Luxembourg			
Morocco			
Mexico	14,674	20,910	25,650
Netherlands			
Panama	16,537	24,243	40,410
Portugal		35,490	83,308
Puerto Rico			
Dominican Republic	11,735	19,895	20,258
Singapore			
Uganda			

NB:

- Blank data are not published because there are no employees in that category or for confidentiality reasons.
- With regard to the information from Chile, the company GPG Chile has been excluded.
- Data are not comparable with 2021 due to a change in the classification of these categories: MM, TE and OP.
- The exchange rate used is at the end of December 2022.

	2021		
	<30 years	30-50 years	>50 years
Argentina	19,914	22,185	28,404
Australia			
Brazil	13,160	19,523	24,572
Chile	14,533	29,298	30,707
Colombia			
Costa Rica			
Spain	29,927	50,141	73,749
USA			
France	51,000	63,650	
Ireland			
Israel			
Italy			
Luxembourg			
Morocco	7,706	22,933	34,705
Mexico	14,389	19,133	30,707
Netherlands			
Panama	14,978	26,437	36,232
Portugal		33,988	80,882
Puerto Rico			
Dominican Republic	9,223	17,272	17,626
Singapore			
Uganda			

NB:

- Blank data are not published because there are no employees in that category or for confidentiality reasons.
- With regard to the information from Chile, the company GPG Chile has been excluded.

Variable remuneration was considered to be the amount received by employees under the Management by Objectives, Performance Management and Commercial Variable Remuneration programmes.

• **Average fixed and variable remuneration**

	2022							
	Management team		Middle managers		Technicians		Operators	
	Men	Women	Men	Women	Men	Women	Men	Women
Argentina	222,607		107,353	72,890	32,735	29,757	21,453	19,223
Australia								
Brazil		171,076	56,809	61,649	25,748	24,629	16,967	16,919
Chile	259,935		143,596	101,560	41,996	38,708	21,272	20,806
Costa Rica								
Spain	342,168	228,239	105,606	103,162	53,108	50,151	36,830	36,085
USA								
France								
Ireland								
Israel								
Italy								
Luxembourg								
Mexico	191,801		62,286	56,671	21,358	21,237	8,063	6,843
Netherlands								
Panama			72,523	76,604	27,162	23,664	17,347	19,078
Portugal					40,587	34,243		
Puerto Rico								
Dominican Republic					30,212	31,299	15,111	10,972
Total	330,055	221,888	99,927	94,632	43,284	42,180	26,444	25,897

- Blank data are not published because there are no employees in that category or for confidentiality reasons.
- With regard to the information from Chile, the company GPG Chile has been excluded.

• **Median fixed and variable remuneration**

	2022							
	Management team		Middle managers		Technicians		Operators	
	Men	Women	Men	Women	Men	Women	Men	Women
Argentina	222,607		83,014	70,549	29,901	28,256	20,570	19,349
Australia								
Brazil		125,675	52,433	57,054	23,901	23,318	15,135	17,066
Chile	259,935		120,372	110,246	39,449	36,645	19,962	19,327
Costa Rica								
Spain	270,782	216,548	95,334	95,365	47,334	45,586	37,053	35,463
USA								
France								
Ireland								
Israel								
Italy								
Luxembourg								
Mexico	213,162		52,118	54,458	19,645	19,617	7,885	6,443
Netherlands								
Panama	288,383		58,990	61,165	23,211	21,468	16,231	15,698
Portugal				83,308	41,060	33,491		
Puerto Rico								
Dominican Republic					24,499	26,520	14,112	10,972

- Blank data are not published because there are no employees in that category or for confidentiality reasons.
- With regard to the information from Chile, the company GPG Chile has been excluded.

▪ **Average variable remuneration**

	2022							
	Management team		Middle managers		Technicians		Operators	
	Men	Women	Men	Women	Men	Women	Men	Women
Argentina	63,602		20,383	10,649	2,735	2,529	1,383	1,213
Australia								
Brazil		53,465	10,957	11,745	3,406	2,900	2,088	2,933
Chile	79,051		27,372	12,786	7,135	7,712	624	446
Costa Rica								
Spain	110,875	65,754	22,236	20,692	9,259	7,216		
USA								
France								
Ireland								
Israel								
Italy								
Luxembourg								
Mexico	58,743		11,027	9,669	2,220	2,450		
Netherlands								
Panama	84,979		13,286	13,725	2,736	2,488	1,146	1,742
Portugal						3,470		
Puerto Rico								
Dominican Republic					2,795	3,282	923	496
Total	106,335	64,389	20,403	18,554	5,532	5,101	1,410	1,677

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- With regard to the information from Chile, the company GPG Chile has been excluded.

▪ **Median variable remuneration**

	2022							
	Management team		Middle managers		Technicians		Operators	
	Men	Women	Men	Women	Men	Women	Men	Women
Argentina	63,602		15,594	8,527	2,500	2,504	1,298	1,197
Australia								
Brazil		35,907	9,964	9,954	2,175	2,022	1,432	2,158
Chile	79,051		19,089	15,269	2,635	3,622	461	445
Costa Rica								
Spain	77,717	59,476	17,831	18,293	7,576	6,250		
USA								
France								
Ireland								
Israel								
Italy								
Luxembourg								
Mexico	65,301		7,022	7,408	2,202	2,269		
Netherlands								
Panama	84,979		8,959	9,397	2,304	2,337	959	912
Portugal						3,299		
Puerto Rico								
Dominican Republic					1,955	2,722	830	496

- Blank data are not published because there are no employees in that category or for confidentiality reasons.
- With regard to the information from Chile, the company GPG Chile has been excluded.

▪ **Average fixed and variable remuneration by professional category**

	2022			
	Management team	Middle managers	Technicians	Operators
Argentina	222,607	100,200	31,793	20,931
Australia		122,588	77,756	
Brazil	171,076	58,716	25,276	16,951
Chile	259,935	136,816	40,983	21,117
Colombia				
Costa Rica			19,647	12,138
Spain	312,121	104,787	51,872	36,665
USA				
France				
Ireland				
Israel			46,187	
Italy				
Luxembourg				
Morocco				
Mexico	191,801	60,704	21,321	7,954
Netherlands				
Panama		73,883	25,716	17,726
Portugal			36,357	
Puerto Rico				
Dominican Republic			30,703	14,910
Singapore				
Uganda				

NB:

- Blank data are not published because there are no employees in that category or for confidentiality reasons.
- With regard to the information from Chile, the company GPG Chile has been excluded.
- Data are not comparable with 2021 due to a change in the classification of these categories: MM, TE and OP. As a result of the professional classification carried out in 2022, in which the positions of Team Managers, Unit Managers and Service Managers no longer form part of the group of Middle Managers, there has been a significant increase in the average figure for this group in Spain; in such a way that, had the 2021 criterion been maintained, the figure would have been €77,399.
- The exchange rate used is at the end of December 2022.

2021

	Management team	Middle managers	Technicians	Operators
Argentina	184,248	52,248	27,339	20,567
Australia				
Brazil	164,006	46,509	23,045	14,679
Chile	324,230	63,020	31,129	16,571
Colombia				
Costa Rica				
Spain	311,668	74,046	52,543	36,025
USA				
France		150,452	58,449	
Ireland				
Israel				
Italy				
Luxembourg				
Morocco		43,969	52,465	19,552
Mexico	149,505	47,485	20,305	9,525
Netherlands				
Panama	254,717	47,551	26,161	22,120
Portugal		80,882	34,746	
Puerto Rico				
Dominican Republic		19,246	29,895	11,922
Singapore				
Uganda				

NB:

- Blank data are not published because there are no employees in that category or for confidentiality reasons.
- With regard to the information from Chile, the company GPG Chile has been excluded.

• **Average fixed and variable remuneration by professional category and gender**

2022

	Management team	Middle managers	Technicians	Operators
Men	330,055	99,927	43,284	26,444
Women	221,888	94,632	42,180	25,897

▪ **Average fixed and variable remuneration by gender**

	2022	
	Men	Women
Argentina	31,009	26,261
Australia	85,952	106,098
Brazil	25,935	29,100
Chile	41,052	32,270
Colombia		
Costa Rica	18,172	
Spain	63,741	57,857
USA		
France		
Ireland		
Israel	46,923	
Italy		
Luxembourg		
Morocco		
Mexico	23,016	24,234
Netherlands		
Panama	31,684	29,002
Portugal	40,587	39,695
Puerto Rico		
Dominican Republic	19,696	28,758
Singapore		
Uganda		

NB:

- Blank data are not published because there are no employees in that category or for confidentiality reasons.
- With regard to the information from Chile, the company GPG Chile has been excluded.
- Data are not comparable with 2021 due to a change in the classification of these categories: MM, TE and OP.
- The exchange rate used is at the end of December 2022.

	2021	
	Men	Women
Argentina	22,063	23,593
Australia		
Brazil	22,262	23,956
Chile	35,293	27,767
Colombia		
Costa Rica		
Spain	62,817	56,878
USA		
France	96,792	57,048
Ireland		
Israel		
Italy		
Luxembourg		
Morocco	38,807	39,553
Mexico	23,048	22,909
Netherlands		
Panama	34,110	25,964
Portugal	39,344	37,521
Puerto Rico		
Dominican Republic	16,726	25,047
Singapore		
Uganda		

NB:

- Blank data are not published because there are no employees in that category or for confidentiality reasons.
- With regard to the information from Chile, the company GPG Chile has been excluded.

▪ **Average fixed and variable remuneration by age range**

	2022		
	<30 years	30-50 years	>50 years
Argentina	18,935	25,925	34,617
Australia	67,196	93,151	81,642
Brazil	16,398	26,437	31,441
Chile	24,168	37,405	40,777
Colombia			
Costa Rica	10,399	20,243	18,271
Spain	34,131	55,913	84,281
USA			
France			
Ireland			
Israel	33,679	48,151	61,384
Italy			
Luxembourg			
Morocco			
Mexico	15,680	22,919	28,893
Netherlands			
Panama	17,054	27,188	48,149
Portugal		36,357	83,308
Puerto Rico			
Dominican Republic	12,453	21,691	22,150
Singapore			
Uganda			

NB:

- Blank data are not published because there are no employees in that category or for confidentiality reasons.
- With regard to the information from Chile, the company GPG Chile has been excluded.

- Data are not comparable with 2021 due to a change in the classification of these categories: MM, TE and OP.
- The exchange rate used is at the end of December 2022.

	2021		
	<30 years	30-50 years	>50 years
Argentina	20,145	23,428	30,988
Australia			
Brazil	13,621	21,907	27,965
Chile	14,533	32,455	34,481
Colombia			
Costa Rica			
Spain	31,589	54,977	87,467
USA			
France	63,212	76,612	
Ireland			
Israel			
Italy			
Luxembourg			
Morocco	13,096	29,370	43,139
Mexico	17,485	23,570	36,990
Netherlands			
Panama	16,013	28,862	40,717
Portugal		34,746	80,882
Puerto Rico			
Dominican Republic	9,661	18,675	19,146
Singapore			
Uganda			

NB:

- Blank data are not published because there are no employees in that category or for confidentiality reasons.
- With regard to the information from Chile, the company GPG Chile has been excluded.

▪ **Weighted average and median fixed and variable salary gap (%)**

[405-2]

2022

	Average fixed and variable salary gap				Median fixed and variable salary gap			
	Managem ent team	Middle managers	Technicia ns	Operators	Managem ent team	Middle managers	Technicia ns	Operators
Argentina		32.1	9.1	10.4		15.0	5.5	5.9
Australia		-52.5	13.9			-51.9	10.5	
Brazil	n.a.	-8.5	4.3	0.3	n.a.	-8.8	2.4	-12.8
Chile		29.3	7.8	2.2		8.4	7.1	3.2
Costa Rica			n.a.				n.a.	
Spain	33.3	2.3	5.6	2.0	20.0	0.0	3.7	4.3
USA								
France								
Ireland								
Israel			n.a.				n.a.	
Italy		n.a.				n.a.		
Luxembourg								
Mexico		9.0	0.6	15.1		-4.5	0.1	18.3
Netherlands								
Panama		-5.6	12.9	-10.0		-3.7	7.5	3.3
Portugal		n.a.	15.6			n.a.	18.4	
Puerto Rico								
Dominican Republic			-3.6	27.4			-8.3	22.3
Total	29.7	4.8	5.9	5.3	17.9	-0.1	3.7	5.1

- Blank data are not published because there are no employees in that category or for confidentiality reasons.
- With regard to the information from Chile, the company GPG Chile has been excluded.

▪ **Weighted average and median variable salary gap (%)**

2022

	Average variable salary gap				Median variable salary gap			
	Management team	Middle managers	Technicians	Operators	Management team	Middle managers	Technicians	Operators
Argentina		47.8	7.5	12.3		45.3	-0.2	7.8
Australia		-99.7	12.2			-103.6	11.1	
Brazil	n.a.	-7.2	14.8	-40.4	n.a.	0.1	7.0	-50.7
Chile		53.3	-8.1	28.4		20.0	-37.4	3.5
Costa Rica			n.a.				n.a.	
Spain	40.7	6.9	22.1		23.5	-2.6	17.5	
USA								
France								
Ireland								
Israel			n.a.				n.a.	
Italy		n.a.				n.a.		
Luxembourg								
Mexico		12.3	-10.3			-5.5	-3.0	
Netherlands								
Panama		-3.3	9.0	-52.0		-4.9	-1.4	4.9
Portugal			n.a.				n.a.	
Puerto Rico								
Dominican Republic			-17.4	46.2			-39.3	40.2
Total	36.3	10.1	13.1	4.2	21.0	0.5	7.2	1.0

- Blank data are not published because there are no employees in that category or for confidentiality reasons.
- With regard to the information from Chile, the company GPG Chile has been excluded.

2. Additional information

Content index in accordance with the provisions of Act 11/2018, of 28 December, which amends the Commercial Code, the consolidated text of the Corporate Enterprises Act approved by Legislative Royal Decree 1/2010, of 2 July, and Act 22/2015, of 20 July, on Auditing, in connection with non-financial and diversity reporting.

Contents	Pages	Reporting criteria	Reason for the omission
Business model.			
Description of the business model.			
<ul style="list-style-type: none"> - Its business environment. - Its organisation and structure. - The markets in which it operates. - Its goals and strategies. - The main factors and trends that may affect their future. 	9-12, 15-18, 19, 20, 194, 221	GRI 2-1 GRI 2-7 GRI 2-6 GRI 3-1 GRI 3-2 GRI 3-3	
Reporting framework used to report non-financial information.	301-304	GRI 3-1	
Policies.			
A description of the group's policies on these issues.			
<ol style="list-style-type: none"> 1. Due diligence procedures applied for the identification, assessment, prevention and mitigation of risks and impacts, and verification and control, including what measures have been adopted. 2. Key performance indicators of policy implementation to enable monitoring and evaluation of progress. 	59, 116, 209	GRI 3-3	
Risks.			
The main risks related to these issues associated with the activities of the group, including, where relevant and proportionate, its business relationships, products or services that could have an adverse effect on those areas, and how the group manages such risks, explaining the procedures used to identify and assess them in accordance with the national, European or international reference frameworks for each subject matter.			
	57, 87, 110, 209	GRI 3-3	
Materiality analysis.	295-301	GRI 3-1 GRI 3-2	
Social and personnel issues.			
Employment.			
<ul style="list-style-type: none"> - Number and distribution of employees by country, gender, age group and professional category. - Total number and distribution of employment contract types and annual average of: <ul style="list-style-type: none"> ▪ Indefinite contracts by gender, age and professional category. ▪ Temporary contracts by gender, age and professional category. 	221-225, 312-314	GRI 2-7 GRI 405-1 (GRI 11.11.5)	
Number of layoffs by gender, age group and professional category.	227, 318	GRI 401-1 (GRI 11.10.2)	
Average remuneration by gender, professional category and age group.	237, 238, 320-330	GRI 405-2 (GRI 11.11.6)	
Pay gap.	239, 240, 332, 333	GRI 405-2	
Average remuneration of directors and senior managers, including bonus, allowances, compensation, payment to long-term savings schemes and any other payment broken down by gender.	84, 85	GRI 405-2 (GRI 11.11.6) GRI 201-3	
Introduction of policies on disconnecting from work.	218, 219	GRI 401-2 (GRI 11.10.3)	
Percentage of disabled employees.	218	GRI 405-1 (GRI 11.11.5)	
Work organisation.			

Organisation of work time.	218, 219	GRI 401-2 (GRI 11.10.3)
Number of hours of absenteeism.	264	GRI 403-9 (GRI 11.9.10)
Measures to facilitate work-life balance and encourage the co-responsible exercise of these by both parents.	215, 216, 309-312	GRI 401-3 (GRI 11.10.4)
Health and safety.		
Health and safety conditions in the workplace.	210, 244, 249, 252, 253, 254	GRI 403-1 (GRI 11.9.2) GRI 403-2 (GRI 11.9.3) GRI 403-3 (GRI 11.9.4) GRI 403-9 (11.9.10)
Number of work accidents by gender.	210, 255, 256	GRI 403-1 (GRI 11.9.2) GRI 403-2 (GRI 11.9.3) GRI 403-3 (GRI 11.9.4) GRI 403-9 (GRI 11.9.10)
Occupational diseases by gender.	255	GRI 403-10 (GRI 11.9.11)
Social relations.		
Organisation of social dialogue, including procedures for informing, consulting and negotiating with staff.	227, 228, 246, 247, 259	GRI 402-1 (GRI 11.10.5) GRI 403-4 (GRI 11.9.5)
Percentage of employees covered by collective bargaining agreements.	227-229	GRI 2-30
Balance of the collective bargaining agreements in the field of occupational health and safety.	227-229, 246, 247	403-4 (GRI 11.9.5)
Description of the company's mechanisms and procedures to promote employee involvement in the management of the company, in terms of information, consultation and participation.	219, 220, 227, 228	GRI 3-3
Training.		
Policies introduced in the field of training.	229-235, 259	GRI 404-2 (GRI 11.10.7) GRI 403-5 (GRI 11.9.6)
Total number of training hours by professional category.	318-319	GRI 404-1 (GRI 11.10.6)
Universal accessibility for people with disabilities.	215	GRI 405-1 (GRI 11.11.5)
Equality.		
Measures taken to promote equal treatment and opportunities between women and men.	214-216	GRI 405-1 (GRI 11.11.5) GRI 405-2 (GRI 11.11.6)
Equality plans.	214	GRI 405-1 (GRI 11.11.5) GRI 405-2 (GRI 11.11.6)
Measures adopted to foster employment.	214	GRI 405-1 (GRI 11.11.5) GRI 405-2 (GRI 11.11.6)
Protocols against sexual and gender-based harassment.	214	GRI 405-1 (GRI 11.11.5) GRI 405-2 (GRI 11.11.6)

Integrity and universal accessibility for people with disabilities.	214	GRI 405-1 (GRI 11.11.5) GRI 405-2 (GRI 11.11.6)
Policy against all types of discrimination and, where appropriate, diversity management.	215	GRI 405-1 (GRI 11.11.5) GRI 405-2 (GRI 11.11.6)
Environmental issues.		
Management approach.		
Detailed information on the current and foreseeable effects of the company's activities on the environment and, where appropriate, on health and safety.	112, 116, 117	GRI 3-3
Environmental assessment or certification procedures.	117, 118	GRI 307-1
Resources targeted at the prevention of environmental risks.	118-119	GRI 3-3
The application of the precautionary principle.	116-119	GRI 2-23
The amount of provisions and guarantees for environmental risks.	118, 119	GRI 3-3
Pollution.		
Measures to prevent, reduce or repair carbon emissions that seriously affect the environment (also includes noise and light pollution).	144, 150-152, 160	GRI 305-1 (GRI 11.1.5) GRI 305-2 (GRI 11.1.6) GRI 305-3 (GRI 11.1.7)
Circular economy, sustainable use of resources and waste prevention.		
Measures for prevention, recycling, reuse, and other forms of recovery and disposal.	161, 163	GRI 306-2 (GRI 11.5.3)
Actions to combat food waste.	Non-material	
Sustainable use of resources.		
Water consumption and water supply in accordance with local constraints.	155, 156	GRI 303-2 (GRI 11.6.3) GRI 305-5 (GRI 11.2.3)
Consumption of raw materials and measures taken to improve the efficiency of their use.	153, 154	GRI 301-1
Direct and indirect energy consumption	153, 154	GRI 302-1 (GRI 11.1.2) GRI 302-4
Measures to improve energy efficiency.	145, 153	GRI 302-4 GRI 302-5
Use of renewable energies.	24-28, 145, 153	GRI 302-1 (GRI 11.1.2)
Environmental issues.		
Climate change.		
Greenhouse gas emissions.	139, 140, 143	GRI 305-1 (GRI 11.1.5) GRI 305-2 (GRI 11.1.6) GRI 305-3 (GRI 11.1.7) GRI 305-4 (GRI 11.1.8) GRI 305-5 (GRI 11.2.3)
Measures to adapt to climate change.	114, 118, 119, 133-137	GRI 201-2 (GRI 11.2.2) GRI 302-4
Targets to reduce greenhouse gases.	113, 121, 124, 145, 146	GRI 305-5 (GRI 11.2.3)

Sustainable finance taxonomy		
<ul style="list-style-type: none"> – Regulation (UE) 2020/852 of the European Parliament – Commission Delegated Act Regulation (UE) 2021/2139 	34-46	Company criteria
Biodiversity.		
Measures to preserve or restore biodiversity.	118, 119, 166, 182-188	GRI 2-23 GRI 304-3 (GRI 11.4.4)
Impacts caused by the activity.	169-180	GRI 304-2 (GRI 11.4.3)
Information on respect for human rights.		
Application of due diligence procedures.	66, 73, 74, 105	GRI 2-23 GRI 2-26
Measures for the prevention of risks of human rights violations and, where appropriate, measures to mitigate, manage and redress possible abuses.	61, 66, 71, 72, 73, 76	GRI 2-23 GRI 2-16
Complaints about human rights violations.	58	GRI 2-16
Promotion and enforcement of the provisions of ILO core conventions related to respect for freedom of association and the right to collective bargaining, elimination of forced or compulsory labour and the effective abolition of child labour.	107	GRI 407-1
Information on corruption and bribery.		
Measures to prevent corruption and bribery.	58	GRI 205-3 (GRI 11.20.4)
Anti-money laundering measures	58	GRI 2-23
Contributions to foundations and not-for-profit associations.	279	GRI 201-1 (GRI 11.14.2)
Information about the company.		
Commitments of the companies to sustainable development.		
<ul style="list-style-type: none"> – The impact of society on local employment. – The impact of society's activity on local populations and the territory. – The relations maintained with the local community players and the types of business with them. – The actions of association or sponsorship. 	279, 280, 284, 285, 286, 287, 288	Naturgy has not implemented a methodology to accurately measure the indirect economic contribution of the organisation.
Responsible supply chain management.		
<ul style="list-style-type: none"> – The inclusion of social, gender equality and environmental issues in the procurement policy. – Consideration in relations with suppliers and subcontractors of their social and environmental responsibility. – Monitoring and auditing systems. 	103-104, 107, 109	GRI 2-6
Management of customers relations.		
<ul style="list-style-type: none"> – Measures for the health and safety of consumers. – Complaint systems. – Complaints received and their resolution. 	199-205, 207-208, 307-308	GRI 416-1 GRI 417-2
Tax information and transparency.		
<ul style="list-style-type: none"> – Profits country by country. – Taxes paid on profits. – Public grants received. 	21, 47, 68	GRI 201-1 GRI 207-1 GRI 207-2 GRI 207-3

GRI contents index

Naturgy Energy Group, S.A. has reported the information cited in this GRI content index for the period January 1st to December 31st, 2022 with reference to the GRI Standards.

GRI Standard	Disclosure	Reference Sector Standard	Page	Direct response / Omission	External assurance
GRI 1: Foundation 2021					
Sector Standard GRI 11: Oil and Gas Sector 2021					
GRI 2: General Disclosures 2021					
The organization and its reporting practices	2-1 Organizational details		4, 15, 19		Yes
	2-2 Entities included in the organization's sustainability reporting		301		Yes
	2-3 Reporting period, frequency and contact point		304		Yes
	2-4 Restatements of information		301		Yes
	2-5 External assurance		304, 357-360		Yes
Activities and workers	2-6 Activities, value chain and other business relationships		15, 102, 103		Yes
	2-7 Employees		225, 226		Yes
Governance	2-9 Governance structure and composition		77-81, 83, 84		Yes
	2-10 Nomination and selection of the highest governance body		79-83, 86		Yes
	2-11 Chair of the highest governance body		79, 81		Yes
	2-12 Role of the highest governance body in overseeing the management of impacts		79-80		Yes
	2-13 Delegation of responsibility for managing impacts		79-80		Yes
	2-14 Role of the highest governance body in sustainability reporting		79-80, 295		Yes
	2-15 Conflicts of interest		78		Yes
	2-16 Communication of critical concerns		58, 64, 65		Yes
	2-18 Evaluation of the performance of the highest governance body		82		Yes
	2-19 Remuneration policies		84, 85		Yes
	2-20 Process to determine remuneration		84, 85		Yes
2-21 Annual total compensation ratio		84	Omission: letter b)	Yes	

	2-22 Statement on sustainable development strategy		4-7	Yes
	2-23 Policy commitments		61-63, 89	Yes
	2-24 Embedding policy commitments		61	Yes
Strategy, policies and practices	2-25 Processes to remediate negative impacts		47, 48, 61, 62, 65, 199-208, 284, 307, 308	Yes
	2-26 Mechanisms for seeking advice and raising concerns		58, 61	Yes
	2-27 Compliance with laws and regulations		67	Yes
	2-28 Membership associations		53	Yes
Stakeholder engagement	2-29 Approach to stakeholder engagement		47-52	Yes
	2-30 Collective bargaining agreements		227-229	Yes
GRI 3: Material Topics 2021				
GRI 3: Material Topics 2021	3-1 Process to determine material topics		295-301	Yes
	3-2 List of material topics		296	Yes
Circular economy and eco-efficiency				
GRI 3: Material Topics 2021	3-3 Management of material topics	11.5.1, 11.6.1	153	Yes
GRI 301: Materials 2016	301-1: Materials used, by weight or volume	N.A.	154	Yes
GRI 302: Energy 2016	302-1: Electricity consumption within the organisation	11.1.2	153	Yes
	302-2: Electricity consumption outside the organisation	11.1.3	154	Yes
	302-3: Energy intensity	11.1.4	153	Yes
	302-4: Reduction of energy consumption	N.A.	145	Yes
	302-5: Reduction in energy requirements of products and services	N.A.	145	Yes
GRI 303: Water and effluents 2018	303-1: Interactions with water as a shared resource	11.6.2	154	Yes
	303-2: Management of impacts related to water discharges	11.6.3	154, 169-180	Yes
	303-3: Water withdrawal	11.6.4	155, 156, 158, 159	Yes
	303-4: Water discharge	11.6.5	157, 159	Yes
	303-5: Water consumption	11.6.6	155, 156, 159	Yes
GRI 306: Waste 2020	306-1 Waste generation and significant waste-related impacts	11.5.2	161	Yes
	306-2 Management of significant waste-related impacts	11.5.3	161	Yes
	306-3 Waste generated	11.5.4	118, 161	Yes
	306-4 Waste diverted from disposal	11.5.5	162	Yes
	306-5 Waste directed to disposal	11.5.6	162	Yes
Occupational safety and well-being of workers				
GRI 3: Material Topics 2021	3-3 Management of material topics	11.9.1	242	Yes

	403-1: Occupational health and safety management system	11.9.2	244, 262		Yes	
	403-2: Hazard identification, risk assessment, and incident investigation	11.9.3	246, 247, 249, 250, 253		Yes	
	403-3: Occupational health services	11.9.4	260		Yes	
	403-4: Worker participation, consultation, and communication on occupational health and safety	11.9.5	246, 247, 259		Yes	
GRI 403: Occupational health and safety 2018	403-5 Training of workers on health and safety at work	11.9.6	258		Yes	
	403-6: Promotion of worker health	11.9.7	263		Yes	
	403-7: Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	11.9.8	227-228, 246-247, 259		Yes	
	403-8: Workers covered by an occupational health and safety management system	11.9.9	244, 262		Yes	
	403-9: Work-related injuries	11.9.10	255, 256		Yes	
	403-10: Work-related ill health	11.9.11	255		Yes	
	Business continuity					
	GRI 3: Material Topics 2021	3-3 Management of material topics	11.8.1	87		Yes
	GRI 201: Economic performance 2016	201-2: Financial implications and other risks and opportunities due to climate change.	11.2.2	93, 118, 131, 132, 133-137	201-2 v.Consolidated Annual Report 2022; Note 3: pages 51-52	Yes
		201-3: Defined benefit plan obligations and other retirement plans	N.A.	236	Omission: letter d)	Yes
Cybersecurity and information security						
GRI 3: Material Topics 2021	3-3 Management of material topics		95		Yes	
Climate change and energy transition						
GRI 3: Material Topics 2021	3-3 Management of material topics	11.1.1, 11.2.1, 11.3.1	121		Yes	
GRI 201: Economic performance 2016	201-2: Financial implications and other risks and opportunities due to climate change.	11.2.2	93, 118, 131, 132, 133-137	201-2 v.Consolidated Annual Report 2022; Note 3: pages 51-52	Yes	
GRI 305: Emissions 2016	305-1: Direct GHG emissions (Scope 1)	11.1.5	139, 140, 143		Yes	
	305-2: Indirect GHG emissions from power generation (Scope 2)	11.1.6	140		Yes	
	305-3: Other indirect GHG emissions (Scope 3)	11.1.7	140		Yes	
	305-4: GHG emissions intensity	11.1.8	142		Yes	
	305-5: Reduction of GHG emissions	11.2.3	145		Yes	
	305-6: Emissions of ozone-depleting substances (ODS)	N.A.	160		Yes	
	305-7: Nitrogen oxides (NOX), sulphur oxides (SOX), and other significant air emissions	11.3.2	160		Yes	
GRI 416: Customer Health and Safety 2016	416-1: Assessment of the health and safety impacts of product and service categories	11.3.3	207, 208		Yes	

Diversity and equality					
GRI 3: Material Topics 2021	3-3 Management of material topics	11.11.1	214-216		Yes
GRI 401: Employment 2016	401-3: Parental leave	11.11.3	309-312		Yes
GRI 405: Diversity and equal opportunities 2016	405-1: Diversity of governance bodies and employees	11.11.5	217, 218, 222, 223		Yes
	405-2 Ratio of basic salary and remuneration of women to men	11.11.6	239, 240, 332, 333		Yes
Biodiversity and natural capital					
GRI 3: Material Topics 2021	3-3 Management of material topics	11.4.1	166		Yes
GRI 304: Biodiversity 2016	304-1: Operations centres owned, leased or managed located within or adjacent to protected areas or zones of great value for biodiversity outside protected areas	11.4.2	181		Yes
	304-2: Significant impacts of activities, products and services on biodiversity	11.4.3	169-180		Yes
	304-3: Habitats protected or restored	11.4.4	115, 182, 187		Yes
	304-4: IUCN Red List species and national conservation list species with habitats in areas affected by operations	11.4.5	182		Yes
Human rights					
GRI 3: Material Topics 2021	3-3 Management of material topics	11.12.1, 11.13.1, 11.16.1, 71, 11.17.1, 11.18.1			Yes
GRI 409: Forced or Compulsory Labor 2016	409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labor	11.12.2	108, 109, 110		Yes
GRI 414: Supplier Social Assessment 2016	414-1 New suppliers that were screened using social criteria	11.12.3	108		Yes
GRI 407: Freedom of association and collective bargaining 2016	407-1: Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	11.13.2	107		Yes
GRI 411: Rights of Indigenous Peoples 2016	411-1 Incidents of violations involving rights of indigenous peoples	11.17.2	284		Yes
Good corporate governance					
GRI 3: Material Topics 2021	3-3 Management of material topics		77		Yes
GRI 405: Diversity and equal opportunities 2016	405-1: Diversity of governance bodies and employees	11.11.5	81, 82, 83, 84		Yes

Talent development					
GRI 3: Material Topics 2021	3-3 Management of material topics	11.10.1	229		Yes
GRI 401: Employment 2016	401-1: New employee hires and employee turnover.	11.10.2	226, 227, 315-318		Yes
	401-2: Benefits provided to full-time employees that are not provided to temporary or part-time employees.	11.10.3	218, 219		Yes
GRI 402: Labor/ Management Relations 2016	402-1 Minimum notice periods regarding operational changes	11.10.5	228		Yes
GRI 404: Training and Education 2016	404-1 Average hours of training per year per employee	11.10.6	318, 319		Yes
	404-2 Programs for upgrading employee skills and transition assistance programs	11.10.7	230		Yes
GRI 414: Supplier Social Assessment 2016	414-1 New suppliers that were screened using social criteria	11.10.8	108		Yes
	414-2 Negative social impacts in the supply chain and actions taken	11.10.9	59, 103, 107, 108, 109		Yes
Social contribution and participation					
GRI 3: Material Topics 2021	3-3 Management of material topics	11.7.1, 11.14.1, 11.15.1	278		Yes
GRI 402: Labor/ Management Relations 2016	402-1 Minimum notice periods regarding operational changes	11.7.2	228		Yes
GRI 201: Economic Performance 2016	201-1 Direct economic value generated and distributed	11.14.2	279		Yes
GRI 203: Indirect Economic Impacts 2016	203-1 Infrastructure investments and services supported	11.14.4	279, 284		Yes
	203-2 Significant indirect economic impacts	11.14.5	279, 284		Yes
GRI 204: Procurement Practices 2016	204-1 Proportion of spending on local suppliers	11.14.6	28, 59		Yes
GRI 413: Local Communities 2016	413-1 Operations with local community engagement, impact assessments, and development programs	11.15.2	284-287		Yes
	413-2 Operations with significant actual and potential negative impacts on local communities	11.15.3	284		Yes
ESG investment and financing					
GRI 3: Material Topics 2021	3-3 Management of material topics		31-46		Yes
Energy vulnerability					
GRI 3: Material Topics 2021	3-3 Management of material topics		281		Yes
Responsible supply chain					
GRI 3: Material Topics 2021	3-3 Management of material topics		102		Yes

Technological and digital innovation				
GRI 3: Material Topics 2021	3-3 Management of material topics		265-277	Yes
GRI 417: Marketing y etiquetado 2016	417-1: Requirements for product and service information and labelling	N.A.		Yes
	417-2: Incidents of non-compliance concerning product and service information and labelling		67	Yes
	417-3: Incidents of non-compliance concerning marketing communications	N.A.		Yes

The general terms and conditions of contracting for the services provided by Naturgy provide customers with the appropriate information about their rights and obligations and about the features of the services provided (gas and electricity). There are no records of breaches of agreements regarding the legal obligations required in each country in which the company operates in this area.

In 2022, the company registered no fines for breach of regulations on marketing communications, including advertising, promotions and sponsorship.

SASB contents index



Code	SASB Contents	Pages	Direct response / Omission	Comments	External verification
IF-EU-110a.1	(1) Scope 1 gross worldwide emissions, percentage covered by (2) emission limitation regulations and (3) emission reporting regulations.	140, 152		Full response.	Yes
IF-EU-110a.2	Greenhouse gas (GHG) emissions associated with energy supplies.	143		Full response.	Yes
IF-EU-110a.3	Analysis of the long- and short-term strategy or plan for managing Scope 1 emissions, emission reduction targets and analysis of results in relation to these targets.	114, 139		Full response.	Yes
IF-EU-110a.4	(1) Number of clients served in markets subject to renewable portfolio standards (RPS) and (2) percentage of compliance with the RPS target, for each market.		Not applicable		Yes
IF-EU-120a.1	Emissions to the atmosphere of the following pollutants: (1) NO _x (except N ₂ O), (2) SO _x , (3) particulate matter (PM ₁₀), (4) lead (Pb), and (5) mercury (Hg); the percentage of each in or near densely populated areas.	160		Full response.	Yes
IF-EU-140a.1	(1) Total water withdrawn, (2) total water consumed, percentage of each in regions with high or extremely high initial water stress.	156, 158		Full response.	Yes
IF-EU-140a.2	Number of incidents of non-compliance related to water quantity or quality permits, standards and regulations.	155		Full response.	Yes
IF-EU-140a.3	Description of water management risks and analysis of strategies and practices to mitigate them.	154, 169-180		Full response.	Yes
IF-EU-150a.1	Amount of waste generated by coal combustion (RCC), percentage recycled.		Not applicable	Until 2020, there were coal-fired power stations.	Yes
IF-EU-150a.2	Total number of coal combustion generated waste impoundments (CCR), broken down by hazard potential classification and structural integrity assessment.		Not applicable	Until 2020, there were coal-fired power stations.	Yes
IF-EU-240a.1	Average retail electric rate for (1) residential, (2) commercial and (3) industrial customers.	198		Full response, pending Argentina.	Yes
IF-GU-240a.1	Average retail gas rate for (1) residential, (2) commercial, (3) industrial and (4) transportation-only service customers.	198		Full response, pending some geographies.	Yes
IF-EU-240a.2	Typical monthly electricity bill for residential customers for (1) 500 kWh and (2) 1000 kWh of electricity supplied each month.	198		Full response, pending Argentina.	Yes

IF-GU-240a.2	Typical monthly gas bill for residential customers for (1) 50 MMBTU and (2) 100 MMBTU of gas supplied per year.	198		Full response, pending some geographies.	Yes
IF-EU-240a.3	Number of residential customers cut off from electricity supply due to non-payment, percentage reconnected before 30 days.	307		Full response, pending Argentina.	Yes
IF-GU-240a.3	Number of residential customers cut off from gas supply for non-payment, percentage of services restored within 30 days.	307		Full response, pending some geographies.	Yes
IF-EU-240a.4	Analysis of the effect of external factors on the affordability of electricity for customers, including the economic conditions of the service territory.	197		Full response.	Yes
IF-GU-240a.4	Analysis of the effect of external factors on the affordability of gas for customers, including economic conditions of the service territory.	197		Full response.	Yes
IF-EU-320a.1	(1) total recordable incident rate (TRIR), (2) fatality rate and (3) near miss frequency rate (NMFR).	255		Full response.	Yes
IF-EU-420a.1	Percentage of electric utility revenues that come from rate structures that (1) are decoupled and (2) contain a loss of revenue adjustment mechanism (LRAM).			Not applicable	Yes
IF-GU-420a.1	Percentage of gas utility revenues from rate structures that (1) are decoupled or (2) contain a loss of revenue adjustment mechanism (LRAM).			Not applicable	Yes
IF-EU-420a.2	Percentage of electric load supplied with smart grid technology.	308		Full response. As of the date of review, Panama could not be verified.	Yes
IF-EU-420a.3	Electricity savings by customers, thanks to efficiency measures, per market.	194, 195		Partial response.	Yes
IF-GU-420a.2	Customer gas savings from efficiency measures, by market.	195		Partial response.	Yes
IF-EU-540a.1	Total number of nuclear power units, broken down by U.S. Nuclear Regulatory Commission (NRC) "Shares Matrix" column.			Not applicable	Yes
IF-EU-540a.2	Description of initiatives to manage nuclear safety and emergency preparedness.	98, 99		Full response.	Yes
IF-EU-550a.1	Number of incidents of non-compliance with physical or cybersecurity standards or regulations.	98, 99		Full response.	Yes
IF-EU-550a.2	(1) System Average Interruption Duration Index (SAIDI), (2) System Average Interruption Frequency Index (SAIFI), and (3) Customer Average Interruption Duration Index (CAIDI), which includes days on which severe events occur.	207		Full response, pending Argentina. As of the date of review, Panama could not be verified.	Yes
IF-EU-000.A IF-GU-000.A	Number of: (1) residential, (2) commercial and (3) industrial customers served.	15, 19, 22		Partial response. The total number is reported but not by category.	Yes
IF-EU-000.B	Total electricity supplied to: (1) residential customers, (2) commercial customers, (3) industrial customers, (4) all other retail customers and (5) wholesale customers.	18		Partial response. The total and percentage corresponding to the residential segment are reported.	Yes
IF-GU-000.B	Amount of natural gas supplied to: (1) residential customers, (2) commercial customers, (3) industrial customers and (4) transferred to a third party.	17		Partial response. The total is reported.	Yes

IF-EU-000.C	Length of transmission and distribution lines.	18		Full response.	Yes
IF-GU-000.C	Length of (1) gas transmission pipelines and (2) gas distribution pipelines.	17		Full response.	Yes
IF-EU-000.D	Total electricity generated, percentage by main energy source, percentage in regulated markets.	24		Partial response. The percentage of regulated markets is not reported.	Yes
IF-EU-000.E	Total electricity purchased in bulk.	153		Full response.	Yes
IF-GU-540a.1	Number of (1) pipeline incidents to report, (2) corrective action orders (CAOs), and (3) notices of possible violations (NOPVs).		Not applicable		Yes
IF-GU-540a.2	Percentage of distribution pipelines that are (1) cast or puddled iron and (2) unprotected steel.	98		Full response.	Yes
IF-GU-540a.3	Percentage of (1) transmission pipelines and (2) gas distribution pipelines inspected.	98		Full response.	Yes
IF-GU-540a.4	Description of efforts to manage the integrity of the gas supply infrastructure, including risks related to safety and emissions.	98		Full response.	Yes

Glossary of non-financial indicators

Indicator	Definition
Investment in innovation	Amount in euros allocated to innovation activities.
Overall satisfaction with service quality	Customers' degree of satisfaction with the quality of global service on a scale from 1 to 10 (in Chile from 1 to 7), broken down by country or geographical region.
Direct greenhouse gas emissions (GHG)	Greenhouse gas emissions (GHG) caused by sources owned by or controlled by the company.
Emission factor for electricity generation (tCO₂/GWh)	Emission rate as a result of electrical generation activity arising from the ratio of the amount of atmospheric pollution emitted (tonnes of carbon dioxide) divided by energy generated (GWh).
Installed capacity free of emissions (%)	% that represents the installed capacity in hydro, mini-hydro, wind, nuclear and solar technologies over the total installed capacity at the year-end.
Net production free of emissions (%)	% representing the net output of hydro, mini-hydro, wind, nuclear and solar technologies over total net output.
Activity with ISO 14001 environmental certification (%)	<p>Percentage of Ebitda corresponding to companies certified (*) by means of the environmental management model included in the ISO 14001 standard, with respect to total Ebitda generated by activities that have an environmental impact.</p> <p>(*) Certified companies have been included as companies assimilated to certified companies pursuant to the following definition:</p> <ul style="list-style-type: none"> - Those parent companies whose subsidiaries, of which they are more than 50% owned, are practically all certified. - Those companies that concentrate corporate services only from certified companies. - Those companies whose parent company concentrates corporate services and is certified.
Water consumption	Volume of water consumed by the company's activities.
Consumption of raw materials	Thousands of tonnes of raw materials used in the company's main processes.
Direct energy consumption	It represents the difference between the consumption of non-renewable fuels, electricity purchased for consumption and renewable electricity generated, less the electricity and steam sold.
Indirect energy consumption	It represents the consumption by the final use of the natural gas distributed/ marketed.
Generation of hazardous waste (kt)	Amount of most representative hazardous waste generated.
Resources targeted at the prevention of environmental risks	Amount allocated to investments and expenditure on environmental matters.
Distribution of employees by age, country, gender and professional category	Distribution of employees by age, country, gender and professional category at year-end.
Annual average of indefinite and temporary contracts by age, gender and professional category	Percentage of employees recruited by type of contract at year-end and annual average of temporary contracts by age, gender and category.
Rotation index	Layoffs/average staff.
Voluntary rotation index	Voluntary layoffs/average staff.
Number of dismissals by age, gender, and professional category	Number of persons dismissed, either rightly or wrongly, classified by age, gender and professional category.
Salary gap	Difference between men's and women's wages, calculated as the difference between men's and women's wages, divided by men's wages. The result above zero represents the percentage of salary below men that women receive. The result below zero represents the percentage of salary above men that women receive.
Average remuneration by age, gender, and professional category. Average remuneration of directors and senior managers	Amount of the average remuneration of staff classified by country, age, gender and professional category. Amount of directors' and senior managers' remuneration weighted by the number of directors and executives.
Personnel costs (million euro)	Monetary amount representing the staff expenses for the company (wages and salaries, Social Security expenses, defined contribution plans, defined benefit plans, works performed on the company's fixed assets, and others).

Percentage of employees covered by collective bargaining agreements	Percentage of employees by country whose contract is covered by a collective bargaining agreement.
Staff trained (%)	Percentage of staff who have received training.
Total training hours	Total hours of training received by staff.
Annual investment in training (euros)	Total monetary amount invested by the company in employee training.
People with disabilities integration index	Percentage of employees in Spain with disabilities.
No. of lost time accidents	Number of work accidents with days lost (whether or not fatal).
Days lost	Workdays lost due to occupational accidents. Calculated from the day following the day the medical leave is received and considering calendar days.
Fatalities	Number of workers who have died due to work accidents.
Number of hours worked	Total actual hours worked in the company.
Number of days lost	Total days off as a result of recorded occupational accidents.
Lost time accidents frequency rate	Number of accidents with lost time occurring during the working day per 200,000 hours worked.
Lost time accidents severity rate	Number of days lost as a result of work accidents per 200,000 hours worked.
Occupational illnesses	Illnesses caused by work activity.
Absenteeism	Hours of absenteeism due to occupational and non-occupational illness.
Total number of suppliers	Number of suppliers who have remained active (registered in the supplier database) during the year, and who have been awarded purchases in the year; total and broken down by country.
Total purchase volume awarded	Total monetary amount corresponding to the awards of the year, considering 100% of the awards whose period of validity is less than 365 days, as well as the annualised amounts corresponding to 2021 for the awards of more than 365 days.
Purchasing budget targeted at local suppliers (%)	Amount of budget used for the procurement of suppliers located in the geographical area from where the purchases are made over the total procurement budget.
ESG (Environmental, Social and Governance) supplier assessment	Total number of suppliers that have been active (registered in the supplier database) during the year, evaluated in accordance with ESG criteria, regardless of whether or not they have been awarded, or have provided a service/product to Naturgy during the year.
Number of critical suppliers	Number of suppliers classified as “High” risk, who have remained active (registered in the supplier database) during the financial year, and who have provided products/services to Naturgy during the financial year.
Official-approval suspended suppliers	Suppliers who have not passed the supplier approval process.
Sponsorship and social action investment	Economic contribution to social action or investment and sponsorship and patronage programmes.
Distribution by type of social action (%)	Distribution of investments by reason for initiatives, broken down according to the London Benchmarking Group (LBG) methodology.
Sponsorship and social action activities	Number of sponsorship, patronage and social action activities carried out by the company.
Queries and notifications to the Code of Ethics	Number of communications relating to the Code of Ethics and Anti-Corruption Policy which have been received by the Code of Ethics Committee.
No. of notifications received per 200 employees	Ratio of number of communications received relating to the Code of Ethics and the Anti-Corruption Policy which have been received by the Code of Ethics Committee per 200 company employees.
Average time for resolving notifications (days)	Average number of days from the time the company receives the communications until it resolves them.
Audit projects analysed on the basis of operational risks	Number of audit projects analysed on the basis of operational risks.

Notifications received in the area of human rights	Number of communications which the company has received concerning human rights.
Number of persons trained on the Human Rights Policy	Number of employees who have taken part in training on the Human Rights Policy.
Tax contribution	Amount of taxes actually paid by country and segmented between those that represent an effective expense for the group and those that are withheld or passed on to the end taxpayer.

3. Greenhouse gas (GHG) emissions inventory calculation methodology

Assessment and reduction of uncertainty

The uncertainty associated with reporting Scope 1 emissions for 2020 is 6.3%.

For facilities under the EU Emissions Trading Scheme, in accordance with Decision 2007/589/EC of 18 July, uncertainties regarding GHG emission values will be lower than those corresponding to the approach levels approved by the competent authority. For all other emission sources, the uncertainty associated with the calculation of GHG emissions is a combination of the uncertainties associated with the activity data and emission factors, using the references established in 2.38. IPCC 2006 GHG, vol. 2, table 2.12.

To minimise the uncertainty associated with the activity data, all emission sources have environmental and quality management systems that conform to ISO 14001:2015 and ISO 9001:2015 standards. In order to minimise the uncertainty associated with the emission factors, official sources are always used, as are, by default, the core values recognised in the 2006 IPCC Guidelines for GHG Inventories.

Methodology

To quantify Naturgy's greenhouse gas emissions, an application and calculation methodology has been developed based on the following standards and methodologies:

- Scopes 1, 2 and 3 emissions are included according to “The Greenhouse Gas Protocol. A Corporate accounting and reporting standard”.
- Scope 3 reported in accordance with Corporate Value Chain (Scope 3).
- It includes the emissions of the six GHG set out in IPCC in accordance with the 2006 IPCC Guidelines for national GHG inventories (hereinafter 2006 IPCC GHG).
- Standard UNE-ISO 14064-1. Greenhouse gases. Part 1: Specification with guidance at the organisation level for quantification and reporting of greenhouse gas emissions and removals.
- Standard UNE-ISO 14064-2. Greenhouse gases. Part 2: Specification with guidance at the project level for quantification, monitoring and reporting of greenhouse gas emission reductions or removal enhancements.
- Standard UNE-ISO 14064-3. Greenhouse gases. Part 3: Specification with guidance for the verification and validation of greenhouse gas statements.
- Definition of the life cycle in accordance with the UNE- EN-ISO 14040 and ENE-EN-ISO 14044 standards for life cycle analysis.
- Specific emission factors are used in accordance with the 2006 IPCC guidelines for national GHG inventories (hereinafter 2006 IPCC GHG) and other verifiable documentary and bibliographic sources.

Operational limits

Naturgy's carbon footprint inventory includes GHG emissions from the following group activities:

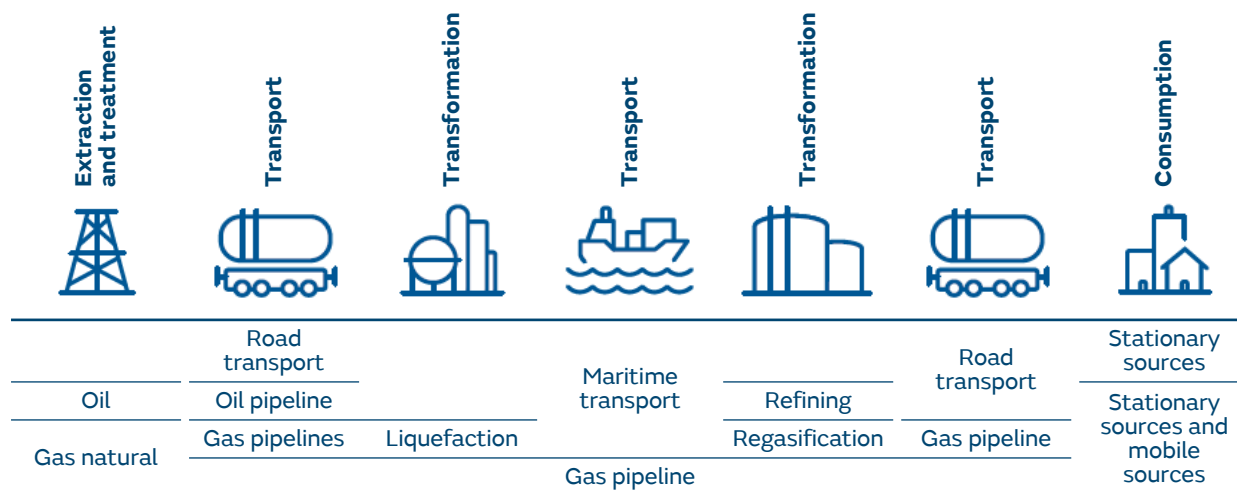
- Extraction, road transport, maritime transport, distribution and commercialisation of natural gas.
- Thermal power stations from coal and fuel oil, combined-cycle power stations, cogeneration, generation at wind farms, photovoltaic power stations and hydroelectric power stations.
- Distribution of electrical power.
- Offices, fleets and travel.

Within the aforementioned activities, different calculation units corresponding to each of the facilities comprising those activities have been defined. These calculation units or facilities are treated according to the global consolidation criteria, in accordance with the shareholding percentages.

Life cycles of fuels used

Energy (fuels, electricity) is consumed throughout the various processes, producing emissions throughout its life cycle. A diagram with the life cycles of the main fuels used is included below.

The fuels used in both fixed sources (fuels from thermal power stations, offices, gas transport and distribution facilities, etc.) and in mobile sources have been considered.



Electrical energy

Emissions derived from electrical energy have only been considered when it is used in primary energy terms and is not generated by any of the group’s calculation units:

- Electricity consumption purchased from external suppliers.
- Losses arising from the transport and distribution of energy distributed and not generated by the company in each country.
- Emissions from the life cycle of the fuels used in the generation mix of each country.

Geographical limits

All the countries in which activities are carried out, as well as the countries from which the fuels originate, have been considered.

For the annual preparation of the inventory, a series of prior studies are carried out to update the initial data, such as the review of gas, coal and crude oil supply routes (there are more than 500 routes connecting 165 extraction points in 30 destination countries).

Three types of data are updated each year:

- Characteristics of the extraction points (specific factors depending on the country, technology, type of well or mine, etc.).
- Definition of the routes themselves (distances from each country of passage and specific factors).
- Fuel balances in destination countries.

Types of emissions

Scope 1

Direct GHG emissions, meaning those from sources controlled by the company itself.

Scope 2

Indirect emissions due to the generation of electricity that is acquired by the company for its own consumption but is not generated by the group.

Scope 3

Indirect emissions, not included in Scope 2, derived from the value chain of activities, including upstream and downstream emissions, over which the group has no direct influence or control. Within the categories defined by the GHG Protocol, those with a weight of less than 1% have been excluded, provided that the sum of all of them does not exceed 5%. The categories reported are:

- Fuel life cycles: emissions derived from the life cycles of fuels. This category includes the following subcategories:
 - Emissions from coal extraction, treatment and transport.
 - Emissions derived from the extraction, treatment (liquefaction and regasification) and transport (by gas pipeline and/or methane tanker not owned by the company) of natural gas.
 - Emissions derived from the extraction, treatment (refining) and transport (by oil pipeline and/or oil tanker) of petroleum products.
 - Emissions produced in the life cycles of the fuels used for electricity generation of the energy mix of each country.
 - Emissions due to electricity losses in the transmission and distribution of electricity consumed but not generated.
 - Emissions of energy that has been consumed by the group but not generated and/or distributed.
- Business trips: emissions derived from the movement of employees by plane, train or any other means of transport not belonging to the fleet of vehicles owned by the group. It is divided into two subcategories:
 - Trips made by company employees by train.
 - Trips made by company employees by plane.
- Employees commutes: emissions derived from employees commuting from their respective homes to the workplace.
- End use of products sold: emissions derived from the combustion of products, which correspond to those derived from the combustion of natural gas sold by the group to the customer, discounting the gas consumed within the organisation.
- Investments: includes emissions derived from the investment in Unión Fenosa Gas.

Organisational limits

The GHG emissions inventory in the Carbon Footprint Report includes all businesses and activities under financial consolidation criteria, according to the shareholding percentages.

Emission factors used

Unit	Unit	Value	Source
LCV ng	MJ/kg	48.62	España, Informe Inventarios GEI 1990-2020 (Edición 2022).
HCV ng	MJ/kg	53.96	España, Informe Inventarios GEI 1990-2020 (Edición 2022).
LCV petrol	MJ/kg	42.11	España, Informe Inventarios GEI 1990-2020 (Edición 2022).
LCV diesel/gas oil A & C Spain	MJ/kg	43.2	España, Informe Inventarios GEI 1990-2020 (Edición 2022).
LCV ethanol	MJ/kg	26.8	España, Informe Inventarios GEI 1990-2020 (Edición 2022).
LCV biodiesel	MJ/kg	33	IDAE: https://www.idae.es/biocarburantes
LCV fuel oil	MJ/kg	40.4	IMO: International Maritime Organization
Density ng	kg/m ³	0.777	España, Informe Inventarios GEI 1990-2020 (Edición 2022).
Density petrol	kg/l	0.745	España, Informe Inventarios GEI 1990-2020 (Edición 2022).
Density diesel/gas oil A	kg/l	0.9	España, Informe Inventarios GEI 1990-2020 (Edición 2022).
Density diesel/gas oil C	kg/l	0.9	España, Informe Inventarios GEI 1990-2020 (Edición 2022).
Density ethanol	kg/l	0.778	IDAE: Biocarburantes
Density biodiesel	kg/l	0.892	IDAE: Biocarburantes
Density methane	kg/m ³	0.7175	Metano Fichas técnicas
Density propane	kg/l	0.5185	Real Decreto 61/2006, de 31 de enero
LCV propane	MJ/kg	46.2	España, Informe Inventarios GEI 1990-2020 (Edición 2022).
HCV propane	MJ/kg	49.98	Ficha producto CEPSA
EF CO ₂ petrol	kg CO ₂ /GJ	71.3057	España, Informe Inventarios GEI 1990-2020 (Edición 2022).
EF CH ₄ petrol	kg CH ₄ /GJ	0.0077	España, Informe Inventarios GEI 1990-2020 (Edición 2022).
EF N ₂ O petrol	kg N ₂ O/GJ	0.0008	España, Informe Inventarios GEI 1990-2020 (Edición 2022).
EF CO ₂ diesel/gas oil A	kg CO ₂ /GJ	74.1	Guía para el cálculo de la Huella de Carbono de la OECC v.15 (junio 2020)
EF CO ₂ diesel/gas oil C	kg CO ₂ /GJ	74.1	Guía para el cálculo de la Huella de Carbono de la OECC v.15 (junio 2020)
EF CH ₄ diesel/gas oil fixed sources ("fs")	kg CH ₄ /GJ	0.01	Sistema Español de Inventario de Emisiones
EF N ₂ O diesel/gas oil fs	kg N ₂ O/GJ	0.0006	Sistema Español de Inventario de Emisiones
EF CO ₂ MDO carriers	t CO ₂ /t MDO	3.206	IMO: International Maritime Organization
EF CH ₄ diesel/gas oil mobile sources ("ms")	kg CH ₄ /GJ	0.0002	España, Informe Inventarios GEI 1990-2020 (Edición 2022).
EF N ₂ O diesel/gas oil ms	kg N ₂ O/GJ	0.0033	España, Informe Inventarios GEI 1990-2020 (Edición 2022).
EF CH ₄ diesel/gas oil power generation	kg CH ₄ /GJ	0.003	Sistema Español de Inventario de Emisiones
EF N ₂ O diesel/gas oil electric generation	kg N ₂ O/GJ	0.0006	Sistema Español de Inventario de Emisiones
EF CO ₂ HFO carriers	t CO ₂ /t HFO	3.1144	IMO: International Maritime Organization
EF CH ₄ fuel oil ms	kg CH ₄ /GJ	0.0071	España, Informe Inventarios GEI 1990-2020 (Edición 2022).

EF N ₂ O fuel oil ms	kg N ₂ O/GJ	0.002	España, Informe Inventarios GEI 1990-2020 (Edición 2022).
EF CH ₄ fuel oil electricity generation	kg CH ₄ /GJ	0,003	Sistema Español de Inventario de Emisiones
EF N ₂ O fuel oil electricity generation	kg N ₂ O/GJ	0.0003	Sistema Español de Inventario de Emisiones
EF CH ₄ domestic coal	kg CH ₄ /GJ	0.0006	Sistema Español de Inventario de Emisiones
EF N ₂ O domestic coal	kg N ₂ O/GJ	0.0008	Sistema Español de Inventario de Emisiones
EF CH ₄ imported coal	kg CH ₄ /GJ	0.0006	Sistema Español de Inventario de Emisiones
EF N ₂ O imported coal	kg N ₂ O/GJ	0.0008	Sistema Español de Inventario de Emisiones
EF CH ₄ coke	kg CH ₄ /GJ	0.0003	Sistema Español de Inventario de Emisiones
EF N ₂ O coke	kg N ₂ O/GJ	0.0025	Sistema Español de Inventario de Emisiones
EF CO ₂ natural gas	kg CO ₂ /GJ	56.04	España, Informe Inventarios GEI 1990-2020 (Edición 2022).
EF CH ₄ natural gas fs	kg CH ₄ /GJ	0.005	Sistema Español de Inventario de Emisiones
EF N ₂ O natural gas fs and electricity generation	kg N ₂ O/GJ	0.0001	Sistema Español de Inventario de Emisiones
EF CH ₄ natural gas ms	kg CH ₄ /GJ	0.0496	Sistema Español de Inventario de Emisiones
EF N ₂ O natural gas ms	kg N ₂ O/GJ	0	Sistema Español de Inventario de Emisiones
EF CH ₄ natural gas electricity generation	kg CH ₄ /GJ	0.001	Sistema Español de Inventario de Emisiones
EF CO ₂ LNG carriers	tCO ₂ /tGNL	2.75	IMO: International Maritime Organization
EF CH ₄ natural gas carriers	kg CH ₄ /GJ	0.0496	Sistema Español de Inventario de Emisiones
EF N ₂ O natural gas carriers	kg N ₂ O/GJ	0	Sistema Español de Inventario de Emisiones
EF CO ₂ propane	kg CO ₂ /GJ	64.2	OECC
EF CH ₄ propane ms	kg CH ₄ /GJ	0.062	Sistema Español de Inventario de Emisiones
EF N ₂ O propane ms	kg CO ₂ /GJ	0.0002	Sistema Español de Inventario de Emisiones
EF CH ₄ propane fs	kg CO ₂ /GJ	0.005	Sistema Español de Inventario de Emisiones
EF NO ₂ propane fs	kg CO ₂ /GJ	0.0001	Sistema Español de Inventario de Emisiones
GWP Methane	kg CO ₂ /kg CH ₄	28	IPCC 6th Assessment Report
GWP SF ₆	kg CO ₂ /t SF ₆	23500000	IPCC 6th Assessment Report
GWP N ₂ O	kg CO ₂ /t N ₂ O	265000	IPCC 6th Assessment Report

GWP HFC	kg CO ₂ /t HFC	12,400,000	IPCC 6th Assessment Report
GWP PFC	kg CO ₂ /kg PFC	11,100,000	IPCC 6th Assessment Report

13. Verification letters

Independent Review Report on the Sustainability Report and Non-Financial Information Statement



KPMG Asesores, S.L.
Pº de la Castellana, 259 C
28046 Madrid

Independent Assurance Report on the Sustainability Report and Non-Financial Information Statement of Naturgy Energy Group, S.A. and subsidiaries for 2022

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

To the shareholders of Naturgy Energy Group, S.A.

We have been engaged by Naturgy Energy Group, S.A. management to perform a limited assurance review of the accompanying Sustainability Report and Non-Financial Information Statement for the year ended 31 December 2022 of Naturgy Energy Group, S.A. (hereinafter, the Parent) and subsidiaries (hereinafter, the Group), prepared in accordance with the Sustainability Reporting Standards of the Global Reporting Initiative (GRI Standards), and the disclosures specified for the purposes of the Sustainability Accounting Standards Board (SASB) for the "Electric Utilities & Power Generators" and "Oil & Gas" sectors (hereinafter, the Report).

In addition, pursuant to article 49 of the Spanish Code of Commerce, we have performed a limited assurance review to evaluate whether the Consolidated Non-Financial Information Statement (hereinafter NFIS) of the Group for the year ended 31 December 2022, included in the accompanying Report which forms part of the Group's consolidated Directors' Report for 2022, has been prepared in accordance with prevailing mercantile legislation and selected GRI Standards.

The Report includes additional information to that required by the GRI standards, the disclosures specified for the purposes of the SASB for the "Electric Utilities & Power Generators" and "Oil & Gas" sectors, and by the prevailing mercantile legislation concerning non-financial information, which has not been the subject of our assurance work. In this respect, our work was limited exclusively to providing assurance on the information contained in the "GRI Content Index", the "SASB Content Index" and the "Index of contents required by Law 11/2018 of 28 December 2018" included in the accompanying Report.

Responsibility of the Parent's Directors and Management

Management of the Parent is responsible for the preparation and presentation of the Report in accordance with the GRI Standards and with the disclosures specified for the purposes of the SASB for the "Electric Utilities & Power Generators" and "Oil & Gas", in accordance with each subject area in the "GRI Content Index" and the "SASB Content Index" of the Report.

The Directors of the Parent are responsible for the content and authorisation for issue of the NFIS included in the Report. The NFIS has been prepared in accordance with prevailing mercantile legislation and selected GRI Standards based on each subject area in the "Index of contents required by Law 11/2018 of 28 December 2018" of the aforementioned Report.



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

This responsibility also encompasses the design, implementation and maintenance of internal control deemed necessary to ensure that the Report is free from material misstatement, whether due to fraud or error.

The Directors of the Parent are also responsible for defining, implementing, adapting and maintaining the management systems from which the information required to prepare the Report was obtained.

Our Independence and Quality Management

We have complied with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including international independence standards) issued by the International Ethics Standards Board for Accountants (IESBA), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies prevailing international quality standards and accordingly maintains a quality system including policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

The engagement team was comprised of professionals specialised in reviews of non-financial information and, specifically, in information on economic, social and environmental performance.

Our Responsibility

Our responsibility is to express our conclusions in an independent limited assurance report based on the work performed. We conducted our review engagement in accordance with the requirements of the Revised International Standard on Assurance Engagements 3000, "Assurance Engagements other than Audits or Reviews of Historical Financial Information" (ISAE 3000 (Revised)), issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC), and with the guidelines for assurance engagements on the Non-Financial Information Statement issued by the Spanish Institute of Registered Auditors (ICJCE).

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for a reasonable assurance engagement, and consequently, the level of assurance provided is substantially lower.

Our work consisted of making inquiries of management, as well as of the different units and areas of the Parent/Group that participated in the preparation of the Report, reviewing the processes for compiling and validating the information presented in the Report and applying certain analytical procedures and sample review tests, which are described below:

- Meetings with the Parent's/Group's personnel to gain an understanding of the business model, policies and management approaches applied, the principal risks related to these matters and to obtain the information necessary for the external review.
- Analysis of the scope, relevance and completeness of the content of the Report based on the materiality analysis performed by the Parent/Group and described in the "About this report" section, considering the content required by prevailing mercantile legislation.
- Analysis of the processes for compiling and validating the data presented in the Report for 2022.



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

- Review of the information relative to the risks, policies and management approaches applied in relation to the material aspects presented in the Report for 2022.
- Corroboration, through sample testing, of the information relative to the content of the Report for 2022 and whether it has been adequately compiled based on data provided by the information sources.
- Procurement of a representation letter from the Directors and management.

Conclusion

Based on the assurance procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that:

- a) The Sustainability Report and Non-Financial Information Statement of Naturgy Energy Group, S.A. and subsidiaries for the year ended 31 December 2022, has not been prepared, in all material respects, in accordance with the GRI standards and the SASB disclosures for the “Electric Utilities & Power Generators” and “Oil & Gas” sectors.
- b) The NFIS of Naturgy Energy Group, S.A. and subsidiaries for the year ended 31 December 2022, included in the Report, has not been prepared, in all material respects, in accordance with prevailing mercantile legislation and selected GRI Standards based on each subject area in the “GRI Content Index” of the Report.

Emphasis of Matter

Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment stipulates the obligation to disclose information on how and to what extent the undertaking’s activities are associated with economic activities aligned to the objectives of climate change mitigation and climate change adaptation, in addition to the information related to eligible activities. The Directors of the Parent have included information on the criteria that, in their opinion, best allow them to comply with the aforementioned obligations, which are defined in the “Taxonomy of sustainable finance” section of the NFIS included in the accompanying Report. Our conclusion is not modified in respect of this matter.

Use and Distribution

In accordance with the terms of our engagement letter, this report has been prepared for Naturgy Energy Group, S.A. in relation to its Sustainability Report and Non-Financial Information Statement and for no other purpose or in any other context.



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

In relation to the Consolidated NFIS, this report has been prepared in response to the requirement established in prevailing mercantile legislation in Spain, and thus may not be suitable for other purposes and jurisdictions.

KPMG Aseores, S.L.

(Signed on original in Spanish)

Patricia Reverter Guillot

20 February 2023

Independent Verification Statement on the Emission of Greenhouse Gases



INDEPENDENT VERIFICATION STATEMENT

This Independent Verification Statement is an extract from the Verification Report of verico SCE, number LK-2022-09-HC-NATURGY, prepared as a result of the verification process of Naturgy's Greenhouse Gas Emission Inventory 2022.

Naturgy has commissioned **verico SCE** to carry out the verification of the Greenhouse Gas Emissions Inventory for the year 2022, contained in the document "Carbon Footprint Report 2022", corresponding to the corporate carbon footprint for the period 2022.

During the verification process of the Greenhouse Gas Emission Inventory 2022, the following elements are reviewed:

- Consistency of the report with previous reports and the emission allocation procedure.
- Implementation of monitoring processes
- Compliance with measures to ensure the accuracy of the required measurements and their quality.
- Information on fuels and raw materials
- Data management
- Completeness and correctness of manual and electronic data flow
- Internal quality control

The verification process checks and confirms the correctness, by an independent third party, of the information given in the annual emissions report, and also examines the annual emissions and the implementation of internal control and management procedures.



Scope:

Naturgy is present in more than 20 countries serving more than 16 million customers. **Naturgy** operates in the regulated and deregulated gas and electricity markets, mainly in the following areas:

- Gas and electricity distribution
- Electricity generation and trading
- Gas infrastructure, supply and marketing

The organization has decided to include scopes 1, 2 and 3 in its Greenhouse Gas Emission Inventory..

- Scope 1:
 - Direct GHG emissions, understood as those coming from sources that are controlled by the company itself.
 - These are mainly due to CO₂ emissions from thermal generation of electricity and CH₄ emissions as diffuse emissions from natural gas distribution networks.
- Scope 2:
 - Indirect emissions due to electricity generation that is purchased by the company for its own consumption but is not generated by the group.
 - These are mainly due to CO₂ emissions associated with losses in electricity distribution.
- Scope 3:
 - Indirect emissions, not included in Scope 2, arising from the value chain of activities, including upstream and downstream emissions, over which the group does not have direct control or influence. Within the categories defined by the GHG Protocol, emissions with a weighting of less than 1% have been excluded, provided that the sum of all of them does not exceed 5%.
 - These are mainly due to CO₂ emissions in the combustion of natural gas from the end use of the natural gas distributed and marketed.

Inventory coverage groups the entire corporate activity, differentiating the following business segments

1. Generation
2. Electricity Distribution
3. Gas Distribution
4. Gas (infrastructure, supply and marketing of natural gas)
5. Administrative buildings

The Greenhouse Gases contemplated in this carbon footprint calculation are:

- CO₂
- CH₄
- N₂O
- SF₆
- HFC



Inventory Result 2022:

The aggregate result of the Greenhouse Gas Emissions Inventory 2022 is as follows:

Naturgy GHG Emissions Inventory 2022	
	tCO ₂ e
Scope 1	14.741.483
Scope 2	363.489
Scope 3	110.079.558
1. Goods and Services purchased	
2. Capital goods	
3. Activities associated with fuels and energy upstream	28.990.579
6. Business travels	1212
7. Worker mobilization	5.489
8. Upstream leased assets	243.491
9. Downstream transport and distribution	
10. Processing of products sold	
11. Use of products sold	80.838.787
12. End-of-life treatment for products sold	
13. Downstream Leased assets	
14. Franchises	
15. Investments	



Verification Statement

verico SCE has carried out the verification of the Greenhouse Gas Emissions Inventory of the year 2022, contained in the document "Carbon Footprint Report 2022", corresponding to Naturgy's corporate carbon footprint for that monitoring period, in accordance with the requirements established in the UNE-ISO 14064 and GHG Protocol standards (for the definition of sectoral scopes), and the other rules applicable to Naturgy's Greenhouse Gas Emissions Inventory.

The verification team of verico SCE has reached the opinion that naturgy's Greenhouse Gas Emissions Inventory 2022, is prepared in accordance with the requirements defined in the Standard, complies with the greenhouse gas quantification methodology, and the monitored data and the calculation of emissions are evaluated and confirmed as substantially correct. Verico SCE therefore hereby confirms that the emissions reported during the monitoring period for 2022 amount to **125.184.530 tCO₂e**

Madrid, 01/02/2023

A handwritten signature in blue ink, appearing to read "Jose Antonio Gestó", written over a light blue circular stamp.

JOSE ANTONIO GESTO
Lead Verifier

VERICO SCE is a European Cooperative Society accredited by the Accreditation Body in Germany, DAkkS (D-VS-19003-01-00), for the verification of Greenhouse Gas emissions, according to ISO 14065 (translated as UNE EN ISO 14065 in Spain and DIN EN ISO 14065 in Germany) and EU Regulation n° 600/2012. Likewise, VERICO SCE is accredited for the verification of non-regulated schemes, such as EN ISO 14064-1; IN ISO 14064-2; and EN ISO 14064-3.

Inventory Certificate on the Emissions of Greenhouse Gases



Certificate

The Greenhouse Gas Emissions Inventory for the year 2022 of

NATURGY

meets the requirements according to UNE ISO 14064-1

Verification carried out in January 2023 at Naturgy's Headquarters (Spain).

GHG emissions amount to:

Scope 1:	14.741.483	tCO _{2e}
Scope 2:	363.489	tCO _{2e}
Scope 3:	110.079.558	tCO _{2e}

Total Emissions 2022:

125.184.530 tCO_{2e}

Certificate N° LK-2022-09-HC-NATURGY



Acreditación n°:
D-VS-19003-01-01

Langenbach, 1st February 2023

Javier VALLEJO DREHS

verico SCE, Hagenastrasse 7, 85416 Langenbach, Alemania

verico SCE is accredited by DAkkS according to DIN EN ISO 14065: 2013.
Accreditation applies to the scopes detailed in the
certified D-VS-19003-01-.

Green Bond Independent Review Report



KPMG Asesores S.L.
Pº. de la Castellana, 259 C
28046 Madrid

Independent Limited Assurance Report on the “Report on the Green Bond for 2022” of Naturgy

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

To Management of Naturgy Energy Group, S.A.

Pursuant to our engagement letter of January 2023, we have performed an independent limited assurance review of the “Report on the Green Bond for 2022” (hereinafter, the Report), included in the accompanying Sustainability Report and Non-Financial Information Statement for 2022 prepared by Naturgy Energy Group, S.A. (hereinafter, Naturgy), in accordance with Naturgy’s Green Bond Framework and the criteria set out in the 2021 Green Bond Principles (and the update of Appendix 1 in June 2022), published by the International Capital Market Association (ICMA).

We have likewise examined, with the same level of assurance, whether the environmental benefit indicators included in the Report have been prepared and presented in accordance with the criteria set out in the “Glossary of indicators; Environmental benefit indicators” of the Report and are measurable, can be externally verified and are comparable.

Responsibilities of Naturgy’s Management

Naturgy’s management is responsible for the preparation and presentation of the Report in accordance with Naturgy’s Green Bond Framework and the 2021 Green Bond Principles (and the update of Appendix 1 in June 2022), published by the ICMA. It is also responsible for the selection of the environmental benefit indicators presented in the Report.

This responsibility encompasses the design, implementation and maintenance of such controls as management determines are necessary to ensure that the Report is free from material misstatement, whether due to fraud or error.



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

Our Responsibility

Our responsibility consists of examining the Report and issuing an opinion thereon in the form of an independent limited assurance conclusion based on the evidence obtained. We conducted our review engagement in accordance with the requirements of the Revised International Standard on Assurance Engagements 3000, "Assurance Engagements other than Audits or Reviews of Historical Financial Information" (ISAE 3000 (Revised)), issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). This standard requires that we plan and execute our procedures to obtain limited assurance on whether the Report complies, in all material respects, with the criteria set out in the 2021 Green Bond Principles (and the update of Appendix 1 in June 2022), published by the ICMA, and whether the environmental benefit indicators included in the Report have been prepared and presented, in all material respects, in accordance with the criteria set out in the "Glossary of indicators; Environmental benefit indicators" of the Report and are measurable, can be externally verified and are comparable.

Our firm applies prevailing international quality standards and accordingly maintains a quality system including policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including international independence standards) issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our limited assurance work consisted of making inquiries of management and persons responsible for the preparation of the information presented in the Report and applying analytical and other evidence gathering procedures. These procedures included:

- Reviewing the consistency of the Report with the Green Bond Framework and the criteria and guidelines of the 2021 Green Bond Principles framework (and the update of Appendix 1 in June 2022), published by the ICMA.
- Analysing the evidence gathering procedures and internal control over quantitative data related to the environmental benefit indicators reflected in the Report, as regards the reliability of the information, by using analytical procedures and review testing based on sampling.
- Assessing the relevance of the environment benefit indicators with respect to Naturgy's activity, its sustainability strategy and the commitments it has undertaken in this respect.
- Reading the information included in the Report to determine whether it is in line with our overall knowledge and experience as regards Naturgy's sustainability strategy and targets.
- Contrasting the remaining non-financial information reflected in the Report against that included in Naturgy's Non-Financial Information Statement and Sustainability Report.

Our multidisciplinary team included specialists in social and environmental performance of companies.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.



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

Conclusion

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Based on the procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that:

- a) The Report has not been prepared, in all material respects, in accordance with the criteria set out by Naturgy's Green Bond Framework and the 2021 Green Bond Principles (and the update of Appendix 1 in June 2022), published by the International Capital Market Association.
- b) The environmental benefit indicators included in the Report have not been prepared and presented, in all material respects, in accordance with the criteria set out in the "Glossary of indicators; Environmental benefit indicators" of the Report and are measurable, can be externally verified and are comparable.

Use and Distribution

In accordance with the terms of our engagement letter, this Independent Assurance Report has been prepared for Naturgy in relation to its Report on the Green Bond included in its Sustainability Report and Non-Financial Information Statement for 2022 and for no other purpose nor for use in any other context.

KPMG Asesores, S.L.

(Signed on original in Spanish)

Patricia Reverter Guillot

20 February 2023

**ANNUAL CORPORATE GOVERNANCE REPORT
FOR LISTED COMPANIES**

IDENTIFICATION OF ISSUER

ENDING DATE OF REFERENCE FINANCIAL PERIOD 31/12/2022

CIF A-08015497

Registered Name:

NATURGY ENERGY GROUP, S.A.

Registered Office:

Avenida de América, 38 – 28008 Madrid

A. OWNERSHIP STRUCTURE

A.1 Including, where applicable, those corresponding to shares with loyalty voting rights, at the end of the financial year:

Indicate whether the company's articles of association contain provision for double loyalty voting:

Yes No

Date of approval at the general meeting:

Minimum period of uninterrupted ownership required by the articles of association:

Indicate whether the company has attributed loyalty votes:

Yes No

Date of last change of share capital	Share capital (€)	Number of shares	Number of voting rights (not including additional votes attributed for loyalty)	Number of additional voting rights attributed corresponding to loyalty voting shares	Total number of voting rights, including additional votes attributed on the basis of loyalty
21/07/20	969.613.801	969.613.801	969.613.801		

Número de acciones inscritas en el registro especial _____

pendiente de que se cumpla el periodo de lealtad _____

Comments _____

Please indicate if there are different types of shares with different rights associated:

Yes No

Class	Number of shares	Face value	Number of voting rights	Rights and obligations conferred by

Comments _____

A.2 List the direct and indirect holders of significant ownership interests in your company at year-end, including directors having a significant shareholding:

**Naturgy Energy Group, S.A. and subsidiaries
2022**

Name or company name of shareholder	% voting rights attributed to the shares		% voting rights through financial instruments		% of total voting rights	
	Direct	Indirect	Direct	Indirect	Direct	Indirect
GLOBAL INFRASTRUCTURE MANAGEMENT LLP		20,6%			20,6%	
SOCIÉTÉ NATIONALE POUR LA RECHERCHE, LA PRODUCTION, LE TRANSPORT, LA TRANSFORMATION ET LA COMMERCIALISATION DES HYDROCARBURES	4,1%				4,1%	
FUNDACIÓN BANCARIA CAIXA D'ESTALVIS I PENSIONS DE BARCELONA (LA CAIXA)		26,7%			26,7%	
CVC Capital Partners SICAV-FIS S.A.		20,7%			20,7%	
IFM GLOBAL INFRASTRUCTURES FUND.		13,90%			13,90%	

Detail of the indirect holding:

Nombre o denominación social del titular indirecto	Nombre o denominación social del titular directo	% derechos de voto atribuidos a las acciones (incluidos por lealtad)	% derechos de voto a través de instrumentos financieros	% total de derechos de voto	Del número total de derechos de voto atribuidos a las acciones, indique, en su caso, los votos adicionales atribuidos que corresponden a las acciones con voto por lealtad
GLOBAL INFRASTRUCTURE PARTNER III ⁽¹⁾	GIP III CANARY 1, S.À R.L.	20,6%		20,6%	
FUNDACION BANCARIA CAIXA D'ESTALVIS I PENSIONS DE BARCELONA (LA CAIXA)	CRITERIA CAIXA S.A.U.	26,70%		26,70%	
CVC Capital Partners SICAV-FIS S.A. ⁽²⁾	RIOJA ACQUISITION S.À R.L.	20,7%		20,7%	
IFM Global Infrastructure Fund ⁽³⁾	Global InfraCo O (2) S.à. r.l.	13,90%		13,90%	

**Naturgy Energy Group, S.A. and subsidiaries
2022**

Observaciones

For the sake of clarity, the above percentages have been calculated on the basis of the share capital. As there are 8,639,595 treasury shares (section A.9) which therefore have no voting rights, the percentage of significant shareholders in terms of voting rights is slightly higher than the percentage in terms of share capital.

(1) GIP III Canary 1 S.à.r.L. is an investment vehicle controlled by the private fund Global Infrastructure Partners III whose investment manager is Global Infrastructure Management LLC, a US-based specialist infrastructure fund manager.

(2) Rioja Acquisition S.à.r.l is indirectly majority owned (74.269%) by CVC Fund VII. CVC Capital Partners VII Limited is the general partner and manages each of CVC Capital Partners VII (A) L.P, CVC Capital Partners VII Associates L.P and CVC Capital Partners Investment Europe VII L.P (together, CVC Fund VII). CVC Capital Partner VII Limited is controlled by CVC Capital Partners SICAV-FIS S.A. 25.731% of Rioja Acquisition S.à.r.l is indirectly owned by Corporación Financiera Alba S.A.

(3) Global InfraCo O (2) S.à. r.l. held as at 31 December 2022 13.997% of the voting rights is indirectly owned by the Trust IFM Global Infrastrcuture Fund whose principal advisor is IFM Investors Pty Ltd which, in turn, is wholly owned by Industry Super Holdings Pty Limited, a company incorporated under the laws of Australia, which is owned by 26 Australian not-for-profit superannuation funds controlled by the Australian Prudential

Indicate the most significant changes in the shareholder structure occurred during the year:

Most significant movements

There have been no significant movements in the year

Name or company name of shareholder	Date of the transaction	Description of the transaction

A.3 Complete the following tables regarding the members of the company's Board of Directors who hold voting rights over the company shares:

**Naturgy Energy Group, S.A. and subsidiaries
2022**

Name or company name of Director	% voting rights attributed to the shares		% voting rights through financial instruments		% of total voting rights	% voting rights that can be transferred through financial instruments	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
Mr. FRANCISCO REYNES MASSANET		0,008			0,008		
RIOJA S.À.R.L	0				0		
THEATRE DIRECTORSHIP SERVICES BETA, S.à.r.l.	0				0		
Mrs. LUCY CHADWICK	0				0		
Mr. PEDRO SAINZ DE BARANDA RIVA		0,002			0,002		
Mr. RAMÓN ADELL RAMÓN	0,002				0,002		
Mrs. ISABEL ESTAPÉ TOUS	0,0005				0,00		
Mr. CLAUDIO SANTIAGO PONS	0				0		
Mr. ENRIQUE ALCANTARA-GARCIA IRAZOQUI	0,003				0,003		
Mr. JAIME SILES FERNÁNDEZ PALACIOS	0				0		
Mrs. HELENA HERRERO STARKIE	0				0		
Mr. RAJARAM RAO	0				0		
% total voting rights held by the Board of Directors						0,015 %	

Comments

Detail of the indirect holding

**Naturgy Energy Group, S.A. and subsidiaries
2022**

Name or company name of Director	Name or company name of the direct holder	% derechos de voto atribuidos a las acciones (incluidos votos por lealtad)% voting rights attributed to the shares	% voting rights through financial instruments	% of total voting rights	% voting rights that can be transferred through financial instruments
Mr.. Francisco Reynés Massanet	FRINVYCO, SL	0,008			
Mr.. Pedro Sáinz de Baranda Riva	INVERSORES DE TORNÓN S.L.	0,002			

Give details of the total percentage of voting rights represented on the board:

total % of voting rights represented on the board of directors 0,01 %

Observations:

A.4 Indicate, where applicable, the family, commercial, contractual or corporate relations which could exist between the owners of significant stakes, provided they are known by the company, unless they are irrelevant or arise from normal trading activities, excluding those enquired about in section A.6:

Name or company name of related	Relationship type	Brief outline

Observations

A.5 Indicate, where applicable, the commercial, contractual or corporate relations which could exist between the holders of significant shares and the company and/or its group, unless they are irrelevant or arise from normal trading activities:

Name or company name of related parties	Relationship type	Brief outline
CRITERIA CAIXA S.A.U	COMMERCIAL	Existing relationships arise in the ordinary course of business and, where applicable, are referred to in section D.2 and in the annual accounts.
CVC Capital Partners SICAV-FIS S.A.	COMMERCIAL	Existing relationships arise in the ordinary course of business and, where applicable, are referred to in section D.2 and in the annual accounts.
GIP III CANARY 1, S.À R.L.	COMMERCIAL	Existing relationships arise in the ordinary course of business and, where applicable, are referred to in section D.2 and in the annual accounts.
IFM GLOBAL INFRASTRUCTURES FUND.	COMMERCIAL	Existing relationships arise in the ordinary course of business and, where applicable, are referred to in section D.2 and in the annual accounts.

A.6 Describe the relationships, unless they are scarcely relevant to the two parties that exist between the significant shareholders or those represented on the board and the directors, or their representatives, in the case of legal entity administrators.

Explain, where appropriate, how significant shareholders are represented. Specifically, give details of those directors who have been appointed on behalf of significant shareholders, those whose appointment would have been promoted by significant shareholders, or who are linked to significant shareholders and/or entities of their group, with a specification of the nature of such relationships. In particular, mention shall be made, where appropriate, of the existence, identity and position of board members, or representatives of directors, of the listed company, who are, in turn members of the administrative body, or their representatives, in companies that hold significant holdings in the listed company or in entities of the group of said significant shareholders.

**Naturgy Energy Group, S.A. and subsidiaries
2022**

Name or company name of related director or representative	Name or company name of significant related shareholder	Company name of the significant shareholder group	Description of the relationship/ position
MR. ENRIQUE ALCANTARA-GARCIA IRAZOQUI	CRITERIA CAIXA S.A.U	Criteria Caixa S.A.U	Proprietary/ Director
MRS. ISABEL ESTAPÉ TOUS	CRITERIA CAIXA S.A.U	Criteria Caixa S.A.U	Proprietary/ Director
MR. RAMÓN ADELL RAMÓN	CRITERIA CAIXA S.A.U	Criteria Caixa S.A.U	Proprietary
MRS. LUCY CHADWICK.	GLOBAL INFRASTRUCTURE MANAGEMENT LLP		Proprietary/ Partner
MR. RAJARAM RAO	GLOBAL INFRASTRUCTURE MANAGEMENT LLP		Proprietary/ Partner
MR.. JAVIER DE JAIME GUIJARRO	CVC CAPITAL PARTNERS SICAV-FIS S.A.		Proprietary/ Employee
MR.. JOSÉ ANTONIO TORRE DE SILVA LÓPEZ DE LETONA	CVC CAPITAL PARTNERS SICAV-FIS S.A.		Proprietary/ Employee
MR JAIME SILES FERNANDEZ PALACIOS	IFM GLOBAL INFRASTRUCTURES FUND		Proprietary/ Employee

Observations

A.7 Indicate whether or not the company has been notified of parallel shareholders agreements that affect it as per Articles 530 and 531 of the Spanish Corporate Enterprises Act. Where applicable, give a brief description and list the shareholders associated with the agreement:

Yes No

Parties to parallel shareholders agreements	% of share capital affected	Brief outline of agreement	Expiration date of the agreement, if there is one
CRITERIA CAIXA, S.A.U GIP III CANARY 1, S.À R.L.	47,3%	The agreement reported in Relevant Fact No. 242612 of 12/09/2016 specifies that the intervening parties assume certain undertakings concerning corporate governance of the Company and which are for the purpose of respecting the rights to proportional representation both on the Board as well as on Committees.	
ALBA EUROPE S.À R.L. RIOJA CAPITAL RESEARCH AND MANAGEMENT COMPANY INVESTMENT S.À R.L.,	20,7%	The agreement reported in Relevant Fact No. 265818 of 18 May 2018 was modified on 1 August 2019 to include the new shareholder, Rioja Acquisitions SARL replacing Rioja Bidco Shareholdings (Relevant Fact Nº 281047). This Agreement affects 1.- The proposal for designation of directors in representation of Rioja Acquisitions Sarl, 2.-The adoption of decisions on the Board at the Meeting, and 3.- The system for transfer of shares.	
Global InfraCo O (2) S.à. r.l. GIP III CANARY 1, S.À R.L.	34,59	According to the letter dated 25 January 2021 attached by IFM to the previous announcement of the takeover bid, it has entered into an agreement with GIP in which GIP undertakes to vote in favour and support resolutions and actions at an initial or subsequent General Shareholders' Meeting, with the objective that the composition of Naturgy's Board of Directors reflects the principle of proportional representation taking into account the CNMV's corporate governance recommendations of June 2020, and subject to GIP and IFM maintaining a stake of over 5% in Naturgy's share capital.	
Global InfraCo O (2) S.à. r.l. RIOJA ACQUISITION S.À R.L.	34,69	According to the letter dated 25 January 2021 attached by IFM to the previous announcement of the takeover bid, it has entered into an agreement with Rioja in which the latter undertakes to vote in favour and support reasonable resolutions and actions at the General Shareholders' Meeting with the objective that the composition of Naturgy's Board of Directors be adjusted to reflect the principle of proportional representation established by Spanish law.	

Indicate whether or not the company is aware of the existence of concerted actions among its shareholders.
Give a brief description as applicable:

Yes No

Parties to concerted action	% of share capital affected	Brief description of the concerted action	Expiry date of the concerted action, if there is one

If any modification or cancellation of said agreements or concerted actions have taken place during the year, please make express mention of this:

NOT APLICABLE

A.8 Indicate whether any individual or legal entity currently exercise control or could exercise control over the company in accordance with Article 5 of the Securities Market Act. If so, identify:

Yes No

Name or company name

Observations

A.9 Complete the following table on the company's treasury share:

At year-end:

Number of direct shares	Number of indirect shares (*)	% of total share capital
55.898,00	8.639.595,00	0,897%

Observations

Details of significant changes

(*) Through

Name or company name of the direct direct holder of the interest	Number of direct shares
Naturgy Alfa Investments S.A.	8.639.595
Total:	8.639.595

Observations

Explain the significant changes during the year:

Explain the significant changes

N/A

A.10. Give details of the terms and conditions corresponding to the General Meeting of Shareholders current mandate to the Board of Directors for issuing, repurchasing or assigning own shares.

- 1.- The General Meeting of Shareholders held on 5 March 2019, in item 5 on the Agenda, authorised the Board of Directors to agree to acquire company shares by onerous title and to do so within a deadline of five (5) years, under the following conditions:

Fifth.- To authorise the Board of Directors so that over a term of five (5) years it can acquire by onerous title, on one or several occasions, fully paid-out shares in the Company, so that the nominal value of the shares directly or indirectly acquired, when added to those that the Company and its shareholders already hold never exceeds 10% of the subscribed capital, or any other that were to be legally established for the same. The price or value of the consideration cannot be less than the nominal value of the shares nor exceed its price or value on the Stock Exchange. The Board are hereby authorised to delegate the current authorisation to the person(s) whom they deem fit. The current authorisation extends to the acquiring of shares in the Company for the named companies.

For the purposes of Article 146 of the Spanish Corporate Enterprises Act (Ley de Sociedades de Capital), the shares acquired under the current authorisation, as well as those that the Company and its subsidiaries already hold, may be delivered, either in full or part, directly or as a result of the exercising of option rights, to employees or administrators of the Company or companies in its Group.

This authorisation replaces and renders null and void, to the extent of the unused portion, the authorisation granted by the Board of Directors by the General Meeting of Shareholders held on 14 May 2015 to acquire by onerous title shares in the Company.

2. The General Shareholders' Meeting of 15 March 2022 , under item fourteen of the Agenda, authorised the Board of Directors to resolve to increase the share capital within a period not exceeding 5 years, under the following conditions:

"To delegate to the Board of Directors, as broadly as is legally necessary, the power to increase the share capital of the Company, in accordance with the provisions of article 297.1. b) of the Capital Companies Act, within the legal period of five years from the date of this General Meeting, up to the maximum amount corresponding to 50% of the Company's share capital at the time of this authorisation, with the power to carry out the increase on one or more occasions, in such amount as it may decide, by issuing new voting or non-voting shares, ordinary or preference, including redeemable shares, or any other type of shares permitted by law, with or without a share premium, the consideration for such shares consisting of cash contributions; and may establish the terms and conditions of the capital increase, inter alia, determine the par value of the shares to be issued, the issue premium, their characteristics and any privileges conferred on them, the attribution of the right of redemption and the conditions thereof, as well as the exercise thereof by the Company.

Any capital increases resolved by the Board of Directors under this delegation of powers shall be carried out through the issue and flotation of new ordinary, preference or redeemable shares, voting or non-voting, or any other type, with a fixed or variable premium, or without premium, the consideration for which shall consist of cash contributions.

The Board of Directors may establish, in all matters not provided for in this delegation resolution, the terms and conditions of the capital increases, including, but not limited to, the characteristics of the shares, the type of issue, the investors and markets for which the increases are intended and the placement procedure, as well as freely offer the new shares that are not subscribed for within the preferential subscription period or periods, in the event that this right is not excluded.

The Board of Directors may also provide that, in the event of incomplete subscription, the capital increase shall be without effect or that the share capital shall be increased only by the amount of the subscriptions made, as well as redraft Article 4 of the Articles of Association concerning the share capital and the number of outstanding shares, after each increase has been approved and implemented.

2.- The Board of Directors is also expressly empowered to:

- a. that, in accordance with the provisions of article 506 of the Capital Companies Act, it may exclude, in whole or in part, shareholders' pre-emptive subscription rights when the corporate interest so requires. In this case, the capital may be increased, once or several times, up to a maximum nominal amount equal to 20% of the share capital of the Company at the time of approval of this resolution.
- b. to apply for admission to trading, continued listing and, if appropriate, delisting on organised secondary markets, in Spain or abroad, of the shares that may be issued by virtue of this authorisation, taking the necessary or appropriate steps and actions before the competent bodies of the various national or foreign securities markets for admission to trading, continued listing and/or, if appropriate, delisting.
- c. to delegate or replace the powers contained in this resolution.
- d. to redraft the article of the Articles of Association relating to share capital once the increase has been agreed and implemented.

3.- This delegation implies the express revocation, insofar as it has not been used prior to the adoption of this resolution, of the delegation conferred on the Board of Directors, by virtue of the resolution adopted by the Ordinary General Shareholders' Meeting held on 20 April 2017, with an analogous nature to that included in this item on the Agenda".

A.11 Estimated floating capital:

	%
Estimated floating capital	13,99%

Observaciones

A.12 Indicate whether there is any restriction (statutory, legislative or of any other nature) on the transferability of securities and/or any restrictions on the voting rights. In particular, the existence of any type of restrictions that may make it difficult to take control of the company through the acquisition of its shares in the market, as well as those authorisation or prior notification systems that apply to acquisitions or transfers of financial instruments of the company through sectoral regulations, will be reported.

Yes No

Description of the restrictions

As a Company that incorporates certain regulated and quasi-regulated assets and activities into its Group, the acquisition of NATURGY ENERGY GROUP S.A. shares may be subject to the provisions laid down in Additional Provision 9 of Law 4/2013, of 4 June, governing the National Commission on Markets and Competition.

Given its nature as a major operator in the gas and electricity markets, the holding of its shares is subject to the restrictions laid down in article 34 of Decree-Law 6/2000, governing Urgent Measures to intensify competition in the goods and services markets.

Royal Decree-Laws 8/2020, 11/2020, 34/2020, 12/2021, 27/2021 and 20/2022 of 27 December have established certain restrictions on foreign investments - including intra-Community investors - which affect NATURGY ENERGY GROUP S.A., both as a listed company and because it operates in a sector subject to investment control.

A.13 Indicate whether the General Meeting of Shareholders has agreed to take up measures of neutralisation against a takeover bid by virtue of the provisions laid down in Law 6/2007.

Yes No

If appropriate, indicate the different types of shares and, for each type of share, the rights and obligations conferred.

Explain the measures approved and the terms under which inefficiency will occur.

A.14 Indicate whether the company has issued securities not traded in a regulated market of the European Union.

Yes No

If appropriate, indicate the different types of shares and, for each type of share, the rights and obligations

B. GENERAL MEETING OF SHAREHOLDERS

B.1 Indicate and, where applicable, give details of whether the quorum required for constitution of the General Meeting of Shareholders differs from the system of minimum quorums established in the Corporate Enterprises Act (“LSC” in Spanish).

Yes No

	% quorum different to that laid down in Article 193 LSC for general cases	% quorum different to that laid down in Article 194 LSC for special cases
Quorum required for the first call to meeting		
Quorum required for the second call to meeting		
Description of the differences		

B.2 Indicate and, as applicable, describe any differences between the company’s system of adopting corporate agreements and the framework established in the Corporate Enterprises Act (“LSC” in Spanish):

Yes No

Describe how the system differs from that of the LSC.

	Reinforced majority other than that laid down by Article 201.2 LSC for the cases of 194.1 LSC	Other cases of reinforced majorities
% laid down by the institution for the adoption of agreements		
Describe the differences		

B.3 Indicate the rules governing amendments to the company’s Articles of Association. In particular, indicate the majorities required to amend the Articles of Association and, if applicable, the rules for protecting shareholders’ rights when changing the Articles of Association.

The amendment of the Articles of Association is regulated in article 6.2 of the Articles of Association and in article 12 of the Regulations on the General Meeting of Shareholders, which is supplemented with the corresponding provisions of the Corporate Enterprises Act.

The shareholders constituted in a duly convened General Meeting of Shareholders, shall generally decide by simple majority vote (except in cases where a higher majority is required by law or in the Articles of Association) on the matters which fall to the terms of reference of the Meeting. In such case an agreement shall be deemed adopted when it obtains more votes in favour than against of the share capital either present or represented.

All shareholders, including dissidents and those that have not taken part in the meeting, are subject to the resolutions of the General Meeting of Shareholders.

In order for the ordinary or extraordinary General Meeting of Shareholders to validly agree the issue of bonds convertible into shares or bonds that give bondholders a share in company profits, the increase or reduction of share capital, the removal or limitation of the preferential subscription right for new shares or convertible bonds, as well as the transformation, merger, spin-off or global assignment of assets and liabilities, the transfer of the company's registered office abroad and, in general, any modification to the Articles of Association, will require, at the first call to meeting, the attendance of shareholders, either present or represented, that hold at least fifty percent (50%) of the subscribed share capital with voting rights. In the second call to meeting, it will be sufficient for twenty-five (25%) of the share capital to be present.

The modification of the Articles of Association must be agreed by the General Meeting of Shareholders and requires the concurrence of the following requisites:

1. 1) The Board of Directors or, where appropriate, the shareholders that make the proposal, must compile a written report with justification for the amendment.
- 2) The call to meeting must clearly express the proposed points of change, as well as the right all shareholders have to examine, at the registered office, the full text of the proposed modification and a report on this. They also have the right to ask for handover or free-of-charge sending of said documents.
- 3) The agreement must be adopted by the General Meeting of Shareholders in accordance with the provisions set out in these Articles of Association.
- 4) Under the circumstances, the agreement must be set out in a public deed, which will be registered with the Mercantile Registry and published in the Official Bulletin of the Mercantile Registry.

B.4 Indicate the attendance data of the General Meetings held during the financial year to which this report refers and that of the previous financial year:

Date of General Meeting of Shareholders	Attendance data				Total
	% physical presence	% represented	% represented	% remote voting Electronic	
26/5/2020	64,07%	11,39%	0	0	75,46%
Of which free float 2020	1,40%	11,39%	0%	0%	12,79%
9/3/2021	71,38%	11,02%	0%	0%	82,40%
Of which free float 2021		11,02%	0%	0%	11,02%
15/3/2022	81,85%	8,49%	0%	0%	90,34%
Of which free float 2022	0,09%	4,36 %	0%	—%	4,46%

B.5 Indicate whether at the General meetings held during the year there has been any item on the agenda that, for whatever reason, has not been approved by the shareholders.

Yes No

Agenda items that have not been approved

% of votes against (*)

(*)If the non-approval of the item is for a reason other than a vote against, this will be explained in the part of the text and “n/a” will be placed in the “% of votes against” column”.

B.6 Indicate whether or not there is a statutory restriction to the minimum number of shares required to attend the General Meeting of Shareholders.

Yes No

Number of shares required to attend the General Meeting of Shareholders

Number of shares required to vote remotely

Observations

B.7 Indicate whether it has been established that certain decisions, other than those established by Law, which involve the acquisition, disposal, the contribution to another company of essential assets or other similar operations must be submitted to approval of the general meeting of shareholders.

Yes No

Explanation of the decisions that must be submitted to the board other than those established by law

B.8 Indicate the URL of the company and the means of access to corporate governance content and other information concerning the general meetings and which must be made available to shareholders through the company’s website.

With regard to the Corporate Governance section, the path is as follows: https://www.naturgy.com/accionistas_e_inversores/gobierno_corporativo/normas_de_gobierno
With the following itinerary www.naturgy.com → Shareholders and Investors → Corporate Governance.

With regard to the General Meeting of Shareholders section, the itinerary is as follows:
https://www.naturgy.com/accionistas_e_inversores/gobierno_corporativo/junta_general_de_accionistas, with the following itinerary www.naturgy.com → Shareholders and Investors → General Meeting of Shareholders.

C. STRUCTURE OF THE COMPANY'S MANAGEMENT

C.1 Board of Directors

C.1.1 Maximum and minimum number of directors stipulated in the Articles of Association and the number set by the General Meeting of Shareholders:

Maximum number of directors	15
Minimum number of directors	11
Number of directors set by the General Meeting of Shareholders	12
Observations	

C.1.2 Complete the following table with Board members' details.

**Naturgy Energy Group, S.A. and subsidiaries
2022**

Name or company name of Director	Representative	Type of director	Position on the board	Date of first appointment	Date of last appointment	Election procedure	Date of birth
Mr.. Francisco Reynes Massanet		Executive	Chairman	6/02/2018	27/06/2018	Agreement General Meeting of Shareholders	08-04-1963
Mr. Ramón Adell Ramón		Proprietary	Director	10/02/2022	15/03/2022	Agreement General Meeting of Shareholders	09-01-1958
Mrs Isabel Estapé Tous		Proprietary	Director	16-03-2020	26-05-2020	Acuerdo Junta General de Accionistas	05-04-1957
Mr. Enrique Alcantara-García Irazoqui		Proprietary	Director	13-05-2021	15/03/2022	Agreement General Meeting of Shareholders	21-10-1944
Mr. Jaime Siles Fernández Palacios		Proprietary	Director	10/02/2022	15/03/2022	Agreement General Meeting of Shareholders	26-05-1986
Mrs. Helena Herrero Starkie		Independent	Director	04/05/2016	26/05/2020	Agreement General Meeting of Shareholders	13-06-1959
Mr. Rajaram Rao		Proprietary	Director	21/09/2016	26/05/2020	Agreement General Meeting of Shareholders	03-04-1971
RIOJA, S.à.r.l	Mr. Javier de Jaime Guijarro	Proprietary	Director	01/08/2019	26/05/2020	Agreement General Meeting of Shareholders	26-11-1964
Mr. Claudi Santiago Ponsa		Independent	Director	27/06/ 2018	27/06/2018	Agreement General Meeting of Shareholders	20-09-1956
Mr. Pedro Sáinz De Baranda		Independent	Director	27/06/ 2018	27/06/2018 (aceptación 6/07/2018)	Agreement General Meeting of Shareholders	23-03-1963
Mrs. Lucy Chadwick		Proprietary	Director	16-03-2020	26-05-2020	Acuerdo Junta General de Accionistas	11-02-1967
THEATRE DIRECTORSHIP SERVICES BETA, S.à.r.l	Mr. José Antonio Torre de Silva López de Letona	Proprietary	Director	18/05/2018	27/06/2018	Agreement General Meeting of Shareholders	23-10-1971
Total number of directors							12

Indicate the removals from office due to resignation, dismissal or for any other reason that have occurred on the Board of Directors during the reporting period:

Name or company name of Director	Category of director at time of vacancy	Date of last appointment	Date of vacancy	Specialist committees of which he or she was a member	Indicate whether the removal from office occurred before the end of the mandate
Mr. Francisco Belil Creixel	Independent	27-06-2018	10-02-2022	CAU Y CNR	YES
Mr. Ramón Adell Ramón	Independent	27-06-2018	10-02-2022	CAU Y CNR	YES

Reason for the dismissal, when it has occurred before the end of the term of office and other observations; information on whether the director has sent a letter to the other members of the board and, in the case of dismissals of non-executive directors, an explanation or opinion of the director who has been dismissed by the AGM

On 2 February 2022, IFM submitted a formal request for a proprietary director position on the Board of Directors of Naturgy under the principle of proportional representation. On 10 February Criteria Caixa, having increased its shareholding, sent a communication requesting the appointment of a third proprietary director.

The directors Francisco Belil and Ramón Adell sent on 8 February two communications in which they informed the Company of their resignation, effective 10 February, from their positions as independent directors, based on the practice of the Board of Naturgy to always diligently respond to requests for proportional representation of shareholders and the need to align the number of independent directors with the new percentage of free float. Both directors personally intervened in the Board of Directors meeting held on 10 February ratifying their decision to resign from their position. In particular, Mr. Adell, in his turn to speak, referred to the reasons given in his letter to the Chairman of the Board, mainly to enable the principle of proportional representation and the proximity of the time when he would have to resign 12 years after his first appointment.

In his turn, Mr. Belil summarised the reasons given in his letter to the President of the Board.

C.1.3 Complete the following tables on board members and their respective categories:

EXECUTIVE DIRECTORS

Name or company name of Director	Position in the company's management structure	Profile
Mr. Francisco Reynes Massanet	Executive Chairman	Engineering and international business profile: Industrial Engineer, specialising in mechanics, with a degree from the Polytechnic University of Barcelona, and an MBA from IESE; he has also completed Senior Management programmes in the United States and Germany.
Total number of executive directors		1
% of the entire board		8,33%

OBSERVATIONS

EXTERNAL PROPRIETARY DIRECTORS

Name or company name of Director	Name or title of significant shareholder represented by the director or that has proposed the director's appointment	Profile
Mrs. Isabel Estapé Tous	CRITERIA CAIXA S.A.U	Economic, legal and business profile: Graduate in Economics and Business Studies. Notary Public. Director of Criteria Caixa and Patron of la Caixa. She is also a full member of the Royal Academy of Economic and Financial Sciences.
Mr. Enrique Alcántara-García Irazoqui	CRITERIA CAIXA S.A.U	Economics and business profile: Degree in Business Administration and Management and Master's degree in Business Administration and management from ESADE.
Mr. Ramón Adell Ramón	CRITERIA CAIXA S.A.U	Expert profile in the financial and accounting area: Doctor in Economic and Business Sciences. Lawyer. Professor of Financial Economics and Accounting. He is a corresponding member of the Royal Academy of Economic and Financial Sciences of Spain and Honorary Member of the European Higher Council of Doctors and Honorary Doctors.
Mr. Rajaram Rao	GIP III Canary 1 S.à r.l.	IT, economics and international business profile: Qualified Electronic and Telecommunications Engineer. He also holds an MBA from the University of Delhi and a Master's degree in Finance from the London Business School.
Mrs. Lucy Chadwick	GIP III Canary 1 S.à r.l.	IT, economics and International profile: She is a member of GIP's senior management and Global Head of ESG. Formerly Director General at UK Department for Transport, and executive in Accenture
Rioja S.à.r.l.. (D. Javier de Jaime Gujjarro)	Rioja Adcquisitions Sarl, S.L.U	Economics, international and business profile: Graduate in law from the Comillas University (ICADE) and MB from Houston University.
THEATRE DIRECTORSHIP SERVICES BETA, S.à.r.l. (D. José Antonio Torre de Silva López de Letona)	Rioja Acquisitions S.à.r.l.	Economics, international and business profile: Degree in industrial Engineering from the Higher Technical School of the Comillas Pontifical University (ICAI) and MBA from the University of Navarre (IESE).
Mr. Jaime Siles Fernández Palacios	Global InfraCo O (2) S.à. r.l.	Economic and business profile. Civil Engineer from the Polytechnic University of Valencia and Executive MBA from the Collège des Ingénieurs de Paris.

Total number of proprietary directors	8
% of the entire board	67 %

OBSERVATIONS

They represent shareholders representing 81.9% of the share capital.

EXTERNAL INDEPENDENT DIRECTORS

Name or company name of Director	Profile
Mr. Claudi Santiago Ponsa	IT and international business profile; energy sector: Degree in Computer Engineering from the Autonomous University of Barcelona (UAB) and International executive programme (INSEAD) through the Executive International Business at Georgetown University.
Mr. Pedro Sáinz de Baranda Riva	Engineering and international business profile; capitals market: Mining Engineer from the University of Oviedo, PhD in Engineering, Rutgers University of New Jersey and an MBA from the Sloan School of Management of Massachusetts Institute of Technology (MIT).
Mrs. Helena Herrero Starkie	IT, and R&D&i and international business profile: Degree in Chemical Sciences. She is the Chairperson and CEO of Hewlett Packard (HP) for Spain and Portugal.
Total number of independent directors	3
% total of the board	25

OBSERVATIONS

The percentage of share capital that is not represented by proprietary directors is 17.2%.

Indicate whether or not any director qualified as independent receives from the company, or from its group, any amount or benefit for an item other than remuneration as director, or holds or has held, over the last year, a business relationship with the company or any other group company, whether in their own name or as a significant shareholder, director or senior executive of an entity that maintains or has maintained any such relationship.

Where appropriate, include a reasoned statement from the board on the grounds why it believes this director may perform his/her duties as an Independent Director.

Name or company name of Director	Description of the relationships	Reason statement

OTHER EXTERNAL DIRECTORS

Identify all other external directors and explain why these cannot be considered proprietary or independent directors and detail their relationships with the company, its executives or shareholders:

Name or company name of Director	Reasons	Company, executive or shareholder with whom the relationship is maintained	Profile

Total number of external directors
% total of the board

OBSERVATIONS

List any changes in the category of each director which have occurred during the year:

Name or company name of Director	Date of change	Former category	Current category
Ramón Adell Ramón	10/2/2022	Independent	Proprietary

OBSERVATIONS

C.1.4 Complete the following table with information regarding the number of female directors at the close of the last four financial years, and their category:

	Number of female directors				% of total directors of each type			
	Financial year Q	Financial year Q-1	Financial year Q-2	Financial year Q-3	Financial year Q	Financial year Q-1	Financial year	Ejercicio t-3
Executive	0	0	0	0	0	0	0	0
Proprietary	2	2	2	0	25 %	33,33%	33,33%	0
Independent	1	1	1	1	33 %	20%	20%	20%
Other external	0	0	0	0	0	0	0	0
Total:	3	3	3	1	25%	25%	25%	8,33%

OBSERVATIONS

C.1.5 Indicate whether the company has diversity policies in relation to the Board of Directors of the company with regard to issues such as age, gender, disability, or professional training and experience. Small and medium-sized enterprises, in accordance with the definition contained in the Accounts Auditing Law, will at least have to report the policy they have established in relation to gender diversity.

Yes No Partial policies

If yes, describe these diversity policies, their objectives, the measures and the way in which they have been applied and their results over the year. Also indicate the specific measures adopted by the Board of Directors and the Appointments and Remuneration Committee to achieve a balanced and diverse presence of directors.

If the company does not apply a diversity policy, explain the reasons why

Description of the policies, objectives, measures and manner in which they have been applied, as well as the results obtained

Naturgy's director selection policy includes guidelines aimed at selecting candidates whose appointment favours professional, knowledge and gender diversity within the Board of Directors. In any case, this policy is applied with full respect for the shareholders' legally recognised right to proportional representation.

Specifically, said policy establishes that the Appointments, Remuneration and Corporate Governance Committee shall ensure that the selection procedures do not suffer from implicit biases that could imply any discrimination, and that no candidate may be excluded on the grounds of ideology, religion or beliefs, membership of an ethnic group, race or nation, gender, sexual orientation, family situation, illness or disability, and shall deliberately seek and include among the potential candidates women who meet the professional profile sought, endeavouring to ensure that, as vacancies occur on the Board or as the terms of office of the Directors expire, the number of female Directors represents at least 30% of the total number of members of the Board of Directors.

During financial year 2022, two vacancies arose, both corresponding to the category of proprietary director, one of them from Criteria and the other from IFM. These vacancies were filled at the proposal of each of the significant shareholders who exercised their right to proportional representation, which means that the Company was not able to appoint candidates to fill these vacancies.

C.1.6 Explain the measures which, where appropriate, have been agreed by the Appointments Committee so that the selection procedures are unaffected by any implicit bias that hampers the selection of female directors, and which shows that the company purposefully seeks and includes women that satisfy the professional profile sought among the potential candidates and to achieve a balanced presence of women and men. Also indicate whether these measures include encouraging the company to have a significant number of senior managers:

Explication of the measures

The Nomination, Remuneration and Corporate Governance Committee is entrusted with the task of reviewing the skills required of the candidates to fill each vacancy, compliance with the requirements for each category of director and the process of incorporation of new members, submitting the appropriate reports or proposals to the Board when appropriate. When filling new vacancies, care is taken to ensure that the selection process is not implicitly biased in such a way as to hinder the proposal of female directors, with special consideration being given, under the same conditions among potential candidates, to women who meet the profile sought.

In February 2020, the Board of Directors approved a modification of the director selection policy, incorporating a skills matrix that reflects the needs of the Company with respect to the skills, knowledge and experience required on the Board. This matrix is to be used in the selection processes for Directors.

Naturgy's director selection policy expressly contemplates the implementation by the Company of measures to encourage the appointment of a significant number of senior managers. These measures are aimed at enhancing the professional role of women in Naturgy, their visibility and networking, moving towards gender parity at different levels of the company through specific training actions, career development programmes and promoting diverse leadership, as well as prioritising this group in internal mobility plans, organisational evolutions and succession plans. The company is also committed to generational balance through recruitment and development programmes for young professionals and intergenerational talent development programmes.

When, despite the measures adopted, the number of female directors is zero or few, explain the reasons for this:

Explanation of the reasons

During financial year 2022, two vacancies arose, which had to be filled with proprietary directors due to the existence of two applications under the right to proportional representation recognised in the Capital Companies Act. In accordance with this principle, the Appointments, Remuneration and Corporate Governance Committee can only fully deploy its powers of proposal in relation to independent directors.

C.1.7 Explain the Appointments Committee's on the verification of compliance with the policy aimed at promoting an appropriate composition of the Board of Directors.

The Appointments, Remuneration and Corporate Governance Committee has verified that the Director Selection Policy has been complied with as regards the filling of vacancies on the Board, all within the framework of the Company's shareholding structure, which imposes respect for certain legal requirements of proportional representation of shareholders. The recommendations on good corporate governance must comply with this mandatory requirement. The Committee has found that the selection processes for directors have taken into consideration the balance of criteria such as: i) knowledge, ii) skills, iii) diversity and iv) experience.

C.1.8 Where applicable, explain why proprietary directors have been appointed at the request of shareholders whose shareholding in the capital is less than 3%:

Name or company name of shareholder	Explanation
<hr/>	

Indicate whether or not formal requests have been accepted for presence on the board from shareholders whose holding is equal to or higher than that of others for whom proprietary directors have been appointed. If so, explain why these requests have not been answered:

Yes No

Name or company name of shareholder	Explanation
<hr/>	

C.1.9 Indicate, in the event that they exist, the powers and faculties delegated by the Board of Directors to directors or to board committees:

Name or company name of the director or committee	Brief outline
Mr. Francisco Reynes Massanet	He has delegated extensive powers of representation and administration in accordance with the nature and requirements of the position of Executive Chairman.

C.1.10 List the Members of the Board of Directors, if any, who hold office as Administrators or representatives of Administrators or Directors in other companies belonging to the listed company's group:

Name or company name of Director	Company name of group entity	Position	Do they have executive duties?

C.1.11. Identify, where applicable, the directors or representatives of legal persons of your company, who are members of the Board of Directors or director representatives, legal persons of other companies listed on regulated stock exchanges in Spain other than those of your group, that have been reported by the company:

Name or company name of Director	Corporate name of the listed company	Position
Mr. Francisco Reynés Massanet	Frinviso , S.L.	Administrator
Mr. Ramón Adell Ramón	Oryzon Genomics, S.A.	Director
	Allianz, Cía. de Seguros y Reaseguros, S.A	Director
Mr. Pedro Sáinz de Baranda Riva	Fénix Directo, Cía. de Seguros y Reaseguros, S.A	Director
	Gestamp Automoción, S.A.	Director
	TK Elevator GmbH	Director
	Sainberg, S.L.	Director
	Internacional Oliverera, S.A.	Chairman
	Scalpers Fashion, S.L.	Director
	Pedro Duro S.L.	Administrator
	Inversores de Tornón	Administrator
	Fundación Princesa de Asturias	Patron
	Universidad Antonio de Nebrija	Patron
Universidad Carlos III de Madrid	Member of the social council	
Mrs Lucy Chadwick	Nuovo Transport Viaggiatori (NTV) Italo Sp	Director

**Naturgy Energy Group, S.A. and subsidiaries
2022**

	Gatwick Airport Limited	Director
	Associated 'Ivy Group of Companies'	Director
Mr. Enrique Alcantara Garcia Irazoqui	Bufete Alcántara, S.L.P.	Administrator
	Criteria Caixa, S.A.U	Director
Mrs. Isabel Estapé Tous	CriteriaCaixa S.A.U.	Consejera
	Fundación "la Caixa"	Patron
	Triana 88 SL	Joint administrator
Mrs. Helena Herrero Starkie	HP Printing and Computing Solutions, S.L.U.	Chairwoman and CEO
	Mutua Madrileña	Director
Mr. Rajaram Rao	Mata Biles Ltd	Director
	VENA ENERGY	Chairman
Mr. JAVIER DE JAIME GUIJARRO: Representante del Consejero Dominical Rioja S.à.r.l.	CVC Capital Partners, S.L.	managing partner and board member
	CVC Advisers Company (Luxembourg) S.à.r.l.	Director
	CVC Investment Advisory Services S.L.	Director
	Baranoa Directorship, S.L.	Representative of the Director Theatre Directorship Service Beta, S.à.r.l.
	Vitalia Plus, S.A.	Representative of the Director Theatre Directorship Service Alpha, S.à.r.l.
	Vivaly Inversiones Globales, S.L.	Representative of the Director Theatre Directorship Service Alpha, S.à.r.l.
	Universidad Privada de Madrid, S.A. / En representación de Theatre Directorship Services Alpha S.à r.l.	Representative of the Director Theatre Directorship Service Alpha, S.à.r.l.
	Guadarrama Proyectos Educativos, S.L.	Representative of the Director Theatre Directorship Service Alpha, S.à.r.l.

**Naturgy Energy Group, S.A. and subsidiaries
2022**

	LaLiga Group International, S.L.	Representative of the Director Theatre Directorship Service Alpha, S.à.r.l.
	Compañía de Gestion e Inversión Jade, S.L.	Administrator
	Jade Agroalimentación S.L.	Administrator
	Fundación CVC España	Patron
	Fundación Humana Spes	Patron
	Fundación CYD	Representative of UAX
Mr. Claudi Santiago Ponsa	FINAVES, IESE Business School (Barcelona)	Director
THEATRE DIRECTORSHIP SERVICES BETA, S.à.r.l. REPRESENTANTE Mr. JOSÉ ANTONIO TORRE DE SILVA LÓPEZ DE LETONA.	CVC Investment Advisory Services S.L	Director
	Tendam Retail, S.A.	Representative of the Director Theatre
	Tendam Brands S.A.	Representante del Consejero Theatre
	Tendam Fashion S.L.	Representative of the Director Theatre
	Compañía Logística de Hidrocarburos CLH, S.A.	Representante del Consejero Theatre
	Sigurd Europe S.L.	Administrator
	Porterdale S.L.	Chairman
	Colegio Alegria S.L.	Chairman

Mr. Jaime Siles Fernández Palacios	IFM INVESTORS (UK) LTD	Investment Director
	Global Infraco SP Neum S.L.U.	Joint Administrators
	Kestros Mersin Services S.L.U.	Joint Administrators
	Meander Mersin Services S.L.U.	Joint Administrators
	Sarus Mersin Services S.L.U.	Joint Administrators

List any other remunerated activities of directors or directors' representatives, whatever their nature, other than those indicated in the above table.

Identification of the director or representative	Other gainful activities
Pedro Sainz de Baranda Riva	Consejo Asesor, Banco de Sabadell S.A.
Ramón Adell Ramón	Professional activity as a lawyer
José Antonio Torre de Silva López de Letona	CVC Investment Advisory Services S.L employee
Lucy Chadwick	Partner Global Infrastructure Management LLP
Rajaram Rao	Partner Global Infrastructure Management LLP
Isabel Estapé Tous	Professional activity as a Notary
Claudi Santiago Ponsa	Consulting activity
Javier de Jaime Guijarro	Managing partner CVC Capital Partners, S.L.

Observations

C.1.12 Indicate and, where appropriate, explain whether the company has established rules about the maximum number of company Boards on which its directors may sit, identifying how this is regulated where appropriate:

Yes No

Explanation of the rules and identification of the document where it is regulated

C.1.13 Indicate the amounts of the following items relating to the overall remuneration of the Board of Directors:

Overall remuneration earned by the Board of Directors during the year (thousands of euros)	8.518
Cumulative amount of rights of current directors in pension scheme (thousands of euros)	13.365 (*)
Cumulative amount of rights of former directors in pension scheme (thousands of euros)	0

OBSERVATIONS

(*) It includes the amount corresponding to the variable remuneration 2018, 2019, 2020, 2021 y 2022 that are settled as a contribution to the Executive Chairman's Social Security Plan as it is beneficiary.

C.1.14 Identify members of senior management who are not also executive directors, and indicate the total remuneration they earned during the year:

Name or company name	Position/s
Mr. Carlos Francisco Vecino Montalvo	Marketing Manager
Mr. Pedro Larrea Paguaga	Manager Energy Management and Networks
Mr. Jorge Barredo Lopez	Manager Renewables, Innovation and New Business
Mr. Enrique Tapia Lopez	People and Organisation Manager
Mr. Rafael Blesa Martinez	Information Systems Manager
Mr . Manuel García Cobaleda	General and Board Secretary
Mr. Jordi García Tabernero	Sustainability, Reputation and Institutional Relations Manager
Mr. Steven Fernández	Financial Market Manager
Mr. Jon Ganuza Fernandez De Arroyabe	Manager Planning, Control and Administration
	0
Percentage over total members of senior management	—%
Total remuneration of senior management (in thousands of euros)	9.204

OBSERVATIONS

Managers reporting directly to the Executive Director have been listed. In the calculation of the total remuneration of senior management, the remuneration of the Director of Internal Audit is included.

C.1.15 Indicate whether or not there has been any modification to the regulations of the board during the year:

Yes No

Description of modifications

shareholding structure and the significant reduction in the free float, which has resulted, in order to preserve the shareholders' right to proportional representation, in a reduction in the number of independent directors from five to three.

At the meeting held on 14 June 2022, the Board agreed to amend article 7 of the Regulations, regulating the

C.1.16 Indicate the procedures for appointing, re-electing, evaluating and removing directors. Provide details of the competent bodies, the procedures to be followed and the criteria applicable in each procedure.

The procedures for the appointment, re-election, evaluation and removal of directors are regulated in Article 7 of the Articles of Association and in Articles 9 and 10 of the Regulations for the Organisation and Functioning of the Board of Directors and its Committees, supplemented by the provisions of Article 529 decies of the Spanish Corporate Enterprises Act ("LSC" in Spanish).

1.- Appointment and re-election:

The General Meeting of Shareholders is competent for appointing directors and establishing the number thereof, subject to the limits stipulated in Article 7 of the Articles of Association.

If vacancies were to arise during the term for which the Directors were appointed, the Board shall be entitled to designate, using the co-option system, the persons to occupy these vacancies until the first General Meeting of Shareholders is held.

The status of Shareholder is not required to be appointed Director.

Anyone who is in any of the situations that, pursuant to prevailing legislation, prevents such characterisation, cannot be proposed, appointed or qualified as Independent Directors.

It will be necessary to appoint persons who not only satisfy legal provisions and those laid down in the Articles of Association for the position, but who have a prestigious position and are equipped with the professional skills and expertise required to perform their duties.

Directors are appointed and re-elected in accordance with a formal and transparent procedure and the proposals which the Board of Directors submits to the General Meeting of Shareholders, as well as appointments adopted by the Board by virtue of its powers of co-option, must be made subject to a proposal from the Appointments and Remuneration Committee in the case of Independent Directors, or a report for the remaining Directors. When the Board does not follow the recommendations of said committee, it will have to explain the reasons and record the said reasons in the Minutes.

In addition, the Board of Directors, on the proposal of the Appointments and Remuneration Committee and in line with the recommendations of the Guide of the CNMV on Appointment and Remuneration Committees, approved in their meeting in October 2019 a Competency Matrix, for which assistance was provided by an Independent Expert. The Policy for selecting Directors was modified on 4 February 2020 to include the need for preparing and taking into consideration this Competency Matrix in all processes for selecting Directors.

2.- Re-election:

Directors elected as of 27 June 2018, will hold office for a maximum term of four (4) years, and may be re-elected (those elected up to that date had a term of three (3) years).

The Independent Directors shall not remain in their post for a period of more than twelve (12) years.

3.- Replacement or removal:

Directors shall be replaced in their position for the length of the term for which they were appointed, unless they are re-elected, and when so determined by the General Meeting of Shareholders by virtue of the powers granted thereto. Likewise, directors shall be replaced in all other circumstances where applicable pursuant to the Law, the Articles of Association and Regulations of the Board of Directors.

Directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deemed it appropriate, in the following cases:

- a. When Executive Directors step down from their executive positions.
- b. When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these Regulations.
- c. When they commit a serious breach of their obligations as directors, jeopardising the interests of the Company.
- d. When circumstances arise that may affect the credit or reputation of the Company or, in any other way, put the Company's interests at risk
- e. When the reason why they were appointed as independent, executive or proprietary directors is no longer applicable.

In any case, the Board of Directors pays special attention to issues of diversity and not only gender diversity, within the framework of full respect for the right of shareholders as recognised by the Law on Proportional Representation. As explained in previous sections, the Directors selection policy as revised on February 2020 incorporates a Competency Matrix to be used in all processes for covering the position of Director and which has already been used in the process of covering the position of 1 independent director and 2 proprietary directors whose re-election/appointment whose re-election/appointment was submitted for approval to the General Meeting of Shareholders held on 26 May 2020.

In this regard, the Board of Directors approved a new modification to the Director Selection Policy to expressly include the Company's commitment to gender diversity, providing for the implementation by the Company of measures that encourage the appointment of a significant number of female senior executives.

Subsequently, at its February 2022 meeting, the Board again amended the Directors' Selection Policy to expressly provide that in the selection process no candidate may be "excluded on the grounds of ideology, religion or beliefs, membership of an ethnic group, race or nation, gender, sexual orientation, family situation, illness or disability, and shall be deliberately sought and included among potential candidates who meet the professional profile sought.

or nation, gender, sexual orientation, family situation, illness or disability, and a deliberate search for and inclusion among potential candidates of women who meet the professional profile sought, ensuring that, as vacancies arise on the Board or as the terms of office of the members of the Board of Directors expire, "no candidate may be excluded on the grounds of his or her ideology, religion or beliefs, membership of an ethnic group, race or nation, gender, sexual orientation, family situation, illness or disability".

The number of female directors shall represent at least 30% of the total number of members of the Board of Directors".

C.1.17 Explain, if applicable, to what extent this annual evaluation has prompted significant changes in its internal organisation and the procedures applicable to its activities:

Description of modifications

As a result of the Board's self-assessment process carried out during the 2022 financial year, there have been no significant changes to the Company's internal organisation or procedures.

Describe the evaluation process and the areas evaluated by the Board of Directors, assisted by an outsourced consultant, regarding the operation and composition of its committees, and any other area or aspect that has been subject to evaluation.

Description of the evaluation process and areas evaluated

~~questionnaires regarding the functioning of the Board and its committees, in which they were asked to give their~~ assessment on questions related to the structure of the Board and its functioning, on its work in the supervision of aspects such as Internal Audit, Compliance, risks, or the monitoring of the Company's Strategic Plan.

All directors participated in the self-assessment process and completed the corresponding questionnaires.

Of their contributions as a whole, the following should be highlighted:

- i) In general, the high evaluation obtained with respect to the functioning of the board and its committees.
- ii) Particularly noteworthy are the directors' comments regarding: high professionalism and diversity of knowledge; very active functioning and an atmosphere conducive to the exchange of opinions; the executive chairman and his management team present good supporting information for analysis and decision-making; and compliance with the formalities required of a collegiate body.

On the other hand, the following considerations have been received regarding areas for improvement:

- i) That related to the continuous training of Directors in a changing environment.
- ii) The need for greater dedication to strategic matters and less dedication to operational matters due to the special situation of the year 2022.

C.1.18 Explain, for any of the years in which the evaluation has been assisted by an external advisor, the business relationship the adviser or any group company maintains with the company or any group company.

NONE

C.1.19 Indicate the cases in which directors must resign.

Directors shall be replaced in their position for the length of the term for which they were appointed, unless they are re-elected, and when so determined by the General Meeting of Shareholders by virtue of the powers granted thereto. Likewise, directors shall be replaced in all other circumstances where applicable pursuant to the Law, the Articles of Association and Regulations of the Board of Directors.

Directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deems it appropriate, in the following cases:

- a. When Executive Directors step down from their executive positions.
- b. When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these Regulations.
- c. When they commit a serious breach of their obligations as directors, jeopardising the interests of the Company
- d. When circumstances arise that may affect the credit or reputation of the Company or in any other way jeopardise the interests of the Company.
- e. When the reason why they were appointed as Independent, Executive or Proprietary Directors is no longer applicable.

C.1.20 Are qualified majorities other than those prescribed by law required for any type of decision?

Yes **No**

Where appropriate, describe the differences.

Description of the differences

Article 7.4 of the Regulations of the Board of Directors states the following:

“4.- The resolutions must be adopted with the vote of the absolute majority of the directors who attend, whether present or represented, unless the Law, the Articles of Association or these Regulations establish an enhanced majority.

In particular, the favourable vote of more than two thirds of the directors, whether present or represented, will be required for the valid adoption of resolutions on the following matters reserved for the plenary session of the Board and, therefore, non-delegable:

- a) The acquisition or disposal of assets belonging to the Company (regardless of the legal means used for this purpose and, in particular, even if they are carried out through merger, spin-off or other operations of subsidiaries) in excess of Euros 500,000,000, unless its approval corresponds to the General Meeting of Shareholders or is carried out in execution of the budget or strategic or business plan of the Company.
- b) The approval of the budget and the strategic or business plan of the Company.
- c) The modification of the dividend distribution policy and the approval of a new one.
- d) The subscription, modification, renewal, non-renewal or termination by the Company of financing or refinancing agreements for an amount exceeding Euros 500,000,000.
- e) The subscription, modification, renewal, non-renewal or termination by the Company of any material contract, other than those provided for in section d) above, whose amount exceeds Euros 500,000,000 in the case of gas supply contracts and of Euros 200,000,000 in the case of other contracts.
- f) The material changes in the accounting and tax criteria and policies of the Company, unless they are due to modifications of applicable legislation or compliance with the guidelines and criteria set by the competent authorities in the matter.
- g) The reformulation of the Company's annual accounts, unless such reformulation is due to a modification of applicable legislation or compliance with the guidelines and criteria set by the competent authorities in the matter.
- h) Capital investments (capex) not provided for in the Company's annual budget for an amount exceeding Euros 200,000,000 euros.
- i) The modification of the matters of paragraph a) to i) or modification of the enhanced majority of the vote required for any of them.”

C.1.21 Indicate if there are specific requirements other than those relating to directors in order to be appointed as Chairman of the Board of Directors.

Yes No

Description of requirements

C.1.22 Indicate whether the Articles of Association or the Board Regulations establish any age limit for Directors: Indicate whether the Articles of Association or the Board Regulations establish any age limit for Directors:

Yes No

Chairman

Chief Executive Officer

Director

Observations

C.1.23 Indicate whether the Articles of Association of the Board regulations set a limited term, or other requirements stricter than those legally determined, or office for independent directors different to the one established in the regulations:

Yes No

Additional requirements and/or maximum number of years of in office

C.1.24 Indicate whether the Articles of Association or Board Regulations stipulate specific rules on appointing a proxy to the Board, the procedures thereof and, in particular, the maximum number of proxy appointments a Director may hold. Also indicate whether there are any restrictions as to what categories may be appointed as a proxy other than those stipulated by law. Where appropriate, give a brief description of these rules.

Article 7.5 of the Articles of Association states: "Directors who are unable to attend may delegate their proxy to another director, with or without voting instructions, and must notify the Chairman or the Secretary."

Article 7.3 of the Regulations of the Board states: "Each director may grant a proxy to another director, with no limit on the number of proxies that each may hold for attendance at Board meetings, although they must attend at least 75% of the meetings to which they are called each year. The Board of Directors may waive this obligation in justified cases. Proxies for absent directors may be granted by any written documentary means, any electronic means addressed to the Chairman or Secretary of the Board prior to the start of the meeting being valid".

In addition, at its meeting in October 2019, the Board of Directors agreed to formally urge the Directors, in line with recommendation 27 of the Good Governance Code of Listed Companies, to include instructions on proxy voting.

ode of Good Governance of Listed Companies, they include voting instructions in proxy representations.

C.1.25 Indicate the number of board meetings held during the year. Also indicate, where applicable, how many times the Board has met without the Chairman being present. When calculating the number, representations made with specific instructions shall be considered as attendance.

Number of board meetings	22
Number of board meetings without the Chairman attending	0

Observations

During the months of March, April and May, the frequency of the Board of Directors' meetings was increased to weekly in order to better monitor the COVID crisis

Indicate the number of meetings held by the Coordinating Director with the rest of the Directors, without the attendance or representation of any Executive Director.

Number of meetings

Observations

Unlike in 2021 due to the IFM offer process, in 2022 no formal meetings of the independent directors were required and there was fluid communication between the independent directors and the coordinating director.

Indicate the number of meetings held by the different board committees over the year:

Number of meetings of the Executive Committee	0
Number of meetings of the Audit and Control Committee	8
Number of meetings of the Appointments and Remuneration Committee	4
Number of meetings of the Appointments Committee	
Number of meetings of the Remuneration Committee	
Number of meetings of the Sustainability Committee	5

Observations

C.1.26 Indicate the number of board meetings held during the year with all Members in attendance:

Number of meetings attended in person by at least 80% of the Directors	22
% of attendance over the total number of votes during the year	96 %
Number of meetings with attendance in person, or representations made with specific instructions of all the Directors	16
% votes cast with attendance in person and representations made with specific instructions, on total votes during the year	96 %

Observations

C.1.27 Indicate whether the consolidated and individual annual accounts submitted for authorisation for issue by the Board are certified previously.

Yes **No**

Identify, where applicable, the person(s) who has/have certified the company's individual and consolidated annual accounts in order to be drawn up by the Board:

Name

Mr. Jon Ganuza

Position

Director of Planning, Control and Administratio

C.1.28 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated annual accounts it prepares from being laid before the General Meeting of Shareholders with a qualified audit report.

By virtue of those established in Article 529.4 of the Corporate Enterprises Act and in the Articles of Association, and of the competences attributed by the Board of Directors, the Audit and Control Committee is responsible for, among others, the functions of informing the General Meeting of Shareholders about the issues that arise in relation to those matters that fall within the remit of the Committee and, in particular, on the result of the audit, explaining how this has contributed to the integrity of the financial reporting and the role that the Committee has played in that process, as well as supervising the process of preparation and presentation of mandatory financial reporting and submitting recommendations or proposals to the administrative body, aimed at safeguarding its integrity.

To this end, the Audit and Control Committee has supervised the process of preparing financial information and has engaged in fluid dialogue with the external auditor, with the utmost respect for its independence, where it has been informed of the Audit Plan, of the preliminary and final results of the auditor's analyses, and where its independence has been specifically ensured. In any case, it is noteworthy that in financial year 2022 no accounting qualifications have been made.

C.1.29 Is the Secretary of the Board also a Director?

Yes No

Complete if the secretary is not also a Director:

Name or corporate name of the Secretary	Representative
Mr. Manuel García Cobaleda	
Observations	

C.1.30 Indicate the specific mechanisms introduced by the Company to preserve the independence of the External Auditors, as well as, if any, mechanisms to preserve the independence of financial analysts, investment banks and rating agencies, including how the legal provisions have been implemented in practice.

Among the legal functions that correspond to the Audit and Control Committee are to establish the appropriate relations with the external auditor to receive information on those issues that may pose a threat to its independence, for examination by the committee, and any others related to the process for conducting the accounts audit and, where appropriate, the authorisation of services other than those prohibited, under the terms set out in Articles 5, paragraph 4, and 6.2.b) of Regulation (EU) No. 537/2014, of 16 April, and as set out in section 3 of chapter IV of title I of Law 22/2015, of 20 July, on Accounts Auditing, on the independence regime, as well as those other communications provided for in the audit legislation of accounts and in the auditing standards. In all cases, on an annual basis, the Audit and Control Committee shall receive from the Auditors written confirmation of their independence vis-à-vis the company or entities related to it directly or indirectly, in addition to detailed and individual information on additional services of any kind rendered to these entities by the aforementioned auditors or person or entities related to them in conformity with the provisions of auditing legislation.

In this respect, the Audit Committee's criterion is that the assignment of non-audit work to the external auditor should be substantially less than the recommended 70%.

In order to comply with the functions established in letters e and f of section 4 of article 529 quaterdecies of the Capital Companies Act, the Audit and Control Committee is responsible for supervising the proposals for contracting services with the Accounts Auditor outside the accounts auditing service, to ensure that these are neither prohibited, nor are they incompatible with their work as auditors, nor do they compromise their independence, all in accordance with the limitations established in current legislation and in particular in article 16 of the Accounts Auditing Act.

The Internal Audit Department is in charge of coordinating with the External Auditor the needs for contracting services other than auditing services that may be required by the Company and their subsequent communication to the Audit and Control Committee in order to obtain its authorisation.

The Company's Internal Audit Manager periodically submits to the Audit and Compliance Committee exhaustive information on the non-audit engagements required by the Company, attaching in each case the auditors' letter of independence and the letter justifying the need for the service signed by the corresponding Director.

The Audit and Compliance Committee reviews the documentation provided in order to ensure the independence of the auditor, verifying that he/she does not fall within any of the grounds for incompatibility set out in the Audit Act, and that the services to be contracted are permitted as they are not related to the auditing of accounts.

In the event of urgency in contracting, if the Audit and Compliance Committee is not scheduled to meet immediately, the Committee has set up an exceptional procedure whereby the Chairman of the Committee receives the report on the services to be contracted, together with the supporting documentation (letter of independence of the external auditor and justification of the service signed by the corresponding director). Once it has been analysed that the services in question are not prohibited and that they do not compromise the independence of the auditors, the Chairman may authorise such engagement, although in all cases, the Chairman must report on the use of this power at the first meeting of the Audit and Compliance Committee held for possible ratification.

It is also the duty of the Audit and Compliance Committee to issue annually, prior to the issuance of the audit report, a report expressing an opinion on whether the independence of the auditors or audit firms is compromised. In order to fulfil this function, the Audit Committee receives annually from the external auditors a declaration of their independence in relation to the entity or entities directly or indirectly related to it, as well as detailed and individualised information on the additional services of any kind rendered and the corresponding fees received from these entities by the external auditor or by the persons or entities related to it, in accordance with the provisions of the regulations governing the auditing of accounts.

As regards the mechanisms established to guarantee the independence of financial analysts, investment banks and rating agencies, it should be noted that the Board of Directors approved at its meeting of 24 November 2020 the Policy on Communication with Shareholders, Investors and Voting Advisors. This policy establishes the principles that underpin the Company's relationship with them as those of transparency, truthfulness, completeness and clarity, immediacy and in a timely manner, equal treatment, non-discrimination and symmetry in dissemination, homogeneity and simultaneity. This policy also establishes the channels and units responsible for dialogue with the various agents.

Naturgy also has an Internal Code of Conduct on matters relating to the securities markets and treasury stock policy, which establishes in Article 11 that the public dissemination of Inside Information must be made as soon as possible and in such a way as to allow rapid access and a complete, correct and timely evaluation of the information by the public. The content of the communication must be truthful, clear, complete and, where required by the nature of the information, quantified, so as not to be misleading or deceptive.

C.1.31 Indicate whether the company has changed its external audit firm during the year. If appropriate, identify the incoming and outgoing auditors:

Yes No

Outgoing auditor

Incoming auditor

Observations

In the case of disagreements with the outgoing auditor, explain the content of the said disagreements:

Yes No

Explanation of the disagreements

C.1.32 Indicate if the audit company performs other tasks for the company and/or its group other than auditing activities and the percentage of the fees billed to the company and/or its group:

Yes No

	Company:	Group	Total
Amount of tasks other than auditing activities (in thousands of euros)	1463	854	2317
Amount of tasks other than auditing/Amount billed by the audit company (%)	12,7 %	31,9 %	23,0 %

Observations

C.1.33 Indicate if the auditor's report on the annual accounts corresponding to the previous year involves reservations or exceptions. Where applicable, indicate the reasons given by the Chairman of the Audit and Control Committee to

Yes No

Explication of the reasons and direct link to the document made available to shareholders at the time of the call in relation to this matter

C.1.34 Indicate the number of consecutive years during which the current audit firm has been auditing accounts of the Company. Also indicate the percentage of the number of years audited by the current audit company over the total number of years that the annual accounts have been audited:

	Individual	Consolidated
Number of years audited by the current audit company / Number of years the company has been audited (in %)	2	2

	Individual	Consolidated
Number of years audited by the current audit company / Number of years the company has been audited (in %)	6,40%	6,40%

Observations

C.1.35 Indicate, and give details if any, whether there are procedures for directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies:

Yes No

Details of the procedure

Articles 6.2 and 6.3 of the Regulations of the Board of Directors state: “2-Notices convening sessions shall be issued by the Chairman or the Secretary, or by the Deputy Chairman on order of the Chairman, and may be effected by any of the channels set out in the Articles of Association. The notification shall include the place and the agenda of said meeting and shall be issued, at least five (5) days before the meeting is to be held, specifying the agenda of the meeting. In the event of an emergency duly justified by the Chairman and thus appreciated by the Board at the start of the meeting, a call to meeting will be made by telephone, fax, email or any other telematic means, with sufficient notice to allow the directors to participate in the meeting. Prior to each meeting the directors shall be furnished with the information and documentation considered to be pertinent or relevant regarding the subjects to be addressed in the Board Meeting. Directors shall also be furnished with the Minutes of the previous meeting, regardless of whether said minutes have been approved or not. The Chairman shall be authorised to establish the order of the day, except in the event of the compulsory convening in which case the agenda of the convened meeting will include the issues indicated by the Directors who request it. 3.- The Board Meeting shall have a quorum, without being previously convoked, if all the directors are present or represented and unanimously accept that the board meeting be held”.

The procedure followed involves sending, usually a week in advance, the call to meeting, the agenda and any information that is available and may be useful for more accurate knowledge of the matters to be discussed in the Board Meeting. The rest of the documentation is sent as it becomes available - normally 5 days in advance, except for those that, for example, for reasons of urgency do not allow such advance notice.

To this end, the Board’s documentation is made available to the directors through a electronic platform, which allows them permanent access to it. The Directors have access to the documentation of all bodies of the Board, irrespective of whether or not they are members of a Committee. In addition, Directors are provided with other information relevant to the exercise of their functions (relevant events, new regulations, access to press reviews, etc) through the platform.

Furthermore, the matters dealt with by the Board are usually presented by the managers responsible for the proposals, so that the Board Members can directly request clarifications, data or opinions from them in relation to the points dealt with in the session and can directly appreciate their qualifications for the position.

Finally, the Directors may request the additional information they deem necessary for the exercise of their duties through the Board Secretary.

C.1.36 Indicate and, where applicable, give details of whether or not the Company has laid down rules that oblige the Directors to report and resign when situations occur that affect them, whether or not they are related to their actions in the company itself, which may damage the company's credit and reputation:

Yes **No**

Explain the rules

In accordance with Article 11.4 of the Board Regulations, the Director is subject to the duty of loyalty under the terms established in prevailing legislation and, in particular, section e) of said article 11.4, establishes that the Director shall inform the Company of any kind of legal or administrative claim or any claim of any nature in which he/she is involved which, due to its significance, could have a serious bearing on the reputation of the Company. The Board shall examine the matter and adopt the appropriate measures in the Company's interest and with the required urgency.

Also, the Article 10.2 of the Board Regulations establishes that Directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deems it appropriate, in the following cases:

- a) When Executive Directors step down from their executive positions.
- b) When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these Regulations.
- c) When they commit a serious breach of their obligations as directors, jeopardising the interests of the Company.
- d) When circumstances arise that may affect the credit or reputation of the Company or, in any other way, put the Company's interests at risk.
- e) When the reason why they were appointed as independent, executive or proprietary directors is no longer applicable.

C.1.37 Unless there are special circumstances that have been recorded in the minutes, indicate whether the Board has been informed of or has otherwise become aware of any situation that affects a director, whether or not it is related to his or her actions in the company, that could damage the company's credit and reputation:

Yes No

Director's name	Criminal Case	Observations

In the above case, indicate whether the board of directors has examined the case. If the answer is affirmative, explain in a reasoned manner if, in view of the specific circumstances, any measure has been adopted, such as the opening of an internal investigation, requesting the resignation of the director or proposing his dismissal.

Indicate also whether the Board's decision has been supported by a report from the Appointments Committee

Yes No

Decision taken/action taken	Reasoned explanation

C.1.38 Detail the major agreements, entered into by the company based on the takeover, and the effects of these agreements.

A significant number of the companies in which Naturgy holds stakes together with partners outside the group contain change of control clauses that usually allow the other partner to opt to acquire the stakes in the event of a change of control of the holding company of the Naturgy Group.

On the other hand, most of the outstanding financial debt includes a clause related to the change of control, either by acquiring more than 50% of the voting shares or by obtaining the right to appoint the majority of Members of the Board of NATURGY ENERGY GROUP, S.A. Such clauses are usually subject to additional conditions, whereby their activation depends on the simultaneity of the same of the following events: The significant reduction of the credit rating caused by the change of control, or the loss of the investment grade by the rating agencies: the inability to meet the financial obligations of the contract, material damage to the creditor, or a material adverse change in solvency. These clauses entail the repayment of the debt, although they usually have a longer period than that granted in the event of early termination.

More specifically, the bonds issued, with an approximate value of Euros 7.6 billion (standard practice in the Euromarket), would be susceptible to early maturity providing that the change of control causes a fall of two or more full notches in at least two of the three ratings it had or all of the ratings fall below investment grade, and providing the Rating Agency explains that the reduction of the credit rating is caused by the change of control.

In addition, there are loans of approximately EUR 1.5 billion, almost entirely linked to long-term infrastructure financing with European Investment Bank funds, which could be subject to early repayment in the event of a change of control. For the activation of these clauses, in addition to the event of a change of control, a rating reduction is required and special debt repayment deadlines are longer than in the case of early termination.

Some long-term gas supply contracts contain early termination clauses or clauses requiring the deposit of guarantees in the event of a change in Naturgy's profile in the event of a change of control situation.

- C.1.39 Identify, individually, when referring to Directors and in aggregate form in all other cases, and provide detailed information on agreements between the Company and its officers, executives and employees that provide indemnities for the event of resignation, unfair dismissal or termination as a result of a takeover bid or other type of operations.

Number of beneficiaries	16
Beneficiary type	Description of the agreement
Executive Chairman	<p>The Chairman's contract establishes compensation for the cessation or non-renewal of the position of Director for the overall amount of two years of: (i) fixed total annual cash remuneration, (ii) the annual variable remuneration and (iii) according to the concept of multi-year variable remuneration, a lump sum equivalent to 1.25 of the fixed total annual cash remuneration. This concept will only be multiplied by a full year if, at the time of accrual, the minimum profitability target of the LTI plan has not been reached; the second full year can be recovered if the minimum target was finally reached at the end of the plan.</p> <p>The compensation will not be payable in the event of serious and culpable breach of their professional obligations that causes significant damage to the interests of Naturgy. Furthermore and as a post-contractual non-competition agreement, compensation equivalent to one year's fixed remuneration has been established.</p> <p>The contract of the Executive Chairman sets out the termination of the contract and the payment of compensation if he forfeits his executive functions and will continue as non-executive Chairman. In this case, the compensation provided is identical to that of the previous section, but reduced by half, that is, one full year.</p>

Executives	<p>The contracts signed with 11 executives contain a clause that establishes a minimum compensation of one full year of fixed remuneration in some cases and two full years of compensation in others in certain cases of termination of the relationship, which include certain cases of change of control, unfair dismissal or the cases set out in Articles 40, 41 and 50 of the Workers' Statute. These contracts also contain a clause which sets out compensation equivalent to one year's fixed remuneration for post-contractual non-competition for a period of two years.</p> <p>In addition, 1 executive have compensation agreements whose amounts entitle them to receive a minimum compensation of one fixed full year of remuneration in some cases and two full years of compensation in other in certain cases of termination of the relationship, which include unfair dismissal or the cases set out in Articles 40, 41 and 50 of the Workers' Statute.</p> <p>Moreover, there are compensation agreements with 3 other executives, equivalent to one year's fixed remuneration for post-contractual non-competition for a period of two (s) years.</p>
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Indicate whether, beyond the cases stipulated by the regulations, these contracts have to be reported and/or approved by the bodies of the company or its group. If so, specify the procedures, assumptions foreseen and the nature of the bodies responsible for their approval or communication:

	Board of Directors	General Meeting of Shareholders
Body that authorises the clauses	YES	NO

	YES	NO
Is the General Meeting of Shareholders informed of the clauses?	X	

Observations
In relation to the clauses of management personnel, the Appointments and Remuneration and the Board are informed of their terms and beneficiaries. The main terms of the contracts of the executives who report directly to the executive director are approved by the Board.

C.2. Committees of the Board of Directors

C.2.1 Give details on the board committees, their members and the proportion of executive, proprietary and independent directors:

EXECUTIVE COMMITTEE

Name	Position	Category
% of executive directors		
% of proprietary directors		
% of independent directors		
% of other external directors		

Observations

IT DOES NOT APPLY AS THE EXECUTIVE COMMITTEE NO LONGER EXISTS

Explain the committee's duties, other than those already described in section C.1.9, and describe the procedures and rules for the organisation and operation of the organisation. For each of these functions, indicate your most important actions during the year and how you have exercised in practice each of the functions attributed to you, whether by law, by the Articles of Association or by other corporate agreements.

NOT APPLICABLE.

AUDIT COMMITTEE

Name	Position	Category
Mr. Claudi Santiago Ponsal	Chairman	Independent
Mr. Ramón Adell Ramón	Board Member	Proprietary
Mr. Pedro Sainz de Baranda Riva	Board Member	Independent
Mrs. Helena Herrero Starkie	Board Member	Independent
Theatre Directorship Services Beta, S.À.R.L., representada por Mr. Jose Antonio Torre de Silva López de Letona	Board Member	Proprietary

% of proprietary directors	40 %
% of independent directors	60 %
% of other external directors	-

Observations

Explain the functions, including, if applicable, those additional to those legally envisaged, which have been attributed to this committee, describe the procedures and rules for the organisation and functioning of the same. For each of these functions, indicate its most important actions during the year and how it has exercised in practice each of the functions attributed to it either in the law or in the articles of association or other corporate resolutions.

a) Functions of the Audit and Control Committee:

The Committee has the powers established by law and those entrusted to it by the Board of Directors in general or in particular.

a) Functions of the Audit and Control Committee:

- 1.- Drawing up the report on the functioning of the Audit and Compliance Committee.
- 2.- To supervise related-party transactions.
- 3.- To ensure that the Board of Directors endeavours to present the accounts to the General Meeting of Shareholders without limitations or qualifications in the audit report and that, in those cases in which the auditor has included a qualification in its audit report, the Chairman of the Audit and Compliance Committee clearly explains to the General Meeting the opinion of the Audit and Compliance Committee on its content and scope, making a summary of said opinion available to the shareholders at the time of publication of the notice of the meeting, together with the rest of the proposals and reports of the Board, a summary of said opinion.
- 4.- Approval of the annual work plan of the Internal Audit Unit, and supervision, on an annual basis, of the activities of the said Unit.
- 5.- In relation to the information and control systems:
 - a. Supervise the process of preparation and the integrity of financial and non-financial information, as well as the systems of control and management of financial and non-financial risks relating to the company and, where appropriate, to the group, including operational, technological, legal, social, environmental, political and reputational risks or risks related to corruption, reviewing compliance with regulatory requirements, the appropriate delimitation of the scope of consolidation and the correct application of accounting criteria.
 - b. Ensure the independence of the unit that assumes the internal audit function; propose the selection, appointment and removal of the head of the internal audit service; propose the budget for that service; approve or propose approval to the board of the internal audit orientation and annual work plan, ensuring that its activity is focused primarily on relevant risks, including reputational risks; receive regular information on its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.

- c. Establish and supervise a mechanism which, while guaranteeing confidentiality and even anonymity, enables employees and other persons related to the company to report any potentially significant irregularities, including financial, accounting or any other type of irregularity related to the company, that they may notice within the company or its group, (d) In general, ensure that the policies and systems established for internal control are effectively applied in practice.

6.- In relation to the external auditor.

- a. In the event of resignation of the external auditor, to examine the circumstances giving rise to such resignation.
- b. Ensure that the external auditor's remuneration for his work does not compromise his quality or independence.
- c. Supervise that the company notifies the CNMV of the change of auditor and accompanies it with a statement on the possible existence of disagreements with the outgoing auditor and, if any, their content.
- d. Ensure that the external auditor holds an annual meeting with the full board of directors to report to it on the work performed and on developments in the company's accounting and risk situation.
- e. Ensure that the company and the external auditor comply with current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other regulations on auditor independence.

To summon any employee or manager of the Company, and even arrange for them to appear without the presence of any other manager.

8.- To analyse and inform the Board of Directors on the economic conditions and accounting impact and, in particular, if appropriate, on the exchange ratio, in relation to the structural and corporate modifications that the Company plans to carry out.

9.- Supervision of the exercise of the functions of the internal risk control and management department.

In relation to the supervision of compliance with the Codes of Conduct.

- a. Supervision of compliance with the company's internal codes of conduct.
- b. Supervision of the application of the general policy relating to the communication of economic-financial and non-financial information.
- c. Assessing all aspects of the company's non-financial risks, including operational, technological, legal, social, environmental, environmental, political and reputational risks.
- d. Coordination of the reporting of non-financial and diversity information in accordance with applicable regulations and international benchmarks.

10. Report on related-party transactions to be approved by the general meeting or the board of directors and supervise the internal procedure established by the company for those whose approval has been delegated.

b) Procedures, and organisational and operational rules

in accordance with Article 26 of the Regulations of the board

**Naturgy Energy Group, S.A. and subsidiaries
2022**

The Audit and Control Committee shall comprise a minimum of three (3) and a maximum of seven (7) Directors appointed by the Board of Directors from among the non-executive directors, and one of them will be appointed taking into account their knowledge and experience in issues of accountancy, audit or both. Its members shall leave their post when they do so in their capacity as Directors or as agreed by the Board of Directors.

The Board of Directors shall elect the Chairman from amongst the members of the Committee, the majority of whom will have the status of Independent Director; the Chairman shall not have the casting vote. The post of Secretary of the Committee will be held by the person who is the Secretary of the Board of Directors, if there is one.

The Committee shall hold meetings whenever necessary in order to issue its reports or proposals, and will be convened by its Chairman on his own initiative or upon prior request of two of its members. At least four (4) meetings per year must be held. The Committee may invite to its meetings any executive or employee it deems appropriate.

c) Main actions taken during the year 2022.

In the exercise of its powers during the year, it has reported and/or adopted proposals on, inter alia, the following matters:

- Implications of the Geminis Project
- The independence of the External Auditor
- Authorisation of the provision of non-audit services by the external auditor.
- Approval of the update of the Group's Criminal Prevention Model
- Supervision of the Company's Whistleblowing Channel.
- Monitoring the work plan of the internal audit area.
- Monitoring of related-party transactions

Identify the Directors who are Members of the Audit and Control Committee who have been appointed Chairman on the basis of knowledge and experience of accounting or auditing, or both, and state the date that said Director was appointed Chairman.

Name of Directors with experience	DON RAMÓN ADELL RAMÓN
Date of appointment as Chairman	10/02/2022

OBSERVATIONS

Name	Position	Category
Mr. Pedro Sainz De Baranda Riva	Chairman	Independent
Don Claudi Santiago Ponsa	Board Member	Independent
Don Enrique Alcantara-García Irazoqui	Board Member	Proprietary
Don Rajaram Rao	Board Member	Proprietary
RIOJA S.à.r.l (Rep D. Javier De Jaime Guijarro)	Board Member	Proprietary

% of proprietary directors	60 %
% of independent directors	40 %
% of other external directors	-

Observations

Explain the committee's duties, describe the procedure, and organisational and operational rules. For each of these functions, indicate its most important actions during the year and how it has exercised in practice each of the functions attributed to it either in the law or in the articles of association or other corporate resolutions.

a) Duties of the Appointments, Remuneration and Corporate Governance Committee:

The Committee has the powers set out in Law and those entrusted to it by the Board of Directors in a general or specific manner.

The Board of Directors has entrusted it with the following functions:

1. Make proposals and report on Corporate Governance initiatives.
2. Prepare the report on the operation of the Appointments and Remuneration Committee.
3. Verify the policy for the selection of Board members and report on it in the Annual Corporate Governance Report.
4. Prepare a report in the event of the separation of an independent board member, before the statutory period for his/her appointment has expired.
5. Prepare a report in the event that the Board of Directors proposes the adoption of measures when it is aware that the actions of a Board member could damage the credit and reputation of the company or when he/she is considered to be under investigation in a criminal case R-22, Organise and coordinate the periodic evaluation of the Board of Directors and of the Chief Executive Officer of the Company.
6. Verify the independence of the external consultant selected to carry out the evaluation of the Board and its committees.
7. Propose to the Board of Directors the basic conditions of senior management contracts.
8. Verify compliance with the remuneration policy established by the Company.
9. Periodically review the remuneration policy applied to board members and senior management, including the share based remuneration systems and their application, as well as ensuring that their individual remuneration is proportionate to that paid to the other board members and senior management of the company.

10. Ensure that any conflicts of interest do not undermine the independence of the external advice provided to the committee.
11. Verify the information on directors' and senior executives' remuneration contained in the various corporate documents, including the annual report on directors' remuneration.
12. Supervise compliance with the company's corporate governance rules, ensuring that the corporate culture is aligned with its purpose and values.
13. The evaluation and periodic review of the adequacy of the company's system of corporate governance, in order for it to fulfil its mission of promoting the corporate interest and taking into account, as appropriate, the legitimate interests of other stakeholders.
14. Prepare a report on the remuneration systems that award shares, options or financial instruments when the director requests their sale before the three-year period from their award in order to deal with extraordinary situations that may arise.

b) Procedures, and organisational and operational rules

In accordance with Article 25 of the Regulations of the Board:

The Appointments, Remuneration and Corporate Governance Committee shall comprise a minimum of three (3) and a maximum of seven (7) Directors appointed by the Board of Directors from among the non-executive directors, and at least one of them will be appointed taking into account their knowledge and experience in issues of accountancy, audit or both. Its members shall leave their post when they do so in their capacity as Directors or as agreed by the Board of Directors.

At least two of the members of the Nomination, Remuneration and Corporate Governance Committee shall be Independent Directors, from which the Board of Directors shall elect the Chairman of the Committee, who shall not have a casting vote. The Secretary of the Committee shall be the Secretary of the Board of Directors, although the Deputy Secretary, if any, may act as Secretary of the Committee.

The Committee shall hold meetings whenever necessary in order to issue its reports or proposals, and will be convened by its Chairman on his own initiative or upon prior request of two (2) of its members. At least four (4) meetings per year must be held. The Committee may invite to its meetings any executive or employee it deems appropriate.

c) Main actions taken during the year 2022:

The Appointments and Remuneration Committee has focused its actions on the following fundamental aspects:

- The process of filling two vacancies to be covered by the right of proportional representation exercised by the significant shareholders Criteria Caixa and IFM Global Infrastructure Fund.
- The new configuration of the Board of Directors' Committees due to the reduction in the number of independent directors.
- Analysis and assessment of the implications of the Gemini Project.

Name	Position	Category
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% de consejeros dominicales
% de consejeros independientes
% de otros externos

Observations

Explain the committee's duties, including, if applicable, those additional to those legally established, which this committee has been assigned, and describe the procedures and rules of organisation and operation of the same. For each of these functions, indicate your most important actions during the year and how you have exercised in practice each of the functions attributed to you, either by law or by the statutes or other corporate resolutions.

REMUNERATION COMMITTEE

Name	Position	Category
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% of proprietary directors
% of independent directors
% of other external directors

Explain the committee's duties, including, if applicable, those additional to those legally established, which this committee has been assigned, and describe the procedures and rules of organisation and operation of the same. For each of these functions, indicate your most important actions during the year and how you have exercised in practice each of the functions attributed to you, either by law or by the statutes or other corporate resolutions.

SUSTAINABILITY COMMITTEE

Name	Position	Category
Helena Herrero Starkie	Chairman	Independent
Isabel Estapé Tous	Board Member	Proprietary
Jaime Siles Fernández Palacios	Board Member	Proprietary
Lucy Chadwick	Board Member	Proprietary

% of proprietary directors	75 %
% of independent directors	25 %
% of other external directors	0

Explain the committee's duties, describe the procedure and organisation and operational rules. For each of these functions, indicate your most important actions during the year and how you have exercised in practice each of the functions attributed to you either by law or by the statutes or other corporate resolutions.

In accordance with Article 26 of the Rules of Organization of the Board of Directors and its committees, the Sustainability Committee will be made up of a minimum of three and a maximum of six Board Members, appointed by the Board of Directors from among the non-executive Board Members, taking into account the knowledge, skills and experience of the Board Members and the tasks of the Committee.

Its members will resign when they cease to be Board members or when the Board of Directors so decides.

The Board of Directors will elect the Chairman of the Committee who will have the category of Independent Board Member and will not have a casting vote. The Secretary of the Committee will be the Secretary of the Board of Directors although the Vice-Secretary, if any, may act as Secretary of the Committee.

The Sustainability Committee will have the powers assigned to it by the Board of Directors.

The Committee, called by its Chairman, will meet when necessary to issue the reports or proposals within its competence or when deemed appropriate by its Chairman or at the request of two of its members and at least three times a year. The Commission may invite any manager or employee it considers appropriate to attend its meetings.

The powers granted to it by the Board of Directors are as follows:

1. To propose to the Board of Directors the approval of a Sustainability Policy
2. To propose to the Council the objectives and guidelines of the Group in the field of environment, health and safety and social responsibility, included in the Sustainability Plan.
3. Periodically analyse indicators in the field of environment, health and safety and social responsibility
4. The review of the information published by Naturgy to the market in relation to sustainability
5. The supervision of compliance with the policies and rules of society in environmental and social matters.
6. he evaluation and periodic review of the environmental and social policy of the society, in order that they fulfil their mission of promoting the social interest and take into account, as appropriate, the legitimate interests of other stakeholders.
7. Monitoring that society's environmental and social practices are in line with the set strategy and policy.
8. Monitoring the implementation of the general policy on communication with shareholders and investors, proxy advisors and other stakeholders, as well as monitoring how the institution communicates and engages with small and medium-sized shareholders.

The most relevant actions in 2020 were:

- i) Health and safety: Review and analysis of incidents and accidents that occurred during the year,
- ii) Sustainability: review of the sustainability plan with a focus on the climate action plan.
- iii) External verification: Review and analysis of the appreciation by third parties of Naturgy's efforts in this area, as well as the acknowledgements received by Naturgy.
- iv) Projections 2021-25: Supervision of the group's medium-term projections -period 2021-25- related to sustainability.
- v) Climate action plan: emissions reduction, just transition and biodiversity.
- vi) Responsible supply chain: measurement of the carbon footprint by the collaborating companies.
- vii) Implementation of the Internal Control System for Non-Financial Information (SCIINF).

C.2.2 Complete the following table on the number of female directors on the various board committees at the end of the past four years:

	Number of female directors							
	Financial Year		Financial Year		Financial Year		Financial Year	
	2022	2021	2020	2019	2022	2021	2020	2019
	Number	%	Number	%	Number	%	Number	%
Executive Committee	-	-	-	-	-	-	-	-
Audit Committee	1	20 %	3	42,86 %	3	42,86 %	1	14,28%
Appointments and Remuneration Committee	0	0%	0		0	0%	0	0%
Appointments Committee	-		-		-		-	
Remuneration Committee	-		-		-		-	
Sustainability Committee	3	75 %	3	60%	3	60 %	-	

C.2.3 Indicate, where applicable, the existence of committee regulations, the location at which they are available for consultation and the modifications that have been made during the financial year. Also indicate whether any annual report on each committee's activities has been voluntarily drafted.

The Board Committees are regulated in the Articles of Association and in the Regulations for the Organisation and Functioning of the Board of Directors of NATURGY and its Committees.

Both documents are published on the Company's website (www.naturgy.com) →Shareholders and investors
→Corporate governance →Corporate governance standards.

The Executive Committee, the Audit and Control Committee and the Appointments, Remuneration and Corporate Governance Committee have all drawn up a report on the quality and effectiveness of their performance over the previous year.

D RELATED-PARTY TRANSACTIONS AND INTRA-GROUP TRANSACTIONS

D.1 Explain, if applicable, the procedures for approving related party or intra-group transactions.

Procedures for approving related party transactions

Pursuant to Art. 529 Duovicies LSC:

(i) the power to approve related-party transactions whose amount or value is equal to or exceeds 10 % of the total asset items according to the last annual balance sheet approved by the company is vested in the general meeting.

ii) The power to approve all other related-party transactions shall be vested in the board of directors, which may not delegate it.

In both cases, the approval of a related-party transaction shall be subject to a prior report by the Audit and Compliance Committee, which shall report on the reasonableness of the transaction from the point of view of the company and, where appropriate, of the shareholders other than the related party, and shall give an account of the assumptions on which the evaluation is based and the methods used.

Furthermore, and as provided for in section 4 of Art. 529 Duovicies, the board of directors at its meeting held on 21 December 2021 resolved to delegate to the executive chairman the approval of the following related-party transactions:

(a) transactions between Naturgy group companies that are carried out within the scope of ordinary management and on an arm's length basis;

b) transactions entered into by virtue of contracts whose standardised conditions are applied en masse to a large number of customers, are carried out at prices or rates established generally by the party acting as supplier of the good or service in question, and whose amount does not exceed 0.5 per cent of the net turnover of the company.

For the approval of this type of transaction, the board of directors has approved at its meeting of 21 December 2021 an internal procedure for periodic information and control, in which the Audit and Control Committee participates, verifying the transparency of such transactions and, where appropriate, compliance with the legal criteria applicable to such transactions.

D.2 List individually those transactions that are significant due to their amount or relevant due to their subject matter carried out between the company or its subsidiaries and shareholders holding 10% or more of the voting rights or represented on the company's board of directors, indicating which body was competent to approve them and whether any shareholder or director affected abstained. In the event that the board was competent, indicate whether the proposed resolution was approved by the board without the majority of independent directors voting against::

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Name or Company Name of Significant Shareholder	% Shareholding	Name or Company Name of the Company or Entity of the Group	Nature of the Relationship	Type of operation and other information necessary for the assessment of the operation	Amount (thousands of euros)	Approving body	Identification of the significant shareholder or director who abstained from voting	The proposal to the board, if any, has been approved by the board without a majority of independent directors voting against.
Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona	26,7	Gas Natural Comercializadora S.A.	Comercial	Multi-annual electricity supply contract	It is not possible to determine the amount	Consejo	Criteria Proprietary Directors	n/a
Criteria Proprietary Directors	26,7	Gas Natural Comercializadora S.A.	Comercial	Multi-annual gas supply contract	It is not possible to determine the amount	Presidente ejecutivo por delegación	n/a	n/a

Observations

The economic amounts materialised in the year corresponding to transactions approved in previous years are disclosed in Note 34 Information on related party transactions to the annual accounts of the ACs.

D.3 List individually the transactions that are significant due to their amount or relevant due to their subject matter carried out by the company or its subsidiaries with the directors or executives of the company, including those transactions carried out with entities that the director or executive controls or jointly controls, indicating which body was competent to approve them and whether any shareholder or director affected abstained. In the event that the board was competent, indicate whether the proposed resolution was approved by the board without the majority of independent directors voting against: :

:

Name or Company Name of the Administrators or Executives	Name or Company Name of the Related Party	Relationship	Nature of the Operation	Amount (thousands of euros)	Body which approved it	Identification of the shareholder or director who abstained from voting	The proposal to the board, if any, has been approved by the board without the majority of independents voting against.
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Observations

The economic amounts materialised in the year corresponding to transactions approved in previous years are disclosed in Note 34 Information on related party transactions to the annual accounts of the ACs.

D.4 Report on the significant transactions carried out by the company with other companies belonging to the same group, provided that they are not eliminated in the process of drafting the consolidated financial statements and are not part of the company's usual trading in terms of its purpose and conditions.

Under all circumstances, report any intra-group transaction performed with entities established in countries or territories considered to be a tax haven:

Company Name of the Entity of the Group	Brief description of the Operation	Amount (thousands of euros)
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Observations

The economic amounts materialised in the year corresponding to transactions approved in previous years are disclosed in Note 34 Information on related party transactions to the annual accounts of the ACs.

D.5 List individually any transactions that are significant in amount or material in terms of their subject matter carried out by the company or its subsidiaries with other related parties that are significant in accordance with International Accounting Standards as adopted by the EU and have not been reported under the preceding headings.

Name of the Entity of the Group	Brief description of the Operation	Amount (thousands of euros)
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Observations

D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its directors, management or significant shareholders.

1.- Directors:

In accordance with the Regulations of the Board:

The Director is subject to the duty of loyalty under the terms established in prevailing legislation and, in particular:

In accordance with the regulations, the Director must inform the other members of the Board of his or her conflict of interest and must abstain from participating in the vote.

In the cases in which a situation of conflict of interest has been observed, the affected Board Member(s) have been absent from the meeting when the point on the agenda they have a conflict of interest with has been dealt with and the Secretary has ensured that these Board Members have not been able to access the affected information either.

2.- Directors and executives:

On the other hand, pursuant to Article 3 and 4 of the Internal Code of Conduct in Matters relating to the Securities Markets and Treasury Stock Policy (ICC), persons with management responsibilities and insiders, during certain periods of time will refrain from carrying out transactions on their own or for the account of a third party, directly or indirectly on the Affected Securities (i) Transferable securities issued by companies of the NATURGY Group, which are traded on a secondary market or other regulated markets, in multilateral trading systems or in other organised secondary markets, or for which an application for admission to trading on one of these markets or systems has been made. (ii) financial instruments and contracts of any kind giving the right to acquire or sell the securities referred to in (i) above (iii) The financial instruments and contracts whose underlying are the securities indicated in (i)(iv) For the sole purpose of the rules of conduct regarding privileged information contained in Title III of these Regulations, the securities and financial instruments issued by other companies or entities other than the NATURGY Group, regarding which there is Privileged Information

The Supervisory Body, upon written request, describing and justifying the Personal Operation to be carried out and that the specific operation cannot be carried out at any other time than a limited period may authorise Persons with Management Responsibilities to perform personal transactions on Affected Securities in the periods in which there is a general prohibition when certain circumstances are given and justified in the ICC itself. The Supervisory Body will inform the Audit and Control Committee at least once a year about the authorisations that have been requested.

For their part, pursuant to section 4.10 of the Code of Ethics, employees must inform the company in the event that they or their close relatives participate or will participate on the governing bodies of other companies that may clash with the interests of Naturgy. In the performance of their professional responsibilities, employees must act with loyalty and defend the interests of the group. Furthermore, they must avoid situations that may give rise to a conflict between personal interests and the interests of the company. Accordingly, Naturgy employees must refrain from representing the company and participating in and influencing decisions in any situation in which they directly or indirectly have a personal interest.

3.- Significant shareholders:

It will be the responsibility of the Board of Directors, pursuant to a report from the Audit and Control Committee, to approve transactions carried out by the company or the companies in its Group with directors under the terms set forth in the current applicable legislation or with shareholders who, individually or in conjunction with others, hold a significant stake, including shareholders represented on the company's Board of Directors or the board of other companies belonging to the same group or with persons associated with them.

D.7 Indicate whether the company is controlled by another entity within the meaning of Article 42 of the Commercial Code, whether listed or not, and has, directly or through its subsidiaries, business relationships with such entity or any of its subsidiaries (other than those of the listed company) or carries out activities related to those of any of them.

Yes No

Indicate whether the respective areas of activity and any business relationships between the listed company or its subsidiaries on the one hand and the parent company or its subsidiaries on the other have been publicly defined:

Yes No

Report on the respective areas of activity and any business relationships between, on the one hand, the listed company or its subsidiaries and, on the other hand, the parent company or its subsidiaries, and identify where these aspects have been publicly reported

N/A

Indicate the mechanisms laid down to solve possible conflicts of interests between the other parent company of the listed company and the other companies in the group:

Mechanisms for solving possible conflicts of interests

N/A

E. CONTROL SYSTEMS AND RISK MANAGEMENT

E.1 Describe the control and risk management system in place at the company, including fiscal risks.

Naturgy's risk management system seeks to mitigate volatility in the company's performance both in cash generation and in non-financial aspects; ESG, cybersecurity, compliance. It quantifies the variability of financial results and ensures that it is in line with the risk profile inherent in the business portfolio. In addition, non-financial risks are monitored regularly.

The Integrated Risk Management and Control System is structured in the following sections:

- a. Risk Governance & Management: risk governance and management mechanism for all types of risks and for all businesses.
- b. Risk Assessment: methodology, procedure and process for identifying, assessing and measuring risks.
- c. Risk Appetite: definition of risk tolerance through the setting of limits for the most relevant risk categories, by nature of the risk and by business according to the objectives.
- d. Risk Reporting: systematic and regular reporting and monitoring of risk at different levels of management: Business Units, Corporate, Chairman's Office and Board.

E.2 Identify the bodies responsible for preparing and implementing the control and risk management system, including fiscal risks.

Naturgy has different bodies, with clearly identified areas of responsibility, which ensures predictability and sustainability in operational and financial performance.

Board of Directors

It is responsible for approving the company's Risk Control and Management Policy and Risk Appetite and takes decisions to assume or mitigate risks that exceed the approval thresholds established in the Board Regulations.

Audit Committee

By delegation, it is the body in charge of overseeing the risk model and the effectiveness of control. It ensures that they identify the different types of risks and the measures to mitigate them and to address them should they materialise.

Energy Balance, Risks and Supply Committee

Since the energy crisis at the beginning of 2022, the main risk for the Group is the variation of the different energy commodities and their indices. An Energy Balance, Risks and Supply Committee was therefore set up, comprising most of the members of the Management Committee and some of the managers reporting directly to them, in order to monitor the evolution of energy commodities, both in the gas and electricity sectors, and the evolution of the indices. This Committee, in addition to monitoring, has taken on the role of making purchase, sale or hedging decisions that corresponded to the management level or has made proposals in the event that, due to its level of competence, they corresponded to the Board of Directors. Finally, this Committee monitors the open position of the group as a whole on a combined basis for gas and electricity and for buy, sell and hedging positions.

Risk Control Units

Responsible for controlling, managing and reporting the risk assumed and ensuring that the target risk profile and limits are maintained. In each business there is a unit with a specific risk control function and, at the corporate level, the Planning, Control and Administration unit is responsible for consolidating the information received from each of these units.

A key task of the Risk Control Units within the risk control and management function is the modelling of the financial statements, aimed at identifying their main sensitivities and anticipating possible negative impacts and corrective or mitigating actions.

It is the responsibility of the Risk Control Units to assess the risks identified, taking into account the following:

- a. The characteristics of the Position at risk
- b. Impact variables.
- c. Qualitative and quantitative severity if the risk materialises.
- d. Probability of occurrence.
- e. Controls and mitigation mechanisms employed and their effectiveness.

E.3 Indicate the main risks, including fiscal, to the extent that those derived from corruption are significant (the latter being understood to be within the scope of Royal Decree Law 18/2017) which may prevent the company from achieving its business targets.

Market risk		Description	Management
Raw material prices	Gas	Volatility in international markets which determine gas prices.	Physical and financial hedges. Portfolio management
	Electricity	Volatility in electricity markets in Iberia and Europ	Physical and financial hedges. Optimisation of generation park.
Exchange rate	.	Volatility in international currency markets.	Geographical diversification. Hedging through local currency funding and derivatives..
Regulatory		Exposure to revision of the criteria and recognised profitability levels for regulated activities and/or regulatory measures to mitigate macro overhang scenarios.	Intensified communication with regulatory bodies. Adjustment of efficiencies and investments to recognised rates.

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Volume	Gas	Gap between gas supply and demand.	Optimisation of contracts and assets. Trading.
		Reduction in available thermal gap. Uncertainty in the volume of renewable production due to variability of the resource.	Optimisation of the marketing-generation balance
	Electricity		
Margin/price		Risk arising from changes in competitive pressure or margin optimisation scenarios.	Coberturas financieras. Diversificación de las fuentes de financiación.
Legal		Uncertainty arising from the potential outcome of litigation, arbitration or open legal claims.	Analysis and mitigation of legal risks affecting the company's operations and corporate governance. Hiring of top-level legal firms. Provisioning with criteria of prudence
Insurable risks		Accidents, damage or unavailability of Naturgy's assets..	Continuous improvement plans. Optimisation of the total cost of risk and coverage.
Fiscal		Ambiguity or subjectiveness in the interpretation of the prevailing fiscal regulations, or through a relevant change to the same.	Consultations with independent expert organisations. Recruitment of leading consultancy firms. Adhesion to the Code of Good Tax Practices. Allocation of provisions with criteria of prudence.
Interest rate		Volatility in financing interest rates, due to existing debt or debt refinancing.	Financial hedging. Diversification of sources of financing.

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Credit	uncertaintyUncertainty associated with the probability of non-payment of monetary obligations and/or deterioration of the credit quality of the different end customers and counterparties with which Naturgy operates.	Diversification of sources of financing.
Liquidity, Solvency, Rating and Provisions	Financial risks associated with the maintenance of the company's rating, derived from liquidity conditions or other causes. Risks associated with excessive use of resources due to the maintenance of provisions.	Setting a target rating and managing sufficient liquidity to maintain it in a potential scenario.
Security	Residual risk associated with personal injury or property damage intentionally caused by a third party to critical facilities..	Corporate positioning through the Security Policy, defining a specific protection model for Critical Infrastructure specific protection model for Critical Infrastructures (IICC). Liaison with businesses, the National Centre for the Protection of Critical Infrastructure (CNPIC), the National Cybersecurity
Business continuity and crisis management	Risk of loss of service level maintenance resulting from inadequate or failed processes, systems or staff performance...	Annual Internal Audit Plan. Detection of weaknesses. Implementation of improvement actions (recommendations). Audit and Control Committee.
Fraud	Risk derived from any intentional, unlawful action by an employee or third party, to achieve a direct or indirect benefit for themselves or for the company, through the improper use of Naturgy's	Control mechanisms through the Global Policy of the Internal Financial Reporting Control System. Hedging in the insurance market.

Cybersecurity	Malicious attacks or accidental events affecting data, computer networks or technology.	.Implementation of security measures. Analysis of events and application of remedies Training
Data protection	Uncertainty associated with non-compliance with Data Protection obligations that may result in an administrative sanction or civil judgement.	Action plan by business area to mitigate the risk associated with each obligation according to priority and criticality. Work is carried out in line with the requirements of the General Data Protection Regulation (GDPR). Internal audit plan for periodic review of compliance.
Environmental	Possibility of exceeding mandatory environmental limits set by the regulator, either naturally or by human action, damaging ecosystems or biodiversity.	Emergency plans for facilities at risk of environmental accidents. Specific insurance policies. Comprehensive environmental management
Health and Safety	Risk of injury and deterioration of the health of Naturgy professionals and collaborating companies related to the activity.	Health and safety management system. Safety plan aimed at controlling of the six most critical risk factors in terms of frequency and severity of accidents: confined spaces accident rate: confined spaces, work at height, electrical risk, tree felling and pruning, load handling and road
Reputational and ESG	Deterioration of the perception of Naturgy from different stakeholders, for environmental, social and governance reasons.	Identification and monitoring of potential reputational events. Transparency in communication. Control mechanism through the Internal Control System for non-financial information.
Compliance risk		
Reputational and criminal risk	Administrative and criminal sanctions. Deterioration of the reputational image of NATURGY.	Crime Prevention Model. Ethics Code and Anticorruption Policy. Whistleblowing Channel. Compliance Training.

Thrid-Party risk	Administrative and criminal sanctions. Damage derived from contractual breach.	Third-Party Due Diligence Procedure
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E.4 Identify if the company has a risk tolerance level, including tax risks.

The company has a risk tolerance level focused on the markets area.

The exceptional situation that occurred in 2022 and continues in 2023 has meant that the risk thresholds linked to commodities and energy indices have been exceeded in very short periods of time. Given the impossibility of maintaining the pre-set risk ranges for stable contexts, a more immediate monitoring model has been chosen, with the capacity to take decisions in an agile manner by involving all the units with decision-making capacity in the same collegiate body. TThis body, which has the capacity to supervise and make immediate decisions in the areas of supply, marketing and hedging, is called the Energy Balance, Risks and Supply Committee and meets on a fortnightly and sometimes weekly basis.

E.5 Identify any risks, including tax risks, which have occurred during the year.

The risks materialised during the year, both positive and negative, were inherent to the activity carried out, such as the volatility of gas and electricity prices in Spain and Europe, exchange rates, interest rates, volume, credit and counterparty risks.

In view of the uncertain economic outlook for the country and the world, the company will seek to position itself in stable geographic areas to ensure steady growth that contributes to the generation of value and profitability of the businesses and the company: balancing the weight of its businesses in its mix of activities, placing greater ambition on increasing the contribution of regulated activities, increasing renewable generation capacity in line with the global energy transition, optimising the natural gas and LNG supply portfolio and developing innovation projects in hydrogen and its blending in gas networks, renewable gas, energy efficiency, sustainable mobility and just transition.

E.6 Explain the response and monitoring plans for the main risks the company is exposed to, including tax risks, as well as the procedures followed by the company to ensure that the board of directors responds to new challenges.

Naturgy analyses its global risk profile according to the potential impact on its financial statements. With this, it determines the maximum accepted level of risk exposure, as well as the admissible limits for its management.

In the exceptional scenario of 2022, the Board has received permanent information on the impact on the estimated results of the evolution of the energy scenario and has been approving the business and risk mitigation decisions in real time, which has led it to meet 22 times in 2022.

Likewise, the board has been recurrently informed of the various regulatory and fiscal aspects, both at the draft stage and after their formal approval, which could have an impact on the business or on the estimated results.

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For matters that did not meet the threshold for approval by the Board, this task was carried out by the Energy Balance, Risks and Supply Committee. This Committee has monitored and made business and risk mitigation decisions on both the physical energy balance and the economic balance.

During 2022, it was considered that the best way to mitigate the main risks was to centralise the monitoring and decision-making in just two bodies and have them monitor the evolution of the situation in real time.

F. INTERNAL SYSTEMS OF CONTROL AND RISK MANAGEMENT WITH REGARD TO THE INTERNAL CONTROL SYSTEMS OVER FINANCIAL REPORTING (ICFR)

Describe the mechanisms that make up your entity's internal control system and management of risks with regard to the financial information reporting process (ICFR).

F.1 The company's control environment

Report on, duly detailing their main characteristics, at least:

F.1.1. Which bodies and/or functions are in charge of: (i) the existence and upkeep of an appropriate and effective ICFR; (ii) its implementation; and (iii) its supervision.

Naturgy has defined its Internal Control over Financial Reporting System (hereinafter, ICFR) in the "Global Policy and General Procedure of the Internal Control over Financial Reporting System (ICFR) of Naturgy", the responsibility model being as follows:

- Board of Directors: It is responsible for the existence of an adequate and effective ICFR, as established in Article 3 section II of the Regulations of Organisation and Functioning of the Board of Directors of Naturgy Energy Group, S.A. and its Committees.
- Audit and Control Committee: It is responsible, on a delegated basis, for the supervision of the ICFR, as established in article 26 section 2 of the Regulations of the Board of Directors.
- Internal Audit Unit: It is responsible for supporting the Audit and Control Committee in the supervision and continuous assessment of the effectiveness of the Internal Control System in all areas of Naturgy.
- Planning, Control and Administration Unit: It is responsible for establishing the criteria and principles of the design of the ICFR, to ensure the integrity, consistency and accuracy of financial information and approve the regulations in this area, as well as discuss with the auditor of accounts the significant weaknesses of the internal control system detected in the development of the audit.
- Business Administration and Operational Monitoring Unit: Responsible for the implementation and operation of the ICFR, ensuring compliance with corporate criteria within its business.
- Compliance Unit: Responsible for the Criminal Prevention Model in Naturgy, it provides information and support to the Audit and Control Committee on the control model.
- Business and corporate units involved in the process of preparing financial information: They are responsible for executing the processes and maintaining the daily operations, ensuring that the control activities implemented are carried out, evaluating them or supervising the outsourced service activities, when they participate in relevant processes in the preparation of financial information, with the established frequency and, annually, performing the Annual Internal Certification of the ICFR (direct and/or supervised control activities).

F.1.2. Whether or not the following elements exist, particularly with regard to the procedure for financial reporting:

- **Departments and/or mechanisms responsible for: (i) the design and review of the organisational structure; (ii) the clear definition of the lines of responsibility and authority, with an appropriate distribution of tasks and duties; and (iii) that there are sufficient procedures for proper dissemination at the entity.**

The design and review of the organisational structure of the first level of management and the definition of lines of responsibility are carried out by the Board of Directors, through the Executive Chairman and the Nomination and Remuneration Committee.

- **.Code of conduct, approving body, degree of dissemination and instruction, principles and values included (indicating whether there are specific mentions of the recording of transactions and preparation of financial information), body responsible for analysing breaches and proposing corrective actions and sanctions**

Naturgy has a Code of Ethics, approved by the Board of Directors, which is mandatory for all employees of NATURGY ENERGY GROUP, S.A. and all investee companies in which Naturgy has management control and which incorporates in Chapter 3, the guiding principles of conduct in Naturgy and in Chapter 4 the specific guidelines for action to be observed by employees in the areas of content determined therein, referring in Chapter 4 to the treatment of information, obliging all employees to transmit truthfully all information to be communicated both internally and externally. 11 to the treatment of information, obliging all employees to truthfully transmit all information to be communicated both internally and externally.

The body in charge of analysing breaches and proposing corrective actions and sanctions in Naturgy is the Ethics and Compliance Committee, which is also responsible for promoting the dissemination and application of the Code of Ethics and the Compliance Policy, among other rules, throughout the group and providing a communication channel to all employees for queries and notifications of breaches of these regulations.

The Committee is chaired by the Compliance Unit and is made up of representatives from different units involved in monitoring compliance with internal and external regulations.

The Committee reports regularly to management and to the Audit and Control Committee. It reports and makes recommendations, proposing corrective actions to the units in charge of solving the problems arising from the practical application of the Code of Ethics and other applicable internal and external regulations, acting in turn as a liaison between them and the employees.

The sanctioning regime, where necessary, is referenced to the Collective Bargaining Agreement and the Workers' Statute.

- **Whistleblowing channel, which enables communication to be sent to the Audit and Control Committee concerning any irregularities of a financial and accounting nature, along with any possible breaches of the Code of Conduct and irregular activity within the organisation, and state whether said channel is confidential whether it allows for anonymous communications while respecting the rights of the complainant and the accused**

Naturgy has a whistle-blowing channel, the Code of Ethics Channel, accessible to all its employees and third parties at the web address <https://naturgy.integrityline.com/>.

The aforementioned communication channel corresponds to an open channel (a web platform accessible from any device), accessible to all Naturgy employees and interested third parties, to deal with matters related to the code. This channel allows all employees of the group, suppliers and collaborating companies to gather or provide information on any matter related to the Code of Ethics and the Anti-Corruption Policy. They can also contact the channel to report in good faith and confidentially any conduct contrary to the Code.

All communications made through the channel are absolutely confidential and may be anonymous, respecting the limitations established in the Personal Data Protection regulations. In this respect, the Compliance unit has access, in the first instance, to all the information on all the queries and notifications received from the group through the Code of Ethics Channel operating procedure.

Naturgy's Corporate Responsibility Report 2022 provides more detailed information on the Code of Ethics, the Anti-Corruption Policy, the Compliance Policy, the activities of the Ethics and Compliance Committee and the use of the communication channel.

- **Training programmes and periodic retraining for personnel involved in the preparation and review of financial reporting, as well as the assessment of the ICFR, which at least cover the accounting, audit, internal control and risk management standards.**

The Global Management Talent and Training Policy establishes the training model that guarantees the adequacy and development of skills and competencies which, for the economic-financial area, focuses on specific knowledge of; updating accounting, financial, risk management, management control, budgets, unbundling or separation of activities, international regulations and technical knowledge of the tax area; as well as providing sufficient knowledge on financial modelling, company valuation, financial derivatives, analysis of financial statements and cybersecurity, among others.

In total, in 2022, more than 390 professionals from the economic and financial areas dedicated more than 1,600 hours to training in this content.

F.2 Assessment of financial reporting risks

Provide information, at least, on the following:

- F.2.1. What are the main characteristics in the risk identification process, including risks of error or fraudulent practices, with regard to:**

- **If the process exists and it is documented.**

TNaturgy has a financial information risk identification process documented through three procedures that determine the applicable criteria and methodology:

- The Matrix for defining the scope of financial reporting.
- Matrix of risks associated with financial information.
- Matrix of financial reporting control activities.

Within the ICFR risk identification process, consideration has been given to mitigating the risk of fraud through prevention, detection and investigation and management of fraud situations, designing "active" control activities, such as barriers to restrict or prevent access to valuable assets by those who may attempt to commit fraud, and "passive" control activities that aim to stop fraud being committed through deterrence measures.

The financial reporting risk identification process is a dynamic system, which is regularly updated.

- **If the process covers all the financial reporting objectives (existence and occurrence; integrity; assessment; presentation, breakdown and comparability; and rights and obligations), if it is updated and how frequently.**

In order to guarantee the objectives of the financial information, Naturgy's ICFR control activities directly identify which financial assertions are covered, allowing the criticality of the control activities to be categorised according to the number of financial assertions assigned. This model ensures that, for critical processes, the necessary and sufficient controls are in place to guarantee all financial reporting objectives. The Control Activity Matrix is updated on a quarterly basis.

- **The existence of a process for the identification of the consolidation perimeter, taking into account, among other aspects, the possible existence of complex corporate structures, instrumental or special purpose entities.**

Naturgy has a specific procedure detailing the monthly updating process of the perimeter, in accordance with the corporate operations of the period, which describes the responsible units and systems involved.

- **If the process takes other types of risks into account (operating, technological, financial, legal, reputational, environmental, etc.) insofar as they affect the financial statements.**

In the ICFR Risk Matrix, the risks associated with the achievement of financial reporting objectives have been identified, taking into account the effects of other types of risks; mainly operational, technological, cybersecurity, financial, reputational, etc., which form part of Naturgy's Corporate Risk Map.

- **Which governing body of the company supervises the process.**

Supervision of the effectiveness of the ICFR is the responsibility of the Audit and Control Committee. This function is carried out by the Internal Audit unit and the External Audit unit (see section F.5).

F.3 Control activities

State, duly detailing their main characteristics, whether, at least, the following aspects exist:

F.3.1. Procedures for the review and authorisation of financial reporting, and the description of ICFR, to be published on the securities markets, indicating their supervisors, and the documentation which describes the flow of activities and controls (including those relating to risk of fraud) of the different types of transactions which can have a material impact on the financial statements, including the closing of accounts procedure and the specific review of relevant judgements, estimates, valuations, and protection.

As a first level of review, the heads of the Administration and Operational Monitoring units of the businesses review the financial information prepared to ensure its reliability and certify the reasonableness of the individual annual accounts. They also ensure that the accounting procedures, judgements and estimates and processes used in the preparation of the economic and financial information and financial statements, the main risks and contingencies and their coverage by provisions and the tax position of the companies and the main tax policies are correct, complete, duly detailed and reported and in accordance with the applicable local tax laws and regulations.

Ultimately, the head of Planning, Control and Administration certifies the reasonableness of the individual annual accounts of NATURGY ENERGY GROUP, S.A. and the consolidated annual accounts submitted to the Board of Directors for approval.

The processes identified in the ICFR are documented by means of the matrix of control activities, in the SAP GRC Process Control system and in the corresponding technical instructions describing the processes, including, among other variables, the information flow diagram, the map of systems that interact in it, the control activities and the risks covered and those responsible for the processes. In this sense, Naturgy has identified as critical processes all those where judgements, estimates, valuations and relevant projections are used.

Finally, the annual internal certification of controls is carried out by those responsible for the processes involved in the preparation of financial information, reporting the weaknesses detected in the evaluation of controls and the plans defined to remedy them.

F.3.2. Internal control policies and procedures on information systems (inter alia, on access security, control of changes, operation thereof, operating continuity and separation of functions) which support the relevant processes of the company in drawing up and publishing financial information.

For the critical processes associated with the preparation and publication of Naturgy's financial information, the control activities that operate in the information systems have been identified, both for those used directly in the preparation of financial information and for those that are relevant in the process or control of the transactions reflected therein.

At a general level, within Naturgy's information systems map, a series of policies have been defined and implemented to guarantee the following aspects:

- Security of access to both data and applications. A series of measures have been defined at different levels to guarantee confidentiality and prevent unauthorised access.

- Control over changes to applications. A change management methodology has been developed and implemented based on best practices, which establishes the necessary precautions and validations to limit the risk in this process.

- The correct operation of the applications.

- Data availability and application continuity. Most of the systems have high local availability, with redundant servers located in the same DPC, and in some cases, in the DPC for criticality support. The high availability of information systems ensures their availability in the event of incidents.

- Adequate segregation of functions. Access to information systems is defined on the basis of roles and profiles that determine the functionalities to which a user must have access.

- Proper regulatory compliance (RGPD).

F.3.3. Internal control policies and procedures for supervising the management of activities subcontracted to third parties, and those assessment, calculation or valuation questions entrusted to independent experts, which could have a material impact on the financial statements.

Naturgy has developed a control framework for subcontracted activities, the most relevant being the "Global Outsourcing Policy" and the "Global Supplier Quality Policy".

These establish the general principles that must be applied to all procurement of goods and services, guaranteeing a homogeneous, efficient and sustainable model for the management of the procurement process in Naturgy and determining the responsibilities in the procurement process. Likewise, they ensure that the supply chain complies with the principles established in the Supplier Code of Ethics, the Human Rights Policy, the Health and Safety Policy, the Anti-Corruption Policy, as well as internationally recognised principles of good governance.

The business and corporate units supervise and control the quality of their suppliers to determine whether they offer the required levels of quality in the execution of the work. If not, they send proposals for withdrawal of approval/accreditation to suppliers/products/persons as a result of deficiencies in the performance of services or products.

Naturgy uses experts in works that support valuations, judgements or accounting calculations, only when they are registered in the corresponding Professional Associations, or equivalent accreditation, state their independence and are companies of recognised prestige in the market.

For the coverage of legal and reputational risks involved in business relationships with third parties and, in particular, the coverage of crimes associated with the risk of corruption, Naturgy has defined the "Due Diligence Procedure for Counterparties".

F.4 Information and communication

State, duly detailing their main characteristics, whether, at least, the following aspects exist:

F.4.1. A specific function responsible for defining accounting policies (area or department of accounting policies), keeping them up to date, and resolving doubts or conflicts arising from their interpretation, keeping fluid communications with the persons responsible for operations in the organisation, as well as a manual of accounting policies which is up to date and communicated with the units through which the entity operates.

The Planning, Control and Administration Unit is responsible for keeping the accounting policies applicable to the group up to date. In this sense, it is responsible for updating the "Naturgy's Accounting Plan", which includes the accounting criteria, based on the changes in the applicable IFRS-EU regulations, and the Group's Chart of Accounts, as well as the analysis and communication of accounting changes that could have a significant impact on the financial statements and resolve doubts about the accounting treatment of certain transactions.

Once the chart of accounts has been updated, it is disseminated to all the organisation's personnel via Naturgy's intranet.

F.4.2. Mechanisms for the capture and preparation of financial information with uniform formats, applied and used by all units of the company of the group, used to support the main financial statements and the notes, as well as the information set out in detail on the ICFR.

Naturgy's economic-financial management model guarantees the uniformity of administrative and accounting processes through the centralisation of transactional processes and the use of SAP, as a homogeneous support system, in most of the companies that form part of the group. Companies which do not use SAP are obliged to follow the criteria set by the group to ensure the uniformity of such processes.

This model is essentially characterised by the following features:

- It is unique for all countries and businesses;
- Incorporating the legal, fiscal, commercial and regulatory requirements of each country;
- Incorporating internal control requirements;

- Being the basis for obtaining information supplied to management personnel and official bodies;

- To be based on a single organisational model and economic-financial IT systems for all countries and businesses;

In the process of preparing the consolidated financial information, the SAP BPC system is used, a tool that allows the information to be uploaded automatically and directly, once the individual accounts have been closed. The Workiva system is used to prepare the notes and breakdowns of the financial information. The use of these two systems allows the standardisation and validation of the information.

The preparation of the consolidated financial information is carried out centrally in the Consolidation Unit, which ensures the integration, homogeneity, consistency and rationalisation of Naturgy's consolidated financial statements.

Likewise, Naturgy has local charts of accounts to comply with the accounting, tax, mercantile and regulatory requirements established by the different legislations of the countries in which it is present. These local charts of accounts converge in a group chart of accounts, unified and homogeneous for the purposes of consolidation and reporting of financial information.

In 2020, the Single European Electronic Format (FEUE) was adopted for the preparation of the individual and consolidated Annual Financial Report in accordance with Delegated Regulation 2019/815 of the European Commission of 17 December 2018.

F.5 Supervision of the functioning of the system

Report on, duly detailing their main characteristics, at least:

F.5.1. The supervision activities of the ICFR carried out by the Audit and Control Committee and whether the company has an internal audit function which includes the responsibility of supporting the committee in its task of supervising the internal control system, including the ICFR. Information will also be provided on the scope of the assessment of ICFR carried out during the year and on the procedure through which the party responsible for carrying out the assessment notifies its results, if the company has an action plan with details of the possible corrective measures, and if its impact on financial information has been taken into account.

The Audit and Control Committee has the competencies established by law and those entrusted to it by the Board of Directors in general or in particular. These powers include the following with reference to the ICFR:

- Supervise the process of preparation, presentation and integrity of the financial information relating to the company and, where appropriate, the group, reviewing compliance with regulatory requirements, the appropriate delimitation of the scope of consolidation and the correct application of accounting criteria.
- Supervise the effectiveness of the company's internal control, internal audit and risk management systems, including tax risks.

- Report to the general meeting of shareholders on any issues that may arise in relation to those matters that fall within the competence of the committee.
- Establish the appropriate relations with the external auditor to receive information on those issues that may jeopardise its independence, for examination by the committee, and any others related to the process of auditing the accounts.
- To issue annually, prior to the issuance of the audit report, a report expressing an opinion on the independence of the auditor.
- To ensure the independence of the unit that undertakes the internal audit function.

In order to fulfil its duties, the Audit and Control Committee relies on the information and documentation provided by the Internal Audit Units, the Planning, Control and Administration Unit, the Financial Markets Unit, the Business Administration and Operational Monitoring units and the External Auditor.

The Internal Audit function has been established in Naturgy as an independent and objective assessment activity, for this reason the Internal Audit Unit, in turn, reports to the Audit and Control Committee of NATURGY ENERGY GROUP S.A.

In accordance with the Group's policies, the Internal Control over Financial Reporting System (ICFR) of Naturgy is expected to be fully supervised by Internal Audit within a period of three years.

The risk assessment methodology is aligned with the best corporate governance practices and based on the conceptual framework of the COSO Report (Committee of Sponsoring Organizations of the Treadway Commission), taking as a starting point the typology of risks defined in the company's Risk Map.

With reference to the Internal Control over Financial Reporting System (ICFR), the Internal Audit unit is responsible for

- Supervise the general model of the Internal Control System for Financial Information and the effectiveness of the associated controls, through the execution of the Annual Audit Plan over a multi-year horizon.
- Supervise the certification process carried out by those responsible for the ICFR controls.
- Depending on the scope defined, inform the Audit and Control Committee of the results and weaknesses detected in the ICFR, presenting the main aspects detected in the internal audits of the ICFR and their monitoring, related to the general model and the controls over the ICFR processes.

F.5.2. If the company has a discussion procedure through which the accounts auditor (as established in the TAS), the internal audit function and other experts can inform the company senior management and the Audit and Control Committee or administrators of significant weaknesses in internal control identified during the annual accounts review processes or others which might have been entrusted to them. The company shall also state whether it has an action plan to try to correct or mitigate the weaknesses observed.

As set out in Article 6 of the Council Regulation:

The Audit and Compliance Committee, convened by its chairman, meets when necessary to issue the reports for which it is responsible or when deemed appropriate by its chairman or at the request of two of its members, and at least four times a year. The Committee may invite to its meetings any manager or employee it deems appropriate. The Internal Audit unit reports to the Audit and Control Committee, on a recurring basis, the actions taken to ensure that Naturgy complies with all those policies, standards and process controls established by the group's first level of management.

The external auditor may at any time address both the management team, the Management Committee and the Audit and Control Committee (normally through the Chairman or Secretary of the Committee). The external auditor informs the Audit and Control Committee of any significant internal control weaknesses detected during the course of the audit. In addition, the external auditors report on the main conclusions reached in the internal control review, on the risk assessment and on the action plans.

Finally, the external auditor, in addition to meeting periodically with the Audit and Control Committee, also has the possibility of meeting with the Board of Directors in plenary session prior to the preparation of the annual accounts.

F.6 Other relevant information.

As described in section F.3.1. in the annual internal ICFR certification process, the responsible business and corporate units ensure that the controls identified are applied and that they are valid and sufficient. In addition, they report any weaknesses detected, the plans defined to remedy them and any changes in their processes in order to assess whether these require the development of new controls or the modification of existing ones.

During the 2022 financial year, as a result of the annual internal certification, changes have been identified in a limited number of processes, highlighting that these changes have not entailed the modification of the control activities previously identified, and therefore the risks associated with the preparation and reporting of financial information in the critical processes affected are considered to be covered. The main magnitudes of this process relating to ongoing activities were as follows:

	Spain	International	Total
Business and corporate units	204	150	354
Processes identified	50	156	206
Controls certified	844	840	1684

In addition, 21 weakness remediation plans have been identified, of which two are for general group control activities and 11 in Spain. During 2022, 67% of the remediation plans identified in 2021 have been resolved, with new plans emerging in 2022. In any case, the sub-processes affected by these remediation plans do not significantly affect the quality of the financial information..

F.7 Report of the external auditor

State:

F.7.1. If the ICFR information submitted to the markets has been reviewed by the External Auditor, in which case the company will have to include the corresponding report as an annex. Otherwise, it will have to explain why.

Naturgy has considered it appropriate to request the External Auditor to issue a report on the information relating to the Internal Control over Financial Reporting System (ICFR).

G DECREE OF COMPLIANCE WITH THE CORPORATE GOVERNANCE RECOMMENDATIONS

State the degree of compliance of the Company in respect of the recommendations regarding the Good Governance Code of Listed Companies.

If any recommendations are not followed or are followed partially, it will be necessary to include a detailed explanation of the reasons why so that the shareholders, investors and the market in general, have sufficient information to be able to assess the company's actions. General explanations are not acceptable.

1. The Articles of Association of listed companies should not limit the maximum number of votes that can be issued by the same shareholder or contain other restrictions that prevent the company from being taken over through the purchase of its shares on the market.

Compliant

Explain

2. When the listed company is controlled, pursuant to the meaning established in Article 42 of the Commercial Code, by another listed or non-listed entity, and has, directly or through its subsidiaries, business relationships with that entity or any of its subsidiaries (other than those of the listed company) or carries out activities related to the activities of any of them, this is reported publicly, with specific information about:

- a. The respective areas of activity and possible business relationships between, on the one hand, the listed company or its subsidiaries and, on the other, the parent company or its subsidiaries.
- b. The mechanisms established to resolve any conflicts of interest that may arise.

Compliant Partially compliant Explain Not applicable

3. During the annual general meeting the Chairman of the Board should verbally inform shareholders in sufficient detail of the most relevant aspects of the Company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:

- a. Changes taking place since the previous annual general meeting.

- b. The specific reasons for the Company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.

Compliant **Partially compliant** **Explain**

4. The company should define and promote a policy for communication and contact with shareholders and institutional investors within the framework of their involvement in the company, as well as with proxy advisors, that complies in full with the rules on market abuse and gives equal treatment to shareholders who are in the same position. The company should make said policy public through its website, including information regarding the way in which it has been implemented and the parties involved or those responsible its implementation.

Further, without prejudice to the legal obligations of disclosure of inside information and other regulated information, the company should also have a general policy for the communication of economic-financial, non-financial and corporate information through the channels it considers appropriate (media, social media or other channels) that helps maximise the dissemination and quality of the information available to the market, investors and other stakeholders.

Compliant **Partially compliant** **Explain**

5. The Board of Directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription to rights for an amount exceeding 20% of capital at the time of such delegation.

When the Board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

Compliant **Partially compliant** **Explain**

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the ordinary general meeting, even if their distribution is not obligatory:
- a. Report on auditor independence.
 - b. Reports on the operation of the Audit and Control Committee and the Appointments and Remuneration Committee.
 - c. Audit Committee report on related party transactions.
 - d. Report on corporate social responsibility policy.

Compliant **Partially compliant** **Explain**

7. The company should broadcast its general meetings on the corporate website. The company should have mechanisms that allow the delegation and exercise of votes by electronic means and even, in the case of large-cap companies and, to the extent that it is proportionate, attendance and active participation in the general shareholders' meeting.

Compliant Partially compliant Explain

8. The Audit and Control Committee should strive to ensure that the financial statements that the board of directors presents to the general shareholders' meeting are drawn up in accordance to accounting legislation. And in those cases where the auditors includes any qualification in its report, the chairman of the Audit and Control Committee should give a clear explanation at the general meeting of their opinion regarding the scope and content, making a summary of that opinion available to the shareholders at the time of the publication of the notice of the meeting, along with the rest of proposals and reports of the board.

Compliant Partially compliant Explain

9. The Company should disclose its conditions and procedures for admitting share ownerships, the right to attend the General Meeting of Shareholders and the exercise or delegation of voting rights, and display the permanently on its website.

Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Compliant Partially compliant Explain

10. When an accredited shareholder exercises the right to supplement the Agenda or submit new proposals prior to the General Meeting of Shareholders, the company should:
- Immediately circulate the supplementary items and new proposals.
 - Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that the new agenda items and alternative proposals can be voted on in the same terms as those submitted by the Board of Directors.
 - Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the Board of Directors, with particular regard to presumptions or deductions about the direction of the votes.
 - After the General Meeting of Shareholders, disclose the breakdown of votes on such supplementary items or alternative proposals.

Compliant Partially compliant Explain Not applicable

11. In the event that the company plans to pay for attendance at the General Meeting of Shareholders, it should establish a general, long-term policy in this respect.

Compliant Partially compliant Explain Not applicable

12. The Board of Directors should perform its duties with unity of purpose and independent judgement, affording the same treatment to all Shareholders in the same position. It should be guided at all times by the company's best interests, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the board community and the natural environment.

Compliant **Partially compliant** **Explain**

13. The Board of Directors should be an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five (5) and fifteen (15) members.

Compliant **Partially compliant** **Explain**

14. The board of directors should approve a policy aimed at promoting an appropriate composition of the board that:
- Is concrete and verifiable.
 - Ensures that appointment or re-election proposals are based on a prior analysis of the Board's needs.
 - Favours diversity of knowledge, experience, age and gender. Therefore, measures that encourage the company to have a significant number of female senior managers are considered to favour gender diversity.

The results of the prior analysis of competences required by the board should be written up in the nomination committee's explanatory report, to be published when the general shareholders' meeting is convened that will ratify the appointment and re-election of each director.

The Appointments Committee should run an annual check on compliance with this Policy and set out its findings in annual corporate governance report.

Compliant **Partially compliant** **Explain**

15. Proprietary and independent directors should constitute an ample majority on the Board of Directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

Further, the number of female directors should account for at least 40% of the members of the board of directors before the end of 2022 and thereafter, and not less than 30% previous to that.

Compliant **Partially compliant** **Explain**

The number of executive directors is 1 and is therefore the minimum required.

Finally, as regards the number of female directors, the policy for the selection of directors ensures that the selection procedures do not suffer from implicit biases that could imply any discrimination, within the framework of full respect for the right to proportional representation of shareholders recognised by law. The policy for the selection of Directors is aimed at ensuring an adequate diversity in the composition of the Board of Directors, which has resulted in the members of the Board having different and complementary professional profiles and backgrounds, in the conviction that such diversity results in a better functioning of the Board. although the percentage of female directors recommended by the CNMV has not yet been reached.

16. The percentage of proprietary directors out of all non-executive directors should not be greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

This criterion can be relaxed:

- a. In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.**
- b. In companies with a plurality of shareholders represented on the Board but not otherwise related.**

Compliant Explain

17. Independent directors should be at least half of all Board members.

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30% of capital, independent directors should occupy, at least one third (1/3) of the Board places.

Compliant Explain

The company comfortably complies with recommendation 16 that the percentage of proprietary directors (75%) should not exceed the percentage of shares held by represented shareholders (81.9%).

It even complies with the requirement that independent directors (25%) should account for a higher percentage on the board than shareholders who are not represented on the board (17.2%).

However, there are 4 shareholders in the company who have exercised their legal right to proportional representation, so it is impossible to comply with this recommendation 17.

18. The companies should publish the following information about their directors on their website and keep the said information up-to-date.

- a. Background and professional experience.**
- b. Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.**

- c. Statement of the director class to which they belong; in the case of proprietary directors indicating the shareholder they represent or have links with.
- d. Dates of their first appointment as Board member and subsequent re-elections.
- e. Shares held in the company, and any options on the same.

Compliant Partially compliant Explain

19. The annual corporate governance report, with prior verification by the Appointments Committee is to provide an explanation for the reasons proprietary directors were appointed at the behest of shareholders whose stake in the company is less than 3% of share capital, and reasons given for the rejections of formal requests for board representation from shareholders who have successfully requested the appointment of proprietary directors.

Compliant Partially compliant Explain Not applicable

20. Proprietary directors are to submit their resignation when the shareholder whom they represent fully disposes of their stake. They should also present their resignation, in the corresponding number, when the said shareholder lowers his/hers shares in the company to a level that requires a reduction in the number of his/her proprietary directors.

Compliant Partially compliant Explain Not applicable

21. The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the Articles of Association, except where just cause is found by the Board, based on a report from the Appointments Committee. In particular, it shall be understood that there is just cause when the director takes on new offices or assumes new obligations that prevent them from devoting the time necessary to perform the duties of the office of director, breaches the duties inherent to their position or is affected by one of the circumstances that cause them to lose their independent status in accordance with the provisions of applicable law.

The removal of independent directors may also be proposed as a consequence of offers for the takeover, merger or similar corporate actions affecting the company that may involve a change in the company's capital structure, whenever such changes in the Board of Directors arise under application of the proportionality criterion pointed out in Recommendation 16.

Compliant Explain

22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, related or not to their actions within the company, and tendering their resignation as the case may be, and, in particular, to inform the board of any criminal charges brought against them and the progress of any subsequent trial.

When the board is informed or becomes aware of any of the situations mentioned in the previous paragraph, the board of directors should examine the case as soon as possible and, attending to the particular circumstances, decide, based on a report from the nomination and remuneration committee, whether or not to adopt any measures such as opening of an internal investigation, calling on the director to resign or proposing his or her dismissal. The board should give a reasoned account of all such determinations in the annual corporate governance report, unless there are special circumstances that justify otherwise, which must be recorded in the minutes. This is without prejudice to the information that the company must disclose, if appropriate, at the time it adopts the corresponding measures.

Compliant Partially compliant Explain

23. All directors are to clearly express their opposition when they consider that any proposal subject to the decision of the Board of Directors may be detrimental to corporate interests. The independent directors and other directors who are not affected by the potential conflict of interest are to voice their opposition in a special manner whenever such decisions may be of detriment to shareholders not represented on the Board of Directors.

When the Board makes material or reiterated decisions about which director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

Compliant Partially compliant Explain Not applicable

24. Directors who give up their position before their tenure expires, through resignation or resolution of the general meeting, should state the reasons for this decision, or in the case of non-executive directors, their opinion of the reasons for the general meeting resolution, in a letter to be sent to all members of the board.

This should all be reported in the annual corporate governance report, and if it is relevant for investors, the company should publish an announcement of the departure as rapidly as possible, with sufficient reference to the reasons or circumstances provided by the director.

Compliant Partially compliant Explain Not applicable

25. The Appointments Committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The Board of Directors regulations should lay down the maximum number of company Boards on which Directors can serve.

Compliant Partially compliant Explain

Given the high level of participation and attendance of directors at meetings of the governing bodies (96%), the company has had no need to establish rules on the number of boards on which directors may sit.

- 26. The Board should meet with the necessary frequency to properly perform its functions, eight (8) times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each Director may propose the addition of initially unscheduled items.**

Compliant Partially compliant Explain

- 27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, Directors should delegate their powers of presentation with the appropriate instructions.**

Compliant Partially compliant Explain

- 28. Que cuando los consejeros o el secretario manifiesten preocupación sobre alguna propuesta o, en el caso de los consejeros, sobre la marcha de la sociedad y tales preocupaciones no queden resueltas en el consejo de administración, a petición de quien las hubiera manifestado, se deje constancia de ellas en el acta.**

Compliant Partially compliant Explain Not applicable

- 29. The Company should provide suitable channels for Directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the Company's expense.**

Compliant Partially compliant Explain

- 30. Regardless of the knowledge Directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.**

Compliant Explain Not applicable

- 31. The Agendas of the Board Meetings should clearly indicate on which items Directors must arrive at a decision, so that they can study the matter beforehand or gather together the material they need for its resolution.**

For reasons of urgency, the Chairman may wish to present decisions or resolutions for Board approval that were not on the Agenda. In such exceptional circumstances, their inclusion will require express prior consent, duly recorded in the Minutes, from the majority of the Directors in attendance.

Compliant Partially compliant Explain

32. **Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the Company and its Group.**

Compliant **Partially compliant** **Explain**

33. **The Chairman, as the person charged with the efficient functioning of the Board of Directors, in addition to the functions assigned by Law and the Company's Articles of Association, should prepare and submit to the Board a schedule of meeting dates and agendas; organise and coordinate regular assessments of the Board and, where appropriate, the Company's Chief Executive Officer; exercise leadership of the Board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each Directors, when circumstances so advise.**

Compliant **Partially compliant** **Explain**

34. **When a coordinating independent Director has been appointed, the Articles of Association or Board of Directors regulations should grant him or her the following powers over and above those conferred by law: chair the Board of Directors in the absence of the Chairman or Deputy Chairmen, give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those that have to do with the company's corporate governance; and coordinate the Chairman's succession plan.**

Compliant **Partially compliant** **Explain** **Not applicable**

The Lead Director is attributed all the recommended functions (chairing the Board of Directors in the absence of the Chairman, echoing the concerns of the non-executive directors, coordinating the Chairman's succession plan, etc.) except that of investor relations.

Naturgy's Board pays special attention to investor relations issues, as reflected, among others, in art. 4 of its Regulations. In this line, the Company, within the framework of the new Strategic Plan, has made the alignment of interests between executives and shareholders a substantial axis of its actions. The Board has therefore decided to assign this function to the executive chairman, and within the Financial Markets Division, which reports directly to him, a specific Investor Relations unit has been created.

35. **The Board Secretary should strive to ensure that the Board's actions and decisions take into account the good governance recommendations contained in the Good Governance Code of relevance to the Company.**

Compliant **Explain**

36. **The Board in a plenary session should assess once a year, adopting, where necessary, an Action Plan to correct deficiencies identified in:**

The quality and efficiency of the Board's operation.

The performance and composition of its Committees.

The diversity of the composition and competence of the Board of Directors

- e) The performance of the Chairman of the Board of Directors and the Company's Chief Executive.
- f) The performance and contribution of each Director, with particular attention to the Chairmen of Board Committees.

The assessment of Board Committees should start from the reports they submit to the Board of Directors, while that of the Board itself should start from the report of the Appointments Committee.

Every three (3) years, the Board of Directors should engage an External Advisor to assist in the assessment process, whose independence should be verified by the Appointments Committee.

Any business relationships that the Consultant or any other company of its group maintains with the company or any company of its group must be detailed in the annual corporate governance report.

The process followed and areas assessed should be detailed in the annual corporate governance report.

Compliant Partially compliant Explain Not applicable

37. When there is an executive committee, there should be at least two nonexecutive members, at least one of whom should be independent; and its secretary should be the secretary of the board of directors.

Compliant Partially compliant Explain Not applicable

38. The Board is kept informed at all times of the business addressed and resolutions made by the Executive Committee and that all Members of the Board receive a copy of the Minutes of the Executive Committee meetings.

Compliant Partially compliant Explain Not applicable

39. All members of the Audit and Control Committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters, both financial and non-financial.

Compliant Partially compliant Explain

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the Audit and Control Committee, to assure the correct functioning of the reporting and internal control systems. This unit should report functionally to the non-executive Chairman of the Audit and Control Committee.

Compliant Partially compliant Explain

The company considers it more appropriate that the functional dependence should be on the Audit and Control Committee as a whole and not on its Chairman, as the functions that make up this dependence apply to the Committee as a whole and not only to the Chairman.

Thus, this Committee sets the annual budget, approves the annual audit plan and supervises its monitoring, and proposes to the executive Chairman his removal and appointment. Finally, this Corporate Committee establishes the fixed and variable remuneration within the framework of the salary policy for the rest of the Company's executives.

It reports to the General Secretary for administrative and management purposes only.

- 41. The head of the unit handling the internal audit function should present an annual work programme to the Audit and Control Committee, for approval by this committee or the board, inform it directly of any incidents or scope limitations arising during its implementation, the results and monitoring of its recommendations, and submit an activities report at the end of each year.**

Compliant Partially compliant Explain Not applicable

- 42. The Audit and Control Committee have the following functions over and above those legally assigned:**

1. With respect to internal control and reporting systems:

a) Monitor and evaluate the preparation process and the integrity of the financial and non-financial information, as well as the control and management systems for financial and non-financial risks related to the company and, where appropriate, to the group – including operating, technological, legal, social, environmental, political and reputational risks or those related to corruption – reviewing compliance with regulatory requirements, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.

b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment and removal of the head of the internal audit service; propose the service's budget; approve or make a proposal for approval to the board of the priorities and annual work programme of the internal audit unit, ensuring that it focuses primarily on the main risks the company is exposed to (including reputational risk); receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

c) Establish and supervise a mechanism that allows employees and other persons related to the company, such as directors, shareholders, suppliers, contractors or subcontractors, to report irregularities of potential significance, including financial and accounting irregularities, or those of any other nature, related to the company, that they notice within the company or its group. This mechanism must guarantee confidentiality and enable communications to be made anonymously, respecting the rights of both the complainant and the accused party.

d) In general, ensure that the internal control policies and systems established are applied effectively in practice

2. With regard to the External Auditor:

a) In the event of resignation of the External Auditor, the Committee should investigate the issues giving rise to the resignation.

- b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.
- c) Ensure that the company notifies any change of external auditor through the CNMV, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.
- d) Ensure that the External Auditor has a yearly meeting with the Board in plenary session to inform them of the work undertaken and developments in the company's risk and accounting positions.
- e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

Compliant Partially compliant Explain

43. The Audit and Control Committee may call any of the Company's employees or managers, and also have them appear without the presence of any other executive.

Compliant Partially compliant Explain

44. The Audit and Control Committee should be informed on any structural or corporate operations that the Company is planning, so the Committee can analyse the same and report to the Board beforehand on its economic conditions and accounting impact, and, when applicable the exchange rate ratio proposed.

Compliant Partially compliant Explain Not applicable

45. The risk control and management policies should identify at least:

- a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks, and risks relating to corruption), with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.
- b) A risk control and management model based on different levels, of which a specialised risk committee will form part when sector regulations provide or the company deems it appropriate.
- c) The level of risk that the company considers acceptable.
- d) The measures in place to mitigate the impact of identified risk events should they occur.
- e) The internal control and reporting systems to be used to control and manage the above risks, including the contingent liabilities and off-balance sheet risks.

Compliant Partially compliant Explain

46. That, under the direct supervision of the Audit and Control Committee or, as the case may be, of a specialised Committee of the Board of Directors, there is an internal function of control and risk management exercised by a unit or internal department of the company that has been assigned expressly the following functions:

- a) **Ensure the proper functioning of the risk management and control systems and, in particular, that all important risks affecting the Company are identified, managed and quantified adequately.**
- b) **Participate actively in the preparation of risk strategies and in key decisions about their management.**
- c) **Ensure that risk control and management systems mitigate risks adequately within the framework of the policy defined by the Board of Directors.**

Compliant Partially compliant Explain

47. Members of the Appointments and Remuneration Committee - or of the Appointments Committee and Remuneration Committee, if separately constituted - should have the right mix of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be Independent Directors.

Compliant Partially compliant Explain

48. Large cap companies should operate separately constituted Appointments Committees and Remuneration Committees.

Compliant Not applicable Explain

The Company considers that, at least in its case, it is neither necessary nor efficient to separate the powers of the Appointments and Remuneration Committee into two committees, one for Appointments and the other for Remuneration. The existence of a single committee in no way prejudices or limits the exercise of the powers granted by law to the Appointments and Remuneration Committee, which also allows the Company to optimise costs insofar as it avoids the accrual of additional remuneration to the directors called upon to form part of the two split committees. The Company considers that such a split could be counterproductive, as the presence of a significant number of independent directors on the Board Committees is relevant for the Company. Given the restrictions imposed by current legislation on the number of independent directors in application of the principle of proportional representation, the number of independent directors on the Board of Directors is currently 3. In order to have a significant number of independent directors on the two split committees, in addition to the Audit and Control Committee (where they must be a majority by law) and the Sustainability Committee, it would be necessary to impose on these directors an overload of work derived from a new committee.

49. The Appointments Committee should consult with the Chairman of the Board of Directors and Chief Executive Officer, especially on matters relating to Executive Directors.

When there are vacancies on the Board, any Director may approach the Appointments Committee to propose candidates they consider suitable.

Compliant Partially compliant Explain

50. The Remuneration Committee should operate independently and have the following functions in addition to those assigned by Law:

- a. Propose to the Board of Directors the standard conditions for Senior Executive contracts.
- b. Monitor compliance with the remuneration policy set by the Company.
- c. Periodically review the remuneration policy for Directors and Senior Executives, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other Directors and Senior Executives to the Company.
- d. Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.
- e. Verify the information on remuneration of Directors and Senior Executives contained in the various corporate documents, including the Annual Report on Directors' Remuneration.

Compliant Partially compliant Explain

51. The Remuneration Committee should consult with the Chairman of the Board of Directors and Chief Executive Officer, especially on matters relating to Executive Directors.

Compliant Partially compliant Explain

52. The terms of reference of supervision and control should be set out in the Board of Director's regulations and aligned with those governing legally mandatory Board Committees as specified in the preceding sets of recommendations. They should include at least the following terms:

- a. Committees should be formed exclusively by non-executive Directors, with a majority of Independent Directors.
- b. Committees should be chaired by an Independent Director.
- c. The Board should appoint the members of such committees with regard to the knowledge, skills and experience of its Directors and each Committee's terms of reference; discuss their proposals and reports; and provide report backs on their activities and work at the first board plenary following each committee meeting.
- d. They may engage external advice, when they feel it necessary for the discharge of their functions.
- e. Meeting proceedings should be recorded/notified in the Minutes and a copy made available to all Board Members.

Compliant Partially compliant Explain Not applicable

53. The task of supervising compliance with the policies and rules of the company in the environmental, social and corporate governance areas, and internal rules of conduct, should be assigned to one board committee or split between several, which could be the Audit and Control Committee, the nomination committee, a committee specialised in sustainability or corporate social responsibility, or a dedicated committee established by the board under its powers of selforganisation. Such a committee should be made up solely of non-executive directors, the majority being independent and specifically assigned the following minimum functions.

Compliant **Partially compliant** **Explain**

The shareholding structure of the Company, the significant reduction of the free float, and the exercise by significant shareholders of their right to proportional representation, has led to a reduction in the number of independent directors from 5 to 3 and has made it necessary to reconfigure the composition of the specialised committees.

All the committees are chaired by an independent director, although, unless legally obliged to do so, there is no majority presence of independent directors so as not to overburden them by having them sit on more than two committees at the same time.

54. The minimum functions referred to in the previous recommendation are as follows:

- a) **Monitor compliance with the company's internal codes of conduct and corporate governance rules, and ensure that the corporate culture is aligned with its purpose and values.**
- b) **Monitor the implementation of the general policy regarding the disclosure of economic-financial, non-financial and corporate information, as well as communication with shareholders and investors, proxy advisors and other stakeholders. Similarly, the way in which the entity communicates and relates with small and medium-sized shareholders should be monitored.**
- c) **Periodically evaluate the effectiveness of the company's corporate governance system and environmental and social policy, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.**
- d) **Ensure the company's environmental and social practices are in accordance with the established strategy and policy.**
- e) **Monitor and evaluate the company's interaction with its stakeholder groups.**

Compliant **Partially compliant** **Explain**

55. Environmental and social sustainability policies should identify and include at least.

- a) **The principles, commitments, objectives and strategy regarding shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of corruption and other illegal conducts.**
- b) **The methods or systems for monitoring compliance with policies, associated risks and their management.**
- c) **The mechanisms for supervising non-financial risk, including that related to ethical aspects and business conduct.**
- d) **Channels for stakeholder communication, participation and dialogue.**
- e) **Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.**

Compliant **Partially compliant** **Explain**

56. **Directors' remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.**

Compliant **Explain**

57. **Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.**

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Compliant **Partially compliant** **Explain**

58. **In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.**

In particular, variable remuneration items should meet the following conditions:

- a) **Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.**
- b) **Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.**
- c) **Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate their contribution to long-term value creation. This will ensure that the performance measurement is not based solely on one-off, occasional or extraordinary events.**

Compliant **Partially compliant** **Explain** **Not applicable**

In setting the variable remuneration, the Board has considered it appropriate to combine variable remunerations with different time horizons and metrics: on the one hand, annual variable remuneration whose metrics, linked to operational objectives, respond to a classic incentive model, which fits with the limits and precaution set out in this recommendation. On the other hand, remuneration with a long-term horizon has been introduced (it expires in July 2023), which has now been aligned with the return the shareholder would receive, and therefore does not tally exactly with the more traditional models of remuneration. The Board considers that, in the long term, the best and simplest metric of the performance of the Executive Chairman is the one referring to dividends distributed and changes to the share price.

59. The payment of the variable components of remuneration is subject to sufficient verification that previously established performance, or other, conditions have been effectively met. Entities should include in their annual directors' remuneration report the criteria relating to the time required and methods for such verification, depending on the nature and characteristics of each variable component.

Additionally, entities should consider establishing a reduction clause ('malus') based on deferral for a sufficient period of the payment of part of the variable components that implies total or partial loss of this remuneration in the event that prior to the time of payment an event occurs that makes this advisable.

Compliant Partially compliant Explain Not applicable

60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Compliant Partially compliant Explain Not applicable

61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Compliant Partially compliant Explain Not applicable

62. Following the award of shares, options or financial instruments corresponding to the remuneration schemes, executive directors should not be able to transfer their ownership or exercise them until a period of at least three years has elapsed.

Except for the case in which the director maintains, at the time of the transfer or exercise, a net economic exposure to the variation in the price of the shares for a market value equivalent to an amount of at least twice his or her fixed annual remuneration through the ownership of shares, options or other financial instruments.

The foregoing shall not apply to the shares that the director needs to dispose of to meet the costs related to their acquisition or, upon favourable assessment of the nomination and remuneration committee to address an extraordinary situation.

Compliant Partially compliant Explain Not applicable

The long-term incentive applicable to the Executive Chairman and other relevant executives of the Company brings into line the interest of the executives with those of the shareholders through a mechanism that contemplates a deferral in the payment of the incentive more than five (5) years after its approval. Accordingly, it is unnecessary to introduce an additional period of limitation to the transfer of shares when the plan expires and the shares are handed over.

63. Contractual arrangements should include provision that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

Compliant Partially compliant Explain Not applicable

64. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

For the purposes of this recommendation, payments for contractual termination include any payments whose accrual or payment obligation arises as a consequence of or on the occasion of the termination of the contractual relationship that linked the director with the company, including previously unconsolidated amounts for long-term savings schemes and the amounts paid under post-contractual non-compete agreements.

Compliant Partially compliant Explain Not applicable

The severance payment respects the above-mentioned recommendation of two annual payments on the total annual remuneration (total fixed remuneration, annual variable remuneration and multi-year variable remuneration in the terms detailed in the annual remuneration report).

On the other hand, the executive chairman would additionally be entitled to non-competition compensation, which is of a different legal nature from the contract termination payment, as it is a consideration for the post-contractual non-competition pact that he assumes. The amount of this compensation is one year of the total fixed remuneration.

H. OTHER INFORMATION OF INTEREST

1. If there is any other relevant aspect in corporate governance in the company or in the group companies which has not been included in the rest of the sections of this report, but which it was necessary to include to show more complete and reasoned information on the governance structure and practices in the company or its group, briefly indicate them here.
2. In this section, you may include any information or clarification with regard to the previous sections of this report to the extent that they are relevant and non-repetitive.

More specifically, indicate whether your company is subject to any corporate governance legislation other than Spanish law, and if so, include any information that is mandatory and different from that requested herein.

3. The Company will also be able to indicate if it has voluntarily subscribed to other codes of ethical principles or good practices, at international or sector level, or in any other field. In that case, indicate the code in question and the date it was subscribed to. In particular, mention whether there has been adherence to the Code of Good Tax Practices of 20 July 2010.

The Board of Directors, at its meeting held on 17 September 2010, agreed on NATURGY's adherence to the Code of Good Tax Practices. In accordance with the provisions of the aforementioned Code, it is expressly stated that Naturgy has effectively complied with the contents thereof and, in particular, that at the meeting held on 14 February 2023, the Board was informed, through the Audit and Control Committee, of the tax situation and policies followed by the Group during the 2022 financial year.

Likewise, the Board of Directors, at its meeting of 29 January 2019 and with the favourable report of the Audit Committee, approved the Tax Strategy and Tax Risk Control and Management Policy, which regulates the basic principles that should guide NATURGY's tax function, as well as the main lines of action to mitigate and guide the correct control of tax risks.

This annual corporate governance report was approved by the company's Board of Directors at its meeting held on 20 February 2023.

Please indicate whether any Directors have voted against or abstained from the approval of this report.

Yes No

Name and Company Name of the Members of the Board that have voted against approving this report.	Reasons (against, abstention, non-attendance)	Explain the reasons
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Naturgy Energy Group, S.A.

Auditor's Report on the "Internal Control over
Financial Reporting (ICOFR) Information" of Naturgy
Energy Group, S.A. for 2022

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



KPMG Auditores, S.L.
Paseo de la Castellana, 259C
28046 Madrid

Auditor's Report on the "Internal Control over Financial Reporting (ICOFR) Information" of Naturgy Energy Group, S.A. for 2022

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

To the Directors of Naturgy Energy Group, S.A.

As requested by the Board of Directors of Naturgy Energy Group, S.A. (the "Entity") and in accordance with our proposal letter dated 22 November 2022, we have applied certain procedures to the "ICOFR disclosures" attached in the Directors' Report of Naturgy Energy Group, S.A. for 2022, which summarises the Entity's internal control procedures for annual financial reporting.

The Board of Directors is responsible for adopting appropriate measures to reasonably ensure the implementation, maintenance and oversight of an adequate system of internal control, the development of improvements to that system and the preparation and definition of the content of the ICOFR information attached hereto.

In this respect, it should be borne in mind that irrespective of the quality of the design and operation of the internal control system adopted by the Entity in relation to annual financial reporting, the system may only provide reasonable, but not absolute assurance in relation to the objectives pursued, due to the limitations inherent in any internal control system.

In the course of our audit work on the annual accounts and in accordance with Technical Auditing Standards, our evaluation of the Entity's internal control was solely aimed at enabling us to establish the scope, nature and timing of the audit procedures on the Entity's annual accounts. Consequently, the scope of our evaluation of internal control, performed for the purposes of the audit of accounts, was not sufficient to enable us to issue a specific opinion on the effectiveness of this internal control over regulated annual financial reporting.

For the purposes of issuing this report, we have applied only the specific procedures described below and set out in the *Guidelines for preparing the auditor's report on the information on the system of internal control over financial reporting of listed companies*, published on the website of the Spanish National Securities Market Commission (CNMV), which define the work to be performed, the minimum scope thereof and the content of this report. As the scope of the work resulting from these procedures is in any event limited and substantially less than that of an audit or review of the internal control system, we do not express an opinion on the effectiveness thereof, nor on its design or operating effectiveness, with respect to the Entity's annual financial reporting for 2022 described in the ICOFR information attached hereto. Consequently, had additional procedures been applied other than those established in the aforementioned Guidelines, or had an audit or a review been performed of the internal control system in relation to regulated annual financial reporting, other events or matters could have been identified, which would have been reported to you.

As this special work did not constitute an audit of accounts and is not subject to current legislation regulating the audit of accounts in Spain, we do not express an audit opinion under the terms provided in such legislation.



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

The procedures applied were as follows:

1. Reading and understanding of the information prepared by the Entity regarding ICOFR – disclosures included in the directors' report – and an evaluation of whether this information meets all the minimum reporting requirements, taking into account the minimum content described in section F, regarding the description of ICOFR, of the ACGR template provided in Spanish National Securities Market Commission (CNMV) Circular 5/2013 of 12 June 2013 and subsequent amendments, the most recent of these being CNMV Circular 3/2021 of 28 September 2021 (hereinafter the CNMV Circulars).
2. Inquiries of the personnel responsible for drawing up the information detailed in point 1 above in order to: (i) obtain an understanding of the preparation process; (ii) obtain information that allows us to assess whether the terminology used conforms to the definitions contained in the reference framework; (iii) obtain information on whether the control procedures described are in place and operational in the entity.
3. Review of the explanatory documentation supporting the information detailed in point 1 above, primarily including documents made directly available to those responsible for preparing the description of the ICOFR system. This documentation includes reports prepared by internal audit, senior management and other internal or external specialists supporting the Audit and Control Committee.
4. Comparison of the information detailed in point 1 above with the understanding of the entity's ICOFR obtained as a result of the procedures performed within the framework of the audit work on the annual accounts.
5. Reading of the minutes taken at meetings of the board of directors, Audit and Control Committee and other committees of the Entity for the purpose of assessing the consistency of the matters discussed at those meetings in relation to ICOFR with the information detailed in point 1 above.
6. Procurement of a representation letter concerning the work performed, duly signed by those responsible for preparing and authorising the information detailed in point 1 above.

As a result of the procedures applied to the ICOFR information, no inconsistencies or incidents have been detected that could affect it.

This report has been prepared exclusively within the context of the requirements laid down in article 540 of the Revised Spanish Companies Act and in the CNMV Circulars for the purposes of the description of ICOFR in annual corporate governance reports.

KPMG Auditores, S.L.

(Signed on original in Spanish)

Eduardo González Fernández

20 February 2023

ANNUAL REPORT ON REMUNERATION OF DIRECTORS OF LISTED PUBLIC LIMITED COMPANIES

IDENTIFICATION OF ISSUER

FINANCIAL YEAR REFERENCE DATE	31/12/2022
CIF	A-08015497

Registered Name:
NATURGY ENERGY GROUP, S.A.

Registered Office:
Avenida de América nº 38 – 28008 MADRID

A. COMPANY REMUNERATION POLICY FOR THE CURRENT FINANCIAL YEAR

A.1.1 - Explain the Remuneration Policy for Directors in force applicable to the current financial year. Insofar as it is relevant, certain information referring to the Remuneration Policy approved by the General Meeting for Shareholders may be included, as long as the same is clear, specific and concise.

The decisions specific to the current financial year should be described, including the remuneration of the Directors for their capacity as such as well as for exercising executive functions, that the Board may have carried out in accordance with that set forth in the contracts signed with the Executive Directors and with the Remuneration Policy approved by the General Meeting of Shareholders

In any case, information should be given on the following aspects, at the very least:

- a. Description of the procedures and bodies of the Company involved in the determination and approval of the Remuneration Policy and its terms and conditions.**
- b. Indicate and, as the case may be, explain if comparable companies have been examined to establish the Company's Remuneration Policy.**
- c. Information on whether any External Consultant has participated and, as the case may be, the identity of the same.**
- d. Procedures under the existing directors' remuneration policy for applying temporary exceptions to the policy, the conditions under which such exceptions may be used and the components that may be subject to exception under the policy.**

Article 9 of Naturgy's Articles of Association establishes that the remuneration policy for directors shall be approved by the General Shareholders' Meeting in the manner and within the periods established by the regulations in force.

The current Remuneration Policy was approved at the Ordinary General Meeting held on 15 March 2022, applicable from the date of its approval and for the following three financial years.

Prior to its approval, the Appointments, Remuneration and Corporate Governance Committee analysed the new legislation introduced by Law 5/2021, of 12 April, amending the revised text of the Capital Companies Act and other circumstances arising since the previous review of the Policy in March 2021, drawing up a new Remuneration Policy proposal supported by a specific report which was submitted for consideration by the Board of Directors, who proposed its approval to the General Meeting of Shareholders.

The new Policy includes a remuneration scheme for directors for both executive and non-executive functions similar to the 2021-2023 Remuneration Policy, although (a) it takes into account the new 2021-2025 Strategic Plan, which translates especially into the adaptation of the multi-year variable remuneration scheme for the Executive Director initially authorised by the 2019 General Shareholders' Meeting and (b) it incorporates all those references necessary to comply with the new wording of art. 529 novodecies of the Capital Companies Act, regarding i) their contribution to the business strategy and to the long-term interests and sustainability of the company, ii) the express reference to the relative proportion of the different components of the remuneration, iii) the explanation of how the remuneration and employment conditions of the company's employees have been taken into account when setting the remuneration policy and iv) the explanation of the decision-making process followed for its determination.

The Directors' Remuneration Policy is reviewed periodically by the Board of Directors following a report from the Nomination, Remuneration and Corporate Governance Committee, in order to keep it in line with best practices in the relevant market and with the objectives set out in the Articles of Association.

In accordance with the current Policy, remuneration for non-executive functions consists of a fixed allowance and may also include remuneration in shares or by reference to shares. The distribution of such remuneration, within the limit established from time to time in the Remuneration Policy, shall be made by the Board of Directors, and the remuneration may be different depending on the Committee or Committees to which each Director belongs and the dedication and responsibility required in each of the positions. It may also be different depending on the responsibility and functions that each Director assumes on the Board or on the Committees.

The Executive Chairman's remuneration for the performance of specifically executive or delegated functions consists of the following items:

- i) Fixed annual remuneration. This includes any remuneration received for membership of any governing body of a Naturgy group company, except the parent company.
- ii) Annual variable remuneration: this is based on 100% of the total annual fixed monetary remuneration and shall be adjusted according to the degree of achievement of objectives. Its receipt in cash may be replaced each year by mutual agreement, in whole or in part, by a contribution to a social welfare system.
- iii) Multi-year variable remuneration or Long-Term Incentive Programme (LTIP); linked to the profitability obtained by shareholders in the reference period, which substantially coincides with that of the 2021-2025 Strategic Plan.
- iv) Other social benefits such as medical insurance, company car, housing assistance, life and disability insurance, limited gas and electricity rebates and group savings insurance.
- v) In addition to the above, the Board of Directors may establish other variable remuneration in the case of singular operations, both with objectives linked to their achievement and in terms of remuneration for achievements.

The remuneration for executive and non-executive functions for 2023 was approved by the Board at its meetings of 14 and 20 February 2023. The targets for the annual variable remuneration of the executive Chairman were also set at the aforementioned meeting.

The Appointment, Remuneration and Corporate Governance Committee has used the consultant PeopleMatters to benchmark the remuneration of other entities and to determine the remuneration of the management team and thus of the Executive Chairman.

Article 10 of the current Remuneration Policy contemplates the possibility that the Board of Directors may approve and apply temporary exceptions to the policy, following a reasoned proposal by the Nomination, Remuneration and Corporate Governance Committee, which may be total or partial, although:

- i) The maximum annual amount to be received by all the Directors in a financial year, as set out in Section 4 of the aforementioned Policy, may not be waived.
- ii) Exceptions shall only be in force from the time they are agreed by the Board of Directors until the next Shareholders' Meeting is held, at which the continuation of the exception must be submitted for approval.

During the financial year 2022, the Board of Directors has not approved the application of any temporary exception.

A.1.2 - Relative importance of the variable remuneration items in relation to fixed remuneration items (remuneration mix) and what criteria and objectives are followed to determine the different components of the Directors remuneration package and for guaranteeing an appropriate balance between the fixed and variable components of the remuneration. In particular, explain the actions adopted by the Company in relation to the remuneration system to reduce exposure to excessive risks and adapt it to the long-term objectives, values and interests of the Company, which will include, where appropriate, reference to measures designed to ensure that the Remuneration Policy considers the long-term results of the Company, measures adopted for those categories of personnel whose professional activities have a material effect on the Company's risk profile and measures adopted to avoid conflicts of interest.

Likewise, indicate whether the Company has established a period for the accrual or consolidation of certain variable remuneration concepts, in cash, shares or other financial instruments, a period of deferral in the payment of amounts or delivery of financial instruments already accrued and consolidated, or whether any clause has been agreed upon to reduce deferred remuneration that has not yet been consolidated or that obliges the director to return the remuneration received, when such remuneration has been based on data whose inaccuracy has subsequently been clearly demonstrated.

The remuneration of the executive Chairman, the only director receiving variable remuneration, is balanced into 3 main components designed with a similar weighting:

- A fixed component that accrues in any event, so that it does not involve any exposure to risk.
- A variable component with a time horizon of one year, linked to pre-set, specific and quantifiable objectives, aligned with the social interest and with Naturgy's strategy, such as economic-financial variables, efficiency and profitable growth, quality and safety issues, sustainability, environment or good governance which, as it is recurrent, prevents it from encouraging the assumption of excessive risks. This is reinforced by the fact that it is assessed after the annual accounts have been audited and prepared and by the existence of a claw back clause during the 18 months following receipt of the annual variable remuneration.
- A variable component with a very long-term time horizon linked to the Company's Strategic Plan. Exceeding the norm for this type of remuneration, it moderates risk-taking and offers longer-term value creation than usual. This remuneration component is linked to a minimum profitability threshold below which no surplus will be distributed, even if any, and to a claw back clause during the 18 months following receipt of the plan.

There is a reasonable balance between the variable components not only in terms of time horizon, but also in terms of amount and even objectives, as the annual variable remuneration tends towards operational objectives that consider the immediate interest of the Company, while the multi-year variable remuneration mainly serves the long-term interest of the shareholders, in line with the requirement of the Articles of Association.

The annual variable remuneration is only determined and paid once the Board of Directors has the audited accounts of the company and therefore any qualifications in the report of the external auditor of the Company that reduce these results will be taken into account. The Board of Directors is free to disregard such qualifications if it disagrees with them.

Furthermore, as indicated above, both the annual variable remuneration and the multi-annual variable remuneration are subject to a claw-back system during the 18 months following receipt of the remuneration.

Regarding the measures envisaged to avoid conflicts of interest:

- i) Article 11 of the Regulations of the Board of Directors and its Committees establishes that all members of the Board of Directors of Naturgy, including the Executive Chairman, are subject to the duty of loyalty and, in particular, must:
 - a) Refrain from participating in the deliberation and voting of resolutions or decisions in which he or a related person has a direct or indirect conflict of interest. The above obligation to abstain shall not apply to resolutions or decisions that affect him as a director, such as his appointment or removal from office on the administrative body or others of similar significance.

b) Adopt the necessary measures to avoid incurring in situations in which their interests, whether their own or those of others, may conflict with the corporate interest and with their duties to the Company.

ii) Naturgy's Directors' Remuneration Policy, approved on 15 March 2022 by the General Shareholders' Meeting, includes as a preventive measure of possible conflicts of interest, that the Executive Chairman does not participate in the debates of the Appointments, Remuneration and Corporate Governance Committee when dealing with aspects that may affect him regarding remuneration.

iii) Section 4.1 of Naturgy's Code of Ethics establishes specific guidelines for action by employees, executives and directors of the Group with regard to "Loyalty to the company and conflicts of interest".

A-1-3 Amount and nature of the fixed components that are due to be paid in the financial year to Directors in their capacity as such.

The remuneration of the Directors for the exercise of non-executive functions consists of a fixed annual allowance.

The amount of the remuneration for the year 2023 of the Directors for their status as such (non-executive functions) approved by the Board of Directors at its meeting of 14 February 2023, following a report from the Nomination, Remuneration and Corporate Governance Committee is:

- a. For membership of the Board
 - Chairman of the Board of Directors: €1,100,000/year
 - Director: 175,000 €/year.
 - Coordinating Director: 30,000 €/year.

- b. For membership of Committees
 - Committee Chairman: 66,000 €/year.
 - Member of the Committee: 44,000 €/year.

A.1.4 Amount and nature of the fixed components that are to be paid in the financial year for exercising Senior Management functions by the Executive Directors..

At the Board meeting of 14 February 2023, the fixed component of the Executive Chairman's remuneration was set at € 2.202.800 (total fixed annual remuneration), including the remuneration he receives for his membership of the governing body of NATURGY ENERGY GROUP S.A. This amount is therefore the sum of €1,100,000 that he receives as Chairman of the Board of Directors for the performance of non-executive duties, and 1.102.800 € that he receives as fixed annual remuneration for the exercise of executive or delegated functions.

A-1-5 Amount and nature of any remuneration component paid in cash in the financial year including, but not limited to insurance premiums paid in favour of the Director.

Explain cash remunerations

The Executive Chairman is the beneficiary of an insurance policy for situations of temporary disability (100% of the total gross annual fixed monetary remuneration that he has been receiving, with the established limit of 18 months). He is also the beneficiary of an insurance policy to cover the contingencies of death and absolute permanent disability, or severe disability, in which NATURGY ENERGY GROUP S.A. acts as the policyholder, which takes the age of the Executive Chairman and the insured capital as the basis for calculating the amount of the annual premium, with the insurance company establishing and communicating the aforementioned premium. The insured capital in the event of the occurrence of the foreseen contingencies (death, absolute permanent disability or great disability) is equivalent to 3.5 annuities of total gross annual fixed monetary remuneration.

The Company has subscribed and pays the global premium corresponding to a civil liability insurance policy for Directors and Executives of NATURGY ENERGY GROUP S.A. and the companies belonging to its Group which, therefore, also covers all the Directors of NATURGY ENERGY GROUP S.A., both executive and non-executive, in which the directors will be considered insured, for the liabilities that may be demanded of them as a consequence of the performance of the activities inherent to their functions. In particular, the contract with the executive Chairman foresees the obligation for the Company to take out a civil liability insurance policy.

As the civil liability insurance is taken out on a global basis, it is not possible to calculate the part of it attributable to the directors as remuneration in kind.

The executive chairman's remuneration package also includes the following items, similar to those of the other members of senior management: health care, life, permanent disability and savings insurance, company car, housing allowance and limited electricity and gas consumption allowance.

A-1-6 Amount and nature of the variable components, differentiating between those established at short and long term. Financial and non-financial parameters, including in the latter, social, environmental and climatic change parameters, selected to determine the variable remuneration in the current financial year, explication on the extent to which these parameters correlate with the performance of the Board Members as well as the entity itself and with its risk profile, and the methodology, time required and planned techniques for being able to determine, at the end of the financial year, the effective rate of attainment of the parameters used in the design of the variable remuneration, explaining the criteria and factors it applies in terms of the time required and methods for verifying that the performance or other conditions attached to the accrual and consolidation of each component of variable remuneration have been effectively fulfilled.

Indicate the range in monetary terms of the different variable components depending on the rate of attainment of the objectives and parameters established, and if any maximum monetary amount exists in absolute terms.

Explain the variable components of the remuneration systems

Directors do not receive this type of remuneration for the performance of non-executive functions.

As for the executive chairman, the variable components of the remuneration system, based on his performance of executive or delegated functions, are as follows:

i. Annual variable remuneration

Based on 100% of the total annual fixed monetary remuneration multiplied by the degree of achievement of objectives effectively reached during the year. It has a maximum degree of achievement of 150%. This remuneration will not be received if the degree of achievement does not reach 80%.

The Executive Chairman may decide to substitute the payment of all or part of the annual variable remuneration for a company contribution to a social welfare system to be agreed upon on an annual basis.

The objectives and weightings are as follows:

- Financial objectives weighted at 65%.

- Ordinary Ebitda

- Qualitative objectives weighted at 15%.

- Assessment of qualitative factors by the Board (contribution to business growth, transformation, teamwork).

- ESG weighted at 20%.

- Health and safety
- Gender diversity
- Environment
- eNPS

ii. Multi-year variable remuneration:

The Executive Chairman's multi-year variable remuneration is configured through a long-term incentive (ILP) in which, in addition to the Executive Chairman, 26 serving executives participate. The long-term incentive was approved by the June 2018 Board and ratified by the AGM held on 5 March 2019 and subsequently revised at the AGM of 15 March 2022 to align it with the new 2021-2025 Strategic Plan approved in July 2021.

Notwithstanding the fact that the details of the incentive are also included in the resolution of the 2019 Shareholders' Meeting and in the resolution of the 2022 Shareholders' Meeting, its characteristics are as follows:

The incentive covers the period of the 2021-2025 strategic plan, ordinarily expiring in December 2025 and is related to the total return obtained by the shareholders of NATURGY ENERGY GROUP, S.A.

It is instrumented through the acquisition of a package of Naturgy shares by a wholly-owned company that may generate a surplus. This surplus, if any, is the incentive to be delivered to the participants.

Only the surplus value generated will be received as a multi-year variable incentive and only if the pre-set minimum return threshold has been exceeded, which implies a share price of €19.15 at the time of maturity of the ILP and assuming that all dividends foreseen in the 2021-2025 strategic plan (and those actually distributed in the 2018-2022 plan) are distributed. This is consistent with the return requirements associated with financial discipline and contained in the strategic plan and is higher than the share price on the day of the CEO's appointment (6 February 2018, €17.69). Therefore, even if the holding company were to have a positive result, if this threshold is not reached, the amount of the ILP would be 0.

The ILP includes a claw back clause during the 18 months following the receipt of the ILP in the event of a relevant modification of the annual accounts that significantly affects the share price.

In addition, and in accordance with the internal regulations governing the ILP, this remuneration mechanism is accompanied by a recommendation for its beneficiaries by virtue of which, at the end of the period of validity, they must have acquired or, as the case may be, must hold a package of Naturgy shares whose value reaches at least half of the gross annual fixed remuneration. The Appointments, Remuneration and Corporate Governance Committee shall annually verify the volume of shares held by each beneficiary.

The Board of Directors, at the reasoned proposal of the Nomination, Remuneration and Corporate Governance Committee, may adopt such decisions as it deems necessary for the administration, interpretation, correction, development or continuity of the incentive scheme in the event of substantial changes in the circumstances of the plan, taking into account the corporate interest of the Company and the objectives of the Plan.

The Board of Directors may adopt such decisions as it deems necessary to keep the multi-year variable remuneration scheme in line with the strategic plan in force at any given time, carrying out such preparatory work as may be necessary before submitting any amendments requiring such approval to the shareholders' meeting for approval.

In the event of leaving the Company before the end of the Plan, the Executive Chairman shall lose his rights in the event of voluntary termination of his duties or serious breach and shall maintain them in the event of retirement, disability, death, or termination not attributable to him, although in the event of maintaining them, he shall only be entitled to the incentive that finally results in the proportional part of his time of permanence with respect to the duration of the Plan.

A.1.7 Main features of long-term saving schemes. Amongst other information, explain the contingencies covered by the scheme, whether contribution or defined benefit, the contribution per year to be made to defined contribution scheme, the benefit to which the beneficiaries have the right in the case of defined benefit schemes, the terms and conditions of the vested economic rights in favour of the Directors and their compatibility with any type of compensation for resolution or early termination of the contractual relationship between the Company and the Director.

State if the payment or consolidation of any of the long-term saving schemes are linked to the attainment of determined objectives or parameters related to the short or long-term performance of the Director..

Explain the long-term saving systems

The Executive Chairman, in view of the executive or delegated functions he performs, is granted the same benefits that are currently available to the members of the company's management committee, in the following terms:

Savings Insurance: the Executive Chairman is recognised as being entitled to receive a series of contributions which are instrumented in an insurance contract and which will be governed by the rules established for this purpose. NATURGY ENERGY GROUP S.A. contributes annually to the aforementioned instrument an amount equal to 20% of his total fixed monetary remuneration. The contingencies covered are survival at a specific date, death and total permanent disability, absolute disability or severe disability. The savings insurance is not incompatible with possible compensation in the event of termination of employment. There is no right to receive any amount for any of the contingencies in the event of:

- a. Voluntary resignation without respecting the period of notice provided for in the contract or without reaching prior agreement with the Board of Directors of the Company.
- b. Serious and culpable breach of his professional obligations and which causes significant damage to the interests of the Company.
- c. At any time during the year following the termination of his services as Executive Chairman - for reasons other than the occurrence of the contingencies - he carries out activities directly concurrent with those of the Company.

Welfare system linked to the annual variable remuneration: The Executive Chairman may decide to replace the payment of all or part of the annual variable remuneration on an annual basis with a company contribution to an agreed welfare system. This has been decided for the annual variable remuneration for the financial years 2018, 2019, 2020, 2021 and 2022. The contingencies covered are the same as those established for the previous instrument, with the company being able to instrument the coverage of the above contingencies by taking out one or more insurance contracts with a minimum interest rate guarantee and profit-sharing. There is no right to receive any amount for any of the contingencies in the same cases as the previous instrument, with the exception of voluntary resignation without notice or without reaching agreement with the Board of Directors.

A.1.8 Any type of payment or compensation by resolution or early termination or derived from the termination of the contractual relationship, under the terms of the same between the Company and the Director, whether wilful by the Company or the Director, as well as any type of terms agreed, such as exclusivity, post-contractual non-compete and loyalty covenants, that give the Director rights to any type of payment.

Directors who do not perform executive functions do not receive this type of indemnity.

In the case of directors who perform executive functions, art. 6 of the Remuneration Policy provides that:

"an indemnity may be established for certain cases of termination of the contractual relationship, which shall be equal to twice the sum of the following three amounts: (i) total annual fixed remuneration, (ii) annual variable remuneration and, (iii) in consideration of the concept of multi-year variable remuneration, a lump sum equivalent to 125% of the annual fixed remuneration; this third concept may be conditioned in part to the achievement of minimum profitability targets for shareholders consistent with those envisaged in the Strategic Plan. This compensation shall not be payable in the event of a very serious and culpable breach of the professional obligations of the executive directors that causes serious damage to the interests of the company.

In addition, and as a post-contractual non-competition agreement for one year, an indemnity equivalent to a maximum of one year's total annual fixed remuneration may be established".

A.1.9 Indicate the conditions that must be respected in contracts for individuals carrying out Senior Management duties as Executive Directors. Amongst others, specify the duration, limits on compensation amounts, tenure clauses, notice periods, and payment in lieu of the aforementioned notice period, and any other clauses on hiring bonuses, as well as on severance payments or golden parachutes for the early termination of the contractual relationship between the Company and the Executive Director. Include, among others, the non-compete, exclusivity, tenure or loyalty and post-contractual non-compete covenants or agreements (not including those described in the previous section).

Explain the terms and conditions of the Executive Director Contract

The Executive Chairman's contract was approved at the Board of Directors' meeting of 6 February 2018, following a favourable report from the Appointments and Remuneration Committee. It was subsequently adapted on 31 October 2018 in order to include the new ILP long-term incentive scheme as well as other minor adaptations, and again on 30 December 2021 to reflect the amendments resulting from the modification of the ILP as described in section A.1.6 above.

The contract contains a six-month notice period for the executive Chairman, except in the event of force majeure, an exclusivity agreement during the performance of his duties and a confidentiality agreement, both during the term of the contract and after its termination.

The Chairman's contract also establishes a severance payment in the event of termination or non-renewal of the office of Director in the amount of two annual payments of: (i) total annual fixed monetary remuneration, (ii) annual variable remuneration and (iii) in respect of the concept of multi-year variable remuneration, a lump sum equivalent to 1.25 of the total annual fixed monetary remuneration. This concept shall only be multiplied by one annuity if the minimum performance target of the ILP plan has not been reached at the time of accrual; the second annuity may be recovered if the minimum target is finally reached at the end of the plan.

Compensation shall not be payable in the event of a serious and culpable breach of professional obligations that causes significant damage to Naturgy's interests. In addition, and as a post-contractual non-competition agreement for one year, an indemnity equivalent to one year's total fixed remuneration is established.

The executive Chairman's contract provides for the termination of the contract and the payment of an indemnity in the event that he loses his executive functions and continues as non-executive Chairman. In such a case, the compensation provided for is identical to that in the preceding paragraph, but reduced by half, i.e. by a single annual payment.

In the event of loss of the status of Chairman, while remaining as Chief Executive Officer, a reduction of the remuneration provided for in the contract is foreseen.

A.1.10 The estimated amount and nature of any supplementary remuneration paid to the Directors during the current financial year for services provided other than those inherent to their position.

Explain supplementary payments

Not applicable

A.1.11 Other remuneration concepts such as for example those derived, as the case may be, from those granted by the Company to the Director in the form of advances, loans and guarantees or other remuneration(s).

Explain the advances, loans, guarantees and other remuneration(s)

None of the members of the Board of Directors has been granted any loans, advances or guarantees.

A.1.12 The estimated amount and nature of any other additional remuneration planned not included in the preceding paragraphs, whether settled by the Company or another entity of the Group that is paid out to the Directors in the current financial year.

Not applicable

A.2 Explain any relevant change to the Remuneration Policy applicable in the current financial year as a result of:

- **A new policy or modification to a Policy approved by the General Meeting of Shareholders.**
- **Relevant changes to the specific determinations established by the Board for the current financial year of the Remuneration Policy in force with respect to those applied in the previous financial year.**
- **Proposals that the Board of Directors have agreed to submit to the General Meeting of Shareholders and that apply to this Annual Report and that are to be implemented during the current financial year.**

At the Ordinary General Meeting held on 15 March 2022, a new Remuneration Policy was approved, continuing the one approved by the General Shareholders' Meeting in 2021, proposing two specific adaptations to that policy: a) to take account of the new Strategic Plan 2021-2025, which translates especially into the adaptation of the multi-year variable remuneration scheme for the executive director authorised by the 2019 shareholders' meeting and b) to incorporate all those references necessary to comply with the new wording of article 529 novodecies of the LSC with respect to: (i) their contribution to the business strategy and to the long-term interests and sustainability of the company (ii) to the express reference to the relative proportion of the different components of the remuneration, (iii) to the explanation of how the remuneration and employment conditions of the company's employees have been taken into account when setting the remuneration policy and (iv) to the explanation of the decision-making process that has been followed for its determination.

A.3 Identify the direct link to the document in which the Company's remuneration policy in force is referenced and that must be available at the corporate website.

https://www.naturgy.com/accionistas_e_inversores/gobierno_corporativo/organos_y_normas_de_gobierno/remuneraciones

A.4 Explain, taking into account the data given in section B.4, the result of the General Meeting of Shareholders advisory vote on the Annual Report on the previous year's remuneration.

At the 2022 Annual General Meeting of Shareholders held on 15 March, the approval of both the new Directors' Remuneration Policy and the Annual Report on Directors' Remuneration for the financial year 2021 received more than 90% of votes in favour. Due to this large majority, which has been repeated in previous years, it was not deemed necessary to implement additional measures regarding the Company's remuneration policy.

B. GENERAL SUMMARY OF HOW THE REMUNERATION POLICY WAS APPLIED FOR THE FINANCIAL YEAR ENDED

B.1.1 Explain the process followed to apply the Remuneration Policy and used to determine the individual remuneration earned shown in section C of this report. This information is to include the role played by the Remuneration Committee, the decisions taken by the Board of Directors and, where appropriate, the identify and role of the External Consultants whose services were used in the process of implementing the Remuneration Policy in the financial year ended

The Board of Directors approved the individual remuneration of the Directors for the exercise of non-executive functions for the financial year 2022 at its meeting of 1 February 2022, maintaining the fixed remuneration component of €1,100,000 for the Chairmanship of the Board unchanged with respect to 2020 and 2021, and setting the part corresponding to executive functions at €1,012,000. The targets for the annual variable remuneration 2022 were set, upon proposal of the Nomination, Remuneration and Corporate Governance Committee, at the Board of Directors' meeting held on 1 February 2022. The Board of Directors, at its meeting of 14 June 2022, agreed to unify the financial targets, which were initially broken down into 3 sections with a weighting of 25% each, into a single ordinary EBITDA target with the same weighting of 75%, all in view of the Gemini project, which made it necessary to focus efforts on the result, with EBITDA being the target that can best focus these efforts and facilitate the development of that Project. The settlement of this short-term variable remuneration corresponding to 2022 took place, following a report from the Appointments, Remuneration and Corporate Governance Committee, at the meetings of the Board of Directors on 14 and 20 February 2023, once the annual accounts for 2022 had been prepared, which, moreover, did not contain any qualifications by the external auditor.

B.1.2 Explain any deviations from the established procedure for the application of the remuneration policy that have occurred during the year.

B.1.3 Indicate whether any temporary exceptions to the remuneration policy have been applied and, if so, explain the exceptional circumstances that have led to the application of these exceptions, the specific components of the remuneration policy affected and the reasons why the company considers that these exceptions have been necessary to serve the long-term interests and sustainability of the company as a whole or to ensure its viability. Also quantify the impact that the application of these exceptions has had on the remuneration of each director during the year.

B.2 Explain the actions adopted by the Company in relation to the remuneration system to reduce exposure to excessive risks and adapt it to the long-term objectives, values and interests of the Company, which will include, where appropriate, reference to measures designed to ensure that the Remuneration Policy considers the long-term results of the Company and guaranteeing an appropriate balance between the fixed and variable components of the remuneration, what measures have been adopted for those categories of personnel whose professional activities have a material effect on the Company's risk profile and measures adopted to avoid conflicts of interest, as the case may be.

With regard to remuneration for the exercise of non-executive functions, the establishment of a fixed remuneration for all Directors is considered to be an effective instrument to reduce exposure to excessive risks and the incorporation of long-term vision.

As regards the remuneration of the Executive Chairman, it is noted that it is balanced into 3 main components of similar weighting:

- A fixed component that accrues in any case, so that it does not entail any risk exposure.
- A variable component with a one-year time horizon, linked to specific and measurable business objectives which, being recurrent, avoids encouraging excessive risk-taking. This is reinforced by the fact that it is evaluated after the annual accounts have been audited and drawn up.
- A very long-term variable component aligned with the execution term of the Company's Strategic Plan (it was established in 2018 and originally expired in July 2023, substantially coinciding with that of the 2018-2022 Strategic Plan, but following the approval of the new 2021-2025 Strategic Plan, its ordinary maturity is scheduled for December 2025). By exceeding its duration than usual for this type of remuneration, it moderates risk-taking and offers longer-term value creation than usual.

There is a reasonable balance between the variable components in terms not only of time horizon, but also of amount and even of objectives, as the annual variable remuneration tends towards operational objectives that address the performance of the company's various businesses, while the multi-year variable remuneration mainly addresses the long-term interest of shareholders, which is an element that is often forgotten or postponed in other remuneration schemes.

The annual variable remuneration of the Executive Chairman was determined after the Board of Directors had the audited accounts of the Company and taking into account the external audit report.

In addition, the multi-year variable remuneration has a claw back system for the 18 months following its receipt.

With regard to the measures adopted to avoid conflicts of interest, we refer to section A.1.2. of this report.

B.3 Explain how the remuneration accrued and consolidated in the financial year complies with the provisions of the current remuneration policy and, in particular, how it contributes to the long-term and sustainable performance of the company.

Likewise report on the relationship between the remuneration obtained by the Directors and the Company's results or other performance-related measurements, explaining, where appropriate, how variations in the performance of the Company are able to impact variation in the remuneration of Directors, including those accrued whose payment has been deferred, and how the same contribute to the short and long-term results of the Company.

The total remuneration accrued during 2022 does not exceed the maximum amount established in the Remuneration Policy approved by the General Shareholders' Meeting of 15 March 2022.

As regards the amount of the Executive Chairman's annual variable remuneration, this is linked to the Company's results in 2022, as it is linked to the Company's main indicators as detailed in section B.7 and has been determined once the audited annual accounts were made available to the Board.

The Executive Chairman's multi-year incentive, approved by the March 2019 AGM, and reviewed at the March 2022 AGM, aligns his remuneration with long-term value creation by the way it is structured.

B.4 IReport on the result of the General Meeting of Shareholders advisory vote on the Annual Report on the previous financial year's remuneration, indicating where appropriate the number of votes against, if any:

	Number	% of total
Votes Cast	867.296.880,00	89,4

	Number	% Votes Cast
Votes Against	36.402.163	4,9
Votes in Favour	788.380.689	90,9
Abstentions	42.514.028	4,199

Observations

B.5 Explain how the fixed components accrued and consolidated during the year by the directors in their capacity as such have been determined, their relative proportion for each director and how they have varied from the previous year

In 2022, there was no change in the remuneration of directors in their capacity as such compared to the remuneration set for 2021.

The remuneration of the members of the Board of Directors for the exercise of non-executive functions was:

- a. For membership of the Board
 - Chairman of the Board of Directors: 1,100,000 €/year.
 - Director: 175,000 €/year.
 - Coordinating Director: 30,000 €/year.
- b. For membership of Committees
 - Committee Chairman: 66,000 €/year.
 - Member of the Committee: 44,000 €/year.

B.6 Explain how the salaries earned were determined during the financial period ended for each Executive Director for exercising their management functions, and how they have varied with respect to the previous year

The remuneration for the performance of the executive or delegated functions of the executive Chairman consists of the following items:

- Fixed annual remuneration, including the remuneration received for membership of any administrative body of any company of the Naturgy group, except its parent company: 1,012,000 €.
- Annual variable remuneration based on an amount equivalent to the total annual fixed monetary remuneration, to which a percentage has been applied according to the achievement metric, and which has been €2.531.059. The aforementioned amount will be settled as a voluntary contribution to the social welfare plan of which the Executive Chairman is a beneficiary, in accordance with the terms of the contract.
- The long-term incentive programme has continued to run through 2022. The General Meeting of Shareholders of 15 March 2022 resolved to change the ordinary maturity date of the LTIP from 31 July 2023 to 31 December 2025 and, on that basis, to pay an interim advance which, pro rata over the 5 years of the plan (2018-2022), amounts to € 619,586 per annum. The total of this advance was only made available to the Executive Chairman once authorised by the aforementioned General Meeting.

Other social and welfare benefits, equivalent to those generally recognised for members of the Company's senior management (medical insurance, company car, housing assistance, life and disability insurance, limited gas and electricity subsidies, savings insurance), as well as the obligation to take out civil liability insurance at the Company's expense.

B.7 Explain the nature and main characteristics of the variable components of the remuneration systems paid in the financial year ended.

In particular:

a) Identify each of the remuneration plans that have determined the different variable remuneration accrued by each of the directors during the financial year, including information on their scope, date of approval, date of implementation, conditions, if any, of consolidation, accrual periods and validity, criteria used to evaluate performance and how this has impacted on the setting of the variable amount accrued, as well as the measurement criteria that have been used and the time needed to be able to properly measure all the conditions and criteria stipulated. The criteria and factors that have been applied in terms of the time required and methods to check that the performance conditions or any other conditions to which the accrual and consolidation of each component of variable remuneration was linked have to be explained in detail

b) For plans involving share options and other financial instruments, the general features of the plan should include information on the conditions for each plan regarding acquiring unconditional ownership (consolidation) as well as exercising said options or financial instruments, including price and exercising period. .

c) Each of the Directors, and their category (CEO, external proprietary directors, external independent directors or other external directors), who are beneficiaries of remuneration systems or plans included in the variable remuneration.

d) Where applicable, information shall be provided on the established periods of accrual, consolidation or deferral of payment of consolidated amounts that have been applied and/or the periods of retention/disposal of shares or other financial instruments, if any..

Explain the short-term variable components of the remuneration system

For the calculation of the annual variable remuneration of the executive chairman for the financial year 2022 - and which will be settled as a contribution to the social welfare plan of which the executive chairman is a beneficiary, in accordance with the provisions of the contract - the indicators and weightings established by the Board of Directors have been taken into account, following a report from the Appointments and Remuneration Committee. Specifically, in 2022, the following parameters have been considered to determine the degree of compliance with the objectives:

- **Financial targets are weighted 75%.**
 - Ordinary Ebitda 75%.
- **Qualitative objectives weighted 15%.**
 - Assessment of qualitative factors by the Board 15% (contribution to business growth, transformation. teamwork)
- **ESG objectives weighted at 10% ESG**

- Health and safety
- Gender diversity

The calculation is based on 100% of the total annual fixed monetary remuneration and multiplied by the degree of achievement of objectives effectively reached in the year (for a degree of achievement of 100%, 100% of the annual fixed monetary remuneration is received). It has a maximum degree of achievement of 150%. This remuneration will not be received if the degree of achievement does not reach 80%.

The determination of the annual variable remuneration of the executive Chairman is determined by the Board of Directors following a proposal from the Appointments, Remuneration and Corporate Governance Committee.

The methodology for determining the degree of achievement of the financial-quantitative objectives consists of a comparison between the budget approved by the Board of Directors for the year and the final result for the year once the annual accounts have been drawn up by the Board of Directors itself, applying certain adjustments depending on the objective in question. These adjustments are generally applied to all Naturgy group personnel included in the management by objectives system.

As regards the qualitative elements of variable remuneration, the degree of achievement is determined at the discretion of the Appointments and Remuneration Committee itself, taking into account the work performed by the Chairman during the year.

Lastly, the ESG objectives are determined by comparing the indicators budgeted at the beginning of the year with the actual data obtained at the end of the year.

Therefore, the amount of the annual Variable Remuneration corresponding to the financial year 2022 and which will be settled as a contribution to the social welfare plan of which the Executive Chairman is a beneficiary, in accordance with the contractually established amount is 2,531,059 as a total achievement rate of 119.8% was reached.

Explain the long-term variable components of the remuneration system

Given that the long-term incentive initially linked to the 2018-2023 strategic plan, modified to coincide with the duration of the new 2021-2025 strategic plan, the details for the year 2022 are the same as described in section A.1.6 and in previous years' reports.

B.8 Indicate whether certain variable components have been reduced or returned when payment of non-consolidated amounts has been deferred in the former case or, second, have been consolidated and paid according to data which has subsequently proved to be clearly inaccurate. Describe the reduced or refunded amounts for applying the reduction and refund clauses (claw-back), when they were exercised and the financial years to which they correspond.

Not applicable

B.9 Explain the main features of the long-term savings systems whose amount or equivalent annual cost figure in the tables in Section C, including retirement and any other survivor benefits, partially or wholly funded by the Company, whether provided internally or externally, indicating the type of plan, whether defined benefit or contribution, the contingencies covered, the conditions of the vested economic rights of the Directors and their compatibility with any type of compensation for early termination of the contractual relationship between the Company and the Director.

Directors do not receive this type of remuneration for non-executive functions.

The Executive Chairman is entitled to the benefits available to the company's executives. These benefits are explained in section A.1.5 (long-term savings schemes).

B.10 Explain, as the case may be, the compensation or any other type of payment as a result of early termination, whether voluntary by the Company or the Director, or due to the contract coming to an end, under the terms set forth in the same, accrued and/or received by the Directors during the financial year ended.

Not applicable

B.11 Explain if there have been any significant modifications to the Contracts of those who exercise Senior Management functions such as Executive Directors, and as the case may be, explain the same. Likewise, explain the main terms and conditions of the new contracts signed with Executive Directors during the financial year, except if already explained in Section A.1.

The multi-year variable remuneration of the Executive Chairman was foreseen in his contract of 6 February 2018, although it was not possible to determine it until the Strategic Plan was approved. Once this Plan was approved, the Board approved a new long-term incentive scheme involving the executive Chairman and other executives, which was confirmed by the General Shareholders' Meeting of 5 March 2019, and subsequently revised at the General Shareholders' Meeting of 15 March 2022 on the terms described in section A-1-6 of this report.

B.12 Explain any supplementary remuneration paid to Directors as compensation for services provided other than those inherent to their position

Not applicable

B.13 Indicate any payment in the form of advances, loans and guarantees, indicating the interest rate, key features and any amounts repaid, as well as the obligations assumed on their behalf as security.

Not applicable

B.14 Detail the remuneration in cash paid to Directors during the financial year, briefly explaining the nature of the different salary components.

Las aportaciones a instrumentos de previsión del Presidente Ejecutivo han ascendido a 422 miles de euros en el ejercicio 2022. A la citada cantidad hay que añadirle el importe correspondiente a la retribución variable 2022, 2.531.059 €, que se liquidará como aportación voluntaria al Plan de Previsión Social del que es beneficiario el Presidente. Las primas satisfechas por seguros de vida y de invalidez han ascendido a 71 miles de euros durante el citado ejercicio. El importe de la bonificación limitada de consumos de electricidad y gas, vehículo de empresa, ayuda vivienda y seguro de asistencia sanitaria ha ascendido a 100 miles de euros durante el citado ejercicio

B.15 Explain the remuneration earned by the Director in virtue of the payments made by the listed company to a third party in which the Director provides services, when said payments are made to remunerate the Director's services in the Company.

Not applicable

B.16 Explain and detail the amounts accrued during the year in relation to any other type of remuneration, including all benefits in any form, such as when it is considered a related-party transaction or, especially, when it significantly affects the true and fair view of the total remuneration accrued by the director, explaining the amount granted or pending payment, the nature of the consideration received and the reasons why it would have been considered, as the case may be, that it does not constitute remuneration to the director in his capacity as such or in consideration for the performance of his executive duties, and whether or not it has been considered appropriate to include it among the amounts accrued in the "other items" section of section C.

Not applicable

C. BREAKDOWN OF INDIVIDUAL REMUNERATION EARNED BY EACH OF THE DIRECTORS

Name	Category	Accrual Period Q
RAMÓN ADELL RAMÓN	Independent	From 01/01/2022 to 10/02/2022
RAMÓN ADELL RAMÓN	Propietary	From 11/02/2022 to 31/12/2022
ENRIQUE ALCÁNTARA-GARCÍA IRAZOQUI	Propietary	From 01/01/2022 to 31/12/2022
JAIME SILES FERNANDEZ PALACIOS	Propietary	From 11/02/2022 to 31/12/2022
FRANCISCO BELIL CREIXELL	Independiente	From 01/01/2022 to 10/02/2022
HELENA HERRERO STARKIE	Independiente	From 01/01/2022 to 31/12/2022
LUCY CHADWICK	Propietary	From 01/01/2022 to 31/12/2022
RAJARAM RAO	Propietary	From 01/01/2022 to 31/12/2022
ISABEL ESTAPÉ TOUS	Propietary	From 01/01/2022 to 31/12/2022
Theatre Directorship Services Beta, S.à.r.l.	Propietary	From 01/01/2022 to 31/12/2022
CLAUDI SANTIAGO PONSA	Independent	From 01/01/2022 to 31/12/2022
PEDRO SAINZ DE BARANDA RIVA	Independent	From 01/01/2022 to 31/12/2022
FRANCISCO REYNES MASSANET	Executive Chairman	From 01/01/2022 to 31/12/2022
Rioja S.à.r.l.	Propietary	From 01/01/2022 to 31/12/2022

C.1 Complete the following tables on the individual remuneration of each of the Directors (including remuneration for carrying out Executive duties) paid during the financial year

a) Remuneration earned in the Company covered in this report:

i) Payment in cash (in thousands of €)

Name	Fixed Remuneration	Allowance	Remuneration for members of Board Committees	Salary	Short-term variable remuneration	Long-term Variable Remuneration	Remuneration for Members of the Board	Compensation	Other Items	Total for year t	Total for year t
FRANCISCO REYNES MASSANET	1.100			1.012,00		620			100	2832 (*)	2780 (*)
RAMÓN ADELL RAMÓN	178		51							230	315
ENRIQUE ALCÁNTARA-GARCÍA IRAZOQUI	175		44							219	139

FRANCISCO BELIL CREIXELL	20	12	32	285
LUCY CHADWICK	175	49	224	263
HELENA HERRERO STARKIE	202	110	312	285
ISABEL ESTAPÉ TOUS	175	49	224	263
RAJARAM RAO	175	44	219	219
Rioja S.à.r.l.	175	44	219	219
PEDRO SAINZ DE BARANDA RIVA	175	88	263	295
CLAUDIO SANTIAGO PONSA	175	88	263	235
Theatre Directorship Services Beta, S.à.r.l.	175	49	224	263
JAIIME SILES FERNÁNDEZ PALACIOS	155	39	194	

(*) Does not include the amount corresponding to the accrued annual variable remuneration paid in year as a contribution to pension systems, as contractually established.

The long-term incentive programme has continued to run through 2022. The General Meeting of Shareholders of 15 March 2022 resolved to change the ordinary maturity date of the LTIP from 31 July 2023 to 31 December 2025 and, on that basis, to pay an interim advance which, pro rata over the 5 years of the plan (2018-2022), amounts to € 619,586 per annum. The total of this advance was only made available to the Executive Chairman once authorised by the aforementioned General Meeting. The table reflects the criterion that a multi-year remuneration must be prorated according to the years it remunerates, although it does not conform to the accounting criterion that would recognise the total amount in the year 2022.

ii) Table on share-based and gross return on shares or consolidated financial instrument remuneration systems

Name	Plan Name	Financial instruments at the beginning of financial year Q		Financial instruments allocated during financial year Q		Financial instruments consolidated during financial year Q			Financial instruments due but not exercised	Financial instruments at the end of financial year Q		
		N° instruments	N° equivalent shares	N° instruments	N° equivalent shares	N° instruments	N° equivalent shares	Price of consolidated shares	return on shares or consolidated financial instruments (in thousands €)	N° instruments	N° instruments	N° equivalent shares
Director 1	Plan											
	Plan											

Observations

iii) Long-term Saving Systems

	Remuneration for vested rights to Savings System (*)
Francisco Reynés Massanet	2.953

(*) Includes the amount corresponding to the accrued annual variable remuneration that will be settled in year t as a contribution to pension systems, as contractually established.

Funds paid in by the Company in financial year (thousands of €)

Name	Savings system with vested economic rights		Savings system with no vested economic rights		Amount of the accumulated funds (thousands €) (*)			
					Financial year Q		Financial year Q-1	
	Financial year Q	Financial year Q-1	Financial year Q	Financial year Q-1	Savings system with vested economic rights	Savings system with no vested economic rights	Savings system with vested economic rights	Savings system with no vested economic rights
Francisco Reynés Massanet	0		2.953	2.734		13.365		10.302

(*)(*) Includes the amount corresponding to the variable remuneration for the corresponding year that was settled as a contribution to the Social Welfare Plan of which the Chairman is a beneficiary..

Observations

iv) Detail of other items

Name	Item	Remuneration Amount
Francisco Reynés Massanet	Life insurance	71

Observations

b) Remuneration paid to directors of listed companies for their membership of the governing bodies of their subsidiaries:

i) Payment in cash (in thousands of €)

Name	Fixed Remuneration	Allowance	Remuneration for Membership on Committees of the Board	Salary	Short-term Variable Remuneration	Long-term Variable Remuneration	Compensation	Other Items	Financial Year Total Q	Financial Year Total Q-1
Director	0	0	0	0	0	0	0	0	0	0
Director										

Observations

ii) Table on share-based and gross return on shares or consolidated financial instrument remuneration systems

Name	Plan Name	Financial instruments at the beginning of financial year Q		Financial instruments allocated during financial year Q		Financial instruments consolidated during financial year Q			Financial instruments due but not exercised	Financial instruments at the end of financial year Q	
		N° instruments	N° equivalent shares	N° instrument	N° equivalent shares	N° instruments	N° equivalent shares	Price of consolidated shares	return on shares or consolidated financial instruments (in thousands €)	N° instruments	N° equivalent shares
Director 1	Plan										
	Plan										

Observations

iii) Long-term Saving Systems

Long-term Saving Systems

Remuneration for vested rights to Savings System

Name	Funds paid in by the Company in financial year (thousands of €)				Amount of the accumulated funds (thousands of €)			
	Savings system with vested economic rights		Savings system with no vested economic rights		Ejercicio t		Financial year Q-1	
	Financial year Q	Financial year Q-1	Financial year Q	Financial year Q-1	Financial year Q	Financial year Q	Financial year Q-1	Financial year Q-1
	system with vested economic rights	system with no vested economic rights	system with vested economic rights	system with no vested economic rights	system with vested economic rights	system with no vested economic rights	system with vested economic rights	system with no vested economic rights
Director								

Observations

iv) Detail of other items

Name	Item	Remuneration Amount
Director		

Observations

c) Summary of remunerations (in thousands of €):

The amounts corresponding to all the remuneration items included in this report that have been earned by the Director must be included in the summary, in thousands of euros.

Name	Remuneration earned in the Company				Remuneration earned in companies of the Group					
	Total Remuneration in Cash	Gross return on shares or consolidated financial instruments	Remuneration by savings systems	remuneration for other items	Total for the year company	Total Remuneration in Cash	Gross proceeds from equity or financial instruments consolidated	Remuneration by savings systems	Remuneration for other items	Total for the financial year Group
Francisco Reynés Massanet	2.832		2.953	71	5.856					
Ramón Adell Ramón	229				229					
Enrique Alcantara-García Irazoqui	219				219					
Isabel Estapé Tous	224				224					
Lucy Chadwick	224				224					
Rajaram Rao	219				219					
Rioja S.à.r.l.	219				219					
Theatre Directorship	224				224					
Jaime Siles Fernández Palacios	194				194					
Francisco Belil Creixel	32				32					
Claudi Santiago Ponsa	283				283					
Pedro Sainz de Baranda Riva	283				283					
Helena Herrero Starkie	312				312					
TOTAL	5.494		2.953	71	8.518					

Observations

C.2 Indicate the changes over the last five years in the amount and percentage change in the remuneration earned by each of the listed company's directors during the year, the consolidated results of the company and the average remuneration on a full-time equivalent basis of the employees of the company and its subsidiaries who are not directors of the listed company

	Total amounts accrued and % annual change								
	Exercise t	% change t/t-1	Exercise t-1	% change t-1/t-2	Exercise t-2	% change t-2/t-3	Exercise t-3	% change t-3/t-4	Exercise t-4
Executive Directors									
Francisco Reynés Massanet	5.856	4,9 %	5.582 (*)	8,0 %	5.169 (*)	-7,2 %	5.568 (*)	10,1 %	5.056 (*)
External Directors									
Ramón Adell Ramón	229	-27,3 %	315	-11,3 %	355	— %	355	0,3 %	354
Enrique Alcantara-García Irazoqui	219	57,6 %	139	178,0 %	50	-78,7 %	235	13,0 %	208
Isabel Estapé Tous	224	-14,8 %	263	42,2 %	185	— %	—	— %	—
Lucy Chadwick	224	-14,8 %	263	42,2 %	185	— %	—	— %	—
Rajaram Rao	219	— %	219	-6,8 %	235	— %	235	-15,2 %	277
Rioja S.à.r.l.	219	— %	219	-6,8 %	235	139,8 %	98	— %	—
Theatre Directorship Services, Pte	224	-14,8 %	263	11,9 %	235	— %	235	37,4 %	171
Jaime Siles Fernández Delacina	194	— %	—	— %	—	— %	—	— %	—
Francisco Belil Creixel	32	-88,8 %	285	-12,3 %	325	— %	325	1,9 %	319
Claudi Santiago Ponsa	283	7,6 %	263	11,9 %	235	— %	235	99,2 %	118
Pedro Sainz de Baranda Riva	283	7,6 %	263	-10,9 %	295	— %	295	99,3 %	148
Helena Herrero Starkie	312	9,5 %	285	21,3 %	235	— %	235	13,0 %	208
Resultados consolidados de la sociedad	1.649	35,8 %	1.214	-449,9 %	-347	-124,8 %	1.401	-149,7 %	-2.822
Remuneración media de los empleados	61.548	5,6 %	58.281	4,4 %	55.824	(4,0)%	58.155	1,0 %	57.595

Observations:

Note

The difference between 2020 vs 2019 corresponds to the deconsolidation of CGE (Chile) as well as the variation in Variable Remuneration.

The figures for 2022 are estimates, pending the final closing and final settlement of the Variable Remuneration'22 to the workforce included in this scheme.

Once the General Shareholders' Meeting in March 2022 agreed to the delivery of the advance mentioned in section C.1 and following the criteria set out in the comments, the values associated with the years affected by the multi-year remuneration have been adjusted.

D. OTHER INFORMATION OF INTEREST

If there is any other relevant information on Director remuneration that has not been included in the rest of the sections of this report, but which should be included in order to gather more complete and reasoned information on the structure and compensation practices of the Company with regard to its Directors, please briefly describe such information below

It should be noted that since numbers with two decimal places are not allowed on the form of the Annual Report Circular on Directors' Remunerations, there are some minor variations in the figures indicated when compared with the actual figures. .

This Annual Remuneration Report was approved by the Board of Directors of the Company at the meeting on 20 February 2023.

Please indicate whether any Directors have voted against or abstained from the approval of this report.

Sí **No**

Name and Company Name of the Members of the Board that have voted against approving this report.

Reasons (against, abstention, non-attendance)

Explain the reasons
