Report on Limited Review of Naturgy Energy Group, S.A. and Subsidiaries

(Together with the condensed consolidated interim financial statements and the consolidated interim directors' report of Naturgy Energy Group, S.A. and subsidiaries for the six-month period ended 30 June 2021)

(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

Report on Limited Review of Condensed Consolidated Interim Financial Statements

(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., commissioned by the Directors of the Company

REPORT ON THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Introduction

We have carried out a limited review of the accompanying condensed consolidated interim financial statements (the "interim financial statements") of Naturgy Energy Group, S.A. (the "Company") and subsidiaries (together the "Group"), which comprise the balance sheet at 30 June 2021, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and explanatory notes (all condensed and consolidated). The Directors of the Company are responsible for the preparation of these interim financial statements in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting as adopted by the European Union, pursuant to article 12 of Royal Decree 1362/2007 for the preparation of interim financial information. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

Scope of Review

We conducted our limited review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A limited review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A limited review is substantially less in scope than an audit conducted in accordance with prevailing legislation regulating the audit of accounts in Spain and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the accompanying interim financial statements.

Conclusion

Based on our limited review, which can under no circumstances be considered an audit, nothing has come to our attention that causes us to believe that the accompanying interim financial statements for the six-month period ended 30 June 2021 have not been prepared, in all material respects, in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting as adopted by the European Union, pursuant to article 12 of Royal Decree 1362/2007 as regards the preparation of condensed interim financial statements.

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Emphasis of Matter

We draw your attention to the accompanying note 2, which states that these interim financial statements do not include all the information that would be required in a complete set of consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The accompanying interim financial statements should therefore be read in conjunction with the Group's consolidated annual accounts for the year ended 31 December 2020. This matter does not modify our conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The accompanying consolidated interim directors' report for the six-month period ended 30 June 2021 contains such explanations as the Directors of the Company consider relevant with respect to the significant events that have taken place in this period and their effect on the interim financial statements, as well as the disclosures required by article 15 of Royal Decree 1362/2007. The consolidated interim directors' report is not an integral part of the interim financial statements. We have verified that the accounting information contained therein is consistent with that disclosed in the interim financial statements for the six-month period ended 30 June 2021. Our work is limited to the verification of the consolidated interim directors' report within the scope described in this paragraph and does not include a review of information other than that obtained from the accounting records of Naturgy Energy Group, S.A. and subsidiaries.

Other Matter

This report has been prepared at the request of the Company's directors in relation to the publication of the six-monthly financial report required by article 119 of the Revised Securities Market Law, approved by Royal Legislative Decree 4/2015 of 23 October 2015 and enacted by Royal Decree 1362/2007 of 19 October 2007.

KPMG Auditores, S.L.

(Signed on original in Spanish)

Eduardo González Fernández

27 July 2021

These Interim Financial Statements as at June 2021 are a translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish language version prevails.

Naturgy

Naturgy

Condensed interim consolidated accounts as at 30 June 2021

Interim consolidated balance sheet as at 30 June 2021 and 31 December 2020 (million euros)

	Note	30.06.2021	31.12.2020
ASSETS			
Intangible assets	4	5,765	5,575
Goodwill		2,939	2,892
Other intangible assets		2,826	2,683
Property, plant and equipment	4	16,089	16,128
Right-of-use assets	4	1,405	1,388
Investments recorded using the equity method	5	572	813
Non-current financial assets	6	418	361
Other non-current assets	7	583	691
Derivatives		264	352
Other assets		319	339
Deferred tax assets		1,943	1,635
NON-CURRENT ASSETS		**26,775**	**26,591**
Non-current assets held for sale	8	4,731	4,835
Inventories		467	519
Trade and other receivables	7	3,508	3,115
Trade receivables for sales and services		2,840	2,688
Other receivables		353	296
Derivatives		280	94
Current tax assets		35	37
Other current financial assets	6	216	558
Cash and cash equivalents		3,936	3,927
CURRENT ASSETS		**12,858**	**12,954**
TOTAL ASSETS		**39,633**	**39,545**
EQUITY AND LIABILITIES			
Capital		970	970
Share premium		3,808	3,808
Treasury shares		(201)	(201)
Reserves		4,743	6,480
Profit for the period attributed to the parent company		484	(347)
Interim dividend		0	(785)
Other equity items		(2,291)	(1,897)
Equity attributed to the parent company		**7,513**	**8,028**
Non-controlling interests		**3,176**	**3,237**
EQUITY	**9**	**10,689**	**11,265**
Deferred income		870	871
Non-current provisions	10	1,059	1,052
Non-current financial liabilities	11	14,746	14,968
Borrowings		13,306	13,641
Lease liabilities		1,439	1,325
Other financial liabilities		1	2
Deferred tax liabilities		1,843	1,793
Other non-current liabilities		479	346
Derivatives		301	298
Other liabilities		178	48
NON-CURRENT LIABILITIES		**18,997**	**19,030**
Liabilities related to non-current assets held for sale	8	2,698	2,840
Current provisions	10	179	246
Current financial liabilities	11	2,808	2,571
Borrowings		2,485	2,357
Lease liabilities		214	212
Other financial liabilities		109	2
Trade and other payables		3,987	3,230
Trade payables		2,353	2,518
Other payables		690	462
Derivatives		798	68
Current tax liabilities		146	182
Other current liabilities		275	363
CURRENT LIABILITIES		**9,947**	**9,250**
TOTAL EQUITY AND LIABILITIES		**39,633**	**39,545**

Notes 1 to 26 contained in the Notes to the Condensed interim consolidated accounts and the Appendixes are an integral part of the Consolidated balance sheet as at 30 June 2021 and 31 December 2020.

Interim consolidated statement of income for the six month period ending at 30 June 2021 and 30 June 2020 (million euros)

	Note	Six month ended on 2021	Six month ended on 2020 (1)
Revenue	13	9,130	7,779
Raw materials and consumables	14	(6,331)	(5,070)
Other operating income		55	58
Personnel expenses	15	(570)	(492)
Other operating expenses	16	(642)	(558)
Gain/(loss) on disposals of fixed assets		9	3
Release of fixed asset grants to income and other		27	24
GROSS OPERATING RESULTS		**1,678**	**1,744**
Depreciation/amortisation and impairment losses	17	(729)	(743)
Impairment due to credit losses		(52)	(79)
Other results	18	106	15
OPERATING PROFIT/(LOSS)		**1,003**	**937**
Financial income		52	54
Financial expenses		(286)	(290)
Variations in fair value of financial instruments		10	(4)
Net exchange differences		(12)	(2)
NET FINANCIAL INCOME	**19**	**(236)**	**(242)**
Profit/(loss) of entities recorded by equity method		33	3
PROFIT/(LOSS) BEFORE TAXES		**800**	**698**
Corporate income tax	22	(204)	(159)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		**596**	**539**
Profit for the year from discontinued operations, net of taxes	8	51	(32)
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR		**647**	**507**
Attributable to:			
The parent company		484	334
From continuing operations		437	368
From discontinued operations		47	(34)
Non-controlling interests		163	173
Basic and diluted earnings per share in euros from continuing operations attributable to the equity holders of the parent company		0.45	0.38
Basic and diluted earnings per share in euros from discontinued operations attributable to the equity holders of the parent company		0.05	(0.03)
Basic and diluted earnings per share in euros attributable to the equity holders of the parent company		0.50	0.35

(1) The Consolidated income statement for the six-month period ended 30 June 2020 was restated due to application of IFRS 5 (Notes 2.5 & 8).

Notes 1 to *26 contained in the Condensed interim consolidated accounts and the Appendixes are an integral part of the Consolidated statement of income for the six-month periods ended 30 June 2021 and 2020.*

Interim consolidated statement of comprehensive income for the six month period ending at 30 June 2021 and 30 June 2020 (million euros)

	Note	Six months ended 2021	Six months ended 2020 (1)
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR		**647**	**507**
OTHER COMPREHENSIVE INCOME RECOGNISED DIRECTLY IN EQUITY			
Items that will not be transferred to profit/(loss):		**90**	**(6)**
Financial assets at fair value through other comprehensive income		(17)	(4)
Actuarial gains and losses and other adjustments		3	(3)
Tax effect		104	1
Items that will subsequently be transferred to profit/(loss):		**(469)**	**(401)**
Cash flow hedges		(709)	188
Gains / (Losses) per valuation		(790)	428
Releases to income statement		81	(240)
Currency translation differences		101	(563)
Gains / (Losses) per valuation		101	(563)
Releases to income statement		—	—
Equity-consolidated companies		18	(4)
Currency translation differences - Valuation		8	(4)
Currency translation differences - Releases to income statement		9	—
Gains / (Losses) per valuation		1	—
Tax effect		121	(22)
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**(379)**	**(407)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**268**	**100**
Attributable to:			
The parent company		93	58
From continuing operations		42	265
From discontinued operations		51	(207)
Non-controlling interests		175	42

(1) Consolidated statement of comprehensive income for the six-month period ended 30 June 2020 has been restated in application of IFRS 5 (Notes 2.4. and 8).

Notes 1 to 26 contained in the Notes to the Condensed interim consolidated accounts and the Appendixes are an integral part of the Consolidated statement of comprehensive income for the six-month periods ended 30 June 2021 and 2020.

Interim statement of changes in consolidated equity for the six month period ending at 30 June 2021 and 31 December 2020 (million euros)

	Equity attributed to the parent company (Nota 9)											
						Other equity items						
	Share capital	Share premium	Treasury shares	Reserves and retained earnings	Profit/ (loss) for the year	Currency translation differences	Cash flow hedges	Financial assets at fair value	Total	Subtotal	Non-controlling interests (Note 9)	Equity
Balance at 31.12.2019	**984**	**3,808**	**(321)**	**5,933**	**1,401**	**(1,111)**	**304**	**(447)**	**(1,254)**	**10,551**	**3,425**	**13,976**
Total comprehensive income for the year	—	—	—	(2)	334	(437)	167	(4)	(274)	**58**	42	**100**
Operations with shareholders or owners	**—**	**—**	**(178)**	**818**	**(1,401)**	**—**	**—**	**—**	**—**	**(761)**	**(113)**	**(874)**
Dividend distribution	—	—	—	816	(1,401)	—	—	—	—	**(585)**	(113)	**(698)**
Capital reduction	—	—	—	—	—	—	—	—	—	**—**	—	**—**
Trading in treasury shares	—	—	(178)	—	—	—	—	—	—	**(178)**	—	**(178)**
Share-based payments	—	—	—	2	—	—	—	—	—	**2**	—	**2**
Other changes in equity	**—**	**—**	**—**	**5**	**—**	**—**	**—**	**—**	**—**	**5**	**(11)**	**(6)**
Other changes	—	—	—	5	—	—	—	—	—	5	(11)	**(6)**
Balance at 30.06.2020	**984**	**3,808**	**(499)**	**6,754**	**334**	**(1,548)**	**471**	**(451)**	**(1,528)**	**9,853**	**3,343**	**13,196**
Total comprehensive income for the year	—	—	—	5	(681)	(13)	(357)	1	(369)	**(1,045)**	160	**(885)**
Operations with shareholders or owners	**(14)**	**—**	**298**	**(1,066)**	**—**	**—**	**—**	**—**	**—**	**(782)**	**(227)**	**(1,009)**
Dividend distribution	—	—	—	(785)	—	—	—	—	—	**(785)**	(227)	**(1,012)**
Capital reduction	(14)	—	298	(284)	—	—	—	—	—	**—**	—	**—**
Trading in treasury shares	—	—	—	—	—	—	—	—	—	**—**	—	**—**
Share-based payments	—	—	—	3	—	—	—	—	—	**3**	—	**3**
Other changes in equity	**—**	**—**	**—**	**2**	**—**	**—**	**—**	**—**	**—**	**2**	**(39)**	**(37)**
Other changes	—	—	—	2	—	—	—	—	—	2	(39)	**(37)**
Balance at 31.12.2020	**970**	**3,808**	**(201)**	**5,695**	**(347)**	**(1,561)**	**114**	**(450)**	**(1,897)**	**8,028**	**3,237**	**11,265**
Total comprehensive income for the year	—	—	—	3	484	89	(571)	88	(394)	**93**	175	**268**
Operations with shareholders or owners	**—**	**—**	**—**	**(956)**	**347**	**—**	**—**	**—**	**—**	**(609)**	**(220)**	**(829)**
Dividend distribution	—	—	—	(958)	347	—	—	—	—	**(611)**	(220)	**(831)**
Capital reduction	—	—	—	—	—	—	—	—	—	**—**	—	**—**
Trading in treasury shares	—	—	—	—	—	—	—	—	—	**—**	—	**—**
Share-based payments	—	—	—	2	—	—	—	—	—	**2**	—	**2**
Other changes in equity	**—**	**—**	**—**	**1**	**—**	**—**	**—**	**—**	**—**	**1**	**(16)**	**(15)**
Other changes	—	—	—	1	—	—	—	—	—	1	(16)	**(15)**
Balance at 30.06.2021	**970**	**3,808**	**(201)**	**4,743**	**484**	**(1,472)**	**(457)**	**(362)**	**(2,291)**	**7,513**	**3,176**	**10,689**

Notes 1 to 26 contained in the Notes to the Condensed interim consolidated accounts and the Appendixes are an integral part of the Statement of changes in consolidated equity as at 30 June 2021 and 31 December 2020.

Interim consolidated cash flow statement for the six month period ending at 30 June 2021 and 30 June 2020 (million euros)

	Note	Six months ended 2021	Six months ended 2020
Profit/(loss) before tax		**800**	**698**
Adjustments to income:	20	**779**	**974**
Depreciation/amortisation and impairment losses	20	729	789
Other adjustments to net profit	20	50	185
Changes in working capital	20	**97**	**720**
Other cash flow generated from operations:		**(389)**	**(373)**
Interest paid		(278)	(348)
Interest collected		12	15
Dividends collected		81	21
Income tax paid		(204)	(61)
CASH FLOW GENERATED FROM OPERATING ACTIVITIES (1)		**1,287**	**2,019**
Cash flows into investing activities:		**(228)**	**(835)**
Group companies acquisitions, net of cash and equivalents	20	343	0
Property, plant and equipment and intangible assets		(545)	(795)
Other financial assets		(26)	(40)
Proceeds from divestitures:		**131**	**111**
Group companies, associates and business units	20	8	59
Property, plant and equipment and intangible assets		9	14
Other financial assets		114	38
Other cash flows from investing activities:		**26**	**25**
Other proceeds from investing activities		26	25
CASH FLOWS FROM INVESTING ACTIVITIES (1)		**(71)**	**(699)**
Receipts/(payments) on equity instruments:		**(4)**	**(176)**
Issue/disposal		0	8
Acquisition		(4)	(184)
Receipts and payments on financial liability instruments:		**(394)**	**1,721**
Issue		685	4,525
Repayment and amortisation		(1,079)	(2,804)
Dividends paid (and remuneration on other equity instruments)	9	**(816)**	**(731)**
Other cash flows from financing activities		**5**	**(76)**
CASH FLOW GENERATED FROM FINANCING ACTIVITIES (1)		**(1,209)**	**738**
Other changes in cash and cash equivalents		**(38)**	**(194)**
Effect of fluctuations in exchange rates		**40**	**(92)**
VARIATION IN CASH AND CASH EQUIVALENTS		**9**	**1,772**
Cash and cash equivalents at beginning of the year		3,927	2,685
Cash and cash equivalents at year end		3,936	4,457

(1) Includes cash flows from continuing and discontinued operations (Note 9).

Notes 1 to 26 contained in the Notes to the Condensed interim consolidated accounts and the Appendix are an integral part of the Consolidated cash flow statement for the six-month periods ended 30 June 2021 and 2020..

Notes to the the condensed consolidated interim financial statements at 30 June 2021

Note 1. General information

Naturgy Energy Group, S.A. is a public limited company that was incorporated in 1843. Its registered office is located at Avenida de San Luis 77, Madrid. On 27 June 2018, the Shareholders' Meeting resolved to change the company's name to Naturgy Energy Group, S.A. (it was formerly Gas Natural SDG, S.A.).

Naturgy Energy Group, S.A. and subsidiaries ("Naturgy") form a group that is mainly engaged in the business of gas (procurement, liquefaction, regasification, transport, storage, distribution and supply), electricity (generation, transmission, distribution and sale) and any other existing source of energy. It may also act as a holding company and, in this respect, may incorporate or hold shares in other entities, no matter what their corporate object or nature, by subscribing, acquiring or holding shares, participation units or any other securities deriving from same.

Naturgy operates mainly in Spain and also outside Spain, in Latin America, Australia, the United States and the rest of Europe.

Note 3 contains financial information by operating segment.

Annex I lists Naturgy's change in consolidation perimeter as compared with investees at the closing date as detailed in the Consolidated Annual Accounts.

The shares of Naturgy Energy Group, S.A. are listed on the four official Spanish stock exchanges, are traded simultaneously on all four ("mercado continuo"), and form part of the Ibex35.

On 26 January 2021, Global InfraCo O (2), S.à r.l., which is wholly owned by the Australian fund IFM, announced the terms and conditions of a voluntary offer to acquire up to 220 million shares of Naturgy Energy Group, S.A., equivalent to 22.689% of Naturgy's share capital ("the Offer").

The Offer was admitted for processing by Spain's National Securities Market Commission on 18 February.

The Offer price of €23 per share was subsequently adjusted to €22.37 per share as a result of the supplementary dividend of €0.63 paid by Naturgy on 17 March 2021. As indicated in the announcement of the Offer, the price wil be adjusted for the future payment of dividends.

On 18 March 2021, the Mexican Federal Competition Commission (COFECE) unanimously and unconditionally authorized the business concentration that would result from the Offer, thus fulfilling one of the conditions to which the Offer was subject.

The offer is still pending the necessary regulatory authorisation from the Spanish Cabinet and the CNMV. The CNMV will not authorise the offer until the necessary prior authorisation has been obtained from the Cabinet, which has 6 months to decide on the offer from the time it was admitted for processing.

Note 2. Basis of presentation and accounting policies

2.1. Basis of presentation

The consolidated annual accounts of Naturgy Energy Group, S.A. for 2020 were adopted by the Shareholders' Meeting on 9 March 2021.

These condensed interim consolidated accounts of Naturgy as at 30 June 2021 were authorised by the Board of Directors on 27 July 2021 pursuant to IAS 34 "Interim financial reporting" and should be read together with the consolidated annual accounts for the year ended 31 December 2020, which were drawn up in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council ("IFRS-EU").

As a result, it was not necessary to replicate or update certain notes or estimates contained in the aforementioned consolidated annual accounts. Instead, the accompanying selected notes to the accounts include an explanation of significant events or movements in order to explain any changes in the consolidated financial situation and results of operations, comprehensive income, changes in equity and consolidated cash flows of Naturgy between 31 December 2020, the date of the above-mentioned consolidated annual accounts, and 30 June 2021.

The figures set out in these condensed consolidated interim financial statements are expressed in million euros, unless otherwise stated.

2.2. Seasonality

Demand for natural gas is seasonal, with residential gas supplies and sales in Europe generally being higher in the colder months, from October to March, than during the warmer months, from April to September, while natural gas demand for industrial and power generation purposes is normally more stable throughout the year. Electricity demand tends to increase in summer in Spain, particularly in July and August, offsetting the seasonal fluctuations in gas, since both activities are in the "Supply" segment.

2.3. New IFRS-EU and IFRIC interpretations

As a result of their approval, publication and entry into force on 1 January 2021, the following standards, amendments and interpretations adopted by the European Union have been applied:

Standards adopted by the European Union		Entry into force for annual periods commencing
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendment) "Interest Rate Benchmark Reform: Phase 2"	To assist undertakings in providing useful information about the transition to alternative benchmark rates.	1 January 2021
IFRS 4 (Amendment) "Extension of the temporary exemption from applying IFRS 9"	Addresses the temporary accounting consequences of the different dates of entry into force of IFRS 9 Financial Instruments and the forthcoming IFRS 17 Insurance Contracts.	1 January 2021

None of these standards, interpretations or amendments has been applied early. The application of those standards, amendments and interpretations did not have a material impact on the interim accounts.

The amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform—Phase 2" address the uncertainties related to the reform of interbank rates (IBOR) by avoiding the disruption of existing hedging relationships through temporary exemptions from the application of certain specific hedge accounting requirements. Naturgy has adopted the temporary exceptions established as a result of the Interest Rate Benchmark Reform (hereinafter, IBOR reform) to the application of the specific hedge accounting requirements for hedging relationships existing at 1 January 2021 or those designated subsequently and which are directly affected by the IBOR reform (Note 11).

In particular, a hedging relationship is considered to be directly affected by the IBOR reform if the IBOR reform creates uncertainty about:

- The benchmark interest rate designated as the hedged risk in the hedging relationship (whether specified contractually or otherwise), or

- The term or amount of flows associated with the benchmark interest rate of the hedged item or hedging instrument.

In addition, the following amendments and standards have been endorsed by the IASB and are pending adoption by the European Union:

Standards adopted by the European Union		**Entry into force for annual periods**
IFRS 3, IAS 16, IAS 37, Annual improvements cycle 2018-2020	A number of amendments.	1 January 2022
Standards issued by the IASB and yet to be adopted by the European Union		**Entry into force for annual periods**
IFRS 16 (amendment) "COVID-19 related rent concessions beyond 30 June 2021"	Continue to provide lessees with a practical exemption as a result of the Covid-19 pandemic while allowing them to continue to provide useful information on their leases to users of the financial statements.	1 April 2021
IFRS 17, "Insurance contracts"	New standard that replaces IFRS 4.	1 January 2023
IAS 1 Presentation of Financial Statements (amendment)	Classification of liabilities as current and non-current.	1 January 2023
IAS 1 (amendment) "Disclosure of Accounting Policies"	Sets out the criteria for disclosing material accounting policies.	1 January 2023
IAS 8 (amendment) "Definition of accounting estimates"	New definition of accounting estimates.	1 January 2023
IAS 12 (amendment) "Deferred Tax related to Assets and Liabilities arising from a Single Transaction"	Limits the exemption from initial recognition of deferred tax assets and liabilities in certain single transactions.	1 January 2023

None of these standards or amendments has been applied early. The application of these amendments is not expected to give rise to any material impact.

2.4. Comparability

As a result of the sale agreement referring to the electricity distribution subsidiaries in Chile described in Note 8 "Non-current assets and disposal groups held for sale and discontinued operations", the income statement for the six-month period ended 30 June 2020 has been restated for comparison purposes in accordance with IFRS 5.

The effects of the restatement on the consolidated income statement for the six-month period ended 30 June 2020 are detailed below:

Consolidated income statement for the six-month period ended 30 June 2020

Six months period finished at 30 june 2020	2020	IFRS 5	2020 restated
Revenue	8,781	(1,002)	7,779
Raw materials and consumables	(5,848)	778	(5,070)
Other operating income	63	(5)	58
Personnel expenses	(526)	34	(492)
Other operating expenses	(627)	69	(558)
Profit/(loss) on disposals of fixed assets	3	—	3
Release of fixed asset grants to income and other	24	—	24
GROSS OPERATING RESULTS	**1,870**	**(126)**	**1,744**
Depreciation, amortisation and fixed-asset impairment losses	(789)	46	(743)
Impairment due to credit losses	(101)	22	(79)
Other results	15		15
OPERATING PROFIT/(LOSS)	**995**	**(58)**	**937**
NET FINANCIAL INCOME/(EXPENSE)	(279)	37	(242)
Profit/(loss) of companies measured under the equity method	3	—	3
PROFIT/(LOSS) BEFORE TAXES	**719**	**(21)**	**698**
Corporate income tax	(165)	6	(159)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**554**	**(15)**	**539**
Profit for the year from discontinued operations, net of taxes	(47)	15	(32)
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR	**507**	**—**	**507**
The parent company	334	—	334
Non-controlling interests	173	—	173

2.5. Accounting policies

The accounting policies applied in these interim accounts are the same as those applied in the consolidated annual accounts for the year ended 31 December 2020, except for the adoption of new IFRS-EU, interpretations and amendments that came into force on 1 January 2021.

The main amendments introduced by the adoption of the new IFRS relate essentially to the amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 and are detailed below:

Specific policies relating to the benchmark interest rate reform

In order to assess whether there is an economic relationship between the hedging instrument and hedged item at 30 June 2021, Naturgy assumes that the benchmark floating interest rate has not been altered as a result of the IBOR (Interbank Offered Rates) reform.

Naturgy will cease to apply those temporary exceptions in assessing the economic relationship between the hedging instrument and the hedged item when the uncertainty arising from the IBOR reform with respect to the benchmark interest rate, the term or the amount of its interest settlements disappears, or when the hedging relationship is discontinued.

The global reform of benchmark interest rates is a material issue for Naturgy and one that it monitors continuously, as interbank interest rates (IBOR) are used as a benchmark in the group's funding agreements and derivative financial instruments.

Naturgy uses interest rate derivatives, mainly interest rate swaps, as cash flow hedges. Some derivative financial instruments are indexed to floating interest rates that have been affected by the IBOR reform, mainly Euribor and Dollar Libor.

Additionally, part of Naturgy's bank financing at 30 June 2021 is indexed to one of these indices.

With regard to Euribor, a new hybrid calculation methodology was developed in 2019 and approved by the authorities. Therefore, it is not necessary to amend existing contracts and, similarly, it is understood that the financial instruments indexed to Euribor are not exposed to a high level of uncertainty at 30 June 2021.

In the case of the Dollar Libor index, in order to ensure a non-disruptive transition of contracts referenced to this index that were signed prior to that date, the cessation of publication for most terms of the index has been postponed to June 2023. Consequently, the main market players (regulators, central banks, banks, institutions, etc.) are working on defining equivalences between these indices and the new benchmark RFR (risk-free rate). This situation creates a certain degree of uncertainty about the benchmark rates for bank financing and interest rate derivatives, which Naturgy maintains. For hedging transactions carried out with these derivatives, Naturgy has applied the temporary exceptions introduced by the amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Reform" (Note 2.3).

Given the uncertainty in the transition period, Naturgy is continuously monitoring the IBOR reform and has initiated an action plan with the aim of minimising any potential negative impact, by first identifying the transactions that are affected, quantifying their notional amounts, and reviewing the contract language with the counterparties. In this context, at 30 June 2021, the nominal amount of hedging instruments indexed to IBOR indices, excluding Euribor, is as follows:

	Currency	Notional amount at 30.06.2021 (USD million)
Interest rate swaps indexed to Dollar Libor	USD	948

The derivative financial instruments are governed by the Framework Agreements of the International Swaps and Derivatives Association (ISDA). On 23 October 2020, ISDA published the "ISDA 2020 IBOR fallbacks protocol", which came into force on 25 January 2021. The companies of the Naturgy Group that, at 30 June 2021, have derivative positions indexed to any IBOR are analysing adoption of the aforementioned protocol.

Additionally, at 30 June 2021, the nominal amount of bank borrowings and of bonds or other marketable securities indexed to IBOR indices, excluding Euribor, is as follows:

	Currency	Nominal amount at 30.06.2021 (USD million)
Dollar Libor bank debt	USD	2,377

The financing and hedging contracts signed in 2021 (corresponding to the Chilean subsidiaries Ibereólica Cabo Leones II, S.A. and Global Power Generation Solar Chile 2017, S.p.A.) include clauses to ensure the same substitution of the new benchmark interest rate once LIBOR ceases to be published.

In the event of any move by the authorities with respect to the IBOR rates, Naturgy will make the appropriate contractual amendments in order to incorporate the replacement benchmark market interest rate into its financing contracts.

2.6. Significant accounting estimates and relevant judgements

The preparation of interim consolidated accounts requires the use of estimates and judgements. The measurement standards that require a large number of estimates are set out in Note 2.4.24. "Significant accounting estimates and judgements" in the Consolidated annual accounts for the year ended 31 December 2020.

The main updates are detailed below, taking into account the outlook in the current circumstances, including the evolution of COVID-19:

a. Impairment of non-financial assets

The assumptions used to determine the recoverable amount of cash-generating units (CGUs) are detailed in Note 4 "Non-financial impairment losses" to the consolidated annual accounts for the year ended 31 December 2020.

A review of the impairment indicators for the various CGUs as at 30 June 2021 did not disclose any need to recognise impairment or reversal, except that registered for ongoing non-viable projects (Note 4).

b. Impairment of financial assets

Impairment of financial assets is based on an expected loss model. Naturgy applies the general expected loss model for financial assets, with the exception of Trade and other receivables without a significant financial component, for which the simplified expected loss model is used. Note 12 details the evolution of credit risk and expected loss.

<u>Other sources of uncertainty</u>

On 1 June 2021, based on a proposal by the Ministry for Ecological Transition and the Demographic Challenge, the Spanish Cabinet initiated the processing of a draft bill to correct the remuneration received by non-CO_2-emitting power plants (mainly hydro and nuclear) commissioned before 2005. At the date of authorising these consolidated interim accounts, the period for comments on the draft bill has concluded and the CNMC has issued a favourable report, although it notes some aspects of the proposal that it considers need improvement.

Considering the many factors that may influence the outcome of the draft bill and that the range of possibilities is very broad and uncertain, at the date of authorising of these interim accounts it is impracticable to disclose the extent of the possible effects that the final draft bill may have on the Group's conventional generation business. The Directors consider that, if a regulation such as the one indicated in the draft bill is approved, which reduces the remuneration of these technologies, there might be adjustments to the carrying amount of the assets of the Spanish thermal generation and Spanish hydroelectric generation CGUs, to which the nuclear and hydroelectric technologies are assigned. These possible adjustments will depend on the final wording of the regulation, if it is ultimately approved.As at 30 June 2021, the net carrying amount of the affected assets was Euros 1,203 million.

2.7. Changes in consolidation scope

The main changes in the scope of consolidation in the six months ended 30 June 2021 were as follows:

On 15 January 2021, Naturgy, through Naturgy Solar USA, LLC, a wholly owned subsidiary, acquired 100% of Hamel Renewables, LLC (United States) which owns a portfolio of 8 GW of solar projects and 4.6 GW of energy storage projects located in nine US states.

In February 2021, Naturgy completed the sale of a 60% stake in the companies Lean Corporate Services, S.L., Lean Customer Services, S.L., Lean Grids Services, S.L. and Naturgy IT, S.L. Previously, in 2020, there had been a first sale of 25% which enabled the corresponding strategic partners to begin participating in the delivery of the various services. Therefore, following the sale of 60%, the percentage retained by Naturgy in these companies is 15%, resulting in the loss of control of these companies with no material impact on the consolidated interim accounts (Note 6).

In March 2021, Naturgy, ENI and the Arab Republic of Egypt completed the agreement reached on 1 December 2020 to amicably resolve the disputes affecting Unión Fenosa Gas (UFG). As a result, UFG received a number of cash payments and the majority of assets outside Egypt, excluding UFG's commercial activities in Spain. This also entailed the end of the gas supply contract for approximately 3.5 bcm per year to supply combined cycle plants in Spain, which was due to end in 2029 and keeps its Oman contract that expire in 2025. Simultaneously, Naturgy acquired the additional remaining 50% stake in UFG for Euros 466 million, with the result that it now owns 100%, having gained control and fully consolidating that company (Note 21). It also, with this operation, obtained a capital gain of Euros 103 million, recognised under "Other income" in the interim consolidated accounts (Note 18), as the transaction is classified as a business combination achieved in stages.

The 40% stake in Cogeneración del Noroeste, S.L. was sold in June 2021 (Note 5).

Note 3. Segment financial information

Continuing with its transformation process and in order to further ensure transparency and accountability, in 2020 Naturgy reorganised its businesses around three strategic areas: Energy and Network Management, Renewables and New Business, and Supply. This new organisation improves the visibility of the business lines' performance and made it possible to redefine the operating segments based on the following criteria:

- Energy and Network Management:

  - Iberian Networks:

    - Gas networks Spain: encompasses the regulated gas distribution business in Spain.
    - Electricity networks Spain: encompasses the regulated electricity distribution business in Spain.

  - Latin American Networks:

    - Gas and electricity networks in Argentina.
    - Gas networks in Brazil.
    - Gas and electricity networks and supply in Chile (the latter classified under discontinued operations, see Note 8).
    - Gas networks in Mexico.
    - Electricity networks in Panama.
    - Gas networks in Peru (discontinued operation, see Note 8).

  - Energy Management:

    - GNL Internacional: includes both the trading and maritime transportation of liquefied natural gas.
    - Markets and supplies: includes procurement and sales to large energy-intensive consumers. Also includes the activity of Unión Fenosa Gas (carried by the equity method until March 2021, see Note 2.7) and other gas infrastructures.
    - Gas pipelines: Manages the Maghreb-Europe and Medgaz pipelines (carried by the equity method).

  - Thermal generation Spain: includes the management of conventional thermal generation (which uses fuel for heat generation and which is not covered by a special regime) in Spain, i.e. nuclear plants, combined cycle plants and coal-fired plants (discontinued operation - see Note 8).
  - Thermal generation Latin America: includes management of the conventional thermal generation facilities of Global Power Generation (GPG) in Mexico, the Dominican Republic and Puerto Rico (the latter carried by the equity method through EcoEléctrica LP).

- Renewables and New Business:

  - Renewables Spain and the United States: includes the management of wind, mini hydro, solar and cogeneration power generation facilities and projects, plus hydroelectric generation after the redefinition of this segment in 2020. The activities included in this segment are carried out mainly in Spain, although, following the acquisition in January 2021 of the Hamel Renewables project portfolio (Note 2.7), the activity is now being conducted in the United States.

  - Renewables Latin America: includes management of the renewable electricity generation facilities and projects of GPG located in Latin America (Brazil, Chile, Costa Rica, Mexico and Panama).

  - Renewables Australia: includes management of the renewable electricity generation facilities and projects of GPG located in Australia.

- Supply: its objective is to manage the commercial model for end customers for gas, electricity and services, incorporating new technologies and services and developing the full potential of the brand.

- Rest. Basically includes the corporation's operating expenses, as well as the expenses defined in the Lean project (outsourcing of non-core areas).

For the purposes of comparison, segment information for the six months ended 30 June 2020 has been restated:

- in accordance with the operating segments indicated above.
- by application of IFRS 5 to discontinued operations in the second half of 2020 (Note 8).

Segment results and investments for the periods of reference are as follows:

Segment financial information - Statement of income

2021	Networks and Energy management																Renewables and New businesses							
	Networks Spain			Networks Latam						Energy management														
	Gas net.	Electr. net.	Total	Argentina	Brazil	Chile	Mexico	Panama	Total	Markets and Procurem.	LNG	Pipelines	Spain CG	Latam CG	Total	Total	Spain & USA	Latam	Australia	Total	Supply	Rest	Eli.	Total
Consolidated revenue	570	397	**967**	212	**541**	283	334	347	**1,717**	1,104	1,468	42	487	545	**3,646**	**6,330**	52	67	4	**123**	**2,675**	**2**	**—**	**9,130**
Revenue between segments	40	18	**58**	—	**—**	—	1	3	**4**	548	50	—	16	—	**614**	**676**	236	6	—	**242**	**869**	**23**	**—**	**1,810**
Intersegment revenue	—	—	**—**	—	**—**	—	—	—	**—**	1,214	355	84	59	—	**1,712**	**1,712**	**—**	**—**	—	**—**	**—**	**—**	**—**	**1,712**
Revenue by segment	610	415	**1,025**	212	541	283	335	350	**1,721**	2,866	1,873	126	562	545	**5,972**	**8,718**	288	73	4	**365**	**3,544**	**25**	**(3,522)**	**9,130**
Segment procurements	(47)	—	**(47)**	(134)	(414)	(151)	(204)	(267)	**(1,170)**	(2,836)	(1,772)	—	(332)	(416)	**(5,356)**	**(6,573)**	(36)	(19)	—	**(55)**	**(3,196)**	**(1)**	**3,494**	**(6,331)**
Net personnel expenses	(111)	(102)	**(213)**	(20)	(9)	(13)	(9)	(5)	**(56)**	(16)	(10)	(18)	(47)	(7)	**(98)**	**(367)**	(41)	(10)	(1)	**(52)**	**(94)**	**(57)**	**—**	**(570)**
Other operating income/expenses	(63)	(53)	**(116)**	(38)	(19)	(8)	(14)	(17)	**(96)**	2	(5)	(8)	(127)	(14)	**(152)**	**(364)**	(59)	(11)	(3)	**(73)**	**(103)**	**(39)**	**28**	**(551)**
EBITDA	389	260	**649**	20	99	111	108	61	**399**	16	86	100	56	108	**366**	**1,414**	152	33	—	**185**	**151**	**(72)**	**—**	**1,678**
Depreciation/amortisation & impairment losses	(141)	(122)	**(263)**	(2)	(22)	(29)	(24)	(22)	**(99)**	(29)	(72)	(28)	(39)	(37)	**(205)**	**(567)**	(81)	(15)	(5)	**(101)**	**(39)**	**(22)**	**—**	**(729)**
Transfers to provisions	(1)	(1)	**(2)**	(6)	(8)	(2)	(2)	1	**(17)**	—	—	—	—	—	**—**	**(19)**	—	—	—	**—**	**(33)**	**—**	**—**	**(52)**
Other results			**—**						**—**	103	—	—	—	—	**103**	**103**	2			**2**		**1**	**—**	**106**
Operating results	247	137	**384**	12	69	80	82	40	**283**	90	14	72	17	71	**264**	**931**	73	18	(5)	**86**	**79**	**(93)**	**—**	**1,003**
Results of equity-consolidated companies	—	—	—	—	—	2	—	—	**2**	(4)	—	4	—	27	**27**	**29**	3	—	—	**3**	**—**	**1**	**—**	**33**
Capex	48	90	**138**	12	11	16	16	36	**91**	1	22	—	25	11	**59**	**288**	54	47	53	**154**	**47**	**11**		**500**

2020	Networks and Energy management																Renewables and New businesses							
	Networks Spain			Networks Latam						Energy management														
	Gas net.	Electr. net.	Total	Argentina	Brazil	Chile	Mexico	Panama	Total	Markets and Procurem.	LNG	Pipelines	Spain CG	Latam CG	Total	Total	Spain & USA	Latam	Australia	Total	Supply	Rest	Eli.	Total
Consolidated revenue	547	396	**943**	284	547	256	263	408	**1,758**	566	1,064	41	230	291	**2,192**	**4,893**	176	46	4	**226**	**2,656**	**4**	—	**7,779**
Revenue between segments	22	17	**39**	1	—	—	5	—	**6**	515	52	—	115	2	**684**	**729**	103	5	—	**108**	**871**	**84**	—	**1,792**
Intersegment revenue	—	—	**—**	—	—	—	—	—	**—**	848	316	96	85	—	**1,345**	**1,345**	—	—	—	**—**	**—**	**—**	—	**1,345**
Revenue by segment	569	413	**982**	285	547	256	268	408	**1,764**	1,929	1,432	137	430	293	**4,221**	**6,967**	279	51	4	**334**	**3,527**	**88**	**(3,137)**	**7,779**
Segment procurements	(39)	—	**(39)**	(174)	(404)	(127)	(132)	(315)	**(1,152)**	(1,998)	(1,252)	—	(269)	(151)	**(3,670)**	**(4,861)**	(33)	(2)	—	**(35)**	**(3,222)**	**(5)**	**3,053**	**(5,070)**
Net personnel expenses	(73)	(61)	**(134)**	(22)	(11)	(12)	(10)	(4)	**(59)**	(12)	(10)	(3)	(40)	(7)	**(72)**	**(265)**	(22)	(9)	—	**(31)**	**(74)**	**(122)**	—	**(492)**
Other operating income/expenses	(55)	(58)	**(113)**	(47)	(28)	(18)	(7)	(20)	**(120)**	1	(5)	(8)	(106)	(14)	**(132)**	**(365)**	(62)	(10)	(3)	**(75)**	**(97)**	**(20)**	**84**	**(473)**
EBITDA	402	294	**696**	42	104	99	119	69	**433**	(80)	165	126	15	121	**347**	**1,476**	162	30	1	**193**	**134**	**(59)**	—	**1,744**
Depreciation/amortisation & impairment losses	(148)	(122)	**(270)**	(8)	(26)	(30)	(18)	(28)	**(110)**	(2)	(66)	(28)	(71)	(44)	**(211)**	**(591)**	(82)	(9)	(2)	**(93)**	**(31)**	**(28)**		**(743)**
Transfers to provisions	(1)	—	**(1)**	(6)	(5)	(2)	(9)	(4)	**(26)**	—	—	—	—	—	**—**	**(27)**	—	—	—	**—**	**(52)**	**—**		**(79)**
Other results	—	—	**—**	—	—	—	—	—	**—**	—	—	—	—	—	**—**	**—**	—			**—**		**15**		**15**
Operating results	253	172	**425**	28	73	67	92	37	**297**	(82)	99	98	(56)	77	**136**	**858**	80	21	(1)	**100**	**51**	**(72)**		**937**
Results of equity-consolidated companies	—	1	**1**	—	—	5	—	—	**5**	(22)	—	2	—	18	**(2)**	**4**	(1)	—	—	**(1)**	**—**	**—**	**—**	**3**
Capex	38	80	**118**	12	17	104	12	50	**195**	—	64	—	21	10	**95**	**408**	44	114	21	**179**	**18**	**20**		**625**

Note 4. Intangible assets, property, plant and equipment and right-of-use assets

Changes in the six-month period ended 30 June 2021 are as follows:

	Goodwill	Total intangible assets	Subtotal	Tangible assets	Right of use Assets
Gross cost	2,892	6,026	8,918	34,194	2,041
Amortisation fund and impairment losses	—	(3,343)	(3,343)	(18,066)	(653)
Carrying amount at 31.12.2020	**2,892**	**2,683**	**5,575**	**16,128**	**1,388**
Investment (Note 3)	—	90	90	349	61
Amortisation charge	—	(140)	(140)	(477)	(90)
Impairment losses (Note 4)	—	—	—	(22)	—
Currency translation differences (1)	19	60	79	102	3
Business combinations (Note 32)	28	120	148	7	45
Reclassifications and other (2)	—	13	13	5	2
Carrying amount at 30.06.2021	**2,939**	**2,826**	**5,765**	**16,089**	**1,405**
Gross cost	2,939	6,069	9,008	34,719	2,129
Amortisation fund and impairment losses	—	(3,243)	(3,243)	(18,630)	(724)
Carrying amount at 30.06.2021	**2,939**	**2,826**	**5,765**	**16,089**	**1,405**

(1) Includes effect of inflation in Argentina.

Impairment losses correspond to ongoing non-viable projects.

At 30 June 2021, Naturgy had recognised fixed asset investment commitments totalling Euros 222 million, basically for the construction of renewable generation facilities in Spain and Australia, the development of the distribution network and other gas infrastructure in Latam.

The composition and changes in goodwill by CGU in the six-month period ended 30 June 2021 is as follows:

	01.01.2021	Currency translation differences	Business combinations	30.06.2021
Networks and Energy management	**1,694**	**19**	**20**	**1,733**
Electricity networks Spain	1,070	—	—	1,070
Markets and procurements	—	—	20	20
Thermal generation Mexico	410	14	—	424
Brazil gas networks	12	—	—	12
Chile gas networks	62	—	—	62
Chile electricity	—	—	—	—
Mexico gas networks	18	1	—	19
Panama Electricity networks	122	4	—	126
Renewables and New businesses	755	—	8	763
Spain and USA	743	—	8	751
LatAm	12	—	—	12
Supply	443	—	—	443
Total	**2,892**	**19**	**28**	**2,939**

Nota 5. Investments in companies

Associates and joint ventures

The main change in the equity-accounted investments heading is due to the derecognition of a 50% stake in Unión Fenosa Gas, S.A. (UFG) as a result of the acquisition, in March 2021, of the other 50% following the agreement reached with ENI and the Arab Republic of Egypt to amicably resolve the dispute (Note 2.7), with the result that a 100% holding was attained. That acquisition was classified as a business combination achieved in stages (Note 21).

The value of the holding in UFG that was derecognised was Euros 258 million.

Additionally, a 40% stake in Cogeneración del Noroeste, S.L. was sold in June 2021 for Euros 7 million, generating a pre-tax capital gain of Euros 2 million that was recognised under "Other income" (Note 18).

Note 6. Financial assets

Set out below is a breakdown of financial assets as at 30 June 2021 and 31 December 2020, by nature and category:

30.06.2021	**Fair value through other comprehensive income**	**Fair value through profit or loss**	**Amortised cost**	**Total**
Equity instruments	10	—	—	**10**
Derivatives	5	31	—	**36**
Other financial assets	—	—	372	**372**
Non-current financial assets	**15**	**31**	**372**	**418**
Derivatives	—	—	—	**—**
Other financial assets	—	—	216	**216**
Current financial assets	**—**	**—**	**216**	**216**
Total	**15**	**31**	**588**	**634**

31.12.2020	**Fair value through other comprehensive income**	**Fair value through profit or loss**	**Amortised cost**	**Total**
Equity instruments	35	—	—	**35**
Derivatives	—	—	—	**—**
Other financial assets	—	—	326	**326**
Non-current financial assets	**35**	**—**	**326**	**361**
Derivatives	—	—	—	**—**
Other financial assets	—	120	438	**558**
Current financial assets	**—**	**120**	**438**	**558**
Total	**35**	**120**	**764**	**919**

Financial assets recognised at fair value as at 30 June 2021 and 31 December 2020 are classified as follows:

	30.06.2021				**31.12.2020**			
Financial Assets	**Level 1 (listed price on active markets)**	**Level 2 (observable variables)**	**Level 3 (non-observable variables)**	**Total**	**Level 1 (listed price on active markets)**	**Level 2 (observable variables)**	**Level 3 (non-observable variables)**	**Total**
Fair value through other comprehensive income	—	5	10	**15**	—	—	35	**35**
Fair value through profit or loss	—	31	—	**31**	120	—	—	**120**
Total	**—**	**36**	**10**	**46**	**120**	**—**	**35**	**155**

Fair value through other comprehensive income

- Equity instruments:

  Mainly includes the 85.4% interest in Electrificadora del Caribe, S.A. ESP (Electricaribe). On 14 November 2016, the Superintendence for Residential Public Services of the Republic of Colombia ("the Superintendence") reported the government take-over of Electricaribe, a Naturgy investee, as well as the removal of the members of the governing body and the general manager, and their replacement by a special agent appointed by the Superintendence. On 14 March 2017 the Superintendence announced the decision to liquidate Electricaribe. On 22 March 2017 Naturgy initiated arbitration proceedings before the United Nations Commission for International Trade Law (UNCITRAL) and on 15 June 2018 it lodged a complaint in which it claimed approximately USD 1,600 million. On 4 December 2018, the Republic of Colombia submitted its answer to the complaint and filed a counterclaim for approximately USD 500 million, the viability of which is considered remote. The main hearings were held in December 2019 and an arbitration decision dismissing the claims of both Naturgy and the Colombian State was issued in March 2021.

  Additionally, the Superintendence for Residential Public Services of the Republic of Colombia ordered the beginning of the liquidation process of the company on 24 March 2021. Due to that fact, together with the closing of the claim process against the insurance companies which has resulted in a collection of Euros 8 million, the 85.4% stake in Electricaribe was carried at a value of Euros 0 million as at 30 June 2021 (Euros 25 million as at 31 December 2020). Likewise, once the liquidation process has started, a deferred tax asset of 105 million euros has been recorded corresponding to the tax loss that will be deductible once the liquidation materializes. Both the decrease in fair value and the tax effect have been recorded under "Other accumulated comprehensive income".

  It also includes the 15% stakes in the companies Lean Corporate Services, S.L., Lean Customer Services, S.L., Lean Grids Services, S.L. and Naturgy IT, S.L. (Note 2.7.).

Fair value through profit and loss

- As at 31 December 2020, this includes the valuation of deposits made at year-end for an amount of Euros 120 million.

Amortised cost

As at 30 June 2021, the following are recognised under Other financial assets:

- The temporary mismatches between electricity system revenues and costs, which are funded by Naturgy pursuant to Law 24/2013 of 26 December, in the amount of Euros 45 million (Euros 106 million as at 31 December 2020). This amount will be recovered through the electricity system settlements. The amount of the mismatch pending receipt following the settlements for the year generates a recovery right in the following five years, plus interest at a market rate. The amount of this financing has been recognised entirely as a short-term item on the understanding that it is a temporary mismatch that will be recovered through system settlements within the same year.

  As at 31 December 2020 it also included the mismatches between gas system revenues and costs which are funded by Naturgy pursuant to Law 18/2014, of 17 October in the amount of Euros 116 million which as at 30 June of 2021 are to be paid an therefore are included in "Other current financial liabilities".

Note 7. Other non-current assets and trade and other receivables

The "Other non-current assets" and "Trade and other receivables" headings as at 30 June 2021 and 31 December 2020, classified by nature and category, are as follows:

30.06.2021	**Fair value through other comprehensive income**	**Amortised cost**	**Total**
Derivatives	264	—	**264**
Other assets	—	319	**319**
Other non-current assets	**264**	**319**	**583**
Derivatives	280	—	**280**
Other assets	—	3,228	**3,228**
Trade and other receivables	**280**	**3,228**	**3,508**
Total	**544**	**3,547**	**4,091**

31.12.2020	**Fair value through other comprehensive income**	**Amortised cost**	**Total**
Derivatives	352	—	**352**
Other assets	—	339	**339**
Other non-current assets	**352**	**339**	**691**
Derivatives	94	—	**94**
Other assets	—	3,021	**3,021**
Trade and other receivables	**94**	**3,021**	**3,115**
Total	**446**	**3,360**	**3,806**

Financial assets recognised at fair value as at 30 June 2021 and 31 December 2020 are classified as follows:

	30.06.2021				**31.12.2020**			
Financial Assets	**Level 1 (listed price on active markets)**	**Level 2 (observable variables)**	**Level 3 (non-observable variables)**	**Total**	**Level 1 (listed price on active markets)**	**Level 2 (observable variables)**	**Level 3 (non-observable variables)**	**Total**
Fair value through other comprehensive income	30	514	—	**544**	15	431	—	**446**
Fair value through profit or loss	—	—	—	**—**	—	—	—	**—**
Total	**30**	**514**	**—**	**544**	**15**	**431**	**—**	**446**

Fair value through other comprehensive income

Non-current derivative financial assets at fair value through other comprehensive income include the market value of the power purchase agreements of the Australian subsidiaries in the renewable energy segment which have a settlement by differences, in the amount of Euros 185 million (Euros 279 million at 31 December 2020), of which Euros 172 million are classified as non-current (Euros 264 million at 31 December 2020). These contracts are signed either with the state in which they operate or with private corporations, and enable the companies to hedge the forward selling price of electricity for a given volume of MW for the agreed period. These contracts have been accounted for as a cash flow hedging financial instrument.

They also include operational derivatives for hedging gas prices amounting to Euros 316 million (Euros 151 million as at 31 December 2020), of which Euros 83 million are classified as non-current (Euros 88 million as at 31 December 2020).

Amortised cost

As at 30 June 2021, the accumulated balances for electricity and gas sales yet to be invoiced are included under “Trade receivables” and amount to Euros 1,545 million (Euros 1,002 million at 31 December 2020).

As a result of the decline in the demand for gas and electricity, the Company in 2020 was availing itself of the flexibility mechanisms in the procurement contracts which accrue entitlement to volumes not delivered, which are recognised under this heading in the non current and current term.

Note 8. Non-current assets and disposal groups of assets held for sale and discontinued operations

Both at 30 June 2021 and at 31 December 2020, non-current assets held for sale relate to the gas generation business in Peru and electricity distribution in Chile:

– On 27 April 2020, the general shareholders' meeting of Naturgy Perú S.A., the gas distribution subsidiary in Peru, approved the financial statements for 2019 which indicated that equity was less than one-third of share capital. The shareholders resolved not to increase capital, leading to the initiation of the procedure to apply for insolvency proceedings. In December 2020, an agreement was reached with the Peruvian government under which both parties agreed to terminate the concession agreement and, consequently, decree the expiration of the natural gas distribution concession in the regions of Arequipa, Tacna and Moquegua. It was also decided that the Peruvian government would take over the operation of the concession from 18 December 2020. In this situation, the company is expected to commence a liquidation process which involves the distribution of assets to their owners and therefore, in accordance with IFRS 5, they have been classified to "Non-current assets and liabilities held for sale". At the time of transfer, the assets were measured at expected fair value on liquidation, which did not have a significant impact on the consolidated income statement. In addition, since this is a significant line of business or geographical area of operation that is separate from the rest, it was classified as a discontinued operation, as a result of which all the revenues and expenses of this business in the six-month periods ended 30 June 2021 and 2020 are presented under "Profit for the year from discontinued operations, net of taxes".

– On 13 November 2020, Naturgy reached an agreement to sell its 96.04% holding in Compañía General de Electricidad S.A. in Chile (CGE), a company engaging in the electricity network business in Chile, to State Grid International Development Limited (SGID) for a total purchase price (equity value) of Euros 2,570 million, set in euros and payable in cash upon completion of the transaction. Since this figure is higher than the carrying amount of consolidated net assets, no valuation impact has been recognised under IFRS 5. The transaction is expected to be completed before ending july 21 once the pertinent approvals from the regulators and competition authorities have been obtained.

  As Naturgy has a firm commitment to sell these assets, which are clearly identified, the process is under way and it is considered that the sale is highly probable, the accounting balances of these assets and liabilities in November 2020 were transferred to "Non-current assets held for sale" and "Liabilities related to non-current assets held for sale", in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations". In addition, it was considered that these are discontinued operations as they are components classified as held for sale which represent a significant and separate line of business or geographical area of operations, and the revenues and expenses pertaining to these lines of business for the six-month periods ended 30 June 2021 and 2020 (Note 2.4) are disclosed under "Profit for the year from discontinued operations net of taxes".

– Naturgy's coal-fired generation facilities in Spain ceased to operate on 30 June 2020 because there was no remuneration mechanism under which the investments necessary to reduce emissions would be viable and, consequently, because they did not fulfil the new applicable emission limits. Since this is a group of assets that are to be abandoned, under a coordinated closure plan, and they represent a significant separate line of business in accordance with IFRS 5, this line was classified as a discontinued operation, and all revenues and expenses pertaining to this business for the six-month periods ended 30 June 2021 and 2020 are disclosed under "Profit for the year from discontinued operations, net of taxes".

The breakdown by nature of assets classified as held for sale and the associated liabilities is as follows at 30 June 2021 and 31 December 2020:

30.06.2021	**Electricity distribution Chile**	**Gas Distribution Peru**	**Total**
Intangible assets	1,232	—	1,232
Property, plant and equipment	2,215	—	2,215
Right-of-use assets	7	—	7
Non-current financial assets	59	—	59
Other non-current assets	317	—	317
Deferred tax assets	172	—	172
NON-CURRENT ASSETS	**4,002**	**—**	**4,002**
Inventories	9	—	9
Trade and other receivables	467	—	467
Other current financial assets	—	—	—
Cash and cash equivalents	253	—	253
CURRENT ASSETS	**729**	**—**	**729**
TOTAL ASSETS	**4,731**	**—**	**4,731**
			—
Grants	17	—	17
Non-current provisions	71	—	71
Non-current financial liabilities	1,354	—	1,354
Deferred tax liabilities	302	—	302
Other non-current liabilities	351	—	351
NON-CURRENT LIABILITIES	**2,095**	**—**	**2,095**
Current financial liabilities	339	—	339
Trade and other payables	229	8	237
Other current liabilities	27	—	27
CURRENT LIABILITIES	**595**	**8**	**603**
TOTAL LIABILITIES	**2,690**	**8**	**2,698**

31.12.2020	Electricity distribution Chile	Gas Distribution Peru	Total
Intangible assets	1,233	—	1,233
Property, plant and equipment	2,126	—	2,126
Right-of-use assets	9	0	9
Non-current financial assets	55	—	55
Other non-current assets	359	—	359
Deferred tax assets	155	—	155
NON-CURRENT ASSETS	**3,937**	**—**	**3,937**
Inventories	6	—	6
Trade and other receivables	505	—	505
Other current financial assets	2	—	2
Cash and cash equivalents	385	—	385
CURRENT ASSETS	**898**	**—**	**898**
TOTAL ASSETS	**4,835**	**—**	**4,835**
			—
Grants	17	—	17
Non-current provisions	66	—	66
Non-current financial liabilities	1,516	—	1,516
Deferred tax liabilities	288	—	288
Other non-current liabilities	386	—	386
NON-CURRENT LIABILITIES	**2,273**	**—**	**2,273**
Current financial liabilities	255	—	255
Trade and other payables	261	8	269
Other current liabilities	43	—	43
CURRENT LIABILITIES	**559**	**8**	**567**
TOTAL LIABILITIES	**2,832**	**8**	**2,840**

The breakdown by type of the “Profit for the year from discontinued operations, net of taxes” item in the consolidated income statement for the six-month periods ended 30 June 2021 and 2020 is as follows:

Six months ended on 30 June 2021	Electricity distribution Chile	Gas Distribution Peru	Coal generation Spain	Total
Revenue	908	—	—	908
Raw materials and consumables	(687)	—	—	(687)
Other operating income	17	—	—	17
Personnel expenses	(34)	—	—	(34)
Other operating expenses	(100)	—	—	(100)
GROSS OPERATING RESULTS	**104**	**—**	**—**	**104**
Fixed asset depreciation/amortisation	—	—	—	—
Impairment due to credit losses	(10)	—	—	(10)
Other results	—	—	—	—
OPERATING PROFIT/(LOSS)	**94**	**—**	**—**	**94**
Financial income	1	—	—	1
Financial expenses	(36)	—	—	(36)
Exchange differences	—	—	—	—
NET FINANCIAL INCOME/(EXPENSE)	**(35)**	**—**	**—**	**(35)**
Profit/(loss) on equity method companies	—	—	—	—
PROFIT/(LOSS) BEFORE TAXES	**59**	**—**	**—**	**59**
Corporate income tax	(8)	—	—	(8)
PROFIT FOR THE YEAR AFTER TAXES FROM DISCONTINUED OPERATIONS	**51**	**—**	**—**	**51**
Attributable to:				
The parent company	47	—	—	47
Non-controlling interests	4	—	—	4

Six months ended on 30 June 2020	Electricity distribution Chile	Gas Distribution Peru	Coal generation Spain	Total
Revenue	1,002	6	71	1,079
Raw materials and consumables	(778)	(4)	(75)	(857)
Other operating income	5	—	1	6
Personnel expenses	(34)	(1)	(28)	(63)
Other operating expenses	(69)	(2)	(16)	(87)
GROSS OPERATING RESULTS	126	**(1)**	**(47)**	**78**
Fixed asset depreciation/amortisation	(46)	(1)	—	(47)
Impairment due to credit losses	(22)	—	—	(22)
Other results	—	—	—	—
OPERATING PROFIT/(LOSS)	58	**(2)**	**(47)**	**9**
Financial income	2	—	—	2
Financial expenses	(39)	(1)	—	(40)
Exchange differences	—	(1)	—	(1)
NET FINANCIAL INCOME/(EXPENSE)	(37)	**(2)**	**—**	**(39)**
Profit/(loss) on equity method companies	—	—	—	—
PROFIT/(LOSS) BEFORE TAXES	21	**(4)**	**(47)**	**(30)**
Corporate income tax	(6)	(8)	12	(2)
PROFIT FOR THE YEAR AFTER TAXES FROM DISCONTINUED OPERATIONS	15	**(12)**	**(35)**	**(32)**
Attributable to:				
The parent company	13	(12)	(35)	(34)
Non-controlling interests	2	—	—	2

Set out below is a breakdown of total comprehensive income from this business during the six-month periods ended 30 June 2021 and 2020:

Six months ended on 30 June 2021	Electricity distribution Chile	Gas Distribution Peru	Coal generation Spain	Total
Consolidated profit/(loss) for the year	**51**	**—**	**—**	**51**
Other comprehensive income recognised directly in equity:				
Financial assets at fair value through other comprehensive income	—	—	—	—
Currency translation differences	4		—	4
Transfer to the income statement:	**—**	**—**	**—**	**—**
Currency translation differences	—	—	—	—
Total comprehensive income for the year	**55**	**—**	**—**	**55**

Six months ended on 30 June 2020	Electricity distribution Chile	Gas Distribution Peru	Coal generation Spain	Total
Consolidated profit/(loss) for the year	**15**	**(12)**	**(35)**	**(32)**
Other comprehensive income recognised directly in equity:				
Financial assets at fair value through other comprehensive income	(8)	—	—	(8)
Currency translation differences	(172)	(1)	—	(173)
Transfer to the income statement:				**—**
Currency translation differences	—	—	—	—
Total comprehensive income for the year	**(165)**	**(13)**	**(35)**	**(213)**

The cash flows from discontinued operations included in the consolidated cash flow statements are:

Cash flow from:	2021	2020
Operation	57	80
Investment	(81)	76
Financing	(110)	144

Transactions by the companies making up the discontinued business with other group companies are not material. Therefore, intragroup cash flows with the discontinued business are not significant.

Note 9. Equity

The main equity items are analysed below:

Share capital and share premium

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

	Number of shares	Share capital	Share premium	Total
01.01.2020	**984,122,146**	**984**	**3,808**	**4,792**
Capital reduction	(14,508,345)	(14)	—	(14)
31.12.2020	**969,613,801**	**970**	**3,808**	**4,778**
Variation	—	—	—	—
30.06.2021	**969,613,801**	**970**	**3,808**	**4,778**

All of the outstanding shares are fully paid up and have the same political and economic rights.

On 10 August 2020, capital was reduced through the cancellation of 14,508,345 treasury shares with a par value of Euros 1 each, representing approximately 1.47% of the Company's share capital at the time of adoption of the relevant resolution (see paragraph on treasury shares in this Note). Following the capital reduction, share capital stood at Euros 970 million, made up of 969,613,801 shares with a par value of Euros 1 each.

There were no changes in the number of shares or in the "Share capital" and "Share premium" accounts during the first half of 2021.

On 23 July 2021, Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona,"la Caixa", through Criteria Caixa, S.A.U., gave notice that it had attained a 25.99% stake in Naturgy (24.8% at 31 December 2020).

Own shares

Movements involving own shares of Naturgy Energy Group, S.A. during the first half of 2021 and in 2020 are as follows:

	Number of shares	Amount (million euros)	% Capital
01.01.2020	**13,823,485**	**321**	**1.4**
Share acquisition plan	470,000	8	—
Delivered to employees	(455,797)	(8)	—
2019 buyback programme	9,346,025	178	0.9
30.06.2020	**23,183,713**	**499**	**2.3**
Capital reduction	(14,508,345)	(298)	(1.4)
31.12.2020	**8,675,368**	**201**	**0.9**
Variation	—	—	—
30.06.2021	**8,675,368**	**201**	**0.9**

In 2021 and 2020, no gains or losses were made on transactions involving own shares.

On 5 March 2019, the Shareholders' 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 consideration may not be less than the par value of the shares or exceed the shares' listed market price.

The minimum and maximum acquisition price will be the share price on the continuous market of the Spanish stock exchanges, plus or minus 5%.

Transactions with own shares of Naturgy Energy Group, S.A. relate to:

2021

There were no changes in the balance of treasury shares at 30 June 2021 with respect to 31 December 2020.

2020

- Share ownership plan: Executing the resolutions adopted by the Shareholders' Meeting of Naturgy Energy Group, S.A. on 5 March 2019, as part of the Share Ownership Plan 2020-2023, the plan for 2020 for employees of Naturgy in Spain who voluntarily applied was implemented. The Plan enabled 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 2020, 470,000 own shares were acquired for Euros 8 million to be handed over to the employees taking part in the Plan and 455,797 shares were delivered, leaving a surplus of 14,203 shares.

- 2019 buyback programme: the Board of Directors of Naturgy Energy Group, S.A. approved a share buy-back programme, which was published on 24 July 2019, entailing a maximum investment of Euros 400 million through 30 June 2020, representing approximately 2.1% of share capital at the date of disclosure, which was ratified by the shareholders at the Shareholders' Meeting on 26 May 2020. At 30 June 2020, a total of 14,508,345 treasury shares had been acquired under this programme at an average price of Euros 20.6 per share, representing a total cost of Euros 298 million, and they were used to reduce capital.

- Capital reduction: At a meeting on 21 July 2020, the Board of Directors of Naturgy Energy Group, S.A. resolved to implement the capital reduction resolution approved at the Shareholders' Meeting on 26 May 2020, whereby it approved a reduction in the share capital of Naturgy Energy Group, S.A. to a maximum of Euros 21,465,000, relating to:

(a) the 465,000 treasury shares held by the Company at close of trading on 24 July 2019,

(b) the 21,000,000 additional shares with a par value of one euro each which were acquired and may continue to be acquired for redemption by the Company under the share buyback programme (the "Buyback Programme") approved by the Company under Regulation (EU) No. 596/2014 on market abuse and disclosed as price-sensitive information on 24 July 2019 (registration number 280.517). The time limit for acquiring these shares was 30 June 2020.

In this respect, as Naturgy Energy Group, S.A. had acquired a total of 14,043,345 shares at 30 June 2020 under the approved buyback programme referred to in paragraph (b) above, the Board of Directors set the figure for the capital reduction at Euros 14 million (the "Capital Reduction") and agreed to implement this reduction. The Capital Reduction was carried out through the redemption of 14,508,345 treasury shares with a par value of Euros 1 each, representing approximately 1.47% of the Company's share capital at the time of adoption of the resolution in question. Following the Capital Reduction, share capital stood at Euros 970 million, made up 969,613,801 shares with a par value of Euros 1 each.

Earnings per share

Earnings per share are calculated by dividing net income attributable to the equity holders of the parent Company by the weighted average number of ordinary shares outstanding during the year.

	30.06.2021	30.06.2020
Profit attributable to equity holders of the parent company	484	334
Weighted average number of ordinary shares in issue	960,938,433	964,142,889
Earnings per share from continuing operations (in euro):		
- Basic	0.45	0.38
- Diluted	0.45	0.38
Earnings per share from discontinued activities (in euro):		
-Basic	0.05	(0.03)
-Diluted	0.05	(0.03)

Earnings per share for the six-month period ended 30 June 2020 were restated by application of IFRS 5 (Notes 2.4 & 8).

The weighted average number of ordinary shares used in the calculation of earnings per share in the first half of 2021 and 2020 is as follows:

	2021	2020
Weighted average number of ordinary shares	969,613,801	984,122,146
Weighted average number of treasury shares	(8,675,368)	(19,979,257)
Weighted average number of shares in issue	960,938,433	964,142,889

Basic earnings per share are the same as diluted earnings per share since there were no instruments susceptible of conversion into ordinary shares during those years and the conditions for including the shares under the incentive described in the section on Share-based payments of Note 14 of the consolidated annual accounts as at 31 December 2020 in the calculation of diluted earnings per share were not met.

Dividends

Set out below is a breakdown of the dividend payments made in 2021 and 2020:

	30.06.2021			30.06.2020		
	% of Nominal	**Euros per share**	**Amount**	**% of Nominal**	**Euros per share**	**Amount**
Ordinary shares	63 %	0.63	611	60 %	0.6	585
Other shares (without voting rights, redeemable, etc.)	—	—	—	—	—	—
Total dividends paid (1)	**63 %**	**0.63**	**611**	**60 %**	**0.6**	**585**
a) Dividends charged to income statement or reminder	63 %	0.63	611	60 %	0.6	585
b) Dividends charged to reserves or share premium account	—	—	—	—	—	—
c) Dividends in kind	—	—	—	—	—	—

(1) At 30 June 2021, this item includes the Euros 6 million dividend collected from group company Naturgy Alfa Investments, S.A.U. (Euros 5 million at 30 June 2020).

Additionally, the amount of dividends paid to non-controlling interests in the six-month period ended 30 June 2021 amounts to Euros 205 million (Euros 146 million as of June 30, 2020).

30 June 2021

On 2 February 2021, the Board of Directors approved the following proposal for the distribution of the Company's net profit for 2020 and retained earnings, for submission to the Shareholders' Meeting:

BASIS OF DISTRIBUTION

Profit.. 98
Retained earnings.. 3,076
Basis of distribution 3,174

DISTRIBUTION:

TO DIVIDEND: an amount whose gross aggregate amount will be equal to the sum of the following amounts (the "Dividend"):

i. Euros 785 million ("the Total Interim Dividend"), corresponding to the two interim dividends for 2020 paid by Naturgy Energy Group, S.A., which together are equivalent to Euros 0.810 per share, by the number of shares that were not direct treasury shares on the corresponding dates, as approved by the Board of Directors on the basis of the interim accounting statements that were drawn up in accordance with the legal requirements, which showed the existence of sufficient liquidity for the distribution of these interim dividends out of income for the 2020 financial year, and

ii. The amount obtained by multiplying Euros 0.63 per share by the number of shares not classified as direct treasury shares on the date on which the shareholders of record entitled to collect the dividend are determined (the "Final dividend").

The supplementary dividend proposal was made in coherence with the commitments of the previous Strategic Plan, as reaffirmed in presentations to the market in 2020. Nevertheless, by suspending the share buyback programme, the company evidenced prudence in the light of the uncertainties that arose in 2020.

Of that dividend, Euros 785 million had been paid on 29 July and 11 November 2020. The Final Dividend will be paid in the amount per share shown above via member firms of Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear). That dividend will be paid to shareholders from the day 16 March 2021.

TO RETAINED EARNINGS: Determinable amount to be obtained by subtracting the amount allocated to Dividends from the Basis for Distribution.

TOTAL DISTRIBUTED.. 3,174

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 0.63 per share for each qualifying share outstanding at the proposed date of payment, 16 March 2021.

The Shareholders' Meeting held on 9 March 2021 approved the final dividend of Euros 0.63 per share for all shares not classified as direct treasury stock on the date of distribution; this dividend was paid in full in cash on 17 March 2021.

Following payment of the final dividend, the amount allocated to Retained earnings was Euros 1,778 million.

On 27 July 2021, the Company's Board of Directors declared an interim dividend of Euros 0,30 per share out of 2021 results, for shares not classified as direct treasury shares on the date on which the dividend was paid, payable from the day 29 July 2021.

On the date the interim dividend was declared, the Company had the necessary liquidity to make the payment, as required by the Spanish Capital Companies Act. The provisional liquidity statement as at 30 June 2021 drawn up by the Directors on 27 July 2021 is as follows:

Profit after tax		468
Allocation to reserves		—
Maximum distributable amount		468
Forecast maximum interim dividend payment (1)		291
Cash resources	2,341	
Unused credit facilities	5,460	
Total liquidity		7,801

(1) amount based on total shares outstanding

<u>30 June 2020</u>

At a meeting on 4 February 2020, the Board of Directors of Naturgy Energy Group, S.A. approved the distribution of income set out in Note 15 to the consolidated annual accounts for the year ended 31 December 2019. Following the declaration of a state of alarm and in order to safeguard the safety and health of all shareholders, employees and contractors, the company decided to postpone the Shareholders' Meeting scheduled for 17 March 2020.

To prevent that postponement from having a negative impact on shareholders, particularly the 70,000 minority shareholders, at a meeting on 16 March 2020 the Board of Directors of Naturgy Energy Group, S.A. declared a third interim dividend out of 2019 income in the amount of Euros 0.593 per share for all shares not classified as direct treasury shares on the date of distribution, which was paid on 25 March 2020.

Subsequently, the Shareholders' Meeting on 26 May 2020 approved the final dividend of Euros 0.010 per share for all shares not classified as direct treasury stock on the date of distribution; this dividend was paid in full in cash on 3 June 2020.

Other equity components

The movement in other components of equity for each item in the Consolidated Statement of Comprehensive Income, detailing the tax effect is as follows:

At 30.06.2021	Gross	Tax effect	Net
Financial assets at fair value through other comprehensive income	(17)	105	88
Actuarial gains and losses and other adjustments	(709)	121	(588)
Currency translation differences	119	—	119
Cash flow hedges	3	(1)	2
Total	**(604)**	**225**	**(379)**

The “Exchange differences" item includes the exchange differences described in Note 3.4.2 to the 2020 consolidated annual accounts as a result of the euro's fluctuation against the main currencies of Naturgy's overseas companies.

Non-controlling interest

Movements in non-controlling interests during the six-month period ended 30 June 2021 are as follows:

Balance at 31 December 2020	3,237
Total comprehensive income for the year	175
Distribution of dividends	(220)
Payments return on other equity instruments	(17)
Other changes	1
Balance at 30 June 2021	**3,176**

Note 10. Provisions

The breakdown of provisions at 30 June 2021 and 31 December 2020 is as follows:

	30.06.2021	31.12.2020
Provisions for employee obligations	467	473
Other provisions	592	579
Non-current provisions	**1,059**	**1,052**
Current provisions	**179**	**246**
Total	**1,238**	**1,298**

The “Other provisions” heading mainly includes provisions set up to cover obligations derived from decommissioning and tax claims, as well as lawsuits and arbitration, insurance and other liabilities. Note 25 contains further information on contingent liabilities.

Note 11. Financial liabilities

Set out below is a breakdown of financial liabilities, excluding “Trade and other payables”, as at 30 June 2021 and 31 December 2020, by nature and category:

At 30 june 2021	**Creditors and payables**	**Hedging derivatives**	**Total**
Bank borrowings	5,202	—	**5,202**
Bonds and other negotiable securities	8,004	—	**8,004**
Derivatives	—	100	**100**
Lease liabilities	1,439	—	**1,439**
Other financial liabilities	1	—	**1**
Non-current financial liabilities	**14,646**	**100**	**14,746**
Bank borrowings	1,347	—	**1,347**
Bonds and other negotiable securities	1,094	—	**1,094**
Derivatives	—	44	**44**
Lease liabilities	214	—	**214**
Other financial liabilities	109	—	**109**
Current financial liabilities	**2,764**	**44**	**2,808**
Total financial liabilities at 30.06.2021	**17,410**	**144**	**17,554**

At 31 desember 2020	**Creditors and payables**	**Hedging derivatives**	**Total**
Bank borrowings	5,293	—	**5,293**
Bonds and other negotiable securities	8,206	—	**8,206**
Derivatives	—	142	**142**
Lease liabilities	1,325	—	**1,325**
Other financial liabilities	2	—	**2**
Non-current financial liabilities	**14,826**	**142**	**14,968**
Bank borrowings	1,278	—	**1,278**
Bonds and other negotiable securities	1,035	—	**1,035**
Derivatives	—	38	**38**
Lease liabilities	212	—	**212**
Other financial liabilities	8	—	**8**
Current financial liabilities	**2,533**	**38**	**2,571**
Total financial liabilities at 31.12.2020	**17,359**	**180**	**17,539**

As at 30 June 2021, the "Other current financial liabilities" item includes the temporary mismatches between revenues and costs in the gas system that accumulated in 2020 and in 2021, amounting to Euros 101 million. As at 31 December 2020, those mismatches amounted to Euros 27 million and were recognised under "Other financial assets" since they were being financed by Naturgy.

Financial liabilities recognised at fair value as at 30 June 2021 and 31 December 2020 are classified as follows:

Financial liabilities	30.06.2021 Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	Total	31.12.2020 Level 1 (listed price on active markets)	Level 2 (observable variables)	Level 3 (non-observable variables)	Total
Fair value through profit or loss	—	—	—	**—**	—	—	—	**—**
Hedging derivatives	—	144	—	**144**	—	180	—	**180**
Total	**—**	**144**	**—**	**144**	**—**	**180**	**—**	**180**

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

	Carrying amount		Fair value	
	30.06.2021	**31.12.2020**	**30.06.2021**	**31.12.2020**
Issuing of debentures and other negotiable securities	8,004	8,206	8,673	9,010
Loans from financial institutions and other financial liabilities	5,203	5,295	5,264	5,355

Bonds and other marketable securities are quoted and, therefore, their fair value is estimated on the basis of their quoted price (Level 1). In loans from financial institutions and other financial liabilities, 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 30 June 2021 and 31 December 2020 for borrowings with similar credit and maturity characteristics. These valuations are based on the quoted price of similar financial instruments in an official market or on observable information in an official market (Level 2).

Issues of debt securities in the six-month periods ended 30 June 2021 and 2020 are as follows:

	A 1.1.2021	Issues	Buy-backs or redemptions	Adjustments, exch. rates & other	A 30.06.2021
Issued in a European Union Member State which required the filing of a prospectus	**8,738**	—	(276)	(20)	**8,442**
Issued in a European Union Member State which did not require the filing of a prospectus	**—**	—	—	—	**—**
Issued outside a European Union Member State	**503**	220	(86)	19	**656**
Total	**9,241**	**220**	**(362)**	**(1)**	**9,098**

	A 1.1.2020	Issues	Buy-backs or redemptions	Adjustments, exch. rates & other	A 30.06.2020
Issued in a European Union Member State which required the filing of a prospectus	**8,542**	2,050	(1,834)	(82)	**8,676**
Issued in a European Union Member State which did not require the filing of a prospectus	**—**	—	—	—	**—**
Issued outside a European Union Member State	**1,238**	—	(4)	(121)	**1,113**
Total	**9,780**	**2,050**	**(1,838)**	**(203)**	**9,789**

The total amount drawn under the Euro Medium Term Note (EMTN) programme stands at Euros 8,665 million (Euros 8,941 million as at 31 December 2020). The programme limit as at 30 June 2021 was Euros 8,665 million. No issues were made under this programme in the first half of 2021.

A bond in the amount of Euros 276 million with a 3.50% coupon matured in the first six months of 2021.

No issues were made under the Euro Commercial Paper (ECP) programme in the first half of 2021 (Euros 900 million issued in the same period of 2020), and there were no outstanding issues as at 30 June 2021 or 31 December 2020.

The group continues working to strengthen its financial profile; in this line, the main financing transactions completed in the first half were as follows:

- Issue of two bonds in Mexico, in the amounts of Euros 120 million maturing in 3 years with a coupon of TIIE + 0.49%, and Euros 100 million maturing in 9 years with a coupon of 8.21%.
- Issuance of debt for the Cabo Leones II and San Pedro wind projects for a total of Euros 241 million and Euros 32 million under a Mini-Perm structure and a credit facility respectively, maturing in 7 years at Libor + 2.27%.
- Refinancing of loans in Spain and in the overseas businesses in the amounts of Euros 3,771 million and Euros 124 million, respectively, including:

  - Refinancing of the syndicated credit facility, undrawn, increasing the limit from Euros 1,750 million to Euros 2,000 million, with a 3-year maturity (and an option to extend to 2026) at Euribor +0.30%, the price being adjusted for ESG metrics. Additionally, the revolving credit line was renegotiated, reducing the limit from Euros 200 million to Euros 93 million. This financing has resulted in a material modification of the financing conditions in accordance with IFRS 9 with no significant impact on the Income Statement.

  - Global Power Generation (GPG) arranged a one-year extension of its USD 1.4 billion syndicated loan; following the extension, USD 1.4 billion mature in June 2026 and the other USD 100 million mature in June 2025. In accordance with the loan terms, GPG increased interest rate hedging by arranging two forward starting swaps. The extension has not resulted in a material modification of the financing conditions in accordance with IFRS 9 with no significant impact on the Income Statement.

Naturgy also has a comfortable maturity profile and balance sheet position, as well as flexibility in capex and opex to enable it to weather the current economic situation.

Note 12. Risk management

Risk management is described in detail in note 18 to the Consolidated annual accounts for 2020. The main aspects of financial risk are updated as at 30 June 2021 below:

<u>Interest rates</u>

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

A total of 82% of Naturgy's debt at 30 June 2021 is at fixed interest rates, while exposure to floating interest rates is limited.

The floating interest rate is mainly subject to the fluctuations of EURIBOR, LIBOR and the indexed rates of Mexico, Brazil, Argentina and Chile.

Note 2.5. Accounting Policies, details the main aspects in connection with the transition resulting from the IBOR reform.

The sensitivity of income and equity (Other equity items) to interest rate fluctuations is as follows:

	Increase/decrease in interest rates (basis points)	Effect on profit before tax	Effect on equity before tax
30 June 2021	+50	(16)	72
	-50	16	(72)
31 December 2020	+50	(15)	63
	-50	15	(63)

Exchange rate

In order to mitigate exchange rate risk, Naturgy finances its investments in local currency as far as possible. Furthermore, where possible, it tries to match costs and revenues in the same currency, as well as amounts and maturities of assets and liabilities arising from operations denominated in non-Euro currencies.

For open positions, exposure to currencies other than the functional currency is managed through financial swaps and exchange rate insurance within the limits approved for hedging instruments.

Additionally, net assets of foreign companies whose functional currency is not the euro are subject to exchange rate risk when their financial statements are translated to euros during the consolidation process.

The impact of exchange rate fluctuations on the translation of the main items in the accounts as at 30 June 2021 was as follows:

Million euros	% variation vs 2020 *	Gross operating results	Revenues	Net financial debt
USD	10 %	(28)	(115)	64
MXN	2.8 %	(6)	(14)	17
BRL	20,6 %	(20)	(108)	14
ARS	44,0 %	(11)	(90)	5
CLP	(2.9)%	2	3	—
Others	-	(1)	(4)	—
Total		(64)	(328)	100

* Cumulative average rates, except for Argentina, where the closing exchange rate is used as a consequence of Argentina being classified as a hyperinflationary economy.

Commodity prices

A large portion of Naturgy's operating expenses is linked to gas purchased to supply customers or generate electricity in combined cycle plants.

These gas procurement contracts are generally signed on a long-term basis with purchase prices based on a combination of commodity prices, basically the price of crude oil and its derivatives, and natural gas hub prices.

However, sale prices to end customers are generally arranged for the short/medium term and sale prices are shaped by the balance between supply and demand that exists at any given time in the gas market. This may result in a mismatch with gas supply prices, for example in periods of a gas glut.

Therefore, Naturgy is exposed to the risk of fluctuations in the price of gas with respect to the price charged to end customers. The exposure to these risks is managed and mitigated by natural hedging by monitoring the position with respect to such commodities, trying to balance the prices of procurement and supply obligations and sale prices. In addition, some procurement contracts allow this exposure to be managed 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 to reduce exposure to price mismatches, which are generally designated as hedging instruments.

The risk in electricity and CO_2 emission allowances trading by Naturgy is non-material due to the low volume of transactions and the limits established on both the amounts and maturities.

On the other hand, and in order to make profitable short-term cash surpluses, structured notes linked to EUAs (CO_2 emission rights) have been contracted. The notes follow a pre-established return above market interest rates.

The sensitivity of profit and equity (Other equity items) to fair value changes in derivatives arranged to hedge commodity prices and derivatives used for trading purposes is analysed below:

	Increase/decrease in gas price	Effect on profit before tax	Effect on equity before tax
30 June 2021	+10%	—	(106)
	-10%	—	106
31 December 2020	+10%	—	(46)
	-10%	—	46

	Increase/decrease in electricity price	Effect on profit before tax	Effect on equity before tax
30 June 2021	+10%	(2)	(92)
	-10%	—	92
31 December 2020	+10%	(1)	(66)
	-10%	—	66

Commodity volume

The demand variability for gas before and after the COVID crisis and the uncertainty in the speed of the energy transition might result in a mismatch between procurement and demand volumes. Most procurement contracts allow for flexibility in volumes over a number of time horizons, and the company is availing itself of those facilities. Additionally, within the framework of commercial negotiations, there is the possibility of renegotiating the contractual volumes for a better balance of the projected energy balance.

Credit risk

With regard to credit risk in relation to trade receivables, these are reflected in the consolidated balance sheet net of provisions for impairment due to expected credit losses estimated by Naturgy on the basis of available information about past events (such as customer payment behaviour), current conditions and forward-looking factors (e.g. macroeconomic factors such as GDP, unemployment, inflation, interest rates, etc.) that might impact the credit risk of Naturgy's debtors in accordance with the prior segregation of customer portfolios.

Credit risk relating to trade accounts receivable is historically limited given the short collection periods from customers, since they cannot accumulate a significant amount of debt before their supply is suspended for non-payment, in accordance with the applicable regulations.

As a result of COVID-19, governments have adopted a number of transitional measures, which are still in place in some countries, to ensure the basic supply of energy, ranging from deferral of payment by certain customer segments to a prohibition on cutting off the supply.

An ageing analysis of financial assets and related expected losses as at 30 June 2021 and 31 December 2020 is set out below:

30 June 2021	Total	Current	0-180 days	180-360 days	More than 360 days
Expected loss ratio	21.8 %	1.0 %	11.3 %	43.8 %	93.7 %
Trade receivables for sales and provisions of services	3,631	2,288	487	176	680
Expected loss	792	23	55	77	637

31 December 2020	Total	Current	0-180 days	180-360 days	More than 360 days
Expected loss ratio	22.4%	0.9%	10.8%	43.2%	96.8%
Trade receivables for sales and provisions of services	3,462	2,121	493	220	628
Expected loss	776	19	53	95	609

Liquidity risk

Available liquidity at 30 June 2021 and 31 December 2020 is analysed below:

Liquidity source	Availability 2021	Availability 2020
Undrawn credit facilities	5,680	5,548
Cash and cash equivalents	3,936	3,927
Total	9,616	9,475

There is also additional available capacity to issue debt in the capital markets for Euros 1,202 million.

Naturgy's long-term credit ratings are as follows:

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

Bank borrowings totalling Euros 3,664 million (Euros 3,516 million at 31 December 2020) and issued bonds amounting to Euros 48 million (Euros 42 million at 31 December 2020) are subject to the fulfilment of certain financial ratios.

Most of the drawn financial debt carries a change-of-control clause which would be triggered if any of the following events occurred simultaneously: failure of any of the core shareholders to retain a significant stake; loss of investment grade rating from the credit rating agencies; or inability to fulfil the financial obligations under the contract.

Specifically, the outstanding bonds, in the amount of Euros 8,644 million (Euros 8,941 million at 31 December 2020), could be accelerated if such a change in control triggered a downgrade of more than two full notches in at least two of the company's three ratings, and all the ratings fell below investment grade, provided that the rating agency stated that the rating downgrade resulted from the change of control.

There are also loans for an amount of Euros 1,600 million that could be accelerated in the event of a change of control (Euros 1,764 million at 31 December 2020). Most of this amount is linked to infrastructure financing with funds from the European Investment Bank that require a rating downgrade in addition to the change in control, and have special repayment terms that are longer than those relating to early termination events.

At the date of presenting these interim accounts, Naturgy accomplishes its financial obligations or of any type of obligation that could give rise to the acceleration of its financial commitments.

Note 13. Revenues

The breakdown of this heading in the consolidated income statement for the six-month periods ended 30 June 2021 and 2020 is as follows, by category with the relevant operating segment reporting structure:

2021	Networks Spain	Networks Latam	Procurement and Markets	**Energy management and Networks**	Spain & USA	Latam	Australia	**Renewables**	**Supply**	**rest**	**Total**
Sales of gas and access to distribution networks	541	1,308	1,499	**3,348**	—	—	—	**—**	**1,289**	**—**	**4,637**
Sales of electricity and access to distribution networks	384	387	998	**1,769**	23	53	4	**80**	**1,158**	**—**	**3,007**
LNG sales	—	—	993	**993**	—	—	—	**—**	**—**	**—**	**993**
Registrations and facility checks	14	2	—	**16**	—	—	—	**—**	**20**	**—**	**36**
Assignment power generation capacity	—	—	149	**149**	—	—	—	**—**		**—**	**149**
Rentals meters and facilities	21	2	—	**23**	—	—	—	**—**	**146**	**—**	**169**
Other income	7	18	7	**32**	29	14	—	**43**	**62**	**2**	**139**
Total	**967**	**1,717**	**3,646**	**6,330**	**52**	**67**	**4**	**123**	**2,675**	**2**	**9,130**

2020	Networks Spain	Networks Latam	Procurement and Markets	**Energy management and Networks**	Spain & USA	Latam	Australia	**Renewables**	**Supply**	**rest**	**Total**
Sales of gas and access to distribution networks	521	1,264	654	**2,439**	—	—	—	**—**	**1,327**	**—**	**3,766**
Sales of electricity and access to distribution networks	384	466	383	**1,233**	148	35	4	**187**	**1,090**	**—**	**2,510**
LNG sales	—		993	**993**	—	—	—	**—**	**—**	**—**	**993**
Registrations and facility checks	7	3	—	**10**	—	—	—	**—**	**9**	**—**	**19**
Assignment power generation capacity	—	—	160	**160**	—	—	—	**—**	**—**	**—**	**160**
Rentals meters and facilities	22	3	—	**25**	—	—	—	**—**	**149**	**—**	**174**
Other income	9	22	2	**33**	28	11	—	**39**	**81**	**4**	**157**
Total (1)	**943**	**1,758**	**2,192**	**4,893**	**176**	**46**	**4**	**226**	**2,656**	**4**	**7,779**

(1) The consolidated income statement for the six-month period ended 30 June 2020 was restated due to application of IFRS 5 (Notes 2.4 & 8). They are shown following the new segment structure defined in the second half of 2020 (Note 3).

Reporting by geographic area

Naturgy's revenue by country of destination is analysed below:

	2021	**2020 (1)**
Spain	4,422	3,847
Rest of Europe	1,304	1,049
France	775	487
Portugal	180	258
Turkey	58	144
Ireland	81	81
United Kingdom	30	61
Other Europe	180	18
Latin American	2,717	2,238
Chile	387	377
Brazil	608	567
Mexico	888	551
Panama	351	409
Argentina	213	252
Dominican Republic	28	30
Puerto Rico	233	41
Other Latin America	9	11
Other	687	645
USA	209	160
India	63	150
China	128	91
South Korea	127	69
Taiwan	18	57
Japan	94	10
Other countries	48	108
Total	**9,130**	**7,779**

(1) The consolidated income statement for the six-month period ended 30 June 2020 was restated due to application of IFRS 5 (Notes 2.4 & 8).

Note 14. Procurements

The breakdown of this heading in the income statements for the six-month periods in 2021 and 2020 is as follows:

	2021	**2020 (1)**
Energy purchases	5,293	4,210
Access to transmission networks	661	685
Other purchases and changes in inventories	377	175
Total	**6,331**	**5,070**

(1) The consolidated income statement for the six-month period ended 30 June 2020 was restated due to application of IFRS 5 (Notes 2.4 & 8).

Note 15. Personnel expenses

The breakdown of this heading in the income statements for the six-month periods in 2021 and 2020 is as follows:

	2021	2020 (1)
Wages and salaries	231	269
Termination benefits	300	165
Social security costs	45	51
Defined contribution plans	14	14
Share-based payments	2	2
Own work capitalised	(39)	(28)
Other	17	19
Total	**570**	**492**

(1) The consolidated income statement for the six-month period ended 30 June 2020 was restated due to application of IFRS 5 (Notes 2.4 & 8).

In May 2021, the workers' union representatives and the representatives of Company management adopted a Voluntary Redundancy Plan for the Naturgy Group to be implemented before 31 December 2021.Termination benefits include the costs associated with that voluntary redundancy plan relating to actual terminations and with the agreements confirmed between the parties through 30 June 2021 that result in the commitment becoming irrevocable. The other voluntary redundancies up to completion of the Plan are expected to materialise before year-end.

The average number of employees of Naturgy in the six-month periods ended 30 June 2021 and 2020 is as follows:

	2021	2020 (1)
Men	5,761	6,412
Women	2,791	3,285
Total	**8,552**	**9,697**

(1) The consolidated income statement for the six-month period ended 30 June 2020 was restated due to application of IFRS 5 (Notes 2.4 & 8).

The average number of employees of Naturgy includes the average number of employees in joint ventures which, pro-rated by the company's percentage stake, was 174 (188 as at 30 June 2020).

The calculation of the average number of employees did not consider employees of companies which, as a result of the application of IFRS 5, are classified as discontinued operations (Note 8) or of companies carried by the equity method, as detailed below:

	2021	2020
Discontinued operations	1,498	1,595
Equity-consolidated companies	115	235

Note 16. Other operating expenses

The breakdown of this heading in the income statements for the six-month periods in 2021 and 2020 is as follows:

	2021	**2020 (1)**
Taxes	191	177
Operation and maintenance	123	134
Advertising and other commercial services	46	53
Professional services and insurance	47	44
Concession construction or improvements services (IFRIC 12)	19	24
Supplies	24	24
Services to customers	22	22
Lean Services (2)	86	—
Other	84	80
Total	**642**	**558**

(1) The consolidated income statement for the six-month period ended 30 June 2020 was restated due to application of IFRS 5 (Notes 2.4 & 8).
(2) In 2021, this includes the impact of transformation costs amounting to Euros 32 million.

Note 17. Depreciation and non-financial asset impairment losses

The breakdown of this heading in the income statements for the six-month periods in 2021 and 2020 is as follows:

	2021	**2020 (1)**
Amortisation	707	743
Asset impairment	22	—
Total	**729**	**743**

(1) The consolidated income statement for the six-month period ended 30 June 2020 was restated due to application of IFRS 5 (Notes 2.4 & 7).

Note 18. Other results

At 30 June 2021, this item in the income statement mainly includes the outcome of the agreement reached with respect to the UF Gas stake (Note 2.7. and 2.1.) in the amount of Euros 103 million (including Euros -9 million from transferring translation differences and valuation reserves to income) and the pre-tax capital gain of Euros 2 million from the sale of the 40% stake in Cogeneración Noroeste, S.L. (Note 5).

At 31 June 2020, this heading mainly includes the pre-tax capital gain of Euros 15 million on the sale of the 47.9% holding in Ghesa Ingeniería y Tecnología, S.A. (Ghesa).

Note 19. Net financial income

The breakdown of this heading in the income statements for the six-month periods in 2021 and 2020 is as follows:

	2021	2020 (1)
Dividends	—	5
Interest income	6	11
Other	46	38
Total financial income	**52**	**54**
Cost of borrowings	(246)	(259)
Interest expenses pension plans	(3)	(5)
Other financial expense	(37)	(26)
Total financial expense	**(286)**	**(290)**
Variations in the fair value of financial instruments (2)	10	(4)
Net exchange differences	(12)	(2)
Net financial income/(expense)	**(236)**	**(242)**

(1) The consolidated income statement for the six-month period ended 30 June 2020 was restated due to application of IFRS 5 (Notes 2.4 & 8).
(2) Includes fair value changes in equity instruments and value changes in derivative financial instruments.

Note 20. Cash generated by operating activities and other cash-flow breakdowns

	2021	2020
Profit before tax	**800**	**698**
Adjustments to profit/(loss):	**779**	**974**
Depreciation, amortisation and impairment losses (Note 4)	729	789
Other adjustments to net income:	50	185
Net financial income (Note 19)	236	279
Results of equity-accounted companies	(33)	(3)
Transfer of deferred revenues	(27)	(24)
Net variation in Provisions	(12)	(52)
Capital gains and others	(114)	(15)
Changes in working capital (excluding the effects of scope changes and currency translation differences):	**97**	**720**
Inventories	(4)	221
Trade and other receivables	(240)	985
Trade and other payables	341	(486)
Other cash flows from operating activities:	**(389)**	**(373)**
Interest paid	(278)	(348)
Interest received	12	15
Dividends received	81	21
Income tax paid	(204)	(61)
CASH FLOWS GENERATED FROM OPERATING ACTIVITIES	**1,287**	**2,019**

Payments for Group companies acquisitions, net of cash and equivalents in the six-month periods ended 30 June 2021 and 2020 are as follows:

	2021	2020
US acquisition	(49)	—
Unión Fenosa Gas acquisition	392	—
Total	**343**	**—**

Receipts for divestments in Group companies, associates and business units in the six-month periods ended 30 June 2021 and 2020 are as follows:

	2021	2020
Lean companies sale	1	—
Cogeneración del Noroeste sale	7	—
Kenya sale	—	35
Ghesa sale	—	24
Total	**8**	**59**

Note 21. Business combinations

2021

Hamel Renewables

In January 2021, Naturgy, through Naturgy Solar USA, LLC, acquired 100% of Hamel Renewables, LLC (United States), which owns a portfolio of 8 GW of solar projects and 4.6 GW of energy storage projects located in nine US states. This is Naturgy's first investment in the US renewable energy market.

Additionally, as part of the transaction, Naturgy signed a 5-year development agreement with Candela Renewables, which has 20 years of experience in developing solar and energy storage projects in the US, including several of the projects in the portfolio acquired by Naturgy.

The transaction represents an enterprise value of USD 57 million for 100% of the vehicle. Naturgy plans to invest up to USD 1.8 billion over the next five years to achieve 1.6 GW of operational capacity by 2025 while retaining the possibility of developing the remaining projects of the acquired vehicle up to a total of 8 GW of photovoltaic capacity by 2030.

The total cost of the business combination amounted to Euros 62 million. Goodwill was calculated at Euros 8 million as the difference between the acquisition cost and interest in the fair value of the identifiable assets and liabilities existing at the transaction date.

The net assets acquired at 1 January 2021 and the resulting goodwill are as follows:

Acquisition cost	62
Fair value of the net assets	54
Goodwill (Note 4)	**8**

	Fair value	Carrying amount
Intangible assets (Note 4)	42	3
Property, plant and equipment (Note 4)	7	7
Non-current financial assets (Note 6)	1	1
Cash and cash equivalents	13	13
TOTAL ASSETS	**63**	**24**
Non-current financial liabilities (Note 11)	1	1
Deferred tax liabilities	8	—
TOTAL LIABILITIES	**9**	**1**
Fair value of the net assets acquired	**54**	
Acquisition price	62	
Cash and cash equivalents in the acquired subsidiary	13	
Net acquisition cost	**49**	

The purchase price allocation process identified assets susceptible to restatement in the balance sheet of Hamel Renewables Holdco, LLC and investee companies at the acquisition date; these were intangible assets in the amount of Euros 39 million, evidencing the value generated in the acquired portfolio of projects. The deferred tax liabilities relating to the restatements were also recognised whose counterpart has been the registered goodwill that is not expected to be deductible.

These net assets of Hamel Renewables Holdco, LLC and investees were basically measured using the following methodology:

- The projects that are most advanced were measured following the revenue approach and in particular, using the discounted cash flow method, based on Level 3 inputs as the data were not observable on the market.

- The valuation was made on the basis of the projects, as the required return on investment, and flow projections based on revenue per MW of solar or storage capacity.

- The other projects, at a less advanced stage, were measured on the basis of the development premia considered in the assessment of the development platform, which were checked with the developer.

This business combination has been accounted for provisionally until any of the valuations of assets subject to the transaction are definitively closed.

The consolidated net profit for the period contributed from the acquisition date has amounted to a loss of Euros 2 million. If the acquisition had taken place on 1 January 2021, the impact on the net amount of the consolidated turnover, the Ebitda and the consolidated profit attributable to shareholders of the Parent Company for the period would have been immaterial.

Unión Fenosa Gas

In March 2021, Naturgy, ENI and the Arab Republic of Egypt completed the agreement reached on 1 December 2020 to amicably resolve the disputes affecting Unión Fenosa Gas (UFG). As a result, UFG received a number of cash payments for the sale of the assets in Egypt, as well as the commercial activities of UFG in Spain and one of its ships, and also an indemnity agreed upon with the Egyptian government. The agreement with the Egyptian government includes an amount deferred over four years, with the final instalment payable in September 2024, which has been recognised for the guaranteed amount. The other instalments, amounting to USD 90 million, will be recognised upon receipt. At the same time, Naturgy acquired the remaining 50% of UFG for Euros 466 million with the result that it now owns 100%, having gained control and fully consolidated that company. This also entailed the end of the gas procurement contract for approximately 3.5 bcm per year to supply combined cycle plants in Spain, which was due to end in 2029, while the contract with Oman expiring in 2025 is maintained.

The net assets acquired in January 2021 and the resulting goodwill are as follows:

Acquisition cost	836
Fair value of the net assets	816
Goodwill (Note 4)	**20**

	Fair value	Carrying amount
Intangible assets (Note 4)	78	—
Right-of-use assets (Note 4)	45	45
Investments carried using the equity method	17	9
Non-current financial assets (Note 6)	56	56
Deferred tax assets	66	66
Other current assets	172	172
Cash and cash equivalents	861	861
TOTAL ASSETS	**1,295**	**1,209**
Provisions	3	3
Non-current financial liabilities (Note 11)	106	106
Deferred tax liabilities	57	37
Current financial liabilities (Note 11)	77	77
Other current liabilities	236	236
TOTAL LIABILITIES	**479**	**459**
Fair value of the net assets acquired	**816**	

Acquisition cost	836
Acquisition price, additional 50%	(466)
Previous equity-accounted investment net book value	(258)
Translation differences and other valuation adjustments	(9)
Transaction result (Note 18)	**103**

Based on the balance sheet of Unión Fenosa, S.A. and investees at 10 March 2021 assets susceptible to restatement were identified; these were intangible assets in the amount of Euros 78 million representing the value of the acquired procurement contracts and the value of the stake in Qalhat LNG S.A.O.C. The deferred tax liabilities relating to the restatements were also recognised whose counterpart has been the registered goodwill that is not expected to be deductible.

This business combination has been accounted for provisionally until one of the valuations of assets subject to the transaction is definitively closed.

The consolidated net profit for the period contributed from the acquisition date has amounted to a profit of Euros 16 million. If the acquisition had taken place on January 1, 2021, the net amount of the consolidated turnover, the Ebitda and the consolidated profit attributable to shareholders of the Parent Company for the period would have varied by Euros 197 million, Euros -14 million. euros and Euros -16 million respectively.

2020

There were no material business combinations in 2020.

Note 22. Tax situation

The corporate income tax expense is as follows:

	For the period ended 30 June	
Current income tax	233	147
Deferred income tax	(29)	12
Total	**204**	**159**

(1) The consolidated income statement for the six-month period ended 30 June 2020 was restated due to application of IFRS 5 (Notes 2.4 & 8).

The effective tax rate as at 30 June 2021, based on the best estimate of the effective tax rate for the full year, was 25%, compared with 23% in the same period of the previous year, mainly as a result of earnings trends in countries with higher tax rates and to the reduction of the exemption of dividends in Spain.

In Argentina, Law 27.630, promulgated via Decree 387/2021, amended the income tax by establishing three brackets between 25% and 35%. Before the amendment, the tax rate was 30%; from 2022, it will be 25%. This amendment, which took effect on 1 January 2021, did not have a material on the interim consolidated financial statements.

Note 23. Information on transactions with related parties

Related parties are as follows:

- Significant shareholders of Naturgy, i.e. those directly or indirectly owning an interest of 5% or more, and those who, though not significant, have exercised the power to nominate 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"), Global Infrastructure Partners III (GIP) and related companies and CVC Capital Partners SICAV-FIS, S.A. (through Rioja Acquisitions S.à.r.l.).

- Directors and executives of the Company and their immediate families. 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 also the Internal Audit Manager. Transactions with directors and executives are disclosed in Note 24.

- Transactions between Group companies form part of ordinary activities and are effected on an arm's-length basis. Group company balances include the amount that reflects Naturgy's share of the balances and transactions with companies carried by the equity method.

The overall amounts of transactions with related parties are as follows, in thousand euro:

2021	Significant shareholders				
Expense and Income (thousand euro)	**"la Caixa" group**	**CVC group**	**GIP group**	**DIrectors**	**Group companies**
Financial expenses	—	—	—	—	
Leases	—	—	—	—	2
Receipt of services	1	—	—	—	3,026
Purchase of goods (1)	—	—	1,690	—	69,004
Other expenses	—	—	—	—	—
Total expenses	**1**	**—**	**1,690**	**—**	**72,032**
Financial income	—	—	—	—	15
Leases	—	—	—	—	—
Provision of services	—	—	—	—	3,325
Sale of goods (1)	1,226	599	—	126	34,279
Other income	—	—	—	—	617
Total income	**1,226**	**599**	**—**	**126**	**38,236**

	Significant shareholders				
Other transactions (thousand euro)	**"la Caixa" group**	**CVC group**	**GIP group**	**DIrectors**	**Group companies**
Acquisition of property, plant and equipment, intangible assets or other assets	—	—	—	—	—
Financing agreements: loans and capital contributions (lender)	—	—	—	—	240
Dividends and other profits distributed	151,425	126,541	126,087	—	—

2020	Significant shareholders			
Expense and Income (thousand euro)	**"la Caixa" group**	**CVC group**	**GIP group**	**Group companies**
Financial expenses	—	—	—	—
Leases	—	—	—	3
Receipt of services	4	—	—	7,472
Purchase of goods (1)	—	—	5,048	115,690
Other expenses	—	—	—	—
Total expenses	**4**	**—**	**5,048**	**123,165**
Financial income	—	—	—	22
Leases	—	—	—	—
Provision of services	—	—	—	7,030
Sale of goods (1)	1,088	10,238	—	28,432
Other income	—	—	—	738
Total income	**1,088**	**10,238**	**—**	**36,222**

	Significant shareholders			
Other transactions (thousand euro)	**"la Caixa" group**	**CVC group**	**GIP group**	**Group companies**
Acquisition of property, plant and equipment, intangible assets or other assets	—	—	—	—
Financing agreements: loans and capital contributions (lender)	—	—	—	1,818
Dividends and other profits distributed	144,936	121,118	120,683	—

(1) Basically includes energy purchases and sales. In the case of group companies, basically corresponds to transactions with Unión Fenosa Gas through 28 February 2021.

Note 24. Information on members of the Board of Directors and the Management Committee

Remuneration for members of the Board of Directors and the Management Committee

Remuneration earned by the members of the Board of Directors of Naturgy Energy Group, S.A. by virtue of their membership of the Board and Board committees totalled Euros 1,977 thousand as at 30 June 2021 (Euros 1,978 thousand as at 30 June 2020).

The Board of Directors comprises 12 members, the Audit and Control Committee has seven members, the Appointments, Remuneration and Corporate Governance Committee has seven members, and the Sustainability Committee has five members.

For the sole purposes of the information contained in this section, the Management Committee is considered to consist of the Executive Chairman, in respect of his executive functions, the executives who report directly to the Executive Chairman, and the Internal Audit Manager.

The amounts earned by the Management Committee under the headings of fixed remuneration, annual variable remuneration, multi-year variable remuneration and other items totalled Euros 4,482 thousand as at 30 June 2021 (Euros 5,831 thousand as at 30 June 2020).

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled Euros 688 thousand as at 30 June 2021 (Euros 874 thousand as at 30 June 2020).

At 30 June 2020, this group consisted of 9 people, not counting the Executive Chairman or the Internal Audit Manager (14 people at 30 June 2020, and 9 at 31 December 2020).

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

The members of the Board of Directors and Management Committee did not carry out any transactions outside the ordinary course of business or other than on arm's-length terms with Naturgy Energy Group, S.A. or with group companies.

Note 25. Litigation and arbitration

In relation to the information in the section on lawsuits and arbitration in Note 36 “Litigation, arbitration, guarantees and commitments” in the consolidated annual accounts for the year ended 31 December 2020, the following changes took place in the litigation and arbitration situation in the first half of 2021:

Electricaribe

In relation to the arbitration proceedings that Naturgy initiated before the United Nations Commission on International Trade Law (UNCITRAL) in March 2021, an arbitration award was issued rejecting the claims of both Naturgy and the Colombian State (Note 6). However, the various administrative and judicial proceedings brought by the Colombian state in relation to Electricaribe are ongoing.

Qatar Gas arbitration

Following resolution of the price arbitration for gas supplies for the period 2015-2017, another arbitration process is currently under way in connection with prices for the period 2018-2020. Naturgy applied for a price reduction and the supplier requested an increase.

Unión Fenosa Gas

As described in Note 2.7, and 2.1. in March 2021, Naturgy, ENI and the Arab Republic of Egypt completed the agreement reached on 1 December 2020 to amicably resolve the disputes affecting Unión Fenosa Gas (UFG). As a result, Naturgy received a number of cash payments and the majority of assets outside Egypt, excluding UFG's commercial activities in Spain. This also entailed the end of the gas supply contract for approximately 3.5 bcm per year to supply combined cycle plants in Spain, which was due to end in 2029 while maintaining its contract with Oman that expires in 2025. As a result of the agreement, Naturgy acquired an additional 50% stake in UFG, with the result that it now owns 100%, having gained control and fully consolidating that company (Note 21). This transaction also obtained a capital gain of Euros 103 million, recognised under "Other income" in the interim consolidated accounts (Note 18).

Note 26. Events after the balance sheet date

Compañía General de Electricidad, S.A. (CGE)

On 26 July 2021 the sale of Naturgy's entire equity shareholding (96.04%) in CGE Electricidad to State Grid International Development Limited (SGID) was completed for a total purchase price (equity value) of Euros 2,570 million.

Dividends

On July 27, 2021, the Naturgy Board of Directors has agreed to distribute an interim dividend charged to results for the year 2021 as described in Note 9 of these condensed consolidated interim financial statements.

New Strategic Plan 2021-2025

On 27 July 2021, the Board of Directors of Naturgy approved a new Strategic Plan 2021-2025 that will be communicated to the market on 28 July 2021, after the presentation of earnings for the first half of the year.

Over the past three years, Naturgy has established new foundations and made significant progress in terms of simplicity and accountability, optimisation and efficiency, as well as capital discipline and business risk reduction. As a result, Naturgy is today better prepared than ever to embark on the next stage of its transformation, which will focus on industrial growth aligned with the energy transition and best-in-class operations, while placing environmental, social and governance criteria at the heart of Naturgy's vision.

The improved economic outlook and the gradual decline in COVID-19 provide the visibility needed to update the company's strategic roadmap and key priorities going forward, the highlights of which will be presented to the market.

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APPENDIX I Variations in consolidation scope

The main consolidation scope changes during the first six month of 2021 were as follows:

Company name	Operation category	Effective date of operation	Voting rights acquired / eliminated (%)	Voting rights after the operation (%)	Consolidation method after the operation
Naturgy Renewables USA Corp	Incorporation	14 January	100.0	100.0	Full
Naturgy Solar USA LLC	Incorporation	14 January	100.0	100.0	Full
Hamel Renewables Holdco LLC	Acquisition	14 January	100.0	100.0	Full
Hamel Renewables LLC	Acquisition	14 January	100.0	100.0	Full
Candela Renewables Hamel DevCo LLC.	Acquisition	14 January	100.0	100.0	Full
7V Solar Ranch, LLC.	Acquisition	14 January	100.0	100.0	Full
Mark Center Solar Project, LLC.	Acquisition	14 January	100.0	100.0	Full
Front Range Midway Solar Project, LLC.	Acquisition	14 January	100.0	100.0	Full
Grimes County Solar Project, LLC.	Acquisition	14 January	100.0	100.0	Full
Hayden Run Solar Project, LLC.	Acquisition	14 January	100.0	100.0	Full
Saguache County Solar Project, LLC.	Acquisition	14 January	100.0	100.0	Full
Scioto Farms Solar Project, LLC.	Acquisition	14 January	100.0	100.0	Full
Defiance County Solar Project, LLC	Acquisition	14 January	100.0	100.0	Full
Lonesome Camp Solar Project, LLC.	Acquisition	14 January	100.0	100.0	Full
Canoe Creek Solar Project, LLC.	Acquisition	14 January	100.0	100.0	Full
Auglaize County Solar Project, LLC.	Acquisition	14 January	100.0	100.0	Full
Morral Run Solar Project, LLC.	Acquisition	14 January	100.0	100.0	Full
Naturgy Ciclos Combinados, S.L.U.	Incorporation	26 January	100.0	100.0	Full
Naturgy IT, SL	Disposal	1 February	60.0	15.0	—
Lean Corporate Services, S.L..	Disposal	1 February	60.0	15.0	—
Lean Customer Services, S.L.	Disposal	1 February	60.0	15.0	—
Lean Grids Services, S.L.	Disposal	1 February	60.0	15.0	—
Lean Grids Services Chile SpA	Disposal	1 February	60.0	15.0	—
CGE Comercializadora SpA	Incorporation	11 February	96.0	96.0	Full
Unión Fenosa Gas, S.A.	Acquisition	10 March	50.0	100.0	Full
Nueva Electricidad del Gas, S.A.U, En Liquidación	Acquisition	10 March	50.0	100.0	Full
Unión Fenosa Gas Exploración y Producción, S.A.U.	Acquisition	10 March	50.0	100.0	Full
Unión Fenosa Gas Infraestructures B.V.	Acquisition	10 March	50.0	100.0	Full
Qalhat LNG S.A.O.C.	Acquisition	10 March	3.7	7.4	Equity
Unión Fenosa Gas Comercializadora, S.A.	Disposal	10 March	50.0	0.0	—
Segas Services, S.A.E.	Disposal	10 March	40.7	0.0	—
Spanish Egyptian Gas Company S.A.E.	Disposal	10 March	40.0	0.0	—
Colectora la Serrata, S.L.	Acquisition	15 March	35.7	35.7	Equity
Naturgy Generación Termica, S.L.	Incorporation	7 April	100.0	100.0	Full
Naturgy Solar Operation USA LLC	Incorporation	17 May	100.0	100.0	Full
Mobilgaz SAS	Incorporation	1 June	100.0	100.0	Full
Cogeneración del Noroeste, S.L	Disposal	3 June	40.0	40.0	—
Gas Natural Fenosa Engineering, S.A.S. (colombia)	Liquidation	17 June	100.0	100.0	—
Buchanan Farms Solar, LLC	Incorporation	30 June	100.0	100.0	Full
Rough Hat Solar, LLC	Incorporation	30 June	100.0	100.0	Full
Rough Hat 2 Solar, LLC	Incorporation	30 June	100.0	100.0	Full
Dugas Solar, LLC	Incorporation	30 June	100.0	100.0	Full
Summer Shade Solar, LLC	Incorporation	30 June	100.0	100.0	Full
Ft. Meade Solar, LLC	Incorporation	30 June	100.0	100.0	Full
Knickerbocker Solar Project, LLC	Incorporation	30 June	100.0	100.0	Full
Marshville Solar, LLC	Incorporation	30 June	100.0	100.0	Full
Stone Mill Solar, LLC	Incorporation	30 June	100.0	100.0	Full
Half Moon Solar Project, LLC	Incorporation	30 June	100.0	100.0	Full
Vulcan Solar Project, LLC	Incorporation	30 June	100.0	100.0	Full
Bar C Solar, LLC	Incorporation	30 June	100.0	100.0	Full

The main consolidation scope changes during 2020 were as follows:

Company name	Operation category	Effective date of operation	Voting rights acquired / eliminated (%)	Voting rights after the operation (%)	Consolidation method after the operation
CER's Commercial Corp (Panama)	Disposal	2 January	25.0	—	—
Eólica Tramuntana 21, S.L.	Liquidation	7 January	60.0	—	—
Eólica Tramuntana 22, S.L.	Liquidation	7 January	60.0	—	—
Eólica Tramuntana 23, S.L.	Liquidation	7 January	60.0	—	—
Gas Natural Fenosa LNG International Ltd	Liquidation	15 January	100.0	—	—
Ghesa Ingeniería y Tecnología, S.A.	Disposal	20 January	47.9	—	—
Clover Financial and Treasury Services, DAC.	Liquidation	7 February	100.0	—	—
Lean Corporate Services, S.L..	Disposal	9 March	25.0	75.0	Full
Lean Customer Services, S.L.	Disposal	9 March	25.0	75.0	Full
Lean Grids Services, S.L.	Disposal	30 March	25.0	75.0	Full
Mataró Energía Sostenible, S.A.	Disposal	2 April	51.1	—	—
Iberafrica power LTD	Disposal	3 April	100.0	—	—
Gas Natural West Africa	Liquidation	21 April	40.0	—	—
Medgaz, S.A	Acquisition	30 April	34.1	49.0	Equity
Medina Partnership, S.A.U.	Disposal	15 July	50.0	50.0	Equity
Berrybank 2 Hold Pty Ltd	Incorporation	8 July	100.0	100.0	Full
Berrybank 2 Asset Pty Ltd	Incorporation	17 July	100.0	100.0	Full
Berrybank 2 Hold Trust	Incorporation	13 July	100.0	100.0	Full
Berrybank 2 Asset Trust	Incorporation	20 July	100.0	100.0	Full
Hawkesdale Hold Pty Ltd	Incorporation	7 August	100.0	100.0	Full
Hawkesdale Asset Pty Ltd	Incorporation	25 August	100.0	100.0	Full
Hawkesdale Hold Trust	Incorporation	10 August	100.0	100.0	Full
Hawkesdale Asset Trust	Incorporation	26 August	100.0	100.0	Full
Gestión y Servicios Cabo Leones II	Incorporation	9 September	51.0	51.0	Full
Montouto 200, S.A.	Disposal	15 September	49.0	—	—
Hidroeléctrica Rio San Juan SAS ESP, en liquidación	Liquidation	9 October	100.0	—	—
Unión Fenosa Minería, S.A.	Liquidation	21 October	100.0	—	—
GPG Generacion Distribuida SpA	Incorporation	3 November	100.0	100.0	Full
Eólica Tramuntana, S.L.	Acquisition	15 December	34.2	100.0	Full
Infraestructures Electriques de la Terra Alta, S.L.U.	Acquisition	15 December	100.0	100.0	Full
Gas Natural Fenosa Engineering Panamá, S.A.	Liquidation	20 December	100.0	—	—

Appendix II. Regulatory framework

In relation to the regulatory framework described in Appendix II to the consolidated annual accounts for the year ended 31 December 2020, the following aspects in Spain in the first half of 2021 are worth noting:

On 5 February 2021, Spain's Comisión Nacional de los Mercados y la Competencia (CNMC) published its Resolutions of 28 January 2021, provisionally establishing the remuneration for electricity distribution companies and the remuneration for companies owning electricity transmission facilities, both for 2021.

On 23 February 2021, Spain's Comisión Nacional de los Mercados y la Competencia (CNMC) published its Resolution of 11 February 2021, establishing the remuneration for 2021 (from 1 January to 30 September 2021) for companies engaging in regulated activities related to liquefied natural gas plants, transportation and distribution. The 2021 remuneration refers to only nine months as it is a transition year in the new methodology; henceforth, the remuneration will be calculated for the gas year (from October of year n to September of year n+1).

Royal Decree 148/2021 of 9 March, establishing the methodology for calculating the electricity system charges, was approved on 18 March 2021. It maintains the toll structure of Circular 3/2020, giving greater weight to the variable component. The combination of the new tolls, established by that Circular, and the new charges set by this Royal Decree and by the ministerial order setting their amount, are applicable from 1 June 2021.

Royal Decree-Law 8/2021, of 4 May, adopting urgent health, social and jurisdictional measures to be applied after the end of the state of alarm declared by Royal Decree 926/2020 of 25 October, declaring a state of alarm to contain the spread of infections caused by SARS-CoV-2, was published on 5 May 2021. This Royal Decree-Law extends, for an additional 3 months, the economic and social measures that were conditional on the state of alarm being in force, including the guarantee of basic supplies and the protection of vulnerable households.

On 13 May 2021, the Spanish Parliament passed the Climate Change and Energy Transition Law (LCCYTE), which aims to achieve climate neutrality by 2050, and in the shortest possible timeframe in any case. It also sets targets for 2030:

- A 23% reduction in emissions compared to 1990.
- Renewable energies account for 42% of final energy consumption.
- 74% of the power generated in the electricity system is from renewable sources.
- A 39.5% improvement in energy efficiency with respect to the baseline.

With regard to regulated companies in the electricity and natural gas sectors, it includes amendments to the Electricity Law and the Hydrocarbons Sector Law requiring that the remuneration methodologies for transmission and distribution must guarantee an appropriate level of indebtedness; it also made loans to centralised cash management companies exempt from the prohibition on regulated companies from granting loans, providing guarantees or endorsing group or related companies that carry out deregulated activities or activities outside the sector, provided that they do not engage in such activities.

It also extends the obligation to give notice of the acquisition of shareholdings in other companies or assets with a significant impact to the Secretary of State and to the parent companies and any other company that forms part of the group of companies designated as electricity and gas transmission system operators.

The CNMC Resolution of 27 May 2021, establishing the access tolls for the transmission networks, local networks and regasification for the gas year 2022, which will be applicable as of 1 October 2021, in accordance with the methodology established in Circular 6/2020, was published on 29 May 2021

On 1 June 2021, the Ministry for Ecological Transition and the Demographic Challenge opened a public consultation period on the Preliminary Draft Bill referring to the remuneration for CO_2 not emitted in the electricity market. The Preliminary Draft provides for a reduction in the remuneration of non-emitting plants commissioned before 2005, when the emissions trading system came into force. The consultation period ended on 10 June 2021 but the final wording of the text to be submitted to parliament is unknown.

The CNMC Resolution of 20 May 2021, establishing the remuneration for the 2022 gas year (1 October 2021 to 30 September 2022) for companies carrying out the regulated activities of liquefied natural gas plants, transport and distribution of natural gas, was published on 3 June 2021.

Royal Decree-Law 12/2021, of 24 June, adopting urgent measures with respect to energy taxation and energy generation, and in connection with the regulation fee and usage fee for water, was published on 25 June 2021. Among other measures, it reduced the VAT rate on electricity for certain customers from 21% to 10% and suspended the 7% tax on the value of electricity generation (IVPEE) for the third quarter of 2021.

In relation to the EU regulatory framework, the following aspects for the first half of 2021 within Europe are worth noting:

On 21 April 2021, the European Parliament and Council announced an agreement on the European Climate Law. The new Law approves a number of emission reduction targets at European Union level and asks the European Commission to review the European legislative framework to facilitate attainment of those targets. That package was published on 14 July, when the process of approval and adoption by the European Parliament and Council commenced. The agreement was ratified officially by the European Parliament on 24 June and by the Council on 28 June, and it was official published on 9 July as Regulation 2021/1119.

On 12 May, the European Commission adopted the EU Action Plan: "Towards Zero Pollution for Air, Water and Soil", which provides an integrated vision through 2050. The Action Plan establishes a number of key objectives for 2030 that seek to reduce pollution at source. In accordance with the Plan, the EU legislation will be reviewed to identify situations where it is necessary to apply the regulations better in order to fulfil the legal obligations.

On 16 June 2021, the European Commission approved the Recovery, Transformation and Resilience Plan presented by Spain. The Recovery Plan is based on four pillars: ecological transition, digital transformation, gender equality, and social and territorial cohesion. The first payments from the European funds were approved by the Economic and Financial Affairs Council on 13 July 2021.

Regulation 2021/1056, establishing the Just Transition Fund (JTF), was published on 24 June 2021. The Regulation defines the object of the JTF, its geographical scope and resources, the scope of its support with respect to the objective of investing in employment and growth, and specific provisions on programming and the indicators required for monitoring.

New regulatory developments in the international arena are as follows:

With regard to the electricity industry in Mexico, the Reform of the Electricity Industry Law (LIE) was published on 9 March 2021. The main effects are the modification of the order of merit for technologies, the revision of contracts with IPPs, the creation of contracts for Physical Delivery of Energy and Capacity between Basic Services Supplier - CFE and Generation - CFE, and the issuance of Clean Energy Certificates regardless of the dates of entry into operation. This reform was suspended on 11 March 2021 when Fuerza y Energía de Tuxpan, among other companies, was granted a general suspension. That suspension became definitive some weeks later.

The Reform of the Hydrocarbons Law (LH) was published on 4 May 2021. The main implications refer to the granting of permits that are conditional upon accreditation of possession of the storage capacity determined by the Energy Secretariat (SENER), the possibility of revocation of permits in the event of repeat violations or fuel smuggling, and the possibility of suspension due to imminent danger to national security, energy security or the national economy, establishing the procedure for the suspension of permits. That reform was suspended on 26 May.

The Reform of the Thirteenth Transitory Provision of the Hydrocarbons Law was published on 19 May 2021; it revoked the power granted to CRE to subject first sales of hydrocarbons, petroleums and petrochemicals to asymmetric regulation principles, as well as the commercialisation carried out by persons controlled by PEMEX or its subsidiaries. It also established that sales by Petróleos Mexicanos, its production subsidiaries or a legal entity on behalf of the State will be considered as commercialisation in the terms of the Hydrocarbons Law and its Regulation and, consequently, the principles of generality and non-discrimination established therein must be observed. That reform was suspended on 21 June.

In relation to the electricity sector in Panama, Resolution 108 of 29 December 2020 and Resolution 35 of 6 April 2021 authorised the extension during the first and second quarters of 2021 of the extraordinary contribution from the Tariff Stabilisation Fund (FET) borne by the State, in order to mitigate the cost billed to end customers. From the second quarter of 2021, the contributions were limited to users with low voltage tariffs consuming up to 750 kWh, in order to maintain the price paid in the first quarter of 2021.

On 6 July 2021, the State provided for another extension of these contributions for the third quarter of 2021 for the purposes of implementing the tariff update for the six-month period from July to December 2021.

In the gas and electricity sectors in Chile, on 5 January 2021 and 22 May 2021, the Ministry of Energy published Law 21.301 and Law 21.340, respectively, extending the effects of Law 21.249 of 8 August 2020, which provides, on an exceptional basis, for measures in favour of end users of healthcare services, electricity and mains gas. Under those measures, it is forbidden to cut off the supply to certain users on the grounds of late payment, and those users have the option to defer their who are entitled to defer payments in up to 48 instalments, to be paid from January 2022.

With regard to the gas industry in Brazil, on 24 March 2021 the State of Rio de Janeiro regulator released Deliberations 4198/2021 and 4199/2021 with the outcome of the 4th Tariff review for CEG and CEG RIO, respectively. Then, on 29 March 2021, the regulator suspended of the validity and enforcement of the Deliberations for the 4th Tariff Review of CEG and CEG RIO to enable the Granting Power to issue its position on the Third Addendum. The periods for the tariff reviews of CEG and CEG RIO restarted on 14 June 2021 but their effects continue to be suspended by the Regulator.

In May 2021, the State of São Paulo regulator issued Deliberations 1160/2021 and 1161/2021 containing the outcome of the 3rd and 4th Tariff Reviews, respectively, for Sao Paulo Sul.

At federal level, Law 14.134/2021 (Gas Law) was published in April 2021, and Decree 10.712/2021, implementing Law 14.134, was published in June.

In connection with the gas industry in Argentina, the Decree of Necessity and Urgency (DNU) no. 1020 by the National Executive Power (PEN) dated 16 December 2020 imposed renegotiation of the comprehensive tariff review (RTI) that was in force. The regulation recognises the advisability of establishing a transitional tariff regime within the framework of the renegotiation as an appropriate temporary solution for the benefit of users and also of licensees, based on the premise that the public services of transportation and distribution of natural gas must be conducted in secure conditions and that it is necessary to guarantee the supply and also the continuity and affordability of those essential public services. Within the framework of that Decree, on 21 May 2021, Naturgy BAN, S.A. and Gasnor, S.A. signed a Transitory Renegotiation Agreement, ratified by Decree 354/2021, which approves the tariff tables and the rates and charges in force from 2 June 2021, without this entailing a waiver of rights over the current RTI that is being renegotiated.

Continuing with exceptional measures in the context of the pandemic and the new outbreak this year, the Secretariat of Energy issued Resolution No. 375/2021 which, as a temporary measure within the framework of the extension of the health emergency until 31 December 2021, allows category "P" users to access full distributor services directly from Integradora Energética S.A., without affecting the demand guaranteed under the Gas AR Plan. This option must be exercised before that date. In connection with this option, ENARGAS issued Resolution No. 130/2021 which establishes, among other procedural issues, that users who exercise this option must remain for a minimum term of one year.

Naturgy

Consolidated Directors' Report as at 30 June 2021

Consolidated Director's report corresponding to the six-month period ended 30 June 2021

1. Business evolution and results

The consolidated income statement for the six-month period ended 30 June 2020 was restated due to application of IFRS 5 presenting electricity distribution business in Chile as discontinued operation (see Note 2.4. and 8 of the Consolidated Interim Financial Statements as at 30 June 2021).

1.1 Executive summary

New Strategic Plan 2021-2025

Naturgy's Board of Directors approved a new Strategic Plan 2021-2025 on 27 July 2021 which will be presented to market participants on 28 July 2021, following the first half results presentation.

During the last three years, Naturgy has established new foundations and achieved significant progress in terms of simplicity & accountability, optimization and efficiencies, as well as capital discipline and business de-risking. As a result, Naturgy is today better prepared than ever to embark in the next stage of its transformation, which will focus on industrial growth aligned with the energy transition and best-in-class operations, while placing ESG at the core of Naturgy's vision.

The improving economic outlook and gradual subsiding of the COVID-19 allows for the necessary visibility to update the company's strategic roadmap and key priorities going forward, the highlights of which will be presented to the market today.

As part of the new Strategic Plan 2021-2025, Naturgy has approved its first interim dividend for the year 2021, corresponding to 0,30 €/share in cash and payable on 4 August 2021.

Other developments first semester 2021

Following the agreement to sell Naturgy's 96.04% of the shareholding in its Chilean electricity networks subsidiary, Compañía General de Electricidad S.A. (CGE), to State Grid International Development Limited (SGID) reached in 2020, on June 23, 2021, SGID launched a 100% acquisition offer of CGE. Once the offer acceptance period ended, on 26 July 2021, the sale of the stake was completed for a total purchase price (equity value) of euros 2,570 million.

Also in the last months, Naturgy advanced with its employee voluntary termination plan which explains most of the Euros 300 million restructuring costs during the first half of the year, of which Euros 266 million during the second quarter, hence significantly streamlining its personnel costs and ordinary Opex base going forward.

In terms of financing and during the second quarter of the year, Naturgy signed a sustainable credit financing for €2.0bn linked to sustainability objectives which introduced an annual contribution to social projects for the Naturgy Foundation. With this milestone, the company reinforces its commitment to sustainable financing and its progress on ESG.

On the investment side Naturgy continued to progress in its renewable expansion. Naturgy, through its international power generation subsidiary Global Power Generation, signed a power purchase agreement (PPA) with Telstra in Australia to build a 58MW wind farm, which will commence construction in the last quarter of 2021 and is expected to be fully operational in the first half of 2023. GPG will invest approximately AUD120 million (equivalent to approximately Euros 76 million) in its development. Naturgy continues to consolidate its position in Australia as a leading wind farm developer.

Furthermore, during the second quarter of 2021, Naturgy became the first company in Spain to inject renewable landfill gas into Spain's gas distribution network. A landmark that reflects the company's commitment to the energy transition and positions it at the forefront of innovation in developing this new energy vector, which will make a significant contribution towards decarbonizing the country's energy system.

Finally, Naturgy continues to make substantial progress on its marketing strategy, having signed a number of relevant PPAs during the second quarter as well as reached new third-party agreements in energy supply with relevant partners with large distribution capabilities, including financial institutions as well as the Spanish postal service company, among others.

Summary results of the period

	Reported			Ordinary		
	1H21	**1H20**	**Changes (%)**	**1H21**	**1H20**	**Changes (%)**
Ebitda	1,678	1,744	(3.8)	1,959	1,908	2.7
Net Income	484	334	44.9	557	476	17.0
Capex	439	552	(20.5)	—	—	—
Net financial debt (at 30/06) 1	13,611	13,612	—	—	—	—
Free cash flow after minorities	663	1,101	(39.8)	—	—	—

(1) As of 31 December 2020

Ordinary EBITDA reached Euros 1,959 million in the first half of 2021, up 3% vs. previous year, as COVID-19 outbreak began at the end of February 2020, hence only partially impacting the first half of the year.

Ordinary Net income reached Euros 557 million in the first half of 2021, up 17% vs. 2020. On a reported basis, Net income reached Euros 484 million, mainly impacted by the restructuring costs incurred in the quarter, partly compensated by the completion of the UFG agreement which had a positive non-ordinary impact of Euros 103 million in earnings.

Total capex amounted to Euros 439 million in the period, -20.5% vs. previous year.

As of 30 June 2021, Net debt amounted to Euros 13,611 million, in line with net debt levels as at the end of 2020 and after the Euros 611 million dividends paid on 17 March 2021, corresponding the final dividend for 2020. Also worth noting current net debt levels do not yet reflect the pre-tax proceeds of Euros 2,570 million expected on completion of the disposal of CGE Chile. Net debt / LTM EBITDA stood at 4.0x compared to 3.9x as of 31 December 2020.

Voluntary and unsolicited offer on 22,689% of Naturgy's share capital

On 26 January 2021, Global Infraco O (2) S.À.R.L., a wholly owned entity by IFM GIF, announced the terms and conditions of a voluntary partial takeover bid for a maximum of 220 million Naturgy Energy Group, S.A. shares, equivalent to 22,689% of Naturgy's share capital ("the Offer").

The Offer price of 23 €/share was adjusted downwards to 22.37 €/ share by the dividend of 0.63 €/ share paid on 17 March 2021. As indicated in the Offer announcement, price will be adjusted for future dividend payments.

The Offer was admitted for processing by the Spanish National Securities Market Commission (CNMV) on 18 February 2021.

The offer remains subject to the approvals from the Spanish Council of Ministers and CNMV. The CNMV shall not authorize the takeover bid until the previous mandatory authorization required by the Council of Ministers is obtained. The Council of Ministers has a 6 months maximum timeline to rule on the offer since its filing.

On 13 May 2021, Mr. Enrique Alcántara García-Irazoqui replaced Mr. Marcelino Armenter as proprietary director representing Criteria.

On 18 May 2021, Criteria Caixa confirmed their intention to reinforce their shareholding in Naturgy as well as their willingness to continue as a reference shareholder, not reaching, in any event, the 30% threshold that would require a mandatory takeover bid for the whole. Since 18 May 2021, Criteria has reinforced its shareholding in Naturgy from 24.8% to 25.99% as of 23 July 2021.

COVID-19 update

Macroeconomic growth and energy demand

Vaccination has accelerated during the second quarter of the year in Spain although relevant uncertainty remains caused by rapid expansion of COVID-19 variations and waves.

For comparability purposes, note that the first confirmed COVID-19 case in the Iberian Peninsula dates from 24 February 2020 and hence the COVID-19 outbreak only began to materially affect operations in March 2020.

Electricity and gas demand in Spain compare on average 5.2% and 6.5% above respectively vs. the first half of 2020, while electricity and gas demand in Latin American companies operated by the Group experienced an increase on average of 1% and 26% respectively during the first half of 2021 and compared to 2020.

Furthermore and since the appearance of the COVID-19, LatAm currencies have significantly depreciated against EUR. This had a negative effect of Euros 64 million and Euros 22 million on the consolidated Group ordinary EBITDA and Net income respectively during the first half of 2021 and compared to 2020.

Evolution of commodity prices

The first half of 2021 has been marked by a gradual improvement in economic sentiment primarily driven by the ongoing COVID-19 vaccination occurring across the globe, which is progressing at different speeds by geography and hence causing heterogeneous recovery expectations by region.

The improving economic sentiment is also accompanied by increasing inflation expectations, particularly in the US, and a gradual recovery of commodity prices globally.

In particular, Brent prices have increased by 63% on average when compared to 1H20 while gas prices on major gas hubs (HH and NBP) have improved on average by 42% and 148% respectively during the first half of 2021 vs. 2020 as well as a wholesale electricity prices (Spanish pool has increased by 102% on average vs. the first half of 2020).

Ongoing company initiatives

Naturgy continues to support and protect the interests of all its stakeholders, including measures to preserve employee health, safety and wellbeing, resources to guarantee effective remote work, or individual protection and support by Naturgy's medical services.

Relevant measures remain in place to support society as well as customers and suppliers, including the reinforcement of key infrastructures to ensure the stability and quality of electricity and gas supply, free gas and electricity supply to hospitalized centers, or free of charge repairs for health workers and security forces and bodies, armed forces and fire fighters, involved in supporting society during the pandemic. Our SMEs and self-employed customers are also benefiting from the deferral of invoice payments for 12 months to support their short-term financing needs, while some of our suppliers have benefited from cash payment advances in respect of their invoices.

1.2. Key comparability factors and non-ordinary items

Reporting structure

1H21 results follow the new organizational structure i) Energy management and networks, ii) Renewables and new businesses, and iii) Supply. Accordingly:

– Networks includes all networks businesses including Spain gas and electricity networks as well as networks LatAm, including Chile Gas, Brazil gas, Mexico gas, Panama electricity and Argentina gas and electricity
– Energy management is composed of: i) Markets & procurement, ii) International LNG, iii) Pipelines (EMPL), iv) Spain thermal generation and v) LatAm thermal generation
– Markets and procurement includes all gas procurement and internal and external sales (except from International LNG and gas sales to end customers <500GWh in Spain)
– Renewables, new businesses and innovation includes all renewable generation activities (including hydro) previously reported as part of European power generation and International power generation, together with new businesses
– Supply includes all power sales to end customers in Spain as well as gas sales to end customers < 500GWh in Spain

30 June 2020 results have been restated accordingly.

Perimeter changes

The main transactions completed in 1H21 with an impact in comparability in the 1H21 vs. 1H20 results are the following:

– On March 2021, Naturgy, ENI and the Arab Republic of Egypt completed the agreement reached on 1 December 2020 to amicably resolve the disputes affecting Union Fenosa Gas (UFG). As a result, a Euros 103 million capital gain has been recognized in 1H21 as “Other results” and UFG assets assigned to Naturgy have been fully consolidated.

The main transactions completed in 2020 with an impact in comparability in 1H21 vs. 1H20 results are the following:

– On April 2020, Naturgy completed the sale of its assets in Kenya
– On July 2020, Naturgy completed the transaction to acquire a 34.05% stake in Medgaz
– On November 2020, Naturgy reached an agreement to sell its 96.04% equity shareholding in its Chilean electricity networks subsidiary, Compañía General de Electricidad S.A. Following this agreement the activity has been classified as “Non-current assets available for sale” and results have been reported as "discontinued operations" for comparative purposes
– In addition, gas distribution activity in Peru and coal generation in Spain were reported as discontinued operations since April and June 2020 respectively. These activities have not contributed to 1H21 consolidated results

Non-ordinary items

Non-ordinary items are summarized below:

	Ebitda		Net Profit	
Euros million	**1H21**	**1H20**	**1H21**	**1H20**
Restructuring costs	(300)	(165)	(209)	(121)
Asset write-down	—	—	(16)	—
Provisions reversal	12	—	9	—
Sales of land and buildings	8	1	5	1
Procurement agreement	2	—	2	—
Lean transformation costs	(32)	—	(22)	—
Generation taxes	28	—	25	—
UFGas agreement	—	—	103	—
Interest sales and corporate transactions	—	—	(18)	13
Discontinued operations	—	—	47	(35)
Other	1	—	1	—
Total non ordinary items	**(281)**	**(164)**	**(73)**	**(142)**

At the EBITDA level, non-ordinary impacts in 1H21 amounted to -Euros 281 million, corresponding mostly to restructuring and transformation costs (-Euros 300 million and -Euros 32 million respectively), partially offset by generation taxes (+Euros 28 million), provisions reversals (+Euros 12 million) and other minor impacts.

At the Net profit level, non-ordinary items in 1H21 amounted to -Euros 73 million. In addition to the aforementioned items and its corresponding impact at Net income level, non-ordinary from UFG agreement and discontinued operations had a positive impact of Euros 103 million and Euros 47 million respectively.

Foreign exchange impact

Exchange rate fluctuations in the period are summarized below:

Currency	**Average exchange rate**	**Change (%)**	**EBITDA**	**Net income**
USD/€	1.21	10.0 %	(28)	(12)
MXN/€	24.32	2.8 %	(6)	(2)
BRL/€	6.49	20,6 %	(20)	(5)
ARS/€ (1)	113.47	44,0 %	(11)	(3)
CLP/€	868.01	(2.9)%	2	—
Other	—	—	(1)	—
Total	**—**	**—**	**(64)**	**(22)**

(1) Exchange rate as of 30 June 2021 as a consequence of considering Argentina as an hyperinflationary economy

1.3. Consolidated results

	Reported			Ordinary		
	1H21	**1H20**	**Change (%)**	**1H21**	**1H20**	**Change (%)**
Net sales	9,130	7,779	17.4	9,125	7,779	17.3
Ebitda	**1,678**	**1,744**	**(3.8)**	**1,959**	**1,908**	**2.7**
Depreciation, amortisation and	(729)	(743)	(1.9)	(707)	(743)	(4.8)
Impairment of credit losses	(52)	(79)	(34.2)	(52)	(79)	(34.2)
Other results	106	15	—	—	—	—
Ebit	**1,003**	**937**	**7.0**	**1,200**	**1,086**	**10.5**
Financial result	(236)	(242)	(2.5)	(241)	(242)	(0.4)
Profit/(loss) of companies measured	33	3	—	33	3	—
Income tax	(204)	(159)	28.3	(259)	(195)	32.8
Income from discontinued operations	51	(32)	—	—	—	—
Non-controlling interest	(163)	(173)	(5.8)	(176)	(176)	—
Net income	**484**	**334**	**44.9**	**557**	**476**	**17.0**

The consolidated income statement for the six-month period ended 30 June 2020 was restated due to application of IFRS 5

Net sales

Ordinary Net sales totaled Euros 9,125 million in 1H21, 17.3% above 1H20, mainly as a result of higher demand and energy prices in the period, with a positive impact in Energy management and Supply activities. On the negative side, macro uncertainty and FX depreciation continued weighing in certain LatAm countries, mainly as a result of the COVID-19 crisis.

Ebitda

Consolidated ordinary EBITDA reached Euros 1,959 million in 1H21, up 2.7% vs. 1H20. The energy scenario and the good operational performance have translated into better results in both regulated and liberalized activities in Spain. However, LatAm activities, despite a better performance in 2Q21, continued to be affected by negative FX impact and modest demand recovery, while renewables have suffered from lower margins overall and lower wind resources in Mexico.

The breakdown by business of the Ebitda is as follows:

	Reported			Ordinary		
	1H21	**1H20**	**Changes**	**1H21**	**1H20**	**Changes**
Energy management and networks	1,414	1,476	(4.2%)	1,613	1,563	3.2%
Renewables and New businesses	185	193	(4.1%)	178	198	(10.1%)
Supply	151	134	12.7%	214	171	25.1%
Rest	(72)	(59)	22.0%	(46)	(24)	91.7%
EBITDA	**1,678**	**1,744**	**(3.8%)**	**1,959**	**1,908**	**2.7%**

EBIT

Depreciation, amortization and impairment losses reached in the quarter -Euros 729 million, 1.9% lower than in 1H20. This reduction is explained by the impairment completed in 4Q20, mainly affecting Spain conventional generation and hydro and Argentina gas, which will translate into lower D&A of approximately Euros 75 million/year.

Impairment and credit losses reached -Euros 52 million in 1H21, 34.2% lower than in 1H20, recovering a more normalized figure after the significant increase in 1H20 following the outbreak of the COVID-19 crisis.

EBIT of the first half of the year 2021 amounted to Euros 1,003 million.

Financial result

Euros million	1H21	1H20	Change (%)
Cost of net financial debt	(240)	(248)	(3.2)
Other financial expenses/income	4	6	(33.3)
Financial result	**(236)**	**(242)**	**(2.5)**

The financial result amounted to -Euros 236 million, down 2.5%. The cost of net financial debt decreased by 3.2% in the period after the lower net debt in the period and an improvement in the average cost of gross financial debt1 for 1H21, reaching 2.4% vs. 2.8% in 1H20. As of 30 June 2021, 82% of gross debt is at fixed rates and 28% is denominated in foreign currency.

Equity-accounted affiliates

Equity-accounted affiliates contributed Euros 33 million in 1H21 basically for Ecoeléctrica (Euros 27 million), UF Gas subgrup (Euros -4 million) and Medgaz (Euros 4 million).

Income tax

The effective tax rate as of 30 June 2021 stood at 25.5%, higher than in 1H20 (22.8%).

Income from discontinued operations

Contribution from discontinued operations stood at Euros 51 million in 1H21, fully contributed by electricity distribution activities in Chile, as shown below:

	1H21	1H20	Changes (%)
Gas distribution Peru	—	(12)	(100.0)
Coal generation Spain	—	(35)	(100.0)
Electricity distribution Chile	51	15	0.0
Total	**51**	**(32)**	**(2.6)**

Income attributed to non-controlling interests

Income attributed to non-controlling interests amounted to -Euros 163 million in 1H21 as detailed below:

	1H21	1H20	Changes (%)
EMPL	(17)	(21)	(19.0)
Nedgia	(31)	(31)	—
Other affiliates (1)	(86)	(91)	(5.5)
Other equity instruments	(29)	(30)	(3.3)
Total	**(163)**	**(173)**	**(5.8)**

(1). Including GPG, gas distribution in Chile, Brazil, Mexico and Argentina, and electricity distribution in Panama.

The decrease of EMPL contribution and other affiliates follow the capacity step down effective since February 2020 and the lower contribution from LatAm activities respectively.
The other equity instruments caption includes the accrued interest on perpetual subordinated notes (hybrids).

Net income

Net ordinary income in 1H21 amounted to Euros 557 million, up 17.0% compared to the previous year.

1.4. Results by business unit

1.4.1. Energy management and networks

	Reported			Ordinary		
	1H21	**1H20**	**Change**	**1H21**	**1H20**	**Change**
Energy management and Networks	**1,414**	**1,476**	**(4.2)%**	**1,613**	**1,563**	**3.2 %**
Networks Spain	**649**	**696**	**(6.8)%**	**828**	**769**	**7.7 %**
Gas networks	389	402	(3.2) %	481	442	8.8 %
Electricity networks	260	294	(11.6) %	347	327	6.1 %
Networks Latin America	**399**	**433**	**(7.9)%**	**395**	**437**	**(9.6)%**
Chile gas	111	99	12.1 %	105	99	6.1 %
Brazil gas	99	104	(4.8) %	99	105	(5.7) %
Mexico gas	108	119	(9.2) %	109	120	(9.2) %
Panama electricity	61	69	(11.6) %	62	70	(11.4) %
Argentina gas	11	29	(62.1) %	11	30	(63.3) %
Argentina electricity	9	13	(30.8) %	9	13	(30.8) %
Energy management	**366**	**347**	**5.5 %**	**390**	**357**	**9.2 %**
Markets & Procurement	16	(80)	+/-100%	12	(80)	+/-100%
International LNG	86	165	(47.9) %	88	168	(47.6) %
Pipelines	100	126	(20.6) %	114	126	(9.5) %
Spain thermal generation	56	15	+/-100%	68	22	+/-100%
Latin America thermal generation	108	121	(10.7) %	108	121	(10.7) %

Ordinary EBITDA increased 3.2% to Euros 1,613 million during the period, driven by the good performance in Networks and thermal generation activities in Spain, and the Company's gas balance, benefiting the Markets & procurement activity. These have been partially offset by the negative FX evolution in LatAm and a lower contribution from Pipelines and International LNG activities.

According to the criteria established by IAS 29 "Financial Information in Hyperinflationary Economies", the Argentine economy should be considered as hyperinflationary. As a result, FX differences arising from 30 June 2021 will be applied to the accumulated 2021 results, which will also be updated by inflation rates.

1.4.1.1. Networks Spain

Spain gas networks

Results

	1H21	1H20	Change
Net sales	610	569	7.2
Procurement	(47)	(39)	20.5
Gross margin	**563**	**530**	**6.2**
Other operating income	19	18	5.6
Personnel expenses	(111)	(73)	52.1
Taxes	(15)	(13)	15.4
Other operating expenses	(67)	(60)	11.7
EBITDA	**389**	**402**	**(3.2)**
Depreciation, provisions and other results	(142)	(149)	(4.7)
EBIT	**247**	**253**	**(2.4)**

Ordinary EBITDA reached Euros 481 million, up 8.8% vs. 1H20. Higher distributed sales following demand recovery, as well as operational improvements, allow to compensate the lower remuneration under the new regulatory framework.

Main aggregates

The main aggregates in the gas distribution networks activity are as follows:

	1H21	1H20	Changes (%)
TPA - Sales (GWh)	101,465	93,247	8.8
LPG Sales (tn)	49,273	44,774	10.0
Distribution network (km)	56,911	56,779	0.2
Increase in connection points, thousand	(12)	(2)	+/-100%
Connection points (thousand) (at 30/06)	5,401	5,404	(0.1)

Gas sales (excluding LPG) increased by 8.8%, while connection points remained stable vs. 1H20.

Spain electricity networks

Results

	1H21	1H20	Change
Net sales	415	413	0.5
Procurement	—	—	—
Gross margin	**415**	**413**	**0.5**
Other operating income	9	9	—
Personnel expenses	(102)	(61)	67.2
Taxes	(15)	(14)	7.1
Other operating expenses	(47)	(53)	(11.3)
EBITDA	**260**	**294**	**(11.6)**
Depreciation, provisions and other results	(123)	(122)	0.8
EBIT	**137**	**172**	**(20.3)**

1H21 Ordinary EBITDA amounted to Euros 347 million, a 6.1% increase vs. 1H20 as a result of investments and additional efficiencies.

Main aggregates

	1H21	1H20	Change
Sales - TPA (GWh)	14,841	14,146	4.9
Connection points (thousand)(at 30/06)	3,787	3,765	0.6
ICEIT (minutes)	19.8	18.3	7.9

Connection points increased by 0.6% during the period, while electricity sales increased by 4.9%.

Unitary opex per km of installed network decreased by 13.2% vs. 1H20.

1.4.1.2. Latam Networks

Chile gas

Includes the activities of gas distribution and supply.

Results

	1H21	1H20	Change
Net sales	283	256	10.5
Procurement	(151)	(127)	18.9
Gross margin	**132**	**129**	**2.3**
Other operating income	8	1	700.0
Personnel expenses	(13)	(12)	8.3
Taxes	(1)	(1)	—
Other operating expenses	(15)	(18)	(16.7)
EBITDA	**111**	**99**	**12.1**
Depreciation, provisions and other results	(31)	(32)	(3.1)
EBIT	**80**	**67**	**19.4**

Ordinary EBITDA totalled Euros 105 million, 6.1% higher than in 1H20. Higher distribution sales and efficiencies were partially offset by lower sales and margins in gas supply. FX impact was slightly negative in the period (-Euros 1 million).

Main aggregates

	1H21	1H20	Change
Gas activity sales (GWh)	**14,561**	**17,319**	**(15.9)**
Gas activity sales (GWh)	4,956	4,664	6.3
Gas sales (GWh)	240	1,191	(79.8)
TPA (GWh)	9,364	11,464	(18.3)
Distribution network (km)	8,107	7,851	3.3
Increase in connection points (thousand)	6	5	8.6
Connection points (thousand)(at 30/06)	660	650	1.6

Total gas sales decreased (-15.9%), as a result of lower supply and TPA sales, while distributed sales increased by 6.3%.

Connection points increased by 1.6%.

Brazil Gas Networks

Results

	1H21	1H20	Var.(%)
Net sales	541	547	(1.1)
Procurement	(414)	(404)	2.5
Gross margin	**127**	**143**	**(11.2)**
Other operating income	8	13	(38.5)
Personnel expenses	(9)	(11)	(18.2)
Taxes	(1)	(3)	(66.7)
Other operating expenses	(26)	(38)	(31.6)
EBITDA	**99**	**104**	**(4.8)**
Depreciation, provisions and other results	(30)	(31)	(3.2)
EBIT	**69**	**73**	**(5.5)**

Ordinary EBITDA totalled Euros 99 million, 5.7% lower than in 1H20. Sales growth, most notable in the Generation + TPA segment, and positive opex evolution, were not sufficient to compensate for negative FX impact (-Euros 19 million) and the staggering of tariff updates throughout the year.

Main aggregates

The main aggregates of the activity are as follows:

	1H21	1H20	Var (%)
Gas activity sales (GWh)	**42,453**	**27,278**	**55.6**
Gas sales	21,358	17,597	21.4
TPA	21,095	9,681	117.9
Distribution network (km)	8,208	8,107	1.2
Increase in connection points (thousand)	8	6	39.2
Connection points (thousand)(at 30/06)	1,154	1,141	1.2

Overall gas sales increased 55.6%, notably in in Generation + TPA, experiencing a 94.0% increase over 1H20. NGV and industrial segments have shown also strong growths (+19.0% and +11.7% respectively), with retail being the only laggard segment (-7.6%).

Connection points grew 1.2% in the period.

Mexico Gas Networks

Results

	1H21	1H20	Var.(%)
Net sales	335	268	25.0
Procurement	(204)	(132)	54.5
Gross margin	**131**	**136**	**(3.7)**
Other operating income	5	16	(68.8)
Personnel expenses	(9)	(10)	(10.0)
Taxes	—	(1)	(100.0)
Other operating expenses	(19)	(22)	(13.6)
EBITDA	**108**	**119**	**(9.2)**
Depreciation, provisions and other results	(26)	(27)	(3.7)
EBIT	**82**	**92**	**(10.9)**

1H21 Ordinary EBITDA decreased 9.2% to Euros 109 million.

Higher sales in the Generation + TPA, industrial and NGV, as well as higher margins in the supply activity, were offset by negative FX impact (-Euros 5 million), delayed tariff updates, and lower contribution from energy services.

Main aggregates

The main aggregates of the activity are as follows:

	1H21	1H20	Var (%)
Gas activity sales (GWh)	**25,677**	**21,260**	**20.8**
Gas sales	11,678	10,383	12.5
TPA	13,999	10,877	28.7
Distribution network (km)	22,850	22,762	0.4
Increase in connection points (thousand)	(11)	(20)	(43.2)
Connection points (thousand)(at 30/06)	1,578	1,641	(3.9)

Connection points decreased by 3.9%, as a result of the commercial strategy aimed at improving customer profitability.

Panama electricity

Results

	1H21	1H20	Var.(%)
Net sales	350	408	(14.2)
Procurement	(267)	(315)	(15.2)
Gross margin	**83**	**93**	**(10.8)**
Other operating income	2	2	—
Personnel expenses	(5)	(4)	25.0
Taxes	(2)	(2)	—
Other operating expenses	(17)	(20)	(15.0)
EBITDA	**61**	**69**	**(11.6)**
Depreciation, provisions and other results	(21)	(32)	(34.4)
EBIT	**40**	**37**	**8.1**

1H21 Ordinary EBITDA amounted to Euros 62 million, down 11.4% vs. 1H20, driven by negative FX impact (-Euros 6 million).

Main aggregates

The main aggregates of the activity are as follows:

	1H21	1H20	Var (%)
Electricity business sales (GWh)	**2,524**	**2,483**	**1.7**
Electricity sales	2,114	2,139	(1.1)
TPA	410	344	19.1
Distribution network (km)	28,916	26,178	10.5
Connection points (thousand)(at 30/06)	718	702	2.2

Electricity sales increased by 1.7%, while connection points grew by 2.2%.

Argentina gas Networks

Results

	1H21	1H20	Var.(%)
Net sales	170	224	(24.1)
Procurement	(112)	(145)	(22.8)
Gross margin	**58**	**79**	**(26.6)**
Other operating income	9	11	(18.2)
Personnel expenses	(15)	(17)	(11.8)
Taxes	(15)	(14)	7.1
Other operating expenses	(26)	(30)	(13.3)
EBITDA	**11**	**29**	**(62.1)**
Depreciation, provisions and other results	(7)	(13)	(46.2)
EBIT	**4**	**16**	**(75.0)**

1H21 Ordinary EBITDA amounted to Euros 11 million, down 63.3% vs. 1H20. Higher sales in Generation + TPA, Commercial and Retail segments were not sufficient to compensate lower margins and negative FX impact (-Euros 7 million).

Main aggregates

The main aggregates of the activity are as follows:

	1H21	1H20	Var (%)
Gas activity sales (GWh)	**40,872**	**36,482**	**12.0**
Gas sales	23,753	17,605	34.9
TPA	17,119	18,877	(9.3)
Distribution network (km)	39,252	38,867	1.0
Increase in connection points (thousand)	3	11	(72.5)
Connection points (thousand)(at 30/06)	2,254	2,240	0.6

Gas sales increased by 12.0%, while connection points remained stable (+0.6%) vs. 1H20.

Electricity Networks Argentina

Results

	1H21	1H20	Var.(%)
Net sales	42	61	(31.1)
Procurement	(22)	(29)	(24.1)
Gross margin	**20**	**32**	**(37.5)**
Other operating income	4	2	100.0
Personnel expenses	(5)	(5)	—
Taxes	—	(7)	(100.0)
Other operating expenses	(10)	(9)	11.1
EBITDA	**9**	**13**	**(30.8)**
Depreciation, provisions and other results	(1)	(1)	—
EBIT	**8**	**12**	**(33.3)**

1H21 Ordinary EBITDA amounted to Euros 9 million, 30.8% lower than in 1H20, mainly explained by the negative FX impact (-Euros 4 million).

Main aggregates

The main aggregates of the activity are as follows:

	1H21	1H20	Var (%)
Electricity business sales (GWh)	956	951	0.5
Distribution network (km)	9,899	9,795	1.1
Connection points (thousand)(at 30/6)	247	239	3.4

Electricity sales and connection points increased by 0.5% and 3.4% respectively in the period.

1.4.1.3. Energy management

<u>Markets and procurement</u>

Results

	1H21	1H20	Var.(%)
Net sales	2,866	1,929	48.6
Procurement	(2,836)	(1,998)	41.9
Gross margin	**30**	**(69)**	**(143.5)**
Other operating income	13	12	8.3
Personnel expenses	(16)	(12)	33.3
Taxes	—	—	—
Other operating expenses	(11)	(11)	—
EBITDA	**16**	**(80)**	**+/- 100%**
Depreciation, provisions and other results	74	(2)	+/- 100%
EBIT	**90**	**(82)**	**+/- 100%**

1H21 Ordinary EBITDA reached Euros 12 million vs. Euros-80 million in 1H20. This evolution is mainly explained by higher sales and margins, as a consequence of an improved energy scenario and better gas procurement conditions following the extensive gas contract renegotiation completed during 2020.

Main aggregates

The main aggregates of the activity are as follows

	1H21	1H20	Var (%)
Gas supply (GWh)	**72,165**	**19,238**	**315.1**
CCGT	12,254	8,263	48.3
Third parties	59,912	10,975	516.1
Electricity sales (GWh)	**858**	**756**	**13.5**

<u>GNL International</u>

Results

	1H21	1H20	Var.(%)
Net sales	1,873	1,432	30.8
Procurement	(1,772)	(1,252)	41.5
Gross margin	**101**	**180**	**(43.9)**
Other operating income	—	—	—
Personnel expenses	(10)	(10)	—
Taxes	—	—	—
Other operating expenses	(5)	(5)	—
EBITDA	**86**	**165**	**(47.9)**
Depreciation, provisions and other results	(72)	(66)	9.1
EBIT	**14**	**99**	**(85.9)**

1H21 Ordinary EBITDA reached Euros 88 million, down 47.6% vs. 1H20, showing the significant weight of volumes already contracted that consequently do not translate into margins the recovery in gas prices scenario.

As of 30 June 2021, contracted sales for 2021 and 2022-23 stood at 81% and 57% respectively.

Main aggregates

The main aggregates of the activity are as follows:

	1H21	1H20	Var (%)
Gas sales (GWh)	76,002	63,239	20.2%
Shipping fleet capacity (m3)	2,102,662	1,641,641	28.1%

Pipelines (EMPL)

Results

	1H21	1H20	Var.(%)
Net sales	126	137	(8.0)
Procurement	—	—	—
Gross margin	**126**	**137**	**(8.0)**
Other operating income	1	—	—
Personnel expenses	(18)	(3)	500.0
Taxes	—	—	—
Other operating expenses	(9)	(8)	12.5
EBITDA	**100**	**126**	**(20.6)**
Depreciation, provisions and other results	(28)	(28)	—
EBIT	**72**	**98**	**(26.5)**

1H21 Ordinary EBITDA decreased by 9.5% to Euros 114 million. Tariff updates were offset by the capacity step down and US$ depreciation (-Euros 11 million).

Main aggregates

The main aggregates of the activity are as follows

	1H21	1H20	Var (%)
Gas transport - EMPL (GWh)	**47,127**	**12,195**	**286.4**
Portugal-Morocco	18,822	5,818	223.5
Spain (Naturgy)	28,305	6,377	343.9

Spain thermal generation

Results

	1H21	1H20	Var.(%)
Net sales	562	430	30.7
Procurement	(332)	(269)	23.4
Gross margin	**230**	**161**	**42.9**
Other operating income	7	6	16.7
Personnel expenses	(47)	(40)	17.5
Taxes	(90)	(71)	26.8
Other operating expenses	(44)	(41)	7.3
EBITDA	**56**	**15**	**273.3**
Depreciation, provisions and other results	(39)	(71)	(45.1)
EBIT	**17**	**(56)**	**(130.4)**

1H21 Ordinary EBITDA amounted to Euros 68 million, up from the Euros 22 million obtained in 1H20 on the back of higher pool prices and CCGTs sales and margins.

Pool prices increased 102.1% vs. 1H20, averaging Euros 58.6/MWh in the period, as a result of higher gas and CO2 prices.

Main aggregates

The main aggregates of the activity are as follows

	1H21	1H20	Var (%)
Installed capacity (MW)	**8,031**	**8,031**	**—**
Nuclear	604	604	—
CCGTs	7,427	7,427	—

	1H21	1H20	Var (%)
Electric energy produced (GWh)	**7,162**	**7,035**	**1.8**
Nuclear	1,914	1,921	(0.4)
CCGTs	5,248	5,114	2.6

Total production increased by 1.8%: CCGTs increased by 2.6% while nuclear production remained stable (-0.4%) in the period, the latter affected by an unscheduled stop in February.

LatAm thermal generation

Results

	1H21	1H20	Var.(%)
Net sales	545	293	86.0
Procurement	(416)	(151)	175.5
Gross margin	**129**	**142**	**(9.2)**
Other operating income	2	1	100.0
Personnel expenses	(7)	(7)	—
Taxes	—	—	—
Other operating expenses	(16)	(15)	6.7
EBITDA	**108**	**121**	**(10.7)**
Depreciation, provisions and other results	(37)	(44)	(15.9)
EBIT	**71**	**77**	**(7.8)**

Ordinary EBITDA in the period reached Euros 108 million, down 10.7% vs. 1H20. Higher production was not sufficient to offset the negative FX impact (-Euros 11 million), lower margins on PPA and the minor surpluses sold.

Main aggregates

The main aggregates of the activity are as follows

	1H21	1H20	Var (%)
Installed capacity (MW)	**2,643**	**2,595**	**1.8**
Mexico (CCGT)	2,446	2,398	2.0
Dominican Republic (Fuel)	198	198	—

	1H21	1H20	Var (%)
Electric energy produced (GWh)	**7,016**	**6,824**	**2.8**
Mexico (CCGT)	6,785	6,596	2.9
Dominican Republic (Fuel)	231	228	1.5

Total production increased by 2.8%, with CCGTs production increasing 2.9% and the rest by 1.5%.

1.4.2. Renewables and new businesses

	Reported			Ordinary		
	1H21	**1H20**	**Change**	**1H21**	**1H20**	**Change**
Renewables and New businesses	**185**	**193**	**(4.1)**	**178**	**198**	**(10.1)**
Spain & USA	152	162	(6.2)	141	166	(15.1)
Australia	—	1	(100.0)	0	1	(100.0)
Latam	33	30	10.0	37	31	19.4

Ordinary EBITDA reached Euros 178 million (-10.1%) lower than the first semester 2020. Higher wind and hydro production in Spain and new installed capacity in Chile have been offset by lower margins in Spain and Australia, lower wind resource in Mexico, as well as negative FX impact in LatAm (-Euros 3 million). Naturgy currently operates 5,177 MW of renewable capacity.

Spain & USA

Results

	1H21	**1H20**	**Var.(%)**
Net sales	288	279	3.2
Procurement	(36)	(33)	9.1
Gross margin	**252**	**246**	**2.4**
Other operating income	10	3	233.3
Personnel expenses	(41)	(22)	86.4
Taxes	(29)	(34)	(14.7)
Other operating expenses	(40)	(31)	29.0
EBITDA	**152**	**162**	**(6.2)**
Depreciation, provisions and other results	(79)	(82)	(3.7)
EBIT	**73**	**80**	**(8.8)**

Ordinary ebitda reached 141 million euros, 15.1% lower than in 2020, as a result of higher taxes on production due to higher pool prices not transferred.

Main aggregates

The main aggregates of the activity are as follows

	1H21	**1H20**	**Var (%)**
Installed capacity (MW)	**4,083**	**3,988**	**3.7**
Hydroelectric	2,062	2,062	—
Wind	1,720	1,625	5.8
Solar	250	250	—
Cogeneration and others	51	51	0.2

	1H21	1H20	Var (%)
Electric energy produced (GWh)	**4,898**	**4,192**	**16.9**
Hydroelectric	2,610	2,288	14.1
Wind	2,015	1,583	27.3
Solar	113	161	(29.6)
Cogeneration and others	160	160	—
Market share of generation	**6.1**	**6.0**	**0,1 pp**

Installed capacity as of end 1H21 reached 4,083MW, 94MW higher compared to 1H20, all of them wind capacity.

Australia

Results

	1H21	1H20	Var.(%)
Net sales	4	4	—
Procurement	—	—	—
Gross margin	**4**	**4**	**—**
Other operating income	—	—	—
Personnel expenses	(1)	—	—
Taxes	—	—	—
Other operating expenses	(3)	(3)	—
EBITDA	**—**	**1**	**(100.0)**
Depreciation, provisions and other results	(5)	(2)	150.0
EBIT	**(5)**	**(1)**	**400.0**

Ordinary EBITDA in the period was Euros0 million vs. Euros 1 million in 1H20.

The reduction is mainly explained by lower margins following the quarterly mark to market valuation of existing PPAs under contracts for differences regime.

Main aggregates

The main aggregates of the activity are as follows:

	1H21	1H20	Var (%)
Installed capacity (MW)	**277**	**96**	**188.1**
Wind	277	96	188.1

	1H21	1H20	Var (%)
Electric energy produced (GWh)	**266**	**135**	**97.3**
Wind	266	135	97.3

Naturgy continued to progress developing renewable assets in Australia. Accordingly, Installed capacity as of end 1H21 reached 277MW, 181MW higher compared to 1H20, all of them wind capacity.

LatAm Renewables

Results

	1H21	1H20	Var.(%)
Net sales	73	51	43.1
Procurement	(19)	(2)	850.0
Gross margin	**54**	**49**	**10.2**
Other operating income	5	2	150.0
Personnel expenses	(10)	(9)	11.1
Taxes	(1)	(1)	—
Other operating expenses	(15)	(11)	36.4
EBITDA	**33**	**30**	**10.0**
Depreciation, provisions and other results	(15)	(9)	66.7
EBIT	**18**	**21**	**(14.3)**

Ordinary EBITDA in the period reached Euros 37 million, 19.4% higher than in 1H20, mainly driven by new capacity coming into operation in Chile, which has been partially offset by FX impact (-Euros 3 million) and lower wind resource in Mexico.

Main aggregates

The main aggregates of the activity are as follows

	1H21	1H20	Var (%)
Installed capacity (MW)	**818**	**511**	**60.1**
Mexico (Wind)	234	234	—
Brazil (Solar)	153	153	—
Chile (Solar)	101	—	100.0
Chile (Wind)	206	—	100.0
Costa Rica (Hydroelectric)	101	101	—
Panama (Hydroelectric)	22	22	(0.3)

	1H21	1H20	Var (%)
Electric energy produced (GWh)	**964**	**711**	**35.4**
Mexico (Wind)	315	398	(20.9)
Brazil (Solar)	142	132	7.4
Chile (Solar)	125	—	100.0
Chile (Wind)	139	—	100.0
Costa Rica (Hydroelectric)	203	148	37.7
Panama (Hydroelectric)	40	34	17.4

Installed capacity in LatAm as of end 1H21 reached 818MW, 307MW higher compared to 1H20, of which 206MW wind and 101MW solar.

1.4.3. Supply

Results

	1H21	1H20	Var.(%)
Net sales	3,544	3,527	0.5
Procurement	(3,196)	(3,222)	(0.8)
Gross margin	**348**	**305**	**14.1**
Other operating income	4	1	300.0
Personnel expenses	(94)	(74)	27.0
Taxes	(19)	(14)	35.7
Other operating expenses	(88)	(84)	4.8
EBITDA	**151**	**134**	**12.7**
Depreciation, provisions and other results	(72)	(83)	(13.3)
EBIT	**79**	**51**	**54.9**

Ordinary EBITDA amounted to Euros 214 million in the period, 25.1% higher than 1H20, primarily driven by the improvement in gas supply supported by the recovery of gas prices and industrial sales, which was partially offset by increased margin pressure on power supply, notably in the industrial segment, lower sales in retail and S&ME segments, and lower contribution from services and solutions activities.

Main aggregates

The main aggregates of the activity are as follows

	1H21	1H20	Var (%)
Gas sales (GWh)	**55,130**	**49,955**	**10.4**
Residential Spain	12,519	11,343	10.4
Industrial clients	41,294	37,028	11.5
SM&E	1,316	1,584	(16.9)
By segment	**55,130**	**49,955**	**10.4**
Liberalised	51,358	46,704	10.0
Regulated	3,772	3,250	16.0
Electricity sales (GWh):	**11,056**	**10,750**	**2.8**
Residential Spain	4,572	4,847	(5.7)
Industrial clients	5,233	4,349	20.3
SM&E	1,251	1,555	(19.5)
By segment	**11,056**	**10,750**	**2.8**
Liberalised	8,572	8,200	4.5
Regulated	2,483	2,551	(2.6)
Retail contracts (thousand)	**10,573**	**10,861**	**(2.7)**
Gas	3,731	3,919	(4.8)
Electricity	3,987	4,125	(3.4)
Services	2,856	2,817	1.4
Contracts per customer (Spain)	2	2	0,0 pp
Gas contract market share (Spain)	47	49	-1,9 pp

Gas sales increased by 10.4% in 1H21, notably in the industrial and retail segments (+11.5% and +10.4% respectively) as a consequence of COVID-19 impact in 2Q20. On the contrary, SME sales decreased by 16.9%, still affected by latest waves of Covid-19.

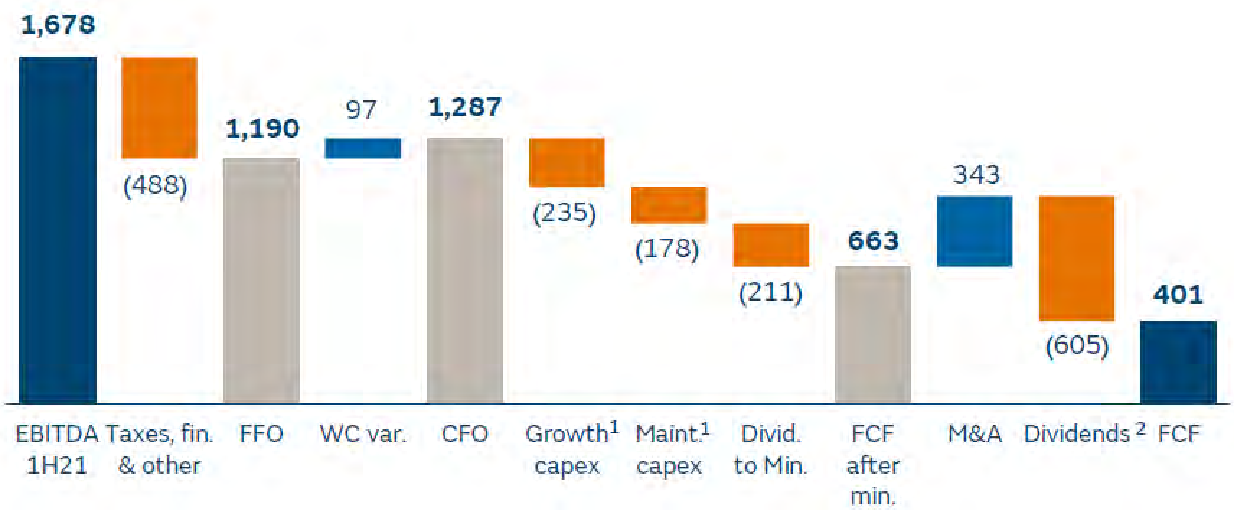
Power sales increased by 2.8% in 1H21 as a result of higher sales in the liberalized market (+4.5%). Industry sales increased by 20.3%, while SME and retail sales decreased by 19.5% and 5.7% respectively.

In addition, it is important to note that during 2021 Naturgy has formalized several PPA contracts with different industrial clients to commercialize renewable electricity for a total of 814 GWh/year, starting in 2022 and with a duration of 5-10 years, and another 300 GWh / year starting in 2023

Finally, the number of contracts experienced a decrease of 2.7% compared to 1H20 figures.

1.5. Cash flow

The evolution of cash flow for the first half of 2021 is detailed below::



1 Net of transfers and contributions
2 net of dividend paid to group companies (Euros 6 million)

1H21 free cash flow after minorities amounted to Euros 663 million driven by operations and after investing Euros 413 million. As of 30 June 2021 net debt amounted to Euros 13,611 million, in line with net debt levels as of the end of 2020 despite the Euros 605 million paid as 2020 final dividend, supported by cash from operations and proceeds obtained from the completion of UFG agreement.

Capex

The breakdown of capex by type was as follows:

	1H21	1H20	%
Investments in property, plant and equipment and intangible assets	439	552	(20.5)
Other payments of investments activities	(26)	(25)	4.0
Total gross investments	**413**	**527**	**(21.6)**

Maintenance capex in 1H21 amounted to Euros 181 million, compared to Euros 218 million in 1H20, a 17.0% reduction resulting from further optimization of capex processes and FX effect.

The breakdown of capex by activities is as follows:

	1H21	1H20	Var (%).
Energy management and Networks	**265**	**340**	**(22.1)**
Networks Spain	**134**	**114**	**17.5**
Gas networks	45	34	32.4
Electricity networks	89	80	11.3
Networks Latin America	**90**	**191**	**(52.9)**
Chile gas	16	24	(33.3)
Chile electricity	—	76	(100.0)
Brazil gas	11	17	(35.3)
Mexico gas	15	12	25.0
Panama electricity	36	50	(28.0)
Argentina gas	8	10	(20.0)
Argentina electricity	4	2	100.0
Peru gas	—	—	—
Energy management	**41**	**35**	**17.1**
Markets and Procurement	—	—	—
International LNG	5	4	25.0
Pipelines (EMPL)	—	—	—
Europe thermal generation	25	21	19.0
Latin America thermal generation	11	10	10.0
Renewables and New businesses	**119**	**175**	**(32.0)**
Spain & USA	53	40	32.5
Australia	53	21	152.4
Latam	13	114	(88.6)
Supply	**45**	**18**	**150.0**
Rest	**10**	**19**	**(47.4)**
TOTAL Capex	**439**	**552**	**(20.5)**

Growth capex in the period was close to 60% of total capex and amounted to Euros 258 million in 1H21.

Growth capex in 1H21 included:

- A total of Euros 114 million invested in the construction of different renewable projects, out which Euros 48 million in Spain, Euros 53 million in Australia and Euros 13 million in Chile.
- Euros 97 million invested in the development of networks, of which Euros 52 million in Spain and Euros 45 million in Latam.
- Euros 42 million in the supply activity

In addition, in recent months Naturgy has reached several agreements that confirm its commitment to renewable growth:

- Naturgy reached several agreements in Australia which will increase its presence in the country to over 750MW by 2022.

- On 15 January 2021, Naturgy, through its subsidiary (100%) Naturgy Solar USA, LLC, acquired 100% of the economic interests of a pipeline holding a portfolio of 8GW solar projects together with 4.6GW of co-located energy storage projects spanning 9 states in the U.S., of which 25 projects totalling 3.2GW of solar and 2GW storage could be operational before 2026. As part of the transaction, Naturgy also entered into a 5 year development agreement with Candela Renewables, a first in class team holding over 20 years of experience in the field, with a proven track record in the development of solar and energy storage projects in the U.S.
- On 26 January 2021, Naturgy was awarded with a total of 235MW of wind and solar projects within the Spanish renewable auction
- Lastly, on 15 March 2021, Naturgy was awarded with 45MW of solar capacity in the Canary Islands, which will allow the Group to double its current installed capacity in the region

Other transactions

On 10 March 2021, Naturgy, ENI and The Arab Republic of Egypt, completed the agreement reached on 1 December 2020, to amicably resolve the disputes affecting Unión Fenosa Gas (UFG). As a result, capital gains of Euros 103 million have been recorded in “Other results” and the assets of UFG assigned to Naturgy have been consolidated at 100%

As already stated, on 26 July 2021 the sale of Naturgy’s entire equity shareholding (96.04%) in CGE electricity to State Grid International Development Limited (SGID) was completed for a total purchase price (equity value) of million 2,570 euros.

1.6. Financial Position

As of 30 June 2021, net debt amounted to Euros 13,611 million, in line with year-end 2020 figure despite not yet reflecting the pre-tax proceeds of Euros 2.570 million expected on completion of the disposal of CGE Electricidad. Net debt / LTM ebitda stood at 4.0x compared to 3.9x as of 31 December 2020.

During the first half 2021, the most relevant transactions and refinancing operations included:

- The issuance of two bonds in Mexico for Euros 120 million with a maturity of 3 years with a TIIE + 0.49% coupon and for Euros 100 million with a maturity of 9 years with a 8.21% coupon.
- Mini-Perm loans for wind projects of Cabo Leones II and San Pedro Solar for a total of Euros 241 million and Euros 32 million which include a revolving credit line with a tenor of 7 years at Libor + 2.27%. Those transactions have a partial floating interest rate hedge.
- Refinancing of loans and revolving credit lines in Spain and international businesses for a total of Euros 3,771 million and an equivalent of Euros 124 million respectively, including:
- Refinancing of a syndicated revolving credit facility increasing the limit from Euros 1,750 million to Euros 2,000 million with maturity of 3 years (with an option to extend until 2026) at Euribor rate + 0.30% and with ESG metrics in calculating the price. Additionally, the revolving credit line has been renegotiated, reducing the limit from 200 million euros to 93 million euros.
- Global Power Generation (GPG) has obtained a US Dolar 1.4 billion syndicated loan extension for an additional year, so that after the extension, US Dolar 1.4 billion is due in June 2026 and the remaining US Dolar 100 million in June 2025. In addition, GPG has increased the coverage of variable rate exposure with two initial forward swaps.

Refinancing of the syndicated credit line increasing the limit from 1,750 million euros to 2,000 million euros, with a maturity of 3 years (with an option to extend until 2026) at Euribor rate + 0.30% and with ESG metrics in calculating the price. Additionally, the revolving credit line has been renegotiated, reducing the limit from 200 million euros to 93 million euros.

Liquidity (Euro million)

Liquidity as of 30 June 2021 stood at Euros 9,616 million, including Euros 3,936 million in cash and equivalents and Euro 5,680 million in undrawn and fully committed credit lines. In addition, the ECP program is completely undrawn as of 30 June 2021.

The detail of the Group's current liquidity is as follows:

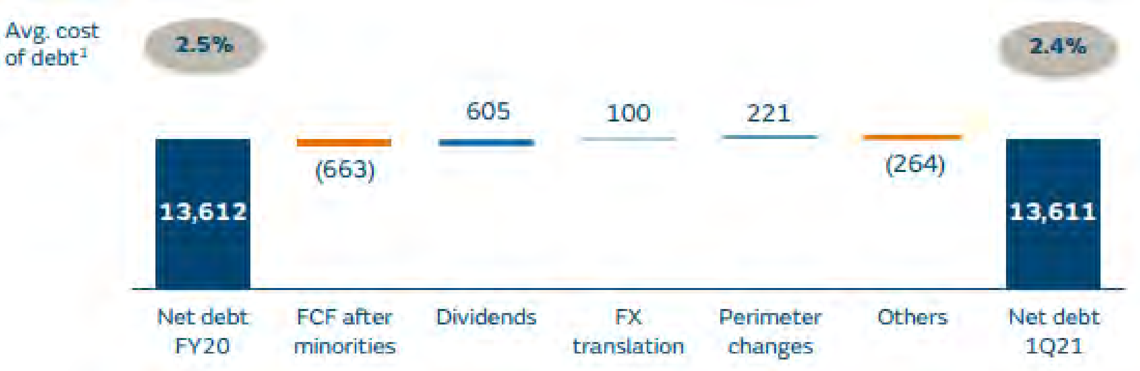
	Consolidated		Chile		Brazil	Argentina	Mexico	Panama	Holding & others
	1H21	**FY20**	**CLP**	**USD**	**BRL**	**ARS**	**MXN**	**USD**	**EUR/ Others**
Cash and equivalents	3,936	3,927	88	19	153	52	121	86	3,417
Undrawn commited credit lines	5,680	5,548	—	—	15	—	—	—	5,665
Total	**9,616**	**9,475**	**88**	**19**	**168**	**52**	**121**	**86**	**9,082**

The weighted average maturity of the undrawn credit lines stands over two years, according to the following detail:

	2021	2022	2023	2024	2025
Undrawn credit facilities	75	1,080	2,126	2,294	105

Net debt evolution (Euro million)

The evolution of the debt from 31 December 2020 to 30 June 2021 has been as follows:

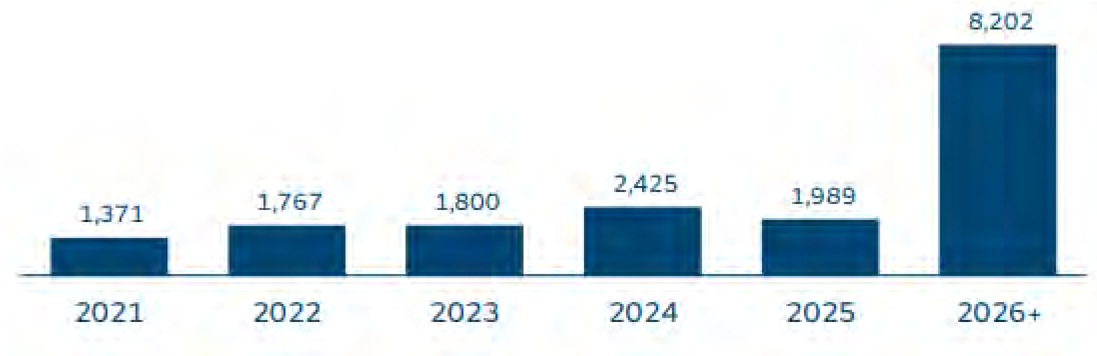


1 Does not include cost from IFRS 16 debt.

The average cost of debt, excluding the cost of lease liabilities under IFRS 16, is 2.4%, in line with the level in 2020 (2.4%).

Gross debt maturities (Euros million)

The gross debt maturities are as follows:



The evolution of the principal ratios applied referent to the Net financial debt is as follows

		1H21	1H20
EBITDA/Net financial debt cost	times	7.0	6.9
Net debt /LTM EBITDA	times	4.0	3.9

The detail of the net financial debt, the average financial cost of the gross debt and the % of fixed gross debt for country and currency is as follows:

		Group		Chile		Brazil	Argentina	Mexico	Panama	Holding & others
		1S21	2020	CLP	USD	BRL	ARS	MXN	USD	EUR/Otras
Net financial debt	MEuros	13,611	13,612	357	48	122	(51)	359	666	12,110
Average cost of debt (1)	%	2.4	2.5	6.0	4.5	4.2	43.0	6.7	4.5	1.8
% fixed rated (gross debt)	%	82.0	83.0	84.0	29.0	4.0	10.0	55.0	58.0	89.0

(1) Does not include cost from IFRS 16 debt.

2. Main risks and uncertainties

In the first half of 2021, Naturgy applied the same risk management policy as described in the consolidated annual accounts for the year ended 31 December 2020.

As detailed in Section 4 of the consolidated directors' report for the year ended 31 December 2020, Naturgy's activities are exposed to a number of risks:

1. Business risk:Uncertainty in the macroeconomic context and geopolitical exposure
2. Market risk: gas and electricity price volatility, gas and electricity volume risk, competitive pressure in gas and electricity markets
3. Regulatory risk: regulatory and legal risk, risks related to concessions, licences and other administrative authorisations
4. Operational risk
5. Environmental risk
6. Climate change and energy transition risk
7. Reputational risk
8. Cybersecurity risk

Financial risks (interest rate, exchange rate, commodity prices, credit risk and liquidity risk) are discussed in detail in Note 18 of the Consolidated Directors' Report for 2020. The main aspects of financial risks are updated in Note 12 to the interim consolidated accounts.

From a macroeconomic point of view, the first half of 2021 was marked by a gradual improvement in economic expectations, mainly as a result of the ongoing vaccination against COVID-19 worldwide. However, vaccination is progressing at different paces in different geographies, consequently generating different expectations for recovery in each region.

This economic improvement has an impact on energy demand, which has shown signs of recovery in the regions where the group operates; however, the trading situation remains challenging, and the evolution of the pandemic continues to weigh generally on the macroeconomic situation, and particularly on the performance of the Latin American currencies in which the Group operates.

The improvement in economic sentiment is also accompanied by rising inflation expectations, especially in the United States, and a gradual recovery in commodity prices around the world.

On 1 June 2021, based on a proposal by the Ministry for Ecological Transition and the Demographic Challenge, the Spanish Cabinet initiated the processing of a draft bill to correct the remuneration received by non-CO2-emitting power plants (hydro and nuclear) commissioned before 2005. At the date of authorising these consolidated interim accounts, the period for comments on the draft bill has concluded and the CNMC has issued a favourable report, although it notes some aspects of the proposal that it considers need improvement (Note 2.6 to the interim consolidated accounts).

Additionally, the parliamentary processing of the Bill for the creation of the National Fund for the Sustainability of the Electricity System (FNSSE) commenced on 11 June; the Bill differs somewhat from the version analysed by the Council of State, and a period for amendments was opened that ran until 29 June.

3. Subsequent events

Events after the closing date, i.e. 30 June 2021, are described in Note 26 to the condensed interim consolidated financial statements.

Appendix I. Alternative performance metrics

Naturgy's' financial disclosures contain magnitudes and metrics drafted in accordance with International Financial Reporting Standards (IFRS) and others that are based on the Group's disclosure model, referred to as Alternative Performance Metrics (APM), which are viewed as adjusted figures with respect to those presented in accordance with IFRS.

The chosen APMs are useful for persons consulting the financial information as they allow an analysis of the financial performance, cash flows and financial situation of Naturgy, and a comparison with other companies.

Below is a glossary of terms with the definition of the APMs. Generally, the APM terms are directly traceable to the relevant items of the interim consolidated balance sheet, interim consolidated income statement, interim consolidated statement of cash flows or notes to the interim financial statements of Naturgy. Terms which cannot be directly cross-referenced are reconciled in the Glossary below.

Alternative performance metrics	Definition and terms	Reconciliation of values at 30.06.2021	Reconciliation of values at 30.06.2020	Relevance
EBITDA	EBITDA = Revenue (2)– Procurements (2) + Other operating income (4)– Personnel expenses (4)– Other operating expenses (4) + Own work capitalised (4)	Euros 1,678 Million	Euros 1,744 Million	Measure of operating income before interest, taxes, depreciation and amortisation and impairment
Ordinary EBITDA	EBITDA - Non-ordinary items (8)	Euros 1,959 Million = 1,678 + 281	Euros 1,908 Million = 1,744 + 164	EBITDA corrected for impacts related to restructuring costs and other non-ordinary items considered material for a better understanding of the Group's underlying results
Ordinary profit	Attributable income for the year - Non-ordinary items(8)	Euros 557 Million = 484 + 73	Euros 476 Million = 334 + 142	Attributable income corrected for impacts of impairment, divestments and discontinued operations and other non-ordinary items that are considered to be material for a better understanding of the Group's underlying results
Capital expenditure (CAPEX)	Investment in intangible assets (4) + Investment in property, plant and equipment (4)	Euros 439 Million = 90 + 349	Euros 552 Million = 61 + 491	Investment in intangible assets and property, plant and equipment
Net capital expenditure (Net CAPEX)	CAPEX (5) - Other investment receipts/ (payments)	Euros 413 Million = 439 –26	Euros 527 Million = 552 – 25	Total investments (CAPEX) net of the cash received from divestments and other investing receipts
Gross borrowings (7)	“Non-current financial liabilities”(1) + “Current financial liabilities”(1)	Euros 17,554 Million = 14,746 + 2,808	Euros 17,539 Million = 14,968 + 2,571	Current and non-current borrowings
Net borrowings (7)	Gross borrowings(5)– “Cash and cash equivalents”(1) – “Derivative financial assets”(4)	Euros 13,611 Million = 17,554 - 3,936 – 7	Euros 13,612 Million = 17,539 - 3,927 – 0	Current and non-current borrowings less cash and cash equivalents and derivative financial assets
Leverage (%) (7)	Net borrowings(5) / (Net borrowings(5) + “Net equity”(1))	56,0% = 13,611 / (13,611 + 10,689)	54,7% = 13,612 / (13,612 + 11,265)	The ratio of external funds over total funds
Cost of net borrowings	“Cost of borrowings”(4) – “Interest”(4)	Euros 240 Million = 246 - 6	Euros 248 Million = 259 - 11	Amount of expense relative to the cost of borrowings less interest revenue
EBITDA/Cost of net borrowings (7)	EBITDA(5)/ Cost of net borrowings(5)	7,0x = 1,678 /240	6,9x = 3,449 / 498	Ratio between EBITDA and the cost of net borrowings
Net borrowings/EBITDA (7)	Net borrowings(5) / EBITDA(5)	4,0x = 13,611/ 3,383	3,9x = 13,612/ 3,449	Ratio between net borrowings and EBITDA
Free cash flow after non-controlling interests	Free cash flow (5)+ Parent company dividends (4)+ Purchase of treasury shares (4)+ Inorganic investment payments (4)	Euros 663 Million = 401 + 605 + 0 - 343	Euros 1,101 Million = 337 + 580 + 184 + 0	Net cash generated by the company that is available for distribution to shareholders (via dividends or buybacks), inorganic investment payments and debt payments
Net free cash flow	Cash flow generated from operating activities (3) + Cash flows from investing activities(3) - Other receipts GC divestments (4) + Cash flows from financing activities(3) – Receipts/payments from financial liability instruments(3)	Euros 401 Million =1,287 – 71 - 1,209 + 394	Euros 337 Million = 2,019 – 699 + 738 - 1.721	Net cash generated by the company that is available for payment of debt

(*) The consolidated income statement for the six-month period ended 30 June 2020 was restated due to application of IFRS 5.

(1) Consolidated balance sheet line item.
(2) Consolidated income statement line item.
(3) Consolidated statement of cash flows line item.
(4) Figure detailed in the Notes to the Condensed interim consolidated accounts.
(5) Figure detailed in the APMs.
(6) Figure detailed in the Directors' Report.
(7) Comparative information at 31 december 2020

(8) The non ordinary items are summarized bellow:

	Ebitda		**Net Income**	
	1H21	**1H20**	**1H21**	**1H20**
Restructuring costs	(300)	(165)	(209)	(121)
Asset write-down	—	—	(16)	—
Provisions reversal	12	—	9	—
Sales of land and buildings	8	1	5	1
Procurement agreement	2	—	2	—
Lean transformation costs	(32)	—	(22)	—
Generation taxes	28	—	25	—
UFGas agreement	—	—	103	—
Interest sales and corporate transactions	—	—	(18)	13
Discontinued operations	—	—	47	(35)
Other	1	—	1	—
Total non ordinary items	**(281)**	**(164)**	**(73)**	**(142)**

Report on Limited Review of Naturgy Energy Group, S.A.

(Together with the condensed interim financial statements and interim directors' report of Naturgy Energy Group, S.A. for the six-month period ended 30 June 2021)

(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

Report on Limited Review of Condensed Interim Financial Statements

(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. commissioned by the Directors of the Company

REPORT ON THE CONDENSED INTERIM FINANCIAL STATEMENTS

Introduction

We have carried out a limited review of the accompanying condensed interim financial statements (hereinafter the "interim financial information") of Naturgy Energy Group, S.A. (the "Company"), which comprise the balance sheet at 30 June 2021, and the income statement, statement of changes in equity and statement of cash flows for the six-month period then ended, and explanatory notes to the interim financial information (all condensed). The Directors of the Company are responsible for the preparation of this interim financial information in accordance with the accounting principles and the minimum content envisaged in articles 12 and 13 of Royal Decree 1362/2007 of 19 October 2007 and in Circular 3/2018 of the Spanish National Securities Market Commission (CNMV) for the preparation of condensed interim financial information. Our responsibility is to express a conclusion on this interim financial information based on our limited review.

Scope of Review

We conducted our limited review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A limited review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A limited review is substantially less in scope than an audit conducted in accordance with prevailing legislation regulating the audit of accounts in Spain and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the accompanying interim financial information.

Conclusion

Based on our limited review, which can under no circumstances be considered an audit, nothing has come to our attention that causes us to believe that the accompanying interim financial information for the six-month period ended 30 June 2021 has not been prepared, in all material respects, in accordance with the accounting principles and minimum content envisaged in articles 12 and 13 of Royal Decree 1362/2007 and in Circular 3/2018 of the Spanish National Securities Market Commission (CNMV) for the preparation of condensed interim financial information.

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Emphasis of Matter

We draw your attention to note 2 in the accompanying interim financial information, which states that such interim financial information does not include all the information that would be required in a complete set of interim financial statements prepared in accordance with the financial reporting framework applicable to the entity in Spain. The accompanying interim financial information should therefore be read in conjunction with the Company's annual accounts for the year ended 31 December 2020. This matter does not modify our conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The accompanying interim directors' report for the six-month period ended 30 June 2021 contains such explanations as the Directors of the Company consider relevant with respect to the significant events that have taken place in this period and their effect on the interim financial information, as well as the disclosures required by article 15 of Royal Decree 1362/2007. The interim directors' report is not an integral part of the interim financial information. We have verified that the accounting information contained therein is consistent with that disclosed in the interim financial information for the six-month period ended 30 June 2021. Our work is limited to the verification of the interim directors' report within the scope described in this paragraph and does not include a review of information other than that obtained from the accounting records of the Company.

Other Matter

This report has been prepared at the request of the Company's directors in relation to the publication of the six-monthly financial report required by article 119 of the Revised Securities Market Law, approved by Royal Legislative Decree 4/2015 of 23 October 2015 and enacted by Royal Decree 1362/2007 of 19 October 2007.

KPMG Auditores, S.L.

(Signed on original in Spanish)

Eduardo González Fernández

27 July 2021

Naturgy Energy Group, S.A.

Condensed interim accounts as at 30 June 2021

Naturgy Energy Group, S.A.
Balance sheet (million euro)

	Note	30.6.2021	31.12.2020
NON-CURRENT ASSETS		**31,352**	**31,048**
Intangible assets		3	3
Patents, licences, trademarks and other		1	1
Other intangible assets		2	2
Property, plant and equipment		112	113
Land and buildings		99	101
Other property, plant and equipment		13	12
Long-term investments in group companies and associates	5	30,870	30,594
Equity instruments		15,626	15,417
Loans to companies		15,244	15,177
Long-term investments	6	7	9
Equity instruments		4	5
Other financial assets		3	4
Other non-current assets		169	136
Derivatives		169	136
Deferred tax assets		191	193
CURRENT ASSETS		**4,193**	**3,845**
Trade and other receivables		895	312
Trade receivables for sales and services		30	37
Trade receivables, group companies and associates		121	143
Derivatives		723	123
Other sundry receivables		9	3
Current tax assets		10	4
Other amounts receivable to Public Administrations		2	2
Short-term investments in group companies and associates	5	930	743
Loans to companies		772	628
Other financial assets		158	115
Short-term investments	6	26	171
Other financial assets		26	171
Short-term prepayments and accrued expenses		1	1
Cash and cash equivalents		2,341	2,618
Cash at banks and in hand		1,329	1,076
Other cash equivalents		1,012	1,542
TOTAL ASSETS		**35,545**	**34,893**

Notes 1 to 15 are an integral part of the condensed interim accounts.

Naturgy Energy Group, S.A.
Balance sheet

	Note	30.6.2021	31.12.2020
			(million euro)
EQUITY	7	**18,270**	**18,393**
SHAREHOLDERS' FUNDS		**18,330**	**18,471**
Capital		970	970
Authorised capital		970	970
Share premium		3,808	3,808
Reserves		11,291	11,291
Legal and statutory		300	300
Other reserves		10,991	10,991
Treasury shares		(1)	(1)
Profit/(loss) for the year		468	98
Retained earnings		1,778	3,076
Interim dividend		—	(785)
Other equity instruments		16	14
VALUE CHANGE ADJUSTMENTS		(60)	(78)
Available-for-sale financial assets		(1)	(1)
Hedging operations		(59)	(77)
NON-CURRENT LIABILITIES		**12,432**	**13,079**
Long-term provisions		405	373
Long-term post-employment obligations		258	258
Other provisions		147	115
Long-term borrowings	8	2,530	2,829
Bank borrowings		2,446	2,720
Derivatives		83	108
Other financial liabilities		1	1
Amounts owing to group companies and associates falling due in more than one year	9	9,095	9,530
Deferred tax liabilities		232	211
Other liabilities		170	136
Derivatives		170	136
CURRENT LIABILITIES		**4,843**	**3,421**
Short-term borrowings	8	403	399
Bank borrowings		381	257
Derivatives		22	21
Other financial liabilities		—	121
Amounts owing to group companies and associates falling due in less than one year	9	3,408	2,560
Trade and other payables		1,031	461
Trade payables		175	141
Trade payables, group companies and associates		76	59
Derivatives		728	123
Other sundry payables		8	10
Personnel (outstanding remuneration)		27	18
Current tax liabilities		—	93
Other amounts payable to Public Administrations		17	17
Short-term prepayments and accrued expenses		1	1
TOTAL EQUITY AND LIABILITIES		**35,545**	**34,893**

Notes 1 to 15 are an integral part of the condensed interim accounts.

Naturgy Energy Group, S.A.
Interim income statement

	Note	30.06.21	30.06.20
			(million euro)
Revenue	9	1,109	1,129
Sales		460	313
Income from equity instruments of group companies and associates		481	639
Income from marketable securities and other financial instruments of group companies and associates		168	177
Raw materials and consumables		(461)	(312)
Consumption of goods		(461)	(312)
Other operating income		35	87
Supplementary income and other operating income		35	86
Operating grants released to the income statement		—	1
Personnel expenses		(60)	(78)
Wages, salaries and related expenses		(52)	(69)
Social Security		(5)	(6)
Provisions		(3)	(3)
Other operating expenses		(54)	(88)
External services		(53)	(88)
Taxes		(1)	—
Fixed asset depreciation/amortisation		(6)	(8)
Impairment and results on disposals of fixed assets		75	(48)
Gain/(loss) on disposals of tangible fixed assets	4	1	—
Impairment of and losses from equity instruments of group companies and associates		73	(48)
Gain/(loss) on disposals of equity interests in Group companies and associates		1	—
OPERATING PROFIT/(LOSS)		**638**	**682**
Financial income		1	4
Negotiable securities and other financial instruments		1	4
- In third parties		1	4
Financial expenses		(167)	(169)
Borrowings from group companies and associates		(144)	(144)
Borrowings from third parties		(23)	(25)
Variation in fair value of financial instruments		—	1
Investments		—	1
Exchange differences		—	(2)
NET FINANCIAL INCOME		**(166)**	**(166)**
PROFIT/(LOSS) BEFORE TAXES		**472**	**516**
Income tax		(4)	19
PROFIT FOR THE YEAR		**468**	**535**
Basic and diluted earnings per share in euro		0.49	0.55

Notes 1 to 15 are an integral part of the condensed interim accounts.

Naturgy Energy Group, S.A.
Interim statement of changes in equity

A) STATEMENT OF RECOGNISED INCOME AND EXPENSES		(million euro)
	30.6.2021	**30.6.2020**
PROFIT FOR THE YEAR	468	535
INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY	19	(15)
Cash flow hedges	23	(23)
Actuarial gains and losses and other adjustments	2	2
Tax effect	(6)	6
RELEASES TO INCOME STATEMENT	1	4
Cash flow hedges	1	6
Tax effect	—	(2)
TOTAL INCOME AND EXPENSE RECOGNISED IN EQUITY	**488**	**524**

Notes 1 to 15 are an integral part of the condensed interim accounts.

Naturgy Energy Group, S.A.

Interim 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 1.1.2020	**984**	**3,808**	**11,573**	**(121)**	**—**	**—**	**4,415**	**(754)**	**9**	**(61)**	**19,853**
Total recognised income and expense	—	—	—	—	—	—	535	—	2	(13)	524
Operations with shareholders or owners											
- Dividend distribution	—	—	—	—	(9)	—	—	(576)	—	—	(585)
- Trading in treasury shares	—	—	—	(178)	—	—	—	—	—	—	(178)
Other changes in equity	—	—	—	—	9	3,076	(4,415)	1,330	—	—	—
Balance at 30.06.2020	**984**	**3,808**	**11,573**	**(299)**	**—**	**3,076**	**535**	**—**	**11**	**(74)**	**19,614**
Total recognised income and expense	—	—	2	—	—	—	(437)	—	3	(4)	(436)
Operations with shareholders or owners											
- Capital reduction	(14)	—	(284)	298	—	—	—	—	—	—	—
- Dividend distribution	—	—	—	—	—	—	—	(785)	—	—	(785)
Other changes in equity	—	—	—	—	—	—	—	—	—	—	—
Balance at 31.12.2020	**970**	**3,808**	**11,291**	**(1)**	**—**	**3,076**	**98**	**(785)**	**14**	**(78)**	**18,393**
Total recognised income and expense	—	—	—	—	—	—	468	—	2	18	488
Operations with shareholders or owners											
- Dividend distribution	—	—	—	—	(611)	—	—	—	—	—	(611)
Other changes in equity	—	—	—	—	611	(1,298)	(98)	785	—	—	—
Balance at 30.06.2021	**970**	**3,808**	**11,291**	**(1)**	**—**	**1,778**	**468**	**—**	**16**	**(60)**	**18,270**

Notes 1 to 15 are an integral part of the condensed interim accounts.

Naturgy Energy Group, S.A.
Cash flow statement (million euro)

	30.06.2021	31.12.2020
Profit for the year before tax	**472**	**60**
Adjustments to results	**(550)**	**(196)**
Fixed asset depreciation/amortisation	6	14
Impairment adjustments	(73)	1,086
Change in provisions	—	(7)
Profit/(loss) on write-offs and disposals of fixed assets	(1)	—
Profit/(loss) on write-offs and disposals of financial instruments	(1)	(1)
Financial income	(650)	(1,629)
Financial expenses	167	339
Variation in fair value of financial instruments	—	(1)
Other income and expenses	2	3
Changes in working capital	**84**	**(242)**
Debtors and other receivables	(514)	163
Creditors and other payables	598	(405)
Other cash flows from operating activities	**740**	**1,821**
Interest paid	(179)	(346)
Dividends received	800	1,381
Interest collected	168	350
Income tax collections/(payments)	(49)	436
Cash flows from operating activities	**746**	**1,443**
Amounts paid on investments	**(1,089)**	**(270)**
Group companies and associates	(1,050)	(232)
Intangible assets	—	(1)
Property, plant and equipment	(5)	(8)
Other financial assets	(34)	(29)
Amounts collected from divestments	**362**	**547**
Group companies and associates	360	486
Property, plant and equipment	1	6
Other financial assets	1	55
Cash flows from investing activities	**(727)**	**277**
Collections and payments on equity instruments	**—**	**(185)**
Acquisition of own equity instruments	—	(185)
Collections and payments financial liability instruments	**315**	**1,279**
Issuance	1,167	3,887
Bank borrowings	1	1,225
Payables to Group companies and associates	1,130	2,662
Other payables	36	—
Repayment/redemption of	(852)	(2,608)
Bank borrowings	(151)	(247)
Payables to Group companies and associates	(694)	(2,288)
Other payables	(7)	(73)
Dividend payments	**(611)**	**(1,370)**
Cash flow from financing activities	**(296)**	**(276)**
NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS	**(277)**	**1,444**
Cash and cash equivalents at the beginning of the year	2,618	1,174
Cash and cash equivalents at the year end	2,341	2,618

Notes 1 to 15 are an integral part of the condensed interim accounts.

Notes to the condensed interim accounts - Table of contents

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 offices are at Avda. de San Luis 77, Madrid. On 27 June 2018, the Shareholders' Meeting resolved to change the company's name to Naturgy Energy Group, S.A. (it was formerly Gas Natural SDG, S.A.).

The company's corporate purposes, 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, planning and execution of construction projects, management of architectural, civil engineering, utilities and gas and hydrocarbon distribution works in general; management of communications, telecommunications, gas or hydrocarbon distribution networks in general, and the purchase, sale and maintenance of electrical and gas appliances; as well as business consulting and energy planning services and the rationalisation of energy use, research, development and exploitation of new technologies, communications, computing and industrial security systems; training and selection of human resources and real estate management and development.

b. The activity as a holding company, incorporating companies or holding shares as a shareholder in other companies no matter what their corporate purpose or nature, by subscribing, acquiring and holding shares, equity instruments 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. It also has contracts to supply gas to other Naturgy companies.

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

On 26 January 2021, Global InfraCo O (2), S.à r.l., which is wholly owned by the Australian fund IFM, announced the terms and conditions of a voluntary offer to acquire up to 220 million shares of Naturgy Energy Group, S.A., equivalent to 22.689% of Naturgy's share capital ("the Offer").

The Offer was admitted for processing by Spain's National Securities Market Commission on 18 February.

The Offer price of €23 per share was subsequently adjusted to €22.37 per share as a result of the supplementary dividend of €0.63 paid by Naturgy on 17 March 2021. As indicated in the announcement of the Offer, the price will be adjusted for the future payment of dividends.

On 18 March 2021, the Mexican Federal Competition Commission (COFECE) unanimously and unconditionally authorised the business concentration that would result from the Offer, thus fulfilling one of the conditions to which the Offer was subject.

The offer is still pending the necessary regulatory authorisation from the Spanish Cabinet and the CNMV. The CNMV will not authorise the offer until the necessary prior authorisation has been obtained from the Cabinet, which has 6 months to decide on the offer from the time it was admitted for processing.

Note 2. Basis of presentation

The Company's annual accounts for 2020 were approved at the Shareholders' Meeting on 9 March 2021.

The selected interim financial information was prepared in accordance with the accounting principles and standards set out in Royal Decree 1362/2007, of 19 October, implementing Law 24/1988, of 28 July, on the Securities Market, and with National Securities Market Commission Circular 3/2018, of 28 June, on regular disclosures by issuers with securities listed in regulated markets with respect to the half-yearly accounts, interim directors' reports and any quarterly financial reports, consequently, it does not include all the information that would be required for separate annual accounts prepared in accordance with Spanish generally accepted accounting principles. In particular, the accompanying Interim Financial Information has been prepared with the necessary content to meet the requirements for selected financial information, on a separate basis, established in the fourth rule of Circular 3/2018. Consequently, the interim accounts should be read in conjunction with the annual accounts of Naturgy Energy Group, S.A. for the year ended 31 December 2020.

As a result, it was not necessary to replicate or update certain notes or estimates contained in the company's annual accounts. Instead, the accompanying selected notes to the accounts contain an explanation of events or changes that are significant for explaining any changes in the financial position and results of operations, comprehensive income, changes in equity and cash flows of the Company between 31 December 2020, the date of the above-mentioned annual accounts, and 30 June 2021.

This interim financial information was prepared in connection with the publication of the half-yearly financial report required by Article 119 of Legislative Royal Decree 4/2015 of 23 October approving the Consolidated Text of the Securities Market Law.

As at 30 June 2021, the Company had negative working capital in the amount of Euros 650 million. In this respect, the Company's statements of projected liquidity for this year, together with the amounts available under credit lines, guarantee that this amount will be covered.

The figures set out in these condensed interim accounts are expressed in million euros, unless otherwise stated.

The condensed interim consolidated accounts were authorised by the Board of Directors on 27 July 2021 pursuant to IAS 34 "Interim financial reporting". The main aggregates arising from the consolidated financial statements are as follows:

Total assets	39,633
Equity attributed to the parent company	7,513
Non-controlling interests	3,176
Revenue	9,130
Profit after tax attributed to the parent company	484

Note 3. Accounting policies

The accounting principles and main valuation rules used by the Company to prepare these condensed interim accounts are the same as those applied in the Company's annual accounts for the year ended 31 December 2020, except for the adoption of Royal Decree 1/2021, of 12 January, which amends the General Accounting Plan approved by Royal Decree 1514/2007, of 16 November; the General Accounting Plan for Small and Medium-Sized Companies approved by Royal Decree 1515/2007, of 16 November; the Rules for the Preparation of Consolidated Financial Statements approved by Royal Decree 1159/2010, of 17 September; and the rules for the adaptation of the General Accounting Plan to non-profit entities approved by Royal Decree 1491/2011, of 24 October, as well as by the adoption of the Resolution of 10 February 2021, of the Spanish Accounting and Audit Institute, which establishes rules for recognition, measurement and the preparation of annual accounts for the recognition of revenues from the delivery of goods and the rendering of services.

The main amendments relate essentially to the transposition into the local accounting environment of a large part of the standards contained in IFRS-EU 9, IFRS-EU 15, IFRS-EU 7 and IFRS-EU 13.

The only impact on the Company arising from the adoption of Royal Decree 1/2021 relates to the classification and measurement of financial assets. Pursuant to the second transitional provision of Royal Decree 1/2021, the Company applied the new classification and measurement criteria for financial assets and liabilities retroactively, in accordance with the provisions of accounting and measurement standard 22 "Changes in accounting policies, accounting errors and estimates" of the Spanish National Accounting Plan. As a result, the Company recognised financial investments in equity instruments at cost amounting to Euros 4 million (Euros 5 million at 31 December 2020) which had been recognised as available-for-sale financial assets at the end of the previous year. The company did not have any adjustments to the carrying amount of financial assets and liabilities in reserves at 1 January 2021 as a result of the application of the new accounting standard.

In accordance with the third transitional provision, the company opted to apply the hedge accounting approach set out in Royal Decree 1/2021; however, it did not make substantial changes to its hedge model, confirming that its current hedging relationships continue to qualify as hedges under the new standard. The company recognises, in a separate equity component, the time value of option contracts, the forward element of forward contracts, and the exchange rate differential of financial instruments in the event of exclusion from the hedging relationship.

The Company reviewed the internal revenue recognition policies for the various types of contracts with customers, identifying the performance obligations, how the timetable for meeting these obligations is identified, the price of the transaction and its allocation, in order to identify possible differences with respect to the revenue recognition model under the new standard; no material differences were observed between the two and no compliance obligations were detected that might give rise to the recognition of liabilities for contracts with customers.

As a result of the new standard, the Company's accounting policies for financial assets and liabilities, derivatives and other financial instruments and revenue recognition have been amended as follows from 1 January 2021:

3.1 Financial assets and liabilities

Financial assets

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

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

a. Financial assets at cost

This category includes investments in the equity of 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 estimated reliably.

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

b. Financial assets at amortised cost

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

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

c. Financial assets at fair value through profit or loss

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

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

The fair values of listed investments are based on current 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 (Level 2 and 3). If none of these techniques can be used to determine fair value, investments are carried at cost less any impairment loss.

d. Equity instruments at fair value through equity

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

The fair value measurements made in these half-yearly financial statements are classified using a fair value hierarchy that reflects the materiality of the inputs used to perform these measurements. This hierarchy consists of 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 in this category is determined by using valuation techniques. The valuation techniques maximise the use of available observable market data and place as little reliance as possible on specific estimates made by the company. If all significant inputs required to calculate fair value are observable, the instrument is classified as Level 2. If one or more of the significant inputs are not based on observable market data, the instrument is classified as Level 3.

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

Financial assets are derecognised 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. In asset assignments where the risks and rewards of ownership are retained, the financial assets are not written off, and a liability is recognised in the same amount as the payment received.

Contracts for the assignment of receivables are classified as non-recourse factoring provided that they entail a transfer of the risks and rewards inherent in ownership of the transferred financial assets.

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

Financial liabilities

a. Financial liabilities measured at amortised cost

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

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

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

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

Additionally, trade and other current payables are financial liabilities that fall due in less than twelve months, are recognised initially at fair value and do not accrue explicit interest are recognised 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 initially and in subsequent remeasurements, at fair value, and fair value changes are recognised in profit or loss.

3.2 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.

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 the risk management objective.

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

- Derivatives traded on an official market are calculated on the basis of their year-end quoted price (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 forward price curves for such items (Level 2 and 3).

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 hedges

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 hedges

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

When option contracts are used to hedge projected transactions, the group designates only the intrinsic value of the option contract as the hedging instrument.

Amounts accumulated in equity are reclassified to the Income statement in the periods when the hedged item impacts the income statement. However, if that amount is a loss, the amount not expected to be recovered is reclassified immediately to profit or loss as a reclassification adjustment.

Amounts accumulated in equity are reclassified to consolidated profit or loss in the period in which the hedged item impacts profit or loss, as follows:

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

- When a hedging instrument covers a planned transaction, the accumulated amounts remain in equity until the planned transaction takes place. If the planned transaction does not take place, the amount accumulated in equity is immediately reclassified to profit or loss.

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. Variations in value of the effective part of the hedging instrument are recognised in the interim balance sheet under "Adjustments for change in value". The gain or loss from the ineffective part is recognised immediately under "Exchange differences" in profit or loss. The accumulated amount of the valuation recorded under "Adjustments for change in value" 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. Such derivatives are classified at fair value through profit or loss, and fair value changes of any derivative instruments that do not qualify for hedge accounting are recognised immediately in profit or loss.

3. Energy purchase and sale agreements

In the normal course of its business the Company enters into energy purchase and sale agreements which in most cases include “take or pay” clauses. by virtue of which the buyer takes on the obligation to pay the value of the energy contracted irrespective of whether the buyer receives it or not. 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 are contracts for “own use” and therefore fall outside the scope of the standard on the valuation of financial instruments.

3.3 Recognition of revenues and expenses

a. General

Revenue derived from contracts with customers is recognised on the basis of fulfilment of the performance obligations with customers.

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

Five steps are established for the recognition of revenue:

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

Based on this recognition model, sales of goods are recognised when products are delivered to the customer and have been accepted by them, even if they have not been invoiced, or when services are rendered, and there is a reasonable assurance that the related accounts receivable will be collected.

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

Sales are stated net of tax and discounts.

b. Other revenues and expenses

Revenues from contracts for the provision of services are recognised on a percentage-of-completion basis, i.e. when revenues can be reliably estimated, they are recognised over time based on the progress of contract execution at year-end, calculated in proportion to costs incurred to date in relation to the estimated costs necessary to execute the contract.

If the contract revenues cannot be estimated reliably, the costs (and respective revenues) are recognised in the period in which they are incurred, provided that the former can be recovered. The contract margin is not recorded until there is certainty of its materialisation, based on expense and revenue planning.

In the event that the total costs exceed the contract revenues, this loss is recognised immediately in the Income statement for the year.

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

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

The holding of shares in Group companies and associates is deemed to be the Company's principal ordinary activity from which periodic revenue is obtained. In accordance with the position expressed by the Spanish Institute of Accounting and Auditing ("ICAC") in its Resolution of 10 February 2021 in connection with the presentation criteria in the income statement of holding companies (art. 34.10), dividends from Group companies and associates and interest received on loans granted to Group companies and associates, are recognised as positive components of revenue, with the appropriate disclosures. Additionally, the “Impairment and results on equity instruments in group companies and associates” item is included in “Operating income”.

3.4 Significant accounting estimates and judgements

The significant accounting estimates and assumptions are detailed in Note 3.19 of the annual accounts for 2020.

Asset impairment

The assumptions used to determine the recoverable value of the Cash Generating Units (CGU) is detailed in Note 4 to the annual accounts for 2020.

A review of the impairment indicators for the financial assets in subsidiaries and associated companies at 30 June 2021 did not disclose any need to recognise impairment or reversal other than as disclosed in Note 5.

Other sources of uncertainty

On 1 June 2021, based on a proposal by the Ministry for Ecological Transition and the Demographic Challenge, the Spanish Cabinet initiated the processing of a draft bill to correct the remuneration received by non-CO_2-emitting power plants (hydro and nuclear) commissioned before 2005. At the date of authorising these consolidated interim accounts, the period for comments on the draft bill has concluded and the CNMC has issued a favourable report, although it notes some aspects of the proposal that it considers need improvement.

Considering the many factors that may influence the outcome of the draft bill and that the range of possibilities is very broad and uncertain, at the date of authorising these accounts it is impracticable to disclose the extent of the possible effects that the final draft bill may have on the Group's conventional generation business. The directors consider that, if a regulation such as the one indicated in the draft bill is approved, which reduces the remuneration of these technologies, there might be adjustments to the carrying amount of the Company's holding in Naturgy Generación, S.L. Such adjustments will depend on the final wording of the legislation, if it is ultimately approved. As at 30 June 2021, the net carrying amount of that holding was Euros 1,549 million.

Note 4. Main risks and uncertainties

The main risks and uncertainties are disclosed in the annual accounts for 2020. The main aspects of financial risk are updated as at 30 June 2021 below:

Risk management

Risk management is described in detail in note 14 to the annual accounts for 2020. The main aspects of financial risk are updated as at 30 June 2021 below:

Interest rates

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

A total of 81% of Naturgy's debt at 30 June 2021 is at fixed interest rates, while exposure to floating interest rates is limited.

The sensitivity of income and equity (Other equity items) to interest rate fluctuations is as follows:

	Increase/decrease in interest rates (basis points)	Effect on profit before tax	Effect on equity before tax
30 June 2021	50	(6)	35
	(50)	6	(35)
31 December 2020	50	(6)	(41)
	(50)	6	41

Exchange rate

In order to mitigate exchange rate risk, Naturgy finances its investments in local currency as far as possible. Furthermore, where possible, it tries to match costs and revenues in the same currency, as well as amounts and maturities of assets and liabilities arising from operations denominated in non-Euro currencies.

For open positions, the risks in investments in currencies other than the functional currency are managed through financial swaps and exchange rate insurance within the limits approved for hedging instruments.

Additionally, net assets of foreign companies whose functional currency is not the euro are subject to exchange rate risk when their financial statements are translated to euros during the consolidation process.

Commodity prices

The Company purchases gas for supply to other Naturgy companies.

A large portion of Naturgy's operating expenses is linked to gas purchased to supply customers or generate electricity in combined cycle plants.

These gas procurement contracts are generally signed on a long-term basis with purchase prices based on a combination of commodity prices, basically the price of crude oil and its derivatives, and natural gas hub prices.

However, sale prices to end customers are generally arranged for the short/medium term and sale prices are shaped by the balance between supply and demand that exists at any given time in the gas market. This may result in a mismatch with gas supply prices, for example in periods of a gas glut.

Therefore, Naturgy is exposed to the risk of fluctuations in the price of gas with respect to the price charged to end customers. The exposure to these risks is managed and mitigated by natural hedging by monitoring the position with respect to such commodities, trying to balance the prices of procurement and supply obligations and sale prices. In addition, some procurement contracts allow this exposure to be managed 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 to reduce exposure to price mismatches, which are generally designated as hedging instruments.

The risk in electricity and CO_2 emission allowances trading by Naturgy is non-material due to the low volume of transactions and the limits established on both the amounts and maturities.

Additionally, in order to obtain a return on short-term cash surpluses, structured notes linked to EUAs (CO_2 emission rights) have been acquired. The notes guarantee a pre-set return above market interest rates.

Commodity volumes

The demand variability for gas before and after the COVID crisis and the uncertainty in the speed of the energy transition might result in a mismatch between procurement and demand volumes. Most procurement contracts allow for flexibility in volumes over a number of time horizons, and the company is availing itself of those facilities. Additionally, within the framework of commercial negotiations, there is the possibility of renegotiating the contractual volumes for a better balance of the projected energy balance.

Credit risk

Credit risk relating to trade accounts receivable is historically limited given the short collection periods from customers, since they cannot accumulate a significant amount of debt before their supply is suspended for non-payment, in accordance with the applicable regulations.

As a result of COVID-19, governments have adopted a number of transitional measures, which are still in place in some countries, to ensure the basic supply of energy, ranging from deferral of payment by certain customer segments to a prohibition on cutting off the supply.

Liquidity risk

At 30 June 2021, liquidity amounted to Euros 7,801 million (Euros 7,930 million at 31 December 2020), including cash and cash equivalents in the amount of Euros 2,341 million (Euros 2,618 million in 2020) and available bank loans and credit lines in the amount of Euros 5,460 million (Euros 5,312 million in 2020).

Naturgy's long-term credit ratings are as follows:

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

Note 5. Investments in group companies and associates

The investments in Group companies and associates are classified into categories as follows as at 30 June 2021 and 31 December 2020:

At 30.06.2021	Financial assets at cost	Financial assets at amortised cost	Total
Equity instruments	15,626	—	15,626
Loans	—	15,244	15,244
Non-current	**15,626**	**15,244**	**30,870**
Loans	—	772	772
Other financial assets	—	158	158
Current	**—**	**930**	**930**
TOTAL	**15,626**	**16,174**	**31,800**

At 31.12.2020	Financial assets at cost	Financial assets at amortised cost	Total
Equity instruments	15,417	—	15,417
Loans	—	15,177	15,177
Non-current	15,477	15,177	30,594
Loans	—	628	628
Other financial assets	—	115	115
Current	**—**	**743**	**743**
TOTAL	**15,417**	**15,920**	**31,337**

The changes in non-current investments in group companies and associates in the first half of the year are as follows:

	Holdings in group companies	Loans to group companies	Holdings in associates	Total
Balance at 01.01.2020	**16,548**	**16,202**	**4**	**32,754**
Additions	2	—	—	2
Divestments	(1)	(1)	—	(2)
Reclassification	—	(435)	—	(435)
Charge/reversal provisions	(48)	—	—	(48)
Balance at 30.06.2020	**16,501**	**15,766**	**4**	**32,271**
Additions	81	—	—	81
Divestments	(129)	—	—	(129)
Reclassification	—	(589)	—	(589)
Charge/reversal provisions	(1,040)	—	—	(1,040)
Balance at 31.12.2020	**15,413**	**15,177**	**4**	**30,594**
Additions	467	25	—	492
Divestments	(362)	(24)	—	(386)
Reclassification	—	66	—	66
Charge/reversal provisions	104	—	—	104
Balance at 30.06.2021	**15,622**	**15,244**	**4**	**30,870**

Six-month period ended 30 June 2021

The main transactions performed by the Company in the six-month period ended 30 June 2021 were as follows:

Corporate transactions

- In March 2021, Naturgy, ENI and the Arab Republic of Egypt completed the agreement reached on 1 December 2020 to amicably resolve the disputes affecting Unión Fenosa Gas (UFG). As a result, UFG received a number of cash payments for the sale of the assets in Egypt, UFG's commercial activities in Spain and one of its vessels, as well as the collection of compensation agreed with the Egyptian Government. At the same time, Naturgy has formalized the acquisition of the remaining 50% stake in UFG for Euros 466 million, with the result that it now owns 100% stake. Additionally, this entailed the end of the gas supply contract for approximately 3.5 bcm per year to supply combined cycle plants in Spain, which was due to end in 2029 and keeps its Oman contract that expire in 2025.

- Monetary contribution in the amount of Euros 1 million to offset losses at the company Petroleum Oil&Gas España, S.A.

- The distribution of the share premium in the amount of Euros 362 million was recognised as a decrease in the carrying amount of the holding in the company Holding Negocios de Gas, S.A.

- Disposal of 60% of the capital of Lean Corporate Services, S.L., Lean Customer Services, S.L, Lean Grids Services, S.L and Naturgy IT, S.L., as announced in November 2020, to enable the corresponding strategic partners to begin participating in the delivery of the various services, with no material impact on the income statement. At 30 June 2021, the Company holds a 15% interest in all these companies and, consequently, they have been reclassified to long-term financial assets (Note 6).

Six-month period ended 30 June 2020

The main transactions performed by the Company in the six-month period ended 30 June 2020 were as follows:

Corporate transactions

- Monetary contribution in the amount of Euros 2 million to offset losses at the company Lean Grids Services, S.L. A 25% stake in that company was subsequently disposed of, without a material impact on profit or loss.

- Disposal of 25% of the capital of Lean Corporate Services, S.L and Lean Customer Services, S.L., without an impact on profit or loss.

- Liquidation of the company Clover Financial and Treasury Services, D.A.C. without an impact on profit or loss.

Asset impairment

- **At 30 June 2021:**

The following impairment of holdings in equity instruments of group companies and associates was recognised in the six-month period ended 30 June 2021:

- An amount of Euros 4 million corresponding to the holding in Naturgy LNG, S.L. due to that company's adverse performance. The amount of accumulated impairment as at 30 June 2021 was Euros 15 million. Additionally, a provision for contingencies in the amount of Euros 30 million was recognised under “Other long-term provisions”.

- Euros 6 million for the interest in Naturgy Engineering, S.L., on the basis of the company's equity. The accumulated impairment as at 30 June 2021 was Euros 10 million.

- Euros 3 million for the interest in Naturgy Informática, S.A. on the basis of the company's equity. The accumulated impairment as at 30 June 2021 was Euros 150 million.

- Euros 2 million for the interest in Naturgy Nuevas Energías, S.L.U. on the basis of the company's equity. The accumulated impairment as at 30 June 2021 was Euros 2 million. Additionally, a provision for contingencies in the amount of Euros 1 million was recognised under "Other long-term provisions".

- Euros 1 million for the interest in Naturgy Finance, B.V., on the basis of the company's equity. The accumulated impairment as at 30 June 2021 was Euros 1 million.

Impairment was also reversed on the following assets:

- Euros 108 million relating to the impairment of the pre-existing 50% interest in Unión Fenosa Gas, S.A. as a result of the acquisition of an additional 50% (Note 14).

- Euros 13 million for the interest in Naturgy Participaciones, S.A.U. on the basis of the company's equity. The accumulated impairment as at 30 June 2021 was Euros 8 million.

- **At 30 June 2020:**

In the six-month period ended 30 June 2020, in order to adapt the recoverable value of the stake in Naturgy Participaciones, S.A.U., impairment was recognised in the amount of Euros 37 million under "Impairment of, and losses on, equity instruments of group companies and associates" in the income statement. The accumulated amount of impairment at 30 June 2020 was Euros 49 million.

Additionally, the following impairments were recognised for equity instruments in group companies and associates:

- Euros 19 million relating to the impairment of the 50% interest in Unión Fenosa Gas, S.A. as a result of changes in the carrying amount of that company.

- Euros 1 million for the impairment of other holdings.

Impairment was also reversed on the following assets:

- Euros 5 million on the stake in General de Edificios y Solares, S.L. as a result of the favourable agreement reached in February 2020 in connection with the suit by Altamira Real Estate, S.A.

The accumulated impairment recognised for the stake in General de Edificios y Solares, S.L. amounted to Euros 13 million at 30 June 2020.

- Euros 2 million in impairment of the holding in Unión Fenosa Minería, S.A., recognised on the basis of equity.

The accumulated impairment recognised for the stake in Unión Fenosa Minería, S.A. amounted to Euros 242 million at 30 June 2020.

- Euros 1 million for the holding in Naturgy Finance B.V. and Euros 1 million for the holding in Naturgy LNG, S.L., recognised on the basis of equity.

The accumulated impairment recognised at 30 June 2020 for the stake in Naturgy Finance B.V. and Naturgy LNG, S.L. amounted to Euros 2 million and Euros 0 million, respectively.

Non-current loans to group companies at 30 June 2021 amounted to Euros 15,244 million maturing in 2023 (as at 31 December 2020: Euros 15,177 million maturing in 2022).

The variations in the loans and other current financial assets in the first half of 2021 and in 2020 are as follows:

	Loans to group companies	Other financial assets	Total
Balance at 01.01.2020	**527**	**139**	**666**
Additions	217	101	318
Divestments	(406)	(135)	(541)
Reclassifications and transfers	242	—	242
Balance at 30.06.2020	**580**	**105**	**685**
Additions	(37)	10	(27)
Divestments	(77)	—	(77)
Reclassifications and transfers	164	—	164
Exchange differences	(2)	—	(2)
Balance at 31.12.2020	**628**	**115**	**743**
Additions	401	153	554
Divestments	(184)	(110)	(294)
Reclassifications and transfers	(74)	—	(74)
Exchange differences	1	—	1
Balance at 30.06.2021	**772**	**158**	**930**

There are no significant differences between the carrying amounts and fair values of the Loans to group companies and other receivables.

The "Loans to Group companies" account includes loans to Group companies amounting to Euros 262 million (Euros 349 million as at 31 December 2020) and cash pooling balances with investee companies, as manager of Naturgy's centralised cash system, amounting to Euros 212 million (Euros 212 million as at 31 December 2020). This item also includes accrued outstanding interest in the amount of Euros 63 million (Euros 67 million as at 31 December 2020).

Loans to group companies and associates accrued interest at 30 June 2021 at a rate of 2.10% (2.20% in 2020) in the case of non-current loans and 1% (1% in 2020) in the case of current loans.

At 30 June 2021, outstanding dividends receivable amounted to Euros 153 million and were recognised under "Other current financial assets" (Euros 110 million at 31 December 2020).

Note 6. Investments

The detail of financial assets as at 30 June 2021 and 31 December 2020, by nature and category:

At 30 June 2021	Financial assets at amortised cost	At cost	Total
Equity instruments	—	4	4
Other financial assets	3	—	3
Non-current investments	**3**	**4**	**7**
Other financial assets	26	—	26
Current investments	**26**	**—**	**26**
Total	**29**	**4**	**33**

At 31 December 2020	Financial assets at amortised cost	Financial assets at fair value through profit and loss	At cost	Total
Equity instruments	—	—	5	5
Other financial assets	4	—	—	4
Non-current investments	**4**	**—**	**5**	**9**
Other financial assets	51	120	—	171
Current investments	**51**	**120**	**—**	**171**
Total	**55**	**120**	**5**	**180**

Financial assets recognised at fair value as at 30 June 2021 and 31 December 2020 are classified as follows:

	30.06.2021				31.12.2020			
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 or loss	—	—	—	—	120	—	—	120
Total	**—**	**—**	**—**	**—**	**120**	**—**	**—**	**120**

Financial assets at cost

All the financial assets at cost are unlisted holdings as at 30 June 2021 and 31 December 2020.

At 30 June 2021, this item includes the holdings in the companies Naturgy IT, S.L, Lean Customer Services, S.L, Lean Corporate Services, S.L and Lean Grids, S.L. following the sale of 60% described in Note 5, resulting in an ownership interest of 15%.

Financial assets at fair value through profit and loss

The trading portfolio as at 31 December 2020 includes the value of the deposits established as CO_2 emission rights in the amount of Euros 120 million.

Financial assets at amortised cost

The balance as at 30 June 2021 relates entirely to deposits and guarantees provided, and had decreased by Euros 26 million with respect to the previous year.

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

Note 7. Equity

The main items of Equity are as follows:

Share capital and share premium

The variations during the first half of 2021 and in 2020 in the number of shares and the share capital and share premium accounts as at 30 June 2021 were as follows:

	Number of shares	Share capital	Share premium	Total
At 1 January 2020	**984,122,146**	**984**	**3,808**	**4,792**
Capital reduction	(14,508,345)	(14)	—	(14)
At 31 December 2020	**969,613,801**	**970**	**3,808**	**4,778**
Variation	—	—	—	—
At 30 June 2021	**969,613,801**	**970**	**3,808**	**4,778**

All of the outstanding shares are fully paid up and have the same political and economic rights.

On 10 August 2020, capital was reduced through the cancellation of 14,508,345 treasury shares with a par value of 1 euro each, representing approximately 1.47% of the Company's share capital at the time of adoption of the relevant resolution (see paragraph on treasury shares in this Note). Following the capital reduction, share capital stood at Euros 970 million, made up 969,613,801 shares with a par value of Euro 1 each.

There were no changes in the number of shares or in the "Share capital" and "Share premium" accounts during the first half of 2021.

On 23 July 2021, Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona, “la Caixa”, through Criteria Caixa, S.A.U., gave notice that it had attained a 25.99% stake in Naturgy (24.8% at 31 December 2020).

Own shares

There were no changes in own shares of the Company in the first half of 2021. The changes in the previous year were as follows:

	Number of shares	In million euro	% Capital
At 1 January 2020	**5,183,890**	**121**	**0.5**
Share Acquisition Plan	470,000	8	—
Delivered to employees	(455,797)	(8)	—
2019 buyback programme	9,346,025	178	0.9
At 30 June 2020	**14,544,118**	**299**	**1.4**
Capital reduction	(14,508,345)	(298)	(1.4)
At 31 December 2020	**35,773**	**1**	**—**
Variation	—	—	—
At 30 June 2021	**35,773**	**1**	**—**

In 2021 and 2020, no gains or losses were made on transactions involving the Company’s own shares.

On 5 March 2019, the Shareholders' 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 consideration may not be less than the par value of the shares or exceed the shares' listed market price.

The minimum and maximum acquisition price will be the share price on the continuous market of the Spanish stock exchanges, plus or minus 5%.

The transactions with the Company's own shares are as follows:

2021

There were no changes in the balance of treasury shares at 30 June 2021 with respect to 31 December 2020.

2020

- Share ownership plan: Executing the resolutions adopted by the Shareholders' Meeting of the Company on 5 March 2019, as part of the Share Ownership Plan 2020-2023, the plan for 2020 for employees of Naturgy in Spain who voluntarily applied was implemented. The Plan enabled participants to receive part of their remuneration in the form of shares in the Company, subject to an annual limit of Euros 12,000. During the first half of 2020, 470,000 own shares were acquired for an amount of Euros 8 million for delivery to the participants in the Plan; 455,797 shares were delivered, leaving a surplus of 14,203 shares.

- 2019 buyback programme: the Board of Directors of Naturgy Energy Group, S.A. approved a share buy-back programme, which was published on 24 July 2019, entailing a maximum investment of Euros 400 million through 30 June 2020, representing approximately 2.1% of share capital at the date of disclosure, which was ratified by the shareholders at the Shareholders' Meeting on 26 May 2020. At 30 June 2020, a total of 14,508,345 own shares had been acquired under this programme at an average price of Euros 20.6 per share, representing a total cost of Euros 298 million, and they were used to reduce capital.

- Capital reduction: At a meeting on 21 July 2020, the Board of Directors of Naturgy Energy Group, S.A. resolved to implement the capital reduction resolution approved at the Shareholders' Meeting on 26 May 2020, whereby it approved a reduction in the share capital of Naturgy Energy Group, S.A. to a maximum of Euros 21,465,000, relating to:

  (a) the 465,000 treasury shares held by the Company at close of trading on 24 July 2019,

  (b the 21,000,000 additional shares with a par value of one euro each which were acquired and may continue to be acquired for redemption by the Company under the share buyback programme (the “Buyback Programme”) approved by the Company under Regulation (EU) No. 596/2014 on market abuse and disclosed as price-sensitive information on 24 July 2019 (registration number 280.517). The time limit for acquiring these shares was 30 June 2020, inclusive.

  In this respect, as Naturgy Energy Group, S.A. had acquired a total of 14,043,345 shares at 30 June 2020 under the buyback programme referred to in paragraph (b) above, the Board of Directors set the figure for the capital reduction at Euros 14 million (the "Capital Reduction") and agreed to implement this reduction. The Capital Reduction was carried out through the redemption of 14,508,345 treasury shares with a par value of Euros 1 each, representing approximately 1.47% of the Company's share capital at the time of adoption of the resolution in question. Following the Capital Reduction, share capital stood at Euros 970 million, made up 969,613,801 shares with a par value of Euros 1 each.

Dividends

Set out below is a breakdown of the dividend payments in the six-month periods ended 30 June 2021 and 2020:

	30.06.2021			30.06.2020		
	% of Nominal	**Euros per share**	**Amount**	**% sobre Nominal**	**Euros per share**	**Amount**
Ordinary shares	63 %	0.63	611	60 %	0.60	585
Other shares (without voting rights, redeemable, etc.)	—	—	—	—	—	—
Total dividens paid	**63 %**	**0.63**	**611**	**60 %**	**0.60**	**585**
a) Dividends charged to income statement or retained earnings	63 %	0.63	611	60 %	0.60	585
b) Dividends charged to reserves or share premium account	—	—	—	—	—	—
c) Dividends in kind	—	—	—	—	—	—

30 June 2021

On 2 February 2021, the Board of Directors approved the following proposal for the distribution of the Company's net profit for 2020 and retained earnings, for submission to the Shareholders' Meeting:

BASIS OF DISTRIBUTION

Profit...98
Retained earnings.. 3.076
Basis of distribution.. 3.174

DISTRIBUTION:

TO DIVIDEND: an amount whose gross aggregate amount will be equal to the sum of the following amounts (the "Dividend"):

i. Euros 785 million ("the Total Interim Dividend"), corresponding to the two interim dividends for 2020 paid by Naturgy Energy Group, S.A., which together are equivalent to Euros 0.810 per share, by the number of shares that were not direct treasury shares on the corresponding dates, as approved by the Board of Directors on the basis of the interim accounting statements that were drawn up in accordance with the legal requirements, which showed the existence of sufficient liquidity for the distribution of these interim dividends out of income for the 2020 financial year, and

ii. The amount obtained by multiplying Euros 0.63 per share by the number of shares not classified as direct treasury shares on the date on which the shareholders of record entitled to collect the dividend are determined (the "Final dividend").

The supplementary dividend proposal was made in coherence with the commitments of the previous Strategic Plan, as reaffirmed in presentations to the market in 2020. Nevertheless, by suspending the share buyback programme, the company evidenced prudence in the light of the uncertainties that arose in 2020.

Of that dividend, Euros 785 million had been paid on 29 July and 11 November 2020. The Final Dividend will be paid in the amount per share shown above via member firms of Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear). That dividend was paid to shareholders on 16 March 2021.

TO RETAINED EARNINGS: Determinable amount to be obtained by subtracting the amount allocated to Dividends from the Basis for Distribution.

TOTAL DISTRIBUTED 3,174

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 0.63 per share for each qualifying share outstanding at the proposed date of payment, 16 March 2021.

The Shareholders' Meeting held on 9 March 2021 approved the final dividend of Euros 0.63 per share for all shares not classified as direct treasury stock on the date of distribution; this dividend was paid in full in cash on 17 March 2021.

Following payment of the final dividend, the amount allocated to Retained earnings was Euros 1,778 million.

On 27 July 2021, the Company's Board of Directors declared an interim dividend of Euros 0.30 per share out of 2021 results, for shares not classified as direct treasury shares on the date on which the dividend was paid, payable as from 29 July 2021.

On the date the interim dividend was declared, the Company had the necessary liquidity to make the payment, as required by the Spanish Capital Companies Act. The provisional liquidity statement as of 30 June 2021 drawn up by the directors on 27 July 2021 is as follows:

Profit after tax		468
Reserves to be replenished		—
Maximum amount distributable		468
Forecast maximum interim dividend payment (1)		291
Cash resources	2,341	
Undrawn credit facilities	5,460	
Total liquidity		7,801

(1) Amount considering total shares issued

30 June 2020

At a meeting on 4 February 2020, the Board of Directors of Naturgy Energy Group, S.A. approved the proposed distribution of income set out in Note 11 to the annual accounts for the year ended 31 December 2019. Following the declaration of a state of alarm and in order to safeguard the safety and health of all shareholders, employees and contractors, the company decided to postpone the Shareholders' Meeting scheduled for 17 March 2020.

To prevent that postponement from having a negative impact on shareholders, particularly the 70,000 minority shareholders, at a meeting on 16 March 2020 the Board of Directors of Naturgy Energy Group, S.A. declared a third interim dividend out of 2019 income in the amount of Euros 0.593 per share for all shares not classified as direct treasury shares on the date of distribution, payable on 25 March 2020.

Subsequently, the Shareholders' Meeting on 26 May 2020 approved the final dividend of Euros 0.010 per share for all shares not classified as direct treasury shares on the date of distribution; this dividend was paid in full in cash on 3 June 2020.

Note 8. Financial liabilities

Set out below is a breakdown of financial liabilities, excluding "Trade and other payables", as at 30 June 2021 and 31 December 2020, by nature and category:

At 30.06.2021	Amortised cost	Hedging derivatives	Total
Borrowings from financial institutions	2,446	—	2,446
Derivatives	—	83	83
Other financial liabilities	1	—	1
Non-current borrowings	**2,447**	**83**	**2,530**
Borrowings from financial institutions	381	—	381
Derivatives (Note 14)	—	22	22
Current borrowings	**381**	**22**	**403**
Total	**2,828**	**105**	**2,933**

At 31.12.2020	Amortised cost	Hedging derivatives	Total
Borrowings from financial institutions	2,720	—	2,720
Derivatives	—	108	108
Other financial liabilities	1	—	1
Non-current borrowings	**2,721**	**108**	**2,829**
Borrowings from financial institutions	257	—	257
Derivatives	—	21	21
Other financial liabilities	121	—	121
Current borrowings	**378**	**21**	**399**
Total	**3,099**	**129**	**3,228**

Financial liabilities recognised at fair value as at 30 June 2021 and 31 December 2020 are classified as follows:

	At 30.06.2021				At 31.12.2020			
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**
Headging derivatives	—	105	—	105	—	129	—	129
Total	**—**	**105**	**—**	**105**	**—**	**129**	**—**	**129**

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

	Carrying amount		Fair value	
	At 30.06.2021	**At 31.12.2020**	**At 30.06.2021**	**At 31.12.2020**
Bank borrowings, derivatives and other financial liabilities	2,530	2,829	2,538	2,831

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 30 June 2021 and 31 December 2020 on borrowings with similar credit and maturity characteristics. These valuations are based on the quoted price of similar financial instruments in an official market or on observable information in an official market (Level 2).

The movement in other financial liabilities is as follows:

	Bank borrowings	Derivatives	Other financial liabilities	Total
At 01.01.2020	**1,997**	**106**	**3**	**2,106**
Increase	1,227	23	—	1,250
Decrease	(166)	—	(2)	(168)
At 30.06.2020	**3,058**	**129**	**1**	**3,188**
Increase	—	1	121	122
Decrease	(81)	(1)	—	(82)
At 31.12.2020	**2,977**	**129**	**122**	**3,228**
Increase	—	1	—	1
Decrease	(150)	(25)	(121)	(296)
At 30.06.2021	**2,827**	**105**	**1**	**2,933**

Bank borrowings

The main variations in interest-bearing debt in the first half of 2021 are due basically to a Euros 150 million reduction in bank debt (Euros 980 million in 2020).

Borrowings bore an average effective interest rate in the first half of 2021 of 2.41% (1.03% in 2020) including the derivatives assigned to each transaction.

At 30 June 2021, the balance of bank debt includes Euros 8 million of outstanding interest (Euros 9 million at 31 December 2020).

In addition, the syndicated credit facility has been refinanced, increasing the limit from Euros 1,750 million to Euros 2,000 million, with a 3-year maturity (and an option to extend to 2026) at Euribor +0.30%, the price being adjusted for ESG metrics. Additionally, the revolving credit line was renegotiated, reducing the limit from Euros 200 million to Euros 93 million.

Institutional funding

The Company has a loan from the Official Credit Institute (ICO) in the form of instruments maturing in 2029 at the latest, for a total amount of Euros 170 million (Euros 180 million in 2020).

Additionally, the European Investment Bank (EIB) has granted financing to Naturgy in the amount of Euros 1,429 million which was fully drawn as at 30 June 2021 and matures between 2021 and 2038 (Euros 1,564 million drawn as at 31 December 2020). That loan may be accelerated in the event of a change of control plus a rating downgrade, with special repayment terms that are longer than those relating to early termination events. In addition, Euros 1,250 million (Euros 1,359 million at 31 December 2020) is subject to compliance with certain financial ratios.

Note 9. Payable to group companies and associates

Debt to group companies relates mainly to issues by Naturgy Capital Markets, S.A. and Naturgy Finance, B.V. under the European Medium Term Notes (EMTN) programme. It also includes the debt to Naturgy Finance B.V. for perpetual bonds amounting to Euros 1,500 million (Euros 1,500 million in 2020) and the debt to Unión Fenosa Preferentes, S.A. relating to preference shares in the amount of Euros 110 million (Euros 110 million in 2020).

It also includes accrued unmatured interest in the amount of Euros 110 million (Euros 145 million in 2020) and cash pooling balances with group companies amounting to Euros 1,381 million (Euros 1,268 million in 2020).

The detail of Debt to group companies due to bond issues by Naturgy Finance, B.V. and Naturgy Capital Markets, S.A. is as follows:

At 30 June 2021							
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							
Gas Natural Capital Markets, S.A. and Naturgy Finance, B.V.	Netherlands /Spain	1999	Euro	8,665	8,665	—	—

At 31 December 2020							
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	900
European Medium Term Notes (EMTN) programme							
Gas Natural Capital Markets, S.A. and Naturgy Finance, B.V.	Netherlands /Spain	1999	Euro	12,000	8,941	3,059	1,150

As is customary in the euromarket, the outstanding bonds, in the amount of Euros 8,665 million (Euros 8,941 million at 31 December 2020), could be accelerated if such a change in control triggered a downgrade of more than two full notches in at least two of the company's three ratings, and all the ratings fell below investment grade, provided that the rating agency stated that the rating downgrade resulted from the change of control.

The main changes in the first half of 2021 and 2020 are as follows:

At 30 June 2021

No issues were made under the European Medium Term Notes (EMTN) or Euro Commercial Paper (ECP) programmes in the first half of 2021. There were no issues outstanding under the ECP programme as at 30 June 2021.

Additionally, bonds amounting to Euros 276 million with an average coupon of 3.5% matured.

At 30 June 2020

Issues under that programme in the first six months of 2020 were as follows:

Issuance	**Nominal value**	**Maturity**	**Coupon (%)**
April 2020	1,000	2026	1.250
May 2020(*)	150	2029	0.750

(*) November 2019 tap

Two bonds for a total amount of Euros 934 million with an average coupon of 5.07% matured.

Issues amounting to Euros 900 million were made in the first half of 2020 under the Euro Commercial Paper (ECP) programme. As at 30 June 2020, there were no outstanding issues under the ECP programme.

Note 10. Net sales

The breakdown of the Company's revenues from ordinary activities in the six-month periods ended 30 June 2021 and 30 June 2020 is as follows:

	At 30.06.2021	At 30.06.2020
Domestic market	719	871
Export market:	390	258
- European Union	390	257
- Other countries	—	1
Total	**1,109**	**1,129**

Gas sales are made basically in the domestic market and involve the sale of gas to other Naturgy companies.

The dividends paid by Group companies are as follows:

	At 30.06.2021	At 30.06.2020
Sagane, S.A.	124	75
Holding Negocios Gas, S.A.	115	222
Naturgy Iberia, S.A.	100	100
Naturgy Inversiones Internacionales, S.A.	70	25
Global Power Generation, S.A.U.	37	—
Holding Negocios Electricidad, S.A.	29	73
Naturgy Finance, B.V.	4	—
Naturgy Capital Markets, S.A.	1	3
Naturgy Distribución Latinoamérica S.A.	—	141
Other	1	—
Total	**481**	**639**

Note 11. Workforce

The average number of Company employees is as follows:

	At 30.06.2021	At 30.06.2020
Men	189	277
Women	200	325
Total	**389**	**602**

In May 2021, the workers' union representatives and the representatives of Company management adopted a Voluntary Redundancy Plan for the Naturgy Group to be implemented before 31 December 2021. The evolution of the average number of people reflects the impacts associated with the Voluntary Redundancy Plan, corresponding to the total number of agreements confirmed between the parties through 30 June 2021 that result in the commitment becoming irrevocable. The other voluntary redundancies up to completion of the Plan are expected to materialise before year-end.

Note 12. Information on transactions with related parties

The following are related parties for the purposes of this note:

– Significant shareholders of the Company, i.e. those directly or indirectly owning an interest of 5% or more, and those who, though not significant, have exercised the power to nominate 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"), Global Infrastructure Partners III (GIP) and related companies, and CVC Capital Partners SICAV-FIS, S.A. (through Rioja Acquisitions, S.à.r.l.).

- Directors and executives of the Company and their immediate families. The term "director" means a member of the Board of Directors; "executive" means the Executive Chairman's direct reports and the Internal Audit Director. Transactions with directors and executives are disclosed in Note 13.

- Transactions between Group companies form part of ordinary activities and are effected on an arm's-length basis. Group company balances include the amount that reflects the company's share of the balances and transactions with companies recognised by the equity method.

The aggregated amounts of operations with significant shareholders are as follows:

	At 30.06.2021			At 30.06.2020		
Income and expense (in thousand Euros)	**"la Caixa" group**	**CVC group**	**GIP group**	**"la Caixa" group**	**CVC group**	**GIP group**
Receipt of services	—	—	—	1	—	—
Total expenses	**—**	**—**	**—**	**1**	**—**	**—**
Total income	**—**	**—**	**—**	**—**	**—**	**—**

Other transactions (in thousand Euros)	**"la Caixa" group**	**CVC group**	**GIP group**	**"la Caixa" group**	**CVC group**	**GIP group**
Dividends and other profits distributed	151,425	126,541	126,087	144,936	121,118	120,683

Note 13. Information on members of the Board of Directors and the Management Committee

Remuneration for members of the Board of Directors and the Management Committee

Remuneration earned by the members of the Board of Directors of Naturgy Energy Group, S.A. by virtue of their membership of the Board and Board committees totalled Euros 1,977 thousand as at 30 June 2021 (Euros 1,978 thousand as at 30 June 2020).

The Board of Directors comprises 12 members, the Audit and Control Committee has seven members, the Appointments, Remuneration and Corporate Governance Committee has seven members, and the Sustainability Committee has five members.

For the sole purposes of the information contained in this section, the Management Committee is considered to consist of the Executive Chairman, in respect of his executive functions, the executives who report directly to the Executive Chairman, and the Internal Audit Manager.

The amounts earned by the Management Committee under the headings of fixed remuneration, annual variable remuneration, multi-year variable remuneration and other items totalled Euros 4,482 thousand as at 30 June 2021 (Euros 5,831 thousand as at 30 June 2020).

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled Euros 688 thousand at 30 June 2021 (Euros 874 thousand at 30 June 2020).

At 30 June 2020, this group consisted of 9 people, not counting the Executive Chairman or the Internal Audit Manager (14 people at 30 June 2020, and 9 at 31 December 2020).

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

The members of the Board of Directors and Management Committee did not carry out any transactions outside the ordinary course of business or other than on arm's-length terms with Naturgy Energy Group, S.A. or with group companies.

Note 14. Contingent liabilities for litigation and arbitration

In relation to the information in the section on Contingent liabilities for litigation and arbitration in Note 27 "Contingent liabilities and commitments" in the annual accounts for the year ended 31 December 2020, the following changes took place in the litigation and arbitration risks situation in the first half of 2021:

Qatar Gas arbitration

Following resolution of the price arbitration for gas supplies for the period 2015-2017, Naturgy initiated a new price arbitration for the period 2018-2020. Naturgy applied for a price reduction and the supplier requested an increase.

Unión Fenosa Gas

As described in Note 5, in March 2021, Naturgy, ENI and the Arab Republic of Egypt completed the agreement reached on 1 December 2020 to amicably resolve the disputes affecting Unión Fenosa Gas (UFG). As a result, UFG received a number of cash payments and the majority of assets outside Egypt, excluding UFG's commercial activities in Spain. This also entailed the end of the gas supply contract for approximately 3.5 bcm per year to supply combined cycle plants in Spain, which was due to end in 2029 while maintaining its contract with Oman that expires in 2025. As a result of the agreement, Naturgy acquired an additional 50% stake in UFG, with the result that it now owns 100%, having gained control and fully consolidated that company. Additionally, impairment recognised on this holding, corresponding to the valuation of the pre-existing 50% stake in Unión Fenosa Gas, S.A., was reversed.

At 30 June 2021, the balance sheet includes provisions for litigation based on the best estimates, made using the information available at the date of preparation of these condensed interim accounts, on their progress and ongoing negotiations, which cover the estimated risks. The Company therefore considers that no significant liabilities will be derived from the risks described in this Note.

Note 15. Events after 30 June 2021

Dividends

On July 27, 2021, the Naturgy Board of Directors has agreed to distribute an interim dividend charged to results for the year 2021 as described in Note 7 of these condensed interim financial statements.

New Strategic Plan 2021-2025

On 27 July 2021, the Board of Directors of Naturgy approved a new Strategic Plan 2021-2025 that will be communicated to the market on 28 July 2021, after the presentation of earnings for the first half of the year.

Over the past three years, Naturgy has established new foundations and made significant progress in terms of simplicity and accountability, optimisation and efficiency, as well as capital discipline and business risk reduction. As a result, Naturgy is today better prepared than ever to embark on the next stage of its transformation, which will focus on industrial growth aligned with the energy transition and best-in-class operations, while placing environmental, social and governance criteria at the heart of Naturgy's vision.

The improved economic outlook and the gradual decline in COVID-19 provide the visibility needed to update the company's strategic roadmap and key priorities going forward, the highlights of which will be presented to the market.

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Naturgy

Naturgy Energy Group, S.A.

Condensed interim directors' report as at 30 June 2021

Directors' report for the six-month period ended 30 June 2021

Note 1. Business performance

Naturgy Energy Group, S.A. is a holding company whose main ordinary activity is the administration and management of holdings in subsidiaries. As a result, its earnings arise fundamentally from dividends and revenues from finance provided to companies in the Naturgy group. It also has contracts to supply gas to other Naturgy companies.

Note 2. Significant events in the first half of 2021

2.1. Key figures from the income statement

Performance in the first half of 2021 and 2020 is basically attributable to revenues accrued on equity instruments of group companies.

Revenues in the six-month period ended 30 June 2021 amounted to Euros 1,109 million, of which Euros 460 million were from the sale of gas, Euros 481 million were dividends collected from group companies and associates, and Euros 168 were from finance provided to Naturgy group companies (Euros 1,129 million as at 30 June 2020, of which Euros 313 million were from the sale of gas and electricity, Euros 639 million were dividends collected from group companies and associates, and Euros 177 million were from finance provided to Naturgy group companies).

The Euros 20 million reduction in revenues (reduction of Euros 1,105 million in 2020) is the net outcome of:

- Increase of Euros 147 million in sales, basically due to natural gas destined for the European market through other group companies (decrease of Euros 797 million as at 30 June 2020, basically due to the transfer of the proxy market and the assignment of certain gas contracts to other group companies).

- Reduction of Euros 158 million in dividends collected from subsidiaries in the first half, mainly from Sagane, S.A., Holding Negocios de Gas, S.A., Naturgy Iberia, S.A., Naturgy Inversiones Internacionales, S.A., Global Power Generation, S.A.U. and Holding Negocios de Electricidad, S.A. (a reduction of Euros 279 million in dividends from subsidiaries in the first half of 2020, mainly from Sagane, S.A., Naturgy Distribución Latinoamerica, S.A., UFD Distribución Electricidad, S.A., Naturgy Inversiones Internacionales, S.A. and Global Power Generation, S.A.U.).

- A reduction of Euros 9 million in financial revenues on funding to subsidiaries (reduction of Euros 29 million as at 30 June 2020).

Procurements amounted to Euros 461 million in the period (Euros 312 million as at 30 June 2020), basically for the purchase of gas, i.e. a Euros 149 million increase, in line with sales performance.

Other operating revenues amounted to Euros 35 million, net personnel expenses to Euros 60 million, operating expenses to Euros 54 million, depreciation and amortisation to Euros 6 million, and reversal of an impairment of holdings in group companies and associates to Euros 75 million, with the result that EBIT in the period amounted to Euros 638 million, a Euros 44 million reduction with respect to same period of the previous year.

As at 30 June 2020, other operating revenues amounted to Euros 87 million, net personnel expenses to Euros 78 million, operating expenses to Euros 88 million, depreciation and amortisation to Euros 8 million, and impairment of holdings in group companies and associates to Euros 48 million, with the result that EBIT in the period amounted to Euros 682 million.

Financial income was negative in the amount of Euros 166 million (Euros 166 million in the same period of 2020).

Income before taxes amounted to Euros 472 million and income tax to Euros 4 million, with the result that net profit for the period was Euros 468 million, compared with Euros 535 million in the same period of the previous year.

Note 3. Main risks and uncertainties

In the first half of 2021, Naturgy applied the same risk management policy as described in the annual accounts for the year ended 31 December 2020.

As detailed in Section 2 of the directors' report for the year ended 31 December 2020, Naturgy's activities are exposed to a number of risks:

1. Business risk: uncertainty in the macroeconomic context and geopolitical exposure
2. Market risk: gas and electricity price volatility, gas and electricity volume risk, competitive pressure in gas and electricity markets
3. Regulatory risk: regulatory and legal risk, risks related to concessions, licences and other administrative authorisations
4. Operational risk
5. Environmental risk
6. Climate change and energy transition risk
7. Reputational risk
8. Cybersecurity risk

Financial risks (interest rate, exchange rate, commodity prices, credit risk and liquidity risk) are discussed in detail in Note 14 of the annual accounts for 2020. The main aspects of financial risks are updated in Note 4 to the interim accounts.

From a macroeconomic point of view, the first half of 2021 was marked by a gradual improvement in economic expectations, mainly as a result of the ongoing vaccination against COVID-19 worldwide. However, vaccination is progressing at different paces in different geographies, consequently generating different expectations for recovery in each region.

This economic improvement has an impact on energy demand, which has shown signs of recovery in the regions where the group operates; however, the trading situation remains challenging, and the evolution of the pandemic continues to weigh generally on the macroeconomic situation, and particularly on the performance of the Latin American currencies in which the group operates.

The improvement in economic sentiment is also accompanied by rising inflation expectations, especially in the United States, and a gradual recovery in commodity prices around the world.

On 1 June 2021, based on a proposal by the Ministry for Ecological Transition and the Demographic Challenge, the Spanish Cabinet initiated the processing of a draft bill to correct the remuneration received by non-CO2-emitting power plants (hydro and nuclear) commissioned before 2005. At the date of authorising these consolidated interim accounts, the period for comments on the draft bill has concluded and the CNMC has issued a favourable report, although it notes some aspects of the proposal that it considers need improvement (Note 3.4 to the interim accounts).

Additionally, the parliamentary processing of the Bill for the creation of the National Fund for the Sustainability of the Electricity System (FNSSE) commenced on 11 June; the Bill differs somewhat from the version analysed by the Council of State, and a period for amendments was opened that ran until 29 June.

Note 4. Events after 30 June 2021

The significant events that occurred after 30 June 2021 are described in Note 15 to the condensed interim accounts as at 30 June 2021.

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