Audit Report on Financial Statements
issued by an Independent Auditor

NATURGY CAPITAL MARKETS, S.A.
Financial Statements and Management Report
for the year ended
December 31, 2018

Ernst & Young, S.L.
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AUDIT REPORT ON FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

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

To the Shareholders of
NATURGY CAPITAL MARKETS, S.A.

Report on the financial statements

Opinion

We have audited the financial statements of NATURGY CAPITAL MARKETS, S.A. (the Company), which comprise the balance sheet as at December 31, 2018, the income statement, the statement of changes in equity, the cash flow statement, and the notes thereto for the year then ended.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the equity and financial position of the Company as at December 31, 2018 and of its financial performance and its cash flows for the year then ended in accordance with the applicable regulatory framework for financial information in Spain (identified in Note 2 to the accompanying financial statements) and, specifically, the accounting principles and criteria contained therein.

Basis for opinion

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

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

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

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

Key audit matters

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

Accounting recognition and valuation of loans to group companies

Description

At the end of the year 2018, the Company has registered in assets investments in group companies and associates, which relate to loans granted to group companies amounting to 3,081,126 thousand euros (Note 4) and represent almost total assets on the balance sheet.

The information related to the valuation standards applied by the Company is contained in Note 3.1 "Financial assets and liabilities" to the accompanying financial statements.

Given the significance of the amount indicated, we consider this area as a key audit matter.

Our response

Our audit procedures include, among others, the following:

- Assessment of the financial situation of the group´s parent company Naturgy Energy Group, S.A., the recipient of the loans through the verification of the observable data of rating agencies and other relevant public information and by analyzing its liquidity.
- Obtaining, reading and analysis of the credit agreements signed with Naturgy Energy Group, S.A.
- Recalculation of the amortised cost based on the effective interest method and interest accrued during the year.
- Verification of the appropriate classification of the loans between short and long-term.
- Review of the disclosures included in the financial statements in accordance with the applicable financial reporting framework.

Other issues

On February 28, 2018 other auditors issued their audit report on the financial statements of 2017 in which they expressed a favorable opinion.

Other information: management report

Other information refers exclusively to the 2018 management report, the preparation of which is the responsibility of the Company's Sole Director and is not an integral part of the financial statements.

Our audit opinion on the financial statements does not cover the management report. In conformity with prevailing audit regulations in Spain, our responsibility in terms of the management report is to assess and report on the consistency of the management report with the financial statements based on the knowledge of the entity we obtained while auditing the financial statements, and not including any information not obtained as evidence during the course of the audit. In addition, our responsibility is to assess and report on whether the content and presentation of the management report are in conformity with applicable regulations. If, based on the work carried out, we conclude that there are material misstatements, we are required to disclose them.

Based on the work performed, as described in the above paragraph, the information contained in the management report is consistent with that provided in the 2018 financial statements and their content and presentation are in conformity with applicable regulations.

Responsibilities of the Sole Director and the Audit Committee for the financial statements

The Sole Director is responsible for the preparation of the accompanying financial statements so that they give a true and fair view of the equity, financial position and results of the Company, in accordance with the regulatory framework for financial information applicable to the Company in Spain, identified in Note 2 to the accompanying financial statements, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Audit Committee is responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Sole Director use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide the Audit Committee of the Company with a statement that we have complied with relevant ethical requirements, including those related to independence, and 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 with the Audit Committee of the Company, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

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

Report on other legal and regulatory requirements

Additional report to the Audit Committee

The opinion expressed in this audit report is consistent with the additional report we issued to the Audit Committee on April 1, 2019.

Term of engagement

The Ordinary General Shareholders' meeting held on June 4, 2018 appointed us as auditors for 3 years, commencing on December 31, 2018.

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

(signed on the original version In Spanish)

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

April 1, 2019

Naturgy

Naturgy Capital Markets, S.A.
2018 Report

ANNUAL FINANCIAL STATEMENTS

Balance sheet
Statement of profit or loss
Statement of recognized income and expense
Statement of total changes in equity
Statement of cash flows
Notes

Naturgy Capital Markets, S.A.

BALANCE SHEET FOR NATURGY CAPITAL MARKETS, S.A.	(thousands of euros)	
	December 31,	
	2018	**2017**
NON-CURRENT ASSETS	**2,426,432**	**3,632,419**
Non-current investments in group companies and associates *(note 4)*	**2,426,432**	**3,632,419**
Loans to companies	2,426,432	3,632,419
CURRENT ASSETS	**654,701**	**1,248,257**
Trade and other receivables *(note 5)*	**7**	**1**
Trade receivables, group companies and associates	7	-
Sundry receivables	-	1
Current investments in group companies and associates *(note 4)*	**654,694**	**1,248,256**
Loans to companies	654,694	1,248,256
TOTAL ASSETS	**3,081,133**	**4,880,676**
EQUITY *(note 6)*	**3,915**	**5,616**
Own funds	**3,915**	**5,616**
Capital	**100**	**100**
Issued capital	100	100
Reserves	**20**	**20**
Legal reserve	20	20
Profit/(loss) for the year	**3,795**	**5,496**
NON-CURRENT LIABILITIES	**2,426,578**	**3,632,521**
Non-current borrowings *(note 7)*	**2,426,578**	**3,632,521**
Bonds and other marketable securities	2,426,578	3,632,521
CURRENT LIABILITIES	**650,640**	**1,242,539**
Current borrowings *(note 7)*	**650,222**	**1,241,866**
Bonds and other marketable securities	650,222	1,241,866
Trade and other payables *(note 8)*	**418**	**673**
Trade payables	28	-
Sundry payables	54	-
Current tax liabilities *(note 10)*	322	673
Other payables to public authorities	14	-
TOTAL EQUITY AND LIABILITIES	**3,081,133**	**4,880,676**

Notes 1 to 17 are an integral part of these financial statements

Naturgy Capital Markets, S.A.

STATEMENT OF PROFIT OR LOSS FOR NATURGY CAPITAL MARKETS, S.A. **(thousands of euros)**

	2018	2017
Other operating expenses	**(257)**	**(197)**
External services	(256)	(196)
Taxes other than income tax	(1)	(1)
OPERATING PROFIT/(LOSS)	**(257)**	**(197)**
Finance income *(note 11)*	**220,452**	**271,034**
Marketable securities & other financial instruments	220,452	271,034
Group companies and associates	220,452	271,034
Finance costs *(note 11)*	**(215,135)**	**(263,509)**
Borrowings from group companies and associates	-	(1)
Third-party borrowings	(215,135)	(263,508)
NET FINANCE INCOME	**5,317**	**7,525**
PROFIT/(LOSS) BEFORE TAX	**5,060**	**7,328**
Income tax *(note 10)*	**(1,265)**	**(1,832)**
PROFIT/(LOSS) FOR THE YEAR	**3,795**	**5,496**

Notes 1 to 17 are an integral part of these financial statements

Naturgy Capital Markets, S.A.

STATEMENT OF CHANGES IN EQUITY FOR NATURGY CAPITAL MARKETS, S.A.

A) STATEMENT OF RECOGNIZED INCOME AND EXPENSE (thousands of euros)

	2018	2017
Profit/(loss) for the year	**3,795**	**5,496**
Income and expense recognized directly in equity	-	-
Amounts reclassified to profit or loss	-	-
TOTAL INCOME AND EXPENSE RECOGNIZED FOR THE YEAR	**3,795**	**5,496**

B) STATEMENT OF TOTAL CHANGES IN EQUITY (thousands of euros)

	Share capital	Reserves	Retained earnings (prior-year losses)	Profit/(loss) for the year	Total
Balance at Dec. 31, 2016	**100**	**20**	**-**	**7,576**	**7,696**
Total recognized income and expense	-	-	-	5,496	5,496
Transactions with shareholders and owners					
- Dividend distribution	-	-	(7,576)	-	(7,576)
Other changes in equity	-	-	7,576	(7,576)	-
Balance at Dec. 31, 2017	**100**	**20**	**-**	**5,496**	**5,616**
Total recognized income and expense	-	-	-	3,795	3,795
Transactions with shareholders and owners					
- Dividend distribution	-	-	(5,496)	-	(5,496)
Other changes in equity	-	-	5,496	(5,496)	-
Balance at Dec. 31, 2018	**100**	**20**	**-**	**3,795**	**3,915**

Notes 1 to 17 are an integral part of these financial statements

CASH FLOW STATEMENT FOR NATURGY CAPITAL MARKETS, S.A. (thousands of euros)

	2018	2017
Profit/(loss) before tax	**5,060**	**7,328**
Adjustments to reconcile profit before tax to net cash flows:	**(5,317)**	**(7,525)**
Finance income	(220,452)	(271,034)
Finance costs	215,135	263,509
Changes in working capital	**90**	**(1)**
Trade and other receivables	(6)	(1)
Trade and other payables	96	-
Other cash flows from operating activities	**5,671**	**7,552**
Interest paid	(283,415)	(342,394)
Interest received	290,702	351,380
Income tax received (paid)	(1,616)	(1,434)
Net cash inflow from operating activities	**5,504**	**7,354**
Payments for investments	**(20,450)**	**(14,389)**
Group companies and associates	(20,450)	(14,389)
Proceeds from disposals	**1,770,192**	**1,114,611**
Group companies and associates	1,770,192	1,114,611
Net cash inflow from investing activities	**1,749,742**	**1,100,222**
Proceeds from and repayment of financial liabilities	**(1,749,750)**	**(1,100,000)**
Repayment of:	(1,749,750)	(1,100,000)
Bonds and other marketable securities	(1,749,750)	(1,100,000)
Dividends and payments on other equity instruments	**(5,496)**	**(7,576)**
Dividends	(5,496)	(7.576)
Net cash outflow from financing activities	**(1,755,246)**	**(1,107,576)**
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	-	-
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	-	-
Cash and cash equivalents, opening balance	-	-
Cash and cash equivalents, closing balance	-	-

Notes 1 to 17 are an integral part of these financial statements

Naturgy Capital Markets, S.A.

NOTES TO THE FINANCIAL STATEMENTS OF NATURGY CAPITAL MARKETS, S.A. FOR THE YEAR ENDED DECEMBER 31, 2018

Note 1. General information

Naturgy Capital Markets, S.A. (hereinafter, the Company) is a public limited company (*sociedad anónima*). It was incorporated on May 23, 2005 and its registered and tax office is located in Madrid at Avenida de San Luis, 77.

It was called Gas Natural Capital Markets, S.A. until July 6, 2018.

The Company's corporate object is the issuance of fixed-income securities, including ordinary and subordinated debt securities, in keeping with Additional Provision One of Law 10/2014 (of June 26, 2014) on the structuring, supervision and capital adequacy of credit institutions, Spain's Corporate Enterprises Act and any prevailing superseding or complementary regulations.

The Company has no staff; operationally, it is managed by Naturgy Energy Group, S.A.

The Company is part of the Naturgy Group (hereinafter, Naturgy), whose parent company is Naturgy Energy Group, S.A., with registered address similarly at Avenida San Luis, 77 in Madrid. Naturgy's consolidated financial statements for 2017 were ratified at the Annual General Meeting held on June 27, 2018 and duly deposited in the Madrid Companies Register.

Note 2. Basis of preparation

The Company's 2017 financial statements were approved at the Annual General Meeting held on June 4, 2018.

These financial statements were authorized for issue by the Sole Director on March 5, 2019 and will be submitted at the next Annual General Meeting for ratification. They are expected to be approved without modification.

The accompanying financial statements were prepared from the Company's accounting records and are presented in accordance with prevailing company law and the accounting rules laid down in the General Accounting Plan enacted by Royal Decree 1514/2007, as subsequently amended by Royal Decrees 1159/2010 and 602/2016, in order to present fairly the Company's equity and financial position at December 31, 2018 and its earnings performance and the changes in its equity and cash flows during the year then ended.

The figures included in the balance sheet, statement of profit or loss, statement of recognized income and expense, statement of total changes in equity, statement of cash flows and the accompanying notes are presented in thousands of euros, unless expressly indicated otherwise.

Note 3. Summary of significant accounting policies

The main accounting policies used by the Company to prepare these financial statements are summarized below.

3.1 Financial assets and liabilities

Financial assets

Financial asset acquisitions and disposals are recognized at the trade date, i.e., on the date the Company undertakes to acquire or sell the asset. Upon acquisition they are classified into the following categories:

a) Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Company does not expect to trade in the short term. They are included in current assets, except for amounts maturing more than 12 months from the end of the reporting period.

They are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Loans and receivables are written down for impairment when there is objective evidence that all the amounts due to the Company will not be collected. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of its estimated future cash flows, discounted at the effective interest rate.

b) Held-to-maturity financial assets

These are debt securities with fixed or determinable payments and fixed maturities that the Company has the positive intent and ability to hold to maturity. The criteria for measuring these investments are the same as those for measuring loans and receivables.

c) Financial assets at fair value through profit or loss

These are assets that are acquired for sale in the short term. Derivatives are included in this category unless they are designated as hedging instruments. These instruments are initially recognized and subsequently measured at fair value and any changes in fair value are recognized in profit or loss.

d) Available-for-sale financial assets

Debt securities and equity instruments that have not been classified in any of the preceding categories. They are recognized at fair value. Unrealized gains and losses from changes in their fair value are recognized in equity. When these assets are sold or deemed impaired, the gains and losses deferred in equity are reclassified to profit or loss.

The fair values of listed investments are based on quoted prices. The fair value of investments in unlisted entities is established using valuation techniques, which include the use of recent arm's length transactions between knowledgeable, willing parties, reference to other instruments that are substantially the same and discounted cash flow analysis. In the event that no such techniques can be used to estimate fair value, the investments are recognized at acquisition cost less any impairment losses.

Financial assets are derecognized when the contractual rights to the related cash flows have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership of the assets. If substantially all the risks and rewards have been retained, the financial asset is not derecognized; instead the Company recognizes a financial liability in the amount of any consideration received in exchange for the transfer.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, demand deposits at banks and other short-term highly liquid investments with maturities of no more than three months.

Borrowings

Borrowings are initially recognized at fair value, less any transaction costs incurred. Any difference between the amount received and the redemption value is recognized in profit and loss over the borrowing repayment term using the effective interest method.

Borrowings are classified as current liabilities unless they mature more than 12 months from the reporting date or the Company is entitled to automatically roll them over.

Trade and other payables

Trade and other current accounts payable are financial liabilities and are recognized at fair value; they do not explicitly accrue interest and are recognized at their face value. Non-current borrowings are those due more than 12 months from the reporting date.

3.2 Share capital

The Company's share capital is represented by ordinary shares.

The cost of issuing new shares or options is deducted, net of tax, from equity, specifically as a reduction in reserves or in the share premium account if issued with a share premium.

Dividends on ordinary shares are recognized as a reduction in equity when their payment is approved.

3.3 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, settlement of which is expected to result in an outflow of resources, the amount of which can be reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the amount necessary to discharge the obligation as at the reporting date on the basis of the best estimate available.

Where some of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized separately when, and only when, it is virtually certain that reimbursement will be received.

In contracts in which the obligations assumed inevitably entail costs in excess of the economic benefits the Company expects to receive (onerous contracts), the Company recognizes the expense and a provision corresponding to the present value of the shortfall.

3.4 Income tax

Accrued income tax includes deferred and current tax expense. Current tax is the amount of income tax payable (recoverable) in respect of taxable profit (tax loss) for the year.

Deferred taxes are recognized in respect of the temporary differences arising between the tax bases of the Company's assets and liabilities and their carrying amounts, using the tax rates that are expected to prevail when the assets and liabilities are realized and settled, respectively.

Deferred taxes relating to transactions charged or credited directly in equity are similarly recognized in equity.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the tax assets can be utilized.

The recognized amounts of deferred tax assets and liabilities are re-estimated whenever there is a change in tax rate. Any resulting gains or losses are recognized in profit or loss or within reserves, depending on where the original amount was charged or credited.

3.5 Income and expense recognition

Income and expenses are recognized at the moment the goods or services represented by them take place, regardless of when actual payment or collection occurs, and are measured at fair value. Taxes, discounts and amounts received that must be passed on to third parties are not included in revenue.

The Company recognizes revenue when the amount of revenue can be reliably measured, i.e., when it is probable that future economic benefits will flow to it.

Interest income and expense is recognized using the effective interest method.

3.6 Related-party transactions

As a general rule, related-party transactions are initially recognized at fair value. If the price agreed differs from fair value, the difference is recognized based on the economic substance of the transaction. Subsequent measurement follows prevailing accounting rules.

Notwithstanding the foregoing, in mergers, split-offs, spin-offs and non-monetary business contributions, the assets and liabilities constituting the acquired business are measured at the amount at which they would be recognized in Naturgy's consolidated financial statements after the transaction.

In these cases, any difference between the consideration paid and the acquiree's net assets, adjusted for grants, donations and bequests received, the valuation adjustment reserve and any equity issued by the acquiree is recognized in reserves.

3.7 Statement of cash flows

The following expressions are used in the statement of cash flows, which was prepared using the indirect method:

a) Operating activities: the principal revenue-producing activities of the Company and other activities that are not investing or financing activities.

b) Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

c) Financing activities: activities that result in changes in the size and composition of the equity and borrowings of the Company.

3.8 Critical accounting estimates and assumptions

Preparation of the annual financial statements requires the use of estimates and assumptions.

Below is a description of the measurement standards requiring the highest number of estimates:

a) Provisions (note 3.3)

The Company has to estimate the amounts payable in the future, including those corresponding to contractual obligations, outstanding lawsuits or other obligations. Those estimates require interpreting current events and circumstances, projecting future developments and estimating what financial impacts those events will have.

b) Income tax expense (note 3.4)

The calculation of income tax expense requires interpreting tax regulations in the jurisdictions the Company does business in. Determining the expected outcome of ongoing controversies and lawsuits requires the use of estimates and significant judgment.

The Company tests the recoverability of its deferred tax assets based on estimates of future taxable income and the ability to generate sufficient profits in the periods in which it is entitled to utilize those tax assets. Deferred tax liabilities are recognized on the basis of estimates concerning the net assets that will not be deductible for tax purposes in the future.

Note 4. Investments in group companies and associates

The breakdown of investments in group companies and associates is as follows:

	Year-end 2018	Year-end 2017
Loans to companies	2,426,432	3,632,419
Non-current	**2,426,432**	**3,632,419**
Loans to companies	654,694	1,248,256
Current	**654,694**	**1,248,256**
Total	**3,081,126**	**4,880,675**

Investments in group companies and associates

The changes during the year in the items comprising non-current and current investments in group companies and associates:

	Loans to group companies and associates
Balance at Jan. 1, 2017	**6,164,663**
Collections	(1,000,000)
Net change in accrued interest	(80,346)
Other (*)	(103,642)
Balance at Dec. 31, 2017	**4,880,675**
Additions	20,450
Collections	(1,749,750)
Net change in accrued interest	(70,249)
Balance at Dec. 31, 2018	**3,081,126**

(*) Issue costs capitalized in the amortized cost of the new notes

Loans to group companies and associates

This heading includes the loans extended to Naturgy Energy Group, S.A. in the same amounts and with the same maturities as the securities issued by the Company (namely securities with a face value of 3,100 million euros at year-end 2018 and 4,850 million euros at December 31, 2017) under its Euro Medium-Term Note ("EMTN") program. Those maturities range between 2019 and 2024, matching the repayment schedules for the notes issued by the Company (note 7). The rate of interest charged is based on the rate accrued on the securities issued under the EMTN program, adjusted upwards by a spread.

To arrange these issues, the Company incurred certain costs which have been deducted from the amount of principal when determining the amortized cost of the notes (and by extension that of the associated loans extended to Naturgy Energy Group, S.A.).

At December 31, 2018, the Company recognized accrued interest pending collection in the amount of 78,287 thousand euros (year-end 2017: 148,536 thousand euros).

In addition, at year-end 2018, this heading included a balance of 1,477 thousand euros (year-end 2017: 1,424 thousand euros) as part of a cash pooling arrangement with Naturgy Energy Group, S.A., which accrues interest at 3-month Euribor. There was no accrued interest pending payment on that arrangement at either reporting date.

The average rate of interest accrued on the Company's non-current and current loans to group companies and associates was 4.84% in 2018 (2017: 5.05%).

The year-end carrying amounts and fair values of the Company's non-current and current financial assets, without factoring in the interest outstanding, are provided below (in millions of euros):

	2018		2017	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Less than 1 year	575	591	1,099	1,104
Between 1 and 3 years	1,525	1,663	2,751	3,168
Over 3 years	1,000	1,016	1,000	1,025
Total	**3,100**	**3,270**	**4,850**	**5,297**

Note 5. Trade and other receivables

The breakdown of this heading is as follows:

	Year-end 2018	Year-end 2017
Trade receivables, group companies and associates	7	-
Sundry receivables	-	1
Total	**7**	**1**

Naturgy Capital Markets, S.A.

Note 6. Equity

The main components of equity are outlined below:

Share capital

The movements in the number of shares and in share capital in 2018 and 2017 are shown below:

	Number of shares	Share capital
At Jan. 1, 2017	**1,000**	**100**
Movements	-	-
At Dec. 31, 2017	**1,000**	**100**
Movements	-	-
At Dec. 31, 2018	**1,000**	**100**

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

The Company did not buy or sell any own shares in 2018 or 2017.

The Company's shareholder structure at December 31, 2018 and 2017:

	Shareholding %	
	2018	**2017**
Naturgy Energy Group, S.A.	99.9	99.9
La Propagadora del Gas, S.A.	0.1	0.1

Reserves

Reserves comprise the following different accounts:

	2018	2017
Legal reserve (a)	20	20
Total	**20**	**20**

a) Legal reserve

The Spanish Corporate Enterprises Act stipulates that 10% of profit for each year be transferred to the legal reserve until it represents at least 20% of share capital. The legal reserve may be used to increase capital in the amount of the portion of the account that exceeds 10% of capital after the increase. Except for the above purpose, until it exceeds 20% of share capital and provided there are no other sufficient available reserves, the legal reserve may only be used to offset losses.

The Company's legal reserve met the 20% threshold at both year-ends.

Profit for the year

The Sole Director plans to propose the following appropriation of profit for 2018 for approval at the next Annual General Meeting:

Basis of appropriation	
Profit/(loss)	3,795
Appropriation to	
Dividends	3,795

Note 7. Borrowings

The breakdown of the Company's borrowings is as follows:

	At year-end 2018	At year-end 2017
Bonds and other marketable securities	2,426,578	3,632,521
Non-current borrowings	**2,426,578**	**3,632,521**
Bonds and other marketable securities	650,222	1,241,866
Current borrowings	**650,222**	**1,241,866**
Total	**3,076,800**	**4,874,387**

Borrowings

The changes during the year in the items comprising the Company's non-current and current borrowings:

	Bonds and other marketable securities
Balance at Jan. 1, 2017	**6,156,692**
Payments	(1,100,000)
Net change in accrued interest	(78,900)
Other (*)	(103,405)
Balance at Dec. 31, 2017	**4,874,387**
Additions	20,442
Payments	(1,749,750)
Net change in accrued interest	(68,279)
Balance at Dec. 31, 2018	**3,076,800**

(*) Issue costs capitalized in the amortized cost of the new notes

Bonds and other marketable securities

The Company is one of the vehicles used by Naturgy to issue securities under the EMTN program. Those securities are irrevocably guaranteed by Naturgy's parent. That program was set up in 1999, originally providing for the issuance of notes with aggregate principal of 2 billion euros. Following several program extensions, the latest in December 2018, the limit on that program currently stands at 15 billion euros. At December 31, 2018, the EMTN program was drawn down by 9,708 million euros, of which 3,100 million euros had been issued by the Company and 6,608 million euros by the other issuer, Naturgy Finance, B.V. (at year-end 2017: total drawdown of 11,205 million euros; 4,850 million euros of which issued by the Company and the remaining 6,355 million euros by Naturgy Finance, B.V.), so that the balance pending drawdown stood at 5,292 million euros (3,795 million euros at December 31, 2017).

On January 16, 2018, an offer was launched for the partial buyback of notes listed on the London Stock Exchange with a face value of 351.4 million euros (with a range of maturity dates and annual coupons). That offer closed on January 24, 2018 with the repurchase of 207.6 million euros of 5.375% notes due 2019 and 143.8 million euros of 6.375% notes due 2019, which in turn resulted in the partial repayment of the various associated loans extended to Naturgy Energy Group, S.A. in the same amounts and with the same maturities.

On October 11, 2018, an offer was launched for the partial buyback of notes listed on the London Stock Exchange with a face value of 281.05 million euros (with a range of maturity dates and annual coupons). That offer closed on October 22, 2018 with the repurchase of 55.8 million euros of 5.375% notes due 2019, 17.5 million euros of 6.375% notes due 2019, 88.15 million euros of 4.500% notes due 2020, 79.3 million euros of 6.000% notes due 2020 and 40.3 million euros of 5.125% notes due 2021, which in turn resulted in the partial repayment of the various associated loans extended to Naturgy Energy Group, S.A. in the same amounts and with the same maturities.

The partial, private buyback of 18.8 million euros of 4.500% notes due 2020, listed on the London stock exchange, closed on December 18, 2018.

Notes issued by the Company in 2010 with a face value of 512.7 million euros matured and were redeemed on January 26, 2018, as did the associated loan extended to Naturgy Energy Group, S.A.

Notes issued by the Company in 2012 with a face value of 585.8 million euros matured and were redeemed on February 13, 2018, as did the associated loan extended to Naturgy Energy Group, S.A.

Notes issued by the Company in 2011 with a face value of 600 million euros matured and were redeemed on February 9, 2017, as did the associated loan extended to Gas Natural SDG, S.A.

Notes issued by the Company in 2012 with a face value of 500 million euros matured and were redeemed on April 24, 2017, as did the associated loan extended to Gas Natural SDG, S.A.

The breakdown of the face value of the notes issued by the two vehicles is shown below:

Issuer	Traded on	Face value (millions of euros)	Maturity	Coupon
Naturgy Capital Markets, S.A.	London	339	2019	6.375%
Naturgy Capital Markets, S.A.	London	237	2019	5.375%
Naturgy Finance, B.V. (1)	Switzerland	204	2019	2.125%
Naturgy Capital Markets, S.A.	London	579	2020	4.500%
Naturgy Capital Markets, S.A.	London	355	2020	6.000%
Naturgy Capital Markets, S.A.	London	591	2021	5.125%
Naturgy Finance, B.V.	Luxembourg	300	2021	3.500%
Naturgy Finance, B.V.	Luxembourg	300	2021	0.515%
Naturgy Finance, B.V.	Luxembourg	491	2022	3.875%
Naturgy Finance, B.V.	Luxembourg	462	2023	3.875%
Naturgy Finance, B.V. (2)	Luxembourg	101	2023	3.974%
Naturgy Finance, B.V.	Luxembourg	200	2023	2.625%
Naturgy Capital Markets, S.A.	Luxembourg	1,000	2024	1.125%
Naturgy Finance, B.V.	Luxembourg	500	2024	2.875%
Naturgy Finance, B.V.	Luxembourg	500	2025	1.375%
Naturgy Finance, B.V.	Luxembourg	800	2025	0.875%
Naturgy Finance, B.V.	Luxembourg	600	2026	1.250%
Naturgy Finance, B.V.	Luxembourg	1,000	2027	1.375%
Naturgy Finance, B.V.	Luxembourg	850	2028	1.500%
Naturgy Finance, B.V.	Luxembourg	300	2029	1.875%
Total		**9,708**		

(1) The face value is CHF 250 million.
(2) The face value is NOK 800 million.

In 2018, the Company did not issue any new securities under the EMTN program (2017: 1,000 million euros). Naturgy Finance, B.V. issued 850 million euros (2017: 2,100 million euros).

At December 31, 2018, the Company recognized accrued interest pending payment in the amount of 75,290 thousand euros (year-end 2017: 143,569 thousand euros); that interest was classified within current borrowings.

To arrange these issues, the Company incurred certain costs which have been deducted from the amount of principal when determining the amortized cost of the notes.

The various bonds are traded on the London Stock Exchange, the Luxembourg Stock Exchange and the Six Swiss Exchange.

The year-end carrying amounts and fair values of the Company's non-current and current borrowings, without factoring in the interest outstanding, are provided below (in millions of euros):

	2018		2017	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Less than 1 year	575	591	1,099	1,104
Between 1 and 3 years	1,525	1,659	2,751	3,076
Over 3 years	1,000	1,008	1,000	1,016
Total	**3,100**	**3,258**	**4,850**	**5,196**

The Company paid an average effective interest rate on its non-current and current borrowings of 4.69% in 2018 (2017: 4.90%).

Note 8. Trade and other payables

The breakdown of this heading is as follows:

	Year-end 2018	Year-end 2017
Trade payables	28	-
Sundry payables	54	-
Current tax liabilities (note 10)	322	673
Other payables to public authorities	14	-
Total	**418**	**673**

The majority of accounts receivable do not accrue interest and mature within the legally-stipulated limits.

Disclosures regarding average supplier payment terms under Additional Provision Three of Law 15/2010

The average payment term complies with the terms of Law 15/2004, establishing measures to tackle supplier non-payment.

As stipulated in the Resolution issued by the Spanish Audit and Accounting Institute (ICAC) on January 29, 2016 regarding financial statement disclosures on the average term of payments to trade suppliers, the required disclosures follow:

	2018 Days	2017 Days
Average supplier payment term (1)	38	29
Paid transactions ratio (2)	38	29
Outstanding transactions ratio (3)	-	-

	Thousands of euros	
Total payments made during the year	197	950
Total payments outstanding	-	-

(1) Calculated considering the amounts paid and the amounts outstanding as of year-end 2018 and 2017

(2) Average payment term of transactions settled during the year

(3) Average age of outstanding accounts payable to suppliers

Note 9. Financial risk management and financial derivative instruments

Financial risk management

Naturgy has a series of rules, procedures and systems aimed at identifying, measuring and managing the various categories of risk. Specifically, it has defined the following basic principles in this respect:

- Ensuring that the most important risks are correctly identified, assessed and managed.
- Segregating the risk-taking areas from the risk management function.
- Ensuring that the level of exposure assumed by Naturgy in the course of carrying out its business activities is consistent with the overall risk profile.
- Ensuring that the Risk Committee establishes and monitors the risk profile adequately by proposing overall exposure limits by risk factor and allocating them among the Business Units.

Interest rate risk

Movements in interest rates affect both the fair value of the financial assets and liabilities that carry interest at a fixed rate and the cash flows from financial assets and liabilities whose prices are benchmarked to floating rates, potentially exposing equity and profits, respectively.

The goal of the Company's interest rate risk management strategy is to strike and maintain a balance between exposure to fixed versus floating rates so as to reduce borrowing costs within the established risk parameters.

All of the loans extended to group companies carried fixed rates of interest at both reporting dates.

Liquidity risk

The Company has a liquidity policy to ensure compliance with its payment obligations and diversify its sources of financing and debt maturities. The prudent management of liquidity risk entails maintaining enough cash, liquid assets and available financing to cover its payment obligations.

The Company manages its liquidity risk by aligning the terms of its deposits and other financial assets with the maturities of the notes it issues; moreover, it collects the remuneration on its deposits on the dates on which it has to pay the corresponding coupons.

The Company had undrawn credit lines extended by group companies and their shareholders in an amount totaling 30,000 thousand euros at both year-ends.

The Company's credit ratings at year-end:

	2018	**2017**
Moody's	Baa2	Baa2
Fitch	BBB	BBB+

Credit risk

The Company holds deposits with and has extended loans to Naturgy group companies; the fair value of those deposits and loans is, therefore, closely related with the credit rating of Naturgy Energy Group, S.A.

As for other exposure to counterparties as a result of derivatives and the placement of cash surpluses, in order to mitigate credit risk, the Company makes these arrangements with banks and financial institutions with a credit rating of BB or higher. The Company did not experience any significant defaults in either reporting period.

Naturgy Energy Group, S.A.'s long-term corporate credit ratings at year-end 2018 and 2017 were as follows:

	2018	**2017**
Moody's	Baa2	Baa2
Standard & Poor's	BBB	BBB
Fitch	BBB	BBB+

Note 10. Tax matters

The Company is part of Tax Group No. 59/93, whose parent is Naturgy Energy Group, S.A.; that group comprises all of the investees resident in Spain that are at least 75%-owned, directly or indirectly, by the parent and meet certain prerequisites. As a result, taxable income and tax deductions and relief are determined at the Tax Group level.

In 2018, Tax Group No. 59/93 comprised the following companies:

Naturgy Energy Group, S.A.	Naturgy Iberia, S.A.
Boreas Eólica 2, S.A.	Naturgy Informática, S.A.
Comercializadora Regulada Gas & Power, S.A.	Naturgy Infraestructuras EMEA, S.L.
Energías Ambientales de Somozas, S.A.	Naturgy Inversiones Internacionales, S.A.
Energías Especiales Alcoholeras, S.A.	Naturgy LNG, S.L.
Europe Maghreb Pipeline, Ltd.	Naturgy Participaciones, S.A.
Explotaciones Eólicas Sierra de Utrera, S.L.	Naturgy Renovables, S.L.U.
Fenosa, S.L.U.	Naturgy Wind 4, S.L.U.
Gas Natural Comercializadora, S.A.	Naturgy Wind, S.L.U.
Gas Natural Exploración, S.L.	Nedgia Andalucía, S.A.
Gas Natural Fenosa Renovables Ruralia, S.L.U.	Nedgia Aragón, S.A.
Gas Natural Redes GLP, S.A.	Nedgia Balears, S.A.
Gas Natural Transporte SDG, S.L.	Nedgia Castilla La-Mancha, S.A.
General de Edificios y Solares, S.L.	Nedgia Catalunya, S.A.
Global Power Generation, S.A.	Nedgia Cegas, S.A.
GPG Ingeniería y Desarrollo de Generación, S.L.U.	Nedgia Madrid, S.A.
GPG México Wind, S.L.U.	Nedgia Navarra, S.A.
GPG México, S.L.U.	Nedgia, S.A.
Holding de Negocios de Gas, S.A.	Operación y Mantenimiento Energy, S.A.
J.G.C. Cogeneración Daimiel, S.L.	P.E. El Hierro, S.L.
La Energía, S.A.	P.E. Montamarta, S.L.
La Propagadora del Gas, S.A.	P.E. Nerea, S.L.
Lignitos de Meirama, S.A.	P.E. Peñarroldana, S.L.
Naturgy Acciones, S.L.U.	Petroleum Oil & Gas España, S.A.
Naturgy Alfa Investments, S.A.U	Sagane, S.A.
Naturgy Almacenamientos Andalucía, S.A.	Sociedad de Tratamiento Hornillos, S.L.
Naturgy Aprovisionamientos, S.A.	Sociedad Parque Eólico Mouriños, S.L.U.
Naturgy Capital Markets, S.A.	Societat Eòlica de l´Enderrocada, S.A.
Naturgy Distribución Latinoamerica, S.A.	Tratamiento Cinca Medio, S.L.
Naturgy Electricidad Colombia, S.L.	Tratamiento Almazán, S.L.U.
Naturgy Engineering, S.L.	UFD Distribución Electricidad, S.A.
Naturgy Gas and Power, S.L.U.	Unión Fenosa Minería, S.A.
Naturgy Generación, S.L.U.	Unión Fenosa Preferentes, S.A.U.

Corporate income tax is calculated on the basis of accounting profit, obtained by applying generally accepted accounting principles that do not necessarily coincide with taxable profit (tax loss), understood as the tax base.

Accounting profit coincides with the Company's taxable income.

Current tax expense is the result of applying the prevailing standard rate of 25% to taxable income. No tax credits were applied in either year.

In 2018, 943 thousand euros of corporate income tax was paid on account (2017: 1,159 thousand euros).

There were no unused tax losses at year-end 2018 or 2017.

Nor were there any unused tax credits at either reporting date.

The breakdown of tax expense/ (tax income) is as follows:

Naturgy Capital Markets, S.A.

	2018	2017
Current tax	1,265	1,832
Total	**1,265**	**1,832**

The Company had no deferred tax assets or liabilities at year-end 2018 or 2017.

In July 2018, Spain's tax authorities initiated an inspection of Naturgy Energy Group, S.A. as parent of Tax Group No. 59/93 in respect of corporate income tax and as parent of the VAT Group No. 273/08 in respect of VAT. The tax periods being inspected are 2011 to 2015 for corporate income tax (tax consolidation regime) and June 2014 to December 2015 in respect of VAT.

Notification of the inspection has the effect of freezing the term of prescription of the returns for the taxes and periods indicated above.

The inspection is not expected to result in significant impacts for the group companies.

In keeping with prevailing Spanish tax legislation, the Company has its books open to inspection for the main taxes applicable to it for the last four years, insofar as not affected by the inspection outlined above.

As a result, among other things, of the different interpretations to which Spanish tax legislation lends itself, additional tax assessments may be raised in the event of a tax inspection. The Company considers, however, that additional assessments, if any, would not significantly affect these financial statements.

Note 11. Net finance income

The breakdown of this heading of the statement of profit or loss in 2018 and 2017:

	2018	2017
Finance income	220,452	271,034
Total finance income	**220,452**	**271,034**
Interest expense	(215,135)	(263,509)
Total finance costs	**(215,135)**	**(263,509)**
Net finance income	**5,317**	**7,525**

Finance income corresponded primarily to the interest earned on the loans extended to Naturgy Energy Group, S.A. (note 4) in the amount of 220,452 thousand euros (2017: 271,034 thousand euros).

Interest expense corresponded primarily to the coupons on the bonds issued under the EMTN program (note 7) in the amount of 215,135 thousand euros (2017: 263,508 thousand euros). In 2017, this heading also included interest incurred under the cash-pooling arrangement with Naturgy Energy Group, S.A. in the amount of 1 thousand euros.

Note 12. Environmental disclosures

Given the activities performed by the Company, it has no environmental liabilities, expenses, assets, provisions or contingencies that could be material in respect of its equity, financial position or performance. Therefore, no specific disclosures relating to environmental issues are included in these financial statement notes.

Spanish Royal Decree-Law 5/2004, passed on August 27, 2004, regulates the greenhouse gas emission trading scheme with a view to helping deliver the obligations assumed under the Kyoto Protocol.

The Company has not been allocated any greenhouse gas allowances and does not incur any expenses as a result of the consumption of such allowances. The Company's Management does not expect to incur any manner of fine or be exposed to any form of contingency under its obligations under Law 1/2005.

Note 13. Related-party transactions

For reporting purposes, the following are deemed related parties:

- The Company's significant shareholders, understood as those holding interests of 5% or more, directly or indirectly, and those that, without qualifying as 'significant', have exercised the power to designate one or more members of the Board of Directors.

  In keeping with this definition, the Company's significant shareholders are: Naturgy Energy Group, S.A. and, through the latter, Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona ("la Caixa"), Repsol, S.A. (Repsol), until May 17, 2018, Rioja Bidco Shareholdings, S.L.U. (an entity controlled by funds advised by CVC), since May 18, 2018, and Global Infrastructure Partners III (GIP) and related parties.

- The Company's Sole Director and officers and their close relatives. The term "director" refers to the Sole Director and the term "officer" refers to professionals who report directly to the Executive Chairman and the Internal Audit Manager of Naturgy. The transactions performed with directors and officers are itemized in note 14.

- Group companies and associates. The transactions performed with group companies and associates are part of the ordinary course of business and were arranged on an arm's length basis.

The transactions performed with group companies and associates are detailed below:

Expenses, income and other transactions	2018		2017	
	Parent company	Group companies	Parent company	Group companies
Finance costs	-	-	1	-
External services	40	-	50	-
Total expenses	**40**	**-**	**51**	**-**
Finance income	220,452	-	271,034	-
Total income	**220,452**	**-**	**271,034**	**-**

The asset and liability balances outstanding with group companies and associates are detailed in notes 4 and 5.

The Company did not perform any transactions with significant shareholders in 2018 or 2017.

Note 14. Information about the Sole Director

The Company's Sole Director did not receive any remuneration and was not extended any loans or advances in 2018 or 2017.

The Company has not contracted any pension or life insurance obligations with respect to its Sole Director.

The directors' fiduciary duties include that of avoiding conflicts of interest, as stipulated in the Board Regulations of Naturgy Energy Group, S.A. and articles 228 and 229 of the Corporate Enterprises Act. Those articles further stipulate that any conflicts of interest that do arise must be disclosed in the financial statements.

The Sole Director of Naturgy Capital Markets, S.A. has not informed the Company of any conflicts of interest requiring disclosure in these notes.

The Sole Director did not perform any transactions with the Company or any group companies outside of the ordinary course of business or other than on an arm's length basis in either reporting period.

The Sole Director is covered by the same civil liability insurance policy that insures all the directors and officers of Naturgy. In 2018, the premium paid by the Company in this respect amounted to 1 thousand euros (2017: 1 thousand euros).

Note 15. Applicability of IFRS

Article 537 of the Corporate Enterprises Act stipulates that companies that have issued shares that are admitted to trading on a regulated market in any European Union member state and that, in keeping with prevailing regulations, only publish separate annual financial statements, are obliged to disclose in the notes to those financial statements the main differences that would have been recognized in equity and the statement of profit or loss had they applied the international financial reporting requirements approved by the European Union (IFRS-EU).

Under IFRS 9, which stipulates the criteria for classifying, measuring and derecognizing financial assets and liabilities and introduces new hedge accounting rules and a new financial asset impairment model, the Company would have elected not to early apply the standard, not to restate the comparative information for 2017 and to recognize the adjustment to the carrying amounts of its financial assets and liabilities in reserves as at January 1, 2018.

The impacts of the first-time application of IFRS 9 would have been:

a) Classification of financial assets: the financial assets would have continued to be recognized at amortized cost after January 1, 2018 as the Company holds those assets principally to collect the contractual cash flows.

b) Exchange of fixed-income securities: the Company has conducted refinancing transactions which under IAS 39 had not resulted in the substantial modification of the initially-recognized financial liabilities, to which their carrying amounts were adjusted by the corresponding costs and commissions, which were amortized over the remaining term of the modified liability. Under IFRS 9, in modifications of financial liabilities, reporters must calculate the present value of the cash flows of the new financial liability using the effective rate of interest on the old financial liability and recognize the difference between that new carrying amount and the original carrying amount in profit or loss. The impact of that change in criterion as at January 1, 2018 would have been to reduce the Company's financial liabilities by 31,752 thousand euros and to increase its deferred tax liabilities by 7,938 thousand euros. The Company would similarly have recognized the impact at January 1, 2018 on the loans extended to Naturgy Energy Group and the corresponding increase in deferred tax assets.

c) Impairment of financial assets: The Company would have applied the expected credit loss model using the general approach. Based on its estimates, application of that model would not have had any impact on the Company at either the date of effectiveness of the new standard or during the reporting period.

In sum, the impacts of the first-time application of IFRS 9 on the balance sheet at December 31, 2018 and the 2018 statement of profit or loss would have been as follows:

	Amount (thousands of euros)
Non-current financial assets	(26,425)
Deferred tax assets	6,606
NON-CURRENT ASSETS	**(19,819)**
Non-current financial liabilities	(27,442)
Deferred tax liabilities	6,860
NON-CURRENT LIABILITIES	**(20,582)**
Reserves (1)	898
Profit/(loss) for the year	(135)
EQUITY	**763**

(1) Impact arising from the adjustment recognized in 2017

	Amount (thousands of euros)
Finance income	4,130
Finance costs	(4,310)
NET FINANCE INCOME	**(180)**
PROFIT/(LOSS) BEFORE TAX	**(180)**
Income tax	(45)
PROFIT/(LOSS) FOR THE YEAR	**(135)**

Note 16. Audit fees

The fees accrued during the year by Ernst & Young, S.L. for the audit of the Company's 2018 financial statements amounted to 31 thousand euros (2017: 36 thousand euros, accrued by PricewaterhouseCoopers Auditores, S.L.).

No fees were accrued during the year in respect of other firms that use the E&Y trademark.

Note 17. Events after the reporting period

No events have taken place between the reporting date and the date of authorizing the accompanying financial statements for issue that the Company believes could have a material impact thereon.

Naturgy Capital Markets, S.A.

NATURGY CAPITAL MARKETS, S.A.

STATEMENT: It is hereby noted by the Sole Director, ENRIQUE BERENGUER MARSAL, that on March 5, 2019, he authorized the issue of the 2018 financial statements, which comprise the balance sheet, statement of profit or loss, statement of recognized income and expense, statement of total changes in equity, statement of cash flows and the accompanying notes, to which end every sheet, numbered 1 to 24, inclusive, has been stamped with the Company's stamp and witnessed for identification purposes.

Below, the Company's Sole Director authorizes the above-listed documents by signing this sheet, number 25, which is incorporated into the 2018 financial statements as an appendix.

Enrique Berenguer Marsal
Sole Director

MANAGEMENT REPORT

Naturgy Capital Markets, S.A.

Management Report for the year ended December 31, 2018

Naturgy Capital Markets, S.A. (hereinafter, the "Company") was incorporated on May 23, 2005. Its corporate object is the issuance of fixed-income securities, including ordinary and subordinated debt securities, in keeping with Additional Provision One of Law 10/2014 (of June 26, 2014) on the structuring, supervision and capital adequacy of credit institutions, Spain's Corporate Enterprises Act and any prevailing superseding or complementary regulations.

It was called Gas Natural Capital Markets, S.A. until July 6, 2018.

The securities it issues are traded on the London Stock Exchange, the Luxembourg Stock Exchange and the Six Swiss Exchange, on a regular and market basis; they are irrevocably and jointly and severally guaranteed by Naturgy Energy Group, S.A. (the parent of Naturgy).

Naturgy Capital Markets, S.A.'s shareholders are: Naturgy Energy Group, S.A. (99.9%) and La Propagadora del Gas (0.1%).

1. Significant milestones during the reporting period

On January 16, 2018, an offer was launched for the partial buyback of notes listed on the London Stock Exchange with a face value of 351.4 million euros (with a range of maturity dates and annual coupons). That offer closed on January 24, 2018 with the repurchase of 207.6 million euros of 5.375% notes due 2019 and 143.8 million euros of 6.375% notes due 2019, which in turn resulted in the partial repayment of the various associated loans extended to Naturgy Energy Group, S.A. in the same amounts and with the same maturities.

On January 16, 2018, an offer was launched for the partial buyback of notes issued by Naturgy Finance BV (the other issuer under the EMTN program) listed on the Luxembourg Stock Exchange with a face value of 564.1 million euros (with a range of maturity dates and annual coupons). That offer closed on January 29, 2018 with the repurchase of 167.1 million euros of 3.5% notes due 2021, 259 million euros of 3.875% notes due 2022 and 138 million euros of 3.875% notes due 2023, which in turn resulted in the partial repayment of the various associated loans extended to Naturgy Energy Group, S.A. in the same amounts and with the same maturities.

On January 29, 2018, Naturgy Finance, B.V., the other issuer besides the Company under the EMTN program, issued 850 million euros of 1.5% notes due 2028 in the euromarket.

On October 11, 2018, an offer was launched for the partial buyback of notes listed on the London Stock Exchange with a face value of 281.05 million euros (with a range of maturity dates and annual coupons). That offer closed on October 22, 2018 with the repurchase of 55.8 million euros of 5.375% notes due 2019, 17.5 million euros of 6.375% notes due 2019, 88.15 million euros of 4.500% notes due 2020, 79.3 million euros of 6.000% notes due 2020 and 40.3 million euros of 5.125% notes due 2021, which in turn resulted in the partial repayment of the various associated loans extended to Naturgy Energy Group, S.A. in the same amounts and with the same maturities.

Also on October 11, 2018, an offer was launched for the partial buyback of notes issued by Naturgy Finance BV (the other issuer under the EMTN program) listed on the Luxembourg Stock Exchange with a face value of 33.3 million euros. That offer closed on October 22, 2018 with the repurchase of 33.3 million euros of 3.5% notes due 2021, which in turn resulted in the partial repayment of the various associated loans extended to Naturgy Energy Group, S.A. in the same amounts and with the same maturity.

The partial, private buyback of 18.8 million euros of 4.500% notes due 2020, listed on the London Stock Exchange, closed on December 20, 2018.

Notes issued by the Company in 2010 with a face value of 512.7 million euros matured and were redeemed on January 26, 2018, as did the associated loan extended to Naturgy Energy Group, S.A.

Notes issued by the Company in 2012 with a face value of 585.8 million euros matured and were redeemed on February 13, 2018, as did the associated loan extended to Naturgy Energy Group, S.A.

In 2018, the Company did not issue any new securities under the EMTN program; Naturgy Finance, B.V. issued 850 million euros (as noted above).

As a result, the total face value of the notes issued by the two issuers under the EMTN program at December 31, 2018 amounted to 9,708 million euros, the repayment schedule for the notes issued and outstanding is as follows:

Issuer	Traded on	Face value (millions of euros)	Maturity	Coupon
Naturgy Capital Markets, S.A.	London	339	2019	6.375%
Naturgy Capital Markets, S.A.	London	237	2019	5.375%
Naturgy Finance, B.V. (1)	Switzerland	204	2019	2.125%
Naturgy Capital Markets, S.A.	London	579	2020	4.500%
Naturgy Capital Markets, S.A.	London	355	2020	6.000%
Naturgy Capital Markets, S.A.	London	591	2021	5.125%
Naturgy Finance, B.V.	Luxembourg	300	2021	3.500%
Naturgy Finance, B.V.	Luxembourg	300	2021	0.515%
Naturgy Finance, B.V.	Luxembourg	491	2022	3.875%
Naturgy Finance, B.V.	Luxembourg	462	2023	3.875%
Naturgy Finance, B.V. (2)	Luxembourg	101	2023	3.974%
Naturgy Finance, B.V.	Luxembourg	200	2023	2.625%
Naturgy Capital Markets, S.A.	Luxembourg	1,000	2024	1.125%
Naturgy Finance, B.V.	Luxembourg	500	2024	2.875%
Naturgy Finance, B.V.	Luxembourg	500	2025	1.375%
Naturgy Finance, B.V.	Luxembourg	800	2025	0.875%
Naturgy Finance, B.V.	Luxembourg	600	2026	1.250%
Naturgy Finance, B.V.	Luxembourg	1,000	2027	1.375%
Naturgy Finance, B.V.	Luxembourg	850	2028	1.500%
Naturgy Finance, B.V.	Luxembourg	300	2029	1.875%
Total		**9,708**		

(1) The face value is CHF 250 million.
(2) The face value is NOK 800 million.

2. Business risks

The Company's activity exposes it to a series of risks. Framed by Naturgy's risk management policies, the Company has a series of rules, procedures and systems for identifying, measuring and managing the various categories of risk to which it is exposed in order to ensure that the most significant risks are properly identified, evaluated and managed and that the level of exposure assumed is consistent with the overall target risk profile and delivery of the Company's annual and strategic targets.

By virtue of the fact that the notes it issues are guaranteed by Naturgy Energy Group, S.A., the Company's business risk is associated with that of Naturgy.

3. Earnings analysis

The Company recorded 3,795 thousand of profit in 2018, down 30.95% from 2017.

Its net finance income amounted to 5,317 thousand euros, a year-on-year reduction of 29.34%, due mainly to the fact that finance income registered a more pronounced decline relative to finance costs.

Finance income totaled 220,452 thousand euros, down 18.66% from 2017, and corresponded essentially to the income earned by the Company on the loans extended to Naturgy Energy Group, S.A. and the remuneration earned on its cash surplus relative to other Naturgy companies as part of the cash-pooling arrangement.

Finance costs totaled 215,135 thousand euros, down 18.36% from 2017, and corresponded essentially to the income borne by the Company on the notes issued and financing received from other Naturgy companies.

The Company's third-party borrowings stood at 3,076,800 thousand euros at year-end 2018, down 36.88% year-on-year.

4. Research, development and innovation

The Company did not incur any R&D expenditure in 2018.

5. Environmental disclosures

Given the activities performed by the Company, it has no environmental liabilities, expenses, assets, provisions or contingencies that could be material in respect of its equity, financial position or performance.

6. Outlook

The Company will continue to serve as one of Naturgy's corporate finance vehicles, essentially issuing notes under the current EMTN program.

7. Events after the reporting period

No events have taken place between the reporting date and the date of authorizing the accompanying financial statements for issue that the Company believes could have a material impact thereon.

8. Own shares

The Company did not hold any own shares in 2018.

9. Corporate governance report

As detailed in the financial statement notes, the Company is part of Naturgy. The Corporate Governance Report of Naturgy Energy Group, S.A. (the parent of Naturgy) and its subsidiaries can be retrieved from the website of Spain's securities market regulator, the CNMV (www.cnmv.es), or from Naturgy's corporate website (www.naturgy.com).

Naturgy Capital Markets, S.A.

NATURGY CAPITAL MARKETS, S.A.

STATEMENT: It is hereby noted by the Sole Director, Enrique Berenguer Marsal, that on March 5, 2019, he authorized the issue of the 2018 Management Report, to which end every sheet, numbered 1 to 4, inclusive, has been stamped with the Company's stamp and witnessed for identification purposes.

Below, the Company's Sole Director authorizes the above-listed documents by signing this sheet, number 5, which is incorporated into the 2018 Management Report as an appendix.

Enrique Berenguer Marsal
Sole Director