Auditor's Report on Naturgy Energy Group, S.A.

(Together with the annual accounts and directors' report of Naturgy Energy Group, S.A. for the year ended 31 December 2023)

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

KPMG Auditores, S.L.
Paseo de la Castellana, 259C
28046 Madrid

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 Energy Group, S.A.

REPORT ON THE ANNUAL ACCOUNTS

Opinion

We have audited the annual accounts of Naturgy Energy Group, S.A. (the "Company"), which comprise the balance sheet at 31 December 2023, 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 2023, 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 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.

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

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.

Recoverable amount of non-current investments in Group companies and associates

See notes 3.3, 3.19, 4 and 7 to the annual accounts

Key audit matter	*How the matter was addressed in our audit*
At 31 December 2023 the Company has recognised non-current investments in Group companies and associates amounting to Euros 29,879 million. The recoverable amount of these investments in Group companies and associates is determined, for those companies in which there is objective evidence of impairment, by applying valuation techniques which often require the exercising of judgement by the Directors and the use of assumptions and estimates. During the 2023 fiscal year, the Company recorded a reversals of impairment value corrections on investments in affiliated and group companies amounting to 55 million euros in the income statement. Due to the significance of the investments and the uncertainty associated with these estimates, this has been considered a key audit matter.	Our audit procedures included the following: – Evaluating the design and implementation of the key controls related to the process of calculating the recoverable amount. – Assessing the existence of evidence of impairment, as well as the reasonableness of the methodology and assumptions used to estimate the recoverable amount, with the involvement of our specialists. – Assessing whether the disclosures in the annual accounts meet the requirements of the financial reporting framework applicable to the Company.

Other Information: Directors' Report

Other information solely comprises the 2023 directors' report, the preparation of which is the responsibility of the Company's Directors 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 regarding the information contained in the directors' report is defined in the legislation regulating the audit of accounts, as follows:

a) Determine, solely, whether the non-financial information statement and certain information included in the Annual Corporate Governance Report and the Annual Report on Directors' Remuneration, as specified in the Spanish Audit Law, have been provided in the manner stipulated in the applicable legislation, and if not, to report on this matter.

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

b) Assess and report on the consistency of the rest of the information included in the directors' report with the annual accounts, based on knowledge of the entity obtained during the audit of the aforementioned annual accounts. Also, assess and report on whether the content and presentation of this part 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 above, we have observed that the information mentioned in section a) above has been provided in the manner stipulated in the applicable legislation, that the rest of the information contained in the directors' report is consistent with that disclosed in the annual accounts for 2023, and that the content and presentation of the report are in accordance with applicable legislation.

Directors' and Audit and Control Committee's Responsibilities for the Annual Accounts

The Directors are 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 Directors are 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 Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The audit and control committee is responsible for overseeing 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.

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

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 Directors.

- Conclude on the appropriateness of the Directors' 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 Naturgy Energy Group, S.A.’s audit and control 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 entity's audit and control 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 and control committee of the entity, 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

European Single Electronic Format

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

We have examined the digital file of Naturgy Energy Group, S.A. for 2023 in European Single Electronic Format (ESEF) comprising an XHTML file with the annual accounts for the aforementioned year, which will form part of the annual financial report.

The Directors of Naturgy Energy Group, S.A. are responsible for the presentation of the 2023 annual financial report in accordance with the format requirements stipulated in Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 (hereinafter the "ESEF Regulation"). In this regard, they have incorporated the Annual Corporate Governance Report and the Annual Report on Directors' Remuneration by means of a reference thereto in the directors' report.

Our responsibility consists of examining the digital file prepared by the Company's Directors, in accordance with prevailing legislation regulating the audit of accounts in Spain. This legislation requires that we plan and perform our audit procedures to determine whether the content of the annual accounts included in the aforementioned digital file fully corresponds to the annual accounts we have audited, and whether the annual accounts have been formatted, in all material respects, in accordance with the requirements of the ESEF Regulation.

In our opinion, the digital file examined fully corresponds to the audited annual accounts, and these are presented, in all material respects, in accordance with the requirements of the ESEF Regulation.

Additional Report to the Audit and Control Committee

The opinion expressed in this report is consistent with our additional report to the Company's audit and control committee dated 27 February 2024.

Contract Period

We were appointed as auditor by the shareholders at the ordinary general meeting on 9 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*)

Eduardo González Fernández
On the Spanish Official Register of Auditors ("ROAC") with No. 20,435

27 February 2024

Annual Report of
Naturgy Energy Group, S.A.
2023

Separate Annual Accounts

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

This 2023 Annual Report is a translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish language version prevails.

Naturgy Energy Group, S.A.

Balance sheet **(million euro)**

		31.12.2023	31.12.2022
NON-CURRENT ASSETS	**Note**	**30,215**	**29,321**
Intangible assets	5	1	2
Patents, licences, trademarks and other		—	1
Other intangible assets		1	1
Property, plant and equipment	6	97	102
Land and buildings		84	90
Other property, plant and equipment		13	12
Long-term investments in group companies and associates	7	29,879	28,957
Equity instruments		15,882	14,960
Loans to companies		13,997	13,997
Long-term investments	8-14	29	77
Equity instruments		4	5
Derivatives		22	69
Other financial assets		3	3
Other non-current assets	9-14	80	63
Derivatives		80	63
Deferred tax assets	17	129	120
CURRENT ASSETS		**2,082**	**4,286**
Trade and other receivables	9-14	152	981
Trade receivables for sales and services		2	67
Trade receivables, group companies and associates		68	184
Derivatives		5	710
Current tax assets		65	16
Other amounts receivable to Public Administrations		12	4
Short-term investments in group companies and associates	7	294	294
Loans to companies		291	292
Other financial assets		3	2
Short-term investments	8-14	36	28
Derivatives		34	16
Other financial assets		2	12
Short-term prepayments and accrued expenses		2	2
Cash and cash equivalents	10	1,598	2,981
Cash at banks and in hand		1,137	1,336
Other cash equivalents		461	1,645
TOTAL ASSETS		**32,297**	**33,607**

Notes 1 to 30 form an integral part of these annual accounts.

Naturgy Energy Group, S.A.

Balance sheet

	Note	31.12.2023	31.12.2022
			(million euro)
EQUITY	11	**18,023**	**18,306**
SHAREHOLDERS' FUNDS		**17,980**	**18,240**
Capital		970	970
Share capital		970	970
Share premium		3,808	3,808
Reserves		10,360	10,377
Legal and statutory		300	300
Other reserves		10,060	10,077
Treasury shares		(6)	(1)
Profit/(loss) for the year		1,211	1,435
Retained earnings		2,592	2,320
Interim dividend		(969)	(679)
Other equity instruments		14	10
VALUE CHANGE ADJUSTMENTS		**43**	**66**
Hedging operations		43	66
NON-CURRENT LIABILITIES		**9,921**	**10,560**
Long-term provisions	12	294	270
Long-term post-employment obligations		204	187
Other provisions		90	83
Long-term borrowings	13	2,383	1,939
Bank borrowings		2,382	1,938
Other financial liabilities		1	1
Amounts owing to group companies and associates falling due in more than one year	15	6,896	8,013
Deferred tax liabilities	17	267	275
Other liabilities	14-16	81	63
Derivatives		81	63
CURRENT LIABILITIES		**4,353**	**4,741**
Short-term borrowings	13-14	165	559
Bank borrowings		165	534
Derivatives		—	25
Amounts owing to group companies and associates falling due in less than one year	15	3,967	3,125
Trade and other payables	16	220	1,056
Trade payables		72	240
Trade payables, group companies and associates		14	71
Derivatives	14-16	5	711
Other sundry payables		42	—
Personnel (outstanding remuneration)		40	18
Other amounts payable to Public Administrations		47	16
Short-term prepayments and accrued expenses		1	1
TOTAL EQUITY AND LIABILITIES		**32,297**	**33,607**

Notes 1 to 30 form an integral part of these annual accounts.

Naturgy Energy Group, S.A.
Income statement

		(million euro)	
		2023	2022
Revenue	18	1,818	2,628
Sales		173	718
Income from equity instruments of group companies and associates	7	1,187	1,474
Income from marketable securities and other financial instruments of group companies and associates		458	436
Raw materials and consumables	19	(174)	(713)
Consumption of goods		(174)	(713)
Other operating income	22	66	75
Supplementary income and other operating income		66	75
Personnel expenses	20	(97)	(70)
Wages, salaries and related expenses		(83)	(57)
Social Security		(9)	(8)
Provisions		(5)	(5)
Other operating expenses	21	(161)	(136)
External services		(159)	(135)
Taxes		(2)	(1)
Fixed asset depreciation/amortisation	5-6	(10)	(12)
Impairment and results on disposals of fixed assets		59	(4)
Impairment of and losses from equity instruments of group companies and associates	4-7	55	1
Gain/(loss) on disposals of equity interests in Group companies and associates	7	4	(5)
OPERATING PROFIT/(LOSS)		**1,501**	**1,768**
Financial income		61	12
Equity instruments		—	1
- In third parties		—	1
Negotiable securities and other financial instruments		61	11
- In third parties		61	11
Financial expenses		(364)	(300)
Borrowings from group companies and associates		(270)	(245)
Borrowings from third parties		(94)	(55)
Impairment and gains/(losses) on disposals of financial instruments		(1)	—
NET FINANCIAL INCOME	23	**(304)**	**(288)**
PROFIT/(LOSS) BEFORE TAXES		**1,197**	**1,480**
Income tax	17	14	(45)
PROFIT FOR THE YEAR		**1,211**	**1,435**
Basic and diluted earnings per share in euro		1.26	1.49

Notes 1 to 30 form an integral part of these annual accounts.

Naturgy Energy Group, S.A.
Statement of changes in equity

A) STATEMENT OF RECOGNISED INCOME AND EXPENSE	Note		(million euro)
		2023	2022
PROFIT FOR THE YEAR		**1,211**	**1,435**
INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY		**(22)**	**140**
Cash flow hedges		(13)	128
Actuarial gains and losses and other adjustments	11-12	(18)	58
Tax effect	17	9	(46)
RELEASES TO INCOME STATEMENT		**(13)**	**13**
Cash flow hedges		(17)	17
Tax effect	17	4	(4)
TOTAL INCOME AND EXPENSE RECOGNISED IN EQUITY		**1,176**	**1,588**

Notes 1 to 30 form an integral part of these annual accounts.

Naturgy Energy Group, S.A.

Statement of changes in equity

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

	Share capital	Share premium	Reserves	Treasury shares	Profit or loss brought forward	Retained Earnings	Profit of the year	Interim dividend	Other instruments	Value changes adjustments	Total
Balance at 1.1.2022	**970**	**3,808**	**11,304**	**(4)**	**—**	**1,778**	**1,706**	**(679)**	**18**	**(43)**	**18,858**
Total recognised income and expense	—	—	44	—	—	—	1,435	—	—	109	1,588
Operations with shareholders or owners											
- Dividend distribution	—	—	—	—	—	(485)	—	(679)	—	—	(1,164)
- Trading in treasury shares	—	—	—	3	—	—	—	—	—	—	3
Other changes in equity	—	—	(971)	—	—	1,027	(1,706)	679	(8)	—	(979)
Balance at 31.12.2022	**970**	**3,808**	**10,377**	**(1)**	**—**	**2,320**	**1,435**	**(679)**	**10**	**66**	**18,306**
Total recognised income and expense	—	—	(17)	—	—	—	1,211	—	5	(23)	1,176
Operations with shareholders or owners											
- Dividend distribution	—	—	—	—	—	(485)	—	(969)	—	—	(1,454)
- Trading in treasury shares	—	—	—	(5)	—	—	—	—	—	—	(5)
Other changes in equity	—	—	—	—	—	757	(1,435)	679	(1)	—	—
Balance at 31.12.2023	**970**	**3,808**	**10,360**	**(6)**	**—**	**2,592**	**1,211**	**(969)**	**14**	**43**	**18,023**

Notes 1 to 30 form an integral part of these annual accounts.

Naturgy Energy Group, S.A.

Cash flow statement

	Note	31.12.2023	(million euro) 31.12.2022
Profit for the year before tax		**1,197**	**1,480**
Adjustments to results		**(1,384)**	**(1,615)**
Fixed asset depreciation/amortisation	5 and 6	10	12
Impairment adjustments	4 and 7	(54)	(1)
Change in provisions		6	(4)
Profit/(loss) on write-offs and disposals of financial instruments		(4)	5
Financial income		(1,706)	(1,923)
Financial expenses	23	364	300
Other income and expenses		—	(4)
Changes in working capital		**17**	**173**
Debtors and other receivables		156	261
Other current assets		—	(1)
Creditors and other payables		(139)	(87)
Other cash flows from operating activities		**1,389**	**2,125**
Interest paid		(307)	(253)
Dividends received		1,212	2,044
Interest collected		480	425
Income tax collections/(payments)		4	(91)
Cash flows from operating activities		**1,219**	**2,163**
Amounts paid on investments		**(1,010)**	**(1,084)**
Group companies and associates		(1,005)	(1,079)
Intangible assets		—	(1)
Property, plant and equipment		(4)	(4)
Other financial assets		(1)	—
Amounts collected from divestments		**235**	**2,239**
Group companies and associates		225	2,194
Other financial assets		10	45
Cash flows from investing activities		**(775)**	**1,155**
Collections and payments on equity instruments		**(5)**	**3**
Acquisition of own equity instruments		(10)	—
Disposal of own equity instruments		5	3
Collections and payments financial liability instruments		**(368)**	**(1,384)**
Issuance		2,321	1,521
Bank borrowings		1,096	103
Payables to Group companies and associates		1,225	1,418
Repayment/redemption of		(2,689)	(2,905)
Bank borrowings		(1,025)	(405)
Payables to Group companies and associates		(1,640)	(2,483)
Other payables		(24)	(17)
Dividend payments		**(1,454)**	**(1,164)**
Cash flow from financing activities		**(1,827)**	**(2,545)**
NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS		**(1,383)**	**773**
Cash and cash equivalents at the beginning of the year		2,981	2,208
Cash and cash equivalents at the year end		1,598	2,981

Notes 1 to 30 form an integral part of these annual accounts.

Contents of the notes to the annual accounts for 2023

Notes to the annual accounts of Naturgy Energy Group, S.A. for 2023

Note 1. General information

Naturgy Energy Group, S.A. ("the Company"), the parent company of the Naturgy group ("Naturgy"), was incorporated as a public limited company in 1843 and its registered office for corporate purposes is in Avda. América 38, Madrid. On 27 June 2018, the shareholders, in general meeting, agreed to change the company's business name to Naturgy Energy Group, S.A., formerly Gas Natural SDG, S.A.

The Company's corporate objects, as per its articles of association, comprise the following activities:

a. All types of activities related to the gas and electricity business and any other type of existing energy source, the production and selling of electrical, electro-mechanical and electronic equipment and components, management of architectural projects, civil engineering works, public services and gas and hydro-carbon distribution in general; management of communications and telecommunications networks and maintenance of electro- and gas-related appliances; as well as consulting, business and energy planning services and the rationalisation of energy use, research, development and exploitation of new technologies, communications, computer and industrial security systems; training and selection of human resources and real estate management and development.

b. Acting as a holding company, incorporating companies or holding shares as a member or shareholder in other companies no matter what their corporate purpose or nature, by subscribing, acquiring or holding shares, participation units or any other securities deriving from the same, subject to compliance with the legal requirements in each case.

The Company's main ordinary activity is the administration and management of its shareholdings in subsidiaries. In addition, the Company has short-term gas supply contracts.

The Company's shares are listed on the four Spanish stock exchanges, the continuous market and form part of the Ibex 35 stock index.

On 10 February 2022, Naturgy reported the decision by its Board of Directors concerning the launch of the Géminis project, consisting of a very significant reorganisation of the corporate group of which Naturgy Energy Group, S.A. is the parent company. Specifically, this project envisaged the partial spin-off of Naturgy Energy Group, S.A. giving rise to two large groups with clearly differentiated business profiles.

Updating the status of the Géminis project to the date of authorisation for issue of these annual accounts, the Board of Directors does not consider, at 31 December 2023, that the conditions for the materialisation of the Géminis project are very probable, as is required by accounting regulations for the net assets subject to the spin-off to be classified as held for sale and for any distribution to be made to shareholders.

Note 2. Basis of presentation, comparability and accounting policies Basis of presentation, comparability and accounting policies

2.1. Basis of presentation

The Company's annual accounts for 2022 were approved at the annual general meeting of shareholders on 28 March 2023.

The annual accounts for 2023, which were drawn up and signed by the Company's Board of Directors on 26 February 2024, 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 and the amendments incorporated therein 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 income from sales of goods and services.

These annual accounts have been prepared based on the Company's accounting records in order to fairly present its equity and financial position at 31 December 2023, as well as the Company's results, changes in equity and cash flows for the year then ended.

At 31 December 2023, the Company’s working capital was negative by Euros 2,271 million (Euros 455 million in 2022). In this respect, the Company’s liquidity statements envisaged for this year together with the amounts available under credit lines (Note 14) will ensure coverage of the goodwill.

The figures set out these annual accounts are expressed in million euros, this being the Company's functional and presentation currency, unless otherwise stated.

2.2 Comparability

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 2022 annual accounts as well as the figures for 2023.

2.3 Accounting principles and main measurement standards

The accounting principles and the main measurement standards used by the Company to prepare the annual accounts for the year are the same as those applied in the Company's annual accounts for the year ended 31 December 2022, which include the amendments and impacts derived from the adoption of Royal Decree 1/2021 and the adoption of the Resolution of 10 February 2021 of the Spanish Institute of Accounting and Auditing, which lays down rules for the recognition, valuation and preparation of the annual accounts with respect to the recognition of income from sales of goods and services.

The consolidated annual accounts of Naturgy for 2023 have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS-EU), in accordance with Regulation (EU) 1606/2002 of the European Parliament and of the Council. The main figures disclosed in the consolidated annual accounts, which have been audited, are as follows:

Total assets	37,893
Equity attributed to the parent company	9,448
Non-controlling interests	2,481
Revenue	22,617
Profit after tax attributed to the parent company	1,986

Note 3. Accounting policies

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

3.1 Intangible assets

Intangible assets are carried at acquisition price or production cost, or at fair value in the case of assets acquired through a business combination, less accumulated amortisation and any recognised impairment losses.

a. Goodwill

Goodwill represents the amount by which the acquisition cost exceeds the acquisition date fair value of the share in the net identifiable assets of the acquired subsidiary, jointly-controlled entity or associate. Consequently, goodwill is only recognised when it has been acquired for valuable consideration and relates to the future economic benefits from assets that have not been identified individually and recognised separately.

Goodwill is amortised over ten years using the straight-line method. Goodwill is tested annually to analyse possible impairment losses. It is recognised in the balance sheet at cost value less amortisation and any cumulative impairment adjustments.

Impairment of goodwill cannot be reversed.

b. Computer software

Costs associated directly with the production of computer software programs that are likely to generate economic benefits greater than the costs related to their production are recognised as intangible assets. The direct costs include the personnel costs of the employees involved in developing the programs.

Computer software development costs recognised as assets are amortised on a straight–line basis over a period of five years as from the time the assets are ready to be brought into use.

c. Other intangible assets

Research expenditure is recognised in the income statement when incurred.

The Company has no intangible assets with an indefinite useful life.

3.2. Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and any impairment provision.

a. Cost

Property, plant and equipment are carried at acquisition price or production cost, or at the value attributed to the asset if it is acquired as part of a business combination.

Financial costs relating to financing for plant projects during the plant construction period to the date the asset is ready for use form part of property, plant and equipment.

Renewal, extension or improvement costs are capitalised as an increase in the asset's value only when its capacity, productivity or useful life increases. Major maintenance expenditures are capitalised and amortised over the estimated useful life of the asset (generally 2 to 6 years) while minor maintenance is expensed as incurred.

Own work capitalised under Property, plant and equipment relates to the direct cost of production.

Expenses arising from actions designed to protect and improve the environment are expensed in the year they are incurred.

When such costs entail additions to property, plant and equipment the purpose of which is to minimise the environmental impact and to protect and improve the environment, they are accounted for as an increase in the value of property, plant and equipment.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the Income statement.

b. Depreciation

Assets are depreciated on a straight-line basis over their useful lives or the concession term, if shorter. Estimated useful lives are as follows:

	Estimated useful life years
Buildings	33 – 50
Computer hardware	4
Vehicles	6
Other	3 – 20

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

When the carrying value of an asset is greater than its estimated recoverable amount or when it is no longer useful, its value is written down immediately to its recoverable amount (Note 3.3).

3.3 Asset impairment

Assets are tested for impairment provided that an event or change in circumstances indicates that their carrying amount might not be recoverable. Additionally, investments in group companies, goodwill and intangible assets that are not in use are tested annually for impairment.

When the recoverable amount is less than the asset's carrying amount, an impairment loss is recognised in the income statement for the amount of the difference between the two. The recoverable amount is calculated at the higher of an asset's fair value less costs of sale and value in use calculated by applying the discounted cash flow method. In general the Company considers value in use as the recoverable amount, except for CGUs where fair value less costs to sell is considered to be a better estimate of the recoverable amount.

For the purposes of assessing impairment losses, assets are grouped together at the lowest level for which there are separately identifiable cash flows. Assets and goodwill are assigned to these cash-generating units (CGUs).

For investments in group companies and associates, barring investments the recoverable amount of which is determined based on the investee's equity (Note 3.4), the recoverable value is calculated as the highest value between the fair value of the investments in group companies and associates and their value in use. The value in use is determined by the present value of the cash flows generated in its current state based on the best prospective information available for the coming years, extended as far as a 10-year period or by the remaining useful life, for certain assets and concessions on the basis of regulations and expected market evolution, drawing on available industry forecasts and historical experience of price trends and volumes produced.

The extension by the additional years to reach a period of ten years for the cash flow projections or by the remaining useful life of the assets and concessions is explained by the fact that in many cases long-term energy sale agreements have been concluded, long-term estimated price curves are available that are used in the Group's ordinary operations (for contracts, hedging, etc.), the electricity and gas supply business is influenced by long-term government policies and is based on stable customer relations, there are lengthy regulatory periods and, in the case of electricity and gas transport and distribution concessions, because the mechanism for calculating the new tariff that the relevant regulator will use at the beginning of the new regulatory period is foreseen.

Naturgy believes that its projections are reliable and that it can reliably predict additional cash flows beyond the initial projections.

The cash flows after the ten-year projected period are extrapolated using the growth rates estimated for each CGU or group of CGUs, and in no case exceed the average long-term growth rate for the business in which they operate. In all cases, they are lower than the growth rates for the period reflected in the available prospective information. Additionally, in order to estimate future cash flows in the calculation of residual values, all maintenance investments have been considered and, if applicable, renewal investments necessary to maintain the CGUs' production capacity.

The parameters taken into account to determine the growth rates, which represent the long-term growth of each line of business, are in line with the long-term growth of the country, obtained from inflation estimates from various sources: analyst consensus (Bloomberg), International Monetary Fund (IMF), Organization for Economic Co-operation and Development (OECD), Central Banks and other government agencies, European Commission for the period 2023-2025 and from 2026 onwards the Economist Intelligence Unit (EIU).

The parameters taken into account for the composition of the discount rates before taxes are as follows:

- Risk-free rate: Based the profitability on the sovereign bond market considering country risk, currency and CGU benchmark term as well as studies or other sources of information (Damodaran, EIU and others).
- Market risk premium: Premium based on studies and other sources of information (Kroll, Damodaran, Pablo Fernández and others).
- Deleveraged Beta: Based on estimated betas for each CGU based on comparables (Bloomberg).
- Cost of financial debt: comprises the functional currency interest rate swap, with a term of 10 to 30 years, plus a spread for credit risk.
- Debt-equity ratio: Based on industry comparables.

An asset impairment loss, individually considered, is recognised in the income statement, reducing the carrying value of the asset to its recoverable amount. The depreciation charges for the asset are adjusted in future periods in order to apportion the revised carrying amount of the asset, less its residual value, in a systematic manner over its remaining useful life.

An impairment loss is recognised for an asset if its recoverable amount is less than the carrying amount. The carrying amount of an asset is not reduced below the higher of its recoverable value and zero.

Impairment adjustments to values recognised in previous periods for investments in Group companies and associates may be reversed if and only if there is a change in the estimates used to determine their recoverable amount since the latest impairment loss was recognised.

Impairment of financial assets measured at amortised cost

For financial assets carried at amortised cost, the impairment loss is the difference between the carrying amount of the financial asset and the present value of estimated future cash flows, discounted at the asset's original effective interest rate. For financial assets at variable interest rates, the effective interest rate at the measurement date based on contractual terms is applied. Impairment losses and their reversal when the amount of such losses decreases for reasons related to a subsequent event are charged to results. The reversal of the loss is limited to the amortised cost of the assets had the impairment loss not been recognised.

3.4 Financial assets and liabilities

Financial assets

The Company classifies its financial assets based on their valuation category which is determined on the basis of the business model and the characteristics of the contractual cash flows, and reclassifies financial assets when and only when it changes its business model for managing said 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 measured at the lower of acquisition cost, which is the fair value of the consideration given plus directly attributable transaction costs, or fair value in the case of investments acquired through a business combination, and the recoverable value. The recoverable value is determined as the higher of fair value minus cost of sale and the current value of the cash flows generated by the investment. If there is no better evidence of recoverable value, recoverable value will be the equity of the investee company adjusted by any tacit capital gains subsisting at the valuation date. The value adjustment and, where appropriate, its reversal, is recorded on the income statement in which it takes place.

b. Financial assets at amortised cost

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

They are initially recorded at their fair value and then at their amortised cost using the effective interest rate method. Interest income from these financial assets is included in financial income. Any gain or loss that arises when they are derecognised is recognised directly in results and any impairment losses are recorded as a separate item in the income statement for the year.

c. Financial assets at fair value through profit or loss

These are assets acquired for short-term sale. Derivatives form part of this category unless they are designated as hedges. These financial assets are stated, both initially and in later valuations, at their fair value, and the changes in their value are taken to the income statement for the year.

Equity instruments classified in this category are recognised at fair value and any gain or loss arising from changes in fair value, or the proceeds of their sale, are included in the income statement.

The fair values of listed investments are based on 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 and knowledgeable parties, references to other instruments that are substantially the same and the analysis of discounted future cash flows (Levels 2 and 3). In the event that recent available information is insufficient to determine fair value, or if there is a whole range of possible fair value and cost measurements represents the best estimate within that range, investments are carried at cost less any impairment loss.

d. Equity instruments at fair value through equity

These are equity instruments with respect to which the Company has made an irrevocable decision at the time of initial recognition to record them in this category. They are recognised at fair value and increases or decreases that arise from changes in fair value are recorded in Equity. However, impairment adjustments and dividends on such investments are recognised in results for the period. At the time of sale, gains or losses are reclassified to the income statement.

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 quoted price of identical instruments in an active market. Fair value is based on quoted 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 included in this category is determined using valuation techniques. These techniques maximise the use of available observable market data inputs and rely as little as possible on entity-specific estimates made by the Company. If all significant inputs required to calculate the fair value are observable, the instrument is included in Level 2. If one or more of the significant inputs are not based on observable market data, the instrument is included in Level 3.

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

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

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

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

Financial liabilities

a. Financial liabilities measured at amortised cost

Borrowings are initially recognised at their fair value, net of any transaction costs incurred. Any difference between the amount received and the repayment value is recognised in the income statement during the period of repayment using the effective interest rate method, classifying financial liabilities as measured subsequently at amortised cost.

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

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

Borrowings are classified as current liabilities unless they mature in more than twelve months as from the balance sheet date, or include tacit one-year prorogation clauses that can be exercised by the Company.

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 twelve months are considered non-current payables.

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 both at inception and afterwards at their fair value, and the changes in this value are taken to the income statement for the year.

3.5 Financial derivatives and other financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the asset being hedged.

The Company aligns its accounting with its management of financial risk. Risk management objectives and the hedging strategy are reviewed periodically and a description of the risk management objective pursued is carried out.

In order for each hedging operation to be considered effective, the Company documents that the economic relationship between the hedging instrument and the hedged asset is aligned with its risk management objectives.

The market value of financial instruments is calculated using the following procedures:

- Derivatives listed on an official market are calculated on the basis of their year-end quotation (Level 1).

- Derivatives that are not traded on official markets are calculated on the basis of the discounting of cash flows based on year-end market conditions or, in the case of non-financial items, on the best estimate of the forward price curves of such items (Level 2 and 3).

The fair values are adjusted for the expected impact of observable counterparty credit risk in positive valuation scenarios and the impact of observable credit risk in negative valuation scenarios.

Derivatives embedded in other financial instruments or in other host contracts are recorded separately as derivatives only when their financial characteristics and inherent risks are not strictly related to the instruments in which they are embedded and the whole item is not being carried at fair value through profit or loss.

For accounting purposes, the operations are classified as follows:

1. Derivatives eligible for hedge accounting

a. Fair value hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recognised in the income statement together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

b. Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Income statement.

When options contracts are used to hedge forecast transactions, the Company only designates the intrinsic value of the options contract as the hedging instrument.

Amounts accumulated in equity are transferred to the income statement in the period in which the hedged item affects the gain or loss, as follows:

- The gain or loss relating to the effective portion of interest rate swaps is recognised in the financial expense at the same time as the interest expense in the hedged loans.

- When a hedging instrument covers a forecast transaction, the accumulated amounts remain in equity until the forecast transaction takes place. When the forecast transaction does not occur, the amount accumulated in equity is immediately reclassified to income for the period.

However, if this amount is a loss, and for an amount that is not expected to be recovered, it will be immediately reclassified in the income statement as a reclassification adjustment.

If the hedged item subsequently results in the recognition of an asset, the amount accumulated in equity will be recognised in the initial cost of the asset.

c. Hedges of net foreign investments

The accounting treatment is similar to cash flow hedges. The variations in value of the effective part of the hedging instrument are carried in the balance sheet under "Value change adjustments". The gain or loss from the non-effective part is recognised immediately under "Exchange differences" in the income statement. The accumulated amount of the valuation recorded under "Value change adjustments" is released to the income statement as the foreign investment that gave rise to it is sold.

2. Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

In addition, commodity derivatives not considered as hedges for accounting purposes are recorded in operating profit as they essentially constitute a hedge because of the match between the critical terms of the derivative and the hedged item.

3. Energy purchase and sale agreements

The Company enters into energy purchase and sale agreements in the ordinary course of its business. These agreements are executed and maintained in order to meet the needs of receipt or physical delivery of energy expected by the Company in accordance with regular energy purchase and sale estimates, which are monitored systematically and adjusted in all cases through physical delivery. Consequently, these agreements are for “own use” and therefore fall outside the scope of the standard on the valuation of financial instruments.

3.6 Non-current assets held for sale and discontinued operations

The Company classifies as assets held for sale those assets and related liabilities for which active measures have been initiated for their sale, which are available in their current conditions for sale, and which are very likely to be sold within the following twelve months.

Likewise, Naturgy classifies as assets held for distribution to shareholders all assets and related liabilities when it has a commitment to distribute the assets to shareholders. In this respect, the assets must be available in their current condition for distribution and the distribution must be highly probable, and therefore actions to complete the distribution must have been initiated and must be expected to be completed within one year from the date of classification.

These assets are stated at the lower of their carrying value and fair value minus the costs necessary for their sale and are not subject to depreciation from the date on which they are classified as non-current assets held for sale and for distribution to shareholders.

In the event of delays caused by events or circumstances beyond the Company's control and if there is sufficient evidence that the commitment to the plan to sell, or distribute to shareholders, non-current assets classified as held for sale is maintained, the classification is maintained even though the period to complete the sale is extended beyond one year.

3.7 Share capital and Reserves

Share capital is represented by ordinary shares.

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

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

Acquisitions of treasury shares are recorded at acquisition cost, deducted from equity until disposal. The gains and losses on disposals of treasury shares are recognised under "Reserves" in the balance sheet.

3.8 Share-based payments

Share-based payments settled in shares are valued on the basis of the fair value of the equity instruments granted on the grant date. In addition, the effects of changes that increase the fair value of share-based payment arrangements will be recognised.

As the services are rendered by the employees during the period necessary for the vesting of the incentive, their valuation is recognized under "Personnel expenses" in the income statement with a balancing entry under "Reserves" in the balance sheet.

The amounts recognised in equity are not subject to a subsequent reassessment due to trends in external market conditions.

3.9 Borrowings and equity instruments

Borrowings and equity instruments issued by the Company are classified based on the nature of the issue.

The Company treats all contracts that represent a residual share in net assets as equity instruments.

Equity instrument issuance costs are presented as a deduction in equity.

3.10 Provisions for employee benefits

a. Post-employment pension obligations and similar

- Defined contribution plans

The Company, together with other Naturgy companies, is the promoter of a joint occupational pension plan, which is a defined contribution plan for retirement and a defined benefit plan for the so-called risk contingencies, which are insured.

There is also a defined contribution plan for a group of executives, in which the Company undertakes to make certain contributions to an insurance policy, guaranteeing this group a yield of 125% of the CPI of the contributions made to the insurance policy. All the risks have been transferred to the insurance company, since it insures the guarantee indicated above.

The contributions made have been recognised under Personnel expenses in the income statement.

Additionally, there are employees who make voluntary contributions of part of their remuneration to an insurance policy, at no cost to Naturgy.

- Defined benefit plans

For certain groups of employees there are commitments for defined benefit schemes in relation to the payment of supplements on retirement, death and disability pensions, in accordance with the benefits agreed by the entity, which have been externalised through single premium insurance policies under Royal Decree 1588/1999 of 15 October, which approved the Regulations on the arrangement of companies' pension commitments.

The liability recognised for the defined benefit pensions plans is the current value of the liability at the balance sheet date less the fair value of the plan-related assets. The defined benefit liability is calculated annually by independent actuaries using the projected unit credit method. The current value of the liability is determined discounting the estimated future cash flows at interest rates on bonds denominated in the currency in which the benefits will be paid and having similar maturities to those of the respective liabilities.

Actuarial losses and gains arising from changes in actuarial assumptions or from differences between assumptions and the actual situation are recognised in full in the period in which they arise, directly under Equity in Reserves.

Past service costs are recognised immediately in the Income statement under Personnel expenses.

b. Other post-employment benefit obligations

The Company provides post-employment benefits to its retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that used for defined benefit pension plans. Actuarial gains and losses arising from changes in actuarial assumptions, are charged or credited to Reserves.

c. Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises these benefits when it has demonstrably undertaken to terminate current workers' employment in accordance with a detailed formal plan without any possibility of withdrawal, or to provide termination benefits. In the event that mutual agreement is required, a provision is only recorded in those situations in which the Company has decided to give its consent to voluntary redundancies once they have been requested by the employees.

3.11 Provisions

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

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

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

In contracts in which the obligations undertaken include unavoidable costs greater than the economic benefits expected to be received from them, the expenses and respective provisions are recognised in the amount of the current value of the existing difference. The unavoidable costs of the contract will reflect the lower net costs of terminating the contract, i.e. the lower of the cost of complying with the terms of the contract and the compensation derived from non-compliance.

3.12 Leases

a. Finance leases

Leases of property, plant and equipment where the lessee substantially bears all the risks and rewards of ownership are classified as finance leases.

These leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the lease payments, including the purchase option. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The payment obligation derived from the lease, net of the finance cost, is recognised under liabilities in the balance sheet. The interest component of the finance cost is charged to the income statement over the lease period so as to obtain a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the asset's useful life.

b. Operating leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are charged to the income statement on a straight-line basis over the lease term.

3.13 Corporate income tax

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

Deferred taxes are recorded by comparing the temporary differences that arise between the tax bases of assets and liabilities and their respective accounting figures in the annual accounts using the tax rates that are expected to be in force when the assets and liabilities are realised. No deferred taxes are recognised for profits not distributed by subsidiaries when Naturgy can control the reversal of the temporary differences and it is likely that they will not reverse in the foreseeable future.

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

Deferred income tax assets and tax credits are recorded only when there are no doubts as to their future recoverability through the future taxable profits that can be used to offset temporary differences and implement the tax credits.

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

3.14 Recognition of income and expense

a. General

Revenue derived from contracts with customers is recognised based on compliance with performance obligations with customers.

Revenue reflects the transfer of goods or services to customers at an amount that reflects the consideration to which the Company expects to be entitled in exchange for such goods or services.

Five steps are established for the recognition of revenue:

1. Identify the customer's contract(s).
2. Identify the performance obligations.
3. Determine the price of the transaction.
4. Allocate the transaction price to the performance obligations.
5. Recognise the revenue according to the fulfilment of each obligation.

Based on this recognition model, sales are recognised when products are delivered to the customer and have been accepted by the customer, even if they have not been invoiced, or if applicable, services are rendered, and it is probable that the economic benefits associated with the transaction will flow to the entity.

Expenses are recognised on an accruals basis, immediately in the case of disbursements that are not going to generate future economic benefits or when the requirements for recording them as assets are not met.

Sales are stated net of tax and discounts.

b. Other income and expenses

The holding of shares in Group companies and associates is deemed to be the Company's main ordinary activity from which regular revenue is obtained. In accordance with the approach taken by the Spanish Institute of Accounting and Auditing ("ICAC") in connection with the calculation of revenue in holding companies (ruling request number 2 in ICAC Official Gazette number 79), dividends from Group companies and associates, and interest received on loans granted to Group companies and associates, are recognised as “Revenue”. Additionally, the item “Impairment and results on disposal of equity instruments of Group companies and associates” is included in “Operating profit/(loss)”.

Revenue from contracts is recognised as control over the committed goods or services is transferred to the customer.

Revenue from commitments (generally provisions of services) that are fulfilled over time is recognised based on the degree of progress towards full compliance with the contractual obligations.

When, at a given date, the degree of completion of the obligation cannot be reasonably measured, the revenue and related consideration are recognised only to the extent of the costs incurred up to that date.

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

Dividend income is recognised when the right to collect the dividend is established. If the dividends are unequivocally derived from reserves generated prior to the acquisition, the value of the investment is adjusted.

3.15 Foreign currency transactions

Foreign currency transactions are translated to euro using the exchange rates in force at the transaction dates. Gains and losses resulting from the settlement of these transactions and translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currency are recognised in the income statement.

3.16 Transactions between related parties

In general, transactions between related parties are recorded initially at their fair value. If the agreed price differs from its fair value, the difference is recorded taking into account the economic reality of the operation. The later valuation is made in accordance with the provisions of the respective legislation.

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

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

3.17 Business combinations

Business combinations are recorded using the acquisition method. The cost of an acquisition is calculated using the fair value of the assets given, the equity instruments issued and the liabilities incurred or borne on the transaction date plus the costs directly attributable to the acquisition. The valuation process required in order to use the acquisition method is completed within the period of one year as from the acquisition date.

The identifiable assets acquired and the liabilities or contingent liabilities incurred or borne as a result of the transaction, are initially stated at their fair value at the date of acquisition, provided that this can be reliably measured.

The surplus cost of the acquisition in relation to the fair value of the shareholding of the Company in the net identifiable assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised directly in the Income statement.

3.18 Cash flow statement

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

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

3.19 Significant accounting estimates and judgments

The preparation of annual accounts requires the use of estimates and judgments. The measurement standards that require a large number of estimates are set out below:

a. Impairment of investments in Group companies and associates (Note 3.3)

In accordance with applicable accounting regulations, the Company performs impairment tests on investments in Group companies and associates for which there is evidence of impairment. These impairment tests require an estimate of future business performance and the most appropriate discount rate in each case. The Company considers that the estimates made are appropriate and consistent with the current market environment.

Note 4 details the main assumptions used to determine the recoverable value of investments in Group companies and associates.

b. Derivatives and other financial instruments (Note 3.5)

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date. The fair value of commodity prices derivatives is determined using quoted forward price curves at the balance sheet date. The recoverable value of the investments in the equity of group and multi-group companies and associates is determined as the greater of their fair value less costs of sale and the current value of the cash flows from the investment.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

c. Provisions for employee benefits (Note 3.10)

A number of assumptions must be used to calculate pension costs, other costs of post-retirement benefits and other post-retirement liabilities. The Company estimates at each year end the provision necessary to meet its pension commitments and similar obligations, in accordance with the advice from independent actuaries. The changes affecting such assumptions may result in the recording of different amounts and liabilities. The most significant assumptions for the measurement of pension or post-retirement benefit liabilities are energy consumption by beneficiaries during retirement, retirement age, inflation and the discount rate employed. Social security coverage assumptions are also essential to determine other post-retirement benefits. Future changes to these assumptions will have an impact on future pension costs and liabilities.

d. Provisions (Note 3.11)

The Company makes an estimate of the amounts to be settled in the future, including amounts relating to contractual obligations, business contracts, outstanding litigation or other liabilities. These estimates are subject to the interpretation of current events and circumstances, projections of future events and estimates of their financial effects, as well as the outcome of negotiations associated with gas supply contracts.

e. Corporate income tax (Note 3.13)

The calculation of the income tax expense requires interpretations of tax legislation in the jurisdictions in which the Company operates. Determining whether the tax authorities will accept a specific uncertain tax treatment and the expected outcome of pending litigation requires significant estimates and judgments. The Company evaluates the recoverability of the deferred income tax assets based on estimates of future taxable income. Deferred tax liabilities are recognised based on estimates of the net assets that will not be tax deductible in the future.

f. COVID-19

In May 2023, the World Health Organisation announced that Covid-19 no longer constitutes a Public Health Emergency of International Concern, thereby initiating the transition to long-term management of the disease integrated into the control of acute respiratory infections.

Globally, and particularly in Spain, throughout 2023 the decreasing trend in Covid-related deaths and hospitalisations, the high immunity levels among the population, the low virulence of the successive variants of the disease and the improvement in the management of clinical cases have continued to be observed, resulting in a change in focus of the Covid-19 surveillance and control strategy.

However, Covid-19 has not ceased to be a threat to world health and the global economy, and the Group continues to monitor this risk in order to minimise the adverse effects on business that could be caused by any new outbreaks of the disease.

In making the estimates and assumptions necessary for the preparation of these annual accounts, the Group's forecasts for this risk have been considered.

g. 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 Agreement to achieve climate neutrality by 2050 through the reduction of total emissions 1, 2 and 3 , establishing intermediate targets aligned with the reduction paths 1.5ºC - 2ºC and with the Sustainable Development Goals (SDGs) of the United Nations. At the end of the Strategic Plan, the group’s greenhouse gas emissions are expected to be reduced by 27% compared to 2017 (emissions of scope 1, 2 and 3).

In 2023, the reduction compared to 2017 has been 30% for total emissions of scope 1,2 and 3.

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

- No coal-fired electricity has been generated in 2023 or 2022 due to the closure in the first half of 2020 of all Naturgy's coal-fired power plants, which implies a significant reduction in Greenhouse Gas (GHG) emissions range 1 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, renewable biogas and hydrogen, and sustainable mobility that will reduce the company’s carbon footprint in its three reaches.

- Additionally, 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 2021-2030 and endorsed in the draft PNIEC 2023-2030 for Spain, sent to the EU in June 2023, which is also aligned with the European objective of achieving climate neutrality in 2050 in the EU. For the rest of the countries in which it operates, the published national plans have been taken into account and in their absence the goal of achieving zero net emissions by 2050.

Information on the Group's decarbonisation strategy is disclosed in the 2023 Statement of Non-Financial Information, which is prepared in line with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) to which Naturgy has adhered and has been adopting since its publication in 2017.

At the end of 2023, the TCFD announced that it was disbanding as a working group, and the International Sustainability Standards Board (ISSB) has assumed monitoring responsibilities of the TCFD from 2024.

These annual accounts have been prepared taking into account the decarbonisation commitments undertaken by Naturgy, in addition to the risks and uncertainties related to climate change and the decarbonisation of the economy.

The main estimates and accounting judgements made by Naturgy's management and directors when preparing the 2023 annual accounts related to the expected effects of climate change and the energy transition are described below.

1. Recoverability of non-financial assets

As detailed in Note 3.3, the cash flow projections used in the impairment tests for investments in Group companies and associates are based on the best available forward-looking information and reflect existing investment plans aimed at maintaining the operating capacity of the investees' CGUs.

These projections are in line with Naturgy's strategy that takes into consideration the objectives of the Paris Agreement and have therefore been prepared based on the range of economic conditions that might exist in the foreseeable future in relation to climate change and the energy transition. The projections have taken into account the expected impact on wholesale and retail electricity market prices resulting from the entry into operation of new renewable generation facilities and developments in gas, oil and emission allowance prices, as well as expected demand.

Regarding emission rights in Spain, Naturgy's thermal electricity generation installations are regulated by the European Emission Trading Directive. Naturgy carries out comprehensive portfolio management for the acquisition of emission allowances equivalent to the verified emissions of its combined cycle and cogeneration facilities, regulated by the European Emissions Trading Directive, Phase IV 2021-2030. This phase takes into account the CO2 emission reduction target of 55% by 2030 compared with 1990, in line with the 2050 goal of zero net emissions set out in the European Green Deal. For this supply, Naturgy actively participates in both the primary market, through auctions, and in the secondary market. These emissions relate mainly to the combined cycle gas plants in Spain and represent 84.1% of Naturgy's direct emissions (scope 1) in Spain in 2023.

The CO2 prices considered in the impairment test are detailed in Note 4.

The estimated cash flows for each CGU, as required by accounting regulations, take into account the current condition of the assets without considering future improvements and therefore do not include future investments due to technological changes or any strategic investments foreseen in the energy transition.

Naturgy will continue to update its operational plans and pricing outlook to take into account changes in the economic environment and the pace of the energy transition.

2. Company's main assets subject to climate change and energy transition risk

Holdings in Group companies and associates that may be most affected by climate risk are as follows:

Naturgy Generación Térmica, S.L.U.

Following the closure of all Naturgy's coal-fired power plants in the first half of 2020, the group has not generated any coal-fired electricity. These facilities are fully depreciated/provisioned at 31 December 2023. During the year progress continued to be made on decommissioning, which is expected to be completed for all plants by the end of the first quarter of 2025.

It also includes the nuclear generation assets that this company holds through its shareholding in the Almaraz and Trillo joint ownership arrangement.

The assumptions and projections involving these facilities consider the possible effects on generation of the transition envisaged by the increase in renewable energy sources and their closure schedule, in accordance with the National Energy and Climate Plan (NECP).

At 31 December 2023, this holding has a carrying value of Euros 13 million.

Naturgy Ciclos Combinados, S.L.U.

The group's gas combined cycle power plants in Spain currently represent the most eco-efficient generation technology available to give the necessary support to renewable energies and allow their wide penetration, while ensuring security of supply, both key aspects of the energy transition.

In Spain, it is important to bear in mind that the operation of these plants is included in the Integrated National Energy and Climate Plan (PINIEC), approved for the period 2021-2030 and endorsed in the draft PNIEC 2023-2030 sent to Brussels in June 2023, aligned with the European objective of achieving climate neutrality by 2050, and that they are an essential factor in ensuring the growth of renewable energies in the national electricity system since they form the back-up for ensuring the electricity supply in the event of any lack of wind, sunlight or water.

At 31 December 2023, this holding has a carrying value of Euros 761 million.

A fluctuation in energy prices which is lower than envisaged in the assumptions used by Naturgy and indicated in Note 4 could have an impact on the recoverability of the carrying value of these assets recognised in the balance sheet at 31 December 2023. See the sensitivity analysis in Note 4 of these annual accounts.

Naturgy Generación, S.L.U.

The recoverable value of these assets could be affected by a larger than expected hypothetical future reduction in hydroelectricity due to climate change, particularly in run-of-river plants. The assumptions used in the impairment test on this holding includes developments in hydraulicity and their impact on hydrographic flows and therefore on production.

At 31 December 2023 the carrying value of this holding, which includes the hydroelectric generation assets in Spain, amounted to Euros 942 million.

Naturgy Renovables, S.L.U.

At 31 December 2023, this holding has a carrying value of Euros 2,041 million. The main perceived risk in this business is the potential negative future evolution of solar and wind resources, which are the key variables in the performance of this line of business. There may also be reductions in the remuneration arrangements for renewable energies and lower prices in marginal wholesale markets due to an increase in renewable production with reduced variable costs. In the impairment tests for 2023, no changes in the remuneration arrangements yet to be approved have been considered and the forecasts for solar and wind resources have been taken into account.

Shareholdings in electricity and gas distribution

At 31 December 2023, the shareholdings in Holding de Negocios Gas and Holding Negocios de Electricidad related to gas and electricity distribution in Spain had a carrying value of Euros 4,475 million and Euros 3,653 million, respectively. In addition, the interests in gas and electricity distribution in Latin America relating to Naturgy Distribución Latinoamérica and Naturgy Inversiones Internacionales have a carrying value of Euros 557 million and Euros 850 million, respectively.

These regulated assets are regarded as being resilient to the energy transition. Increases in temperature and a higher frequency of extreme weather events could lead to increased technical losses, deterioration in service quality levels, higher operating and maintenance costs and higher annual investments, albeit in volumes that can be easily assumed via the multi-year tariff reviews of these regulated businesses. The investment and response plans already in place, accumulated experience and network design (meshing and undergrounding of lines) would act as mitigating measures. A potential massive development of distributed generation would be partially offset by the increasing electrification of the economy (e.g. electric cars) and investments in smart grids.

Naturgy's planning for the coming years envisages the coexistence in Spain of natural gas demand with demand for biogas, biomethane and renewable hydrogen, including their distribution through the group's current infrastructures. It is estimated that the adaptation of existing networks for biomethane transportation will not require significant investments. In the case of hydrogen, the level of investment will depend on the percentage of blending which, together with the relevant regulations, will determine the viability of using the current infrastructure. It is estimated that for low percentages it will not be necessary to make significant investments to adapt the current network.

For gas transport and distribution assets in Argentina, Brazil, Chile and Mexico, the same strategy applied for Spain is envisaged although with a slower implementation and always in line with energy policies in each country.

Shareholdings in supply companies

The Company records holdings with a carrying value of Euros 515 million in Gas Natural Comercializadora, S.A., Euros 494 million in Naturgy Iberia, S.A., and Euros 121 million in Comercializadora Regulada de Gas & Power . The impact of climate change and the energy transition on the supply business is considered to be minor, as the lower demand for natural gas could be offset by the higher growth that is expected to result from the electrification of the economy.

In terms of transition risks, the Company's current positioning, resulting from its investment focus on renewables and grids, provides it with favourable situation for facing these risks. Naturgy considers that the opportunities arising from the decarbonisation of the global economy (growth in renewables, investment in smart integrating grids, transport electrification, green hydrogen, among others) outweigh the risks.

3. Recoverability of deferred tax assets

Sufficient taxable profits are expected to be generated within the planning period to ensure the recovery of the deferred tax assets recognised for accounting purposes at 31 December 2023. The estimate of the recoverability of these assets has been made using the same judgements and assumptions as those used to calculate the recoverable amount of investments in Group companies.

4. Regulation

The Paris Agreement has had a major impact on the development of new climate policies and the adoption of new regulations. The European Union (EU), having assumed the commitment to climate neutrality by 2050 and "The European Green Deal" which embodies the EU's new growth strategy, has approved various regulations in this area. Spain has also issued regulations relating to these matters, highlights the Law on Climate Change and Energy Efficiency 7/2021, so the regulation on climate change and energy transition rules are constantly evolving and could have negative future effects on the Company's activities.

5. Dividend payment

Climate change risks are not expected to affect the Company's capacity to pay dividends to shareholders due to strong cash generation and existing reserves.

In the case of regulated lines of business, a scenario in which the conditions for maintaining the current rate of investment continue to exist is compatible with the levels of dividend payments that may be observed to date. However, in the case of deregulated lines of business, their future capacity to pay dividends is difficult to foresee due to unknown risks and uncertainties that could cause actual results, performance or events to differ substantially from those envisaged in the Group's projections.

h. Russia-Ukraine conflict, Middle East and economic environment

Almost two years after Russia invaded Ukraine in February 2022 the war has left a heavy death toll, as well as the displacement of a considerable part of the Ukrainian population across Europe and substantial damage to the country's infrastructure.

The direct effects of the war, as well as those stemming from the measures and sanctions imposed on Russia, have had serious consequences on a global economy that was beginning to recover from the effects of the pandemic, leading to increases in commodity prices, inflationary pressures, supply chain constraints and volatility in financial and commodity markets.

In the energy industry in particular, the war led to a worsening of the price scenario, the deterioration of which began to manifest itself at the end of 2021, while the Western powers imposed measures to suspend purchases of fossil fuels from Russia. Despite the turbulence in 2022, some moderation has been observed in 2023 due to high storage levels, increased supply and contained growth in demand.

Considering the scenario in question and in compliance with the recent recommendations by the ESMA, 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, focusing particularly on 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 has a long-term gas supply contract of Russian origin concluded in 2013 with an international consortium formed by Novatek (50.1%), TotalEnergies (20%), CNPC (20%) and Silk Road Fund (9.9%), which is not affected by any type of sanction. This contract has take-or-pay clauses that cover its entire term. In fiscal years 2023 and 2022, Naturgy has received the volumes strictly established in the contract. In 2023, the volume under this contract accounted for 15% of Naturgy's global supply (14% in 2022).

Moreover, none of Naturgy's counterparties could be affected by the sanctions, nor does it hold any interest in companies operating in Russia or Belarus or investments in these countries, or cash balances or equivalent liquid assets that are unavailable as a result of these measures and sanctions. For further details on interest rate, commodity price, credit and liquidity risks, see Note 14.

In addition to the new energy border with Russia, the conflict between Palestinians and Israelis has escalated recently following the terrorist attack on Israel in October 2023. While this conflict is not expected to have major global energy consequences as long as it remains regionally contained, it reduces expectations of normalisation in the region concerned and increases the geopolitical risk premium in already stressed markets.

As this scenario is constantly evolving and as 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.

Note 4. Asset impairment

In the impairment test on investments in Group companies and associates, the recoverable amount is determined based on the cash flows of the CGUs to which they belong (Note 3.3).

At 31 December 2023 the cash-generating units (CGUs) are the same as at 31 December 2022, except for the combination of the International LNG and the Markets and Procurement CGUs due to the fact that a single management unit controls the operations and assets of these business lines. No impairment losses have been recognised or reversed in these CGUs at 31 December 2023 or 31 December 2022.

The New Business CGU has been renamed Renewable Gases, which includes the biomethane and green hydrogen assets. The remaining assets that were included in New Business at 31 December 2022 are now recorded in Other CGUs at 31 December 2023.

– Distribution networks

- **Gas networks Spain:** Is a single CGU as the development, operation and maintenance of the gas distribution network is managed jointly.
- **Electricity networks Spain:** This makes up a single CGU since the network comprises a group of interrelated assets the development, operation and maintenance of which is managed jointly.
- **Latin American networks:** A CGU is understood to exist for each business and country in which there are operations since the businesses are subject to different regulatory frameworks. It includes the regulated gas distribution business in Argentina, Brazil, Chile and Mexico, and the regulated electricity distribution business in Argentina and Panama.

– Energy Markets

- **LNG and Markets and Procurement:** A single CGU is considered to exist as the sale of liquefied natural gas and maritime transport are both managed on a global scale, as are supply and other gas infrastructures, and sales to large energy-intensive consumers.
- **Gas pipelines:** Includes the CGU that manages the Medgaz pipeline.
- **Thermal Generation Spain:** A single CGU is considered to exist for thermal power generation in Spain (nuclear and combined cycle).
- **Thermal Generation Latin America:** A thermal power generation CGU is understood to exist in each country in which there are operations (Mexico, Dominican Republic and Puerto Rico) since the businesses are subject to different regulatory frameworks and are managed independently.
- **Renewable Generation Spain:** One CGU is considered for renewable electricity generation (wind, mini-hydro, solar and cogeneration) and another CGU for hydroelectric power generation.
- **Renewable Generation United States:** CGUs are considered for those assets in the country where a generation of cash flows independent of others can be identified.
- **Renewable Generation Latin America:** A renewable power generation CGU is understood to exist in each country in which there are operations (Brazil, Costa Rica, Mexico, Panama and Chile) since the businesses are subject to different regulatory frameworks and are managed independently.
- **Renewable Generation Australia:** CGUs are considered to be those assets of the country in which a generation of cash flows independent of others can be identified.
- **Renewable Gases:** One CGU is considered which includes management of renewable gas projects, specifically biomethane and green hydrogen.
- **Supply:** The commercial management of natural gas, electricity and services is carried out on a comprehensive basis, maximising the value of the portfolio by focusing on customers and with high potential for growth in services and solutions, for which there is a single CGU.

The grouping of assets considered in the above CGUs has not changed since the previous estimate of their recoverable amount in June 2023.

Information on tests performed

Naturgy has evaluated the recoverable value of holdings in Group companies and associates based on the Strategic Plan 2021-2025 approved by the Board of Directors and presented on 28 July 2021 and subsequently updated by the Board in July 2023, adapted for regulatory updates and energy variables, taking into account the investment plans that maintain the production capacity of the assets in the lines of business and the market conditions in which they operate. The time-frame of the projections has been extended to a period of ten years or the remaining useful life for certain assets and concessions. When estimating cash flows, various potential future scenarios have also been considered if they provide more relevant information for representing the future economic conditions of the assets.

The current macroeconomic environment has also been considered, resulting from a combination of effects mainly related to inflation, rising interest rates, geopolitical risks and uncertainties. Naturgy's management model ensures that any signs of deterioration that could arise as a result of the current macroeconomic environment are identified in a timely manner, allowing action to be taken accordingly.

In particular, the following aspects should be highlighted for their relevance in the tests:

Impact of the Ukraine and Middle East conflicts, and the economic environment (Note 3.19.h):

Cash flows have taken into account the effects of developments in the international gas markets and the electricity market.

In Spain, in particular, the approval of regulations aimed at the gradual lifting of the measures introduced in early 2022 with the initial aim of addressing the transitory volatility of gas markets and high gas prices have been considered.

With regard to the economic environment, rising interest rates and increased risk perception have particularly affected discount rates which have increased with respect to previous years, while rising inflation has been factored into cash flows with mainly short-term repercussions.

Climate change impact:

The projected cash flows represent Naturgy's current positioning to drive the energy transition and decarbonisation, responding to its strategy which includes the objectives of the Paris Agreement.

In particular, the assumptions considered for the pricing path used in the projections are in line with the energy transition, and the projected cash flows take into account greenhouse gas emission reduction targets as well as the impacts of climate change on the recoverability of non-financial assets. This is discussed in detail in Note 3.19.g.

Information on recognised impairments (Note 7)

At 31 December 2023 a net income item for the reversal of impairment of holdings in Group companies and associates amounting to Euros 55 million has been recognised (Euros 1 million at 31 December 2022 as income from impairment reversal) under the heading “Impairment of and losses from equity instruments of Group companies and associates” in the income statement, detailed below:

	31.12.2023	31.12.2022
Naturgy Generación, S.L.U.	83	(5)
Naturgy Nuevas Energías, S.L.U.	7	(4)
General de edificios y solares, S.L.	3	—
Gas Natural Exploración, S.L.	1	1
Naturgy Participaciones, S.A.U	—	8
Lignitos de Meirama, S.A	—	(1)
Naturgy Engineering, S.L.	(1)	7
Naturgy LNG, S.L	(2)	(3)
Petroleum, Oil & Gas España, S.A.	(3)	1
Naturgy Informática, S.A.	(13)	(2)
Naturgy Commodities Trading, S.L	(21)	—
Other	1	(1)
Total	**55**	**1**

– Naturgy Generación, S.L.U.:

The reversal of the impairment charge for this holding, which relates to the Spain hydroelectric power generation CGU, amounts to Euros 83 million (impairment charge of Euros 5 million at 31 December 2022).

The assumptions and projections affecting the hydroelectric power generation CGU are based on the best forward-looking information available to date.

The assumptions taken into consideration are the following:

	2023	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**
Pool price €/MWh (*)	97.1	102.0	75.0	87.0	80.0	81.0	82.0	84.0	85.0	87.0

(*) estimated amounts as of the date of the test

The most sensitive aspects that are included in the estimate of the recoverable amount determined according to the value in use and applying the methodology detailed in Note 3.3 are the following:

- Electricity generated. For the hydroelectric power generation CGU, developments in hydraulicity and their impact on hydrographic flows and therefore on production are taken into account.

- Electricity price. Market electricity prices used have been calculated using models that cross expected demand with supply forecasts, taking into account the foreseeable evolution of generation capacity in Spain, based on sector forecasts, the development of the energy scenario on the basis of futures curves, and analysts' forecasts. The estimates also include the impact of existing contracts with the Group's supply companies.

- The projected flows take into account the regulatory changes under RLD 8/2023, the most significant being as follows:

    - The extension in 2024 of the 1.2% temporary energy tax on Revenue laid down in Law 38/2022, defined as a temporary public benefit.
    - The gradual phasing in of the 7% electricity production value tax until its full implementation by 30 June 2024.
    - The unitary values for financing the energy subsidy ("bono social") in 2024.
    - The elimination of the mechanism for reducing the remuneration of infra-marginal generation by the gas price internalised in the wholesale electricity market.
    - The measures envisaged to regulate water impounded for hydroelectric use.

- Operating and maintenance costs. Estimated from historical costs of the managed park.

Accumulated impairment at 31 December 2023 relating to the holding in Naturgy Generación S.L.U. amounts to Euros 2,108 million (Euros 2,191 million at 31 December 2022).

– Naturgy Nuevas Energías, S.L.U.:

An impairment reversal of Euros 7 million has been recorded. The accumulated impairment at 31 December 2023 is Euros 5 million (Euros 12 million at 31 December 2022). In 2022, as a result of the contribution described in Note 7, the provision for future risks amounting to Euros 6 million recorded under "Other long-term provisions" was reclassified to the provision for impairment of investments in Group companies.

– General de edificios y solares, S.L.:

An impairment reversal of Euros 3 million has been recorded. The accumulated impairment at 31 December 2023 is Euros 6 million (Euros 9 million at 31 December 2022).

– Gas Natural Exploración, S.L:

At 31 December 2023, this holding has been derecognised following the liquidation of the company in October 2023 (Note 7). Prior to its liquidation, an impairment reversal of Euros 1 million was recorded in 2023. The accumulated impairment written off at the liquidation date amounted to Euros 212 million.

– Other:

Relates to the reversal of impairment of holdings in group companies amounting to Euros 1 million.

Impairments were also recognised for the following holdings in 2023:

– Naturgy Commodities Trading, S.A:

An impairment charge of Euros 21 million has been recorded for the holding in Naturgy Commodities Trading, S.A. in 2023. Accumulated impairment at 31 December 2023 amounts to Euros 21 million (no accumulated impairment in 2022).

– Naturgy Informática, S.A:

An impairment charge of Euros 13 million has been recorded for the holding in Naturgy Informática, S.A. in 2023. The accumulated impairment at 31 December 2023 amounts to Euros 170 million (Euros 157 million in 2022).

– Petroleum Oil&Gas España, S.A:

An impairment charge of Euros 3 million has been recorded. The accumulated impairment at 31 December 2023 relating to the holding in Petroleum Oil&Gas España, S.A. amounts to Euros 76 million (Euros 73 million in 2022).

– Naturgy LNG, S.L:

At 31 December 2023, this holding has been derecognised following the liquidation of the company in December 2023 (Note 7). Prior to its liquidation an impairment amounting to Euros 2 million was recognised in 2023. The accumulated impairment written off at the liquidation date for the company amounted to Euros 64 million.

– Naturgy Engineering, S.L:

An impairment charge of Euros 1 million has been recorded for the holding in Naturgy Engineering, S.L. The accumulated impairment at 31 December 2023 amounts to Euros 6 million (Euros 5 million at 31 December 2022).

Information on other impairment tests performed:

As regards the remaining shareholdings in Group companies and associates at 31 December 2023 and 31 December 2022 the recoverable amounts, calculated according to the methodology described in Note 3.3, were higher than the carrying amounts of holdings in Group companies recorded in these annual accounts.

The most sensitive matters included in the impairment tests updated to 31 December 2023 are as follows:

Gas and Electricity Networks Spain:

- Remuneration. Amount and growth of remuneration. In relation to the regulatory framework, the future cash flows of these business lines have been reviewed taking into account the publications by the regulator in 2023, 2022, 2021 and 2020 on the remuneration methodology for the regulated electricity and gas distribution activity.

- Operation and maintenance costs. Estimated on the basis of the historical cost of the network managed.

- Investments. Considering the investments required to maintain the regular use of the network and the quality of supply, as well as the digitalisation of electricity networks and the estimated investment in line with sector requirements and the digital transition in the operation of gas networks.

- In the case of LPG distribution assets, as there is evidence of impairment a fair value estimate has been considered to determine the recoverable amount of these assets.

Latin American networks: for gas network CGUs in Brazil, Chile, Argentina and Mexico and electricity network CGUs in Argentina and Panama:

- Variations in rates. Valuation of rates in each country, based on existing regulatory conditions and rate reviews, taking into account the experience gained from previous rate reviews in each country.

- Cost of raw materials and consumables. Estimated on the basis of predictive modelling based on an understanding of energy markets in each country. Additional consideration has been given to the implications for distributors of new regulations in the countries arising from volatility in gas and electricity prices.

- Operation and maintenance costs. Estimated on the basis of the historical cost of the network managed.

- Investments. Taking into account the necessary investments to maintain the regular use of the network and supply quality and safety.

Thermal generation Spain:

The assumptions and projections affecting this CGU have been based on the best forward-looking information available to date, generally considering the possible effects on generation of the transition expected due to the increase in renewable energy sources set out in the rules on the NECP in force and endorsed by the recent draft pending approval by the EU, in the Climate Change and Energy Transition 7/21 Law. The above-mentioned projections reflect a production path based on the NECP projections, which envisage the need for the total installed capacity of the combined cycle generation units in the projection timeframe (2032).

The assumptions taken into consideration are the following:

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Pool price €/MWh (*)	97.1	102.0	75.0	87.0	80.0	81.0	82.0	84.0	85.0	87.0
Brent (USD/bbl) (*)	82.0	79.1	78.0	79.0	78.0	81.0	84.0	91.0	93.0	95.0
Gas Henry Hub (USD/MMBtu) (*)	3.0	3.5	4.0	4.4	4.4	4.7	4.5	4.4	4.5	4.7
PVB (€/MWh) (*)	45.7	48.7	41.6	34.0	31.0	29.0	30.0	32.0	33.0	34.0
CO2 €/t (*)	85.8	95.0	95.8	97.0	101.0	105.0	111.0	117.0	120.0	126.0

(*) estimated amounts as of the date of the test

The most sensitive aspects that are included in the estimate of the recoverable amount determined according to the value in use and applying the methodology detailed in Note 3.3 are the following:

- Electricity generated. The trend in demand has been estimated on the basis of projections by the CNMC and analysts, also considering existing contracts with Naturgy's suppliers. The share has been estimated on the basis of Naturgy's market share in each technology and the expected performance of each technology's share in the total market, in line with the expected future evolution of the generation mix, maintaining the forecast decline in thermal production, offset by a mechanism that remunerates the firm capacity provided, which is expected to be established when the market penetration of renewable energy increases.

- Electricity price. Market electricity prices used have been calculated using models that cross expected demand with supply forecasts, taking into account the foreseeable evolution of generation capacity in Spain, based on sector forecasts, the development of the energy scenario on the basis of futures curves, and analysts' forecasts. The estimates also include the impact of existing contracts with the Group's supply companies.

- The projected flows take into account the regulatory changes under RDL 8/2023, the most significant being as follows:

  - The extension in 2024 of the 1.2% temporary energy tax on Revenue laid down in Law 38/2022, defined as a temporary public benefit.

  - The gradual phasing in of the 7% electricity production value tax until its full implementation by 30 June 2024 and the gradual increase in VAT on gas from 5% to 21% as from 1 April 2024.

  - The unitary values for financing the energy subsidy ("bono social") in 2024.

  - The elimination of the mechanism for reducing the remuneration of infra-marginal generation by the gas price internalised in the wholesale electricity market.

- Fuel costs. Estimated on the basis of market prices.

- Operation and maintenance costs. These costs have been estimated on the basis of the historical costs of managed facilities and the business plans of the nuclear power plants.
- On 11 and 17 October 2023, the Supreme Court issued rulings partially upholding the appeals filed by Naturgy Generación S.L.U. against the rejection of the requests for the closure of ten gas combined cycle plants filed in 2017 and 2019. Through these rulings, the Supreme Court authorized Naturgy to shut down temporarily, leaving the final decision on the temporary shutdown of these facilities under Naturgy's control. At the date of authorisation of these annual accounts, Naturgy has not decided on the shutdown of these plants and, therefore, this fact was not considered in the impairment tests for 2023.

Thermal generation Latin American:

For thermal electricity generation CGUs in Mexico and the Dominican Republic:

- Thermal generation in Mexico is carried out over most of its useful life under energy sale-purchase contracts through stable business models which are not subject to fluctuation risks on the basis of market variables. In the Dominican Republic and Mexico, upon termination of the contracts energy prices are set based on the market and are estimated on the basis of developments in the country's energy scenario, including the foreseeable evolution of the generation pool and taking into account expected supply and demand, and production costs.

- Operating and maintenance costs. Estimated from historical costs of the managed park.

- When updating the recoverable value of the combined cycle plants in Mexico, the relevant assumptions have included the increase in permits for developing renewable energy installations, which will affect the market price used in the projections on the finalisation of the long-term contracts for energy sales to the Federal Electricity Commission (CFE).

– The delivery of emission allowances equivalent to the tonnes of CO_2 emitted. Until 2026, the allocation of free allowances, as provided in the draft ETS Baseline, is expected to cover projected emissions in accordance with production projections.

  From 2027 onwards, although the criteria for the free allocation of allowances and the emissions reduction pathway that will be required have not yet been defined, it is expected that the emissions generated will be covered by the free allocation and when this is not sufficient or the free allocation is discontinued, CO_2 costs will be transferred to selling prices as an additional operating cost, similar to the case in the European market.

In the case of the Puerto Rico Generation CGU:

– The main estimates considered in the flows generated relate to the contract with Puerto Rico Electric Power Authority (PREPA), which will remain in force until the end of 2032.

Renewable Generation Spain:

The assumptions and projections affecting the Renewable Power Generation CGU are based on the best forward-looking information available to date.

In the case of Renewable Generation Spain, the fair value less sales costs is considered to be the best estimate of the recoverable value, so its valuation includes the necessary flows that market participants would take into account when setting the value of the generation. CGU using the present value technique. The determination of the fair value has been made based on external sources of information and the company's estimate is therefore a level 3 estimate.

The assumptions concerning changes in the pool price coincide with those considered in the Thermal Generation Spain CGU.

The most sensitive matters included in the impairment test are as follows:

- Electricity generated. For the Renewable power generation CGU, projections of hours of operation of each park consistent with their historical output and predictions based on historical records of similar parks have been used when there were no historical data. In addition, the increase in output due to the planned hybridisations and repowering of existing facilities has been taken into account.

- Electricity price. Market electricity prices used have been calculated using models that cross expected demand with supply forecasts, taking into account the foreseeable evolution of generation capacity in Spain, based on sector forecasts, the development of the energy scenario on the basis of futures curves, and analysts' forecasts. The estimates also include the impact of existing contracts with the Group's supply companies.

- The projected flows take into account the regulatory changes under RDL 8/2023 and others, the most significant being as follows:

  – The extension in 2024 of the 1.2% temporary energy tax on Revenue laid down in Law 38/2022, defined as a temporary public benefit.

  – The gradual phasing-in of the 7% tax on the value of electricity production until its full implementation by 30 June 2024.

  – The unitary values for financing the energy subsidy ("bono social") in 2024.

  – The elimination of the mechanism for reducing the remuneration of infra-marginal generation by the gas price internalised in the wholesale electricity market.

  – Cogeneration remuneration. This establishes the estimate of prices involved in updating the operation's remuneration in the first half of 2024.

– The measures envisaged to regulate water impounded for hydroelectric use.

- Remuneration. For the renewable generation CGU facilities entitled to specific remuneration, the remuneration has been estimated on the basis of the remuneration parameters for the established regulated income period. Specifically, Order TED/741/2023 has been considered, which updated the remuneration parameters for standard facilities applicable to certain facilities that generate electricity from renewable sources, cogeneration and waste, for the purposes of their application to the regulatory semi-period 2023-2025.

- Operating and maintenance costs. Estimated from historical costs of the managed park.

- Investments. The investments required to maintain the regular use of the facilities are taken into account. In addition, for the calculation of fair value less sales costs, the investments needed for the repowering and hybridisation of installations currently in operation are also included.

Renewable Generation United States:

In 2023, the development of a portfolio of more than 30 projects based on solar technology and storage continued to be managed, and in December energy started being fed into the grid from the 300 MW 7vSolar Ranch facility in Texas.

In 2023, as a result of the measures adopted in the USA concerning components for photovoltaic plants from China and inflation which increased construction costs, the performance of these assets has been below expectations, giving rise to the recording of the impairmentt in two of the parks under development, without impact on the holding of the company Naturgy Renovables, S.L.U.

In addition, as part of project management the acquired portfolio has been analysed and projects acquired with a low probability of realisation have been impaired, mainly due to difficulties in interconnection and in obtaining licences.

Renewable Generation Latin America:

Includes the Brazil, Costa Rica, Mexico, Panama and Chile electricity generation CGUs.

The most sensitive matters included in the impairment test are as follows:

- Electricity price: Renewable electricity generation in Latin America is managed under energy sale-purchase contracts through stable business models which are not subject to fluctuation risks on the basis of market variables.

- Operating and maintenance costs. Estimated on the basis of historical costs and on the basis of best forecasts when no historical data are available.

- In the case of Renewables Chile, due to the situation in the electricity market in Chile the company Ibereólica Cabo Leones II S.A. requested the suspension of the long-term electricity sale contract, and it was suspended as a market operator as from 8 October 2022 due to its failure to comply with the long-term contract. On 12 July 2023 the company was authorised to re-enter the market and payments that had been withheld in favour of the company were released. Following its re-entry there was a considerable improvement compared with the period before its market exclusion as the price mismatches between the system nodes had narrowed, due among other reasons to improved hydraulicity and the relative stabilisation of fossil fuel prices leading to a reduction in prices at the nodes most dependent on these generation sources.

  However, structural problems stemming from deficits in the transmission networks and diversity in the generation mix at each node are still present.

Renewable Generation Australia:

- Electricity generation in Australia is carried out over most of its useful life under energy sale-purchase contracts through stable business models which are not subject to fluctuation risks on the basis of market variables. Upon termination of the contracts, energy prices are set based on the market and are estimated on the basis of developments in the country's energy scenario, including the foreseeable evolution of the generation pool and taking into account expected supply and demand, and production costs.

- Operating and maintenance costs. Estimated on the basis of historical costs and on the basis of best forecasts when no historical data are available.

Supply:

- Supply margin. Forecasts concerning trends in customer numbers and demand have been used, considering unitary margins based on the contracts concluded and estimates of these figures in the contract renewals.

- The projected flows take into account the regulatory changes under RLD 8/2023, the most significant being as follows:

  - The extension in 2024 of the 1.2% temporary energy tax on Revenue laid down in Law 38/2022, defined as a temporary public benefit.

  - The unitary values for financing the energy subsidy (“bono social”) in 2024.

  - The elimination of the mechanism for reducing the remuneration of infra-marginal generation by the gas price internalised in the wholesale electricity market.

  - Extension of reduced VAT on gas and electricity, but with a gradual increase in rates.

  - The ban on cutting off gas and electricity supplies to vulnerable customers has been maintained until 30 June 2024.

  - The 15% limit on the increase in the cost of raw materials for price revisions in regulated gas tariffs has been extended.

Discount rates and growth rates used

The pre-tax discount rates and the growth rates considered for 2023 and 2022, calculated as indicated in Note 3.19, are as follows:

Discount rate	**2023**	2022
Distribution Networks		
Gas and Electricity Distribution Spain	7 %-7,4 %	6,4 %-6,7 %
Gas and Electricity Distribution Latin America	10,2 % - 25,1 %	8,9 % - 22,8 %
Gas Distribution Argentina (1)	25.1 %	22.8 %
Energy Markets		
Thermal Generation Spain	9.0 %	8.2 %
Thermal Generation Latin America	10,2%-13,1 %	10,2%-13,1 %
Renewable Generation Spain	7.8 %	7.1 %
Hydroelectric Generation Spain	8.4 %	6.8 %
Latin America Renewables	10,2 %-17,7 %	9,8 %-16,4 %
Australia Renewables	9.3 %	8.8 %
USA Renewables	7.4 %	6.5 %
Renewable Gases	8.5 %	7.8 %
Supply	8.3 %	7.4 %

(1) Rate determined in USD

Growth rate	**2023**	2022
Distribution networks		
Gas and Electricity Distribution Spain	1,5 %-2,0 %	1,0 %-2,0 %
Gas and Electricity Distribution Latin America	2,1%-14,5%	2,1 %-12,6 %
Gas Distribution Argentina	14.5 %	12.6 %
Energy Markets		
Thermal Generation Spain	2.0 %	2.0 %
Thermal Generation Latin America	2,0%-2,1%	2.0 %
Renewable Generation Spain	2.0 %	2.0 %
Hydroelectric Generation Spain	2.0 %	2.0 %
Latin America Renewables	2,1 %-3,2 %	2,1 %-3,3 %
Australia Renewables	2.1 %	2.9 %
USA Renewables	2.1 %	2.1 %
Renewable Gases	2.0 %	2.0 %
Supply	(0.3)%	0.3 %

Sensitivity analysis

A sensitivity analysis has been carried out for holdings in Group companies, where their carrying amount coincides with the results of the impairment tests described above. The variation of its key assumptions has been considered independently and the impact on the recoverable value of the interests in Company's holdings in Group companies is as follows:

Naturgy Generación, S.L.U.: the result of the sensitivity analysis is as follows:

- an increase in the discount rate of 50 basis points would entail an increase in the portfolio provision of Euros 39 million.
- a decrease in the growth rate of 50 basis points would entail an increase in the portfolio provision of Euros 3 million.
- a decrease in electricity output of 5% would entail an increase in the portfolio provision of Euros 68 million.
- a decrease in the average electricity price over the remaining life of the facility of 1 euro/MWh would entail an increase in the portfolio provision of Euros 15 million.

For the remaining holdings in Group companies an associates, in 2023 the Company carried out a sensitivity analysis on the unfavourable variations which, drawing on historical experience, could reasonably impact the aforementioned sensitive parameters on the basis of which the recoverable amounts have been determined. Specifically, the most significant sensitivity analyses performed were as follows:

	Increase	**Decrease**
Discount rate	50 basis points	—
Growth rate	—	50 basis points
Electricity generated	—	5%
Electricity price	—	5%
Fuel supply costs	5%	—
Tariff/remuneration performance	—	5%
Operating and maintenance costs	5%	—
Investments	5%	—

These sensitivity analyses performed separately for each basic assumption would not affect the conclusions drawn to the effect that the recoverable amount exceeds the carrying amount for each of these holdings in Group companies and associates.

Note 5. Intangible assets

This heading breaks down as follows:

	Patents, licences, trademarks and other	Computer software	Subtotal	Goodwill	Total
Cost	1	6	7	815	822
Accumulated amortisation	—	(5)	(5)	(815)	(820)
Carrying value at 1.1.2022	1	1	2	—	2
Investment	—	1	1	—	1
Amortisation charge	—	(1)	(1)	—	(1)
Carrying value at 31.12.2022	1	1	2	—	2
Cost	1	2	3	815	818
Accumulated amortisation	—	(1)	(1)	(815)	(816)
Carrying value at 1.1.2023	**1**	**1**	**2**	**—**	**2**
Amortisation charge	(1)	—	(1)	—	(1)
Carrying value at 31.12.2023	—	1	1	—	1
Cost	1	1	2	815	817
Accumulated amortisation	(1)	—	(1)	(815)	(816)
Carrying value at 31.12.2023	**—**	**1**	**1**	**—**	**1**

Goodwill derived from the vertical merger of Unión Fenosa, S.A. completed in 2009 and was attributable to the benefits and synergies arising from the integration with Naturgy. It has been fully amortised since 2019.

In 2023, fully amortised software licences were derecognised for Euros 1 million (Euros 5 million in 2022)

Note 6. Property, plant and equipment

Set out below is an analysis showing movements in Property, plant and equipment during 2023 and 2022:

	Land and buildings	Other property, plant and equipment	Total
Cost	169	25	194
Accumulated amortisation	(71)	(13)	(84)
Carrying value at 1.1.2022	**98**	**12**	**110**
Investment	2	1	3
Amortisation charge	(10)	(1)	(11)
Carrying value at 31.12.2022	**90**	**12**	**102**
Cost	161	24	185
Accumulated amortisation	(71)	(12)	(83)
Carrying value at 1.1.2023	**90**	**12**	**102**
Investment	2	2	4
Amortisation charge	(8)	(1)	(9)
Carrying value at 31.12.2023	**84**	**13**	**97**
Cost	162	26	188
Accumulated amortisation	(78)	(13)	(91)
Carrying value at 31.12.2023	**84**	**13**	**97**

Fully depreciated assets related to buildings and amounting to Euros 1 million were derecognised in 2023 (Euros 12 million at 31 December 2022, of which Euros 10 million related to buildings).

Property, plant and equipment includes fully depreciated assets in use at 31 December 2023 amounting to Euros 21 million, of which Euros 12 million relates to buildings (Euros 19 million in 2022, of which Euros 11 million related to buildings).

It is the Company's policy to take out insurance where deemed necessary to cover risks that could affect its property, plant and equipment.

At 31 December 2023 and 31 December 2022, the Company had no investment commitments.

Note 7. Investments in Group companies and associates

The classification of investments in Group companies and associates by category at 31 December 2023 and 31 December 2022 is as follows:

At 31.12.2023	**Financial assets at cost**	**Financial assets at amortised cost**	**Total**
Equity instruments	15,882	—	15,882
Loans	—	13,997	13,997
Non-current	**15,882**	**13,997**	**29,879**
Loans	—	291	291
Other financial assets	—	3	3
Current	**—**	**294**	**294**
TOTAL	**15,882**	**14,291**	**30,173**

At 31.12.2022	**Financial assets at cost**	**Financial assets at amortised cost**	**Total**
Equity instruments	14,960	—	14,960
Loans	—	13,997	13,997
Non-current	**14,960**	**13,997**	**28,957**
Loans	—	292	292
Other financial assets	—	2	2
Current	**—**	**294**	**294**
TOTAL	**14,960**	**14,291**	**29,251**

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

	Holdings in group companies	**Loans to group companies**	**Holdings in associates**	**Total**
Balance at 01.01.2022	**16,134**	**15,146**	**4**	**31,284**
Additions	391	5	—	396
Divestments	(1,564)	(26)	—	(1,590)
Reclassification	(6)	(1,128)	—	(1,134)
Charge/reversal provisions	1	—	—	1
Balance at 31.12.2022	**14,956**	**13,997**	**4**	**28,957**
Additions	935	1	—	936
Divestments	(68)	(11)	—	(79)
Reclassification	—	10	—	10
Charge/reversal provisions	55	—	—	55
Balance at 31.12.2023	**15,878**	**13,997**	**4**	**29,879**

The main corporate transactions carried out by the Company were as follows:

2023

- Cash contribution in a capital increase by Naturgy Renovables, S.L.U. in the amount of Euros 900 million throught the capitalisation of receivables.
- Cash contribution to offset losses incurred by Naturgy Commodities Trading,S.A. in the amount of Euros 24 million.
- Cash contribution to offset losses incurred by Naturgy Nuevas Energías, S.L.U. in the amount of Euros 5 million, yet to be disbursed at 31 December 2023.
- Cash contribution to offset losses incurred by Naturgy Nuevos Clientes, S.A. in the amount of Euros 3 million.
- Cash contribution to offset losses incurred by Petroleum Oil&Gas España, S.A. in the amount of Euros 2 million.
- Part of the dividend payment was recorded as a decrease in the carrying value of Holding Negocios de Electricidad, S.A., in the amount of Euros 25 million.
- Liquidation of Gas Natural Exploración, S.A. with no impact on results. The holding was derecognised in the amount of Euros 10 million.
- Liquidation of Naturgy LNG, S.L. with no impact on results. The holding was derecognised in the amount of Euros 33 million.
- Acquisition of a holding in Naturgy Comercializadora Empresas, S.A. and others for Euros 1 million.

2022

- Cash contribution to offset losses incurred by Gas Natural Comercializadora, S.A. in the amount of Euros 321 million.
- Cash contribution to offset losses incurred by Naturgy Informática, S.A. in the amount of Euros 19 million.
- Cash contribution to offset losses incurred by Naturgy Nuevas Energías, S.L.U. in the amount of Euros 14 million.
- Acquisition from Naturgy Ciclos Combinados, S.L. of a holding in La Propagadora del Gas, S.A. for Euros 12 million.
- New subscription of shares in Naturgy InnovaHub, S.A. for an amount of Euros 1 million.
- Cash contribution to offset losses incurred by Petroleum Oil&Gas España, S.A. for Euros 1 million.
- The distribution of a supplementary dividend for 2021 amounting to Euros 64 million was recorded as a decrease in the carrying amount of the holding in Naturgy Generación, S.L.U.
- Part of the distribution of the share premium was recorded as a decrease in the carrying value of the interest in Holding Negocios de Gas, S.A., in the amount of Euros 245 million.
- Part of the distribution of the share premium was recorded as a decrease in the carrying value of the interest in Holding Negocios de Electricidad, S.A., in the amount of Euros 167 million.
- Part of the distribution of a supplementary dividend for 2021 and the share premium, amounting to Euros 94 million, was recorded as a decrease in the carrying amount of the holding in Naturgy Inversiones Internacionales, S.A.

- After achieving a 100% shareholding in Unión Fenosa Gas (UFG) as a result of the operation carried out in 2021, on 4 October 2022 the merger plan for the absorption of Unión Fenosa Gas, S.A. by Naturgy Aprovisionamientos, S.A. was approved. The date from which the operations of the target company were considered to be carried out by the acquiring company was 1 January 2022.

  The Company, as the sole shareholder of both these companies, approved the simplified merger operation and recorded its impact on the relevant equity holdings. As a result of the dissolution without liquidation of UFG and the transfer en bloc of all its assets and liabilities to Naturgy Aprovisionamientos, S.A., the interest in UFG was derecognised and the increase in value of the interest in Naturgy Aprovisionamientos, S.A. was recorded at the value of the absorbed company's net assets in the consolidated balance sheet under the Rules on the Preparation of Consolidated Annual Accounts (NOFCAC). These movements in shareholdings resulted in a decrease of Euros 971 million in "Other reserves" in the balance sheet. The carrying value of the holding in Naturgy Aprovisionamientos, S.A. following the merger was Euros 408 million at 31 December 2022.

- Cash contribution of Euros 23 million to offset losses incurred by Naturgy Almacenamientos Andalucía, S.A., a company which carried out the regulated activity of underground gas storage, and subsequent sale of 100% of the holding under an agreement concluded in November2021 with a third party, giving rise to a Euros 5 million loss recorded under the heading "Gain/(loss) on disposals of equity interests in Group companies and associates".

The cumulative provision for the impairment of shareholdings in Group companies and associates totals Euros 2,423 million at 31 December 2023 (Euros 2,753 million at 31 December 2022), relating basically to the following companies (Note 4):

	2023	2022	Variation
Naturgy Generación, S.L.U.	2,108	2,191	(83)
Gas Natural Exploración, S.L.	—	213	(213)
Naturgy Informática, S.A.	170	157	13
Petroleum, Oil & Gas España, S.A.	76	73	3
Naturgy LNG, S.L	—	62	(62)
Lignitos de Meirama, S.A.	30	30	—
Naturgy Nuevas Energías, S.L.U.	5	12	(7)
General de Edificios y Solares, S.L.	6	9	(3)
Naturgy Engineering, S.L.	6	5	1
Naturgy Commdities Trading, S.A.	21	—	21
Other	1	1	—
Total	**2,423**	**2,753**	**(330)**

Financial income for dividends received from investments in equity instruments of group companies and associates during 2023 and 2022, relates to the following companies:

	2023	2022
Naturgy Aprovisionamientos, S.A.	537	—
Holding Negocios Electricidad, S.A.	232	201
Naturgy Distribución Latinoamérica S.A.	194	252
Gas Natural Comercializadora, S.A.	100	—
Holding Negocios Gas, S.A.	80	276
Naturgy Iberia, S.A.	23	—
Naturgy Generación Térmica, S.L.U.	16	—
Naturgy Finance, B.V.	4	4
Naturgy Capital Markets, S.A.	1	1
Naturgy Inversiones Internacionales, S.A.	—	342
Unión Fenosa Gas, S.A.	—	137
Naturgy Ciclos Combinados, S.L.U.	—	113
Sagane, S.A.	—	76
Global Power Generation, S.A.U.	—	71
Other	—	1
Total	**1,187**	**1,474**

Gain/(loss) on disposals of equity interests in Group companies and associates

Based on the purchase and sale agreement concluded in March 2021 between Naturgy and ENI S.p.a. on the acquisition of 50% of the holding in Unión Fenosa Gas (UFG) such that Naturgy achieved a 100% holding, and in which the possible contingencies incurred by UFG are borne proportionally by both parties, in March 2023 the Company received income of Euros 4 million relating to this compensation.

The breakdown of shareholdings in group companies is set out below:

				Data at 31 December 2023 (*)									
				% interest			Equity						
Company	Registered Office	Activity	Carrying value 2023	Direct	Indirect	Total	Capital	Reserves (1)	Profit/(loss)	Interim dividend	Other (2)	EQUITY
Naturgy Aprovisionamientos, S.A.	Spain	Gas supply	408	100.0	—	100.0	1	592	205	—	(21)	777
Sagane, S.A.	Spain	Gas supply	42	100.0	—	100.0	95	17	(9)	—	—	103
Naturgy Comercializadora Empresas, S.A.U.	Spain	Gas supply	—	100.0	—	100.0	—	—	—	—	—	—
Naturgy LNG GOM, S.L.	Spain	Gas supply	—	100.0	—	100.0	—	—	—	—	—	—
Gas Natural Comercializadora, S.A.	Spain	Gas and electricity supply	515	100.0	—	100.0	3	442	127	—	(36)	536
Comercializadora Regulada, Gas & Power, S.A.	Spain	Gas and electricity supply	121	100.0	—	100.0	2	43	18	—	4	67
Naturgy Commodities Trading, S.A.	Spain	Gas and electricity supply	14	100.0	—	100.0	11	27	(24)	—	—	14
Naturgy Iberia, S.A.	Spain	Gas and electricity supply	494	100.0	—	100.0	3	218	121	—	—	342
Naturgy Clientes, S.A	Spain	Gas and electricity supply	4	100.0	—	100.0	—	3	(2)	—	—	1
Holding Negocios Electricidad, S.A.	Spain	Electricity distribution	3,653	100.0	—	100.0	—	3,417	7	—	—	3,424
Holding de Negocios de Gas, S.A.	Spain	Gas distribution	4,475	80.0	—	80.0	—	5,472	312	—	—	5,784
Naturgy Generación, S.L.U.	Spain	Electricity generation	942	100.0	—	100.0	732	125	83	—	1	941
Naturgy Renovables, S.L.U.	Spain	Electricity generation	2,041	100.0	—	100.0	113	1,301	30	—	15	1,459
Global Power Generation, S.A.	Spain	Electricity generation	648	75.0	—	75.0	20	670	146	—	75	911
Toledo PV A.I.E.	Spain	Electricity generation	—	33.3	—	33.3	—	—	1	—	—	1
La Propagadora del Gas	Spain	Electricity generation	12	100.0	—	100.0	10	2	—	—	—	12
Naturgy Ciclos Combinados, S.L.U	Spain	Electricity generation	761	100.0	—	100.0	320	611	157	—	—	1,088
Naturgy Generación Térmica, S.L	Spain	Electricity generation	13	100.0	—	100.0	—	24	26	—	2	52
Petroleum, Oil & Gas España, S.A.	Spain	Gas infrastructures	2	32.3	67.7	100.0	4	10	(8)	—	—	6
Liginitos de Meirama, S.A.	Spain	Mining	16	100.0	—	100.0	23	(7)	—	—	—	16
Natural Re, S.A.	Luxembourg	Insurance	9	100.0	—	100.0	5	54	(16)	—	16	59
General de Edificios y Solares, S.L.	Spain	Services	57	100.0	—	100.0	34	20	3	—	—	57
Naturgy Capital Markets, S.A.	Spain	Financial services	—	100.0	—	100.0	—	—	1	—	—	1
Naturgy Finance, B.V.	Netherlands	Financial services	7	100.0	—	100.0	—	5	3	—	—	8
Naturgy Participaciones, S.A.	Spain	Financial services	110	100.0	—	100.0	—	132	(2)	—	—	130
Unión Fenosa Preferentes, S.A.U.	Spain	Financial services	—	100.0	—	100.0	—	1	—	—	—	1
Naturgy Informática, S.A.	Spain	IT services	5	100.0	—	100.0	20	(2)	(13)	—	—	5
Naturgy Innovahub, S.L.U.	Spain	IT services	1	100.0	—	100.0	2	—	(1)	—	—	1
Naturgy Engineering, S.L.	Spain	Engineering services	15	100.0	—	100.0	—	15	—	—	(1)	14
Naturgy Ingenieria Nuclear, S.L.	Spain	Engineering services	1	100.0	—	100.0	—	1	—	—	—	1
Naturgy Distribución Latinoamérica, S.A.	Spain	Holding company	557	100.0	—	100.0	402	165	156	—	—	723
Naturgy Nuevas Energías, S.L.U.	Spain	Services	16	100.0	—	100.0	2	7	(5)	—	—	4
Naturgy Infraestructuras EMEA, S.L.	Spain	Holding company	89	100.0	—	100.0	—	212	21	—	—	233
Naturgy Inversiones Internacionales, S.A.	Spain	Holding company	850	100.0	—	100.0	250	201	51	—	(144)	358
TOTAL			**15,878**									

(1) Includes the share premium, reserves, prior-year losses, contributions and retained earnings.

(2) Includes value change adjustments, other equity instruments and grants, donations and bequests.

(*) Financial statements updated according to the latest information available

				Data at 31 December 2022 (*)								
				% interest			Equity					
Company	**Registered Office**	**Activity**	**Carrying value 2022**	**Direct**	**Indirect**	**Total**	**Capital**	**Reserves (1)**	**Profit/(loss)**	**Interim dividend**	**Other (2)**	**EQUITY**
Naturgy Aprovisionamientos, S.A.	Spain	Gas supply	408	100.0	—	100.0	1	655	474	—	(37)	1,093
Naturgy LNG, S.L.	Spain	Gas supply	35	100.0	—	100.0	2	36	(1)	—	(2)	35
Sagane, S.A.	Spain	Gas supply	42	100.0	—	100.0	95	22	18	—	—	135
Unión Fenosa Gas, S.A.	Spain	Gas supply	—	—	—	—	—	—	—	—	—	—
Naturgy LNG GOM, S.L.	Spain	Gas supply	—	100.0	—	100.0	—	—	—	—	—	—
Gas Natural Comercializadora, S.A.	Spain	Gas and electricity supply	515	100.0	—	100.0	3	11	532	—	4	550
Comercializadora Regulada, Gas & Power, S.A.	Spain	Gas and electricity supply	121	100.0	—	100.0	2	7	37	—	2	48
Naturgy Commodities Trading, S.A.	Spain	Gas and electricity supply	11	100.0	—	100.0	11	17	(14)	—	—	14
Naturgy Iberia, S.A.	Spain	Gas and electricity supply	494	100.0	—	100.0	3	208	33	—	5	249
Naturgy Clientes, S.A	Spain	Gas and electricity supply	—	100.0	—	100.0	—	—	—	—	—	—
Holding Negocios Electricidad, S.A.	Spain	Electricity distribution	3,678	100.0	—	100.0	—	3,417	258	—	—	3,675
Holding de Negocios de Gas, S.A.	Spain	Gas distribution	4,475	80.0	—	80.0	—	5,385	186	—	—	5,571
Naturgy Generación, S.L.U.	Spain	Electricity generation	859	100.0	—	100.0	732	135	(9)	—	1	859
Naturgy Renovables, S.L.U.	Spain	Electricity generation	1,141	100.0	—	100.0	90	274	108	—	11	483
Global Power Generation, S.A.	Spain	Electricity generation	648	75.0	—	75.0	20	616	54	—	112	802
Toledo PV A.I.E.	Spain	Electricity generation	—	33.3	—	33.3	—	—	1	—	—	1
La Propagadora del Gas	Spain	Holding company	12	100.0	—	100.0	10	2	—	—	—	12
Naturgy Ciclos Combinados, S.L.U	Spain	Electricity generation	761	100.0	—	100.0	320	451	236	(75)	—	932
Naturgy Generación Térmica, S.L	Spain	Electricity generation	13	100.0	—	100.0	—	19	20	—	3	42
Gas Natural Exploración, S.L.	Spain	Gas infrastructures	9	100.0	—	100.0	8	16	—	—	(16)	8
Petroleum, Oil & Gas España, S.A.	Spain	Gas infrastructures	2	32.3	67.7	100.0	4	(1)	3	—	—	6
Liginitos de Meirama, S.A.	Spain	Mining	16	100.0	—	100.0	23	(7)	—	—	—	16
Natural Re, S.A.	Luxembourg	Insurance	9	100.0	—	100.0	5	51	2	—	—	58
General de Edificios y Solares, S.L.	Spain	Services	54	100.0	—	100.0	34	20	—	—	—	54
Naturgy Capital Markets, S.A.	Spain	Financial services	—	100.0	—	100.0	—	—	1	—	—	1
Naturgy Finance, B.V.	Netherlands	Financial services	7	100.0	—	100.0	—	5	4	—	—	9
Naturgy Participaciones, S.A.	Spain	Financial services	110	100.0	—	100.0	—	103	29	—	—	132
Unión Fenosa Preferentes, S.A.U.	Spain	Financial services	—	100.0	—	100.0	—	1	—	—	—	1
Naturgy Informática, S.A.	Spain	IT services	18	100.0	—	100.0	20	—	(2)	—	—	18
Naturgy Innovahub, S.L.U.	Spain	IT services	1	100.0	—	100.0	1	—	—	—	—	1
Naturgy Engineering, S.L.	Spain	Engineering services	16	100.0	—	100.0	—	12	4	—	(1)	15
Naturgy Ingenieria Nuclear, S.L.	Spain	Engineering services	1	100.0	—	100.0	—	1	—	—	—	1
Naturgy Distribución Latinoamérica, S.A.	Spain	Holding company	557	100.0	—	100.0	402	165	194	—	—	761
Naturgy Nuevas Energías, S.L.U.	Spain	Services	4	100.0	—	100.0	2	6	(5)	—	1	4
Naturgy Infraestructuras EMEA, S.L.	Spain	Holding company	89	100.0	—	100.0	—	202	10	—	—	212
Naturgy Inversiones Internacionales, S.A.	Spain	Holding company	850	100.0	—	100.0	250	274	(72)	—	(113)	339
TOTAL			**14,956**									

(1) Includes the share premium, reserves, prior-year losses, contributions and retained earnings.

(2) Includes value change adjustments, other equity instruments and grants, donations and bequests.

(*) Financial statements updated according to the latest information available

Non-current receivables from Group companies amounted to Euros 13,997 million at 31 December 2023 (31 December 2022: Euros 13,997 million), maturing as follows:

Maturity	**At 31.12.2023**	At 31.12.2022
2024	—	3,362
2025	1,000	3,623
2026	2,853	1,000
2027	3,599	1,725
2028	1,569	1,350
2029	2,430	1,000
2030	1,000	1,000
2031 and subsequent	1,546	937
Total	**13,997**	13,997

Set out below are movements during 2023 and 2022 in loans and other current financial assets:

	Loans to group companies	**Other financial assets**	**Total**
Balance at 01.01.2022	**2,376**	**3**	**2,379**
Additions	694	—	694
Divestments	(1,057)	(1)	(1,058)
Reclassifications and transfers	(1,721)	—	(1,721)
Balance at 31.12.2022	**292**	**2**	**294**
Additions	75	1	76
Divestments	(167)	—	(167)
Reclassifications and transfers	91	—	91
Balance at 31.12.2023	**291**	**3**	**294**

There are no significant differences between carrying values and fair values in the balances under Loans to Group companies and other receivables.

"Loans to Group companies" consists of loans to Group companies amounting to Euros 207 million (Euros 215 million in 2022). The balance under this heading includes balances with Group companies relating to consolidated corporate income tax of Euros 69 million and consolidated VAT balances amounting to Euros 68 million (Euros 151 million in 2022 relating to consolidated corporate income tax).

Loans to Group companies also includes accrued unmatured interest of Euros 84 million (Euros 77 million in 2022).

At 31 December 2023, loans to Group companies and associates have borne interest at a rate of 5.57% (3.86% in 2022) in the case of non-current loans and 4.06% (1.5% in 2022) in the case of current loans.

Note 8. Investments

Investments by class and category at 31 December 2023 and 31 December 2022 break down as follows:

At 31 December 2023	Financial assets at amortised cost	At cost	Hedging derivatives	Total
Equity instruments	—	4	—	4
Derivatives (Note 14)	—	—	22	22
Other financial assets	3	—	—	3
Non-current investments	**3**	**4**	**22**	**29**
Derivatives (Note 14)	—	—	34	34
Other financial assets	2	—	—	2
Current investments	**2**	**—**	**34**	**36**
Total	**5**	**4**	**56**	**65**

At 31 December 2022	Financial assets at amortised cost	At cost	Hedging derivatives	Total
Equity instruments	—	5	—	5
Derivatives (Note 14)	—	—	69	69
Other financial assets	3	—	—	3
Non-current investments	**3**	**5**	**69**	**77**
Derivatives (Note 14)	—	—	16	16
Other financial assets	12	—	—	12
Current investments	**12**	**—**	**16**	**28**
Total	**15**	**5**	**85**	**105**

Financial assets recognised at fair value at 31 December 2023 and at 31 December 2022 are classified as follows:

	2023				2022			
Financial assets	**Level 1 (quoted price in an active market)**	**Level 2 (observable variables)**	**Level 3 (unobservable variables)**	**Total**	**Level 1 (quoted price in an active market)**	**Level 2 (observable variables)**	**Level 3 (unobservable variables)**	**Total**
Hedging derivatives	—	56	—	56	—	85	—	85
Total	**—**	**56**	**—**	**56**	**—**	**85**	**—**	**85**

The movement in equity instruments in 2023 and 2022, based on the method applied for calculating their fair value, is as follows:

	2023				2022			
	Level 1 (quoted price in an active market)	**Level 2 (observable variables)**	**Level 3 (unobservable variables)**	**Total**	**Level 1 (quoted price in an active market)**	**Level 2 (observable variables)**	**Level 3 (unobservable variables)**	**Total**
At 1 January	—	85	—	85	—	—	—	—
Increase	—		—	—	—	85	—	85
Decrease	—	(29)	—	(29)	—	—	—	—
At 31 December	**—**	**56**	**—**	**56**	**—**	**85**	**—**	**85**

Financial assets at cost

All financial assets at cost relate to unlisted shareholdings at 31 December 2023 and 31 December 2022.

Financial assets at amortised cost

The balance at 31 December 2023 and 2022 is as follows:

	At 31.12.23	At 31.12.22
Deposits and guarantee deposits	3	3
Non- current	**3**	**3**
Deposits and guarantee deposits	2	12
Current	**2**	**12**
Total	**5**	**15**

The fair values and carrying amounts of these assets do not differ significantly.

The breakdown by maturities at 31 December 2023 and 31 December 2022 is as follows:

Maturities	**31.12.2023**	31.12.2022
Before 1 year	2	12
Between 1 and 5 years	—	—
More than 5 years	3	3
Total	**5**	**15**

Note 9. Other non-current assets and Trade and other receivables

The headings “Other non-current assets” and “Trade and other receivables” at 31 December 2023 and 31 December 2022, classified by nature and category, are as follows:

At 31.12.2023	**At fair value through profit and loss**	**Amortised cost**	**Total**
Derivatives (Note 14)	80	—	80
Other non-current assets	**80**	**—**	**80**
Derivatives (Note 14)	5	—	5
Other assets	—	147	147
Trade and other receivables	**5**	**147**	**152**
Total	**85**	**147**	**232**

At 31.12.2022	**At fair value through profit and loss**	**Amortised cost**	**Total**
Derivatives (Note 14)	63	—	63
Other non-current assets	**63**	**—**	**63**
Derivatives (Note 14)	710	—	710
Other assets	—	271	271
Trade and other receivables	**710**	**271**	**981**
Total	**773**	**271**	**1,044**

Fair value through profit and loss

Financial assets recognised at fair value at 31 December 2023 and at 31 December 2022 are classified as follows:

	At 31.12.2023				At 31.12.2022			
Financial assets	**Level 1 (quoted price in an active market)**	**Level 2 (observable variables)**	**Level 3 (unobservable variables)**	**Total**	**Level 1 (quoted price in an active market)**	**Level 2 (observable variables)**	**Level 3 (unobservable variables)**	**Total**
Fair value through profit and loss	—	85	—	85	—	773	—	773
Total	**—**	**85**	**—**	**85**	**—**	**773**	**—**	**773**

This heading includes gas price operating derivatives arranged by the Company with third parties and with other Naturgy companies amounting to Euros 85 million (31 December 2022: Euros 773 million), of which Euros 80 million is classified as non-current (31 December 2022: Euros 63 million) (Note 14).

Amortised cost

The breakdown of this account is as follows:

	At 31.12.23	At 31.12.22
Trade receivables	28	93
Trade receivables, Group companies and associates	68	184
Provision	(26)	(26)
Current income tax asset	65	16
Other amounts receivable from Public Administrations	12	4
Total	**147**	**271**

In general, amounts billed pending collection do not bear interest, the average maturity period being less than 30 days.

At 31 December 2023 the Company recorded unmatured balances totalling Euros 15 million (31 December 2022: Euros 305 million) which have been included in non-recourse factoring operations. These amounts have therefore been derecognised from Current tax assets in the balance sheet.

Movements in the bad debt provision are as follows:

	2023	2022
At 1 January	**(26)**	**(27)**
Net charge for the year	—	—
Retirement	—	1
At 31 December	**(26)**	**(26)**

Note 10. Cash and cash equivalents

Cash and cash equivalents include:

	At 31.12.2023	At 31.12.2022
Cash at banks and in hand	1,137	1,336
Other cash equivalents	461	1,645
Total	**1,598**	**2,981**

“Cash equivalents” mainly relates to three short-term investments in deposits made at the end of October 2023 and with a maturity of less than three months, associated with CO2 emission allowances for Euros 250 million, which consist of an operation of spot purchase and a simultaneous forward sale with the same counterparty, the same risk and a guaranteed return (Euros 250 million as of December 31, 2022 corresponding to a short-term investment deposited at the end of December 2022). These deposits are easily convertible into specified amounts of cash, can be cancelled at any time without penalty and are subject to an insignificant risk of changes in value.

Likewise, they include cash pooling balances with group companies and their associated interests.

Note 11. Equity

The main items of Equity are as follows:

Share capital and share premium

Variations during 2023 and 2022 in the number of shares and share capital and share premium accounts have been as follows:

	Number of shares	Share capital	Share premium	Total
At 1 January 2022	**969,613,801**	**970**	**3,808**	**4,778**
Variation	—	—	—	—
At 31 December 2022	**969,613,801**	**970**	**3,808**	**4,778**
Variation	—	—	—	—
At 31 December 2023	**969,613,801**	**970**	**3,808**	**4,778**

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

There were no movements in the number of shares or in the accounts "Share capital" and "Share premium" during 2022 and 2023.

The Company's Board of Directors, for a maximum term of five years as from 15 March 2022, is empowered to increase share capital by a maximum of 50% of the Company's share capital at the time of the authorisation, through one or more cash payments at the time and in the amount that it deems fit, issuing ordinary, privileged or redeemable shares with or without voting rights, with or without a share premium, without requiring any further authorisation from the shareholders, with the possibility of agreeing, as appropriate, the full or partial exclusion of preferential subscription rights up to a limit of 20% of share capital at the date of this authorisation, and to alter the By-laws as required due to the capital increase or increases performed by virtue of said authorisation, with provision for an incomplete subscription, in accordance with the provisions of Article 297.1.b) of the Spanish Companies Act. Additionally, based on this authorisation, it will carry out any necessary procedures and actions before domestic and overseas securities market agencies to request the listing, continuance and/or, as the case may be, delisting of the issued shares.

The Spanish Companies Act specifically allows the use of the Share premium balance to increase capital and imposes no specific restrictions on its use.

The most relevant holdings in the Company’s share capital at 31 December 2023 and 31 December 2022, in accordance with the public information available or the reports issued by the Company itself, are as follows:

	% interest in share capital	
	2023	2022
- Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona, "la Caixa" (1)	26.7	26.7
-Global Infrastructure Partners III (2)	20.6	20.6
-CVC Capital Partners SICAV-FIS, S.A. (3)	20.7	20.7
- IFM Global Infraestructure Fund (4)	14.9	14.0
-Sonatrach (5)	4.1	4.1

(1) Holding through Criteria Caixa, S.A.U.

(2) Global Infrastructure Partners III, whose investment manager is Global Infrastructure Management LLC, holds its interest indirectly through GIP III Canary 1, S.à.r.l.

(3) Through Rioja Acquisition S.à.r.l.

(4) Capital Research and Management Company is not included, which on 31 December 2019 owns 3.0% of the share capital since it is considered floating capital and the 3% limit is exceeded or reduced occasionally.

(5) Société Nacionale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures

All the Company's shares are traded on the four official Spanish Stock Exchanges and the "mercado continuo" and form part of Spain's Ibex 35 stock index.

The Company's share price at end-2023 stood at Euros 27.00 (last trading day: 29 December 2023). The last share price at 31 December 2022 was Euros 24.31.

Reserves

"Reserves" includes the following reserves:

	2023	2022
Legal reserve	200	200
Statutory reserve	100	100
Voluntary reserves	9,731	9,731
Capital redemption reserve	31	31
Other reserves	298	315
Total	**10,360**	**10,377**

Legal reserve

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

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

Statutory reserve

Under the Company's Articles of Association, 2% of net profit for the year must be allocated to the statutory reserves until it reaches at least 10% of share capital.

Capital redemption reserve

Following approval at the ordinary general meeting of shareholders held on 26 May 2020, a capital reduction was made during the year through the redemption of treasury shares with a reduction of Euros 14 million in capital and 284 million in voluntary reserves.

In addition, pursuant to Article 335 c) of the Spanish Companies Act a restricted Capital redemption reserve was created for an amount equal to the par value of the redeemed shares. The total accumulated capital redemption reserve amounts to Euros 31 million at 31 December 2023 and at 31 December 2022.

Voluntary reserve and other reserves

Relates basically to voluntary reserves for undistributed profits, also including the effects of the measurement of shareholdings in group companies as a result of transactions between group companies recognised in the same amounts stated in Naturgy's consolidated annual accounts.

A downward variation of Euros 971 million was included in 2022 due to the accounting recognition of the vertical merger between the subsidiaries Unión Fenosa Gas, S.A. and Naturgy Aprovisionamientos, S.A. described in Note 7.

Share-based payments

On 31 July 2018 the Board of Directors approved a long term variable incentive plan (LTI) involving the Executive Chairman and 25 other executives. The main characteristics of the plan were approved by the general meeting of shareholders on 5 March 2019. This incentive covered the period of the Strategic Plan 2018-2022.

On 25 November 2021, the Board of Directors of Naturgy decided, at the proposal of the Appointments, Remuneration and Corporate Governance Committee, to extend the LTI plan 2018-2022 with a new expiration date of 31 December 2025 for current executives, in order to contribute to the achievement of the Strategic Plan 2021-2025. The entry into force of the extension of the LTI was approved by Naturgy's shareholders in general meeting on 15 March 2022.

This extension altered the LTI that had been approved under the Strategic Plan 2018-2022, which expired in July 2023. It maintains the direct relationship with the total return obtained by the Company's shareholders in the period concerned.

The LTI was arranged through the acquisition of shares in Naturgy Energy Group, S.A. by an investee company that may generate a surplus. Such surplus, if any, is the incentive to be delivered to the participants. At the expiration of the plan, this company will obtain a profit derived from the collection of dividends on its shares, changes in the share price and other income and expenses, mainly financial in character. At that time it will sell the shares required to return all the resources received for the acquisition of the shares and after settling its obligations it will distribute any surplus among its members in the form of shares.

The surplus will be received only if a minimum profitability threshold has been surpassed, which implies a share price of Euros 19.15 when the LTI expires and assuming that all the dividends provided for in the Strategic Plan 2021-2025 are paid.

If they leave the Company, the beneficiaries will only be entitled, in certain cases, to receive a part of the final incentive calculated in proportion to their length of service in the Company with respect to the duration of the plan.

In order to compensate for the delay in the collection of the LTI as a result of the time extension, Naturgy's Board of Directors established a compensation consisting of the payment of a cash amount to the beneficiaries who accepted the extension of the term until 2025 (see Annual Accounts at December 31, 2022). In 2023, advances amounting to Euros 103 thousand were paid.

The fair value of the equity instruments granted based on the LTI 2018-2022 was determined at the grant date using a Monte Carlo simulation valuation model based on the share price on the grant date, with the following assumptions:

Forecast share price volatility (1)	17.73 %
Plan duration (years)	5
Expected dividends	6.26 %
Risk-free interest rate	0.34 %

(1) Forecast volatility has been determined based on the historical volatility of the daily share price in the last year.

At the date of approval of the extension of the LTI, the LTI 2018-2022 and LTI 2018-2025 were measured using a valuation model based on a Monte Carlo simulation. The incremental value is recognised for accounting purposes over the period running from the date of approval of the change, i.e. 15 March 2022, to 31 December 2025. The assumptions used in these valuations are as follows:

	ILP2018-2022	ILP2018-2025
Forecast share price volatility (1)	25.32 %	25.32 %
Plan duration (years)	1.38	3.80
Expected dividends	5.24 %	5.03 %
Risk-free interest rate	0.71 %	1.06 %

(1) Forecast volatility has been determined based on the historical volatility of the daily share price in the last year.

As a result of the time apportionment of the fair value estimate of the equity instruments granted over the term of the plan and the incremental value associated with the above-mentioned extension, an amount of Euros 5 million (Euros 5 million at 31 December 2022) (Note 20) has been recorded in the income statement at 31 December 2023 under "Personnel expenses", credited to "Other equity instruments" in the balance sheet.

The Board of Directors, at the reasoned proposal of the Appointments, Remuneration and Corporate Governance Committee, may adopt the decisions it deems necessary for the administration, interpretation, correction, development or continuity of the incentive scheme in the event of substantial variations in the circumstances of the Plan, taking into account the corporate interest of the Company and the objectives of the Plan.

It may also decide on early termination, either to achieve such continuity or in the event of any event which, in its opinion, involves a substantial change in circumstances.

Treasury shares

Movements during 2023 and 2022 involving the Company's treasury shares are as follows:

	Number of shares	**In million euro**	**% Capital**
At 1 January 2022	**163,226**	**4**	**—**
Share Acquisition Plan	15,000	—	—
Delivered to employees	(122,328)	(3)	—
At 31 December 2022	**55,898**	**1**	**—**
Share Acquisition Plan	357,094	10	—
Delivered to employees	(172,992)	(5)	—
At 31 December 2023	**240,000**	**6**	**—**

In 2023 and 2022, no gains or losses were made on transactions involving the Company's treasury shares.

On 5 March 2019, the shareholders in general meeting authorised the Board of Directors to purchase, within five years, in one or more operations, fully paid Company shares; the nominal value of the shares directly or indirectly acquired, added to those already held by the Company and its subsidiaries, must not exceed 10% of share capital or any other limit established by law. The price or value of the consideration may not be lower than the par value of the shares or higher than their quoted price.

The minimum and maximum acquisition price will be the share price on the continuous market of the Spanish stock exchanges, within an upper or lower fluctuation of 5%.

Transactions involving the Company's treasury shares relate to:

2023

– Share acquisition plan: In accordance with the resolutions adopted by the shareholders of Naturgy Energy Group, S.A. at the general meeting held on 5 March 2019, within the Share Acquisition Plan 2020-2023, the one relating to 2023 addressed to Naturgy employees in Spain who decide voluntarily to take part in the Plan was set in motion in March 2023. The Plan enables participants to receive part of their remuneration in the form of shares in Naturgy Energy Group, S.A., subject to an annual limit of Euros 12,000. During March 2023, 210,000 treasury shares were acquired for Euros 5.6 million and in April 2023 a total of 172,992 shares amounting to Euros 4.6 million were delivered to employees, leaving a surplus of 37,008 treasury shares which was added to the 55,898 shares left over from the 2019-2021 Share Acquisition Plans. In addition, in July 2023, 147,094 treasury shares were acquired for Euros 4.0 million in addition to the above surplus, bringing the total number of treasury shares to 240,000 at 31 December 2023.

2022

– Share acquisition plan: As mentioned in the previous paragraph, as part of the Share Acquisition Plan 2020-2023 the plan for 2021, aimed at Naturgy employees in Spain, was set in motion. This plan was completed in January 2022 through the acquisition of 15,000 treasury shares in addition to the 127,453 shares acquired in December 2021, for an amount of Euros 0.4 million, and a total of 122,328 shares amounting to Euros 3 million were delivered to employees. The surplus of 20,125 treasury shares was added to the 35,773 shares left over from the 2020 and 2019 Share Acquisition Plans.

Dividends

Set out below is a breakdown of the payments of dividends made in 2023 and 2022:

	2023			2022		
	% of Nominal	Euros per share	Amount	% sobre Nominal	Euros per share	Amount
Ordinary shares	150 %	1.50	1,454	120 %	1.20	1,164
Other shares (without voting rights, redeemable, etc.)	—	—	—	—	—	—
Total dividens paid	**150 %**	**1.50**	**1,454**	**120 %**	**1.20**	**1,164**
a) Dividends charged to income statement or retained earnings	150 %	1.50	1,454	120 %	1.20	1,164
b) Dividends charged to reserves or share premium account	—	—	—	—	—	—
c) Dividends in kind	—	—	—	—	—	—

2023

On 20 February 2023, the Board of Directors approved the following proposal for the distribution of the Company's net profit for 2022 and retained earnings, for submission to the annual general meeting:

AVAILABLE FOR DISTRIBUTION

Profit... 1,435
Retained earnings.. 2,320
Distribution base.. 3,755

DISTRIBUTION:

TO DIVIDENDS: The gross aggregate amount will be equal to the sum of the following quantities (the “Dividend”):

i. Euros 679 million ("the Total Interim Dividend"), corresponding to the two interim dividends for 2022 paid by Naturgy Energy Group, S.A., jointly equivalent to 0.70 euros per share for the number of shares that were not direct treasury shares on the relevant dates as approved by the Board of Directors in accordance with the interim accounting statements prepared and in accordance with the legal requirements, which reveal the existence of sufficient liquidity for the distribution of these interim dividends out of the profit for 2022, and,

ii. The amount obtained by multiplying 0.50 euros per share by the number of shares that are not direct treasury shares on the date on which the registered shareholders entitled to receive the supplementary dividend (the "Supplementary Dividend") are determined.

Euros 679 million of said dividend had already been paid on 18 August and 18 November 2022. The Supplementary Dividend will be paid in the amount per share indicated above through the entities that are members of Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear). Said dividend will be paid to shareholders as from 4 April 2023.

The Board of Directors is expressly empowered to delegate its powers to the director(s) it deems fit so that they may perform all the actions required to carry out the distribution and, in particular, without limitation, so that they may designate the entity that is to act as payment agent.

TO RETAINED EARNINGS: Determinable amount obtained by subtracting the dividend amount from the distribution base.

TOTAL DISTRIBUTED 3,755

This proposal for the distribution of profits and retained earnings prepared by the Board for approval by the annual general meeting included a supplementary payment of Euros 0.50 per share for each qualifying share outstanding at the proposed date of payment.

Finally, the general meeting of shareholders held on 28 March 2023 approved a supplementary dividend of 0.50 euros per share for shares not directly held as treasury stock on the payment date, which was fully paid in cash on 4 April 2023.

Following payment of the supplementary dividend, the amount allocated to Retained earnings was Euros 2,592 million.

On 20 July 2023, the Company's Board of Directors resolved to pay an interim dividend of 0.50 euros per share out of 2023 profits, for shares not classified as direct treasury shares on the date on which the dividend was paid. The dividend was paid in full in cash on 7 August 2023.

The Company had sufficient liquidity to pay the dividend at the approval date, in accordance with the provisions of the Spanish Companies Act. The provisional liquidity statement at 30 June 2023 drawn up by the Directors on 20 July 2023 was as follows:

Profit after tax		841
Reserves to be replenished		—
Maximum amount distributable		**841**
Forecast maximum interim dividend payment (1)		**485**
Cash resources	2,309	
Undrawn credit facilities	5,283	
Total liquidity		**7,592**

(1) Amount considering total shares issued

On 23 October 2023, the Board of Directors of Naturgy Energy Group, S.A. resolved to pay a second interim dividend of 0.50 euros out of 2023 profits for shares not classified as direct treasury shares on the date on which the dividend was paid, this being 7 November 2023.

The Company had sufficient liquidity to pay the dividend at the approval date, in accordance with the provisions of the Spanish Companies Act. The provisional liquidity statement at 30 September 2023 drawn up by the Directors on 23 October 2023 was as follows:

Profit after tax		1,144
Reserves to be replenished		—
Maximum amount distributable		**1,144**
Interim dividend 2022 profits		485
Forecast maximum interim dividend payment (1)		**485**
Cash resources	1,728	
Undrawn credit facilities	5,354	
Total liquidity		**7,082**

(1) Amount considering total shares issued

On 26 February 2024, the Board of Directors approved the following proposal for the distribution of the Company's net profit for 2023 and retained earnings, for submission to the annual general meeting:

AVAILABLE FOR DISTRIBUTION

Profit.. 1,211
Retained earnings.. 2,592
Distribution base... 3,803

DISTRIBUTION:

TO DIVIDENDS: the gross aggregate amount will be equal to the sum of the following quantities (the “Dividend”):

i. Euros 969 million ("the Total Interim Dividend"), corresponding to the two interim dividends for 2023 paid by Naturgy Energy Group, S.A., jointly equivalent to 1.0 euros per share for the number of shares that were not direct treasury shares on the relevant dates as approved by the Board of Directors in accordance with the interim accounting statements prepared and in accordance with the legal requirements, which revealed the existence of sufficient liquidity for the distribution of these interim dividends out of the profit for 2023, and,

ii. The amount obtained by multiplying 0.40 euros per share by the number of shares that are not direct treasury shares on the date on which the registered shareholders entitled to receive the supplementary dividend (the “Supplementary Dividend”) are determined.

Euros 969 million of said dividend had already been paid on 7 August and 7 November 2023. The Supplementary Dividend will be paid in the amount per share indicated above through the entities that are members of Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear). Said dividend will be paid to shareholders as from 9 April 2024.

The Board of Directors is expressly empowered to delegate its powers to the director(s) it deems fit so that they may perform all the actions required to carry out the distribution and, in particular, without limitation, so that they may designate the entity that is to act as payment agent.

TO RETAINED EARNINGS: Determinable amount obtained by subtracting the dividend amount from the distribution base.

TOTAL DISTRIBUTED 3,803

This proposal for the distribution of profits and retained earnings prepared by the Board for approval by the annual general meeting includes a supplementary payment of Euros 0.40 per share for each qualifying share outstanding at the proposed date of payment, 9 April 2024. In this respect, in the event that at the time of distribution of the third and last payment of the proposed 2023 dividend (Euros 0.40 per share) the same number of treasury shares is maintained as at the 2023 year end (240,000 treasury shares, see section on Treasury shares), the amount applied to retained earnings will be Euros 2,446 million.

2022

On 3 February 2022, the Board of Directors approved the proposal submitted to the general meeting of shareholders for the distribution of the Company's net profit for 2021 and retained earnings from previous years, detailed in Note 11 of the notes to the accounts for the year ended 31 December 2021.

Subsequently, the general meeting of shareholders held on 15 March 2022 approved a supplementary dividend of 0.50 euros per share for shares not directly held as treasury stock on the payment date, which was fully paid in cash on 22 March 2022. Following payment of the supplementary dividend, the amount allocated to Retained earnings was Euros 2,320 million.

On 11 August 2022, the Company's Board of Directors resolved to pay a first interim dividend of 0.30 euros per share out of 2022 results, for shares not classified as direct treasury shares on the date on which the dividend was paid. The dividend was paid in full in cash on 18 August 2022.

Finally, on 3 November 2022, the Board of Directors of Naturgy Energy Group, S.A. resolved to pay a second interim dividend of 0.40 euros per share out of 2022 results, paid on 18 November 2022, for shares not classified as direct treasury shares on the date on which the dividend was paid.

Note 12. Provisions

The breakdown of provisions at 31 December 2023 and 2022 is as follows:

	At 31.12.2023	At 31.12.2022
Provisions for employee obligations	204	187
Other provisions	90	83
Non-current provisions	**294**	**270**

Provisions for employee benefits

A breakdown of the provisions related to employee obligations is as follows:

	2023			2022		
	Pensions and other similar obligations	**Other obligations with personnel**	**Total**	**Pensions and other similar obligations**	**Other obligations with personnel**	**Total**
At 1 January	**177**	**10**	**187**	**236**	**6**	**242**
Appropriations/reversals charged to income	7	6	13	4	6	10
Payments during the year	(20)	(2)	(22)	(10)	(5)	(15)
Changes recognised directly in equity	23	—	23	(57)	—	(57)
Transfers and other applications	3	—	3	4	3	7
At 31 December	**190**	**14**	**204**	**177**	**10**	**187**

Pensions and other similar liabilities

Most of the Company's post-employment obligations consist of the contribution of defined amounts to occupational pension plan systems. Nevertheless, at 31 December 2023 and 31 December 2022, the Company held the following defined benefit obligations for certain groups of workers:

- Pensions to retired workers, the disabled, widows and orphans and other related groups.
- Defined benefit supplement obligations with retired personnel of the legacy Unión Fenosa group who retired before November 2002 and a residual part of current personnel.

- Coverage of retirement and death for certain employees.
- Gas subsidy for current and retired personnel.
- Electricity for current and retired personnel.
- Obligations with employees that took early retirement until they reach official retirement age and early retirement plans.
- Salary supplements and contributions to social security for a group of employees taking early retirement until they can access ordinary retirement.
- Health care and other benefits.

The amounts recognised in the Balance sheet for pensions and similar obligations, as well as the movement in the current value of the obligations and the fair value of the plan assets are determined as follows:

Present value of obligations	**2023**	2022
At 1 January	**622**	**842**
Service cost for the year	—	—
Interest cost	24	13
Changes recognised directly in equity	49	(176)
Benefits paid	(59)	(62)
Transfers and other	3	5
At 31 December	**639**	**622**

Fair value of plan assets		
At 1 January	**445**	**606**
Expected yield	17	9
Contributions	8	(3)
Changes recognised directly in equity	26	(119)
Benefits paid	(47)	(49)
Transfers and other	—	1
At 31 December	**449**	**445**
Provisions for pensions and similar obligations	**190**	**177**

The amounts recognised in the income statement for all the above-mentioned defined benefit plans are as follows:

	2023	2022
Service cost for the year	—	—
Interest cost	7	4
Total charge to the income statement	**7**	**4**

Benefits for pensions and similar obligations, depending on the duration of the above commitments, are as follows:

	2023	2022
1 to 5 years	—	—
5 to 10 years	16	26
More than 10 years	174	151
Provisions for pensions and similar obligations	**190**	**177**

The plan assets expressed as a percentage of total assets are as follows:

% of total	**2023**	2022
Bonds	100%	100%

Cumulative actuarial gains and losses, net of the tax effect, recognised directly in equity are positive in the amount of Euros 20 million at 31 December 2023 (positive in the amount of Euros 37 million at 31 December 2022).

The change recognised in equity relates to actuarial losses and gains derived basically from variations in:

	2023	2022
Financial assumptions	13	(66)
Demographic assumptions	—	—
Experience	10	9
At 31 December	**23**	**(57)**

Actuarial assumptions applied are as follows:

	At 31.12.2023	At 31.12.2022
Discount rate (p.a.)	3,21% a 3,30%	3,25% a 4,07%
Expected return on plan assets (p.a.)	3,21% a 3,30%	3,25% a 4,07%
Future salary increases (p.a.)	2.00%	2.00%
Future pension increases (p.a.)	2.00%	2.00%
Inflation rate (annual)	2.00%	2.00%
Mortality table	PER2020 Col 1st order	PER2020 Col 1st order
Life expectancy:		
Men		
Retired at age 65 in the current year	25.00	24.82
Employees 45 years old currently, at the time of retirement	27.52	27.37
Women		
Retired at age 65 in the current year	28.72	28.55
Employees 45 years old currently, at the time of retirement	31.05	30.91

These assumptions are equally applicable to all the obligations, irrespective of the origin of their collective bargaining agreements.

The interest rates used to discount post-employment commitments are applied based on the period of each commitment and the reference curve is calculated applying observable rates for high-credit-quality corporate bonds (AA) issued in the Eurozone.

The costs of health care have been measured on the basis of the expected costs of the premiums of the different medical care policies taken out. A 1% variation in the increase in the cost of these premiums would not have a significant impact on the liability recorded at 31 December 2023 and 31 December 2022, nor would it cause a relevant variation in the ordinary financial costs for future years in relation to that recorded in 2023 and 2022.

Other employee benefits

Within the framework of the Strategic Plan 2018-2022, a long-term incentive plan implemented for Naturgy executives not included in the plan mentioned in Note 11. The purpose of this plan was to align shareholders' interests, the materialisation of the Strategic Plan, and executives' multi-year variable remuneration.

As a result of the approval of the Strategic Plan 2021-2025, the extension approved of the long-term incentive plan implemented with the approval of the Strategic Plan 2018-2022 for Naturgy executives not included in the plan mentioned in Note 11. This change maintains the aim of aligning shareholders' interests, the materialisation of the Strategic Plan and executives' multi-year variable remuneration. The plan amendment extends the term of the plan until 31 December 2025 for certain serving beneficiaries in order to contribute to the achievement of the Strategic Plan 2021-2025.

In order to compensate for the delay in collection derived from the extension of the plan, in 2021 a cash compensation was established which was paid upon the acceptance of the amendment and approval of the new LTI plan by the general meeting on 15 March 2022.

The provision for this commitment at 31 December 2023 totals Euros 14 million (Euros 10 million at 31 December 2022).

Other non-current provisions

The movement in other non-current provisions is as follows:

	2023	2022
At 1 January	**83**	**67**
– Appropriations	51	24
– Reversals	(53)	(2)
Transfers and other	9	(6)
At 31 December	**90**	**83**

"Other non-current provisions" mainly includes provisions posted to cover obligations deriving mainly from tax claims (Note 17).

No provision for business contracts was deemed necessary at 31 December 2023 or 2022.

At 31 December 2023, the estimated payment period for these obligations is Euros 90 million between one and five years (2022: Euros 83 million between one and five years).

Note 13. Financial liabilities

Set out below is a breakdown of financial liabilities, excluding "Trade and other payables", at 31 December 2023 and 31 December 2022, by nature and category:

At 31.12.2023	**Amortised cost**	**Hedging derivatives**	**Total**
Borrowings from financial institutions	2,382	—	2,382
Other financial liabilities	1	—	1
Non-current borrowings	**2,383**	**—**	**2,383**
Borrowings from financial institutions	165	—	165
Derivatives (Note 14)	—	—	—
Current borrowings	**165**	**—**	**165**
Total	**2,548**	**—**	**2,548**

At 31.12.2022	**Amortised cost**	**Hedging derivatives**	**Total**
Borrowings from financial institutions	1,938	—	1,938
Other financial liabilities	1	—	1
Non-current borrowings	**1,939**	**—**	**1,939**
Borrowings from financial institutions	534	—	534
Derivatives (Note 14)	—	25	25
Current borrowings	**534**	**25**	**559**
Total	**2,473**	**25**	**2,498**

Financial liabilities recognised at fair value at 31 December 2023 and at 31 December 2022 are classified as follows:

Financial liabilities	At 31.12.2023 Level 1 (quoted price in an active market)	Level 2 (observable variables)	Level 3 (unobservable variables)	Total	At 31.12.2022 Level 1 (quoted price in an active market)	Level 2 (observable variables)	Level 3 (unobservable variables)	Total
Headging derivatives	—	—	—	—	—	25	—	25
Total	**—**	**—**	**—**	**—**	**—**	**25**	**—**	**25**

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

	Carrying amount		**Fair value**	
	At 31.12.2023	At 31.12.2022	**At 31.12.2023**	At 31.12.2022
Bank borrowings, derivatives and other financial liabilities	2,383	1,939	2,377	1,937

The fair value of loans with fixed interest rates is estimated on the basis of the discounted cash flows over the remaining terms of such debt. The discount rates were determined based on market rates available at 31 December 2023 and 31 December 2022 on borrowings with similar credit and maturity characteristics. These valuations are based on the quotation price of similar financial instruments in an official market or on observable information in an official market (Level 2).

The movement in financial liabilities is as follows:

	Bank borrowings	**Derivatives**	**Other financial liabilities**	**Total**
At 01.01.2022	**2,774**	**80**	**1**	**2,855**
Increase	103	6	1	110
Decrease	(405)	(61)	(1)	(467)
At 31.12.2022	**2,472**	**25**	**1**	**2,498**
Increase	1,100	—	—	1,100
Decrease	(1,025)	(25)	—	(1,050)
At 31.12.2023	**2,547**	**—**	**1**	**2,548**

The following tables describe borrowings and maturities at 31 December 2023 and at 31 December 2022, taking into account the impact of derivative hedges.

	2024	2025	2026	2027	2028	2029 and beyond	**Total**
At 31 December 2023:							
Fixed	93	191	91	91	249	530	1,245
Floating	72	31	—	700	31	469	1,303
Total	**165**	**222**	**91**	**791**	**280**	**999**	**2,548**

	2023	2024	2025	2026	2027	2028 and beyond	**Total**
At 31 December 2022:							
Fixed	291	92	192	91	92	776	1,534
Floating	268	516	178	1	1	—	964
Total	**559**	**608**	**370**	**92**	**93**	**776**	**2,498**

Setting aside the impact of derivatives on borrowings, of the total debt, the fixed-rate debt would amount to Euros 102 million at 31 December 2023 (Euros 175 million at 31 December 2022); variable-rate debt would amount to Euros 2,446 million at 31 December 2023 (Euros 2,298 million at 31 December 2022).

The following tables describe the gross borrowings denominated in foreign currencies at 31 December 2023 and 31 December 2022 and their maturities, taking into account the impact of the derivative hedges:

	2024	2025	2026	2027	2028	2029 and beyond	**Total**
At 31 December 2023:							
Euro debt	165	222	91	791	280	999	2,548
Total	**165**	**222**	**91**	**791**	**280**	**999**	**2,548**

	2023	2024	2025	2026	2027	2028 and beyond	**Total**
At 31 December 2022:							
Euro debt	559	608	370	92	93	776	2,498
Total	**559**	**608**	**370**	**92**	**93**	**776**	**2,498**

Borrowings bore an average effective interest rate in 2023 of 2.46% (1.22% in 2022) including the derivatives assigned to each transaction.

At 31 December 2023, Bank borrowings includes Euros 12 million in interest pending payment (Euros 9 million at 31 December 2022).

Most of the outstanding borrowings include a clause relating to a change in control, either by acquisition of more than 50% of the voting shares or by obtaining the right to appoint the majority of the members of the Board of Naturgy Energy Group, S.A. These clauses are subject to additional conditions and therefore their activation depends on the simultaneous occurrence of some of the following events: a material downgrade in the credit rating caused by the change in control, or the loss of investment grade status granted by rating agencies; inability to meet the financial obligations of the contract; a material detrimental event for the creditor; or a material adverse change in creditworthiness. These clauses involve the repayment of drawn-down debt, although they usually have a longer term than that granted in cases of early termination.

At the preparation date of these annual accounts, the Company is not in breach of its financial obligations or of any type of obligation that could give rise to the early maturity of its financial commitments.

The main financial instruments are as follows:

Institutional financing

The Company records a loan from the Official Credit Institute (ICO) relating to instruments maturing in 2029 at maximum, for a total amount of Euros 120 million (Euros 140 million in 2022).

Additionally, in connection with borrowings from institutional banks, the European Investment Bank (EIB) had granted financing to the Company at 31 December 2023 in the amount of Euros 1,550 million maturing between 2025 and 2043 (Euros 1,153 million at 31 December 2022). This amount includes the new loan concluded with the EIB for Euros 700 million in October 2023, of which Euros 500 million had already been drawn down at 31 December 2023, with Euros 200 million yet to be drawn down.

Other bank borrowings

At 31 December 2023, payables to non-institutional credit institutions amount to Euros 877 million (31 December 2022: Euros 1,175 million).

The Group continues to work on strengthening its financial profile and in this respect the main financing operations with credit institutions completed in 2023 and 2022 were the refinancing of credit lines and loans in Spain for Euros 2,156 million (Euros 4,517 million in 2022), which basically include:

2023

- In 2023, credit lines in the aggregate amount of Euros 1,695 million and loans of Euros 461 million were refinanced.

- Additionally, in December 2023 bank loans for an aggregate amount of Euros 750 million have been arranged and are undrawn at year-end.

2022

- Exercising of the one-year extension to 2025 of a Euros 2,000 million syndicated revolving credit facility with ESG metrics included in the pricing mechanism.

- Exercising of the one-year extension to 2024 of a Euros 1,000 million syndicated revolving credit facility with ESG metrics included in the pricing mechanism.

- Credit facilities and bilateral loans amounting to Euros 1,517 million were also renegotiated.

Naturgy also enjoys a comfortable debt maturity profile and balance sheet position, as well as flexibility in its investments and operating expenses for coping with the current economic scenario.

Of total bank borrowings, Euros 1,023 million (Euros 1,094 million at 31 December 2022) is subject to compliance with certain financial ratios.

ESG-linked financing

ESG-linked financing relates to credit lines in Spain, the cost of which is linked to at least one of the following ESG indicators:

- Direct GHG emissions: three-year average reduction (Mt CO_2/GWh)
- CO_2 intensity of electricity generation: three-year average reduction (tCO_2/GWh)
- Water consumption: three-year average reduction (hm^3)
- Women in management positions (%)

The adjustment to the cost of debt is linked to the level of compliance with the above metrics and their variation against the previous year's indicators.

These credit lines, amounting to Euros 4,946 million, have not been drawn down and therefore the impact of the degree of compliance with these indicators on the financial cost is immaterial.

In addition, the terms of said financing do not indicate the existence of an embedded derivative that needs to be separated.

Note 14. Risk management and derivative financial instruments

Risk management

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

- Guaranteeing that the most relevant risks are correctly identified, evaluated and managed.

- Appropriately segregating risk management functions at the operating level.

- Ensuring that the level of risk exposure assumed by Naturgy in its business is in line with the global risk profile and with the achievement of its annual and strategic objectives.

- Ensuring the appropriate determination and review of the risk profile in accordance with the Global Risk Control and Management Policy and the Risk Appetite of Naturgy, approved by the Board of Directors, proposing global limits by risk category and the allocation thereof among the Business and Corporate 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, affect equity and profit, respectively.

The purpose of interest rate risk management is to balance floating and fixed borrowings in order to reduce borrowing costs within the established risk parameters.

The Company employs financial swaps to manage exposure to interest rate fluctuations, swapping floating rates for fixed rates.

The debt structure at 31 December 2023 and 2022 (Note 13), after taking into account the hedges arranged through derivatives, is as follows:

	At 31.12.2023	At 31.12.202
Fixed interest rate	1,245	1,534
Floating interest rate	1,303	964
Total	**2,548**	**2,498**

The variable interest rate is subject to fluctuations in the Euribor.

The sensitivity of results and equity (measurement adjustments) to interest rate fluctuations is as follows:

	Increase/decrease in interest rates (basis points)	**Effect on profit before tax**	**Effect on equity before tax**
31 December 2023	50	(7)	(13)
	-50	7	13
31 December 2022	50	(5)	(19)
	-50	5	19

Following the outbreak of the Ukraine conflict, the European Central Bank decided to reduce its bond-buying stimulus plan launched in March 2020 in response to rising inflation and to raise euro zone interest rates in July 2022 for the first time in over a decade. This first increase was followed by successive rate hikes, the latest being in September 2023 when the European Central Bank raised the three official interest rates by 25 basis points, with the aim of bringing inflation back to 2% in the medium term. As a result, the interest rate on the main refinancing operations increased to 4.50%. Further increases may increase the cost of debt.

Exchange rate risk

Variations in the exchange rates can affect the fair value of:

- Counter value of cash flows related to the purchase-sale of raw materials denominated in currencies other than local or functional currencies
- Debt denominated in currencies other than local or functional currencies.
- Operations and investments in currencies other than the euro, and, accordingly, the counter value of equity contributed and results.

In 2023, the Company has financed its investments in local currency in order to mitigate these risks to the extent possible. Furthermore, it tries to match, whenever possible, costs and revenues indexed in the same currency, as well as amounts and maturities of assets and liabilities arising from operations denominated in currencies other than the euro.

For open positions, the risks in investments in non-functional currencies are managed through financial swaps and foreign exchange fluctuation insurance when its marginal contribution to the risk is material and can exceed the risk limits established.

The currency other than the euro with which the Company operates most is the US Dollar. The sensitivity of the Company's profits and equity (value change adjustments) to a 5% variation (increase or decrease) in the US dollar/ euro exchange rate has no material impact at 31 December 2023 and 31 December 2022.

Commodity price risk

A sizeable proportion of Naturgy's profits are linked to the purchase of gas for supplying a diversified portfolio of customers.

These gas supply contracts are mostly signed on a long-term basis with purchase prices based on a combination of different commodity prices, basically crude oil and its derivatives and natural gas hubs.

However, selling prices to final customers are generally agreed on a short/medium term basis and are conditioned by the supply/demand balance existing at a given time in the gas market. This may imply a decoupling from gas supply prices.

Therefore, Naturgy is exposed to the risk of gas price fluctuations with respect to the selling price to end customers. Exposure to this risk is managed and mitigated by natural hedging, seeking to balance the commodity exposures of both prices. In addition, some supply contracts allow this exposure to be managed through volume flexibility and repricing mechanisms.

When it is not possible to achieve a natural hedge the position is managed, within reasonable risk parameters, through derivatives to reduce exposure to price decoupling risk, generally through hedging instruments. However, ineffectiveness in these hedges could be caused by changes in the expected dates of the purchase and sale transactions, by a reduction in the volumes hedged or by a decoupling from the indices hedged in the purchase and sale transactions.

The Company also purchases gas in the market to be supplied to other Naturgy companies.

In the integrated electricity businesses, the company's aggregate exposure is determined by the strategic generation/supply positioning and by the final sales pricing policies in electricity supply.

Raw materials prices increased significantly throughout 2022 due to the energy crisis resulting from the shortage of raw materials caused by the international blockade of Russia, although during 2023 prices have become more stable while maintaining a certain degree of volatility.

Finally, Naturgy is exposed to fluctuations in the price of $CO2$ emission allowances allocated to generation in its combined cycle plants. Naturgy invests part of its cash surpluses in $Co2$-linked notes.

Naturgy does not have any material investments in upstream businesses or raw materials production.

Business segment sensitivity to the prices of oil, gas, coal and electricity is explained below:

- Gas and electricity distribution. This is a regulated activity in which revenue and profit margins are linked to distribution infrastructure management services rendered, irrespective of the prices of the commodities distributed.

- Gas and electricity. Profit margins on gas and electricity supply activities are directly affected by commodity prices. In this regard, Naturgy has a risk policy that stipulates the tolerance range, based on applicable risk limits, among other aspects. Measures employed to keep risk within the stipulated limits include active supply management, balanced acquisitions and sales formulae, and specific hedging so as to maximise the risk-profit relationship. Supplementary to the above-mentioned policy, Naturgy has mechanisms for ordinary and extraordinary price reviews, by means of the relevant clauses, with a large part of its supply portfolio. These clauses allow, in the medium term, the modulation of impacts in the event of any decoupling between Naturgy's selling prices in its markets and the evolution of prices in its supply portfolio.

Credit risk

Credit risk is defined as the potential loss resulting from the possible nonfulfillment of the contractual obligations of counterparties with which Naturgy does business.

Naturgy performs solvency analyses on the basis of which credit limits are assigned and any necessary provisions are determined. Based on these models, the probability of customer default can be measured and the expected commercial loss can be kept under control. In addition, credit quality and portfolio exposure are monitored on a recurring basis to ensure that potential losses are within the limits provided for by internal regulations. This allows a certain capacity to anticipate events in credit risk management.

Credit risk relating to trade receivables is reflected in the balance sheet net of provisions for bad debts (Note 9), estimated by the Company on the basis of the ageing of the debt and past experience in accordance with the prior segregation of customer portfolios and the current economic environment.

Credit risk relating to trade accounts receivable is historically limited given the short collection periods of customers. Significant amounts do not accumulate individually before supply can be suspended due to non-payment, in accordance with applicable regulations.

With respect to other exposures to counterparties in transactions involving financial derivatives and the investment of cash surpluses, credit risk is mitigated by carrying out such operations with reputable financial institutions in line with internal requirements. No significant defaults or losses arose in 2023 or 2022.

The ageing analysis of financial assets concluded that there were no unimpaired, past due financial assets at 31 December 2023 and 2022.

An ageing analysis of financial assets and related expected losses at 31 December 2023 and 31 December 2022 is set out below:

31.12.2023	**Total**	**Current**	**0 to 180 days**	**180 to 360 days**	**Over 360 days**
Expected loss ratio	92.9 %	—	—	—	100.0 %
Trade receivables for sales and services	28	2	—	—	26
Expected loss	26	—	—	—	26

31.12.2022	**Total**	**Current**	**0 to 180 days**	**180 to 360 days**	**Over 360 days**
Expected loss ratio	28.0 %	—	—	—	100.0 %
Trade receivables for sales and services	93	67	—	—	26
Expected loss	26	—	—	—	26

The expected loss ratio is calculated as the quotient of the expected loss divided by customers for sales and services rendered. It basically includes the bad debts of supply companies in the Electricity Market in the period in which the Company acted as representative of Naturgy's generation and marketing companies vis-à-vis the market.

Impaired financial assets are broken down in Note 9.

Concerning supplier credit risk, the solvency of each supplier of products and services is guaranteed through the recurring analysis of their financial information, particularly prior to new engagements. To this end, the relevant assessment criteria are applied depending on the supplier's criticality in terms of service or concentration. This procedure is supported by control mechanisms and systems and supplier management.

At 31 December 2023 and 2022 the Company did not have significant concentrations of credit risk.

At 31 December 2023, 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.

Liquidity risk

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

At 31 December 2023, the Company presented a negative working capital of Euros 2,271 million (Euros 455 million in 2022). At 31 December 2023, available cash totalled Euros 6,944 million (Euros 8,271 million in 2022), including cash and cash equivalents of Euros 1,598 million described in Note 10 (Euros 2,981 million in 2022) together with undrawn bank financing and credit lines totalling Euros 5,346 million (Euros 5,290 million in 2022).

There is also additional unused capacity to issue debt in capital markets amounting to Euros 6,099 million (Euros 5,458 million at 31 December 2022) (Note 15).

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 resources and seeking to maximise efficiency in the management of financial resources.

Capital management

The main purpose of the Company's capital management is to ensure a financial structure that can optimise capital cost and maintain a solid financial position, in order to combine value creation for the shareholder with the access to the financial markets at a competitive cost to cover financing needs.

Naturgy considers the following to be indicators of the objectives set for capital management: maintaining, after the acquisition of Unión Fenosa, a long-term leverage ratio of approximately 50%.

The Company's long-term credit rating is as follows:

	2023	2022
Standard & Poor's	BBB (*)	BBB (**)
Fitch	BBB (*)	BBB (**)

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

Derivative financial instruments

The breakdown of derivative financial instruments by category and maturity is as follows:

	At 31.12.2023		At 31.12.2022	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Hedging derivative financial instruments	**22**	**—**	**69**	**—**
Interest rate hedges				
Cash flow hedges	22	—	69	—
Other financial instruments	**80**	**81**	**63**	**63**
Price of commodities	80	81	63	63
Derivative financial instruments – non current	**102**	**81**	**132**	**63**
Hedging derivative financial instruments	**34**	**—**	**16**	**25**
Interest rate hedges				
Cash flow hedges	34	—	16	—
Interest and exchange rate hedges				
Cash flow hedges	—	—	—	25
Other financial instruments	**5**	**5**	**710**	**711**
Price of commodities	5	5	710	711
Derivative financial instruments current	**39**	**5**	**726**	**736**
Total	**141**	**86**	**858**	**799**

The fair value of derivatives is determined based on the quoted price in an active market (Level 1) and observable variables in an active market (Level 2) .

“Other financial instruments” includes derivatives not qualifying for hedge accounting.

The impact on the Income statement of derivative financial instruments is as follows:

	2023		2022	
	Operating profit	**Net financial income/ (expense)**	**Operating profit**	**Net financial income/ (expense)**
Cash flow hedge	—	17	—	(17)
Other financial instruments	(2)	—	5	—
Total	**(2)**	**17**	**5**	**(17)**

The breakdown of derivatives at 31 December 2023 and 2022, their fair value and maturities of their notional values is as follows:

	At 31.12.2023							
	Fair value	**Notional value**						
		2024	**2025**	**2026**	**2027**	**2028**	**Subsequent years**	**Total**
INTEREST RATE HEDGES:								
Cash flow hedges:								
Financial swaps (EUR)	56	70	498	48	329	178	20	1,143
OTHER:								
Price of commodities Derivatives (EUR)	(1)	—	—	—	—	—	—	—
	55	**70**	**498**	**48**	**329**	**178**	**20**	**1,143**

	At 31.12.2022							
	Fair value	**Notional value**						
		2023	**2024**	**2025**	**2026**	**2027**	**Subsequent years**	**Total**
INTEREST RATE HEDGES:								
Cash flow hedges:								
Financial swaps (EUR)	85	191	70	498	48	329	198	1,334
INTEREST RATE AND FOREIGN EXCHANGE RATE HEDGES:								
Cash flow hedges:								
Financial swaps (NOK)	(25)	101	—	—	—	—	—	101
OTHER:								
Price of commodities Derivatives (EUR)	(1)	1	—	—	—	—	—	1
	59	**293**	**70**	**498**	**48**	**329**	**198**	**1,436**

Note 15. Payables to Group companies and associates

The breakdown by maturity of payables to Group companies is as follows:

Maturity	**At 31.12.2023**	At 31.12.2022
2023	—	3,125
2024	3,967	1,634
2025	1,200	1,199
2026	1,595	1,593
2027	1,493	1,490
2028	806	796
2029	1,192	1,191
Subsequent years	610	110
Total	**10,863**	**11,138**

Payables to Group companies mainly relate to debts recorded at amortised cost related to issuances carried out by Naturgy Capital Markets, S.A. and Naturgy Finance, B.V. under the European Medium-Term Notes (EMTN) programme. The balances payable to Naturgy Finance, B.V. in respect of perpetual subordinated debentures amounting to Euros 1,000 million (Euros 1,000 million at 31 December 2022) and to Unión Fenosa Preferentes, S.A. relating to preference shares totalling Euros 110 million (Euros 110 million at 31 December 2022) are also included. At 31 December 2022, it also included 862 million of debt with Naturgy Aprovisionamientos, S.A. following the merger by absorption of Unión Fenosa Gas (UFG) and Naturgy Aprovisionamientos, S.A., described in Notes 4 and 7 of the 2022 annual accounts. This debt has been reclassified in 2023 as cash pooling balances with group companies.

Also included, as payables to Group companies, is accrued unmatured interest amounting to Euros 113 million (Euros 132 million in 2022) and balances with Group companies relating to cash pooling balances for Euros 2,473 million, bearing interest at a rate of 3.056% (Euros 1,222 million in 2022 bearing interest at 0.5%), as well as balances with Group companies relating to consolidated corporate income tax amounting to Euros 209 million (Euros 283 million at 31 December 2022) and balances with Group companies relating to consolidated VAT amounting to Euros 21 million (no balance in 2022).

A breakdown of amounts owed to Group companies due to bond issues of Naturgy Finance, B.V. and Naturgy Capital Markets, S.A. is as follows:

At 31 December 2023

Programme/Company	Country	Year formalised	Currency	Programme limit	Drawn-down nominal amount	Available	Issuances per year
Euro Commercial Paper (ECP) programme							
Naturgy Finance B.V.	Netherlands	2010	Euro	1,000	—	1,000	—
European Medium Term Notes (EMTN) programme							
Naturgy Capital Markets, S.A. and Naturgy Finance, B.V.	Netherlands /Spain	1999	Euro	12,000	7,005	4,995	—

At 31 December 2022

Programme/Company	Country	Year formalised	Currency	Programme limit	Drawn-down nominal amount	Available	Issuances per year
Euro Commercial Paper (ECP) programme							
Naturgy Finance B.V.	Netherlands	2010	Euro	1,000	—	1,000	300
European Medium Term Notes (EMTN) programme							
Naturgy Capital Markets, S.A. and Naturgy Finance, B.V.	Netherlands /Spain	1999	Euro	12,000	7,656	4,344	—

The bonds issued, in a volume of Euros 7,005 million (Euros 7,656 million at 31 December 2022), as is habitual in the Euromarket, could be redeemed in advance provided that such a change in control triggers a downgrade of more than two full notches in at least two of the three ratings that it had obtained, and all the ratings fall below investment grade, and provided that the rating agency states that the rating downgrade results from the change in control.

The main movements for 2023 and 2022 are as follows:

2023

There were no issues under the EMTN and Euro Commercial Paper (ECP) programme in 2023.

In 2023 bonds matured for a total amount of Euros 651 million and with an average coupon of 3.59%.

2022

During 2022, no issuances were made under the EMTN programme.

In 2022 a bond matured for a total amount of Euros 454 million and with an average coupon of 3.88%.

In 2022, issues under the Euro Commercial Paper (ECP) programme totalling Euros 300 million were carried out. There were no outstanding issues at 31 December 2022.

There are no significant differences between the carrying amounts and fair values of Payables to Group companies and associates.

Note 16. Other non-current liabilities and Trade and other payables

The headings “Other non-current liabilities” and “Trade and other payables” at 31 December 2023 and 31 December 2022, classified by nature and category, are as follows:

At 31.12.2023	At fair value through profit and loss	Amortised cost	Total
Derivatives (Note 14)	81	—	81
Other non-current liabilities	**81**	**—**	**81**
Derivatives (Note 14)	5	—	5
Other liabilities	—	215	215
Trade and other payables	**5**	**215**	**220**
Total	**86**	**215**	**301**

At 31.12.2022	At fair value through profit and loss	Amortised cost	Total
Derivatives (Note 14)	63	—	63
Other non-current liabilities	**63**	**—**	**63**
Derivatives (Note 14)	711	—	711
Other liabilities	—	345	345
Trade and other payables	**711**	**345**	**1,056**
Total	**774**	**345**	**1,119**

Fair value through profit and loss

Financial liabilities recognised at fair value at 31 December 2023 and at 31 December 2022 are classified as follows:

	At 31.12.2023				At 31.12.2022			
Financial liabilities	**Level 1 (quoted price in an active market)**	**Level 2 (observable variables)**	**Level 3 (unobservable variables)**	**Total**	**Level 1 (quoted price in an active market)**	**Level 2 (observable variables)**	**Level 3 (unobservable variables)**	**Total**
Fair value through profit and loss	—	86	—	86	—	774	—	774
Total	**—**	**86**	**—**	**86**	**—**	**774**	**—**	**774**

This heading includes gas price operating derivatives arranged by the Company with third parties and with other Naturgy companies amounting to Euros 86 million (31 December 2022: Euros 774 million), of which Euros 81 million is classified as non-current (31 December 2022: Euros 63 million) (Note 14).

Amortised cost

The breakdown of this account is as follows:

	At 31.12.2023	At 31.12.2022
Trade payables	72	240
Trade payables, Group companies and associates	14	71
Other payables	42	—
Personnel (outstanding remuneration)	40	18
Public Administrations	47	16
Total	**215**	**345**

Most payables do not accrue interest and have contractual maturity dates of less than 30 days, in the case of payables for gas purchases, and within the legal limits for other suppliers.

Information on the 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.

In accordance with the above regulations, the information to be included in the notes to the annual accounts in relation to the average supplier payment period in commercial transactions is as follows:

	2023	2022
	Amount	**Amount**
Total payments (thousand euro)	432,685	1,291,884
Total outstanding payments (thousand euro)	19,037	21,081
Average supplier payment period (days) (1)	19	26
Transactions paid ratio (days) (2)	19	27
Transactions pending payment ratio (days) (3)	25	23
Total payments within the period established in the default regulations (thousands of euros)	428,694	1,183,136
% of the amount paid within the period established in the default regulations with respect to the total amount paid	99.08 %	91.58 %
Number of invoices paid within the period established in the default regulations	14,461	11,785
% of invoices paid within the period established in the default regulations with respect to the total invoices paid	96.36 %	91.67 %

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

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

(3) Average age, suppliers pending payment balance.

Note 17. Tax situation

Naturgy Energy Group, S.A. is the parent of Tax Group 59/93, which includes all the companies resident in Spain that are at least 75% directly or indirectly owned by the parent company and that fulfil certain requirements, entailing the overall calculation of the group's taxable income, deductions and tax credits. The tax group for 2023 is analysed in Appendix I.

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

The reconciliation of accounting profit for 2023 and 2022 to taxable income is as follows:

	At 31.12.2023	At 31.12.2022
Accounting profit before tax	**1,197**	**1,480**
Permanent differences	**(1,184)**	**(1,411)**
Temporary differences:		
Arising during current year	46	11
Arising in prior years	(47)	(58)
Taxable income	**12**	**22**

Permanent differences mainly relate to the application of the tax consolidation system and the double taxation exemption for dividends and income derived from the transfer of shares under Article 21 of Law 27/2014 on Corporate Income Tax, which has led to negative permanent differences of Euros 1,138 million resulting mainly from negative adjustments for dividends accruing during the year (Euros 1,426 million in 2022), the reversal of impairment of shareholdings in Group companies and associates and other equity interests amounting to Euros 54 million (impairment reversals of Euros 1 million in 2022), the upward adjustment for donations and other minor adjustments amounting to Euros 8 million (Euros 11 million in 2022). In 2022 it also included the results from the sale of investments in Group and associated companies amounting to Euros 5 million.

Taxable income generated in 2023 by the Company amounts to Euros 12 million (Euros 22 million of taxable income in 2022).

Income tax expense is as follows:

	2023	2022
Current-year tax	26	6
Deferred tax	(12)	(51)
Total	**14**	**(45)**

Current corporate income tax is the result of applying a 25% tax rate to taxable income. In the tax group, tax credits applied by the Company in 2023 amounted to Euros 28 million (Euros 12 million in 2022) and no tax losses were offset.

At 31 December 2023, payments had been made of advance corporate income tax in respect of the Group's consolidated corporate income tax of Euros 91 million (Euros 129 million in 2022) and withholdings on investment income amounting to Euros 4 million (Euros 1 million in 2022). The Company, as the parent company of the tax group, also records the net balance of the settlement for the other group companies (Notes 7 and 15).

In 2023 negative adjustments for tax differences from the previous year were recognised amounting to Euros 1 million (no adjustments in 2022).

Income qualifying for the tax scheme for transfers of assets made in compliance with competition law (Additional Provision 4 of the Revised CIT Act) is explained below:

Year of sale	**Amount obtained on the sale**	**Amount reinvested**	**Capital gain**	**Capital gain included in tax base**	**Capital gain pending inclusion in tax base**
2002	917	917	462	20	442
2003	39	39	20	—	20
2004	292	292	177	11	166
2005	432	432	300	2	298
2006	310	310	226	—	226
2009	161	161	87	—	87
2010	752	752	551	—	551
2011	468	468	394	2	392
2012	38	38	32	—	32
Total	**3,409**	**3,409**	**2,249**	**35**	**2,214**

The reinvestment has been made in fixed asset used in business activities both by the Company and by the other companies in the tax group, pursuant to Article 75 of the Revised CIT Act.

A breakdown of the tax effect of each item on the Statement of Recognised Income and Expenses is as follows:

	At 31.12.2023			At 31.12.2022		
	Gross	**Tax effect**	**Net**	**Gross**	**Tax effect**	**Net**
Cash flow hedges	30	(7)	23	(145)	36	(109)
Actuarial gains and losses and other adjustments	23	(6)	17	(65)	14	(51)
	53	**(13)**	**40**	**(210)**	**50**	**(160)**

A breakdown of deferred taxes is as follows:

	At 31.12.2023	At 31.12.2022
Deferred tax assets:	129	120
- Achievable within one year	17	11
- Achievable in more than one year	112	109
Deferred tax liabilities:	(267)	(275)
- Achievable in more than one year	(267)	(275)
Net deferred tax	**(138)**	**(155)**

Set out below is an analysis of and movements in deferred taxes:

Deferred tax assets	**Provisions**	**Tax credits**	**Valuation of assets and financial instruments**	**Goodwill**	**Other**	**Total**
At 1.1.2022	**109**	**38**	**15**	**10**	**1**	**173**
Creation (reversal)	(13)	(10)	—	(1)	—	(24)
Movements linked to equity adjustments	(13)	—	(15)	—	—	(28)
Transfers and other	(1)	—	—	—	—	(1)
At 31.12.2022	**82**	**28**	**—**	**9**	**1**	**120**
Creation (reversal)	—	—	—	(1)	—	(1)
Movements linked to equity adjustments	6	—	—	—	—	6
Transfers and other	2	2	—	—	—	4
At 31.12.2023	**90**	**30**	**—**	**8**	**1**	**129**

Deferred tax liabilities	**Differences Depreciation**	**Deferred gains**	**Valuation of liabilities and financial instruments**	**Other**	**Total**
At 1.1.2022	**2**	**207**	**—**	**41**	**250**
Creation (reversal)	—	—	—	27	27
Movements linked to equity adjustments	—	—	22	—	22
Transfers and other	—	—	—	(24)	(24)
At 31.12.2022	**2**	**207**	**22**	**44**	**275**
Creation (reversal)	(1)	—	—	12	11
Movements linked to equity adjustments	—	—	(7)	—	(7)
Transfers and other	—	—	—	(12)	(12)
At 31.12.2023	**1**	**207**	**15**	**44**	**267**

In 2015, the demerger of the thermal and hydraulic power generation business from the Company to Naturgy Generación, S.L.U. was completed. Pursuant to Article 76.3 of Law 27/2014 on corporate income tax in force in 2015, this operation was defined as a non-cash contribution of a line of business and was thus subject to the special scheme provided by Title VII, Chapter VIII of that law. The information requirements stipulated in the special tax scheme are fulfilled in the notes to the Company's 2015 annual accounts.

In 2014, the demerger of the thermal and hydraulic power generation business from the Company to Naturgy Generación, S.L.U. was completed. Pursuant to Article 83.3 of Royal Decree-Law 4/2004 whereby the Revised CIT Act was approved, this operation is defined as a non-cash contribution of a line of business and is thus subject to the special scheme provided for in Title VII, Chapter VIII of said Act. The information requirements stipulated in the special tax scheme are fulfilled in the notes to the Company's 2014 annual accounts.

In 2009 the merger took place whereby Unión Fenosa, S.A. and Unión Fenosa Generación S.A. were absorbed the Company. The merger was performed under the special tax scheme for mergers, spin-offs, asset contributions, share exchanges and changes of registered address of European companies or European cooperatives from one European Union Member State to another, regulated in Title VII, Chapter VIII of the Revised CIT Act. The information requirements stipulated in the special tax scheme are fulfilled in the notes to the Company's 2009 annual accounts.

In July 2021 tax inspection proceedings were instigated against the Company as the parent company of Group 59/93 in relation to corporate income tax and as the parent company of Group 273/08 with respect to VAT. These proceedings are partial in nature in both taxes, the object of the verification being limited to certain aspects of the tax obligation. The periods under inspection for corporate income tax purposes (tax consolidation regime) are 2016 to 2019 and for VAT purposes (corporate group regime) from September 2017 to December 2020.

This notification interrupts the limitation period for assessing the taxes for the periods mentioned above with respect to the entire tax group for corporate income tax purposes and the VAT group for VAT purposes.

In addition, as part of the same inspection procedure, the Personal Income Tax, withholdings and payments on account of earned income, for the periods September 2017 to December 2020, and the Non-resident Income Tax , withholdings on capital income, for the periods April 2018 to December 2020, are subject to verification with limited scope.

The above-mentioned inspection procedures concluded in 2023. On 22 and 29 March 2023 tax assessments were agreed with respect to Group personal income tax withholdings and VAT, resulting in a total adjustment of Euros 0.2 million and Euros 1.2 million, respectively, including late-payment interest. This amount was fully provisioned and was paid on 29 May 2023 within the statutory deadline.

In May 2023, the tax assessments for corporate income tax were agreed and signed, resulting in an adjustment of Euros 36 million (Euros 31 million in tax and Euros 5 million in interest). This amount was fully provisioned and was paid in July 2023 within the statutory deadline.

In July 2023 an assessment was contested relating to withholdings and payments on account from investment income paid to non-resident entities which, at the date of issue of these annual accounts, has been appealed against before the Central Economic-Administrative Court (Note 27).

Concerning tax-related appeals, on 29 September 2022 the ruling was received from the Central Economic-Administrative Court (TEAC) on an appeal against the tax assessments resulting from an inspection on corporate income tax for the periods 2011-2015, which were contested and which basically regularised the deduction for international double taxation. The TEAC rejected the appeal in its entirety and an administrative appeal was lodged against that ruling before the National High Court. At the date of authorisation for issue of these annual accounts all the formalities have been completed at the National High Court, except for setting a date for the vote and judgement procedure.

The enforceability of the assessments has been suspended and the provision for the full amount of the liability is recorded under "Provisions" (Note 12) and has been updated at 31 December 2023 and 31 December 2022 for the late payment interest accrued while the suspension continues.

According to the Spanish tax legislation, at the date of formulation of these annual accounts, the Company has open for inspection by the tax authorities the last four years of the main taxes that are of application not affected by the inspection procedure indicated in the preceding paragraphs.

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

Naturgy assesses uncertain tax treatments and reflects the effect of uncertainty on fiscal profit (loss), tax bases and unused tax losses or credits. Naturgy has adequately covered possible obligations arising from various tax claims without uncertain tax litigation or treatment being individually significant.

The General State Budget Act 2022 approved the amendment of Corporate Tax Act 27/2014 establishing a minimum taxation of 15% on the taxable basis. This amendment has not had an impact on the liquidation of corporate tax for the year 2022 and does not foresee that it will be able to do so in subsequent years as the deductions applied do not imply a reduction of the effective tax rate below this percentage.

The Directorate is closely following developments related to the implementation of international tax reforms introducing a global minimum additional tax (Pillar Two). During the year 2023, given that none of the jurisdictions in which the group operates had enacted, or substantially enacted, tax legislation related to the supplementary tax as of the date of these Annual Accounts of 31 December 2023, no impact on them. Once changes to tax laws are enacted, or substantially enacted, in any jurisdiction in which the group operates, the Company may be subject to supplementary tax.

The group may potentially be subject to supplementary tax because it has operations in Ireland where the statutory tax rate is 12.5% and in Puerto Rico where, as a result of the special tax regime granted to our subsidiaries, its effective tax rate is reduced below 15%, although in the case of Ireland, the national tax authorities have announced that, pursuant to Council Directive (EU) 2022/2523 of 15 December 2022, on the guarantee of an overall minimum level of taxation for multinational groups and large national groups, a supplementary tax will be approved to bring the minimum tax rate to 15%.

Management is evaluating the current potential tax impacts of this top-up tax, although it considers that they will not be material and estimates that, if the top-up tax were to apply in 2023, the effect would be at around Euros 20 million.

In Spain, the preliminary draft law establishing a supplementary tax has been submitted for public information in order to guarantee an overall minimum level of taxation for multinational groups and large-scale groups involved in transposition into the regulatory acquis of Directive 2022/2523.

The Company is analysing the implementation of the most appropriate technological tools in order to properly fulfill the new tax obligations imposed by Pilar Dos and in particular, for the legislation that is expected to be approved by the Parliament of Spain in 2024.

On December 28, 2022, the Official State Gazette published Law 38/2022, among others, the Temporary Energy Levy is approved to deal with the energy cost overruns that the whole economy must bear as a consequence of the extraordinary circumstances produced by the war between Russia and Ukraine and the volatility of energy markets. This levy must be paid by the main operators in the various energy sectors. If the principal operator is part of a tax group, the extraordinary charge is 1,2% of the net amount of the turnover of the tax group and it is established that the amounts corresponding to regulated activities shall be eliminated.

This tax is considered to be a non-taxable public service, and therefore its accounting as a tax shall take place on 1 January 2023, 2024 and 2025, in so far as they are the due dates thereof, and for the entire annual amount payable. The energy charge has been paid in the year 2023 on the basis of the amounts for the year 2022 and in the year 2024 it will be based on the amounts for the year 2023, practising a partial income of 50% between 1 and 20 February and the definitive income between 1 and 20 September. The amount paid by the Company for this purpose was Euros 165 million in 2023, and the other companies in the tax group were distributed on the basis of the net amount of the turnover of each of them, corresponding to the Company an amount of EUR 1 million. As of the date of preparation of these annual accounts, the Tax Agency has communicated the start of partial tax inspection proceedings in relation to the energy tax.

On the other hand, Royal Decree Law 8/2023 of 27 December, published in the Official State Gazette on 28 December, agreed to extend to the year 2024 the validity of the levy incorporating in this exercise, through the General State Budget Law for 2024 an incentive that will be applicable to those who are obliged to pay the temporary energy levy for strategic investments that are essential for the ecological transition in our country, such as energy storage, new renewable fuels (such as biogas, biomethane or green hydrogen) and their associated network infrastructures, as well as investments associated with national or European value chain to contribute to the energy autonomy that will be made from 1 January 2024.

This same Royal Decree Law announces the Government's willingness to review the tax for its transformation into a tax that becomes part of the Spanish tax system for all purposes, including the corresponding agreements with the historical territories of the Basque Country and the agreement with the Autonomous Community of Navarre.

Naturgy has analysed in depth the law that regulates the energy levy and has filed a lawsuit before the National Court. Likewise, it will proceed to submit the corresponding request for the refund of undue income for the amounts already paid in 2023 (in relation to the 2022 financial year).

The same Law 38/2022 introduces a modification to the tax consolidation regime with effects limited to the 2023 financial year, according to which, the tax base of the groups that are taxed under the consolidation regime may only incorporate 50% of the individual negative tax bases, with the other 50% pending application in the following ten years. The expected impact of this measure on the group's corporate income tax settlement for the 2023 financial year represents an increase in quota of Euros27 million.

Royal Decree Law 8/2023, of 27 December, published in the Official State Gazette of 28 December, in addition to the amendment relating to the temporary energy levy mentioned above, incorporates a series of other tax measures, including the following:

- Extension of the application of the reduced VAT rate of 10% to supplies of electricity to customers with installed power of less than 10 kW or who are at risk of social exclusion, as well as to supplies of natural gas, pellets, briquettes and firewood from biomass intended for heating systems.

- The suspension of the Tax on the Value of the Production of Electricity is gradually eliminated so that, in the determination of the taxable base for the first quarter, only 50% of the total amount that corresponds to the taxpayer for the production and incorporation of electrical energy into the electricity system, measured in plant busbars, will be taken. For the second quarter, 75% of the amount will be taken and for the third and fourth quarters, 100% of the taxable base will be taken.

- The tax rate of the Special Tax on Electricity is gradually increased so that during the first quarter the applicable tax rate will be 2.5% and for the second quarter the tax rate will be 3.8% and from the third quarter it will return to the tax rate provided for in Law 38/1992 on Excise Taxes set at 5.11269632%.

On 18 January, the Constitutional Court issued a ruling declaring the unconstitutionality of several measures introduced in Corporate Income Tax by Royal Decree 3/2016, specifically the tightening of the limits for the offsetting of negative tax bases, for the application of deductions for double taxation and the obligation to include in the taxable base the impairments of holdings that had been deducted in previous years. However, in that judgment, the temporal effects of unconstitutionality were limited, so that only companies or tax groups that had challenged their self-assessments of the tax before the date of the judgment could benefit from that unconstitutionality. On that date, Naturgy had filed briefs challenging the Tax Group's self-assessments, for the years 2016 to 2020, so that it can benefit from the effects of the declared unconstitutionality. This is considered to be after the end of the financial year. The impact that is not estimated to be material is currently being calculated and, in any case, will affect the 2024 financial year.

Note 18. Revenue

Revenue breaks down as follows:

	2023	2022
Natural gas sales and other	173	718
Income from equity instruments of Group companies and associates (Note 7)	1,187	1,474
Income from marketable securities and other financial instruments of Group companies and associates	458	436
Total	**1,818**	**2,628**

	2023	2022
Domestic market	1,663	2,064
Foreign market:	155	564
- European Union	155	563
- Other countries	—	1
Total	**1,818**	**2,628**

Gas sales are made basically in the domestic and European market and relate to gas and electricity sales to other Naturgy companies in which the Company acts as principal.

Note 19. Raw materials and consumables

Includes gas purchases related to the activity of selling gas to other Naturgy companies in which the Company acts as principal.

Note 20. Personnel expenses

A breakdown of this heading in the income statement for 2023 and 2022 is as follows:

	2023	2022
Wages and salaries	53	50
Termination benefits	25	2
Share-based payments (Note 11)	5	5
Social security costs	5	5
Other social costs	4	3
Other	5	5
Total	**97**	**70**

The average number of Company employees in 2023 and 2022 is as follows:

	2023	2022
Executives	32	32
Middle management	94	86
Specialists	171	164
Operational staff	20	22
Total	**317**	**304**

The average number of Company employees during 2023 and 2022 with a disability equal to or greater than 33% is as follows:

	2023		2022	
	Men	**Women**	**Men**	**Women**
Executives	—	—	—	—
Middle management	—	—	—	—
Specialists	3	1	2	1
Operational staff	1	1	—	1
Total	**4**	**2**	**2**	**2**

The number of Company employees at the end of 2023 and 2022 broken down by category and gender is as follows:

	2023		2022	
	Men	**Women**	**Men**	**Women**
Executives	24	7	27	7
Middle management	49	47	46	45
Specialists	69	99	80	95
Operational staff	3	15	3	19
Total	**145**	**168**	**156**	**166**

Note 21. Other operating expenses

A breakdown of this heading in the income statement for 2023 and 2022 is as follows:

	2023	2022
Leases, royalties, operation and maintenance	27	26
Professional services and insurance	19	17
Advertising and other commercial services	17	16
Contribution Naturgy Foundation	6	6
Banking services	6	6
Supplies	5	10
Taxes	2	1
Lean Services	45	9
Other	34	45
Total	**161**	**136**

The Company makes contributions to the Naturgy Foundation to enable it to carry out its energy and environmental projects, basically in the community area, as well to fund international initiatives.

In the community area, the Naturgy Foundation has broadened its activities to place greater emphasis on its community initiatives, defining new strategic lines for actions aimed at palliating energy vulnerability.

In 2023 "Lean Services" includes an amount of Euros 45 million corresponding to processing costs (Euros 9 million in 2022).

Note 22. Other operating income

This account includes Euros 62 million in transactions with group companies and associates in 2023 (Euros 69 million in 2022) and mainly relate to the recharging of expenses.

Note 23. Net financial income/(expense)

The breakdown of this account in the Income statement for 2023 and 2022 is as follows:

	2023	2022
Income from equity instruments	—	1
Income from marketable securities and other financial instruments	61	11
Total financial income	**61**	**12**
Cost of borrowings	(331)	(278)
Interest expense on pensions (Note 12)	(7)	(4)
Other financial expense	(26)	(18)
Total financial expense	**(364)**	**(300)**
Impairment and gains/(losses) on disposals of financial instruments	(1)	—
Net financial income/(expense)	**(304)**	**(288)**

Other financial expenses include sundry fees and commissions, mainly for the renewal of loans with credit institutions and other items.

Note 24. Foreign currency transactions

Transactions effected in foreign currencies are analysed below, the main currency being the US dollar:

	2023	2022
Sales	48	515
Other operating income	—	1
Income from marketable securities and other financial instruments of group companies and associates	9	17
Purchases	(48)	(515)
Services received	(1)	(1)
Financial expenses by borrowings from group companies and associates	(2)	(5)
Total	**6**	**12**

Note 25. Information on transactions with related parties

Related parties are as follows:

- Significant Naturgy shareholders, i.e. those directly or indirectly owning an interest of 5% or more, and those who, though not significant, have exercised the power to propose the appointment of a member of the Board of Directors.

  Based on this definition, the significant shareholders of Naturgy are:
  - Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona, "La Caixa" holding through Criteria Caixa, S.A.U. (Criteria)
  - Global Infrastructure Partners III and related companies, whose investment manager is Global Infrastructure Management LLC, holds its interest indirectly through GIP III Canary 1, S.à.r.l. (GIP)
  - CVC Capital Partners SICAV-FIS, S.A. , through Rioja Acquisitions S.à.r.l. (CVC)
  - IFM Global Infrastructure Fund, through Global InfraCo O (2), S.à.r.l. (IFM)

- Directors and executives of the company, and their close relatives. The term "director" means a member of the Board of Directors and the term "senior management personnel" refers to personnel reporting directly to the Executive President and the Internal Audit Manager. Operations with directors and executives are disclosed in Note 26.

- Transactions between Naturgy companies form part of ordinary activities and are effected at arm's length.

The aggregated amounts of operations with significant shareholders are as follows (in thousand Euros):

Income and expense (in thousand Euros)	2023 Criteria	CVC	GIP	IFM	2022 Criteria	CVC	GIP	IFM
Receipt of services	—	—	—	—	1	—	—	—
Total expenses	**—**	**—**	**—**	**—**	**1**	**—**	**—**	**—**
Total income	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Other transactions (in thousand Euros)	**Criteria**	**CVC**	**GIP**	**IFM**	**Criteria**	**CVC**	**GIP**	**IFM**
Dividends and other profits distributed	388,440	301,287	300,207	212,184	310,752	241,030	240,165	157,387

The aggregated amounts of operations with group companies and associates are as follows (in million Euros):

	2023		2022	
Expenses, income and other transactions	**Group companies**	**Jointly-controlled entities and associates**	**Group companies**	**Jointly-controlled entities and associates**
Financial expenses	(270)	—	(245)	—
Receipt of services	(5)	—	(10)	—
Purchases of goods	(116)	—	(553)	—
Total expenses	**(391)**	**—**	**(808)**	**—**
Financial income	458	—	432	4
Dividends received	1,212	—	2,044	—
Sale of goods	241	—	3,198	—
Other income	226	—	69	—
Total income	**2,137**	**—**	**5,743**	**4**

In 2023 and 2022, "Purchases of goods" relates mainly to purchases of natural gas from Group companies.

The heading "Dividends received" includes the supplementary dividend payments made against the share premium account and reserves, recorded as a Euros 25 million decrease in investments in group companies (Euros 570 million in 2022) (Note 7).

The heading "Sale of goods" includes sales of natural gas derived from supply contracts and gas commodity settlements passed on to group companies, which are recorded net under Revenue.

The heading "Other income" basically includes revenue from the impact of costs incurred (Note 22), with the allocation of the Temporary Energy Levy in 2023 (Note 17)

Costs shared between the Company and other Naturgy companies are allocated on the basis of business or cost generation parameters.

Detailed definitions are prepared of services to be provided and of related activities or tasks in order to determine the measurement indicators used to calculate costs allocated. Transactions between companies are objective, transparent, non-discriminatory and always effected at arm's length.

Note 26. Information on members of the Board of Directors and the Management Committee

Remuneration of the members of the Board of Directors

The remuneration policy for the members of the Board of Directors was approved at the General Shareholders' Meeting held on 15 March 2022 and is periodically revised by the Board of Directors following a report from the Appointments and Remuneration Committee, in order to keep it aligned with the best practices in the reference market and with the objectives indicated in the Bylaws.

The amount accrued by the members the Board of Directors of Naturgy Energy Group, S.A., for belonging to the Board of Directors, Audit and Control Committee (ACC), Appointments, Remuneration and Corporate Governance Committee (ARGC) and Sustainability Committee (SC), totalled Euros 3,737 thousand (Euros 3,762 thousand in 2022). The amount for 2023 is detailed below (expressed in euros):

	Office	Board	ACC	ARGC	SC	Total
Mr. Francisco Reynés Massanet	Executive Chairman	1,100,000				1,100,000
Ms. Helena Herrero Starkie	Coordinating Director	205,000	44,000		66,000	315,000
Mr. Ramón Adell Ramón	Director	175,000	44,000			219,000
Mr. Enrique Alcántara-García Irazoqui	Director	175,000		44,000		219,000
Ms. Isabel Estapé Tous	Director	175,000			44,000	219,000
Ms. Lucy Chadwick	Director	175,000			44,000	219,000
Mr. Rajaram Rao	Director	175,000		44,000		219,000
Mr. Claudi Santiago Ponsa	Director	175,000	66,000	44,000		285,000
Mr. Pedro Sainz de Baranda Riva	Director	175,000	44,000	66,000		285,000
Mr. Jaime Siles Fernández-Palacios	Director	175,000			44,000	219,000
Rioja S.à.r.l, Mr. Javier de Jaime Guijarro	Director	175,000		44,000		219,000
Mr. José Antonio Torre de Silva López de Letona (1)	Director	132,661	33,355			166,016
Theatre Directorship Services Beta, S.à.r.l., Mr. José Antonio Torre de Silva López de Letona (1)	Director	42,339	10,645			52,984
		3,055,000	**242,000**	**242,000**	**198,000**	**3,737,000**

(1) On 28 March 2023 his appointment as an individual director was formalised, replacing the legal entity Theatre Directorship Services Beta, S.à.r.l.

In 2023, as in 2022, no amounts were received for other items.

At 31 December 2023 the Board of Directors comprised 12 members (12 members at 31 December 2022), the Audit and Control Committee had 5 members (5 members at 31 December 2022), the Appointments, Remuneration and Corporate Governance Committee had 5 members (5 members at 31 December 2022) and the Sustainability Committee had 4 members (4 members at 31 December 2022).

The members of the Board of Directors of Naturgy Energy Group, S.A., excluding the Executive Chairman, have not received remuneration from profit sharing, bonuses or indemnities, and have not been granted any loans or advances. Neither have they received shares or share options during the year, nor have they exercised options or have options to be exercised.

The members of the Board of Directors are covered with the same liability policy that insures all managers and directors of Naturgy. The premium paid in 2023 by Naturgy Energy Group, S.A. amounted to Euros 673 thousand (Euros 766 thousand in 2022).

Management Committee Remuneration

For the sole purposes of the information contained in this section, the Management Committee is considered to be the Executive Chairman in relation to his executive functions, the directors reporting directly to the Executive Chairman and the Internal Audit Director.

At 31 December 2023 nine persons mad up this group, excluding the Executive Chairman and the Internal Audit Director (nine persons at 31 December 2022), these being the same executives that comprised the Management Committee at 31 December 2022.

The amounts accrued by the Management Committee in 2023 with respect to fixed remuneration, variable remuneration and other items amounted to Euros 11,504 thousand (Euros 5,650 thousand, Euros 5,608 thousand and Euros 246 thousand, respectively) and to Euros 11,261 thousand in 2022 (Euros 5,356 thousand, Euros 5,666 thousand and Euros 239 thousand, respectively). As in 2022, the amount relating to the annual variable remuneration of the Executive Chairman will be settled as a voluntary contribution to his retirement pension plan in accordance with the terms of the relevant agreement.

Share-based payments are detailed in Note 11.

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled Euros 1,657 thousand in 2023 (Euros 1,471 thousand in 2022). The funds accrued for these contributions, including in the case of the Executive Chairman the amounts contributed voluntarily since 2018 corresponding to his annual variable remuneration accrued, amount to Euros 25,873 thousand for all directors at 31 December 2023 (Euros 21,302 thousand at 31 December 2022).

At 31 December 2023, Naturgy granted guarantees on loans to management personnel amounting to Euros 1,115 thousand. No indemnities were received for departures from the Management Committee in 2023 (none in 2022).

The Chairman's contract approved by the Board of Directors on 6 February 2018 and consistent with the remuneration policy for the members of the Board of Directors approved at the General Shareholders' Meeting held on 28 March 2023, establishes a fixed remuneration component, an annual variable component and a long-term incentive plan, as well as other welfare benefits.

The Chairman's contract provides for an indemnity in the event of the termination or non-renewal of his directorship amounting to two years' total remuneration: total fixed remuneration, annual variable remuneration and the annualised part of long-term remuneration (equivalent to 1.25 times the total fixed remuneration). The indemnity will not be payable in the event of the serious and culpable nonfulfillment of his professional obligations causing significant harm to Naturgy's interests. In addition, as consideration for a post-contractual no-competition agreement with a duration of one year, an indemnity equivalent to one year's full fixed remuneration is provided for.

The contracts concluded with the members of the Management Committee (9) contain a clause providing for compensation equivalent to the legally established indemnity, which varies, depending on seniority, between two and three and a half years' salary. This clause applies to cases of unfair dismissal, as well as those referred to in Articles 40, 41 or 50 of the Workers' Statute, and in one of the contracts to certain situations involving a change in control. In addition, the 9 contracts contain a clause providing for compensation equivalent to one year's fixed remuneration for a post-contractual non-competition commitment lasting up to two years.

Transactions with members of the Board of Directors and the Management Committee

The Directors have the obligation to avoid conflicts of interest as established by the Board Regulations of Naturgy Energy Group, S.A. and Articles 228 and 229 of the Spanish Companies Law. Additionally, these articles require that conflicts of interest involving directors must be reported in the annual accounts.

In 2023 and 2022 the Directors of Naturgy Energy Group, S.A. have not notified the Board of Directors of any general situation of conflict of interest.

In transactions with related parties (significant shareholders) that have been submitted for approval by the Board, subject to a favourable report of the Audit Committee, any directors linked to the related party involved have abstained.

During 2023 and 2022, the members of the Board of Directors and the Management Committee have not carried out related-party transactions outside the ordinary course of business or transactions that have not been conducted under normal market conditions with Naturgy Energy Group, S.A. or Group companies.

Note 27. Contingent liabilities and commitments

Guarantees

Guarantees furnished by Naturgy at 31 December 2023 and 2022 are as follows:

- Guarantees provided to third parties, basically for investment commitments of Group companies, amounting to Euros 11 million (Euros 11 million at 31 December 2022).

- Guarantees provided to public bodies, mainly for tax obligations amounting to Euros 263 million (Euros 75 million as at 31 December 2022).

- Guarantees to group companies Naturgy Capital Markets, S.A., Naturgy Finance, B.V. and Unión Fenosa Preferentes, S.A.U. for debt issuances carried out by them totalling Euros 8,115 million (Euros 8,767 million at 31 December 2022).

- Guarantees for obligations under gas purchase and transport contracts and long-term (20 to 25 years) gas tanker chartering contracts of group companies Naturgy LNG Marketing Ltd, Naturgy LNG GOM Limited and Naturgy Aprovisionamientos, S.A. At 31 December 2023 these contracts amount to Euros 7,693 million (31 December 2022: Euros 10,265 million) valued on the basis of current market conditions for the commodities and currencies to which they are linked.

- Parent Company Guarantees (PCGs) associated with the derivative instruments contracted for a total amount of Euros 1,308 million (31 December 2022: Euros 1,267 million).

As the above guarantees are basically granted in order to guarantee the fulfilment of contractual obligations or investment commitments, the events that would lead to their execution, and therefore a cash disbursement, would be the nonfulfillment by Naturgy of its obligations in the ordinary course of its business, the probability of which is considered remote. Naturgy estimates that the liabilities not foreseen at 31 December 2023 if any, that could arise from guarantees furnished would not be significant.

Contractual commitments

At 31 December 2023 and 2022, the Company has no long-term gas purchase commitments.

Operating lease commitments break down as follows:

	2023	2022
Up to one year	17	19
Between 1 and 5 years	46	63
Between 5 and 10 years	18	26
	81	**108**

In 2023 this mainly includes operating leases without purchase options on five properties, as detailed below:

Property	**Situation**	**Maturity contract**	**Extension contract**
Avda. San Luis, 77	Madrid	2026	5 years
Acanto, 11-13	Madrid	2026	5 years
Avda. América, 38	Madrid	2030	2 periods of 5 years
Avda. Diagonal, 525	Barcelona	2031	2 periods of 5 years

Contingent liabilities for litigation and arbitration

At the date of authorisation for issue of these annual accounts, the Company is not involved in any legal or extrajudicial disputes that might result in the recognition of provisions for litigation in the balance sheet. Nevertheless, the main litigation or arbitration cases in which it is involved are disclosed below:

Contested withholding tax assessments

On 7 July 2023, tax assessments for withholdings on account of non-resident income tax were contested. Allegations against the assessments have been filed with the Central Economic-Administrative Court. It is not considered likely that the risk disclosed therein will materialize.

Note 28. Auditors' fees

The fees accruing in 2023 and 2022 were as follows:

	2023			2022		
	KPMG Auditores, S.L	**Rest KPMG network**	**Total**	**KPMG Auditores, S.L**	**Rest KPMG network**	**Total**
Auditing services	877	—	**877**	1,172	—	1,172
Assurance services and services related to the audit (1)	152	—	**152**	898	312	1,210
Tax services	—	105	**105**	—	167	167
Other services	—	88	**88**	—	86	86
Total fees	**1,029**	**193**	**1,222**	**2,070**	**565**	**2,635**

(1) In 2022, Euros 1,165 thousand was included for the review/audit of the condensed interim consolidated financial statements at June 2022 associated with the Géminis project. This amount is considered as audit work for the purpose of calculating the "non-audit work/audit work" ratio included in Naturgy's Annual Corporate Governance Report 2022.

Note 29. Environment

Environmental actions

Naturgy is aware of its activities' environmental impacts and therefore the Group pays particular attention to the protection of the environment and the efficient use of natural resources to meet energy demand. The Global Environmental Policy, which applies to all countries and businesses, and the Company's highest-ranking policy in favour of sustainable environmental development, the Corporate Responsibility Policy, define Naturgy's environmental action around eco-efficiency, the rational use of natural and energy resources, the minimisation of environmental impact, the promotion of innovation and the use of the best available technologies and processes. They also establish Naturgy's voluntary commitment to be a key player in the energy transition towards a circular and decarbonised economy model which, in line with the objectives of the Paris Agreement, drives climate action and biodiversity protection while promoting a fair and inclusive transition by generating and improving employment opportunities.

Naturgy's most immediate, specific and measurable responsibility towards the environment is set out in the Sustainability Plan, which lays down the objectives that guide the Group in its daily performance, in line with the SDGs set by the United Nations and the Strategic Plan defined for the period 2021-2025. Looking farther into the future, with a view to achieving climate neutrality by 2050 the company is committed to investing now in sustainable activities, many of which are eligible under the European Taxonomy:

- Constructing new renewable generation facilities to reach an installed capacity of 48.2% by 2025.
- Focusing on carbon-neutral renewable gases with a target of producing or injecting at least 0.52 TWh into gas networks by 2025.
- Protecting biodiversity, which is partly affected by the climate challenge, and overcoming the risk of a net loss of natural capital as a strategic priority.

In line with the objectives of the Paris Agreement, Naturgy is committed to becoming carbon neutral by 2050, reducing total Scope 1, 2 and 3 emissions in accordance with the 1.5 ºC - 2 ºC. To this end, the Group will focus on four strategic environmental axes:

- Environmental governance and management.
- Climate change and energy transition.

- Circular economy and eco-efficiency.
- Biodiversity and natural capital.

Detailed information on the Company's environmental management performance and results may be found in the chapter titled "The Opportunity of Environmental Challenges" in the Sustainability Report and Statement of Non-Financial Information for 2023. The most noteworthy milestones are summarised below.

Environmental governance and management

- As reflected in the Environmental Policy, Naturgy goes beyond compliance with legal requirements in environmental matters and adopts more ambitious actions and objectives to ensure respect for the environment. After identifying significant impacts, Naturgy conducts its environmental management based on the principle of prevention, taking the entire business value chain into account. For years, the company has had an integrated management system (IMS) for quality, environment, safety and health, with the environmental component being certified in line with the requirements of ISO 14001 and audited annually. This system aims to prevent pollution and reduce environmental impacts throughout the value chain, involving employees, suppliers and other stakeholders. In 2023, 97.2% of EBITDA derived from certified industrial activities.

- The Company continuously monitors environmental regulations in order to ascertain their potential repercussions on its business in advance. This makes it easier to define its position and adapt to new requirements. Monitoring is implemented through consultation and public information processes in the international, European and domestic spheres. We should highlight that there were no significant environmental sanctions (higher than Euros 10,000) in 2023.

- Concerning possible contingencies, indemnities and other environmental risks that may be incurred by the company, third-party liability insurance policies are in place to cover any damage that might arise.

- The company has obtained various external recognitions in environmental matters. It was classified by CDP as A- for its climate management in 2022 and has remained at the top of this index since 2011.

Climate change and energy transition

- Naturgy is committed to being one of the key players in the energy transition towards a circular and decarbonised economy, as stated in the Environmental Policy. Naturgy operates at all times on the basis of a business model aligned with the highest level of ambition of the Paris Agreement.

- Naturgy has adopted the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), which aim to improve the disclosure of climate-related risks and opportunities and provide stakeholders with the information necessary to conduct consistent analyses of the potential financial impacts of climate change. At the end of 2023, the TCFD announced that it was disolved as a working group, and the International Sustainability Standards Board (ISSB) has assumed the monitoring responsibilities of the TCFD from 2024.

- In 2023, the total carbon footprint (scopes 1, 2 and 3) was reduced by 8% compared with 2022. Scope 1 emissions (direct emissions) were 12.5 million tCO_2eq, 15% lower than in the previous year, mainly due to a lower operation of the Group's combined cycle plants (20% net reduction in electricity generation compared to 2022, mainly in Spain). 2023 has been a good weather conditions year in Spain for renewable generation, meaning that combined cycle plants, which act as back-up for hydroelectric and wind generation, operated less intensively than in 2022, which was a particularly dry year. Indirect Scope 2 emissions were 0.4 million tCO_2eq, an increase of 9%, and Scope 3 emissions were 101.7 million tCO_2eq. The latter have fallen by 8% for a number of reasons, the most relevant being the drop in demand for natural gas among end consumers.

- Renewable gases (biomethane and hydrogen) are the key lever for decarbonising Naturgy's gas business. In 2023, the company participated in biomethane projects, reaching a production or grid injection capacity of 0.30 TWh.

- In Spain, 10,490 GWh of renewable electricity has been supplied with guarantees of origin certified by the CNMC for more than 1.6 million contracts, representing 59% of the energy purchased, and an increase of 6% over the previous year.

- Although it has been producing biomethane for several years and injecting it into the gas network, for the first time in 2023 renewable gas has been marketed in Spain, own or acquired in the market, specifically 7,596 MWh of biomethane with guarantees of origin.

- In 2023, Naturgy launched Naturzero, a new brand designed to help its customers with their decarbonisation objectives through actions to mitigate and adapt to climate change, helping to position companies in a market that is increasingly aware and which takes a preferential approach to the most sustainable organisations and products. Naturzero will provide a comprehensive service to its customers, thanks to three associated products, to calculate, reduce and offset their GHG emissions

Circular economy and eco-efficiency

- With regard to the materials used, fuel consumption has decreased by 17% due to the reduced operation of combined cycle power plants. In other non-combustible materials the reduction has been 11% compared with the previous year, reflecting in both cases an improvement in eco-efficiency. The total quantities of fuels and other materials used in 2023 stood at 4.35 Mt and 5.96 kt respectively.

- Water is a natural resource used in the Group's processes to which particular attention is paid, through analyses of the risks related to water use, discharge quality control, ecological reservoir management, eco-efficiency and the reuse of water in processes, for instance through the integration of wastewater from other activities. On a global level, 777 hm3 have been collected, of which 17 hm3 have been consumed, and 760 hm3 have been returned to the environment in the form of discharges. In absolute terms, in 2023 there were reductions in water abstraction and discharge of 16% in both cases. This was due to the fact that the weather in Spain was favourable for renewable generation leading to a reduction in the activity of combined cycle plants, which act as a back-up for hydroelectric and wind power generation, producing less electricity than in 2022, which was a particularly dry year. To further interpret these results, and given that electricity generation is the activity that uses 99.7% of water resources, specific abstraction, consumption and discharge ratios have been calculated. These indicators, which reflect the amount of water needed to generate one unit of electricity, have shown a considerable improvement compared with the previous year (17.3 hm3/TWh vs 19.2 hm3/TWh) as eco-efficiency has increased, requiring less water to generate one unit of electricity. This is because the proportion of renewable electricity generated, which does not involve water consumption, increased in 2023 against 2022.

- As can be seen, by 2023 there has been a 21% reduction in water abstraction and discharge in water stressed areas, and a 14% reduction in consumption due to the reduced operation of combined cycle power plants, which represents a significant environmental improvement by mitigating pressure on water resources and promoting more sustainable water use.

- In relation to atmospheric pollutants, in absolute terms there has been a decrease in emissions of SO2 emissions (18%), mainly due to the use of a fuel with a lower percentage of sulphur in the transport of LNG in methane. Absolute NOx emissions increased slightly by 0.5%.

- In 2023 there was a 22% increase in total waste generated. By type, hazardous waste increased by 41% and non-hazardous waste by 21%. This increase has occurred in Spain due to an increase in investment and activity for the improvement of the electricity distribution network and an improvement in the reporting of information on the gas distribution business.. The percentage of recycled or recovered waste improved, standing at 95%, an increase of 4% over the previous year.

Biodiversity and natural capital

- Naturgy has initiated a project to assess natural capital and biodiversity in all its activities, as determined in the recommendations published in September 2023 by the Task Force on Nature-related Financial Disclosures (TNFD), which aims to manage and disclose nature-related risks, and to drive integrated assessment and nature-related corporate reporting. In the Sustainability Report and Statement of Non-Financial Information 2023, these recommendations have been followed in the chapter on Biodiversity and natural capital, taking into account the information available at end-2023.

- In 2023, Naturgy implemented numerous actions in the natural capital and biodiversity area, all of which were aligned with the prevention, reduction in and compensation for our impacts, in order to progress in the commitment towards zero net loss in biodiversity and the enhancement of the value of the natural surroundings. Specifically, 353 biodiversity initiatives have been carried out on an international level, 22% of which are voluntary.

- 186 environmental studies have been carried out, particularly in relation to generation facilities (thermal, hydraulic and wind) and electricity distribution, in order to ascertain and monitor environment conditions. In the case of thermal and hydraulic power plants, sampling campaigns have been carried out to determine the physiochemical and biological quality of the aquatic environment (rivers, reservoirs, etc.). The latest studies confirm the normality observed throughout the sample series and conclude that the facilities analysed have an acceptable impact on the environment.

- In 2023, environmental restoration actions were carried out on 335.7 hectares. 22% of this area pertained to protected areas, habitats or species.

European taxonomy

The Revenue indicator shows 23% eligibility, the Opex indicator amounts to 51% eligibility and the Capex indicator reaches 79% eligibility. The result obtained in the Capex indicator reflects the solvency of a sustainable business model and the creation of long-term value for the planet and its inhabitants.

Compared to last year, the Capex eligibility percentage increased by 12%, while the Turnover and Opex figures remained stable at around 23% and 51% respectively. In terms of alignment, Turnover and Capex figures improved by 5% and 15%, respectively, while Opex remained stable.

This topic is analyzed in detail in Section 3.5 in 2023 consolidated annual accounts and in the Annexes to the Sustainability Report and Statement of Non-Financial Information 2023.

Environmental investment and expenditure

The environmental activities undertaken in 2023 totalled Euros 2.5 million (Euros 2.6 million in 2022), comprising Euros 0.2 million relating to environmental investment and Euros 2.3 million relating to the costs of environmental management at facilities and buildings (Euros 0.3 million for environmental investments and Euros 2.3 million related to expenses incurred in environmental management at facilities in 2022).

Emissions

In 2023, consolidated CO2 emissions from Naturgy's cogeneration and combined cycle plants subject to regulations governing the European emission trading system totalled 4.9 million tonnes of CO2 (7.4 million tonnes of CO2 in 2022).

Naturgy devises a strategy each year for managing transfers to its CO2 emission allowance coverage portfolio, acquiring them through its active participation in both the primary and secondary markets.

Note 30. Events after the reporting date

On 12 January 2024, BlackRock announced the acquisition of 100% of Global Infrastructure Partners (GIP), a Naturgy shareholder with a 20.6% interest at 31 December 2023. The transaction is expected to close in the third quarter of 2024, subject to relevant regulatory approvals and other closing conditions.

On 26 February 2024, Naturgy's Board of Directors approved the proposal for the distribution of the Company's net profits for 2023 and retained earnings, which will be submitted to the general meeting of shareholders as described in Note 11.

There have been no other material events after the reporting date..

****

APPENDIX I. NATURGY TAX GROUP COMPANIES

The companies in the Naturgy tax group for the year 2023, according to the statement made to the State Tax Administration Agency, are as follow:

Naturgy Energy Group, S.A.	Naturgy Generación, S.L.U.
Boreas Eólica 2, S.A.	Naturgy Iberia, S.A.
Comercializadora Regulada, Gas & Power, S.A.	Naturgy Informática, S.A.
Energías Ambientales de Somozas, S.A.	Naturgy Infraestructuras EMEA, S.L.
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.	Naturgy Vento, S.A.
H2Meirama, S.L.	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.
JGC Cogeneración Daimiel, S.L.	Nedgia Castilla La Mancha, S.A.
La Propagadora del Gas, S.A.	Nedgia Catalunya, S.A.
Lignitos de Meirama, S.A.	Nedgia Cegas, S.A.
Naturgy Acciones, S.L.U.	Nedgia Madrid, S.A.
Naturgy Alfa Investments, S.A.U.	Nedgia Navarra, S.A.
Naturgy Aprovisionamientos, S.A.	Nedgia, S.A.
Naturgy Capital Markets, S.A.	Operación y Mantenimiento Energy, S.A.
Naturgy Ciclos Combinados, S.L.U.	Parque Eólico Cinseiro, S.L.
Naturgy Clientes, S.A.U.	Parque Eólico Nerea, S.L.
Naturgy Comercializadora Empresas, S.A.	Parque Eólico Peñarroldana, S.L.
Naturgy Commodities Trading, S.A.	Petroleum, Oil & Gas España, S.A.
Naturgy Distribución Latinoamérica, S.A.	Sagane, S.A.
Naturgy Electricidad Colombia, S.L.	Societat Eòlica de L'Enderrocada, S.A.
Naturgy Engineering, S.L.	Tratamiento Cinca Medio, S.L.
Naturgy Future, S.L.U.	UFD Distribución Electricidad, S.A.
Naturgy Generación Térmica, S.L.U.	Unión Fenosa Preferentes, S.A.U.

Naturgy Energy Group. S.A.
2023 Report

DIRECTORS' REPORT

Directors' Report for the year ended 31 December 2023

Contents

1. Main aggregate performances

The main financial aggregates of Naturgy Energy Group, S.A. and their performance are as follows:

	2023	**2022**	**%**
Net turnover	1,818	2,628	(30.8)
Operating profit	1,501	1,768	(15.1)
Profit of the year	1,211	1,435	(15.6)
Shareholders' equity	17,980	18,240	(1.4)
Net equity	18,023	18,306	(1.5)
Financial debt (1)	2,548	2,498	2.0

(1) According to the definition of Alternative Performance Metrics (APM) used, Financial debt corresponds to the sum of the Balance Sheet headings "Long-term Financial Debt" (Euros 2,383 million at 31 December 2023 and Euros 1,939 million at 31 December 2022) and "Short-term financial debt" (Euros 165 million at 31 December 2022 and Euros 559 million at 31 December 2021). The relevance to use corresponds to the measure of the company's indebtedness, which includes current and non-current items. This indicator is widely used in capital markets to compare different companies.

Naturgy Energy Group, S.A., is a company that develops its activity basically through the tendency of other group and associated companies shares, so information bellow refers to Consolidated group of Naturgy (hereinafter, Naturgy).

1.1. Business performance and results

Notes on financial disclosures

Naturgy's financial disclosures contain magnitudes drafted in accordance with International Financial Reporting Standards (IFRS), and Alternative Performance Metrics (APM), which are viewed as adjusted figures with respect to those presented in accordance with IFRS. The attached appendix in Consolidated Directors' Report contains a definition of the APMs.

Main financial aggregates

	2023	2022	**%**
Net sales	22,617	33,965	(33)%
Ebitda	5,475	4,954	11 %
Ebit	3,470	3,083	13 %
Income attributable to equity holders of the parent	1,986	1,649	20 %
Investments	2,136	1,907	12 %
Net borrowings (at 31/12)	12,090	12,070	0.2 %
Free cash flow after non-controlling interests	2,536	1,914	33 %

Key financials & metrics

	2023	2022
Leverage	50.3%	54.7%
EBITDA/Net financial debt cost	11,3x	9,9x
Net financial debt/EBITDA	2,2x	2,4x

Main stock market ratios and shareholder remuneration

	2023	2022
Total no. of shares ('000)	969,614	969,614
Average no. of shares ('000)[1]	960,810	960,908
Share price at 31/12 (Euros)	27.00	24.31
Market capitalisation at 31/12 (Euros million)	26,180	23,571
Earnings per share (Euros)[1]	2.07	1.72
Dividend paid	1,454	1,164

[1] Calculated using the weighted average number of outstanding shares in the year (weighted average number of ordinary shares minus weighted average number of treasury shares).

Key operating aggregates

Distribution	**2023**	2022
Gas distribution (GWh)	378,390	386,464
Electricity distribution (GWh)	32,496	34,033
Gas supply points ('000)	11,060	11,050
Electricity supply points ('000)	4,868	4,827
Gas distribution network (km)	136,970	136,272
Length of electricity transmission and distribution network (km)	156,232	155,060

Gas	**2023**	2022
Supply (GWh)	141,638	217,183
International LNG (GWh)	106,937	125,053
Total gas supply (GWh)	**248,575**	**342,236**

Electricity		
Supply (GWh)	19,471	21,786
Electricity sales (GWh)	1,124	1,734
Total Electric supply (GWh)	**20,595**	**23,520**
Installed capacity thermal generation (MW)	10,675	10,675
Installed capacity renewable (MW)	6,467	5,513
Total installed capacity (MW)	**17,142**	**16,188**
Net production thermal generation (GWh)	31,184	37,485
Net production renewable (GWh)	12,704	9,544
Total net production (GWh)	**43,888**	**47,029**

Environmental and social performance

Environment	2023	2022
Power generation emission factor (t CO2/GWh)	247	279
Greenhouse gas (GHG) emissions (M tCO2 eq)[1]	12.9	15.1
Emissions-free installed capacity (%)	41.0	37.5
Emissions-free net production (%)	38.6	29.4

Interest in people	2023	2022
No. of employees at year-end[2]	7,010	7,112
Training hours per employee	41.5	35.9
Men/women (%)[3]	33.9	32.7

Health and safety	2023	2022
No. of accidents leading to time lost	9	8
Frequency of accidents with time lost	0.13	0.12

Commitment to society and integrity	2023	2022
Economic value distributed (Euros million)	20,193	32,089
No. of complaints received by the Ethics Committee	80	43

[1] GHG: greenhouse gases, measured as tCO_2 equivalent (scope 1 and 2).
[2] Does not include the number of employees at discontinued operations (21 persons in 2023 and 21 persons in 2022).
[3] Does not include employees at discontinued operations.
4. Defined in Annex I to the Alternative Performance Measures

1.2. Executive summary

Following the unprecedented rise of gas and electricity prices in 2022, the year 2023 experienced a decline of energy prices towards historical average levels as the market rebalanced. In this context, gas and power prices remained highly correlated and the decline of gas prices in Europe translated into a similar decline in wholesale electricity prices. Spain electricity prices were among the most competitive in Europe in 2023.

2023 was marked by plenty regulatory developments as well, aimed primarily at a better balance between affordability, stability, and sustainability, ensuring a more resilient energy system for European citizens and businesses, in response to the energy crisis experienced in 2022.

Against this backdrop, Naturgy endeavored to balance incremental growth in renewables while ensuring security of supply as well as competitive and affordable energy prices.

Naturgy reported € 5,475 million in EBITDA in 2023, 10.5% more than in 2022, maintaining a balanced EBITDA mix between regulated and liberalized activities, which represented approximately 47% and 53% of total EBITDA respectively.

The strong results and cash flow generation supported the important step up in investments, while delivering on dividend commitments and maintaining stable net financial debt levels.

During 2023, investments reached €2,944 (+53% vs FY22) including capital expenditure (Capex) of € 2,136m and renewables acquisitions. Investments were mainly devoted to Renewable Generation projects and Networks Distribution.

In Renewable Generation, installed capacity increased 1GW during 2023 reaching a total capacity of 6.5GW. Consistent with Naturgy's strategic focus, the company continued to grow in Spain, Australia and USA. In Spain, capacity increased by 575MW, through the commissioning of new plants and the integration of ASR wind (422MW). In Australia, wind capacity increased 109MW together with 10MW of battery storage. In USA, the 7V Solar Ranch plant in Texas begun trial operations. With 300MW, this is the largest solar plant Naturgy has ever built and an important milestone for the company.

Renewable Generation growth is expected to accelerate in the coming years with up to 1.2GW and 2.3GW additional capacity coming into operation in 2024 and 2025 respectively.

Furthermore, Naturgy continues to progress on Renewable Gases in Spain, with more than 70 biomethane and hydrogen projects under different stages of development. Spain is deemed as a country with highly attractive prospects in biomethane and a production potential of approximately 160 TWh per annum, which is equivalent to roughly 50% of the total gas demand in 2023. Importantly, 160 TWh per annum is 8x larger than the PNIEC target for 2030, and 3x larger than the proportional target for Spain based on the RePower EU 2030 target.

In terms of infrastructure readiness, Gas Distribution Networks are already capable of distributing biomethane with no modifications. Additionally, Spanish networks are considered modern polyethylene networks which can operate with 20-30% hydrogen blending with minor modifications.

Prudent financial management and capital discipline continued to be a priority in 2023 in the face of persisting market volatility and regulatory uncertainty.

At 2023 year-end, Naturgy's net financial debt stood at € 12,090 million, in line with 2022 levels. The ratio of net financial debt to EBITDA fell from 2.4x at 2022 year-end to2.2x at 2023 year-end. Naturgy maintains a comfortable liquidity position with € 9,237 million in cash and cash equivalents and undrawn credit lines at the end of 2023. On 30 May 2023, S&P revised Naturgy's outlook to stable (from negative) and affirmed its BBB credit rating, while on 25 October 2023 Fitch affirmed its BBB long-term issuer credit rating with stable outlook.

In terms of shareholder remuneration, a total dividend against 2023 results of € 1.40/share will be proposed to the Annual Shareholder's Meeting, in accordance with the committed dividend policy. Having completed the payment of two interim dividends corresponding to € 0.50/share each in August and November of 2023 respectively, the final dividend of € 0.40/share shall be payable in April 2024, subject to Annual Shareholder's Meeting approval.

Since 2020, Naturgy had a track record of growing EBITDA, Investment and dividends while reducing Net financial debt. Moreover, Naturgy has exceeded guidance in terms of EBITDA and net financial debt, while delivering on its dividend commitments and investment program objectives for 2023.

The company is also progressing on key ESG metrics and is on track to meet its 2025 ESG targets. Regarding environmental metrics, Naturgy continued to reduce its emissions with an 8.5% reduction vs. 2022. With regards to social aspects, Naturgy continues to enhance diversity within the group, having reached a 34% women representation in management positions. Finally, Naturgy remains committed to best governance practices, as demonstrated by the increase to 20% of the management variable pay linked to ESG metrics, including a fair balance of health and safety, diversity, emissions free installed capacity and employee satisfaction metrics.

Energy demand and commodity prices

Energy demand trended differently in the group's various markets in 2023, declining mainly in Spain and Brazil.

Electricity and gas demand in Spain decreased by an average of 7.2% and 3.2%, respectively, compared to 2022, due to macroeconomic uncertainty and mild temperatures throughout the winter. Similarly, average demand in Gas Distribution Networks Chile and Brazil declined year-on-year by 3.4% and 14.4%, respectively. Conversely, demand for gas and electricity grew in the other Latin American economies where the group operates: by 1.0% in Gas Mexico, 5.6% and 0.4% in Gas and Electricity Argentina, respectively, and 7.3% in Electricity Panama.

Following the unprecedented increase in gas and electricity prices in 2022 linked to the Russia-Ukraine conflict, energy prices declined notably in 2023.

Gas prices in Europe were affected mainly by lower demand and mild temperatures, which resulted in high storage levels, as well as by moderate gas demand in Asia. In this context, average gas prices at the main hubs corrected sharply with respect to the 2022 average: TTF by -63% and JKM by -53%. Wholesale electricity prices decreased by 48% with respect to the 2022 average. Average Brent prices were 18% lower than in 2022.

Regulatory developments

During 2023, the Group was affected by intense regulatory activity and the publication of measures adopted by the Spanish government to mitigate the impact of high energy prices on consumers. See Appendix IV for more information. Regulatory framework of the consolidated annual accounts.

Gemini project

On 10 February 2022, Naturgy reported the decision by its Board of Directors concerning the launch of the Géminis project, consisting of a very significant reorganisation of the corporate group of which Naturgy Energy Group, S.A. is the parent company. Specifically, this project envisaged the partial spin-off of Naturgy Energy Group, S.A. giving rise to two large groups with clearly differentiated business profiles.

Updating the status of the Géminis project to the date of authorisation for issue of these annual accounts, the Board of Directors does not consider, at 31 December 2023, that the conditions for the materialisation of the Géminis project are very probable, as is required by accounting regulations for the net assets subject to the spin-off to be classified as held for sale and for any distribution to be made to shareholders.

COVID-19 update

In May 2023, the World Health Organisation announced that Covid-19 no longer constitutes a Public Health Emergency of International Concern, thereby initiating the transition to long-term management of the disease integrated into the control of acute respiratory infections.

Globally, and particularly in Spain, throughout 2023 the decreasing trend in Covid-related deaths and hospitalisations, the high immunity levels among the population, the low virulence of the successive variants of the disease and the improvement in the management of clinical cases have continued to be observed, resulting in a change in focus of the Covid-19 surveillance and control strategy.

However, Covid-19 has not ceased to be a threat to world health and the global economy, and the Group continues to monitor this risk in order to minimise the adverse effects on business that could be caused by any new outbreaks of the disease.

2. Main risks, opportunities and uncertainties

2.1. Risk management model

Naturgy's risk management model seeks to ensure that the company's performance is predictable within an acceptable bounded range. The model quantifies the variability of performance and ensures that it is in line with strategically defined target levels in all aspects that are of importance to its stakeholders.

Core goals of the risk measurement and management model include ensuring that material risk factors are correctly identified, assessed and managed. The final objective is to ensure that the level of risk exposure assumed by Naturgy in the course of its business is consistent with the company's defined overall risk profile and the attainment of annual and strategic objectives.

The Integrated Risk Management and Control System is structured as follows:

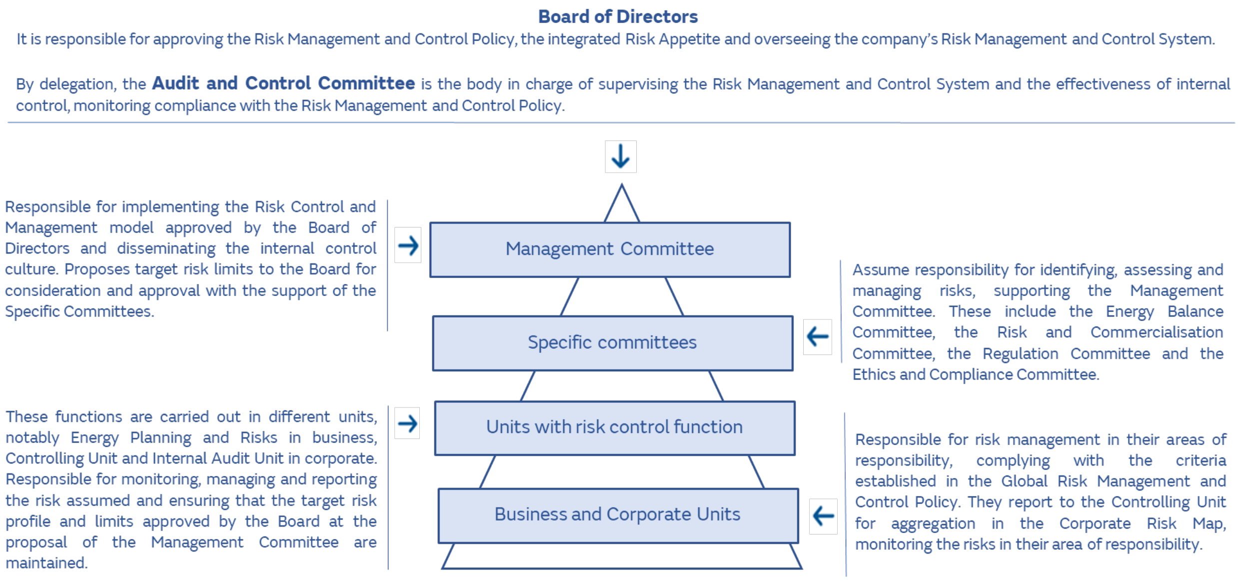
- Risk Governance & Management: risk governance and management mechanism for all risk classes and all businesses.
- Risk Assessment: methodology, procedure and process for identifying, assessing and measuring risks.

- Risk Appetite: definition of risk tolerance by setting limits for the main risk categories, by risk type and by business, as a function of the targets.
- Risk Reporting: regular systematic reporting and monitoring of risk at the various levels of management: Business Units, Corporate Units, Chairman's Office and Board of Directors.

Risk management bodies

Naturgy has a framework integrating the vision of governance, risks and compliance so as to provide a 360-degree view of the group's processes, existing controls and the associated risks.

To this end, it has a number of bodies with clearly identified areas of responsibility, making it possible to delimit the predictability and ensure the sustainability of the company's operational and financial performance.



In relation to the **specific committees** for the various businesses and subjects, the following are noteworthy:

- The **Energy Balance, Risk and Supply Committee** is responsible for monitoring the performance of energy commodities (gas, electricity, CO_2, etc.) and indices, and for making management-level purchase, sale and hedging decisions;
- The **Regulation Committee** is tasked with monitoring regulatory initiatives, at both domestic and international level, and making the pertinent decisions; and
- The **Ethics and Compliance Committee** is responsible for supervising the operation of, and compliance with, the Crime Prevention Model and other compliance models adopted by the Naturgy Group.

Those committees are made up of members of the Management Committee and and other senior management of the organisation.

Units with risk control function, a key task of the Risk Control function within each business or corporate area, is modelling the annual accounts to identify their main sensitivities, anticipate possible negative impacts, and adopt corrective or mitigating actions.

Of these units, which may have representation on specific committees, the following stand out:

- Energy Planning and Risks in business is responsible for monitoring, managing and reporting the risk assumed and ensuring the target risk profile and limits.
- Controlling Unit, within the risk function, is responsible for tracking tracking risks reported by the rest of the company's units and preparing a comprehensive integrated vision in the form of the Corporate Risk Map.

- Internal Audit Unit, as a third line of defence, conducts appropriate audits to assess the level of compliance with the Risk Control and Management Policy.

The **Business and Corporate units** report to the Controlling unit on progress with the risks in their area of responsibility.

Comprehensive management

Naturgy analyses its overall risk profile on the basis of the potential impact on its annual accounts. In this way, it determines the maximum accepted level of risk exposure in order to manage it appropriately .

The tools that enable Naturgy to achieve continuous improvement in the process of identifying, characterising and determining its risk profile are:

- Global Risk Control and Management Policy: the most recent version was approved by the Board of Directors of Naturgy in November 2020. Its purpose is to establish the general principles and standards of behaviour required to ensure proper identification, reporting, assessment and management of Naturgy's exposure to risk.
- Follow-up of good practices contained in the ISO 31000 guidelines for risk management.
- Corporate Risk Map: identifies and quantifies the risks which might affect Naturgy's performance, considering the characteristics of the risk position (impact variables, potential severity in quantitative and qualitative terms, likelihood of occurrence, and degree of management and control). It is updated and submitted to the Audit and Control Committee each year by the corporate-level Planning, Control and Administration unit.
- Other risk maps: these are developed by Naturgy's Business and Corporate units at their discretion following a common methodology, and they serve as the basis for the Corporate Risk Map .
- Risk Measurement System: The metrics used to assess risk depend on the nature of the risk:
  - Stochastic/probabilistic: a probabilistic simulation of price deviations within a confidence interval.
  - Deterministic/scenarios: expected impact of an event based on its probability.
  - Non-financial stress tests: simulations used on assets, portfolios and positions to determine their reactions to adverse events that are not usually reflected in conventional value or risk analyses, with the objective of evaluating the company's performance in scenarios of exposure to non-financial risks, including risks derived from climate change and biodiversity risk.
  - Heatmaps: qualitative analysis of the risk on a factor basis.

Risk categories

Naturgy defines five risk types in its Corporate Risk Map: Economic, Financial, Operational, Reputational/ Sustainability, and Strategic.

Types of economic and financial risk

Economic and financial risk are assessed by quantitative modelling.

Categories of economic risk

Risk factors with an impact on business results, caused by the volatility of exogenous factors, amendments to regulatory frameworks, or changes in demand with an impact on short-term results.

- **Commodity risk**, the uncertainty caused by variability in the prices of the energy and other commodities that the company uses.
- **Exchange rate ris**k, the uncertainty associated with changes during the year in the exchange rates of the currencies in which Naturgy's businesses are denominated.
- **Regulatory risk**, the risk associated with reviews of the remuneration frameworks for the regulated businesses and/or updates to the specific remuneration parameters and/or amendments to the regulatory framework under which Naturgy businesses operate.

- **Volume risk**, risk associated with the variation of volumes produced, distributed and/or supplied due to variations in temperature, changes in customer behaviour as a result of climate change, and the macroeconomic or competitive environment with respect to the base scenario considered in the projections.
- **Margin/price risk**, understood as the price risk not contemplated under commodity risk created by changes in competitive pressure or unachieved margin assumptions.
- **Legal risk**, related to the eventual outcome of litigation, arbitration or legal claims against Naturgy in the year of analysis.

Financial risk categories

Risk factors with an impact on the company's cash flow and balance sheet caused by the volatility of financial variables, potential impact of counterparties, amendments to tax frameworks, and provisioning.

- **Credit risk**, unexpected loss due to uncertainty associated with the probability of non-payment of monetary obligations and/or deterioration of the credit quality of the end customers and counterparties with which Naturgy operates.
- **Interest rate risk**, variability of the company's financial expenses caused by changes in interest rates and in refinancing needs in the currencies in which Naturgy's debt is denominated.
- **Tax risk**, associated with the proper application of tax regulations, the complexity of their interpretation, and possible amendments, with a potential economic impact on the company's accounts.
- **Liquidity risk**, risk associated with a potential increase in the financing needs required to maintain the company's target rating.
- **Rating risk**, risk of a downgrade of the company's credit rating, considering that the company targets an anchor BBB rating.
- **Provisioning and warranty risk**, risk of maintaining an excessive volume of provisions on the balance sheet, resulting in the risk that they may materialize and their effect on cash outflows.

Types of operational, reputational/sustainability and strategic risk

Operational, reputational/sustainability and strategic risk are generally assessed using heat maps.

Operational risk categories

Risk factors derived from operating the company's human and material assets.

- **Security risk**, understood as the residual risk associated with personal injury or material damage to critical facilities caused intentionally by a third party.
- **Business continuity and crisis management risk**, the risk of a service-level breach as a result of inadequacy or failure of processes, systems or performance by in-house or third-party staff.
- **Fraud risk**, derived from any intentional breach of the law by an employee or a third party to benefit themselves or the company, directly or indirectly, through the improper use of Naturgy resources or assets.
- **Cybersecurity risk**, arising from malicious attacks or accidental events with an operational impact that affect data, computer networks or technology.
- **Data protection risk**, the risk associated with breach of data protection obligations that may result in an administrative sanction or civil judgement.
- **Environmental risk**, associated with the possibility that natural phenomena or human action may result in regulatory environmental limits being exceeded or in damage to ecosystems and biodiversity.
- **Customer satisfaction risk**, risk of not offering the customer a distinctive value proposition that places the company in a privileged position to define new relationship models and address the digital transformation.
- **Health and safety risk,** understood as the risk of injury and health impairment for professionals of Naturgy or partner companies in connection with the business.

Reputational/Sustainability risk categories

Risk factors associated with behaviours that constitute a departure from good practices in the area of reputation, ESG commitment, compliance, people and climate change.

- **Reputational and ESG risk**, uncertainty in the evolution of stakeholders' perception of the company's reputation and its capacity to engage in business sustainably from an environmental, social and governance point of view.
- **Compliance risk**, risk of Naturgy suffering penalties, financial loss or loss of reputation as a result of non-compliance with legal obligations, as well as regulations, policies and other internal regulations applicable to its activities.
- **Customer satisfaction risk**, risk of not offering the customer a distinctive value proposition that places the company in a privileged position to define new relationship models and address the digital transformation.
- **Climate change risk**, arising from the energy transition (changes to regulations, markets or technologies) and the physical impacts of climate change (acute and chronic).

Strategic risk categories

Risk factors associated with the company's business portfolio: Long-term commodity exposure, capital employed by geography (soft vs. hard currencies), business risk profile (exposure to regulated vs. merchant businesses).

2.2. Description of the main risks

Commodity risk

Electricity and gas volatility

A large proportion of Naturgy's operating results is linked to gas purchased for supply to a diversified portfolio of customers.

Most gas procurement contracts are arranged on a long-term basis with purchase prices based on a combination of commodity prices, basically crude oil and its derivatives, and natural gas hub prices.

However, sale prices to end customers are generally arranged on a short/medium term basis and depend on the supply-demand balance in the gas market at any given time. This may result in decoupling with respect to gas procurement prices.

Consequently, Naturgy is exposed to variations in gas procurement prices with respect to the sale price to end customers. This exposure is managed and mitigated by natural hedging, as an attempt is made to balance the commodity exposures of both prices. Additionally, the main long-term procurement contracts allow us to manage this exposure through volume flexibility and price review mechanisms.

When it is not possible to achieve a natural hedge, the position is managed, within reasonable risk parameters, through derivatives (generally designated as hedging instruments) to reduce exposure to price decoupling risk. However, these hedges might be rendered ineffective by changes in the expected dates of the purchase and sale transactions, a reduction in the hedged volumes or decoupling from the indices hedged in the purchase and sale transactions.

In the vertically integrated electricity businesses, the company's aggregate exposure is determined by the strategic generation/supply positioning and by the final sale pricing policies in electricity supply.

The company is exposed to fluctuations in the price of CO_2 emission allowances, particularly the purchase of allowances for generation by its combined cycle plants.

Exchange rate risk

Naturgy has interests in several countries and is exposed to the exchange rate in each of their currencies, as well as to the US dollar.

Exchange rate risk is largely mitigated by financing investments in local currency. Naturgy tries to match costs and revenues in the same currency, as well as amounts and maturities of assets and liabilities arising from transactions denominated in non-Euro currencies.

Additionally, the exchange rate risk is managed by arranging financial derivatives within the limits approved for hedging instruments, the level of exposure and the risk appetite approved each year.

Margin/price risk

Liberalisation processes in Spain and other major markets have had a significant impact in terms of competitive pressure on final market prices, and on the definition of market shares.

In the electricity industry, the liberalisation of the European market has increased competition due to the entrance of new players, with an impact on the Spanish market, and might have an effect on the performance of the electricity supply and generation businesses.

Naturgy monitors and quantifies the sales margins of all its businesses, identifies material deviations from its spread assumptions and mitigates the risk by adapting sale and purchase formulas to all terms.

Gas and electricity volume risk

Some purchases of natural gas and liquefied natural gas (LNG) are made under long-term contracts that include clauses under which Naturgy is obliged to buy certain volumes of gas each year (take-or-pay clauses). In the event of a reduction in gas demand, Naturgy might be obliged by contract to pay the minimum amount to which it is bound under such clauses.

Moreover, in an alternative scenario where there is a shortage of gas or excess demand, the additional cost of short-term procurements might have a material adverse effect on the group's operating costs.

All volume risks are measured, monitored and quantified each year, and the company assesses the adequacy of hedges for those linked to climate (temperature, precipitation, etc.), which are managed in accordance with the approved policies and risk appetite.

In the area of electricity generation, Naturgy's earnings are exposed to volume variability, driven by electricity demand and the generation mix in the market, which is being particularly affected by the growing share of renewable energy production.

Naturgy manages its contracts and assets in an integrated manner, optimizing the energy balance.

Regulatory risk

Regulated and non-regulated activities coexist in the gas and electricity distribution businesses. The legislation applicable to the natural gas and electricity industries is typically subject to regular review by the competent authorities, which might have an impact on the remuneration for regulated activities, affecting Naturgy's business operations and financial position.

As a result of both the COVID-19 crisis and Russia's invasion of Ukraine, most of the authorities in the countries where Naturgy operates have established temporary regulatory measures that may affect regulated businesses.

Naturgy manages regulatory risk on the basis of regular communication with the regulators. In addition, in its regulated activities, Naturgy adjusts its costs and investments to the allowed rates of return for each business.

Operational risk

Naturgy's activities are exposed to various operational risks, such as breakdowns in the distribution network, accidents at electricity generation facilities, accidents in methane tankers, explosions, pollutant emissions, toxic spills, fires, adverse weather conditions, and breaches of contract.

Additionally, claims might be brought against Naturgy for personal injury and/or other damage arising in the ordinary course of its operations. Such claims could result in the payment of indemnities under the legislation applicable in the countries in which Naturgy operates.

Naturgy has an extensive insurance program to cover its operational exposure.

Cybersecurity risk

Naturgy is exposed to threats in connection with the availability, confidentiality, integrity and privacy of the information and technology that support business processes as well as the risk of non-compliance with regulations related to cybersecurity.

Such threats include unauthorised access and the use, disruption, modification or destruction of information as a result of terrorist acts, malicious attacks, sabotage and other intentional acts.

Naturgy has cybersecurity policies that establish vigilance, contingency and security plans, and has arranged insurance to cover this exposure.

Environmental and Biodiversity risk

This refers to the possibility that, as a result of the company's activities and due to the occurrence of an event, whether unforeseen, accidental, voluntary or involuntary, environmental limits set by the regulator are exceeded and/or damage is caused to third parties.

This risk includes, but is not limited to, those derived from emissions of polluting gases other than greenhouse gases (GHG), noise, consumption and/or contamination of surface or groundwater, spills, soil contamination, poor waste management, landscape impact, impact on cultural heritage, etc.

It also includes potential threats related to dependence on nature and impacts on nature. It includes, but is not limited to, physical impacts and impacts derived from changes in regulation related to the destruction and/or alteration of terrestrial, aquatic and/or marine ecosystems, damage to protected or high-value areas and/or species, promotion of the development of invasive species, impacts on areas of high water stress due to consumption, discharge and/or regulation of flows, and fires, etc.

Naturgy has identified the environmental risks at its facilities based on the reference standard: UNE 150008 in Spain. To prevent these risks, the company has implemented a certified integrated management system that includes operational control and environmental management procedures. This system is audited internally and certified and audited externally each year by AENOR. Naturgy has also implemented emergency plans at facilities and warehouses at risk of environmental accidents, including an action plan, means of containment, and regular drills. Naturgy arranges specific insurance policies to cover risks of this type.

Biodiversity risks are discussed in more detail in chapter 6. Environmental opportunities and challenges in section "5. Biodiversity and natural capital" of the Sustainability Report and Non-Financial Information Statement.

Reputational and ESG risk

Naturgy has identified its stakeholder groups and subgroups and defines reputational risk as the gap between those groups' expectations and the Company's performance in the environmental, social and governance dimensions.

Naturgy has developed a Sustainability Plan that determines is commitments and lines of action in 2021-2025, accompanies the transformation of the company and is aligned with the Strategic Plan 2021-2025, in line with the commitments of the Corporate Responsibility Policy and the Sustainable Development Goals (SDGs). To ensure the reliability of information on environmental, social and governance aspects, Naturgy has implemented a system of Internal Control over Non-Financial Reporting (ICNFR).

As regards environmental aspects, the commitments of the Corporate Responsibility Policy are expanded upon in the global Environmental Policy, applicable to all geographies and businesses, which establishes four strategic environmental pillars:

1. Environmental governance and management
2. Climate change and energy transition
3. Circular economy and eco-efficiency
4. Natural capital and biodiversity

Climate change risk

In order to integrate the climate variable into Naturgy's strategic planning, climate change risks and opportunities are identified, measured and managed in accordance with the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD). The most outstanding result of this process is the incorporation of a series of goals into the new Strategic Plan 2021-2025, aligned with the Paris and Glasgow Summit objectives of limiting the global temperature increase to below 2ºC and achieving climate neutrality by 2050, and with the United Nations Sustainable Development Goals (SDGs).

Following the TCFD taxonomy, climate change risk is derived from two risk factors: the energy transition, arising from changes in regulations, the market or technology, and the physical impacts of climate change, classified into acute physical impacts (increase in extreme weather events) and chronic physical impacts (sustained increase in average temperatures, and sea level rise).

Naturgy is a member of a number of working groups at European level, which will enable it to adapt its strategy in advance to new regulatory developments, and it participates in clean development projects aimed at reducing CO_2 emissions.

In 2022, the EC published the REPowerEU Plan, aimed at reducing dependence on fossil fuels from Russia and accelerating the green transition. Naturgy is aligned with the EU's plan and sees the REPowerEU investment drive as a meaningful opportunity to advance the energy transition.

Climate change risk is discussed in detail in note 2.4.25.k of the Consolidated Annual Accounts and in chapter 6 "The Opportunity of Environmental Challenges" of the Sustainability Report and Non-Financial Information Statement.

Other risks

Financial risks (interest rate, credit, liquidity and rating-related capital management risk) and legal risks are discussed in Notes 18 and 36, respectively, to the consolidated accounts.

Tax, compliance, data protection, business continuity, security and fraud risks are discussed in Chapter 5 "Integrity and Trust" of the Sustainability Report and Non-Financial Information Statement. Health & safety and Customer satisfaction risks are discussed in chapter 8 "Commitment and Talent" and chapter 7 "Customer Experience", respectively, of that same report.

Main risks: management, measurement and trends

Risk type		Description	Management approach	Metric		Trend
Commodity risk						
Commodity prices	Gas	Volatility in the international markets that determine the gas price.	Physical and financial hedges. Management of the procurement and sale portfolio.	Stochastic	↑↑	Mismatch between the indices for long-term contracts and European hub prices.
	Electricity	Volatility in electricity markets.	Physical and financial hedges. Optimisation of the generation fleet and supply structure..	Stochastic	↑↑	Penetration by renewables with zero marginal cost and intermittent production.

Exchange rate risk						
Exchange rate		Volatility in international currency markets.	Geographic diversification. Hedging via local-currency funding and derivatives.	Stochastic	↑	Uncertainty about growth and inflation prospects in Latin America, particularly Argentina.
Regulatory risk						
Regulatory		Exposure to reviews of criteria and returns recognised for regulated activities and/or regulatory measures to mitigate emerging macroeconomic situations.	Step up communication with regulators. Adjust efficiency and capital expenditure to recognised rates.	Scenarios	↑	Pressure from regulators, as a function of the situation of the country/industry.
Volume risks						
Volume	Gas	Mismatch between gas supply and demand.	Optimisation of contracts and assets worldwide.	Deterministic / Stochastic	↑↑	Aggregate demand pressure. Risk of curtailment or interruption of supply.
	Electricity	Reduction of the available thermal gap. Uncertainty as to renewable production volume due to resource variability.	Optimisation of the supply-generation balance.	Stochastic	↑	Aggregate demand pressure.
Margin/price risk						
Margin/price		Risk created by changes in competitive pressure or margin optimisation scenarios.	Portfolio management by adapting long-term purchase and sale formulas.	Scenarios	↑	Reviews of long-term gas contracts
Legal risk						
Legal		Uncertainty as to the eventual outcome of litigation, arbitration or legal claims.	Analysis and mitigation of legal risk affecting the company's operations and corporate governance. Engagement of top-level law firms. Recognition of provisions on a prudential basis.	Scenarios	⇆	The business units are affected by different laws in each country.
Operational risk						

Insurable risks	Accidents, damage or non-availability of Naturgy assets.	Continuous improvement plans. Optimisation of the total cost of risk and hedges.	Stochastic	↑	Growing tension in the insurance market as a function of geography and technology due to the rising frequency and severity of both extreme weather events and cybersecurity claims.
Credit risk					
Credit	Uncertainty associated with the probability of non-payment of monetary obligations and/or deterioration of the credit quality of end customers and counterparties.	Analysis of customer solvency in order to define specific contractual conditions. Debt collection process.	Stochastic	⇆	Increase in expected and unexpected losses due to the probability of default, given the inflation situation and the global energy crisis.
Interest rate risk					
Interest rates and credit spreads.	Interest rate volatility on borrowings, both existing debt and refinancing.	Financial hedges. Diversification of funding sources.	Stochastic	↑	Uncertainty about interest rate scenarios.
Tax risk					
Tax	Ambiguity or subjectivity in the interpretation of current tax regulations, or material amendments to same. Approval of unexpected fiscal measures.	Queries to independent expert bodies. Engagement of top-level advisory firms. Adoption of the Code of Good Tax Practices. Recognition of provisions on a prudential basis.	Scenarios	↑	Different business units are affected by different taxes.
Liquidity, solvency, rating and provision risks					
Liquidity, rating and provision risks	Financial risks associated with maintaining the company's rating, derived from liquidity conditions or other causes. Risks associated with excessive use of funds due to maintaining provisions.	Establishment of a target rating and ensuring sufficient liquidity to maintain it in the event of a potential adverse scenario.	Scenarios	⇆	Ratification of the target of an investment grade rating in the Business Plan 2021-2025
Security risk					

Security	Residual risk associated with personal injury or material damage to critical facilities caused intentionally by a third party.	Corporate positioning through the Security Policy, defining a specific protection model for Critical Infrastructures (CI). Engagement with the businesses, Centro Nacional para la Protección de Infraestructuras Críticas (CNPIC), Instituto Nacional de Ciberseguridad (INCIBE-CERT) and other bodies.	Heatmap/ Scenarios	⇆	Certification audits by the regulator (CNPIC) of critical operators, in which technology is of great importance.
Business continuity and crisis management risk					
Business continuity and crisis management risk	Risk of failing to maintain service levels as a result of a shortcoming or failure in processes, systems or staff performance.	Annual internal audit plan Weakness detection. Implementation of improvement actions. Audit and Control Committee.	Heatmap/ Scenarios	↑	Increase in the percentage of material recommendations that are implemented.
Fraud risk					
Fraud	Risk derived from any intentional breach of the law by an employee or a third party to benefit themselves or the company, directly or indirectly, through the improper use of Naturgy resources or assets.	Control mechanisms through the Global Policy of the Internal Control System over Financial Reporting. Arrangement of hedges in the insurance market	Scenarios	⇆	Maintain low levels of fraud at Naturgy
Cybersecurity risk					
Cybersecurity	Malicious attacks or accidental events that affect data, computer networks or technology.	Implementation of security measures; Event analysis and remediation measures; Training.	Scenarios/ Heatmaps	↑	The cybernetic situation is becoming more demanding. Threat protection plan to mitigate the likelihood of these risks and their associated impact.
Data protection risk					

Data protection	Uncertainty associated with breaches of data protection obligations that may result in an administrative sanction or civil judgement.	Action Plan by business area to mitigate the risk associated with each obligation based on priority and criticality. The company operates in line with the requirements of the General Data Protection Regulation (GDPR). Internal audit plan in connection with regular compliance reviews.	Heatmap/ Scenarios	↑	Uncertainty and tightening regulatory requirements.
Environmental risk					
Environment	Possibility that natural phenomena or human action may result in binding regulatory environmental limits being exceeded, resulting in damage to ecosystems or biodiversity.	Emergency plans at facilities with risk of environmental accident. Specific insurance policies. End-to-end environmental management.	Scenarios/ Heatmaps	⇆	Implementation of an Integrated Management System certified and audited each year by AENOR.
Health and safety risk					
Health and safety	Risk of injury and health impairment for professionals of Naturgy or partner companies in connection with the business.	Health and safety management system. Safety plan aimed at controlling the six most critical risk factors in terms of accident frequency and severity: confined spaces, work at heights, electrical risk, tree felling and pruning, load handling, and road safety.	Heatmap/ Scenarios	⇆	Accident rates at partner firms.
Reputational and ESG risk					
Reputational and ESG	Impairment of stakeholders' perception of Naturgy due to environmental, social and governance issues.	Identification and tracking of potential reputation events. Transparency. Control mechanism through the system of Internal Control over Non-Financial Reporting.	Scenarios/ Heatmaps	⇆	Stabilisation of the RepRisk index scores.
Compliance risk					

Reputational and crime risk	Administrative and criminal penalties. Impairment of Naturgy's reputation.	Crime prevention policy, Code of Ethics and Anticorruption Policy. Whistleblower channel. Training.	Heatmap/ Scenarios	↑	Criminal offences, penalties, financial losses, and loss of reputation, contracts and customers.
Counterparty risk	Administrative and criminal penalties. Harm arising from breach of contract.	Counterparty Due Diligence Procedure. Training			
Climate change risk					
Climate change	Uncertainty arising from the energy transition (regulation, markets and/or technologies) and the physical impacts of climate change.	Corporate positioning via the Global Environmental Policy and Environment Plan, which strengthen governance in climate issues and energy transition targets.	Stochastic/ Scenarios/ Heatmaps	↑	Future technology uncertainty. Increased requirements in connection with the coherence of financial reporting with the company's objectives in connection with mitigating climate change risk.

Metrics used:

- Stochastic: production of trend lines for the main magnitudes, taking the maximum deviation from the benchmark scenario to be the risk, within a pre-set confidence interval. Those magnitudes are generally EBITDA, earnings after taxes, cash flow and value.
- Scenarios: analysis of the impact, with respect to the benchmark scenario, of a limited number of possible incidents.
- Heatmap: the main risk factors for each risk category are assessed to quantify the impact and probability of the identified risks.
- Non-financial stress tests:
- Application of international risk assessment frameworks: Task Force on Climate-Related Financial Disclosures (TCFD), for climate change, and Task Force on Nature-related Financial Disclosures (TNFD), for biodiversity.

2.3. Main opportunities and uncertainties

Naturgy views the energy transition as an opportunity to transform the business and promote the changes needed to achieve a low-carbon economy. In this context, and based on the 2021-2025 Strategic Plan, Naturgy's main opportunities are as follows:

- **A focus on stable geographies**, with low risk and strong currencies, making it possible to capture energy demand growth and maximise business opportunities in new markets.
- **Renewable generation**: growth in renewable generation capacity in line with the global energy transition.
- **Operation and growth in Networks,** based on solid regulatory frameworks with long-term visibility and focused on continuous improvement, digitalisation and automation.
- **Technological development and innovation**: development of innovation projects in hydrogen and hydrogen blending in gas grids, renewable gas, energy efficiency, sustainable mobility and the just transition.
- **Portfolio of natural gas and LNG procurements**: continuous review and optimization of procurement contracts, continuous risk management to ensure predictable cash flows, and adaptation of the LNG carrier fleet to enhance its flexibility.

There are horizontal uncertainties, such as the macroeconomic context and geopolitical exposure, which materialize and have an impact on many of the risk types described in the previous section.

Uncertainty in the macroeconomic context

In recent years, the global macroeconomic situation has been profoundly altered by the concatenation of several events of unprecedented complexity and depth.

The Covid-19 pandemic and the direct effects of Russia's war on Ukraine, as well as those derived from the measures and sanctions imposed on Russia, caused a global crisis with serious consequences on the world economy, energy being one of the industries most severely affected, with significant increases in the price of natural gas and oil to levels well above those prior to the war and with extreme volatility in daily prices. Despite the turbulence in 2022, some moderation was observed in 2023 due to high storage levels, increased supply and contained growth in demand.

Naturgy monitors the current situation arising from the crisis by constantly tracking macroeconomic and business variables in order to manage potential risks. The analyses carried out for this purpose assess the indirect impacts of the conflict on the business activity, financial situation and economic performance, with particular reference to the generalized increase in commodity prices and the reduced availability of material supplies from conflict-affected areas.

Additionally, the conflict between Palestinians and Israelis has escalated recently following the terrorist attack on Israel in October 2023. While this conflict is not expected to have major global energy consequences as long as it remains regionally contained, it reduces expectations of normalisation in the region concerned and increases the geopolitical risk premium in already stressed markets.

As is situation 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 has also taken the appropriate decisions to protect its customers' solvency and that of society as a whole by adopting price containment measures.

With regard to gas contracts, Naturgy has a long-term procurement contract for gas of Russian origin that was entered into in 2013 with an international consortium formed by Novatek (50.1%), TotalEnergies (20%), CNPC (20%) and Silk Road Fund (9.9%) and is not affected by any type of sanction. This contract has take-or-pay clauses that cover its entire term. In 2023 and 2022, Naturgy has received the volumes strictly established in the contract, which accounted for 15% of Naturgy's global supply in 2023 and 14% in 2022. Moreover, Naturgy does not have counterparties that might be affected by the sanctions, nor does it hold any interest in companies operating in Russia or Belarus or investments in these countries, or cash balances or equivalent liquid assets that are unavailable as a result of these measures and sanctions.

Additionally, a significant proportion of the company's long-term procurements have entered their ordinary price review period; in the course of negotiations, the company seeks the best long-term interests of its shareholders, creditors and other stakeholders.

On the regulatory front, both European and national governments have issued regulations to mitigate the consequences of the war on end users of energy. The regulatory framework is described in Appendix IV of the Consolidated Accounts as of 31 December 2023.

External geopolitical exposure

Naturgy's operations and assets are exposed to the evolution of political, economic and social environments throughout the world, notably in three main geographical areas outside the European Union:

– Latin America

Uncertainty factors related to investment and business in Latin America include the influence of national governments on the economy, fluctuating economic growth rates, high levels of inflation and devaluation, depreciation or overvaluation of local currencies, a changing interest rate environment, as well as social tensions and political instability.

– Middle East and Maghreb

Naturgy has major procurement contracts for gas from several countries of the Maghreb and the Middle East. The recent conflicts in the Red Sea and the political instability in the area may result in physical damage to the assets of Naturgy's investee companies or the obstruction of the operations of those or other companies, with the result of interrupting the Group's gas supply, increasing shipping costs or delaying Group’s gas supply.

– Asia

The Asian market is emerging as a major source of geopolitical uncertainty, given the current heavy dependence of processed renewable component supply chains on Chinese exports. Interruptions in the supply of these components, due to transportation and distribution problems or direct import restrictions, might lead to an increase in material costs and delays in the commissioning of renewable energy projects in progress. Naturgy's operations are also exposed to the growth of the region's economies, such as China, as well as demand from these countries.

3. Corporate governance

Attached as an Appendix and forming an integral part of this Directors' Report are the Annual Report on Corporate Governance 2023 and the Annual Report of Director Remuneration 2023, as required by article 538 of the Capital Companies Act.

Corporate governance model

Naturgy is governed in accordance with the principles of efficacy, transparency and accountability in line with the main international recommendations and standards.

The corporate governance internal terms of reference comprise mainly:

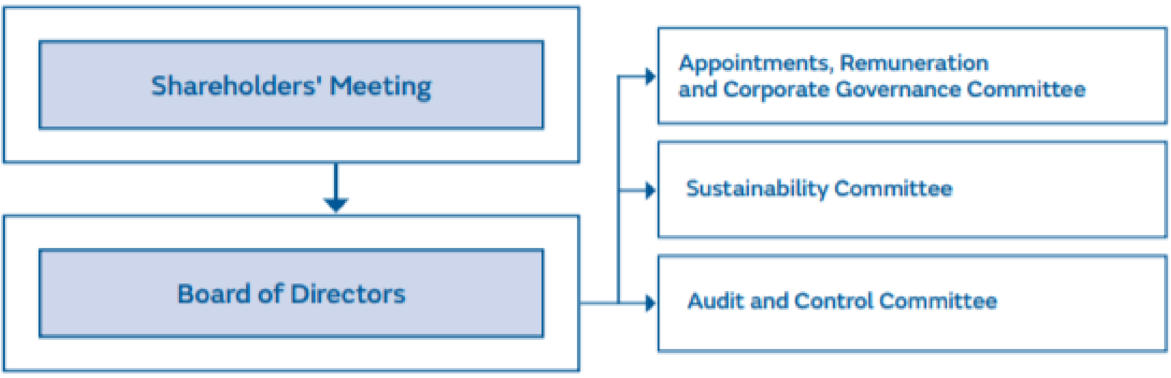
- Articles of Association (adopted in 2018, updated in 2022).
- Regulations of the Board of Directors and its committees (updated in 2022).
- Regulations of the General Meeting of Shareholders (adopted in 2018, updated in 2022).
- Human Rights Policy (updated in 2019).
- Code of Ethics (updated in 2021)

As of 31 December 2023 and 2022, the main shareholders of Naturgy are as follows:

	% interest in share capital	
	2023	2022
- Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona, "la Caixa" (1)	**26.7**	26.7
- Global Infrastructure Partners III (2)	**20.6**	20.6
- CVC Capital Partners SICAV-FIS, S.A. (3)	**20.7**	20.7
- IFM Global Infrastructure Fund (4)	**14.9**	14.0
- Sonatrach (5)	**4.1**	4.1

(1) Holding through Criteria Caixa, S.A.U.
(2) Global Infrastructure Partners III, which is managed by Global Infrastructure Management LLC, holds its stake indirectly via GIP III Canary 1, S.à.r.l.
(3) Through Rioja Acquisition S.à.r.l.
(4) Through Global InfraCo O (2) S.à. r.l.
(5) Société Nacionale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures

Naturgy's governance structure is as follows:



Shareholders' Meeting

Any person who is a shareholder of record five days before the Shareholders' Meeting is entitled to attend the Meeting.

Board of Directors

The Board of Directors of Naturgy operates via plenary meetings and committees, in accordance with the provisions of the Capital Companies Act. Accordingly, the Board of Directors of Naturgy has an Audit Committee, an Appointments, Remuneration and Corporate Governance Committee, and a Sustainable Committee, whose functions are substantially as set out in the Act or those that the Board of Directors has considered appropriate to attribute to them by delegation. Independent directors make up the majority of the Audit and Control Committee. All of the Board committees are chaired by independent directors.

Since the Chairman of the Board of Directors of Naturgy is also an executive director, the company has appointed a lead independent director to mitigate potential conflicts of interest. This position is held by Ms. Helena Herrero, who is an independent director, a member of the Audit and Control Committee and Chairman of the Sustainability Committee. Pursuant to Article 529 septies of the Capital Companies Act, the lead independent director is empowered to request the convening of meetings of the Board of Directors or the inclusion of additional items on the agenda, to coordinate and convene meetings of the non-executive directors and to direct, as appropriate, the periodic assessment of the Chairman of the Board of Directors.

Naturgy also has a Conflicts of Interest Policy, approved in May 2021, that is applicable to all Group employees, including the Executive Chairman. The policy establishes the guidelines to be followed by employees in the event of a conflict of interest, based on the principles of loyalty, abstention and transparency in pursuit of a resolution.

The Board of Directors and its committees engage in preventive risk management and consider aspects linked to corporate responsibility. The Board of Directors is highest body with responsibility for approving corporate governance and corporate responsibility policies. Each year, by authorising the respective reports, it reviews and approves the information on risks and opportunities in those areas.

The main issues considered by the Board of Directors and its committees in 2023, as well as all issues related to corporate governance, in the course of discharging their duties, are detailed in the Annual Report on Corporate Governance 2023, attached as an Appendix of this document.

The Board of Directors of Naturgy has 12 members, the Audit and Control Committee has 5 members, the Appointments, Remuneration and Corporate Governance Committee has 5 members, and the Sustainability Committee has 4 members.

The composition of the Board of Directors and its sub-committees on 31 December 2022 is as follows:

Board of Directors		Audit and Control Committee	Appointments, Remuneration and Corporate Governance Committee	Sustainability Committee	Category of director	Seniority on Board
Executive Chairman	Mr. Francisco Reynés Massanet				Executive	6/02/2018
Lead director	Ms. Helena Herrero Starkie	Director		Chairman	Independent	04/05/2016
Director	Mr. Enrique Alcántara-García Irazoqui		Director		Proprietary	13/05/2021
Director	Ms. Lucy Chadwick			Director	Proprietary	16/03/2020
Director	Ms. Isabel Estapé Tous			Director	Proprietary	16/03/2020
Director	Mr. Ramón Adell Ramón	Director			Proprietary	11/02/2022
Director	Mr. Rajaram Rao		Director		Proprietary	21/09/2016
Director	Rioja S.à.r.l, Mr. Javier de Jaime Guijarro		Director		Proprietary	01/08/2019
Director	Mr. Pedro Sáinz de Baranda Riva	Director	Chairman		Independent	27/06/2018
Director	Mr. Claudi Santiago Ponsa	Chairman	Director		Independent	27/06/2018
Director	Mr. José Antonio Torre de Silva López de Letona (1)	Director			Proprietary	28/03/2023
Director	Jaime Siles Fernández-Palacios			Director	Proprietary	11/02/2022
Secretary (not a director)	Mr. Manuel García Cobaleda	Secretary (not a director)	Secretary (not a director)	Secretary (not a director)	N/A	29/10/2010

(1) On 28 March 2023 his appointment as an individual director was formalised, replacing the legal entity Theatre Directorship Services Beta, S.à.r.l.

Management structure

There is only one executive director, as described in the previous section, to whom the Board has delegated all its functions except those that the law or the Regulation of the Board of Directors do not permit to be delegated.

Accordingly, the Chairman of the Board of Directors has responsibility for all of the Group's businesses. The group has a structure of executives and managers with the necessary powers to conduct the company's own operations and undertake basic activities relating to its management. The personnel with management responsibilities reporting directly to the Executive Chairman, Mr. Francisco Reynés Massanet, are classified as members of the management team and integrate the Management Committee.

As of 31 December 2023, the Management Committee is comprised of the Executive Chairman and the following:

- Procurement and Wholesale Markets Department, headed by Mr. Jon Ganuza Fernandez de Arroyabe.
- Energy and Network Management Department, headed by Mr. Pedro Larrea Paguaga.
- Renewables and New Businesses Department, headed by Mr. Jorge Barredo López.
- Supply Department, headed by Mr. Carlos Francisco Vecino Montalvo.
- Information Systems Department, headed by Mr. Rafael Blesa Martínez.
- Financial Markets Department, headed by Mr. Steven Fernández Fernández.
- Company Secretariat and Secretariat of the Board of Directors, headed by Mr. Manuel García Cobaleda.

- Sustainability, Reputation and Institutional Relations Department, headed by Mr. Jordi García Tabernero.
- People and Organization Department, headed by Mr. Enrique Tapia Lopez.

Since 31 October, when Mr. Jon Ganuza assumed Procurement and Wholesale Markets Department, the functions of the Planning, Control and Administration Department have been carried out on an interim basis by the heads of the units integrated in said Department, without belonging to the Management Committee.

There are also committees for dealing with specific issues, such as the Energy Balance, Risks and Supply Committee, which is responsible for monitoring the performance of energy commodities (gas, electricity, CO2, etc.) and indices, and for making management-level purchase, sale and hedging decisions; the Regulation Committee, which is tasked with monitoring regulatory initiatives, at both domestic and international level, and making the pertinent decisions; and the Ethics and Compliance Committee, which is responsible for supervising the operation of, and compliance with, the Crime Prevention Model and other compliance models adopted by the Naturgy Group. Those committees are made up of members of the management committee and some of the executives who report directly to them.

4. Forecast Group Performance

4.1. Vision

Strategic pillars

On July 28, 2021, Naturgy presented the **2021-2025 Strategic Plan**, which addresses a new stage that aims to promote our industrial growth while maintaining financial discipline and taking advantage of the opportunities of the energy transition; and to become a best-in-class reference operator through the digitization of processes.

The plan is based on five solid pillars to promote Naturgy's transformation:

1. Growth
2. Focus
3. *Best-in-class*
4. ESG (**E**nvironment, **S**ociety and **G**overnance)
5. Culture

Following successful execution of the Strategic Plan in 2018-22, in which the company exceeded all its committed targets, expectations for the coming years were revised and improved and were reported to the market on 12 July 2023. Those targets are, in billion euro:

	Strategic Plan 2021-2025	**Revised targets SP 2023-2025**
EBITDA 2025E	4.8	5.1
CAPEX 2021-25E	14.0	13.2
Net Financial Debt 2025E	16.9	16.0
Dividends	€1,20 / share	€1,4 / share

Growth

Our growth aims to be mainly organic, consistent with the energy transition and capable of taking advantage of asset rotation to accelerate the transformation.

- Mainly organic, maintaining capital discipline.
- Consistent with the energy transition.
- Opportunistic asset rotation to accelerate transformation.

Focus

We focus on renewable projects in early stages of development and stable geographies; also in network projects, with a prominent role of digitization and a stable regulatory framework.

- Renewables and networks.
- Stable geographies and regulatory frameworks.
- Volatility reduction in procurement commitments.

Best-in-class

We are committed to continuous improvement, increasing the digital footprint and reinventing relationships with our customers.

- Continuous improvement.
- Increasing digital footprint.
- Reinventing customer relationships.

ESG

We have a firm commitment to environmental and social matters. Our roadmap includes a Sustainability Plan with solid objectives in the environmental, social and governance fields, thus integrating ESG into the core of the company.

- Embedded at the core
- Aligned with SDG (sustainable development goals).
- Tangible targets to meet commitments.

Culture

Our corporate culture must intensify the passion of our professionals, allow us to establish our values and be aligned with our stakeholders.

- Fueling passion on our employees.
- Solidifaying core values.
- Aligned with stakeholders.

Key investment objectives

In economic matters, our Strategic Plan pursues investment objectives that were updated in a communiqué to the markets in July 2023 following successful execution in 2018-22. The updated Strategic Plan provides for **investments of €13.2 billion** in the period 2021-25.

These investments will be undertaken while maintaining financial discipline and focusing on projects with predictable returns. Moreover, hand, 80% of the planned investment will be eligible according to the EU taxonomy of sustainable finance. This investment is aligned with the energy transition.

Capital expenditure in 2023-2025 is allocated mainly to the Renewables Generation and Distribution Networks businesses:

Renewables Generation

- Proven generation technologies.
- Focus on attractive geographies.
- Commitment to innovation.
  - Distributed generation.
  - Biogas and hydrogen.
  - Sustainable mobility.

Distribution Networks

- Focus on solid frameworks with proactive regulatory management.
- Ongoing projects to achieve full automation and remote operation.
- Adapting existing infrastructures to play a key role in energy transition.

ESG at the core of our vision

The Strategic Plan is part of Naturgy's commitments to the environment, society and governance (ESG). Placing sustainability as the backbone of our strategy on our roadmap allows us to reduce our environmental impact, increase the involvement and commitment of all our stakeholders and endorse ourselves as a responsible company with the energy transition.

Our 2025 objectives in ESG are the following:

Ⓐ Environment

Net Zero by 2050

- Reduce total CO_2 emissions by 27% (2025 vs 2017).
- Protect Biodiversity, reaching a figure of more than 350 projects to preserve ecosystems.

Ⓢ Social

Gender parity by 2030

- Enhace diversity, reaching more than 40% of women in management positions.
- Extending ESG throughout supply chain up to 95%.

Ⓖ Governance

Management compensation aligned with ESG

- Variable pay of 20% linked with ESG objectives.
- Implement climate change risk reporting and taxonomy to maintain leadership positions in the sustainability indices.

4.2. Roadmap

Based on these strategic pillars, a roadmap is developed that is specified in economic objectives for each of the businesses.

Renewable Generation

It is defined for the renewable business a growth strategy based on:

1. Stable geographies

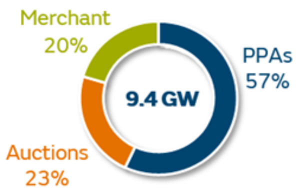
- Low risk and hard currency
- Solid regulatory frameworks
- Long-term visibility

2. Proven technologies

- Solar PV, onshore wind and storage

3. Customer base as a natural hedge

Balancing risks with new capacity



New installed capacity

Networks

The following key transformation initiatives are defined for the network business:

1. Spain Electricity networks

- At the forefront of electricity networks digitalization
- Increasing investment commitments in line with sector requirements

2. Spain gas networks

- Networks digital transition to ensure bes-in-class operations
- Commercial repositioning
- Accelerating contribution to decarbonization

3. LatAm networks

- portfolio management
- Investments to guarantee maintenance and safety standards

Energy management

The following key transformation initiatives are defined for the energy management business:

1. Energy Management

- Progressive downsizing of procurements commitments
- Ongoing review and optimization of procurement contracts (oil to hub indexation transition)
- Risk management to ensure predictable cash flows
- Downsizing of LNG tanker fleet under time charter
- Exploring value alternatives

2. Spain thermal generation

- Remote operation and bottom-up process review of CCGT fleet
- Mothballing of non-performing CCGTs
- Working on hybridization alternatives
- Proactive regulatory management (system back-up)

3. LatAm thermal generation

- New opportunities for excess capacity over PPAs
- Cost and investments efficiency
- Exploring value alternatives for Mexico CCGTs

Supply

The following key transformation initiatives are defined for the supply business:

1. Boost competitiveness

- Market repositioning
- Integrated energy offering
- Refocusing of distribution channel strategy, including additional third party agreements
- Enhance profitability

2. Reinvent customer relationships

- Redefined customer service
- Enhanced data analysis and customer segmentation
- Increased loyalty through customer value management

3. Accelerate digital transformation

- Transition to a new, simpler and integrated digital platform
- Enhanced efficiency in every single operating process

4.3. Summary

Dividend policy and capital allocation

The dividend policy is set with the aim of maintaining a solid BBB rating throughout the period.

In July 2023, Naturgy announced a review of its dividend by setting a floor of €1.40/share for 2023-25 (€1.20/share in 2022) subject to maintaining a BBB credit rating from S&P. This floor for 2023-25 is consistent with the 85% average payout announced in July 2021. Based on the current share price, this represents a return of 5.4% and compensates the company's thousands of shareholders for rising interest rates and inflation.

5. Sustainable innovation

Management vision and approach

The ecological transition to a carbon neutral economy is an opportunity in environmental, social and economic terms. It enables us to reduce our dependence on imported energy, improve our trade balance and move towards a prosperous modern economy. In this global context, meeting the challenge of climate neutrality requires the energy system to be transformed. Achieving this objective calls for a cross-cutting vision, moving from the conventional approach, in which the main energy uses (electricity, space heating, industrial heat, transportation) were analysed and managed individually, to a smart industry integration that flexibly combines renewable generation, storage, demand-side management and renewable fuel generation to optimize energy resources. This new model is supported by:

- **Innovation**, as a key lever for growth, makes it possible to adopt best practices, new business models and energy solutions that contribute to advancing the energy transition and combating climate change, while evolving towards technology solutions that promote process simplification, cybersecurity, data management and digitalization as principles of action.

- Innovation is **collaborative and open**, able to respond quickly to change signals in the environment and evolve in complicated scenarios, with the ability to draw lessons from mistakes and to project the future based on understanding the past and observing the present. The company's innovation model is designed to weave collaborative networks with the ecosystem in order to respond to the complexity of the environment and solve challenges in an agile and effective way, focused on the digitalization of processes and services.

- The production of **renewable gases**, such as **renewable hydrogen and biomethane**, for end uses where electrification is neither technically nor economically feasible. Hydrogen is an efficient and immediate decarbonization solution for intensive industry and transportation.It also has great potential as a vehicle for energy storage and energy integration. Similarly, biomethane is an existing technology that can replace natural gas without incurring abatement costs to adapt infrastructures or equipment; it is also a clear example of the circular economy since it is a renewable gas produced from organic waste.

- Optimization of **renewable energy generation** through innovative systems due to their superior energy efficiency; their ability to be integrated into the environment at a lower cost or with greater reliability. This will attract new players into the system to cover part of the energy needs of households, SMEs and public administrations.

- The **direct use of energy** through **manageable electricity consumption that provides flexibility i**n, for example, air conditioning and mobility, as well as through **storage** for later use.

- The **response to increasingly atomized markets**, with small, fast competitors, in both supply and generation, through smaller renewable plants that are closer to the point of consumption.

On this basis, Naturgy is undertaking an extensive investment program in renewable energies as a result of the 2021-2025 Strategic Plan and developing new lines of business in areas such as renewable gases, hydrogen and biomethane, storage and sustainable mobility; the goal is to provide a broad range of value-added services and promote sustainable innovation as a driver of development, as well as the deployment of a portfolio of projects that enable the company to expand its industrial profile: start-up incubator, investment vehicle, etc.

Additionally, the NextGen EU programme and its application in Spain through the Recovery, Transformation and Resilience Plan represent a clear funding opportunity to respond to the country's main challenges over the next decade.

Two of these main challenges are the energy transition and the digital transformation, both of which are central pillars of Naturgy's Strategic Plan. The company wants to be a key player in accelerating transformation in a sustainable and inclusive way, through innovative, competitive projects that have a positive impact on the environment and society.

Within the framework of the Recovery Plan, Naturgy has presented projects in the following areas:

- Renewable gases, mainly for the development of H2 and biomethane production projects, with a model based on the development of hydrogen valleys and their interconnection and adaptation to the gas network.
- New renewable generation technologies, such as offshore wind and the development of energy storage systems, to favour the integration of renewable energies and provide flexibility to the system.
- Digitalization, including projects for the digitalization of the company's electricity grids, improvements in the operation and maintenance of renewable generation infrastructures, and systems for participating in electricity markets. Also, cross-cutting projects related to data and cybersecurity.
- Energy efficiency, for the development of efficiency solutions and promotion of auto-production by end customers (industrial, tertiary and residential). The proposed projects focus mainly on innovative solutions for shared auto-production, accompanied by social measures that integrate training and rehabilitation, promoted by the Naturgy Foundation.
- Just Transition, in order to promote solutions that guarantee employment and business development in the territories affected by the closure of coal-fired power plants, projects for new renewable power plants and renewable gas plants have been proposed at Just Transition sites.

Investment in innovation

In Naturgy's business, innovation is mainly focused on developing projects that promote the company's digitalization, ensuring safety and operational improvement, and facilitating access to the best information in a timely manner for better decision making, with the aim of creating value and ensuring the company's long-term competitiveness.

Some of the projects developed in Naturgy's various business area are described below:

Renewable Generation Spain

- Development and implementation of several improvements through automation and data analysis to enhance the detection of events and anomalies.
- Development of new sensors and analytics in hydroelectric plants in order to reduce the need for human inspections and shorten incident response times.

Supply Spain

- Implementation of a new commercial platform for distributed generation products as a single system for generating bids, calculating technical requirements based on the location and supporting the customer throughout the sales process and the installation of the auto-production product.
- A single repository with contract and customer service data for advanced analysis of customer information that allows for a 360-degree understanding of Naturgy's customers.
- Application of AI to the consumption curve of customers who so wish.
- Implementation of a demand aggregation platform developed by a spin-off of the Catalonia Energy Research Institute (IREC).

Gas Distribution Networks Spain

- Project Fractal, an analysis and simulation tool for energy control based on automatic calculations of best estimates and comparative and predictive simulation, with a focus on greater governance.

Energy Management Spain

- Evolution of the SCADA system that currently supports the operation of Naturgy's generation fleet and its participation in the electricity markets under the Generation Control Office. This system supervises and controls Naturgy's electricity output, sending signals in real time (capacity, voltage, temperature, etc.) and receiving and managing the action instructions sent by the national grid (Red Eléctrica) to maintain the balance between electricity production and demand at all times, as well as ensuring the safety of the grid. This projects seeks to upgrade both the software and hardware to achieve a more flexible, parametrizable system with enhanced performance and functionalities that can support different control algorithms and with a graphical interface that does not depend on physical machines.

For more details on innovation projects and investments, see chapter 9 “Innovation and new business” of the Sustainability Report and Non-Financial Information Statement.

Main lines of innovation in Renewable Gases and New Businesses

The main lines of innovation in Renewable Gases and New Businesses on which Naturgy is currently working are described below:

Renewable gases

Basing the decarbonization of the economy predominantly on a high level of electrification supported by renewable energies presents technical limitations in certain energy-intensive industries, such as manufacturing and transportation.

Since electrification cannot cover the entire energy demand, further integration of the electricity and gas sectors is an effective solution to achieve the decarbonization goals through the complementarity of renewable gases, gas infrastructure and electricity. The gas grid currently has considerable storage capacity and a reach and capillarity that enable it to transport large amounts of energy to where it is consumed; these features are essential for using renewable gases to decarbonize energy end-use at all points where natural gas is currently consumed.

The development of renewable gases, biomethane and hydrogen, is one of Naturgy's strategic vectors in its business and climate action plan to reduce a significant part of the greenhouse gas (GHG) emissions that make up the company's carbon footprint, to decarbonize the economy and to create jobs in areas affected by the closure of coal-fired power plants. The ultimate goal is to decarbonize all gas consuming sectors, such as industry, the residential sector and transportation, while focusing on the creation of green jobs in rural areas, in line with Spain's strategy against depopulation.

Renewable gases are present in the REPowerEU Plan, which aims to rapidly reduce dependence on Russian fossil fuels and advance the ecological transition. In this energy context, as one of the main operators of basic natural gas infrastructures, Naturgy has adopted a leading role to drive the development of the renewable gas value chain.

Biomethane

The production of renewable biomethane from livestock, agricultural or industrial organic waste, or from landfills and wastewater plants, is an excellent example of the circular economy in the energy sector, providing significant environmental benefits, a supplementary source of income for rural areas and a decarbonized supply to end users.

Naturgy is working on a portfolio of projects throughout the integrated value chain, including waste management, and biogas and biomethane production, distribution and supply.

Naturgy has experience in producing renewable gas on a commercial scale, acquired in projects conducted in recent years such as the Elena landfill, new more innovative projects taking shape such as the one in Vilasana (Lleida), and the Bens (A Coruña) wastewater treatment plant (WWTP).

Naturgy currently has a portfolio of 38 projects under way for producing biogas and upgrading to biomethane for injection into the natural gas grid:

- 19 projects based on livestock waste (1,115 GWh/year).
- 1 project based on WWTP sludge (6 GWh/year).
- 10 industrial waste projects (377 GWh/year).
- 1 landfill project (12 GWh/year).
- 6 projects using agricultural waste (439 GWh/year).
- Second phase of the renewable gas mixed unit, research into biogas, biomethane and other gases such as green hydrogen and bio-syngas.

Hydrogen

Despite its usage difficulties, availability and technology cost, renewable hydrogen has a promising future. The REPowerEU Plan has reinforced Spain's roadmap, which sets a target of 4 GW of installed electrolysis capacity by 2030, i.e., 10% of the target set by the European Union; the draft NECP raised this to 11 GW in a clear sign of support for hydrogen. The support of government and the private sector, especially by existing users of grey hydrogen (e.g. refineries and fertilizer plants), will be essential for the implementation of large-scale projects to attain the expected technology path.

Green hydrogen is an energy vector capable of:

- Channelling large amounts of renewable energy from power generation to sectors where electrification is not feasible.
- Storing and managing energy on a massive scale over long periods of time, matching energy supply and demand.

Spain's existing natural gas transport and distribution infrastructure can be used in the short term to transport hydrogen in the form of a blend of up to 5% without requiring additional investment, in accordance with the provisions of the Directorate General of Energy Policy and Mines Resolution of 21 December 2012 amending the detail protocol PD-01 "Measurement, Quality and Odorization of Gas" as part of the gas system technical management standards. In the medium term, blends of over 10% can be achieved by adapting the compressor stations and other minor components.

To promote the penetration of hydrogen as a renewable energy vector, it is necessary to develop the entire value chain, from production to final demand. Royal Decree 376/2022 establishes a system of Guarantees of Origin (GoOs) for renewable hydrogen, establishing their definition and the conditions for their issuance, which will drive deployment among industrial users with significant decarbonization needs where electrification is difficult and whose location does not coincide exactly with the production site.

For years, Naturgy has been researching the development of hydrogen because of Spain's enormous scope to become a strategic exporter of this new renewable energy that can travel long distances using existing infrastructure integrated with the electricity grid, the goal being to achieve an efficient, resilient energy system. Naturgy, an essential player in energy transmission and distribution, can contribute its global capacity and know-how throughout the value chain.

In 2023, Naturgy worked on the development of large renewable hydrogen production hubs linked to just transition zones, especially in areas affected by the closure of thermal power plants. The goal of multi-demand hubs is to drive the development of new markets for direct use by industry, injection into the gas grid for supply with guarantees of origin, mobility, and the production of H2 derivatives.

Storage

The geopolitical situation and the current energy crisis have further boosted renewable energy. Under Spain's National Integrated National Energy and Climate Plan (PNIEC) 2021-2023, renewables energies will account for 74% of the energy mix by 2030. Under current policies, , a forthcoming revision of the PNIEC and of the 2030 targets of the European Green Deal will increase the level of ambition for wind and photovoltaic to 81% of Spain's energy mix by 2030.

This presents the energy system with the challenge of equipping itself with flexible tools to manage production, match generation and consumption, avoid sudden drops in production, and provide firm capacity to the system. In this scenario, storage is key to the security and quality of supply.

While development of storage systems, particularly batteries, is ongoing, they are now mature enough to support the development of renewables. Lithium-ion (Li-ion) batteries are currently among the most efficient battery technologies, both technically and economically, and are expected to experience the fastest growth. Nevertheless, the main limitation is price; consequently, in energy markets that are not very mature in the use of this type of storage, projects need government support for development in the short term.

Although Naturgy has tested Li-Ion and redox flow battery projects, the lack of regulation means that it has not been possible to test their operation in the Spanish electricity grid. That is the greatest challenge at present: to manage storage and integrate it into both the power and balancing markets.

A total of over 80 MW in projects are currently in the permitting process and there is a potential portfolio of over 200 MW for the coming years. These projects are being developed with Spanish technology partners and research centres, the aim being to create employment and strengthen the business fabric throughout the projects' value chain.

Accordingly, and as the energy transition is one of the pillars of the Recovery Funds, significant support is expected for this type of project. The aid represents an opportunity to accelerate the implementation of this technology. A stable favourable regulatory framework coupled with the expectation of a reduction in costs suggest that the technology will be viable without subsidies in the medium term, over the next ten years.

Sustainable mobility

In 2023, Naturgy maintained its commitment to sustainable mobility based on a range of technologies.

In gas, the infrastructure of natural gas vehicle (NGV) refuelling stations for public use continued to be expanded at a national level, oriented towards a transformation to BioCNG; since natural gas has lower emissions than other fossil fuels, it can assist in decarbonizing transportation, particularly heavy goods transportation.

With regard to electric mobility, 419 retail recharging facilities have been installed as well as 67 in the industrial sector, with a further 39 facilities under construction.

Noteworthy initiatives undertaken in 2023 include:

- **Signature of the first contract to provide GoOs for biomethane in heavy goods transportation.** Naturgy has agreed to supply Guarantees of Origin (GoOs) to transportation company Disfrimur for vehicles used in food transportation. The use of biomethane will make it possible to decarbonize heavy and last-mile transport in the short and medium term.
- **Three public natural gas refuelling stations for vehicles owned by Madrid City Government will be upgraded between now and 2039.** As part of the tender conditions, Naturgy undertook to supply more than 80% biomethane during the entire contract period, which means supplying more than 200 GWh of biomethane. This fuel substitution will contribute to reducing emissions by up to 35,000 tCO_2/year, which is equivalent to taking 14,500 vehicles in a city off the road for one year.

- **Supply of electricity from renewable sources at all public electric charging stations.** Naturgy is committed to promoting renewable energies in the field of mobility, which will allow the decarbonization of light vehicles in urban environments.

6. Non-financial information statement

The non-financial information statement for the year 2023, referred to in articles 262 of the Capital Companies Law and 49 of the Commercial Code, is presented in a separate report called “Sustainability report and Non-financial information statement 2023”, in which it is indicated, expressly, that the information contained in said document is part of the Naturgy Group's consolidated directors’ report (Appendix II).

This document is subject to verification by an independent verification service provider and is subject to the same approval, deposit and publication criteria as the Naturgy Group's consolidated directors’ report.

7. Additional information

7.1 Treasury shares

Movements during 2023 and 2022 involving the treasury shares of Naturgy Energy Group, S.A. are as follows:

	Number of shares	In million euro	% Capital
At 1 January 2022	**163,226**	**4**	**—**
Share Acquisition Plan	15,000	—	—
Delivered to employees	(122,328)	(3)	—
At 31 December 2022	**55,898**	**1**	**—**
Share Acquisition Plan	357,094	10	—
Delivered to employees	(172,992)	(5)	—
At 31 December 2023	**240,000**	**6**	**—**

In 2023 and 2022, no gains or losses were made on transactions involving the Company’s treasury shares.

On 5 March 2019, the shareholders in general meeting authorised the Board of Directors to purchase, within five years, in one or more operations, fully paid Company shares; the nominal value of the shares directly or indirectly acquired, added to those already held by the Company and its subsidiaries, must not exceed 10% of share capital or any other limit established by law. The price or value of the consideration may not be lower than the par value of the shares or higher than their quoted price.

The minimum and maximum acquisition price will be the share price on the continuous market of the Spanish stock exchanges, within an upper or lower fluctuation of 5%.

Transactions involving the Company’s treasury shares relate to:

2023

- Share acquisition plan: In accordance with the resolutions adopted by the shareholders of Naturgy Energy Group, S.A. at the general meeting held on 5 March 2019, within the Share Acquisition Plan 2020-2023, the one relating to 2023 addressed to Naturgy employees in Spain who decide voluntarily to take part in the Plan was set in motion in March 2023. The Plan enables participants to receive part of their remuneration in the form of shares in Naturgy Energy Group, S.A., subject to an annual limit of Euros 12,000. During March 2023, 210,000 treasury shares were acquired for Euros 5.6 million and in April 2023 a total of 172,992 shares amounting to Euros 4.6 million were delivered to employees, leaving a surplus of 37,008 treasury shares which was added to the 55,898 shares left over from the 2019-2021 Share Acquisition Plans. In addition, in July 2023, 147,094 treasury shares were acquired for Euros 4.0 million in addition to the above surplus, bringing the total number of treasury shares to 240,000 at 31 December 2023.

2022

- Share acquisition plan: As mentioned in the previous paragraph, as part of the Share Acquisition Plan 2020-2023 the plan for 2021, aimed at Naturgy employees in Spain, was set in motion. This plan was completed in January 2022 through the acquisition of 15,000 treasury shares in addition to the 127,453 shares acquired in December 2021, for an amount of Euros 0.4 million, and a total of 122,328 shares amounting to Euros 3 million were delivered to employees. The surplus of 20,125 treasury shares was added to the 35,773 shares left over from the 2020 and 2019 Share Acquisition Plans.

7.2. Disclosure of delays in payment to suppliers

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.

In accordance with the above regulations, the information regarding the average payment period to suppliers in commercial operations is as follows:

	2023	2022
	Amount	**Amount**
Total payments (thousand euro)	432,685	1,291,884
Total outstanding payments (thousand euro)	19,037	21,081
Average supplier payment period (days) (1)	19	26
Transactions paid ratio (days) (2)	19	27
Transactions pending payment ratio (days) (3)	25	23
Total payments within the period established in the default regulations (thousands of euros)	428,694	1,183,136
% of the amount paid within the period established in the default regulations with respect to the total amount paid	99.08 %	91.58 %
Number of invoices paid within the period established in the default regulations	14,461	11,785
% of invoices paid within the period established in the default regulations with respect to the total invoices paid	96.36 %	91.67 %

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

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

(3) Average age, suppliers pending payment balance.

7.3. Subsequent events

Events subsequent to the end of the period are described in Note 30 of the Notes to the Annual Accounts.

8. Annual Corporate Governance Report

The Annual Corporate Governance Report for the year 2023 of the Company is included as an Annex to the consolidated Management Report of Naturgy, in accordance with the provisions of Article 49.4 of the Commercial Code and in accordance with Article 538 of the Capital Companies Law. Likewise, this report will be available from the publication of these accounts on the corporate website (www.naturgy.com) and on the website of the CNMV (www.cnmv.com).

9. Annual Directors' Remuneration Report

The Annual Directors' Remuneration Report for the year 2023 is included as an Annex to the consolidated Directors' Report of Naturgy, in accordance with Article 538 of the Capital Companies Law. Likewise, this report will be available from the publication of these accounts on the corporate website (www.naturgy.com) and on the website of the CNMV (www.cnmv.com).