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

(Together with the annual accounts and directors' report of Naturgy Capital Markets, S.A. for the year ended 31 December 2022)

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

KPMG Auditores, S.L.
Torre Realia
Plaça d'Europa, 41-43
08908 L'Hospitalet de Llobregat
(Barcelona)

Independent Auditor's Report on the Annual Accounts

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

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

REPORT ON THE ANNUAL ACCOUNTS

Opinion

We have audited the annual accounts of Naturgy Capital Markets, S.A. (the "Company"), which comprise the balance sheet at 31 December 2022, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes.

In our opinion, the accompanying annual accounts give a true and fair view, in all material respects, of the equity and financial position of the Company at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with the applicable financial reporting framework (specified in note 2 to the accompanying annual accounts) and, in particular, with the accounting principles and criteria set forth therein.

Basis for Opinion

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

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

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

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Key Audit Matters

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

Recoverability of current and non-current investments in Group companies and associates See notes 3.1 and 4 to the annual accounts	
Key audit matter	*How the matter was addressed in our audit*
At 31 December 2022 the Company has recognised non-current and current investments in Group companies and associates amounting to Euros 723,992 thousand and Euros 6,871 thousand, respectively, which correspond to loans extended to Naturgy Energy Group, S.A. (majority shareholder) and which represent almost all of the assets on the balance sheet. The Company's exposure, in terms of credit risk, to Naturgy Energy Group, S.A. could have a significant impact on the Company’s financial statements. Taking into account the circumstances described in the previous paragraph, and that the loans extended and those received from third parties outside the Group are secured by Naturgy Energy Group, S.A., the analysis of the Naturgy Group's financial position should be considered a key audit matter.	Our audit procedures included: - Assessing the financial position of Naturgy Energy Group, S.A. through access to the financial information available in each case. - Evaluating the credit ratings of Naturgy Energy Group, S.A. made by prestigious rating agencies. - Reading and analysing the terms and conditions set out in the loan agreements between the parties and analysing the calculations of amortised cost based on effective interest rates. We also assessed whether the disclosures included in the annual accounts meet the requirements of the applicable financial reporting framework. –

Other Information: Directors' Report

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

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

Based on the work carried out, as described in the preceding paragraph, the information contained in the directors' report is consistent with that disclosed in the annual accounts for 2022 and the content and presentation of the report are in accordance with applicable legislation.

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

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

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

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

Auditor's Responsibilities for the Audit of the Annual Accounts

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Sole Director.
- Conclude on the appropriateness of the Sole Director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves a true and fair view.

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional Report to the Audit Committee

The opinion expressed in this report is consistent with our additional report to the audit committee of Naturgy Capital Markets, S.A.'s majority shareholder dated 15 February 2023.

Contract Period

We were appointed as auditor by the shareholders at the ordinary general meeting on 03 March 2021 for a period of three years, from the year ended 31 December 2021.

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

(Signed on original in Spanish)

Alberto Fernandez Solar
On the Spanish Official Register of Auditors ("ROAC") with No. 22.472

14 February 2023

Naturgy Capital Markets, S.A.
2022 Report

ANNUAL ACCOUNTS

Naturgy Capital Markets, S.A.

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

Naturgy Capital Markets, S.A.

BALANCE SHEET OF NATURGY CAPITAL MARKETS, S.A.	(thousand euro)	
	31 December	
	2022	**2021**
NON-CURRENT ASSETS	**723,992**	**710,173**
Long-term investments in Group companies and associates *(Note 4)*	**723,992**	**710,173**
Loans to companies	723,992	710,173
CURRENT ASSETS	**7,182**	**7,703**
Current investments in Group companies and associates *(Note 4)*	**6,871**	**7,702**
Loans to companies	6,871	7,702
Short-term prepayments and accrued expenses	**1**	**1**
Cash and cash equivalents *(Note 5)*	**310**	**-**
Cash equivalents	310	-
TOTAL ASSETS	**731,174**	**717,876**
EQUITY *(Note 6)*	**884**	**1,395**
Shareholders' equity	**884**	**1,395**
Capital	**100**	**100**
Share capital	100	100
Reserves	**20**	**20**
Legal	20	20
Profit for the year	**764**	**1,275**
NON-CURRENT LIABILITIES	**724,073**	**710,290**
Long-term borrowings *(Note 7)*	**724,073**	**710,290**
Bonds and other negotiable securities	724,073	710,290
CURRENT LIABILITIES	**6,217**	**6,191**
Short-term borrowings *(Note 7)*	**6,040**	**6,034**
Bonds and other negotiable securities	6,040	6,034
Trade and other payables *(Note 8)*	**177**	**157**
Trade payables	92	15
Current tax liabilities *(Note 10)*	85	142
TOTAL EQUITY AND LIABILITIES	**731,174**	**717,876**

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

Naturgy Capital Markets, S.A.

INCOME STATEMENT OF NATURGY CAPITAL MARKETS, S.A.	(thousand euro)	
	2022	**2021**
Net revenues *(Note 11)*	**23,285**	**47,745**
Financial revenues on loans to group companies and associates	23,285	47,745
Operating expenses *(Note 11)*	**(22,140)**	**(45,949)**
Financial expenses on debts to third parties	(22,140)	(45,949)
Other operating expenses	**(126)**	**(96)**
Outside services	(125)	(95)
Taxes other than income tax	(1)	(1)
OPERATING PROFIT/(LOSS)	**1,019**	**1,700**
NET FINANCIAL REVENUE/(EXPENSE)	**-**	**-**
INCOME BEFORE TAXES	**1,019**	**1,700**
Income tax *(Note 10)*	**(255)**	**(425)**
PROFIT/(LOSS) FOR THE YEAR	**764**	**1,275**

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

Naturgy Capital Markets, S.A.

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

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

	2022	2021
Profit for the year	**764**	**1,275**
Revenues and expenses recognised directly in equity	**-**	**-**
Transfers to profit or loss	**-**	**-**
TOTAL REVENUE AND EXPENSE RECOGNISED IN EQUITY	**764**	**1,275**

B) TOTAL STATEMENT OF CHANGES IN EQUITY

(thousand euro)

	Share capital	Reserves	Prior years' income	Profit/(loss) for the year	Total
Balance at 01/01/2022	**100**	**20**	**-**	**1,439**	**1,559**
Total recognized revenues and expenses	-	-	-	1,275	1,275
Transactions with shareholders or owners					
- Distribution of dividends	-	-	(1,439)	-	(1,439)
Other changes in equity	-	-	1,439	(1,439)	-
BALANCE at 31/12/2021	**100**	**20**	**-**	**1,275**	**1,395**
Total recognized revenues and expenses	-	-	-	764	764
Transactions with shareholders or owners					
- Distribution of dividends	-	-	(1,275)	-	(1,275)
Other changes in equity	-	-	1,275	(1,275)	-
BALANCE at 31/12/2022	**100**	**20**	**-**	**764**	**884**

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

Naturgy Capital Markets, S.A.

CASH FLOW STATEMENT OF NATURGY CAPITAL MARKETS, S.A.		(thousand euro)
	2022	**2021**
Income before taxes	**1,019**	**1,700**
Adjustments to income	**(1,145)**	**(1,796)**
Financial revenues *(Note 11)*	(23,285)	(47,745)
Financial expenses *(Note 11)*	22,140	45,949
Changes in working capital	**77**	**(15)**
Creditors and other payables *(Note 8)*	77	(15)
Other operating cash flow	**803**	**1,485**
Interest paid *(Notes 7 & 11)*	(8,351)	(36,763)
Interest received (Notes 4 & 11)	9,466	38,708
Income tax receipts/(payments) *(Note 10)*	(312)	(460)
Cash flows from operating activities	**754**	**1,374**
Divestment receipts	**831**	**554,465**
Group companies and associates *(Notes 4 & 5)*	831	554,465
Cash flows from investing activities	**831**	**554,465**
Receipts and payments in connection with instruments representing financial liabilities	**-**	**(554,400)**
Repayment/redemption of:	-	(554,400)
Bonds and other negotiable securities *(Note 7)*	-	(554,400)
Payment of dividends and remuneration on other equity instruments	**(1,275)**	**(1,439)**
Dividends *(Note 6)*	(1,275)	(1,439)
Cash flow from financing activities	**(1,275)**	**(555,839)**
EFFECT OF FLUCTUATIONS IN EXCHANGE RATES	**-**	**-**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**310**	**-**
Beginning cash and cash equivalents	-	-
Ending cash and cash equivalents	310	-

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

Naturgy Capital Markets, S.A.

NOTES TO THE ANNUAL ACCOUNTS OF NATURGY CAPITAL MARKETS, S.A. FOR THE YEAR ENDED 31 DECEMBER 2022

Note 1. General information

Naturgy Capital Markets, S.A. (hereinafter the Company) is a public limited company incorporated on 23 May 2005 with registered offices for mercantile and tax purposes at Avenida de América 38, Madrid.

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

The Company does not have employees and is managed on an operating level by Naturgy Energy Group, S.A.

The Company is part of the Naturgy Group (hereinafter "Naturgy"), whose parent company is Naturgy Energy Group, S.A., with registered offices in Avenida de América 38, Madrid. The consolidated annual accounts of Naturgy for 2021 were approved at the general shareholders' meeting held on 15 March 2022 and filed at the Madrid Mercantile Registry.

Note 2. Basis of presentation, comparability and accounting policies

2.1. Basis of presentation

The Company's annual accounts for 2021 were approved by the general shareholders' meeting on 18 March 2022.

The annual accounts for 2022, which were authorised and signed by the Company's Sole Administrator on 14 February 2023, will be submitted to the general shareholders' meeting for approval; they are expected to be approved without any changes.

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

These annual accounts have been prepared based on the Company's accounting records in order to fairly present its equity and financial position as of 31 December 2022, as well as the Company's results, changes in equity and cash flows for the year then ended.

The figures set out these annual accounts are expressed in thousand euros, unless otherwise stated.

2.2 Comparability

In addition to the figures for 2022, the annual accounts present, for comparative purposes, for each item in the balance sheet, income statement, statement of changes in equity, cash-flow statement and notes to the accounts, the figures corresponding to the previous year which formed part of the 2021 annual accounts.

2.3 Accounting principles and main measurement standards

The accounting policies and main valuation standards applied by the Company to prepare these annual accounts are the same as for the Company's annual accounts for the year ended 31 December 2021, which contain the amendments and impacts resulting from the adoption of Royal Decree 1/2021.

The main changes essentially concerned the transposition to local accounting regulations of a major part of the standards contained in IFRS-EU 9, IFRS-EU 15, IFRS-EU 7 and IFRS-EU 13.

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

Financial instruments

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

In the first application of this standard at 1 January 2021, the Company opted for the practical solution of not restating comparative information for 2020, opting for prospective application for hedge accounting and the classification of financial instruments.

It elected to change the 2020 classification of assets and liabilities without affecting their valuation. There was no adjustment to the carrying amount of financial assets and liabilities in reserves at 1 January 2021.

The impacts derived from initial application were as follows:

<u>Classification of financial assets</u>

In relation to financial assets that are debt instruments and are not derivatives, the Company held such assets mainly in order to obtain contractual cash flows and, therefore, they continue to be measured at amortised cost as from 1 January 2021.

The only impact on the Company arising from the adoption of Royal Decree 1/2021 relates to the classification and measurement of financial assets. In accordance with transitional provision two of Royal Decree 1/2021, the Company applied the new criteria for the classification and valuation of financial assets and liabilities retroactively, in accordance with the provisions of recognition and measurement standard 22 "Changes in accounting policies, errors and accounting estimates" of the Spanish National Chart of Accounts.
The equivalence between the amounts classified by financial asset category at 31 December 2020 and 1 January 2021 was as follows:

Naturgy Capital Markets, S.A.

	31/12/2020	01/01/2021
Loans and receivables	1,263,303	-
Financial assets at amortised cost	-	1,263,303

Except for changes in the financial asset category designations, Royal Decree 1/2021 had no impact on equity.

The classification of the Company's financial liabilities for measurement purposes did not change, with the exception of "Creditors and payables" which are now classified as "Liabilities at amortised cost", without this affecting the previously applied measurement criteria.

Accordingly, financial assets classified by class and category at 1 January 2021 break down as follows:

1 January 2021	Amortised cost	Total
Loans to companies	696,795	696,795
Non-current investments in group companies	**696,795**	**696,795**
Loans to companies	566,508	566,508
Current investments in group companies	**566,508**	**566,508**

Financial liabilities classified by class and category at 1 January 2021 break down as follows:

1 January 2021	Amortised cost	Total
Bonds and other negotiable securities	696,926	696,926
Non-current borrowings	**696,926**	**696,926**
Bonds and other negotiable securities	564,612	564,612
Current borrowings	**564,612**	**564,612**

Note 3. Accounting policies

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

3.1 Financial assets and liabilities

<u>Financial assets</u>

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

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

a) Financial assets at cost

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

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

b) Financial assets at amortised cost

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

They are recognised initially at fair value and subsequently at amortised cost using the effective interest rate method. Interest revenues on these financial assets are recognised as financial revenues, any gain or loss arising on their derecognition is recognised directly in profit or loss, and impairment losses are presented as a separate item in the income statement.

c) Financial assets at fair value through profit or loss

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

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

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

d) Equity instruments at fair value through equity

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

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

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

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

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

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

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

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

Impairment of financial assets measured at amortised cost

Impairment loss on financial assets at amortised cost is measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows, discounted at the asset's original effective interest rate. For financial assets at variable interest rates, the effective interest rate corresponding to the measurement date according to the contractual conditions is used. The impairment loss, and its reversal when the loss decreases due to a subsequent event, is recognised in profit or loss. The reversal of the loss is capped at the amortised cost that the assets would have had if the impairment loss had not been recognised.

Financial liabilities

a) Financial assets at amortised cost

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

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

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

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

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

b) Financial liabilities at fair value through profit or loss

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

3.2 Share capital

Share capital is represented by ordinary shares.

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

Dividends on ordinary shares are recognised as a deduction from equity in the year they are declared.

3.3 Income tax

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

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

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

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

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

3.4 Recognition of revenues and expenses

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

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

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

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

3.5 Transactions between related parties

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

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

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

3.6 Cash flow statement

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

a) Operating activities: activities that give rise to the Company's ordinary revenues, as well as other activities that cannot be classified as investing or financing.

b) Investing activities: acquisition and disposal of non-current assets and other investments not included in cash and cash equivalents.

c) Financing activities: activities that generate changes in the size and composition of equity and liabilities and do not form part of operating activities.

3.7 Significant accounting estimates and judgements

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

a) Income tax (Note 3.3)

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

b) COVID-19

The COVID-19 pandemic posed major challenges to commercial activities and introduced considerable uncertainty as to economic performance and energy demand worldwide, especially in 2020 and 2021.

In 2022, the global recovery that first began in the second half of the previous year continued. However, there were some lingering impacts, such as those caused by the measures imposed in China as part of its "zero COVID" policy, which led to disruptions in the supply chain for Europe of technological components that are necessary, among other things, to maintain the strong growth of investment in renewable energy.

Likewise, in 2022 countries gradually lifted mobility restrictions imposed to curb the spread of the pandemic. While this has invigorated trade, it also led to some increases in case numbers, as seen in China in the latter part of the year. This led some countries to consider or actually implement entry restrictions on people travelling from China. The rise in cases may hamper China's economic growth and place added stress on global supply chains.

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

c) Climate change and the Paris Agreement

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

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

- No coal-fired electricity was generated in 2022 or 2021 due to the closure in the first half of 2020 of all Naturgy's coal-fired power plants, which implies a significant reduction in emissions of CO2 and other atmospheric pollutants.
- The Strategic Plan provides for investments in renewable energies, in particular in solar photovoltaic, onshore wind and storage technology, as well as the development of innovation projects for distributed generation, biogas and hydrogen, and sustainable mobility

- Investments are also envisaged to adapt existing grid infrastructures that will play an essential role in the energy transition.

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

c) Military conflict between Russia and Ukraine

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

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

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

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

Likewise, Naturgy has no holdings in companies operating in Russia or Belarus, or investments in those countries. Nor does it have any cash or cash equivalent balances that are restricted as a result of the aforementioned measures and sanctions. For further details on interest rate, commodity price, credit and liquidity risks, see Note 9.

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

Naturgy Capital Markets, S.A.

Note 4. Investments in Group companies and associates

Investments in group companies and associates are classified into categories as follows as of 31 December 2022 and 2021:

31 December 2022	**Financial assets at amortised cost**	**Total**
Loans to group companies	723,992	723,992
Non-current financial assets	**723,992**	**723,992**
Loans to group companies	6,871	6,871
Current financial assets	**6,871**	**6,871**
Total	**730,863**	**730,863**

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

Loans to group companies

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

	Loans to group companies and associates
Balance at 1/1/2021	**1,263,303**
Increase	13,844
Receipts	(554,465)
Net change in accrued interest	(4,807)
Balance at 31/12/2021	**717,875**
Increase	13,819
Receipts	(521)
Reclassifications and transfers	(310)
Balance at 31/12/2022	**730,863**

This heading includes loans granted to Naturgy Energy Group, S.A. for the same amount and maturity as the securities issued by the Company (nominal amounts of €742 million at 31 December 2022 and 2021) under the Euro Medium-Term Note programme, which mature in 2024 according to the amortisation schedule of the bonds issued by the Company (Note 7). The interest rate is based on the interest rate of the securities issued under the Euro Medium-Term Note programme, plus a spread.

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

Bonds with a nominal value of €555 million matured in 2021 (Note 7); as a result, the loans granted to Naturgy Energy Group, S.A. were repaid in order to cover the repayment.

At 31 December 2022, accrued unpaid interest amounted to €6,871 thousand (2021: €6,871 thousand).

Additionally, at 31 December 2021, the Company had a balance of €831 thousand corresponding to a cash pooling contract with Naturgy Energy Group, S.A., which accrues interest at quarterly EURIBOR. On 15 December 2022, following the signature of a new contract, the balances were reclassified to Cash and cash equivalents.

The average interest accrued on current and non-current investments in Group companies and associates in 2022 in connection with these loans is 3.14% (2021: 3.96%).

The nominal amounts and fair value of the non-current and current financial investments in 2022 and 2021, excluding interest receivable, is as follows (million euro):

	2022		2021	
	Nominal value	**Fair value**	**Nominal value**	**Fair value**
Between 1 and 3 years	742	720	742	763
Total	**742**	**720**	**742**	**763**

Note 5. Cash and cash equivalents

Following the signature of the new financing agreement in 2022, the "Cash equivalents" item corresponds to the cash pooling balances with Naturgy Energy Group, S.A., accruing interest of €1 thousand.

Note 6. Equity

The main equity items are as follows:

Share capital

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

	No. of shares	**Share capital**
1 January 2021	**1,000**	**100**
Variation	-	-
31 December 2021	**1,000**	**100**
Variation	-	-
31 December 2022	**1,000**	**100**

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

No transactions involving own shares were carried out in 2022 and 2021.

Holdings in the Company's share capital at 31 December 2022 and 2021 are as follows:

Naturgy Capital Markets, S.A.

	Stake (%)	
	2022	**2021**
Naturgy Energy Group, S.A.	99.9000	99.9000
Naturgy Acciones, S.L.U.	-	0.1000
La Propagadora del Gas, S.A.	0.1000	-

On 31 May 2022, Naturgy Acciones, S.L.U. and La Propagadora del Gas, S.A. entered into an agreement for the purchase and sale of a portfolio of shares owned by Naturgy Acciones, S.L.U. by virtue of which ownership of all the shares of several companies, including the shares of Naturgy Capital Markets, S.A., was transferred.

Reserves

“Reserves” includes the following reserves:

	2022	**2021**
Statutory reserve	20	20
Total	**20**	**20**

Statutory reserve

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

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

At 31 December 2022 and 2021, this reserve was fully funded as required by law.

Profit for the year

The proposed distribution of the net profit for 2022 that the Sole Administrator will submit to the Shareholders' Meeting for approval is as follows:

Available for distribution	
Profit and loss	764
Distribution	
To dividend	764

On 18 April 2022, the Shareholders' Meeting resolved to allocate the income for the year 2021 in the amount of €1,275 thousand to dividends. These dividends were paid on 27 April 2022.

Note 7. Financial liabilities

Set out below is a breakdown of financial liabilities, excluding "Trade and other payables", at 31 December 2022 and 2021, by nature and category:

31 December 2022	**Financial assets at amortised cost**	**Total**
Bonds and other negotiable securities	724,073	724,073
Non-current financial liabilities	**724,073**	**724,073**
Bonds and other negotiable securities	6,040	6,040
Current financial liabilities	**6,040**	**6,040**
Total	**730,113**	**730,113**

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

Interest-bearing debt

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

	Bonds and other negotiable securities
Balance at 1/1/2021	**1,261,538**
Increase	13,827
Payments	(554,400)
Net change in accrued interest	(4,641)
Balance at 31/12/2021	**716,324**
Increase	13,783
Net change in accrued interest	6
Balance at 31/12/2022	**730,113**

Bonds and other negotiable securities

The Company is one of the vehicles for issuing under Naturgy's Euro Medium-Term Notes programme and enjoys an irrevocable guarantee from its parent company. That programme was established in 1999 and allowed the issuance of up to €2,000 million in total principal. After a number of expansions, most recently in December 2022, the Programme's limit is €12,000 million. A total principal of €7,656 million was outstanding at 31 December 2022, of which €742 million had been issued by the Company and €6,914 million by Naturgy Finance, B.V. (€8,110 million outstanding at 31 December 2021, of which €742 million issued by the Company and €7,368 million by Naturgy Finance, B.V.), with an amount of €4,344 million not yet drawn (2021: €3,890 million).

As is habitual in the Euromarket, the outstanding issued, in the amount of €7,656 million (€8,110 million at 31 December 2021) can be called early if a change in control triggers a downgrade of more than two full notches in at least two of the three ratings and all the ratings fall below investment grade, and provided that the rating agency states that the rating downgrade resulted from the change in control.

Naturgy Energy Group, S.A. acts as guarantor of these bond issues in the amount of €742 million (Note 4).

2022

There were no issues under the programme in 2022.

2021

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

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

Issuer	Market where listed	Nominal (million euro)	Maturity	Coupon
Naturgy Finance, B.V.	Luxembourg	396	2023	3.875%
Naturgy Finance, B.V. (1)	Luxembourg	101	2023	3.974%
Naturgy Finance, B.V.	Luxembourg	154	2023	2.625%
Naturgy Capital Markets, S.A.	Luxembourg	742	2024	1.125%
Naturgy Finance, B.V.	Luxembourg	412	2024	2.875%
Naturgy Finance, B.V.	Luxembourg	401	2025	1.375%
Naturgy Finance, B.V.	Luxembourg	800	2025	0.875%
Naturgy Finance, B.V.	Luxembourg	600	2026	1.250%
Naturgy Finance, B.V.	Luxembourg	1,000	2026	1.250%
Naturgy Finance, B.V.	Luxembourg	1,000	2027	1.375%
Naturgy Finance, B.V.	Luxembourg	850	2028	1.500%
Naturgy Finance, B.V.	Luxembourg	300	2029	1.875%
Naturgy Finance, B.V.	Luxembourg	900	2029	0.750%
Total		**7,656**		

(1) Nominal value is NOK 800 million.

At 31 December 2022, accrued unpaid interest amounted to €6,040 thousand (2021: €6,034 thousand), classified as current financial debt.

Those bonds are listed on the Luxembourg Stock Exchange.

The nominal and fair value of non-current and current borrowings in 2022 and 2021, excluding outstanding interest, is as follows (million euro):

Naturgy Capital Markets, S.A.

	2022		2021	
	Nominal value	**Fair value**	**Nominal value**	**Fair value**
Between 1 and 3 years	742	720	742	761
Total	**742**	**720**	**742**	**761**

Current and non-current borrowings bore interest at an average effective interest rate of 2.98% at 31 December 2022 (2021: 3.81%).

Note 8. Trade and other payables

The breakdown of this item is as follows:

	2022	**2021**
Trade payables	92	15
Current tax liabilities (Note 10)	85	142
Total	**177**	**157**

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

Information on average supplier payment period

The average payment period is calculated in accordance with Law 15/2010 on measures to combat late payment in business operations and the changes brought in under Law 18/2022 of 28 September on the formation and growth of companies.

The disclosures in the notes to the annual accounts about the average trade supplier payment period that are required under that legislation are as follows:

	2022	**2021**
	Amount	**Amount**
Total payments	46	107
Total payments outstanding	21	-
Average supplier payment period (days) (1)	31	29
Transactions paid ratio (days) (2)	41	29
Transactions pending payment ratio (days) (3)	10	-
Total payments made within the term established in the late payment regulations (4)	44	-
Amount paid within the term established in the late payment regulations as a % of the total amount paid (4)	95.20%	-
Number of invoices paid within the term established in the late payment regulations (4)	23	-
Invoices paid within the term established in the late payment regulations as a % of total invoices paid (4)	92.00%	-

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

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

(3) Average age of outstanding balances to suppliers.

(4) Disclosures required under Law 18/2022.

In 2021, suppliers that are Group companies were not included in the calculation. If those suppliers were included, the average payment period would be 29 days.

Note 9. RISK MANAGEMENT

Risk management

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

- Guarantee that the most significant risks are correctly identified, evaluated and managed.
- Appropriately segregating risk management functions at the operating level.
- Assuring that the level of risk exposure borne by Naturgy in its business is in line with the overall risk profile and with the achievement of its annual and strategic objectives.
- Ensuring the appropriate determination and review of the risk profile by the Risk Committee, proposing overall limits by risk category, and assigning them to the Business Units.

Interest rate risk

Fluctuations in interest rates modify the fair value of assets and liabilities that accrue a fixed interest rate and the cash flows from assets and liabilities pegged to a floating interest rate and, accordingly, they affect equity and profit, respectively.

All of the interest-bearing debt and loans granted to the majority shareholder at 31 December 2022 and 2021 are at fixed interest rates in line with the cost of the bonds that were issued; consequently, the Company is not exposed to material interest rate risk.

Liquidity risk

The Company has liquidity policies that ensure fulfilment of its payment commitments, diversifying the coverage of financing needs and debt maturities. Prudent management of liquidity risk includes maintaining sufficient cash and realisable assets and having sufficient funds available to cover credit obligations.

The Company manages liquidity risk by adapting the duration of its deposits and other financial assets to the maturity of the bond issues, and by receiving the remuneration for the deposits on the dates on which the bond coupons must be paid.
In an international context that is deeply influenced by the war in Ukraine, and within the framework of the Group's financial policy, the Company has maintained the availability of funds to meet its obligations and to implement its business plans, guaranteeing at all times the optimum level of liquid funds and seeking to maximise efficiency in the management of financial resources.

At 31 December 2022 and 2021, the Company had unused credit lines granted by group companies and its shareholders for an amount of €30,000 thousand.

The ratings of the Company's bond issues in 2022 and 2021 are as follows:

	2022	2021
Fitch	BBB (*)	BBB

(*) Stable outlook

Credit risk

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

The long-term ratings of Naturgy Energy Group, S.A. in 2022 and 2021 are as follows:

	2022	2021
Standard & Poor's	BBB (*)	BBB
Fitch	BBB (*)	BBB

(*) S&P: Negative outlook, Fitch: Stable outlook

Note 10. Tax situation

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

The following companies were members of Consolidated Tax Group no. 59/93 in 2022:

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

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

The accounting profit coincides with the corporate income tax base.

Current corporate income tax is the result of applying a 25% tax rate to taxable income. No tax credits were taken in 2022 and 2021.

€170 thousand were paid on account of corporate income tax in 2022 (2021: €283 thousand).

As of 31 December 2022 and 2021, there were no unused tax losses or tax credits.

Income tax expense is as follows:

	2022	2021
Current-year tax	255	425
Total	**255**	**425**

At 31 December 2022 and 2021, there were no deferred tax assets or liabilities.

In July 2021, tax inspection proceedings were instigated against Naturgy Energy Group, S.A. and eight dependent companies in Group 59/93 in relation to corporate income tax and the same companies in Group 273/08 with respect to VAT. These proceedings are partial in nature in both taxes, the object of the verification being limited to certain aspects of the tax obligation. The years under audit are 2016 to 2019 for corporate income tax (tax consolidation regime), and from September 2017 to December 2020 for VAT (Group of entities regime).

The notice to the parent company suspended the statute of limitations period in connection with the aforementioned items and periods for the entire Corporate Income Tax Group and the VAT Group of undertakings.

All the aforementioned tax audits were ongoing at year-end.

The audits are not expected to materially impact Naturgy Energy Group, S.A. or the other Group companies.
In accordance with Spanish tax legislation, at the date of preparation of these annual accounts, the Company's returns for the last four years for the principal taxes to which it is subject and which are not involved in the above-mentioned tax audit are open to inspection.

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

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

At the same time, the tax consolidation regime was modified by establishing the non-elimination of dividends distributed between companies in the same Tax Consolidation Group, which entails an effective tax rate of 1.25% for dividends received or capital gains generated in Spanish companies receiving dividends from companies in which they hold a stake of 5% or more, regardless of whether the distributing company and the receiving company belong to the same Tax Consolidation Group.

Related to this measure, and for the purposes of calculating the limitation on the deductibility of financial expenses in the case of holding companies in which dividends form part of operating profit, only dividends from entities in which the holding is 5% or greater will be considered, and dividends from holdings whose acquisition value was greater than €20 million are disqualified.

The National Budget Law for 2022 approved the amendment of Corporate Income Tax Law 27/2014, establishing a minimum tax rate of 15% of taxable income. Naturgy does not expect this change to have any impact on the Group as the deductions applied do not entail a reduction in the effective rate below this percentage.

Anticipating the implementation of the rules included in OECD Pillar Two, Directive (EU) 2022/2523 on ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups in the Union was adopted on 14 December 2022. The rules laid down by this Directive, which have yet to be transposed by Member States, will apply to financial years beginning on or after 31 December 2023 and establish a minimum taxation of 15% for all group companies in each country in which the group operates. If the minimum 15% rate is not attained in any given country, the difference must be paid in the country of residence of the parent company — Spain in our case. The impact of these regulations on the Group is considered to be negligible, as taxation in the various jurisdictions in which the Group operates is almost always at an effective rate of over 15%.

On 28 December 2022, the Official State Gazette published Law 38/2022 approving, inter alia, the Temporary Energy Tax which consist of an extraordinary charge of 1.2% of the revenue of energy groups that are considered to be a main operator in any of the various energy sectors, in order to address the additional energy costs to be borne by the economy as a whole due to the extraordinary circumstances caused by the Russian invasion of Ukraine and the volatility of the energy markets.

It stipulates that, in the case of groups taxed under the tax consolidation regime, the obligation must be understood to refer to the consolidated group as a whole. It is also laid down that the amounts pertaining to the regulated natural gas distribution, electricity distribution and electricity generation activities will be eliminated from revenue.

The energy tax is payable in 2023 on the basis of the 2022 figures and in 2024 on the basis of the 2023 figures, with a partial payment of 50% between 1 and 20 February and the final payment between 1 and 20 September.

The Company is analysing with its advisors whether this extraordinary tax complies with current legislation, and does not rule out taking legal action to defend its rights if necessary. This levy is treated as a tax and it will be recognised on 1 January 2023 and 2024 as these are the dates on which it accrues, at the full annual amount payable in each year.

Law 38/2022 also brings in a change in the tax consolidation system with effects limited to fiscal year 2023, whereby the tax base of groups taxed under the consolidation scheme may only include

50% of individual tax losses, while the remaining 50% is to be applied over the following ten years. We do not expect this amendment to have a material impact on the group's effective taxation.

Note 11. Operating profit/(loss)

Revenue

Financial revenues arise mainly from interest on loans granted to Naturgy Energy Group, S.A. (Note 4) amounting to €23,285 thousand (2021: €47,745 thousand).

Operating expenses

Financial expenses on borrowings relate mainly to the expenses borne on the bonds issued under the Euro Medium-Term Notes programme (Note 7) for €22,140 thousand (2021: €45,949 thousand).

Note 12. Environment

Naturgy is aware of its activities' environmental impacts and, therefore, the company pays particular attention to the protection of the environment and the efficient use of natural resources to meet energy demand.

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

Note 13. Information on transactions with related parties

For the purposes of this section, related parties are as follows:

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

  Based on this definition, the significant shareholders of the Company are Naturgy Energy Group, S.A. and, through it, Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona ("la Caixa"), Global Infrastructure Partners III (GIP) and related companies, CVC Capital Partners SICAV-FIS, S.A. (through Rioja Acquisitions S.à.r.l.), and IFM Global Infrastructure Fund (IFM) (through IFMGlobal InfraCo O (2), S.à.r.l.).

- The Company's Sole Administrator and executives of the Company and their close relatives. The term "administrator" means the Sole Administrator and the term "executive" refers to personnel reporting directly to the Executive Chairman and the Internal Audit Manager of Naturgy. Transactions with directors and executives are disclosed in Note 14.

- Group companies or entities. The transactions between group companies formed part of the ordinary course of business and were performed on an arm's-length basis.

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

Naturgy Capital Markets, S.A.

Expenses, revenues and other transactions	2022		2021	
	Controlling company	Group companies	Controlling company	Group companies
Financial revenues	23,285	-	47,745	-
Total revenue	**23,285**	**-**	**47,745**	**-**

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

There were no transactions with significant shareholders in 2022 and 2021.

Note 14. Information about the Sole Administrator

The Company's Sole Administrator did not receive any remuneration, loan or advance in 2022 and 2021.

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

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

The Sole Administrator of Naturgy Capital Markets, S.A. has not reported any conflicts of interest requiring disclosure.
In 2022 and 2021, the Sole Administrator did not carry out transactions with the Company or Group companies outside the ordinary course of business or other than on an arm's-length basis.

The Sole Administrator is covered with the same liability policy that insures all directors and executives of Naturgy. The amount of the premium paid by the Company for the entire policy was €1 thousand in 2022 (2021: €2 thousand).

Note 15. Applicability of international accounting standards

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

In accordance with IFRS 9, which establishes the criteria for classification, measurement and derecognition of financial assets and liabilities and introduces new rules for hedge accounting and a new model for the impairment of financial assets, the Company would have elected not to adopt the new standard in advance, opting not to restate the comparative information for 2017, and recognised the adjustment to the carrying amount of financial assets and liabilities in reserves at 1 January 2018.

The effects of the application of IFRS 9 for 2022 and 2021 would have been as follows:

a) Classification of financial assets: financial assets continued to be measured at amortised cost from 1 January 2018 as the Company holds those assets mainly to obtain the contractual cash flows As detailed in Note 2 (Basis of presentation), this classification would conform to the new standard in 2022 and 2021.

b) Exchange of debt instruments: the Company carried out refinancing operations in which, in accordance with IAS 39, there were no substantial variations in the debt instrument and, therefore, the carrying amount of the liability was adjusted based on the relevant costs and commissions, which were amortised over the remaining useful life of the adjusted liability. Under IFRS 9, in operations involving changes to financial liabilities it is necessary to determine the value of the cash flows of the new financial liability calculated using the effective internal rate of return of the old financial liability, and to recognise any difference between the new and original carrying amounts in the income statement. The impact at 1 January 2018 would have been a decrease of €31,752 thousand in financial liabilities with a corresponding increase in deferred tax liabilities of €7,938 thousand. The impact at 1 January 2018 on loans granted to Naturgy Energy Group and the increase in deferred tax assets would also have been recognised.

c) Impairment of financial assets: The Company applies the general expected losses approach for financial assets. Based on the estimates made, the application of this model would have no impact either at the date of entry into force of the new standard or at year-end.

In summary, the impact of the adoption of IFRS 9 on the balance sheet and income statement at 31 December 2022 and 2021 would have been as follows:

	(thousand euro)	
	31 December	
	2022	**2021**
Non-current financial assets	(5,322)	(9,220)
Deferred tax assets	1,330	2,305
NON-CURRENT ASSETS	**(3,992)**	**(6,915)**
Non-current financial liabilities	(5,511)	(9,555)
Deferred tax liabilities	1,378	2,389
NON-CURRENT LIABILITIES	**(4,133)**	**(7,166)**
Reserves (1)	898	898
Prior year's income	(647)	(539)
Profit for the year	(110)	(108)
EQUITY	**141**	**251**

(1) Impact of adjustment in 2017

	(thousand euro)	
	2022	**2021**
Financial revenues	3,898	3,674
Financial expenses	(4,044)	(3,818)
NET FINANCIAL REVENUES/(EXPENSES)	**(146)**	**(144)**
INCOME BEFORE TAXES	**(146)**	**(144)**
Corporate income tax	(37)	(36)
PROFIT/(LOSS) FOR THE YEAR	**(110)**	**(108)**

Note 16. Auditors' fees

The fees accruing in 2022 and 2021 were as follows:

Naturgy Capital Markets, S.A.

	2022			2021		
	KPMG Auditores, S.L	**Rest of KPMG network**	**Total**	**KPMG Auditores, S.L**	**Rest of KPMG network**	**Total**
Audit services	26	-	26	25	-	25
Other services	30	-	30	-	-	-
Total fees	**56**	**-**	**56**	**25**	**-**	**25**

Note 17. Events after the reporting date

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

Naturgy Capital Markets, S.A.

DIRECTORS' REPORT

Naturgy Capital Markets, S.A.

Directors' report as of 31 December 2022

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

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

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

1. Highlights of the period

There were no issues under the European Medium-Term Notes programme in 2022.

Consequently, the total aggregate nominal value of the Naturgy group's outstanding issues as of 31 December 2022 was €7,656 million, with the following maturities:

Issuer	Market where listed	Nominal (million euro)	Maturity	Coupon
Naturgy Finance, B.V.	Luxembourg	396	2023	3.875%
Naturgy Finance, B.V. (1)	Luxembourg	101	2023	3.974%
Naturgy Finance, B.V.	Luxembourg	154	2023	2.625%
Naturgy Capital Markets, S.A.	Luxembourg	742	2024	1.125%
Naturgy Finance, B.V.	Luxembourg	412	2024	2.875%
Naturgy Finance, B.V.	Luxembourg	401	2025	1.375%
Naturgy Finance, B.V.	Luxembourg	800	2025	0.875%
Naturgy Finance, B.V.	Luxembourg	600	2026	1.250%
Naturgy Finance, B.V.	Luxembourg	1,000	2026	1.250%
Naturgy Finance, B.V.	Luxembourg	1,000	2027	1.375%
Naturgy Finance, B.V.	Luxembourg	850	2028	1.500%
Naturgy Finance, B.V.	Luxembourg	300	2029	1.875%
Naturgy Finance, B.V.	Luxembourg	900	2029	0.750%
Total		**7,656**		

(1) Nominal value is NOK 800 million.

2. Business risks

The Company's activity is exposed to several risks.

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

- Guarantee that the most significant risks are correctly identified, evaluated and managed.
- Appropriately segregating risk management functions at the operating level.
- Assuring that the level of risk exposure borne by Naturgy in its business is in line with the overall risk profile and with the achievement of its annual and strategic objectives.
- Ensuring the appropriate determination and review of the risk profile by the Risk Committee, proposing overall limits by risk category, and assigning them to the Business Units.

Interest rate risk

Fluctuations in interest rates modify the fair value of assets and liabilities that accrue a fixed interest rate and the cash flows from assets and liabilities pegged to a floating interest rate and, accordingly, they affect equity and profit, respectively.

All of the interest-bearing debt and loans granted to the majority shareholder at 31 December 2022 and 2021 are at fixed interest rates in line with the cost of the bonds that were issued; consequently, the Company is not exposed to material interest rate risk.

Liquidity risk

The Company has liquidity policies that ensure compliance with its payment commitments, diversifying the coverage of financing needs and debt maturities. Prudent management of liquidity risk includes maintaining sufficient cash and realisable assets and having sufficient funds available to cover credit obligations.

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

At 31 December 2022, Naturgy has updated its credit risk management model based on economic forecasts in the main countries in which it operates, taking into account various factors including the war in Ukraine. The Group's financial statements have not been significantly impacted by changes in its debtors' payment behaviour.

At 31 December 2022 and 2021, the Company had unused credit lines granted by Group companies and its shareholders for an amount of €30,000 thousand.

The ratings of the Company's bond issues in 2022 and 2021 are as follows:

	2022	**2021**
Fitch	BBB (*)	BBB

(*) Stable outlook

Credit risk

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

The long-term ratings of Naturgy Energy Group, S.A. in 2022 and 2021 are as follows:

	2022	2021
Standard & Poor's	BBB (*)	BBB
Fitch	BBB (*)	BBB

(*) S&P: Negative outlook, Fitch: Stable outlook

Information on average supplier payment period

The average payment period is calculated in accordance with Law 15/2010 on measures to combat late payment in business operations and the changes brought in under Law 18/2022 of 28 September on the formation and growth of companies.

The average supplier payment period is 31 days.

In 2021, suppliers that are Group companies were not included in the calculation. If these suppliers were included, the average payment period would be 29 days.

3. Analysis of results

Net profit in 2022 amounted to €764 thousand, a decrease of 40.08% with respect to 2021.

Net revenues amounted to €23,285 thousand, i.e. 51.23% less than in 2021, and consisted basically of financial revenues obtained by the Company on loans granted to Naturgy Energy Group, S.A. and from investing its cash position vis-à-vis other Naturgy companies.

Financial expenses amounted to €22,140 thousand, 51.82% less than in 2021, and were basically those borne by the Company on the funding raised in the form of bonds.

The Company's interest-bearing debt to third parties other than Naturgy was €730,113 thousand at 31 December 2022, 1.92% more than at 31 December 2021.

4. Research, development and technological innovation

The Company did not engage in any R&D or innovation activities in 2022.

5. Environment

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

6. Projected performance

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

7. Events after the reporting date

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

8. Treasury stock

The Company did not hold any own shares in 2022.

9. Code of Good Governance

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

10. Internal control over financial reporting (ICFR) systems

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

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

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

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

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

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

Naturgy Capital Markets, S.A.

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

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

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

Naturgy has a Code of Ethics, which includes an Anti-Corruption Policy, approved by the Board of Directors, that is binding on all employees of the group and of all investee companies over which it has management control. To promote the dissemination and application of the Code of Ethics, the Compliance Policy and the Anti-Corruption Policy, Naturgy has an Ethics and Compliance Committee that reports to the Audit and Control Committee. Naturgy also has a whistleblower channel that reports directly to the Audit and Control Committee, which is confidential in nature and respects the rights of both the whistleblower and the person to whom the report refers.
There are training programmes and regular refresher courses for staff involved in preparing and reviewing the financial information and in assessing the Group's ICFR.