Auditor's Report on Naturgy Capital Markets, S.A.

(Together with the annual accounts and directors' report of Naturgy Capital Markets, S.A. for the year ended 31 December 2021)

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

KPMG Auditores, S.L.
Torre Realia
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(Barcelona)

Independent Auditor's Report on the Annual Accounts

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

To the shareholders of Naturgy Capital Markets, S.A.

REPORT ON THE ANNUAL ACCOUNTS

Opinion

We have audited the annual accounts of Naturgy Capital Markets, S.A. (the "Company"), which comprise the balance sheet at 31 December 2021, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes.

In our opinion, the accompanying annual accounts give a true and fair view, in all material respects, of the equity and financial position of the Company at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with the applicable financial reporting framework (specified in note 2 to the accompanying annual accounts) and, in particular, with the accounting principles and criteria set forth therein.

Basis for Opinion

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

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

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

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Key Audit Matters

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

Recoverability of current and non-current investments in Group companies and associates (see notes 3.1 and 4 to the annual accounts)

At 31 December 2021 the Company has recognised non-current and current investments in Group companies and associates amounting to Euros 710,173 thousand and Euros 7,702 thousand, respectively, which correspond to loans extended to Naturgy Energy Group, S.A. (majority shareholder) and which represent almost all of the assets on the balance sheet. The Company's exposure, in terms of credit risk, to Naturgy Energy Group, S.A. could have a significant impact on the Company's annual accounts.

Taking into account the circumstances described in the previous paragraph, and that the loans extended and those received from third parties outside the Group are secured by Naturgy Energy Group, S.A., the analysis of the Naturgy Group's financial position should be considered a key audit matter.

Our audit procedures included assessing the financial position of Naturgy Energy Group, S.A. through access to the financial information available in each case; evaluating the credit ratings of Naturgy Energy Group, S.A. made by prestigious rating agencies; reading and analysing the terms and conditions set out in the loan agreements between the parties and analysing the calculations of amortised cost based on effective interest rates. We also assessed whether the disclosures included in the annual accounts meet the requirements of the applicable financial reporting framework.

Other Information: Directors' Report

Other information solely comprises the 2021 directors' report, the preparation of which is the responsibility of the Company's Sole Director and which does not form an integral part of the annual accounts.

Our audit opinion on the annual accounts does not encompass the directors' report. Our responsibility for the directors' report, in accordance with the requirements of prevailing legislation regulating the audit of accounts, consists of assessing and reporting on the consistency of the directors' report with the annual accounts, based on knowledge of the entity obtained during the audit of the aforementioned annual accounts, and assessing and reporting on whether the content and presentation of the directors' report are in accordance with applicable legislation. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report them.

Based on the work carried out, as described in the preceding paragraph, the information contained in the directors' report is consistent with that disclosed in the annual accounts for 2021 and the content and presentation of the report are in accordance with applicable legislation.

Sole Director’s and Audit Committee's Responsibility for the Annual Accounts

The Sole Director is responsible for the preparation of the accompanying annual accounts in such a way that they give a true and fair view of the equity, financial position and financial performance of the Company in accordance with the financial reporting framework applicable to the entity in Spain, and for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, 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 majority shareholder's audit committee, in which the Company’s audit committee functions are delegated, is responsible for supervising the preparation and presentation of the annual accounts.

Auditor's Responsibilities for the Audit of the Annual Accounts

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

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

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

– Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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- 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 annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves a true and fair view.

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

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

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

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REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional Report to the Audit Committee

The opinion expressed in this report is consistent with our additional report to the audit committee of Naturgy Capital Markets, S.A.'s majority shareholder dated 3 February 2022.

Contract Period

We were appointed as auditor by the shareholders at the ordinary general meeting on 3 March 2021 for a period of three years, from the year ended 31 December 2021.

KPMG Auditores, S.L.
On the Spanish Official Register of Auditors ("ROAC") with No. S0702

(Signed on the original in Spanish)

Olga Sánchez López
On the Spanish Official Register of Auditors ("ROAC") with No. 15865

3 February 2022

Naturgy Capital Markets, S.A.
2021 Report

ANNUAL ACCOUNTS

Naturgy Capital Markets, S.A.

This 2021 Annual Report is a translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish language version prevails.

Naturgy Capital Markets, S.A.

BALANCE SHEET OF NATURGY CAPITAL MARKETS, S.A.	(thousand euro)	
	31 December	
	2021	2020
NON-CURRENT ASSETS	**710,173**	**696,795**
Long-term investments in group companies and associates *(Note 4)*	**710,173**	**696,795**
Loans to companies	710,173	696,795
CURRENT ASSETS	**7,703**	**566,509**
Short-term investments in group companies and associates *(Note 4)*	**7,702**	**566,508**
Loans to companies	7,702	566,508
Short-term prepayments and accrued expenses	**1**	**1**
TOTAL ASSETS	**717,876**	**1,263,304**
EQUITY *(Note 5)*	**1,395**	**1,559**
Shareholders' funds	**1,395**	**1,559**
Capital	**100**	**100**
Authorised capital	100	100
Reserves	**20**	**20**
Legal	20	20
Profit/(loss) for the year	**1,275**	**1,439**
NON-CURRENT LIABILITIES	**710,290**	**696,926**
Long-term borrowings *(Note 6)*	**710,290**	**696,926**
Bonds and other negotiable securities	710,290	696,926
CURRENT LIABILITIES	**6,191**	**564,819**
Short-term borrowings *(Note 6)*	**6,034**	**564,612**
Bonds and other negotiable securities	6,034	564,612
Trade and other payables *(Note 7)*	**157**	**207**
Trade payables	15	30
Current tax liabilities *(Note 9)*	142	177
TOTAL EQUITY AND LIABILITIES	**717,876**	**1,263,304**

Notes 1 to 16 form an integral part of these annual accounts

Naturgy Capital Markets, S.A.

INCOME STATEMENT OF NATURGY CAPITAL MARKETS, S.A.	(thousand euro)	
	2021	**2020**
		(restated)
Net revenues (Note 10)	**47,745**	**55,792**
Interest on loans, group companies and associates	47,745	55,792
Operating expenses (Note 10)	**(45,949)**	**(53,749)**
Interest expenses on debt to third parties	(45,949)	(53,749)
Other operating expenses	**(96)**	**(124)**
External services	(95)	(123)
Taxes	(1)	(1)
OPERATING PROFIT/(LOSS)	**1,700**	**1,919**
NET FINANCIAL REVENUE/(EXPENSE)	**-**	**-**
PROFIT/(LOSS) BEFORE TAXES	**1,700**	**1,919**
Income tax *(Note 9)*	**(425)**	**(480)**
PROFIT/(LOSS) FOR THE YEAR	**1,275**	**1,439**

Notes 1 to 16 form an integral part of these annual accounts

Naturgy Capital Markets, S.A.

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

A) STATEMENT OF RECOGNISED REVENUES AND EXPENSES **(thousand euro)**

	2021	2020
Profit/(loss) for the year	**1,275**	**1,439**
Revenues and expenses recognised directly in equity	**-**	**-**
Transfers to income statement	**-**	**-**
TOTAL REVENUE AND EXPENSE RECOGNISED IN EQUITY	**1,275**	**1,439**

B) TOTAL STATEMENT OF CHANGES IN EQUITY **(thousand euro)**

	Share capital	Reserves	Prior year's income	Profit/(loss) for the year	Total
BALANCE as of 01/01/2020	**100**	**20**	**-**	**3,048**	**3,168**
Total recognised revenue and expense	-	-	-	1,439	1,439
Transactions with shareholders or owners					
- Distribution of dividends	-	-	(3,048)	-	(3,048)
Other variations in equity	-	-	3,048	(3,048)	-
BALANCE at 31/12/2020	**100**	**20**	**-**	**1,439**	**1,559**
Total recognised revenue and expense	-	-		1,275	1,275
Transactions with shareholders or owners					
- Distribution of dividends	-	-	(1,439)		(1,439)
Other variations in equity	-	-	1,439	(1,439)	-
BALANCE as of 31/12/2021	**100**	**20**	**-**	**1,275**	**1,395**

Notes 1 to 16 form an integral part of these annual accounts

Naturgy Capital Markets, S.A.

CASH FLOW STATEMENT OF NATURGY CAPITAL MARKETS, S.A.		(thousand euro)
	2021	**2020**
Profit for the year before tax	**1,700**	**1,919**
Adjustments to results	**(1,796)**	**(2,043)**
Financial revenues	(47,745)	(55,792)
Financial expenses	45,949	53,749
Changes in working capital	**(15)**	**(37)**
Creditors and other payables	(15)	(36)
Asset accruals	-	(1)
Other cash flows from operating activities	**1,485**	**2,697**
Interest paid	(36,763)	(84,139)
Interest receipts	38,708	87,492
Income tax receipts/(payments)	(460)	(656)
Cash flows from operating activities	**1,374**	**2,536**
Amounts received from divestments	**554,465**	**934,912**
Group companies and associates	554,465	934,912
Cash flows from investing activities	**554,465**	**934,912**
Receipts and payments from financial liability instruments	**(554,400)**	**(934,400)**
Repayment/redemption of:	(554,400)	(934,400)
Bonds and other negotiable securities	(554,400)	(934,400)
Dividends and remuneration of other equity instruments paid	**(1,439)**	**(3,048)**
Dividends	(1,439)	(3,048)
Cash flow from financing activities	**(555,839)**	**(937,448)**
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 16 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 2021

Note 1. General information

Naturgy Capital Markets, S.A. (hereinafter the Company) is a public limited company incorporated on 23 May 2005; on 1 September 2021, it moved its registered offices for mercantile and tax purposes to Avenida de América 38, Madrid (from Avenida San Luis 77, 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, and 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 de América 38, Madrid. The consolidated annual accounts of Naturgy for 2020 were approved at the general shareholders' meeting held on 9 March 2021 and filed at the Madrid Mercantile Registry.

Note 2. Basis of presentation

The Company's annual accounts for 2020 were approved by the general shareholders' meeting on 3 March 2021

These annual accounts, which were authorised by the Sole Administrator on 3 February 2022, will be submitted to the General Meeting for approval and are expected to be approved without any changes.

The accompanying annual accounts are presented in accordance with current mercantile legislation and with the rules laid down in the National Chart of Accounts approved by Royal Decree 1514/2007 of 16 November, as amended by Royal Decree 1159/2010 of 17 September, Royal Decree 602/2016 of 2 December, and Royal Decree 1/2021 of 12 January, as well as by the adoption of the Resolution of 10 February 2021 of the Spanish Institute of Accounting and Auditing which lays down rules for the recognition, valuation and preparation of the annual accounts for the recognition of revenue from sales of goods and services.

These annual accounts have been prepared based on the Company's accounting records in order to fairly present its equity and financial position at 31 December 2021, as well as the Company's results, changes in equity and cash flows for the year then ended.

The figures set out these annual accounts are expressed in thousand euros, unless otherwise stated. In addition to the figures for 2021, the annual accounts present, for comparative purposes, for each item in the balance sheet, income statement, statement of changes in equity, cash-flow statement and notes to the accounts, the figures corresponding to the previous year which formed part of the 2020 annual accounts.

The accounting principles and the main measurement standards used by the Company to prepare the annual accounts for the year are the same as those applied in the Company's annual accounts for the year ended 31 December 2020, except for the adoption of Royal Decree 1/2021 and the adoption of the Resolution of 10 February 2021 of the Spanish Institute of Accounting and Auditing, which lays down rules for the recognition, valuation and preparation of the annual accounts for the recognition of revenue from sales of goods and services.

The main changes essentially concern the transposition to local accounting standards of the bulk of the standards contained in EU-IFRS 9, EU-IFRS 15, EU-IFRS 7 and EU-IFRS 3.

The impacts on the Company resulting from the adoption of Royal Decree 1/2021 are as follows:

Financial instruments

New criteria are introduced for classifying, measuring and derecognising financial assets and liabilities, and new rules are introduced for hedge accounting.

Upon first-time application of this standard on 1 January 2021, the company opted for the practical expedient of not restating comparative information for 2020, instead choosing prospective application for hedge accounting and classification of financial instruments.

It elected to change the 2020 classification of assets and liabilities without affecting their valuation. The company did not have any adjustments to the carrying amount of financial assets and liabilities in reserves at 1 January 2021.

The impacts derived from initial application have been as follows:

<u>Classification of financial assets</u>

The only impact on the Company arising from the adoption of Royal Decree 1/2021 relates to the classification and measurement of financial assets. Pursuant to the second transitional provision of Royal Decree 1/2021, the Company applied the new classification and measurement criteria for financial assets and liabilities retroactively, in accordance with the provisions of accounting and measurement standard 22 "Changes in accounting policies, accounting errors and estimates" of the Spanish National Accounting Plan.

The equivalence between amounts classified by categories of financial assets as of 31 December 2020 and 1 January 2021 is as follows:

	31.12.2020	**01.01.2021**
Trade and other receivables	1,263,303	-
Financial assets at amortised cost	-	1,263,303

Apart from changes in the names of categories of financial assets, Royal Decree 1/2021 did not have any impact on the company's equity.

<u>Classification of financial liabilities</u>

The equivalence between amounts classified by categories of financial liabilities as of 31 December 2020 and 1 January 2021 is as follows:

Naturgy Capital Markets, S.A.

	31.12.2020	01.01.2021
Trade and other payables	1,261,538	-
Financial liabilities at amortised cost	-	1,261,538

Accordingly, financial assets classified by class and category at 31 December 2020 break down as follows:

At 31 December 2020	Amortised cost	Total
Loans	696,795	696,795
Non-current investments in group companies	**696,795**	**696,795**
Loans	566,508	566,508
Current investments in group companies	**566,508**	**566,508**

Financial liabilities, classified by class and category, at 31 December 2020 are as follows:

At 31 December 2020	Amortised cost	Total
Bonds and other negotiable securities	696,926	696,926
Non-current financial liabilities	**696,926**	**696,926**
Bonds and other negotiable securities	564,612	564,612
Current financial liabilities	**564,612**	**564,612**

Restatement of 2020 income statement

Article 34.1 of the Spanish Accounting and Audit Institute Resolution of February 2021, which establishes rules for recognition and measurement and for the preparation of annual accounts for the recognition of revenues from the delivery of goods and services, clarifies the criteria for classifying revenues and expenses from a company's ordinary business activities. Since obtaining financial revenues by obtaining credit facilities in the financial market is the Company's ordinary business activity, the revenues and expenses from this activity should be presented under "Operating profit/(loss)". Consequently, the Company restated the 2020 income statement as shown below to make it comparable with that of the reporting year:

	(thousand euro)		
	2020	**Reclassifications**	**2020**
			(restated)
Net revenues (Note 10)	**-**	**55,792**	**55,792**
Interest on loans, group companies and associates	-	55,792	55,792
Operating expenses (Note 10)	**-**	**(53,749)**	**(53,749)**
Interest expenses on debt to third parties	-	(53,749)	(53,749)
Other operating expenses	**(124)**	**-**	**(124)**
External services	(123)	-	(123)
Taxes	(1)	-	(1)
OPERATING PROFIT/(LOSS)	**(124)**	**2,043**	**1,919**
Financial revenues *(Note 10)*	**55,792**	**(55,792)**	-
Negotiable securities and other financial instruments	55,792	(55,792)	-
Group companies and associates	55,786	(55,786)	-
Third parties	6	(6)	-
Financial expenses *(Note 10)*	**(53,749)**	**53,749**	-
Borrowings from third parties	(53,749)	53,749	-
NET FINANCIAL REVENUE/(EXPENSE)	**2,043**	**(2,043)**	-
PROFIT/(LOSS) BEFORE TAXES	**1,919**	**-**	**1,919**

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

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

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

a) Financial assets at cost

This category includes equity investments in Group companies and associates, as well as investments in equity instruments whose fair value cannot be determined by reference to a quoted price in an active market for an identical instrument or cannot be reliably estimated.

They are carried at the lower of acquisition cost, which is equivalent to the fair value of the consideration provided plus directly-attributable transaction costs, or fair value in the case of investments acquired through business combinations, and recoverable value. The recoverable value is determined as the higher of fair value minus selling costs and the present value of the cash flows generated by the investment. If there is no better evidence of recoverable value, it is taken to be the equity of the investee company adjusted by any unrealised capital gains subsisting at the valuation date. The value adjustment and any reversal is recognised in the income statement in the year in which it takes place.

b) Financial assets at amortised cost

These are non-derivative financial instruments which are held to collect contractual cash flows when those cash flows consist only of principal and interest payments. They are classified as 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. Interest revenues on these financial assets are recognised as financial revenues, any gain or loss arising on their derecognition is recognised directly in profit or loss, and impairment losses are presented as a separate item in the income statement.

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 at fair value, both initially and in subsequent remeasurements, and the changes in their value are recognised in profit or loss.

Equity instruments in this category are recognised at fair value, and fair value changes or the proceeds from their sale are recognised in profit or loss.

The fair values of listed investments are based on their listed prices (Level 1). In the case of shareholdings in unlisted companies, fair value is determined using valuation techniques that include the use of recent transactions between willing knowledgeable parties, references to substantially similar instruments, and the analysis of discounted future cash flows (Levels 2 and 3). If none of these techniques can be used to determine fair value, the investments are carried at cost less any impairment loss.

d) Equity instruments at fair value through equity

These are equity instruments for which the company has made an irrevocable choice at the time of initial recognition to account for them in this category. They are recognised at fair value, and fair value changes are recognised in equity. However, impairment adjustments and dividends from such investments are recognised in results for the period. At the time of sale, gains or losses are reclassified to profit or loss.

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

- Level 1: Valuations based on the listed price of identical instruments in an active market. Fair value is based on listed market prices at the balance sheet date.

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

- Level 3: Measurements based on variables that are not based on observable market information.

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

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

Impairment of financial assets is based on their recoverable value. The company recognises impairment of financial assets at each reporting date.

Financial liabilities

a) Financial assets at amortised cost
Borrowings are initially recognised at fair value, net of any transaction costs incurred. Any difference between the amount received and the repayment value is recognised in profit or loss over the debt repayment period using the effective interest rate method, and the financial liabilities are classified subsequently as being measured at amortised cost.

In the event of contractual modifications to a liability at amortised cost that do not result in derecognition, any transaction costs or fees incurred are adjusted in the carrying amount of the financial liability. Thereafter, the amortised cost of the financial liability is determined by applying the effective interest rate that matches the carrying amount of the financial liability with the cash flows payable under the new terms.
The difference between the carrying amount of a derecognised financial liability and the consideration paid is recognised in profit or loss.

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

In addition, trade and other current payables are financial liabilities that fall due in less than twelve months; they are initially recognised at fair value, do not accrue explicit interest, and are carried at their nominal value. Those maturing in more than 12 months are classified as non-current.

b) Financial liabilities at fair value through profit or loss
These are liabilities acquired for short-term sale. Derivatives form part of this category unless they are designated as hedges. These financial liabilities are stated at fair value both initially and in subsequent remeasurements, and fair value changes are recognised in profit or loss.

3.2 Share capital

Share capital is represented by ordinary shares.

The cost of issuing new shares, net of taxes, is deducted from equity as a deduction from reserves, or from the share premium in the case of issues of capital with a premium.

Dividends on ordinary shares are recognised as a deduction from equity when they are declared.

3.3 Income tax

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

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

Deferred taxes 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 the 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.

3.4 Recognition of revenues and expenses

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

The effective interest rate is the discount rate that matches the carrying amount of a financial instrument with the estimated cash flows over the expected life of the instrument, based on its contractual terms and conditions and for financial assets without considering future credit losses, except for those acquired or originated with incurred losses, for which the effective interest rate adjusted for credit risk, i.e. considering the credit losses incurred at the time of acquisition or origination, is used.

Revenues and expenses are measured at fair value and recognised as a function of the actual flow of related goods or services, regardless of when the monetary or financial flow arises.

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.

3.5 Transactions between related parties

In general, transactions between related parties are recognised initially at fair value. If the agreed price differs from fair value, the difference is recognised taking into account the economic reality of the transaction. 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 and any value adjustments and any amounts of capital or share premium issued by the acquiring company, is recorded under Reserves in the balance sheet.

3.6 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 give rise to the Company's ordinary 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 generate changes in the size and composition of equity and liabilities and do not form part of operating activities.

3.7 Significant accounting estimates and judgments

The preparation of annual accounts requires estimates and judgments to be made. Below are the measurement policies that require the greatest use of estimates:

a) Income tax (Note 3.3)

Calculation of the income tax expense requires interpretation of tax legislation in the jurisdictions in which the Company operates. Determining the expected outcomes of ongoing disputes and litigation requires significant estimates and judgment.

The Company evaluates the recoverability of deferred tax assets based on estimates of future taxable income and the capacity of the Company to generate sufficient profits during the periods in which these 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.

b) COVID-19

The COVID-19 pandemic raised major challenges to commercial activities and introduced a high degree of uncertainty as to economic performance and world energy demand.

In 2020, the confinement of a large proportion of the world population depressed economic activity and triggered widespread declines in macroeconomic indicators, energy demand and prices of the main energy variables.

In 2021, the effects of the COVID-19 pandemic increased the uncertainty about the outlook for individual companies and for the economy in general, and there was a supply and demand shock in the international markets for energy commodities that commenced in the third quarter of 2021, consisting of a sharp recovery in demand while supply lagged behind.

The Naturgy Group monitors the evolution of the economic cycle in the short and long term, as a result of the impact of COVID-19 or other factors, with the objective of minimising the likelihood that further deteriorations or sharp recoveries in the current economic situation in the markets in which it operates might have material adverse effects on the Naturgy Group's business, prospects, financial position and the results of its operations.

Those prospects were considered when making the estimates and assumptions that are necessary to draw up the annual accounts, as detailed in the corresponding notes.

Note 4. Investments in group companies and associates

The investments in Group companies and associates are classified into categories as follows as at

31 December 2021 and 31 December 2020:

31 December 2021	Financial assets at amortised cost	Total
Loans to group undertakings	710,173	710,173
Non-current financial assets	**710,173**	**710,173**
Loans to group undertakings	7,702	7,702
Current financial assets	**7,702**	**7,702**
Total	**717,875**	**717,875**

31 December 2020	Financial assets at amortised cost	Total
Loans to group undertakings	696,795	696,795
Non-current financial assets	**696,795**	**696,795**
Loans to group undertakings	566,508	566,508
Current financial assets	**566,508**	**566,508**
Total	**1,263,303**	**1,263,303**

Loans to group companies

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

	Loans to Group companies and associates
Balance as of 01/01/2020	**2,229,915**
Increase	13,570
Receipts	(934,912)
Net change in accrued interest	(45,270)
Balance as of 31/12/2020	**1,263,303**
Increase	13,844
Receipts	(554,465)
Net change in accrued interest	(4,807)
Balance as of 31/12/2021	**717,875**

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 €742 million at 31 December 2021 and €1,297 million at 31 December 2020) under the Euro Medium-Term Note programme, which mature in 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.).

Bonds amounting to €555 million and €934 million matured in 2021 and 2020, respectively (Note 6). As a result, loans granted to Naturgy Energy Group, S.A. were repaid to cover that disbursement.

At 31 December 2021, accrued unpaid interest amounted to €6,871 thousand (2020: €11,679 thousand).

Additionally, at 31 December 2021, this heading included a balance of €831 thousand (2020: €869 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 2021 and 2020.

The average interest accrued on current and non-current investments in Group companies and associates in 2021 in connection with these loans is 3.96% (2020: 4.09%).

The carrying amounts and fair value of the non-current and current financial investments in 2021 and 2020, excluding interest receivable, is as follows (million euro):

	2021		2020	
	Nominal book value	Fair value	Nominal book value	Fair value
Less than 1 year	-	-	555	586
Between 1 and 3 years	742	763	-	-
More than 3 years	-	-	742	771
Total	**742**	**763**	**1,297**	**1,357**

Note 5. Equity

The main equity items are as follows:

Share capital

The variations in 2021 and 2020 in the number of shares and share capital accounts were as follows:

	Number of shares	Share capital
1 January 2020	**1,000**	**100**
Variation	-	-
31 December 2020	**1,000**	**100**
Variation	-	-
31 December 2021	**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 2021 and 2020.

Holdings in the Company's share capital at 31 December 2021 and 2020 are as follows:

	Interest in share capital %	
	2021	2020
Naturgy Energy Group, S.A.	99.9000	99.9000
Naturgy Acciones, S.L.U.	0.1000	0.1000

Reserves

"Reserves" includes the following reserves:

	2021	2020
Statutory reserve	20	20
Total	**20**	**20**

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 2021 and 2020, this reserve was fully funded as required by law.

Profit for the year

The proposed distribution of the net profit for 2021 that the Sole Administrator will submit to the Shareholders' Meeting for approval is as follows:

Available for distribution	
Profit and loss	1,275
Distribution	
To dividend	1,275

The distribution for 2020 consisted of the distribution of €1,439 thousand in dividends, paid on 12 March 2021.

Note 6. Financial liabilities

Set out below is a breakdown of financial liabilities, excluding "Trade and other payables", at 31 December 2021 and 31 December 2020, by nature and category:

31 December 2021	Financial liabilities at amortised cost	Total
Bonds and other negotiable securities	710,290	710,290
Non-current financial liabilities	**710,290**	**710,290**
Bonds and other negotiable securities	6,034	6,034
Current financial liabilities	**6,034**	**6,034**
Total	**716,324**	**716,324**

31 December 2020	Financial liabilities at amortised cost	Total
Bonds and other negotiable securities	696,926	696,926
Non-current financial liabilities	**696,926**	**696,926**
Bonds and other negotiable securities	564,612	564,612
Current financial liabilities	**564,612**	**564,612**
Total	**1,261,538**	**1,261,538**

Interest-bearing debt

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

	Bonds and other negotiable securities
Balance as of 01/01/2020	**2,226,328**
Increase	13,574
Payments	(934,400)
Net change in accrued interest	(43,964)
Balance at 31/12/2020	**1,261,538**
Increase	13,827
Payments	(554,400)
Net change in accrued interest	(4,641)
Balance as of 31/12/2021	**716,324**

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 November 2021, the Programme's limit is now €12,000 million. A total principal of €8,110 million was outstanding at 31 December 2021, of which €742 million had been issued by the Company and €7,368 million by Naturgy Finance, B.V. (€8,941 million outstanding at 31 December 2020, of which €1,297 million issued by the Company and €7,644 million by Naturgy Finance, B.V.), with an amount of €3,890 million not yet drawn (2020: €3,059 million).

As is customary in the euromarket, the outstanding bonds, in the amount of Euros 8,110 million (Euros 8,941 million at 31 December 2020), could be accelerated if a change in control triggered a downgrade of more than two full notches in at least two of the company's three ratings, and all the ratings fell below investment grade, provided that the rating agency stated that the rating downgrade resulted from the change of control.

2021

A bond amounting to €555 million with an average coupon of 5.125% (and the associated loan to Naturgy Energy Group, S.A.) matured in November 2021 and was repaid on that date.

2020

Two bonds totalling €934 million with an average coupon of 5.07% (and the associated loan to Naturgy Energy Group, S.A.) matured in January 2020 and were repaid on that date.

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

Issuer	Market where listed	Nominal (million euro)	Maturity	Coupon
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	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	900	2029	0.750%
Total		**8,110**		

(1) Nominal value is NOK 800 million.

At 31 December 2021, accrued unpaid interest amounted to €6,034 thousand (2020: €10,675 thousand), classified as current financial debt.

Those bonds are listed on the Luxembourg Stock Exchange. The only bond that was listed on the London Stock Exchange matured in 2021.

The carrying amounts and fair value of non-current and current borrowings in 2021 and 2020, excluding outstanding interest, is as follows (million euro):

	2021		2020	
	Nominal book value	Fair value	Nominal book value	Fair value
Less than 1 year	-	-	555	586
Between 1 and 3 years	742	761	-	-
More than 3 years	-	-	742	769
Total	**742**	**761**	**1,297**	**1,355**

Current and non-current borrowings bore interest at an average effective interest rate of 3.81% at 31 December 2021 (2020: 3.94%).

Note 7. Trade and other payables

The breakdown of this item is as follows:

	2021	2020
Trade payables	15	30
Current tax liabilities (Note 9)	142	177
Total	**157**	**207**

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 Law 15/2010, of 5 July:

The average payment period was calculated in accordance with Law 15/2010 on measures to combat late payment in business operations.
The disclosures with regard to the average supplier payment period to be included in the notes to the annual accounts in accordance with the Resolution of 29 January 2016 of the Spanish Institute of Accounting and Auditing are as follows:

	2021 Days	2020 Days
Average supplier payment period (1)	29	32
Transactions paid ratio (2)	29	32
Transactions outstanding ratio (3)	-	-

	Thousand euro	
Total payments made in the year	107	146
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 8. Risk management

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 most significant risks are correctly identified, evaluated and managed.
- Segregation of risk management functions at the 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.

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, they affect equity and profit, respectively.

All of the interest-bearing debt and loans granted to the majority shareholder at 31 December 2021 and 2020 are at fixed interest rates in line with the cost of the bonds that were issued; consequently, the Company is not exposed to material interest rate risk.

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 having sufficient funds available 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 2021 and 2020, the Company had unused credit lines granted by Group companies and its shareholders for an amount of €30,000 thousand.

The ratings of the Company's bond issues in 2021 and 2020 are as follows:

	2021	2020
Fitch	BBB	BBB

Credit risk

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

The long-term ratings of Naturgy Energy Group, S.A. in 2021 and 2020 are as follows:

	2021	2020
Standard & Poor's	BBB	BBB
Fitch	BBB	BBB

Other disclosures

On 23 June 2016, UK voters supported the departure of their country from the European Union in a national referendum ("Brexit"). At 31 January 2020, the United Kingdom abandoned the European Union and a transition period commenced that ran until 31 December of that same year. On 30 December 2020 the European Union and the United Kingdom signed a Trade and Cooperation Agreement due to enter into force provisionally on 1 January 2021.

The Brexit process has had, and may continue to have, adverse effects on the economic and political situation in the EU and the stability of global financial markets. Excluding the aforementioned international effect, Naturgy's exposure to Brexit risk is not considered to be material.

Note 9. 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 2021:

Naturgy Energy Group, S.A.	Naturgy Future, S.L.U.
Boreas Eólica 2, S.A.	Naturgy Generación Térmica, S.L.U.
Comercializadora Regulada, Gas & Power, S.A.	Naturgy Generación, S.L.U.
Energías Ambientales De Somozas, S.A.	Naturgy Iberia, S.A.
Eòlica Tramuntana, S.L.	Naturgy Informática, S.A.
Europe Mahgreb Pipeline Limited	Naturgy Infraestructuras EMEA, S.L.
Explotaciones Eólicas Sierra De Utrera, S.L.	Naturgy Ingeniería Nuclear, S.L.
Fenosa, S.L.U.	Naturgy Inversiones Internacionales, S.A.
Gas Natural Comercializadora, S.A.	Naturgy LNG GOM, S.L.
Gas Natural Exploración, S.L.	Naturgy LNG, S.L.
Gas Natural Redes GLP, S.A.	Naturgy Nuevas Energías, S.L.U.
Gas Natural Transporte SDG, S.L.	Naturgy Participaciones, S.A.
General de Edificios y Solares, S.L.	Naturgy Renovables Canarias, S.L.U.
Global Power Generation, S.A.	Naturgy Renovables Ruralia, S.L.U.
GPG Ingeniería y Desarrollo de Generación, S.L.U.	Naturgy Renovables, S.L.U.
GPG México Wind, S.L.U.	Naturgy Wind, S.L.
GPG México, S.L.U.	Nedgia Andalucía, S.A.
Holding de Negocios de Gas, S.A.U.	Nedgia Aragón, S.A.
Holding Negocios Electricidad, S.A.	Nedgia Balears, S.A.
Infraestructures Elèctriques de la Terra Alta, S.L.U.	Nedgia Castilla La Mancha, S.A.
JGC Cogeneración Daimiel, S.L.	Nedgia Catalunya, S.A.
La Propagadora del Gas, S.A.	Nedgia Cegas, S.A.
Lignitos de Meirama, S.A.	Nedgia Madrid, S.A.
Naturgy Acciones, S.L.U.	Nedgia Navarra, S.A.
Naturgy Alfa Investments, S.A.U.	Nedgia, S.A.
Naturgy Almacenamientos Andalucía, S.A.	Operación y Mantenimiento Energy, S.A.
Naturgy Aprovisionamientos, S.A.	Parque Eólico Nerea, S.L.
Naturgy Capital Markets, S.A.	Parque Eólico Peñarroldana, S.L.
Naturgy Ciclos Combinados, S.L.U.	Petroleum, Oil & Gas España, S.A.
Naturgy Clientes, S.A.U.	Sagane, S.A.
Naturgy Commodities Trading, S.A.	Societat Eòlica de L'Enderrocada, S.A.
Naturgy Distribución Latinoamérica, S.A.	Tratamiento Cinca Medio, S.L.
Naturgy Electricidad Colombia, S.L.	UFD Distribución Electricidad, S.A.
Naturgy Engineering, S.L.	Unión Fenosa Preferentes, S.A.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 2021 and 2020.

€283 thousand were paid on account of corporate income tax in 2021 (2020: €303 thousand).

At 31 December 2021 and 2020, there were no unused tax losses or tax credits.

Income tax expense/(revenue) is as follows:

	2021	2020
Current-year tax	425	480
Total	**425**	**480**

At 31 December 2021 and 2020, there were no deferred tax assets or liabilities.

In July 2021, tax inspection proceedings were initiated with respect to 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. These proceedings are partial in nature in both taxes, the object of the verification being limited to certain aspects of the tax obligation. The years under audit are 2016 to 2019 for corporate income tax (tax consolidation regime), and from September 2017 to December 2020 for VAT (Group of entities regime).

That notice suspended the statute of limitations period in connection with the aforementioned items and periods for the entire Corporate Income Tax Group and the VAT Group of entities.

The audits are not expected to materially impact the Company or the other 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 years for the principal taxes to which it is subject and which are not involved in the above-mentioned tax audit 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 materially affect these annual accounts.

On 31 December 2020, Law 11/2020 on the General State Budget for 2021 was published in the Official State Gazette, under which, among other measures, certain articles of Law 27/2014 on Corporate Income Tax were amended. The main amendments relate to the limitation of the exemption of dividends and capital gains such that, with effect from 1 January 2021, only those derived from holdings of more than 5% of share capital qualify for the 95% exemption, thus eliminating those relating to holdings with an acquisition cost exceeding €20 million (although a transitional regime is established for such holdings).

At the same time, the tax consolidation regime was modified by establishing the non-elimination of dividends distributed between companies in the same Tax Consolidation Group, which entails an effective tax rate of 1.25% for dividends received or capital gains generated in Spanish companies receiving dividends from companies in they hold a stake of 5% or more, regardless of whether the distributing company and the receiving company belong to the same Tax Consolidation Group.
Related to this measure, and for the purposes of calculating the limitation on the deductibility of financial expenses in the case of holding companies in which dividends form part of operating profit, only dividends from entities in which the holding is 5% or greater will be considered, and dividends from holdings whose acquisition value was greater than €20 million are disqualified.

Note 10. Operating profit/(loss)

Revenue

Financial revenues arise mainly from interest on loans granted to Naturgy Energy Group, S.A. (Note

4) amounting to €47,745 thousand (2020: €55,786 thousand).

Operating expenses

Financial expenses on borrowings relate mainly to the expenses borne on the bonds issued under the Euro Medium-Term Notes programme (Note 6) for €45,949 thousand (2020: €53,749 thousand).

Note 11. Environment

Given the Company's activities, 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 12. Information on transactions with related parties

For the purposes of this section, 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, Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona ("la Caixa"), Global Infrastructure Partners III (GIP) and related companies, CVC Capital Partners SICAV-FIS, S.A. (through Rioja Acquisitions S.à.r.l.), and IFM Global Infrastructure Fund (IFM) (through IFMGlobal InfraCo O (2), S.à.r.l.).

- The Company's Sole Administrator and executives of the Company and their close relatives. The term "administrator" 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 13.

- 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:

Naturgy Capital Markets, S.A.

Expenses, revenues and other transactions	2021		2020	
	Controlling company	Group companies	Controlling company	Group companies
Financial expenses	-	-	-	-
External services	-	-	-	-
Total expenses	**-**	**-**	**-**	**-**
Financial revenues	47,745	-	55,786	-
Total revenue	**47,745**	**-**	**55,786**	**-**

Balances with Group companies and associates are disclosed in note 4.

There were no transactions with significant shareholders in 2021 and 2020.

Note 13. Information about the Sole Administrator

The Company's Sole Administrator did not receive any remuneration, loan or advance in 2021 and 2020.
The Company has not acquired any obligations to its Sole Administrator in connection with pensions or life insurance.

Under the Board Regulations of Naturgy Energy Group, S.A. and Articles 228 and 229 of the Spanish Capital Companies Law, administrators are obliged to avoid conflicts of interest. Additionally, those articles require that conflicts of interest incurred by the administrators be reported in the annual accounts.

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

In 2021 and 2020, 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 €2 thousand in 2021 (2020: €1 thousand).

Note 14. 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, publish only 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 would have elected 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 the application of IFRS 9 for 2021 and 2020 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. As detailed in Note 2 (Basis of presentation), in 2021 this classification would conform to the new standard.

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 expected losses approach 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 2021 and 2020 would have been as follows:

	(thousand euro)	
	31 December	
	2021	2020
Non-current financial assets	(9,220)	(12,895)
Deferred tax assets	2,305	3,224
NON-CURRENT ASSETS	**(6,915)**	**(9,671)**
Non-current financial liabilities	(9,555)	(13,373)
Deferred tax liabilities	2,389	3,343
NON-CURRENT LIABILITIES	**(7,166)**	**(10,030)**
Reserves (1)	898	898
Prior year's income	(539)	(434)
Profit/(loss) for the year	(108)	(105)
EQUITY	**251**	**359**

(1) Impact of adjustment in 2017

	(thousand euro)	
	2021	2020
Financial revenues	3,674	3,461
Financial expenses	(3,818)	(3,601)
NET FINANCIAL REVENUE/(EXPENSE)	**(144)**	**(140)**
PROFIT/(LOSS) BEFORE TAXES	**(144)**	**(140)**
Corporate income tax	(36)	(35)
PROFIT/(LOSS) FOR THE YEAR	**(108)**	**(105)**

Naturgy Capital Markets, S.A.

Note 15. Auditors' fees

The Company's auditor until 31 December 2020 was Ernst & Young, S.L. Since 1 January 2021, the Company's auditor has been KPMG. The fees payable to these companies in 2021 and 2020 were as follows:

	2021			2020		
	KPMG Auditores, S.L	Rest of KPMG network	Total	Ernst & Young, S.L.	Rest of EY network	Total
Audit services	25	-	25	31	-	31
Total fees	**25**	**-**	**25**	**31**	**-**	**31**

Note 16. 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.

NATURGY CAPITAL MARKETS, S.A.

CERTIFICATE: It is hereby certified by the Sole Administrator, Mr. ENRIQUE BERENGUER MARSAL, that on 3 February 2022 he authorised the 2021 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 27 sheets of paper, numbered 1 to 27, 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 28, which is incorporated as an annex to the Company's annual accounts for 2021.

Signed on original in Spanish

Mr. Enrique Berenguer Marsal
Sole Administrator

Naturgy Capital Markets, S.A.

DIRECTORS' REPORT

Naturgy Capital Markets, S.A.

Directors' report at 31 December 2021

Naturgy Capital Markets, S.A. (hereinafter "the Company") was incorporated on 23 May 2005, and its object is the issuance of debt instruments, including ordinary and 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, and 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 Luxembourg Stock Exchange in accordance with the market rules, 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

A bond amounting to €555 million with an average coupon of 5.125% (and the associated loan to Naturgy Energy Group, S.A.) matured in November 2021 and was repaid on that date.

Consequently, the total aggregate nominal value of the Naturgy group's outstanding issues at 31 December 2021 was €8,110 million, with the following maturities:

Issuer	Market where listed	Nominal (million euro)	Maturity	Coupon
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	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	900	2029	0.750%
Total		**8,110**		

(1) Nominal value is NOK 800 million.

2. Business risks

The Company's activity is exposed to several risks.

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 most significant risks are correctly identified, evaluated and managed.
- Segregation of risk management functions at the 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.

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, they affect equity and profit, respectively.

All of the interest-bearing debt and loans granted to the majority shareholder at 31 December 2021 and 2020 are at fixed interest rates in line with the cost of the bonds that were issued; consequently, the Company is not exposed to material interest rate risk.

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 having sufficient funds available 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 2021 and 2020, the Company had unused credit lines granted by Group companies and its shareholders for an amount of €30,000 thousand.

The ratings of the Company's bond issues in 2021 and 2020 are as follows:

	2021	**2020**
Fitch	BBB	BBB

Credit risk

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

The long-term ratings of Naturgy Energy Group, S.A. in 2021 and 2020 are as follows:

	2021	**2020**
Standard & Poor’s	BBB	BBB
Fitch	BBB	BBB

3. Analysis of results

Net profit in 2021 amounted to €1,275 thousand, a 11.40% decrease with respect to 2020.

Revenues amounted to €47,745 thousand, a decrease of 14.42% with respect to 2020, 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 expenses amounted to €45,949 thousand, 14.51% less than in 2020, 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 €716,324 thousand at 31 December 2021, 43.22% less than at 31 December 2020.

4. Research, development and technological innovation

The Company did not engage in any R&D or innovation activities in 2021.

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 2021.

9. Code of Good Governance

The Audit and Control Committee of Naturgy Energy Group has acted as Audit Committee of Naturgy Capital Markets, S.A. since February 2016. In this regard, Naturgy Capital Markets, S.A. is subject to the recommendations of the CNMV's Code of Good Governance of listed companies, which apply to the operation of these committees in the same terms as described in the Annual Corporate Governance Report of Naturgy Energy Group, S.A., which is published on the websites of the company and the CNMV.

10. Internal control over financial reporting (ICFR) systems

The Company's internal control over financial reporting (ICFR) system is part of the system established by the Naturgy Group. The system ensures the independence of the control and risk management functions attributed to each of the responsible bodies and units, and determines limits for the main risk categories in order to define the Company's overall risk profile, guaranteeing the predictability of its performance in all aspects of relevance to its stakeholders.

The Group's Risk Management System, which is fully applicable to Naturgy Capital Markets, S.A., is described below:

The Risk Management System works in a comprehensive and continuous way, and integrates the Group's corporate visions of Corporate Governance, Risks and Compliance, providing a comprehensive overview of the processes, the existing controls over them and the associated risk, including those affecting the Company, which, in the case of Naturgy Capital Markets, S.A., are related to the recoverability of the loans and interest receivable from group companies.

The Group has a number of bodies with clearly identified areas of responsibility, making it possible to ensure the predictability and sustainability of the company's operational and financial performance. It has levels of risk tolerance established at corporate level for the main kinds of risk, which are set by establishing limits by type of risk and business, as a function of the objectives.

The Group has an Overall Risk Control and Management Policy that is updated and approved by the Board of Directors, a Corporate Risk Map and a Risk Measurement System for monitoring and measuring trends in the main risks.

The Group also has a Global Policy for the system of Internal Control over Financial Reporting (ICFR) which defines the responsibilities of the Board of Directors, which are delegated to the Audit and Control Committee, the Planning, Control and Administration Unit, the business areas' Administration and Operational Monitoring Unit, the Internal Audit Unit, the Compliance Unit and the business and corporate units involved in financial reporting.

The process of financial reporting includes mechanisms and departments entrusted with designing and reviewing the organisational structure; defining the lines of responsibility and authority, with an appropriate distribution of tasks and functions; and appropriate procedures for proper dissemination.

The Group has a structured process for identifying risks related to financial reporting, including the risk of error and fraud. The process covers all the financial reporting objectives (existence and occurrence, integrity; valuation; presentation, itemisation and comparability; and rights and obligations) and it is updated regularly, whenever there are changes in the process or organisation structure or in the Group's consolidation scope. The Group has a process for identifying the consolidation scope.

Control activities include review and authorisation procedures for financial reporting to be published in the securities markets, including the accounting close procedure and the specific review of the judgements, estimations, evaluations and major projections, as well as the policies and procedures for internal control over information systems that support the company's major processes with regard to the production and publication of financial reporting.

The Group has a Code of Ethics, which includes an Anti-Corruption Policy, approved by the Board of Directors, that is binding on all employees of the Group and of all investee companies over which it has management control. To promote the dissemination and application of the Code of Ethics, the Compliance Policy and the Anti-Corruption Policy, the Group has an Ethics and

Compliance Committee that reports to the Audit and Control Committee. The Group also has a whistleblower channel that reports directly to the Audit and Control Committee, which is confidential in nature and respects the rights of both the whistleblower and the person to whom the report refers.

The are training programmes and regular refresher coures for staff involved in the preparation and review of the financial information and in assessing the Group's ICFR.

Naturgy Capital
Markets, S.A.

NATURGY CAPITAL MARKETS, S.A.

CERTIFICATE: It is hereby certified that, on 3 February 2022, the Sole Administrator, Mr. Enrique Berenguer Marsal, authorised the Directors' Report, set out on 5 pages, numbered 1 to 5, 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 6, which is incorporated as an annex to the Company's 2021 Directors' Report.

Signed on original in Spanish

Mr. Enrique Berenguer Marsal
Sole Administrator