Naturgy Finance B.V.

Annual report 2021

Amsterdam, The Netherlands

Naturgy Finance B.V.
Barbara Strozzilaan, 201
1083 HN Amsterdam
The Netherlands
Chamber of Commerce 24.243.533

NATURGY FINANCE B.V.

Contents

Annual report

Report of the Management Board members Page 1

Supervisory Board Report Page 9

Financial statements

Balance Sheet as at 31 December 2021 Page 11

Statement of Income for the year ended 31 December 2021 Page 12

Notes to the financial statements for the year ended 31 December 2021 Page 13

Other information

Other information to the financial statements for the year ended 31 December 2021 Page 41

Management Board members' Report

The Management Board members hereby submit its Directors' report, financial statements and other information for the year ended 31 December 2021. The accounts have been prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code and with accounting principles generally accepted in The Netherlands

The annual report has been prepared in Euro since the majority of the transactions within the Company occur in Euro, which is the Company's functional currency.

1. Overview of activities

Naturgy Finance B.V. ("the Company"), was incorporated as a private company with limited liability under the law of the Netherlands on 26 November 1993 which its corporate seat in Amsterdam, The Netherlands. The Company has its registered business address at Barbara Strozzilaan 201, Amsterdam.

In 2015 the articles of association were amended in order to create a Supervisory Board and an Audit Committee. During 2019, the Supervisory Board dissolved the Audit Committee and assumed all its functions. On 8 December 2016, the Corporate Governance Code Monitoring Committee has published the revised Dutch Corporate Governance.

The Company is a wholly-owned subsidiary of its ultimate Shareholder company Naturgy Energy Group, S.A. (the Shareholder) has its legal seat in Madrid, Spain. All subsidiaries of Naturgy Energy Group S.A. and Naturgy Energy Group itself are referred to as group companies.

Naturgy Finance B.V. was incorporated to facilitate the funding of its shareholder and associated companies. In order to achieve its objectives, the Company is authorized to raise funds by issuing negotiable bonds, perpetual subordinated bonds and commercial paper on the capital and money markets.

Euro Commercial Paper (ECP) Programme

In March 2010 the Company entered a Euro Commercial Paper (ECP) Program as issuer, guaranteed by Naturgy Energy Group, S.A., under which the Company can issue notes provided that the amount disposed in each moment does not exceed of EUR 1,000,000 thousand. The Company signed a revolving cash advance facility agreement with Naturgy Energy Group, S.A. to carry out the on-lending of the proceeds raised under the ECP program. During the year the Company redeemed notes of ECP in the amount of EUR 280,000 thousand (2020: EUR 900,000 thousand).

Euro Medium Term Note Programme

In November 2010 the Company entered a Euro Medium-Term Notes (EMTN) program. The issuers of the program are both the Company and Naturgy Capital Markets S.A. (formerly, Gas Natural Capital Markets, S.A.), another sister. Naturgy Capital Markets S.A. is a sister entity of the Company and audited by KPMG. The role of Capital Markets S.A. is also to facilitate the funding to its shareholder. The program allows the issuance, offering and selling of notes, listing on the Official List of the Luxemburg Stock Exchange and trading on the Luxembourg Stock Exchange´s regulated market. The notes may be admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system as may be agreed with the Issuer and the Guarantor. Unlisted Notes may also be issued by the Company. Naturgy Energy Group, S.A. is the guarantor under the EMTN program.
This EMTN program is updated periodically and after various extensions the last being in December 2021, the program limit is EUR 12,000,000 thousand. On 31 December 2021, principal drawn down of the total program amounted to EUR 8,110,008 thousand (EUR 8,940,708 thousand on 31 December 2020).

As of 31 December 2021, the amount issued by the Company was EUR 7,367,708 thousand (EUR 7,644,008 thousand as of 31 December 2020) and the amount issued by Naturgy Capital Markets, S.A was EUR 742,300 thousand (EUR 1,296,700 thousand as of 31 December 2020).

All the proceeds from the notes are on lent by the Company to its Shareholder company Naturgy Energy Group, S.A.

The breakdown of the nominal balance issued by the Company and the markets where the bonds are listed and traded is as follows:

EMTN Programme (in thousands)

Principal	Currency	Interest rate %	Oustanding nominal	Carrying Value	Issued	Maturity	Listed
396,400	EUR	3.875%	396,400	395,730	2013	2023	Luxemburg Stock Exchange
100,908	EUR	3.974%	100,908	80,090	2013	2023	Luxemburg Stock Exchange
411,800	EUR	2.875%	411,800	411,204	2014	2024	Luxemburg Stock Exchange
154,300	EUR	2.625%	154,300	154,011	2014	2023	Luxemburg Stock Exchange
400,600	EUR	1.375%	400,600	398,819	2015	2025	Luxemburg Stock Exchange
600,000	EUR	1.250%	600,000	597,926	2016	2026	Luxemburg Stock Exchange
1,000,000	EUR	1.375%	1,000,000	993,505	2017	2027	Luxemburg Stock Exchange
300,000	EUR	1.875%	300,000	298,832	2017	2029	Luxemburg Stock Exchange
800,000	EUR	0.875%	800,000	798,044	2017	2025	Luxemburg Stock Exchange
850,000	EUR	1.500%	850,000	786,099	2018	2028	Luxemburg Stock Exchange
900,000	EUR	0.750%	900,000	891,163	2019	2029	Luxemburg Stock Exchange
1,000,000	EUR	1.250%	1,000,000	990,884	2020	2026	Luxemburg Stock Exchange
Total as at 31 December 2021			**6,914,008**	**6,796,306**			

Regarding the Norwegian Krone (NOK) 800,000 thousand issuance, the proceeds from the notes have been on lent in NOK to its Shareholder company Naturgy Energy Group, S.A. and as a consequence, the foreign exchange risk for the Company has been offset by a position with its Shareholder company.

In April 2021, the bond with principal amount of EUR 276,300 thousand reached its maturity. This bond had been issued on 17 October 2013 for a total amount of EUR 500,000 thousand. In April 2021 the bond, and the amount due from the Shareholder company in this regard, were all received and paid.

In April 2022, the bond with principal amount EUR 453,700 thousand will reach its maturity, the bond, and the amount due from the Shareholder company in regards have been transferred from long term to short term in accordance with accounting principles.

<u>Undated Deeply Subordinated Reset Rate Guaranteed Securities (Hybrid Bonds)</u>

From 2014 the Company started to issue Subordinated perpetual debentures. On 18 November 2014 the Company issued the first "Undated 8-year non-call deeply subordinated guaranteed fixed rate reset securities" (Subordinated perpetual debentures EUR 1,000,000 thousand), guaranteed by Naturgy Energy Group, S.A., for an amount of EUR 1,000,000 thousand. The issue price was 99.488%. The Subordinated perpetual debentures EUR 1,000,000 thousand bears interest at a fixed rate, which is calculated as a reference interest rate plus a margin. The reference interest rate is the 8-year swap rate (equivalent at the issue date to 0.772%) which may be reviewed every 8 years. The initial margin applicable to the first 10 years is 3.353%; between years 2024 and 2042 the margin will be 3.603% and from then onwards, it will be 4.353%. The initial coupon was set at 4.125%.

In April, 2015 the Company issued the second "Undated 9-year non-call deeply subordinated guaranteed fixed rate reset securities" (the Subordinated perpetual debentures EUR 500,000 thousand), guaranteed by Naturgy Energy Group., for an amount of EUR 500,000 thousand. The issue price was 99.049%. The Subordinated perpetual debentures EUR 500,000 thousand bears interest at a fixed rate, which is calculated as a reference interest rate plus a margin. The reference interest rate is the 9-year swap rate (equivalent at the issue date to 0.4210%) which may be reviewed every 9 years. The initial margin applicable to the first 9 years is 3.079%; between years 2025 and 2044 the margin will be 3.329% and from then onwards, it will be 4.079%. The initial coupon was set at 3.375%.

In November 2021 the Company issued the third "Undated 5.25-year non-call deeply subordinated guaranteed fixed rate reset securities" (the Subordinated perpetual debentures EUR 500,000 thousand), guaranteed by Naturgy Energy Group., for an amount of EUR 500,000 thousand. The issue price was 99.60%. The Subordinated perpetual debentures EUR 500,000 thousand bears interest at a fixed rate, which is calculated as a reference interest rate plus a margin. The reference interest rate is the 95.25-year swap rate (equivalent at the issue date to -0.062%) which may be reviewed every 5 years. The initial margin applicable to the first 10 years is 2.437%; between years 2032 and 2047 the margin will be 2.687% and from then onwards, it will be 3.437%. The initial coupon was set at 2.374%.

In November 2021 the Undated Deeply Subordinated Reset Rate Guaranteed notes amounted EUR 1,000,0000 thousand with redemption date on 18 November 2022 were redeemed for an amount of EUR 500,000 thousand.

At its sole discretion, the Company may elect to defer any payments of coupon on the Subordinated perpetual debentures. Any amounts so deferred will accrue interest. at the prevailing interest rate. Coupons deferred are however mandatorily settled ultimately upon redemption of the Subordinated perpetual debentures or if the guarantor, Naturgy Energy Group, S.A., pays dividends in cash in respect of its ordinary shares, or if the Company pays dividends of its ordinary shares. Al though these Subordinated perpetual debentures do not have a contractual maturity date, the Company will have the right to redeem the Subordinated perpetual debentures EUR 1,000,000 thousand on 18 November 2022 and the Subordinated perpetual debentures EUR 500,000 thousand on 24 Apri1 2024 and on any subsequent years.

As of 31 December 2021, the breakdown of the nominal balance issued by the Company and the markets where the bonds are listed and traded is as follows:

Subordinated perpetual debentures (in thousands)

Principal	Currency	Interest rate %	Oustanding nominal	Carrying Value	Issued	Maturity	Listed	Reset date
500,000	EUR	4.125%	500,000	499,561	2014	Perpetual	Luxemburg Stock Exchange	18th November 2022
500,000	EUR	3.375%	500,000	497,886	2015	Perpetual	Luxemburg Stock Exchange	24th April 2024
500,000	EUR	2.374%	500,000	497,077	2021	Perpetual	Luxemburg Stock Exchange	23rd February 2027
		Total	**1,500,000**	**1,494,523**				

The proceeds from the Subordinated perpetual debentures have been on lent by the Company to its Shareholder company, Naturgy Energy Group, S.A.

Information concerning application of code of ethics

The Code of Ethics of the Shareholder and its subsidiaries was issued, approved, and adopted by the Board of Directors of the Shareholder in 2005 and was last amended in 2021 in order to include an explicit reference to two new corporate policies on conflicts of interest and digital rights. No major changes result from this amendment. The Code of Ethics is applicable to all professionals of the Naturgy Group and the entity and summarizes the principles and guidelines regardless of their rank, their geographical or functional location in order to ensure ethical and responsible behaviour by all professionals in the performance of their activities. The Code of Ethics forms a part of the Naturgy Group's Corporate Governance Systems and is fully respectful of the principles of corporate organization established therein. The Code of Ethics is available on https://www.naturgy.com/sostenibilidad/gestion_de_la_sostenibilidad/politicas_y_codigos_de_conducta/cod_go_etico. The adoption and application of the Code of Ethics is mandatory. During the year there were no reportable events that directly or indirectly relate to the Code of Ethics.

Fraud risk analysis

The Shareholder and the Company faces challenges regarding integrity through a management approach based on various policies and procedures and specific tools, within the framework of the Shareholder's Code of Ethics and of the compliance management model.

The regulatory framework is underpinned by the Code of Ethics and complemented by, among others, the Supplier Code of Ethics, the Compliance Policy, the Crime Prevention Model, the Anti-Corruption Policy, tax policies, the Human Rights Policy and other control standards and models that ensure the efficiency of operations, the mitigation of key risks in each area of the business and the continuity of operations.

2. Supervisory Board

In order to comply with the legislation in the Netherlands the Company appointed a Supervisory Board on 17 September 2015 and, on the same date, the Supervisory Board installed an Audit Committee. However, during 2019, the Supervisory Board, pursuant to article 2 paragraph 4 of the Dutch Decree on the Establishment of an Audit Committee (Besluit instelling auditcommissie), wishes to assume these functions. Therefore, on 16 December 2019, the Supervisory Board dissolved the Audit Committee and assumed all its functions and responsibilities. The Board of the Supervisory Board consisted of two men and one woman. As a consequence, the Management have at least 30% female members in the Management Board.

3. Financial position and performance for the year

The net asset value of the Company as at 31 December 2021 amounts to EUR 8,681 thousand (2020: EUR 8,348 thousand) and the net result for the year 2021 amounts to a profit of EUR 3,833 thousand (2020: EUR 3,857 thousand). The Company´s profit had a slight decrease mainly as a consequence of higher general and administrative expenses. The increase of the general and administrative expenses is a consequence of higher advisory fees. The solvency ratio (total equity/total assets) of the Company as at 31 December 2021 is 0.001 (previous year: 0.001). The liquidity ratio (current assets/current liabilities) of the Company as at 31 December 2021 is 1.01 (previous year: 1.02).

Financial income and expenses

Financial income and expenses are accounted for the profit and loss during the loan period following the effective interest methods established for the related financial instruments.

Financial income and financial expenses increased with an amount of EUR 20,201 thousand and EUR 20,193 thousand respectively in comparison to 2020 as consequence of the hybrid bond buy-back performing during the year.

Operating expenses

Administrative expenses comprise costs chargeable to the year. The administrative expenses decreased with an amount of EUR 191 thousand compared to 2020. The decrease is a consequence of decline in hiring of external advisors and lower advisory fees.

Corporate income tax

Tax is calculated on the profit before tax considering tax exempt items and non-deductible costs. The profit before tax will be taxed at the prevailing rate during the financial year. The corporate income tax for the year 2021 amounts to EUR 1,251 thousand.

4. Balanced distribution of seats on the Management board

The Company commits to the principle guilines of the Sustainability Report 2021 of its Shareholder. During 2021 the Management consisted of two men and one woman. As a consequence, the Management have at least 30% female members in the Management Board. The Company believes that the composition of its Managing Board has a broad diversity of experience, expertise, and background, and that the backgrounds and qualifications of the board members, considered as a group, provide a significant mix of experience, knowledge, abilities, and independence that we believe our Managing Board to fulfil its responsibilities and properly execute its duties.

5. Remuneration of the Managing Board and Board of the Supervisory Directors.

The Managing Board consists of three Directors, E. Berenguer Marsal. G.A.R. Warris and V. Torres Ledesma. During the period the remuneration of the Directors amounted to EUR 3,215 (previous year: EUR 3,175). The Company’s Board of Supervisory Directors consists of three Directors, M van Daalen, I Velasco and C. Llobet. During the period the remuneration of the Directors amounted to EUR19,874 (previous year: EUR 19,874).

6. Financial risks

Due to of the nature of the Company's activities, the Company is exposed to the following financial risks: credit risk, market interest rate risk, market foreign exchange risk, fiscal risk, risk related to financial reporting and other operational risks, risks related to change in law and regulations and risks related to financial instruments. All these risks arise in the normal course of business. The Company is an organization which makes use of certain systems, which allow the financial risks to which the Company is exposed to be identified, measured, and controlled.

Guarantees

With respect to its obligations under the notes, the Company is unconditionally and irrevocable guaranteed on a full recourse basis. Each such Guarantee forms part of the respective note. The Company signed Guarantee Agreements in relation to the ECPs, EMTN program, and the Subordinated perpetual debentures, by which the Company pays to Naturgy Energy Group, S.A. an annual fee equal to 0.25% on the principal amount of the issuances.

Market foreign exchange risk

The foreign exchange risk is limited as the non-euro borrowings have similar counter positions or the foreign exchange risk will be managed through swaps to eliminate the exposure.

Effectively very limited foreign exchange risk is incurred by the Company because it has agreed that the loan and the notes carry the same currency.

Liquidity risk

The liquidity risk is mitigated by the back-to-back financing with the ultimate Shareholder company under similar conditions, except for a small spread. The shareholder acts as a guarantor for all the borrowings. In order to minimise the liquidity risk, management monitors the availability of sufficient cash in order to ensure payment of short-term liabilities.

Regarding the Subordinated perpetual debentures, the only conditions that differ between the intragroup loans, by means on which the proceeds raised from the issuances to Naturgy Energy Group, S.A., and the instruments, are the maturity dates and the option to defer the payments of interests.

The Company closely monitors its liquidity position in the days prior to the interest due date and maturity date and will ensure that it will collect the interest and principal from the Shareholder prior to the interest due date and maturity date. The interest receivable dates, and interest payments dates of the notes are contractually aligned, as are the maturity dates. The Company therefore considers the liquidity risk to be low.

Interest rate risk

The Interest risk is offset as incoming loans and outgoing issuances have similar conditions, except for a spread. The proceeds from the note's issuances are lent on to the Shareholder and therefore the assets and liabilities are fully matched. The interest receivable date and interest payment date of the notes are contractually aligned. The Company therefore considers the interest rate risk to be low.

Credit risk

There is a significant concentration of credit risk as all borrowings are lent on to the shareholder. Loans to the shareholder (refer to note 4) amount to EUR 8,873,454 thousand (2020: EUR 9,134,502 thousand). Repayment of the loans depends ultimately on the operational performance of the shareholder. The shareholder, Naturgy Energy Group, S.A. is the holding company of Naturgy Energy Group, an international energy operator, with a significant presence in the world throughout the value chain for gas and electricity. The shareholder is listed on the Spanish stock exchange.

The rating agancies assigned a credit rating to the shareholder. The long term credit rating of the shareholder is as follows:

	2021	2020
Standard & Poors	BBB	BBB
Fitch	BBB	BBB

This credit risk is monitored on a regular basis by the Company. In view of the prevailing ratings, the Company has concluded that the overall credit risk is low, as far as the Shareholder maintains strong liquidity and solvency metrics. The Company will closely monitor the external ratings for the Group and the financial developments of the Shareholder. The risk appetite of the Company in respect of this risk is low and no amendments were made or are expected to be made in managing this risk.

Fiscal Risk
The Company and the Dutch tax authorities concluded an Advance Pricing Agreement (APA) in respect of the arm's length nature of the transfer prices used for calculating the profit within the Shareholder company in June 2019 by means of which it was agreed that at least a spread of 6.3 basis points should be applied on on-lent amounts. The APA ended as per 31 December 2023. No new APA will be requested following the new legislation enacted by the Dutch Tax Authorities, where economic nexus is required to have access to the ruling system. For future years, the Company will continue determining its transfer prices in line with the local and global transfer pricing guidelines. The risk appetite of the Company in respect of this risk is low and no amendments were made or are expected to be made in managing this risk.

Risks related to changes in law and regulations
The majority of the contracts/programmes contemplate the possibility of changes in tax or accountancy regulation, given that the Company has the option of calling back the notes if this happens. The Company therefore considers the risk to be low. The risk appetite of the Company in respect of this risk is low and no amendments were made or are expected to be made in managing this risk

The members of the Management Board have made, in close operation with the Management of the Group, an assessment of the above risks. Based on this and the above-mentioned credit rating for the Group, the Management Board members has concluded the overall credit risk is low.

7. Technological research, development, and innovation

In 2021, the Company has not carried out any activity related to research, development, and innovation.

8. Employees

During the year 2021, the average number of employees calculated on a full-time basis was 1 (2020: 1).

9. Environmental related information

There are no environmental related affairs to be mentioned.

10. Outlook

The Medium-Term Notes (EMTN) program has a term of a year, and the last update of the program has been in December 2021, maintaining the same maximum aggregate amount to EUR 12,000,000 thousand as previous year (2020: 12,000,000 thousand).

The Company also holds a Euro Commercial Paper (ECP) program entered during the year 2010, with a maximum amount disposed at each moment of EUR 1,000,000 thousand.

From November 2014, the Company has issued an aggregate amount of EUR 1,500,000 thousand of Subordinated perpetual debentures, unconditionally and irrevocably guaranteed on a subordinated basis by Naturgy Energy Group, S.A.

It is expected that the activities of the Company will remain unchanged. The Company expects to update the EMTN programme. It is envisaged that the loan volume will increase in the next year by issuing Subordinated perpetual bond or negotiable bonds and on-lending these funds to its Shareholder. Additionally, the Company expects to maintain the balance of the ECP´s issued during next year.

The Advance Pricing Agreement (APA) between the Company and the Dutch Tax Authorities will conclude as per 31 December 2023. No new APA will be requested following the new legislation enacted by the Dutch Tax Authorities, where economic nexus is required to have access to the ruling system. For future years, the Company will continue determining its transfer prices in line with the local and global transfer pricing guidelines.

For the next year, no new investments are expected, and the numbers of employees will remain as previous years. The Company does not envisage to carry out any new activity related to research, development, and innovation.

11. Subsequent events

No major post-balance sheet events affecting the financial statements have occurred to date.

12. Responsibility Statement

All managers confirm that, to the best of (their) knowledge:

• The financial statements for the year 2021, which have been prepared in accordance with the Dutch Civil Code, give a true and fair view of the assets, liabilities, financial position and profit and loss of the company.

• The Management Report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties they face, as required pursuant to section 5:25c 2of the Dutch Financial Markets Supervision Act ('Wet op het financieel toezicht").

<u>The Management Board members</u>,

____
E. Berenguer Marsal

____
G.A.R. Warris

____
V. Torres Ledesma

Amsterdam, 26 April 2022

Supervisory Board Report

General
The Company's Supervisory Board was established on 17 September 2015 and at the same date, the Supervisory Board installed an audit Committee. In addition to the rules and regulations applicable under Dutch Law and the Articles of Association, a Charter was adopted that defines the tasks and responsibilities of the Supervisory Board. This Charter was approved by the General Meeting of Shareholders and was adopted by the Supervisory Board on 17 September 2015.

During 2019, the Supervisory Board dissolved the Audit Committee and assumed all its functions.

In December 2020 the Charter has been revised and approved by the Shareholder. The revised Supervisory Board Charter provides a formal and transShareholder procedure for appointing and reappointing the supervisory board members and a solid plan of succession has been included.

Composition
The Supervisory Board consists of 3 members. Mr. M. van Daalen, Mrs. I. Velasco and Mr. C. Llobet, who was appointed on 31 July 2021 as new member. Mrs. L González López resigned from her function as Supervisory Board member in July 2021.

Tasks of the Supervisory Board
The Supervisory Board supervises and reviews the activities and the decisions of the Management Board members, the development of the Company's operations and the realization of its objectives, taking into account the relevant interests of the Company's stakeholders. In addition, it assists the Management Board by providing advice and guidance.

In fulfilling its tasks, the Supervisor Board makes use of reports on business, finance, risks, and other aspects, and on presentations and meetings with Management Board, the Auditors, and other relevant parties.

Activities of the Supervisory Board
In 2021 the Supervisory Board held 2 meetings, on 9 February and 30 December. Outside these meetings, the Supervisory Board passed 3 resolutions; on 9 February, 9 November and 26 November.

Topics discussed in the meetings included; the approval of Annual Report 2020 and profit distribution, the audit report of the (previous) external auditor EY for the audit of the 2020 Financial Statements, the EMTN program, repurchase and issuance of Hybrid bonds in 2021, updates and various tax matters, compliance measures, internal control, evaluation and functioning of the Management Board and the effects of COVID-19.

EY was the external auditor for the audits of the financial years 2018, 2019 and 2020 and since it completed its term, KPMG was appointed as the new auditor for the financial years 2021, 2022 and 2023.

KPMG had been the tax advisor of the Company for last five years since 2017. Due to their recent engagement as the external auditor, it has been decided to appoint Loyens & Loeff as the new tax advisor.

As in previous year, a self-evaluation of the Supervisory Board and its functioning was discussed. The overall feedback from the self-evaluation was that the Supervisory Board is operating well and that discussions are very open and constructive.

Relationship with the external auditor
The external auditor attends the meetings when the financial statements and audit process are discussed. The functioning of the external auditor is evaluated meticulously and the Supervisory Board is of the opinion that the new external auditors are fully qualified for this task. There are no doubts or concerns with respect to their independency.

Financial statements 2021

The financial statements of the Company for 2021, as presented by the Management Board, have been audited by KPMG as independent external auditor appointed by the General Meeting of Shareholders. The Supervisory Board is of the opinion that the Financial Statements and the Management Board's report provide a true and fair view of the Company's position, therefore the Management Board recommends the Shareholders to adopt these Financial Statements.

The Supervisory Board members,

____

I. Velasco Miranda

____

Mr. C. Llobet

____

M. van Daalen

Amsterdam, 26 April 2022

FINANCIAL STATEMENTS

Balance Sheet as at 31 December 2021

(Before appropriation of results)

Thousands of Euros

ASSETS	Note	31-Dec-21	31-Dec-20
Non-current assets			
Loans to group companies	4	8,290,950	8,724,574
Total Non-current assets		**8,290,950**	**8,724,574**
Current assets			
Loans to group companies	4	582,504	409,928
Financial receivables		23	45
Income tax receivables	12	126	-
Cash and cash equivalents	5	6,673	5,017
Total Current assets		**589,327**	**414,990**
TOTAL ASSETS		**8,880,276**	**9,139,564**

LIABILITIES AND SHAREHOLDER'S EQUITY		30-Dic-21	31-Dec-20
Shareholder's equity			
Share capital		91	91
Share premium reserve		165	165
Other reserves		4,592	4,234
Net Income for the period		3,833	3,857
Total Shareholder's equity	6	**8,681**	**8,347**
Non-current liabilities			
Loans and bonds	7	8,290,829	8,724,402
Total Non-current liabilities		**8,290,829**	**8,724,402**
Current liabilities			
Loans and bonds	7	564,338	391,944
Other current financial liabilities from group companies	8	14,678	14,538
Other current financial liabilities		1,751	206
Income tax payable	12	-	127
Total Current liabilities		**580,767**	**406,815**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**8,880,276**	**9,139,564**

The notes on pages 13 to 39 are an integral part of these financial statements.

Statement of Income for the year ended 31 December 2021

Income statement
(Expressed in Thousand of Euro)

	Note	2021	2020(*)
Finance income	9	253,446	233,245
Finance expense	10	(247,868)	(227,675)
Gross financial result		**5,578**	**5,570**
Administrative expenses	11	(494)	(685)
Profit before income taxes		**5,084**	**4,885**
Income tax expense	12	(1,251)	(1,028)
Net income for the year		**3,833**	**3,857**

(*) The Statement of Income has been restated as per indicated in note 2.2. of this Annual Report

The results of the Company are attributable to the Shareholder company Naturgy Energy Group, S.A.
The notes on pages 13 to 39 are an integral part of these financial statements.

Notes to the financial statements for the year ended 31 December 2021

1. General

Company structure
Naturgy Finance B.V. ("the Company") is a private limited liability company established in Amsterdam (Commercial Register Number 24243533). The Company acts as a finance company.

The Company has its business address at Barbara Strozzilaan 201, Amsterdam, The Netherlands.

The Company is a wholly owned subsidiary of its ultimate Shareholder company who, in 2018 changed its legal name from Gas Natural SDG, S.A to Naturgy Energy Group, S.A. Naturgy Energy Group, S.A. has its legal seat in Madrid, Spain, and is the controlling party of the Company.

The Company is included in the consolidated financial statements of Naturgy Energy Group, S.A. All subsidiaries of its shareholder, and its shareholder Naturgy Energy Group, S.A. which is head of the group, are referred to as group companies.

Activities
Naturgy Finance B.V. was incorporated to facilitate the funding of its Shareholder company. In order to achieve its objectives, Naturgy Finance B.V. is authorized to raise funds including the issuance of subordinated securities, negotiable bonds and commercial paper on the capital and money markets.

In relation to these issuances the Company signed a Guarantee Agreement with its Shareholder company which establishes Naturgy Energy Group S.A. as unconditional and irrevocable guarantor of any amount payable that remains unpaid, by the date and on the time specified for such payment, by the Company (as issuer) to any holder of the notes issued. As a consequence, the Company pays to Naturgy Energy Group, S.A. an annual guaranteed fee of 0.25% on the principal amounts of the issuances.

Tax
The Company signed an Advanced Pricing Agreement ("APA") in June 2019 with the Dutch tax authorities, which applies to the period of 1 January 2019 up to and including 31 December 2023. This agreement, states main following conditions:

- The new margin was applicable for any new debt instrument issued from 1 January 2019.
- The old margin was applicable until June 2019 (6.4316 basis points) for all other issuances in place since2018
- The agreement requires the Company to maintain a minimum equity amount of EUR 2,000 thousand.

The Company concluded an Advance Tax Ruling ("ATR") with the Dutch tax authorities in June 2019 for Subordinated perpetual debenture, qualifying both issuances as debt for Dutch tax purposes, please refer to note 12.

Financial position
In March 2010 the Company entered as issuer (Naturgy Energy Group, S.A. as guarantor) into a Euro Commercial Paper (ECP) Program for the issuance of notes under which it will be possible to issue notes and have outstanding at any time ECP notes up to a maximum aggregate amount of EUR 1,000,000 thousand. The Company has signed a revolving cash advance facility agreement with Naturgy Energy Group, S.A. This agreement allows to lend to Naturgy Energy Group, S.A. the funds raised under the issuances from the money market of commercial paper.

In November 2010 the Company entered into the Euro Medium-Term Notes (EMTN) Program. The issuers of the program are both the Company and Naturgy Capital Markets S.A., another sister. The program allows the issuance, offering and selling of notes, listing on the Official List of the Luxemburg Stock Exchange and trading on the Luxembourg Stock Exchange´s regulated market, although the notes may be admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system as may be agreed with the Issuer and the Guarantor. Unlisted Notes may also be issued under the program by the Company, Naturgy Energy Group, S.A. being the Guarantor. This EMTN program is updated annually, and after various extensions, the program limit was EUR 12,000,000 thousand.

In 2013, the Company began for the first time to issue bonds under the EMTN program, and as at 31 December 2021, the bonds issued by the Company amounted to EUR 7,367,708 thousand (2020: EUR 7,644,008 thousand) (refer to note 7).

From 2014 the Company began to issue Subordinated perpetual debentures. On 18 November 2014 the Company issued the first “Undated 8-year non-call deeply subordinated guaranteed fixed rate reset securities” (Subordinated perpetual debentures EUR 1,000,000 thousand), guaranteed by Naturgy Energy Group, S.A., for an amount of EUR 1,000,000 thousand (refer to note 7). The issue price was 99.488%. The Subordinated perpetual debentures bear interest at a fixed rate, which is calculated as a reference interest rate plus a margin. The reference interest rate is the 8-year swap rate (equivalent at the issue date to 0.772%) which may be reviewed every 8 years. The initial margin applicable to the first 10 years is 3.353%; between years 2024 and 2042 the margin will be 3.603% and from then onwards, it will be 4.353%. The initial coupon was set at 4.125%.

On 24 April 2015 the Company issued the second “Undated 9-year non-call deeply subordinated guaranteed fixed rate reset securities” (the Subordinated perpetual debentures EUR 500,000 thousand), guaranteed by Naturgy Energy Group, S.A., for an amount of EUR 500,000 thousand. The issue price was 99.049%. The Subordinated perpetual debentures 500,000 thousand bear interest at a fixed rate, which is calculated as a reference interest rate plus a margin. The reference interest rate is the 9-year swap rate (equivalent at the issue date to 0.4210%) which may be reviewed every 9 years. The initial margin applicable to the first 9 years is 3.079%; between years 2025 and 2044 the margin will be 3.329% and from then onwards, it will be 4.079%. The initial coupon was set at 3.375%.

On 23 November 2021 the Company issued the third “Undated 5-year non-call deeply subordinated guaranteed fixed rate reset securities (the Subordinated perpetual debentures EUR 500,000 thousand), guaranteed by Naturgy Energy Group, S.A., for an amount of EUR 500,000 thousand. The issue price was 100.00%. The Subordinated perpetual debentures 500,000 thousand bear interest at a fixed rate, which is calculated as a reference interest rate plus a margin. The reference interest rate is the 5,25-year swap rate (equivalent at the issue date to -0.062%) which may be reviewed every 5 years. The initial margin applicable to the first 10 years is 2.437%; between years 2032 and 2037 the margin will be 2.687% and from then onwards, it will be 3.437%. The initial coupon was set at 2.374%.

Also, on 23 November 2021, the Company successfully repurchased Subordinated perpetual debentures of EUR 500,000 thousand from its Undated 9-year non-call deeply subordinated guaranteed fixed rate reset securities of EUR 1,000,000 thousand. The intercompany loan directly linked to such bond was duly repaid.

At its sole discretion, the Company may elect to defer any payments of coupons on the Subordinated perpetual debentures. Any coupon payment deferral will accrue interests at 3.353% for the EUR 500,000 thousand Undated 8-year non-call Subordinated perpetual debentures and 3.079% for the EUR 500,000 thousand Undated 9-year non-call Subordinated Perpetual Debentures and at 2.374% for the EUR 500,000 thousand Undated 5-year non-call Subordinated perpetual debentures. Coupons deferred are however mandatorily settled ultimately upon redemption of the Subordinated perpetual debentures or if the guarantor, Naturgy Energy Group, S.A., pays dividends in cash in respect of its ordinary shares, or if the Company pays dividends of its ordinary shares. Although these Subordinated perpetual debentures do not have a contractual maturity date, the Company will have the right to redeem the Subordinated perpetual debentures EUR 500,000 thousand on 18 November 2022 and Subordinated perpetual debentures EUR 500,000 thousand on 24 April 2024 and Subordinated perpetual debentures EUR 500,000 thousand on 23 February 2027 and on any subsequent year, at coupons payments dates.

The Company signed Guarantee Agreements in relation to the ECPs, EMTN program, and the Subordinated perpetual debentures, which establishes Naturgy Energy Group S.A. as unconditional and irrevocable guarantor of any amount payable that remains unpaid, by the date and on the time specified for such payment, by the Company (as issuer) to any holder of the notes issued. As a consequence, the Company pays to Naturgy Energy Group, S.A. an annual guaranteed fee of 0.25% on the principal amounts of the issuances.

2. Summary of principal accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

This annual report is prepared for the year ended 31 December 2021.

The present accounting policies of valuation and determination of result used assume of going concern of the Company.

These accounts have been prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code and with accounting principles generally accepted in the Netherlands

Assets and liabilities are measured at historical cost, unless stated otherwise in the policies below. An asset is recognized in the balance sheet when it is probable that the expected future economic benefits that are attributable to the asset will flow to the Company and the asset has a cost price or value of which the amount can be measured reliably. Assets that are not recognized in the balance sheet are considered as off-balance sheet assets. A liability is recognized in the balance sheet when it is expected that the settlement of an existing obligation will result in an outflow of resources embodying economic benefits and the amount necessary to settle this obligation can be measured reliably. Provisions are included in the liabilities of the Company. Liabilities that are not recognized in the balance sheet are considered as off-balance sheet liabilities. An asset or liability that is recognized in the balance sheet remains recognized on the balance sheet if a transaction (with respect to the asset or liability) does not lead to a major change in the economic reality with respect to the asset or liability. Such transactions will not result in the recognition of results. When assessing whether there is a significant change in the economic circumstances, the economic benefits and risks that are likely to occur in practice are considered. The benefits and risks that are not reasonably expected to occur are not taken in to account in this assessment. An asset or liability is no longer recognized in the balance sheet, and thus derecognized, when a transaction results in all or substantially all rights to economic benefits and all or substantially all of the risks related to the asset or liability are transferred to a third party. In such cases, the results of the transaction are directly recognized in the profit and loss account, considering any provisions related to the transaction of assets are recognized of which the Company does not have the legal ownership, this fact is disclosed.

Income is recognized in the statement of income when an increase in future economic potential related to an increase in an asset or a decrease of a liability arises, of which the size can be measured reliably. Expenses are recognized when a decrease in the economic potential related to a decrease in an asset or an increase of a liability arises, of which the size can be measured with sufficient reliability. Revenues and expenses are allocated to the respective period to which they relate. Revenues are recognized when the Company has transferred the significant risks and rewards of ownership.

The preparation of financial statements in conformity with with Part 9 of Book 2 of the Dutch Civil Code requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies.

These annual accounts fairly present the equity and financial situation of Naturgy Finance B.V. at 31 December 2020 and the results of its operations and the changes in the statement of shareholder´s equity of the Company for the year ended.

The figures showed in the financial statements are expressed in thousands of Euros unless otherwise indicated.

2.2. Restatement of the income statement presentation

During 2021, it was discovered that the Statement of Income for the year ended 31 December 2020 has not been presented in accordance with the applicable accounting rules and regulations (RJ 270).

The restatement relates to the omission, in the 2020 financial statements, to present Finance Income as well as Financial Expense as part of the Company's result from operating activities. As a result, in prior year the Statement of Income did not adequately present the result from the ordinary business activities of the Company. The Company, acts as a principal, provides finance to the Shareholder Company for its own risk and rewards and therefore the ordinary activities of the Company should include interest income and interest expense as part of its result from operating activities.

As a consequence, in the Company's 2020 financial statements interest income (amounting EUR 233.245) and interest expense (amounting to EUR 227.675) were not presented as part of the Company's results from operating activities. This change in the presentation did not affect the Profit before income taxes and the Net income for the year.

The comparative figures 2020 have been restated by reclassifying each of the affected line items in the Statement of Income for prior period. The following table summarizes the impact on the Statement of Income:

Thousands of Euros

	31 December 2020, as previously reported	Restatement (Reclassification)	31 December 2020, as restated
Other revenues and income	-	-	-
Services	(550)	550	-
Personnel	(135)	135	-
Result from operating activities	**(685)**	**685**	**-**
Financial income	233,245	(233,245)	-
Financial expense	(227,675)	227,675	-
Total	**5,570**	**(5,570)**	**-**
Finance income	-	233,245	233,245
Finance expenses	-	(227,675)	(227,675)
Gross financial result	-	**5,570**	**5,570**
Administrative expenses	-	**(685)**	**(685)**
Profit before income taxes	**4,885**	-	**4,885**
Income tax expense	(1,028)	-	(1,028)
Net income for the year	**3,857**	-	**3,857**

2.3 Changes in accounting
The accounting policies remain the same as previous years.

2.4 Use of estimates / judgment
The preparation of interim condensed financial statements in conformity with the relevant rules requires the use of certain critical accounting estimates.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment for the period ended 31 December 2021, as well for the year ended 31 December 2020 is included in the Covid-19 effects description below and the following notes:
In terms of key assumptions underlying recoverable amounts, including the recoverability of loans, please, refer to note 4. For determining the fair value of loans, borrowings, please refer to note 4 and 7.

Management prepares an annual assessment in terms of the recoverability of the EUR 8,873 million intercompany loan (2020: EUR 9,134 million) and whether impairment is required. These demonstrate that the group has sufficient liquidity for its operations and borrowings can be repaid as they fall due.

The COVID-19 pandemic does not have a material impact on Naturgy Finance B.V., given that the Company acts as pass-through between the funds raised in the markets and the intercompany loans to Naturgy Energy Group, S.A. In this sense, access to international capital markets has remained available during de COVID-19 pandemic, and Naturgy Finance B.V. issued EUR 1,150 million in April and May 2020 of senior bonds under the EMTN programme.

2.5 Cash flow statement
The Company does not prepare cash flow statement for the financial statements. As permitted under RJ 360.104, the cash flows of the Company are included in the consolidated cash flows statement of the ultimate holding company. The ultimate holding company's financial statement are available on Naturgy´s corporate website: www.naturgy.com.

2.6 Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in thousands of Euros, which is the Company's functional and presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured.
- Monetary financial assets and liabilities are translated at the closing rate of the date of the Balance Sheet;
- Income and expenses are translated at monthly average exchange rates.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income.

The exchange rates used in the financial statements are:

1 EUR = NOK (Norwegian Krona)

31-Dec-21	31-Dec-20
9.9888	10.4703

2.7 Financial instruments

Financial instruments include bonds, loans granted and other receivables, cash items, loans and other financing commitments and other payables. Financial instruments also include derivative financial instruments.

a) Loans and bonds

Loans and bonds are initially recognized at their fair value, net of any transaction costs incurred. Subsequently, loans and bonds are carried at amortized cost using the effective interest rate method.

Loans and bonds are classified as current financial liabilities unless they mature in more than twelve months as from the balance sheet.

b) Loans to group companies

Loans to group companies are carried at amortized cost after initial recognition at fair value, using the effective interest rate method, less impairment losses. They are included in current assets, except for maturities greater than 12 months after the end of the reporting year. These are classified as non-current assets.

c) Impairment of financial fixed assets

A financial asset that is *not* measured at (1) fair value with value changes reflected in the profit and loss account, or at (2) amortized cost, is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, with negative impact on the estimated future cash flows of that asset, which can be estimated reliably.

The Company assesses at the end of each reporting year whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Company, for economic or legal reasons relating to the borrower’s (Naturgy Energy Group S.A.) financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including (i) Adverse changes in the payment status of borrowers in the portfolio; and (ii) National or local economic conditions that correlate with defaults on the assets in the portfolio; and
- Analysis of Covid-19 impact.

The entity considers evidence of impairment for financial assets measured at amortized cost (loans and receivables and financial assets that are held to maturity). All individually significant assets are assessed individually for impairment. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between it carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

Impairment losses are recognized in the profit and loss account and reflected in an allowance account against loans and receivables, or investment securities held to maturity (as part of the interest expenses). Interest on the impaired asset continues to be recognized by using the asset's original effective interest rate.

d) Offsetting financial instruments

A financial asset and a financial liability are offset when the entity has a legally enforceable right to set off the financial asset and financial liability and the Company has the firm intention to settle the balance on a net basis, or to settle the asset and the liability simultaneously.

If there is a transfer of a financial asset that does not qualify for derecognition in the balance sheet, the transferred asset and the associated liability are not offset.

e) *Modification of financial instruments*

Modifications of financial instruments are assessed from a qualitative and quantitative prospective when they are present, if the discounted present value of the cash flows at market rate under the new terms was less than 10% different from the discounted present value of the remaining cash flows of the original financial liability and asset, it is considered that there is no substantial modification, therefore it is not required to derecognise the financial instruments and account for a new financial instrument; as such, the Company calculates the amortised cost of the financial asset and liability as the present value of the future contractual cash flows that are discounted at the financial instrument's effective interest rate.

Substantial modifications to financial instruments are treated as an extinguishment, and so derecognition, of the existing liability and recognition of a new liability based on the new contractual terms. Any difference between the amortised cost of the `old' loan and the present value of the modified cash flows at the original effective interest rate is recognised as a gain or loss within the profit and loss account.

f) Derecognition of financial instruments

Financial instruments are derecognised if a transaction results in a considerate part of the contractual risks or rewards with respect to that financial instrument being transferred to a third party.

2.8 Loans to group companies

Loans to group companies are stated at amortized cost,

2.9 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within borrowings in current financial liabilities in the balance sheet. Cash and cash equivalents denominated in foreign currencies are translate at the balance sheet date in euros at the exchange rate ruling at that date. Reference is made to the accounting policies for foreign currencies.

2.10 Equity

Ordinary shares are classified as equity.

Share premium reserve relates to the amounts contributed by the Shareholder. This also includes additional capital contributions without the issue of shares or issue of rights to acquire shares of the Company. Costs and capital taxes associated with the issue of shares that are not capitalised are deducted from share premium, after taking into account tax effects. If the share premium is insufficient for such deductions, the amounts are deducted from other reserves

Other reserves related to the portion of prior year's results that have been appropriated as a result of an Annual General Meeting decision. The net result of previous years is classified under the other reserves. Dividend pay outs are deducted from other reserves (except when the Annual General Meeting decided on dividends being an included as element of profit of appropriation).

Financial instruments that are designated as equity instruments by virtue of the economic reality are presented under shareholders' equity. Payments to holders of these instruments are deducted from the shareholders' equity as part of the profit distribution.

Financial instruments that are designated as a financial liability by virtue of the economic reality are presented under liabilities. Interest, dividends, income, and expenditure with respect to these financial instruments are recognized in the profit and loss as financial income or expense.

2.11 Non-Current liabilities

The valuation and measurement of non-current liabilities is explained under the heading 'Financial instruments. The presentation is determined by the legal or constructive obligation to pay.

2.12 Current liabilities

The valuation and measurement of current liabilities is explained under the heading 'Financial instruments. The presentation is determined by the legal or constructive obligation to pay.

2.13 Income tax
The tax expense for the year comprises current tax and deferred tax. Tax is recognised in the statement of income, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognized in equity.

The current tax charge is calculated at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Company financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized, or the deferred tax liability is settled. Deferred tax is recorded at nominal value.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The taxable profit of the Company is computed on the basis of a Pricing Agreement with the tax authorities. This requires a minimum taxable income in respect of taking up and granting loans. The present Advanced Pricing Agreement is valid from 1 January 2019 until 31 December 2023.

2.14 Interest income and expense recognition
Interest income and expense are recognized using the effective interest method. When a loan and receivable are impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income. Interest income on impaired loans and receivables are recognized using the original effective interest rate.

2.15 Dividend distribution
Dividend distribution is recognized as a liability in the Company's financial statement once it is approved by the Company's shareholders.

2.16 Provisions and contingencies
Provisions are being measured at present value and are recognized when the Company has i) a present legal or constructive obligation as a result of past events; ii) for which it is more likely than not that an outflow of resources will be required to settle the obligation; and iii) the amount can be reliably estimated. When one of these criteria is not fulfilled or the existence of the liability is dependent upon a future event, the Company discloses it as a contingent liability, except if the outflow of resources to settle it is considered to be remote. Contingent assets are not recognized in the Company's balance sheet but are disclosed when an inflow of economic benefits is probable.

2.17 Related parties
Transactions with related parties are assumed when a relationship exists between the Company and a natural person or entity that is affiliated with the Company. This includes, amongst others, the relationship between the Company and its subsidiaries, its Shareholder company shareholder, directors and key management personnel.

Transactions are transfers of resources, services or obligations, regardless of whether anything has been charged.

2.18. Guarantee to the Shareholder.
The expenses related to the guarantee paid to the Shareholder are part of 'Financial expenses' in the statement of income.

2.19 Events after the reporting year
Post-year-end events that provide additional evidence of conditions that existed at the end of the reporting year (adjusting events), if any, are reflected in the financial statements. Post-year-end events that are indicative of conditions that arose after the end of the reporting year (non-adjusting events) are disclosed in the notes to the financial statements.

3. Financial risk management

3.1 Financial risk factors
The Company's activities are exposed to a variety of financial risks: market risk (including foreign exchange risk, cash flow, fair value risk and interest rate risk), credit risk and liquidity risk.

Furthermore, risk related to financial reporting and other operational risks, risks related to change in laws and regulations and risks related to financial instruments; all of these risks arise in the normal course of business and the risk appetite of the Company in respect to these risks is low and no amendments were made or are expected to be made in managing these risks.

The Company's overall risk management program focuses on the volatility of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

The risk management policy is based on the consideration that the Company acts as a vehicle to raise funds for Naturgy Energy Group and to on-lend these funds to the Shareholder company.

The set-out policy allows the Company to raise funds on non-euro currencies were the markets offer good opportunities as compared with the euro market. When the borrowings are not denominated in Euros, the Company either on lends the funds to the Shareholder company in the same currency as the borrowing is denominated or enters into swaps to finally obtain Euros that are then on-lent to the Shareholder company. The Company´s policy is to enter into cross-currency swaps considered as fully effective, as the notional amount of the cross-currency swap equals the borrowing and all cash flow dates and interest rates coincide between the borrowing and the cross-currency swap.

All borrowings, taking into account the impact of the derivative hedges, are issued under the same conditions to the shareholder including a small interest spread and the maturity date is the same or later than the shareholder loans.

Market risk

a) Foreign exchange risk

To mitigate the exposure to foreign exchange risk, the currency of the loans to the shareholder will generally match the currency of the attracted funding. Where this is not applicable, derivatives are used to mitigate this exposure.

The proceeds from the bond issued in NOK have been on lent in NOK to the Shareholder company Naturgy Energy Group, S.A. and as a consequence, the foreign exchange risk for the company has been offset by a position with the Shareholder company.

b) Interest rate risk

The Company's interest rate risk arises from the Subordinated perpetual debentures and bonds. Issuances at fixed rates expose the Company to fair value interest rate risk. Issuances at variable rates expose the Company to cash flow and interest rate risk. Interest rate risk is offset by similar interest conditions in the positions with the shareholder, except for a spread.

Credit risk

There is a significant concentration of credit risk as all borrowings are lent on to the shareholder.

Loans to the shareholder (refer to note 4) amount to EUR 8,873,454 thousand (2020: EUR 9,134,502 thousand). The level of remuneration reflects the functions performed and the risks assumed by the Company in relation to the intercompany flows. It has been agreed to set the remuneration for the financing activities over the funds borrowed and lent on, as an annually gross spread. This spread is based on a corresponding transfer pricing report which is updated every five years.

In the case of the Subordinated perpetual debentures, the intragroup loans have the same subordination as the guarantees provided by Naturgy Energy Group, S.A. to the holders of the Subordinated perpetual debentures.

This credit risk is monitored on a regular basis by the Company.

The shareholder, Naturgy Energy Group, S.A. is the holding company of Naturgy Energy group, an international energy operator, with a significant presence in the world throughout the value chain for gas and electricity. The shareholder is listed on the Spanish stock exchange.

The long-term credit rating of the shareholder is as follows:

	2021	**2020**
Standard & Poors	BBB	BBB
Fitch	BBB	BBB

The maximum exposure to credit risk amounts to EUR 8,873,478 thousand (2020: EUR 9,134,547 thousand).

Liquidity risk and cash flow risk

Cash flow forecasting is performed by the Company. Management monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Company does not breach borrowing limits (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Company's debt financing plans and external legal requirements.

In connection with the borrowings, the Company pays interests on an annual basis in the case of the bonds issued under the EMTN (refer to note 7). The redemption date for the bonds their maturity ranges from 2 to 10 years (refer to note 7).

The Company does not bear cash-flow risk regarding the issuance of the Subordinated perpetual debentures, as the intragroup loan is more liquid than the issuance and the interest rate on the intragroup loan will be received, even if the Company defers the accrued interest on the Subordinated perpetual debentures.

The Company will pay interests on an annual basis in the case that interests are mandatorily settled (refer to note 7). The Subordinated perpetual debentures have no redemption date.

The Company's income and operating cash flows are dependent on changes in market interest rates for Euribor. The current variable interest rates are set at Euribor plus a fixed margin. This funding exposes the Company to cash flow interest rate risk which is offset by similar counter positions.

The Company is exposed to cash flow risk, but this risk is limited as the payment conditions on the EMTN senior bonds are similar as the payment conditions on the loans to the shareholder.

With regards to the payment conditions on the Subordinated perpetual bonds, the only difference with the payment conditions on the loans to the shareholder is the tenor of such loans that is extended automatically beyond the call date.

The shareholder does not have a history of non-compliance with the payment conditions.

Contractual maturities of the Company´s financial instruments are:

Assets

(in Thousands of Euro) At 31 December 2021	Within 1 month	Between 1 month and 3 months	Between 3 months and 12 months	Between 12 months and 5 years	More than 5 years	Total
Long-term loans to shareholder				3,235,998	5,054,952	8,290,950
Current loans to shareholder	67,571	10,646	504,287			582,504
Financial receivables			23			23
Total Financial Assets	**67,571**	**10,646**	**504,310**	**3,235,998**	**5,054,952**	**8,873,478**

Liabilities

(in Thousands of Euro) At 31 December 2021	Within 1 month	Between 1 month and 3 months	Between 3 months and 12 months	Between 12 months and 5 years	More than 5 years	Total
Long-term loans and bonds				3,235,343	5,055,485	8,290,829
Short-term loans and bonds	56,758	9,601	497,979			564,338
Other current financial liabilities from group companies	8,637	834.88	5,039.98			14,512
Other current financial liabilities			271			271
Total Financial Liabilities	**65,395**	**10,436**	**503,290**	**3,235,343**	**5,055,485**	**8,869,950**

Assets

(in Thousands of Euro) At 31 December 2020	Within 1 month	Between 1 month and 3 months	Between 3 months and 12 months	Between 12 months and 5 years	More than 5 years	Total
Long-term loans to shareholder	-	-	-	4,181,049	4,543,525	8,724,574
Current loans to shareholder	63,696	10,646	335,586	-	-	409,928
Financial receivables	-	-	45	-	-	45
Total Financial Assets	**63,696**	**10,646**	**335,631**	**4,181,049**	**4,543,525**	**9,134,547**

Liabilities

(in Thousands of Euro) At 31 December 2020	Within 1 month	Between 1 month and 3 months	Between 3 months and 12 months	Between 12 months and 5 years	More than 5 years	Total
Non-current liabilities						
Long-term loans and bonds	0	0	0	2,685,240	6,039,162	8,724,402
Short-term loans and bonds	53,659	9,601	328,684	-	-	391,944
Other current financial liabilities from group companies	8,022	833	5,683	-	-	14,538
Other current financial liabilities	-	-	193	-	-	193
Total Financial Liabilities	**61,681**	**10,434**	**334,560**	**2,685,240**	**6,039,162**	**9,131,077**

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's measurement currency.

As the Company's financial instruments and major part of the transactions are in Euro, the currency risk is very low.

4. Loans and bonds

Loans and bonds are loans to group companies that consist mainly of loans given to the shareholder mirroring the borrowings received by the Company from third parties and group companies.

The breakdown of the loans to shareholders are as follows:

(in Thousands of Euro)	2021	2020
Non-current		
Loans to shareholder (EMTN Program)	6,795,723	7,228,700
Loans to shareholder (Referred to Subordinated perpetual debentures)	1,494,497	1,495,144
Loans to shareholder (Credit facility)	730	730
	8,290,950	**8,724,574**
Current		
Accrued Interest (EMTN Program)	112,066	115,605
Accrued Interest (Referred to Subordinated perpetual debentures)	16,841	18,081
Loans to shareholder (EMTN Program)	453,597	276,242
	582,504	**409,928**
Total	**8,873,454**	**9,134,502**

The carrying amounts and fair values of the non-current loans to the shareholders are as follows:

(in Thousands of Euro)	Carrying value		Fair Value	
	31 December 2021	**31 December 2020**	**31 December 2021**	**31 December 2020**
Loans to shareholder (EMTN Program)	6,875,813	7,228,700	7,254,060	7,945,043
Loans to shareholder (Referred to Subordinated perpetual bond)	1,494,497	1,495,144	1,554,573	1,593,542
Loans to shareholder (Credit facility)	730	730	730	730
Total EUR	**8,290,950**	**8,724,574**	**8,809,363**	**9,539,315**

The fair value of the non-current loans to the shareholder is estimated using the discounted cash-flows over the remaining terms of such. The discount rates for intercompany loans corresponding to non-traded related loans were determined based on the cost of borrowings in Euros of Naturgy Energy Group S.A., adjusted by the additional spread stipulated in the intercompany loan.

The average effective interest rate for those loans during the year has been 2.372% (2020: 2.419%). The discount rates for the loans to the shareholder corresponding to the EMTN program not including the Subordinated perpetual debentures have been determined considering the fair market value of the corresponding bonds issued by the Company, adjusted by the additional spread stipulated in the intercompany loan. The average annual interest rate for those loans during the year has been 2.059% (2020: 2.070%).

The carrying amount and fair value of the current loan to the shareholders is as follows:

(in Thousands of Euro)	Carrying value		Fair Value	
	31 December 2021	**31 December 2020**	**31 December 2021**	**31 December 2020**
Loans to shareholder (EMTN Program)	453,597	276,242	458,886	279,863
Total EUR	**453,597**	**276,242**	**458,886**	**279,863**

The movement of loans to group companies is as follows:

(in Thousands of Euro)	2021	2020
At 1 January	**9,134,502**	**7,975,629**
Decrease of Loans to shareholder (EMTN Program)	**(259,161)**	**1,157,070**
Decrease Non current Loans to shareholder	(432,977)	869,547
Increase Current Loans to shareholder	173,816	287,523
Decrease of Loans to shareholder (Subordinated perpetual debentures)	**(1,887)**	**1,803**
As at 31 December	**8,873,454**	**9,134,502**

The Company did not identify an impairment of the loans to group companies as of 31 December 2021 and 2020.

We set out below a description of the loans to the shareholder:

Loans to group companies (EMTN Program)
In order to on-lend the proceeds raised under the EMTN program, the Company signed a finance agreement with Naturgy Energy Group, S.A., formerly named Gas Natural SDG, S.A. dated 26 November 2012, that stipulate the general terms and conditions of the individual loan agreements that will be made between the parties each time the Company issues a bond. Each loan agreement will be a mirror loan of the relevant issuance of Notes and the terms and conditions of the Loan Agreement will be identical to the Final Terms of the Issuance of Notes. Thus, the loans have the same maturity date as the EMTN issuances to which they are related to and bear the same nominal interest rate plus 0.25% plus a taxable margin.

As at 31 December 2021 the nominal value of the intra-group loans related to the EMTN Program are for the Euro denominated loans EUR 7,266,800 thousand (2020: EUR 7,543,100 thousand) and for Norwegian Krone denominated loans NOK 800,000 thousand (2021: EUR 80,090 thousand and 2020: EUR 76,407 thousand). As at 31 December 2021, the amortized cost of the loans using an effective interest rate is EUR 7,169,231 thousand for the Euro denominated loans and EUR 80,090 thousand for the Norwegian Krone denominated loans (2020: EUR 7,152,293 thousand and EUR 76,407 thousand respectively).

The loans to the shareholder related to the EMTN program recognized in the balance sheet are calculated as follows:

(in Thousands of Euro)	2021	2020
Long term		
At 1 January	**7,228,700**	**6,359,153**
Loans to group companies	-	1,150,000
Repayment from group companies	-	-
Transfer from long term to short term	(453,323)	(276,092)
Transaction costs incurred	-	(15,526)
Amortized cost released	16,663	15,863
Exchanges differences	3,683	(4,698)
As at 31 December	**6,795,723**	**7,228,700**
Short term		
At 1 January	**391,847**	**104,324**
Transfer to short term from long term	453,323	276,092
Amortized cost released	274	150
Repayment from group companies	(276,242)	-
Interest income	150,321	152,566
Interest received	(153,861)	(141,285)
As at 31 December	**565,663**	**391,847**
Total	**7,361,386**	**7,620,547**

In April 2021, the bond with principal amount of EUR 276,300 thousand reached its maturity. This bond had been issued on October 17, 2013, for a total amount of EUR 500,000 thousand. In April 2021 the bond, and the amount due from the Shareholder company in this regard, were all received and paid.

In April 2022, the bond with principal amount EUR 453,700 thousand will reach its maturity, the bond, and the amount due from the Shareholder company in regards have been transferred from long term to short term in accordance with accounting principles.

Loans to group companies (Referred to Subordinated perpetual debentures)

In order to on-lend the proceeds raised under the Subordinated perpetual debentures, the Company signed finance agreements with Naturgy Energy Group, S.A. dated on 18 November 2014, 24 April 2015 and 23 November 2021 that stipulate the general terms and conditions on which the intragroup loans are granted.

The maturity dates of the intragroup loans will be 2022, 2024 and 2027 respectively. However, the loan could be extended for a further period of a year. Immediate repayment should follow in case of repayment of the debenture.

The loans will bear interest at a fixed rate, calculated on the nominal amount of the loans, which will be similar to the interest on the Subordinated perpetual debentures (including the interest re-set) (refer to note 7) plus 0.25% plus a taxable margin in line with the tax ruling. Interest will be payable annually in arrears on each interest payment dates. The initial interest rates are, for the loan mirroring the Subordinated perpetual debentures EUR 500,000 thousand, 4.438% until year 2022, for the loan mirroring the Subordinated perpetual debentures EUR 500,000 thousand, 3.688% until year 2024 and for the loan mirroring the Subordinated perpetual debentures EUR 500,000 thousand, 2.687% until year 2027.

The loans will be subordinated to Senior Obligations of the Borrower, rank equal to Parity Obligations of the Borrower and rank senior to Junior Obligations of the Borrower. Senior Obligations include all current and future securities issued under the EMTN Programme, Parity Obligations include all current and future Perpetual Subordinated securities issued by the Borrower and Junior Obligations include all current and future ordinary shares and all current and future preferred securities of Naturgy Energy Group, S.A.

The only conditions that differ between the intragroup loans, that lends on the proceeds raised from the issuances to Naturgy Energy Group, S.A., and the hybrid instruments, are the maturity dates and the option to defer the payments of interests.

At its sole discretion, the Company may elect to defer any payments of coupons on the Subordinated perpetual debentures. Coupons deferred are, however, mandatorily settled ultimately upon redemption of the Subordinated perpetual debentures or if the guarantor, Naturgy Energy Group, S.A., pays dividends in cash in respect of its ordinary shares, or if the Company pays dividends of its ordinary shares. However, the Company has never opted for it. Though, this option is not applicable to the intragroup loans, so if the Company defers interest on the Subordinated perpetual debentures, it will still receive the interest on the intercompany loan. In that situation, the loan interest received would be on-lent again to its Shareholder company by means of a new intragroup loan as it is the usual policy of the Company to invest its surplus in Naturgy Energy Group.

The loans to the shareholder related to the Subordinated perpetual debentures recognized in the balance sheet are calculated as follows:

(in Thousands of Euro)	**2021**	**2020**
Long term		
At 1 January	**1,495,144**	**1,493,389**
Loans to shareholder	500,000	-
Amortized cost released	2,331	1,755
Repayment from group companies	-500,000	-
Transaction costs incurred	-2,979	-
As at 31 December	**1,494,496**	**1,495,144**
Short term		
At 1 January	**18,081**	**18,033**
Interest income	61,945	62,869
Interest received	(63,185)	(62,821)
As at 31 December	**16,841**	**18,081**
Total	**1,511,338**	**1,513,225**

Loans to group companies (credit facility)

Additionally, as of 22 September 2010 a credit facility up to a maximum amount of EUR 10,000 thousand has been agreed between the Company and Naturgy Energy Group, S.A. The credit facility bears a nominal interest rate of 3 months Euribor plus a taxable margin in line with the tax ruling, with quarterly payments and maturity date 22 September 2022.The outstanding lent amount as of 31 December 2021 amounts to EUR 730 thousand (2020: EUR 730 thousand).

The credit facility recognized in the balance sheet is calculated as follows:

(in Thousands of Euro)	**2021**	**2020**
Long term		
At 1 January	730	730
Repayment from shareholder	-	-
As at 31 December	**730**	**730**

Loans to group companies (ECP program)

During the year 2020 several loans have been agreed upon in a revolving cash agreement dated 23 March 2010 between the Company and Naturgy Energy Group, S.A. This agreement has been signed to carry out the lending of the proceeds raised under the ECP program up to a maximum amount of EUR 1,000,000 thousand where any advances to be granted by the Company to the borrower will be subject to the conditions precedent to the issuance of Notes. Thus, the loans have the same maturity date as the ECP issuance which is related to and bear the same nominal interest rate plus a taxable margin + 0.25% plus a taxable margin in line with the tax ruling.

(in Thousands of Euro)	**2021**	**2020**
Short term		
At 1 January	**-**	**-**
Revolving cash advance facility	280,025	900,382
Repayment cash advance facility	(280,025)	(900,382)
Interest income	-	-
Interest received	-	-
As at 31 December	**-**	**-**

There is no outstanding drawn amount as of 31 December 2021.

The loan to the shareholder related to the ECP program, recognized in the balance sheet is calculated as follows:

5. Cash and cash equivalents

Cash and cash equivalents consist of current account balances which are available on demand. As of 31 December 2021, cash amounts to EUR 6,673 thousand (2020: EUR 5,017 thousand). The cash at banks is freely disposable for the Company.

6. Shareholders' equity

The movements in capital and reserves are provided as follows:

	Share capital	**Share premium**	**Other Reserves**	**Profit for the year**	**Net Equity**
Balance at 1 January 2020	**91**	**165**	**975**	**3,259**	**4,490**
Profit appropriation of previous year	-	-	3,259	(3,259)	-
Other variations in equity	-	-	-	-	-
Distribution of dividends	-	-	-	-	-
Profit for the year	-	-	-	3,857	3,857
Balance at 31 December 2020	**91**	**165**	**4,234**	**3,857**	**8,347**
Balance at 1 January 2021	**91**	**165**	**4,234**	**3,857**	**8,347**
Profit appropriation of previous year	-	-	3,857	(3,857)	-
Other variations in equity	-	-	-	-	-
Distribution of dividends	-	-	(3,500)	-	(3,500)
Profit for the year	-	-	-	3,833	3,833
Balance at 31 December 2021	**91**	**165**	**4,591**	**3,833**	**8,680**

Share capital

The authorized share capital of the Company consists of 200 common shares of EUR 453.78 each, amounting to EUR 90,756. As at balance sheet date all 200 shares were issued, fully paid-up in cash and have equal voting and interest rights.

All shares are held by Naturgy Energy Group, S.A.

Share premium reserves

The share premium concerns the income from the issuing of shares insofar as this exceeds the nominal value of the shares.

At least EUR 165 thousand of the share premium can be considered as free distributable share premium as referred to in the 1964 Income Tax Act. Nominal value of the shares.

Other reserves and profit for the period
The other reserves as at 31 December 2021 are EUR 4,591 thousand. The net income for the period is EUR 3,833 thousand.

On 9 February 2021 the Management Board's proposed to distribute a dividend of EUR 3,500 thousand which was approved by the Shareholder of the Company on the same date and effectively paid on 12 February 2021.

Proposed appropriation of profit
During the year ended 31 December 2021 the Company realized a net profit of EUR 3,833 thousand. On 26 April 2022, the Management Board's proposal is to distribute a dividend of EUR 3,500 thousand and to credit to other reserves of the Company the amount of EUR 333 thousand. This has not yet been reflected in the financial statements.

7. Loans and bonds

The breakdown of the non-current and current loans and bonds at 31 December 2021 and 2020 is as follows:

(in Thousands of Euro)	2021	2020
Non-current loans and bonds		
Bonds and other negotiable securities (EMTN Program)	6,796,306	7,229,217
Bonds and other negotiable securities (Subordinated perpetual debentures)	1,494,523	1,495,185
	8,290,829	**8,724,402**
Current loans and bonds		
Interest payable (EMTN Program)	95,334	99,079
Interest payable (Subordinated perpetual debentures)	15,406	16,623
Bonds and other negotiable securities (EMTN Program)	453,598	276,242
	564,338	**391,944**
Total borrowings	**8,855,167**	**9,116,346**

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

(in Thousands of Euro)	Carrying value		Fair Value	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Loans to shareholder (EMTN Program)	6,796,306	7,229,217	7,235,921	7,828,956
Loans to shareholder (Referred to Subordinated perpetual bond)	1,494,523	1,495,185	1,548,585	1,582,855
Total EUR	**8,290,829**	**8,724,402**	**8,784,506**	**9,411,811**

The fair value of bonds with fixed interest rates is estimated using the quoted bid market price available at 31 December 2021.

The carrying amount and fair value of the current loans and bonds is as follows:

(in Thousands of Euro)	Carrying value		Fair Value	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Loans to shareholder (EMTN Program)	453,598	276,242	458,491	279,154
Total EUR	**453,598**	**276,242**	**458,491**	**279,154**

The movement in loans and bonds is as follows:

(in Thousands of Euro)	2021	2020
At 1 January	**9,116,346**	**7,959,620**
Increase of EMTN program	-	1,154,931
Decrease of EMTN program	(259,300)	-
Increase of Subordinated perpetual debenture	-	1,795
Decrease of Subordinated perpetual debenture	(1,879)	-
As at 31 December	**8,855,167**	**9,116,346**

All bonds and loans have a fixed interest. As at 31 December 2021 and 2020, the Company does not have borrowings with a variable interest rate.

The fixed-rate debt amounts to EUR 8,744 million being the total of borrowings at 31 December 2021 (2020: EUR 9,001 million).

As at 31 December 2021, the amortized cost of the borrowings using an effective interest rate is EUR 8,664,338 thousand for the Euro denominated loans and thousand and EUR 80,089 thousand for the Norwegian Krone denominated loans (2020: EUR 8,924,238 thousand and EUR 76,406 thousand respectively).

We set out below the most relevant financial instruments:

EMTN program

In November 2010, the Company, formerly named Union Fenosa Finance B.V., entered into the Euro Medium-Term Notes (EMTN) program. The program is shared by the Company with Naturgy Capital Markets, S.A, formerly named Gas Natural Capital Markets, S.A., a sister company. The program allows the issuance, offering and selling of notes, listing on the Official List of the Luxemburg Stock Exchange and trading on the Luxembourg Stock Exchange´s regulated market, although the notes may be admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system as may be agreed with the Issuer and the Guarantor. Unlisted Notes may also be issued by Naturgy Finance B.V. but not by Naturgy Capital Markets, S.A. Naturgy Energy Group, S.A. is the guarantor.

This EMTN program is updated periodically, and after various extensions, the last being December 2021, the program limit was EUR 12,000,000 thousand. At 31 December 2021, principal drawn down amounted to EUR 8,110,008 thousand (2020: EUR 8,940,708 thousand).

As at 31 December 2021, the amount issued by the Company was EUR 7,367,708 thousand and the amount issued by Naturgy Capital Markets, S.A was EUR 742,300 thousand (EUR 7,644,008 thousand and EUR 1,296,700 thousand respectively, at 31 December 2020)

The funds from all the bonds have been on lent by the Company to its Shareholder company Naturgy Energy Group, S.A.

The bonds recognized in the balance sheet are calculated as follows:

(in Thousands of Euro)	2021	2020
Long term		
As at 31 December	**7,229,217**	**6,359,561**
Bonds and other negotiable securities	-	1,150,000
Repayment of Bonds and other negotiable securities	-	-
Transfer from Long Term to Short Term	(453,327)	(276,094)
Transaction costs incurred	-	(15,526)
Amortized cost released	16,733	15,974
Exchange differences	3,683	(4,698)
Balance – 31 December	**6,796,306**	**7,229,217**
Short term		
At 1 January	**375,321**	**90,046**
Interest payable	(130,788)	(120,769)
Interest expense	127,043	129,802
Repayment of Bonds and other negotiable securities	(276,242)	-
Transfer to short term from long term	453,327	276,094
Amortized cost released	271	148
As at 31 December	**548,932**	**375,321**
Total	**7,345,238**	**7,604,538**

The table above describes the balance of the notes issued at 31 December 2021 and 2020 net of cost.

The breakdown of the nominal issue balance at 31 December 2021 and 2020 is as follows:

EMTN Programme (in thousands)

Principal	Currency	Interest rate %	Oustanding nominal	Carrying Value	Issued	Maturity	Listed
396,400	EUR	3.875%	396,400	395,730	2013	2023	Luxemburg Stock Exchange
100,908	EUR	3.974%	100,908	80,090	2013	2023	Luxemburg Stock Exchange
411,800	EUR	2.875%	411,800	411,204	2014	2024	Luxemburg Stock Exchange
154,300	EUR	2.625%	154,300	154,011	2014	2023	Luxemburg Stock Exchange
400,600	EUR	1.375%	400,600	398,819	2015	2025	Luxemburg Stock Exchange
600,000	EUR	1.250%	600,000	597,926	2016	2026	Luxemburg Stock Exchange
1,000,000	EUR	1.375%	1,000,000	993,505	2017	2027	Luxemburg Stock Exchange
300,000	EUR	1.875%	300,000	298,832	2017	2029	Luxemburg Stock Exchange
800,000	EUR	0.875%	800,000	798,044	2017	2025	Luxemburg Stock Exchange
850,000	EUR	1.500%	850,000	786,099	2018	2028	Luxemburg Stock Exchange
900,000	EUR	0.750%	900,000	891,163	2019	2029	Luxemburg Stock Exchange
1,000,000	EUR	1.250%	1,000,000	990,884	2020	2026	Luxemburg Stock Exchange
Total as at 31 December 2021			**6,914,008**	**6,796,306**			

Subordinated perpetual debentures

On 18 November 2014, 24 April 2015, and 23 November 2021 the Company issued Subordinated perpetual debentures respectively, guaranteed by Naturgy Energy Group, S.A., for an amount of EUR 1,000,000 thousand (reset date 18 November 2022), EUR 500,000 thousand (reset date 24 April 2024) and EUR 500, 000 thousand (reset date 23 February 2027) The issue prices were 99.488%, 99.049% and 99.60% respectively.

On 23 November 2021 the Undated Deeply Subordinated Reset Rate Guaranteed notes amounted EUR 1,000,0000 thousand with reset date on 18 November 2022 were redeemed for an amount of EUR 500,000 thousand.

The breakdown of the nominal issue balance at 31 December 2021 is as follows:

Subordinated perpetual debentures (in thousands)

Principal	Currency	Interest rate %	Oustanding nominal	Carrying Value	Issued	Maturity	Listed	Reset date
500,000	EUR	4.125%	500,000	499,561	2014	Perpetual	Luxemburg Stock Exchange	18th November 2022
500,000	EUR	3.375%	500,000	497,886	2015	Perpetual	Luxemburg Stock Exchange	24th April 2024
500,000	EUR	2.374%	500,000	497,077	2021	Perpetual	Luxemburg Stock Exchange	23rd February 2027
		Total	**1,500,000**	**1,494,523**				

The main characteristics of the Subordinated perpetual debentures are the following:

- *Maturity:* The Subordinated perpetual debentures have no fixed redemption date. The Company will have the right to redeem the debentures on 18 November 2022, 24 April 2024 or 23 February 2027 respectively, and on any subsequent year, at interest payment dates.

- *Optional interest deferral*: At its sole discretion, the Company may elect to defer any payment of interest on the Subordinated perpetual debentures. Any interest payment deferral will accrue interests. Interest accrued is however mandatorily settled ultimately upon redemption of the Subordinated perpetual debentures or if the guarantor, Naturgy Energy Group, S.A., pays interests in cash in respect of its ordinary shares, or if the Company pays dividends of its ordinary shares.

- *Interest*: The Subordinated perpetual debentures bear interest at a fixed rate, which is calculated as a reference interest rate plus a margin. The reference interest rates are:

    - For the EUR 500,000 thousand issuance with redemption date on November 2022, the 8-year swap rate (equivalent at the issue date to 0.772%) which may be reviewed every 8 years. The initial margin applicable to the first 10 years is 3.353%; between years 2024 and 2042 the margin will be 3.603% and from then onwards it will be 4.353%. The initial interest rate was set at 4.125%.

    - For the EUR 500,000 thousand issuance with redemption date on April 2024, the 9-year swap rate (equivalent at the issue date to 0.4210%) which may be reviewed every 9 years. The initial margin applicable to the first 9 years is 3.079%; between years 2025 and 2044 the margin will be 3.329% and from then onwards, it will be 4.079%. The initial interest rate was set at 3.375%.

    - For the EUR 500,000 thousand issuance with redemption date on February 2027, the 5.25-year swap rate (equivalent at the issue date to -0.062%) which may be reviewed every 5 years. The initial margin applicable to the first 10 years is 2.437%; between years 2032 and 2037 the margin will be 2.687% and from then onwards it will be 3.437%. The initial interest rate was set at 2.374%.

- *Guarantee:* The Subordinated perpetual debentures are guaranteed by Naturgy Energy Group, S.A. on a subordinated basis. Any payment obligations of Naturgy Energy Group, S.A. also are subordinated (and are only senior to some junior obligations of Naturgy Energy Group, S.A.). Junior Obligations of Naturgy Energy Group, S.A. include all of its current and future ordinary shares and all of its current and future preferred securities.

  The Subordinated perpetual debentures recognized in the balance sheet are calculated as follows:

(in Thousands of Euro)	**2021**	**2020**
Long term		
As at 31 December	**1,495,185**	**1,493,435**
Loans to shareholder	500,000	-
Amortized cost released	1,827	1,750
Repayment from group companies	(500,000)	-
Transaction costs incurred	(2,489)	-
Balance – 31 December	**1,494,523**	**1,495,185**
Short term		
At 1 January	**16,623**	**16,578**
Interest payable	(58,463)	(58,125)
Interest expense	57,246	58,170
As at 31 December	**15,406**	**16,623**
Total	**1,509,929**	**1,511,808**

ECP program

On 23 March 2010, the Company entered into a Euro-Commercial Paper Program (ECP) for the issuance of notes under which the Company may issue and have outstanding at any time ECP notes up to a maximum aggregate amount of EUR 1,000,000 thousand or its equivalent in alternative currencies. The term of each issuance must not be less than one day nor greater than 364 days from the issue date to the maturity date.

During the year 2021 the Company issued a note to a total nominal value of EUR 280,000 thousand of which none are outstanding as of 31 December 2021. The average annual interest rate agreed for those notes issued during the year has been -0.46% (2020: -0.374%) whereas the average length of these notes has been 7 days (2020: 52 days).

The accrued interest payable for the ECP program issuances is included as a part of the borrowing, thus reducing the principal amount of EUR 0 (2020: EUR 0).

The fair and carrying values of the ECP program issuances match due to their short-term length.

The borrowings from the ECP program recognized in the balance sheet is calculated as follows:

(in Thousands of Euro)	**2021**	**2020**
Short term		
As at 31 December	-	-
Issuance of ECPs	280,025	900,382
Redemption of ECPs	(280,025)	(900,382)
As at 31 December	-	-

8. Other current financial liabilities from group companies

(in Thousands of Euro)	**Year ended 31 December 2021**	**Year ended 31 December 2020**
Payables to group companies	14,678	14,538
	14,678	**14,538**

The payables to group companies relate mainly to the Guarantee Agreement signed by the Company with Naturgy Energy Group, S.A. which establishes Naturgy Energy Group S.A. as unconditional and irrevocable guarantor of any amount payable that remains unpaid, by the date and on the time specified for such payment, by the Company (as issuer) to any holder of the notes issued. As a consequence, the Company pays to Naturgy Energy Group, S.A. an annual guaranteed fee of 0.25% on the principal amounts of the issuances. Also, there is a payable debt with Gas Natural Europe S.A.S. due to the taxes due under the Fiscal Unity (see note 12).

The expenses related to the guarantee paid to the Shareholder are part of the Financial expenses in the income statement and are deductible.

9. Financial income

(in Thousands of Euro)	**Year ended 31 December 2021**	**Year ended 31 December 2020**
Financial income		
Group companies and associates	231,593	233,205
Other	21,854	39
	253,447	**233,245**

The increase in the other financial income is explained by the repayment cost of EUR 21,055 thousand from the cancellation of the intragroup loan contract of EUR 500 MEUR.

10. Financial expense

(in Thousands of Euro)	Year ended 31 December 2021	Year ended 31 December 2020
Finance expense		
Bonds and other negotiable securities (EMTN Programme)	144,595	145,925
Bonds and other negotiable securities (Subordinated perpetual debentures)	59,072	59,920
Bonds and other negotiable securities (ECP Program)	(25)	(382)
Payable to group companies (Guarantee Agreement) (note 8)	22,340	22,164
Other	21,887	48
	247,869	**227,675**

The increase in the other financial expense is explained by the repayment cost of EUR 21,055 thousand from the bond buy back of the the Undated Deeply Subordinated Reset Rate Guaranteed notes amounted EUR 1,000,0000 thousand with redemption date on 18 November 2022 that were redeemed for an amount of EUR 500,000 thousand.

11. Administrative expenses

(in Thousands of Euro)	Year ended 31 December 2021	Year ended 31 December 2020
Services	**348**	**550**
Other consultants fees	239	451
Audit fees	83	66
Other general expense	26	33
Personnel	**146**	**135**
Total	**494**	**685**

A) Services

The breakdown of the KPMG Accountants N.V.'s fees at 31 December 2021 and 2020 is as follows:

(in Thousands of Euro)	Year ended 31 December 2021	Year ended 31 December 2020
Audit of the financial statements	29	28
Other audit related services (*)	54	38
Tax services	-	-
Other non-audit services	-	-
Total Audit fees	**83**	**66**

The fees mentioned in the table for the audit of the financial statements 2021 relate to the total fees for the audit of the financial statements 2021, irrespective of whether the activities have been performed during the financial year 2021.The audit fee for the previous year amounted EUR 26 thousand.

The fees mentioned in the table for other services in both years 2021 and 2020 relate to professional services regarding capital markets work in respect of new bonds issuances; work is allowed in combination with the audit engagement and performed by a separate team from those working on the legal audit engagement.

Additionally, to that, there were also fees for 66 thousand regarding capital markets work in respect of new bonds issuances but the amount is booked is 2022.

B) Personnel

Short-term employee benefit obligations are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Personnel amount of EUR 146 thousand (EUR 135 thousand in 2020) relates to the wages and salaries of EUR 124 (EUR 112 thousand in 2020), social security costs of EUR 22 (EUR 23 thousand in 2020)

12. Income tax expense

The taxable profit of the company is computed on the basis of a spread agreed with the tax authorities. This requires a minimum taxable income in respect of taking up and granting loans as well as covering any exchange risks by way of derivative agreements or other hedging procedures. Taxation is based upon a percentage spread of the average amount of all loans (amounts borrowed) outstanding during the year minus the operational costs of the Company (to a certain amount).

The Company signed a new Advance Price Agreement (APA)in June 2019 with the Dutch tax authorities, which applies to the period of 1 January 2019 up to and including 31 December 2023. This agreement states the Company's has agreed to apply a basis points margin on the interest expense with the next conditions:

- The margin was applicable for any new debt instrument issued from 1 January 2019.
- The old margin was applicable until June 2019 (6.4316 basis points) for all other issuances in place since 2018
- The requirement of the Company to maintain a minimum equity amount of EUR 2,000 thousand.

Also, in June 2019, the Company concluded an ATR with the Dutch tax authorities for both Subordinated perpetual debentures in the amount of EUR 1,000,000 and EUR 500,000 thousand, by which the taxation conditions for the Company regarding the Subordinated perpetual bonds are set as follows:

- The bonds qualify as debt for Dutch tax purposes.
- No Dutch interest withholding tax will be due in case of interest payments made by the Company.
- The interest to be paid should be deductible for Dutch corporate income tax purposes and can be offset against the interest income realized by the Company.
- The deductibility of the interest expenses is not restricted.
- The Company will report a taxable margin.

On 17 March 2016, the Dutch Tax Authorities approved the Company's request for a fiscal unity. The companies included in such fiscal unity in 2020 and 2021 are Naturgy Finance B.V. Naturgy Finance B.V. as the head of the fiscal unity and Gas Natural Europe S.A.S as the subsidiary in the fiscal unity. The tax charge is allocated to its respective component.

Corporate Income tax is calculated on the profit before tax considering tax exempt items and non-deductible costs. The profit before tax will be taxed at the prevailing rate during the financial year. The corporate income tax for the year 2021 amounts to EUR 1,251 thousand.

(in Thousands of Euro)	Year ended 31 December 2021	Year ended 31 December 2020
Profit before income tax	5,084	4,885
Corporate income tax (tax ruling)	1,251	1,028
Effective tax rate	24.61%	21.04%
Applicable tax rate	20%-25%	20%-25%

In accordance with current Corporate Income Tax law in The Netherlands the first EUR 245 thousand of Profit before taxation is charged at 16.5% (2020: first 200 thousand at 16.5%), all profit above EUR 245 thousand is charged with a 25% tax rate (2020: 25%).

The movement in the current income tax liabilities is included in the table below:

(in Thousands of Euro)	Year ended 31 December 2021	Year ended 31 December 2020
As at 1 January	**127**	**(760)**
Taxes paid	(1,503)	(141)
Income tax expense	1,251	1,028
As at 31 December	**(125)**	**127**

13. Related-party transactions

Naturgy Energy Group, S.A. is the Shareholder Company of Naturgy Energy Group. Naturgy Energy Group, S.A. owns and controls a 100% of the Company´s shares.

(in Thousands of Euro)	2021	2020
Due from Parent, long term	8,290,950	8,724,574
Due from Parent, short term	582,504	409,928
	8,873,454	**9,134,502**
Due to Parent, short term	(14,678)	(14,538)
	(14,678)	**(14,538)**

(in Thousands of Euro)	31 Diciembre 2021	31 December 2020
Finance income from Group companies	231,593	233,205
Finance expense from Group companies	(22,340)	(22,164)
	209,253	**211,041**

Financial income for the years ended 31 December 2021 and 2020 was accrued with the shareholder Naturgy Energy Group, S.A. (amounts due from Shareholder). The interest rate of the loans to the shareholder is calculated adding to the total costs of the borrowings received by the Company, set as an annually gross spread.

Financial expense accrued with related parties (amounts due to Shareholder) also includes to Naturgy Energy Group, S.A. for the Guarantee Agreement in relation to the EMTN program, ECP program and Subordinated Perpetual bonds which establishes Naturgy Energy Group as unconditional and irrevocable guarantor of any amount payable that remains unpaid, by the date and on the time specified for such payment, by the Company (as issuer) to any holder of the notes issued. As a consequence, the Company pays to Naturgy Energy Group, S.A. an annual guaranteed fee of 0.25% on the principal amounts of the issuances.

14. Average number of employees

During the year 2021, the average number of employees calculated on a full-time basis was 1 (2020: 1).

15. Directors and Supervisory Board members remuneration

(in Thousands of Euro)	**Year ended 31 December 2021**	**Year ended 31 December 2020**
Current and former directors	3	3
Supervisory Board	20	20
	23	**23**

During 2021 some changes have affected the composition of the Supervisory Board. In July 2021, Mr Carles Llobet was appointed as new member of the Supervisory Board, replacing Mrs. Lourdes Gonzalez, who resigned from her function as a member of the Supervisory Board in July 2021.

16. Off balance sheet assets and liabilities and contingencies

The Management Board members have identified no off-balance sheet assets and liabilities nor contingencies.

17. Events after the reporting year

Geminis project

In February 2022, the Board of Directors of Naturgy Energy Group, S.A., has informed the Company its decision to launch the Geminis project. This Project will consist of the creation of two listed companies with specific business units, one focused on infrastructure and the other handling power generation and marketing. Both entities will have same structural shareholding as of today. This project consists of a deep reorganization of Naturgy Energy Group, S.A. and represents a new step in its transformation process.

Impact of Russia/Belarus and Ukraine conflict

Also, in February 2022 The war between Russia and Ukraine began. The invasion of a European country is an unprecedented event since the middle of the last century, with devastating humanitarian consequences and strong implications for the world economy and financial markets. One of the most affected sectors is the energy sector, with a very high increase in the price of oil and gas. Different countries such as the United States, Australia, Japan, the United Kingdom and the EU have imposed measures and sanctions against the Russian economy, which will also have global effects.

Given the complexity of the situation, it is not feasible at this time to reliably make a quantified estimate of the potential impact on the Company which, if applicable, will be recorded prospectively in the annual accounts for the 2022 financial year.

Other

No other post-balance sheet events affecting the financial statements have occurred to date.

The Management Board members,

E. Berenguer Marsal

V. Torres Ledesma

G.A.R. Warris

The Supervisory Board members,

I. Velasco Miranda

Mr. C. Llobet

M. van Daalen

Amsterdam, 26 April 2022

Other information to the financial statements for the year ended 31 December 2021

Profit and profit distribution

Article 21 of the Articles of Association provides that:

21.1 The General Meeting has the authority to allocate the profits determined by adoption of the annual accounts. If the General Meeting does not adopt a resolution regarding the allocation of the profits prior to or at latest immediately after the adoption of the annual accounts, the profits will be reserved.

21.2 The General Meeting has the authority to make distributions. If the Company is required by law to maintain reserves, this authority only applies to the extent that the equity exceeds these reserves. No resolution of the General Meeting to distribute shall have effect without the consent of the Management Board. The Management Board may withhold such consent only if it knows or reasonably should expect that after the distribution, the Company will be unable to continue the payment of its due debts.

Independent auditor's report

Reference is made to the independent auditor's report included hereafter.

Independent auditor's report

To: the General Meeting of Shareholders and the Supervisory Board of Naturgy Finance B.V.

Report on the audit of the financial statements 2021 included in the annual financial report

Our opinion

In our opinion the accompanying financial statements give a true and fair view of the financial position of Naturgy Finance B.V. (the Company) as at 31 December 2021 and of its result for the year then ended, in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the financial statements 2021 of Naturgy Finance B.V. based in Amsterdam.

The financial statements comprise:

1 the balance sheet as at 31 December 2021;

2 the statement of income for the year ended 31 December 2021; and

3 the notes comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of Naturgy Finance B.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

Our audit procedures were determined in the context of our audit of the financial statements as a whole. Our observations in respect of going concern, fraud and non-compliance with laws and regulations and the key audit matter should be viewed in that context and not as separate opinions or conclusions.

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

Audit approach

Summary

Materiality
— Materiality of EUR 44.4 million — 0.5% of total assets

Going concern and Fraud/Noclar
— Going concern: no significant going concern risks identified — Fraud & Non-compliance with laws and regulations (Noclar): management override of controls (presumed risk).

Key audit matters
— Recoverability of the loan receivables and interest receivable from Naturgy Energy Group S.A.

Opinion
Unqualified

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 44.4 million. The materiality is determined with reference to total assets (0.5%).

We consider total assets, which mainly include accounts related to financing activities, as the most appropriate benchmark given the activities of Naturgy Finance B.V. as a group financing company. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that misstatements identified during our audit in excess of EUR 1.7 million, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Audit response to going concern – no significant going concern risks identified

The Management Board has performed its going concern assessment and has not identified any significant going concern risks. To assess the Management Board's assessment, we have performed, inter alia, the following procedures:

- we considered whether the Management Board's assessment of the going concern risks includes all relevant information of which we are aware as a result of our audit;
- we analyzed the Company's financial position as at year-end and compared it to the previous financial year in terms of indicators that could identify significant going concern risk; and
- we considered whether the outcome of our procedures to determine the recoverability of the intercompany loans, as described in the key audit matters, could indicate significant going concern risk.

The outcome of our risk assessment procedures did not give reason to perform additional audit procedures on management's going concern assessment.

Audit response to the risk of fraud and non-compliance with laws and regulations

In chapter 3.1 of the annual financial report, the Management Board describes its procedures in respect of the risk of fraud and non-compliance with laws and regulations.

As part of our audit, we have gained insights into the Company and its business environment, and assessed the design and implementation of the Company's risk management in relation to fraud and non-compliance. Our procedures included, among other things, assessing the Company's code of ethics and its procedures to investigate indications of possible fraud and non-compliance. Furthermore, we performed relevant inquiries with management and those charged with governance. As part of our audit procedures, we:

- evaluated other positions held by Management Board members and paid special attention to procedures and governance/compliance in view of possible conflicts of interest; and
- evaluated investigation reports on indications of possible fraud and non-compliance.

In addition, we performed procedures to obtain an understanding of the legal and regulatory frameworks that are applicable to the Company and we did not identify areas that likely have a material effect on the financial statements.

We evaluated the fraud and non-compliance risk factors to consider whether those factors indicate a risk of material misstatement in the financial statements.

Further we assessed the presumed fraud risk on revenue recognition as irrelevant, since the Company's sole significant source of income is finance income. Such finance income is derived from long term loan agreements with the Parent including fixed terms and conditions in respect of interest. As a consequence, we did not identify an incentive nor pressure for the managing board members to achieve certain results or specific finance income targets and there appears to be limited perceived opportunity to commit a material fraud in this area.

Based on the above and on the auditing standards, we identified the following fraud presumed risk laid down in the auditing standards that is relevant to our audit and responded as follows:

— **Management override of controls (a presumed risk)**

Risk:

- Management is in a unique position to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Responses:

- We evaluated the design and the implementation of internal controls that mitigate fraud and non-compliance risks, such as processes related to journal entries.
- We performed a data analysis of high-risk journal entries and evaluated judgments for bias by the Company's management. Where we identified instances of unexpected journal entries or other risks through our data analytics, we performed additional audit procedures to address each identified risk, including testing of transactions back to source information.
- We incorporated elements of unpredictability in our audit related to the bank transactions analysis to get insights in incoming and outgoing transactions based on banking records.

Our procedures to address the presumed risk of fraud in respect of management override of controls did not result in a key audit matter.

We communicated our risk assessment, audit responses and results to the Managing Board and the Company's supervisory body.

Our audit procedures did not reveal indications and/or reasonable suspicion of fraud and non-compliance that are considered material for our audit.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board of Naturgy Finance B.V. The key audit matter is not a comprehensive reflection of all matters discussed.

Recoverability of the loans receivable and interest receivable from Naturgy Energy Group S.A.

Description

The Company's exposure, in terms of credit risk, to Naturgy Energy Group S.A. ('Parent') may have a significant effect on the Company's financial statements.

The outstanding balances as at 31 December 2021 of EUR 8,873,454 thousand (long term receivable and short term receivable) represent 99.92% of the balance sheet total (EUR 9,134,502 thousand and represented 99.94% of the balance sheet total as at 31 December 2020).

The Company's most significant assets are the loans and interest accrued receivables from Naturgy Energy Group S.A. The event of an insolvency of Naturgy Energy Group S.A. could therefore have a significant impact on the Company.

The Company's ability to meet its financial obligations depends on the cash flow generated from interest income from, and repayment of the loans by Naturgy Energy Group S.A.

As such, the risk of a financial loss for the Company is significant, when Parent fails to meet its contractual obligations towards the Company. Given this pervasive impact on the financial statements of the Company, we consider the recoverability of the loans provided to the Parent and its related interest receivable a key audit matter.

Our response

We evaluated the design and implementation of the controls regarding the recoverability assessment by the Management Board in respect to the loans receivable and the interest receivable. We performed, the following substantive audit procedures with respect to management's assessment of the recoverability of the loans receivable and the interest receivable from the Parent Company:

- We inquired with the Management Board of the Company about their assessment of the recoverability of the loans receivable to related companies and interest receivable, based upon their knowledge of the developments in the financial position and cash flows of Parent, considering any potential impact of the COVID-19 pandemic, and about their evaluation with respect to the recoverability of the loans receivable and the interest receivable from Parent;
- We assessed on the financial position of the Parent by evaluating their audited financial statements for the year 2021. Furthermore, we requested and evaluated certain working papers (including COVID-19 assessment) of the auditor of the Parent, supporting their audit opinion on the 2021 financial statements;
- We inspected the terms and conditions of the loan agreements between Parent and the Company.
- We evaluated the long-term credit ratings and outlook of Parent from Standard & Poor's and Fitch.

In addition, we evaluated the appropriateness of the accounting principles applied for and the Company's disclosures as presented in Notes 1 and 4 of the financial statements.

Our observation

The result of our audit procedures relating to the recoverability of the loans receivable and interest receivable from Naturgy Energy Group S.A. were satisfactory.
We concur with the disclosures in Notes 1 and 4 of the financial statements in accordance with the respective Company's accounting policies as included in Note 2.

Report on the other information included in the annual financial report

In addition to the financial statements and our auditor's report thereon, the annual financial report contains other information.

Based on the following procedures performed, we conclude that the other information:

— is consistent with the financial statements and does not contain material misstatements; and

— contains the information as required by Part 9 of Book 2 of the Dutch Civil Code for the management report and other information.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

Management of the Company is responsible for the preparation of the other information, including the information as required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the General Meeting of Shareholders as auditor of Naturgy Finance B.V. on 18 October 2021, as of the audit for the year 2021 and have operated as statutory auditor ever since that financial year.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audits of public-interest entities.

KPMG

Description of responsibilities regarding the financial statements

Responsibilities of the Management Board and the Supervisory Board of Naturgy Finance B.V. for the financial statements

The Management Board is responsible for the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Management Board of the Company is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error. In that respect the Management Board, under supervision of the Supervisory Board, is responsible for the prevention and detection of fraud and non-compliance with laws and regulations, including determining measures to resolve the consequences of it and to prevent recurrence.

As part of the preparation of the financial statements, the Management Board is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Management Board should prepare the financial statements using the going concern basis of accounting unless the Management Board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Management Board should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

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. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A further description of our responsibilities for the audit of the financial statements is located at the website of de 'Koninklijke Nederlandse Beroepsorganisatie van Accountants' (NBA, Royal Netherlands Institute of Chartered Accountants) at eng_oob_01.pdf (nba.nl). This description forms part of our auditor's report.

Amstelveen, 26 April 2022

KPMG Accountants N.V.
N.J. Hoes RA