

Report on
the Green Bond
2020



This document is a transcript of Appendix II Chapter 16 of the Annual Consolidated Report. To access the full report, including references to standards, applicable regulations, verifiers' opinions and other consolidated financial, operating and legal information that the company is required to present at the end of the financial year, scan this QR code or click on the following link:



https://www.naturgy.com/en/shareholders_and_investors/the_company/annual_reports

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Report on the Green Bond

Indicators of use of proceeds

As at 31 December 2020, the total number of projects allocated to Green Bonds issued on 15 November 2017 was 35, representing a total investment of Euros 800 million. These allocated funds represent 100% of the total amount obtained through the issuance of Green Bonds.

Technology	Location	Project name	Year launched	Status	Green Bond Financing 2020 (€M)	% Financed by Green Bonds	Avoided Emissions (tCO ₂)
Photovoltaic	Spain	C.F. Carpio de Tajo	2019	Operation	30.06	99%	54,166.01
Photovoltaic	Spain	C.F. La Nava	2019	Operation	30.18	99%	60,771.71
Wind	Spain	PE. Ampliación El Hierro	2019	Operation	38.29	96%	82,747.83
Wind	Spain	PE. Balcón de Balos	2018	Operation	6.21	50%	17,754.97
Wind	Spain	PE. Barasoain	2019	Operation	43.22	89%	76,907.43
Wind	Spain	PE. Doramás	2018	Operation	1.88	49%	4,324.69
Wind	Spain	PE. Fuerteventura II	2018	Operation	2.96	50%	7,509.09
Wind	Spain	PE. La Haría	2018	Operation	2.00	50%	4,807.67
Wind	Spain	PE. La Vaquería	2018	Operation	1.96	50%	4,988.76
Wind	Spain	PE. Merengue	2019	Operation	42.71	99%	98,596.85
Wind	Spain	PE. Mirabel	2020	Operation	23.80	98%	55,394.54
Wind	Spain	PE. Monciro	2019-2020	Operation	36.37	96%	89,073.96
Wind	Spain	PE. Montaña Perros	2018	Operation	1.92	50%	5,286.42
Wind	Spain	PE. Peñaforcada - Catasol II	2019	Operation	11.01	98%	18,130.04
Wind	Spain	PE. Piletas I	2020	Operation	10.43	50%	27,360.41
Wind	Spain	PE. San Blas	2019-2020	Operation	34.15	98%	74,136.86
Wind	Spain	PE. Teso Pardo	2019	Operation	30.52	98%	65,438.37
Wind	Spain	PE. Tesorillo	2019	Operation	30.12	98%	52,435.29
Wind	Spain	PE. Tirapu	2020	Operation	16.65	90%	27,470.24
Wind	Spain	PE. Triquivijate	2018	Operation	3.46	50%	9,571.24
Wind	Spain	PE. Vientos del Roque	2018	Operation	3.52	50%	10,755.44
Wind	Spain	PE. Montejo de Bricia (ampliación)	2019	Operation	6.87	88%	12,696.68

Continues >

Technology	Location	Project name	Year launched	Status	Green Bond Financing 2020 (€M)	% Financed by Green Bonds	Avoided Emissions (tCO ₂)
Wind	Spain	PE. Fréscano	2019	Operation	21.74	96%	51,932.38
Wind	Spain	PE. San Agustín	2019	Operation	27.22	95%	71,182.36
Wind	Spain	P.E. Monte Tourado - Eixe	2019	Operation	41.79	98%	91,794.50
Wind	Spain	P.E. Pastoriza - Rodeiro	2019	Operation	32.75	96%	96,719.72
Wind	Spain	PE. Serra do Punago - Vacariza	2019-2020	Operation	28.70	96%	71,589.12
Photovoltaic	Spain	C.F. Picon I	2019	Operation	33.65	97%	64,368.85
Photovoltaic	Spain	C.F. Picon II	2019	Operation	31.70	97%	64,368.85
Photovoltaic	Spain	C.F. Picon III	2019	Operation	30.46	95%	64,368.85
Wind	Spain	PE. Torozos A	2019	Operation	36.98	97%	79,507.03
Wind	Spain	PE. Torozos B	2019	Operation	30.32	96%	68,570.50
Wind	Spain	PE. Torozos C	2019	Operation	35.71	96%	80,039.56
Wind	Spain	P.E. Mourifios	2019	Operation	10.21	98%	25,416.76
Wind	Spain	Common Infraestructures	2019	Operation	30.48	73%	
					800.00		1,690,183

The Green Bond funds as reported at 31 December 2020 have been allocated in full to investments in eligible assets under the requirements of the Green Bond Framework; one of the projects that was included in the report at 31 December 2019 has been excluded with that amount having been allocated to equally eligible investments under the Green Bond Framework.

The net funds of the bond issue have been managed within the liquidity portfolio of Naturgy's treasury, in cash or other short-term liquidity instruments that do not include intensive greenhouse gas or other controversial activities. At the year-end, Naturgy has maintained a minimum cash level equivalent to the funds pending award of the Green Bond.

Environmental benefit indicators

The estimated environmental benefit of the Green Bond is expected to total 1,690,183 tCO₂/year in avoided emissions, based on a total of approximately 920.8 MW of installed capacity financed by the green bond, with associated production of 2,645 GWh/year.

The United Nations methodology ACM0002 for Clean Development Mechanisms has been used to calculate the avoided emissions in 2020: “Consolidated Methodology for Grid-connected Electricity Generation from Renewable Sources”, through calculation according to option b) of the Adjusted-Simple OM. This method is an improvement over the OM Simple method used in previous years in which the Operating Margin Emission Factor of low operating cost sources is weighted along with base load and other sources depending on the number of hours each is marginal. This improvement in the measurement method used justifies the difference in avoided emissions compared to previous years.

Actions in environmental and social matters

In the projects, sustainability has been considered throughout its life cycle, in partnership with the competent administrations, with participation of the different stakeholders. In the design stage, an environmental study has been carried out in all the projects, where information has been gathered about the environment (physical, biological, socio-economic and cultural). This study has served as a baseline to define the most environmentally and socially sustainable project alternatives, identify and assess the associated impacts and define the necessary prevention, mitigation and, if necessary, compensation measures. During the construction phase, a thorough environmental and archaeological follow-up is carried out in order to ensure that the project is executed with the established environmental and social guarantees. During the operation stage, the facilities are covered by Naturgy's environmental management system, which is certified and externally audited pursuant to the UNE-EN ISO 14001, which ensures control and compliance with environmental requirements, the prevention of environmental accidents and the ongoing improvement in the reduction of our impacts.

The **United Nations methodology ACM0002 for Clean Development Mechanisms** has been used to calculate the avoided emissions in 2020: “Consolidated Methodology for Grid-connected Electricity Generation from Renewable Sources”.

Glossary of indicators

Indicators for use of proceeds

Description of the financed projects	Description of the projects financed with Green Bonds, with details of generation technology, location (country), project name, year launched, completion status (1. Development, 2. Construction, 3. Operation and maintenance) at year-end.
Allocated Green Bond financing: Amount allocated (in euros) per project and in total	Sum attributable to Green Bonds invested in projects that meet the Green Bond eligibility criteria listed in the Naturgy Green Bond Framework (in million euro) at year-end.
% Financed by Green Bonds	Percentage of project investment attributable to Green Bonds at year-end.
Number of projects	Number of projects with financing attributable to funds from Green Bonds at year-end.
Total allocated amount relative to total proceeds (%)	Percentage of the total investment attributable to Green Bonds across all projects relative to the total sum obtained through the issuance of Green Bonds (bond funds) at year-end.
Description of the use of non-invested proceeds	Description of the management of funds obtained through the issuance of Green Bonds that have not been allocated to any project, at year-end, in accordance with the “Naturgy Green Bond Framework”.

Environmental benefit indicators

Greenhouse gas (GHG) avoided emissions	CO ₂ emissions (tonnes of CO ₂ /year) expected to be avoided each year through renewable energy projects (wind and solar), calculated by multiplying expected energy production by a regional average emissions factor (peninsula and Canary Islands). This emissions factor has been calculated using the methodology used by UNFCCC Clean Development Mechanism (CDM) projects, which allow the use of either an average regional emissions factor excluding emissions from low cost/must-run power stations when generation from these stations represents less than 50% of the electricity system total (simple method) or an average emissions factor from the entire regional electricity mix (including emissions from low cost/must-run power stations) when generation from these stations represents more than 50% of the electricity system total (average method). The data used to calculate the applied emissions factor come from publicly available information sources based on official statistics.
Energy capacity	Total power (MW) corresponding to the projects expected to be financed by Green Bonds.
Energy production	Estimated annual electrical power generation (GWh/year) calculated by multiplying the energy capacity by the estimated average number of operating hours per year for each project expected to be financed by Green Bonds.

Green Bond independent review report



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

INDEPENDENT LIMITED ASSURANCE REPORT ON THE GREEN BOND INDICATORS

To the Board of Directors of Naturgy Energy Group, S.A.:

Scope of work

We have conducted our work to provide limited assurance on the Green Bond Indicators contained in the "2020 Green Bond Report", which is included in the 2020 Sustainability Report and the accompanying Consolidated Non-Financial Statement (hereinafter "2020 NFS") of Naturgy Energy Group, S.A. (hereinafter "Naturgy") for the year ended December 31, 2020. The Green Bond Indicators have been prepared in accordance with the criteria defined by Naturgy in the section "Glossary of indicators" on pages 294 and 295 of the 2020 NFS, and defined in accordance with the "Gas Natural Fenosa Green Bond Framework" (Gas Natural Fenosa changed its name to Naturgy in June 2018) published by Naturgy and available on its website:

(https://www.naturgy.com/files/Gas_Natural_Fenosa_Green_Bond_Framework_def-2.pdf).

Specifically, we have reviewed the Green Bond Indicators included in the sections "Indicators of use of proceeds" and "Environmental benefit indicators" on pages 293 and 294 of the 2020 NFS.

The Directors of Naturgy Energy Group, S.A. are responsible for the preparation, content and presentation of the Green Bond Indicators included in the "2020 Green Bond Report" in accordance with the criteria set by Naturgy, and the definition of these criteria in accordance with the "Gas Natural Fenosa Green Bond Framework".

This responsibility also includes designing, implementing and maintaining the internal control required to ensure that the Green Bond Indicators included in the "2020 Green Bond Report" are free of any material misstatement due to fraud or error.

The Directors of Naturgy Energy Group, S.A. are also responsible for defining, implementing, adapting and maintaining the management systems from which the information required to prepare the Green Bond Indicators included in the "2020 Green Bond Report" is obtained.

Criteria

Our responsibility is to express our conclusions in a limited assurance report based on the work performed. We have conducted our engagement in accordance with the requirements of the International Standard on Assurance Engagement 3000 (Revised), "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" (ISAE 3000 Revised), issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).



Procedures performed

The procedures performed in a limited assurance engagement vary in nature and timing from a reasonable assurance engagement and are less in extent. Thus, the level of assurance obtained is substantially lower.

Our work has involved making inquiries of management, reviewing the procedures for gathering and validating the information included in the Green Bond Indicators and performing certain analytical procedures and random sampling tests, which are described below:

- ▶ Meetings with Naturgy's personnel from various departments who have been involved in the preparation of the Green Bond Indicators.
- ▶ Analysis of the procedures used for collecting and validating the data and information included in the Green Bond Indicators.
- ▶ Analysis of Naturgy's Green Bond Indicators adaptation to the criteria set by Naturgy, described in the section "Glossary of indicators" on pages 294 and 295 of the 2020 NFS.
- ▶ Verification of the traceability of the allocation of funds from Green Bond proceeds to project financing and the traceability of not allocated funds, and verification that investments made by Naturgy in projects through funds attributable to the Green Bond have been made in accordance with the criteria of the "Gas Natural Fenosa Green Bond Framework".
- ▶ Verification, by means of review tests based on a random sample, and performance of substantive and analytical tests on the quantitative and qualitative information of Naturgy's Green Bond Indicators. We have also verified whether they have been appropriately compiled from the data provided by Naturgy's sources of information.
- ▶ Obtaining of the representation letter from the Directors and Management of Naturgy Energy Group.

Independence and quality control

We have performed our work in accordance with the Independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our Firm applies International Standard on Quality Control 1 (ISQC 1) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Conclusion

Based on the procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that the Green Bond Indicators included in Naturgy's "2020 Green Bond Report" for the year ended December 31, 2020 contain significant errors or have not been prepared, in all material respects, in accordance with the criteria set by Naturgy pursuant to the "Gas Natural Fenosa Green Bond Framework".



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Use and distribution

This report is only issued to the Directors of Naturgy, in accordance with the terms and conditions of our engagement letter. We accept no responsibility to third parties other than the addressees of our report.

ERNST & YOUNG, S.L.

(Signature on the original in Spanish)

Antonio Capella Elizalde

February 3, 2021

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