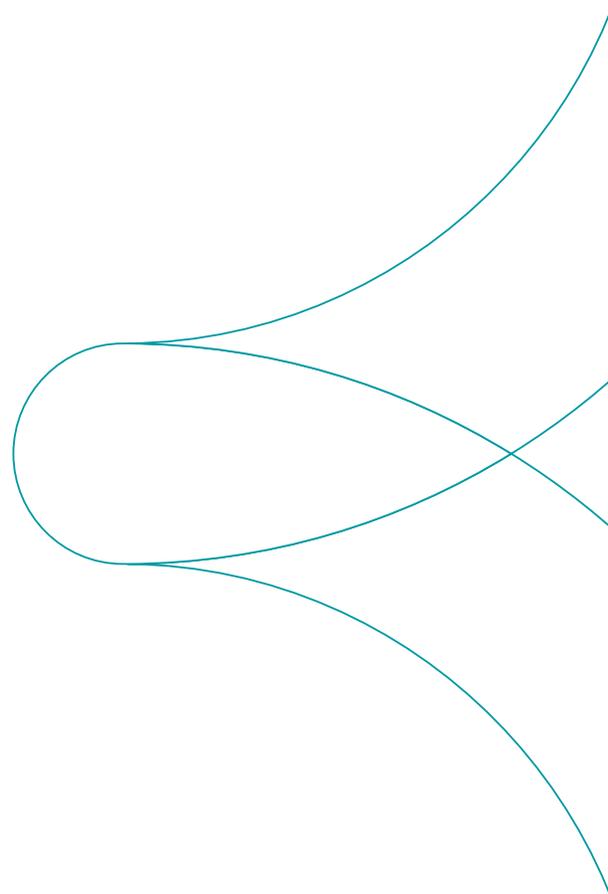


Annual Report
2015





Welcome to Redexis Gas 2015 Annual Report

This report reviews the activity of Redexis Gas and its results, providing information about the Company's management and business during 2015, treating in a unified manner the financial, social, environmental and Corporate Governance aspects that underpin its strategy.

The report is intended to provide to the stakeholders a true image of its activity and performance, communicating in a clear, concise, transparent, dynamic and very visual manner, within the context of its external environment, how its strategy, governance, results and perspectives lead to the creation of value in the short, medium and long term.

Redexis Gas has been publishing this report on an annual basis since the year 2013, including information about the issues considered material.

Additionally, again this year, the Report commits to support the ten principles of the United Nations Global Compact, in line with the new Sustainable Development Goals (SDG) 2015-2030, approved by the UN in September 2015.





You will like the future

Learn more about the activity
of Redexis Gas



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Redexis
gas

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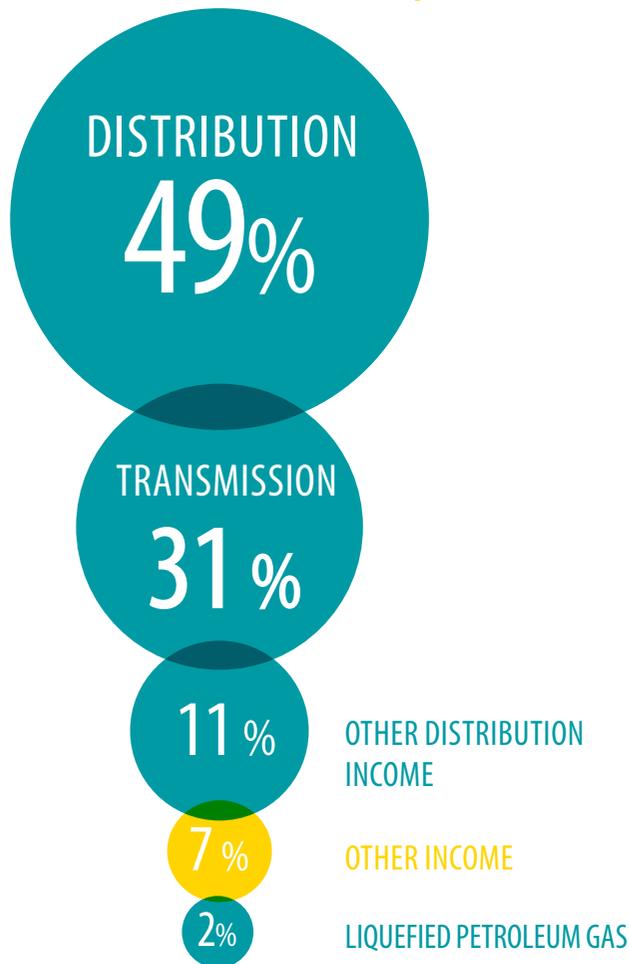
The
Company
at a
glance

Redexis gas 

Key figures

Redexis Gas is one of the leading companies in the development and operation of natural gas and LPG transmission and distribution infrastructures in Spain.

SPLIT OF REVENUES IN 2015



Regulated Income

Non-regulated Income



More than **280** employees

+ **2,800** indirect jobs

People



8,588 km of its own gas transmission and distribution networks

Where we are

Provides service to over **6.6** million people, industries and businesses



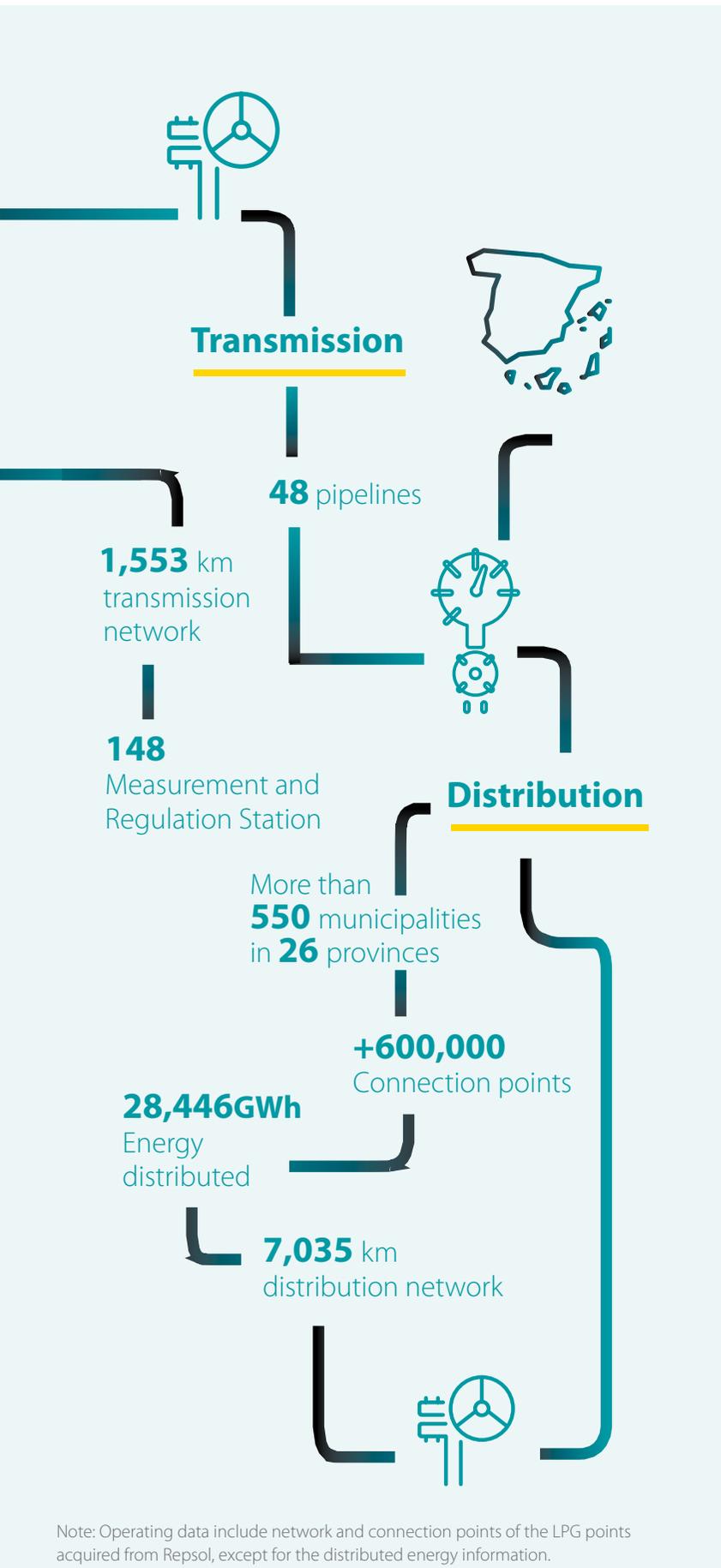
Financial

Capex **386.6** M€

Revenue **187.8** M€

EBITDA **136.0** M€

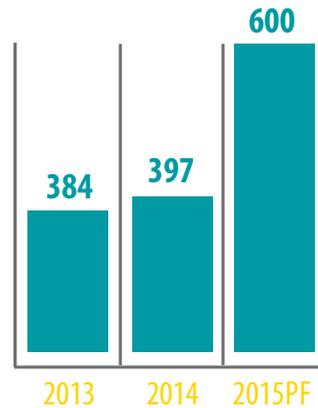
Redexis Gas has a solid and continued plan to expand and roll-out natural gas and LPG transmission and distribution networks for the purpose of constantly creating value in the communities in which it operates.



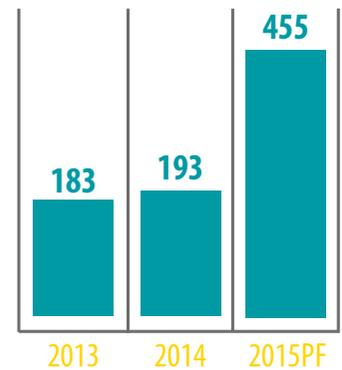
Note: Operating data include network and connection points of the LPG points acquired from Repsol, except for the distributed energy information.

Operating

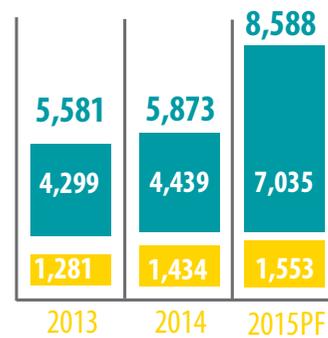
CONNECTION POINTS (THOUSAND)



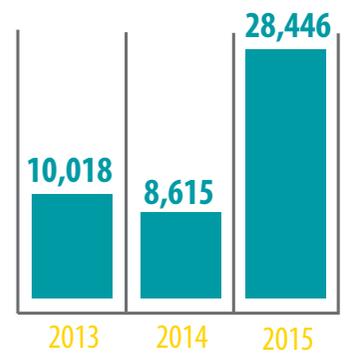
MUNICIPALITIES SERVED



NETWORK LENGTH (KM)



ENERGY DISTRIBUTED (GWH)

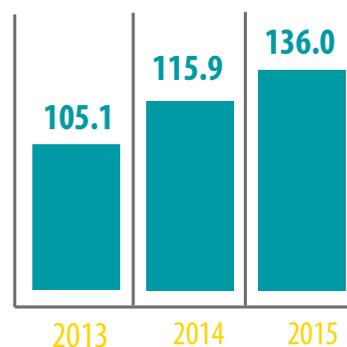


■ Distribution network length
 ■ Transmission network length

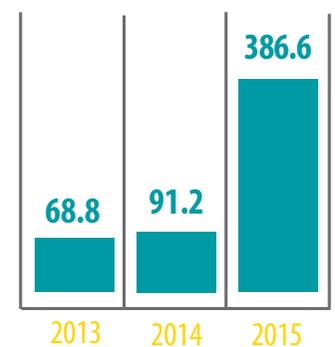
Note: PF means Pro forma and includes the LPG points acquired from Repsol, except for the distributed energy data.

Financial

EBITDA (€M)



CAPEX (€m)



Letter from the Executive Chairman



The performance of Redexis Gas throughout the Group's five years of existence has been an example of how the professionalism and effort of a great team of persons are necessary and decisive to attain great achievements and continue proposing ambitious goals for the future. During these years of economic crisis, we have exceeded the expectations and commitments of our stakeholders, and the results have reflected our business' sound development. During this period we have invested over EUR 800 million, with which we have increased our connection points in 47.6% and our gas transmission and distribution network in 77.0%, with a 66.4% increase in revenues since 2010, reaching EUR 188 million and doubling the EBITDA up to EUR 136 million in 2015.

Thanks to such an investing effort, we have become the operator with the greatest potential within the Spanish energy sector, with a sustainable and solid growth strategy. Redexis Gas is in a unique position to make the supply of natural gas to the whole Spanish territory a reality, contribute value to the industry and form part of the future of natural gas in Spain.

During the year 2015, we have undertaken investments for over EUR 500 million, using EUR 125 million for the construction of our distribution and transmission networks, and the rest to increase the perimeter of ancillary assets for our networks.

Increasing our presence in the municipalities we already operate, as well as expanding our activities to new regions and municipalities within the Spanish territory, have become an important element of our growth strategy, based on well-done work. Organically, the Company has grown five times faster than the industry as regards connection points, and more than twice and a half with regard to the number of new municipalities served. During the year 2015, the Company has carried out important projects; it has rolled out 67 kilometres of transmission network

in the Balearic Islands; it has commissioned distribution networks in six Autonomous Communities and it has accelerated its growth plan with two successful transactions, achieving a greater scope of operation.

During the first semester of 2015, Redexis Gas successfully concluded the acquisition of Redexis Gas Murcia and other additional natural gas distribution assets from Naturgas Energía Distribución, fully integrating the same in its business. With such acquisition, the Company has added to its portfolio 114,000 connection points, 35 new municipalities and nearly 2,000 kilometres of distribution network, adjacent to the ones it already operated. Thanks to the same, Redexis Gas has entered into new regions and expanded its presence in several of those in which it already operated. This new step offers the Company the opportunity to invest in the southeastern region of Spain, which has a low rate of natural gas penetration.

Likewise, in the second semester of 2015, the Company purchased 72,000 liquefied petroleum gas points from Repsol, thereby adding 287 more kilometres to its distribution network. The integration of such points, which will conclude in the first semester of 2016, entails a great opportunity to enter into 212 new municipalities.

With more than 600,000 connection points, the Company provides service to over six and half million people, industries and businesses in more than 550 municipalities of 26 provinces, through more than 8,500 kilometres of its own gas transmission and distribution networks.

All of this evidences Redexis Gas' growth strategy, incentivised by the improvement of the country's economic situation and the achievement of regulatory stability, improving its competitiveness and increasing its client portfolio.

The new regulatory framework promotes the development of natural gas

transmission and distribution networks, a source of social and economic wellbeing that allows progress in life quality levels within a sustainable framework. Such regulatory stability is the basis for operators to plan investments with a wide horizon and in an efficient manner.

After Act 18/2014 came into force, the Gas system started a path of economic sustainability in the long term, supported by the containment of the gas system's costs, and an accelerated recovery of the historic deficit based on the sustained growth of the household and industrial sectors, as a result of the economic recovery.

In the year 2015, the regulation introduced new measures aimed at sustainable growth and continued advance towards the national integration in the Single Market. Particularly noteworthy is the approval of Royal Decree 984/2015 of 30 October, which, among other measures, approved the remuneration model for primary transmission gas pipelines with a local influence.

In view of this new regulatory framework, Redexis Gas will continue incentivising the continued roll-out of its natural gas supply networks to new regions, maintaining the sector's financial stability.

On the other hand, the Company's involvement with its team is decisive to continue attaining our goals. The creation of stable employment and quality is of vital importance for Redexis Gas. In five years, we have increased our in-house team in 50% and we have been able to create over 2,800 indirect jobs. During this year, we have concluded our 1st Collective Bargaining Agreement and standardised the working conditions for our personnel. The Collective Bargaining Agreement covers important aspects such as the establishment of a single legal framework for employees and implements a salary increase system subject to variable increases linked to the operating profit.

The Company has the financial soundness required to continue developing its network and providing its services, improving at the same time the value for its shareholders, who received in 2015, EUR 40 million in dividends, according to the growth of our profits.

The support and commitment of our investors was again reflected in 2015 through the contribution of EUR 100 million by the

“Redexis Gas is in a unique position to make the supply of natural gas to the whole Spanish territory a reality, contribute value to the industry and form part of the future of natural gas in Spain.”

shareholders to acquire Redexis Gas Murcia, as well as the ones of financial markets, who showed their confidence again by subscribing an issuance of notes launched by Redexis Gas for EUR 250 million and a 12 year maturity. Rating agencies maintained the Investment Grade of Redexis Gas' debt.

Likewise, at the end of the year, we received the support of the European Investment Bank, which granted us a loan for an amount of EUR 160 million and a 20 year maturity, based on the European Fund for Strategic Investments “Juncker Plan”, for the development of new distribution networks in new municipalities, as well as for the construction of new gas transmission pipelines to structure Spain's energetic future.

Regarding the contribution to society and environmental care, at Redexis Gas we feel responsible for contributing value to the regions where we operate. We remain strongly committed to promoting responsible use of energy and supporting initiatives that promote research and knowledge regarding environmental care and respect. This year, we have become a member of the Board of Trustees of the Foundation for the Development of New Hydrogen Technologies in Aragon, devoted to energy research actions committed to innovation and development in the long term.

For the purpose of setting out the commitments assumed in environmental

matters, the Company has subscribed a Comprehensive Policy establishing the basic principles that make up the foundation in matters of environmental protection and occupational health and safety.

Additionally, it is fundamental for us to contribute to the wellbeing of the communities in which we are present through local initiatives promoting values such as improvement, commitment and teamwork. To such effect, Redexis Gas participated in 2015 in several popular runs and sponsored many cultural initiatives.

We do all of the above within a framework of commitment to integrity and transparency, as evidenced by the renewal of our adherence to the United Nations Global Compact, under which we undertake to support, through our activities, such international project for the defence of Human Rights, the protection of the environment and social development, in line with the 2015-2030 Sustainable Development Goals approved by the UN in September 2015.

In sum, the advances achieved during these last five years, and particularly in 2015, have allowed us to consolidate our competitiveness, improve our financial soundness and attain our strategic goals. The commitment to growth has given its fruits, thanks to the excellent work performed by the professionals in the Company, who explain why Redexis Gas is now a benchmark in the sector, more competitive, more solid, focused on the creation of value for its shareholders, whom I want to thank again for their confidence.

I am convinced that Redexis Gas is perfectly capable of, and prepared to successfully face new growth opportunities offered by the Spanish gas sector in the future, for the purpose of bringing this clean source of energy closer to millions of citizens. Redexis Gas will no doubt be a key operator in the future development of the sector.



Fernando Bergasa
Executive Chairman

Letter from the Director General Manager

2015 has been a key year for the Company's growth, where the professionalism and effort of a great team have been decisive in the roll-out and maintenance of our gas infrastructures and the growth of the connection points base. At the closing of 2015 our turnover was EUR 188 million, 18.7% higher than the previous year, and our gross operating profit was EUR 136 million, 17.3% higher than the previous year.

During the year 2015, Redexis Gas has continued with its growth strategy, exceeding by far the growth in the industry. In the year 2015, the Company has grown organically five times faster than the sector with regard to connection points, and more than twice and a half with regard to new municipalities served. In aggregate, during this year, 142,000 supply points have been added, out of which 124,000 resulted from the acquisition of assets that increase our perimeter, and 17,000 from pure organic growth of Redexis Gas, representing a 38% increase in net new activations compared to the already successful year 2014.

I am especially satisfied with the capacity of the Redexis Gas team to acquire and integrate new networks and businesses. To this effect, the team has fully integrated nearly 2,000 kilometres of networks, and 114,000 connection points originating from the purchase of Redexis Gas Murcia and other additional distribution assets from Naturgas Energía Distribución, in less than 6 months, and 72,000 new LPG points from Repsol, the integration of which will conclude during 2016.

"We will be able to continue showing the dynamism that has characterised us until now and, above all, maintain the same innovative and self-critical spirit that is key to take advantage of the strengths of our business model."

As of today, our networks already exceed 8,500 kilometres, through which access to natural gas is provided to over 600,000 connection points, distributed in ten autonomous communities in the Spanish territory.

All of this has entailed a significant investing effort of over EUR 500 million committed during the year 2015, out of which EUR 386 million were invested that same year, and the remaining ones will come in as the transfer of the assets acquired from Repsol concludes.

Going into the detail of the distribution activity, we have invested EUR 72 million, increasing our network in 58.5% with regard to 2014, until reaching 7,035 kilometres, and service has been taken to 16 new municipalities in the autonomous communities of Aragon, Andalusia, Balearic Islands, Castile Leon, Community of Valencia and Murcia.

In the transmission activity we have invested EUR 47 million, reaching 1,553

kilometres of network. During this year, we have increased our network with 119 kilometres originating from different projects. We have finished the construction of the gas pipeline "Son Reus-Inca-Alcudia" located in the Balearic Islands, with the gas commissioning of 46 kilometres in June 2015 and which has entailed an investment of EUR 20 million. Such gas pipeline provides natural gas supply to over 135,000 inhabitants and businesses and is going to promote the development of new industrial projects, as well as the generation of savings between 30% and 50% in the energy bill for the area's tourism industry.

This year, we obtained the execution authorisation to commence the construction of the "Cas Tresorer-Manacor-Felanitx" gas pipeline, with an investment of approximately EUR 22 million on a length of 59 kilometres, whose first 8 kilometres were completed in November 2015, and which was finalised in April 2016, and allows giving access to more than 70,000 inhabitants.

Additionally, 65 kilometres of the "Moratalla-Mula" gas pipeline were added to our transmission network, which were acquired through the purchase of Redexis Gas Murcia at the end of January 2015.

At present, Redexis Gas is at the final stage of processing the authorisation for three new gas pipelines that will add 80 kilometres to its networks in the near future, providing access to natural gas to different regions in the Spanish territory.

We have achieved all this thanks to the innovating effort, which has permitted

obtaining significant efficiencies in our operating model, rolling-out more kilometres of network and reaching more households. Thanks to technological innovation and the practice developed, such as more optimised designs, changes in tender processes, greater supervision of works, and agreements with city councils, we have been more efficient in the roll-out of the network, with savings of almost 40%.

Likewise, we have implemented new proprietary information systems that increase our planning, growth capacity and efficiency, keeping safety always in mind as one of our pillars of growth. For such reason, a Backup Control Centre has been implemented in 2015, equipped with systems and redundant communications for the main purpose of maintaining service at all times, as well as a CRM System that is unique in the distribution sector in Spain.

Regarding our contribution to environmental care, in 2015, Redexis Gas has carried out an integration process in which, through different procedures, operating rules and formats developed, it has involved the whole Company in its commitment to safety, health and environmental care in the performance of its activities. As a result of such integrating process, a Comprehensive Policy has been approved, and such comprehensive management system has been certified under ISO Standard 14.001:2.004 and OHSAS Standard 18.001:2007 for the different companies that form the Redexis Gas Group.

And all of it has been achieved thanks to our team of professionals, highly qualified

and prepared to develop their work and make this Company a benchmark company. During 2015, Redexis Gas has increased its staff in 25%, creating 59 new jobs, closing the year with a team of 294 persons. Likewise, we have continued working for a better future for our people, reaching very relevant agreements in the Industrial Relations area, such as the signing of the 1st Collective Bargaining Agreement. The management of human capital continues to be a priority aspect for the Company in areas such as: training, internal professional promotion and equality. Likewise, we continue to favour the balancing of family and professional life, and occupational safety with the goal of 0 accidents. Our objective is to continue increasing employees' satisfaction and pride of belonging.

All actions and initiatives referred to above are going to continue in 2016, and certainly in subsequent years. I am sure that we will be able to continue showing the dynamism that has characterised us until now and, above all, maintain the same innovative and self-critical spirit that is key to take advantage of the strengths of our business model. We are going to keep on working in the same direction and with the same enthusiasm to continue attaining our main goal: maximising the creation of value for our society.



Cristina Ávila

Director General Manager



Milestones in the year

2016

March

- Start-up in Zaragoza of the 'Backup Control Centre' from which the Redexis Gas facilities throughout Spain are monitored.
- Andalusia: Natural gas reaches Albox for the purpose of providing supply to c. 12,000 residents and 60 businesses in the municipality.

April

- Balearic Islands: Conclusion of the construction of the Cas Tresorer-Manacor - Felanitx gas pipeline (59 kilometres).

2015

December

- Redexis Gas and the European Investment Bank enter into a loan for EUR 160 million, for the expansion of natural gas in Spain.
- Castile-Leon: Natural gas reaches Blascosancho (Ávila).
- Extremadura: Agreement for the extension of the natural gas distribution networks signed with the City Council of Mérida (Badajoz), which will facilitate the supply to the city.
- Aragon: Redexis Gas sponsors the II ESIC corporate run, which gathers over 3,300 runners.
- Balearic Islands: Redexis Gas supports the 4th edition of Cursa Patrimoni de la Humanitat in Ibiza.
- Redexis Gas participates in the seminar "Improvement of Air Quality in the Cities".



November

- Andalusia:
 - Commencement of natural gas supply to the regional hospital of Baza, in Granada, the San Agustín hospital in Linares and the one of San Juan de la Cruz in Úbeda, Jaén.
 - Investment plans for the municipality submitted to the Town Council of Chipiona (Cádiz).
- Castile-La Mancha: New plans for investment and development in the municipality submitted to the Town Council of Hellín (Albacete).
- Castile-León:
 - Growth plans for the municipality submitted to the Town Council of Arenas de San Pedro (Ávila).
 - Development plans for the municipality submitted to the Town Council of Santa María del Tiétar.
- Community of Madrid: Redexis Gas participates in the Information Campaign regarding Safety of Gas Facilities in the Community.
- Balearic Islands:
 - Redexis Gas participates in Foro Turismo+.
 - Conclusion of the construction of the first 8 kilometres (Phase I) of the Cas Tresorer-Manacor - Felanitx gas pipeline.
- 2nd Annual Summit of Redexis Gas was held, gathering nearly 250 collaborators and installers throughout Spain.

February

- Balearic Islands: Natural gas roll-out and distribution plan in the municipality of Andratx.
- Castile-Leon: Natural gas reaches the Tiétar Valley after making an investment of EUR 8 million in a 42-kilometer network.
- Andalusia: agreement with the City Council of Huércal-Overa for the construction of new connections that will provide coverage to the sports complex and swimming pool of the H₂O Sports Centre in the municipality.

January

- Andalusia: Presentation at the City Council of El Puerto de Santa María (Cádiz) of the growth plans for the municipality.
- Aragon: Presentation to the president of the Provincial Council of Huesca of the expansion plan for the province.



September

- Redexis Gas concludes an agreement with Repsol for the purchase of 71,530 propane gas piped connection points and 270 kilometres of distribution network.
- 1st Collective Bargaining Agreement of Redexis Gas was signed.
- Aragon: We continue with the natural gas roll-out in Ejea de los Caballeros (Zaragoza).
- Andalusia:
 - Commencement of natural gas roll-out in Villacarrillo (Jaén).
 - Commencement of a new stage for natural gas network roll-out in La Línea de la Concepción (Cádiz).
 - Presentation to the Town Council of Chiclana de la Frontera (Cádiz) of the development plans for the municipality.
- Castile-Leon: Investment plan for the municipality presented to the Town Council of Ágreda (Soria).
- Redexis Gas participates in the II Conference of Control Centres.
- Redexis Gas joins, as collaborating partner, the Spanish Confederation of Installers and Fluids associations (CONAIF).

October

- Andalusia:
 - Agreement signed with the Hipotels hotel chain to supply natural gas to four luxury hotels and a laundry facility located at the tourist complex Novo Sancti Petri, in Chiclana de la Frontera.
 - Development plan in the province of Almeria submitted to the Regional Government's deputy of Economy, Innovation, Science and Employment.
- Aragon: Over € 225,000 invested to expand the natural gas network of Calamocho (Teruel).
- Castile-La Mancha:
 - Development plans for the area presented to the Town Council of Tobarra (Albacete).
 - Redexis Gas collaborates with the Football School of Unión Deportiva de Tobarra (Albacete) to support youth and local sports.
- Castile-Leon: Plans for growth in the municipality submitted to the Town Council of Arenas de San Pedro (Avila).
- Region of Murcia: Growth plans presented to the Government of the Region of Murcia.
- Balearic Islands: Redexis Gas collaborates with the Club Esportiu Constancia supporting more than 300 young people of their youth teams.
- Redexis Gas sponsors the 2nd National Conference on Occupational Health and Safety.

2015

August

- Andalusia: Presentation to the Town Council of Rota (Cádiz) of the growth plans for the municipality.
- Community of Valencia: Agreement signed with the Town Council of Almoradí (Alicante) for the supply of natural gas in the municipality's public centres.



July

- Redexis Gas starts to operate in two new Spanish provinces: Leon and Soria.
- Redexis Gas signs an agreement with Ibercaja to facilitate the acquisition and modernisation of residential gas facilities.
- Redexis Gas signs an agreement with CaixaRenting to facilitate access to natural gas for SMEs.
- Redexis Gas and Banco Sabadell sign an agreement to finance the adoption of natural gas for households, small and medium enterprises.
- Andalusia:
 - Presentation to the Town Council of Vejer de la Frontera (Cádiz) of the growth plans for the municipality.
 - Presentation to the Town Council of Baza (Granada) of the growth plans for the municipality.
- Aragon: Presentation to the Town Council of Jaca (Huesca) of the expansion plans for the municipality.
- Community of Valencia: Presentation to the Town Council of El Vergel (Alicante) of the development plans for the municipality.
- Balearic Islands: Conclusion of the construction of the Son Reus – Inca – Alcudia gas pipeline.
- Region of Murcia: Presentation to the Town Council of Cartagena of the growth plans for the municipality.



June

- Redexis Gas signs an agreement with CaixaBank to facilitate access to natural gas.
- Andalusia: Agreement signed to supply natural gas to greenhouses in Almeria.
- We start to distribute natural gas in Catalonia and Extremadura.
- Redexis Gas, awarded the 'ComputerWorld 2015 Prize' for the Technological Project of the Year in the Private Sector.
- Balearic Islands: Certification of first graduation of trade specialists of the 'First Redexis Gas Program for Training and Employment' in Ibiza.



redexis
gas

May

- The companies Redexis Gas, S.A. and Redexis Infraestructuras, S.L.U. carry out a segregation of assets, pursuant to which, Redexis Gas, S.A. segregates in favour of Redexis Infraestructuras, S.L.U. all its primary transmission assets.
- Andalusia:
 - Presentation to the Town Council of El Puerto de Santa María (Cádiz) of the investment plans for the municipality.
 - Commencement of natural gas infrastructure roll-out in Albox (Almería).
- Community of Valencia: We open new offices in Alicante.
- Andalusia: Agreement signed with the Institute for Defence Housing, Infrastructure and Equipment (INVIED), to provide natural gas to the Naval Town of Rota in Puerto de Santa María (Cádiz).

April

- Redexis Gas successfully completes the second issuance of notes for an amount of EUR 250 million, with maturity in 2027 and an annual coupon of 1.875%.
- Andalusia: Presentation to the Town Council of Barbate (Cádiz) of the investment plans for the municipality.
- Balearic Islands:
 - Presentation to the Town Council of Inca of the investment plans for the municipality.
 - Certification of the first graduation of trade specialists of the "First Redexis Gas Program for Training and Employment" in Mallorca.
- Region of Murcia: commencement of natural gas supply in Águilas.



March

- Andalusia: Commencement of natural gas supply in Húercal-Overa (Almería).
- Community of Valencia: Inauguration of natural gas distribution in Javea (Alicante).
- Balearic Islands
 - Commencement of natural gas supply in Ibiza.
 - Redexis Gas signs an agreement with the Association of Industrialists of Mallorca to promote natural gas in Mallorcan industry.



February

- Redexis Gas, S.A. formalises the merger of its subsidiaries, Redexis Gas, S.A. being the one that now directly operates the natural gas transmission and distribution activities.
- Andalusia: Convention on Safety of Gas for Household Use signed.
- Aragon: Commencement of natural gas distribution in Híjar (Teruel).
- Balearic Islands: Inauguration of the Son Reus - Andratx gas pipeline.
- Region of Murcia: Redexis Gas starts operating in Murcia.

January

- Redexis Gas completes the acquisition of Gas Energía Distribución de Murcia.
- Andalusia: Inauguration of the Huércal-Overa – Baza – Guadix gas pipeline.
- Aragon: Presentation to the Town Council of Ejea de los Caballeros of Redexis Gas' investment plan for the municipality.
- Balearic Islands:
 - Redexis Gas presents, together with the Govern Balear, the "First Redexis Gas Training and Employment Program".
 - Presentation to the government of the Balearic Islands of the plan to invest in the islands for the next five years.

Governing bodies

THE SHAREHOLDERS

Redexis Gas, S.A. with its registered office in Zaragoza, is the holding company owned by Goldman Sachs Infrastructure Partners and co-investors.

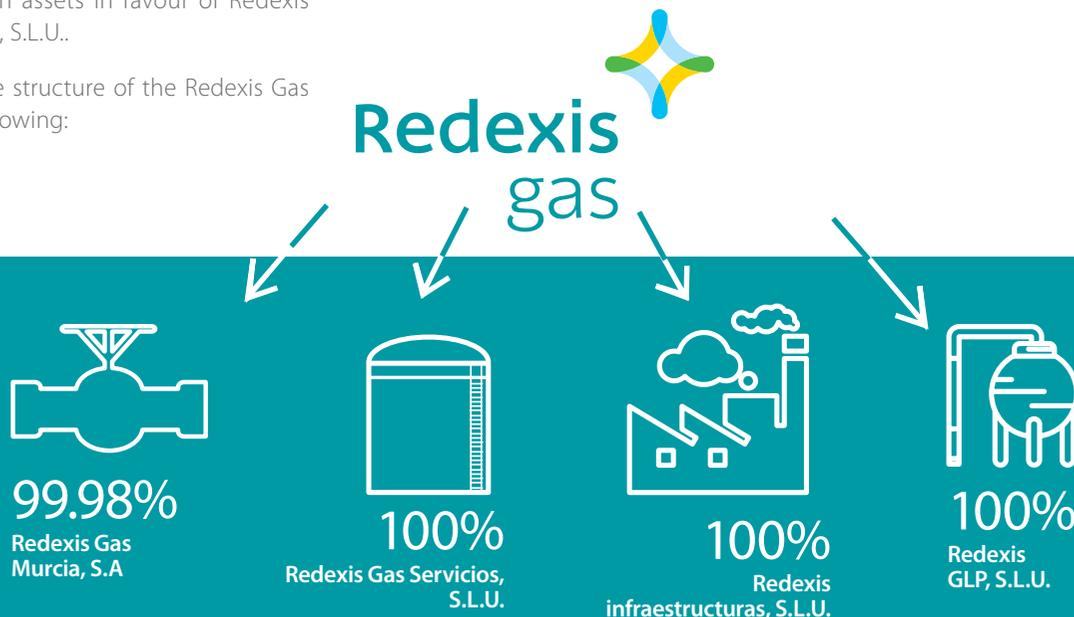
STRUCTURE OF THE GROUP

Throughout the year 2015, a new structure of the Group has been formalised, for the purpose of providing greater efficiency to its operations.

So, on 27 February 2015, Redexis Gas, S.A. formalised the merger of its operating subsidiaries. Since that date, Redexis Gas, S.A. directly operates all assets, except for those that were owned by Redexis Gas Murcia, S.A., Redexis Gas Servicios, S.L.U., Redexis Infraestructuras, S.L.U. and Redexis GLP, S.L.U.

Additionally, on 25 May 2015, the companies Redexis Gas, S.A. and Redexis Infraestructuras, S.L.U., under article 63.2 of Act 34/1998, of 7 October, on the Hydrocarbon Sector, carried out the spin-off of certain transmission assets, under which Redexis Gas, S.A. segregated such assets in favour of Redexis Infraestructuras, S.L.U.

Accordingly, the structure of the Redexis Gas Group is the following:



Board of Directors

(to April 30, 2015)

Member

Mr Fernando Bergasa Cáceres

Ms Cristina Ávila García

Mr Philippe Louis Hubert Camu

Mr Matteo Botto Poala

Mr Peter Robert Lyneham

Mr Claudio Aguirre Pemán

Mr Ulrik Dan Weuder

Mr Stephen Alan John Deeley

Mr Marcus Hubertus Gertrudis Vennekens

Mr Gerardus Nicolaas Meijssen

Mr Ignacio Pereña Pinedo

Office

Executive Chairman

Director General Manager

Director

Director

Director

Director

Director

Director

Director

Director

Secretary non-Director

Management Committee

(to April 30, 2015)



MR FERNANDO BERGASA CÁCERES
EXECUTIVE CHAIRMAN

- Executive Chairman of Redexis Gas, S.A.
- PhD in Chemistry, University of Princeton, and executive training at the universities of Harvard and Chicago.
- Between 2007 and 2011 he held the office of CEO in Naturgas Energia and director at HC Energia.
- Previously, he held different executive offices in Endesa S.A. and was a consultant at McKinsey&Co.
- Fernando Bergasa is also a director at Sedigas (Spanish Gas Society) and a member of the American Chemical Society.



MS CRISTINA ÁVILA GARCÍA
DIRECTOR GENERAL MANAGER

- Director General Manager of Redexis Gas, S.A.
- Industrial Engineer Graduate from ICAI and MBA from IESE.
- Between 2007 and 2011 she was the general manager of operations at Naturgas Energia and a director at Naturgas Energia Transporte and Naturgas Energía Distribución.
- She previously held executive offices at Endesa Internacional and was a consultant at Arthur D. Little.
- Cristina Ávila is also a director at Sedigas.



MR DAVID FOLGADO DELGADO
CHIEF FINANCIAL OFFICER

- Chief Financial Officer at Redexis gas, S.A.
- Graduate in Business Administration and Management from the *Universidad Autónoma de Madrid*, with a masters degree in Accounting and Auditing from the *Universidad de Salamanca* and a masters degree in Business Management from the *Instituto de Empresa*.
- From 2003 to 2012, he worked at Ono as Director of Corporate Financing, Investor Relations, Cash Management and Planning.
- From 1998 to 2003 he developed his professional activity at Deloitte, in the audit and consulting areas.
- David Folgado is also a director in Grupo Secuoya Grupo de Comunicación and in Redexis Gas Finance B.V.

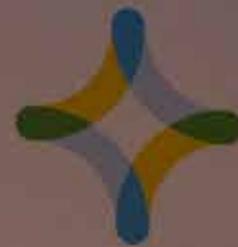
- **Mr Ignacio Pereña Pinedo**, Regulatory and General Counsel and Board Secretary
- **Mr Ignacio Montaner Gutiérrez**, General Manager for Central-Northern Area and Operations Director
- **Mr Julio César Campillo Fernández**, General Manager for Andalusia, Murcia and Community of Valencia
- **Mr Javier Crespo Millán**, Distribution Director

- **Mr Borja Polo Baños**, Strategy and Expansion Director
- **Mr Miguel Mayrata Vicens**, General Manager for Balearic and Canary Islands
- **Mr Diego Sánchez Muslera**, Transmission Director
- **Ms Mercedes Barreiro Hernández**, Systems and Processes Director

- **Mr Juan Manuel García Menéndez**, Human Resources and General Services Director
- **Ms Lydia Gómez Luque**, Planning and Control Director
- **Ms Estefanía Somoza Villar**, Corporate Communication and Institutional Relations Director
- **Ms Mireya Martínez San Martín**, Internal Audit Director

Rede
Te gusta

Redexis gas





Redexis
gas

2

Business
model
and
strategy

Corporate profile

Redexis Gas is one of the major companies in the development and operation of natural gas transmission and distribution infrastructures in Spain. With more than 600.000 connection points, the Company provides service to over six million and a half persons, industries and commercial establishments in more than

550 municipalities of 26 provinces, through more than 8,500 kilometres of its own gas transmission and distribution networks. It operates in the Communities of Aragon, Andalusia, Balearic Islands, Castile-La Mancha, Castile-Leon, Catalonia, Community of Madrid, Community of Valencia, Extremadura and

Murcia, where it provides access to this safe, convenient and efficient source of energy.

The company develops its activity in a transparent and independent manner, for the purpose of providing a quality, safe and efficient service to society.

MISSION

To be a leader in the development and operation of gas infrastructures, maximizing growth and efficiency, and contributing decisively to sustainable development and generation of value for customers, employees and shareholders

VISION

To be a benchmark gas company, firmly committed to its customers, employees and shareholders, and admired for its capacity to excel and create value

VALUES

ADVANCE

OVERCOME

LIVE

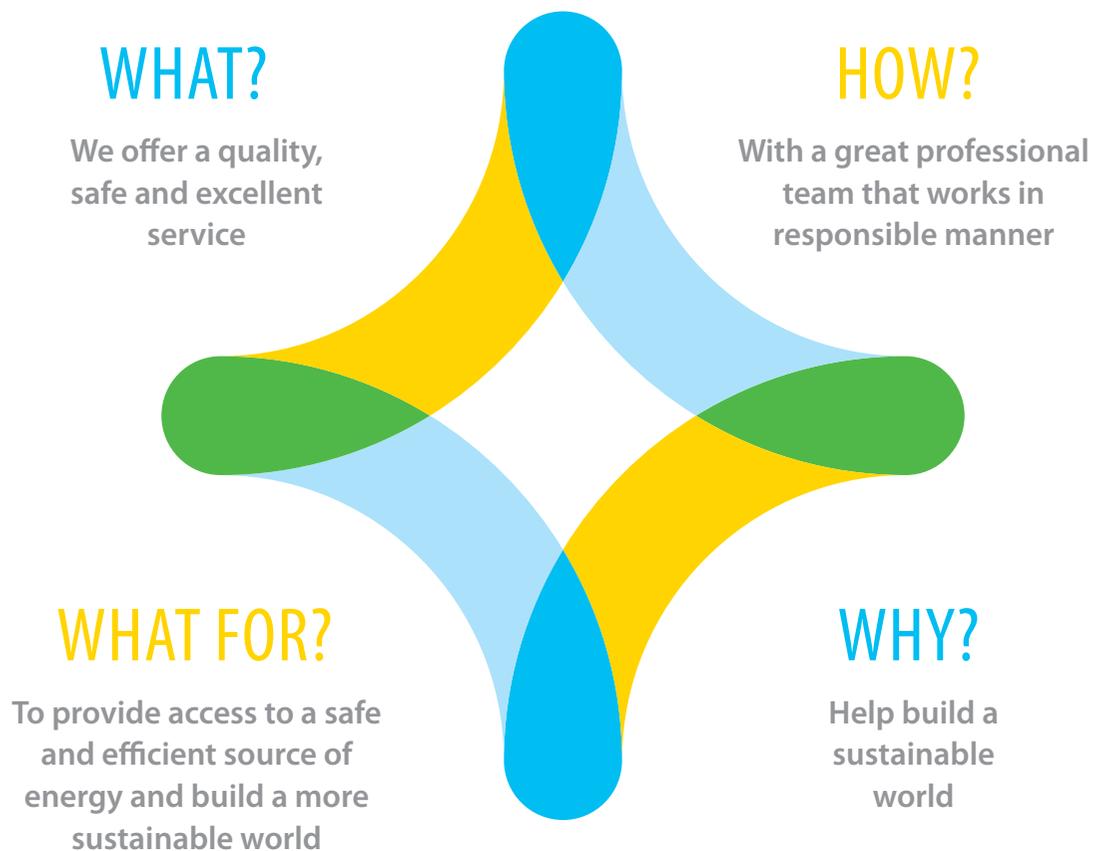
INSPIRE

CARE

Redexis
gas



The strategy: forward thinking



Natural gas is a truly beneficial source of energy both at household level and at commercial or industrial level, which still has a low rate of penetration in households, compared to other countries. That entails a great potential for the sector, specifically, for the development of gas infrastructures.

Redexis Gas as a benchmark gas company, leader in efficiency and strongly committed to its users, employees and shareholders, designs its strategy for the purpose of capturing such potential and growth of natural gas and LPG in Spain, creating value in a sustainable manner for its stakeholders. Its strategic planning is based on its mission, its vision and its values.

The Company makes an effort to better understand and connect with society's actual needs, creating new capacities that enable the design of better sustainable solutions and strengthen the Company so that it may respond better, faster and more consistently to the challenges posed by market developments.

Redexis Gas has a differential way of developing its activity, based on the principles of integrity, prudence, transparency, quality and excellence.

Increasing its presence in the municipalities where it is already operating, as well as extending its activity to new regions and municipalities within the Spanish territory, have become an important element of

its growth strategy, taking advantage of the opportunities that come before the same, and with the support of a long term continued investment plan.

During the year 2015, the Company has carried out important projects: it has inaugurated a new gas pipeline located in the Balearic Islands; it has obtained authorisation to start the project to

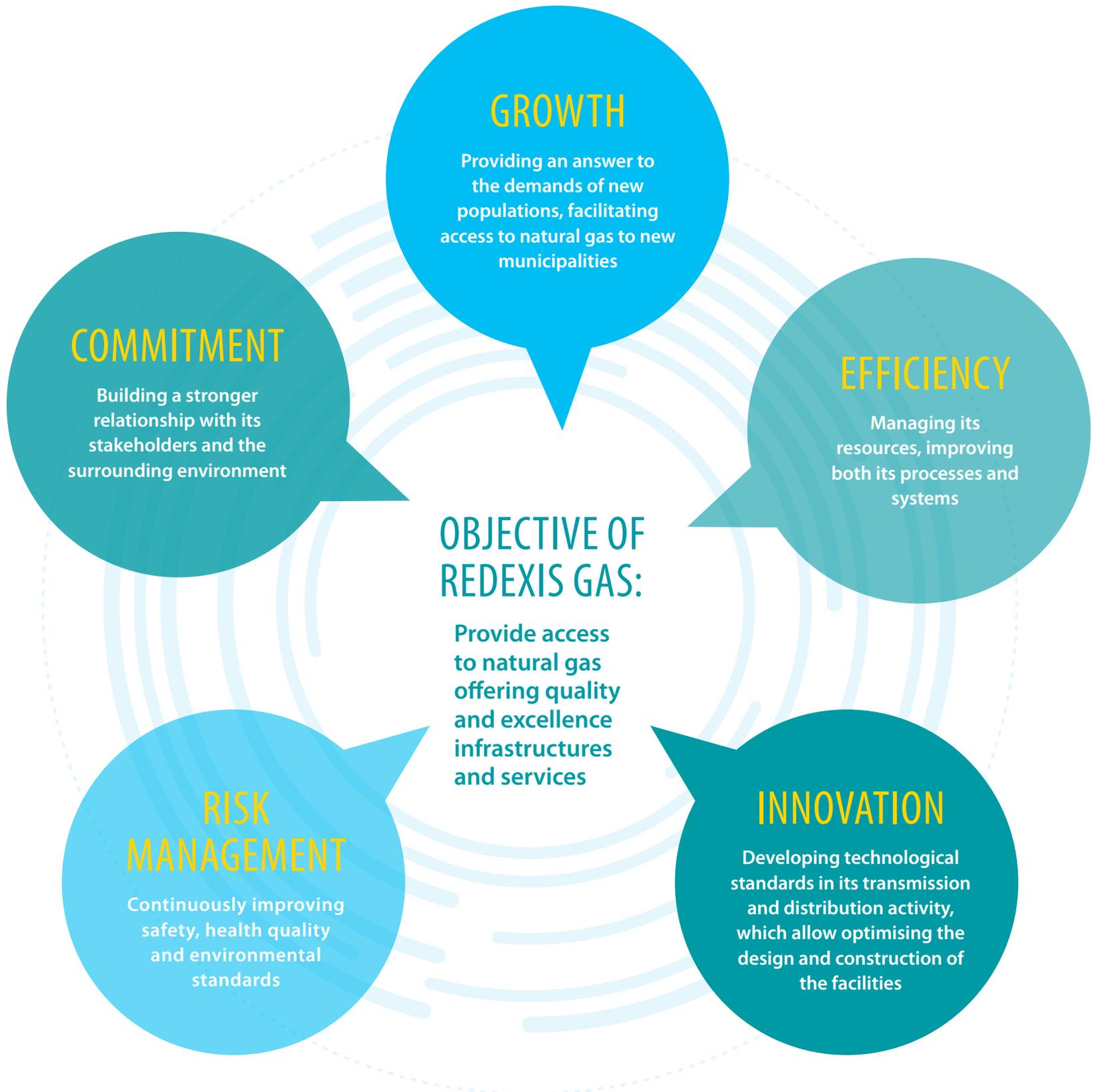
construct 58.6 kilometres of a gas pipeline in "Cas Tresorer-Manacor - Felanitx" in the Balearic Islands, which was completed in April 2016. Likewise, it has provided service to 16 new municipalities and it has accelerated its growth plan with the successful acquisition and integration of Redexis Gas Murcia and other additional distribution assets and the purchase of 72,000 new LPG points from Repsol.



Taking advantage of its experience, Redexis Gas continues to increase and expand

its activity and services, convinced that constant innovation is an essential element

of its strategy and will contribute to growth in the future.



Its excellent capacity to face future challenges strengthens its growth strategy and provides an incentive to continue investing in the roll-out of new natural gas transmission and distribution networks in Spain.

The history

S.XIX

First gas plant of the Group in Zaragoza

Société pour l'éclairage des villes de Biarritz et Saragosse acquires the plant and other assets



1976

Incorporation of Distribuidora del Gas de Zaragoza

1989

100,000 connection points



1997

Incorporation of Endesa Gas comprised of different distributing companies

1927

Incorporation of Gas de Zaragoza as part of Eléctricas Reunidas de Zaragoza

1985

Incorporation of Gas Huesca

Endesa acquires Eléctricas Reunidas de Zaragoza and its respective affiliates

1993

Merger between Distribuidora de Gas de Zaragoza and Gas Huesca giving rise to Gas Aragón



2001

Incorporation of Endesa Gas Transportista and Transportista Regional del Gas commencing transmission activity

2007

+300,000 connection points

+3,000 km of network length



2013

Goldman Sachs Infrastructure Partners and co-investors acquire control over 100% of the Company and change its corporate name to **Redexis Gas**

Redexis gas



+380,000 connection points

+5,500 km of network length

2015

Corporate reorganisation

Successful integration of Redexis Gas Murcia and other additional distribution assets

Acquisition of 72,000 LPG points from Repsol

New issuance of notes (EUR 250 million with maturity in 2027)

Formalisation of a loan with the EIB (EUR 160 million with maturity in 2035)

1st Collective Agreement signed

2010

Two investment funds managed by Goldman Sachs acquire 80% of the share capital in the asset holding company of Endesa Gas

+364,000 connection points

+4,700 km of network length

2014

Acquisition of Redexis Gas Murcia and other additional distribution assets from EDP

First issuance of notes (EUR 650 million with maturity in 2021)

+600,000 connection points



+ 8,500 km of network length

The Company continues to develop an efficient, expansive, responsible, innovative and committed business model, for the purpose of continuing to create sustainable value.



3

The
business
of
Redexis Gas

The business of Redexis Gas

Given the product's intrinsic characteristics, natural gas is a source of energy truly advantageous, with a continuous supply both at household level, since it allows the availability of constant energy for basic needs of hot water, heating and cooking,

and at commercial or industrial level, the advantages of which are mainly related to environmental and economic aspects.

Natural gas has a series of **functional, economic and environmental advanta-**

ges over the rest of fuels, given that it is a clean energy (it does not emit particles and has very low NOx and SOx contents) and an economic, reliable, convenient and ecological source of energy (with low CO₂ emissions).

It is unmatched.

Natural gas is a very economical energy and requires minimum maintenance. Additionally, thanks to its clear billing and its stable price, you will also avoid unpleasant surprises. Saving in the bill.



Economical

Open the valve and start enjoying.

Natural gas does not take up extra space at your home, and you won't need to replace it, because it never finishes. You will have it available any time you want with a simple gesture. The Convenience of a service that does not take up space.



Reliable



Convenient

So you can move as you please.

Because you will enjoy homogeneous heat and a constant temperature in hot water, thanks to constant supply. Comfort in your home.



Comfortable

And also ecological.

Because another one of the advantages of natural gas is its nature as a clean energy. That, today, is an important factor to contribute to the preservation of our planet. Economical.



The value chain of natural gas

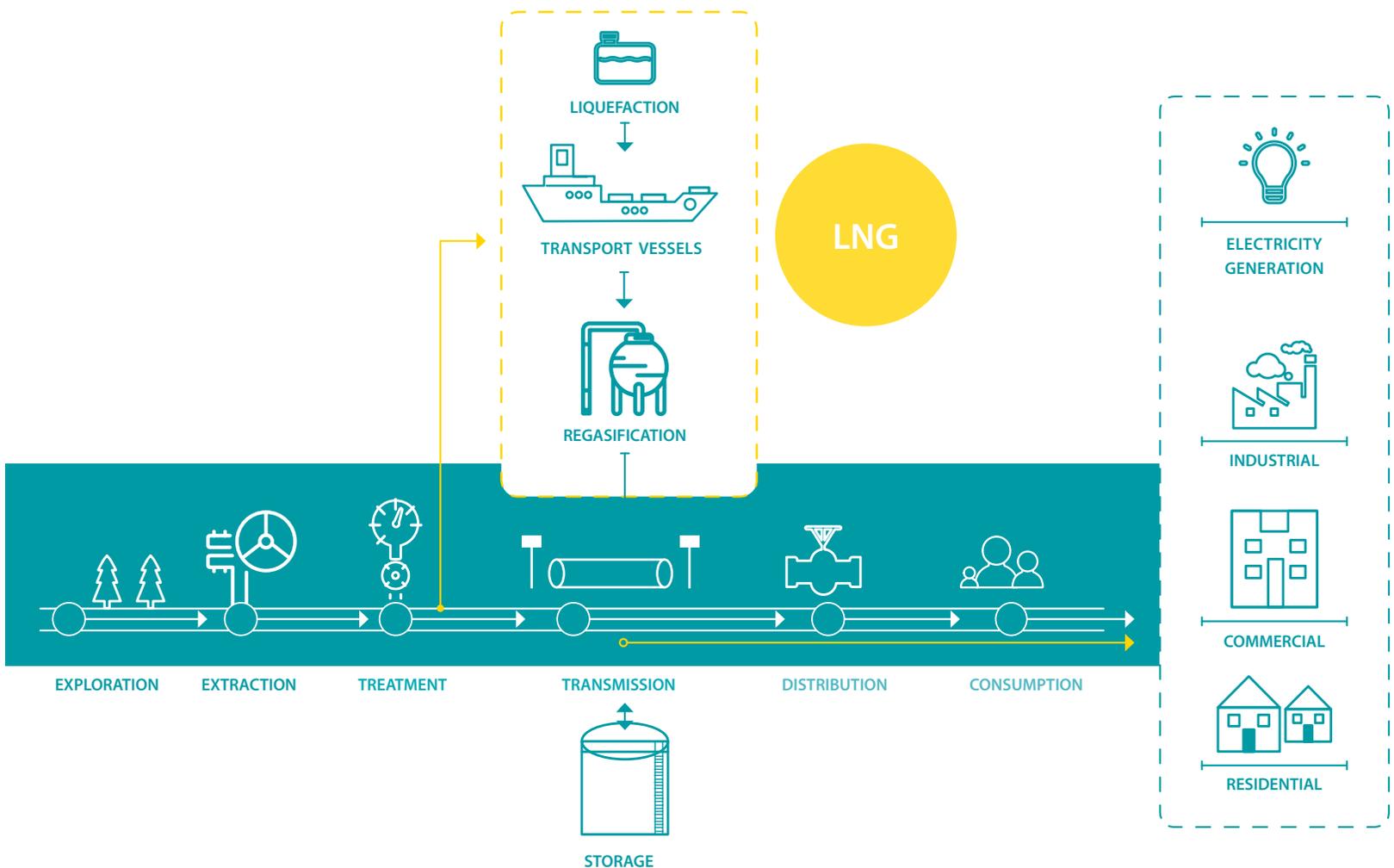
Natural gas originates from the degradation of organic matter, and although it has often been associated with oil fields, sometimes it is discovered in isolation.

This energy is transported either in its original form, from the well or field, through gas

pipelines or, in the case of long distances, in liquid form (LNG, Liquefied Natural Gas), through methane tank ships or trucks at a very low temperature, to later return the same to its original form at the regasification plants.

After its extraction from the gas wells, or

treatment at the regasification plants, the gas can be stored underground or enter directly into the transmission network formed by high pressure (over 4 bar) gas pipelines, which lead to industries or distribution pipelines of lower pressure (under 4 bar) to provide service to households and businesses.



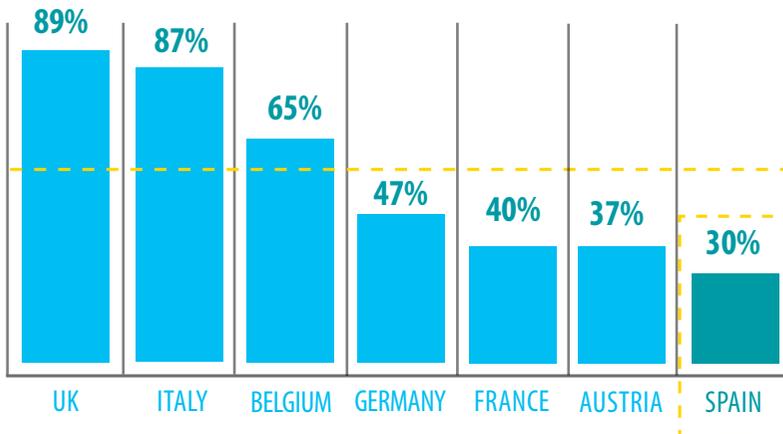
“Natural gas: a cost-effective and efficient choice”

Natural gas in Spain

Natural gas plays a relevant role within the energy mix in Spain, given that, in addition to covering society's energy needs, it ensures a sustainable environment.

SPANISH GAS PENETRATION VERSUS OTHER EUROPEAN COUNTRIES (%)

Estimated average penetration ratio in the European countries: >50%

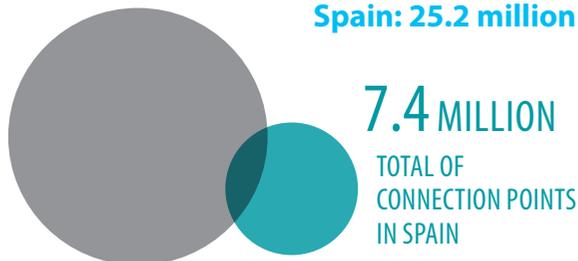


Source: Sedigas_May 2014

PENETRATION OF NATURAL GAS IN SPAIN

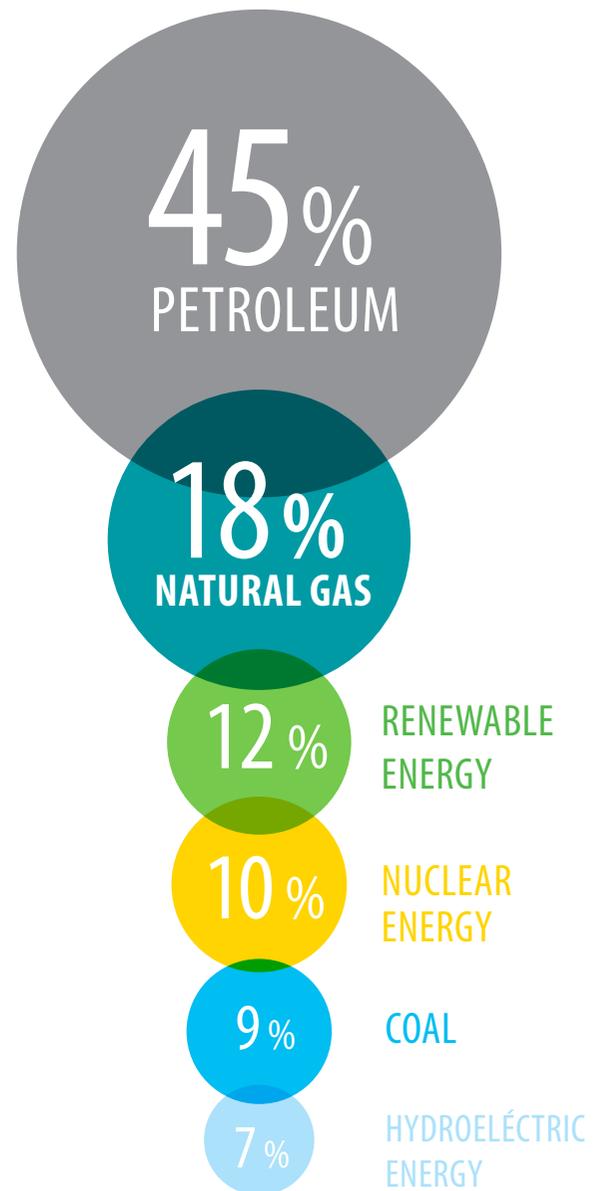
Total number of homes in Spain: 25.2 million

17.8 MILLION
TOTAL HOMES WITHOUT NATURAL GAS IN SPAIN



Source: INE (total households_ 2011 Census); CNMC (Quarterly report on supervision of natural gas retail market in Spain_Group 3.1 and 3.2)

PRIMARY ENERGY CONSUMPTION IN SPAIN 2014 (%)



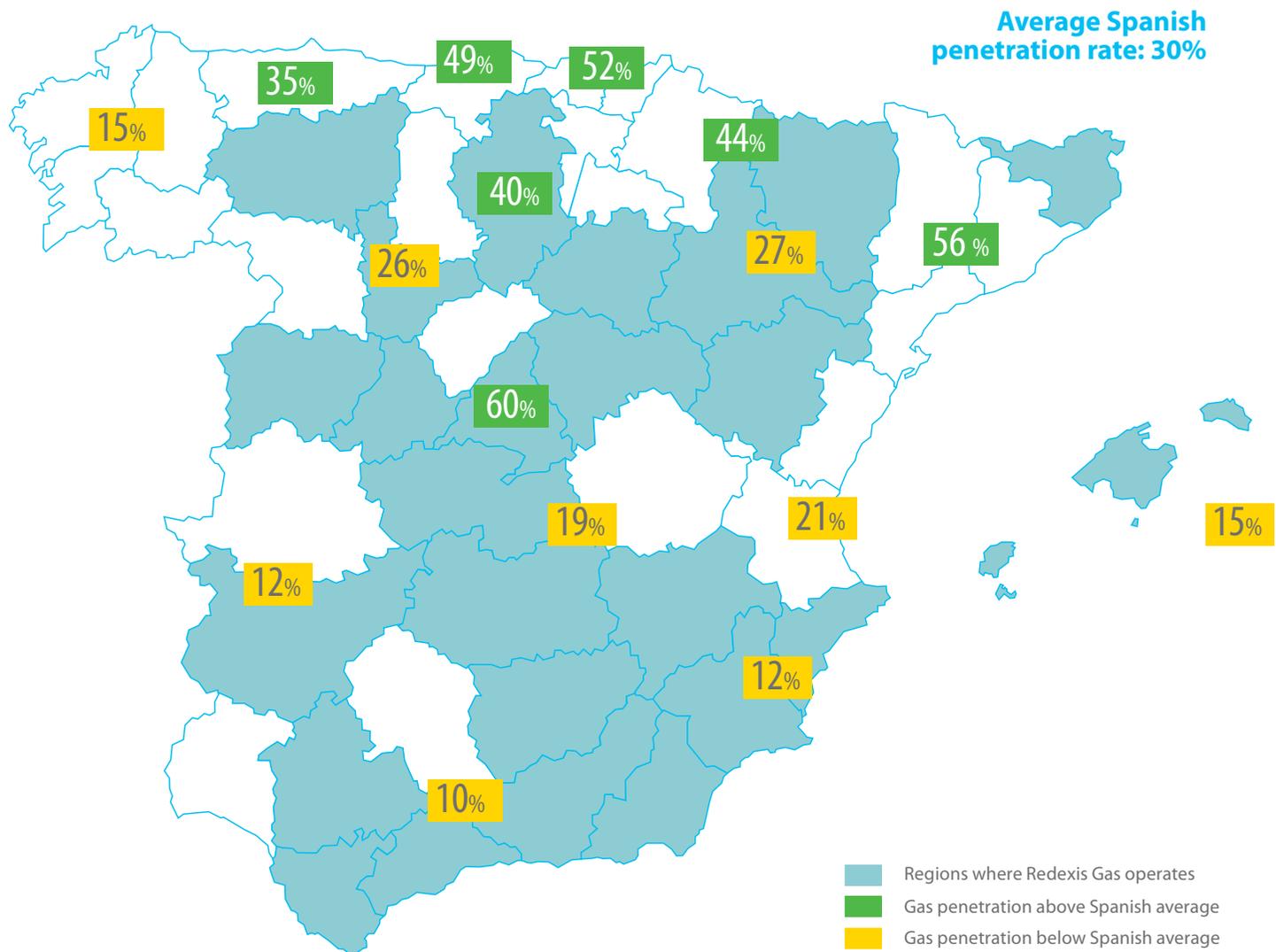
Source: CNMC_ Report on supervision of natural gas retail market in Spain. Period: year 2014. Date: 9 July 2015

However, it still has a low penetration rate in Spanish households. While the penetration ratio for gas in the household market in Europe reaches an

average 50%, in our country it reaches 30%. According to the data published by Sedigas, 79% of the population lives in municipalities with natural

gas, although only 30% of households have gas supply, which shows the high potential for growth that the sector has in our country.

FOOTPRINT OF NATURAL GAS PENETRATION IN SPAIN



Throughout this year, the gas industry in Spain has recovered its dynamism thanks to the improvement in the country's economic situation and the achievement of regulatory stability, which makes it possible for the companies in the sector to appropriately address their long-term investment plans.

From the point of view of gas consumption, the year 2015 has been a year in which the trend has changed, reflected in a 4.5% increase until reaching 315.1 TWh, growing both in combined cycles, 18.3%, and in the household and commercial scope, 5.8%. The main

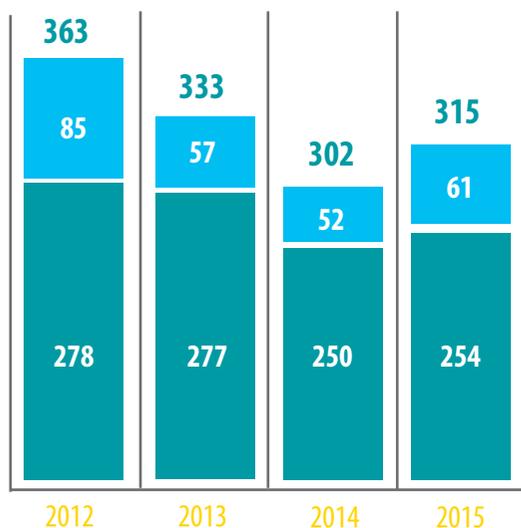
reasons for such performance have been the better operation of combined cycles as a result of lower hydraulic and wind generation and last summer's heat waves, as well as an increased demand in heating in the household-commercial sector, due to the lower temperatures during the first months of last year.

Regarding the industrial sector, although consumption was lower in 2015, with a 0.7% increase, it continues to be the first consumer of gas in our country (62.4%) followed by combined cycle electric plants (19.4%) and the household-commercial sector (16.5%).

Regarding the expansion of the sector, the gas network has continued to grow. In 2015, such sector invested EUR 497 million for the purpose of continuing to develop an extensive gas network in the Spanish territory. With such resources, during this last year, more than 2,000 kilometres have been added to the network, exceeding the figure of 83,800 kilometres, 1,688 municipalities with gas service have been reached (a 3.1% increase versus 2013) and the points of supply increased by 62 thousand, reaching 7.6 million. This is the result of the investment made by the companies to raise awareness of a clean, abundant, safe and highly competitive source of energy.

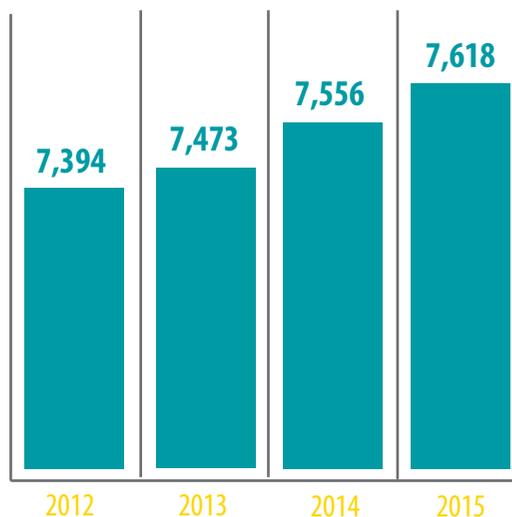


CONSUMPTION OF NATURAL GAS IN SPAIN (TWh)

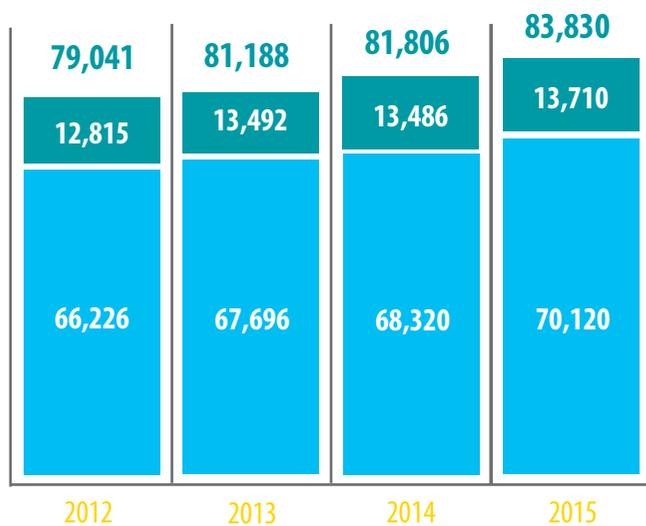


■ Conventional consumption of gas natural ■ CCGT

CONNECTION POINTS IN SPAIN (thousand)

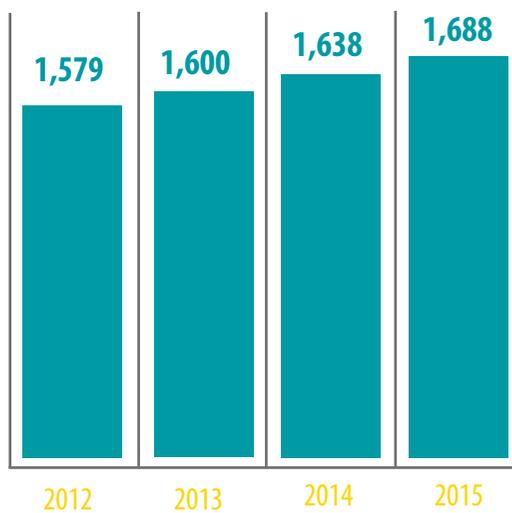


NETWORK LENGTH IN SPAIN (Km)



■ Distribution network ■ Transmission network

MUNICIPALITIES SERVED IN SPAIN



Source: Sedigas_2015 Annual Report

Note: Conventional consumption includes the household-commercial sector, industry and demand for non-energy uses.

In Spain, natural gas is prepared to face future growth with sufficient and efficient capacity, since the country is

equipped with modern and very flexible gas infrastructures, both with regard to their ability to diversify the supply

geographically and to provide a fast answer to demand from the different agents.

Scope of activities of Redexis Gas

Redexis Gas is one of the leading companies in the development and operation of natural gas transmission and distribution infrastructures in Spain. Its activity is regulated and oriented towards providing an optimum, safe and efficient service to the end user, by

designing, constructing, maintaining and improving the transmission and distribution infrastructures to ensure the supply of natural gas, allowing access to third parties (distributors and qualified customers) to its networks in exchange for the regulatory tolls.

Redexis Gas transports natural gas from the delivery points within Spain's main or primary network to the consumption points, particularly to our households, in the best safety and quality conditions.

VALUE CHAIN OF THE GAS INDUSTRY



PRODUCER OR IMPORTER	It performs the exploration, investigation and exploitation of hydrocarbon fields.	NON-REGULATED ACTIVITY
REGASIFICATION	Owner of the regasification plants that transform the liquefied natural gas carried in ships and introduce the same into the system.	REGULATED ACTIVITY
UNDERGROUND STORAGE	Owner of facilities to store natural gas in gaseous form.	REGULATED ACTIVITY
CARRIER	Owner of the natural gas transmission infrastructure in the Spanish territory.	REGULATED ACTIVITY
DISTRIBUTOR	Owner of the natural gas distribution infrastructure that connects the transmission system with the consumption points.	REGULATED ACTIVITY
MARKETER	Purchases natural gas from producers and then sells to consumers. It uses the national gas system to delivery gas at the consumption points.	NON-REGULATED ACTIVITY

The Group operates primarily in Spanish regions that have a gas penetration rate below the Spanish average, which provides a great potential for growth.

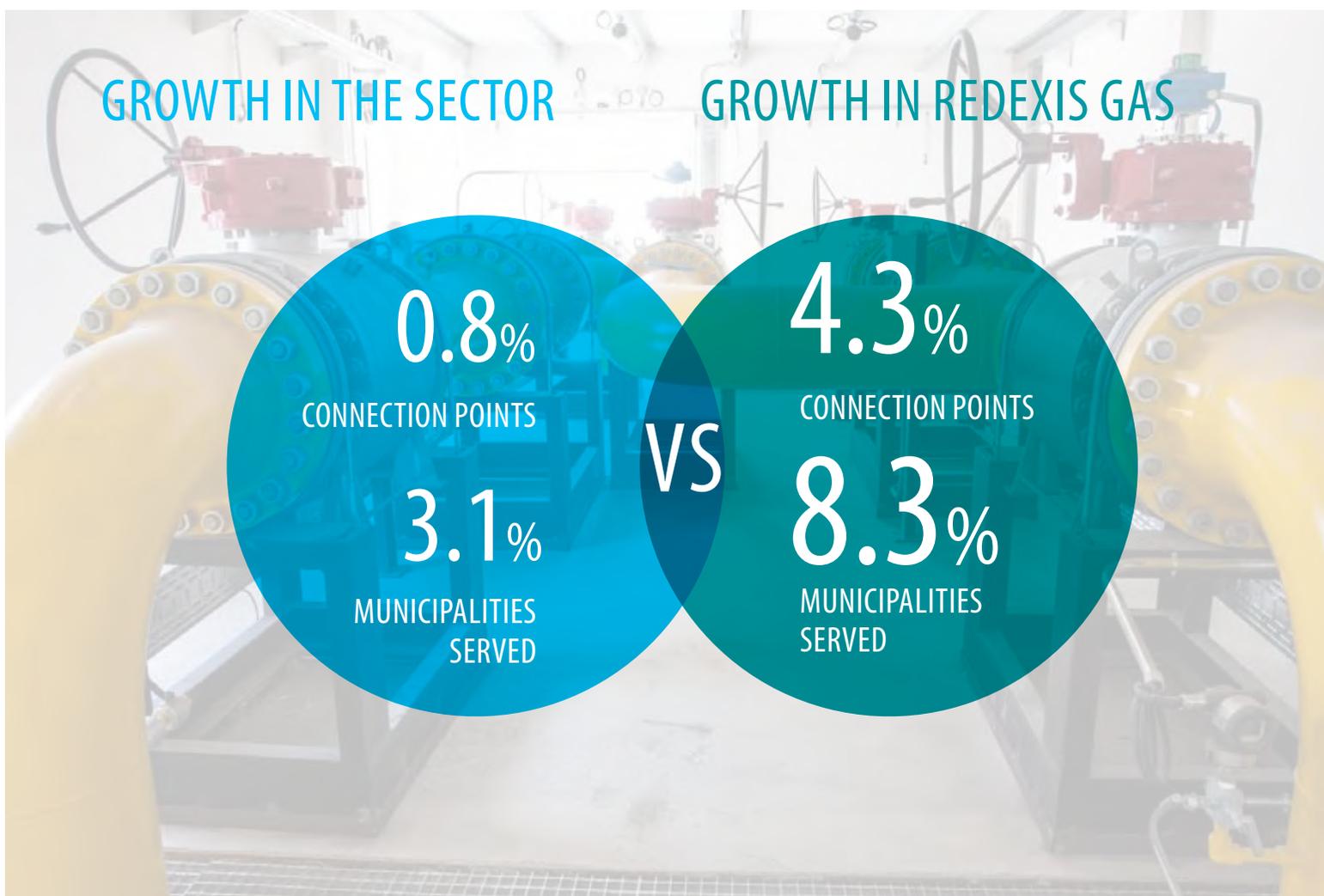
At present, it develops its activity in ten Autonomous Communities (Aragon, Andalusia, Balearic Islands, Castile-La Mancha, Castile-Leon, Catalonia, Community of Madrid, Community of Valencia, Extremadura and Murcia), where it has more than 600,000

connection points, providing service to over six million and a half users (supply or connection points) in more than 550 municipalities with an authorisation granted for 26 provinces, through more than 8,500 km of constructed network.

In 2015, 142,000 connection points were added to the Company, out of which 124,000 came from the acquisition of assets, and 17,000 from organic growth, a

38% increase in new activations compared to the previous year.

During the year 2015, Redexis Gas has continued with its growth strategy, considerably outperforming the growth in the industry. In the year 2015 the Company has grown organically five times faster than the industry with regard to connection points, and more than twice and a half with regard to new municipalities served.



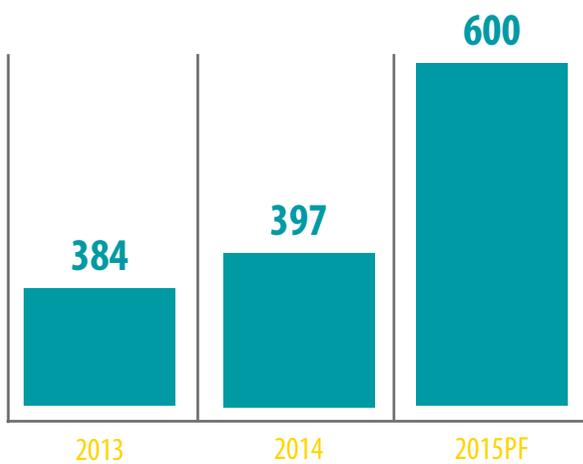


During this year, Redexis Gas has taken service to 16 new municipalities in the regions of Aragon, Andalusia, Balearic Islands, Castile-

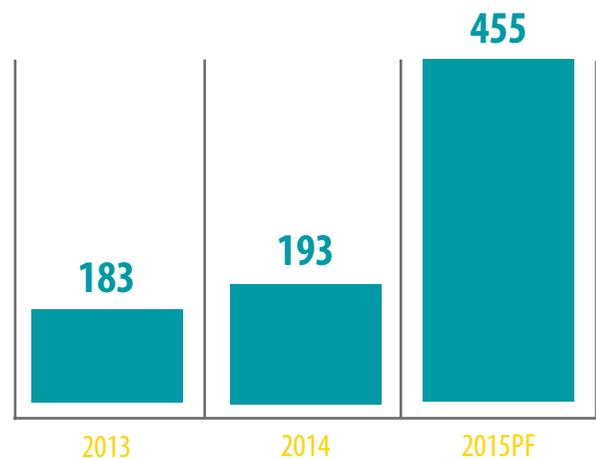
Leon, Community of Valencia and Murcia, and has accelerated its growth plan with the acquisition and integration in the Company

of Redexis Gas Murcia and other additional distribution assets and the purchase of 72,000 new LPG points from Repsol.

CONNECTION POINTS (THOUSAND)



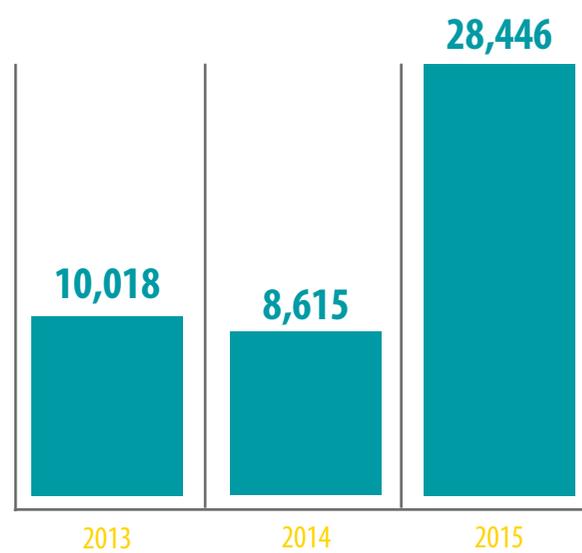
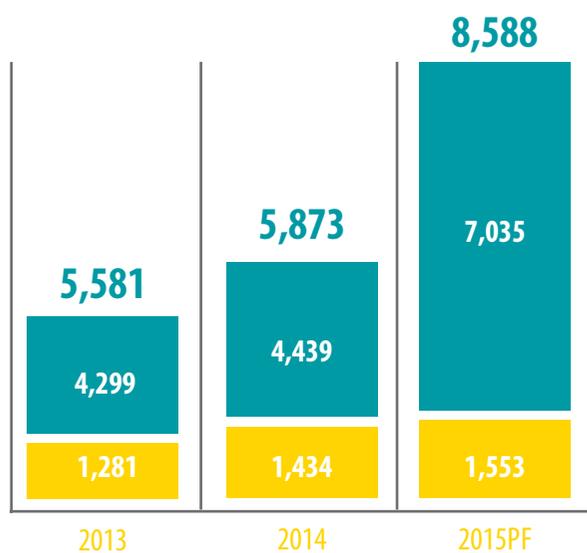
MUNICIPALITIES SERVED





NETWORK LENGTH (Km)

ENERGY DISTRIBUTED (GWH)



■ Transmission network length
 ■ Distribution network length

Note: PF means Pro forma and includes the LPG points acquired from Repsol, except for the distributed energy data

1. Transmission

Redexis Gas operates and maintains its own transmission network composed of gas pipelines, by means of which it

facilitates access to natural gas to large consumption centres, through the distributors.

Gas pipelines are the large channels through which gas travels to the large consumption centres.

Stages in the construction of a gas pipeline

Surveying

The layout and width of the gas pipeline right of way is marked using a GPS. It is analysed with the affected landowners and an agreement is reached on whether any change is required.

Track opening

The first layer of soil is removed throughout the width of the right of way, creating a firm track for machinery to cross and facilitate the works. This layer of soil is stored so it can be used to fill in the land at the end of the works.

Placement in the trench

The long sections that have been previously welded are carefully lowered into place in the trench. Prior to that, the bottom of the trench has been covered with a fine layer of sand free of stones. This is to avoid damaging the polyethylene coating.

Trenching

Using excavating machines or trenching machines, if the soil is very hard, a trench of one metre and a half wide and one meter and a half long is opened, where the pipe will be placed.

Stringing

Steel pipes with polyethylene coating are placed along the opened trench, supported on wooden blocks to prevent them from moving and suffering damage.

Welding

The pipes are welded forming long sections. An x-ray of each of the pipeline joints is made to verify that it has been perfectly joined. Later, the joints are coated with polyethylene strips so that all the steel is well covered and to prevent corrosion when buried.

By the end of 2015, Redexis Gas had a 1,553 Km network formed by 48 gas pipelines, through which it transports

gas at pressures exceeding 16 bar, to the industrial centres or to the connection points with distribution networks, in

accordance with the provisions of law and regulations in force.

Burying

Next, the pipeline is buried using fine sand, free of stones, so that it is properly protected. Then, a strip of yellow plastic marker tape is placed on top of the pipe, which will warn of the existence of the gas pipeline if future excavations are performed, and lastly, the soil that was taken out during the trenching is replaced, until reaching the original ground line.

Backfilling

Finally, the topsoil that was collected when the trench was opened is added, the fields are ploughed, the walls are rebuilt and natural areas such as creeks or rivers are reinforced with rockfilling. It is restored to its original condition.

Commissioning of gas

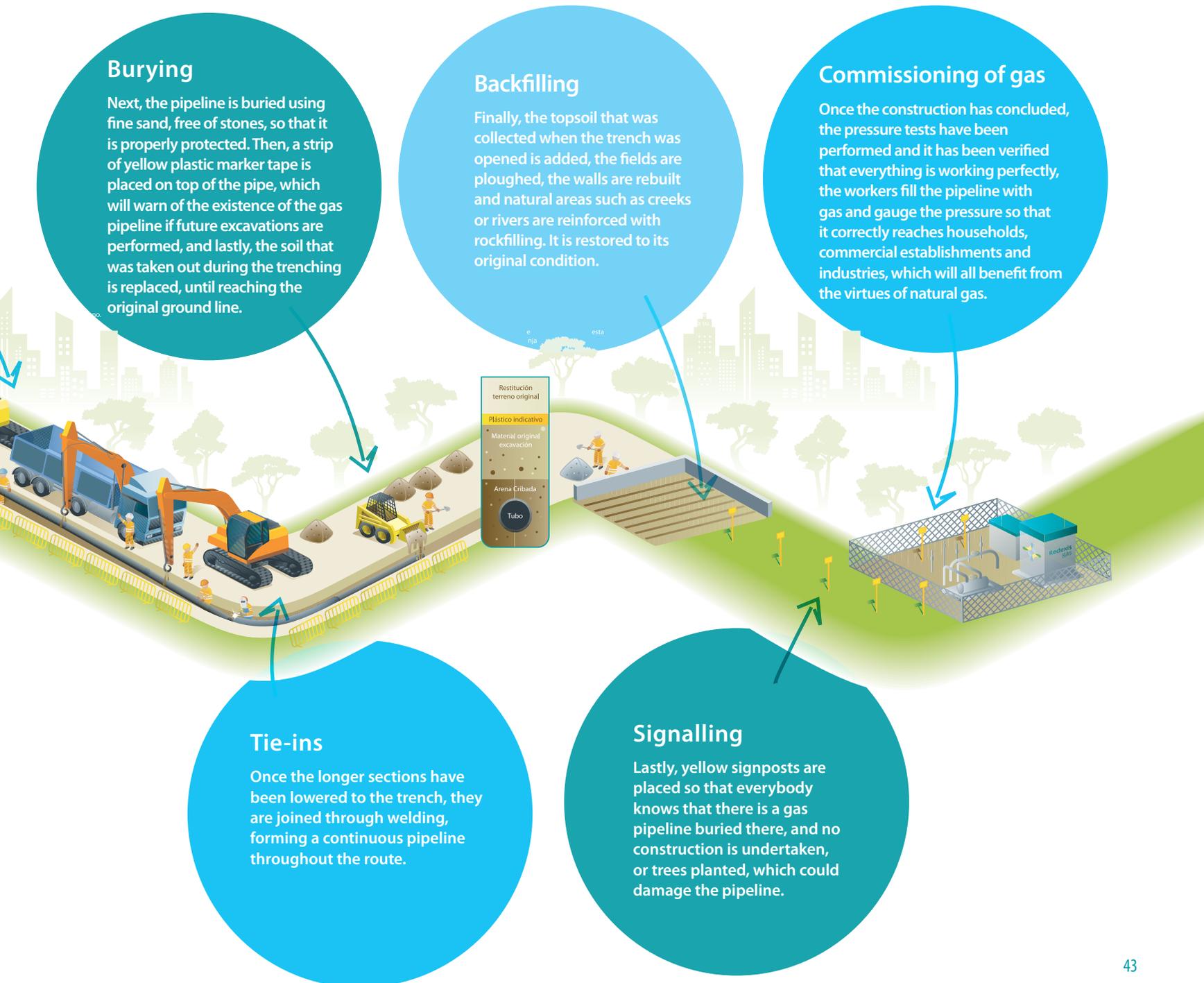
Once the construction has concluded, the pressure tests have been performed and it has been verified that everything is working perfectly, the workers fill the pipeline with gas and gauge the pressure so that it correctly reaches households, commercial establishments and industries, which will all benefit from the virtues of natural gas.

Tie-ins

Once the longer sections have been lowered to the trench, they are joined through welding, forming a continuous pipeline throughout the route.

Signalling

Lastly, yellow signposts are placed so that everybody knows that there is a gas pipeline buried there, and no construction is undertaken, or trees planted, which could damage the pipeline.



TRANSMISSION ASSETS (2015)

CASTILE AND LEON

	CURRENT ASSETS	PROJECTS
LENGTH (Km)	358	0
PIPELINES	15	0

CASTILE-LA MANCHA

	CURRENT ASSETS	PROJECTS
LENGTH (Km)	73	0
PIPELINES	2	0

ANDALUSIA

	CURRENT ASSETS	PROJECTS
LENGTH (Km)	265	150
PIPELINES	7	7

MURCIA

	CURRENT ASSETS	PROJECTS
LENGTH (Km)	65	0
PIPELINES	1	0

ARAGON

	CURRENT ASSETS	PROJECTS
LENGTH (Km)	559	0
PIPELINES	15	0

BALEARIC ISLANDS

	CURRENT ASSETS	PROJECTS
LENGTH (Km)	130	73
PIPELINES	5	2

COMMUNITY OF VALENCIA

	CURRENT ASSETS	PROJECTS
LENGTH (Km)	103	0
PIPELINES	3	0

TOTAL

	CURRENT ASSETS	PROJECTS
LENGTH (Km)	1,553	223
PIPELINES	48	9

TRANSMISSION PIPELINES EG/TRG

2008-2016 PLANNING

- — — Primary transmission network (Category A)
- — — Secondary transmission network (Category A)
- Primary transmission network (Category B)
- Secondary transmission network (Category B)
- Pending planning

IN SERVICE

- — — ENAGAS
- — — Primary transmission network
- — — Secondary transmission network

During the year 2015, 119 km were incorporated into its network, originating from:

- The completion of the “Son Reus-Inca-Alcudia” gas pipeline, located in the Balearic Islands, with 46 km commissioned in June 2015.
- 65 km of the “Moratalla-Mula” gas pipeline in Murcia, which were acquired

with the purchase of Redexis Gas Murcia at the end of January 2015.

- 8 km of the “Cas Tresorer-Manacor-Felanitx” gas pipeline in the Balearic Islands commissioned in 2015. This pipeline was completed in April 2016, with a total of 59 km, giving access to natural gas to more than 70,000 inhabitants.

At present, Redexis Gas is at the final processing the authorisation stage of four new gas pipelines that will add more than 80 kilometres to its networks. Likewise, the Company is studying the concurrence of the gas pipelines included in the planning, and which are pending to be awarded.

2. Distribution

Redexis Gas is also present in the distribution phase, the last stage of the process that culminates with the arrival of gas to the places of consumption and, in particular, to our households. The Company builds, operates and maintains the necessary facilities used to supply natural gas to different municipalities, reaching households, businesses and industries.

The distribution networks extend from the transmission network nodes, where the pressure is lower (16 bar or less) in

the so-called Regulation and Metering Stations (ERM), up to the end consumers.

The main functions in this stage are:

- To efficiently and effectively manage its regulated distribution assets, including the planning of new infrastructures, their development and construction, as well as operation, maintenance and optimization services.
- To distribute gas to the end user and guarantee superior service.

- To incentivize the use of natural gas, stressing its advantages compared to other more expensive and pollutant energies.

By the end of 2015, Redexis Gas has 537,992 connection points, providing service to six million households, businesses and industries.

At the closing of this year, the Company's distribution network has reached 6,784 km that have carried 28,446 GWh of energy to 243 municipalities in 26 provinces of the Spanish territory.

MUNICIPALITIES SERVED BY REGION IN 2015 (%)



During the year 2015 the Company has rolled out 225 kilometres of natural gas distribution networks, starting to serve 16 new municipalities. Additionally, it has submitted over 280 projects to obtain preliminary administrative authorisations.

During the first semester of 2015, Redexis Gas successfully completed the

acquisition from Naturgas Energía Distribución S.A. of Redexis Gas Murcia and other additional natural gas distribution assets, fully integrating the same in its business. With such acquisition, 114,000 connection points, 35 new municipalities, and nearly 2,000 km of distribution network have been added to the Com-

pany. Thanks to the same, Redexis Gas has entered into three new regions: Catalonia, Extremadura and Region of Murcia, and it has expanded its presence in the Community of Valencia, Community of Madrid and Castile-Leon. This new step offers the company the opportunity to invest in the Southern-Eastern region of Spain, which has a low natural gas penetration rate.

Likewise, in the second semester of 2015, the Company purchased from Repsol 72,000 liquefied petroleum gas (LPG) points, adding 287 kilometres to its distribution network. The integration of such points, which will end

in the first semester of 2016, entails a great opportunity for Redexis Gas, since it allows the same to enter 212 new municipalities. All of this evidences the growth strategy

of Redexis Gas, incentivised by the improvement of the country's economic situation and the achievement of regulatory stability, improving its competitiveness and increasing its client portfolio.

DISTRIBUTION ASSETS (2015)

CASTILE AND LEON

CONNECTION POINTS	33,186
DISTRIBUTION NETWORK LENGTH (Km)	590
MUNICIPALITIES SERVED	40

MADRID

CONNECTION POINTS	369
DISTRIBUTION NETWORK LENGTH (Km)	14
MUNICIPALITIES SERVED	1

CASTILE-LA MANCHA

CONNECTION POINTS	8,388
DISTRIBUTION NETWORK LENGTH (Km)	136
MUNICIPALITIES SERVED	13

EXTREMADURA

CONNECTION POINTS	6,406
DISTRIBUTION NETWORK LENGTH (Km)	136
MUNICIPALITIES SERVED	1

ANDALUSIA

CONNECTION POINTS	40,832
DISTRIBUTION NETWORK LENGTH (Km)	969
MUNICIPALITIES SERVED	46

ARAGON

CONNECTION POINTS	223,141
DISTRIBUTION NETWORK LENGTH (Km)	1,868
MUNICIPALITIES SERVED	80

CATALONIA

CONNECTION POINTS	15,438
DISTRIBUTION NETWORK LENGTH (Km)	139
MUNICIPALITIES SERVED	4

BALEARIC ISLANDS

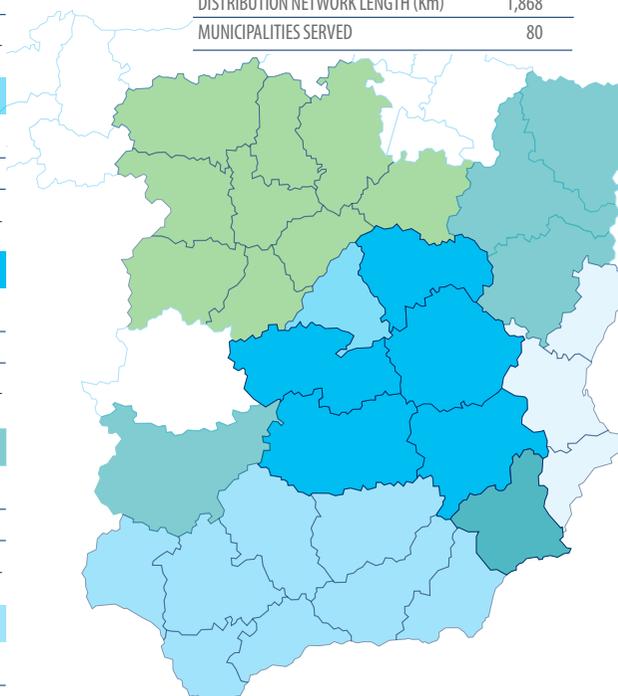
CONNECTION POINTS	102,352
DISTRIBUTION NETWORK LENGTH (Km)	957
MUNICIPALITIES SERVED	13

COMMUNITY OF VALENCIA

CONNECTION POINTS	13,566
DISTRIBUTION NETWORK LENGTH (Km)	276
MUNICIPALITIES SERVED	19

MURCIA

CONNECTION POINTS	94,314
DISTRIBUTION NETWORK LENGTH (Km)	1,700
MUNICIPALITIES SERVED	26



TOTAL

CONNECTION POINTS	537,992
DISTRIBUTION NETWORK LENGTH (Km)	6,784
MUNICIPALITIES SERVED	243

Additionally, Redexis Gas offers a series of regulated services to end users, guaranteeing at all times the safety, quality and excellence of the work performed.

1. It develops reception facilities in condominiums and households.

2. It rents metering equipment.

3. It performs readings of meters at households where its facilities are installed, in order to measure the consumption of gas made by the user during a certain period.

4. It guarantees the efficiency and safety in the use of its gas reception facilities through periodic inspections.

5. It provides different services at homes: connection, verification of facilities, reconnection, etc.

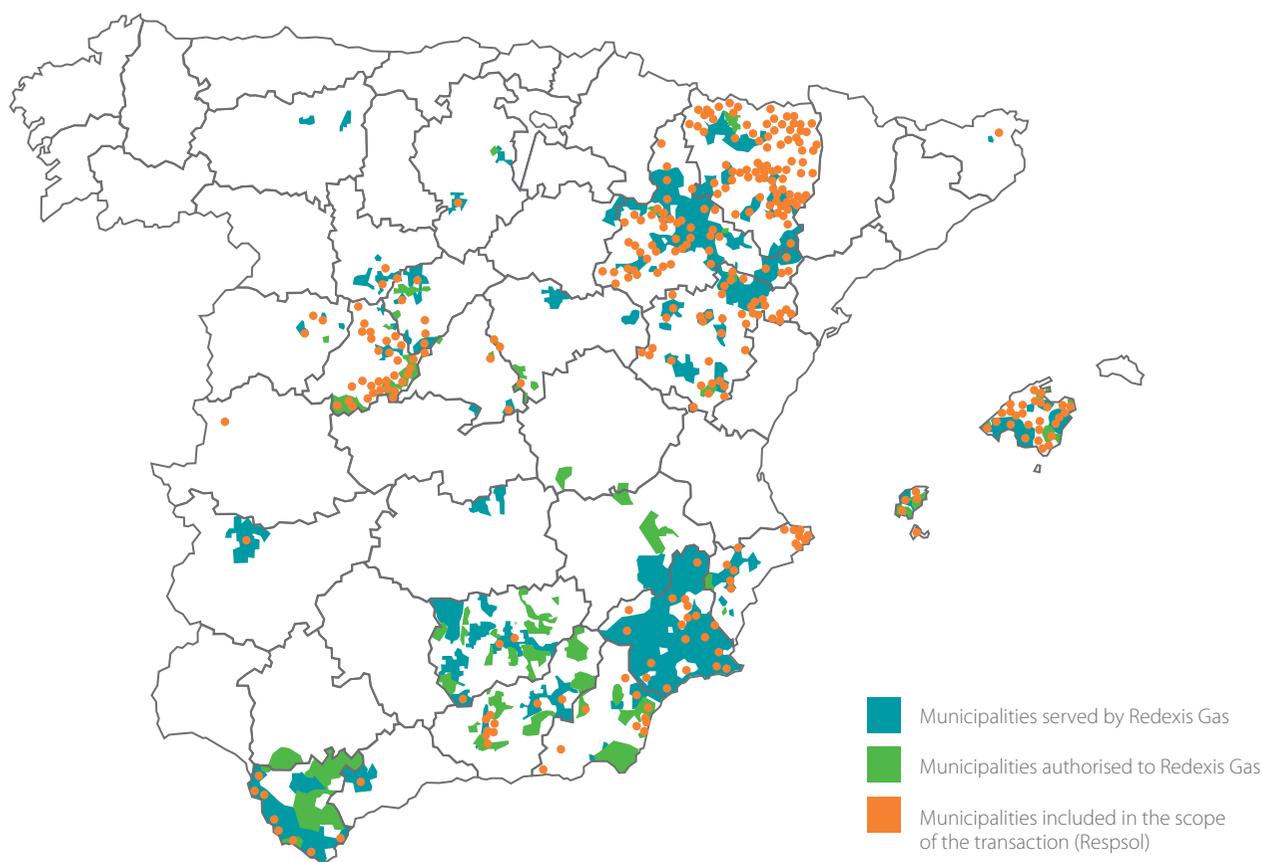
3. Liquefied Petroleum Gas

Redexis Gas also distributes liquefied petroleum gas (LPG), a regulated activity, and subject to the regime provided for the Title IV of Act 34/1998, on the hydrocarbon sector.

At present, the Company has over 77,200 LPG points, most of them acquired from Repsol in the second semester of 2015 and which Redexis Gas will turn largely

into natural gas points throughout these years. The Company has experience in the conversion of such points, with 3,800 converted in the last 4 years.

REDEXIS GAS FOOTPRINT AND MUNICIPALITIES IN THE SCOPE OF THE TRANSACTION



Note: The graphical representation is indicative and may not match the actual situation.

These assets will be converted into a driver of growth and expansion of Redexis Gas' regulated business of natural gas in the next years.

4. Other non-regulated activities

Additionally, Redexis Gas offers a series of non-regulated services for end users.

Regulatory stability of the sector

Multiple agents intervene within the Spanish gas sector and although the supply and commercialisation of this energy are fully liberalised, the rest of the stages are regulated.

Natural gas industry in Spain has experienced relevant changes in recent years with regard to its structure and

operation, caused to a great extent by the adaptation of its regulatory framework to the principles established in the European Directives on common rules for the natural gas internal market and their implementing Regulations.

The ultimate goal sought by Spanish Regulation is to create the stable

framework necessary for the operation of an internal market for gas, based on effective competition between agents, the security of supply and transparency.

At national level, the regulatory stability scenario has contributed to the operators planning their investments in an efficient manner.

EVOLUTION OF THE REGULATORY REGIME OF TRANSMISSION AND DISTRIBUTION OF NATURAL GAS IN SPAIN

1998

Act 34/1998, of 7 October, on the Hydrocarbon Sector (LSH), entailed a fundamental change in the gas market model in Spain, developing the framework necessary for the promotion of competition between agents, and the separation of the different activities that make up the business. It includes a remuneration regime both for the transmission and the distribution of gas.

between agents, and the separation of the different activities that make up the business. It includes a remuneration regime both for the transmission and the distribution of gas.

1998

2001

2001

Royal Decree 949/2001, of 3 August, regulating third party access to gas facilities and providing an integrated economic

system for the natural gas sector, which established the basic principles for regulated activities.

14 YEARS OF

In 2015, after the first full year since the implementation of the new regulatory framework, the results have shown that the gas sector has responded by increasing the capacity of adaptation, expanding new markets, advancing in attracting users and promoting its com-

petitiveness. That is so to such an extent that after the mentioned adjustments in the system's costs, and despite remaining in a crisis scenario, the system is proving to be economically sustainable, so that the sector's revenues correlate adequately with the costs.

In view of this new regulatory framework, Redexis Gas will continue incentivising the continued expansion of its natural gas supply networks to new regions, maintaining the sector's financial stability.

2014

Act 18/2014 deals with a [reform of the general scheme of the system's revenues and costs](#) based on ensuring economic balance (Principle of economic and financial sustainability of the gas system).

In the case of the transmission activity, the basis is to "variabilise" the remuneration of the developers of such assets, so that it more accurately and easily

adjusts to the level of use of the infrastructures.

Regarding the distribution activity, the remuneration bases of agents are reduced to contain the sector's costs, and the parametric formula is maintained, changing only some of its parameters, incentivising to a greater extent the expansion of gas to new municipalities.

2014

REMUNERATION STABILITY

2012

2012

Royal Decree-act 13/2012, which transposes the Directives on matters of the electricity and gas internal market, advancing in the separation of the agents' functions, in particular, the ones of the network manager.

Among the changes introduced is the requirement of [effective separation of any transmission activity](#).

2015

2015

Act 8/2015 which enacts the [reform of the LSH](#) and RD 984/2015, of 30 October, which provides a [new remuneration regime for gas pipelines with a local influence](#) and develops the regulated market for gas.





Redexis
gas

4

Redexis

Gas'

network

Characteristics of the network

Redexis Gas transports natural gas from delivery points within Spain's main or primary network to the consumption points, in the best safety and quality conditions. It operates 8,500 km of transmission and distribution networks throughout Spain, with 48 regional transmission gas pipelines that provide service to 26 provinces.

The Company has a very young transmission and distribution network: more

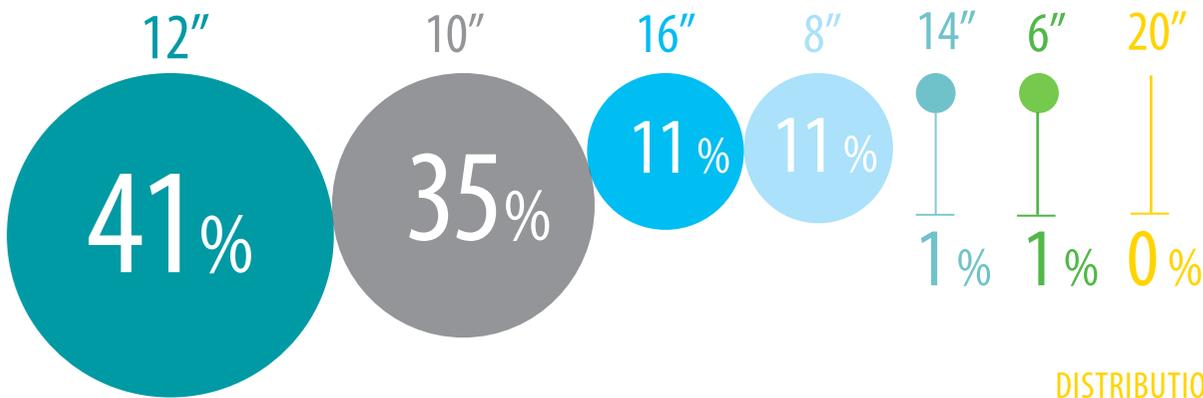
than 60% of the transmission network has been built in recent years and a significant proportion of the distribution network has been constructed between 2005 and 2008. That means that the Company only requires a limited investment to maintain its asset base, while allowing the same to offer magnificent safety ratios.

The transmission gas pipelines are built with steel pipes, a suitable material for this

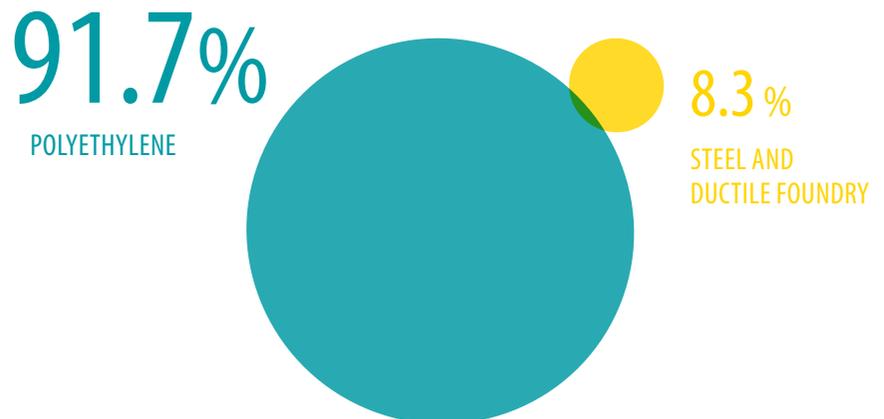
type of infrastructures, capable of operating at high pressure, normally between 45 and 70 bar. Additionally, all pipes have an exterior coating to prevent corrosion and extend their useful life.

Likewise, 75 % of the transmission network is built with pipes with a diameter between 10" and 12", generating synergies in the maintenance and replacement works and acquisitions.

TRANSMISSION NETWORK % Km OF PIPE BY DIAMETER (2015)



DISTRIBUTION NETWORK % Km OF PIPE MATERIAL (2015)



The distribution pipelines are usually built with steel when the pressure in the network exceeds 10 bar and polyethylene for equivalent or lower operating pressures in the network.



Anti-corrosion protection techniques used by the main gas pipeline operators worldwide are applied to all steel networks of Redexis Gas, whether gas pipelines or distribution branches. The application of such techniques as Integrity Management increases the useful life and notably reduces repairs, particularly corrective maintenance.

Redexis Gas continues to significantly develop its distribution network, and does not foresee the need for the implementation of a long-term asset replacement program.

NETWORK OPERATION

Redexis Gas has a Dispatching or Control Centre from which it monitors all the key parameters that define the condition of its infrastructures, such as gas pressure, flow or temperature, as well as remote access to the facilities.

Both the primary and secondary transmission gas pipelines, as well as the individual points in the distribution network, are permanently monitored,

which allows bringing forward actions to effect a Network Operation with an excellent level of safety.

NETWORK EXPANSION PROGRAM

The Group undertakes major investments in the regions where it has a significant presence and in those that allow the same to have access to the greatest number of end users, businesses and industries, through its distribution networks.

The Redexis Gas distribution network expansion program is aligned with the connections in the regions that benefit from a new transport network. The amount of the investment required to expand the distribution network depends on the type of final connection to the network, which may be:

- **New Households** New connection points of new residential developments.
- **Vertical Distribution of Power (Vertical Saturation)**. New connection points within a building connected to the Group's distribution network, which

requires individual installation at the client's household.

- **Horizontal Distribution of Power (Horizontal Saturation)** New connection points in buildings not connected to the distribution network. This requires electric supply and other individual facilities to reach each client.
- **Expansion of the Network**. New connection points in neighbourhoods where there is no distribution network and which require an infrastructure to provide supply to such points.
- **Commercial / Industrial**. New connection points for users of industrial or commercial premises that are not connected to the network.

The Group uses models to analyse each investment opportunity internally, and performs a series of tests and sensitivities. Finally, it is the Investments Committee that approves the same pursuant to certain investment criteria.



5

Economic-
Financial
vision of
Redexis Gas

Economic-Financial vision of Redexis Gas

The main activities of Redexis Gas are the transmission and distribution of natural gas, as well as services related to the distribution of natural gas (inspections,

rentals, registration and deregistration rights ...) and the distribution of liquefied petroleum gas (LPG).

The operating and economic-financial results of Redexis gas for the year 2015 were very positive, showing a significant growth in its activity.

Key operating data	Unit	2013	2014	2015PF
Connection points	#	384,168	396,533	600,039
Provinces served	#	19	20	26
Municipalities served	#	183	193	455
Network length	Km	5,581	5,873	8,588
Distribution network length	Km	4,299	4,439	7,035
Transmission network length	Km	1,281	1,434	1,553
Energy distributed	GWh	10,018	8,615	28,446
P<4bar	GWh	4,698	4,145	5,170
P>4bar	GWh	5,320	4,470	23,275
Gas pipelines	#	44	46	48

Note: PF means Pro forma and includes the LPG points acquired from Repsol, except for the distributed energy information

Key financial data	2013	2014	2015
Data in €million unless otherwise stated			
Revenue	146.9	158.3	187.8
Distribution – regulated	73.9	78.3	92.3
Other regulated distribution income	13.4	15.4	21.5
Transmission – regulated	44.4	51.2	58.6
LPG regulated business	4.3	2.7	2.8
Other operating income	4.7	4.0	3.2
Self-constructed non-current assets	6.2	6.7	9.4
EBITDA	105.1	115.9	136.0
EBITDA Margin	71.6%	73.2%	72.4%
Capex	68.8	91.2	386.6

Revenue

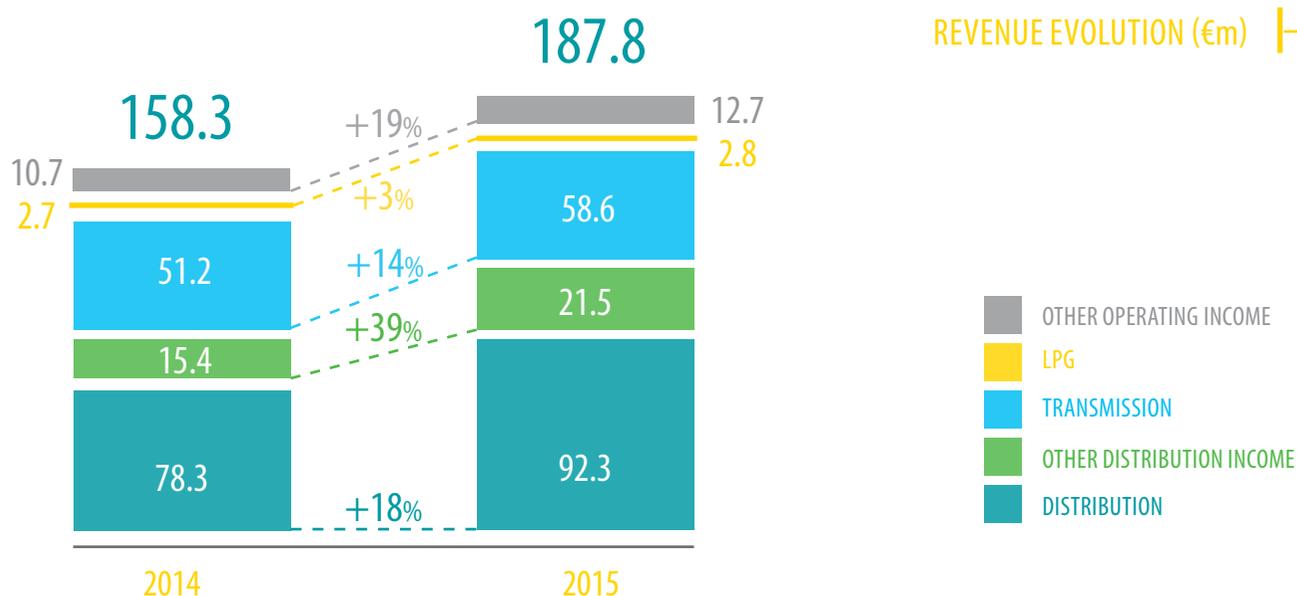
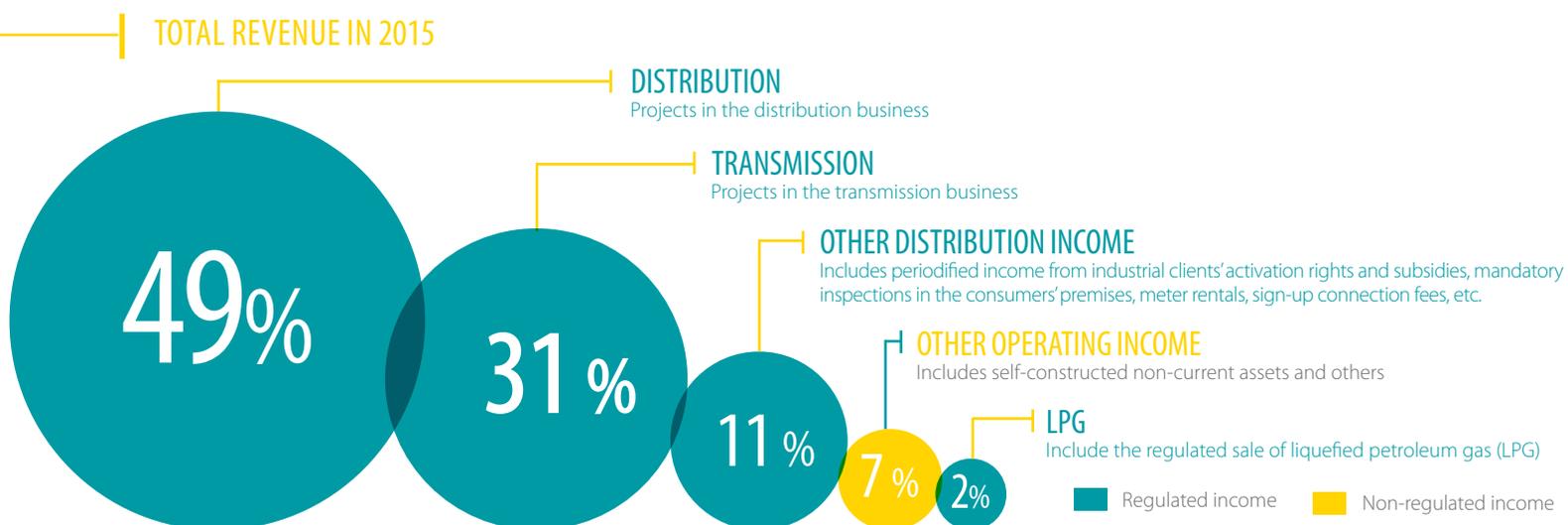
The revenue of Redexis gas originate from the remuneration it receives from the gas system for carrying out its transmission and distribution activities, acknowledged by the national regulatory authorities: Ministry of Industry, Energy and Tourism (MINETUR) and the National Commission for Markets

and Competition (CNMC), allowing the Group to recover the investment made, obtain a reasonable return and promote efficient management.

At the closing of the year 2015, Redexis Gas recorded revenues for EUR 187.8

million, which represents an 18.6% increase with regard to the same period in 2014, mainly as a result of its regulated activities. In 2015, over 93% of the Group's revenues came from regulated activities, and the remaining part from non-regulated activities.

More than 93% of the revenue are derived from regulated business underpinned by statutorily defined remuneration mechanism



Revenues from distribution increased significantly, 17.8%, reaching EUR 92.3 million, mainly due to the increase of connection points in existing and new municipalities, as well as the from the acquisition of Redexis Gas Murcia and

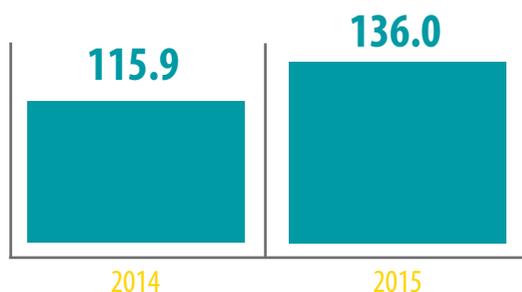
other distribution assets from Naturgas Energia Distribución.

Revenues from transmission increased 14.5%, reaching EUR 58.6 million, due to the commissioning of three transmission

gas pipelines in 2014, the commissioning of 46 km of the Son Reus-Inca-Alcudia and 8 km (Phase I) of Cas Tresorer-Manacor-Felanitx gas pipelines in the Balearic Islands in 2015 and the incorporation of 65 km of the Moratalla-Mula gas pipeline in Murcia.

EBITDA

EBITDA (€m)



The EBITDA for the year 2015 amounted to EUR 136.0 million, with a 17.3% increase compared to the previous year, and a 72.4% EBITDA margin, thanks to the revenue performance and the continued improvement of efficiency.

Capex

The investments of Redexis Gas reached EUR 386.6 million in the year 2015.

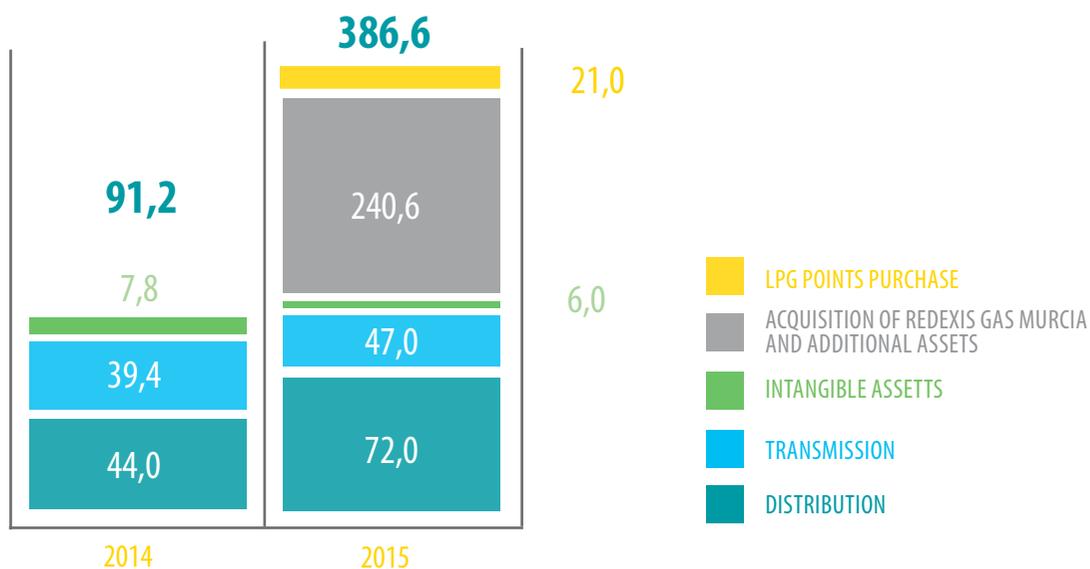
- 31% related to investments made in its organic growth, both in the transmission business with the incorporation of 46 km of the "Son Reus-Inca-Alcudia" gas pipeline network and 8 km of the first stage of the "Cas Tresorer-Manacor-Felanitx" gas pipeline, both

in the Balearic Islands, and in the distribution business with the addition of more than 17,000 new connection points and the gas commissioning for 16 new municipalities.

- 67% were investments made to acquire Redexis Gas Murcia and other distribution assets from Naturgas Energia Distribucion and to purchase 72,000 LPG points from Repsol.

- The rest were investments made in other intangible assets related to the implementation of new systems, both for the integration of the acquisitions made and for the Group's merger. The new systems have provided additional flexibility to Redexis Gas, improving its expansion activity and operating growth.

SPLIT OF CAPEX (€m)



Financial structure

On 27 April 2015, Redexis Gas successfully concluded a new issuance of notes for an amount of EUR 240 million, issued at par value and with a 1.875% annual coupon. The investors' answer to this issuance was very positive. After a week of meetings with European investors in Paris, London and Madrid, the order book was closed for an amount exceeding EUR 425 million and more than 65 orders, which allowed to distribute the issuance among a large group of high quality investors in the main European stock exchanges.

The credit ratings given for such transaction have been maintained with regard to the previous one.

Likewise, on 22 December 2015, the European Investment Bank (EIB) and Redexis Gas entered into a loan- within the framework of the European Fund for Strategic Investment (EFSI) known as the Juncker Plan- for an amount of EUR 160 million, for a maximum term of 20 years and a three year grace period for the repayment of the principal. The purpose of the same is to finance the investment projects that Redexis Gas has in natural gas distribution and transport networks in the 2015-2018 period, for the purpose of facilitating the conditions for the supply of natural gas in different municipalities in the Spanish territory.

The loan entails support for investment

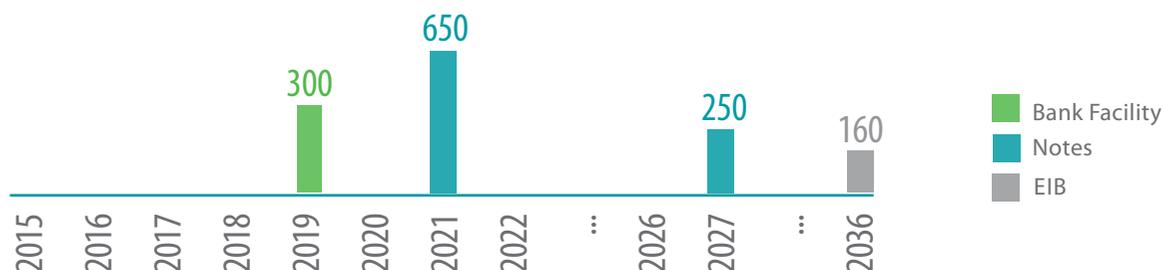


Caption: From left to right: the Executive Chairman of Redexis Gas, Fernando Bergasa, and the Vice-president of the European Investment Bank, Román Escolano.

projects related to the Company's activity, diversifying the sources of financing and extending the financing maturity profile.

DEBT STRUCTURE (€m)

Tranche	Rate	Amount	Maturity
EIB	Fixed/Floating	€160 million	2036
Notes	Fixed	€250 million	2027
		€650 million	2021
Capex Tranche (Revolving)	Floating	€250 million	2019
Corporate Tranche (Revolving)	Floating	€50 million	2019



CREDIT RATING

Agency	Corporate	Senior unsecured notes	Outlook	Last date published
Fitch	BBB-	BBB	Stable	29 January 2016
Moody's	Baa3	Baa3	Stable	14 April 2015





Redexis
gas

6

The

commitment

of

Redexis Gas



The commitment of Redexis Gas

INITIATIVES CONCERNING THE COMMITMENT OF REDEXIS GAS TO ITS STAKEHOLDERS

- It voluntarily adopts Corporate Governance measures.
- It has an internal Code of Conduct that ensures regulatory compliance.
- It has a Protocol to report irregular behaviours.
- It has an internal Whistleblowing line that allows any employee or person related to the Company to report any potentially irregular conduct to Management. Also, it has developed an external whistleblowing line that may be accessed through its website (www.redexisgas.es).
- It has signed its 1st Collective Bargaining Agreement, geared towards the business results, and which contains important aspects such as a single legal framework -simplifying the past situation- with a salary increase system that allows adjusting the cost of salaries to a variable, according to the Company's economic result and for a 3 year term (2015-2017), which provides stability, predictability and sustainability to the agreement.
- It has adopted a single set of rules that regulates and covers the diversity of specifications of the plans for the different groups, creating a single Pension Scheme for all employees, with favourable conditions.
- It has approved a new Purchasing Policy to ensure identical and transparent processes in all the Group, promoting competition and the search for added value in purchasing decisions, which improves its operational figures in terms of accidents, number of emergencies and response times.
- It has standardised a series of technological standards in the transmission and distribution activity, which has allowed to optimise the construction of its infrastructures.
- Its safety, health and working conditions, and environmental policies have been audited and approved by AENOR.
- It has developed a new Integrated Management System (IMS) born from the need to unify the Rules and Procedures on Health and Safety with the ones on Environment, which were not integrated until this time.
- It has obtained certification under ISO 14.001:2.004 and OHSAS 18.001:2007 for the different companies that form the Redexis Gas Group.
- It supports the Ten Principles of the United Nations Global Compact, in line with the new framework approved in September 2015 including 17 sustainable development goals (SDG) and 169 targets.
- It promotes employability and job creation, linking training to the needs of the labour market and companies.
- It actively contributes to the development of local communities by launching energetic efficiency campaigns and promoting natural gas.
- It supports cultural and sporting activities.



“Through its activity, Redexis Gas contributes to promote a more sustainable lifestyle. The facilities and services it offers contribute to improve competitiveness and quality of life of persons, achieving at the same time a reduction of the environmental impact. Enhancing a climate of trust with its stakeholders is a priority for the Company”

To its Stakeholders

Redexis Gas bases its strategy on guaranteeing its viability and sustainable growth, contributing value to its stakeholders in the long term.

Therefore, as a global company of infrastructures and services, its primary objective is to offer a service of excellence, for the purpose of improving the quality of life of users, communities, while providing value to its shareholders and investors, employees, suppliers and other stakeholders.

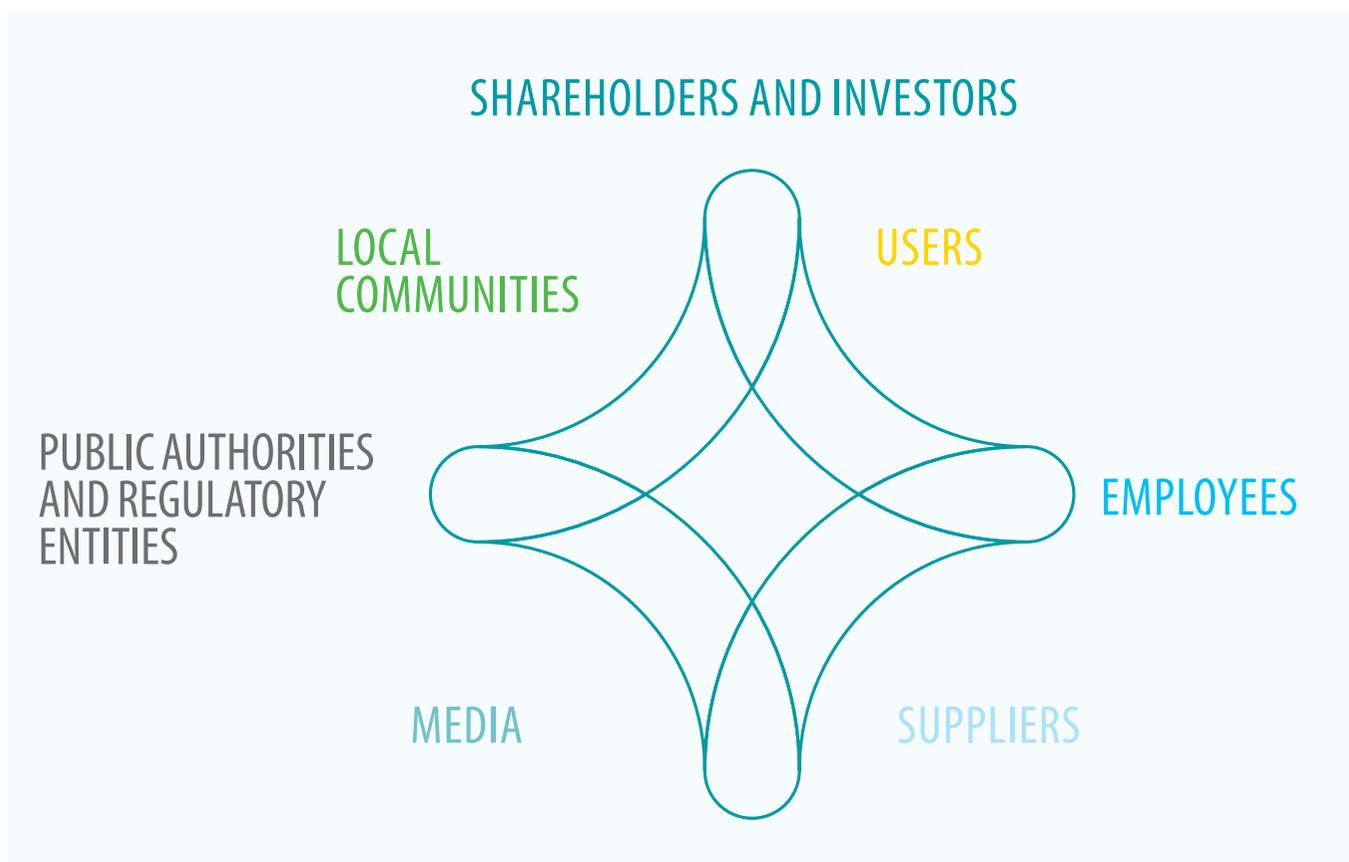
Redexis Gas acknowledges that all stakeholders in connection with its activity have a legitimate interest in the different aspects of the Company's

day-to-day management and it is aware that it plays an important role in economic, social and environmental development.

The current economic and social reality involves new challenges in the dialogue with stakeholders. It is important to analyse this relationship as a continued improvement and constant changing process, and verify whether the strategy to be followed and the changes in context (social and economic) have maintained, modified or generated any type of stakeholder, taking as a reference the corporate values, the impact and the capacity to mutually influence each other.

Redexis Gas endeavours to ensure open and constructive communication with all parties involved, studying and creating dialogue and mutual understanding mechanisms so that all the needs of all groups are taken into account in its sustainable development.

Accordingly, the Company has different communication channels to handle the expectations and opinions of the stakeholders for the purpose of providing answers that generate value for the business and for the stakeholders. In addition to using the Group's website (www.redexisgas.es), the users have different communication channels available, according to their field of interest.



1. SHAREHOLDERS AND INVESTORS

“Efficiency, integrity and transparency are the three essential pillars to transmit confidence, manage potential risks and generate increasing value for shareholders and investors”

The basis to trust the Company resides in the constant search for transparent, continued and close dialogue with the financial community, as well as in the application of certain values: credibility, value and market orientation. It is important to generate realistic expectations for the capital markets’ participants, as well as to publish adequate, accurate and relevant information for the purpose of transparency.

The mission of the Investor Relations department of Redexis Gas consists of starting an open dialogue with the financial community (shareholders and current and potential investors, analysts, noteholders, credit rating agencies

and other market players) under the principles of acting in compliance with a policy of transparency and maintaining communication channels that ensure the availability of clear, complete, homogeneous and simultaneous information to evaluate the Company’s management and its economic-financial results.

This department channels information of interest for shareholders and investors through its own corporate website (www.redexisgas.es), favouring the immediacy of anything published and the possibility of subsequent access. Such web site shows the group’s structure, the main operating and financial figures

of the business, the relevant events, the publication of half-yearly and yearly results, as well as other information of interest.

Likewise, and to keep the financial community informed, Redexis Gas participates in conferences or seminars on the sector, both in Spain and abroad, and organises group and individual meetings with key agents in the sector, to keep the strategic messages updated.

This department is in charge of coordinating relations with the rating agencies, who analyse the strategy, businesses, solvency and evolution of Redexis Gas, assigning a certain credit rating thereto.

Agency	Corporate	Notes (Senior Unsecured Notes)	Outlook	Date of last publication
Fitch	BBB-	BBB	Stable	29 January 2016
Moody’s	Baa3	Baa3	Stable	14 April 2015

Redexis Gas works actively to achieve an adequate return for the resources used to promote the efficient management of the same, and applies at all times the best practice in reporting.

Through the Investor Relations department, support is given to the management team

when taking decisions; it is a matter of increasing the Company’s visibility in the financial markets, and the different parties are kept up to date with regard to the Company’s and the industry’s most relevant information, the competitive dynamics of the markets and the company’s operational and financial evolution.

Also, all analysts and investors who deem it appropriate may visit the Redexis Gas website (www.redexisgas.es) where they can subscribe to the distribution list or write to the investor’s mailbox: investor.relations@redexisgas.es to receive information about all significant news and developments of the Group.

2. USERS

“Savings, comfort and convenience await for you with natural gas”

Redexis Gas works everyday to improve the quality of life of its users and the competitiveness of the companies that use natural gas as fuel, informing and showing them that it is an innovative, efficient, clean and environmentally friendly energy. It makes all of this possible thanks to its vocation to provide a service where users and clients are the core of its decisions and operations. Investment,

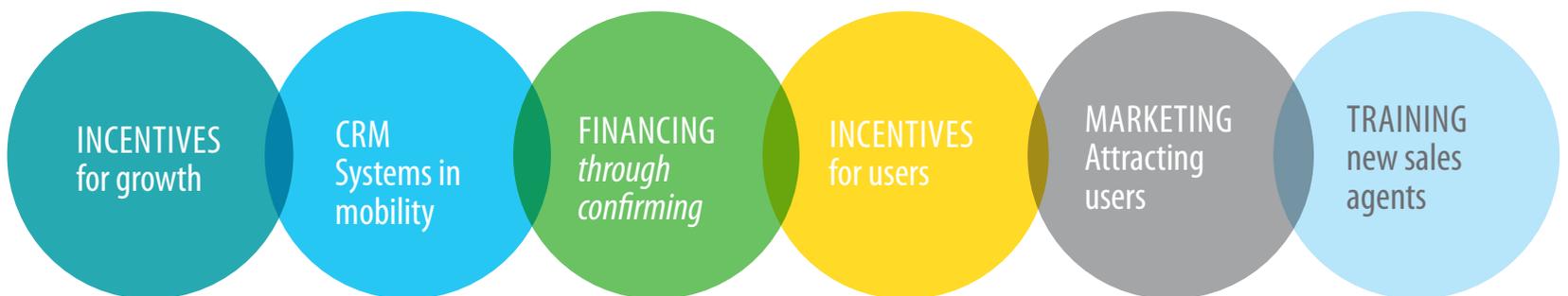
service quality and listening to needs are the three core pillars on which the organization sustains its relationship with the users of its infrastructures.

The Company has increased the investment and quality of its service in the different segments of users, and proof of this are the excellent results obtained in the year 2015.

a) Household segment

Almost 25,000 new supply contracts have been signed throughout the year, which entails an increase exceeding 45% compared to the previous year 2014. That has been possible thanks to a significant increase in the collaborating companies that carry out the commercialisation and installation, and the implementation of specific training courses for the same.

OFFERING RESOURCES TO THEIR COLLABORATORS



b) Services and Industrial Segment

At the closing of 2015, more than 650 new contracts in these segments have placed Redexis Gas in a situation of leadership in the attraction of large consumers of natural gas.

During the year 2015, significant framework agreements have been entered into with public health bodies, to provide better energy to hospitals and health centres, and

agreements have been reached with the main hotel chains of the country to study the possibility for their establishments to access natural gas.

WE STARTED TO SUPPLY NATURAL GAS TO THREE HOSPITALS IN GRANADA AND JAÉN

In November 2015, Redexis Gas started to supply natural gas to the regional hospital of Baza in Granada, to the one of San Agustín in Linares and to the one of San Juan de la Cruz en Úbeda, Jaén.

The purpose of this agreement is to promote energetic efficiency in the hospitals managed by the Andalusian Health Service (SAS).

The construction and commissioning of more than 2 kilometres of distribution networks to facilitate hospitals' access to natural gas have entailed an investment of more than EUR 500,000 and have made possible the creation of nearly 20 direct and indirect jobs.

The change to natural gas as fuel for medical services, kitchen or laundry

facilities of hospitals will provide a series of energetic, economic and environmental advantages to the same.

We have also executed the connection to the hospital La Inmaculada in Huércal-Overa, Almería, which is expected to start operating in 2016.

Redexis Gas focuses on the client and, for such reason, makes an effort to make easier the provision of its services, to offer the same with quality, closeness and transparency. To facilitate clients the use of natural gas, Redexis Gas has signed collaboration agreements with different financial entities. In mid 2015, the Company signed different collaboration agreements with CaixaBank, Sabadell and Ibercaja, to obtain a facility to facilitate the adoption of natural gas for households and small and medium enterprises that wish to install the equipment necessary to access

natural gas. This evidences the effort that the Company makes to eliminate the entry barriers to natural gas, through new agreements that provide financing to all segments that wish to switch to natural gas, offering a fast and easy service.

Redexis Gas constantly listens to the needs of its users, with a view to getting involved in the process of continued improvement of its services. For such purpose, it keeps permanent communication lines open with them, so that they may always be in touch with their natural gas distributor.

- Customer Service, telephone number through which the customer can pass on all its doubts and suggestions, whenever it considers it necessary.
- Emergency Service (CAT) through which the Redexis Gas specialists classify the actions according to the risk or severity of the situation and indicate how to act (See Section Compromiso de Redexis Gas con la seguridad)
- Website: www.redexisgas.es

“Many people already enjoy natural gas with Redexis Gas”

3. EMPLOYEES

“Having the most talented professionals is essential to face future challenges in the gas sector and its transformation”



294 employees

26% women employees

95% employees with permanent contract

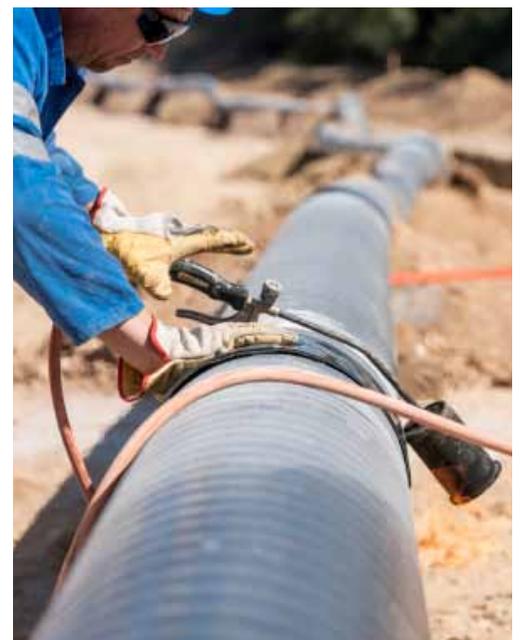
The professionals who are a part of Redexis Gas are the ones who make it possible for natural gas to reach millions of people, industries and businesses in the national territory.

The Company has 294 employees distributed throughout Spain, capable of adapting to the company's day-to-day dynamism. Positive, self-demanding, flexible, innovative, and team-work loving spirits find in Redexis Gas an optimum environment to develop. For these professionals not to find limits to their capacities, the Company tries to maintain their motivation by promoting each one of their possibilities as professionals and persons.

So, the priorities with its employees are:

- Strengthening and consolidating corporate culture.
- Supporting employee development and growth.
- Promoting the quality of employment.
- Creating scopes of collaboration with the company.

The Human Resources team of Redexis Gas contributes to the organisational change that the company needs for a correct adaptation to the increasingly dynamic, global and competitive economic environment. The Company's people management area focuses on acknowledging, promoting and reinforcing the strong points of the professionals within the same, to facilitate compliance with the strategy.



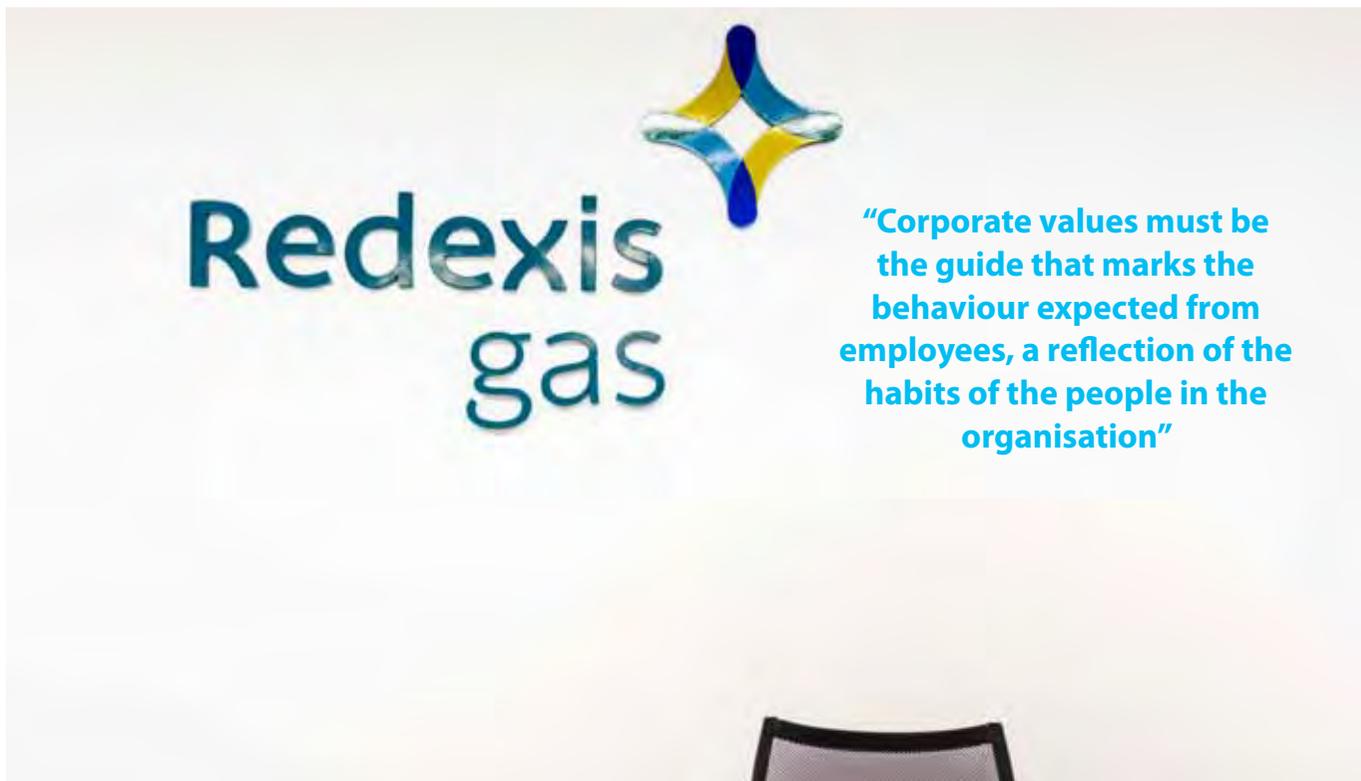
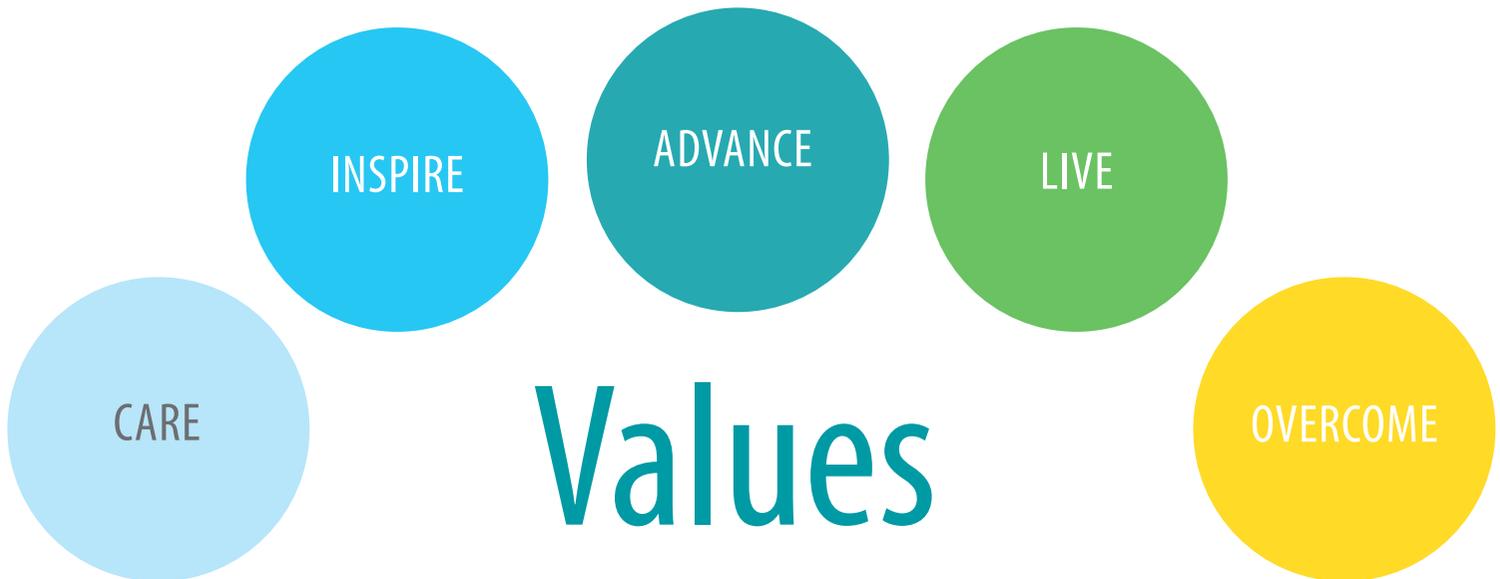
1. CULTURE

Redexis Gas has a strong corporate culture that defines the way it acts and allows the same to successfully face the challenges of the future. The Company's ability is to rely on values, attitudes and aptitudes

that allow determining the route to be followed at each time, and how to do it.

To develop the base of this corporate culture, Redexis Gas has five

corporate values, which materialise in commitments to the clients, to the employees, to the shareholders and society in general, and which are specified in operating criteria.



2. PEOPLE MANAGEMENT

“Providing a quality and excellence service requires great professionals”

Redexis Gas has great professionals, characterised for being ethical, dynamic, flexible persons, eager to grow and learn, capable of working as a team, and with a permanent concern for learning and excelling.

“Not only ‘what’ is done is important, but also ‘how’ it is done is decisive when evaluating the performance of professionals”

Through the HR Department, the Company makes an effort to create the appropriate environment to attract, manage, motivate, develop and retain the best professionals. For

such purpose, tools are developed that facilitate mobility and internal promotion, a result-oriented culture is consolidated, and remuneration policies are implemented. Additionally, training

processes have been boosted, evaluation systems have been promoted, and an organisational structure model has been designed, based on responsibilities and competencies.

Personnel Selection

Working at Redexis Gas requires a very dynamic personality. This path starts at the selection process; that is precisely the point at which it is most important to detect models of behaviour suited to Redexis Gas. Investing time and resources in the selection process guarantees an organisation where the difference between what the person is, and what the person does, is minimum.

The process of finding professionals that adjust to such profile is defined at two times:

- when they join the company through the selection processes; and
- with the professional development, where

the management of performance is the tool to identify the profiles that most adjust to the corporate culture.

The Company classifies the Selection from two points of view:

• Internal Selection

Redexis Gas considers internal promotion as the first option before starting an external selection process. For such reason, it has implemented an internal selection policy whereby the vacancies are published in the corporate intranet before looking for candidates in the market, for the purpose of promoting the professional growth of our collaborators.

This publication is accessible for all employees, making easier the task of in-house hiring, guaranteeing an open and unrestricted selection process and offering the same opportunities to all those forming part of Redexis Gas.

• External Selection

If no suited profile is found among the employees to cover a certain position, Redexis Gas makes an external selection, through strict selection processes, for the purpose of incorporating the greatest talent. For such purpose, it uses different recruitment sources, from recognized job websites to the most innovative sources, such as social networks.

Training and development

Professional training and development of the persons who form the Redexis Gas team represent a priority to adequately respond to the challenges imposed every day by the market.

The main objectives sought by e Redexis Gas in this aspect are:

- Obtaining greater performance from people in the development of their tasks and the operation of the company.

- Improving employability by achieving the persons' professional development objectives set.

- Adapting the employees' profile to the new organisational challenges.

During 2015, considering the Company's strategic needs, the training has focused on:



- Program for the Development of commercial skills and change of attitudes for the corporate and territorial expansion team.
- Program for the management of cultural change in the Company.
- Program for the Development of Managerial Skills.
- Generation of an internship program to generate an "internal reservoir". ("Promoting talent with energy").
- Generation of a culture based on merits, acknowledging exceptional performance.

Internal communication

Internal communication, together with the human team and culture, contribute to the success of businesses. Redexis Gas grows with teamwork and sharing information and knowledge beyond the frontiers and business lines, promoting

working environment that promotes fluid and open communication. Transparency, access to information and constant dialogue are the key to efficiently managing internal communication within Redexis Gas.

For the purpose of informing and maintaining constant contact with the team, the internal communication portal was started in the year 2014, for the purpose of keeping employees informed about the Company's achievements, and as a personal management tool.

3. INDUSTRIAL RELATIONS

Redexis Gas makes an effort to improve the industrial relations among its employees, trying to adjust the same to the socioeconomic circumstances in general, and to the circumstances of the industry and the Company in particular.

For such reason, in September 2015, the Company signed the first Collective Agreement, together with the labour unions UGT and CCOO, for the purpose of standardising working, economic, operational and social benefit conditions for employees. Such agreement was reached with no type of labour conflict, which has been a great achievement for all.

This first Collective Agreement is a modern agreement and oriented towards the business' result and shows important aspects:

- A single legal framework that simplifies the current situation.
- Homogeneous conditions. It harmonises working days and hours, and vacation days.
- A salary increase system based on the combination of a variable increase that cannot be consolidated, according to the economic success of

Redexis Gas, which allows to put the salary costs into variables according to the Company's economic result.

- An ad hoc, flexible and multifunctional professional classification system.
- The validation of policies, making them enforceable, and protocols, and allowing their discretionary management by the Company.
- A 3-year term (2015-2017) that provides stability, foreseeability and sustainability to the Agreement.

The Collective Agreement also contemplates the negotiation of an Equality and a Work/Family Life Balance Plan.

During this year, the Company has drawn up a single regulation that regulates and sets out the diversity of specifications of

the plans of the different groups, creating a single Pensions Plan with advantageous conditions for the employees.

4. HEALTH AND SAFETY

For Redexis Gas, occupational health and safety are at the front line of its priorities, developing an intense activity in both scopes. The integration of occupational risk policies in all activities carried out by the Company is one of its strategic objectives.

During the year 2015, Redexis Gas has elaborated and prepared a new Integrated Management System (SGI) born from the need to unify the Rules and Procedures on Health and Safety with the Environment. Such system is designed to comply with the legal requirements, which are audited from time to time by accredited entities,

which verify the level of adjustment to the legislation and its level of efficiency. In addition, they are certified pursuant to the standards OHSAS 18001:2007 and ISO 14001:2004. This management system allows preventing and minimising the occupational and environmental risks identified by the Company.

Beyond the legal requirements, the Group preventively develops initiatives aimed at improving the health and safety of its employees. Some of these initiatives include short and long term action plans to reinforce healthy behaviours, raise

awareness of risks and promote responsible conducts by all of its collaborators.

To comply with these commitments, Redexis Gas implements preventive and training actions for the purpose of protecting its own human resources, property and financial assets, constantly seeking for the necessary synergies, not only within the Group, but also with suppliers, sales agents, installers and clients involved in the activity. In 2015, the investment in training in health and safety was four times the one of the previous year.

TRAINING IN NATURAL GAS FOR FIREMEN IN HELLÍN

On 3 December 2015, Redexis Gas developed a training session at the facilities of the Fire Station of Hellín, addressed to 20 firemen, and given by the heads of Occupational Risk Prevention (PRL) and Environment.

The purpose of such training was to

expand the information on natural gas, as well as to inform about facilities (LNG pipelines and plants), the location of manholes in the municipality and the opening of the same, the identification of pipes and how to act if one breaks, and ways to act in emergencies, manoeuvrability of supply valves, among other issues.

Such type of training addressed to safety and emergency bodies are made from time to time, so that these professionals may have all the information required. This year, it has been held at different places in Spain, such as Ibiza, Palma de Mallorca or Andújar.

For such purpose, Redexis Gas conducts technical and organisational interventions to continuously improve its processes, systems and capacities to guarantee the quality and safety of the goods, services and installations it offers. Among them, the following may be highlighted:

- The implementation and continued improvement of its integrated management system.
- The continued analysis of the risk and critical points of the processes and the resources to be protected.
- The adoption of the best technologies.
- The monitoring, updating and improvement of the work methodologies.
- The organisation of training and informative interventions.

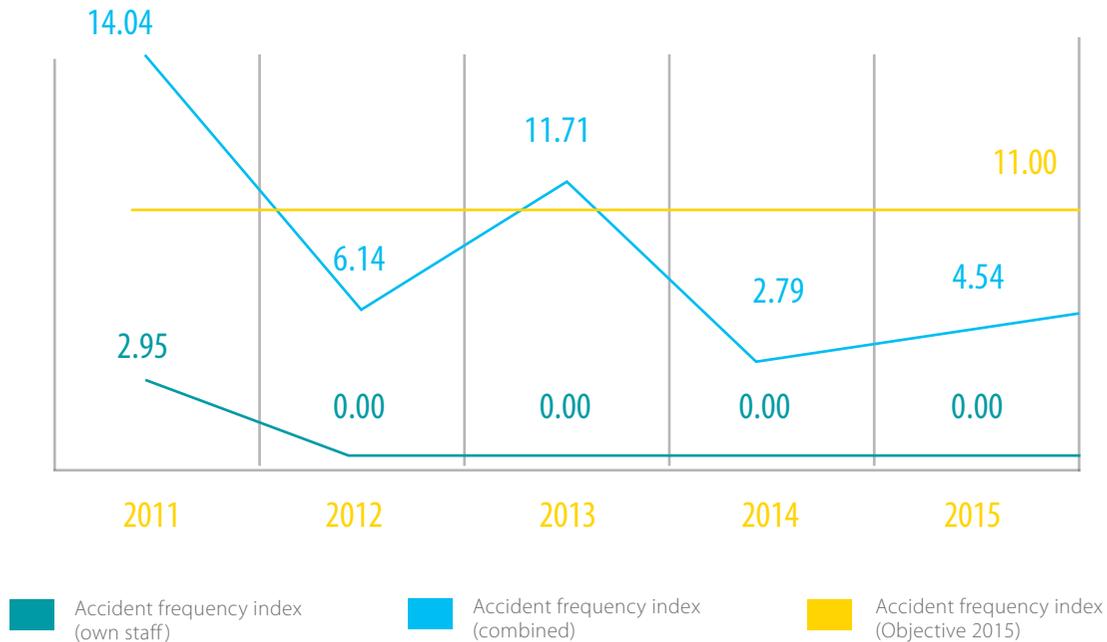
- The dissemination of environmental sensitisation campaigns, for the process of raising awareness about responsible consumption of resources and the protection of nature.
- Follow-up of the notices made concerning potentially polluting activities for the atmosphere and the relevant emission points in the different territories in which it operates,
- Environmental inspections made in accordance with the obligations provided for in Act 34/2007 and Royal Decree 100/2011.

Once again, the year 2015 has been characterised by its low rate of accidents, which has been “zero” for its

employees and 4.54 for the combination (employees plus contractors). This shows that Redexis Gas knows how to

identify the risks that can affect its staff, guaranteeing at all times their health and safety.

ACCIDENT RATE



Likewise, pursuant to its commitment to protect the safety of workers, the company prepares, implements and reviews, in strict compliance with the current legislation

Emergency Plans (EP), Internal Emergency Plans (IEM) and Self-protection Plans (SPP) of its facilities and distribution and transmission networks. Such plans provide

an action plan and the measures to be adopted if an event takes place that could affect personnel, whether it carries out its activities for the Group or third parties.

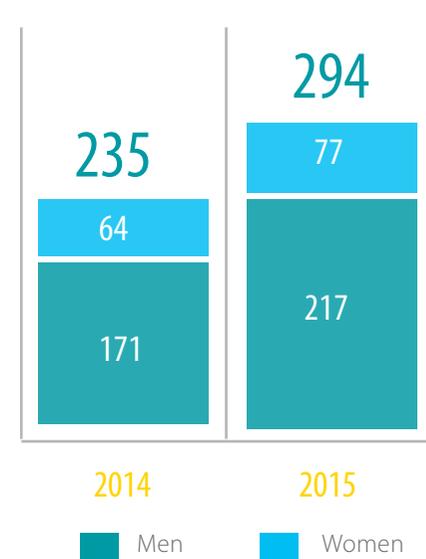
5. STAFF



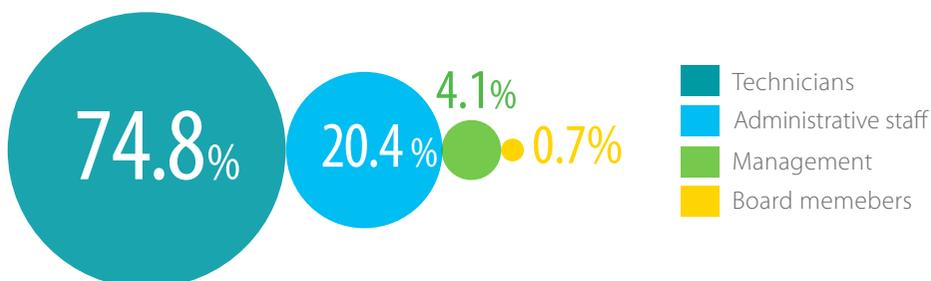
Key figures	2014	2015
No of employees (average workforce)	221	284
No of employees (as of 31 December)	235	294
% male/female	73% / 27%	74% / 26%
Average age of employees	42	42
Average time in Redexis Gas	10.3	8.7
Turnover rate	12.2%	10.8%
Absenteeism rate (average)	1.7%	1.5%

During 2015, Redexis Gas has increased its staff in 25%, creating 59 new Jobs, until closing the year with a team of 294 persons.

BREAKDOWN OF WORKFORCE BY SEX



BREAKDOWN OF WORKFORCE BY CATEGORY IN 2015(%)



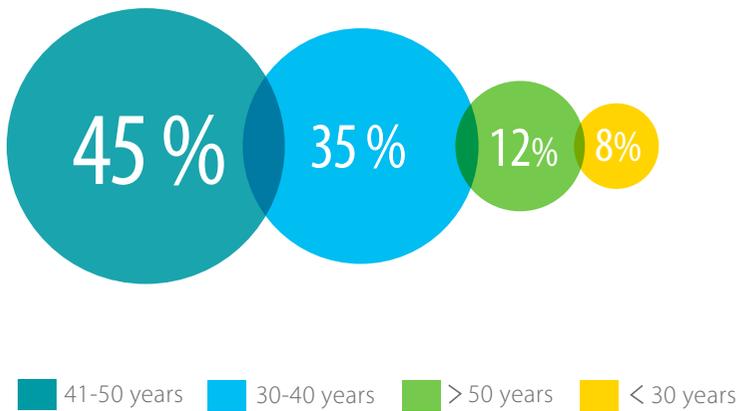
The presence of a greater number of female workers must be highlighted: a 20% increase with regard to the previous year.

In 2015, the average age of employees was 42 years, which reveals that it is a young staff, with expertise and great

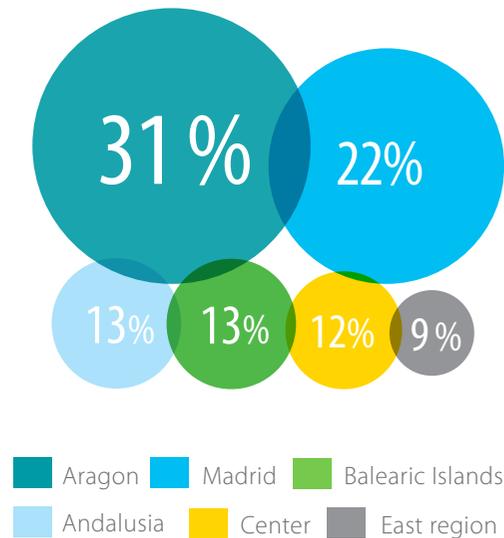
potential, holding stable positions. An example of this is the high percentage of staff with a permanent contract (95%)

during 2015, which shows a positive stability of permanence and commitment to the employees.

BREAKDOWN OF WORKFORCE BY AGE GROUPS IN 2015 (%)



BREAKDOWN OF WORKFORCE BY REGIONAL CLUSTERS IN 2015 (%)



Redexis Gas has a highly qualified and prepared team to develop its work and make a benchmark company out of Redexis Gas.

To continue contributing to the growth and development of the Company and its collaborators throughout the year 2016, the Human Resources department plans to carry out the following projects:

- To consolidate the Global Program to Identify, Evaluate and Manage Talent
- To adapt our people management system as a lever and driver of the Organisation's digital transformation.
- To help employees adapt to the new digital environments with a new more strategic focus, to facilitate change through levers such as training, process digitalisation, the new digital tools and new employer branding strategies for the engagement and attraction of talent.

“Persons are what really make of Redexis Gas the great company it is”

4. SUPPLIERS

Working together with suppliers appears as an indispensable tool to create greater added value by maintaining durable, stable and reliable commercial relations, which guarantee the excellence of its facilities and services.

- Strategic approach to negotiation processes.
- Continuous benchmarking.

- Understanding the evolution of the cost of materials and raw .
- Scale economies.
- Multi-annual contracts.

Year after year, Redexis Gas tries to improve its purchasing management model to guarantee the maximum objectivity possible when selecting suppliers, and an optimum quality

of the services engaged. Due to the purchasing and supplier volume, selection processes that guarantee equal opportunity and free competition are essential. Also, the Company seeks to minimise, throughout the supply chain, the business, technical, environmental and health and safety risks, in addition to the ones related to employment conditions and ethical conduct.

“The final goal is to achieve sustainable growth through collaborative dialogue based on the exercise of transparency between the parties”

The purchasing management model is also intended to secure maximum transparency and promote competition through competitive bidding for most products and services demanded s.

The essential and preliminary requirements to be able to participate in the Redexis Gas tendering procedure are the following:

1. To meet the qualitative selection requirements determined by the Company, used to verify the offeror’s legal capacity.
2. To meet the economic solvency requirements of Redexis Gas
3. Accreditation, capacity, means and technical solvency. For these purposes, the bidder must prove that it has the ISO 9001, ISO 14001 or equivalent certifications.
4. Credentials and experience in the industry.

For Redexis Gas, working with certified suppliers is a guarantee of professionalism, quality and sustainability, and therefore, it requires certification and evaluates suppliers supported by the RePro external platform, a system to classify suppliers in Spain, in compliance with Act 31/2007 on

procurement procedures in the energy sector. This external system performs a follow-up of suppliers’ documentation and certifications.

In 2015, Redexis Gas managed, through 771 suppliers, a purchasing volume

for an amount of Euro 120 million, which constitutes a significant source of creation of wealth, as well as an opportunity to build fruitful relationships with suppliers, under the commitment to effectiveness, efficiency, flexibility, trust and transparency.

“18% of the supplier base has had a commercial relation exceeding EUR 100,000 during 2015”

Likewise, Redexis Gas is strongly committed to economic development in the regions it operates, by creating

jobs in service provider companies and ancillary industry, as well as boosting their capacities. In 2015, nearly 96% of

the purchases were made from local suppliers.

For the purpose of eliminating entry barriers, as well as increasing the supplier base, Redexis Gas has reached different confirming line agreements with different financial institutions to facilitate the collection of invoices for the suppliers with which it interacts. This way, Redexis

Gas helps them finance themselves by finding win-win solutions, controlling expenditure and its adjustment to the needs of the company and the supplier from time to time.

Also, Redexis Gas promotes responsible

procurement, positively discriminating suppliers who are Special Employment Centres. To such effect, in 2016 it expects to enter into commercial agreements for the main purpose of boosting the incorporation of disabled persons into the labour market.

5. PUBLIC AUTHORITIES AND REGULATORY ENTITIES

The Hydrocarbons Act of 1998 introduced deep changes in the development of gas activities, deregulating the activities of sourcing and supply, and regulating the rest of the intermediate stages, which include transmission and distribution, the Company's main activity. These reforms have opened the way to an objective and transparent energy system of free competition, but strongly regulated in some aspects due to its technical complexity, particularly as a result of the integration into the energy common market within the scope of the European Union.

Redexis Gas' business depends, to a great extent, on the relations it has with the Public Authorities and regulatory entities in the Spanish territory, in charge of regulating its activity, evaluating its management and remunerating its services. Accordingly, the Company is committed to maintaining an open and honest communication with all of them.

Administrative management of the gas sector facilities and infrastructures, as well as all related regulation, are carried out by the Central and Regional Governments, under the supervision of the Ministry for Industry, Energy and Tourism (MINETUR) and the National Commission for Markets and Competition, which also aims at ensuring the proper operation of the system from a technical and economic standpoint, ensuring competition and consumer protection.

The employees who interact with the Public Authorities and the different regulators on behalf of the Company ensure that all communications made, whether directly or through intermediaries, are accurate and comply with all applicable laws and regulations.

To such effect, it is especially relevant that the increase in market share experienced by Redexis Gas in the last five years has

made its regulatory contribution in the industry acquire more relevance. That has allowed the same to be considered an agent of special relevance, increasing its participation in industry forums such as the working group to amend the System's Technical Management Regulation in which, through a voting methodology carried out in the industry, it has achieved new representation in the transmission activity that will take place after 1 July 2016 and which adds to the one it already had historically in the distribution activity.

In addition to all of the above, it has entered new Autonomous Communities during the year 2015, and is now present in 10 communities, and fully focused on the expansion into new territories. Such global implementation of Redexis Gas in the national territory contributes decisively to its image as an agent of great relevance within the gas industry.

PROCEDURE TO OBTAIN AUTHORISATIONS FOR THE TRANSMISSION ACTIVITY

Although the main principles are defined in the mentioned Hydrocarbon Act, the competent administration may be Regional (for the construction of gas pipelines with a pressure lower than 60) or National (for the construction of gas pipelines with a pressure exceeding 60 bar).

PROCEDURE TO OBTAIN AUTHORISATIONS FOR THE DISTRIBUTION ACTIVITY

Although the main principles are defined in an act of national scope (Act 34/1998, on the Hydrocarbon Sector), the Autonomous Community is the competent body to grant the administrative authorisations for the development of the distribution network in a municipality.

6. LOCAL COMMUNITIES

Contributing to sustainable development of society and actively participating in the social life of municipalities and communities where Redexis Gas operates is one of the Company's key objectives. For such purpose, it considers vital to promote and maintain an on-going dialogue with the different players involved in its activity, whether government or private entities, and at the different levels: municipal, regional, national and European, as well as to enquire about their concerns to provide a response to their specific needs.

The approach of Redexis Gas towards relationships with local communities is based on transparency and the intention of opening and building throughout time a bidirectional dialogue for the purpose of providing synergic and shared solutions, taking into account the needs and potentials in each territory. Thanks to this process of continuous dialogue, the Company identify its concerns and try to meet

To manage such interaction and guarantee the creation of value in the short, medium and long term, it is essential to establish collaboration and mutually beneficial relationships with the communities where Redexis Gas develops its activities. Such integration in the community, supported by a communication and cooperation strategy, improves the feasibility of its projects and puts emphasis on the well-being of citizens.

its needs through sponsorship and collaboration actions in social, sporting and cultural projects. During 2015, Redexis Gas has carried out more than twenty sponsorship actions, showing its commitment to remain close and create value in the areas in which it operates. This way, Redexis Gas, contributes to the improvement of the quality of life in communities, by starting up activities in line with its business strategy.

WE CONTINUE WITH THE ROLL-OUT OF NATURAL GAS NETWORKS IN HUÉRCAL-OVERA

Redexis Gas reached an agreement with the City council of Huércal-Overa in February 2016 for the construction of new connection points that will provide coverage to the sports complex and swimming pool of the H2O Sports Centre in the municipality.

It is expected that the facilities will achieve an estimated saving between 30% and 50% in the electric bill.

The connection will benefit the activity of the Sports Centre, which will be able to offer an improvement in the conditioning of the facilities used by associations of persons with a disability, children and adults to learn and practice aquatic and cardiovascular activities.



THE 2ND ESIC CORPORATE RUN, SPONSORED BY REDEXIS GAS, GATHERS MORE THAN 3,300 RUNNERS

On 13 December 2015, the 2nd ESIC Corporate Run was held in Zaragoza, an innovative initiative, sponsored by Redexis Gas, in which more than 300 enterprises and institutions achieved the objective of strengthening the links they share in the business and sports world, promoting



values such as sacrifice, fair play and, most of all, teamwork.

Also, it is a priority for the company to listen, analyse and maximize the shared value through periodic meetings with its stakeholders: associations, institutions, local entrepreneurs, working groups and special meetings with citizens, seeking to establish a permanent dialogue with the interested parties, which allows to evaluate the needs and identify specific solutions.

Redexis Gas also contributes by supporting the business fabric of its territories, and selecting regional and local contractors and subcontractors, provided it is possible, and hiring local personnel, whether directly or indirectly, to sustain the growth of the economy in the areas where it is present.



REDEXIS GAS JOINS CONAIF AS COLLABORATING PARTNER



In September 2015, Redexis Gas joined the National Confederation of Installers and Fluids, CONAIF, as Collaborating Partner, for the purpose of creating closer cooperation ties within the sector and promoting business development.

With this adherence, the Company comes closer to the 44 provincial associations and over 18,000 Spanish companies that are part of CONAIF, thereby achieving a greater proximity to its installers.

7. MEDIA

Relationship and dialogue with the media are an important aspect for all companies. Redexis Gas is aware of that and for such reason, during the year 2015, it has strengthened its relationship with the same, increasing the presence of the brand both in national and regional media, positioning itself as one of the main companies engaged in the development and operation of natural gas transmission and distribution in Spain.

Redexis Gas maintains a relationship both with the national, regional, economic and sectoral media, as well as with the radios, televisions and on-line media, to which it transmits, in person or through publications on its corporate website, information about its projects and results.

In its corporate website (www.redexisgas.es) it presents the information not only to the media professionals, but also to all those interested in knowing the advantages of natural gas, a clean, sustainable, efficient and environmentally friendly energy.

In 2015, Redexis Gas has increased its presence in the media, thanks to the communication actions and events it has carried out within the strategic plan for communication. The Company has strongly focused on regional and national press, with which it has established a day-to-day follow-up, thanks to a free-flowing and constant dialogue and to the different acts, institutional events and corporate projects announced during the year. Thanks to the press releases and

the collaboration relationship of Redexis Gas, the media have got involved in all corporate and business news, as well as in inaugural acts and the arrival of natural gas to different municipalities belonging to the ten autonomous communities in which the Company operates. Additionally, the Company has conducted other communication actions, such as different formats of interviews of members of the Management Committee on national and regional media.

Redexis Gas considers essential to continue this path of collaboration and confidence with the media and journalists that follow its information, with an essential aspect: maintaining its commitment to transparency and truthfulness.

To society and its environment

Redexis Gas, as an infrastructure operator, plays a fundamental role in the sustainable development of the local economies in which it operates.



COMMITMENT TO THE ENVIRONMENT

It identifies, prevents and mitigates potential negative impacts on its activity in the environment in which it operates



LOCAL CONTRIBUTION

It maintains a strict policy regarding its tax contribution in the Autonomous Communities in which it operates



JOB CREATION

It develops its activity in different Spanish municipalities generating employment at local level and promoting purchases from local suppliers



LOCAL PURCHASES

It has a purchasing policy for the purpose of strengthening long term relationships with the suppliers



SUSTAINABLE DEVELOPMENT OF LOCAL ECONOMIES



LOCAL INVESTMENT

It makes its investment coincide with the areas in which it develops its business activity

Redexis Gas is aware of the need to give an answer to the great challenges of today's society and to collaborate with the environment. For such reason, it orients all its sustainable development efforts towards working under two principles:

- Commitment to society
- Respect for the environment

Redexis Gas develops its activity in ten Autonomous Communities, reaching more than 550 municipalities. It is a priority for the Group to be able to guarantee and maintain the supply of gas in all of them, and thus it works actively in the development of its transmission and

distribution networks, to offer a service in adequate safety and quality conditions, contributing with its activities to the availability of an essential energy such as natural gas for all citizens and enterprises.

Because of the activity it is engaged in, decision-making requires a responsible exercise, considering the positions of the affected agents, and thus it is essential to enable the participation of enterprises and agents in the industry, through dialogue with competitors and the authorities involved. Redexis Gas seeks cooperation agreements in a transparent manner, circulating information about natural gas and

promoting the participation in projects and initiatives that boost the well-being and progress of the communities in which it develops its activity.

To facilitate such dialogue and form part of the same, Redexis Gas is present and actively collaborates with different associations within the gas industry, seeking positions that are in accordance with its vision and circulating information about the operation of the gas system. So, the Company actively participates in the Safety and Sustainable Development Committee of the Spanish Gas Association (Sedigas), in its commitment to develop the gas industry.

Also, in 2015, Redexis Gas organised at its headquarters in Zaragoza the “5th Intercompany Meeting on Integrity of gas pipelines and multiproduct pipelines” which gathered network operators (CLH, Enagas, GNF and Redexis Gas) and companies (Guldager, Procainsa, Arco and Applus)

specialising in integrity and cathodic protection of this type of facilities, for the purpose of briefly dealing with a new matter, a practical experience, or information related to the cathodic protection or the integrity of gas pipelines and mutliproduct pipelines. The exchange of information by

the different companies provides a forum to share for the purpose of defining good practice in the sector, sharing experiences that enrich the knowledge on the activity and orient solutions to the common problems found in the management of this type of infrastructures.

Throughout 2015, the direct contribution to society made by Redexis Gas has been instrumented through different social initiatives:

- Certification of the first trade specialists under the “Training and Employment Program” which Redexis Gas launched at the beginning of de 2015, for the purpose of promoting the employability of the gas sector in the Balearic Islands, training professionals qualified in four areas: site technician, inspector, installation technician or sales agent for natural gas, aimed primarily at women, people over the age of 45, youth and professionals in the construction sector.
- Signing agreements with different financial institutions (CaixaBank and Sabadell) for the purpose of contributing to financing the adoption of natural gas for households and small and medium enterprises that require it.
- Financial support to its suppliers by signing confirming lines with financial institutions to facilitate collection of their invoices, strengthening the long-term relationships of the Company with its suppliers.
- Sponsorship and participation in the professional session of Foro Turismo+ organised by Diario de Mallorca, for the purpose of debating the future of the touristic commercialisation of the Balearic Islands and the image of the islands for tourists.
- Participation in the Informative Campaign on Safety of Gas Facilities in the Community of Madrid, for the purpose of offering users some practical advice in order to use gas facilities safely and thereby avoid potential accidents.
- Sponsorship of the 2nd Corporate Run organized by ESIC in Zaragoza, where the values of teamwork, excelling and fair play were tested, values that are shared by the corporate and sports world.
- Support to youth and sports through collaboration with different sports schools (the Football School of Unión Deportiva Tobarra and Club Esportiu Constancia of Inca) and Sponsorship of the 64th Trophy “Ciutat de Palma”, organised by the Royal Sail Club. With such sponsorships, Redexis Gas wants to promote collective effort.
- Participation and sponsorship of cultural initiatives such as the 4th edition of the Cursa Patrimoni de la Humanitat in Ibiza, to commemorate its declaration as World Heritage city, the permanent exhibit of El Greco in the Sigüenza Cathedral in Guadalajara, as well as flamenco festivals (Inaugural Gala of the Cultural Association “El Malacate Flamenco” in La Unión).

The objective sought with this type of initiatives, is to show Redexis Gas’ commitment to citizens and the municipalities in which it operates.

At the same time, Redexis Gas tries to minimise the social costs in environmental matters and the negative effects it may cause. It combines its business goals with the protection of the environment and the

adequate management of the expectations of its stakeholders with regard to this matter.

Redexis Gas considers environmental excellence, safety and continued improvement of the working conditions and protection of health as fundamental values of its corporate culture. For such reason, it dedicates one of its departments exclusively to guarantee

the wellbeing at the workplace of the persons who work for the organization and the protection of the natural environment. Such department works to achieve sustainable and environmentally friendly development, integrating such principles with the preventive culture of continued improvement in the protection of health and safety of all the workers who carry out their activities in

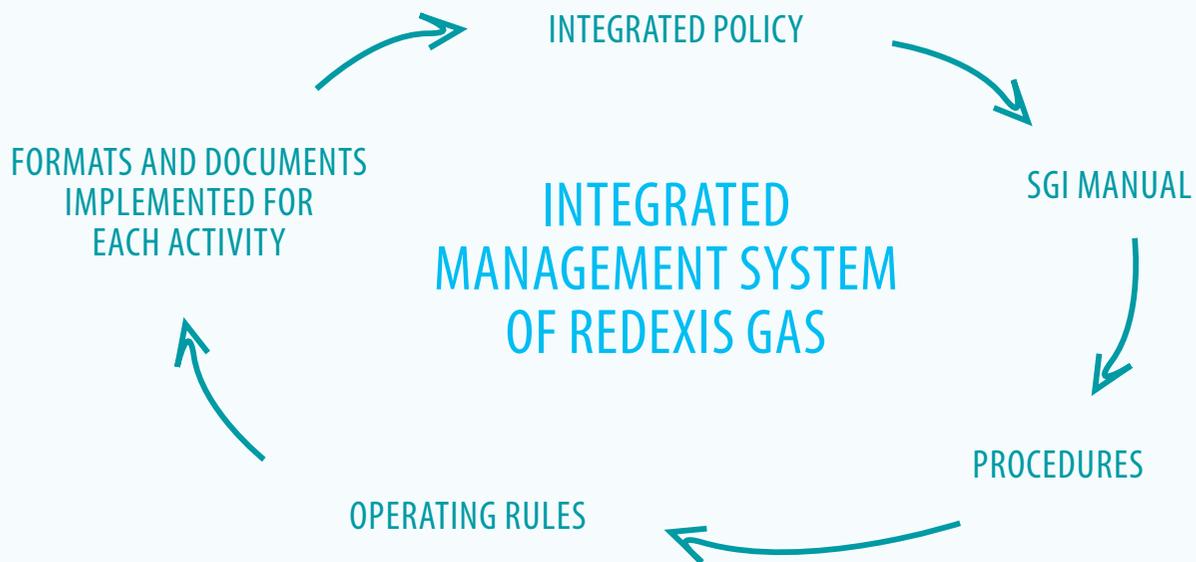
the company's own work centres.

During the year 2015, Redexis Gas has conducted an integration process in which, through different procedures, operating

rules and formats, it involves the whole organisation in its commitment to safety, health and environmental preservation when developing its activities. As a result of such integrating process, such unit has

achieved, by the end of the year, certification of the system under the ISO Standard 14.001:2.004 and the OHSAS Standard 18.001:2007 for the different companies that are part of the Redexis Gas Group.

For the purpose of integrating the management of both Health and Safety and environmental management within the management of all business activities, Redexis Gas develops, implements and maintains its current Integrated Management System through the following:



As a cornerstone of such Integrated Management System and for the purpose of setting out the commitments acquired

in the matter, the organisation subscribes the [Redexis Gas Group Integrated Policy](#) which establishes the basic principles

that are the foundation in matters of environmental protection and health and safety at the workplace.

Through this Policy, the Company assumes commitments to:

- having the image of a transparent company, concerned with the Environment, sensitising and raising awareness among its collaborators,
- compliance with the legal provisions and other requirements subscribed by the organisation,
- the identification, evaluation and control of its risks, according to their nature and magnitude,
- the identification, evaluation and control of its environmental aspects, for the purpose of minimising the impact,
- preservation of the natural environment of its facilities,
- the rational use of resources, and the minimisation of its waste, emissions and discharges,
- continued improvement of processes to guarantee quality and safety in connection with its activities, facilities, products and services,
- professional and personal conduct, promoting sensitisation and awareness
- employee consultation and participation,
- assumption by contractors and suppliers of environmental and occupational health and safety policies based on the same principles, and
- public information about the aspects of its business activity that may affect the health and safety of persons who work at or for the company.

Such commitments are duly documented and are available for the Company's stakeholders; they are reviewed from time to time for their adjustment and modification, if necessary, and they provide a reference framework to establish and measure the company's goals in environmental and occupational health and safety matters.

Pursuant to its commitment to protect the environment, Redexis Gas has the appropriate resources to achieve the goals set. In the year 2015, the Company has used over EUR 418,000 for matters related to the environment, which entails a 35% increase compared to the previous year.

Pursuant to its commitment to environmental protection, Redexis Gas has an [Environmental Emergency Plan](#)

(PEA) for its facilities and networks, which describes the actions that will be followed if a situation of environmental emergency is detected at the facilities and networks owned by the same, which could have environmental consequences.

The PEA is a supplementary document to the Self-protection Plans (PAU) or Internal Emergency Plans (PEI) elaborated for transmission gas pipelines, the relevant natural gas and propane storage plants, and distribution networks of distributing companies.

The adequate management of environmental incidents consists of the adoption, promptly and in a coordinated manner, of measures allowing to control and limit its negative consequences on the environment, thus avoiding and minimizing possible environmental

impacts associated to the same. Such management includes:

- Efficiently planning the organisation of human resources and the use of the available technical means.
- Preventing and reducing the damages that may be caused by such situations to people, facilities and the environment.
- Establishing the Communication Plan.

The strategy of Redexis Gas in environmental matters inherently includes the integral treatment of the impacts it causes, with a preventive attitude towards the generation thereof, correcting the ones that have inevitably occurred and, if appropriate, adequately offsetting the ones that have taken place.



REDEXIS GAS PARTICIPATES IN THE SEMINAR “IMPROVEMENT OF AIR QUALITY IN THE CITIES”

In November 2015, Redexis Gas participated in the seminar “Improvement of Air Quality in the Cities” organised by the Spanish Federation of Municipalities and Provinces (FEMP) and Sedigas.

This seminar gathered more than fifty municipal experts and persons in charge of urban development and the environment in Spanish City Councils and had the objective of analysing the real problem entailed by the quality of air in cities, and possible solutions to

the same, taking into account the possibilities that natural gas offers to improve air quality.

With this event, it intends to highlight the importance of involving all players in the policies to fight against climate change.

To continue responding to the needs of society, the Company continues to adhere to the initiative of the United Nations Global Compact, for the purpose of embracing, as an integral part of its strategy, the ten principles related to

human rights, labour conditions, the environment and fighting corruption.

Likewise, the Company commits to work in line with the new Sustainable Development Goals (SDG) 2015-2030,

approved by the UN in September 2015. Through its business lines, the Company contributes directly to the achievement of three of the goals (8, 9 and 11) and, to a different extent, to the remaining ones.



To innovation

“Satisfying the needs of the customers through permanent innovation of its infrastructures and services”

Redexis Gas is an organization in constant evolution, adapting to the needs of its customers and society's demands. The diversification process it is undergoing in recent years includes wide range of activities that take on innovation and development in a purposeful way.

Innovation is one of the drives of progress and growth in Redexis Gas, since it allows the solutions put forward by the Company to reach a notable competitive position within the Spanish gas market. The involvement in research, development and innovation is obvious from the increase

of the investment and R&D&i effort made by the Group, developing programs that promote innovation culture throughout the organisation and facilitate the identification and implementation of innovative solutions for businesses and clients, in accordance with the defined strategy and priority areas.

This effort translates into tangible improvements in productivity, quality, customer satisfaction, occupational safety, obtaining new and better materials and goods and more efficient design.

The commitments it assumes as an answer

to its support to innovation are :

- To increase coordination and synergies between the R&D&i activity of the different business lines.
- To promote the safety and efficiency of the Group's activities.
- To reorganise the activity to focus on profitability, efficiency and excellence.

Innovation and knowledge of the best technological solutions are essential for an efficient and safe operation of its assets.

TECHNOLOGICAL INNOVATION CYCLE

IDENTIFICATION OF STATE OF THE ART TECHNOLOGIES WITH A HIGH POTENTIAL TO TRANSFORM THE COMPANY

DEVELOPMENT OF PILOT PROJECTS TO DEMONSTRATE THE IMPROVEMENTS

ADJUSTMENT TO THE BUSINESS AND OPTIMISATION

During the year 2015, the Systems and Processes department has implemented solutions in the business processes, which have facilitated the achievement of the goals set. Among the main implementations developed, the following may be highlighted:

- The formalisation of the Group's new structure has entailed the merger of its operating subsidiaries and the segregation of the primary transmission assets to Redexis Infraestructuras, S.L.U.
- The integration of the acquisition of Redexis Gas Murcia and other additional distribution assets into the Group's systems.
- The integration of part of the LPG points acquired from Repsol.
- The adaptation of its systems to the new regulations regarding balances and distribution, CNMC circular. (See Section Commitment of Redexis Gas to safety)
- The start-up of its commercial website (www.redexisgas.es).

All this innovative effort has had its reward, reflected in the prize awarded to Redexis Gas at the 21st Computerworld International Conference to the “Best Technological Project of the Year in the Private Sector” in June 2015.

This prize acknowledges the important work carried out in System migration project in record time: nearly 30 million entities were migrated, more than 1,750 hours of training were given, and all the Company’s management systems were implemented.



The Systems and Processes Director of Redexis Gas, Mercedes Barreiro, receiving the award for “Best Technological Project of the Year”

Regarding its more operational dimension, Redexis Gas focuses its innovation efforts in developing activities to optimise and manage its assets, in order to improve the quality and the reliability of the natural gas supply on an on-going basis; in providing more efficient services and products that satisfy consumers’ needs in a sustainable manner; and ensuring an adequate level of knowledge in the Company for an optimum use of the technological environment.

During recent years, a series of technological standards in the transmission and distribution activity have been standardised, which have allowed:

- Optimising the design and construction of the facilities to give an answer to the demands of new populations, contributing to the expansion of the business to new municipalities.
- Implementing and introducing new

technological solutions, improving the technical services, becoming a benchmark for the rest of the sector.

- Obtaining approval for more efficient new equipment and materials.
- Improving the operation and safety of the facilities.
- Ensuring compliance with the safety regulations in all scopes of application.

WORK PERFORMED TO OPTIMISE CONSTRUCTION

IMPROVING DESIGN



STUDY ON EFFICIENT ROUTES

OPTIMIZATION OF STANDARDIZED DESIGNS

MINIMIZING COSTS



COMPETITIVE TENDER PROCESS FOR CONTRACTORS

ANTICIPATION OF POTENTIALS CLAIMS

CONTROL OF CONTINGENCIES

SETTING OPTIMAL WORK DEADLINES

To safety

Consistent with the activity developed by the Company, one of its main commitments is to ensure and improve on a continued basis, throughout its entire chain of value, the quality and safety of its facilities and of the services it provides.

Redexis Gas is a company in constant growth, with a dynamic structure, prepared to evolve in accordance with the requirements inherent in such development, and maintaining at all times the level of quality and safety required to achieve its goals.

Its usual growth pace has increased throughout this year with the acquisition of transmission and distribution assets and LPG points from other companies, Naturgas Energía Distribución and Repsol, resulting in a spectacular growth of its operating figures, which has had an immediate repercussion on the operations department. The latter is in charge of monitoring and controlling the operation of its assets, identifying any incident or anomaly that may occur in its network. So, during the year 2015, the following are noteworthy:

- Incorporation into the Scada System of the Control Centre of 100 new transmission

and distribution facilities, recording in real time the main operating figures, thereby ensuring an efficient operation and early detection of any anomaly in the operation.

- Inclusion in the Geographic Information System (G.I.S.) of more than 350 new LPG storage centres and more than 2,500 kilometres of network for the purpose of providing all graphic and alphanumeric information that allows the prompt location and reaction to any incident.
- Programming of discharges in 350 new LPG centres and 7 new LNG satellite plants.

With such set of tools, total safety of the facilities is reinforced and an important contribution is made to help manage the operation of the same.

Redexis Gas has its own Control Centre of national scope, which collects information in real time from more than 10,000 signals received from the different transmission and distribution facilities. In the same, during the year 2015, several projects have been launched, some with a deadline in the first quarter of 2016, for the purpose of adapting

to this significant growth, improving the guarantees for the supervision of all such facilities and service for the rest of the departments in the Company. Among the mentioned projects, the following may be highlighted:

- The production start-up of a communications diagnosis system between the Scada System and the remote field units.
- The implementation of a system for the categorization of signal reception.
- The modification of the network architecture and the communications model for the purpose of providing more swiftness and safety to the monitoring of the Company's facilities.
- The start-up of the Back-up Control Centre of Redexis Gas, equipped with redundant systems and communications with the main goal of maintaining service at all times.
- The commissioning of an application for the logistic management for the new LPG facilities acquired.

REDEXIS GAS PARTICIPATES IN THE 2ND SEMINAR ON CONTROL CENTRES

During the month of September 2015, Redexis Gas participated in the 2nd Seminar on Control Centres, for the purpose of achieving closer collaboration between the different Control Centres of the natural gas transmission and distribution

network operators, with the intention of updating knowledge in scopes such as the technological evolution in information, control and incident management systems, or the management and organization of work in control rooms.

It is a meeting point to present relevant projects for the participating Control Centres, with an Exchange of experiences from which the industry's best practice is obtained.



Redexis Gas also has a centralized Emergency Call-Centre (CAT), which allows managing emergencies reported by consumers at their reception facilities, as well as the ones of other emergency bodies (police, firemen, 112, etc.) for the rest of the facilities. At this Centre, emergencies are dealt with and handled in a more efficient manner

Likewise, Redexis Gas has an Environmental Emergency Plan (PEA) that covers all possible situations of environmental emergency that may arise in connection with its facilities and networks. In the same, a series of human means are provided to control the risks detected and act promptly and efficiently in a situation of environmental emergency.

As one of the major players in the Spanish Gas System, Redexis Gas has

been affected by the regulatory changes in the industry, which have required the service start-up of important changes in the procedures related to the daily performance of the balances process and in the information about emissions:

- In compliance with the calendar established by the System Technical Manager, the adaptation of the Redexis Gas systems to the new sectoral platform SL-ATR 2.0 was successfully completed, which makes possible a broader and more efficient exchange of information on emissions, distributions and energy balances among agents who operate in the gas system (distributors, carriers, retailers and System Technical Manager).
- On 1 November, the gas day used in the Spanish gas system was aligned with

the European standard. This change entailed the successful development of the modifications required in the different Redexis Gas systems related to the recovery of telemetering of facilities and consumers, the calculation of energy balances and billing.

- Lastly, the development of the organized gas market and the entry into force of Circular 2/2015 of the CNMC, which provides the balance rules in the gas system transmission system, have required a significant increase of the information that gas infrastructure operators must provide to the users of the same. According to that established, Redexis Gas has started to satisfactorily provide intraday information on emissions and user consumption through the SL-ATR 2.0 platform.



Redexis



Redexis
gas



7

gas

Corporate

governance

report

Annual Corporate Governance Report for the Company

REDEXIS GAS, S.A. FOR THE YEAR 2015

1. INTRODUCTION

Corporate governance regulations have evolved substantially in recent years, both at EU and national level. Their relevance and usefulness in ensuring proper operation of the markets have led the Public Authorities to increase and perfect the pertinent obligations, mainly focused on listed corporations.

In this regard, and although the applicable legislation does not require all listed corporations to issue a corporate governance report, the Board of Directors of Redexis Gas, S.A. (the “Company” or “Redexis”) has, in the interests of transparency and diligence,

resolved to issue this Annual Corporate Governance Report (the “Report”).

Such Report includes the information that the Company’s Board of Directors has considered appropriate to fully reflect Redexis’ corporate key figures and, in general, any material aspect of the Company that the shareholders and investors may consider relevant. Additionally, the information it contains is supplemented with the one published on Redexis’ website (www.redexisgas.es) in the section devoted to investors (“Investors”).

On the other hand, as a result of the reform of the Criminal Code brought about by Organic Act 1/2015, which came into force on 1 July 2015, and which, among other matters, specifies and defines the actions that allow releasing legal entities from criminal liability, a series of actions have been conducted, aimed at continuing to set up a preventive system adapted to the needs of Redexis Gas, for the purpose of managing and controlling the potential risks to which it is exposed as a result of its activity.

2. SHARE CAPITAL STRUCTURE

The Company’s share capital is EUR ONE HUNDRED MILLION (€100,000,000.00), represented by ten million (10,000,000) shares, which are indivisible and cumulative, having a face value of ten

Euros (€10) each, correlatively numbered from 1 to 10,000,000, both inclusive.

As at 31 December 2015, the share capital is fully subscribed and paid-up, with the

following ownership structure:

- Augusta Global Cooperatieve U.A.: 41.50%
- Zaragoza International Cooperatieve U.A.: 58.50%

SHARE CAPITAL



3. BOARD OF DIRECTORS STRUCTURE

3.1. COMPOSITION

The administration of the Company corresponds to a Board of Directors composed of a minimum of three and

a maximum of twelve members, in accordance with the provisions of article 20 of the Articles of Association.

The Board of Directors is currently composed of ten Directors and a Non-Director Secretary.

3.2. MEMBERS OF THE BOARD OF DIRECTORS

As at 31 December 2015, the Board of Directors was composed of the following members:

BOARD OF DIRECTORS



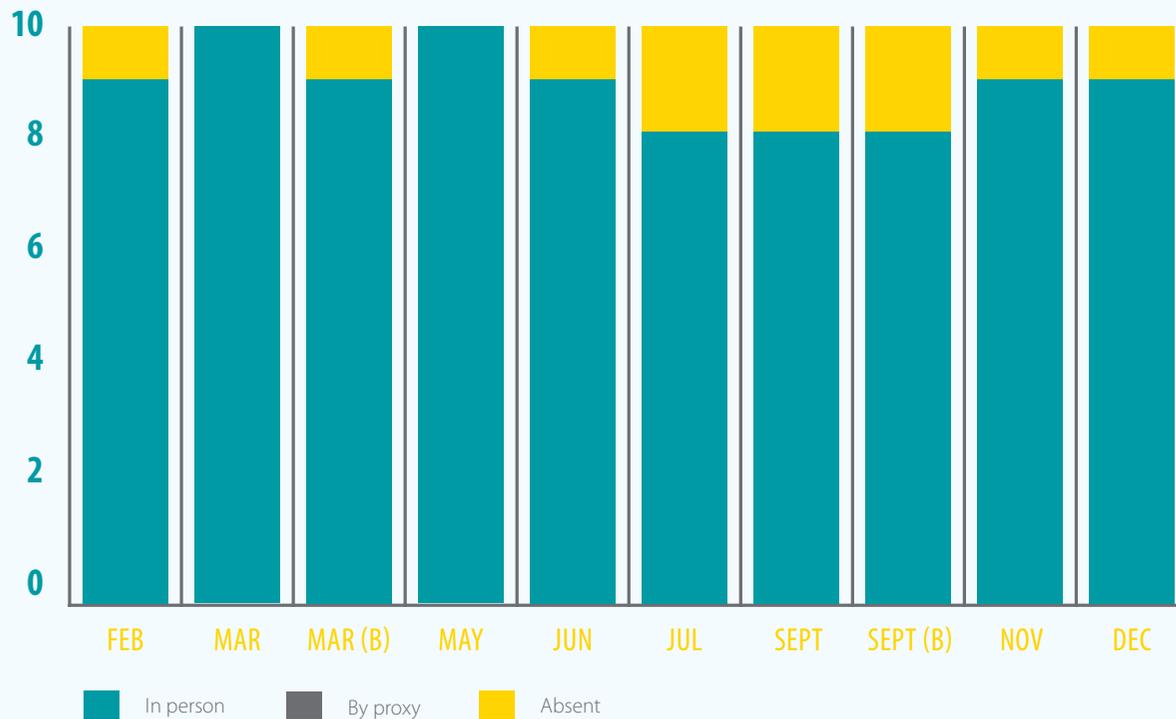
Member	Position
Mr. Fernando Bergasa Cáceres	Executive Chairman
Ms. Cristina Ávila García	Director General Manager
Mr. Philippe Louis Hubert Camu	Director
Mr. Matteo Botto Poala	Director
Mr. Peter Robert Lyneham	Director
Mr. Claudio Aguirre Pemán	Director
Mr. Ulrik Dan Weuder	Director
Mr. Stephen Alan John Deeley	Director
Mr. Marcus Hubertus Gertrudis Vennekens	Director
Mr. Gerardus Nicolaas Meijssen	Director
Mr. Ignacio Pereña Pinedo	Non-Director Secretary

During the 2015 financial year, no changes have taken place in the composition of the Company's Board of Directors:

The Board of Directors has held ten sessions during the 2015 financial year. In this regard, the Board members' commitment in the exercise of their

functions should be noted, highlighting the high participation and attendance at such sessions, which was 89% during the 2015 financial year.

ATTENDANCE AT THE MEETINGS OF THE COMPANY'S BOARD DIRECTORS



3.3. TERM OF OFFICE OF DIRECTOR

The term of office of Director is five years. Directors may be re-elected for equal periods, without prejudice to their resignation or removal at their own request, or at the request of the shareholders acting at the General Shareholders Meeting.

3.4. BOARD OF DIRECTORS COMMITTEES

No committees of the Board of Directors were set up during the 2015 financial year.

3.5. CONFLICT OF INTEREST

The Directors must inform the Secretary of the Board of Directors, giving due notice, about any situation which could lead to a conflict of interest with the Company. The Directors must refrain from attending and participating in the deliberation on issues in which they have a direct or indirect personal interest, or in which any conflict of interest becomes apparent.

It shall also be considered that the Directors have a personal interest when

the issue affects a person related to them, or a Company with which they have any employment or professional relationship, or when they perform a management role or have a significant holding.

In the 2015 financial year, no Director has reported the existence of any conflict of interest with the Company.

Furthermore, at the time of the appointment or the re-election of the

Directors, all of them stated that they were not affected by any grounds for incompatibility that would hinder or prevent them from exercising any of their functions and, particularly, those set out in the Act 3/2015, of 30 March, regulating the exercise of senior positions in the General State Administration, as well as those established in articles 227, 228, 229, 230 and 231 of Legislative Royal Decree 1/2010, of 2 July, approving the Consolidated Text of the Corporate Enterprises Act.

3.6. REMUNERATION OF THE DIRECTORS

The office of Director, acting in such capacity, is not remunerated, without prejudice to the right to a reimbursement by the Company of the reasonable

expenses incurred by the Directors due to their office.

For these purposes, during the 2015

financial year, none of the members of the Board of Directors has received any remuneration for attending the meetings of the Board of Directors.

3.7. RELATIONSHIP OF EXECUTIVE DIRECTORS AND MEMBERS OF THE MANAGEMENT COMMITTEE WITH THE COMPANY

3.7.1. EXECUTIVE DIRECTORS

Pursuant to Act 31/2014, of 3 December, amending the Corporate Enterprises Act to improve corporate governance, any agreement entered into between an executive director and the company, as well as its amendments, must be approved by a majority of two thirds of the members of the Board of Directors.

For these purposes, and according

to the rules that apply from the time it became effective, the following modifications have been submitted to the Board of Directors, with regard to the relationship between (i) Mr Fernando Bergasa Cáceres – Executive Chairman of the Company– and Redexis Gas; and (ii) Ms Cristina Ávila García – Director General Manager of the Company– and Redexis Gas. Such

modifications have been agreed by all members of the Board of Directors (except for those concerned, who left the meeting at the time the matter was dealt with, since they were directly involved) and have been appropriately recorded in the minutes of the meetings of the Board of Directors held on 26 March 2015 and 23 July 2015.

3.7.2. MEMBERS OF THE MANAGEMENT COMMITTEE

In accordance with article 249. Bis of the Consolidated Text of the Corporate Enterprises Act, a power attributed to the Board of Directors, and which cannot be delegated, is the appointment and

removal of managers who report directly to the Board or any of its members, as well as the establishment of the basic terms of their agreements, including their remuneration.

In this regard, the members of the Board of Directors resolved the necessary appointment of the managers, who report directly to the Board of Directors when appropriated.

3.8. NOTICE OF THE MEETINGS

The meetings of the Board of Directors were called giving sufficient notice, making available to the Directors the documentation explaining each of the items included on the agenda.

3.9. INFORMATION TO THE DIRECTORS

Before holding each of the meetings of the Board of Directors, the company's management provides to each of the Directors relevant information about the Company and the Group, such as the financial evolution of the companies in the Group, regulatory issues and on-going tenders, occupational health and safety matters and any other relevant information that they should know.

4. GENERAL SHAREHOLDERS' MEETING

4.1. GENERAL SHAREHOLDERS' MEETINGS HELD

During the 2015 financial year, in addition to the Annual General Meeting, three Extraordinary General Meetings were held on the dates and with the agendas indicated below:

EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS OF 16 JANUARY 2015

AGENDA

1. Capital contribution to shareholders' equity
2. Approval of the minutes of the meeting

At such meeting, it was resolved to make a monetary contribution by the shareholders to the Company's equity. Such contribution was recorded under account 118 of the Spanish Chart of Accounts "Member or equity holder contributions".

EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS OF 22 APRIL 2015

AGENDA

1. Approval of the split-off of primary transmission to the company Redexis Infraestructuras, S.L.
2. Approval of the minutes of the meeting

At such meeting, the split-off of the primary transmission held by the Company was made in favour of the company Redexis Infraestructuras, S.L., for the purpose of continuing with the corporate reorganisation required by the applicable regulations.

ANNUAL GENERAL MEETING OF SHAREHOLDERS DATED 12 MAY 2015

AGENDA

1. Approval of the Annual Accounts and Management Report of Redexis Gas S.A., and the consolidated Annual Accounts and Management Report of Redexis Gas S.A. and its subsidiaries for the 2014 financial year.
2. Approval of the allocation of profits or losses for the 2014 financial year.
3. Approval of the management of the Board of Directors for the year 2014.
4. Appointment of auditors.
5. Amendment of the Articles of Association.
6. Approval of the minutes of the session.

In such session, the ordinary and consolidated accounts, and the management by the Board of Directors were approved, and the allocation of profits or losses was resolved. Also, the appointment of the Company's auditors, as well as the amendment of the Articles of Association on the matter of shareholders' rights to information, registered office and compensation framework for directors carrying out executive function in the Company were approved.

EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS DATED 17 DECEMBER 2015

AGENDA

1. Amendment of article 24 of the Articles of Association.
2. Approval of the minutes of the session.

At such meeting, the resolution was adopted to amend article 24 of the Articles of Association regarding the operation of the Board of Directors, to adapt to common practice the powers and limitations provided for in such article.

4.2. INFORMATION TO THE SHAREHOLDERS

The Company has strictly complied with the obligations established in article 197 of the Restated Text of the Corporate Enterprises Act in relation to the duty to inform shareholders and for the purposes of facilitating and ensuring the exercise of the shareholders' rights.

5. SALE AND PURCHASE OF SHARES IN GAS ENERGÍA DISTRIBUCIÓN MURCIA, S.A. AND ADDITIONAL ASSETS

On 19 January 2015, the Spanish Commission for Markets and Competition (*Comisión Nacional de Mercados y de la Competencia* (CNMC)) notified the approval of the transaction to purchase the shares in Gas Energía Distribución Murcia S.A. (currently, Redexis Gas Murcia, S.A.) and certain additional gas distribution assets, entered into by the Company and Naturgás Energía Distribución S.A., and thus it is considered that the condition precedent to which such sale and purchase was subject has been met. For these purposes, such sale and purchase was executed on 30 January 2015, notarising the private sale and purchase agreement.



6. MERGER BY ACQUISITION PROCESS OF THE OPERATING COMPANIES OF REDEXIS GAS

During the months of January and February 2015, the relevant administrative authorisations were received for the transfer of the assets of the companies Redexis Gas Transporte,

S.L.U., Transportista Regional del Gas, S.A., Redexis Gas Distribución, S.A.U., Distribuidora Regional del Gas, S.A.U., Redexis Gas Aragón, S.A.U. and Redexis Gas Baleares, S.A.U., to the Company, as a

consequence of the merger by acquisition of the above-mentioned companies by Redexis. The merger was duly registered with the Mercantile Registry, and effective since 27 February 2015.

7. SPLIT-OFF OF THE COMPANY'S PRIMARY TRANSMISSION BUSINESS

On 26 March 2015, the Company's Board of Directors and the Sole Director of Redexis Infraestructuras, S.L. approved the Common Split-off Project, under which they transferred the assets linked to the primary transmission business, held by the Company, in favour of Redexis Infraestructuras, S.L.

In this regard, pursuant to the provisions of article 67 of Act 34/1998, of 7 October, regulating the Hydrocarbon Sector, an

authorisation was requested to transfer the Company's natural gas transmission facilities and authorisations to Redexis Infraestructuras, S.L.

Likewise, on 22 April 2015, the shareholders at the Company's General Meeting approved, subject to the competent authorities granting the relevant authorisations, the split-off of the primary transmission business held by the Company, in favour of Redexis

Infraestructuras, S.L., on the terms proposed by the Board of Directors. On 23 April 2015, the notice of split-off was published in the Official Gazette of the Mercantile Registry and in the newspaper Cinco Días.

The authorisations were granted by the relevant bodies on 22 May 2015. Then, on 25 May 2015, a public deed of split-off was executed, which was duly registered with the Mercantile Registry.

8. COMPANY'S FINANCING

During 2015, the Company has consolidated its financial structure and maintained the rating grade obtained from the rating entities Fitch and Moody's. To such effect, Redexis has secured EUR 250 million in 12 year term notes. This issue has been made under an EMTN programme (*Euro Medium Term Note Programme*), the issuer being Redexis Gas Finance B.V. The success of the placement supports the company's solid

financial situation, and also diversifies its sources of funding.

On the other hand, on 22 December 2015, the Company entered into a facility agreement with the European Investment Bank, for an amount of EUR 160 million, within the framework of the European Funds for Strategic Investments. So, the Company may draw on the facility until 22

December 2018, and the maximum term for repayment thereof is 20 years since the last drawdown, the deadline for repayment being 22 December 2038.

Such facility will allow the Company to strengthen and extend its natural gas transmission and distribution network in different Spanish regions, especially in the Balearic Islands and Andalusia.

9. SALE AND PURCHASE OF LIQUEFIED PETROLEUM GAS (LPG) CONNECTION POINTS

On 17 October 2014, the Company and Repsol Butano, S.A. (Repsol) entered into a framework agreement under which they agreed to acquire certain LPG connection points in the municipalities of Ciudad Rodrigo and Cantalejo during the year 2017.

On 16 June 2015, the Company and Repsol entered into a framework agreement under which they agreed to acquire 15,059 LPG connection points during the years 2015, 2016 and 2017. Additionally, on that same date, the Agreements for the transfer of connection points scheduled for 2015 were executed.

On 30 September 2015, the Company and Repsol reached a framework agreement under which the Company would acquire 53,760 new LPG connection points. Such transaction was conditioned to obtaining authorisation from the Spanish Commission for Markets and Competition (CNMC). Additionally, on that same date, two addenda were entered into regarding the framework agreements entered into by the Company and Repsol on 17 October 2014 and 16 June 2015, respectively.

On 11 December 2015, the CNMC notified the Company the approval of

the acquisition transaction. In view of the above, on 23 December 2015, the Company and Repsol executed, through a public instrument, the agreement for the transfer of connection points, subject to the framework agreements dated 17 October 2014, 16 June 2015 and 30 September 2015, accelerating the planned calendar for such transfers to 2016.

So, the acceptance of the delivery of the connection points described in the transfer agreement dated 23 December 2015 is expected to take place until 31 July 2016 and, accordingly, the delivery all of the facilities acquired will be accepted.

10. ACTIONS IN RELATION TO CORPORATE GOVERNANCE

For the purpose of maintaining the transparency of the actions carried out by the Company, as it has been done in the past, and providing the same with the means and mechanisms required for proper regulatory compliance, the Company has continued to develop significant work in matters of corporate governance during the year 2015.

In addition, the reform of the Criminal Code brought about by Organic Act 1/2015 establishes an exemption from criminal liability for any legal entities that adopt management and organization models that are effective to prevent and avoid the commission of offences. Therefore, issues in matters of corporate governance have acquired particular significance, something that the Company has noted.

In this regard, the Company has continued to implement different preventive measures for the purpose of defining and implementing a system to identify the scope of activities from which the Company may derive criminal liability because of the environment in which it operates.

So, Circular 1/2016, issued by the Spanish Public Prosecutor's Office must be mentioned, which, among other matters, analyses the mentioned reform of the Criminal Code, as well as the requirements that must be met by the corporate governance programs (compliance), for the exemption from criminal liability of the legal entity, that is, the company, to apply. For such purposes, the following are noted as essential requirements of these compliance programs:

- a) Adapting the program to the company and its risks.
- b) Preparing an analysis of the company's specific risks.
- c) The use of computer applications to control internal business processes.
- d) The application of ethical standards to the hiring and promotion of its senior management, as well as to the appointment of members of the board of directors.

- e) The detection of criminal behaviours, for which the existence of internal channels to report claims is essential.
- f) The existence of a code of conduct that establishes the obligations and prohibitions applicable to all employees.
- g) The periodic review of the program pursuant to specified deadlines and procedures.

Redexis has already complied with a great part of such requirements. In this regard, the procedures and rules are adapted to the Company's activity and issues, notably (i) the important work it is carrying out in its computer systems to set up a system that accommodates all the Company's needs, (ii) the existence of the Code of Conduct of the Redexis Gas Group, and (iii) the existence of an internal and external channel for claims.

In addition to the work carried out in previous years, different actions have been carried out during the year 2015, among which we can highlight the following:

10.1. INTERNAL RULES

Within the framework of actions performed by Redexis during the year 2015, the Company has approved different internal rules that apply in different areas.

For these purposes, Redexis has approved a procedure to elaborate, approve and change the internal rules applicable to the Company. Such Procedure intends to describe the systematic approach to manage Redexis'

internal rules regarding, among other aspects, their elaboration, approval or modification of the internal rules that apply to the Company or its subsidiaries.

Additionally, a procedure has been approved for the legal review of conventions, contracts and binding agreements, which guarantees the review from a legal point of view of the

different material conventions, contracts and agreements to which the Company is a party.

Finally, regarding the composition and operation of the Management Committee, a procedure regulating the organizational operation, responsibilities and composition of the Company's Management Committee has been approved.

10.2. HEALTH AND SAFETY

Occupational Health and Safety conditions are a matter that the Company considers particularly relevant. Therefore, during the year 2015, a study was conducted on Health and Safety matters, with the advice of a prestigious law firm specialised in criminal risk prevention, and which materialised in the approval of a new organisation chart, creating the new role of Coordinator in matters of Health and Safety, who reports directly

to the Company's Chairman and General Management.

Likewise, a new organisation is established for the department of occupational and environmental risk prevention, integrating the prevention of occupational risks in the productive activity, so that the executive functions in matters of occupational risk prevention are exercised directly by the persons in charge of Health and Safety in

each territory, reporting to and supervised by the Area and Territorial Delegates, which provides them direct knowledge of the situations and potential incidents occurring.

In turn, they have been conferred the necessary powers to adequately perform their tasks. For such purposes, powers have been conferred to the different Health and Safety officers, so that they may duly perform their functions.

10.3. INTERNAL AUDIT

During the year 2015, for the purpose of improving the efficiency of the risk management and control processes, as well as their supervision, the Company has created a separate and independent internal audit department in the Company, headed by its director, Ms Mireya Martínez San Martín.

For such purposes, the members of the

department have broad knowledge of and experience in the matter and, at the same time, enjoy high levels of autonomy to perform their functions within the Company.

So, the Board of Directors, in its meeting held on 12 February 2015, approved an internal audit action plan that included,

among other aspects, the audit of the departments of human resources, purchasing, financial audit, analysis of potential risks of cyber-attacks in connection with operational and financial aspects; the aspects regarding criminal, health and safety and environmental risks, as well as other type of corporate risks that may affect the Company.

8

Risk

management

and

control

TE GUSTARÁ EL FUTURO

Risk management and control

The Redexis Gas Group faces a number of risks, both internal and external, which must be valued and minimised to the extent possible, with an appropriate risk management policy and a customized control system that establishes the basic principles and general framework for actions to mitigate the risks identified from both a strategic and operational standpoint.

To this effect, all the necessary and appropriate regulation is being developed internally so that, according to the peculiarities of each of the divisions and activities, the necessary internal control is implemented to guarantee the optimum level.

SCOPE

The risk control system applies to all companies in the Group, and the parent company ensures adequate communication about the risks to the entire organisation.

a) Integral risks management scheme

The main risks identified are the following:

Corporate risks:

- **Financial risks:** which include as main risks, liquidity risk, credit risk and market risk.
- **Communication risks,** which include reputational risks that may affect the Group's image.
- **Regulatory risks,** mainly regulatory due to changes in the remuneration of regulated activities and, additionally, due to the reliability of the financial information published and possible changes in tax regulations, whether

national or international, and civil liability over all of the assets.

Business risks:

- **Operational Risks** which include risks regarding the planning and execution of the different works, procurement or works tendering processes, technological developments or environmental risks.
- **Non-operational risks** resulting mainly from the risks related to the prevention, health and safety at work.

b) Risk management

For the purposes of minimising the above-described risks, the Group is identifying for each business cycle or process included within the scope, the risks that may specifically affect financial information, covering all of the targets (Existence and occurrence; integrity; valuation; rights and duties; and presentation and comparability).

Such risks are being covered through different controls, according to the internal procedures used, as well as the information systems that serve as a basis to elaborate the financial information for each business area.

The Group systematically and homogeneously documents the relevant processes, risks and control activities, whether already implemented or to be implemented, for all the business areas.

This documentation is based on the following points:

- Identification of the business cycles or processes that may materially affect the financial information. There will be one flow chart for each process.

- Identification of the risks and controls set to mitigate the financial information risks and the responsibilities for such control, under a common methodology.

The processes considered within the scope include operational business cycles, as well as the financial year closure, the reporting and consolidation. In each of such processes, potential risks of fraud, specific review of the relevant opinions, estimates, valuations and projections are taken into account.

In 2015, part of the documentation of the main processes of the Group has materialised, which will continue to be developed in 2016 to successfully complete this ambitious risk management and control policy.

At the same time, during this year, an Internal Audit department has been set up in Redexis Gas as an independent service with the mission to support the Board of Directors and the Group's Top Management, in the examination, evaluation and supervision of the effectiveness of the Internal Control and Risk Management systems.

Likewise, and to detect irregularities of financial and accounting nature, in addition to misconducts and irregular activities in the organisation, there is an internal procedure to report allegedly irregular facts established in the Group's Code of Conduct and a [whistleblowing line included in the Redexis Gas website](#), where any third party can report complaints or claims in connection with the Code of Conduct and the Group's good practice.

ANNUAL ACCOUNTS

Annual
report
2015



REDEXIS GAS, S.A. AND SUBSIDIARIES
CONSOLIDATED ANNUAL ACCOUNTS AND
CONSOLIDATED DIRECTORS' REPORT

31 December 2015

Prepared in accordance with International
Financial Reporting Standards as adopted
by the European Union

(With Auditors' Report Thereon)

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



KPMG Auditores S.L.
Centro Empresarial de Aragón
Avda. Gómez Laguna, 25
50009 Zaragoza

Independent Auditor's Report on the Consolidated Annual Accounts

To the Shareholders of
Redexis Gas, S.A.

Report on the consolidated annual accounts

We have audited the accompanying consolidated annual accounts of Redexis Gas, S.A. (the "Company") and its subsidiaries, which comprise the consolidated statement of financial position at 31 December 2015 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and consolidated notes.

Directors' responsibility for the consolidated annual accounts

The Company's Directors are responsible for the preparation of the accompanying consolidated annual accounts in such a way that they present fairly the consolidated equity, consolidated financial position and consolidated financial performance of Redexis Gas, S.A. and subsidiaries in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated annual accounts based on our audit. We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. This legislation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated annual accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation of the consolidated annual accounts by the Company's directors in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated annual accounts taken as a whole.

KPMG Auditores S.L., a limited liability Spanish company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Entered into the Spanish Official Register of Auditors with number 56702, and the Spanish Institute of Registered Auditors' list of companies with reference No. 10. Filed at the Madrid Mercantile Registry in volume 11.561, sheet 90, section 8, page number M-148,007, entry number 9. Tax identification number (NIF): 9-79510133.

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

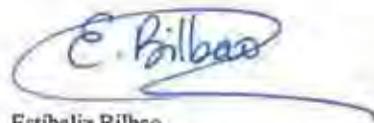
Opinion

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the consolidated equity and consolidated financial position of Redexis Gas, S.A. and subsidiaries at 31 December 2015 and their consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and other provisions of the financial reporting framework applicable in Spain.

Report on other legal and regulatory requirements

The accompanying consolidated directors' report for 2015 contains such explanations as the Directors of Redexis Gas, S.A. consider relevant to the situation of the Group, its business performance and other matters, and is not an integral part of the consolidated annual accounts. We have verified that the accounting information contained therein is consistent with that disclosed in the consolidated annual accounts for 2015. Our work as auditors is limited to the verification of the consolidated 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 Redexis Gas, S.A. and subsidiaries.

KPMG Auditores, S.L.



Estibaliz Bilbao

13 April 2016



KPMG AUDITORES, S.L.

Año 2016 Nº 04/16/00030

ESTIBALIZ BIILBAO
C/Alfonso de Euzkadi, 10
48940 Leizor (Bizkaia)

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Assets	Note	2015	2014
Property, plant and equipment	7	983,414	677,928
Goodwill	8	219,175	213,053
Other intangible assets	8	555,527	529,502
Deferred tax assets	13	64,824	67,566
Non-current financial assets	12	7,140	6,690
Trade and other receivables	15	23,369	19,492
Total non-current assets		1,853,449	1,514,231
Inventories	14	1,272	395
Trade and other receivables	15	44,472	45,380
Other current financial assets	12	2,313	123
Other current assets	16	5,848	7,241
Cash and cash equivalents	17	60,593	79,414
Total current assets		114,498	132,553
Total assets		1,967,947	1,646,784
Equity and Liabilities	Note	2015	2014
Capital		100,000	100,000
Share premium		105,433	105,433
Reserves		577,569	407,704
Profit for the year		34,412	107,452
Equity attributable to equity holders of the Parent		817,414	720,589
Non-controlling interests		23	-
Total equity	18	817,437	720,589
Financial liabilities from issuing bonds and other marketable securities	20	886,428	640,925
Loans and borrowings	21	-	72,248
Other financial liabilities	19	4,505	4,262
Deferred tax liabilities	13	127,443	113,938
Provisions for employee benefits	25	2,942	4,074
Other provisions	26	2,648	2,429
Government grants	28	6,421	5,276
Total non-current liabilities		1,030,387	843,152
Financial liabilities from issuing bonds and other marketable securities	20	16,239	13,076
Loans and borrowings	21	306	433
Trade and other payables	22	99,433	65,301
Current income tax liabilities	13	1,096	1,350
Provisions for employee benefits	25	806	863
Other current liabilities	29	2,243	2,020
Total current liabilities		120,123	83,043
Total equity and liabilities		1,967,947	1,646,784

Consolidated Statements of Financial Position at 31 December 2015 and 2014. (Expressed in thousands of Euros)

The accompanying notes form an integral part of the consolidated annual accounts.

	Note	2015	2014
Revenue	30	173,498	147,597
Other operating income	31	3,233	3,982
Self-constructed non-current assets		9,442	6,686
Supplies		(3,686)	(3,893)
Salaries and wages		(18,008)	(15,002)
Other employee benefits		(4,113)	(2,047)
Non-recurrent workforce restructuring		(3,405)	-
Employee benefits expense	33	(25,526)	(17,049)
Amortisation and depreciation	7 and 8	(57,824)	(36,608)
Other recurrent operating expenses		(26,039)	(21,454)
Other non-recurrent operating expenses		-	(1,644)
Impairment losses on non-current assets		-	(2,999)
Other operating expenses	32	(26,039)	(26,097)
Results from operating activities		73,098	74,618
Finance income		175	203
Finance costs		(24,986)	(88,936)
Net finance cost	34	(24,811)	(88,733)
Profit/(loss) before income tax		48,287	(14,115)
Income tax income/(tax expense)	13	(13,875)	121,597
Profit for the year		34,412	107,482
Profit for the year attributable to equity holders of the Parent		34,412	107,452
Profit for the year attributable to non-controlling interests		-	30

	Note	2015	2014
Profit for the year		34,412	107,482
Other comprehensive income:			
Items not to be reclassified in profit or loss			
Cash flow hedges	11	-	(6,314)
Actuarial gains/(losses) on defined benefit plans		555	(1,291)
Tax effect	13	(139)	2,281
		416	(5,324)
Items to be reclassified in profit or loss			
Cash flow hedges	11	-	43,158
Tax effect	13	-	(12,948)
		-	30,210
Other comprehensive income for the year, net of tax		416	24,886
Total comprehensive income for the year		34,828	132,368
Total comprehensive income attributable to:			
Equity holders of the Parent		34,828	132,338
Non-controlling interests		-	30
		34,828	132,368

 Consolidated Income Statements for the years ended 31 December 2015 and 2014
 (Expressed in thousands of Euros)

 Consolidated Statements of Comprehensive Income for the years ended
 31 December 2015 and 2014 (Expressed in thousands of Euros)

The accompanying notes form an integral part of the consolidated annual accounts.

Equity attributable to equity holders of the Parent

Consolidated Statement of Changes in Equity for the year ended 31 December 2015. (Expressed in thousands of Euros)

	Capital	Share premium	Legal reserve	Other reserves	Other comprehensive income		Non-controlling interests	Total equity
					Profit for the year	Total		
Balance at 31 December 2014	100,000	105,433	20,000	387,704	107,452	720,589	-	720,589
Profit for 2015	-	-	-	-	34,412	34,412	-	34,412
Actuarial gains on defined benefit plans	-	-	-	416	-	416	-	416
Shareholder contribution	-	-	-	100,000	-	100,000	-	100,000
Amounts taken to legal reserve	-	-	-	-	-	-	-	-
Dividends	-	-	-	(40,000)	-	(40,000)	-	(40,000)
Other movements	-	-	-	1,997	-	1,997	23	2,020
Distribution of profit for 2014	-	-	-	107,452	(107,452)	-	-	-
Balance at 31 December 2015	100,000	105,433	20,000	557,569	34,412	817,414	23	817,437

Equity attributable to equity holders of the Parent

Consolidated Statement of Changes in Equity for the year ended 31 December 2014. (Expressed in thousands of Euros)

	Capital	Share premium	Legal reserve	Other reserves	Other comprehensive income		Total	Non-controlling interests	Total equity
					Cash flow hedges	Profit for the year			
Balance at 31 December 2013	100,000	105,433	-	(16,763)	(25,790)	(17,253)	145,627	2,760	148,387
Profit for 2014	-	-	-	-	-	107,452	107,452	30	107,482
Transfers of cash flow hedges to the income statement, net of tax	-	-	-	-	25,790	-	25,790	-	25,790
Actuarial losses on defined benefit plans	-	-	-	(904)	-	-	(904)	-	(904)
Acquisition of non-controlling interests	-	-	-	1,580	-	-	1,580	(2,790)	(1,210)
Shareholder contribution	-	-	-	458,635	-	-	458,635	-	458,635
Amounts taken to legal reserve	-	-	20,000	(20,000)	-	-	-	-	-
Dividends	-	-	-	(18,500)	-	-	(18,500)	-	(18,500)
Other movements	-	-	-	909	-	-	909	-	909
Application of losses for 2013	-	-	-	(17,253)	-	17,253	-	-	-
Balance at 31 December 2014	100,000	105,433	20,000	387,704	-	107,452	720,589	-	720,589

The accompanying notes form an integral part of the consolidated annual accounts.

	Note	2015	2014
Cash flows from operating activities			
Profit/(loss) for the year before tax		48,288	(14,115)
<i>Adjustments for:</i>			
Amortisation and depreciation	7 and 8	57,824	36,608
Impairment losses on trade receivables	32	-	52
Change in provisions	25 and 26	(971)	(2,094)
Government grants taken to income	31	(717)	(356)
Finance income		(175)	(203)
Finance costs		24,986	88,936
Other adjustments		1,947	-
(Gains)/losses on sale of non-current assets	32	-	2,827
		131,181	111,655
Changes in working capital		4,766	(5,596)
Inventories		(876)	139
Trade and other receivables		(1,437)	(15,525)
Other current assets		(797)	(109)
Trade and other payables		5,548	8,279
Other current liabilities		223	244
Other non-current assets and liabilities		2,105	1,376
Cash generated from operations		135,948	106,059
Interest and commissions paid		(21,294)	(62,459)
Interest received		175	203
Income tax paid		(11,522)	(13,092)
Net cash from operating activities		103,307	30,711
Cash flows from investing activities			
Payments for purchases of distribution and LPG assets in service		(72,092)	-
Payments for acquisition of subsidiaries	5	(189,498)	-
Current payments for acquisition of property, plant and equipment		(93,674)	(73,730)
Net cash used in investing activities		(355,264)	(73,730)
Cash flows from financing activities			
Shareholder contributions	18	100,000	-
Payments for acquisition of non-controlling interests		-	(1,211)
Payments for acquisition of financial assets		836	(2,097)
Payments of loans and borrowings	21	(75,000)	(574,682)
Proceeds from the issue of bonds and other marketable securities	20	247,300	645,925
Dividends paid	18	(40,000)	(18,500)
Net cash from financing activities		233,136	49,435
Net increase (decrease) in cash and cash equivalents		(18,821)	6,416
Cash and cash equivalents at 1 January		79,414	72,998
Cash and cash equivalents at 31 December		60,593	79,414

The accompanying notes form an integral part of the consolidated annual accounts.

(1) Nature, Activities and Composition of the Group

Redexis Gas, S.A. (hereinafter, the Company or the Parent) was incorporated with limited liability under Spanish law in Madrid on 6 April 2000. The Company's registered office is located at Avda. Pablo Ruiz Picasso, nº 61, bloque D, planta 2ª, 50018 Zaragoza (Spain).

In 2014 the Company's legal structure was changed from a limited liability company to a corporation. As a result of this change the Company can perform operations that are legally restricted to corporations, such as issuing or providing guarantees for bonds. On 13 February 2014 the Company's board of directors approved the report on changing the Company's legal structure in accordance with the report also issued for this purpose by the independent expert assigned by the Mercantile Registry, as required by law. On 27 February 2014 the Company's shareholders at their general meeting approved the change of the legal structure and the consequent amendment to its by-laws. On 28 February 2014 the agreement to make this change was announced in the Official Gazette of the Mercantile Registry. On the same date the public deed relating to the change was signed and duly filed with the Mercantile Registry.

The principal statutory activity of Redexis Gas, S.A. is the distribution and transmission of all types of gas and oil-based products for domestic, commercial and industrial purposes, the use of any by-products, and related activities. If legal provisions require a professional qualification, governmental authorisation or inclusion in a public register to carry out any of these statutory activities, they must be carried out by an appropriately qualified person and, if applicable, may not be undertaken until the administrative requirements have been met.

Redexis Gas, S.A. is the parent of a group of subsidiaries and structured entities (hereinafter, the Group). Information on subsidiaries and structured entities is provided in Appendix I and Appendix II.

On 22 May 2014 the Company's board of directors approved the merger by absorption of the following companies that were directly or indirectly wholly owned by Redexis Gas, S.A.: Redexis Gas Transporte, S.L.U., Transportista Regional del Gas, S.A., Redexis Gas Distribución, S.A.U., Distribuidora Regional del Gas, S.A.U., Redexis Gas Aragón, S.A.U. and Redexis Gas Baleares, S.A.U., with the aim of generating synergies and, at the same time, achieving

a more efficient structure. This merger was also approved by the governing bodies of these companies. The effective accounting date for the purposes of the merger was 1 January 2014. The merger took place under the special protection regime.

Pursuant to articles 67 and 73 of the Hydrocarbon Industry Law 34/1998, of 7 October 1998, the authorisation to convey the facilities and the gas distribution and transmission authorisations was sought from the competent organisations.

Also on 19 September 2014 the shareholders at the general meeting approved the merger by absorption as proposed by the board of directors.

On 29 September 2014 the merger was announced in the Official Gazette of the Mercantile Registry.

After receiving the authorisations from the relevant entities, on 27 February 2015 Redexis Gas, S.A., Redexis Gas Transporte, S.L.U., Transportista Regional del Gas, S.A., Redexis Gas Distribución, S.A.U., Distribuidora Regional del Gas, S.A.U., Redexis Gas Aragón, S.A.U. and Redexis Gas Baleares, S.A.U., signed the merger deed whereby these companies were merged into Redexis Gas, S.A. The merger was duly entered in the mercantile registry.

On 30 January 2015, through the Parent, the Group acquired a 99.98% interest in Gas Energía Distribución Murcia, S.A. (now called Redexis Gas Murcia, S.A.). This company has its registered office in Murcia and its principal activity is the distribution and secondary transmission of natural gas and the distribution and sale of liquefied petroleum gas through pipelines.

In addition, on 26 March 2015 the Company's board of directors and the sole director of Redexis Infraestructuras, S.L.U. approved the project to convey the economic unit engaged in the primary transmission of natural gas from the Company to Redexis Infraestructuras, S.L.U. The effective accounting date and acquisition date for the purposes of the spin-off is 1 January 2015. The spin-off was performed under the special regime established in articles 76 to 89 of Title VII, Chapter VIII of Corporate Income Tax Law 27/2014 of 27 November 2014.

This spin-off took place in accordance with article 63.2 of Hydrocarbon Industry Law 34/1998, of 7 October 1998,

as described in the reports issued in December 2014 by the Regulatory Oversight Committee of the Spanish National Markets and Competition Commission (CNMC) on the consultations from the regional governments of the Balearic Islands, Aragón, Castilla y León and Castilla La Mancha with respect to the requests submitted to these governments by Redexis Gas transporte, S.L.U., Transportista Regional del Gas, S.A., Redexis Gas Distribución, S.A.U., Distribuidora Regional del Gas, S.A.U., Redexis Gas Aragón, S.A. and Redexis Gas Baleares, S.A.U. to transfer ownership of their secondary transmission and distribution installations, which are under authority of these regional governments, to Redexis Gas, S.A. (through the merger of these companies with the latter). In these reports the CNMC stated that Redexis Gas, S.A. should adapt its corporate structure project in order to ensure that the same company is not engaged in both primary transmission and distribution activity, in order to meet the requirements for the unbundling of activities contained in articles 63.2 and 4 of Hydrocarbon Industry Law 34/1998,

of 7 October 1998 and paragraph 2 of article 9.2 of Royal Decree 1434/2002.

On 22 April 2015 the Company's shareholders and the sole shareholder of Redexis Infraestructuras, S.L.U. approved the conveyance of the primary transmission of natural gas activity from the former to the latter.

On 23 April 2015 the spin-off was announced in the Official Gazette of the Mercantile Registry.

After receiving authorisation from the corresponding body, on 25 May 2015 Redexis Gas, S.A. and Redexis Infraestructuras, S.L.U. executed the spin-off in a public deed, which was duly entered into the mercantile registry.

At 31 December 2015 and 2014 Redexis Gas, S.A. is 58.5% owned by Zaragoza International Coöperatieve, U.A. and 41.5% owned by Augusta Global Coöperatieve, U.A., both subsidiaries of private equity funds managed by Goldman Sachs & Co.

(2) Basis of Presentation

The accompanying consolidated annual accounts have been prepared on the basis of the accounting records of Redexis Gas, S.A. and of the consolidated companies. The consolidated annual accounts for 2015 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU), and other applicable provisions in the financial reporting framework, to give a true and fair view of the consolidated equity and consolidated financial position of Redexis Gas, S.A. and subsidiaries at 31 December 2015 and consolidated results of operations and changes in consolidated equity and cash flows of the Group for the year then ended.

The directors of the Parent consider that the consolidated annual accounts for 2015, authorised for issue on 17 March 2016, will be approved with no changes by the shareholders at their annual general meeting.

The annual accounts for 2015 have been prepared applying the same accounting principles as in the approved annual accounts for 2014.

The standards or interpretations adopted by the European Union that will be obligatory in coming years are not expected to have a significant impact on the Group's financial statements, although they might lead to more disclosures.

(a) Basis of preparation of the annual accounts

These consolidated annual accounts have been prepared on the historical cost basis.

(b) Functional and presentation currency

The figures disclosed in the consolidated annual accounts are expressed in thousands of Euros, the Group's functional and presentation currency, rounded off to the nearest thousand.

(c) Relevant accounting estimates, assumptions and judgements used when applying accounting principles

Relevant accounting estimates and judgements and other estimates and assumptions have to be made when applying the Group's accounting principles to prepare the consolidated annual accounts in conformity with IFRS-EU. A summary of the items

requiring a greater degree of judgement or which are more complex, or where the assumptions and estimates made are significant to the preparation of the consolidated annual accounts, is as follows:

- Useful lives of property, plant and equipment and intangible assets (see Notes 3.d and 3.f).
- The assessment of the recoverability of intangible assets with an indefinite useful life and goodwill to determine any impairment losses (see Note 3.g).
- The market value of certain financial instruments (see Note 3.i).
- Recognition of income (see Note 3.q).
- The probability of occurrence and amount of liabilities for uncertain amounts, contingent and/or decommissioning liabilities (see Note 3.p).
- The assumptions used in the actuarial calculation of pensions and other obligations to employees (see Note 3.o)
- The assessment of whether deferred tax assets are likely to be recovered based on the business plan for the coming years and the recovery periods foreseen in Spanish tax legislation (see Note 3.r).

In addition, considering that the estimates are calculated by the Company's directors based on the best information available at 31 December 2015, it could be possible that events could take place in the future, may require changes to these estimates in subsequent years. The effect on the consolidated annual accounts of these hypothetical adjustments to be made in subsequent years, if any, would be recognised prospectively.

(3) Accounting Principles

(a) Subsidiaries

Subsidiaries are entities, including structured entities, over which the Company, either directly or indirectly through subsidiaries, exercises control. The Company controls a subsidiary when it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The Company has power over a subsidiary when it has existing substantive rights that give it the ability to direct the relevant activities. The Company is exposed, or has rights, to variable returns from its involvement with the subsidiary when its returns from its involvement have the potential to vary as a result of the subsidiary's performance.

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

The income, expenses and cash flows of subsidiaries are included in the consolidated annual accounts from the date of acquisition, which is when the Group effectively takes control of

the subsidiary. Subsidiaries are no longer consolidated from the date on which control is lost.

Transactions and balances with Group companies and unrealised gains or losses have been eliminated on consolidation. Nevertheless, unrealised losses have been considered as an indicator of impairment of the assets transferred.

The subsidiaries' accounting policies have been adapted to Group accounting policies for like transactions and events in similar circumstances.

The annual accounts or financial statements of the subsidiaries used in the consolidation process have been prepared as of the same date and for the same period as those of the Parent.

(b) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment

and assess its performance, and for which discrete financial information is available.

(c) Non-controlling interests

Non-controlling interests in subsidiaries acquired are recognised at the acquisition date at the proportional part of the fair value of the identifiable net assets.

Non-controlling interests are disclosed in consolidated equity separately from equity attributable to shareholders of the Parent. Non-controlling interests' share in consolidated profit or loss for the year and in consolidated total comprehensive income for the year is disclosed separately in the consolidated income statement and the consolidated statement of comprehensive income.

The consolidated profit or loss for the year, consolidated total comprehensive income for the year and changes in equity of the subsidiaries attributable to the Group and non-controlling interests after consolidation adjustments and eliminations, are determined in accordance with the percentage ownership at year end.

(d) Property, plant and equipment

Property, plant and equipment are recognised at cost or deemed cost, less accumulated depreciation and any

accumulated impairment losses. The cost of self-constructed assets, mainly for the transmission and distribution of natural gas and liquefied petroleum gas is determined using the same principles as for an acquired asset, while also considering the criteria applicable to production costs of inventories and the construction on the properties of the network required, until the entry into service of the connection points. The production cost is capitalised by allocating the costs attributable to the asset to self-constructed non-current assets in the Consolidated Income Statement.

The cost of an item of property, plant and equipment includes the estimated costs of dismantling or removal and restoration of the site on which it is located, provided that the obligation is incurred as a consequence of having used the item and for purposes other than to produce inventories.

Property, plant and equipment are depreciated by allocating the depreciable amount of the asset on a systematic basis over its useful life. The depreciable amount is the cost of an asset, less its residual value. The Group determines the depreciation charge separately for each component.

Property, plant and equipment are depreciated using the following criteria:

	Depreciation method	Estimated years of useful life
Buildings	Straight-line	10-50
Technical installations and machinery:		
Liquefied natural gas plant	Straight-line	20
Regulating and metering stations	Straight-line	20-30
Shared gas installations	Straight-line	20
Gas transmission networks	Straight-line	20
Meter-reading equipment	Straight-line	10
Gas pipelines	Straight-line	30-40
Regasification plant	Straight-line	20
LPG installations	Straight-line	10-20
Other items of property, plant and equipment	Straight-line	2-20
Other installations, equipment and furniture	Straight-line	4-20
Transmission equipment	Straight-line	7-9

Transmission facilities that entered into service prior to 31 December 2007 are amortised over 30 years. Transmission facilities that entered into service after that date are amortised over the useful life according to the estimate made for items of property, plant and equipment. In the case of the gas pipelines this is 40 years and for the regulation and measurement stations is 30 years. These estimates are in line with Royal Decree 326/2008, of 29 February 2008, which establishes the remuneration of natural gas transmission activities for facilities that came into service subsequent to 1 January 2008.

The Group reviews residual values, useful lives and depreciation methods at each financial year end. Changes to initially established criteria are accounted for as a change in accounting estimates.

Subsequent to initial recognition of the asset, only costs that will probably generate future economic benefits and which may be measured reliably are capitalised, including the costs required for the assets to operate as envisaged by management and in accordance with the legal and regulatory requirements applicable. Costs of day-to-day servicing are recognised in profit or loss as incurred.

Replacements of property, plant and equipment that qualify for capitalisation are recognised as a reduction in the carrying amount of the items replaced. Where the cost of the replaced items has not been depreciated independently and it is not possible to determine the respective carrying amount, the replacement cost is used as indicative of the cost of items replaced at the time of acquisition or construction.

The Group measures and determines impairment to be recognised or reversed based on the criteria in section (g).

(e) Business combinations

The Group has applied IFRS 3 Business Combinations, revised in 2008, to transactions carried out on or after 1 January 2010.

The Group applies the acquisition method for business combinations.

The acquisition date is the date on which the Group obtains control of the acquiree.

The consideration transferred in a business combination is calculated as the sum of the acquisition-date fair values of the assets transferred, the liabilities incurred or assumed, the

equity instruments issued and any consideration contingent on future events or compliance with certain conditions in exchange for control of the acquiree.

The consideration transferred excludes any payment that does not form part of the exchange for the acquired business. Acquisition costs are recognised as an expense when incurred.

At the acquisition date the Group recognises the assets acquired and liabilities assumed, and any non-controlling interest, at fair value. Liabilities assumed include any contingent liabilities that represent present obligations arising from past events for which the fair value can be reliably measured. The Group also recognises indemnification assets transferred by the seller at the same time and following the same measurement criteria as the item that is subject to indemnification from the acquiree, taking into consideration, where applicable, the insolvency risk and any contractual limit on the indemnity amount.

With the exception of lease and insurance contracts, the assets acquired and liabilities assumed are classified and designated for subsequent measurement based on contractual agreements, economic terms, accounting and operating policies and any other conditions existing at the acquisition date.

The excess between the consideration given, plus the value assigned to non-controlling interests, and the value of net assets acquired and liabilities assumed, is recognised as goodwill. Any shortfall, after evaluating the consideration given, the value assigned to non-controlling interests and the identification and measurement of net assets acquired, is recognised in profit or loss.

(f) Intangible assets

● Goodwill

Goodwill is not amortised but is tested for impairment annually or more frequently where events or circumstances indicate that an asset may be impaired. Goodwill on business combinations is allocated to the cash-generating units (CGUs) or groups of CGUs which are expected to benefit from the synergies of the business combination and the criteria described in section (g) (impairment) are applied. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Internally generated goodwill is not recognised as an asset.

● **Government Authorisation or Licences**

This item reflects the amounts incurred or measured by an independent expert in obtaining government authorisation to distribute and transmit gas in the various areas in which the Parent and the subsidiaries perform or will perform their activities, less any impairment. Costs incurred in relation to and prior to obtaining the government authorisation are initially recognised under intangible assets and subsequently transferred to the income statement when the Group has reasonable doubts in respect of obtaining this authorisation.

In accordance with the legal framework under which they were granted, these authorisations do not have a limited duration.

● **Computer software**

Computer software is carried at cost, less any accumulated amortisation and impairment losses. Computer software maintenance costs are charged as expenses when incurred.

(i) **Useful life and amortisation rates**

The Group assesses whether the useful life of each intangible asset acquired is finite or indefinite. An intangible asset is regarded as having an indefinite useful life when there is no foreseeable limit to the period over which the asset will generate net cash inflows.

Intangible assets with indefinite useful lives or that are not limited in duration are not amortised, but are instead tested for impairment on an annual basis or whenever there is an indication that the intangible asset may be impaired. The Group considers that the government authorisations or licences for gas distribution and transmission have an indefinite useful life as, in accordance with the legal framework under which they were granted, these authorisations do not have a limited duration.

Intangible assets with finite useful lives are amortised by allocating the depreciable amount of an asset on a systematic basis over its useful life, by applying the following criteria:

	Amortisation method	Estimated years of useful life
Computer software	Straight-line	4-5
Other intangible assets	Straight-line	5-20

The depreciable amount is the cost or deemed cost of an asset, less its residual value.

The Group reviews the residual value, useful life and amortisation method for intangible assets at each financial year end. Changes to initially established criteria are accounted for as a change in accounting estimates.

(ii) **Impairment**

The Group measures and determines impairment to be recognised or reversed based on the criteria in section (g).

(g) **Impairment of non-financial assets subject to amortisation or depreciation**

The Group evaluates whether there are indications of possible impairment losses on non-financial assets subject to

amortisation or depreciation to verify whether the carrying amount of these assets exceeds the recoverable amount.

The Group tests goodwill and intangible assets with indefinite useful lives for impairment at least annually, irrespective of whether there is any indication that the assets may be impaired.

The recoverable amount of the assets is the higher of their fair value less costs of disposal and their value in use.

Negative differences resulting from comparison of the carrying amounts of the assets with their recoverable amount are recognised in profit and loss.

Recoverable amount is determined for each individual asset, unless the asset does not generate cash inflows that are

largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs.

Impairment losses for cash-generating units are allocated first to reduce the carrying amount of goodwill allocated to the unit and then to the other assets of the unit pro rata with their carrying amounts. The carrying amount of each asset may not be reduced below the highest of its fair value less costs of disposal, its value in use and zero.

At the end of each reporting period the Group assesses whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. Impairment losses on goodwill are not reversible. Impairment losses on other assets are only reversed if there has been a change in the estimates used to calculate the recoverable amount of the asset.

A reversal of an impairment loss is recognised in profit or loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss may not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised.

A reversal of an impairment loss for a CGU is allocated to the assets of each unit, except goodwill, pro rata with the carrying amounts of those assets. The carrying amount of an asset may not be increased above the lower of its recoverable amount and the carrying amount that would have been disclosed, net of amortisation or depreciation, had no impairment loss been recognised.

(h) Leases

The Group classifies leases as finance leases when substantially all the risks and rewards incidental to ownership of the leased asset are transferred to the Company under the terms and conditions of the lease, otherwise they are classified as operating leases.

The Group had no finance leases during 2015 or 2014.

Lease payments under an operating lease, net of incentives received, are recognised as an expense on a straight-line basis over the lease term.

The Group recognises initial direct costs incurred on operating leases as an expense when incurred.

(i) Financial instruments

Classification of financial instruments

Financial instruments are classified on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the economic substance of the contractual arrangement and the definitions of a financial asset, a financial liability and an equity instrument in IAS 32 "Financial Instruments: Presentation".

The Group recognises financial instruments when it becomes party to the contract or legal transaction, in accordance with the terms set out therein.

For measurement purposes, financial instruments are classified as loans and receivables and financial liabilities at amortised cost. Financial instruments are classified into different categories based on the nature of the instruments and the Group's intentions on initial recognition.

Loans and receivables

Trade and other receivables are initially recognised at fair value, including transaction costs, and are subsequently measured at amortised cost using the effective interest method.

The amount of the impairment loss of financial assets measured at amortised cost is the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

The impairment loss is recognised in profit and loss and is reversed in subsequent periods. The loss can only be reversed up to the amortised cost the assets would have had had the impairment loss not been recognised.

Financial liabilities

Trade payables, loans and borrowings and financial liabilities from issuing bonds and other marketable securities are initially recognised at fair value less any transaction costs that are directly attributable to the issue of the financial liability. After initial recognition, liabilities classified under this category are measured at amortised cost using the effective interest method.

Participating loans

Upon initial recognition, the Company prepares its best estimate of the cash flows to be paid under these loans, based

on business projections, and determines the effective interest rate. The Company subsequently applies the effective interest rate method, which requires adjusting the carrying amount of the participating loans, with a charge or credit to the income statement, for variations in the estimated cash flows discounted at the original effective interest rate.

When a participating loan granted by the shareholders is waived, the Company capitalises the fair value of these loans as other shareholder contributions and derecognises the financial liability at this fair value.

(j) Hedge accounting

Derivative financial instruments that do not meet hedge accounting requirements are classified and measured as financial assets and financial liabilities at fair value through profit or loss.

Derivative financial instruments which qualify for hedge accounting are initially measured at fair value, plus any transaction costs that are directly attributable to the acquisition, or less any transaction costs directly attributable to the issue of the financial instruments.

The Group only designates as hedged items liabilities that involve a non-Group party.

In cash flow hedges, the Group recognises the portion of the gain or loss on the measurement at fair value of a hedging instrument that is determined to be an effective hedge in other comprehensive income. The ineffective portion and the specific component of the gain or loss or cash flows on the hedging instrument, excluding the measurement of the hedge effectiveness, are recognised with a debit or credit to finance costs or finance income.

The separate component of other comprehensive income associated with the hedged item is adjusted to the lesser of the cumulative gain or loss on the hedging instrument from inception of the hedge and the cumulative change in fair value or present value of the expected future cash flows on the hedged item from inception of the hedge. However, if the Group expects that all or a portion of a loss recognised in other comprehensive income will not be recovered in one or more future periods, it reclassifies into finance income or finance costs the amount that is not expected to be recovered.

The Group prospectively discontinues the accounting of fair value hedges when the hedging instrument expires, is sold,

is exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation. In these cases, the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income is not recorded in profit or loss until the forecast transaction occurs. If the transaction is no longer expected to occur, the cumulative gain or loss that had been recognised in other comprehensive income is reclassified to finance income or finance costs.

(k) Distributions to shareholders

Dividends, whether in cash or in kind, are recognised as a reduction in equity when approved by the shareholders at their annual general meeting.

(l) Inventories

Inventories are initially measured at the lower of cost of purchase and net realisable value.

The purchase price comprises the amount invoiced by the seller, after deduction of any discounts, rebates or other similar items, plus any additional costs incurred to bring the goods to a saleable condition, other costs directly attributable to the acquisition, as well as finance costs and indirect taxes not recoverable from the Spanish tax authorities.

When the cost of inventories exceeds net realisable value, materials are written down to net realisable value, which is understood to be their replacement cost.

The Group uses the same cost model for all inventories of the same nature and with a similar use.

(m) Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits in financial institutions. They also include other short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. An investment normally qualifies as a cash equivalent when it has a maturity of less than three months from the date of acquisition.

(n) Government grants

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions attached.

Capital grants awarded to the Group are mainly to carry out works and are non-refundable. These grants are measured

at the fair value of the sum received, are recognised under government grants in the consolidated statement of financial position and taken to other income over the same period and in proportion to the depreciation of the subsidised assets or when the assets are disposed of or impaired.

This item also includes connection charges as monetary consideration for the implementation of the facilities and operations necessary to serve new gas connection points or extend existing ones. These connection charges are recognised as income in proportion to the depreciation of financial assets for the year (20 years).

(o) Employee benefits

Defined benefit plans

The Group has pension obligations with certain employees, which vary depending on the company where they worked. These obligations, including both defined benefits and defined contributions, are basically arranged through pension plans or insurance policies, except for certain benefits in kind, mainly electricity supply commitments, which due to their nature have not been externalised and are covered by in-house provisions.

Defined benefit liabilities recognised in the Consolidated Statement of Financial Position reflect the present value of defined benefit obligations at the reporting date, minus the fair value at that date of plan assets.

The Group recognises actuarial losses and gains in other comprehensive income in the year in which they occur. These actuarial losses and gains are recognised immediately in retained earnings. They are not recorded in profit or loss in a subsequent year.

Income or expense related to defined benefit plans is recognised as employee benefits expense and is the sum of the net current service cost and the net interest cost of the net defined benefit asset or liability.

The present value of defined benefit obligations and the related current service cost and past service cost are calculated annually by independent actuaries using the Projected Unit Credit Method. The discount rate is calculated based on the yield on high quality corporate bonds of a currency and term consistent with the currency and term of the post-employment benefit obligations.

Assets and liabilities arising from defined benefit plans are recognised as current or non-current based on the period of realisation of related assets or settlement of related liabilities.

Defined contribution plans

The Group recognises the contributions payable to a defined contribution plan in exchange for a service when an employee has rendered service to the Group. The contributions payable are recognised as an expense for employee remuneration, and as a liability after deducting any contribution already paid.

Provisions for personnel restructuring

Restructuring-related termination benefits are recognised when the Group has a constructive obligation; that is, when it has a detailed formal plan for the restructuring identifying at least: the business or part of a business concerned; the principal locations affected, the location, function, and approximate number of employees who will be compensated for terminating their services; the expenditures that will be undertaken; and when the plan will be implemented and a valid expectation has been raised in those affected that the restructuring will be carried out by starting to implement that plan or announcing its main features to those affected by it.

Redexis Gas, S.A. has a voluntary redundancy plan that was approved in 2000 and has made a provision of Euros 654 thousand in this respect at 31 December 2015 (Euros 1,799 thousand at 31 December 2014) (see Note 25).

The Group recognises all the expenses relating to these plans when the obligation arises, based on the actuarial studies conducted to calculate the provisions for actuarial obligations at each year end. Actuarial gains or losses each year are recognised in the consolidated income statement for that year.

(p) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account all risks and uncertainties surrounding the amount to be recognised as a provision and, where the time value of money is material, the

financial effect of discounting provided that the expenditure to be made each period can be reliably estimated. The discount rate is a pre-tax rate that reflects the time value of money and the specific risks for which future cash flows associated with the provision have not been adjusted at each reporting date.

The financial effect of provisions is recognised as a finance cost in profit or loss.

If it is not probable that an outflow of resources will be required to settle an obligation, the provision is reversed. The provision is reversed against the income statement caption in which the related expense was recognised, and any surplus is accounted for in other income.

Provisions for decommissioning, restoration and similar liabilities

These provisions are measured in accordance with the general criteria for provisions and are recognised as an increase in the cost of the associated property, plant and equipment (see note 3.d).

Changes in provisions resulting from changes in the amount, timing of the outflow of resources or the discount rate increase or reduce the cost of fixed assets up to the carrying amount thereof, whilst any excess is recognised in profit or loss.

(g) Revenue recognition

Income is calculated at the fair value of the consideration received, net of discounts and taxes. In particular the consideration receivable for regulated distribution and transmission activities is calculated as described later.

Amounts charged to users for new supply contracts are recognised as revenues in the year in which the supply is contracted.

Revenues associated with the rendering of service transactions are only recognised when the amount of the revenues, degree of realisation, costs incurred or to be incurred can be reliably estimated and it is probable that the economic benefits derived from the transaction will flow to the Group. These revenues are recognised by reference to the degree of realisation of the service at the reporting date.

Distribution activities

Remuneration for distribution activity each year is established ex-ante. The Ministerial Orders published at the end of each year establish the remuneration for the coming year based on expected sales and new customers for the year. As a result, the

remuneration amount is subject to change for up to two years, until the definitive data on demand and new customers is available for the year analysed. Order IET/2736/2015, published on 18 December 2015, adjusted the remuneration for 2015 and 2014 based on the most up-to-date figures on sales and consumers.

Order IET/2445/2014 of 19 December 2014 established the remuneration for distribution activity for 2015 through application of the parameters established by Law 18/2014 of 15 October 2014 approving urgent measures for growth, competitiveness and efficiency. This law reformed the remuneration for gas activities with a view to eliminating deficits in the settlement system.

Order IET/2446/2013 of 27 December 2013 stipulates the remuneration for distribution activities for 2014. Nevertheless, in application of the subsequent Law 18/2014 the applicable remuneration in the period from July 2014 to December 2014 is that set forth in Order IET/2355/2014.

In the case of distribution, the regulatory review carried out by Law 18/2014 is based on performing a new evaluation of agents' remuneration bases that, while reducing the overall amount by Euros 110 million, approximately, positively considers the growth achieved since the last regulatory review (in 2002) and grants special importance to domestic consumption, which is the main source of more toll income. These remuneration bases will be updated annually taking into account the rise in consumption and the number of consumers connected to each distributor, with special incentives for connecting new towns to the gas supply, which will help raise the national rate of access to gas, currently 29%, to the considerably higher averages of other European countries. To this end, the aforementioned law established remuneration unit values for each customer and unit of energy included that, in principle, will remain unchanged for the entire regulatory period (which ends on 31 December 2020). These values are applied to the expected growth for each distributor for the coming year to calculate their provisional annual remuneration.

This remuneration for distribution activities will be adjusted once the final amounts of this remuneration have been set by the Spanish Ministry of Industry, Energy and Tourism based on the actual figures for the average increase in consumers and kWh distributed. The Group does not expect significant differences to arise between the amounts recognised and the final settlements. Nevertheless, any differences will

be recognised as a change in accounting estimate in the consolidated income statement when they arise.

During 2015 the Group received the final settlement for regulated activities in the gas sector for 2012, which had practically no impact on the Consolidated Income Statement. At the date of preparation of these consolidated annual accounts, the final settlements for regulated activities in the gas sector for 2013, 2014 and 2015 have not yet been received.

In accordance with Orders ITC/3126/2005, IET 2446/2013 and IET 2355/2014 and the technical gas system management standards (NGTS), the Group has recognised measurement differences (known as system shrinkages) as regulated distribution revenue in the Consolidated Income Statement for 2015 and 2014 in the amount of Euros 2,545 thousand and Euros 7,493 thousand (see note 30), respectively. In 2015 the Company has settled the measurement differences for 2008 to 2012 and those for 2014.

Transmission activity

Order IET/2445/2014 of 19 December 2014 established the remuneration for transmission activity for 2015 through application of the parameters established by Law 18/2014 of 15 October 2014, approving urgent measures for growth, competitiveness and efficiency. This law reformed the remuneration for gas activities with a view to eliminating deficits in the settlement system.

Order IET/2446/2013 of 27 December 2013, sets forth the tolls and charges for third-party access to gas facilities and the remuneration for regulated activities in 2014. Nevertheless, in application of the subsequent Law 18/2014 the applicable remuneration in the period from July 2014 to December 2014 is that set forth in Order IET/2355/2014.

In the case of transmission activity the main purpose of the regulatory review under Law 18/2014 is to vary the remuneration of developers of these assets so that it reflects more accurately the level of use of these infrastructures, which is precisely the source of the revenues to cover their cost. For this purpose, in respect of the fixed remuneration model that had been introduced pursuant to Royal Decree 326/2008 the automatic 2.5% review rate was eliminated and the financial rate of return on these assets was reduced, i.e. it was changed from the "yield on 10-year government bonds plus 375 basis points" to "the average yield on 10-year government bonds in the secondary market among holders of non-segregated accounts in the 24

months prior to the entry into force of the increased legislation with a spread of 50 basis points".

In contrast to this measure, a new remuneration term was introduced, defined as remuneration for uninterrupted supply, which is a variable remuneration term linked to the overall demand distributed through the transmission system. It consists of paying a fixed amount to the transmission agents in the sector, which is increased or decreased annually in line with demand in the sector. As a result, the remuneration for uninterrupted supply is established ex ante based on expected demand for the coming year and, therefore, it may be reviewed within two years, in a similar fashion to remuneration for distribution. IET/2736/2015 published on 18 December 2015 adjusted the remuneration for uninterrupted supply for 2015 and 2014 based on the most updated demand figures for the sector.

In the case of facilities that have entered into service since 1 January 2008 and for which remuneration has yet to be received as the Spanish Ministry of Industry, Energy and Tourism has not yet issued its resolution, fixed remuneration has been calculated based on the unit values indicated and the technical characteristics of each facility, in accordance with the Appendices to the corresponding Orders.

These Orders acknowledge, update and publish the remuneration on account for transmission facilities that have come into service since 1 January 2008. However, since the Ministry of Industry, Energy and Tourism did not have access to sufficient information at the date of preparation of the Orders, it calculated the remuneration on account.

In accordance with article 5 of Order ITC/3128/2011 of 17 November 2011 on matters relating to third-party access to gas facilities and remuneration for regulated activities, the Group has recognised measurement differences (known as system shrinkages) as regulated transmission revenue in the Consolidated Income Statement for 2015 and 2014 in the amount of Euros 254 thousand and Euros 269 thousand, respectively.

The Group is also subject to the following regulatory framework:

- Royal Decree 949/2001 of 3 August 2001, which regulates third-party access to gas facilities and establishes an integrated economic system for the natural gas sector, in accordance with the mandate in article 8 of Royal Decree-Law 6/2000 of 23 June 2000.

- Order ECO/2692/2002 of 28 October 2002, which regulates the settlement procedure for remuneration from regulated activities in the natural gas sector and for specifically allocated payments, and establishes the information system to be implemented by companies.
- Royal Decree 326/2008 of 29 February 2008, which stipulates the remuneration for natural gas transmission activities for facilities entering into service since 1 January 2008.
- Royal Decree 1434/2002, of 27 December 2002, regulates transmission, distribution, trading and supply activities and the authorisation procedures for natural gas facilities.

(r) Income tax

The income tax expense or tax income for the year comprises current tax and deferred tax.

Current tax is the amount of income taxes payable or recoverable in respect of the consolidated taxable profit or tax loss for the year. Current tax assets or liabilities are measured at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws approved or pending approval at the reporting date.

Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences. Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of deductible temporary differences, the carryforward of unused tax losses and the carryforward of unused tax credits. Temporary differences are differences between the carrying amount of an asset or liability and its tax base.

Current and deferred tax are recognised as income or an expense and included in profit or loss for the year, except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different year, directly in equity, or from a business combination.

(i) Recognition of deferred tax liabilities

Deferred tax liabilities derived from taxable temporary differences are recognised by the Group in all cases except where they arise from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable income.

(ii) Recognition of deferred tax assets

The Group recognises deferred tax assets when it is probable

that taxable profit will be available against which the deductible temporary difference can be utilised or when tax legislation allows the future conversion of deferred tax assets into a receivable from public entities. However, assets arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and, at the time of the transaction, affect neither accounting profit nor taxable income.

It is considered probable that the Group will generate sufficient taxable profit to recover deferred tax assets when there are sufficient taxable temporary differences relating to the same tax authority and the same taxable entity, which are expected to reverse in the same tax period as the expected reversal of the deductible temporary differences or in periods into which a tax loss arising from a deductible temporary difference can be carried back or forward. If the only future taxable profit is derived from taxable temporary differences, the recognition of deferred tax assets arising from tax losses carried forward is limited to 70% of the deferred tax liabilities recognised.

In order to determine future taxable profit the Group takes into account tax planning opportunities, provided it intends or is likely to adopt them.

(iii) Measurement of deferred tax assets and liabilities

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted. The tax consequences that would follow from the manner in which the Group expects to recover or settle the carrying amount of its assets or liabilities are also reflected in the measurement of deferred tax assets and liabilities. For these purposes, the Group has considered the deduction for reversal of the temporary measures provided in transitional provision thirty-seven of Income Tax Law 27/2014 of 27 November 2014 as an adjustment to the tax rate applicable to the deductible temporary difference associated with the non-deductibility of amortisation and depreciation charges in 2013 and 2014.

The Group reviews the carrying amount of deferred tax assets at the reporting date and reduces this amount to the extent that it is not probable that sufficient taxable profit will be available against which to recover them.

Deferred tax assets that do not comply with the above conditions are not recognised in the consolidated statement of financial position. At year end the Group reassesses whether conditions are met for recognising previously unrecognised deferred tax assets.

(iv) Offset and classification

The Group only offsets current tax assets and liabilities if it has a legally enforceable right to offset the recognised amounts and intends either to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

The Group only offsets deferred tax assets and liabilities if it has a legally enforceable right to offset the recognised amounts, and they relate to income taxes levied by the same tax authority on the same taxable entity or on different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax assets and liabilities are recognised in the consolidated statement of financial position under non-current assets or liabilities, irrespective of the expected date of recovery or settlement.

(v) Consolidated tax

The Redexis Gas Group, which comprises the companies listed in Appendix I, files consolidated tax returns except Redexis Gas Murcia, S.A.

In addition to the factors to be considered for individual tax, set out previously, the following factors are taken into account when determining the accrued income tax expense for the companies forming the consolidated tax group:

- Temporary and permanent differences arising from the elimination of profits and losses on transactions between Group companies, derived from the process of determining consolidated taxable income..

- Deductions and credits corresponding to each company forming the consolidated tax group. For these purposes, deductions and credits are allocated to the company that carried out the activity or generated the profit necessary to obtain the right to the deduction or tax credit.

(s) Classification of assets and liabilities as current and non-current

Assets and liabilities are classified as current when they are expected to be realised or settled in the Group's normal operating cycle, within 12 months after the reporting date. Otherwise they are classified as non-current.

(t) Environmental issues

The Group takes measures to prevent, reduce or repair the damage caused to the environment by its activities.

Expenses derived from environmental activities are recognised as other operating expenses in the period in which they are incurred. By its nature, the Group's activity does not have a significant impact on the environment and as such no provisions have been recorded for this contingency.

Non-current assets acquired by the Group to minimise the environmental impact of its activity and protect and improve the environment, including the reduction and elimination of future pollution from the Group's activities (e.g. the replacement of road surfaces or land related to the laying of pipelines), are recognised as assets, applying the measurement, presentation and disclosure criteria described in section (d) of this Note 3.

(4) Sector Regulation

The regulatory framework for the natural gas sector in Spain is based on Hydrocarbon Law 34/1998, enacted, inter alia, by Royal Decrees 949/2001 and 1434/2002. Royal Decree 949/2001 regulates third-party access to gas facilities and specifies an integrated economic system for the natural gas sector. Royal Decree 1434/2002 regulates

transmission, distribution, sale and supply activities and the authorisation procedures for natural gas facilities.

Over the years, as the sector was gradually liberalised, the aforementioned Hydrocarbon Law was amended on numerous occasions. The most recent amendment was pursuant to Royal

Decree-Law 8/2014 of 4 July 2014, which approved Urgent Measures for Growth, Competitiveness and Efficiency and was subsequently passed by the Spanish parliament and published as Law 18/2014, of 15 October 2014, approving Urgent Measures for Growth, Competitiveness and Efficiency. This legislation was mainly based on the consideration that the economic crisis had led to a decline in demand that revealed the insufficiency of the economic system under Royal Decree 949/2001 when demand falls or is stable. Consequently, considering that the deficit generated in the natural gas settlement system can be classified as structural, certain measures were introduced that update the regulatory-economic framework, the most salient of which are:

- A reform of the general scheme of revenues and costs of the gas system was undertaken, which is based on the principle of economic sustainability and long-term economic balance, taking into account fluctuations in demand and the level of development of existing infrastructures, without undermining the principle of adequate remuneration for investments in regulated activities, or the safety of the supply. It therefore established the principle of the economic and financial sustainability of the gas system in so far as any legislation leading to a rise in costs or reduction in revenues must include a reduction in costs or an increase in revenues.
- Certain mechanisms were introduced to restrict any temporary annual mismatches in the settlement

system, through the automatic review of tolls when certain thresholds are exceeded. If these thresholds are not exceeded, the mismatches are financed by those subject to the settlement system in proportion to their remuneration, generating receivables in the following five years, with a market interest rate that will be set by Ministerial Order.

- With regard to the remuneration of regulated activities, the reform includes the basic principle of considering the necessary costs for an efficient and well-managed company to perform the activity at the lowest cost for the system.
- In line with electricity sector regulations and the need to ensure regulatory stability, regulatory periods of six years were defined, during which the financial rate cannot be reviewed and automatic update formulas will not be applicable to the remuneration of any of the activities. However, as the regulatory reform has been proposed in a deficit scenario that is expected to be remedied in the coming years, it allows certain remuneration parameters to be adjusted every three years if significant variations arise in the income and expense items.
- An in-depth, standard review of the remuneration from all activities affecting all assets was undertaken, including those already in service, which is discussed in Note 3 (q).

(5) Business Combinations

On 30 January 2015, the Group, through the Parent, acquired a 99.98% interest in Gas Energía Distribución Murcia, S.A. (now called Redexis Gas Murcia, S.A.). Redexis Gas Murcia, S.A. has its registered office in Murcia and its principal activity is the distribution and secondary transmission of natural gas and the distribution and sale of liquefied petroleum gas through pipelines. Between the acquisition date and the reporting date the business acquired has generated revenues and consolidated profit for the Group of Euros 21,257 thousand and Euros 531 thousand, respectively.

The purchase of Gas Energía Distribución Murcia, S.A. was carried out through a contribution of Euros 100,000 thousand

by the Company's shareholders and a Euros 50,000 thousand draw down from the credit facility discussed in Note 21, while the remaining Euros 36,071 thousand was cash generated by the Company.

Had the acquisition taken place at 1 January 2015, the Group's revenue and consolidated profit for the year ended 31 December 2015 would have amounted to Euros 23,287 thousand and Euros 880 thousand, respectively.

Details of the consideration received, the fair value of the net assets acquired and goodwill, are as follows:

	Thousands of Euros
Consideration given:	
Cash paid	125,859
Total consideration given	125,859
Non-controlling interests	(23)
Fair value of net assets acquired	(118,176)
Goodwill (Note 8)	7,706

The amounts recognised by significant class at the date of acquisition of the assets and liabilities are as follows:

	Fair value (Thousands of Euros)
Land and buildings (Note 7)	1,139
Technical installations and other items (Note 7)	165,027
Under construction (Note 7)	1,946
Goodwill (Nota 8)	7,706
Licences (Nota 8)	22,517
Non-current financial assets	24
Trade and other receivables	4,610
Other current assets	88
Inventories	229
Cash and Cash Equivalents	3,028
Other assets	40
Deferred tax assets	2,048
Total assets	208,402
Trade and other payables	(3,811)
Provisions (Notes 25 and 26)	(688)
Other liabilities	(34)
Financial liabilities	(63,722)
Deferred tax liabilities	(14,265)
Total liabilities	(82,520)
Total net assets	125,882
Non-controlling interets	(23)
Total net assets acquired	125,859
Cash outflow for the acquisition	125,859

The Group recognised transaction costs of Euros 1,448 thousand under other non-recurrent operating expenses in the consolidated income statement for 2014.

The goodwill arising on this business combination amounts

to Euros 7,706 thousand and mainly comprises the future economic benefits from the ordinary activities of the company acquired, which did not qualify for recognition as a separate asset. The goodwill generated is not expected to be deductible for tax purposes.

(6) Subsidiaries

(a) Composition of the Group

Information on the subsidiaries included in the consolidated Group is presented in Appendix I.

On 16 December 2014, a private sale and purchase agreement was formalised for the Company to purchase 99.98% of the shares of Gas Energía Distribución Murcia, S.A. (now called Redexis Gas Murcia, S.A.). The sale and purchase transaction was executed in a public deed on 30 January 2015, following compliance with the condition precedent established in the contract.

The purchase of Gas Energía Distribución Murcia, S.A. was carried out through a contribution of Euros 100,000 thousand by the Company's shareholders and a Euros 50,000 thousand draw down from the credit facility discussed in Note 21, while the remaining Euros 36,071 thousand was cash generated by the Company.

(b) Non-controlling interests

In March 2014 the Company acquired a 0.87% interest in Redexis Gas Aragón, S.A. from non-controlling interests and, as a result, since that time has held 100% of its share capital until its merger with the Company.

(c) Consolidated structured entities

Redexis Gas Finance B.V. was incorporated on 10 March 2014 in the Netherlands and is an investee of Zaragoza International Coöperative, U.A. and Augusta Global Coöperative, U.A. (same shareholders as the Parent). Its main activity is the issue of bonds.

This structured entity carried out; (i) a Euros 650,000 thousand bond issue in April 2014, which was guaranteed by the Parent, within the framework of the Euro Medium Term Note Programme (EMTN Programme) (see note 20); and (ii) another Euros 250,000 thousand bond issue in April 2015, which is guaranteed by the Parent, within the framework of the Euro Medium Term Note Programme (EMTN Programme) (see Note 20).

Redexis Gas Finance B.V. is a structured entity that has been consolidated primarily because the Parent has issued guarantees amounting to Euros 900,000 thousand at 31 December 2015 (Euros 650,000 thousand 31 December 2014) to bondholders of this company. The guarantees require that the Parent reimburse the bondholders for any losses they incur if the returns on the underlying assets are lower than the contractual cash flows.

Information on the structured entity included in the consolidated Group is presented in Appendix II.

(7) Property, Plant and Equipment

Details of property, plant and equipment and movement during the years ended 31 December 2015 and 2014 are as follows:

Thousands of Euros

	Land and buildings	Technical installations and other items	Under construction and advances	TOTAL
Balance at 31 December 2014	8,870	642,369	26,689	677,928
Additions due to business combination (Redexis Gas Murcia)	1,139	165,027	1,946	168,112
Additions	-	72,092	119,053	191,145
Transfers	276	95,557	(94,249)	1,584
Depreciation	(154)	(55,201)	-	(55,355)
Balance at 31 December 2015	10,131	919,844	53,439	983,414

Thousands of Euros

	Land and buildings	Technical installations and other items	Under construction and advances	TOTAL
Balance at 31 December 2013	3,071	603,083	34,228	640,382
Additions	300	570	82,508	83,378
Transfers	5,569	83,893	(89,462)	-
Depreciation	(70)	(34,655)	-	(34,725)
Disposals	-	(10,522)	(585)	(11,107)
Balance at 31 December 2014	8,870	642,369	26,689	677,928

The most significant additions for 2015 are:

- the construction of transmission pipelines;
- the extension and acquisition of distribution networks, both in new municipalities and those already served by the Group, notably the purchase for Euros 51,131 thousand of over 416 thousand metres of distribution networks (not counting those already connected) and 22 ERM/EM, in Madrid, Castilla and León, Extremadura, Murcia and Gerona;
- the purchase of LPG networks and installations amounting to Euros 21,114 thousand.

The most significant additions in 2014 reflect the construction of transmission pipelines.

In 2015 construction of the following pipelines was completed:

- "Son Reus-Inca-Alcudia" primary transmission pipeline.
- "Cas Tresorer-Manacor-Felanitx" primary transmission pipeline (stage I).

In 2014 construction of the following pipelines was completed:

- "Huércal – Overa – Baza – Guadix II" primary transmission pipeline.
- "Son Reus – Andratx" secondary transmission pipeline.
- "Elche – Monóvar – Algueña" secondary transmission pipeline.

At 31 December 2015, property, plant and equipment under construction reflect investments in gas transmission and distribution networks that the Group expects to complete in the coming months.

The individual values of the buildings and land are Euros 6,149 thousand and Euros 3,982 thousand, respectively, at the 2015 year end (Euros 5,057 thousand and Euros 3,813 thousand, respectively, at the 2014 year end).

In June, September and December 2015, Repsol Butano, S.A. and the Parent Redexis Gas, S.A. entered into framework agreements for the purchase and conveyance of LPG for a total of Euros 136 million networks and installations that serve approximately 72 thousand connection points. After receiving approval for these operations from the National Markets and Competition Commission, these agreements for the conveyance of LPG networks and installations were executed in a public deed. These networks are expected to be received gradually in 2016, as described in the related conveyance agreements, at which date they will be considered effectively transferred. At 31 December 2015, LPG networks and installations, that serve approximately 10 thousand connection points, had been received.

At 31 December 2015, the Group recognised gas plant decommissioning costs of Euros 388 thousand under property, plant and equipment (Euros 880 thousand at 31 December 2014). These expenses were determined based on the Group's best estimate of the market costs of the various physical units involved in decommissioning these plants (see Note 26).

The Group has taken out insurance policies to cover the risk of damage to its property, plant and equipment. The coverage of these policies is considered sufficient.

The cost of fully depreciated property, plant and equipment in use at 31 December 2015 and 2014 is as follows:

Thousands of Euros

	2015	2014
Buildings	96	-
Technical installations and machinery	104,165	84,314
Other installations, equipment and furniture	1,139	602
Other property, plant and equipment	343	336
	105,743	85,252

(8) Intangible Assets

Details of intangible assets and movement during the years ended 31 December 2015 and 2014 are as follows:

Thousands of Euros

	Goodwill	Licences	Computer software	Other intangible assets	TOTAL
Balances at 31 December 2014	213,053	520,397	6,692	2,413	742,555
Additions due to business combination (Redexis Gas Murcia)	7,706	22,517	-	-	30,223
Additions	-	-	4,952	1,024	5,976
Transfers	(1,584)	-	-	-	(1,584)
Amortisation	-	-	(2,399)	(69)	(2,468)
Balances at 31 December 2015	219,175	542,914	9,245	3,368	774,702

Thousands of Euros

	Goodwill	Licences	Computer software	Other intangible assets	TOTAL
Balances at 31 December 2013	213,053	520,397	4,748	1,465	739,663
Additions	-	-	6,777	997	7,774
Disposals	-	-	(2,999)	-	(2,999)
Amortisation	-	-	(1,834)	(49)	(1,883)
Balances at 31 December 2014	213,053	520,397	6,692	2,413	742,555

The goodwill arising on the business combination carried out in 2010, amounting to Euros 213,053 thousand, and the goodwill arising on the business combination carried out in 2005 (Note 5) amounting to Euros 7,706 thousand, essentially comprise the future economic benefits from the ordinary

activities of the Parent and the subsidiaries, listed in Appendix I, which did not qualify for recognition as a separate asset.

Details of the allocation of goodwill at 31 December 2015 and 2014, by cash-generating unit (CGU), are as follows:

Thousands of Euros

	2015	2014
Gas distribution	52,912	50,651
Gas transmission	166,263	162,402
	219,175	213,053

A summary of the CGUs to which intangible assets with indefinite useful lives, namely licences for gas distribution

and transmission, have been allocated at 31 December 2015 and 2014 is as follows:

Thousands of Euros

	2015	2014
Gas distribution	333,493	322,946
Gas transmission	209,421	197,451
	542,914	520,397

The cost of fully amortised intangible assets in use at 31 December 2015 and 2014 is as follows:

Thousands of Euros

	2015	2014
Computer software	9,736	9,422
Other intangible assets	94	94
	9,830	9,516

(9) Impairment and Allocation of Goodwill and Intangible Assets with Indefinite Useful Lives to CGUs

For impairment testing purposes, goodwill and intangible assets with indefinite useful lives have been allocated to the Group's cash-generating units (CGUs) as detailed in note 8.

The recoverable amount of a CGU is determined based on calculations of its fair value less costs of disposal. These calculations are based on the cash flow projections in the financial budgets approved by management for 2016-2024. The recoverable amount includes a terminal value calculated for 2024 onwards using an average growth rate in perpetuity of 2%. A discount rate of 7.50% was used (7.50% in 2014).

The Group determines budgeted gross margins based on past experience and forecast market performance. The weighted average growth rates are consistent with the forecasts included

in sector reports. The discount rates used are pre-tax values and reflect specific risks related to their segment.

According to the projections and estimates available to the directors of the Group, the CGUs to which goodwill and various intangible assets with indefinite useful lives are allocated are expected to generate sufficient cash flow to recover the value of the goodwill, intangible assets with indefinite useful lives and property, plant and equipment recognised at 31 December 2015.

Following a sensitivity analysis entailing different scenarios, impairment of the recoverable amount would only occur by increasing the discount rate (WACC) by 21.7%. Alternatively, the discount rate could be increased by 3.75% while simultaneously bringing the growth rate (g) down to zero over 10 years.

(10) Financial Assets by Category

The classification of financial assets by category and class and details of their carrying amount, which does not differ from their fair value, are as follows:

Thousands of Euros

	Non-current		Current	
	2015	2014	2015	2014
Loans and receivables				
Loans	2,094	28	48	66
Deposits and guarantees	5,044	4,523	133	46
Other financial assets	2	2,139	2,132	11
Trade and other receivables				
Trade receivables	-	-	26,854	22,416
Other receivables	23,369	19,492	17,617	22,964
Total financial assets	30,509	26,182	46,784	45,503

Net gains and losses on receivables in 2014, derived from impairment losses, were Euros 52 thousand (see Note 32). There was no movement in this category in 2015.

(11) Derivative Financial Instruments

In 2015 the Company did not arrange any derivative financial instruments.

In April 2014, the Company cancelled all commitments in respect of the derivative financial instruments, paying the fair value to the financial institutions at the cancellation

date. The total amount paid at the cancellation date was Euros 39,669 thousand.

In 2014 the Company transferred Euros 43,158 thousand from the consolidated statement of other comprehensive income to finance costs in the consolidated income statement (see note 34).

(12) Current and Non-Current Financial Assets

Details of current and non-current financial assets at 31 December 2015 and 2014 are as follows:

Thousands of Euros

	2015		2014	
	Non-current	Current	Non-current	Current
Security deposits paid	5,044	133	4,523	46
Loans to related parties	2,071	-	-	-
Loans to employees and other	23	48	28	66
Other financial assets	2	2,132	2,139	11
Total	7,140	2,313	6,690	123

Security deposits paid essentially comprise the balances lodged with public entities in respect of deposits received from customers upon contracting a service, as required by legislation in force. These security deposits are maintained throughout the duration of the customer's contract with the supplier and while

their distribution company is a Group company.

Loans to related parties reflect the loan granted by Redexis Gas Finance B.V. to the majority shareholders of the group, which matures in 2021 and accrues annual interest of 3.39%.

(13) Income Tax

At the annual general meeting held on 17 December 2010 the Company's shareholders agreed that, with effect as of 1 January 2011, the Company would apply the consolidated tax regime regulated in Title VII, Chapter VII of Royal Legislative Decree 4/2004 of 5 March 2004, which approves the Revised Spanish Income Tax Law, thus the Company is the Parent of a tax group formed by the

subsidiaries listed in Appendix I (except Redexis Gas Murcia, S.A., which is not part of this tax group at 31 December 2015, although it will foreseeably join the tax group in 2016).

Details of deferred tax assets and liabilities by type of asset and liability are as follows:

2015

	Thousands of Euros		
	Assets	Liabilities	Net
Property, plant and equipment	1,284	(43,110)	(41,826)
Goodwill	-	(78)	(78)
Deferred income	-	(9,327)	(9,327)
Intangible assets	-	(74,928)	(74,928)
Provisions	1,099	-	1,099
Amortisation and depreciation	6,110	-	6,110
Personnel remuneration	1,089	-	1,089
Finance costs	34,336	-	34,336
	43,918	(127,443)	(83,525)
Tax loss carryforwards	20,906	-	20,906
Net assets and liabilities	64,824	(127,443)	(62,619)

2014

	Thousands of Euros		
	Assets	Liabilities	Net
Property, plant and equipment	81	(42,064)	(41,983)
Goodwill	-	(75)	(75)
Deferred income	-	(6,973)	(6,973)
Intangible assets	-	(64,725)	(64,725)
Provisions	1,694	-	1,694
Amortisation and depreciation	4,874	-	4,874
Personnel remuneration	648	-	648
Finance costs	36,835	-	36,835
Other	-	(101)	(101)
	44,132	(113,938)	(69,806)
Tax loss carryforwards	23,434	-	23,434
Net assets and liabilities	67,566	(113,938)	(46,372)

Deferred tax liabilities relating to property, plant and equipment mostly derive from the application of the tax incentive approved in additional provision 11 of Law 4/2008 of 23 December 2008 and in Royal Decree-Law 13/2010 of 3 December 2010, on accelerated depreciation of property, plant and equipment, which the Group applied in 2009, 2010 and 2011, as well as from the fair value measurement of property, plant and equipment in the business combinations for 2010 and 2015.

Accelerated depreciation is only applied to investments brought into service in the 2009, 2010 and 2011 tax periods that correspond to new assets commissioned under works execution contracts or investment projects with an execution period, in both cases, of less than two years between the commission or investment start date and the date on which the asset becomes available or enters service. The distributors that have applied this system depreciate the assets over a period of 20 years for accounting purposes and one year for

tax purposes. The transmission companies that have applied this system depreciate the assets over a period of 40 years for accounting purposes and one year for tax purposes.

All deferred tax liabilities associated with intangible assets and deferred income derive from the aforementioned business combination.

The merger approved by the shareholders in 2014, discussed in note 1, became effective for accounting purposes on 1 January 2014. The Group therefore reversed the deferred tax liability in the amount of Euros 80,748 thousand in the consolidated income statement for 2014. The merger was carried out under the special protection tax regime and, therefore, the tax value of the tangible and intangible assets at 1 January 2014 was Euros 23,846 thousand and Euros 245,314 thousand, respectively.

Merger goodwill may only be amortised up to an annual maximum of one hundredth of its amount from 2012 to

2015 and intangible assets with indefinite useful lives may be amortised up to a maximum of one fiftieth of their amount.

According to Law 16/2012 of 27 December 2012, which introduced several tax measures to consolidate public finances and boost economic activity, the accounting amortisation and depreciation of property, plant and equipment and intangible assets was limited to 70% for 2013 and 2014. The Group therefore recognised deferred tax assets of Euros 6,120 thousand in 2015 (Euros 4,874 thousand in 2014). Any depreciation and amortisation that was not deducted for tax purposes in the tax periods commencing in 2013 and 2014, due to the aforementioned limit, may be deducted on a straight-line basis over 10 years or over the useful life of the assets. The Company has opted to reverse these amounts over 10 years.

Royal Legislative Decree 12/2012 establishes a limit on the deductibility of interest for tax periods beginning on or after 1 January 2012. As a result, net finance costs are deductible up to a limit of 30% of operating profit for the year or otherwise up to an amount of Euros 1 million. In 2015 the Group therefore recognised deferred tax assets for the tax effect of the non-deductible finance costs arising from the settlement of income tax for 2012, 2013 and 2014 in the amount of Euros 34,336 thousand in 2015 and Euros 36,835 thousand in 2014, of which Euros 20,512 thousand are for non-deductible finance costs for participating loans extended by the Group's shareholders. Until 2014 the tax group could deduct these non-deductible net finance costs in the tax periods ending in the 18 consecutive years immediately following the year the costs were incurred. However, Law 27/2014, which came into force on 1 January 2015, eliminated this 18 year deadline. The net finance costs that have not been deducted may therefore be deducted in the following tax periods without any deadline for deduction.

In accordance with prevailing legislation, the Group may offset its tax loss carryforwards during the periods 2012 to 2015 up to a maximum of 25% of taxable income before the offset. In its provisional calculation of income tax for 2015, the tax group has offset tax losses of Euros 10,171 thousand (Euros 14,832 thousand in the definitive income tax return for 2014).

Based on the best estimate of future consolidated profits, recovery of the deferred tax assets is considered probable and they have therefore been recognised in the consolidated statement of financial position.

Income Tax Law 27/2014 of 27 November 2014 modified the income tax rate. The tax rate is 28% for periods commencing on or after 1 January 2015 and will be 25% for periods commencing on or after 1 January 2016. The Group adjusted all its deferred tax assets and liabilities based on a tax rate of 25%, except for deferred tax assets for non-deductible amortisation and depreciation as, according to Law 16/2012 of 27 December 2012. In this respect, Transitional Provision no. 27 of the CIT Law provides for a reduction in gross tax payable of 5% due to the inclusion in the tax base for the period of depreciation and amortisation not deducted in the tax periods commencing in 2013 and 2014. This deduction will be 2% for the tax periods commencing in 2015.

The estimated CIT provided does not include any deductions in this respect, although this does not prevent the tax group from including these deductions in the final CIT self-assessment submitted.

Details of total current and deferred income tax in relation to items recognised directly in other comprehensive income and equity during 2015 and 2014 are as follows:

Thousands of Euros

	2015		2014	
	Current	Deferred	Current	Deferred
Actuarial gains and losses	-	(155)	-	386
Cash flow hedges	-	-	-	(11,053)
	-	(155)	-	(10,667)

Details of the tax expense/(tax income) are as follows:

Thousands of Euros

	2015	2014
Current tax		
Present year	11,933	18,119
Prior year adjustments	516	(356)
Deferred tax		
Source and reversal of temporary differences	1,890	(21,585)
Finance costs	2,833	(16,449)
Accelerated amortisation and depreciation	(1,708)	(2,541)
Amortisation and depreciation	667	(2,415)
Remuneration outstanding	(106)	(541)
Goodwill	596	18
Provisions	(392)	343
Income due to reduction of deferred tax liability arising from merger	-	(80,748)
Changes in tax rates	(193)	(9,140)
Previously unrecognised deferred tax assets arising from finance costs	-	(27,119)
Income tax expense/(income) for the year (companies)	14,146	(120,829)
Adjustments and eliminations on consolidation	(542)	(768)
Income tax expense/(income) for the year (Group)	13,875	(121,597)

A reconciliation of current tax liabilities with current income tax is as follows:

	Thousands of Euros	
	2015	2014
Current tax	11,933	18,119
Tax loss carryforwards offset and recognised in prior years	(2,848)	(4,530)
Consolidation adjustments	-	1
Income tax payable for the year (Group)	9,085	13,590
Payments on account in the year	(7,989)	(12,242)
Withholdings	-	2
Current income tax liabilities	1,096	1,350

Details of the income tax expense/(income) related to profit for the year from continuing operations is as follows:

	Thousands of Euros	
	2015	2014
Profit / (Loss) for the year before tax	48,288	(14,115)
Tax at 28% (30% in 2014)	13,521	(4,234)
Temporary differences not recognised during the year	-	-
Prior year adjustments	516	(356)
Income due to reduction of deferred tax liability arising from merger	-	(80,748)
Temporary differences arising in prior years recognised in the year	-	(27,119)
Effect of differences in tax rates	(193)	(9,140)
Other net movements	31	-
Income tax expense/(income) for the year (Group)	13,875	(121,597)

The Group has recognised the tax effect of tax loss carryforwards as deferred tax assets, the amounts of which are as follows:

At 31 December 2015

Company / Year	THOUSANDS OF EUROS
Grupo Redexis Gas, S.A. / 2010	16,520
Grupo Redexis Gas, S.A. / 2011	67,105
Total	83,625

At 31 December 2014

Company / Year	THOUSANDS OF EUROS
Redexis Gas Distribución, S.A. (*) / 1997 to 2000	440
Grupo Redexis Gas, S.A. / 2010	25,860
Grupo Redexis Gas, S.A. / 2011	67,105
Total	93,405

(*) Companies absorbed by Redexis Gas, S.A. in 2014. (See note 1)

In accordance with current legislation, taxes cannot be considered definitive until they have been inspected and agreed by the tax authorities or before the inspection period of four years has elapsed.

During 2015 the taxation authorities carried out an inspection of Corporate Income Tax (2010, 2011 and 2012) and Value Added Tax (2011 and 2012) of Redexis Gas, S.A., Redexis Gas Aragón, S.A. and Redexis Gas Transporte, S.L. As a result of the Corporate Income Tax inspection, the Group's income tax liability, that has been already settled, increased by Euros 1,474 thousand plus delay interest. No penalty proceeding were initiated as a result of the inspection. No tax liability arose as a consequence of the VAT audit.

In addition, the tax authorities issued a tax assessment without Group's agreement whereby increased the Corporate Income Tax liability by Euros 348 thousand plus delay interest for fiscal year 2010, proposed a Euros 35,295 thousand reduction in the tax losses incurred in 2011 and a reduction of Euros 35,391 thousand in the non-deductible finance costs to be carried forward generated in 2012. The tax authorities consider participating loans granted by the Group's shareholders as capital contributions from the Group's shareholders and, hence, deny the tax deductibility of interest expenses accrued on the profit participating loans in 2010, 2011 and 2012. The Company considers that the tax assessment does not comply with the law and has therefore filed an administrative appeal against this tax assessment before the Central Economic-Administrative

Tribunal. It also considers that there are sufficient legal grounds to support the criteria applied by the Group.

In 2014 the tax authorities carried out an inspection of income tax for 2009 and 2010 of Distribuidora Regional del Gas, S.L. This inspection resulted in a reduction of the Group's deferred tax liability for accelerated amortisation and depreciation and an income tax payment of Euros 463 thousand.

In 2015, the tax authorities notified Redexis Gas, S.A. and Redexis Gas Aragón, S.A. of an inspection of value added tax

and income tax for 2013 and 2014.

Due to the treatment permitted by fiscal legislation of certain transactions, additional tax liabilities could arise in the event of inspection. In any case, the Parent's directors do not consider that any such liabilities that could arise would have a significant effect on the consolidated annual accounts.

At 31 December 2015, the remaining Group companies not mentioned previously have the last four years open for inspection for the other taxes applicable to them.

(14) Inventories

Inventories at 31 December 2015 amounting to Euros 1,272 thousand (Euros 395 thousand at 31 December 2014) are primarily LPG inventories, as in 2014.

At 31 December 2015, the Group has no commitments to purchase or sell gas.

(15) Trade and Other Receivables

Details of trade and other receivables are as follows:

Thousands of Euros

	31/12/15		31/12/14	
	Non-current	Current	Non-current	Current
Trade receivables	-	27,718	-	24,028
Receivables, settlements pending collection	23,369	16,411	19,492	22,195
Other receivables	-	1,403	-	718
Advances to personnel	-	51	-	51
Less impairment due to uncollectibility	-	(1,111)	-	(1,612)
Total	23,369	44,472	19,492	45,380

Trade receivables primarily comprise balances receivable from suppliers of natural gas for tolls invoiced.

Non-current receivables, settlements pending collection, primarily reflects the accumulated deficit in the system attributable to the Group. This amount will be calculated in the definitive settlement for 2014 and 2015.

As established in Law 18/2014 of 15 October 2014, parties subject to the settlement system will be entitled to

recover the annual amounts of this accumulated deficit in the settlements for the next 15 years and accrue interest at market rates.

Current receivables, settlements pending collection reflect settlements and measurement differences receivable from the gas system.

Movement in allowances for impairment and bad debts is as follows:

Thousands of Euros

	2015	2014
Balance at 1 January	(1,612)	(1,586)
Impairment allowances		(599)
Impairment reversals		547
Additions due to business combination (Redexis Gas Murcia)	35	-
Cancellations	536	26
Balance at 31 December	(1,111)	(1,612)

At 31 December 2015, there are past due trade receivables of Euros 317 thousand that have not been impaired. These

balances are with local corporations that the Group does not consider to pose any credit risk.

(16) Other Current Assets

Details of other current assets are as follows:

Thousands of Euros

	2015	2014
Public entities		
Tax authorities, recoverable VAT	5,557	6,870
Tax authorities, withholdings	60	34
Grants receivable	-	189
Security deposits, Andalusia Regional Government	32	31
Prepayments	199	117
Total	5,848	7,241

(17) Cash and Cash Equivalents

Details of cash and cash equivalents are as follows:

Thousands of Euros

	2015	2014
Cash in hand and at banks	60,593	64,414
Current bank deposits	-	15,000
	60,593	79,414

(18) Equity

Details of equity and movement during the year are shown in the consolidated statement of changes in equity.

(a) Capital

At 31 December 2015 and 2014 the share capital of the Company was Euros 100,000 thousand, represented by 10,000,000 shares of Euros 10 par value each. The first 8,000,000 of these shares are class A and the remaining 2,000,000 are class B. They were issued with a share premium of Euros 10.5433262 each, and have been subscribed and fully paid through the contribution of shares in 2010.

At 31 December 2015 and 2014 Redexis Gas, S.A. is 58.5%

owned by Zaragoza International Coöperatieve, U.A. and 41.5% owned by Augusta Global Coöperatieve, U.A. both subsidiaries of private equity funds managed by Goldman Sachs & Co.

(b) Share premium

This reserve is freely distributable, provided that its distribution would not reduce the Company's equity to an amount lower than share capital.

(c) Reserve

Details of reserves are as follows:

	Thousands of Euros	
	2015	2014
Legal reserve	20,000	20,000
Other shareholder contributions	480,135	420,135
Other reserves	77,434	(32,431)
	577,569	407,704

Legal reserve

The legal reserve has been appropriated in compliance with article 274 of the revised Spanish Companies Act, which requires companies to transfer 10% of profits for the year to a legal reserve until this reserve reaches an amount equal to 20% of share capital.

The legal reserve is not distributable to shareholders and if it is used to offset losses, in the event that no other reserves are available, the reserve must be replenished with future profits.

At 31 December 2015 and 2014, the Company has appropriated to this reserve the minimum amount required by law, i.e. Euros 20 million, equivalent to 20% of share capital, and will therefore not allocate any further amounts to this reserve.

Other shareholder contributions

This item includes the capitalisation of the fair value of the participating loans cancelled in April 2014, amounting to Euros 458,635 thousand, and the Euros 100,000 thousand contribution made in January 2015 for the purchase of shares of Gas Energía Distribución de Murcia, S.A., which have been written down due to dividends paid in the amount of Euros 40,000 and Euros 18,500 thousand in 2015 and 2014, respectively, and the appropriation to the legal reserve of the minimum amount required by law, i.e. Euros 20,000 thousand in 2014.

Other reserves

The goodwill reserve has been appropriated in compliance with article 273.4 of the revised Spanish Companies Act, which requires companies to transfer profits equivalent to 5% of goodwill to a non-distributable reserve until this reserve reaches

an amount equal to recognised goodwill in the individual statement of financial position. In the absence of profit, or if profit is insufficient, freely distributable reserves should be used.

At 31 December 2015 this item includes goodwill reserves of Euros 10,653 thousand (not applicable at 31 December 2014

and therefore no amounts were appropriated), which will be restricted if the carrying amount of goodwill is less than the amount of this reserve.

Details of other reserves contributed by each Group company at 31 December 2015 and 2014 are as follows:

	Thousands of Euros	
	2015	2014
Redexis Gas, S.A.	575,335	407,710
Redexis Gas Finance, B.V.	2,249	-
Redexis Gas Servicios, S.L.U. (formerly Redexis, S.L.)	(5)	(2)
Redexis GLP, S.L.U.	(5)	(2)
Redexis Infraestructuras, S.L.U.	(5)	(2)
	577,569	407,704

(d) Dividends

In May 2015 the Company distributed Euros 40,000 thousand in dividends to shareholders, equivalent to Euros 4 per share, with a charge to its freely distributable reserves.

In October 2014 the Company distributed Euros 18,500

thousand in dividends to shareholders, equivalent to Euros 1.85 per share, with a charge to its freely distributable reserves.

(e) Profit for the year

Details of profit/loss for the year contributed by each Group company at 31 December 2015 and 2014 are as follows:

	Thousands of Euros	
	2015	2014
Redexis Gas, S.A.	17,283	107,242
Redexis Gas Finance, B.V.	345	249
Redexis Gas Servicios, S.L.U. (formerly Redexis, S.L.)	(1)	(3)
Redexis GLP, S.L.U.	(1)	(3)
Redexis Gas Murcia, S.A.	880	-
Redexis Infraestructuras, S.L.U.	15,906	(3)
	34,412	107,482

(19) Financial Liabilities by Category

(a) Classification of financial liabilities by category

A classification of financial liabilities by category and class, as well as their carrying amounts, is as follows:

Thousands of Euros

	2015	
	Non-current Carrying amount	Current Carrying amount
Debts and payables		
Bonds and other listed marketable securities	886,428	16,239
Loans and borrowings	-	306
Variable rate		
Guarantees and deposits received	4,274	1
Other financial liabilities	231	-
Trade and other payables		
Suppliers and other payables	-	8,094
Suppliers of fixed assets	-	71,668
Other payables	-	19,669
Total financial liabilities	890,933	115,977

Thousands of Euros

	2014	
	Non-current Carrying amount	Current Carrying amount
Debts and payables		
Bonds and other listed marketable securities	640,925	13,076
Loans and borrowings	72,248	433
Variable rate		
Guarantees and deposits received	3,977	-
Other financial liabilities	285	-
Trade and other payables		
Suppliers and other payables	-	7,452
Suppliers of fixed assets	-	42,773
Other payables	-	15,076
Total financial liabilities	717,435	78,810

At 31 December 2015 the fair value of loans and borrowings is Euros 306 thousand (Euros 75,189 thousand at 31 December 2014) and the fair value of liabilities from issuing bonds and other marketable securities at 31 December 2015 is Euros 916,247 thousand (Euros 701,129 thousand in 2014). The fair value of the Group's other liabilities is similar to their carrying amount.

(b) Net losses and gains by financial liability category

Net losses and gains by financial liability category for 2015 comprise finance costs at amortised cost and total Euros 24,908 thousand (Euros 88,894 thousand in 2014).

(20) Financial Liabilities from Issuing Bonds and Other Marketable Securities

In April 2014 the Group issued bonds amounting to Euros 650,000 thousand, guaranteed by the Parent as part of the Euro Medium Term Note Programme (EMTN programme). The bonds mature on 8 April 2021. The issue price was 99.373% and the annual interest rate is 2.75%, which is payable on 8 April each year. The ranking of this issue is pari passu with the credit facility described in Note 21.

In April 2015 the Group issued additional bonds amounting to Euros 250,000 thousand, guaranteed by the Parent, as part of the Euro Medium Term Note Programme (EMTN programme).

The bonds mature on 27 April 2027. The issue price was 98.920% and the annual interest rate is 1.875%, which is payable on 27 April each year.

Accrued interest not due at 31 December 2015 and 2014 was recognised under current liabilities - financial liabilities from issuing bonds and other marketable securities in the Consolidated Statement of Financial Position.

The average interest rate on these borrowings in the year 2015 was 2.78% (3.07% in 2014).

(21) Financial Liabilities Arising from Loans and Borrowings

The terms and conditions of loans and borrowings at 31 December 2015 and at 31 December 2014 are as follows:

2015

Thousands of Euros

Type	Currency	Nominal rate	Maturity	Maximum available	CARRYING AMOUNT	
					Current	Non-current
Loans and borrowings						
CAPEX Tranche	Euro	(1)	2019	250,000	306 (2)	-
Revolving Tranche	Euro	(1)	2019	50,000	-	-
EIB loan	Euro	(3)	2038	160,000	-	-
				460,000	306	-

(1) 3-month Euribor + 1.25% of the amount drawn down. Commitment fee of 30% of the spread applied (1.25%).

(2) Commitment fee of Euros 306 thousand.

(3) Commitment fee equal to an annual rate of 0.13% of the undrawn amount. Nominal rate payable on draw downs, chosen from either floating or fixed, to be determined at the moment of the draw down plus 0.8%.

2014

Thousands of Euros

Type	Currency	Nominal rate	Maturity	Maximum available	CARRYING AMOUNT	
					Current	Non-current
Loans and borrowings						
CAPEX Tranche	Euro	(1)	2019	250,000	433 (2)	72,248
Revolving Tranche	Euro	(1)	2019	50,000	-	-
				300,000	433	72,248

(1) 3-month Euribor + 1.25% of the amount drawn down. Commitment fee of 35% of the 1.25% spread.

(2) Interest of Euros 189 thousand and commitment fee of Euros 244 thousand.

Details of the nominal amount of loans and borrowings, maturity tranche and annualised cost, at 31 December 2015 and at 31 December 2014 are as follows:

2015

Type of borrowing	Extended at arrangement date	Drawn down at 31/12/2015	Expiry	Total debt	Drawable
(thousands of euros)					
CAPEX	250,000	-	2019	-	250,000
Revolving	50,000	-	2019	-	50,000
EIB	160,000	-	2038	-	160,000
Total	460,000	-		-	460,000

2014

Type of borrowing	Extended at arrangement date	Drawn down at 31/12/2014	Expiry	Total debt	Drawable
(thousands of euros)					
CAPE X	250,000	75,000	2019	75,000	175,000
Revolving	50,000	-	2019	-	50,000
Total	300,000	75,000		75,000	225,000

At 31 December 2014 loans and borrowings comprise the amounts drawn down at that date on the Euros 300,000 thousand credit facility extended by a syndicate of eight financial institutions, the final maturity date of which is 8 April 2019. At 31 December 2015 the Group has not drawn down any amounts and, therefore, the full amount of the credit facility is available. Drawdowns may be made up to 8 March 2019.

Accrued interest receivable at 31 December 2015 and 2014 was recognised under current liabilities in loans and borrowings in

the Consolidated Statement of Financial Position.

On 22 December 2015, the Group arranged a credit facility of Euros 160 million with the European Investment Bank within the framework of the European Fund for Strategic Investments. This credit facility is available to the Group until 22 December 2018 and must be repaid with a maximum of 20 years as of the final draw down. The deadline for repaying the credit is 22 December 2038. At 31 December 2015 the Company has not drawn down any amounts from this credit facility.

(22) Trade and Other Payables

Details of trade and other payables are as follows:

	Thousands of Euros	
	2015	2014
Suppliers	1,292	383
Trade payables	6,803	7,069
Payables, settlements pending	15,357	10,897
Salaries payable	4,313	4,179
Suppliers of fixed assets	71,668	42,773
	99,433	65,301

At 31 December 2015 Payables, settlements pending primarily comprise the provisional settlements received from the gas companies, which are pending final settlement by the regulatory body for 2013, 2014 and 2015.

At 31 December 2015 and 2014 Suppliers of fixed assets mainly reflect amounts payable for the purchase of property, plant and equipment, mostly transmission pipelines and the extension of distribution networks.

(23) Late Payments to Suppliers. "Reporting Requirement", Third Additional Provision of Law 15/2010 of 5 July 2010

In accordance with the Spanish Accounting and Auditing Institute resolution of 29 January 2016, which clarifies and structures the third additional provision of Law 15/2010 of 5 July 2010, "Reporting Requirement", details of late payments to

suppliers by the Spanish consolidated companies are as follows (as this is the first year that this provision has been applied, no comparative information is included as envisaged in the single additional provision):

Deferral of payments at 31/12/2015	Days
Average payment period for suppliers	40
Transactions paid ratio	41
Transactions payable ratio	19
	Amount (thousands of euros)
Total payments made	213,825
Total payments outstanding	4,491

(24) Risk Management Policy

Financial risk factors

The Group's activities are exposed to various financial risks: market risk (including fair value interest rate risk and price risk), credit risk, liquidity risk, and cash flow interest rate risk. The Group's global risk management programme focuses on uncertainty in the financial markets and aims to minimise potential adverse effects on the Group's profits.

Risks are managed by the Group's Administration Department in accordance with policies approved by the board of directors. This department identifies, evaluates and mitigates financial risks in close collaboration with the Group's operational units. The

board of directors issues policies on global risk management and on specific issues such as interest rate risk and liquidity risk, and authorises the contracting of long-term financing facilities where applicable, on an individual basis.

Credit risk

Due to its activities and the particular characteristics of the customers in the sector in which it operates, the Group has no significant concentrations of credit risk.

These tables present an analysis of the ageing of financial assets at 31 December 2015 and 2014:

2015

	Thousands of Euros				
	Less than 3 months	3 to 6 months	6 months to 1 year	More than 1 year	TOTAL
Trade and other receivables with fixed rates	29,115	-	15,357	23,369	67,841
Other financial assets	-	-	2,313	7,140	9,453
Total assets	29,115	-	17,670	30,509	77,294

2014

	Thousands of Euros				
	Less than 3 months	3 to 6 months	6 months to 1 year	More than 1 year	TOTAL
Trade and other receivables with fixed rates	26,815	-	18,565	19,492	64,872
Other financial assets	-	-	123	6,690	6,813
Total assets	26,815	-	18,688	26,182	71,685

Liquidity risk

The Group applies a conservative criteria to cover its liquidity risks, based on having sufficient cash as well as sufficient financing through credit facilities. The Group's financial-economic general management team aims to keep financing flexible by arranging credit facilities, which at 31 December 2015 have Euros 460,000 thousand available (Euros 225,000 thousand in 2014, Note 21),

which together with the available liquid assets amounting to Euros 60,593 thousand at 31 December 2015 (Euros 79,414 thousand in 2014) enable the Group to settle its current liabilities.

The Group's exposure to liquidity risk at 31 December 2015 and 2014 is shown below. These tables present an analysis of financial liabilities by remaining contractual maturity dates.

2015

	Thousands of Euros				
	Less than 3 months	3 to 6 months	6 months to 1 year	More than 1 year	TOTAL
Loans and borrowings	306	-	-	-	306
Variable rate	306	-	-	-	306
Principal	-	-	-	-	306
Interest	306	-	-	-	-
Trade and other payables	99,433	-	-	-	99,433
Variable rate	99,433	-	-	-	99,433
Principal	99,433	-	-	-	99,433
Interest	-	-	-	-	-
Bonds and other financial liabilities	-	16,239	-	890,933	907,172
Principal	-	-	-	890,933	890,933
Interest	-	16,239	-	-	16,239
Total liabilities	99,739	16,239	-	890,933	1,006,911

2014

	Thousands of Euros				
	Less than 3 months	3 to 6 months	6 months to 1 year	More than 1 year	TOTAL
Loans and borrowings	433	-	-	72,248	72,681
Variable rate	433	-	-	72,248	72,681
Principal	-	-	-	72,248	72,248
Interest	433	-	-	-	433
Trade and other payables	64,230	1,071	-	-	65,301
Variable rate	64,230	1,071	-	-	65,301
Principal	64,230	1,071	-	-	65,301
Interest	-	-	-	-	-
Bonds and other financial liabilities	-	13,076	-	645,187	658,263
Principal	-	-	-	645,187	645,187
Interest	-	13,076	-	-	13,076
Total liabilities	64,663	14,147	-	717,435	796,245

Interest rate risk in cash flows

As the Group does not have a considerable amount of remunerated assets, income and cash flows from operating activities are not significantly affected by fluctuations in market interest rates.

The Group's interest rate risks arise from non-current borrowings. Borrowings at variable interest rates expose the

Group to cash flow interest rate risks. Fixed interest loans expose the Parent to fair value interest rate risks.

The Group constantly monitors interest rates, although it has not used any financing subject to fluctuations in interest rates, and therefore there is no significant impact on profit or loss or on the Group's financial liabilities.

(25) Provisions for Employee Benefits

Details of provisions for employee benefits and their classification as current and non-current are as follows:

Thousands of Euros

	31/12/15		31/12/14	
	Non-current	Current	Non-current	Current
Benefit obligations	2,731	70	3,079	59
Provisions for early retirement benefits	211	444	995	804
Provisions for restructuring costs	-	292	-	-
Total	2,942	806	4,074	863

(a) Post-employment and long-term employee benefits

Some of the Group's employees are included in the Endesa Group Employee Pension Plan, as they worked for that company. Most of the employees have defined contribution plans for retirement and defined benefit plans for disability and death of serving employees. Insurance policies have been contracted to cover the Plan.

There are also certain benefit obligations to employees during their retirement, mainly electricity supply benefits. These obligations have not been externalised and are covered by the related in-house provisions.

At 31 December 2015 and 2014 commitments with personnel for which provision has been made through internal funds are as follows:

- Electricity consumption during retirement for serving and retired personnel, amounting to Euros 2,563 thousand and Euros 2,881 thousand, respectively.
- Long-service bonuses for serving personnel, totalling Euros 216 thousand and Euros 171 thousand, respectively.
- Health insurance policies for retired personnel, totalling Euros 23 thousand and Euros 27 thousand, respectively.

Details of and movement in provisions for employee benefits are as follows (thousands of Euros):

	Other long-term employee benefits	
	2015	2014
Balance at 1 January	3,079	2,013
Additions due to business combinations (Redexis Gas Murcia, S.A.)	70	-
Charges recognised in profit or loss		
Personnel expenses	129	1,049
Finance costs	70	251
Other expenses	-	204
Applications		
Payments	-	(71)
Transfers	-	(12)
Actuarial gains and losses	(617)	(355)
Balance at 31 December	2,731	3,079

The present value of the commitments has been determined by qualified independent actuaries applying the projected unit credit method and with the following actuarial assumptions:

Technical interest rate	0.54% - 2.72%
Annual pension review rate	2%
Expected rate of salary increase	2%
Retirement age	60

The PERM/F 2000 mortality tables have been used to calculate the defined benefit obligation.

The contributions made by the Group to the pension plan amounted to Euros 567 thousand in the year ended 31 December 2015 and are included under personnel

expenses in the consolidated income statement (Euros 402 thousand in the year ended 31 December 2014, see Note 33).

At 31 December 2015, as at 31 December 2014, no accrued contributions are pending.

(b) Provisions for early retirement benefits and restructuring

The liability recognised at 31 December 2015 and 2014 in the Statement of Financial Position relates to an early retirement plan which provides for the Group's obligation to supplement the public social security system benefits in the event of termination of

employment as a result of an agreement between the parties. This plan affects nine employees who have all taken early retirement.

The assumptions used in the actuarial calculation of the obligations arising under these collective redundancy procedures are as follows:

Technical interest rate	0.47%
Expected rate of salary increase	2%
Mortality tables	PERM/F 2000
Age for inclusion in the ERE	60

Movement in this non-current provision in 2015 and 2014 was as follows:

	Thousands of Euros	
	2015	2014
Balance at 1 January	995	1,753
Charges recognised in profit or loss		
Personnel expenses	-	52
Finance costs	4	2
Applications		
Payments	-	(631)
Transfers and other	(590)	(167)
Actuarial gains and losses	(198)	(14)
Balance at 31 December	211	995

Movement in current provisions in 2015 and 2014 was as follows:

Thousands of Euros

	2015		2014	
	Early retirements	Restructuring	Early retirements	Restructuring
Balance at 1 January	804	-	1,974	530
Charges recognised in profit or loss	-	292	-	-
Applications	-	-	(895)	(530)
Payments	(950)	-	(257)	-
Transfers and other	590	-	(18)	-
Balance at 31 December	444	292	804	-

(26) Other Provisions

Movement in other provisions in 2015 and 2014 was as follows:

Thousands of Euros

	2015	2014
Balance at 1 January	2,429	2,232
Additions due to business combinations (Redexis Gas Murcia, S.A.)	618	-
Charges	251	288
Applications	(650)	(91)
At 31 December	2,648	2,429

Guarantees

The Group has extended guarantees to several government bodies totalling Euros 32,752 thousand (Euros 19,541 thousand in 2014) to secure compliance with its obligations

as a holder of the authorisations to distribute gas in a number of municipalities and to carry out works on public thoroughfares. The Group does not expect any significant liabilities to arise from these guarantees.

(27) Environmental Information

The Group is aware of its responsibility to protect the environment and has undertaken a number of initiatives with this purpose within its area of influence. The Group's activities are carried out in full compliance with prevailing environmental legislation.

The Group renders an important energy advisory service to its customers, including active participation in campaigns to replace other energies with natural gas, as well as supporting

and facilitating the renewal of facilities, with consequent improvements in energy efficiency and reductions in pollutant emissions.

Furthermore, when so required by law due to the characteristics of the project in question, the Group commissions mandatory reports by independent environmental consultants when carrying out works to extend the network, recognising the related costs as an increase in the value of the investment.

(28) Government grants

Movement in non-refundable government grants is as follows:

2015

Body/Item	Thousands of Euros				
	Scope ⁽¹⁾	Balance at 1 January	Additions	Transfer to profit and loss	Balances at 31 December
Public entities	PE	2,249	455	(54)	2,650
Connection charges	Private	3,027	1,206	(462)	3,771
		5,276	1,661	(516)	6,421

2014

Body/Item	Thousands of Euros					
	Scope ⁽¹⁾	Balance at 1 January	Additions	Transfer to profit and loss	Change in tax rate	Balances at 31 December
Public entities	PE	1,847	331	(74)	145	2,249
Connection charges	Private	2,391	616	(175)	195	3,027
		4,238	947	(249)	340	5,276

RG: regional government. CG: central government

The capital grants awarded by Public entities are earmarked for investment in gas pipelines.

(29) Other Current Liabilities

Details of other current liabilities are as follows:

Thousands of Euros

	2015	2014
Public entities, other		
Tax authorities, VAT payable	-	516
Tax authorities, withholding tax on salaries	277	284
Social Security payables	282	301
Public utility rates, taxes and city council payables	1,684	919
Total	2,243	2,020

(30) Remuneration for regulated activities

Details of revenue are as follows:

Thousands of Euros

	2015	2014
Remuneration for distribution activities	92,273	78,283
Remuneration for transmission activities	58,619	51,214
Non-recurrent revision of transmission activity revenues from prior years	(1,640)	-
Remuneration for transmission and distribution activities	149,252	129,497
Regulated LPG sales	2,751	2,683
Other regulated transmission revenue (connection charges, equipment rental, other services)	21,495	15,417
Total revenues	173,498	147,597

Revenues include the one-off and non-recurrent revision of transmission activity revenues from 2009 to 2015 inclusive, following the notification of the definitive remuneration for pipelines that came into service between 2001 and 2012 inclusive:

- The revision of revenues accrued in 2015 is reflected under Remuneration for transmission activities in 2015

and led to a Euros 307 thousand reduction in revenues.

- The revision of revenues accrued between 2009 and 2014 is included under Non-recurrent revision of transmission activity revenues from prior years and led to a Euros 1,640 thousand reduction in the total revenues accrued in this six-year period.

(31) Other Income

Details of other income are as follows:

	Thousands of Euros	
	2015	2014
Transfer of government grants to profit and loss (Note 28)	717	356
Other income	2,516	3,626
Total	3,233	3,982

(32) Other Operating Expenses

Details of other expenses are as follows:

	Thousands of Euros	
	2015	2014
Operating lease expenses	1,860	943
Repairs and maintenance	5,407	4,222
Independent professional services	2,365	2,452
Advertising and publicity	747	618
Utilities	560	248
Other expenses	15,100	12,919
Impairment losses/(gains) and uncollectibility of trade and other receivables (Note 10)	-	52
Other non-recurring expenses	-	1,644
Impairment losses on non-current assets	-	2,999
Total	26,039	26,097

At 31 December 2014, other non-recurring expenses mainly comprises fees for professional services in connection with

refinancing of the Group (see Note 20) and with the acquisition of 99.98% of the shares of Redexis Gas Murcia, S.A. (see Note 5).

(33) Employee benefits expense

Details of employee benefits expense during 2015 and 2014 are as follows:

	Thousands of Euros	
	2015	2014
Salaries and wages	18,008	13,667
Social Security payable by the Company	3,360	2,669
Contributions to defined contribution pension plans (Note 25(a))	567	402
Other employee benefits	186	311
Restructuring	3,405	-
Total	25,526	17,049

The average headcount of the Group in 2015 and 2014, distributed by category, is as follows:

	Thousands of Euros	
	2015	2014
Management	14	13
Technicians	222	168
Administrative staff	51	40
Total	287	221

At the 2015 and 2014 year ends, the distribution by gender of Group personnel and the members of the board of directors, by category, is as follows:

	2015			2014		
	Male	Female	TOTAL	Male	Female	TOTAL
Board members	9	1	10	9	1	10
Management	9	3	12	9	2	11
Technicians	184	39	223	149	29	178
Administrative staff	22	35	57	12	32	44
	224	78	302	179	64	243

(34) Finance Income and Costs

Details of finance income and costs are as follows:

	Thousands of Euros	
	2015	2014
Finance income	175	203
Interest on loans and borrowings	(1,295)	(7,948)
Interest on bond issue	(23,264)	(14,033)
Other finance costs	(351)	(129)
Interest at amortised cost (*)	-	(14,014)
Interest on swap settlements (Note 11) (*)	-	(43,158)
Interest on participating loans (*)	-	(9,612)
Finance costs arising from provision adjustments (Note 25)	(75)	(42)
Net finance cost	(24,811)	(88,733)

(*) Non-recurring finance costs.

(35) Related Party Balances and Transactions

Balances receivable from and payable to related parties at 31 December 2015 by category, and the main details of these balances, are provided in Note 12. At 31 December

2015 there are no balances payable to related parties. At 31 December 2014 there were no balances receivable from or payable to related parties.

Group transactions with related parties are as follows:

2015

Thousands of Euros

	Shareholders	Key management personnel	TOTAL
Revenues			
Finance income	68	-	68
	68	-	68
Expenses			
Employee benefits expense	-	(4,980)	(4,980)
	-	(4,980)	(4,980)

2014

Thousands of Euros

	Shareholders	Key management personnel	TOTAL
Expenses			
Employee benefits expense	-	(2,554)	(2,554)
Finance costs	(9,612)	-	(9,612)
	(9,612)	(2,554)	(12,166)

(36) Information on the Parent's board of directors and the Group's senior management personnel

At 31 December 2015 and 2014 the Parent's board of directors is formed by ten members, one woman and nine men (ten members, of which one woman and nine men, at 31 December 2014).

The Parent's directors do not receive any remuneration as members of the board and no balances receivable or payable arose in 2015 and 2014 for this item. However, directors who perform executive functions in the Company receive remuneration in this respect.

The remuneration received in 2015 by directors that perform executive functions and the other management personnel that report directly to the board members amounted to Euros 3,318 thousand for 14 recipients (in 2014, Euros 2,460 thousand for 13 recipients).

In addition to these amounts, as part of the triennial incentive scheme for the period from 2012 to 2014 inclusive, in 2015 the Group paid remuneration to directors who perform executive functions and to other management personnel that report directly to the board totalling Euros 1,552 thousand (no remuneration was paid for this item in 2014). In 2015 a new triennial incentive scheme was implemented for the period from 2015 to 2017 inclusive.

The Group has pension and life insurance obligations with directors that perform executive functions and with other management personnel that report directly to the board. In 2015 the Group incurred an expense of Euros 110 thousand for 14 recipients (in 2014, Euros 94 thousand for 13 recipients).

During 2015 and 2014 the Group has not granted any advances or loans to directors that perform executive functions and to other management personnel that report directly to the board and no guarantees were extended on their behalf.

During 2015 and 2014 the Parent's directors and other management personnel that report directly to the board have not carried out any transactions other than ordinary business or applying terms that differ from market conditions with the Parent or any other Group company.

The members of the board of directors of the Company and their related parties have had no conflicts of interest requiring disclosure in accordance with article 229 of the Revised Spanish Companies Act.

(37) Segment Reporting

CNMC Circular 1/2015 establishes a new system of regulatory cost information aimed primarily at the regulated activities of transmission, regasification, storage and technical management of the natural gas system.

The regulations envisage the company segmenting its activity into the following for information purposes: distribution of natural gas, transmission of natural gas and other activities (mainly distribution of LPG).

These activities will be assigned the revenues and costs directly attributable to them. Overheads that cannot be

directly attributed to a specific activity will be allocated to final activities based on allocation criteria established in Circular 1/2015. Redexis Gas has developed an allocation model based on profit centres, which are divided into final and allocable.

The accounting policies of the segments are those described in Note 3.

The main segment information is as follows (the figures for the prior year have been estimated in order to facilitate their comparison with this exercise, adapting them to the criteria of the new Circular 1/2015):

31/12/15

Thousands of Euros

	Distribution	Transmission	Other	Consolidated
Goodwill	54,432	164,440	303	219,175
Non-current assets	977,148	628,587	28,539	1,634,274
Current assets	78,474	31,111	4,913	114,498
Total assets	1,110,054	824,137	33,755	1,967,947
Liabilities	685,440	307,278	37,669	1,030,387
Non-distributable liabilities	71,696	44,779	3,648	120,123
Total liabilities	757,136	352,057	41,317	1,150,510

31/12/14

Thousands of Euros

	Distribution	Transmission	Other	Consolidated
Goodwill	50,348	162,402	303	213,053
Non-current assets	777,987	500,469	22,722	1,301,178
Current assets	90,849	36,016	5,688	132,553
Total assets	919,184	698,887	28,713	1,646,784
Liabilities	560,887	251,441	30,824	843,152
Non-distributable liabilities	49,565	30,957	2,522	83,043
Total liabilities	610,451	282,398	33,346	926,195

31/12/15

Thousands of Euros

	Distribution	Transmission	Other	Consolidated
Revenue	112,967	56,987	3,545	173,499
Other operating income	2,907	285	40	3,233
Self-constructed non-current assets	8,113	1,280	49	9,442
Supplies	(1,306)	(116)	(2,264)	(3,686)
Employee benefits expense	(20,195)	(4,544)	(787)	(25,526)
Amortisation and depreciation	(45,592)	(10,833)	(1,399)	(57,824)
Other operating expenses	(20,054)	(4,231)	(1,754)	(26,039)
Net finance cost	(15,622)	(8,092)	(1,096)	(24,810)
Profit/(loss) before tax	21,218	30,736	(3,667)	48,288

31/12/14

Thousands of Euros

	Distribution	Transmission	Other	Consolidated
Revenue	96,102	48,479	3,016	147,597
Other operating income	3,581	351	50	3,982
Self-constructed non-current assets	5,745	907	35	6,686
Supplies	(1,380)	(123)	(2,391)	(3,893)
Employee benefits expense	(13,488)	(3,035)	(526)	(17,049)
Amortisation and depreciation	(28,864)	(6,858)	(886)	(36,608)
Other operating expenses	(20,099)	(4,240)	(1,758)	(26,097)
Net finance cost	(55,870)	(28,942)	(3,921)	(88,733)
Profit/(loss) before tax	(14,272)	6,539	(6,382)	(14,115)

(38) Audit Fees

KPMG Auditores, S.L., the auditors of the annual accounts of the Group, have invoiced the following fees for professional services during the years ended 31 December 2015 and 2014:

	Thousands of Euros	
	2015	2014
Audit services	205	203
Other assurance services	67	62
Total	272	265

The amounts detailed in the above table include the total fees for services rendered in 2015 and 2014, irrespective of the date of invoice.

Other KPMG International affiliate firms have invoiced the Group the following fees and expenses for professional services during the years ended 31 December 2015 and 2014:

	Thousands of Euros	
	2015	2014
Tax advisory services	196	134
Other advisory services	164	268
Total	360	402

(39) Events after the Reporting Period

In 2016, until the date of authorisation for issue of these consolidated annual accounts, in accordance with the agreements with Repsol Butano, S.A. discussed in Note 7,

the Group received Euros 46,125 thousand for the purchase of LPG installations (including indirect taxes).

Name	Registered office	Activity	Auditor	Company holding investment	Percentage ownership	Percentage of voting rights
Redexis Infraestructuras, S.L.U.	Madrid	Regasification of liquefied natural gas. Transmission and storage of natural gas . Ancillary activities.	KPMG Auditores, S.L.	Redexis Gas, S.A.	100	100
Redexis Gas Servicios, S.L.U. (anteriormente denominada Redexis, S.L.U.)	Madrid	Holding of securities, primarily in energy companies Rendering of management, advisory and corporate services related to the energy sector Infrastructure planning, survey, projects, execution, assembly and operation. Purchase, transfer and financing of capital goods related to the aforementioned activities, and related repairs and maintenance.	KPMG Auditores, S.L.	Redexis Gas, S.A.	100	100
Redexis GLP, S.L.U.	Madrid	Retail sales and distribution of liquefied petroleum gas.	KPMG Auditores, S.L.	Redexis Gas, S.A.	100	100
Redexis Gas Murcia, S.A. (formerly Gas Energía Distribución Murcia, S.A.)	Madrid	Distribution and secondary transmission of natural gas. Distribution and sale of liquefied petroleum gas through pipelines	KPMG Auditores, S.L.	Redexis Gas, S.A.	99,98	99,98

Details of Subsidiaries at 31 December 2015

Name	Registered office	Activity	Auditor	Company holding investment	Percentage ownership	Percentage of voting rights
Redexis Infraestructuras, S.L.U.	Madrid	Regasification of liquefied natural gas. Transmission and storage of natural gas. Ancillary activities.	KPMG Auditores, S.L.	Redexis Gas, S.A.	100	100
Redexis Gas Servicios, S.L.U. (formerly Redexis, S.L.U.)	Madrid	The holding, purchase, subscription, swap, sale and management of securities, primarily in natural gas distribution companies. Rendering of management, advisory and corporate services related to gas sector activities.	KPMG Auditores, S.L.	Redexis Gas, S.A.	100	100
Redexis GLP, S.L.U.	Madrid	Retail sales and distribution of liquefied petroleum gas.	KPMG Auditores, S.L.	Redexis Gas, S.A.	100	100

2015

Name	Registered office	Activity	Auditor	Company holding investment	Percentage ownership	Percentage of voting rights
Redexis Gas Finance, B.V.	Netherlands	Bond issue	KPMG Accountants, N.V.	International Coöperatieve, U.A. and Augusta Global Coöperatieve, U.A.	-	-

2014

Name	Registered office	Activity	Auditor	Company holding investment	Percentage ownership	Percentage of voting rights
Redexis Gas Finance, B.V.	Netherlands	Bond issue	KPMG Accountants, N.V.	International Coöperatieve, U.A. and Augusta Global Coöperatieve, U.A.	-	-

ANNUAL ACCOUNTS

Consolidated Directors' Report

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REDEXIS GAS, S.A. AND SUBSIDIARIES
CONSOLIDATED ANNUAL ACCOUNTS AND
CONSOLIDATED DIRECTORS' REPORT
31 December 2015

Prepared in accordance with International
Financial Reporting Standards as adopted
by the European Union
(With Auditors' Report Thereon)

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

(1) Relevant data and milestones for Redexis Gas Group in 2015

The Redexis Gas Group (hereinafter, the Group or Redexis Gas) is one of the leading companies engaged in developing and operating natural gas transmission and distribution infrastructure in Spain. At the end of 2015, the Group had 538 thousand connection points, supplying gas to six million people, industries and businesses in 243 municipalities spread over 26 provinces, through Company-

owned networks transmitting and distributing natural gas over more than 8,200 kilometres. The Company operates in the autonomous regions of Aragón, the Balearic Islands, Madrid, Andalusia, Castilla y León, Castilla-La Mancha, Valencia, Madrid, Murcia, Catalonia and Extremadura, providing access to a safe, convenient and efficient supply of energy in the form of natural gas.

Operating data	2014	2015	2015PF	% change (2015-2014)
Connection points	396,533	537,992	600,039	35.7%
Provinces covered	20	26	26	30.0%
Municipalities covered	193	243	455	25.9%
Length of the network (km)	5,873	8,338	8,588	42.0%
Distribution network (km)	4,439	6,784	7,035	52.8%
Transmission network (km)	1,434	1,553	1,553	8.3%
Power distributed (GWh)	8,615	28,446		

Note 1: PF stands for pro forma, and includes the operating data for the LPG points acquired from Repsol Butano, S.A. that have not yet been incorporated, but which will be in 2016

From a financial standpoint, Redexis Gas Group closed 2015 with revenue growth of 18.6% to Euros 187.8 million, as a result of the increase in its regulated activities, which represent 93% of its activity.

Consolidated Group EBITDA for 2015 amounted to Euros 136.0

million, up 17.3% on the prior year. The EBITDA margin was 72.4%, thanks to the strong performance of revenues and a continued improvement in efficiency.

Group invested a total of Euros 386.6 million in 2015, of which 32.3% was in the Company's organic growth.

Financial information	2014	2015	%
Figures in millions of Euros, except where indicated			
Revenue	158.3	187.8	18.6%
Distribution - regulated	78.3	92.3	17.9%
Other distribution revenues - regulated	15.4	21.5	39.4%
Transmission - regulated	51.2	58.6	14.5%
Regulated LPG business	2.7	2.8	3.7%
Other operating income	4.0	3.2	(20.0%)
Self-constructed non-current assets	6.7	9.4	40.3%
EBITDA	115.9	136.0	17.3%
<i>EBITDA margin</i>	73.2%	72.4%	(0.8 pp)
Total Capex	91.2	386.6	323.9%
Distribution	44.0	72.0	63.6%
Transmission	39.4	47.0	19.3%
Acquisition of Redexis Gas Murcia, S.A. and Additional Assets	-	240.6	-
Other Acquisitions (LPG)	-	21.0	-
Intangible Assets	7.8	6.0	(23.1)%

Note: Financial information for Redexis Gas Murcia and for additional distribution assets has been included in the consolidated Group data from February 2015 and from June 2015, respectively.

Key milestones in 2015:

- Attractive growth in the Group's distribution and transmission businesses.
- Acquisition and integration of Redexis Gas Murcia, S.A. (formerly Gas Energía Distribución Murcia, S.A.) in January 2015 and additional distribution assets from EDP Group in June 2015.
- Acquisition of more than 72 thousand liquefied petroleum gas (LPG) connection points from Repsol Butano, S.A., to be included in Redexis Gas's portfolio over the course of 2015 and 2016.
- On April 2015 a spin-off of primary transmission assets from Redexis Gas, S.A. to Redexis Infraestructuras, S.L.U. (100% owned by Redexis Gas, S.A.).
- Maximisation of operating efficiency.
- A new bond issue on 27 April 2015, for an amount of Euros 250 million, with an annual coupon of 1.875%, rated investment grade by rating agencies (Baa3 from Moody's and BBB from Fitch).
- Arrangement of a loan from the European Investment Bank (EIB) through the European Fund for Strategic

Investments (EFSI) for an amount of Euros 160 million, for a maximum of 20 years and with a grace period of three years, to finance investments in distribution and transmission networks for natural gas.

- An additional equity contribution of Euros 100 million for the purpose of acquiring Redexis Gas Murcia, S.A. reflecting shareholders' support and commitment.
- Approval of the first Collective Labour Agreement applicable to all of the Group's offices and business locations (except for Redexis Gas Murcia, S.A. which has its own collective labour agreement at year end 2015).
- Creation of a new Integrated Management System (IMS) in response to the need to unify the Occupational Health and Safety and Environmental Rules and Procedures in a single framework.

(2) Activities

During 2015, the Redexis Gas Group's core activities have focused on developing infrastructure for the distribution and transmission of natural gas.

(a) Distribution

Redexis Gas builds, operates and maintains the distribution facilities required to supply natural gas to different municipalities in Spain.

At year end 2015, the Group had 538 thousand connection points and a distribution network of 6,784 km, supplying 28,446 GWh of power to 243 municipalities in 26 Spanish regions.

In 2015, the Company started supplying gas to 16 additional municipalities in Aragón, Andalusia, the Balearic Islands, Castilla y León, Valencia and Murcia.

In the first half of 2015, Redexis Gas finalised the acquisition of Redexis Gas Murcia, S.A. (formerly Gas Energía Distribución Murcia, S.A.) and other natural gas distribution assets from Naturgas Energía Distribución S.A. (owned by EDP), integrating them fully into its business. This acquisition added 114 thousand connection points in 35 new municipalities and approximately 2,000 km to the Company's network. As a result, Redexis Gas has started operating in three more autonomous regions – Catalonia, Extremadura and Murcia – and has expanded its presence in Valencia, Madrid and Castilla y León. This new step offers the Company the opportunity to invest in the south-east of Spain, a region with a low level of penetration of natural gas.

In addition, in 2015 the Company reached an agreement with Repsol Butano, S.A. to acquire more than 72 thousand

liquefied petroleum gas (LPG) points and 287 kilometres of distribution network. Integration of these points – which will be completed in 2016 – is an opportunity for Redexis Gas, as it will allow it to expand into a further 212 municipalities.

(b) Transmission

Redexis Gas operates and maintains its own network of pipelines, supplying natural gas to the areas in which consumption is most concentrated.

At the end of 2015, Redexis Gas had a network of 1,553 km, comprising 48 gas pipelines, transmitting gas at pressures exceeding four bars to industrial hubs and connections with distribution networks.

In 2015, a total of 119 km was added to its network, originating from:

- Completion of the Son Reus-Inca-Alcudia gas pipeline, located in the Balearic Islands, covering a distance of 46 km, which started operating in June 2015.
- The 65 km Moratalla-Mula gas pipeline in Murcia, acquired through the purchase of Redexis Gas Murcia in late January 2015.
- 8 km "Cas Tresorer-Manacor-Felanitx" gas pipeline in the Balearic Islands which started operating in 2015 and is currently in full construction, with a total of 59 km length. Once it is completed it provides more than 70 thousand people with access to natural gas.

(3) Analysis of Results

Key Indicators:

Key financial indicators	2014	2015	Var	%
Figures in millions of Euros				
Revenue	147,6	175.2	27.6	18.7%
Regulated distribution revenue	78.3	92.3	14.0	17.9%
Other regulated distribution revenue	15.4	21.5	6.1	39.6%
Regulated transmission revenue	51.2	58.6	7.4	14.5%
Regulated LPG business	2.7	2.8	0.1	3.7%
Other operating income	4.0	3.2	(0.8)	(20.0%)
Group self-constructed non-current assets	6.7	9.4	2.7	40.3%
Supplies	(3.9)	(3.7)	0.2	(5.1%)
Employee benefits expense	(17.0)	(22.1)	(5.1)	30.0%
Other recurrent operating expenses	(21.5)	(26.0)	(4.5)	20.9%
Results from operating activities (EBITDA)	115.9	136.0	20.1	17.3%
Non-recurring adjustment to income for transmission in prior years	-	(1.6)	(1.6)	-
Other non-recurrent operating expenses	(1.6)	(3.4)	(1.8)	112.5%
Impairment losses on non-current assets	(3.0)	-	3.0	-
Amortisation and depreciation	(36.6)	(57.8)	(21.2)	57.9%
Results from operating activities	74.6	73.1	(1.5)	(2.0%)
Net finance cost	(88.7)	(24.8)	63.9	(72.0%)
Profit/(loss) before income tax (EBT)	(14.1)	48.3	62.4	na
Income tax (expense)/tax income	121.6	(13.9)	(135.5)	(111.4%)
Profit for the year	107.5	34.4	(73.1)	(68.0%)

Note 1: Financial information for Redexis Gas Murcia and for additional distribution assets has been included in the consolidated Group data from February 2015 and from June 2015, respectively.

Note 2: Redexis Gas's revenues comprise the remuneration it receives from the gas system for its transmission and distribution activities, as recognised by the national regulatory authorities.

At the end of 2015, Redexis Gas recorded revenues of Euros 187.8 million, representing an increase of 18.6% on 2014, primarily due to its regulated activities.

Distribution revenues rose significantly, by 17.9%, to Euros 92.3 million, essentially as a result of a higher number of connection points in existing and newly added municipalities and the acquisition of Redexis Gas Murcia, S.A. and other distribution assets from EDP.

Transmission revenues climbed 14.5% to Euros 58.6 million, driven by three gas pipelines that started operating in 2014: Son Reus-Andratx, Huerca Overa-Baza-Guadix Fase II and Elche-Monovar-Algueña; the start-up of the Son Reus-Inca-Alcudia pipeline in 2015; and the inclusion of the Moratalla-Mula pipeline through the acquisition of Redexis Gas Murcia, S.A.

Revenues from the regulated LPG business grew slightly, as a result of the gradual inclusion of the LPG points acquired from Repsol Butano, S.A. and slightly lower temperatures than in 2014.

The decline in other operating income was offset by the increase in self-constructed non-current assets.

Operating expenses amounted to Euros 51.8 million (Euros 42.4 million in 2014). This variation was primarily due to:

- the increase in personnel expenses resulting from the larger workforce (up 29.8% on 2014),
- the increase in other operating expenses, which is essentially due to the inclusion of Redexis Gas Murcia.

The improvement in operating income has pushed total EBITDA to Euros 136.0 million, up Euros 20.1 million or 17.3% on the previous year.

The increase in amortisation and depreciation stems mainly from the inclusion of Redexis Gas Murcia in the Group as of 30 January 2015; and from purchases of distribution assets from the Naturgas group; and from purchases of LPG from Repsol Butano, S.A., as well as to the organic additions to the Group's distribution and transmission assets.

Non-recurrent adjustment of transmission revenues for prior years includes the one-off, non-recurrent adjustment of transmission revenues accrued in 2009 to 2014, inclusive, due to the notification in 2015 of the definitive remuneration for gas pipelines that started operating between 2001 and 2012, inclusive. The adjustment represented a reduction of Euros 1.6 million in revenues with regard to the total accrued amount for those six-year period.

Finance costs in 2015 amounted to Euros 24.8 million (Euros 88.9 million in 2014). In 2014, they included hedge settlement costs (Euros 39,669 thousand) and amortisable costs to be taken to profit and loss (Euros 13,023 thousand). Refinancing carried out in 2014 through a bond issue, that was extended in 2015, has brought considerable savings in terms of finance costs.

The Group made a net profit of Euros 34.4 million in 2015 (profit of Euros 107.5 million in 2014). The striking result of 2014 essentially reflects the tax effects of the merger and the deferred taxes assets arising from the timing limitations on the deductibility of finance costs. As a result of the improvement in operating profit and Group debt restructuring, the Group was able to begin to deduct the aforementioned costs in 2015.

Redexis Gas' track record and the results it has achieved to date reflect its excellent capacity to face future challenges, reinforcing its growth strategy and supporting continued investment in rolling out new natural gas transmission and distribution networks in Spain.

(4) Events after the reporting period

Events subsequent to the reporting date are described in note 39 to the consolidated annual accounts.

(5) Outlook

Over the coming years, Redexis Gas will continue to develop and operate of natural gas transmission and distribution infrastructure in Spain, ensuring security of supply and offering a high quality service.

As its activity is regulated, it is defined by a regulatory framework that stipulates a number of parameters to establish the remuneration of its regulated activities. This will permit the continued operational development of the Group project via:

- Growth in distribution activities in new areas and greater saturation in existing areas.
- Development of new transmission infrastructure projects.
- New growth opportunities allowing it to expand its business.
- Operating efficiency, increasing its returns.
- Development of increasingly demanding health and safety standards.

(6) Main risks associated with Redexis Gas Group activities

At the date of this report, the directors are unaware of the existence of any risks or uncertainties that could have significant effects on the Group. Nevertheless, the Group follows a risk hedging policy that is suitable for its activity.

(7) Human Resources

At the end of December 2015, Redexis Gas had a total of 294 employees, an increase of 25% on the prior year. The average headcount in 2015 was 284.

During the year, the Group approved and published its

1st Collective Labour Agreement, covering all Redexis Gas employees (except for the Redexis Gas Murcia, S.A. employees, which has its own Collective Labour Agreement). The agreement is a significant achievement and a great step forward with regard to the former situation in terms of labour relations.

(8) Own Shares

Redexis Gas did not hold any own shares at 31 December 2015, nor did it perform any transactions with own shares during 2015.

(9) Financial Instruments

The risk management policy is set forth in note 24 to the consolidated annual accounts.

(10) Environmental Protection

As a company that develops and operates natural gas transmission and distribution infrastructure in Spain, Redexis Gas renders an important service to its customers, making available to them a source of energy that offers several functional, financial and environmental advantages vis-à-vis other types of fuel. Natural gas is an energy source that is clean (no particle emissions and very low NOx and SOx content), cost-efficient, reliable, convenient and safe for the environment (low CO₂ emissions). Its main advantages are thus environmental and economic, and it can be supplied on a continuous basis to households, businesses and industry.

In addition to these advantages, Redexis Gas makes every effort to minimise any environmental spillover costs by undertaking projects that comply with current regulations as fully as possible. The Group combines its business objectives with protection of the environment and the adequate management

of stakeholder expectations regarding environmental issues.

Whenever it undertakes a new network extension project, the Group requests an environmental impact statement in accordance with the relevant legislation and regulations.

The directors of the Group consider that there are no expenses related to environmental risks for which a provision should be recognised at the reporting date due to the likelihood or certainty that they will be incurred.

Information regarding the Group's environmental activities is presented in Note 27 to the consolidated annual accounts.

In addition, during the year Redexis Gas prepared and approved a new Integrated Management System (IMS) in response to the need to unify the Occupational Health and Safety and Environmental Rules and Procedures in a single framework.

(11) Research, Development and Innovation

Research, development and innovation (R&D&i) are three of the key drivers of progress and growth at Redexis Gas, as they allow proposed solutions to be particularly competitive in the Spanish gas market. The Group's efforts to increase investment in this area have led to tangible improvements in productivity, quality, customer satisfaction and occupational safety, as well as better, new materials and products with more efficient designs.

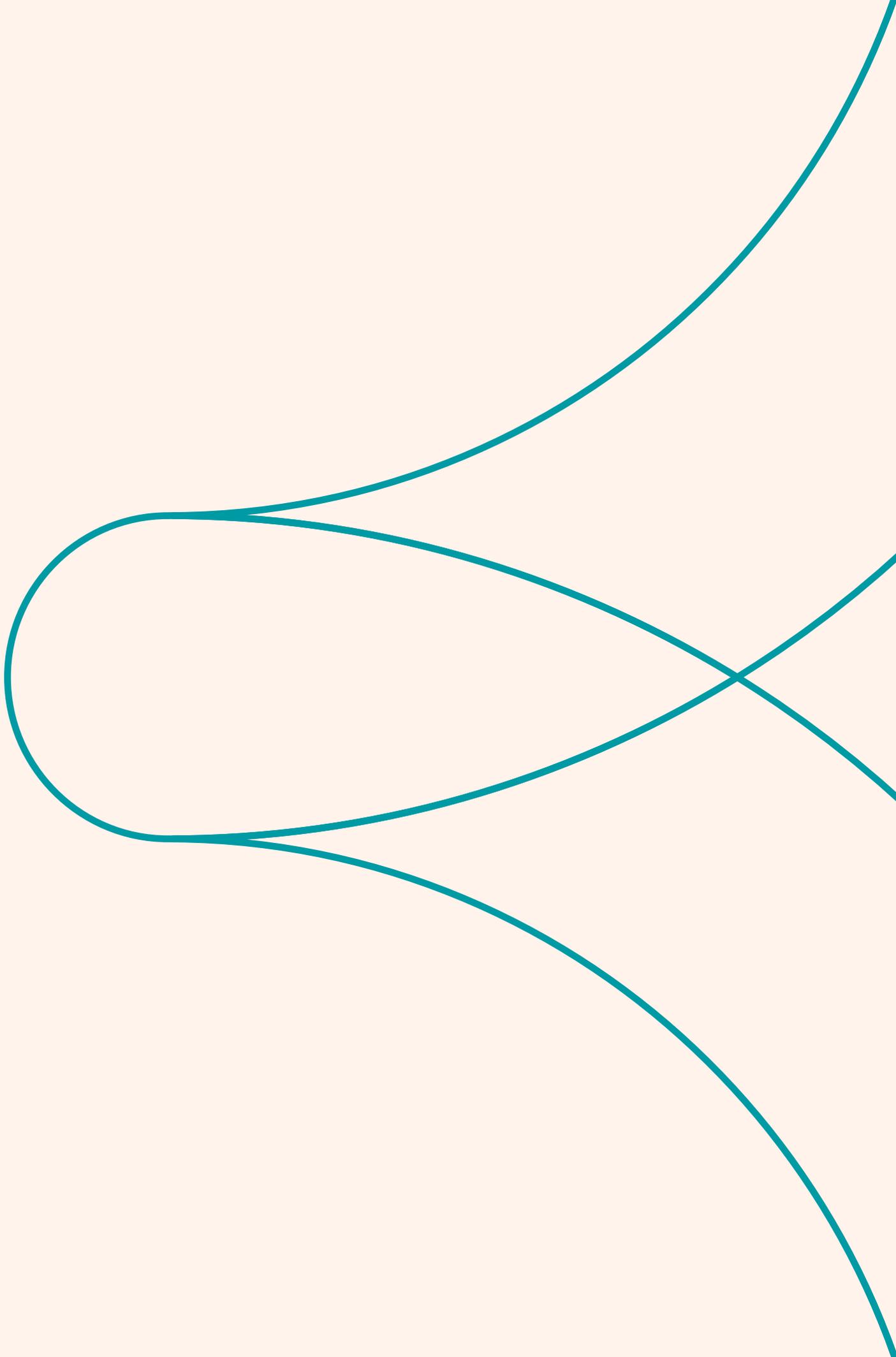
Innovation and knowledge of the best technological and operating solutions are crucial to efficient and safe operation of Group assets.

The information systems department has implemented business process solutions that facilitate the fulfilment of goals.

With regard to its most operational facet, the Company focuses its ongoing innovative efforts on activities to optimise and manage assets to improve the quality and reliability of the natural gas supply; on more efficient services and products to meet consumers' requirements while respecting the principle of sustainability; and finally on ensuring an appropriate level of knowledge within the Group to optimise use of technology.

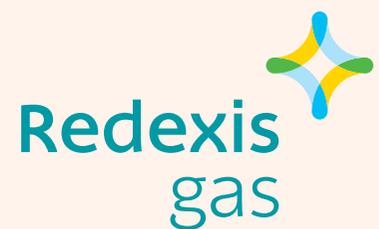
Among the main implementations carried out in 2015, the following are worth noting:

- Maintenance management system. Automation and management of the maintenance of all transmission and distribution networks, as well as preventive control of the mentioned assets.
- Works management system. Improvement of economic management in the construction of distribution and transmission network.
- Web development for LPG tank management. Automation of orders, tank filling as well as stocks of LPG.
- Daily balance calculation. Development to change the calculation formula for balances, making it on a daily basis and with a new regulatory statistic curve.
- CRM online and offline management. Digitalization of sales cycle



ANNEXES

| Annual
report
2015



Scope of the Report

- **Company:** Redexis Gas, S.A.
- **Geographic:** Spain
- **Time frame:** 2015
- **Activity:** natural gas transmission and distribution, as well as the services linked to natural gas distribution and liquid petroleum gas (LPG) distribution
- **Periodicity of the issuance of this Report:** annual

Drawing-up of the report

This document is the third Annual Report published by the Company and refers to the year 2015 of Redexis Gas. In the same, its evolution is reviewed, taking into account the economic,

environmental and social impact of the business, as well as its contribution to help achieve the objectives of sustainability and Good Corporate Governance.

All business units in the Company have participated directly in the definition and delimitation of the contents of this Report. The scheme below illustrates the process followed to produce the same.

Planning and discussion with those responsible for the contents to select the most important subject-matters that appear in the report

Compilation of data and preparing the first draft

Review of contents by internal departments of Redexis Gas

Review by the high management

Review by the Spanish Network of the United Nations Global Compact

Approval and subsequent publication on corporate website

Redexis Gas, in its effort to be a respectful company with society and its environment, has adhered to the Spanish Network of the United Nations Global Compact undertaking to support, through its activities, the consolidation of this international project, given that it considers the same a proposal of great value to defend human rights,

protect the environment, support social development, obtain respect for labour regulations and fight corruption. This Report has the function of a Progress Report and is aligned with the Sustainable Development Goals (SDG) 2015-2030 approved by the UN in September 2015. Specifically, the Company commits more actively to

goal number eight to “promote inclusive and sustainable economic growth, employment and decent work for all”, number nine, “build resilient infrastructure, promote sustainable industrialization and foster innovation” and number 11, “make cities and human settlements inclusive, safe, resilient and sustainable”.



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Safety and emergencies:

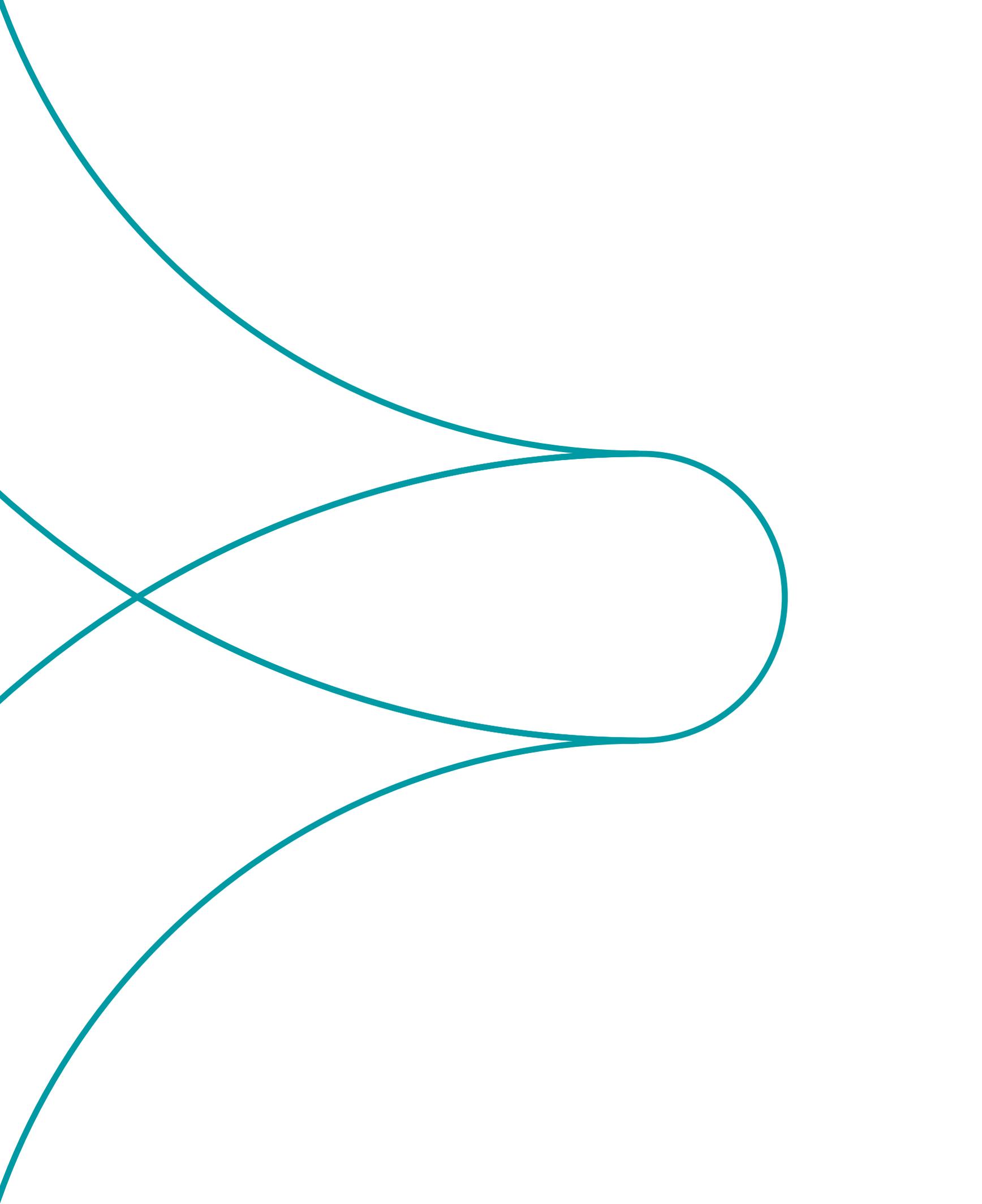
Redexis Gas provides you an Emergency Service 24 hours a day, 365 days a year, to assist you with any actions required to guarantee your safety and the safety of your property, performing operations to open or close gas facilities and emergency actions in the case of any safety incident: gas smell, fire or explosion, as provided for in ITC-ICG-01 of the Technical Regulations on Distribution and Use of Gas Fuels, enacted by Royal Decree 919/2006.

To communicate any emergency, please contact Redexis Gas Emergencies : **900 924 622**

Corporate contact address:

- Corporate internet address: www.redexisgas.es
- Investor relations: investor.relations@redexisgas.es
- Communication: comunicacion@redexisgas.es
- Claims: canaldenuncias@redexisgas.es







www.redexisgas.es