

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, 2019

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.

Audit 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 at December 31, 2019, the income statement, the statement of changes in equity, the cash flow statement, and the notes thereto for the year then ended.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the equity and financial position of the Company at December 31, 2019 and of its financial performance and its cash flows for the year then ended in accordance with the applicable regulatory framework for financial information in Spain (identified in Note 2 to the accompanying financial statements) and, specifically, the accounting principles and criteria contained therein.

Basis for Opinion

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

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

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

Key audit matters

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

Recognition and measurement of loans to group companies

Description At 2019 year end, the Company has recorded in the assets side of the balance sheet investments in group companies and associates that correspond to loans granted to group companies for an amount of 2,229,915 thousand euros (Note 4), which represents almost its entire assets figure.

The information on the measurement accounting policies applied by the Company is presented in Note 3.1 "Financial Assets and Liabilities" to the accompanying financial statements.

Given the relevance of the indicated amount, we have considered this area a key audit matter.

Our

response

Our audit procedures consisted, among others, in:

- ▶ Assessing the financial position of the parent of the Naturgy Energy Group, S.A. Group, which is the recipient of the loans, by checking observable data from rating agencies, other relevant public information and analyzing its liquidity.
- ▶ Obtaining, reading and analyzing the credit facilities signed with Naturgy Energy Group, S.A.
- ▶ Recalculating the amortized cost based on the effective interest rate method and interest income accrued during the year.
- ▶ Verifying that current and non-current loans have been appropriately classified.
- ▶ Reviewing the disclosures included in the notes to the financial statements in accordance with the applicable regulatory framework for financial reporting.

Other information: Management Report

Other information refers exclusively to the 2019 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 2019 financial statements and their content and presentation are in conformity with applicable regulations.

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

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

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

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

From the matters communicated to 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 for the audit committee

The opinion expressed in this audit report is consistent with the additional report we issued to the audit committee of the Company on February 6, 2020.

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.

(Signature on the original in Spanish)

Alfredo Eguiagaray

February 6, 2020

**Naturgy Capital Markets, S.A.
2019 Report**

ANNUAL ACCOUNTS

Balance sheet
Income statement
Statement of recognised income and expense
Statement of changes in equity
Cash flow statement
Notes to the annual accounts



BALANCE SHEET OF NATURGY CAPITAL MARKETS, S.A.	(thousands of euros)	
	31 December	
	2019	2018
NON-CURRENT ASSETS	1,237,250	2,426,432
Long-term investments in group companies and associates (Note 4)	1,237,250	2,426,432
Loans to companies	1,237,250	2,426,432
CURRENT ASSETS	992,665	654,701
Trade and other receivables (Note 5)	-	7
Trade receivables, group companies and associates	-	7
Sundry receivables	-	-
Short-term investments in group companies and associates (Note 4)	992,665	654,694
Loans to companies	992,665	654,694
TOTAL ASSETS	2,229,915	3,081,133
EQUITY (Note 6)	3,168	3,915
Shareholders' funds	3,168	3,915
Capital	100	100
Authorised capital	100	100
Reserves	20	20
Legal	20	20
Profit/(loss) for the year	3,048	3,795
NON-CURRENT LIABILITIES	1,237,380	2,426,578
Long-term borrowings (Note 7)	1,237,380	2,426,578
Bonds and other negotiable securities	1,237,380	2,426,578
CURRENT LIABILITIES	989,367	650,640
Short-term borrowings (Note 7)	988,948	650,222
Bonds and other negotiable securities	988,948	650,222
Trade and other payables (Note 8)	419	418
Trade payables	30	28
Sundry payables	31	54
Current tax liabilities (Note 10)	353	322
Other amounts payable to public authorities	5	14
TOTAL EQUITY AND LIABILITIES	2,229,915	3,081,133

Notes 1 to 17 form an integral part of these annual accounts



INCOME STATEMENT OF NATURGY CAPITAL MARKETS, S.A

(thousands of euros)

	2019	2018
Other operating expenses	(163)	(257)
External services	(162)	(256)
Taxes	(1)	(1)
OPERATING PROFIT/(LOSS)	(163)	(257)
Financial income <i>(Note 11)</i>	165,619	220,452
Negotiable securities and other financial instruments	165,619	220,452
Group companies and associates	165,619	220,452
Financial expenses <i>(Note 11)</i>	(161,392)	(215,135)
Borrowings from third parties	(161,392)	(215,135)
NET FINANCIAL INCOME/(EXPENSE)	4,227	5,317
PROFIT/(LOSS) BEFORE TAXES	4,064	5,060
Income tax <i>(Note 10)</i>	(1,016)	(1,265)
PROFIT/(LOSS) FOR THE YEAR	3,048	3,795

Notes 1 to 17 form an integral part of these annual accounts



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

(thousands of euros)

A) STATEMENT OF RECOGNISED REVENUES AND EXPENSES

	2019	2018
Profit/(loss) for the year	3,048	3,795
Revenues and expenses recognised directly in equity	-	-
Transfers to income statement	-	-
TOTAL INCOME AND EXPENSE RECOGNISED IN EQUITY	3,048	3,795

(thousands of euros)

B) TOTAL STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserves	Prior year's income	Profit/(loss) for the year	Total
Balance at 31/12/2017	100	20	-	5,496	5,616
Total recognised income and expense	-	-	-	3,795	3,795
Transactions with shareholders or owners					
- Distribution of dividends	-	-	(5,496)	-	(5,496)
Other variations in equity	-	-	5,496	(5,496)	-
Balance at 31/12/2018	100	20	-	3,795	3,915
Total recognised income and expense	-	-	-	3,048	3,048
Transactions with shareholders or owners					
- Distribution of dividends	-	-	(3,795)	-	(3,795)
Other variations in equity	-	-	3,795	(3,795)	-
Balance at 31/12/2019	100	20	-	3,048	3,168

Notes 1 to 17 form an integral part of these annual accounts



CASH FLOW STATEMENT OF NATURGY CAPITAL MARKETS, S.A.

(thousands of euros)

	2019	2018
Profit for the year before tax	4,064	5,060
Adjustments to results	(4,227)	(5,317)
Financial income	(165,619)	(220,452)
Financial expenses	161,392	215,135
Changes in working capital	(23)	90
Debtors and other receivables	7	(6)
Creditors and other payables	(30)	96
Other cash flows from operating activities	3,912	5,663
Interest paid	(142,713)	(283,415)
Interest received	147,611	290,694
Income tax receipts/(payments)	(986)	(1,616)
Cash flows from operating activities	3,726	5,496
Amounts paid on investments	-	-
Group companies and associates		
Amounts received from divestments	869,219	1,749,750
Group companies and associates	869,219	1,749,750
Cash flows from investing activities	869,219	1,749,750
Receipts and payments from financial liability instruments	(869,150)	(1,749,750)
Repayment/redemption of:	(869,150)	(1,749,750)
Bonds and other negotiable securities	(869,150)	(1,749,750)
Dividends and remuneration of other equity instruments paid	(3,795)	(5,496)
Dividends	(3,795)	(5,496)
Cash flow from financing activities	(872,945)	(1,755,246)
EFFECT OF FLUCTUATIONS IN EXCHANGE RATES	-	-
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	-	-
Cash and cash equivalents at the beginning of the year	-	-
Cash and cash equivalents at year-end	-	-

Notes 1 to 17 form an integral part of these annual accounts



NOTES TO THE ANNUAL ACCOUNTS OF NATURGY CAPITAL MARKETS, S.A. FOR THE YEAR ENDED 31 DECEMBER 2019

Note 1. General information

Naturgy Capital Markets, S.A. (hereinafter the Company) is a public limited company incorporated on 23 May 2005 with registered offices for mercantile and tax purposes at Avenida San Luis 77 in Madrid.

The Company's main object is the issuance of debt financial instruments, including ordinary or subordinated debt, in accordance with the First Additional Provision of the Law 10/2014, of 26 June, on the organization, supervision and solvency of credit institutions, or with the Capital Companies Law or such legislation as replaces or complements them at any time.

The Company does not have employees and is managed on an operating level 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 offices in Avenida San Luis 77, Madrid. The consolidated annual accounts of Naturgy for 2018 were approved at the general shareholders' meeting held on 5 March 2019 and filed at the Madrid Commercial Registry.

Note 2. Basis of presentation

The Company's annual accounts for 2018 were approved by the Shareholders' Meeting on 7 June 2019.

These annual accounts for 2019, which were authorised by the Sole Administrator on 4 February 2020, will be submitted to the General Meeting for approval and are expected to be approved without any changes.

The accompanying annual accounts have been prepared on the basis of the Company's accounting records and are presented in accordance with prevailing commercial legislation and the provisions of the Chart of Accounts introduced under Royal Decree 1514/2007 (16 November), as amended by Royal Decree 1159/2010 (17 September) and Royal Decree 602/2016 (2 December), so as to present fairly the Company's equity and financial position at 31 December 2019, and the results, changes in equity and cash flows of the Company for the year then ended.

The figures contained in the Balance Sheet, in the Income statement, in the Statement of recognised income and expenses, in the Total statement of changes in equity, in the Statement of cash flows and in these Notes to annual accounts are expressed in thousands of euros, except where expressly stated in another unit.

Note 3. Accounting policies

The main accounting principles applied by the Company to prepare these annual accounts are described below.

3.1 Financial assets and liabilities

Financial assets

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

a) Loans and receivables

These are non-derivative financial assets, with fixed or determinable payments that are not quoted on an active market and with respect to which there is no intention to trade in the short term. They include current assets, except for those maturing after twelve months as from the balance sheet date, which are classified as non-current assets.

They are recognised initially at fair value and subsequently at amortised cost using the effective interest rate method.

A provision is recognised for impairment when there is objective evidence that not all the outstanding amounts will be received. The provision is the difference between the carrying value of the asset and the present value of the estimated future cash flows discounted at the effective interest rate.

b) Held-to-maturity financial assets

These are assets representing debt with fixed or determinable payments and fixed maturity which the Company plans to, and can, hold until maturity. The valuation criteria for these investments are the same as those for loans and accounts receivable.

c) 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 fair value are taken to the income statement for the year.

d) Available-for-sale financial assets

Available-for-sale financial assets are debt or equity instruments that are not designated in any of the foregoing categories.

They are recognised at fair value. Unrealised gains and losses that arise from changes in fair value are recorded in equity. When these assets are sold or impaired, the accumulated impairment adjustments are taken to profit or loss.

The fair values of quoted investments are based on current listed prices. In the case of shareholdings in unlisted companies, fair value is determined using valuation techniques that include the use of recent transactions between willing and knowledgeable parties, references to other instruments that are substantially the same and the analysis of discounted future cash flows. If none of these techniques can be used to determine fair value, investments are carried at cost less any impairment loss.

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

Cash and cash equivalents

Cash and cash equivalents include cash, demand deposits at credit institutions and other short-term highly liquid investments with a maturity of three months or less.

Borrowings

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 income statement over the repayment period using the effective interest rate method.

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

Trade and other payables

Trade and other current payables are financial liabilities that fall due in less than twelve months that are stated at their fair value and do not accrue explicit interest. They are accounted for at their nominal value. Those maturing in more than twelve months are considered non-current payables.

3.2 Share capital

Share capital is represented by ordinary shares.

Issuance costs of new shares or options, net of taxes, are deducted from equity as a reduction in reserves or the share premium account in the case of issuances with a share premium.

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

3.3 Provisions

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

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

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

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

3.4 Income tax

Income tax expense includes the deferred tax expense, and the current tax expense which is the amount payable (or refundable) on the tax profit for the year.

Deferred taxes are recorded by comparing the timing differences that arise between the tax base of assets and liabilities and their respective accounting figures in the annual accounts using the tax rates that are expected to be in force when the assets and liabilities are realised.

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

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

When tax rates change, deferred tax assets and liabilities are re-estimated. These amounts are charged or credited to profit or loss, or to reserves, depending on the account to which the original amount was charged or credited.

3.5 Recognition of revenues and expenses

Revenues and expenses are measured at fair value and recognised in the period in which the revenues or expenses deriving from the goods or services in question are actually earned or incurred, regardless of when the monetary or financial flow is received or disbursed. Taxes, discounts and amounts received on behalf of third parties do not form part of revenues.

The Company recognises revenues when they can be reliably measured, i.e. when it is probable that the future economic benefits will flow to the Company.

Interest incomes and expenses are recognised using the effective interest method.

3.6 Transactions between related parties

In general, transactions between related parties are recorded initially at their fair value. If the agreed price differs from fair value, the difference is recorded taking into account the economic reality of the operation. Subsequent re-measurements conform to the corresponding accounting standards.

Nevertheless, in mergers, de-mergers or non-cash contributions of a business, the assets that make up the acquired business are valued at the amount at which they are recognised after the operation takes place in the consolidated annual accounts of Naturgy.

In these cases, any difference between the net value of the assets and liabilities of the acquired company, adjusted by the balance of the groupings of grants, donations and bequests received, or any value adjustments or capital or share premiums, as the case may be, issued by the acquiring company, is recorded under Reserves in the balance sheet.

3.7 Cash flow statement

The cash flow statements has been prepared using the indirect method and contain the following expressions and their respective meanings:

- a) Operating activities: activities that constitute ordinary Company revenues, as well as other activities that cannot be classified as investing or financing.
- b) Investing activities: acquisition and disposal of non-current assets and other investments not included in cash and cash equivalents.
- c) Financing activities: activities that result in changes in the size and composition of the equity and liabilities of the Company that are not operating activities.

3.8 Significant accounting estimates and judgments

The preparation of annual accounts requires the use of estimates and judgments.

The measurement standards that require a large number of estimates are set out below:

a) Provisions (Note 3.3)

The Company makes an estimate of the amounts to be settled in the future, including amounts relating to contractual obligations, pending litigation 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.

b) Income tax (Note 3.4)

Calculation of the income tax expense requires interpretation of tax legislation in the jurisdictions in which the Company operates. The determination of expected outcomes of

outstanding disputes and litigation requires significant estimates and judgment.

The Company evaluates the recoverability of the 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.

Note 4. Investments in group companies and associates

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

	At 31/12/2019	At 31/12/2018
Loans to companies	1,237,250	2,426,432
Non-current	1,237,250	2,426,432
Loans to companies	992,665	654,694
Current	992,665	654,694
Total	2,229,915	3,081,126

Investments in group companies and associates

Movements during the year in non-current and current investments in group companies and associates are as follows:

	Loans to group companies
Balance at 01/01/2018	4,880,675
Additions	20,450
Receipts	(1,749,750)
Net change in accrued interest	(70,249)
Balance at 31/12/2018	3,081,126
Additions	39,346
Receipts	(869,219)
Net change in accrued interest	(21,338)
Balance at 31/12/2019	2,229,915

Loans to group companies

This heading includes loans granted to Naturgy Energy Group, S.A. for the same amount and maturity as the securities issued by the Company (nominal amounts of €2,231 million at 31 December 2019 and €3,100 million at 31 December 2018) under the Euro Medium-Term Note programme, which mature between 2020 and 2024 according to the amortisation schedule of the bonds issued by the Company (Note 7). The interest rate is based on the interest rate of the securities issued under the Euro Medium-Term Note programme, plus a spread.

The Company incurred certain expenses to arrange those issues, which are presented as a reduction in the principal for the purposes of determining the bonds' amortised cost (and that of the associated loans granted to Naturgy Energy Group, S.A.).

At 31 December 2019, accrued unpaid interest amounted to €56,948 thousand (2018: €78,287 thousand).

Additionally, at 31 December 2019, this heading included a balance of €1,408 thousand (2018: €1,477 thousand) relating to a cash pooling arrangement with Naturgy Energy Group, S.A. that accrues interest at the quarterly EURIBOR. There was no accrued interest receivable at 31 December 2019 and 2018.

The average interest accrued on current and non-current investments in Group companies and associates in 2019 in connection with these loan is 5.35% (2018: 4.84%).

The carrying amounts and fair value of the non-current and current financial investments in 2019 and 2018, excluding interest receivable, is as follows (million euro):

	2019		2018	
	Nominal book value	Fair value	Nominal book value	Fair value
Less than 1 year	934	938	575	591
Between 1 and 3 years	555	642	1,525	1,663
More than 3 years	742	777	1,000	1,016
Total	2,231	2,357	3,100	3,270

Note 5. Trade and other receivables

The breakdown of this item is as follows:

	2019	2018
Trade receivables, group companies and associates	-	7
Total	-	7

Note 6. Equity

The main equity items are as follows:

Share capital

The variations in 2019 and 2018 in the number of shares and share capital accounts were as follows:

	Number of shares	Share capital
At 1 January 2018	1,000	100
Variation	-	-
At 31 December 2018	1,000	100
Variation	-	-
At 31 December 2019	1,000	100

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

No transactions involving own shares were carried out in 2019 or 2018.

Holdings in the Company's share capital at 31 December 2019 and 2018 are as follows:

	Interest in share capital %	
	2019	2018
Naturgy Energy Group, S.A.	99.9000	99.9000
Naturgy Acciones, S.L.U.	0.1000	-
La Propagadora del Gas, S.A.	-	0.1000

On 23 January 2019, La Propagadora del Gas, S.A. sold its shares in the Company to Grupo Naturgy Acciones S.L.U. for €13 thousand.

Reserves

“Reserves” includes the following reserves:

	2019	2018
Statutory reserve (a)	20	20
Total	20	20

a) Statutory reserve

Appropriations to the statutory 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.

At 31 December 2019 and 2018, this reserve was fully funded as required by law.

Profit/(loss) for the year

The proposed distribution of the net profit for 2019 that the Sole Administrator will submit to the Shareholders' Meeting for approval is as follows:

Available for distribution	
Profit and loss	3,048
Distribution	
To Dividend	3,048

Note 7. Borrowings

The breakdown of borrowings is as follows:

	At 31/12/2019	At 31/12/2018
Bonds and other negotiable securities	1,237,380	2,426,578
Non-current borrowings	1,237,380	2,426,578
Bonds and other negotiable securities	988,948	650,222
Current borrowings	988,948	650,222
Total	2,226,328	3,076,800

Borrowings

The changes arising during the year in items making up non-current and current borrowings are as follows:

	Bonds and other negotiable securities
Balance at 01/01/2018	4,874,387
Additions	20,442
Payments	(1,749,750)
Net change in accrued interest	(68,279)
Balance at 31/12/2018	3,076,800
Additions	39,329
Payments	(869,150)
Net change in accrued interest	(20,651)
Balance at 31/12/2019	2,226,328

Bonds and other negotiable securities

The Company is one of the vehicles for issuing under Naturgy's Euro Medium-Term Notes programme and enjoys an irrevocable guarantee from its parent company. That programme

was established in 1999 and allowed the issuance of up to €2,000 million in total principal. After a number of expansions, most recently in December 2018, the Programme's limit was €15,000 million. A total principal of €8,725 million was outstanding at 31 December 2019, of which €2,231 million had been issued by the Company and €6,494 million by Naturgy Finance, B.V. (€9,708 million at 31 December 2018, of which €3,100 million issued by the Company and €6,608 million by Naturgy Finance, B.V.), with no amount unused (€5,292 million at 31 December 2018).

2019

The bond issued by the Company in 2011 for the amount of €236.6 million (and the associated loan granted to Naturgy Energy Group, S.A.) matured on 24 May 2019 and was repaid on that date.

The bond issued by the Company in 2009 for the amount of €338.7 million (and the associated loan granted to Naturgy Energy Group, S.A.) matured on 9 July 2019 and was repaid on that date.

On 19 November 2019, a partial tender offer was issued for bonds with a nominal value of €239.9 million euros with various maturities and annual interest rates that are listed on the London Stock Exchange. The final outcome of the tender offer was announced on 27 November 2019: the company repurchased €36.2 million of the 2021 5.125% bond and €257.7 million of the 2024 1.125% bond; at the same time, the associated loans granted to Naturgy Energy Group, S.A. for the same amounts and terms were partially repaid.

2018

On 16 January 2018, a partial tender offer was issued for bonds with a nominal value of €351.4 million euros with various maturities and annual interest rates that are listed on the London Stock Exchange. The final outcome of the tender offer was announced on 24 January 2018: the company repurchased €207.6 million of the 2019 5.375% bond and €143.8 million of the 2019 6.375% bond; at the same time, the associated loans granted to Naturgy Energy Group, S.A. for the same amounts and terms were partially repaid.

The bond issued by the Company in 2010 for the amount of €512.7 million (and the associated loan granted to Naturgy Energy Group, S.A.) matured on 26 January 2018 and was repaid on that date.

The bond issued by the Company in 2012 for the amount of €585.5 million (and the associated loan granted to Naturgy Energy Group, S.A.) matured on 13 February 2018 and was repaid on that date.

On 11 October 2018, a partial tender offer was issued for bonds with a nominal value of €281.05 million euros with various maturities and annual interest rates that are listed on the London Stock Exchange. The final outcome of the tender offer was announced on 22 October 2018: the company repurchased €55.8 million of the 2019 5.375% bond, €17.5 million of the 2019 6.375% bond, €88.15 million of the 2020 4.500% bond, €79.3 million of the 2020 6.000% bond, and €40.3% of the 2021 5.125% bond, resulting in partial repayment



of the associated loans granted to Naturgy Energy Group, S.A. for the same amounts and terms.

On 18 December 2018, a partial private redemption in the amount of €18.8 million of the 2020 4.500% bond, which is listed on the London Stock Exchange, was completed.

The detail of the combined nominal amount issued by both companies is as follows:

Issuer	Market where listed	Nominal (million euro)	Maturity	Coupon
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	555	2021	5.125%
Naturgy Finance, B.V.	Luxembourg	276	2021	3.500%
Naturgy Finance, B.V.	Luxembourg	454	2022	3.875%
Naturgy Finance, B.V.	Luxembourg	396	2023	3.875%
Naturgy Finance, B.V. (1)	Luxembourg	101	2023	3.974%
Naturgy Finance, B.V.	Luxembourg	154	2023	2.625%
Naturgy Capital Markets, S.A.	Luxembourg	742	2024	1.125%
Naturgy Finance, B.V.	Luxembourg	412	2024	2.875%
Naturgy Finance, B.V.	Luxembourg	401	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%
Naturgy Finance, B.V.	Luxembourg	750	2029	0.750%
Total		8,725		

(1) Nominal value is NOK 800 million.

The Company did not make any new issues under the Euro Medium-Term Notes Programme in 2019 and 2018; Naturgy Finance, B.V. issued €750 million (2018: €850 million).

At 31 December 2019, accrued unpaid interest amounted to €54,639 thousand (2018: €75,290 thousand), classified as current financial debt.

The aforementioned bonds are listed on the London Stock Exchange and the Luxembourg Stock Exchange.

The carrying amounts and fair value of the non-current and current financial investments in 2019 and 2018, excluding outstanding interest, is as follows (million euro):

	2019		2018	
	Nominal book value	Fair value	Nominal book value	Fair value
Less than 1 year	934	938	575	591
Between 1 and 3 years	555	609	1,525	1,659
More than 3 years	742	772	1,000	1,008
Total	2,231	2,319	3,100	3,258

Current and non-current financial investments bore interest at an average effective interest rate of 5.20% in 2019 (2018: 4.69%).

Note 8. Trade and other payables

The breakdown of this item is as follows:

	2019	2018
Trade payables	30	28
Sundry payables	31	54
Current tax liabilities (Note 10)	353	322
Other amounts payable to public authorities	5	14
Total	419	418

Most of the accounts payable do not accrue interest and mature within the legal limits.

Information on average supplier payment period. Third Additional Provision ("Reporting obligations") of Act 15/2010, of 5 July.

The average payment period is in accordance with Law 15/2010 on measures to combat late payment in business operations.

Information disclosed under the Resolution of 29 January 2016 of Instituto de Contabilidad y Auditoría de Cuentas concerning the details to be included in the notes to the annual accounts with regard to the average supplier payment period is as follows:

	2019 Days	2018 Days
Average supplier payment period (1)	56	38
Transactions paid ratio (2)	56	38
Transactions outstanding ratio (3)	-	-

	Thousand euro	
Total payments made in the year	181	197
Total payments outstanding	-	-

(1) Calculated on the basis of amounts paid and pending payment

(2) Average payment period in transactions paid during the year

(3) Average age, outstanding balance to suppliers

Note 9. Risk management and derivative financial instruments

Risk management

Naturgy has a number of standards, procedures and systems for identifying, measuring and managing different types of risk, which define the following basic action principles:

- Guaranteeing that the principal risks are correctly identified, evaluated and managed.
- Segregation of risk management functions at operating level.
- Assuring that the level of risk exposure borne by Naturgy in its business is in line with the overall risk profile.
- Ensuring the appropriate determination and review of the risk profile by the Risk Committee, proposing overall limits by risk category, and assigning them to the Business Units.

On 23 June 2016, the UK voted in a national referendum to leave the European Union ("Brexit"). The original date scheduled for the UK's departure was 29 March 2019; this was subsequently postponed to 31 October 2019 and finally to 31 January 2020. The withdrawal agreement was signed by the EU and the United Kingdom on 24 January and approved by the European Parliament on 29 January 2020; it came into force at midnight on 31 January 2020, when the United Kingdom ceased to be an EU Member State and became classified as a third country. The entry into force of the withdrawal agreement marked the beginning of a transition period until 31 December 2020 whose purpose is to give citizens and businesses time to adapt. During the transition period, the United Kingdom will continue to apply European Union law but will no longer be represented in the EU institutions. The transition period may be extended once for at most one or two years, subject to agreement by the parties before 1 July 2020. The agreement guarantees the orderly withdrawal of the United Kingdom from the European Union. Negotiations on the future relations between the EU and the United Kingdom were set to begin once the United Kingdom had left the EU; consequently, there is significant uncertainty about the future relations between the United Kingdom and the EU, including the laws and regulations that will apply. The course of the negotiations has had, and may continue to have, adverse effects on the economic and political situation of the European Union and on the stability of the international financial markets. Apart from that international impact, Naturgy's exposure to risk arising from Brexit is not considered to be material.

Interest rate risk

Fluctuations in interest rates modify the fair value of 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-rate borrowings in order to reduce borrowing costs within the established risk parameters.

All of the interest-bearing debt and loans granted to Group companies by Naturgy Capital Markets, S.A. as at 31 December 2019 and 2018 are at fixed interest rates.



Liquidity risk

The Company 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.

The Company manages liquidity risk by adapting the duration of its deposits and other financial assets to the maturity of the bond issues, and the receipt of remuneration for the deposits on the dates on which the bond coupons must be paid.

At 31 December 2019 and 2018, the Company had unused credit lines granted by Group companies and its shareholders for an amount of €30,000 thousand.

The Company's credit ratings in 2019 and 2018 were as follows:

	2019	2018
Fitch	BBB	BBB

Credit risk

The Company has provided deposits and loans to Naturgy Group companies, so that the fair value of those deposits and receivables is closely linked to the credit rating of Naturgy Energy Group, S.A.

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 rated at least "BB". No significant defaults or losses arose in 2019 or 2018.

The long-term ratings of Naturgy Energy Group, S.A. in 2019 and 2018 were as follows:

	2019	2018
Standard & Poor's	BBB	BBB
Fitch	BBB	BBB

Note 10. Tax situation

The Company reports taxes as part of Tax Group no. 59/93, whose parent company is Naturgy Energy Group, S.A., which encompasses all the companies resident in Spain that are directly or indirectly owned at least 75% by the parent company and meet certain requirements; this arrangement entails joint determination of group taxable income and of tax credits and rebates.

The following companies were members of Consolidated Tax Group no. 59/93 in 2019:

Naturgy Energy Group, S.A.	Naturgy Generación, S.L.U.
Boreas Eólica 2, S.A.	Naturgy Iberia, S.A.
Comercializadora Regulada, Gas & Power, S.A.	Naturgy Informática, S.A.
Energías Ambientales de Somozas, S.A.	Naturgy Infraestructuras Emea, S.L.
Energías Especiales Alcohólicas, S.A.	Naturgy Ingeniería Nuclear, S.L.
Europe Mahgreb Pipeline Ltd.	Naturgy Inversiones Internacionales, S.A.
Explotaciones Eólicas Sierra de Utrera, S.L.	Naturgy IT, S.L.U.
Fenosa, S.L.U.	Naturgy LNG, S.L.
Gas Natural Comercializadora, S.A.	Naturgy Participaciones, S.A.
Gas Natural Exploración, S.L.	Naturgy Renovables Ruralia, S.L.
Gas Natural Redes GLP, S.A.	Naturgy Renovables, S.L.U.
Gas Natural Transporte SDG, S.L.	Naturgy Wind 4, S.L.U.
General de Edificios y Solares, S.L.	Naturgy Wind, S.L.
Global Power Generation, S.A.	Nedgia Andalucía, S.A.
GPG Ingeniería y desarrollo de Generación, S.L.U.	Nedgia Aragón, S.A.
GPG México, S.L.U.	Nedgia Balears, S.A.
GPG México Wind, S.L.U.	Nedgia Castilla La Mancha, S.A.
Holding de Negocios de Gas, S.A.	Nedgia Catalunya, S.A.
Holding Negocios Electricidad, S.A.	Nedgia Cegas, S.A.
J.G.C. Cogeneración Daimiel, S.L.	Nedgia Madrid, S.A.
La Propagadora del Gas, S.A.	Nedgia Navarra, S.A.
Lean Corporate Services, S.L.U.	Nedgia, S.A.
Lean Customer Services, S.L.U.	Operación y Mantenimiento Energy, S.A.
Lean Grids Services, S.L.U.	P.E. El Hierro, S.L.
Lignitos de Meirama, S.A.	P.E. Montamarta, S.L.
Medina Partnership, S.A.U.	P.E. Nerea, S.L.
Naturgy Acciones, S.L.U.	P.E. Peñaroldana, S.L.
Naturgy Alfa Investments, S.A.U.	Petroleum, Oil & Gas España, S.A.
Naturgy Almacенamientos Andalucía, S.A.	Sagane, S.A.
Naturgy Aprovisionamientos, S.A.	Sociedad de Tratamiento la Andaya, S.L.
Naturgy Capital Markets, S.A.	Societat Eòlica de L'Enderrocada, S.A.
Naturgy Commodities Trading, S.A.	Tratamiento Cinca Medio, S.L.
Naturgy Distribución Latinoamérica, S.A.	UFD Distribución Electricidad, S.A.
Naturgy Electricidad Colombia, S.L.	Unión Fenosa Minería, S.A.
Naturgy Engineering, S.L.	Unión Fenosa Preferentes, S.A.U.
Naturgy Gas and Power, S.L.U.	

Corporate income tax is calculated on the basis of economic or accounting profit obtained by application of generally accepted accounting principles, which does not necessarily coincide with taxable profit, understood as taxable income for corporate income tax purposes.

The accounting profit coincides with the corporate income tax base.

Current corporate income tax is the result of applying a 25% tax rate to taxable income. No tax credits were taken in 2019 or 2018.

€663 thousand were paid on account of corporate income tax in 2019 (2018: €943 thousand).

At 31 December 2019 and 2018, there were no unused tax losses.

At 31 December 2019 and 2018, there were no unused tax credits.

Income tax expense/(revenue) is as follows:

	2019	2018
Current-year tax	1,016	1,265
Total	1,016	1,265

At 31 December 2019 and 2018, there were no deferred tax assets or liabilities.

In July 2018, tax inspection proceedings were instigated against Naturgy Energy Group, S.A. as the parent company of Group 59/93 in relation to corporate income tax and as the parent company of Group 273/08 with respect to VAT. The periods under inspection for corporate income tax purposes (tax consolidation regime) are from 2011 to 2015 and for VAT purposes (corporate group regime) from June 2014 to December 2015.

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.

The inspection proceedings are not expected to significantly impact the Group companies.

In accordance with Spanish tax legislation, at the date of preparation of these annual accounts, the Company's returns for the last four year for the principal taxes to which it is subject and which are not involved in the above-mentioned tax inspection are open to inspection.

As a result, among other things, of the different interpretations to which current tax legislation lends itself, additional liabilities could arise as a result of an inspection. The Company considers, however, that any liabilities that might arise would not significantly affect these annual accounts.

Note 11. Net financial revenue/(expense)

The breakdown of this account in the Income statement for 2019 and 2018 is as follows:

	2019	2018
Financial interest	165,619	220,452
Total financial income	165,619	220,452
Cost of borrowings	(161,392)	(215,135)
Total financial expense	(161,392)	(215,135)
Net financial income/(expense)	4,227	5,317

Financial revenues arise mainly from interest on loans granted to Naturgy Energy Group, S.A. (Note 4) for €165,619 thousand (2018: €220,452 thousand).

The cost of financial debt relates mainly to the expenses borne on the bonds issued under the Euro Medium-Term Notes programme (Note 7) for €161,392 thousand (2018: €215,135 thousand).

Note 12. Environment

Given the activities in which the Company is involved, it has no environmental liabilities, expenses, assets, provisions or contingencies that might be material with respect to its equity, financial position and results. For this reason, no specific environmental disclosures are provided in these notes to the annual accounts.

Spanish Royal Decree Law 5/2004, regulating trading of greenhouse gas emission rights in order to comply with the obligations under the Kyoto Convention and Protocol, was approved on 27 August 2004.

The Company does not have any assignments of CO₂ emission rights and has no expenses deriving from the use of emission rights. Company management does not expect any material penalty or contingency of any type to arise from compliance with the requirements established in Law 1/2005.

Note 13. Information on transactions with related parties

Related parties are as follows:

- Significant shareholders of the Company, i.e. shareholders that directly or indirectly hold an interest equal to or greater than 5%, as well as the shareholders who, without being significant, have exercised the power to appoint a member of the governing body.

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

- The Company's Sole Administrator and executives of the Company and their close relatives. The term "director" means the Sole Administrator and the term "executive" refers to personnel reporting directly to the Executive Chairman and the Internal Audit Manager of Naturgy. Transactions with directors and executives are disclosed in Note 14.
- Group companies or entities. The transactions between group companies formed part of the ordinary course of business and were performed on an arm's-length basis.

The aggregated amounts of transactions with Group companies and associates are as follows:

Expenses, revenues and other transactions	2019		2018	
	Controlling company	Group companies	Controlling company	Group companies
Financial expenses	-	-	-	-
External services	-	-	40	-
Total expenses	-	-	40	-
Financial income	165,619	-	220,452	-
Total income	165,619	-	220,452	-

Balances with Group companies and associates are disclosed in notes 4 and 5.

There were no transactions with significant shareholders in 2019 or 2018.

Note 14. Information about the Sole Administrator

The Company's Sole Administrator did not receive any remuneration, loan or advance in 2019 or 2018.

The Company has not acquired any obligations to its Sole Administrator in connection with pensions or life insurance.

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 Capital Companies Law. Additionally, those articles require that conflicts of interest involving directors must be reported in the annual accounts.

The Sole Administrator of Naturgy Capital Markets, S.A. has not reported any conflicts of interest requiring disclosure.

During 2019 and 2018, the Sole Administrator did not carry out transactions with the Company or Group companies outside the ordinary course of business or other than on an arm's-length basis.

The Sole Administrator is covered with the same liability policy that insures all directors and executives of Naturgy. The amount of the premium paid by the Company for the entire policy was €1 thousand in 2019 (2018: €1 thousand).

Note 15. Applicability of international accounting standards

Article 537 of the Capital Companies Law establishes that companies that issue securities that are listed on a regulated market in any Member State of the European Union and that, in accordance with the regulations in force, only publish separate annual accounts, are obliged to disclose, in the notes to annual accounts, the main changes that would arise in equity and in the income statement if the international accounting standards approved by the European Commission Regulations (EU-IFRS) had been applied.

In accordance with IFRS 9, which establishes the criteria for classification, measurement and derecognition of financial assets and liabilities and introduces new rules for hedge accounting and a new model for the impairment of financial assets, the Company chose not

to adopt the new standard in advance, opting not to restate the comparative information for 2017, and recognised the adjustment to the carrying amount of financial assets and liabilities in reserves at 1 January 2018.

The effects of initial application of IFRS 9 for 2019 and 2018 would have been as follows:

- a) Classification of financial assets: financial assets continued to be measured at amortised cost from 1 January 2018 as the Company holds those assets mainly to obtain the contractual cash flows
- b) Exchange of debt instruments: the Company carried out refinancing operations in which, in accordance with IAS 39, there were no substantial variations in the debt instrument and therefore the carrying amount of the liability was adjusted based on the relevant costs and commissions, which were amortised over the remaining useful life of the adjusted liability. Under IFRS 9, in operations involving changes to financial liabilities it is necessary to determine the value of the cash flows of the new financial liability calculated using the effective internal rate of return of the old financial liability, and to recognise any difference between the new and original carrying amounts in the income statement. The impact at 1 January 2018 would have been a decrease of €31,752 thousand in financial liabilities with a corresponding increase in deferred tax liabilities of €7,938 thousand. The impact at 1 January 2018 on loans granted to Naturgy Energy Group and the increase in deferred tax assets would also have been recognised.
- c) Impairment of financial assets: The Company applies the general approach of expected losses for financial assets. Based on the estimates made, the application of this model would have no impact either at the date of entry into force of the new standard or at year-end.

In summary, the impact of the adoption of IFRS 9 on the balance sheet and income statement at 31 December 2019 and 2018 would have been as follows:

	(thousands of euros)	
	31 December	
	2019	2018
Non-current financial assets	(16,356)	(26,425)
Deferred tax assets	4,089	6,606
NON-CURRENT ASSETS	(12,267)	(19,819)
Non-current financial liabilities	(16,975)	(27,442)
Deferred tax liabilities	4,244	6,860
NON-CURRENT LIABILITIES	(12,731)	(20,582)
Reserves (1)	898	898
Prior year's income	(135)	-
Profit/(loss) for the year	(299)	(135)
Equity	464	763

(1) Impact of adjustment in 2017



	(thousands of euros)	
	2019	2018
Financial income	10,068	4,130
Financial expenses	(10,467)	(4,310)
NET FINANCIAL INCOME/(EXPENSE)	(399)	(180)
PROFIT/(LOSS) BEFORE TAXES	(399)	(180)
Corporate income tax	(100)	(45)
PROFIT/(LOSS) FOR THE YEAR	(299)	(135)

Note 16. Auditors' fees

The fees accrued in the year by Ernst & Young, S.L. for audit services in 2019 amounted to €31 thousand (2018: €31 thousand).

No fees accrued during the year to other companies using the E&Y trademark.

Note 17. Events after the reporting date

No material additional events took place between year-end and the date of authorisation of these annual accounts that the Company considers might have a material impact on same.



NATURGY CAPITAL MARKETS, S.A.

CERTIFICATE: It is hereby certified by the Sole Administrator, Mr. ENRIQUE BERENGUER MARSAL, that on 4 February 2020 he authorised the 2019 Annual Accounts, comprising the balance sheet, income statement, statement of recognised revenues and expenses, total statement of changes in equity, cash flow statement and notes to the annual accounts, set out on 24 sheets of paper, numbered 1 to 24, both inclusive, bearing the Company stamp and his signature for identification purposes on all pages.

The Company's Sole Administrator then signed those documents by signing this sheet number 25, which is incorporated as an annex to the Company's annual accounts for 2019.

Mr. Enrique Berenguer Marsal
Sole Administrator



DIRECTORS' REPORT

Naturgy Capital Markets, S.A.

Directors' report at 31 December 2019

Naturgy Capital Markets, S.A. (hereinafter "the Company") was incorporated on 23 May 2005, and its object is the issuance of debt financial instruments, including ordinary or subordinated debt, in accordance with the First Additional Provision of the Law 10/2014, of 26 June, on the organization, supervision and solvency of credit institutions, or with the Capital Companies Law or such legislation as replaces or complements them at any time.

The securities issued are bonds that are traded ordinarily on the London Stock Exchange and on the Luxembourg Stock Exchange, and they are backed by an irrevocable joint and several guarantee by Naturgy Energy Group, S.A. (the parent company of Naturgy).

The shareholders of Naturgy Capital Markets, S.A. are Naturgy Energy Group, S.A. (99.9%) and Naturgy Acciones, S.L.U. (0.1%).

1. Highlights of the period

The bond issued by the Company in 2011 for the amount of €236.6 million (and the associated loan granted to Naturgy Energy Group, S.A.) matured on 24 May 2019 and was repaid on that date.

The bond issued by the Company in 2009 for the amount of €338.7 million (and the associated loan granted to Naturgy Energy Group, S.A.) matured on 9 July 2019 and was repaid on that date.

On 19 November 2019, a partial tender offer was issued for bonds with a nominal value of €239.9 million euros with various maturities and annual interest rates that are listed on the London Stock Exchange. The final outcome of the tender offer was announced on 27 November 2019: the company repurchased €36.2 million of the 2021 5.125% bond and €257.7 million of the 2024 1.125% bond; at the same time, the associated loans granted to Naturgy Energy Group, S.A. for the same amounts and terms were partially repaid.

On 28 November 2019, Naturgy Finance, B.V. completed the issuance of a €750 million bond in the Euromarket maturing in November 2029, with an annual coupon of 0.75%, through the Euro Medium Term Notes (EMTN) programme that it shares with the Company.

The Company did not make any new issues under the Euro Medium-Term Notes Programme in 2019; rather, it was Naturgy Finance, B.V. that issued the €750 million referred to above.



Consequently, the total aggregate nominal value of both companies' outstanding issues at 31 December 2019 was €8,725 million, with the following maturities:

Issuer	Market where listed	Nominal (million euro)	Maturity	Coupon
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	555	2021	5.125%
Naturgy Finance, B.V.	Luxembourg	276	2021	3.500%
Naturgy Finance, B.V.	Luxembourg	454	2022	3.875%
Naturgy Finance, B.V.	Luxembourg	396	2023	3.875%
Naturgy Finance, B.V. (1)	Luxembourg	101	2023	3.974%
Naturgy Finance, B.V.	Luxembourg	154	2023	2.625%
Naturgy Capital Markets, S.A.	Luxembourg	742	2024	1.125%
Naturgy Finance, B.V.	Luxembourg	412	2024	2.875%
Naturgy Finance, B.V.	Luxembourg	401	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%
Naturgy Finance, B.V.	Luxembourg	750	2029	0.750%
Total		8,725		

(1) Nominal value is NOK 800 million.

2. Business risks

The Company's activity is exposed to several risks. Within the framework of Naturgy's risk management policies, the Company has a series of rules, procedures and systems designed to identify, measure and manage the various risk categories to ensure that the most significant risks are correctly identified, assessed and managed and that the level of risk exposure assumed is consistent with the company's target overall risk profile and the attainment of annual and strategic objectives.

Since the bonds issued are guaranteed by Naturgy Energy Group, S.A., the business risk is tied to Naturgy.

3. Analysis of results

Net profit in 2019 amounted to €3,048 thousand, a 19.68% decrease with respect to 2018.

Financial income amounted to €4,227 thousand in 2019, a decrease of 20.50% compared with 2018, mainly because financial revenues declined more sharply than financial expenses.

Financial and similar revenues amounted to €165,619 thousand, a decrease of 24.87% with respect to 2018, and were basically obtained by the Company on loans granted to Naturgy Energy Group, S.A. and from investing its cash position vis-à-vis other Naturgy companies.



Financial and similar expenses amounted to €161,392 thousand, 24.98% less than in 2018, and were basically those borne by the Company on the funding raised in the form of bonds.

The Company's interest-bearing debt to third parties other than Naturgy was €2,226,328 thousand at 31 December 2019, 27.64% less than at 31 December 2018.

4. Research, development and technological innovation

The Company did not engage in any R&D or innovation activities in 2019.

5. Environment

Given the activities in which the Company is involved, it has no environmental liabilities, expenses, assets, provisions or contingencies that might be material with respect to its equity, financial position and results.

6. Projected performance

The Company will continue to be one of Naturgy's corporate funding vehicles, basically through issues under the Euro Medium-Term Notes (EMTN) programme.

7. Events after the reporting date

No material additional events took place between year-end and the date of authorisation of these annual accounts that the Company considers might have a material impact on same.

8. Treasury stock

The Company did not hold any own shares in 2019.

9. Corporate governance report

As indicated in the notes to annual accounts, the Company is part of Naturgy. The Consolidated Corporate Governance Report of Naturgy Energy Group, S.A. (the controlling company of Naturgy) and dependent companies is available on the websites of the Spanish National Securities Market Commission (www.cnmv.es) and of Naturgy (www.naturgy.com).



NATURGY CAPITAL MARKETS, S.A.

CERTIFICATE: It is hereby certified that, on 4 February 2020, the Sole Administrator, Mr. Enrique Berenguer Marsal, authorised the Directors' Report, set out 3 pages, numbered 1 to 3, inclusive, all bearing the company's stamp and the signature of the undersigned for identification purposes.

The Sole Administrator then signed those documents by signing this page number 4, which is incorporated as an annex to the Company's 2019 Directors' Report.

Mr. Enrique Berenguer Marsal
Sole Administrator