
**ANNUAL
REPORT
2016**



WELCOME TO REDEXIS GAS 2016 ANNUAL REPORT

This report reviews the activity of Redexis Gas (“the Group” or “Redexis Gas”) and its results, providing a comprehensive view of the environment, business model and its management, as well as strategic approach, treating in a unified manner the financial, social, environmental and Corporate Governance aspects that may have a substantial influence on the assessments and decisions by the stakeholders.

The report is intended to communicate to the stakeholders how to create value in the short, medium and long term in a transparent, accurate, true, relevant, dynamic and visual manner.

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

This Report satisfies the Group’s commitment to provide an answer to the compliance with, and advancement in the implementation of the ten principles of the United Nations Global Compact, in line with the Sustainable Development Goals (SDG) 2015-2030, approved by the UN in September 2015.

The reader can access this Annual Report at the Group’s website, www.redexisgas.es, where it may find additional information.

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THE GROUP IN 2016





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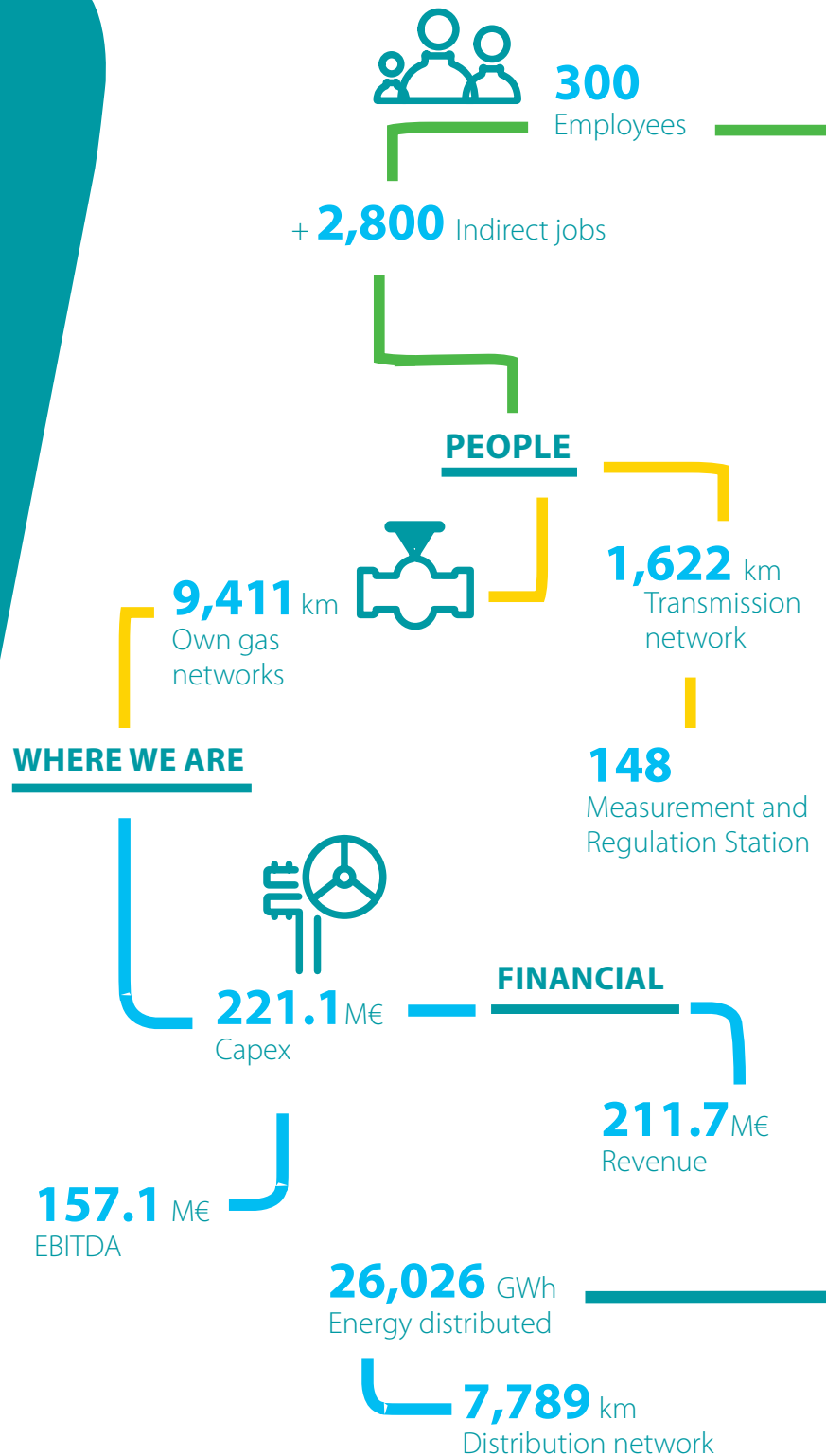
MAIN FIGURES

Redexis Gas is one of the major companies in the development and operation of natural gas transmission and distribution, as well as in the distribution and commercialisation of liquid petroleum gas in Spain.

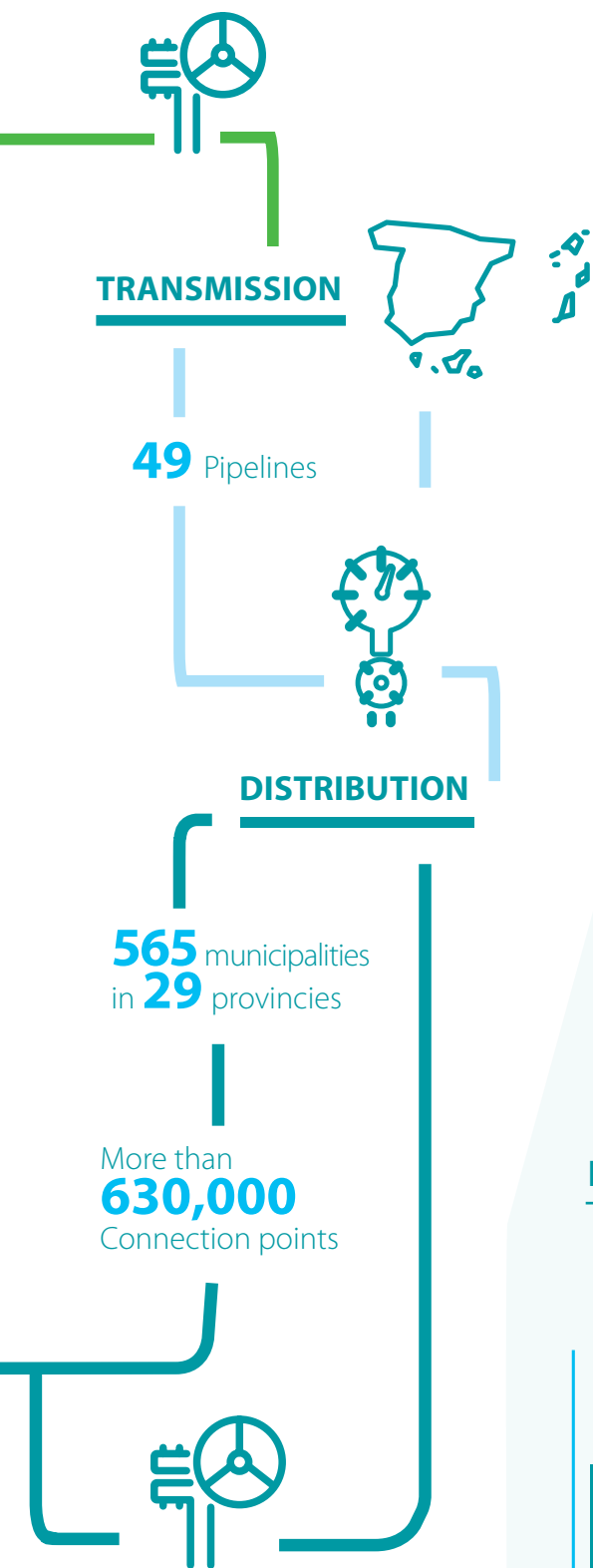
It carries natural gas from the delivery points of the core or primary network in Spain to the points of consumption, homes or industries, in the best safety and quality conditions.

It operates in different Autonomous Communities in the Spanish territory, in particular, in those with a low rate of penetration of natural gas.

The Company operates under a stable and transparent regulatory framework, which promotes the growth of the industry in Spain.

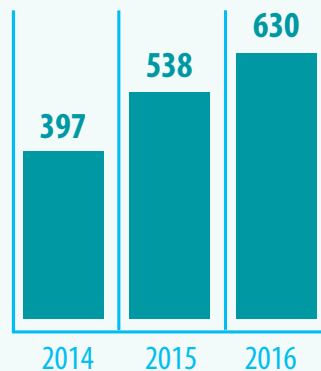


Note: Connection points include the LPG points acquired from CEPSA at the end of 2016.

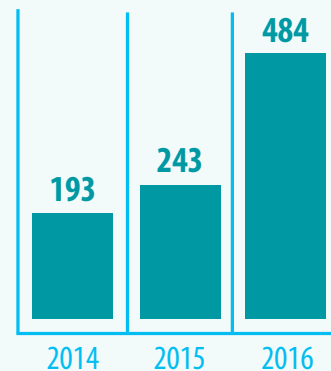


OPERATING FIGURES

DISTRIBUTION CONNECTION POINTS¹ (THOUSAND)

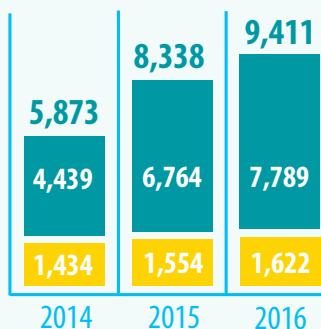


MUNICIPALITIES SERVED

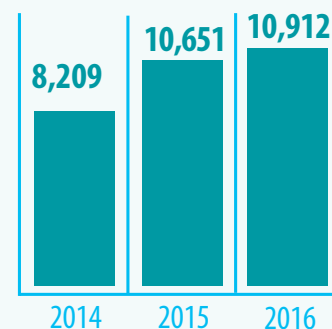


¹ In 2016, the connexion points include the LPG points acquired from Cepsa in late 2016

NETWORK LENGTH (KM)



ENERGY DISTRIBUTED² (GWh)

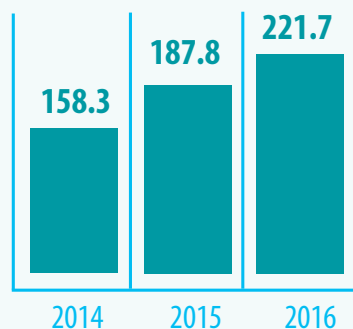


■ Distribution network
■ Transmission network

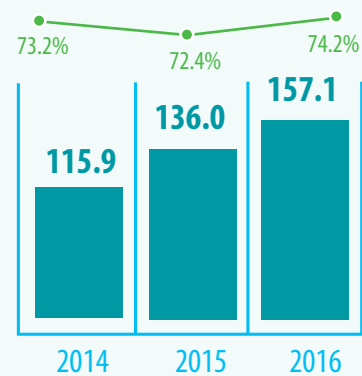
² The distributed energy data does not include P>60bar

FINANCIAL FIGURES

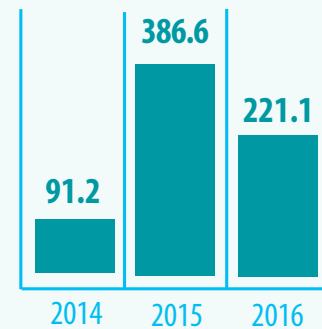
REVENUES (€M)



EBITDA (€M)/MARGIN (%)



CAPEX (€M)



■ EBITDA
■ Margin

LETTER FROM THE EXECUTIVE CHAIRMAN

“The gas sector is responding by increasing the ability to adapt, expanding its activity to new markets, advancing in the user take-up and promoting its competitiveness”.



In 2016, Redexis Gas has continued to expand and increase its infrastructures and has consolidated its position as a true driver of the gas sector in Spain. At the closing of such year, the Company has reached EUR 212 million in revenues, 13% more than in 2015, an EBITDA of EUR 157 million, 16% more than in 2015, and invested EUR 221 million that have been used for the construction of our gas transmission and distribution networks, and for growth opportunities supplementing our main activity.

This year, Redexis Gas has added more than 92 thousand supply points to its portfolio. Nearly 70 thousand originated from the acquisition of assets, and 23 thousand resulted from organic growth. In 2016, the Group grew organically four times faster than the industry in supply points.

During this year, Redexis Gas has added two new transmission gas pipelines, “Cas Tresorer-Manacor-Felanitx” in the Balearic Islands and “Villanueva del Arzobispo-Castellar” in Andalusia. Additionally, service has been taken to 9 new municipalities, and our growth plan has been accelerated with the acquisition of LPG points from Repsol and Cepsa.

As a consequence of such successes, Redexis Gas now has more than 630 thousand supply points and operates over 9,400 kilometres of its own gas transmission and distribution networks in optimum efficiency conditions.

In 2016, the economy grew 3.2% thanks to consumption and investment. As a consequence of such economic growth, job creation has taken the unemployment rate down to 18.6% -the lowest rate since the third quarter

of 2009-, which represents a substantial improvement with regard to the situation of previous years.

The greater dynamism of corporate investment has contributed to all of the above. In 2016, the gas sector invested EUR 686 million, according to Sedigas, to continue rolling out a broad gas network in Spanish territory, help create jobs in an increasingly sustainable environment, and provide greater efficiency to industries and homes.

With such resources, during the last year, over 1,200 kilometres of network have been built in Spain, exceeding 85 thousand kilometres through which 321 TWh of gas have circulated. The municipalities with gas service have increased 2.1%, and 7.7 million supply points have been reached, adding more than 91 thousand points, out of which 25% originated from Redexis Gas’ organic growth.

Additionally, the regulatory stability scenario has contributed to the efficient planning of our investments. After the first full two years since the implementation of the new regulatory framework, the results have evidenced that the gas sector is responding by increasing the ability to adapt, expanding its activity to new markets, advancing in the user take-up and promoting its competitiveness.

From the financial point of view, in July 2016, we used EUR 160 million of the funding within the framework of the “Juncker Plan” through the European Investment Bank, to roll-out natural gas transmission and distribution networks, helping to boost economic growth and generate employment in the regions in which we operate.

Likewise, the European Central Bank chose Redexis Gas, among a group of Spanish companies, for its corporate sector purchase programme (CSPP). In July of that same year, the purchase of bonds with maturity in 2021 under such programme was confirmed.

Likewise, at the end of the year, the rating agency Standard & Poor's made a positive valuation of the growth and investments made by Redexis Gas, giving a rating of "Excellent" to its credit risk profile, the best credit rating granted, and establishing at 'BBB' the Company's long-term credit rating.

From the innovation standpoint, Redexis Gas develops modern technologies in all its scopes. Such advances incorporate new functionalities that reduce the time and impact on network roll-out and entail an efficiency and safety advantage. During the last year, a series of initiatives were carried out, such as the new integral management system, the commissioning of a back-up control centre, the re-definition of the network design criteria or the incorporation of modularity and compaction in plants, positions and regulating stations

In 2016, Redexis Gas has implemented an innovative Artificial Intelligence tool in the Spanish infrastructures sector, which allows us to gain agility in the market and maximise natural gas penetration in the municipalities in which we operate.

Thanks to those and other actions, in December 2016, we received an award in the 3rd Edition of Best Corporate Practice Awards, held by KPMG and El Confidencial, for Best Corporate Practices in Digital Transformation.

We continue to strengthen our commitment to safety and the environment. Redexis Gas meets strict standards that promote the well-being of the people who are part of the Company and care for the environment in which it develops its activity. During the year 2016, the Integrated Management System has been modified, maintaining the ISO 14.001:2.004 Standard and the OHSAS 18.001:2007 Standard certification.

Also, we have connected our networks to the first gas service stations ("gas stations"). It is an important step to contribute to improve air quality in urban areas and reduce the environmental pollution in large cities. Natural Gas for Vehicles is the only alternative fuel today for all types of transport, whether land or maritime, and is the future for freight transport and urban buses. Thanks to its composition, its emissions have a minimum impact and it entails 30% savings regarding cost per kilometre compared to diesel, and 50% compared to petrol.

// IN 2016, REDEXIS GAS HAS IMPLEMENTED AN INNOVATIVE ARTIFICIAL INTELLIGENCE TOOL IN THE SPANISH INFRASTRUCTURES SECTOR, WHICH ALLOWS US TO GAIN AGILITY IN THE MARKET AND MAXIMISE NATURAL GAS PENETRATION //

Our direct contribution to society has been structured through a series of sponsorship and collaboration actions, for the purpose of improving health and safety, education, sports, culture and growth of significant sectors for the development of the Spanish economy. Noteworthy among them are the sponsorship of the "Quatercentenary of the death of Miguel de Cervantes" through Fundación Impulsa of Castile-La Mancha, the support of the Fundación de la Energía of the Community of Madrid, and the participation in the 3rd ESIC Corporate Run in Zaragoza and in the Conference "Smart Destination" on Energy and Tourism in Palma de Mallorca.

Likewise, we are still committed to integrity, transparency and sustainability. One more year, we have renewed our adherence to the United Nations Global Compact, whereby we undertake to support such international project, through our activities, in line with the Sustainable Development Goals (SDG) 2015-2030 approved by the UN in September 2015.

I don't want to finish without thanking the efforts and dedication of all those who form part of the team, who make it possible to provide a quality service to the whole of society. We are in a unique position to extend the supply of natural gas to the entire Spanish territory, generating trust and value based on excellence and innovation.



Fernando Bergasa
EXECUTIVE CHAIRMAN

LETTER FROM THE CHIEF OPERATING OFFICER

“Our strategy is based on the long term and seeks not only growth, but also attaining operating and financial efficiencies through innovative projects.”



The year 2016 has been a year of new challenges and commitments honoured. The evolution of the key figures reflects the consolidation experienced and Redexis Gas' strength. We have closed the year with revenues of EUR 212 million and a gross operating result of EUR 157 million, 16% higher than last year.

Such evolution is the result of the strategy adopted in recent years, which has led us to invest EUR 221 million in 2016 in the construction of gas infrastructures, the acquisition of new assets that supplement our business, as well as the development of innovating technologies which have contributed added value to our activity.

During 2016, we have added a total of 92 thousand supply points, out of which 23 thousand related to organic growth. Our organic growth has increased four times faster than the one of the sector, adding 9 new municipalities to our portfolio, and our investment in such growth has entailed 14% of the total amount invested in the sector, three times greater than the relative weight of Redexis Gas in the whole regulated sector.

In recent years, the Company has acquired 75 thousand liquid petroleum gas points from Repsol, which have added more than 700 kilometres to our distribution network and have been fully integrated into our portfolio. Additionally, in late 2016, we signed an agreement with Cepsa for the acquisition of more than 4,500 points, which we will integrate in 2017. Such assets represent a lever for the growth and expansion of our regulated business in upcoming years.

With regard to our transmission network, we have continued rolling out the network. During the year 2016, we have added 68 kilometres from the commissioning of two new gas pipelines, 51 kilometres from “Cas Tresorer- Manacor- Felanitx” in the Balearic Islands, completing the project we started late last year, and 17 kilometres of “Villanueva del Arzobispo – Castellar” in Andalusia.

Likewise, in the beginning of 2017, we started the roll-out of the “Yeles – Seseña” 9-kilometre gas pipeline in Castile-La Mancha, and obtained the authorisation for the execution of the installation of the “Villacarrillo - Villanueva del Arzobispo” section in Andalusia, which entails the construction of 11 additional kilometres.

Our strategy is based on the long term and seeks not only growth, but also attaining operating and financial efficiencies through innovative projects.

In 2016, we have continued to commit to technological and operating innovation. Among other initiatives, we have reduced the environmental impact of new distribution networks with the use of mini trenches; we have introduced the use of new construction materials, such as RC polyethylene; we have established the basis to reduce the execution deadlines of community facilities with the use of multilayer plastic instead of copper; we have modernized the user's experience in the contracting processes, enabling the submission of offers and digital signature in tablets, and we have implemented a remote management system for the LPG and LNG plant levels, to improve the service provided to our users.

Likewise, we have started to implement Artificial Intelligence, using automatic learning algorithms, which allow to discover patterns, predict behaviours and recommend actions, for the purpose of better understanding our customer, achieving greater operating efficiencies in the maintenance and operation of our networks, preventing fraud and strengthening decision taking. Redexis Gas is a pioneer in the incorporation of automatic learning algorithms to its expansion processes, for the purpose of identifying and prioritizing markets that are more prone to adopt natural gas. This way, we are able to optimise investments in new roll-outs and focus more effectively on obtaining new supply points.

Such commitment to innovation has been acknowledged with the award for Best Corporate Practice, promoted by KPMG and El Confidencial, under the category of Best Corporate Practice in Digital Transformation.

Our commitment to occupational health and safety is the maximum in our day-to-day activities. Beyond the legal requirements, Redexis Gas develops, on a preventive basis, initiatives aimed at improving employees' health and safety. Our In-house Occupational Risk Prevention Service was created in 2016, to guarantee the adequate protection of the health and safety of employees. The "zero accidents" objective has translated into a reduction of the different accident rates. In this regard, the year 2016 has been characterised by its low rates, being "zero" for its own staff and 1.98 for combined staff. Such figures show that the Company knows how to identify the risks that may affect

// BEYOND THE LEGAL REQUIREMENTS, REDEXIS GAS DEVELOPS, ON A PREVENTIVE BASIS, INITIATIVES AIMED AT IMPROVING EMPLOYEES' HEALTH AND SAFETY //

its professionals, guaranteeing at all times their health and safety.

Likewise, we continue committed to caring for the environment. We develop our activity paying special attention to the protection of the environment and acting beyond regulatory compliance, involving also suppliers and stakeholders.

During the year 2016, we have followed a process to modify the Integrated Management System. Such modification has been audited,

and maintains the ISO 14.001:2.004 Standard and the OHSAS 18.001:2007 Standard certification.

In addition to the impact we generate through our own business, we carry out programmes that generate a favourable effect on society and benefit different groups. We care about building a sound and lasting relationship in the municipalities in which we operate, by developing programmes and sponsorships through initiatives in the scope of education, culture and sports. During this year, we have supported the education of university students through visits to our infrastructures, we have collaborated with different sports academies helping to promote collective effort among the younger ones, and we have sponsored cultural projects, among them, the Quatercentenary of the death of Miguel de Cervantes, of great public relevance.

I want to conclude by thanking all of our professionals for their effort, dedication, commitment and enthusiasm, which have made it possible for us to continue growing and innovating. We will work to advance further in order to take natural gas to the maximum number of homes, businesses and industries. We have sound foundations to face the future with great optimism.



Cristina Ávila
CHIEF OPERATING OFFICER

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 two European pension funds, USS and ATP.

On 28 May 2017, Redexis Gas announced that the European pension funds USS and ATP have agreed to acquire 18.8% of the share capital in Redexis Gas from GSIP. Such funds have been indirect investors in Redexis Gas, as partners with GSIP, since its initial investment in

the Company in 2010, in addition to having increased their investment in Redexis Gas over time.

As a consequence of the acquisition and certain changes agreed in the shareholder structure, the shareholder base of Redexis Gas is now the following: GSIP 50.1%, USS 30.0% and ATP 19.9%.

The closing of such transaction is subject to the usual terms and conditions, and is expected to take place in the third quarter of 2017.

STRUCTURE OF THE GROUP

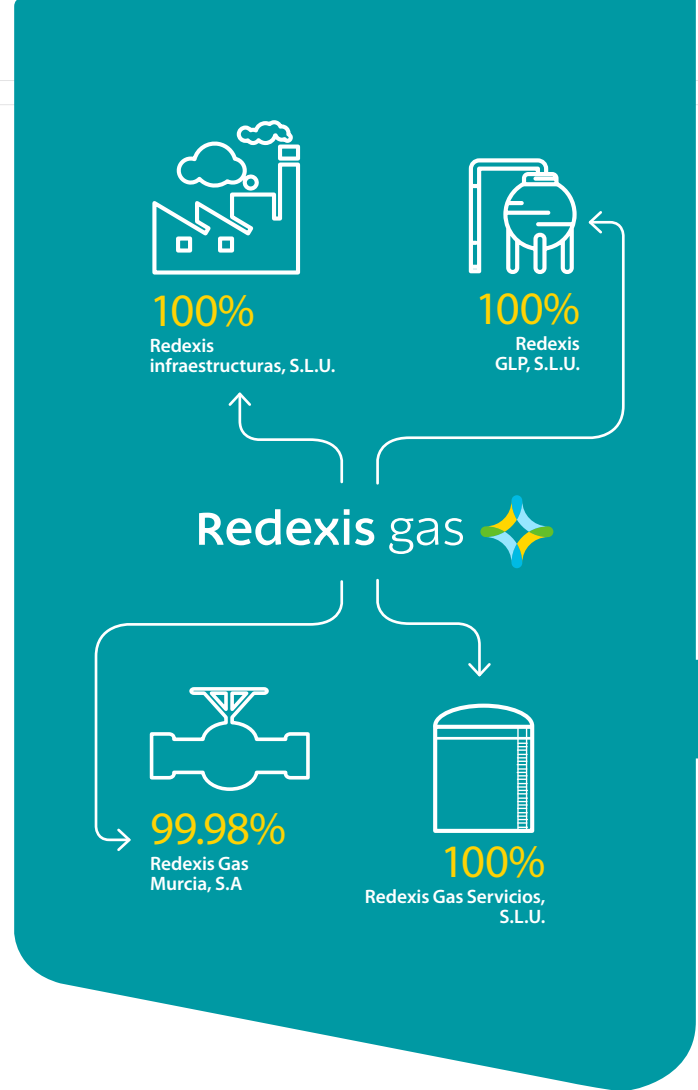
Redexis Gas is the holding company of a number of companies engaged in the development and operation of natural gas transmission and distribution infrastructures, as well as in the distribution and commercialisation of liquid petroleum gas in Spain.

Throughout the year 2015, a new structure of the Group formalised its structure 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.



Board of Directors

(to May 31, 2017)

MEMBER	POSITION
Mr. Fernando Bergasa Cáceres	Executive Chairman
Ms. Cristina Ávila García	Chief Operating Officer
Mr. Philippe Louis Hubert Camu	Director
Mr. Matteo Botto Poala	Director
Mr. Claudio Aguirre Pemán	Director
Mr. Ulrik Dan Weuder	Director
Mr. Stephen Alan John Deeley	Director
Mr. Marcus Hubertus Gertrudis Vennekens	Director
Mr. Ignacio Pereña Pinedo	Secretary non-Director

Executive Committee

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 Managing Director in Naturgas Energía and director at HC Energía.
- Previously, he held different executive offices in Endesa S.A. and was a consultant at McKinsey&Co.
- Fernando Bergasa has also been a director and vice-chairman of the Permanent Committee of Sedigas.
- He is a member of the American Chemical Society.

MS. CRISTINA ÁVILA GARCÍA
Chief Operating Officer



- Chief Operating Officer 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 Energía and a director at Naturgas Energía Transporte and Naturgas Energía Distribución.
- She previously held executive offices at Endesa Internacional and was a consultant at Arthur D. Little.

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 Pontificia de Salamanca and a Corporate Management Program from the Instituto de Empresa.
- From 2003 to 2012, he worked at ONO (Vodafone) 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,**
General Counsel and Regulatory Affairs
- **Mr. Ignacio Montaner Gutiérrez,**
General Manager for the North-Central Region and Operations Director
- **Mr. Javier Crespo Millán,**
Infrastructure Director
- **Mr. Miguel Mayrata Vicens,**
General Manager for the Islands Region
- **Mr. Diego Sánchez Muslera,**
General Manager for the Mediterranean Region

- **Mr. Borja Polo Baños,**
Business Development Director
- **Ms. Mercedes Barreiro Hernández,**
Resources Director
- **Ms. Estefanía Somoza Villar,**
Communication & Institutional Relations Director
- **Ms. Mireya Martínez San Martín,**
Internal Audit Director

Milestones in the year

2017

MARCH

Canary Islands: The General Directorate for Industry and Energy of the Government of the Canary Islands decided in favour of Redexis Gas in the competitive tender for piped fuel gas facilities.

Redexis Gas, new sponsor of the **Teatro Real**.

Castile-La Mancha: The Company began the roll-out of natural gas networks in Yepes (Toledo).

FEBRUARY

Redexis Gas provides an **LPG technical training course** for its employees, included within the Training Plan defined for the year 2016-2017.

Redexis Gas participates in the gas facility **safety campaign** in the Community of Madrid.

Castile and Leon: Natural gas reaches Valverde del Majano thanks to Redexis Gas.

JANUARY

Andalusia: Redexis Gas started to supply gas from its new plant in Vera.

Aragon: Redexis Gas began the supply of natural gas in Monreal del Campo.

Region of Murcia: Redexis Gas will invest nine million euros to expand natural gas in the city of Murcia and its districts.



2016

DECEMBER

Redexis Gas received **award** for "Best Corporate Practices" from KPMG and El Confidencial.

Castile and León: Redexis Gas started the roll-out of natural gas networks in Candeleda.

Aragon: Redexis Gas sponsored the 3rd ESIC Companies Race, which gathers more than 3,300 runners.

NOVEMBER

Standard & Poor's gave Redexis Gas a 'BBB' rating.

Redexis Gas' **agreement of employment guarantee** was signed.

Castile and Leon: Redexis Gas started supplying natural gas in La Adrada.

Andalusia: Redexis Gas expanded natural gas infrastructures in Jaen.

Balearic Islands: Redexis Gas started the supply of natural gas in Felanitx.

The **3rd Annual Convention of Redexis Gas** was held.

Region of Murcia: Submission of gasification project for Archena.

OCTOBER

Castile and Leon: Redexis Gas takes natural gas to Arenas de San Pedro.

Community of Valencia: Redexis Gas presented its plans for the expansion of natural gas in the Comunitat.

Aragon: Redexis Gas takes natural gas to Monreal del Campo.

Redexis Gas sponsored the **2nd National conference on Health and Safety at Work**.

Castile La Mancha: Redexis Gas participated in the 1st Symposium on natural gas in Castile-La Mancha.





SEPTEMBER

Balearic Islands: Redexis Gas presented to the Govern its plans to expand natural gas in Illes Balears.

Redexis Gas, sponsor of the **Energy and Tourism 'Smart Destination' Conference**.

Castile and Leon: Redexis Gas started the distribution of natural gas in Carbonero el Mayor.

JULY

Redexis Gas was included among the thirteen major Spanish companies selected by the **European Central Bank** in its programme for the purchase of assets.

Aragon: Redexis Gas started to roll out the natural gas distribution networks in Magallón.

Region of Murcia: Redexis Gas sponsored the 56th Cante de las Minas International Festival.

Redexis Gas **grew 17% in supply points**, reaching 603,000 in the first half of 2016.

Community of Madrid: Redexis Gas joined as Elective Trustee the 'Fundación de la Energía de la Comunidad de Madrid'.

JUNE

Redexis Gas **surpassed 1,600 kilometres of national transmission networks**, after finishing its last gas pipeline in Mallorca.

Castile-La Mancha: Agreement signed to take natural gas to Villanueva de los Infantes.

Balearic Islands: Redexis Gas started with the piped distribution of natural gas in Inca.

Castile-La Mancha: Redexis Gas, new sponsor of the "Quatercentenary of the death of Mr. Miguel de Cervantes".

MAY

Region of Murcia: Redexis Gas started supplying natural gas in La Unión.

Community of Madrid: Redexis Gas promoted the development of natural gas in Villarejo de Salvanés.

Ignacio Pereña, appointed Secretary General of Redexis Gas.

APRIL

Balearic Islands: Conclusion of the construction of the Cas Tresorer-Manacor – Felanitx gas pipeline, 59 kilometres long.

Extremadura: Redexis Gas collaborates with Mérida Club de Fútbol supporting the junior categories.

MARCH

Commissioning in Zaragoza of the **'Backup Control Centre'** from which the Redexis facilities in all Spain are monitored.

Andalusia: Natural gas reached Albox for the purpose of providing supply to nearly 12,000 inhabitants and 60 businesses in the municipality.

Extremadura: We started rolling out new distribution networks in Merida.

Castile-La Mancha: Agreement signed to take natural gas to Calzada de Calatrava.

FEBRUARY

Balearic Islands: Natural gas reached Andratx thanks to Redexis Gas.

Castile and Leon: Natural gas reached Valle del Tiétar after making an investment of EUR 8 million in a 42-kilometer network.

JANUARY

Andalusia: Presentation to the Town Council of El Puerto de Santa María (Cadiz) of the growth plans for the municipality.

Aragon: The expansion plan for the province was presented to the president of the Provincial Council (Diputación Provincial) of Huesca.



2

GROWTH AND
PROFITABILITY
MODEL





Redexis
gas

The image shows a large, white, cylindrical industrial tank or storage vessel. The tank is oriented vertically and features a prominent logo and text. The logo consists of the word "Redexis" in a bold, dark green font, with a colorful graphic element to its right made of several small, overlapping circles in shades of green, yellow, and blue. Below "Redexis", the word "gas" is written in a smaller, lighter green font. The tank has several horizontal bands or weld lines. On the right side, there are several small, white, rectangular protrusions or sensors. At the top, there is a circular access point and a metal ring. In the bottom left corner, a portion of a metal structure with vertical pipes is visible. The background is a clear, bright blue sky.

GROWTH AND PROFITABILITY MODEL

Corporate profile

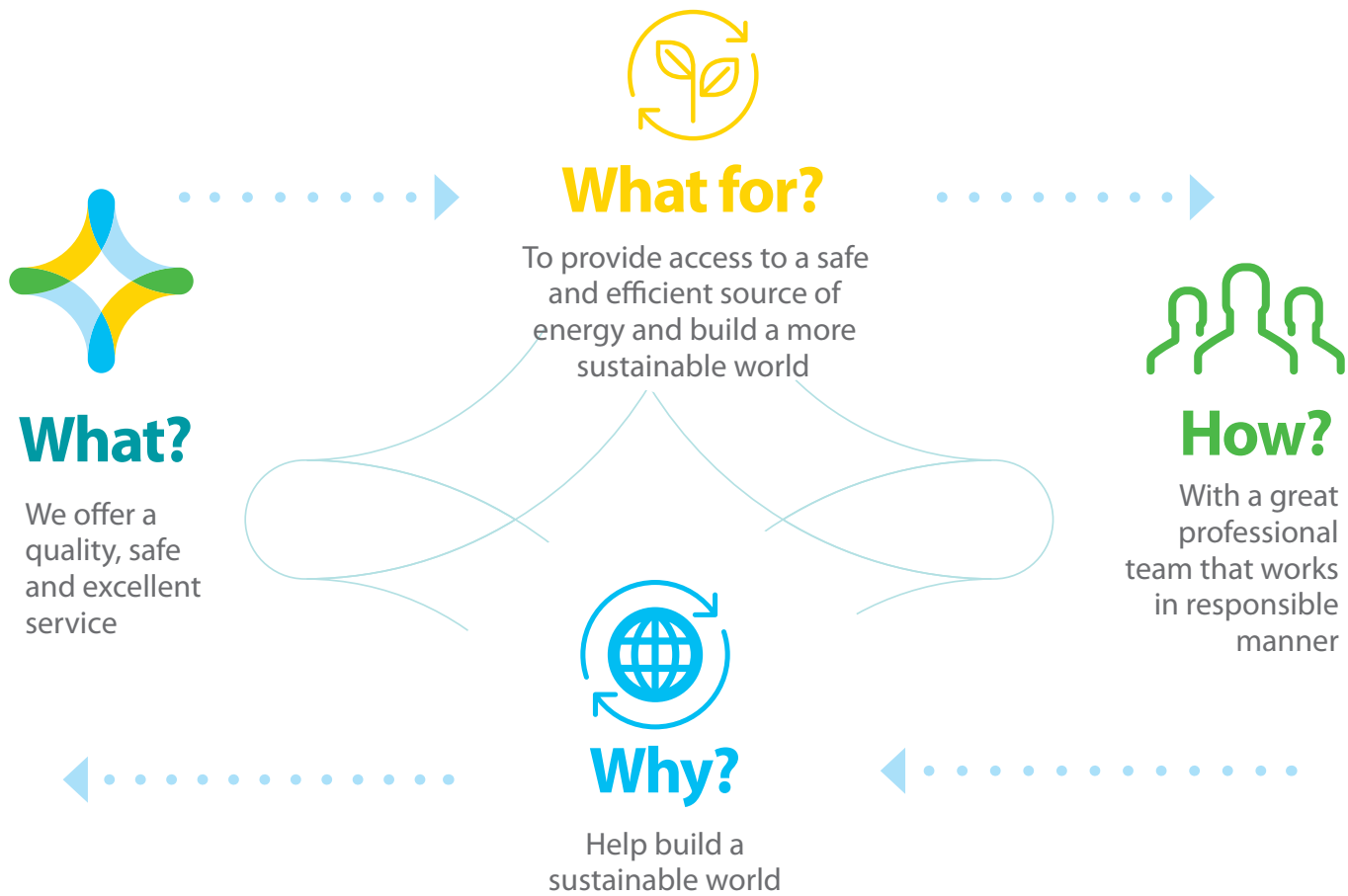
The goal of Redexis Gas is to work for its customers, offering a safe, efficient and quality service, anticipating the needs of its users and creating innovative solutions that contribute to improve and enrich the life of millions of people.



Redexis Gas is one of the major companies in the development and operation of natural gas transmission and distribution infrastructures, and the distribution and commercialisation of liquid petroleum gas (LPG) in Spain. With more than 630 thousand connection points, the Company provides access to a safe, convenient and efficient source of energy in 565 municipalities of 29 provinces, through more than 9,400 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.

The Company has its headquarters in Madrid, and 14 offices throughout Spain, with an average headcount of 299 employees working full time.



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
Live
Care
Inspire
Overcome

Strategy

As a benchmark gas company, leader in efficiency and strongly committed to its users, employees and shareholders, Redexis Gas wants to be distinguished for its proximity, innovation capacity, service quality, financial soundness and corporate responsibility. It 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.

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.

The Group's strategy is oriented towards growth, a fundamental axis of its business management. In recent years, the key indicators of its business have continued

to evolve positively. Increasing its presence in the municipalities where it is already present, as well as expanding its activity to new regions and municipalities in the Spanish territory are the basis of its growth strategy.

Taking advantage of its experience, Redexis Gas continues to increase and expand its activity and services. To such effect, its strategy is based on a series of levers to increase the value of the business.

STRATEGIC PILLARS OF REDEXIS GAS

Objective of Redexis Gas

Provide access to natural gas offering quality and excellence infrastructures and services



Commitment

Building a stronger relationship with its stakeholders and the surrounding environment



Risk management

Continuously improving safety, health quality and environmental standards



Growth

Providing an answer to the demands of new populations, facilitating access to natural gas to new municipalities



Efficiency

Managing its resources, improving both its processes and systems



Innovation

Developing technological standards in its transmission and distribution activity, which allow optimising the design and construction of the facilities



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.

This year, once again, the Company has exceeded the goals set and has grown above the average growth in the sector. It has inaugurated two new gas pipelines located in Andalusia and the

Balearic Islands, and it has obtained an authorisation to start building a new one in the province of Jaen. Likewise, it has taken gas to 9 new municipalities, it has accelerated its growth plan with the

acquisition and integration of 75,000 new LPG points from Repsol, and it has signed the purchase, at the end of the year, of approximately 4,700 LPG points from Cepsa.

A history of success

The Company has been supplying gas to its users for over 160 years, in a safe, convenient and clean manner. Since its origins, it has tried to provide innovative solutions by implementing advanced gas infrastructures, adapted to each moment in history.

Throughout the years, the Company has gained weight and presence in the Spanish market.

In the year 2010, Redexis Gas was established as an independent and autonomous entity. Since then, and thanks to the start-up of a significant investment programme, the Company has grown at a staggering speed, achieving operational efficiencies and integrating supplementary acquisitions.

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.



1927

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

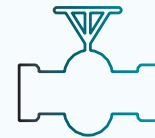
1985

Incorporation of Gas Huesca

Endesa acquires Eléctricas Reunidas de Zaragoza and its respective affiliates

1976

Incorporation of Distribuidora del Gas de Zaragoza



1989

100,000 connection points

Redexis Gas creates value for society, its customers, investors and employees, committing to the highest levels of safety, operational excellence and innovation.



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

Redexis
gas 

2013

Goldman Sachs Infrastructure Partners y co-investors acquire control over 100% of the Company and change its corporate name to 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 71,500 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



1997

Incorporation of Endesa Gas comprised of different distributing companies

2010

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

+ 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)

+ 396,500 connection points

+5,800 Km of network length

2016

Successful integration of 71,500 LPG assets acquired from Repsol in 2015

Acquisition and integration of an additional 3,400 LPG points from Repsol

Acquisition of almost 4,700 LPG points from Cepsa

+ 630,000 connection points

9,400 Km of network length

3

CURRENT ENVIRONMENT OF THE GAS SECTOR





Advantages of natural gas

Given the product's intrinsic characteristics, natural gas is a truly advantageous source of energy, both at household level and at commercial or industrial level. Even at present, natural gas is a fundamental raw material to generate electric energy. At household level, it allows the availability of constant energy for basic needs of hot water, heating and cooking. At

industrial level, the advantages relate not only to the continuous supply, but also to the efficiency, productivity and its environmental aspects.

Likewise, natural gas favours the penetration of renewable energies in the energy mix, guaranteeing the security of the supply in the network.

GAS COMPANIES HAVE THE OPPORTUNITY OF OFFERING AN ENERGY THAT ENTAILS A TRANSITION TO A CLEANER ENERGY SECTOR, USING FUELS WITH LOWER CO₂ EMISSIONS.

ADVANTAGES OF NATURAL GAS

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.

OPEN THE VALVE AND START ENJOYING.

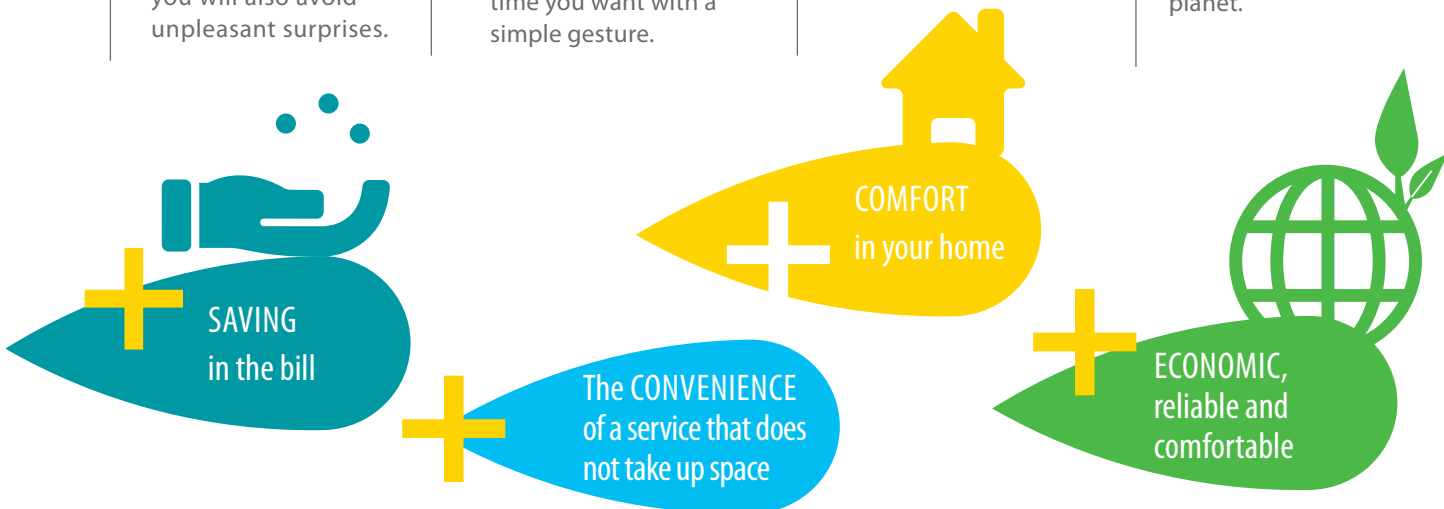
Natural gas does not take up extra space at your home, and you won't need to replace it, because it never runs out. You will have it available any time you want with a simple gesture.

SO YOU CAN MOVE AS YOU PLEASE.

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


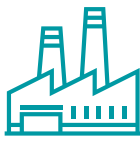


AND IT IS ALSO ECOLOGICAL.

Another one of the advantages of natural gas is that it is a clean energy. That, today, is an important factor to contribute to the preservation of our planet.

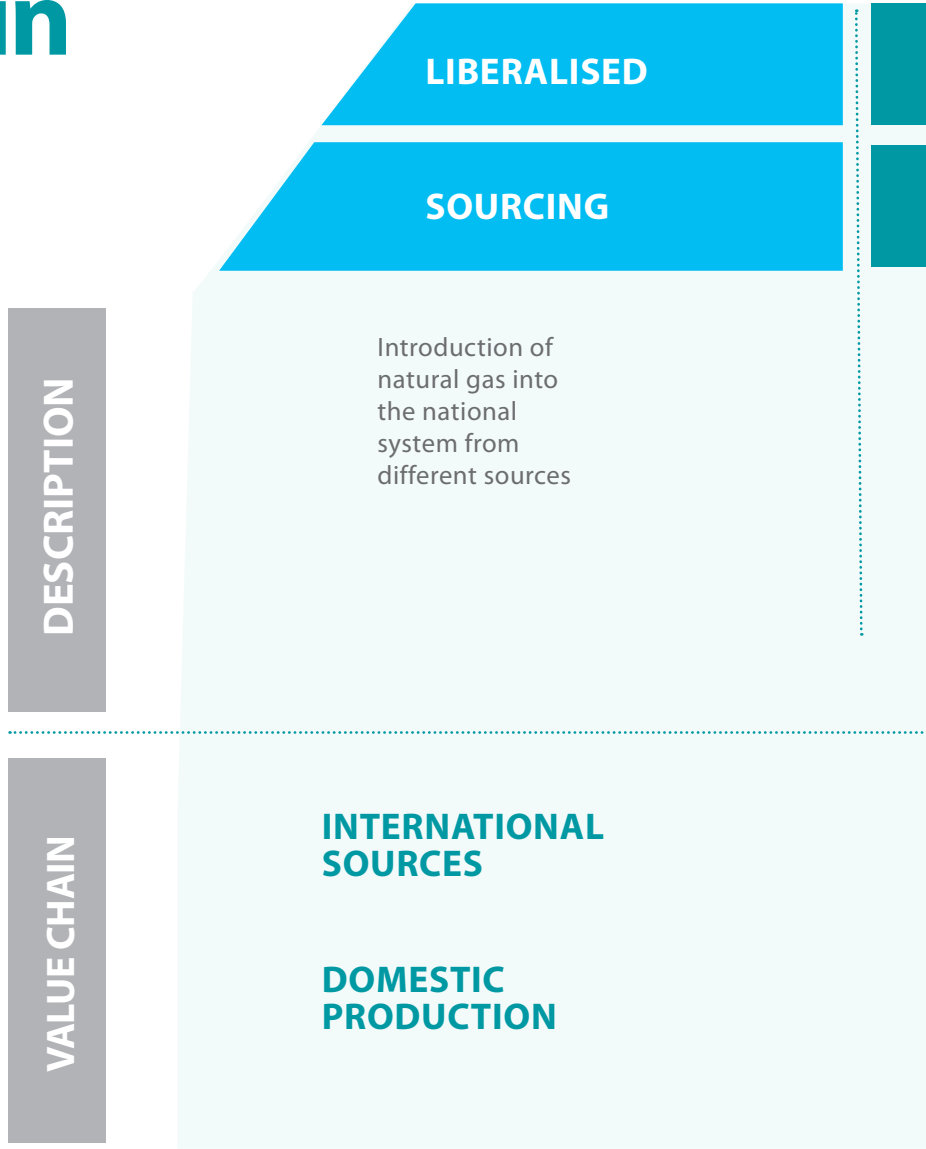




NATURAL GAS COMPETITIVENESS

	 HOTEL	 MID-SIZED FACTORY	 HOSPITAL	 URBAN BUS
Annual Energy Consumption (MWh)	250	2,000	10,000	300
Annual Energy Bill using Gasoil(€K)	36.5	160.3	801.7	29.0
Annual Energy Bill using Natural Gas (€K)	22.3	82.6	405.0	20.5
Potential Saving (€K)	14.2	77.7	396.7	8.5
	(39%)	(48%)	(49%)	(29%)

The value chain of natural gas



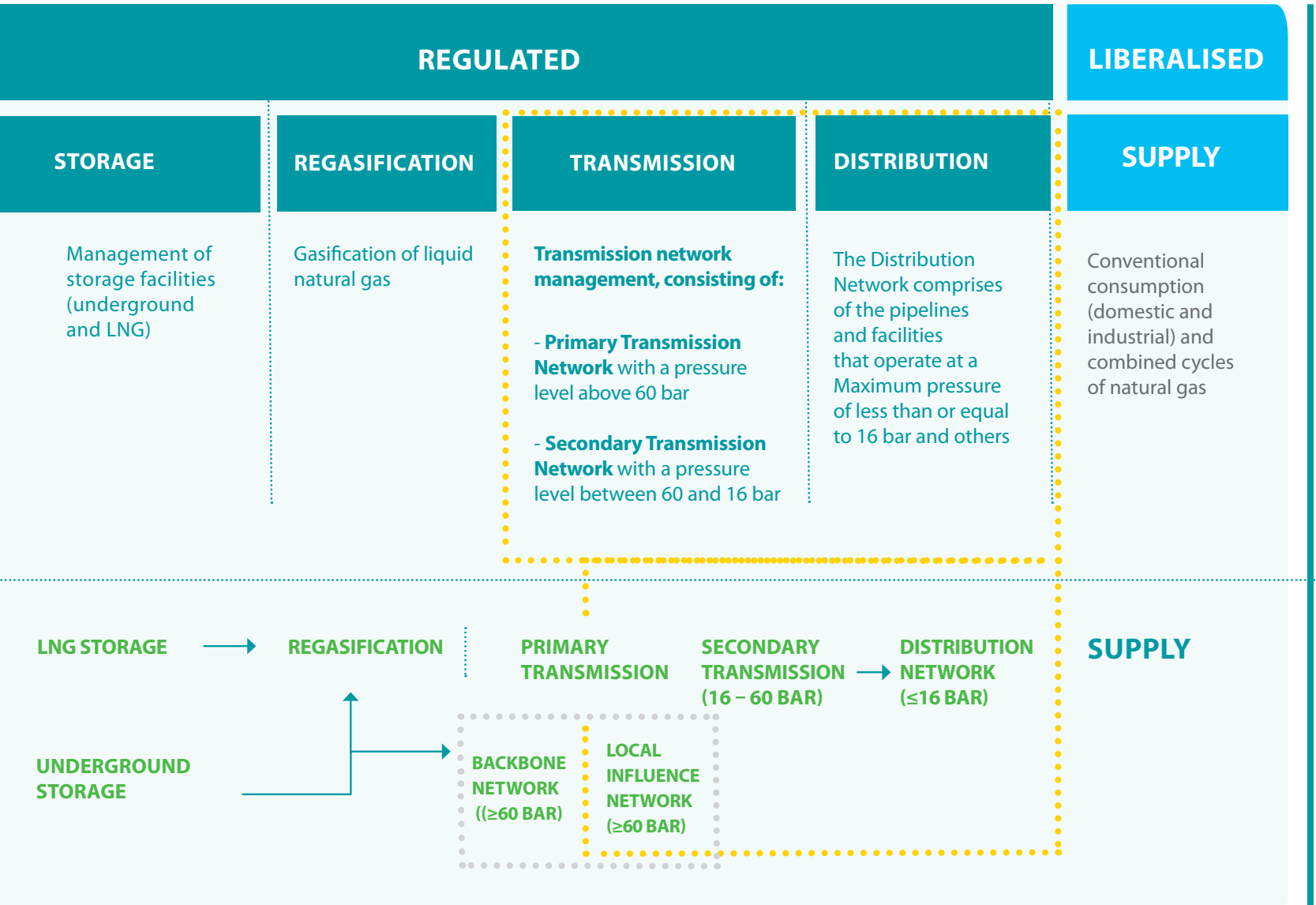
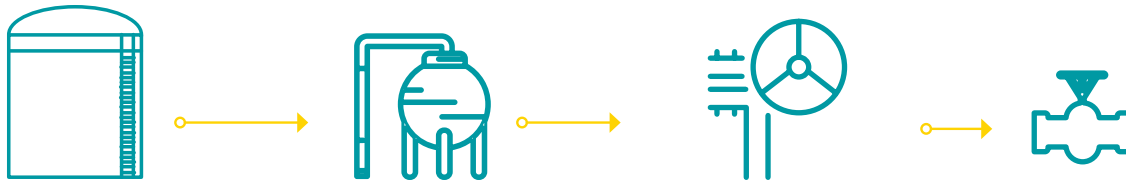
Natural gas originates from the degradation of organic matter, and although it has often been associated with oil fields, sometimes it is discovered in isolation.

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

lines 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 gas pipelines, which lead to industries or distribution pipelines of lower pressure to provide service to households and businesses.



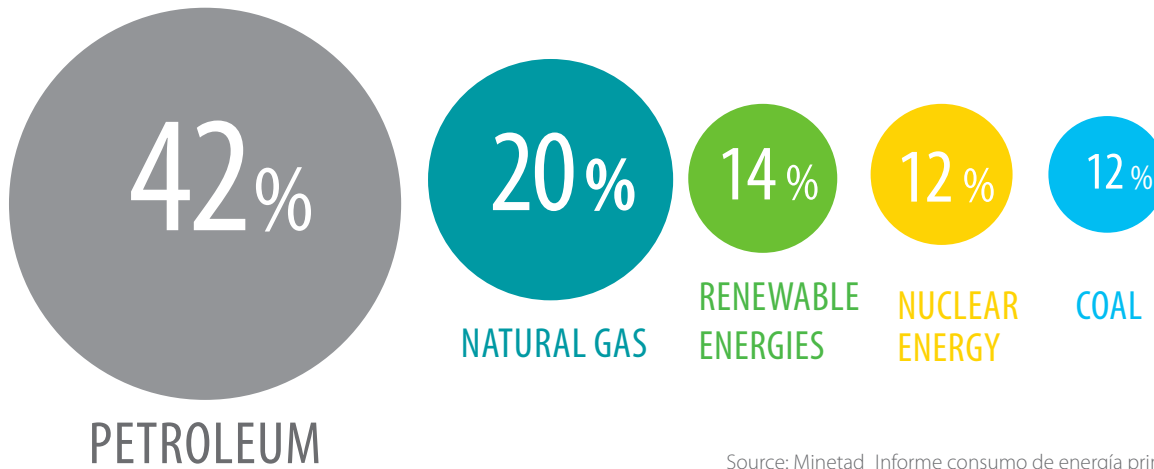
..... Redexis Gas' activities

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

Natural gas in Spain

Thanks to the governmental support and its advantages compared to other sources of energy, natural gas plays a relevant role within the energy mix in Spain, since it not only covers society's energy needs, but it guarantees a sustainable environment.

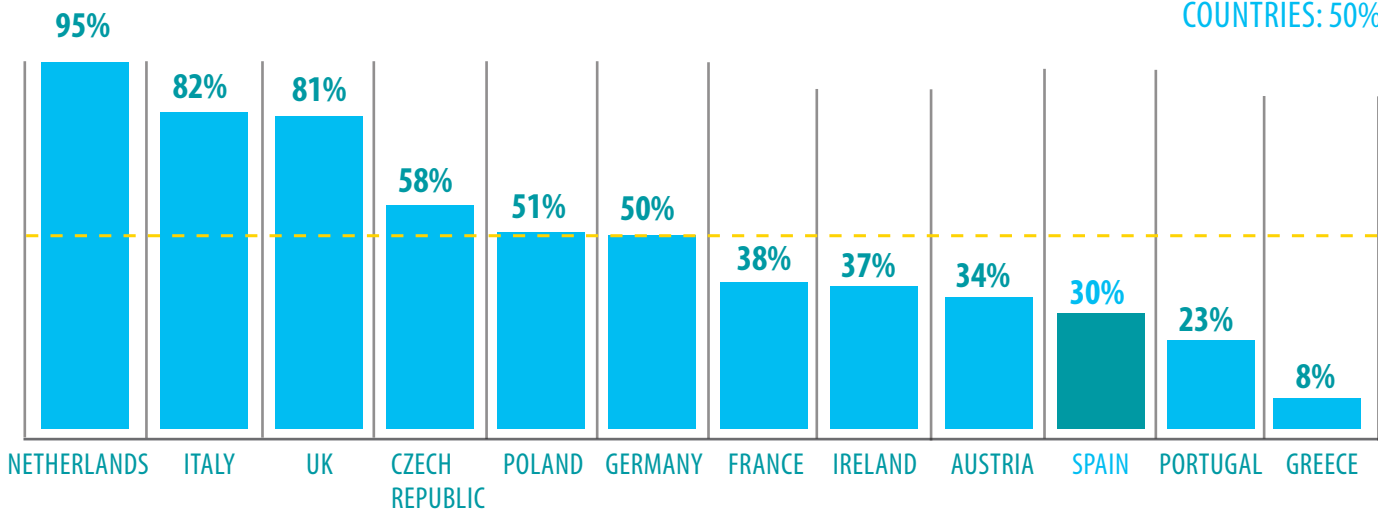
PRIMARY ENERGY CONSUMPTION IN SPAIN IN 2015



Source: Minetad_Informe consumo de energía primaria. Date: 6 June 2016

GAS PENETRATION IN THE EUROPEAN HOUSEHOLDS

ESTIMATED PENETRATION RATE IN THE EUROPEAN COUNTRIES: 50%



Source: Sedigás_Informe "Año gasista 2016 y Perspectivas 2017" (March 2017)

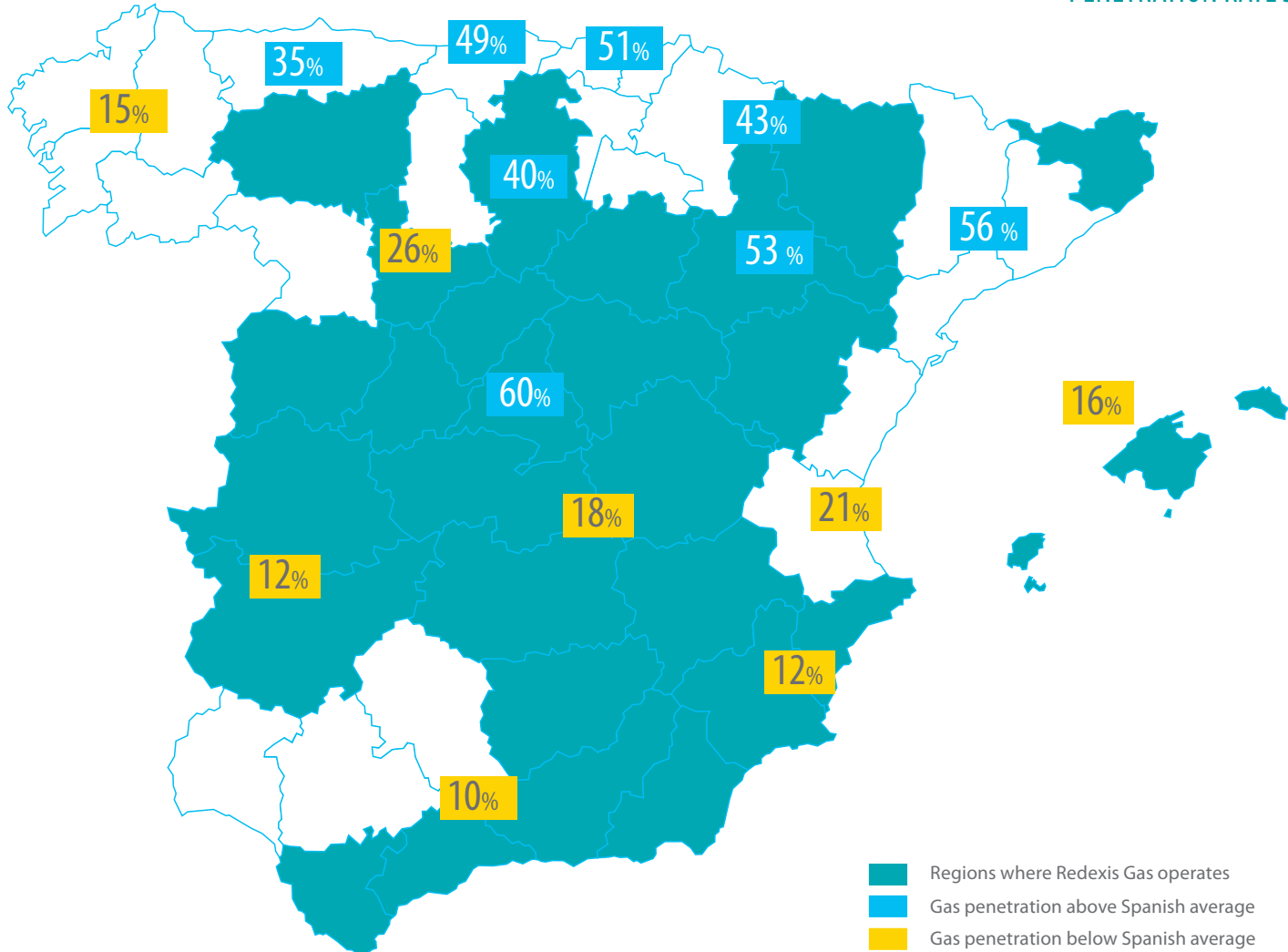
The natural gas sector continues to grow in Spain, although there is still ample room for manoeuvre to continue growing. The level of penetration of natural gas in Spanish

households is low, 30% compared to the average 50% reached in the European residential market. The gas sector continues to expand its network and, at present, according to Sedigas,

it reaches 80% of the population, although only 31% is supplied this type of energy, which shows the high potential for growth that the sector has in our country.

FOOTPRINT OF NATURAL GAS PENETRATION IN SPAIN

AVERAGE SPANISH
PENETRATION RATE 30%



PENETRATION OF NATURAL GAS IN SPAIN IN 2015



Total homes without natural gas in Spain

Total of connection points in Spain



TOTAL NUMBER OF HOMES IN SPAIN: 25.2 MILLION

Source: INE (total households_ 2011 Census); CNMC (Quarterly report on supervision of natural gas retail market in Spain _Group 3.1 and 3.2, Q3 2016).

Throughout these years, the gas business in Spain has recovered its dynamism thanks to the improvement in the country's economic situation and the achievement of regulatory stability. That has helped companies in the sector to appropriately address their long-term investment plans.

From the point of view of gas consumption, in the year 2016, the domestic gas demand increased 2.1%, reaching a value of 321 TWh. The main reasons for such performance have been the greater consumption of the household and commercial sector, the recovery in the last quarter of the year of combined cycles due to a lower hydraulic

and wind generation, and the continuous recovery of the industrial sector.

The conventional market, which includes the industrial sector (including the consumption of gas linked to co-generation) and the domestic and commercial sector, entailed the closing in 2016 of 81% of the total demand. The industrial market continued to be the main gas consumer, with 63.1% of the total consumed, followed by electric plants, with 18.6% of the domestic-commercial sector, SMEs with 16.6% and non-energy use, with 1.7%.

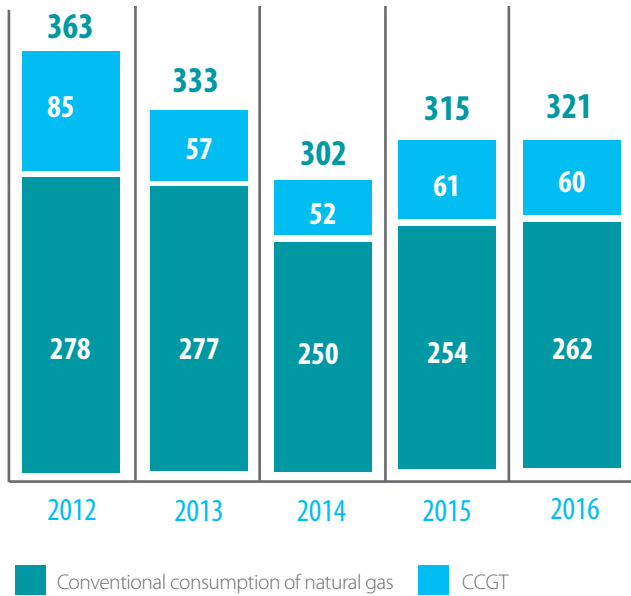
Although the gasification process in Spain started later than in the rest of the European

countries, the sector is working to expand natural gas and promote new uses.

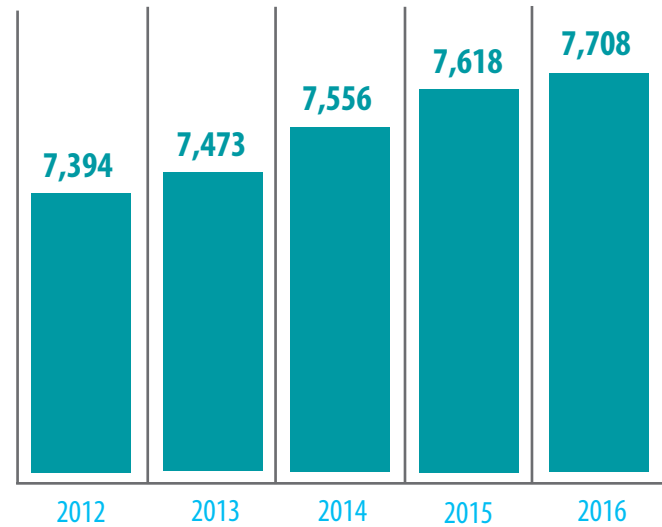
The country's natural gas infrastructure has increased considerably in recent years, despite the economic difficulties. In 2016, the gas sector invested EUR 686 million for the purpose of continuing to develop a broad gas network in the Spanish territory. With these resources, during this last year, more than 1,200 kilometres have been added to the network, exceeding the figure of 85,100 kilometres, reaching 1,734 municipalities with gas service (an increase of 2.1% versus 2016) and the supply points have been increased in more than 91 thousand supply points, reaching 7.7 million.

THIS IS THE RESULT OF THE INVESTMENT MADE BY THE COMPANIES TO RAISE AWARENESS ABOUT A CLEAN, ABUNDANT, SAFE AND HIGHLY COMPETITIVE ENERGY.

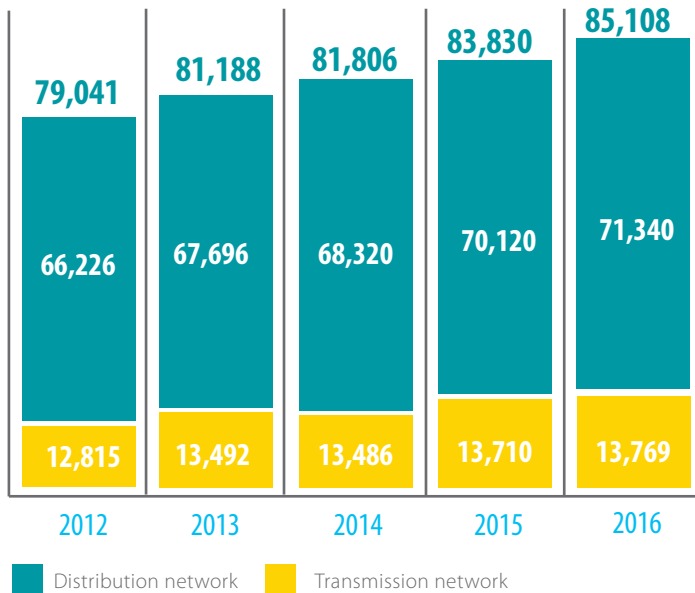
CONSUMPTION OF NATURAL GAS IN SPAIN (TWh)



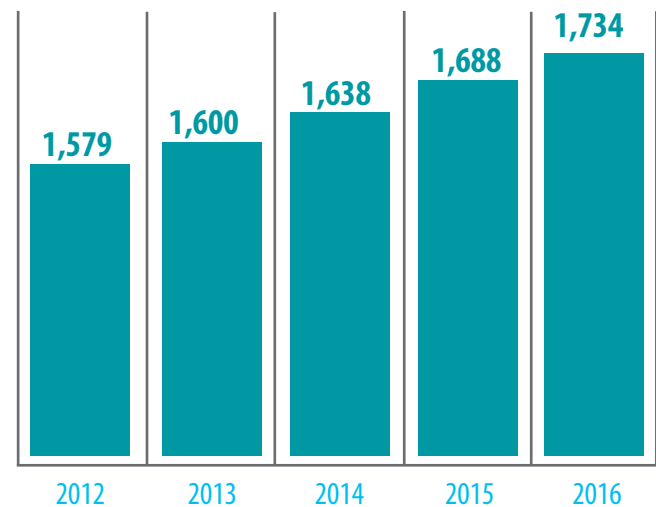
CONNECTION POINT IN SPAIN ('000)



NETWORK LENGTH IN SPAIN (KM)



MUNICIPALITIES SERVED IN SPAIN



Source: Sedigas, Annual Report 2016

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

In Spain, natural gas is prepared to face future growth with great capacity and efficiency, since the country is equipped

with modern and very flexible gas infrastructures in constant development, both with regard to their ability to

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

THANKS TO A BROAD NETWORK OF INFRASTRUCTURES, NATURAL GAS REACHES HOUSEHOLDS.

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.

The 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.

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

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

After the first two full years 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 competitiveness. That is so to such an extent that, without forgetting the significant impact on the system's revenues of some aspects that cannot be directly managed by the gas system (such as the consumption of combined cycles or environmental behaviour), but which can make the revenues figures vary in certain circumstances, 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, and for such reason it has not been necessary to raise the tolls.

In view of this new regulatory framework, Redexis Gas continues incentivising the continued expansion of its natural gas supply networks to new regions, and saturation of the ones where gas is already present so that, by focusing its activity mainly on the incorporation of consumptions to the

system, it contributes to maintain and promote the sector's financial stability.

In addition to all of the above, Redexis Gas, as most other groups that develop their activity in the natural gas sector, has recently increased its portfolio of supply points by acquiring piped LPG assets in transactions within the framework of the former owner companies' strategy to divest from this market. In the short and medium term, these assets may progressively convert to natural gas supply, thereby contributing to increase the natural gas penetration rate and the system's demand.

REMUNERATION FRAMEWORK FOR REGULATED ACTIVITIES



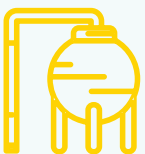
DISTRIBUTION

The remuneration regime for the natural gas distribution activity is based on a parametric formula linked to the growth in supply points and volume of energy distributed, so that it rewards efficiency in the incorporation of consumers. Additionally, the entry into new municipalities without gas service is incentivised by an additional remuneration intended to expand the natural gas networks in the national territory.



TRANSMISSION

The remuneration regime of the transmission activity is based on a remuneration model according to assets built, and includes a part to remunerate the investment, another one to remunerate the operation and maintenance, and a new item that varies according to global demand. Starting from the fact that they are capital-intensive activities, the new modifications have allowed a better adjustment of the costs to the sector's revenues.



LIQUID PETROLEUM GAS (LPG):

The piped LPG business for distributing companies is constrained by the regulation, insofar as the purchase price of the raw material from the wholesaler, as well as the sale price to the final consumer, are both regulated.



4

GROUP'S BUSINESS LINES





TPE 25

Redexis Gas is one of the leading companies in the development and operation of natural gas transmission and distribution infrastructures in Spain, and in the distribution and commercialisation of liquid petroleum gas (LPG) in such territory.

The Company operates under a stable and transparent regulatory framework, with

visibility in the long term, which incentivises the industry's growth in Spain.

Practically all of Redexis Gas' activity is regulated and oriented towards providing an optimal, safe, efficient and quality service to the end user, by designing, constructing, maintaining and improving its networks to guarantee the supply of

natural gas to residential and industrial customers, in exchange for the payment of the regulatory tolls.

Redexis Gas transports natural gas from the delivery points of Spain's core or primary network to the consumption points, households and industries, in the best conditions of safety and quality.

VALUE CHAIN OF THE GAS INDUSTRY

PRODUCER OR IMPORTER	It performs the exploration, research and exploitation of hydrocarbon fields.	NON-REGULATED ACTIVITY
REGASIFICATION	Owner of the regasification plants that transform the liquefied natural gas carried in ships and bring 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
RETAILER	Purchases natural gas from producers and then sells to consumers. It uses the national gas system to deliver gas at the consumption points.	NON-REGULATED ACTIVITY

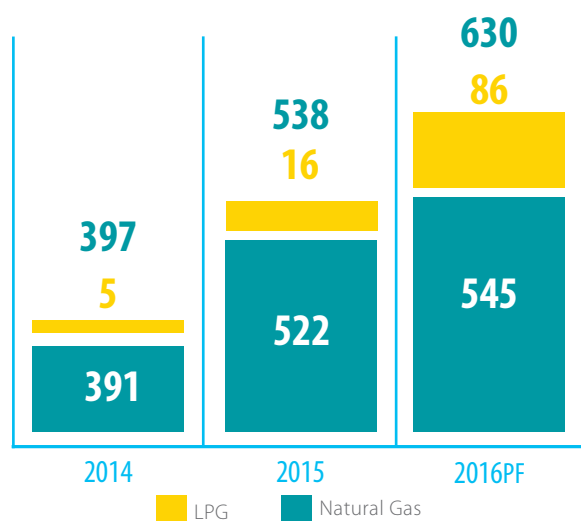
The Group operates primarily in Spanish regions that have a gas penetration rate below the Spanish average, which provides a great potential for growth.

At present, it develops its activity in ten

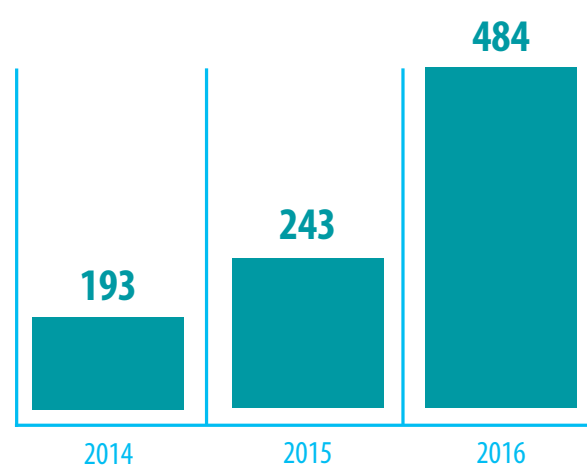
Autonomous Communities (Aragon, Andalusia, Balearic Islands, Castile-La Mancha, Castile-Leon, Catalonia, Community of Madrid, Community of Valencia, Extremadura and Murcia), where it has more than 630 thousand

points of supply, (544 thousand of natural gas and nearly 86 thousand of liquid petroleum gas) providing service to 484 municipalities in 27 provinces, through more than 9,400 km of constructed network.

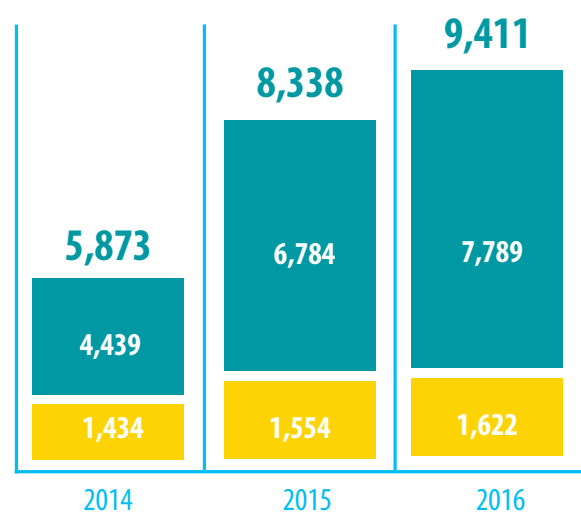
DISTRIBUTION CONNECTION POINTS¹ (THOUSAND)



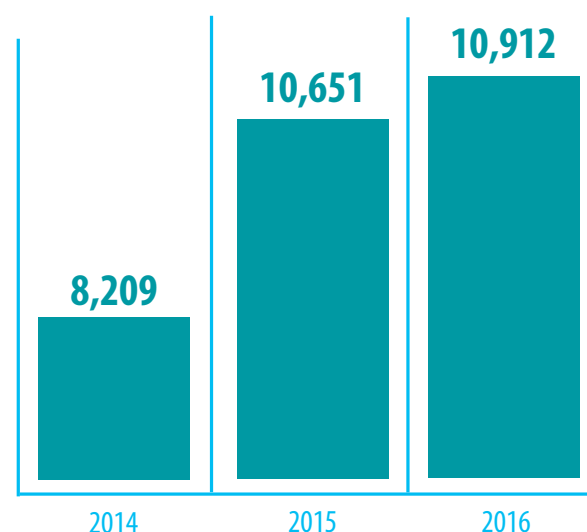
MUNICIPALITIES SERVED



NETWORK LENGTH (KM)



ENERGY DISTRIBUTED² (GWh)



■ Distribution network
■ Transmission network

Notes:
(1) In 2016, the supply points include the LPG points acquired from Cepsa in late 2016
(2) The distributed energy data does not include P>60bar

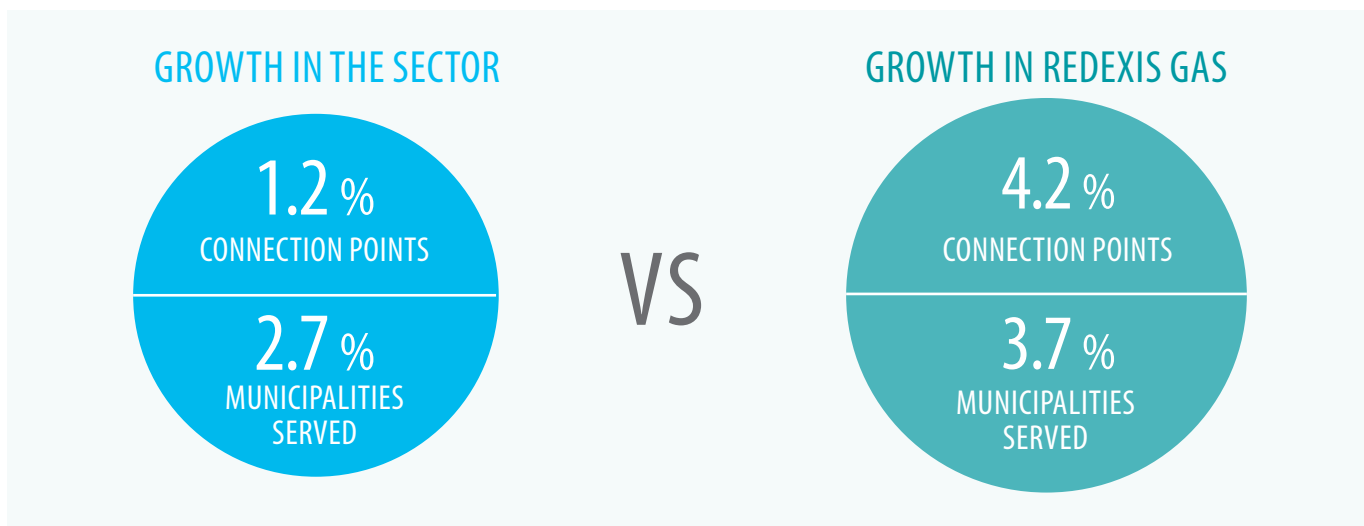
In 2016, 92 thousand connection points were added to the Company, out of which 70 thousand came from the acquisition of assets, and nearly 23 thousand from organic growth, a 23.1% increase in new activations compared to the previous year.

ANNUAL GROWTH OF CONNECTION POINTS (THOUSAND)



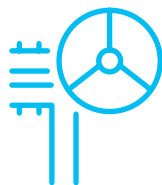
DURING THE YEAR 2016, REDEXIS GAS HAS TAKEN SERVICE TO 9 NEW MUNICIPALITIES, IT HAS INTEGRATED MORE THAN 65 THOUSAND LPG POINTS AND IT HAS ACQUIRED 4.7 THOUSAND LPG POINTS FROM CEPSA, ACCELERATING ITS GROWTH PLAN.

Redexis Gas has considerably exceeded the sector's growth. In the year 2016, the Company has grown organically four times faster than the sector in connection points.



Redexis Gas continues to show that it is an agile and flexible company that knows how to adapt to the changes in its environment and take advantage of the different opportunities in the sector.

Transmission



Redexis Gas constructs, operates and maintains its own transmission network, whereby it provides access to natural gas to

millions of people. Such network is formed by high-pressure gas pipelines, which transport natural gas from the primary

network to industrial centres, electric plants or distribution networks, according to the provisions of the law and regulations in force.



STAGES IN THE CONSTRUCTION OF A GAS PIPELINE

Surveying

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

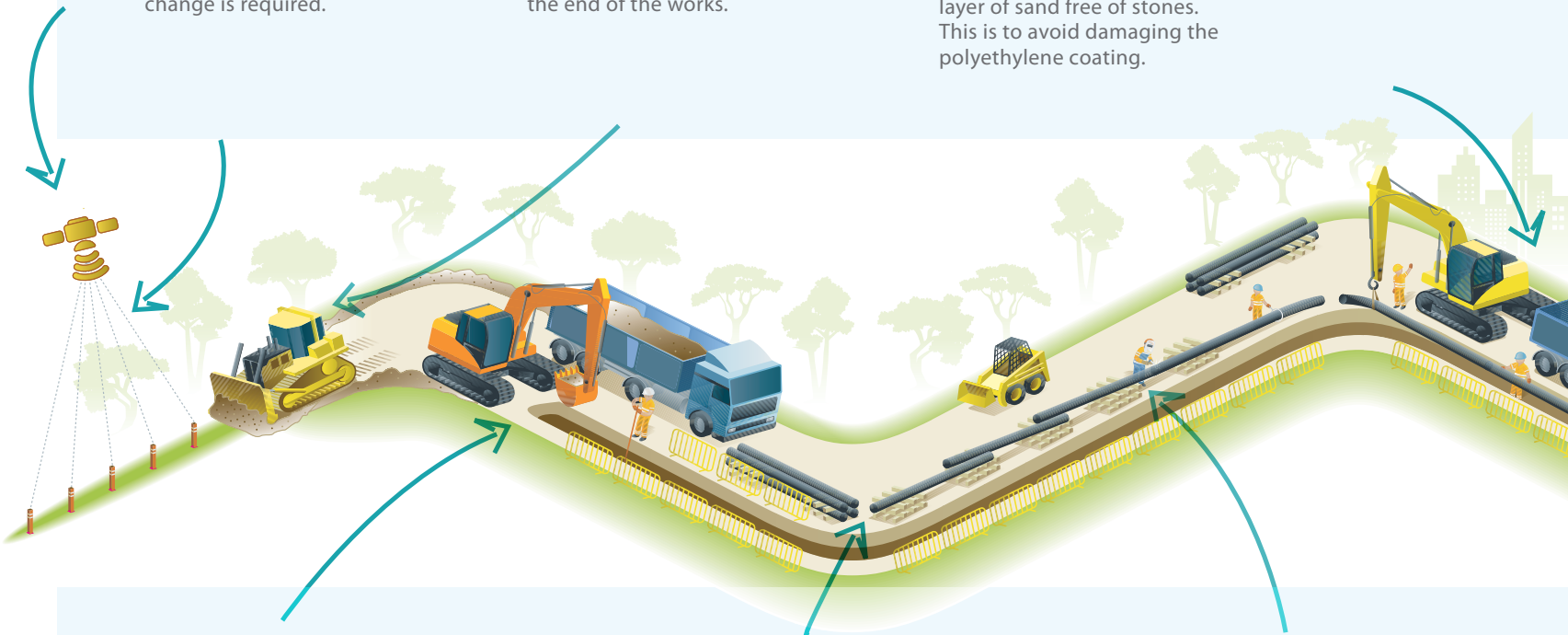
Using excavating machines or trenching machines, if the soil is very hard, a trench of one metre and a half wide and one meter and a half long is opened, where the pipe will be placed.

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.



GAS PIPELINES ARE THE LARGE CHANNELS THROUGH WHICH GAS TRAVELS TO THE LARGE CONSUMPTION CENTRES.

Burying

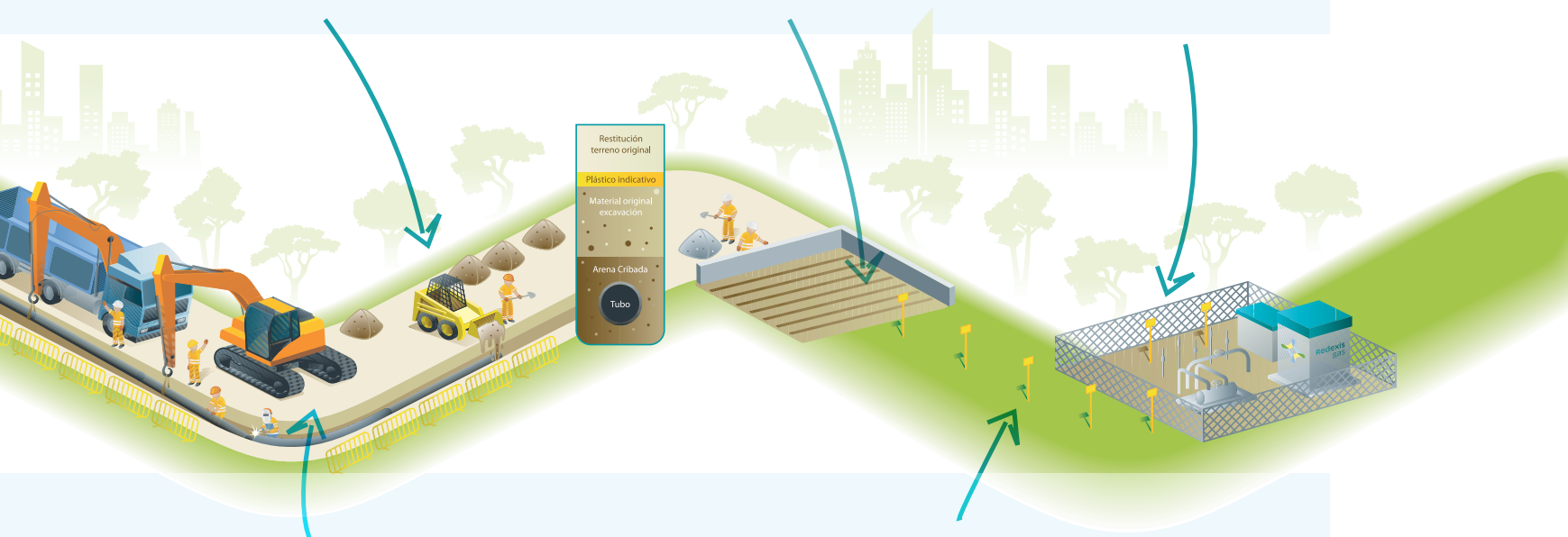
Next, the pipeline is buried using fine sand, free of stones, so that it is properly protected. Then, a strip of yellow plastic marker tape is placed on top of the pipe, which will warn of the existence of the gas pipeline if future excavations are performed, and lastly, the soil that was taken out during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

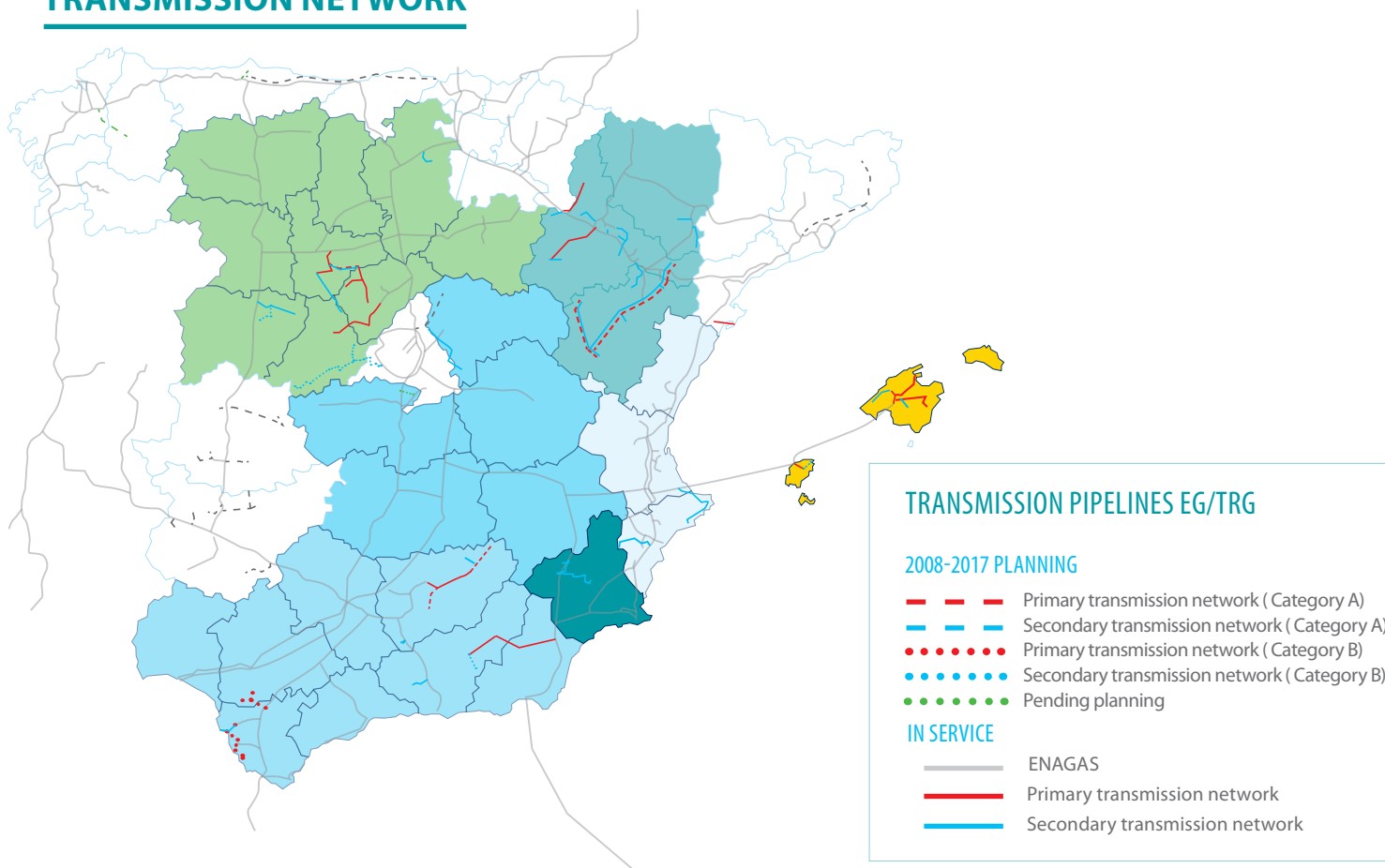
Once the longer sections have been lowered to the trench, they are joined through welding, forming a continuous pipeline throughout the route.

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.

By the end of 2016, Redexis Gas had a 1,622-kilometre network formed by 49 gas pipelines.

TRANSMISSION NETWORK



REGIONS	TRANSMISSION NETWORK		GAS PIPELINES	
	ASSETS (Km)	PROJECTS	ASSETS (Km)	PROJECTS
Andalusia	282	132	8	6
Aragon	559		15	
Balearic Islands	181	23	5	2
Castile and Leon	358		15	
Castile-La Mancha	73	10	2	1
Community of Valencia	103		3	
Murcia	65		1	
Total	1,622	166	49	9



The company has made steady progress in network roll out. During the year 2016, Redexis Gas obtained the commissioning certificate for two new gas pipelines that have added 68 kilometres to its network.

- In April, it obtained the certificate of commissioning of stage II of the "Cas Tresorer- Manacor-Felanitx" gas pipeline, 51 kilometres long, completing the project it started in late 2015. Such gas pipeline, which is located in the Balearic Islands, has a total length of 59 kilometres, and will provide access to natural gas to more

than 140 thousand inhabitants spread out in different municipalities.

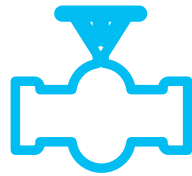
- In December, it obtained the certification for "Villanueva del Arzobispo – Castellar", 17 kilometres long, in the area of Jaen (Andalusia).

At the closing of 2016, Redexis Gas was in the final stage of processing the authorisation for three new gas pipelines that will add more than 63 kilometres to its networks. Likewise, the Company is considering bidding for the gas pipelines included in the planning and pending to be awarded.

At the beginning of 2017, the company initiated the roll-out of the "Yeles-Seseña" gas pipeline in Castile-La Mancha, 9 kilometres long, which will serve natural gas to more than 5,200 citizens and businesses in the area, and will promote the development of new industrial projects.

Additionally, in February 2017, Redexis Gas obtained the authorisation for the execution of installation (*autorización de ejecución de instalación* (AEI)) for the "Villacarrillo - Villanueva del Arzobispo" section in Andalusia, which entails the construction of 11 additional kilometres.

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, households or industries. The Company builds, operates and maintains the necessary facilities used to supply natural gas to different municipalities, and allows access to third parties (retailers and qualified customers) to its networks, in exchange for the payment of the regulatory tolls.

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. In those cases in which there is no gas pipeline coverage in the area, the distribution

networks also extend from the LNG plants located in the perimeters of the urban centres for the purposes of carrying out the supply from the same.

The main functions of this stage are:

- To efficiently and effectively manage its regulated distribution assets.
- 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.

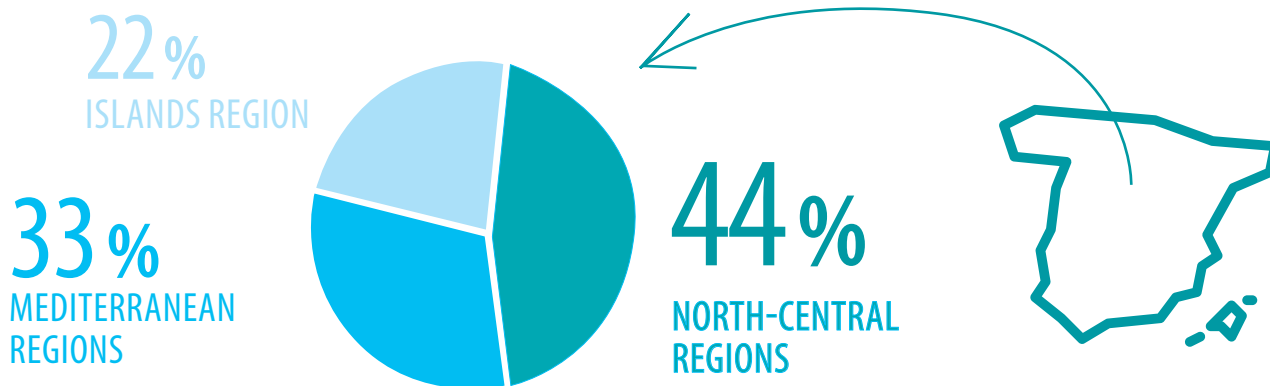
At the closing of the year 2016, Redexis Gas operates 544,601 natural gas supply points and has added 320 kilometres to its natural gas distribution network,

reaching 6,882 kilometres distributed in 219 municipalities of the Spanish territory.

Redexis Gas continues to extend its network to new municipalities in the regions in which it operates. To such effect, the Company has started operating in 9 new municipalities located throughout Andalusia, Balearic Islands, Castile-La Mancha and Castile and León. Additionally, at the closing of 2016, the Company had applied for 194 preliminary administrative authorisations.

Each one of the regions in which Redexis Gas operates has different characteristics regarding the climate, population density, industrial activity. For such reason, the Company organises the same in three groups: North-Centre, Mediterranean and Islands.

MUNICIPALITIES SERVED BY REGION IN 2016



In the first semester of 2015, the acquisition of Redexis Gas Murcia and other additional natural gas distribution assets from Naturgas is worth highlighting. As a result, the number of supply points, municipalities served and energy distributed, increased substantially.

With this acquisition, Redexis Gas started operating in Catalonia, Extremadura and has become the main operator in Murcia, a region in which it was not present. Additionally, the company increased its presence in the Community of Valencia,

Madrid and Castile and León. This transaction added to its portfolio 114 thousand natural gas supply points, 35 new municipalities and nearly 2,000 kilometres of network. Likewise, with such acquisition, Redexis Gas added 65 kilometres of the "Moratalla – Mula" gas

pipeline to its distribution network.

Additionally, it has signed several agreements to increase the extension of natural gas to transport vehicles; it has

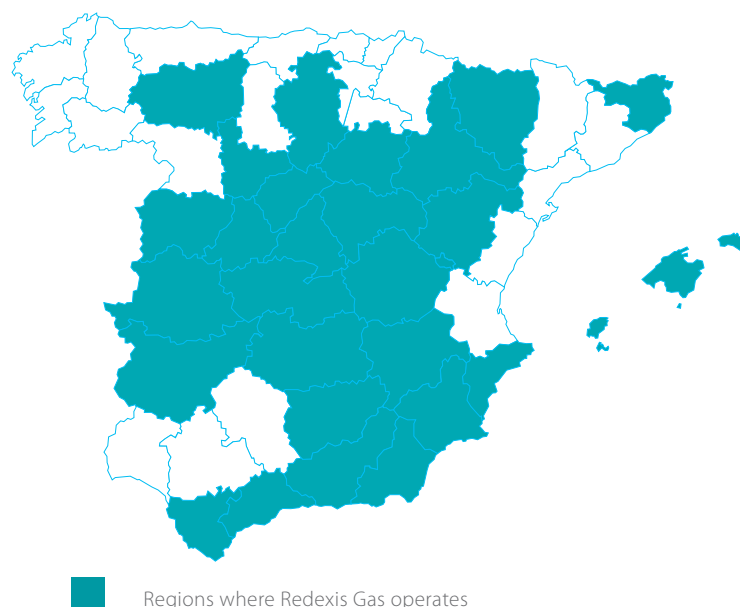
entered new industrial areas that were not gasified; and it has participated in several seminars and conferences.

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.

AREAS IN WHICH REDEXIS GAS PERFORMS ITS DISTRIBUTION ACTIVITY

REGIONS	CONNECTION POINTS	DISTRIBUTION NETWORK (KM)	MUNICIPALITIES SERVED
Andalusia	45,823	1,026	43
Aragon	222,803	1,829	66
Balearic Islands	102,599	1,005	14
Castile and Leon	34,482	590	15
Castile-La Mancha	6,391	124	11
Community of Valencia	13,374	279	38
Murcia	96,382	1,730	4
Extremadura	6,792	144	1
Madrid	394	16	1
Catalonia	15,561	140	26
Total	544,601	6,882	219



Likewise, Redexis Gas offers a series of regulated services, directly related to gas distribution, to the end users, ensuring at all times the safety, quality and excellence in the work performed.

1. It develops reception facilities in condominiums.
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 assistance in the case of emergencies in the network and reception facilities, ensuring the safety of the facilities.

Liquid Petroleum Gas



Within the framework of its piped gas distribution activity, Redexis Gas is also engaged in the distribution and commercialisation of piped liquid petroleum gas (piped LPG), a regulated activity, and subject to the regime provided for in Title IV of Act 34/1998, on the hydrocarbon sector.

LPG supply bears certain similarities with the supply of natural gas, and from a

regulatory perspective, it is a sector where the same administrations and regulatory entities (CNMC, MINETAD and Autonomous Communities) intervene, even if its remuneration scheme is different.

In those places where there is no natural gas supply yet, Redexis Gas offers an alternative and supplementary solution, by developing facilities for the distribution of

piped LPG and supply of such fuel to the end customer.

Just as other companies that develop their activity in the natural gas sector, Redexis Gas has recently increased its LPG customer portfolio. At present, the Company provides LPG service in 419 municipalities; it operates a 907-kilometre network and has nearly 86 thousand LPG points.

REGIONS	CONNECTION POINTS ¹	DISTRIBUTION NETWORK (KM)	MUNICIPALITIES SERVED
Andalusia	13,185	133	52
Aragon	18,553	191	183
Balearic Islands	12,839	32	37
Castile and Leon	9,311	122	18
Castile-La Mancha	6,243	76	31
Community of Valencia	5,901	78	62
Murcia	13,852	221	2
Extremadura	2,321	11	2
Madrid	3,318	33	4
Catalonia	339	9	28
Total	85,862	907	419

¹ The supply points the LPG points acquired from Cepsa in late 2016

In 2015, the Company acquired nearly 72 thousand LPG points from Repsol, out of which 9,500 were integrated in the fourth quarter of 2015 and the rest during 2016. Additionally, in May 2016, Redexis Gas acquired

an additional package of 3,500 points, which were integrated in its portfolio in the second semester of the year. Such 75 thousand points have added more than 700 kilometres to the Company's distribution network.

Additionally, in late 2016, Redexis Gas signed an agreement with Cepsa for the acquisition of 4,696 LPG points, which will be integrated in the year 2017.



Some of these gas customers are expected to convert to natural gas in upcoming years, taking into account certain technical, regulatory and profitability characteristics.

Redexis Gas continues to show that it is an agile and flexible organisation that can adapt to changes in its operating environment and to the potential opportunities in the sector.

**THESE ASSETS REPRESENT A
LEVER FOR GROWTH
AND EXPANSION OF THE NATURAL
GAS REGULATED BUSINESS IN
FUTURE YEARS.**

Other non-regulated activities

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

5

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 more than 9,400 km of transmission and distribution networks throughout Spain, with 49 regional transmission gas pipelines that provide service to 27 provinces.

The Company has a very young transmission and distribution network: more than 60% of the transmission

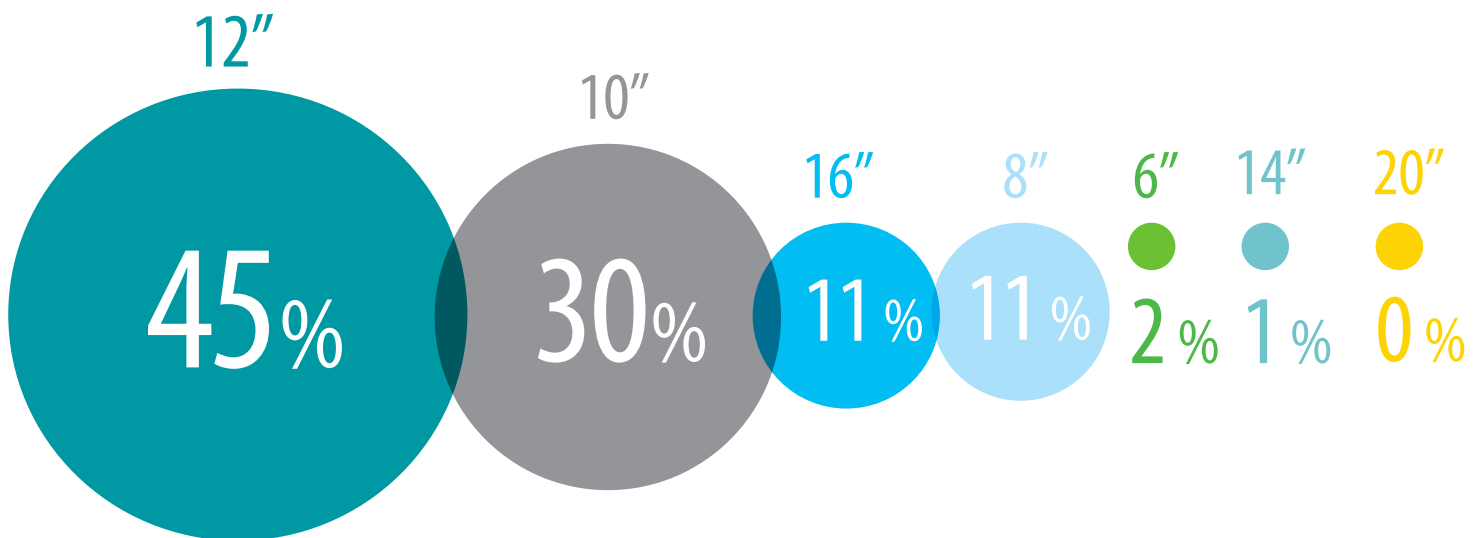
network has been built in recent years and a significant proportion of the distribution network has been constructed between 2005 and 2008. That means that the Company only requires a limited investment to maintain its asset base, while allowing the same to offer magnificent safety ratios.

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 a highly resistant polyethylene exterior coating, which together with other active elements to prevent corrosion, contributes to 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 in the replacement works and acquisitions.

TRANSMISSION NETWORK % KM OF PIPE BY DIAMETER (2016)

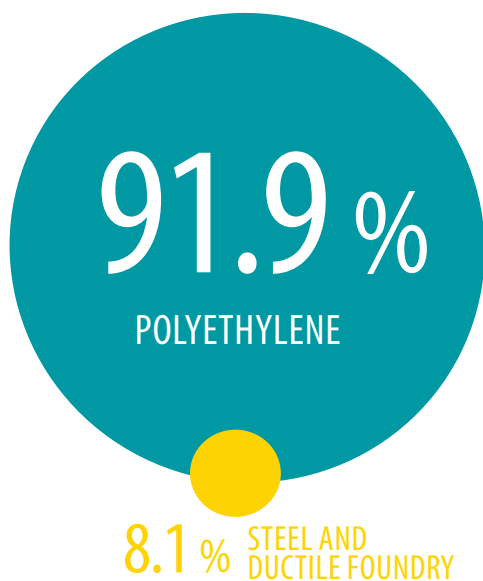


The distribution pipelines that connect the gas pipeline network with the consump-

tion areas are usually built with steel when the pressure in the network exceeds 10 bar

and with polyethylene for equivalent or lower operating pressures.

DISTRIBUTION NETWORK % KM OF PIPE MATERIAL (2016)



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.

The search for constructive procedures, particularly in distribution networks, made by Redexis Gas, is already paying off, and with the same investment, more meters of network are being built. Additionally, the systematic use of highly durable and resistant plastic materials extends the useful life of the networks, and thus Redexis Gas 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 conduct the Network Operation with an excellent level of safety.

(For more information, go to the section Safety)

NETWORK EXPANSION PROGRAMME

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.

6

ECONOMIC-
FINANCIAL
SITUATION





Economic-Financial situation

The main activities of Redexis Gas are the transmission and distribution of natural gas. It also distributes and commercialises LPG and offers services

related to natural gas distribution, such as inspections, meter rental, registration rights and cancellations of service.

The operating and economic-financial results of Redexis gas for the year 2016 were very positive, showing a significant growth in its activity.

OPERATING DATA	UNIT	2014	2015	2016
Natural Gas (P<4b)	#	391,047	522,066	544,348
Natural Gas (P>4b)	#	136	235	253
LPG ¹	#	5,350	15,691	85,862
Connection Points	#	396,533	537,992	630,463
Provinces served	#	20	26	27
Municipalities served	#	193	243	484
Network length	Km	5,873	8,338	9,411
Distribution network length	Km	4,439	6,784	7,789
Transmission network length	Km	1,434	1,554	1,622
Energy distributed²	GWh	8,209	10,651	10,912
Gas pipelines	#	46	48	49

Notes:

¹ In 2016, the LPG connection points included the points acquired from Cepsa in late 2016

² The distributed energy data does not include P>60bar

FINANCIAL DATA	2014	2015	2016
Data in €million unless otherwise stated			
Revenue	158.3	187.8	211.7
Distribution - regulated	78.3	92.3	98.0
Other regulated distribution income	15.4	21.5	25.2
Transmission - regulated	51.2	58.6	61.5
LPG regulated business	2.7	2.8	12.9
Other operating income	4.0	3.2	3.9
Self-constructed non-current assets	6.7	9.4	10.2
EBITDA	115.9	136.0	157.1
EBITDA Margin	73.2%	72.4%	74.2%
Capex	91.2	386.6	221.1

REVENUE

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

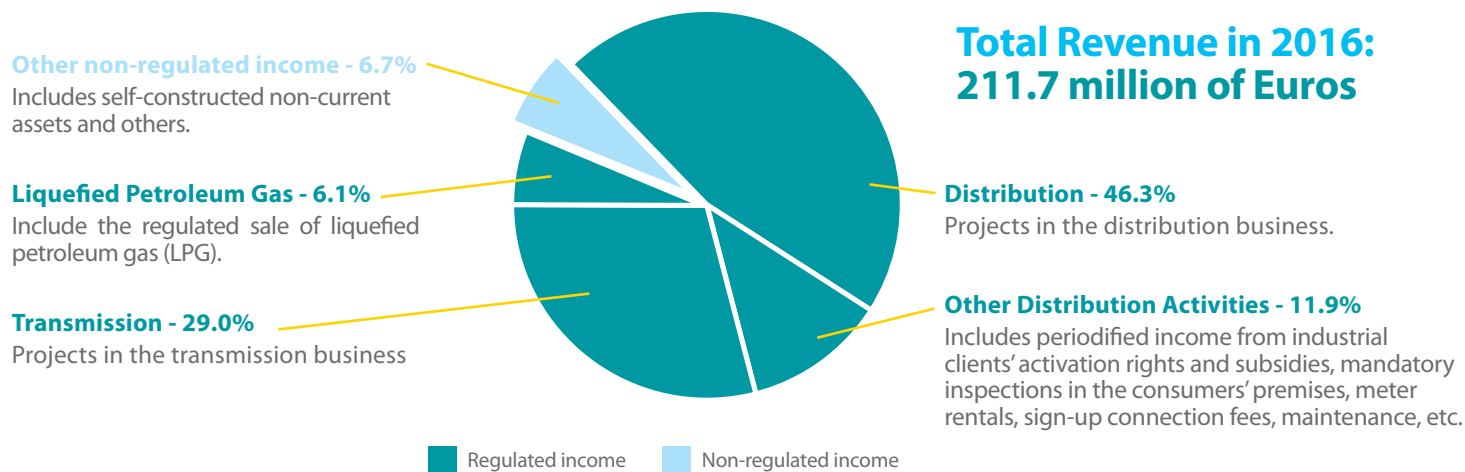
and Competition (CNMC), allowing the Group to recover the investment made, obtain a reasonable return and promote efficient management.

At the closing of 2016, the Company's revenues had increased 12.7% compared to the same period in 2015, reaching

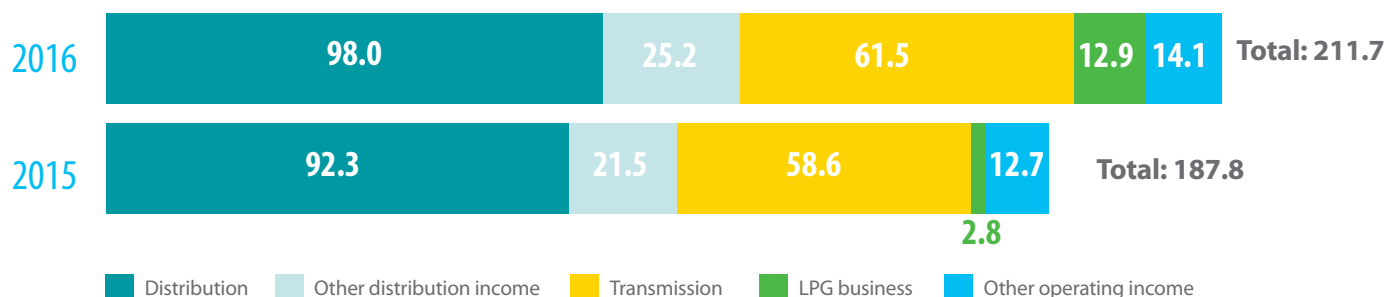
EUR 211.7 million, mainly as a result of its regulated activities. In 2016, over 93% of the Group's revenues were generated by its regulated activities (increase in connection points in new and existing municipalities, commissioning of 3 new gas pipelines) and the rest by its non-regulated activities.

TOTAL REVENUE IN 2016

MORE THAN 93% OF THE REVENUE ARE DERIVED FROM REGULATED BUSINESS UNDERPINNED BY STATUTORILY DEFINED REMUNERATION MECHANISM



REVENUE EVOLUTION (€M)



At the closing of 2016, revenue from distribution had increased 6.3%, reaching EUR 98.0 euros, mainly due

to the increase of supply points in new and existing municipalities, and the acquisition of Redexis Gas Murcia

and other distribution assets from Naturgas in 2015.

REVENUE FROM DISTRIBUTION ARE THE GREATEST CONTRIBUTION, REPRESENTING 46% OF THE TOTAL REVENUES IN 2016.

The growth of other distribution income was 17.1%, reaching EUR 25.2 million, as a result of the acquisition of Redexis Gas Murcia and other natural gas distribution assets and the increase in the number of activations.

Revenue from transmission increased 4.9%, reaching EUR 61.5 million, due to

the commissioning in 2015 of the "Son Reus-Inca-Alcudia" gas pipeline in the Balearic Islands and the incorporation of the "Moratalla-Mula" gas pipeline in Murcia, with the purchase of Redexis Gas Murcia, S.A., and the commissioning in 2016 of two new gas pipelines in "Cas Tresorer-Manacor-Felanitx" in the Balearic Islands and in

"Villanueva del Arzobispo-Castellar" in Andalusia.

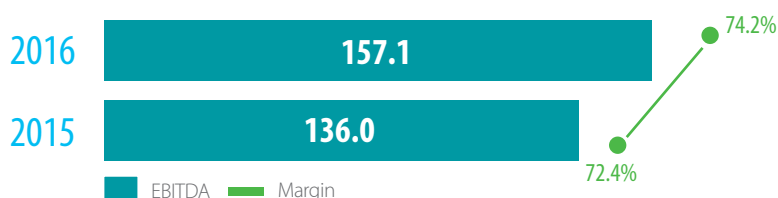
Revenue from LPG regulated business increased significantly, reaching EUR 12.9 million, due to the progressive incorporation of LPG points acquired from Repsol Butano, S.A. and the temperatures registered.



EBITDA

The EBITDA for the year 2016 increased by 15.6% reaching EUR 157.1 million, with an EBITDA margin of 74.2% compared to 72.4% of the previous year, thanks to the revenue performance and the continued improvement of efficiency.

EBITDA (€M) / MARGIN (%)



CAPEX

The investments of Redexis Gas reached EUR 221.1 million in the year 2016.

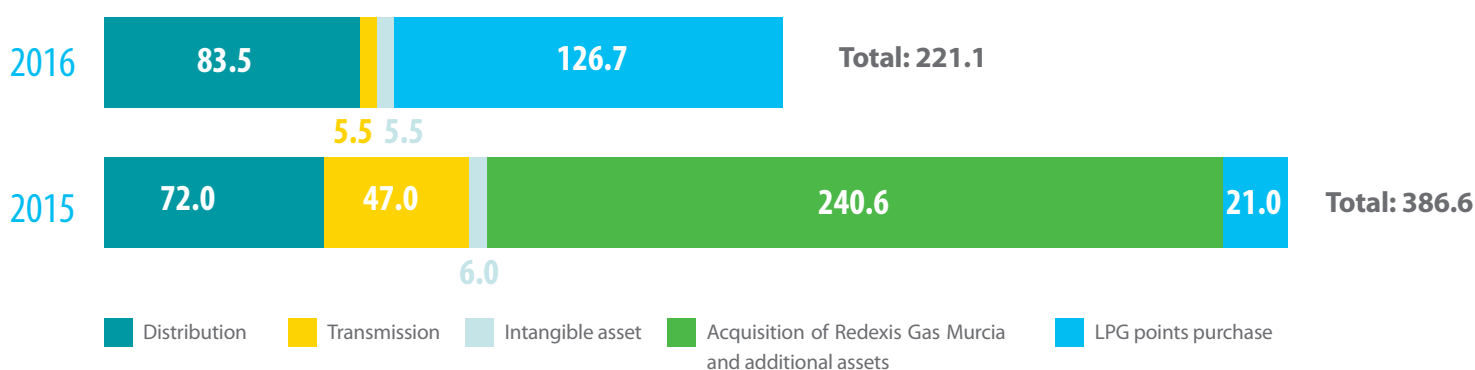
- 40% related to investments made in its organic growth, both in the transmission business, with the incorporation of 68 kilometres to its network, as a result of the commissioning of two new gas pipelines ("Cas Tresorer-Manacor-Felanitx" in

the Balearic Islands and "Villanueva del Arzobispo-Castellar" in Andalusia) and in the distribution business, with the addition of more than 22,500 new natural gas and LPG supply points, and taking gas to 9 new municipalities.

- 57% were investments made to acquire the 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)



THE COMPANY HAS BECOME THE MAIN INVESTOR IN GAS INFRASTRUCTURE IN SPAIN, BENEFITING FROM THE OPERATING SYNERGIES OF THE RECENT ACQUISITIONS.

FINANCIAL STRUCTURE

Redexis Gas' financial structure is characterised by its flexibility and its long-term maturity, supporting the strategy of creating value for the Company.

Throughout recent years, the Company has demonstrated its ability to access the capital markets through:

- Two issuances of notes in 2014 and 2015 for an amount of EUR 650 million and EUR 250 million, with maturity in 2021 and 2027, respectively.

- The funding of a bank loan for an amount of EUR 300 million and maturity in 2019, out of which EUR 30 million have been drawn down in 2016.

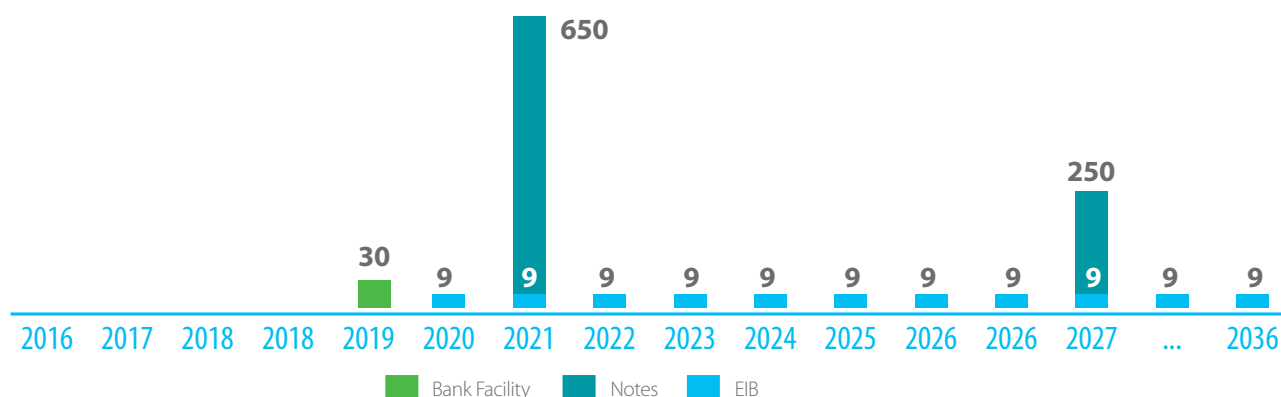
Additionally, Redexis Gas is using the aid received through the "Juncker Plan" provided by the European Investment Bank (EIB) for the development of gas infrastructures. Specifically, the entity granted the Company, in late 2015, a loan for an amount of EUR 160 million, within the framework of the EFSI (European Fund for Strategic Investments), whose funds were drawn down in July 2016 to

roll out transmission and distribution networks throughout the municipalities in which the Company operates.

The Company's financial soundness, as well as its credibility, continues to reflect on the support and valuation received from the market. In late 2016, the rating agency Standard & Poor's made a positive assessment of the growth and the investments made by Redexis Gas, issuing a credit risk profile rating of "Excellent", the best credit rating issued, and establishing at 'BBB' the Company's long term credit rating.

DEBT STRUCTURE (€m)

TRANCHE	TYPE	AMOUNT	MATURITY
EIB	Fixed/Floating	€160 million	2036
Bonds	Fixed	€250 million	2027
		€650 million	2021
Revolving Capex Facility	Floating	€250 million	2019
Revolving Credit Facility	Floating	€50 million	2019





At present, the credit rating issued by S&P and Fitch for Redexis Gas is investment grade.

RATING AGENCY	CORPORATE	SENIOR UNSECURED BONDS	OUTLOOK	LAST REPORT DATE
S&P	BBB	BBB	Stable	9 November 2016
Fitch	BBB-	BBB	Stable	30 December 2016

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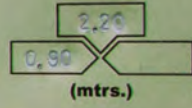
THE GROUP'S COMMITMENT



Redexis
gas

GASODUCTO: DIAMETRO: "
TRAMO: PRESION: bar.
INCIDENCIAS, LLAMAR:

INDICANDO: P.K.:
Nº.:
(mtrs.)



The Group's commitment

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 a Collective Bargaining Agreement, as the only legal framework that provides stability, predictability and sustainability.
- It has defined a new Training Plan.
- It has defined an Equality and Reconciliation Plan that strengthens equality and improves and provides flexibility to reconciliation of work and private life by employees.
- It has subscribed a single Pensions Plan for employees on advantageous terms.
- It has approved a new Purchasing Policy to ensure identical and transparent processes in the entire Group, promoting competition and the search for added value in purchasing decisions.
- It has standardised a series of technological standards in the transmission and distribution activity, which has allowed optimisation in the construction of its infrastructures.
- It has updated its Integrated Management System, and has created a Prevention System for Redexis Gas. Such modification of the System has been audited, maintaining the ISO 14.001:2.004 Standard certification and the OHSAS 18.001:2007 certification.
- It has been subject to a Healthy Company certification audit process, achieving the certificate in late 2016.
- It has developed sustainable actions in the municipalities where it operates, involving the citizens through informational and interactive activities promoting sustainable and environmentally friendly behaviours.
- It actively contributes to the development of local communities by launching energetic efficiency and natural gas promotion campaigns.
- It has supported cultural and sporting activities.
- 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.

THROUGH ITS ACTIVITY, REDEXIS GAS CONTRIBUTES TO PROMOTE A MORE SUSTAINABLE LIFESTYLE. THE FACILITIES AND SERVICES IT OFFERS CONTRIBUTE TO IMPROVE COMPETITIVENESS AND THE 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

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 its users, 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 such 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.

STAKEHOLDERS	COMMUNICATION CHANNELS
SHAREHOLDERS AND INVESTORS	<ul style="list-style-type: none"> • Personal contact with shareholders, investors, analysts, rating agencies, financial institutions • Reports and notes on the Company's activity • Investor's mailbox: investor.relations@redexisgas.es
USERS	<ul style="list-style-type: none"> • Corporate website (www.redexisgas.es) • Offices
EMPLOYEES	<ul style="list-style-type: none"> • Employee portal (Intranet) • Whistleblowing line • Mailbox for the Prevention of Occupational and Environmental Risks
SUPPLIERS	<ul style="list-style-type: none"> • Suppliers' portal
PUBLIC AUTHORITIES AND REGULATING ENTITIES	<ul style="list-style-type: none"> • Consultations/ formalities with different national, regional and local regulatory bodies
LOCAL COMMUNITIES	<ul style="list-style-type: none"> • Corporate website (www.redexisgas.es) • Presence in business, industry, educational and cultural organisations • Participation in conferences, forums and seminars
MEDIA	<ul style="list-style-type: none"> • Press releases • Debriefings (interviews) • Institutional meetings • Corporate and institutional events • Mailbox in corporate website

Redexis Gas works to offer a quality service in a socially and environmentally sustainable environment.

1. SHAREHOLDERS AND INVESTORS

CREATING VALUE FOR THE SHAREHOLDER IS A PRIORITY FOR REDEXIS GAS.

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.

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), which is updated on a recurring basis, favouring the immediacy of anything published and the possibility of subsequent access. Through such channel, information that

may be of interest is monitored, making possible immediate and easy access to information. 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.

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.

RATING AGENCY	CORPORATE	SENIOR UNSECURED BONDS	OUTLOOK	LAST REPORT DATE
S&P	BBB	BBB	Stable	9 November 2016
Fitch	BBB-	BBB	Stable	30 December 2016

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.

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.

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.

2. USERS

REDEXIS GAS TRIES TO SATISFY THE CUSTOMER'S NEEDS AND TRANSFORM THEM INTO A PROFITABLE BUSINESS OPPORTUNITY.

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 that

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 2016.

a) Household segment

THE INCORPORATION OF CLEANER ENERGIES, SUCH AS NATURAL GAS, IS ESSENTIAL FOR ENERGETIC, ECONOMIC AND ENVIRONMENTAL SUSTAINABILITY.

Throughout the year 2016, nearly 33 thousand new supply contracts have been signed, which entails an increase exceeding

32% compared to the year 2015. 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 ITS COLLABORATORS



Likewise, during 2016, the Company has increased its presence in natural gas

promotion actions, which has allowed a greater spread of this type of energy

and therefore a substantial increase in supply points.

b) Services and Industrial Segment

REDUCING ENERGETIC COSTS, LOWERING EMISSIONS AND INCREASING PRODUCTION CAPACITY ARE THE MAIN GOALS THAT LEAD USERS AND COMPANIES TO IMPROVE ENERGETIC EFFICIENCY.

At the closing of 2016, more than 300 new contracts in these segments have placed Redexis Gas in a leadership situation regarding the attraction of large consumers of natural gas.

During this year, significant framework agreements have been entered into with public health bodies, to provide better energy to public buildings that provide service to citizens, and

agreements have been implemented with the main hotel chains of the country to make natural gas a reality at their facilities.

REDEXIS GAS STARTS TO SUPPLY NATURAL GAS IN THE HOSPITAL OF HELLÍN

Redexis Gas has started to supply natural gas to the hospital of Hellín, managed by the Health Service of Castile-La Mancha (SESCAM), the hospital of reference for nearly 60,000 persons, which has more than 100 beds and a team of 400 health-care workers.

The Health Service of Castile-La Mancha (SESCAM) agreed the supply with Redexis Gas for the purpose of obtaining the environmental and economic advantages that this source of energy offers, mainly HAVC and hot water.

THE COMPANY BEGINS THE SUPPLY OF NATURAL GAS TO THE AERONAUTIC INDUSTRY OF THE BAY OF CÁDIZ



Redexis Gas has started to supply natural gas to the factories that the Airbus Group has in El Puerto de Santa María and Puerto Real.

The construction and commissioning of more than 4.5 kilometres of networks to provide access to both facilities has entailed the creation of 35 direct and indirect jobs.

SIGNIFICANT ADVANCES IN NATURAL GAS FOR VEHICLES IN THE BALEARIC ISLANDS

The expansion of natural gas for vehicles in Mallorca is supported by the strong infrastructure that Redexis Gas is developing in the Island, where it has 1,000 kilometres of transmission and distribution networks, providing service to the natural gas station of Cas Tresorer, located in Camí Fondo of Palma de Mallorca, where private cars, taxis and buses of the Municipal Transport Company are charged.

Likewise, and during the year 2016, the cleaning and waste collection fleets of the municipalities of Palma de Mallorca and Ibiza adopted natural gas as fuel for their vehicles, building its own natural gas service stations ("gasineras") in both municipalities.

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 make it easier for clients to use natural gas, Redexis Gas has signed collaboration agreements with different financial entities (CaixaBank, Sabadell and Ibercaja) so that households and small and medium companies who wish to install the equipment required to access natural gas may obtain credit facilities. 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.

Likewise, the Company has implemented a new collection solution service for sales over the telephone, which allows the customization of payment orders, ensuring the maximum safety.

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 Commitment of Redexis Gas to safety)

- Website: www.redexisgas.es

NATURAL GAS IS AN ENERGY THAT GENERATES SAVINGS AND COMFORT FOR THE FAMILIES AND PROVIDES COMPETITIVENESS TO BUSINESSES AND INDUSTRIES.

3.EMPLOYEES

BEHIND THE GROWTH OF REDEXIS GAS, THERE IS A TEAM, WHICH IS AWARE THAT THE GROUP'S EVOLUTION MUST CORRELATE WITH THE SOCIAL AND SUSTAINABLE PROGRESS OF THE ENVIRONMENT.



300
EMPLOYEES

27%
FEMALE
EMPLOYEES

99%
OF THE EMPLOYEES HAVE
A PERMANENT CONTRACT

The success and growth of Redexis Gas are mainly driven by the work performed by its human team, together with good communication and a solid culture. The professionals who are 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's ultimate goal is to build an action framework based on the idea that employees are its main asset, and

that retaining the same requires the implementation of programs to attract the same, provide training, improve the working environment, stimulate their motivation and promote their professional career.



At the closing of 2016, the Company had 300 employees distributed throughout Spain, capable of adapting to the Company's daily dynamism.

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.

3.1. CULTURE

IT IS IMPORTANT TO ESTABLISH PERFORMANCE STANDARDS AND OPERATING GOALS TO GET THE EMPLOYEES INVOLVED.

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 materialise in operating criteria.

VALUES

INSPIRE

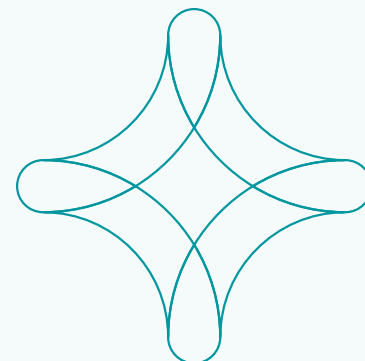
CARE

OVERCOME

LIVE

ADVANCE

"We are guided by our values"



3.2. PEOPLE MANAGEMENT

For Redexis Gas it is essential to attract and select people who share its same values and are committed to its mission, its vision and its values.

The Company has great professionals, characterised for being ethical, dynamic, flexible persons, eager to grow and learn, and with a permanent concern for learning and excelling, thanks to

the effort it makes to create, maintain and improve a suitable environment to attract, manage, motivate, develop and retain the best professionals.

From the HR Department, the Company develops different tools that facilitate mobility and internal promotion, a result-oriented culture is consolidated, and remuneration policies are implemented,

training programmes are developed, and an organisational structure model is designed based on responsibilities and competencies.

Additionally, provided that it is feasible, the commitment to, and promotion of, indefinite hiring is established as an additional element to attract and retain talent in Redexis Gas.

3.2.1. ATTRACTING TALENT

The success of Redexis Gas is largely due to its human team. Therefore, it makes an effort to attract the best professionals in the sector to join its project.

The Company seeks persons of the highest calibre, flexible and dynamic. The selection process is the most important point to detect models of behaviour suited to Redexis Gas. Investing time and resources guarantees an organisation where the difference between what the person is, and what the person does, is minimum. The team selecting personnel receives many applications every year, from different scopes of specialisation and with an interesting background. Its mission is to find professionals that adjust to its profile.

The Company classifies the Selection of personnel from two points of view:

a) Internal selection

Redexis Gas considers internal promotion as the first option before starting an external selection process. Before looking for candidates in the

market, it publishes the vacancies in the corporate intranet.

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.

b) 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.



3.2.2. TRAINING AND DEVELOPMENT

INVESTING IN HUMAN CAPITAL IS NECESSARY TO BE ABLE TO DEVELOP PROFESSIONAL SKILLS AND ATTITUDES THAT CONTRIBUTE TO BOOST RESULTS

Employees are the key to the productivity of Redexis Gas. The complexity of the gas sector requires qualified and expert personnel, with talent and abilities that must be maintained and improved.

A way of increasing productivity is the improvement of the employees' knowledge and training.

Redexis Gas endeavours to create an environment of commitment, trust

and motivation, for the purpose of making its employees proud and make them feel a part of the Company. For such purpose, the Company develops training and development programmes to adequately respond both to its team's goals and to the challenges imposed every day by the market.

Since the year 2014, there is an internship program "Promoting talent with energy" which allows an average 25 young people, just graduated,

to have their first contact with the business work and acquire knowledge to become great professionals in the future and generate an "in-house reservoir" for the Company.

During the year 2016, Redexis Gas has defined a new Training Plan, thanks to the analysis that has allowed detecting training needs in each one of the areas of the Company, and aligning them with its strategy and goals. The focus of the training has been:

ONLINE TRAINING

SPECIALISED TRAINING IN NATURAL GAS FOR VEHICLES

TECHNICAL TRAINING IN LPC

TRAINING AS SPOKESPERSONS

TRAINING IN FUNDAMENTALS OF LEAN IT

CHIEF AUDITOR IRCA- OHSAS 18001-(Health and Safety)

CHIEF AUDITOR IRCA- ISO 14001-(Environment)

ANALYSIS OF ACCIDENTS

Additionally, a project has been carried out in 2016 to describe work positions, and a classification map has been prepared, for the purpose of defining an organisational

structure that allows the growth and development of its professionals. During the implementation of such project, work sessions were conducted in all the centres

of Redexis Gas, with the participation of all its employees, in order to have a true view of each one of the positions and ensuring their correct definition.

THE ATTRACTION, TRAINING AND DEVELOPMENT OF PEOPLE, THE MANAGEMENT OF KNOWLEDGE, THE IDENTIFICATION AND DEVELOPMENT OF TALENT, ARE ALL PART OF THE SAME PROCESS.

3.2.3. INTERNAL COMMUNICATION

INTERNAL COMMUNICATION, TOGETHER WITH THE HUMAN TEAM AND CULTURE, CONTRIBUTE TO SUCCESS IN BUSINESS.

Redexis Gas grows with teamwork and by sharing information and knowledge beyond the frontiers and business lines, promoting a working environment that supports fluid and open communication. Transparency, access to information, and constant dialogue are the key to efficiently managing internal communication within the Company.

To provide the information and stimulate dialogue, Redexis Gas has an internal communication portal committed to sharing communications with all areas in the Company and collaborative spaces allowing persons to connect and facilitating dialogue. Through the same, employees are informed on a daily basis about the Company's achievements, and as a personal management tool.

For the purpose of improving communication and assistance to employees, in 2016, the company made improvements in the employee portal, generating direct assistance with greater quality and shorter response times, as well as internal communications to ensure the correct interpretation and understanding of certain aspects.

3.3. 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.

At present, the Company has a single Collective Bargaining Agreement for Redexis Gas, S.A., which gathers the employment, economic, operating, and social benefit terms and conditions for employees, providing stability, predictability and sustainability to the employees.

Additionally, negotiations were initiated this year to sign the Equality and Reconciliation Plan, which will strengthen the Company's image and principles of Equality, and which will improve and provide flexibility to employees, adapting the current trends in the market. Its implementation will take place in 2017.

3.4. PEOPLE'S PERFORMANCE

REWARDING PERFORMANCE HELPS TO INCREASE EMPLOYEES' SATISFACTION AND IMPROVE BUSINESS PRODUCTIVITY.

For the purpose of strengthening its talent retention policy, in 2016, Redexis Gas commenced a remuneration Benchmarking

process in order to analyse the internal equality and external competitiveness of the salary of its professionals.



Additionally, in 2016 the Company defined a flexible remuneration model that will be implemented in 2017 and whose main advantages are:

- Allowing the company to increase the salary available for the employee, without increasing the salary bill.
- Increasing the role of employees, by allowing the same to set up their remuneration according to their personal circumstances.
- Contributing to the positioning of the organisation as a “benchmark employer” in the market, with the additional advantages that this entails in the attraction of the best professionals.
- Contributing to cultural change towards modernity
- Boosting the responsibility and commitment of the people in the company.

3.5. 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 2016, Redexis Gas has conducted a process to modify

its Integrated Management System, to take into account the changes occurred within the Company's structure regarding Occupational Risk Prevention, with the creation of Redexis Gas' In-house Prevention Service in mid-year. The In-house Prevention Service, through the person Responsible for the same, has assumed two preventive specialties (Hygiene, Ergonomics and Psycho-sociology), the other two preventive specialties (Occupational Health and Medicine) being assumed by a third-party prevention service.

Likewise, the Integrated Management System has been modified to meet the legal requirements set out in Royal Decree 840/2015, of 21 September, approving measures to control the risks inherent in severe accidents where hazardous substances are involved. It must be highlighted that in the case of Redexis Gas Murcia, in view of the particular requirements of such Autonomous Community, when implementing this Royal Decree, it has its own Integrated Management System, which meets the specific requirements of such Community.

In both cases, the modification of the System was audited in late 2016, maintaining the ISO 14.001:2.004 Standard and the OHSAS 18.001:2007 Standard certifications.

The subsidiaries that form part of the Redexis Gas Group, Redexis Infraestructuras and Redexis Gas Murcia, continue to have a different prevention service, which assumes the four specialties, if appropriate.

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. Within such framework, Redexis Gas has been subject to an audit process to obtain the Healthy Company certification, and achieved such certificate in late 2016, thus attaining the goal set for this year, in the Management's Review of the year 2015.



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 the necessary synergies, not

only within the Group, but also with suppliers, sales agents, installers and clients involved in the activity. In 2016, the investment in training in health and safety was greater than the previous year, since training has been undertaken

in the prevention field to comply with Royal Decree 840/2015, of 21 September, approving measures to control the risks inherent in severe accidents where hazardous substances are involved, and advanced training in driving.

THE TRAINING AND RAISING OF AWARENESS IN OCCUPATIONAL RISK PREVENTION IS A BASIC LINE OF WORK TO AVOID OR REDUCE HEALTH RISKS RESULTING FROM WORK.

TRAINING IN NATURAL GAS AND PETROLEUM LIQUID GASES FOR FIREMEN IN DIFFERENT PROVINCES

During the year 2016, Redexis Gas held informative sessions at the facilities of the Fire Departments of Huesca, Sotillo de la Adrada, Hellín and Guadix, aimed at firemen and conducted by the heads of the Occupational Risk Prevention and Environmental Departments.

The purpose of such training was to broaden the information on natural gas and liquid petroleum gases, as well as to inform about the facilities (gas pipelines and LGN plants, and LPG tanks and plants), the location of utility boxes in the municipality and the opening of the same, the identification of the pipes and

how to act if they break, actions in the case of emergencies, manoeuvring of supply valves, among other issues.

Such type of training addressed to security and emergency bodies is made periodically, so that such professionals have all the necessary information.

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

- The implementation and continued improvement of its integrated management system.
- The continued analysis of the risk and

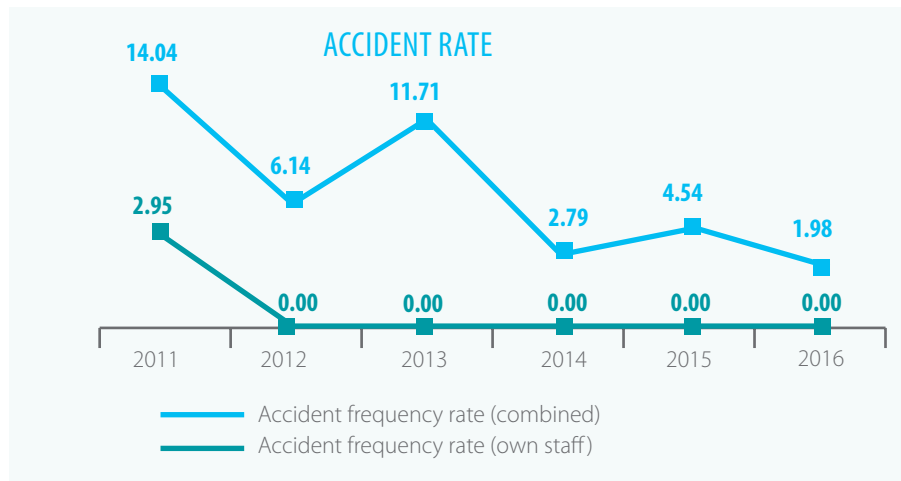
critical points of the processes and the resources to be protected.

- 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, in accordance with the obligations provided for in Act 34/2007 and Royal Decree 100/2011.
- Environmental inspections made.

In risk prevention matters, the continued follow-up, by means of inspection programmes of the works and activities that involve a greater risk, is key to attain the high levels of safety required. In this regard, the year 2016 has been characterised by its low rate of accidents, which has been "zero" for its employees and 1.98 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.



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), Self-protection Plans (SPP) and Documents for Protection against

Explosions (DPCE) of its facilities and distribution and transmission networks. Such documents contain information about the areas classified as having an explosion risk in the facilities and the action protocol and measures to be adopted if an event takes place that could affect personnel, whether they

carry out activities for the Group or third parties.

At the same time, the Company has a mailbox for Prevention and Occupational Risks and Environment for its employees, promoting the direct participation of the same in all its work centres.

3.6. STAFF

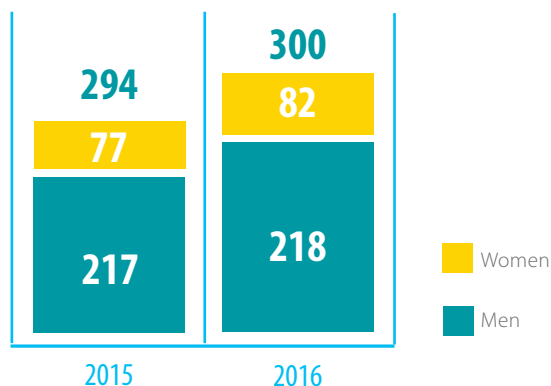
KEY FIGURES	2015	2016
Number of employees (average workforce)	284	299
Number of employees (as of 31 December)	294	300
% men/women	74% / 26%	73% / 27%
Average age of employees	42	42
Average time in Redexis gas	8.7	8.6
Turnover rate	10.8%	2.0%
Absenteeism rate	1.5%	1.3%

Job creation is an indicator of the Company's growth strategy. As a consequence of such growth, at the closing of 2016, Redexis Gas had a

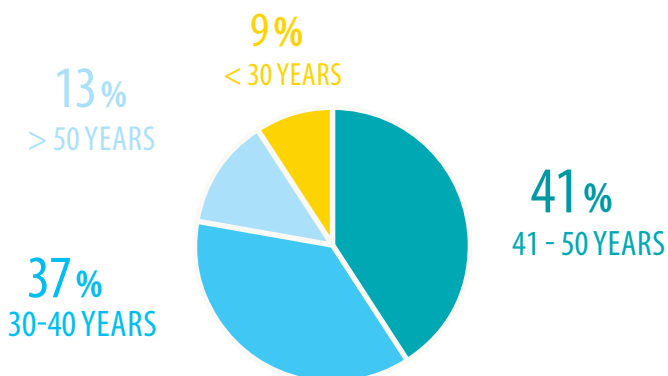
team of 300 persons with an average age of 42 years, which reveals that it is a young staff, with expertise and great potential, and an average

seniority of 8.6 years, which shows a positive stability in permanence and commitment to employees.

BREAKDOWN OF WORKFORCE BY SEX



BREAKDOWN OF WORKFORCE BY AGE GROUPS IN 2016



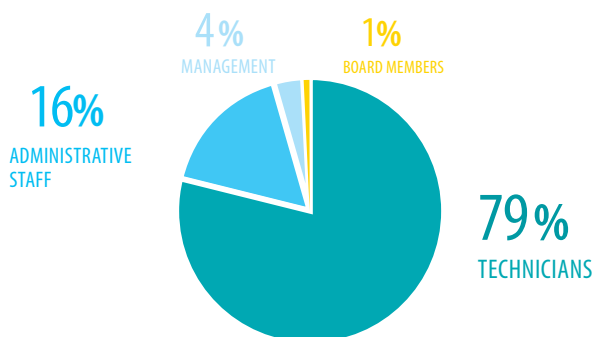
Redexis Gas' commitment to stability in employment is shown by the high percentage of permanent contracts,

99.3%, as well as the encouragement of internal promotion. During 2016, 15 internal promotions to management and senior positions

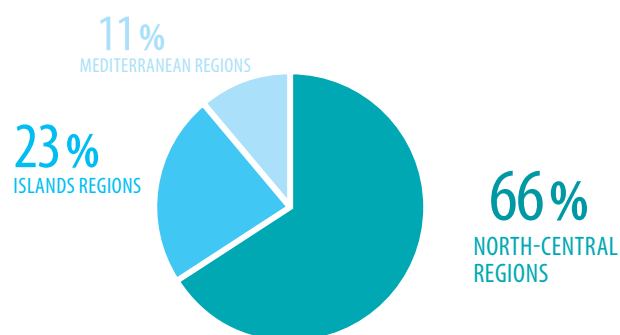
have continued to be encouraged, making 15 internal promotions to management and senior positions.

ACKNOWLEDGEMENT IS SOMETHING THAT EMPLOYEES SEEK WHEN PERFORMING THEIR FUNCTIONS.

BREAKDOWN OF WORKFORCE BY CATEGORY IN 2016



BREAKDOWN OF WORKFORCE BY REGIONAL CLUSTERS IN 2016



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

Each one of the regions in which Redexis Gas operates has different characteristics regarding climate, population density, and

industrial activity. Therefore, the Company has a staff distributed throughout different areas of the Spanish territory.

To continue contributing to the growth and development of the Company and its collaborators throughout the year 2017, the Human Resources department plans to carry out the following projects:

- Implement the flexible remuneration system.
- Define and implement a new Management by Objectives tool that ensures the correct definition and communication of the same, as well as the transparency and correct assessment of the professionals' performance.
- Boost the Training Plan for employees as the main way to develop knowledge and professionalization, strengthening the motivation and the sense of membership.
- Consolidate the Global Program to Identify, Evaluate and Manage Talent in line with the Company's Values, Culture and Strategic Plan to identify, develop and retain the best, and to make Redexis Gas an attractive place to work at.
- Adapt our people management system as a lever and driver of the Organisation's digital transformation.
- Help employees adapt to the new digital environments with a new more strategic focus, facilitating change through levers such as training, process digitalisation, the new digital tools and new employer branding strategies for the engagement and attraction of talent.



4. SUPPLIERS

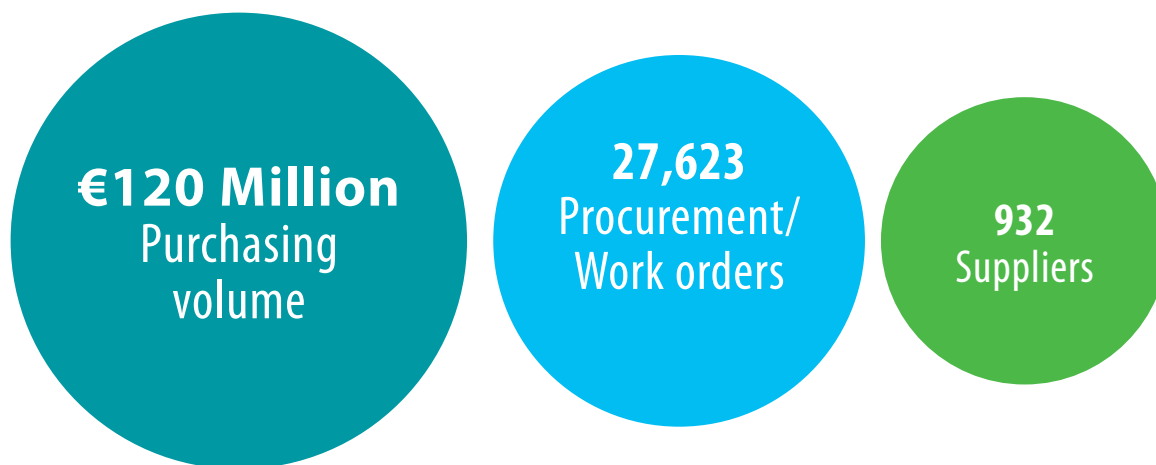
Redexis Gas is committed to medium-long term commercial relations based on collaborative dialogue that provide stability and trust for suppliers. The supply strategy allows the Company to improve its efficiency and obtain significant savings through:

- The strategic approach to negotiation processes

- Continuous benchmarking
- Scale economies
- Multi-annual contracts

For Redexis Gas, working with standardised and certified suppliers constitutes a guarantee of professionalism, quality and sustainability.

Redexis Gas works with RePro, a supplier classification system for Spain, in compliance with Act 31/2007 of 30 October, on procurement procedures in the water, energy, transport and postal services sectors. Redexis Gas uses such external platform both for certification of suppliers and to follow-up the documentation and certifications of the same.



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.

In 2016, Redexis Gas managed, through 932 suppliers, a purchasing volume for an amount of EUR 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.

19% OF THE SUPPLIER BASE HAS HAD A COMMERCIAL RELATIONSHIP OF MORE THAN EUR 100,000 DURING 2016.



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 2016, nearly 98% of the purchases were made from local suppliers.

For the purpose of knowing the level of compliance in the suppliers' provision of services, Redexis Gas has launched the valuation of goods/services for all purchases for an annual amount exceeding EUR 100,000.

In the year 2017, we expect to implement an internal validation for the purpose of verifying compliance by the suppliers, both in legal and corporate social responsibility matters.

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 whom 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. In 2016, approximately 65% of the Company's suppliers used this service.

Also, Redexis Gas promotes responsible procurement, positively discriminating suppliers who are Special Employment Centres. To such effect, in 2016 it has concluded commercial agreements for the main purpose of boosting the incorporation of disabled persons into the Company.

5. PUBLIC AUTHORITIES AND REGULATORY ENTITIES

The Hydrocarbons Act of 1998 introduced deep changes in the development of gas activities, deregulating the activities of production and commercialisation (sourcing and supply), and regulating the rest of the intermediate stages, which include transmission and distribution, the Company's main activities. 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.

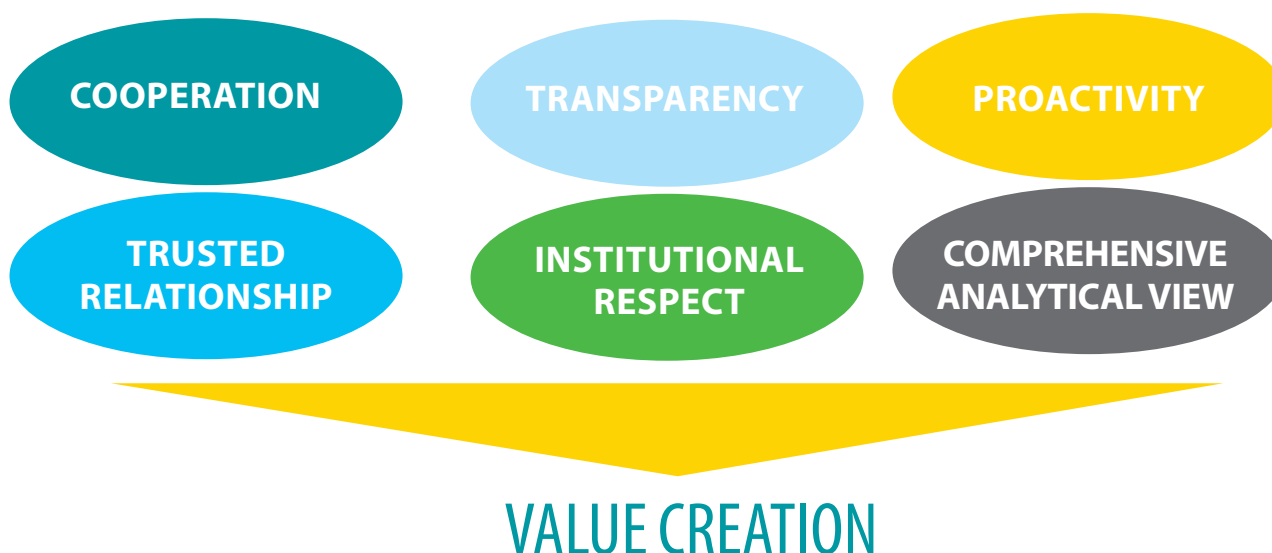
Administrative management of the gas sector facilities and infrastructures, as well as all related regulation, are carried out by the Central and Regional Governments, under the supervision of the Ministry of Energy, Tourism and Digital Agenda (MINETAD) and the National Commission for Markets and Competition, 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.

The market share increase experienced by Redexis Gas in the last six years, as well as the growth rates in its areas of action, in a difficult economic environment, have positively called the attention of the regulatory entities, particularly concerned about increasing the national gasification index, accessing new municipalities and saturating, to a greater extent, the ones already gasified, for the purpose of increasing the use of the infrastructures of the primary network built and the system's revenues.

RELATIONSHIP WITH THE REGULATOR



In addition to all of the above, Redexis Gas, as other groups that develop their activity in the natural gas sector, has recently increased its portfolio of supply points by acquiring piped LPG assets in transactions within the framework of the strategy of the former owner companies to divest from this market. LPG supply bears certain similarities with natural gas supply and, from the regulatory standpoint, it is a sector in which the same Public

Authorities and regulatory entities intervene (CNMC, MINETAD and Autonomous Communities) although its economic operation scheme is different, since it is not deregulated per se as regards the supply.

All such growth has contributed to Redexis Gas being considered an agent of special relevance in all these task forces and industry forums, among which are the ones promoted by the

Spanish Gas Association (SEDIGAS), CNMC, the System Technical Manager and the MINETAD.

In addition to all of the above, it has entered new Autonomous Communities in recent years, and is now present in 10 communities. 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 reason, it considers vital to promote and maintain an ongoing 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.

Bidirectional collaboration relationships with the communities in which Redexis Gas operates are a necessary tool to

guarantee the creation of value, provide shared solutions that create synergies, taking into account the needs and potential of each territory. Such integration with the community, supported by a communication and cooperation strategy, improves the feasibility of its projects and places emphasis on the well being of citizens and industries.

REDEXIS GAS BEGINS THE SUPPLY OF NATURAL GAS IN FELANITX

In November 2016, Redexis Gas started to supply natural gas in the Majorcan town of Felanitx, thanks to the conclusion of the construction of the natural gas infrastructure up to the municipality, from the Cas Tresorer-Manacor-Felanitx gas pipeline.

Such pipeline is 59 kilometres long; it structures the areas of Palma, Montuiri, Sant Joan, Algaida, Villafranca de Bonany, Manacor and Felanitx; and it has entailed an investment of EUR 22 million. Likewise, it will allow the supply of natural gas to more than 140,000 inhabitants, over 1,600 tourist establishments and 50,000 hotel rooms.

Thanks to a process of continued dialogue with the local communities and institutions,

Redexis Gas identifies their interests and tries to satisfy their needs through sponsorship

actions and collaboration in social, environmental, sports and cultural projects.

THE 3RD ESIC CORPORATE RUN, SPONSORED BY REDEXIS GAS, GATHERS MORE THAN 3,500 RUNNERS

On 18 December 2016, the 3rd 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.

During 2016, Redexis Gas has conducted more than twenty sponsorship and collaboration actions, showing its commitment to be close and create value in the areas in which it operates. In 2016, among others, Redexis Gas joined as new sponsor of the Quatercentenary of the

death of Miguel de Cervantes, sponsored the Smart Destination Day Congress in the Balearic Islands, and joined the sponsorship of the 56 Festival of Cante de las Minas in La Unión (Murcia).

Also, it is a priority for the company to

listen, analyse and maximize the shared value through periodic meetings with its stakeholders: associations, neighbours' and owners' associations, institutions, local entrepreneurs, universities, business schools and working groups, 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 collaborators, for the purpose of promoting to a great extent

the economies of these communities, both directly and by means of the capacity of generating a wealth multiplier effect thanks to our activity.

REDEXIS GAS, NEW SPONSOR OF THE "QUATERCENTENARY OF THE DEATH OF MIGUEL DE CERVANTES"

In July 2016, Redexis Gas joined as new sponsor of the Quatercentenary of the death of Miguel de Cervantes, through an agreement signed with Fundación Impulsa of Castile-La Mancha, dependent on the regional Government, for the purpose of promoting and developing this event of great public significance.

With this initiative, the Company maintains its commitment to support and create value in the territories in which it is present, contributing to promote and develop culture in Castile-La Mancha and actively participating in the social life of the different regions in which it operates.

7. MEDIA

Redexis Gas maintains a solid relationship and direct dialogue 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, through press releases or via publications on its corporate website, information about its projects and results.

It presents the information on its corporate website (www.redexisgas.es), 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 2016, Redexis Gas has increased its presence in the media, thanks to a Strategic Plan for Communication at national and regional level, where different communication actions have been carried out, among others, the launching of press releases on corporate and business projects, institutional meetings, corporate and institutional events, signing of agreements with institutions, associations, foundations and companies from different sectors.

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

ALL THE WORK, CREATIVITY AND BUSINESS MANAGEMENT OF REDEXIS GAS ARE LINKED TO THE SOCIAL AND SUSTAINABLE PROGRESS OF THE ENVIRONMENT.

Redexis Gas, as an infrastructure operator, plays a fundamental role in the sustainable development of the

local economies in which it operates. As a key agent in the Spanish gas sector, it works to promote economic activity,

business productivity, employment and improvement of the quality of life of people, businesses and industries.



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



SUSTAINABLE DEVELOPMENT OF LOCAL ECONOMIES



LOCAL PURCHASES

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



LOCAL INVESTMENT

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

Redexis Gas intends to develop an action that contributes, either directly or indirectly, to the Sustainable Development Goals, approved by the United Nations. For such purpose, it makes economic contributions and provides resources to social

projects, and it performs a continuous assessment of the same to adapt them to its strategy.

The Company 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

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.

Throughout 2016, the direct contribution to society made by Redexis Gas has been instrumented through different social initiatives:

- Implement initiatives to inform and train employees for the activity that the Company develops, such as the technical training in LPG given at the Madrid, Zaragoza, Granada and Palma de Mallorca offices, to improve and expand the knowledge on the maintenance and operation of piped LPG facilities and associated equipment.
- Strengthen and consolidate the sense of belonging among the employees, through the sports sponsorships of



different runs (3rd ESIC Corporate Run in Zaragoza, 13th Run in Arenas de San Pedro en Ávila, 13th Edition of the Corporate Games).

- Improve public attention to risk, safety and health, developing and promoting a culture of well-being health and safety by means of training sessions addressed to the fire brigade in different places in Spain (Ibiza, Palma de Mallorca, Andújar, Hellín, Guadix...) as well as safety campaigns as the one organized in the Community of Madrid, offering users a series of practical advice to safely use gas facilities and avoid potential accidents.
- Support the educational development of university students through visits of the students to its projects, such as the one conducted by the archaeology students of the University of Jaen to the works of the "Villacarrillo – Villanueva del Arzobispo – Castellar" gas pipeline, to learn how to reconcile the execution of infrastructure works with archaeological remains found during such execution.

- Develop sustainable actions in municipalities that involve the citizens themselves through informative and interactive activities that promote sustainable and environmentally friendly behaviours.

- Environmental support as Sponsor of the new 'Río y Juego' space in the Fiestas del Pilar, used to inform about recycling and environmental care, and as member of the Foundation for Energy of the Community of Madrid, as Elective Trustee, committed to promoting energetic efficiency and supporting research in energy matters.

- Support to youth and sports for the purpose of promoting collective effort through the collaboration with different sports academies (such as the Mérida Club de Fútbol and the Club Esportiu Constanca of Inca) supporting the junior categories and sponsoring tournaments (such as the Spanish Juvenile Tennis Championship in Cieza (Murcia)).



- Cultural support as new sponsor of the Quatercentenary of the death of Miguel de Cervantes, through an agreement signed with the Impulsa Foundation of Castile-La Mancha, dependent on the regional Government, whose purpose is the promotion and development of an event of great public relevance.

- Support growth of the relevant sectors for the development of the Spanish economy, such as tourism, through the sponsorship of the 'Smart Destination' Conference of Energy and Tourism in Palma de Mallorca, oriented towards showing and communicating the influence of energy and sustainability as reference axes supporting a tourist destination.
- Financial support for households and small and medium companies, by signing agreements with bank institutions for the purpose of contributing to fund the adoption of natural gas.

- 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.

At the same time, Redexis Gas tries to minimise the social costs in environmental matters and the negative effects they 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.

REDEXIS GAS PARTICIPATES IN THE EUROPEAN WEEK OF SUSTAINABLE ENERGY IN THE CANARY ISLANDS

In June 2016, Redexis Gas participated in the European Week on Sustainable Energy, which was held in the Canary Islands with three intense sessions of technical-informative work

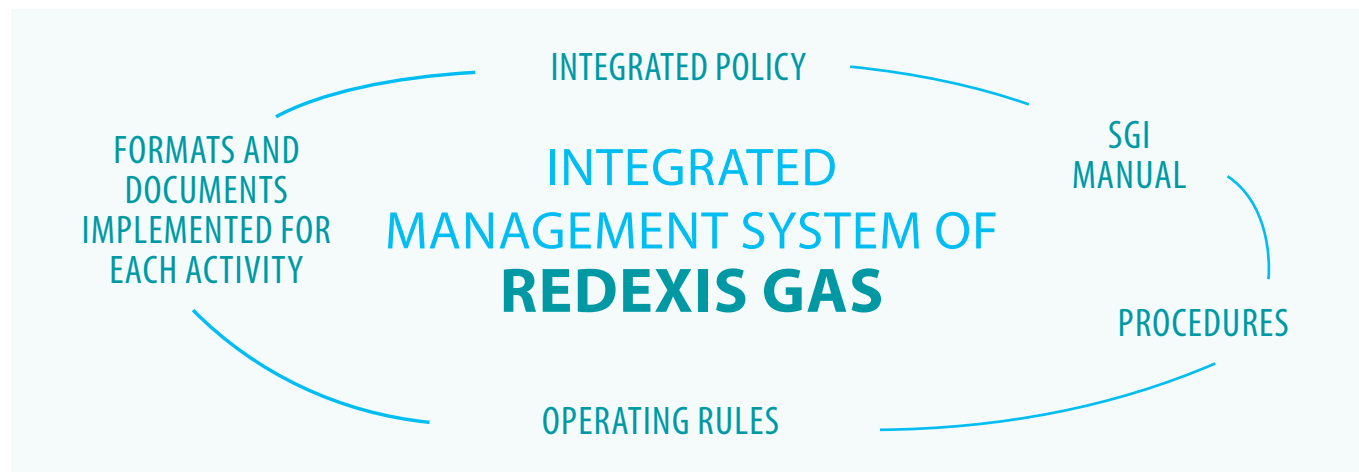
Such encounter, which was developed in all the member

states, gathered companies from energetic services and relevant people from the University world, to present the virtues of natural gas as the best option among existing fossil energies, the advantages of LNG for maritime transport, and the efficiencies for industries and businesses.

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.



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.

Pursuant to its commitment to protect the environment, Redexis Gas has the appropriate resources to achieve the goals set. In the year 2016, the Company has used over EUR 460 thousand for matters related to the environment, which entails a 10% 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 control and limiting 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.

Likewise, in 2016, Redexis Gas' commitment to sustainability has also materialised in the development of different projects that support the roll out of natural gas stations, which bring a series of environmental, technical and economic advantages in the Spanish regions in which they are implemented. The Company supplies gas to different stations located in Mallorca, Ibiza, Cadiz and Murcia. At present, the development of a series of gas service station projects in Murcia, Zaragoza and Palma de Mallorca is being analysed and assessed.



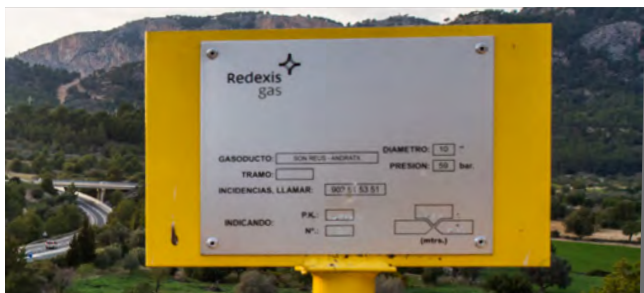
BIODIVERSITY AND NATURAL CAPITAL

Redexis Gas' strategy in environmental matters inherently carries the comprehensive treatment of the impacts it causes, with a preventive attitude with regard to their generation, correcting those that

have inevitably taken place and, if appropriate, adequately compensating the damages occurred.

During the year 2016, the Company has developed different projects related to

biodiversity to evaluate and mitigate the impact on the natural spaces deteriorated due to its activity, working within the scope of the restoration of habitats affected by the construction and operation of its infrastructures.



SON REUS-ANDRATX GAS PIPELINE

- During 2016, the habitat restoration tasks carried out in 2015 in the land affected by the gas pipeline were followed up.

SON REUS-INCA-ALCUDIA

- As a consequence of the effect on the space Red Natura 2000 LIC and ZEPA "S'Albufera de Mallorca", it was necessary to proceed to execute a compensatory measure, agreed with the competent environmental authority in the Balearic Islands, which was executed in February 2016 with the approval of the environmental authorities.
- Such measure consisted of the expansion of a small island for different species of sea birds to build their nests in a highly saline and shallow water lagoon inside the Natural Park and Red Natura 2000.
- In 2016 the habitat restoration tasks carried out during 2015 in the land affected by the gas pipeline were followed up.

CAS TRESSORER-MANACOR-FELANITX

- The restoration tasks carried out in 2016 translated into the planting of more than 7,600 species (*Olea europaea var.sylvestris*, *Pistacia lentiscus*, *Cistus monspeliensis*) in an area of more than 50,700 m² of natural habitats affected by the gas pipeline works.
- During the next years, a follow-up will be conducted of the efficiency of the executed restoration measures.

VILLANUEVA DEL ARZOBISPO-CASTELLAR

- The restoration works carried out in 2016 translated into the planting of more than 1,100 species (*Pistacia lentiscus*, *Quercus rotundifolia*, *Olea europae var. sylvestris*) in an area of more than 3,700 m² of natural habitats affected by the gas pipeline works.
- During the next years, a follow-up will be conducted of the efficiency of the executed restoration measures.

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 undertakes 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 directly contributes to attain three of the goals (8, 9 and 11) and, to a different extent, the remaining ones.



TO SAFETY

THE SAFETY OF PEOPLE IS FUNDAMENTAL IN REDEXIS GAS.

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 and integration of LPG points from 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 through the Control Centre.

The Control Centre is the main driver that governs the Company's actions. All its personnel and infrastructures are oriented towards guaranteeing the safety of its facilities, the supply, and particularly of the persons who, one way or another, form part of its project (users, employees who must access the facilities, etc.).

PILLARS TO GUARANTEE SAFETY



STAFF

Specialisation
Availability 24/7



INFRASTRUCTURES

High availability of main centre (24/7)
Back-up centre (service guarantees)



INFORMATION IN REAL TIME

Field equipment
SCADA system
24-hour telephone



SAFETY

Persons / Facilities / Supply

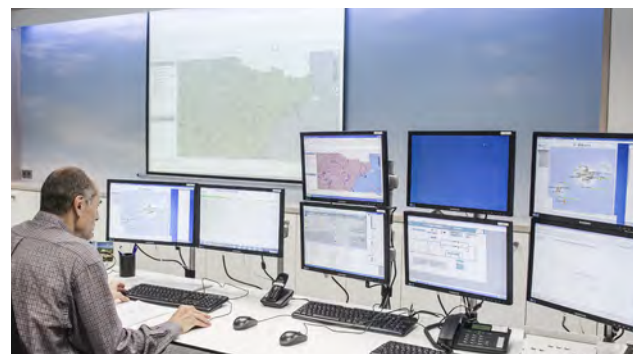
Equipped with technologically advanced systems, the Control Centre collects information in real time from the Company's transmission and distribution facilities, which allows 24/7 monitoring of the correct

operation of the same. Specifically, the capture and transmission equipment set up in the field make it possible to receive more than 13,000 signals that provide an exact idea of the operation of the equipment, adequacy of the

gas pressure and temperature the consumers are going to receive, etc. The back-up control centre guarantees the continuity of the service in the case of any other type of incident in the main facility.

CONTROL CENTRES OF REDEXIS GAS: EXEMPLARY PROJECT IN THE ENERGY BULLETIN OF ARAGON

The Redexis Gas Control Centre, together with its replica, were presented as exemplary projects in the 2016 edition of the Energy Bulletin of Aragon, an annual publication of the Government of Aragon.



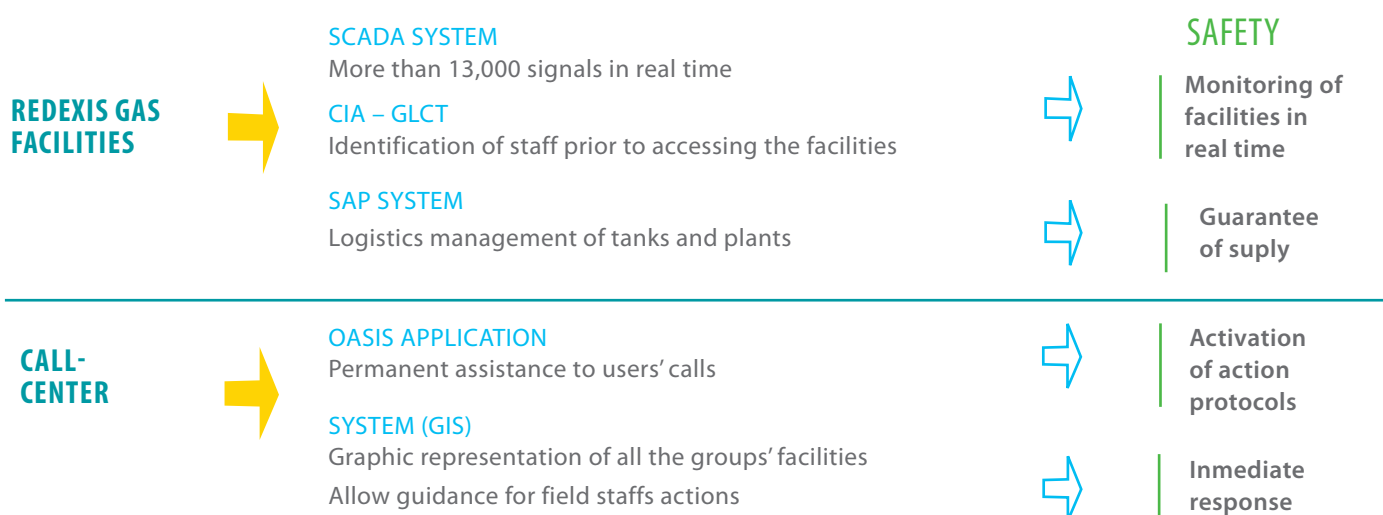
The information received is analysed by the personnel of the Control Centre, who work in shifts 24 hours a day, detect any incident, and mobilise the response equipment in the field. Likewise, and as part of the Environmental Emergency Plan (PEA), drills are conducted from time to time, for the purpose of implementing

the response protocols and mobilising all the Company's resources for the event that it becomes necessary to take action in an actual emergency.

On the other hand, Redexis Gas has a centralised Emergency Call Centre (CAT), which provides service 24/7,

and is permanently in touch with the Control Centre, which receives and makes a first classification of consumers' emergencies at its receiving facilities, as well as the ones of other emergency bodies (police, fire department, 112, etc.) in connection with the rest of the facilities.

CONTROL CENTRE OPERATING SCHEME



Throughout the year 2016, the Control Centre structure has been expanded, adjusting the same to the significant incorporation and integration of assets in recent years. Along this line, the following milestones may be highlighted in 2016:

- Addition of staff to the Control Centre, by hiring 4 new operators, which allows a much more efficient organisation of work.
- Incorporation to all the systems of the new assets acquired:
 - Inclusion in the SCADA system of 38 new LPG tanks, which are permanently monitored.
 - 3,000 new LPG facilities incorporated into the Geographic Information System (G.I.S.) together with its associated networks.
- Logistic management of more 3,000 LPG deposits.
- Commissioning of the new SAP system for logistics and follow up of levels in LPG facilities. Such system allows to record levels and offloads in all the new facilities acquired and serves as a basis to establish a new balance system for the LPG.



REDEXIS GAS PARTICIPATES IN THE 3RD SEMINAR ON CONTROL CENTRES

During the month of October 2016, Redexis Gas participated in the 3rd 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.

On this occasion, the presentation showed the developments made for the logistics management of the LPG storage facilities, monitoring of emissions and billing, and was well received.

As a result of the presentation, working sessions were conducted with other gas companies in the sector, which face similar challenges throughout the year 2017.

2017 will be another exciting year, in which the Control Centre team is going to focus its efforts in continuing to improve its infrastructures and procedures, in line with the Company's growth.

TO INNOVATION

ADAPTATION TO CHANGE AND CUTTING-EDGE ATTITUDE

Innovation implies a cultural change, which is not only linked to the R&D&I activity. Its scope is broader, and it is an integral part of the operating process that promotes technological development as a growth lever, allowing the provision of a response to the challenges of the future.

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 a wide range of activities that take

on innovation and development in a purposeful way.

It is essential for the Company to identify and anticipate the new technologies and social changes to be able to continue innovating with its products, services and procedures, continuing to commit itself to research, development, sustainability and contribution to the quality of life of society.

Such effort translates into tangible improvements in productivity, quality,

customer satisfaction, occupational safety, obtaining new and better materials and goods and a more efficient design.

Innovation and knowledge of the best technological solutions are essential for an efficient and safe operation of its assets. Therefore, the Company makes an effort to continue incorporating new technologies and functions that reduce the development processes and entail a great advantage in terms of costs and efficiency.

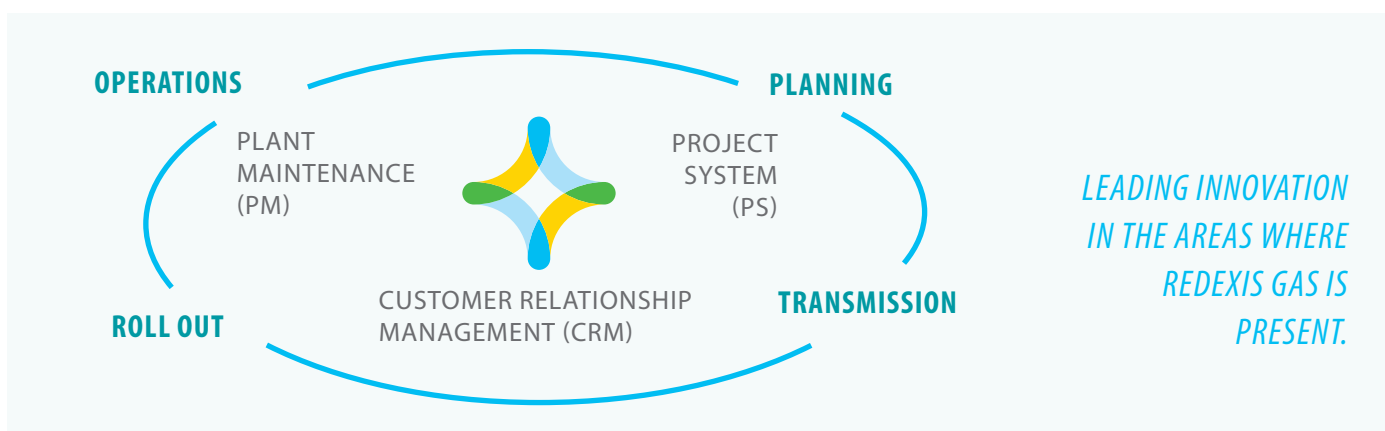
WE COLLABORATE WITH EXPERTS TO FIND THE BEST IDEAS

Since the year 2013, Redexis Gas has undergone an extraordinary technological transformation for the

purpose of supporting the development and growth of its activities. Such change has entailed a competitive advantage

and has placed the same as a leader in digital tools.

TECHNOLOGICAL INNOVATION CYCLE



In 2016, it has implemented new systems that increase its planning, control, growth capacity and efficiency, which have made it easier to attain the goals set:

- The main and back-up infrastructure of the Control Centre in Zaragoza has been migrated.
- The new LPG company in the Group (Redexis GLP S.L.U.), the new logistics process for management and balancing of the LPG network, the Lean methodology to analyse and design processes and for continuous improvement and the CRM for Commercial, Industrial and Services Premises have been established.
- Two models of artificial intelligence have been developed: one to predict the propensity to gas of the supply points, and another one to optimise the planning of regulatory periodic inspections and actions at households.
- The systems have been adapted to the new regulation of mandatory periodic inspections and the new regulation for reporting claims.
- A new website has been created to introduce the gas readings of consumers.
- An electronic file solution has been established for the integration among operating departments and the electronic invoice for retailers.
- The commercial and operating corporate systems have been



integrated for the integrity of the single data.

All the innovative effort has had its reward. In December 2016, Redexis Gas received a prize in the 3rd Awards to Best Corporate Practice, sponsored by KPMG and El Confidencial. In this third edition, Redexis Gas has stood out for Best Corporate Practice in Digital Transformation. This award rewards the implementation of business initiatives aimed at the consolidation, investment and opening of new digital markets and/or through new technological means.

Regarding its more operational dimension, Redexis Gas focuses its innovation efforts on developing activities to optimise and manage its assets, in order to improve the quality and reliability of the natural gas supply on an on-going basis; 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 2016, Redexis Gas has continued

to develop and use innovative technologies to carry out its projects, providing added value to its activity and distinguishing itself in the industry.

Among the most significant initiatives:

- The Mini Projects, among them, notably, an optimised trench width, a redesign of LNG plants, adaptable according to the needs of size and penetration in each municipality.
- The use of a new polyethylene in the networks, resistant to stress, which optimises the civil works costs.
- The use of a new multi-layer material that allows reducing the costs of Common Reception Facilities (IRCs).

These innovative projects 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.

PILOT TESTS FOR CHANNELLING ACCORDING TO MINIS PROJECT

In the first semester of 2016, Redexis Gas conducted a pilot test in Almeria for canalisation works. Such project entailed the use of narrower trenches by using a special trencher and a filling with fluid mortar, making five times more progress than with traditional methods, in addition to being faster and more efficient throughout the works. Likewise, it

was possible to reduce the associated civil works cost, obtaining, for these specific works, savings of more than 20% compared to the prices of the current tariffs for distribution works.

Due to the good results in these tests and within the Minis Project, such type of works is expected to be executed in other cities.

EXAMPLES OF ACTIONS PERFORMED IN 2016

CONSTRUCTION OF DISTRIBUTION FACILITIES

EXECUTION OF LIQUID NATURAL GAS (LNG) SATELLITE PLANTS, PURSUANT TO THE NEW DESIGN STANDARDS



LNG Plant in Sotillo de la Adrada (Ávila)

EXECUTION OF CANALISATION WORKS PURSUANT TO MINIS PROJECTS



Works with high productivity methods in Mallorca



CORPORATE GOVERNANCE REPORT

edexis

Redexis gas
Te gustará el futuro

gas



Annual Corporate Governance Report for the Company

REDEXIS GAS, S.A. FOR THE YEAR 2016

1. INTRODUCTION

The concept of corporate governance has been designed as a set of principles and rules that regulate the design, integration and operation of management bodies, mainly in listed companies. However, the implementation of corporate governance rules in companies that are not listed and that, therefore, are not legally bound to do so, is an important tool that benefits Redexis Gas, S.A. (the "Company" or "Redexis") and the stakeholders with which it interacts. So, the adoption of

good corporate governance practices allows the Company to (i) improve its business activity in all scopes; (ii) promote transparency, objectivity and competitiveness in the development of business; (iii) clearly define the tasks and duties of the management, administration, representative and supervisory bodies; and (iv) prevent any type of irregular conduct by the Company, its officers or employees, as well as to establish control and follow-up mechanisms in such regard.

To such effect, the Board of Directors of Redexis Gas, S.A. 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.

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 cumu-

lative, 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:

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 eight Directors and a Non-Director Secretary.

3.2. MEMBERS OF THE BOARD OF DIRECTORS

As at 31 December 2016, the Board of Directors was composed of the following members:

Board of Directors	 Redexis gas	
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 Claudio Aguirre Pemán	Director	
Mr Ulrik Dan Weuder	Director	
Mr Stephen Alan John Deeley	Director	
Mr Marcus Hubertus Gertrudis Vennekens	Director	
Mr Ignacio Pereña Pinedo	Non-Director Secretary	

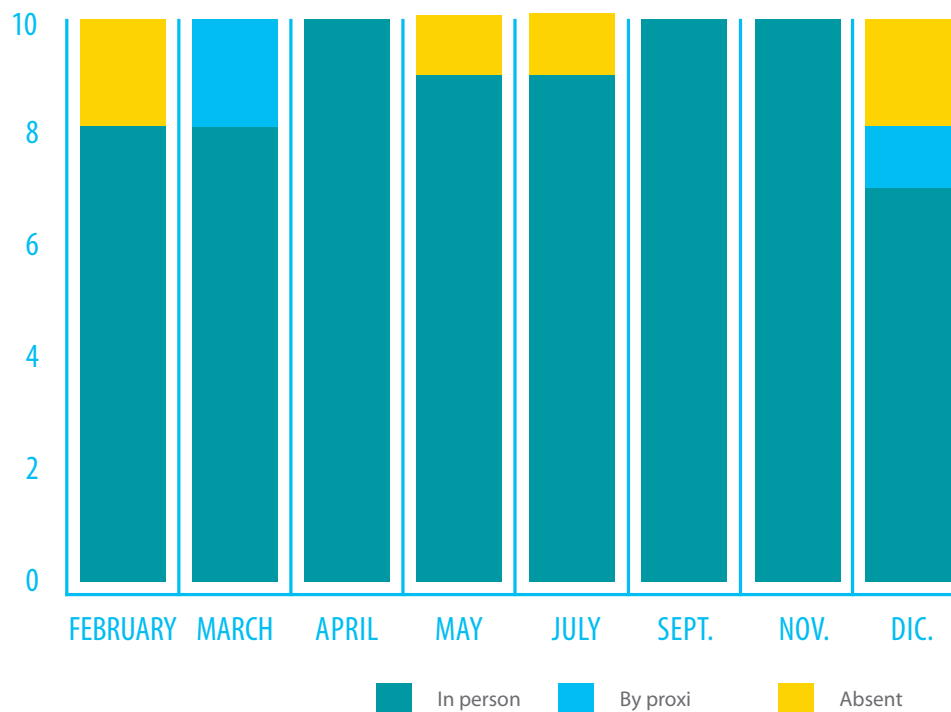
During the 2016 financial year, Mr Peter Robert Lyneham and Mr Gerardus Nicolaas Meijssen voluntarily resigned as members of the Board of Directors due to professional reasons. Likewise, during the year 2016, Mr Fernando

Bergasa Cáceres renewed his office as director, chairman and chief executive officer of the Board of Directors.

The Board of Directors has held eight sessions during the 2016 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 91.25% during the 2016 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 2016 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 to 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 2016 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 Di-

rectors, 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 2016 financial year, none of the members of

the Board of Directors has received any remuneration for attending the meetings of the Board of Directors.

The Directors who perform executive functions in the Company are Mr Fernando Bergasa Cáceres and Ms Cristina Ávila García. Such persons receive remuneration for the performance of

such executive functions, in accordance with the provisions of Legislative Royal Decree 1/2010, of 2 July, approving the Consolidated Text of the Corporate Enterprises Act, the Articles of Association and the resolutions adopted for such purpose by the Board of Directors.

3.7. NOTICE OF THE MEETINGS

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

3.8. INFORMATION TO THE DIRECTOR

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 2016 financial year, the Annual General Meeting was held on 19 May 2016 with the following agenda:



GENERAL MEETING OF SHAREHOLDERS OF 19 MAY 2016

AGENDA

1. Renewal of directors
2. 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 2015 financial year
3. Approval of the allocation of profits or losses for the 2015 financial year
4. Approval of the management of the Board of Directors for the year 2015
5. Distribution of dividends
6. Appointment of auditors
7. Approval of the minutes of the session

In such session, the offices of the directors that had expired were renewed, and 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

Company's distribution of dividends and the appointment of the Company's auditors, KPMG Auditores, S.L., were approved.

4.2 INFORMATION TO THE SHAREHOLDERS

The Company has strictly complied with the obligations established in article 197 of the Consolidated 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 LIQUEFIED PETROLEUM GAS (LPG) SUPPLY POINTS

After the acquisitions made during the years 2014 and 2015, on 29 December 2016, the Company and Cepsa Comercial Petróleo, S.A.U. (Cepsa) entered into a framework agreement under which they agreed to acquire 3,439 LPG supply points in the Autonomous Communities of Ara-

gón, Castile-La Mancha, Castile-León, Community of Valencia, Andalusia, Extremadura and Murcia. Such transaction was notified to the Spanish Commission for Markets and Competition (CNMC), whose approval of the transaction was notified to the Company on 3 February 2017.

For these purposes, the delivery of the supply points described in the framework agreement of 29 December 2017 is expected to take place within the first semester of 2017 and, accordingly, the acquired facilities will be accepted in full.

6. AGREEMENT ON GUARANTEES

For the purposes of promoting work involvement and employment stability for all the Company's employees and in view of an eventual change in the shareholder structure of the Redexis Gas Group, in October 2016 Redexis Gas vo-

luntarily entered into an agreement on employment guarantees with the workers' representatives.

Such agreement includes the commitment not to carry out redundancy

or individual objective dismissals for organisational or productive reasons until 31 December 2017, as well as some additional measures to achieve the above mentioned objectives.

7. 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 and good market practice, the Company has continued to develop significant work in matters of corporate governance during the year 2016.

So, in addition to the work already performed in previous years, different actions have been followed in the year 2016, among which the following may be highlighted.

7.1 INTERNAL RULES

During the year 2016, continuing with the compliance work that has been carried out, the following internal rules applicable to the Company have been approved, among others:

- a) **Rule on institutional courtesies:** this rule defines the internal policy on matters of institutional courtesies, whether received or offered by Redexis' staff.
- b) **Rule on relations with members of the Public Administrations:** this rule describes the principles of conduct to be followed when Redexis' staff interacts with members of the Public Administrations.
- c) **Rule on the prevention of money laundering, financing of terrorism, bribery and corruption:** this rule implements the conduct framework for Redexis with regard to the prevention of criminal offences, and particularly those related to the financing of terrorism, bribery and all forms of corruption. Such rule includes a mechanism aimed at identifying the most relevant collaborators with whom the Company works.
- d) **Rule on collaboration agreements:** the purpose of this rule is to describe the process to prepare collaboration agreements with public or private entities.
- e) **Rule for the prevention of situations of market abuse:** this rule details the action framework for the Company and its professionals, within the general environment for the prevention of market abuse and prevention of crimes due to undue use of sensitive or insider information. For these purposes, European regulation on this matter has been taken into account, and very specially Regulation 596/2014 of the European Parliament and the Council of 16 April 2014 on market abuse.
- f) **Rule on the use of e-mail and IT systems:** the purpose of this rule is (i) to develop the use of computer resources made available to Redexis' employees; and (ii) to promote their proper handling by ensuring the security of the information processed.
- g) **Rule on internship program:** this rule regulates internships by students in Redexis.
- h) **Rule on continued access to Redexis' facilities and systems by external staff:** this rule develops (i) external staff's continued access and stay at Redexis' facilities; and (ii) access by the latter to the Company's systems.

7.2. HEALTH AND SAFETY

Occupational Health and Safety conditions are a matter that the Company considers particularly relevant. Therefore, during the year 2016, in addition to

the regular work on matters of health and safety (a) a review and update of procedures in matters of work permits and access to confined areas has been

conducted; and (ii) the certificates for the management systems ISO 14001 and OHSAS 18001 have been renewed, upon passing the audits required in this regard.

7.3. INTERNAL AUDIT

Continuing with the work carried out during the year 2015, and for the purpose of improving the efficiency of the risk management and control processes,

during the year 2016, the Internal Audit department has conducted, among other actions, the identification, risk assessment and subsequent prepara-

tion of the Risks Map of certain areas in Redexis, for the purposes of providing greater control over the company's activities and procedures.



RISK MANAGEMENT AND CONTROL



Risk management and internal control are particularly sensitive and relevant areas for Redexis Gas.

The Group's main strategic objectives with regard to risk management are oriented towards the successful implementation of a reliable system to manage them, to maintain and use the same as a management tool at all decision levels.

Such system has been developed and is being implemented in a number of

processes and tools for the purpose of:

- Identifying and managing risks at Group level and by area or department.
- Establishing an integrated report that allows the identification and follow-up of the key risks (Top Risks).
- Aligning the risk tolerance levels with the Group's objectives.
- Improving information and communication about risks.

- Improving the decisions on response to risk.
- Reducing the Group's vulnerability with regard to the different risks, evaluating and mitigating the same with specific action plans.
- Increasing the trust and safety of the Board of Directors and the Stakeholders, insofar as the top risks being monitored and communicated in due time.

RIKS MANAGEMENT SYSTEM PROCESS

The Group is developing a process that includes several stages to manage its risks. Such process provides a logical and systematic method to allow taking decisions and responding in the best way to the threats and opportunities, as they arise.

The process adopted incorporates elements from the ISO 31000:2009, "Risk Management - Principles and Guidelines", and from the Committee of Sponsoring Organizations of the Treadway Commission (COSO) "Enterprise Risk Management-Integrated Framework" (2004).

The main stages of the Group's risk management system are the following:

1. Communicating and consulting. This stage is based on the creation of a positive culture for risk management within the Group. Dialogue and interaction with all departments have been essential in this stage
2. Establishing the context. It has consisted of fixing the internal, external and risk management context in which the process will be

carried out, which allows focusing the risk management efforts according to the environment in which the Group operates and defines the common risk categories, the criteria and the procedures required to manage the Group's risks as a whole.

3. Identifying the risks. This stage has sought to identify the risks that may affect the attainment of the Group's objectives, through all the risk categories (Operations and infrastructures, strategy and planning, reporting and Corporate Governance).
4. Analysing and assessing the risks. This stage has led to understand the magnitude (impact), of both positive aspects and negative consequences of a risk event, as well as the vulnerability in such event (probability of occurrence) taking into account the Group's current internal control. Performing the evaluation of the impact and the probability in view of potential risks will allow controlling the same, focusing on the ones that represent a greater threat for the achievement of the Group's objectives.

5. Establishing tolerance to risk. In this stage, the tolerance criteria for each risk are established. By understanding the level of exposure to risk in connection with the tolerance of the same, decisions can be taken regarding how to deal with the same, optimising the taking of risks and maximising the probability of meeting the objectives.
6. Response to risks and action plan. In this stage, the options to deal with, or the responses to act in view of assessed risks are identified, decided on, and implemented. This seeks not only to minimise potential damages, but also maximise the growth potential of opportunities.
7. Follow-up and review. In this last stage, the efficiency and relevance of the Group's risk management system will be evaluated. By performing a continuous follow-up of the risks and the efficiency of its responses, the Group is able to adjust its risk management system to evolve with the dynamic circumstances in which it operates.

TOOLS AND MAIN AREAS INVOLVED

Redexis Gas is defining its final risk Management Policy, which will provide its staff an understanding of the Group's position with regard to its decision-taking, the management of risks, and will define the general practices in this matter.

The goal of this policy is to guarantee that the risks to which the Group is exposed shall be dealt with using the most effective and efficient methods available. The Management in charge of taking operating decisions in each division or functional area shall take into account the risks associated to the same and will structure the decision-making process to avoid or reduce the level of risk whenever necessary.

The Group has been assisted by the Internal Audit Department since the year 2015, which was set up as an independent service with the mission to support the offices of the Chief Executive Officer and Managing Director in the examination, assessment and supervision of the effectiveness of the internal control and risk management systems.

With regard to risk management, such department has provided the tools to elaborate the risks map, and collaborates in the process to identify, analyse and evaluate the risks that may appear in the development of Redexis Gas' activities. At present, reports are being designed so that each area in the group may inform about its risk assessment to the offices of the Chief Executive Officer and Managing Director.

Other activities conducted by the Internal Audit Department, which have a direct impact on risk management or internal control, are the following:

- Checking the reliability of the risk management and internal control systems and the quality of the information.
- Verifying the existence of rules and procedures that adequately regulate the main activities and allow a correct measurement of the effectiveness of the same.
- Evaluating the level of compliance with the rules, instructions and procedures established in the Group.
- Proposing modifications, reviews or adaptations of the above-mentioned documents, as required to improve the operations and risk control.
- Designing specific controls related to the risks detected. Verifying their effectiveness and implementation.
- Making recommendations to contribute to correct the anomalies found in the exercise of their work and follow-up the execution thereof.

At the same time, during the year 2016, the Department of procedures has been created, whose impact on risk management and internal control is relevant. The main functions of this department in connection with internal control are:

- Updating and designing the Processes Map, keeping up to date the allocation of responsibilities in each one of the key processes and in the development of the controls established.
- Supervising that the review, maintenance, modification and

approvals required to keep the current processes up to date are effected.

- Guaranteeing that all necessary controls are met in the significant processes, to maintain the risk level in line with the criteria established by the Chief Executive Officer and the Managing Director.

Additionally, from the Secretary General's Department, the following actions have been promoted for risk management and internal control:

- Introduction of the necessary processes to avoid legal infringements based on criminal or reputational risks and limit to the maximum extent possible the events of criminal liability of the Company, actively contributing to preventing and stopping criminal behaviours.
- Promotion of a clear organisational structure, shared by all employees in the Group at all levels, which makes it possible to avoid conducts capable of generating criminal liability for the company, its management and directors.
- Establishment of objective control and supervision measures to avoid the above mentioned conducts by the employees at all levels.
- Active communication of the approved Ethical Code, proposing its review to adapt the same to the modifications of the legal framework in force from time to time.
- Receiving and handling complaints received through the Whistleblowing Channel, both external and internal.



ANNUAL ACCOUNTS 2016

REDEXIS GAS, S.A. AND SUBSIDIARIES

CONSOLIDATED ANNUAL ACCOUNTS

AND CONSOLIDATED DIRECTORS' REPORT

31 December 2016

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union (With Independent 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 2016 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.

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

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 S0702, and the Spanish Institute of Registered Auditors' list of companies with reference No. 10. Filed at the Madrid Mercantile Registry in volume 11,961, sheet 90, section 8, page number M-158,007, entry number 9. Tax identification number (NIF): B-78510153.

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 2016 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

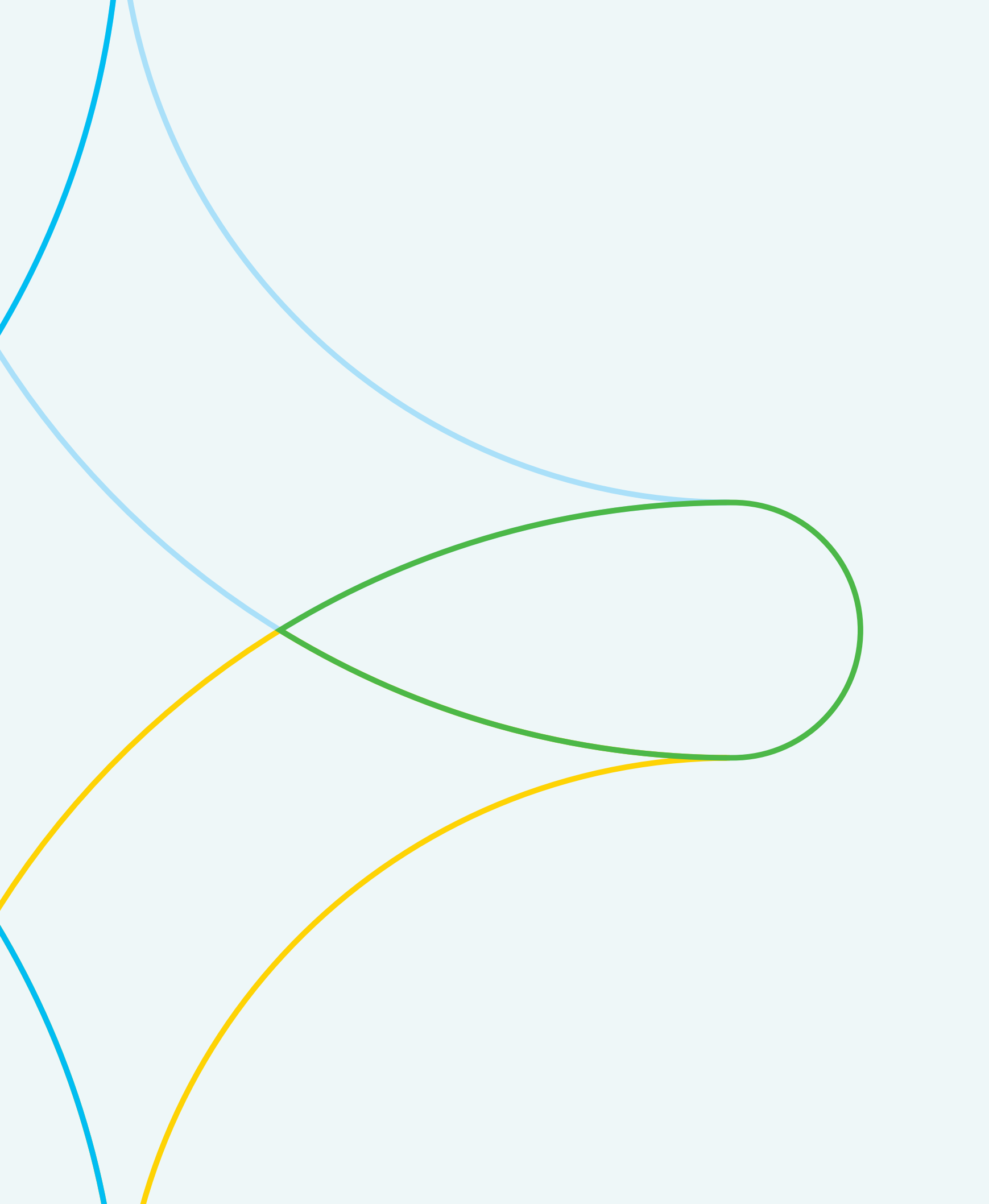
The accompanying consolidated directors' report for 2016 contains such explanations as the Directors of Redexis Gas, S.A. consider relevant to the situation of the Group, its business performance and other matters, and is not an integral part of the consolidated annual accounts. We have verified that the accounting information contained therein is consistent with that disclosed in the consolidated annual accounts for 2016. 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.

Ana Fernández Poderós

9 March 2017





CONSOLIDATED ANNUAL ACCOUNTS

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Assets	Note	2016	2015 (*)
Property, plant and equipment (*)	7	1,145,177	996,071
Goodwill	8	219,175	219,175
Other intangible assets	8	556,393	555,527
Deferred tax assets	12	57,821	64,824
Non-current financial assets	11	7,254	7,140
Trade and other receivables	14	11,481	23,369
Total non-current assets		1,997,301	1,866,106
Inventories	13	4,817	1,272
Trade and other receivables	14	58,319	44,472
Other current financial assets	11	44,952	2,313
Other current assets	15	4,621	5,848
Cash and cash equivalents	16	39,009	60,593
Total current assets		151,718	114,498
Total assets		2,149,020	1,980,604
Equity and Liabilities	Note	2016	2015 (*)
Capital		100,000	100,000
Share premium		105,433	105,433
Reserves		541,185	577,569
Profit for the year		48,717	34,412
Equity attributable to equity holders of the Parent		795,335	817,414
Non-controlling interests		24	23
Total equity	17	795,359	817,437
Financial liabilities from issuing bonds and other marketable securities	19	888,312	886,428
Loans and borrowings	20	189,796	-
Other financial liabilities	18	4,683	4,505
Deferred tax liabilities	12	119,980	127,443
Provisions for employee benefits	24	3,425	2,942
Other provisions	25	645	2,648
Government grants (*)	27	18,828	19,078
Total non-current liabilities		1,225,671	1,043,044
Interest payable on bonds and other marketable securities issued	19	16,506	16,239
Loans and borrowings	20	1,284	306
Trade and other payables	21	104,227	99,433
Current income tax liabilities	12	3,424	1,096
Provisions for employee benefits	24	141	806
Other current liabilities	28	2,407	2,243
Total current liabilities		127,990	120,122
Total equity and liabilities		2,149,020	1,980,604

(*) Restated figures, see note 2.b

Equity attributable to equity holders of the Parent

	Capital	Share premium	Legal reserve	Other reserves	Profit for the year	Total	Non-controlling interests	Total equity
Balance at 31 December 2015	100,000	105,433	20,000	557,569	34,412	817,414	23	817,437
Profit for 2016	-	-	-	-	48,717	48,717	1	48,718
Actuarial gains/(losses) on defined benefit plans	-	-	-	(500)	-	(500)	-	(500)
Dividends	-	-	-	(70,300)	-	(70,300)	-	(70,300)
Other movements	-	-	-	4	-	4	-	4
Distribution of profit for 2015	-	-	-	34,412	(34,412)	-	-	-
Balance at 31 December 2016	100,000	105,433	20,000	521,185	48,717	795,335	24	795,359

Equity attributable to equity holders of the Parent

	Capital	Share premium	Legal reserve	Other reserves	Profit for the year	Total	Non-controlling interests	Total equity
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/(losses) on defined benefit plans	-	-	-	416	-	416	-	416
Shareholder contribution	-	-	-	100,000	-	100,000	-	100,000
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

The accompanying notes 1 to 38 form an integral part of the consolidated annual accounts.

	Note	2016	2015
Cash flows from operating activities			
Profit for the year before tax		54,284	48,288
<i>Adjustments for:</i>			
Depreciation and amortisation	7 and 8	69,829	57,824
Impairment losses on non-current assets		876	-
Change in provisions	24 and 25	(1,480)	(971)
Government grants taken to income	27	(1,490)	(717)
Finance income		(348)	(175)
Finance costs		28,871	24,986
Other adjustments		-	1,947
		150,542	131,181
Changes in working capital			
Inventories		(3,545)	(876)
Trade and other receivables		(17,908)	(1,437)
Other current assets		2,799	(797)
Trade and other payables		(5,664)	5,548
Other current liabilities		164	223
Other non-current assets and liabilities		3,833	2,105
		(20,320)	4,766
Cash generated from operations			
Interest and commissions paid		(25,945)	(21,294)
Interest received		312	175
Income tax paid		(3,336)	(11,522)
		130,222	135,948
Net cash from operating activities			
		101,252	103,307
Cash flows from investing activities			
Payments for purchases of distribution and LPG assets in use		(124,473)	(72,092)
Payments for acquisition of subsidiaries		-	(189,498)
Payments for acquisition of property, plant and equipment and intangible assets		(101,837)	(93,674)
		(226,310)	(355,264)
Cash flows from financing activities			
Shareholder contributions		-	100,000
Payments for acquisition of financial assets		(16,226)	836
Payments of loans and borrowings		-	(75,000)
Proceeds from loans and borrowings		190,000	-
Proceeds from the issue of bonds and other marketable securities		-	247,300
Dividends paid		(70,300)	(40,000)
		103,474	233,137
Net cash from financing activities			
Net decrease in cash and cash equivalents		(21,584)	(18,820)
Cash and cash equivalents at 1 January		60,593	79,414
Cash and cash equivalents at 31 December		39,009	60,593

Consolidated Statement of Cash Flows for the Years Ended 31 December 2016 and 2015 (Expressed in thousands of Euros)

The accompanying notes 1 to 38 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. Ranillas, 1 (formerly called Avda. Pablo Ruiz Picasso, 61) bloque D, planta 2, 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. At their general meeting held on 27 February 2014, the Company's shareholders approved the change in the legal structure and the consequent amendment to the articles of association. On 28 February 2014 the agreement regarding this change was announced in the Official Gazette of the Mercantile Registry. On the same date the public deed relating to the change was executed and duly filed at the Mercantile Registry.

The statutory activity of Redexis Gas, S.A. primarily entails 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.

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 draft merger by absorption of the following companies that were wholly owned, either directly or indirectly, 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. The aim of the merger was to generate synergies while simultaneously achieving a more efficient structure. This merger was also approved by the governing

bodies of these companies. The effective date of the merger for accounting purposes was 1 January 2014. The merger took place under the special protection regime.

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

At their general meeting on 19 September 2014, the shareholders approved the merger by absorption on the terms 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 pertinent bodies, 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 with and into Redexis Gas, S.A. The merger was duly filed at 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 spin off the assets comprising the economic unit engaged in the primary transmission of natural gas from the Company to Redexis Infraestructuras, S.L.U. The effective date of the spin-off for accounting purposes is 1 January 2015. The spin-off was performed under the special regime provided 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 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 (hereinafter CNMC) on the requests for a ruling received 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. seeking to transfer ownership of their distribution and secondary transmission facilities, 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 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

63.4 of Hydrocarbon Law 34/1998 of 7 October 1998 and article 9.2, paragraph 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 spin-off of the natural gas primary transmission 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 pertinent 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 filed at the Mercantile Registry.

At 31 December 2016 and 2015 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 2016 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 2016 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 2016, authorised for issue on 16 February 2017, will be approved with no changes by the shareholders at their annual general meeting.

The annual accounts for 2016 have been prepared applying the same accounting principles as in the approved annual accounts for 2015.

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 may entail additional disclosures.

(a) Basis of preparation of the annual accounts

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

(b) Comparative information

The consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and the notes thereto for 2016 include comparative figures for 2015, which differ from those in the 2015 consolidated annual accounts approved by the shareholders at the annual general meeting held on 27 May 2016, as described below.

Restatement of figures

In 2016 the Company's directors restated the comparative figures

in the consolidated statement of financial position for assets transferred to the Company by a third party. While the Company is not the naked owner of these assets, the risks and rewards of ownership were transferred to the Company in prior years and not

recognised in the corresponding year. Under these circumstances and in accordance with IAS 8, which is applicable to this situation, these adjustments must be made retrospectively. Accordingly, the information for 2015 has been restated for the following items:

Thousands of Euros

	2015	Adjustments	2015 restated
Property, plant and equipment	983,414	12,657	996,071
Total non-current assets	1,853,449	12,657	1,866,106
Total assets	1,967,947	12,657	1,980,604

Thousands of Euros

	2015	Adjustments	2015 restated
Government grants	6,421	12,657	19,078
Total non-current liabilities	1,030,387	12,657	1,043,044
Total liabilities	1,967,947	12,657	1,980,604

Certain comparative figures in notes 7, 12, 27 and 36 have also been restated.

(c) Functional and presentation currency

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

(d) 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 under 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).
- The assumptions used in the actuarial calculation of pensions and other obligations to employees (see note 3.n).
- The probability of occurrence and amount of liabilities for uncertain amounts, contingent liabilities and/or decommissioning liabilities (see note 3.o).
- Recognition of revenue (see note 3.p).
- 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 stipulated in Spanish tax legislation (see note 3.q).

Considering that the estimates are calculated by the Company's directors based on the best information available at 31 December 2016, future events may require changes to these estimates in subsequent years. Any effect on the consolidated annual accounts of adjustments to be made in subsequent years 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 takes control, until the date that control ceases.

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 steering committee 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 based on the percentage ownership 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 network construction required

in properties until the supply points come into service. 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 asset based on its type.

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
Regulation and metering stations	Straight-line	20-30
Communal gas tanks	Straight-line	20
Distribution networks	Straight-line	20
Meter-reading equipment	Straight-line	10
Gas pipelines	Straight-line	40
LPG facilities	Straight-line	20
Other items of property, plant and equipment	Straight-line	4-20
Other installations, equipment and furniture	Straight-line	4-20
Transmission equipment	Straight-line	8

Transmission facilities are depreciated over their useful life according to the estimate made for items of property, plant and equipment. For gas pipelines this is 40 years and for regulation and metering stations it is 30 years. These estimates are in line with Royal Decree 326/2008 of 29 February 2008, which sets the remuneration for 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.

The Group has amended the estimated useful life of transmission assets that came into service prior to 31 December 2007, with effect for accounting purposes from 1

January 2016, in order to bring it into line with the estimated useful life of transmission assets that came into service after this date, increasing it from 30 to 40 years, which had the effect of reducing the depreciation charge for property, plant and equipment in 2016 by Euros 661 thousand.

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 applicable legal and regulatory requirements. 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 the replaced items 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 acquiree. 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.

Any excess of the consideration given, plus the value assigned to non-controlling interests, over 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 after identifying and measuring the 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 conduct or will conduct their activities, less any impairment. Costs incurred in relation to and prior to obtaining government authorisation are initially recognised under intangible assets and subsequently transferred to the income statement if the Group has reasonable doubts as to whether authorisation will be obtained.

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 has estimated that government authorisation or licences for the distribution and transmission of gas have an indefinite useful life as, in accordance with the legal framework under which they were granted, they 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 that unit, except goodwill, pro rata with the carrying amounts of the 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, upon inception, substantially all the risks and rewards incidental to ownership of the leased asset are transferred to the Company. Otherwise they are classified as operating leases.

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 on financial assets carried at amortised cost is measured as 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 of the assets had the impairment loss not been recognised.

Financial liabilities

Trade payables, loans and borrowings and amounts payable on the issue of 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.

(j) 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.

(k) 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 taxation 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.

(l) 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.

(m) Government grants

Government grants are recognised when there is reasonable assurance that the Group will comply with the conditions attaching to them, and that the grants will be received.

Capital grants awarded to the Group are primarily to carry out works and are non-refundable. These grants are measured at the fair value of the sum received, and 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 installation works and operations required to serve new gas supply points or extend existing ones. These connection charges are recognised as income in proportion to the annual depreciation of the assets being financed (20 years), or over the period specified in the contract if this is shorter, or, where applicable, when the assets are disposed of or impaired.

(n) Employee benefits

Defined benefit plans

The Group has pension obligations with certain employees, which vary depending on the company they worked for prior to the merger (see note 1). 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 that are updated annually.

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 113 thousand in this respect at 31 December 2016 (Euros 654 thousand at 31 December 2015) (see note 24).

The Group recognises all the expenses relating to these plans when the obligation arises, based on the actuarial

studies conducted to calculate the provision for actuarial commitments at each year end. Actuarial gains or losses each year are recognised in the consolidated income statement for that year.

(o) 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.

(p) Recognition of revenue

Revenue 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 further on.

New user contract fees are recognised as revenues in the year in which the supply is arranged.

Revenues from the rendering of services are only recognised when the amount of revenues, the stage of completion, the costs incurred and the costs to complete the transaction can be estimated reliably and it is probable that the economic benefits derived from the transaction will flow to the Group. These revenues are recognised based on the stage of completion of the service at the reporting date.

Distribution activity

Revenues received as remuneration for distribution activity each year are set 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 that year. As a result, the amount of remuneration is subject to change for up to two years, until the definitive data on demand and new customers is available for the year analysed. Ministry of Energy, Tourism and the Digital Agenda Order ETU/1977/2016, published on 23 December 2016, adjusted the remuneration for 2016 and 2015 based on the most up-to-date figures on sales and consumers.

Ministry of Energy, Tourism and the Digital Agenda Order ETU/1977/2016 of 23 December 2016 set the distribution activity remuneration for 2017 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 the deficit in the settlement system.

This distribution activity remuneration will be adjusted once the final amounts of this remuneration have been set by the Spanish Ministry of Energy, Tourism and the Digital Agenda 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 2016 the Group received the final settlement for regulated activities in the gas sector for 2014 and 2015,

which had an immaterial impact on the consolidated income statement. The 2014 deficit in the gas sector, which includes the deficits accumulated in prior years, closed the year at Euros 1,025 million, which regulated entities will be able to recover in fifteen consecutive annual payments from 25 November 2016 until 24 November 2031 at market interest rates. This interest rate has yet to be determined (article 66.a of Law 18/2014). However, Ministry of Energy, Tourism and the Digital Agenda Order ETU/1977/2016 proposes a provisional rate of 1.104% in accordance with the proposal of the CNMC. The 2015 deficit in the gas sector closed the year at Euros 27 million, which regulated entities will be able to recover in five annual payments (from 25 November 2016 to 24 November 2021) at a market interest rate that has also yet to be determined. However, Ministry of Energy, Tourism and the Digital Agenda Order ETU/1977/2016 proposes a provisional rate of 0.836% in accordance with the proposal of the CNMC.

In accordance with Orders ITC/3126/2005, IET 2446/2013 and IET 2355/2014 and the gas system technical management standards (NGTS), the Group has recognised measurement differences (known as unaccounted for gas) as regulated distribution revenue in the consolidated income statements for 2016 and 2015 in the amount of Euros 1,563 thousand and Euros 1,431 thousand, respectively (see note 29). In 2015 the measurement differences for 2008 to 2012 and those for 2014 were settled.

Transmission activity

The remuneration for transmission activity in 2015 and 2016 is stipulated in Orders IET/2445/2014 and IET/2736/2015. The remuneration for uninterrupted supply and the remuneration to be awarded for pipelines brought into service in 2016 have been adjusted in Ministry of Energy, Tourism and the Digital Agenda Order ETU/1977/2016 in accordance with the parameters established in 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 the deficit in the settlement system.

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 the level of use of this infrastructure more accurately, this being the source of the revenues to cover their cost. For this purpose, with regard to 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 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 legislation plus 50 basis points”.

In contrast to this measure, a new remuneration component was introduced, defined as remuneration for uninterrupted supply, which is variable remuneration linked to the overall demand channelled 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 set 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. Ministry of Energy, Tourism and the Digital Agenda Order ETU/1977/2016 published on 23 December 2016 adjusted the remuneration for uninterrupted supply for 2016, 2015 and 2014 based on the most up-to-date demand figures for the sector and the replacement value of companies in 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 Energy, Tourism and the Digital Agenda 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 award, update and publish the remuneration on account for transmission facilities that have come into service since 1 January 2008. However, since the Ministry did not have access to sufficient information when drawing up the Orders, it calculated the remuneration on account.

The Group records revenue based on its estimate of the remuneration pursuant to applicable legislation and in line with the level of investment.

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 unaccounted for gas) as regulated transmission revenue in the consolidated income statements for 2016 and 2015 in

the amount of Euros 407 thousand and Euros 254 thousand, respectively (see note 29). In 2016 the measurement differences for 2011 to 2012 were settled.

The Group is also subject to the following regulatory framework, among others:

- 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 reporting system for gas 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, which regulates transmission, distribution, trading and supply activities and the authorisation procedures for natural gas facilities.

(q) 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 period. Current tax assets or liabilities are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and tax laws that have been enacted or substantially enacted 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

The Group recognises deferred tax liabilities 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 provided that it is probable that sufficient taxable profit will be available against which they can be utilised or when tax legislation envisages the possibility of converting deferred tax assets into a receivable from public entities in the future. Nonetheless, assets arising from the initial recognition of 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, are not recognised.

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 taxation 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 loss carryforwards 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 taxation 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 taxation

The Redexis Gas Group, which is composed of the companies indicated in Appendix I, files consolidated tax returns. Redexis Gas Murcia, S.A. joined the tax group in 2016.

In addition to the factors to be considered for individual taxation, 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 obtained the profit necessary to obtain the right to the deduction or tax credit.

(r) 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.

(s) Environment

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.

Property, plant and equipment acquired by the Group for long-term use 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 note 3 (d).

(4) Sector Regulation

The regulatory framework for the natural gas sector in Spain is based on Hydrocarbon Law 34/1998, in part enacted by Royal Decrees 949/2001 and 1434/2002. The first of these Royal Decrees regulates third-party access to gas facilities and establishes an integrated economic system for the natural gas sector; the second regulates transmission, distribution, trading 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. The law introduces certain measures that update the regulatory-economic framework, the most salient of which are as follows:

- 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 infrastructure, while sustaining the principle of adequate remuneration for investments in regulated assets, and security of supply. It therefore establishes the principle of economic and financial sustainability of the gas system, such that 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 annual temporary imbalances in the settlement system, through the automatic review of tolls when certain thresholds are exceeded. If these thresholds are not exceeded, the imbalances are financed by the parties subject to the settlement system in proportion to their remuneration, generating rights to receivables in the following five years, with a market interest rate 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 no automatic update formulas will be applied to the remuneration of any of the activities. However, as the regulatory reform was 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 (as described in note 3 (p)) was undertaken of the remuneration from all activities, encompassing all assets, including those already in service.

(5) Business Combinations

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.). The registered office of Redexis Gas Murcia, S.A. is located in Murcia. This company's principal activity is the distribution and secondary transmission of natural gas, and the distribution and sale of liquefied petroleum gas through pipelines. The acquiree generated revenue of Euros 21,257 thousand and consolidated profit of Euros 531 thousand for the Group from the acquisition date to the reporting date.

The purchase of Redexis Gas 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 drawdown from the credit facility mentioned in note 21, while the remaining Euros 36,071 thousand was settled in 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 given, 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

By significant class, the amounts recognised 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 property, plant and equipment (note 7)	165,027
Under construction (note 7)	1,946
Goodwill (note 8)	7,706
Licences (note 8)	22,517
Non-current investments	24
Trade and other receivables	4,610
Current investments	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 interests	(23)
Total net assets acquired	125,859
Cash outflow for the acquisition	125,859

The Group recognised Euros 1,448 thousand of transaction costs under other non-recurrent operating expenses in the consolidated income statement for 2014.

The goodwill arising on the business combination amounts

to Euros 7,706 thousand and essentially comprises the future economic benefits from the ordinary activities of the acquiree, which did not qualify for recognition as a separate asset. The goodwill generated is not expected to be tax-deductible.

(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-purchase agreement was signed 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-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 Redexis Gas 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 drawdown from the credit facility mentioned in note 20, while the remaining Euros 36,071 thousand was settled in cash generated by the Company.

(b) Non-controlling interests

Non-controlling interests reflect the 0.02% equity investment in Redexis Gas Murcia, S.A.

(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 Coöperatieve, U.A. and Augusta Global Coöperatieve, U.A. (same shareholders as the Parent). Its principal activity is the issue of bonds.

This structured entity carried out the following: (i) a Euros 650,000 thousand bond issue in April 2014, which is guaranteed by the Parent, under the Euro Medium Term Note Programme (EMTN Programme); (ii) a further Euros 250,000 thousand bond issue in April 2015, which is guaranteed by the Parent, under the Euro Medium Term Note Programme (EMTN Programme) (see note 19).

Redexis Gas Finance B.V. is a structured entity that has been consolidated primarily because at 31 December 2016 and 2015 the Parent has issued guarantees amounting to Euros 900,000 thousand to bondholders of this company. The guarantees require the Parent to 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 2016 and 2015 are as follows:

Thousands of Euros

	Land and buildings	Technical installations and other items	Under construction and advances	TOTAL
Cost at 31 December 2015	10,435	1,433,147	53,439	1,497,021
Additions	-	124,473	91,126	215,599
Transfers	824	87,381	(88,205)	-
Disposals	-	(10,422)	(556)	(10,978)
Cost at 31 December 2016	11,259	1,634,579	55,804	1,701,642
Accumulated depreciation at 31 December 2015	(304)	(500,646)	-	(500,950)
Depreciation	(156)	(65,679)	-	(65,835)
Disposals	-	10,320	-	10,320
Accumulated depreciation at 31 December 2016	(460)	(556,005)	-	(556,465)
Carrying amount at 31 December 2016	10,799	1,078,574	55,804	1,145,177

Thousands of Euros

	Land and buildings	Technical installations and other items	Under construction and advances	TOTAL
Cost at 31 December 2014	9,020	999,852	26,689	1,035,561
Additions	-	72,092	119,053	191,145
Additions due to business combinations (Redexis Gas Murcia)	1,139	265,646	1,946	268,732
Transfers	276	95,557	(94,249)	1,584
Cost at 31 December 2015	10,435	1,433,147	53,439	1,497,021
Accumulated depreciation at 31 December 2014	(150)	(344,826)	-	(344,976)
Depreciation	(154)	(55,201)	-	(55,355)
Additions due to business combinations (Redexis Gas Murcia)	-	(100,619)	-	(100,619)
Accumulated depreciation at 31 December 2015	(304)	(500,646)	-	(500,950)
Carrying amount at 31 December 2015	10,131	932,501	53,439	996,071

The most significant additions in 2016 are the following:

- construction of transmission pipelines;
- extension of distribution networks in new municipalities and in locations already served by the Group;
- purchases of LPG networks and facilities for Euros 124,473 thousand.

The most significant additions in 2015 are the following:

- construction of transmission pipelines;
- extension and acquisition of distribution networks in new municipalities and in locations already served by the Group, most notably the purchase of more than 416 thousand metres of distribution network (excluding connections) and 22 regulation and metering stations and/or metering stations for Euros 51,131 thousand in the provinces of Madrid, Castilla y León, Extremadura, Murcia and Gerona;
- purchases of LPG networks and facilities, which have been effectively transferred, for Euros 21,114 thousand.

In 2016 construction of the following pipelines was completed:

- “Cas Tresorer – Manacor – Felanitx” primary transmission pipeline (stage II)
- “Villanueva del Arzobispo – Castellar” secondary transmission pipeline

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)

At 31 December 2016, 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 5,773 thousand and Euros 5,026 thousand, respectively, at the 2016 year end (Euros 6,149 thousand and Euros 3,982 thousand, respectively, at the 2015 year end).

At 29 December 2016 Cepsa Comercial Petróleo, S.A.U. and the Parent Redexis Gas, S.A. entered into a framework agreement

for the purchase and conveyance of LPG networks and facilities serving around 4.7 thousand supply points, for approximately Euros 7,500 thousand. The CNMC has been formally notified and this Commission issued its authorisation of the transaction, with no reservations, on 2 February 2017. Progressive reception of these networks is expected during 2017, as described in the related conveyance agreements, whereupon they will be considered effectively transferred.

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 networks and facilities serving around 72 thousand supply points, for approximately Euros 136,000 thousand. After receiving the CNMC’s approval for the operations, these agreements for the conveyance of LPG networks and facilities were executed in a public deed. The networks were received progressively during 2016, as described in the related conveyance agreements, such that they are now deemed to be effectively transferred. At 31 December 2015, LPG networks and facilities serving approximately 10 thousand of the aforementioned total supply points had been received.

Moreover, in June 2016 Repsol Butano, S.A. and the Company entered into a new framework agreement for the purchase and conveyance of LPG networks and facilities for an approximate total of Euros 6,190 thousand, which serve some 3.4 thousand supply points. After receiving the CNMC’s approval for the operation, the conveyance of the LPG networks and facilities was executed in a public deed. The networks were received progressively during 2016, such that they have now been effectively transferred.

Finally, on 31 January 2017 Repsol Butano, S.A. and the Company executed public deeds under numbers 184 and 185 of the protocol whereby the parties adjusted the delivery status of the facilities to reflect those effectively delivered under the different sale-purchase agreements referred to previously.

At 31 December 2016, the Group has recognised gas plant decommissioning costs of Euros 388 thousand under property, plant and equipment (Euros 388 thousand at 31 December 2015). 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.

The Group has taken out insurance policies to cover the risk of damage to its property, plant and equipment. The cover provided by these policies is considered sufficient.

The cost of fully depreciated property, plant and equipment in use at 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Buildings	96	96
Technical installations and machinery	110,836	104,165
Other installations, equipment and furniture	1,335	1,139
Other property, plant and equipment	325	343
	112,592	105,743

(8) Intangible Assets

Details of intangible assets and movement during the years ended 31 December 2016 and 2015 are as follows:

	Thousands of Euros				
	Licences	Goodwill	Computer software	Other intangible assets	TOTAL
Cost at 31 December 2015	542,914	220,098	22,518	4,038	789,568
Additions	-	-	4,857	648	5,506
Disposals	-	-	-	(645)	(645)
Cost at 31 December 2016	542,914	220,098	27,376	4,040	794,429
Accumulated amortisation at 31 December 2015	-	(924)	(13,274)	(640)	(14,838)
Amortisation	-	-	(3,882)	(112)	(3,994)
Accumulated amortisation at 31 December 2016	-	(924)	(17,155)	(752)	(18,832)
Accumulated impairment at 31 December 2015	-	-	-	(29)	(29)
Accumulated impairment at 31 December 2016	-	-	-	(29)	(29)
Carrying amount at 31 December 2016	542,914	219,175	10,220	3,259	775,568

Thousands of Euros

	Licences	Goodwill	Computer software	Other intangible assets	TOTAL
Cost at 31 December 2014	520,397	213,977	17,566	3,013	754,953
Additions	-		4,952	1,024	5,976
Additions due to business combinations (Redexis Gas Murcia)	22,517	7,706	-	-	30,223
Transfers	-	(1,584)	-	-	(1,584)
Cost at 31 December 2015	542,914	220,098	22,518	4,038	789,568
Accumulated amortisation at 31 December 2014	-	(924)	(10,874)	(571)	(12,369)
Amortisation	-	-	(2,399)	(69)	(2,469)
Accumulated amortisation at 31 December 2015	-	(924)	(13,274)	(640)	(14,838)
Accumulated impairment at 31 December 2014	-	-	-	(29)	(29)
Accumulated impairment at 31 December 2015	-	-	-	(29)	(29)
Carrying amount at 31 December 2015	542,914	219,175	9,245	3,368	774,702

The goodwill arising on the business combination carried out in 2010, amounting to Euros 213,053 thousand, and that generated on the business combination carried out in 2015 (see note 5) amounting to Euros 7,706 thousand, essentially comprises 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 2016 and 2015, by cash-generating unit (CGU), are as follows:

Thousands of Euros

	2016	2015
Gas distribution	52,912	52,912
Gas transmission	166,263	166,263
	219,175	219,175

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 2016 and 2015 is as follows:

Thousands of Euros		
	2016	2015
Gas distribution	333,493	333,493
Gas transmission	209,421	209,421
	542,914	542,914

The cost of fully amortised intangible assets in use at 31 December 2016 and 2015 is as follows:

Thousands of Euros		
	2016	2015
Computer software	11,057	9,736
Other intangible assets	210	94
	11,267	9,830

(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 cash flow projections from the financial budgets approved by management for the 2017-2031 period. The recoverable amount includes a terminal value calculated from 2031 onwards using an average perpetual growth rate of 2%. A discount rate of 6% was used.

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 have been allocated are expected to generate sufficient cash flow

to recover the value of the goodwill, intangible assets with indefinite useful lives recognised at 31 December 2016.

Following a sensitivity analysis entailing different scenarios,

impairment of the recoverable amount would only occur if the discount rate were increased by 50.4%, or if the discount rate were increased by 35.7% while the growth rate (g) were simultaneously brought down to zero, over a period of 15 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	
	2016	2015	2016	2015
Loans and receivables				
Loans	2,150	2,094	74	48
Security and other deposits	5,047	5,044	133	133
Other financial assets	57	2	44,744	2,131
Trade and other receivables				
Trade receivables	-	-	39,351	26,854
Other receivables	11,481	23,369	18,968	17,617
Total financial assets	18,735	30,509	103,271	46,784

No impairment was recognised on loans and receivables in 2016 or 2015.

Details of these items are provided in notes 11 and 14.

(11) Current and Non-Current Financial Assets

Details of current and non-current financial assets at 31 December 2016 and 2015 are as follows:

	Thousands of Euros			
	2016		2015	
	Non-current	Current	Non-current	Current
Security deposits paid	5,047	133	5,044	133
Loans to related parties	2,142	-	2,071	-
Loans to employees and other	8	74	23	48
Other financial assets	57	44,745	2	2,131
Total	7,254	44,952	7,140	2,313

At 31 December of 2016 Other current financial assets essentially reflect the deficit recognised by the gas system up to 2014, which provisionally earns interest at 1.10%. The Company expects this receivable to be settled in the coming year in an amount of Euros 44,163 thousand. This item also includes bank deposits to secure certain guarantees vis-à-vis the Group, amounting to Euros 582 thousand.

Security deposits paid essentially comprise the balances lodged with public entities in respect of deposits received

from customers when a service is arranged, as required by legislation in force. These security deposits are maintained throughout the duration of the customer's contract with the supplier, when their distribution company is a Group company.

Loans to related parties reflect the loan extended by Redexis Gas Finance, B.V. to the Group's majority shareholders, which earns annual interest at a rate of 3.39% and falls due in 2021.

(12) 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 taxation regime regulated in Title VII, Chapter VII of the now repealed Royal Legislative Decree 4/2004 of 5 March 2004, which approved the Revised Corporate Income Tax Law.

Thus, the Company is the parent of a tax group formed by the subsidiaries listed in Appendix I hereto, with the addition of Redexis Gas Murcia, S.A. as of 2016.

Details of deferred tax assets and liabilities by type of asset and liability are as follows:

2016

	Thousands of Euros		
	Assets	Liabilities	Net
Property, plant and equipment	1,373	(41,301)	(39,928)
Goodwill	-	(669)	(669)
Deferred income	-	(8,814)	(8,814)
Intangible assets	-	(69,196)	(69,196)
Provisions	916	-	916
Depreciation and amortisation	5,410	-	5,410
Personnel remuneration	1,335	-	1,335
Finance costs	29,977	-	29,977
	39,011	(119,980)	(80,969)
Tax loss carryforwards	18,810	-	18,810
Net assets and liabilities	57,821	(119,980)	(62,159)

2015

	Thousands of Euros		
	Assets	Liabilities	Netos
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
Depreciation and amortisation	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)

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 in 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. Investments in distribution assets are depreciated over a period of 20 years for accounting purposes and one year for tax purposes. Investments in transmission assets

are depreciated 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 combinations.

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 property, plant and equipment, intangible assets and goodwill at 1 January 2014 was Euros 23,846 thousand, Euros 245,314 thousand and Euros 6,030 thousand, respectively.

On 23 December 2015, the Company requested a ruling from the Directorate-General of Taxes as to whether the

tax loss carryforwards of the absorbed subsidiaries (Redexis Gas Transportista and Redexis Gas Distribución), arising from temporary differences to be reversed in the future, should be calculated as a reduction in the deductible merger difference, as was the case with the accelerated depreciation applied by these companies in 2009, 2010 and 2011. On 26 December 2016 the Company received a positive response to its query, stating that the tax loss carryforwards of the absorbed subsidiaries arising from temporary differences to be reversed in the future should not be calculated as a reduction in the deductible merger difference. As a result, the tax value of intangible assets and goodwill in 2016 increased by Euros 29,525 thousand and Euros 45,098 thousand, respectively. In 2016 the Group therefore reversed the Euros 7,441 thousand deferred tax liability in the consolidated income statement.

Pursuant to Law 16/2012 of 27 December 2012, which introduced several tax measures to consolidate public finances and boost economic activity, depreciation of property, plant and equipment and amortisation of intangible assets was limited to 70% of the depreciation and amortisation charge for accounting purposes for the 2013 and 2014 tax periods. Consequently, the Group has recognised deferred tax assets of Euros 5,410 thousand in 2016 (Euros 6,110 thousand in 2015). As of 2015, any depreciation and amortisation that was not deducted for tax purposes in the tax periods commenced in 2013 and 2014, due to the aforementioned limit, may be deducted on a straight-line basis over a period of 10 years, or over the useful life of the assets. The Company has opted for the 10-year reversal period.

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 2016 the Group therefore recognised deferred tax assets for the tax effect of non-deductible finance costs arising from the settlement of income tax for 2012, 2013 and 2014 in an amount of Euros 29,977 thousand (Euros 34,336 thousand in 2015), of which Euros 20,512 thousand reflects undeducted finance costs in respect of interest accrued on the participating loans

extended by the Group's shareholders. Until 2014, the tax group could deduct these non-deductible net finance costs in the 18 consecutive tax periods immediately following the year the costs were incurred. However, this 18-year time limit was eliminated when Law 27/2014 came into force on 1 January 2015. As such, net finance costs not previously deducted can now be deducted in subsequent tax periods, with no time limit.

In accordance with legislation in force, the Group may offset its tax loss carryforwards for the 2015 and 2016 tax periods up to a maximum of 25% of taxable income before the offset. In its provisional calculation of income tax for 2016, the tax group has offset tax losses of Euros 8,929 thousand (Euros 10,171 thousand in the definitive income tax return for 2015).

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 amended the income tax rate. The tax rate is 25% for periods commencing on or after 1 January 2016, and for 2015 it was 28%. The Group adjusted all of its deferred tax assets and liabilities based on a tax rate of 25%, except for deferred tax assets arising from non-deductible amortisation and depreciation in view of the application of Law 16/2012 of 27 December 2012. In this respect, transitional provision 37 of the CIT Law provides for a deduction in total income tax of 5% of the amounts included in taxable income for the tax period, for depreciation and amortisation not deducted in tax periods starting in 2013 and 2014. This deduction was 2% for 2015 tax period.

Although the income tax estimate provided does not include any deductions in this respect, the tax group could include such deductions in the income tax self-assessment it ultimately files.

Details of total current and deferred income tax in relation to items recognised directly in other comprehensive income and in equity during 2016 and 2015 are as follows:

Thousands of Euros

	2016		2015	
	Current	Deferred	Current	Deferred
Actuarial gains and losses	-	(167)	-	(155)
	-	(167)	-	(155)

Details of the income tax expense are as follows:

Thousands of Euros

	2016	2015
Current tax		
Present year	9,023	11,933
Adjustment of prior years	(513)	516
Deferred tax		
Origination and reversal of temporary differences	1,558	2,149
Finance costs	4,366	3,092
Accelerated depreciation and amortisation	(1,525)	(1,708)
Depreciation and amortisation	675	678
Salaries payable	(236)	(117)
Goodwill	(1,725)	596
Provisions	3	(392)
Income due to reduction of deferred tax liability arising from merger	(7,441)	-
Changes in tax rates	-	(181)
Income tax expense for the year (companies)	2,627	14,417
Adjustments and eliminations on consolidation	2,940	(542)
Income tax expense for the year (Group)	5,567	13,875

A reconciliation of current tax with current income tax liabilities is as follows:

	Thousands of Euros	
	2016	2015
Current tax	9,023	11,933
Tax loss carryforwards offset and recognised in prior years	(2,232)	(2,848)
Income tax payable for the year (Group)	6,791	9,085
Payments on account during the year	(3,365)	(7,989)
Withholdings	(1)	-
Current income tax liabilities	3,424	1,096

The relationship between the income tax expense and profit for the year is as follows:

	Thousands of Euros	
	2016	2015
Profit for the year before tax	54,284	48,288
Tax at 25% (28% in 2015)	13,571	13,521
Adjustment of prior years	(513)	516
Income due to reduction of deferred tax liability arising from merger	(7,441)	-
Effect of differences in tax rates	-	(193)
Other net movements	(50)	31
Income tax expense for the year (Group)	5,567	13,875

The Group has recognised the tax effect of unused tax loss carryforwards as deferred tax assets, the amounts and reversal periods of which are as follows:

At 31 December 2016

Company / Year	THOUSANDS OF EUROS
Redexis Gas, S.A. Group / 2011	75,240
Total	75,240

At 31 December 2015

Company / Year	THOUSANDS OF EUROS
Redexis Gas, S.A. Group / 2010	952
Redexis Gas, S.A. Group / 2011	82,673
Total	83,625

In accordance with current legislation, taxes cannot be considered definitive until they have been inspected by the taxation authorities or before the inspection period of four years has elapsed.

In 2016 the taxation authorities carried out an inspection of corporate income tax and value added tax for 2013 and 2014 of Redexis Gas, S.A. and Redexis Gas Aragón, S.A.

The Group has accepted the additional taxes raised in the inspection of corporate income tax, resulting in a Euros 9 thousand increase in corporate income tax payable, plus late payment interest. These amounts have been settled. No penalty proceedings were instituted as a result of the inspection. The outcome of the VAT examination was verified and accepted.

Moreover, the taxation authorities have issued a settlement to reduce undeducted net finance costs arising in 2013 and 2014 and available for application in future years in amounts of Euros 35,295 thousand and Euros 9,379 thousand. In each respective year, the inspection team has classified certain participating loans extended to the Company as capital contributions from the Group's shareholders, and therefore does not consider the finance costs accrued in connection with these loans in 2013 and 2014 as

tax deductible. The Company deems the proposed adjustment unlawful and has therefore filed an administrative appeal against the settlement at the Central Economic-Administrative Tribunal. The Company also considers that there are sufficient legal grounds to support the criteria applied by the Group.

In 2015 the taxation authorities carried out an inspection of corporate income tax for 2010, 2011 and 2012 and value added tax for 2011 and 2012 of Redexis Gas, S.A., Redexis Gas Aragón, S.A. and Redexis Gas Transporte, S.L. The Group has accepted the additional taxes raised in the inspection of corporate income tax, resulting in a Euros 1,474 thousand increase in corporate income tax payable, plus late payment interest. These amounts have been settled. No penalty proceedings were instituted as a result of the inspection. The outcome of the VAT examination was verified and accepted.

Moreover, the taxation authorities have issued a settlement to increase corporate income tax payable for 2010 by Euros 348 thousand plus late payment interest, to reduce tax loss carryforwards generated in 2011 by Euros 35,295 thousand, and to reduce undeducted net finance costs arising in 2012 and available for application in future years by Euros 35,391 thousand. In each respective year, the inspection team has classified

certain participating loans extended to the Company as capital contributions from the Group's shareholders, and therefore does not consider the finance costs accrued in connection with these loans in 2010, 2011 and 2012 as tax deductible. The Company deems the proposed adjustment unlawful and has therefore filed an administrative appeal and has lodged its submissions against the settlement at the Central Economic-Administrative Tribunal. The Company also considers that there are sufficient legal grounds to support the criteria applied by the Group.

Due to different possible interpretations of prevailing tax legislation, 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 the end of 2016, the remaining Group companies not mentioned above have open to inspection all other applicable taxes for the last four years.

(13) Inventories

Inventories amounting to Euros 4,817 thousand at 31 December 2016 (Euros 1,272 thousand at 31 December 2015) are primarily LPG inventories, as in 2015. The rise in inventories is due to the acquisition of the facilities and LPG

described in note 7.

At 31 December 2016 and 2015, the Group had no commitments to purchase or sell gas.

(14) Trade and Other Receivables

Details of trade and other receivables are as follows:

Thousands of Euros

	2016		2015	
	Non-current	Current	Non-current	Current
Trade receivables	-	39,821	-	27,718
Receivables, settlements pending	11,481	17,708	23,369	16,411
Other receivables	-	1,542	-	1,403
Advances to personnel	-	-	-	51
Less impairment due to uncollectibility	-	(752)	-	(1,111)
Total	11,481	58,319	23,369	44,472

Trade receivables primarily comprise balances receivable from suppliers of natural gas for tolls invoiced and propane gas invoiced to end customers.

At 31 December 2016 receivables, settlements pending under non-current primarily reflect the cumulative deficit in the gas system attributable to the Group for 2015 and 2016. The amount corresponding to 2015 was determined in the final 2015 settlement published in November 2016, and the 2016 deficit is an estimate pending publication of the definitive 2016 settlement.

The cumulative deficit at 2014 was determined in the final 2014 settlement published in November 2016, and has been

reclassified to other current financial assets as sales are expected in the coming year.

As provided in Law 18/2014 of 15 October 2014, parties subject to the settlement system will be entitled to recover the annual amounts of this cumulative deficit in the settlements for the next 15 years and accrue interest at market rates.

Receivables, settlements pending under current reflect settlements and measurement differences receivable from the gas system.

Movement in impairment due to uncollectibility is as follows:

	Thousands of Euros	
	2016	2015
Balance at 1 January	(1,111)	(1,612)
Additions due to business combination (Redexis Gas Murcia)	-	(35)
Cancellations	360	536
Balance at 31 December	(752)	(1,111)

Past-due unimpaired trade receivables amounting to Euros 80 thousand at 31 December 2016 (Euros 317 thousand at

31 December 2015) reflect balances receivable from local corporations for which no credit risk is foreseen.

(15) Other Current Assets

Details of other current assets are as follows:

	Thousands of Euros	
	2016	2015
Public entities		
Taxation authorities, recoverable VAT	4,255	5,557
Taxation authorities, withholdings	38	60
Other	28	32
Prepayments	301	199
Total	4,621	5,848

(16) Cash and Cash Equivalents

Details of cash and cash equivalents are as follows:

	Thousands of Euros	
	2016	2015
Cash in hand and at banks	39,009	60,593
	39,009	60,593

(17) Equity

Details of equity and movement during the year are shown in the consolidated statement of changes in equity.

(a) Capital

At 31 December 2016 and 2015 the share capital of the Company amounted to Euros 100,000 thousand, represented by 10,000,000 shares of Euros 10 par value each, subscribed and fully paid.

At 31 December 2016 and 2015 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) Reserves

Details of reserves are as follows:

	Thousands of Euros	
	2016	2015
Legal reserve	20,000	20,000
Other shareholder contributions	410,135	480,135
Other reserves	111,050	77,434
	541,185	577,569

Legal reserve

The legal reserve has been appropriated in compliance with article 274 of the Revised Spanish Companies Act, which requires that companies 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 2016 and 2015, the Company had appropriated to this reserve the minimum amount required by law, i.e. Euros 20 million (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 to purchase shares in Gas Energía Distribución de Murcia S.A., which have been written down due to dividends paid

in the amount of Euros 70,000 thousand, Euros 40,000 thousand and Euros 18,500 thousand in 2016, 2015 and prior years, 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 was appropriated in compliance with article 273.4 of the Revised Spanish Companies Act, which required companies to constitute a non-distributable reserve equal to the amount of goodwill recognised in the Company's individual statement of financial position. However, the amendment to article 39.4 of the Spanish Code of Commerce in 2016 provided for the systematic amortisation of goodwill (in annual accounts prepared under Spanish GAAP), thus eliminating the obligation to appropriate this reserve.

At 31 December 2016 other reserves include goodwill reserves amounting to Euros 21,226 thousand (Euros 10,653 thousand at 31 December 2015), which are non-distributable until the carrying amount of goodwill is lower than the amount of this reserve in the annual accounts of each Group company.

Details of reserves contributed by each Group company at 31 December 2016 and 2015 are as follows:

	Thousands of Euros	
	2016	2015
Redexis Gas, S.A.	522,467	575,335
Redexis Gas Finance, B.V.	2,297	2,249
Redexis Gas Murcia, S.A.	531	-
Redexis Gas Servicios, S.L.U.	(6)	(5)
Redexis GLP, S.L.U.	(6)	(5)
Redexis Infraestructuras, S.L.U.	15,902	(5)
	541,185	577,569

(d) Dividends

In May 2016 the parent Company distributed Euros 70,000 thousand in dividends to shareholders, equivalent to Euros 7 per share, with a charge to its freely distributable reserves. Furthermore, Redexis Gas Finance, BV distributed a dividend of Euros 300 thousand in May 2016 with a charge to reserves.

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.

(e) Profit/loss for the year

Details of profit/loss for the year contributed by each Group company at 31 December 2016 and 2015 are as follows:

	Thousands of Euros	
	2016	2015
Redexis Gas, S.A.	29,896	17,632
Redexis Gas Finance, B.V.	488	345
Redexis Gas Servicios, S.L.U.	(5)	(1)
Redexis GLP, S.L.U.	(119)	(1)
Redexis Gas Murcia, S.A.	911	531
Redexis Infraestructuras, S.L.U.	17,548	15,906
	48,718	34,412

(18) 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	
	2016	
	Carrying amount Non-current	Carrying amount Current
Debts and payables		
Bonds and other listed marketable securities	888,312	16,506
Loans and borrowings		
Variable rate	30,000	354
Fixed rate	159,796	930
Security and other deposits received	4,452	-
Other financial liabilities	231	-
Trade and other payables		
Suppliers and payables	-	13,078
Suppliers of fixed assets	-	66,027
Other payables	-	23,834
Total financial liabilities	1,082,792	120,729

	Thousands of Euros	
	2015	
	Carrying amount Non-current	Carrying amount Current
Debts and payables		
Bonds and other listed marketable securities	886,428	16,239
Loans and borrowings	-	306
Variable rate		
Security and other deposits received	4,274	1
Other financial liabilities	231	-
Trade and other payables		
Suppliers and payables	-	8,094
Suppliers of fixed assets	-	71,668
Other payables	-	19,669
Total financial liabilities	890,933	115,977

At 31 December 2016 the fair value of loans and borrowings is Euros 193,560 thousand (Euros 306 thousand at 31 December 2015) and the fair value of liabilities from issuing bonds and other listed marketable securities at 31 December 2016 is Euros 952,942 thousand (Euros 916,247 thousand at 31 December 2015). 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 2016 comprise finance costs at amortised cost totalling Euros 28,198 thousand (Euros 24,908 thousand in 2015).

(19) 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 (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 20.

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 yet due at 31 December 2016 and 2015 is reflected under current liabilities - financial liabilities from issuing bonds and other marketable securities in the consolidated statement of financial position.

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 (EMTN) programme. The bonds

The average interest rate accrued on this debt in 2016 was 2.82% (2.78% in 2015).

(20) Loans and Borrowings

The terms and conditions of loans and borrowings at 31 December 2016 and 2015 are as follows:

2016

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	354 (2)	30,000
Revolving tranche	Euro	(1)	2019	50,000	-	-
EIB loan	Euro	(3)	2038	160,000	930	159,796
				460,000	1,284	189,796

(1) 3-month Euribor + 1.25% of the amount drawn down. Commitment fee of 35% of the spread applied (1.25%).

(2) Commitment fee of Euros 298 thousand plus interest of Euros 56 thousand.

(3) Fixed nominal rate of 1.294%.

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 35% of the spread applied (1.25%).

(2) Commitment fee of Euros 306 thousand.

(3) Commitment fee of 0.13% per annum of the undrawn amount. Nominal rate on amount drawn down, choosing between variable or fixed upon drawdown, plus a spread of 0.8%.

Details of the nominal amount of loans and borrowings, the maturity tranche and annualised cost at 31 December 2016 and 2015 are as follows:

2016

Type of borrowing	Extended at arrangement date	Drawn down at 31/12/2016	Maturity	Total debt	Available for drawdown
(Thousands of Euros)					
CAPEX	250,000	30,000	2019	30,000	220,000
Revolving	50,000	-	2019	-	50,000
EIB	160,000	160,000	2038	160,000	-
Total	460,000	190,000		190,000	270,000

2015

Type of borrowing	Extended at arrangement date	Drawn down at 31/12/2015	Maturity	Total debt	Available for drawdown
(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

At 31 December 2016 the Group has drawn down Euros 30,000 thousand and the remaining amount of the CAPEX credit facility is still available. Drawdowns may be made up to 8 March 2019.

Accrued interest not yet due at 31 December 2016 and 2015 is reflected under current liabilities - loans and borrowings in the consolidated statement of financial position.

On 22 December 2015, the Group arranged a Euros 160,000 thousand credit facility with the European Investment Bank within the framework of the European Fund for Strategic Investments. The Group drew down the full amount of this facility, Euros 160,000 thousand, in July 2016 at a fixed rate of 1.294%, with the following repayment and maturity schedule:

	2017	2018	2019	2020	2021 and thereafter
EIB	-	-	-	9,412	150,588

(21) Trade and Other Payables

Details of trade and other payables are as follows:

Thousands of Euros

	2016	2015
Suppliers	4,751	1,292
Trade payables	8,332	6,802
Payables, settlements pending	20,147	15,357
Salaries payable	4,971	4,313
Suppliers of fixed assets	66,027	71,668
	104,227	99,433

Payables, settlements pending at 31 December 2016 primarily include the provisional settlements received from the gas companies for 2014, 2015 and 2016, which are pending final settlement by the regulatory body.

Suppliers of fixed assets at 31 December 2016 and 2015 mainly reflect payables for acquisitions of property, plant and equipment, primarily for transmission pipelines and the extension of the distribution networks.

(22) Late Payments to Suppliers. "Reporting Requirement", Third Additional Provision of Law 15/2010 of 5 July 2010

Details of late payments to suppliers by Spanish consolidated companies are as follows:

	2016	2015
Days		
Average supplier payment period	43	40
Transactions paid ratio	44	41
Transactions payable ratio	29	19
Amount (thousands of Euros)		
Total payments made	288,046	213,825
Total payments outstanding	26,397	20,166

(23) 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 finance 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 arrangement 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 does not have significant concentrations of credit risk.

The tables below show the ageing of financial assets at 31 December 2016 and 2015:

2016

	Miles de euros				
	Less than 3 months	3-6 months	6 months - 1 year	More than 1 year	TOTAL
Trade and other receivables, fixed rate	38,173	-	20,147	11,481	69,801
Other financial assets	-	-	44,952	7,254	52,206
Total assets	38,173	-	65,099	18,735	122,007

2015

	Miles de euros				
	Less than 3 months	3-6 months	6 months - 1 year	More than 1 year	TOTAL
Trade and other receivables, fixed rate	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

Liquidity risk

The Group applies a prudent policy to cover its liquidity risks, based on having sufficient cash and available financing through credit facilities. Operationally, the Group's finance management aims to maintain flexible financing through the availability of credit facilities, amounting to Euros 270,000 thousand at 31 December 2016 (Euros 460,000 thousand at 31 December 2015, see note 20),

which together with cash and cash equivalents, totalling Euros 39,009 thousand at 31 December 2016 (Euros 60,593 thousand at 31 December 2015), are sufficient to settle current liabilities.

Details of the Group's exposure to liquidity risk at 31 December 2016 and 2015 are shown below. The tables reflect the analysis of financial liabilities by contractual maturity date.

2016

	Thousands of Euros				
	Less than 3 months	3-6 months	6 months - 1 year	More than 1 year	TOTAL
Loans and borrowings	354	-	930	189,796	191,080
Variable rate	354	-	-	30,000	30,354
Principal	-	-	-	30,000	30,000
Interest	354	-	-	-	354
Fixed rate	-	-	930	159,796	160,726
Principal	-	-	-	159,796	159,796
Interest	-	-	930	-	930
Trade and other payables	104,227	-	-	-	104,227
Variable rate	104,227	-	-	-	104,227
Principal	104,227	-	-	-	104,227
Interest	-	-	-	-	-
Bonds and other financial liabilities	-	16,506	-	892,996	909,502
Principal	-	-	-	892,996	892,996
Interest	-	16,506	-	-	16,506
Total liabilities	104,581	16,506	930	1,082,792	1,204,809

2015

	Thousands of Euros				
	Less than 3 months	3-6 months	6 months - 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

Interest rate risk in cash flows

As the Group does not have a considerable amount of interest-bearing assets, income and cash flows from operating activities are not significantly affected by fluctuations in market interest rates.

Interest rate risk arises from non-current borrowings. Borrowings at variable interest rates expose the Group to

cash flow interest rate risks. Fixed interest loans expose the Group to fair value interest rate risks.

The Group constantly monitors interest rates but only has drawn-down financing of Euros 30,000 thousand exposed to interest rate fluctuations at 31 December 2016. Consequently, fluctuations would not have a significant impact on the Group's profit or loss or its financial liabilities.

(24) Provisions for Employee Benefits

Details of provisions for employee benefits and their classification as current and non-current are as follows:

Thousands of Euros

	31.12.16		31.12.15	
	Non-current	Current	Non-current	Current
Benefit obligations	3,401	56	2,731	70
Provisions for early retirement benefits	25	86	211	444
Restructuring provisions	-	-	-	292
Total	3,425	141	2,942	806

(a) Post-employment and long-term employee benefits

Under the current pension scheme, certain Company employees still hold the rights acquired through the pension scheme of the group to which the Parent previously belonged. This scheme provides defined contribution plans for retirement and defined benefit plans for disability and death of serving employees. Insurance policies have been arranged to cover the Plan.

There are also certain benefit obligations to employees during their retirement, mainly pertaining to electricity supply. These obligations have not been externalised and are covered by the pertinent in-house provisions..

At 31 December 2016 and 2015 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 3,302 thousand and Euros 2,563 thousand, respectively.
- Long-service bonuses for serving personnel, totalling Euros 125 thousand and Euros 216 thousand, respectively.
- Health insurance policies for retired personnel, totalling Euros 32 thousand and Euros 23 thousand, respectively.

Details of and movement in provisions for long-term employee benefits are as follows (thousands of Euros):

	Other long-term employee benefits	
	2016	2015
Balance at 1 January	2,731	3,079
Additions due to business combination (Redexis Gas Murcia)	-	70
Personnel expenses	71	129
Finance costs	74	70
Applications recognised in profit or loss	(50)	-
Transfers	(16)	-
Actuarial gains and losses	590	(617)
Balance at 31 December	3,401	2,731

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%
Annual pension review rate	2%
Expected salary increase rate	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 507 thousand in the year ended 31 December 2016 and are included under personnel

expenses in the consolidated income statement (Euros 567 thousand in the year ended 31 December 2015, see note 32).

At 31 December 2016 and 2015, no accrued contributions were pending.

(b) Provisions for early retirement benefits and restructuring

The liability recognised at 31 December 2016 and 2015 in the consolidated statement of financial position relates to an early retirement plan which provides for the Group's obligation to supplement State benefits in the event of termination of employment as a result of an agreement

between the parties. This plan affects one employee who has taken early retirement (nine employees in 2015).

The assumptions used in the actuarial calculation of the obligations arising from such workforce restructuring plans ("ERE") are as follows:

Technical interest rate	0.03%
Expected salary increase rate	2%
Mortality tables	PERM/F 2000
Age for inclusion in the ERE	60

Movement in this non-current provision during 2016 and 2015 was as follows:

	Thousands of Euros	
	2016	2015
Balance at 1 January	211	995
Charges recognised in profit or loss		
Finance costs	5	4
Applications		
Transfers and other	(211)	(590)
Actuarial gains and losses	20	(198)
Balance at 31 December	25	211

Movement in current provisions during 2016 and 2015 was as follows:

Thousands of Euros

	2016		2015	
	Early retirements	Restructuring	Early retirements	Restructuring
Balance at 1 January	444	292	804	-
Charges recognised in profit or loss	92	-	-	292
Applications	-	(208)	-	-
Payments	(738)	(84)	(950)	-
Transfers and other	288	-	590	-
Balance at 31 December	86	-	444	292

(25) Other Provisions

Movement in other provisions in 2016 and 2015 was as follows:

Thousands of Euros

	2016	2015
Balance at 1 January	2,648	2,429
Additions due to business combination (Redexis Gas Murcia)	-	618
Charges	-	251
Applications	(2,002)	(650)
At 31 December	645	2,648

Guarantees

The Group has extended guarantees to various government bodies totalling Euros 32,520 thousand at 31 December 2016 (Euros 32,752 thousand at 31 December 2015) to ensure

compliance with its obligations as a company officially authorised 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.

(26) 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 conducts its activities 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.

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 network extension works, and recognises the related costs as an increase in the value of the investment.

(27) Government Grants

Movement in non-refundable government grants is as follows:

2016

Body/Item	Thousands of Euros					
	Scope ⁽¹⁾	Balance at 1 January	Additions	Derecognitions	Traspasos a resultados	Saldos al 31 de diciembre
Public entities	PE	15,307	1,435	(50)	(1,297)	15,395
Connection charges	Private	3,771	576	-	(914)	3,433
		19,078	2,011	(50)	(2,211)	18,828

2015

Body/Item	Thousands of Euros				
	Scope ⁽¹⁾	Balance at 1 January	Additions	Traspasos a resultados	Saldos al 31 de diciembre
Public entities	PE	14,906	455	(54)	15,307
Connection charges	Private	3,027	1,206	(462)	3,771
		17,933	1,661	(516)	19,078

PE: Public entities

Capital grants awarded by public entities are earmarked for investment in gas pipelines and distribution networks.

(28) Other Liabilities

Details of current other liabilities are as follows:

	Thousands of Euros	
	2016	2015
Public entities, other		
Taxation authorities, personal income tax	272	277
Social Security payables	275	282
Public utility rates, taxes and local council payables	1,860	1,684
Total	2,407	2,243

(29) Revenue from Regulated Activities

Details of revenue are as follows:

	Thousands of Euros	
	2016	2015
Remuneration for distribution activities	98,047	92,273
Remuneration for transmission activities	61,511	58,619
One-off adjustment to prior years' transmission revenue	(444)	(1,640)
Remuneration for transmission and distribution activities	159,114	149,252
Regulated LPG sales	12,946	2,751
Other regulated distribution revenue (connection charges, equipment rental, other services)	25,162	21,495
	197,221	173,498

In 2016 revenue includes the effect on 2014 and 2015 transmission remuneration of the reversal of the provision for expropriation of the Moratalla – Mula and Huerca-Overa – Baza – Guadix gas pipelines following the favourable ruling in the proceedings to set fair compensation for those pipelines.

- The adjustment to revenue accrued in 2016, in the form of a Euros 287 thousand reduction in revenue, is included under remuneration for transmission activities for 2016.

- The adjustment to revenue accrued in 2014 and 2015 is reflected under one-off adjustment to prior years' transmission revenue, entailing a total reduction of Euros 444 thousand in the revenue accrued over the two-year period.

In 2015 this item included the one-off adjustment to transmission revenue accrued from 2009 to 2015 following the publication that year of the final amounts of remuneration for gas pipelines put into service from 2001 to 2012.

- The adjustment to revenue accrued in 2015, in the form of a Euros 307 thousand reduction in revenue, is included under remuneration for transmission activities for 2015.
- The adjustment to revenue accrued from 2009 to 2014 is reflected under one-off adjustment to prior years' transmission revenue, entailing a total reduction of Euros 1,640 thousand in the revenue accrued over the six-year period.

(30) Other Income

Details of other income are as follows:

	Thousands of Euros	
	2016	2015
Government grants taken to income (note 27)	1,490	717
Other income	2,383	2,516
Total	3,873	3,233

(31) Other Operating Expenses

Details of other expenses are as follows:

	Thousands of Euros	
	2016	2015
Operating lease expenses	1,551	1,860
Repairs and maintenance	6,916	5,407
Independent professional services	1,866	2,365
Advertising and publicity	1,069	747
Utilities	391	560
Insurance premiums	561	618
Taxes	3,155	2,964
Other expenses	8,789	11,518
Impairment losses and uncollectibility of trade and other receivables (note 9)	(535)	-
Other non-recurrent expenses	1,151	-
Total	24,915	26,039

Other non-recurrent expenses mainly include fees for one-off professional services.

(32) Employee Benefits Expense

Details of the employee benefits expense for 2016 and 2015 are as follows:

	Thousands of Euros	
	2016	2015
Salaries and wages	18,718	18,008
Social Security payable by the Company	3,568	3,360
Contributions to defined benefit plans (note 24(a))	507	567
Provisions	(534)	-
Other employee benefits	450	186
Restructuring	2,039	3,405
Total	24,748	25,526

The average headcount of the Group in 2016 and 2015, distributed by category, is as follows.

	Number	
	2016	2015
Management	13	14
Technicians	238	222
Administrative staff	48	51
Total	299	287

At the 2016 and 2015 year ends the distribution by gender of Group personnel and the members of the board of directors is as follows:

	2016			2015		
	Male	Female	TOTAL	Male	Female	TOTAL
Board members	7	1	8	9	1	10
Management	7	4	11	9	3	12
Technicians	194	43	237	184	39	223
Administrative staff	16	34	50	22	35	57
Total	224	82	306	224	78	302

(33) Finance Income and Costs

Details of finance income and costs are as follows:

	Thousands of Euros	
	2016	2015
Finance income	348	175
Interest on loans and borrowings	(2,830)	(1,295)
Interest on bond issues	(24,679)	(23,264)
Other finance costs	(1,281)	(351)
Finance costs arising from provision adjustments (note 24)	(80)	(75)
Net finance cost	(28,523)	(24,810)

(34) Related Party Balances and Transactions

Details of balances receivable from related parties at 31 December 2016 and 2015 by category, and their main characteristics, are disclosed in note 11. At 31 December 2016 and 2015 there are no balances payable to related parties.

The Group's transactions with related parties are as follows:

2016

	Thousands of Euros		
	Shareholders	Key management personnel	TOTAL
Income			
Finance income	73	-	73
	73	-	73
Expenses			
Employee benefits expense	-	(4,358)	(4,358)
	-	(4,358)	(4,358)

2015

Thousands of Euros

	Shareholders	Key management personnel	TOTAL
Income			
Finance income	68	-	68
	68	-	68
Expenses			
Employee benefits expense	-	(4,980)	(4,980)
	-	(4,980)	(4,980)

(35) Information on the Members of the Parent's Board of Directors and the Group's Senior Management Personnel

At 31 December 2016 the Parent's board of directors comprises eight members – one woman and seven men (ten members – one woman and nine men at 31 December 2015).

The members of the board of directors receive no remuneration for their role on the board, and no balances are payable to or receivable from these directors in 2016 or 2015. However, remuneration is paid to board members who perform executive duties in the Company.

In 2016, the executive board members and other directors who report directly to the board members, a total of 12 recipients, received remuneration of Euros 3,331 thousand (14 recipients received Euros 3,318 thousand in 2015).

In addition to these amounts, as part of the three-year bonus plan for 2012 to 2014, in 2015 the Group paid a total of Euros 1,552 thousand to its executive board members and other directors who report directly to the board members. A new three-year bonus plan was implemented in 2015 for the 2015 to 2017 period. In addition, the Company has implemented an incentive plan for the executive board members, as well

as for other directors of the Company, in connection with an eventual change in the ownership of the Parent.

The Group also has pension and life insurance obligations with its executive board members and other directors who report directly to the board members. In this respect, the Group incurred expenses of Euros 105 thousand for 12 recipients in 2016 (Euros 110 thousand for 14 recipients in 2015).

No advances or loans were granted in 2016 or 2015 to executive board members or other directors who report directly to the board members, nor were any guarantees extended on their behalf.

In 2016 and 2015 neither the members of the board of directors of the Parent nor other directors who report directly to the board members 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.

(36) Segment Reporting

CNMC Circular 1/2015 establishes a new regulatory reporting system for costs, aimed primarily at the regulated activities of transmission, regasification, storage and technical management of the natural gas system.

The Company segments its operations into the following activities provided for by the regulatory reporting: distribution of natural gas, transmission of natural gas and other activities (mainly the 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 the allocation criteria in Circular 1/2015. Redexis Gas, S.A. has developed an allocation model based on profit centres, which are divided into final and allocable.

The accounting policies of the segments are as described in note 3.

The assets, liabilities, income and expenses presented in this note by segment/activity include the synergies and economies of scale generated within the Group as a result of its integrated management.

Had the segment or activity costs been managed independently, they would have been slightly higher than the figures reflected.

However, a complete and in-depth analysis of the revenue and costs of the transmission activity will be performed when the regulatory reporting is submitted to the CNMC.

The main segment details are as follows:

31.12.16

Thousands of Euros

	Distribution	Transmission	Other activities	Consolidated
Goodwill	54,432	164,440	303	219,175
Non-current assets	988,904	634,082	155,139	1,778,125
Current assets	59,416	61,666	30,636	151,718
Total assets	1,102,752	860,188	186,078	2,149,019
Non-current liabilities	669,973	443,034	112,664	1,225,671
Current liabilities	89,071	28,974	9,944	127,990
Total liabilities	759,044	472,009	122,608	1,353,660

31.12.15

Thousands of Euros

	Distribution	Transmission	Other activities	Consolidated
Goodwill	54,432	164,440	303	219,175
Non-current assets	977,148	641,244	28,539	1,646,931
Current assets	78,474	31,111	4,913	114,498
Total assets	1,110,054	836,795	33,755	1,980,604
Non-current liabilities	685,440	319,935	37,669	1,043,044
Current liabilities	71,696	44,779	3,648	120,123
Total liabilities	757,136	364,714	41,317	1,163,167

31.12.16

Thousands of Euros

	Distribution	Transmission	Other activities	Consolidated
Revenue	121,103	61,065	15,053	197,221
Other operating income	3,606	200	67	3,873
Self-constructed non-current assets	8,961	1,112	137	10,211
Supplies	(1,023)	(88)	(7,019)	(8,130)
Employee benefits expense	(19,191)	(5,191)	(367)	(24,748)
Depreciation and amortisation	(52,090)	(11,766)	(5,973)	(69,829)
Other operating expenses	(18,026)	(6,001)	(1,764)	(25,791)
Net finance income/(cost)	(19,630)	(5,790)	(3,102)	(28,523)
Profit/(loss) before tax	23,711	33,541	(2,968)	54,284

31.12.15

Thousands of Euros

	Distribution	Transmission	Other activities	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)
Depreciation and amortisation	(45,592)	(10,833)	(1,399)	(57,824)
Other operating expenses	(20,054)	(4,231)	(1,754)	(26,039)
Net finance income/(cost)	(15,622)	(8,092)	(1,096)	(24,810)
Profit/(loss) before tax	21,218	30,736	(3,667)	48,288

(37) Audit Fees

KPMG Auditores, S.L., the auditor of the Group's annual accounts, accrued the following fees for professional services during the years ended 31 December 2016 and 2015:

	Thousands of Euros	
	2016	2015
Audit services	205	205
Other assurance services	80	67
Total	285	272

The amounts detailed in the above table include the total fees for services rendered in 2016 and 2015, irrespective of the date of invoice.

Other KPMG International group companies invoiced the Group the following fees and expenses for professional services during the years ended 31 December 2016 and 2015:

	Thousands of Euros	
	2016	2015
Tax advisory services	-	196
Other advisory services	140	164
Total	140	360

(38) Events after the Reporting Period

On 8 February, Redexis Gas, S.A. obtained authorisation to execute the facilities of the Villacarrillo – Villanueva del Arzobispo

(Andalusia) 11.5 km pipeline. This level of authorisation is granted after the prior government authorisation to build.

Company name	Registered office	Activity	Auditor	Company holding investment	% ownership	% of voting rights
Redexis Infraestructuras, S.L.U.	Madrid	Regasification of liquefied natural gas Natural gas transmission and storage Related and ancillary activities	KPMG Auditores, S.L.	Redexis Gas, S.A.	100	100
Redexis Gas Servicios, S.L.U. (formerly Redexis, S.L.U.)	Madrid	Holding of securities, mainly in energy companies Management, advisory and corporate services linked to the energy sector Telecommunications operator Planning, analysis, projects, execution, assembly and operation of infrastructure Purchase, transfer and financing of capital goods associated with 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 sale and supply 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.)	Murcia	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

Company name	Registered office	Actividad	Auditor	Company holding investment	% ownership	% of voting rights
Redexis Infraestructuras, S.L.U.	Madrid	Regasification of liquefied natural gas Natural gas transmission and storage Related and ancillary activities	KPMG Auditores, S.L.	Redexis Gas, S.A.	100	100
Redexis Gas Servicios, S.L.U. (formerly Redexis, S.L.U.)	Madrid	Holding of securities, mainly in energy companies Management, advisory and corporate services linked to the energy sector Planning, analysis, projects, execution, assembly and operation of infrastructure Purchase, transfer and financing of capital goods associated with 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 sale and supply 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.)	Murcia	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

2016

Company name	Registered office	Activity	Auditor	Company holding investment	% ownership	% of voting rights
Redexis Gas Finance, B.V.	Netherlands	Issue of bonds	KPMG Accountants, N.V.	International Coöperatieve, U.A. and Augusta Global Coöperatieve, U.A.	-	-

2015

Company name	Registered office	Activity	Auditor	Company holding investment	% ownership	% of voting rights
Redexis Gas Finance, B.V.	Netherlands	Issue of bonds	KPMG Accountants, N.V.	International Coöperatieve, U.A. and Augusta Global Coöperatieve, U.A.	-	-

Details of Structured Entities at 31 December 2016 and 2015



CONSOLIDATED DIRECTORS' REPORT

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

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(1) Relevant data and milestones for the Redexis Gas Group in 2016

The Redexis Gas Group (hereinafter “the Group” or “Redexis Gas”) is a leading player engaged in the development and operation of natural gas transmission and distribution infrastructure in Spain and the distribution and sale of liquefied petroleum gas (LPG).

Its activity is regulated and is aimed at providing end customers with an optimised, high-quality service that is secure and efficient, while designing, building, maintaining and making improvements to transmission and distribution infrastructure to ensure the supply of natural gas.

Redexis is present predominantly in regions of Spain where penetration of the gas market is below the Spanish average,

affording it significant growth potential.

At the end of 2016, the Group had almost 545 thousand natural gas supply points and circa 86 thousand LPG points. Using Group-owned networks to transmit and distribute natural gas over more than 9,411 km, it served over six million people, industries and businesses in 484 municipalities spread over 27 provinces. The Group operates in the autonomous regions of Aragón, the Balearic Islands, Madrid, Andalusia, Castilla y León, Castilla-La Mancha, Valencia, Murcia, Catalonia and Extremadura, providing access to a safe, convenient and efficient supply of energy in the form of natural gas.

Operating data	2016	2015	% var. (2016-2015)
Connection points ⁽¹⁾	630,463	537,992	17.2%
Natural gas (NG) P<4bar	544,348	522,066	4.3%
LPG	85,862	15,691	n/a
Natural gas (NG) P>4 bar	253	235	7.7%
Provinces served	26	27	3.8%
Municipalities served	484	243	99.2%
Length of the network (km)	9,411	8,338	12.9%
Distribution network (km)	7,789	6,784	14.8%
Transmission network (km)	1,622	1,554	4.4%
Energy distributed (NG + LPG) (GWh)	10,912	10,452	4.4%

Nota 1: LPG points includes 4.696 points acquired to CEPSA at the end of 2016.

Note 2: The figure shown for energy distributed does not include industrial power (P>60 bar)

From a financial standpoint, the Redexis Gas Group closed 2016 with revenue growth of 12.7% to Euros 211.7 million, as a result of the increase in its regulated activities, which represent 93% of its activity.

Consolidated EBITDA for 2016 amounted to Euros 157.1 million, up 13.5% on the prior year. The EBITDA margin was

74.2%, thanks to robust growth in revenue and sustained efficiency improvements.

Group investments totalled Euros 221.1 million in 2016, of which 43.7% was channelled into organic growth and the rest into the acquisition of LPG supply points from Repsol.

Financial information	2016	2015	% var.
Figures in millions of Euros, except where indicated			
Revenue	211.7	187.8	12.7%
Distribution - regulated	98.0	92.3	6.2%
Other distribution revenues - regulated	25.2	21.5	17.2%
Transmission - regulated	61.5	58.6	4.9%
Regulated LPG business	12.9	2.8	360.7%
Other operating income	3.9	3.2	21.9%
Self-constructed non-current assets	10.2	9.4	8.5%
EBITDA	157.1	136.0	15.5%
<i>EBITDA margin</i>	74.2%	72.4%	1.8 p.p.
Total CAPEX	221.1	386.6	(42.8%)
Distribution	83.5	72.0	16.0%
Transmission	5.5	47.0	(88.3%)
Acquisition of Redexis Gas Murcia, S.A. and additional assets	-	240.6	n/a
Other acquisitions (LPG)	126.7	21.0	503.3%
Intangible assets	5.5	6.0	(8.3%)

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 2016:

- Attractive growth in the Group's distribution and transmission businesses.
- Addition of 65 thousand LPG supply points acquired from Repsol Butano, S.A. In 2015, 75 thousand LPG supply points were acquired from this company and some 10 thousand were integrated. Addition of remaining points in 2016.
- Acquisition of 4.7 LPG supply points to CEPESA and will integrate them in 2017.
- Improvement in operating efficiency due to economies of scale and to process and technological innovation.
- Drawdown from the EIB loan to finance investment projects relating to transmission and distribution networks, as part of the Investment Plan for Europe, known as the "Juncker Plan".
- New credit rating of BBB, investment grade, assigned to Redexis Gas by Standard & Poor's.

(2) Activities

Redexis Gas is a leading player engaged in the development and operation of natural gas transmission and distribution infrastructure in Spain and the distribution and sale of liquefied petroleum gas (LPG). During 2016, the Redexis Gas Group has focused on its core activities:

(a) Distribution

Redexis Gas builds, operates and maintains the distribution facilities required to supply natural gas to different municipalities in Spain.

At the 2016 year end, the Group has circa 545 thousand natural gas supply points and a distribution network spanning 6,882 km conveying 10,660 GWh of energy distributed (excluding industrial supply) to 219 municipalities in Spain.

The Group has installed natural gas in 9 municipalities.

Capitalising on its experience, Redexis Gas continues to extend and expand its activity and services, convinced that constant innovation is an essential component of its strategy that will contribute to its future growth.

(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 2016, Redexis Gas had a network of 1,622 km, comprising 49 gas pipelines and transmitting gas at pressures exceeding four bars to industrial hubs and connections with distribution networks.

In 2016, a total of 76 km was added to its network, originating from two new gas pipelines:

- “Cas Tresorer – Manacor – Felanitx” in the Balearic Islands, spanning 59 km and built in two sections: an 8-km section finished in 2015 and a second 51-km section completed in

2016. This gas pipeline will cover the energy needs of the sizeable domestic, tertiary and industrial markets that make up its catchment area.

- “Villanueva del Arzobispo – Castellar” spanning 17 km in Andalusia.

(c) Liquefied Petroleum Gas (LPG)

Redexis Gas distributes and sells liquefied petroleum gas (LPG), a regulated activity subject to the regime provided by Title IV of Hydrocarbon Law 34/1998.

LPG is normally consumed in areas without access to the natural gas distribution network. It is mainly concentrated in six autonomous regions (Madrid, Catalonia, Galicia, Castilla y León, the Basque Country and Castilla-La Mancha) and accounts for 70% of total demand.

The Group now has over circa 81 thousand LPG supply points, most of them acquired from Repsol in 2015 and 2016.

In 2015, the Group acquired almost 72 thousand LPG supply points, followed in 2016 by some 3.4 thousand supply points from Repsol which have now been integrated into its portfolio. At the end of 2016, the Group acquired almost 4.7 thousand supply points from Cepsa and will integrate them in 2017.

The LPG business complements the natural gas distribution business, enabling the Group to capitalise on growth opportunities in areas where it is not feasible to extend its distribution network, and to provide its end customers with an optimised high-quality service that is secure and efficient.

Building on its experience, Redexis Gas plans to convert these LPG supply points into natural gas points. These conversions will take place gradually, taking into account certain technical and regulatory criteria. The Group already has experience in switching LPG customers over to natural gas, having converted several thousand supply points and networks over the last year.

(3) Analysis of results

Key indicators:

Key financial indicators	2016	2015	Var	%
Figures in millions of Euros				
Revenue	197.7	175.2	22.5	12.8%
Regulated distribution revenue	98.0	92.3	5.8	6.3%
Other regulated distribution revenue	25.2	21.5	3.7	17.2%
Regulated transmission revenue	61.5	58.6	2.9	4.9%
Regulated LPG business	12.9	2.8	10.2	364.3%
Other operating income	3.9	3.2	0.6	18.8%
Self-constructed non-current assets	10.2	9.4	0.8	8.5%
Supplies	(8.1)	(3.7)	(4.4)	118.9%
Employee benefits expense	(22.7)	(22.1)	(0.6)	2.7%
Other recurrent operating expenses	(23.8)	(26.0)	2.3	(8.8%)
EBITDA	157.1	136.0	21.2	15.6%
Non-recurrent adjustment to transmission revenue from prior years	(0.4)	(1.6)	1.2	(75.0%)
Other non-recurrent operating expenses	(1.2)	-	(1.2)	n/a
Non-recurrent workforce restructuring	(2.0)	(3.4)	1.4	(41.2%)
Impairment losses on non-current assets	(0.9)	-	(0.9)	n/a
Depreciation and amortisation	(69.8)	(57.8)	(12.0)	20.8%
Results from operating activities	82.8	73.1	9.7	13.3%
Net finance cost	(28.5)	(24.8)	(3.7)	14.9%
Earnings before tax (EBT)	54.3	48.3	6.0	12.4%
Income tax expense/(tax income)	(5.6)	(13.9)	8.3	(59.7%)
Profit for the year	48.7	34.4	14.3	41.6%

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 awarded by the national regulatory authorities.

At the end of 2016, Redexis Gas recorded revenues of Euros 211.7 million, an increase of 12.7% on 2015, primarily due to its regulated activities.

Distribution revenues rose significantly, by 6.3%, to Euros 98 million, essentially as a result of a higher number of connection points in existing and newly added municipalities.

Transmission revenues increased by 4.9% to Euros 61.5 million following the start-up in 2015 of the "Son Reus – Inca – Alcudia" gas pipeline and the incorporation of the "Moratalla – Mula" pipeline due to the acquisition of Redexis Gas Murcia, S.A., and the start-up in 2016 of two new gas pipelines, "Cas Tresorer – Manacor – Felanitx" in the Balearic Islands and "Villanueva del Arzobispo – Castellar" in Andalusia.

Revenues from the regulated LPG business grew as a result of the gradual inclusion of the LPG points acquired from Repsol Butano, S.A., as well as slightly colder temperatures than in 2015.

Operating expenses amounted to Euros 54.6 million (Euros 51.8 million in 2015).

The improvement in operating income has led to 2016 year-end EBITDA of Euros 157.1 million, up Euros 21.2 million or 15.6% on the previous year.

The rise in the depreciation and amortisation expense mainly reflects the acquisition of LPG assets from Repsol Butano, S.A., together with organic growth in the Group's distribution and transmission assets.

In 2016, the heading non-recurrent adjustment to transmission revenue from prior years includes the effect on remuneration of the reversal of the provision for expropriation of the Moratalla – Mula and Huerca-Overa – Baza – Guadix gas pipelines, following the favourable ruling in the proceedings to set fair compensation for those pipelines in 2014 and 2015. In 2015 this heading also includes a one-off, non-recurrent adjustment to transmission revenue accrued from 2009 to 2014, inclusive, in view of the notification in 2015 of the final remuneration for gas pipelines put into service from 2001 to 2012, inclusive. This adjustment reduced total revenues over the six-year period by Euros 1.6 million.

In 2016 the net finance cost amounted to Euros 28.5 thousand (Euros 24.8 thousand in 2015).

The Group made a net profit of Euros 48.7 million in 2016 (net profit of Euros 34.4 million in 2015). Besides the contributing factor of improved results from operating activities, Euros 7.2 million of the growth in the Group's net profit for 2016 stemmed from the lower income tax expense following the favourable outcome on the consultation submitted to the Directorate-General of Taxes, which enabled the deductible portion of the goodwill arising on the merger carried out in February 2015, with effect for accounting purposes from 1 January 2014, to be increased.

Redexis Gas's 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 after the reporting period are described in note 38 to the consolidated annual accounts.

(5) Outlook

Over the coming years, Redexis Gas will continue to develop and operate natural gas transmission and distribution infrastructure in Spain and to distribute LPG, ensuring security of supply and offering a high-quality service.

As its activity is regulated, it is defined within a regulatory framework that also stipulates the parameters that set the remuneration for regulated activities. This will permit the continued operational development of the Group's project via:

- Growth in distribution activities in new areas and greater saturation in existing areas.
- Development of new transmission infrastructure projects.
- Growth of the LPG business, which complements the natural gas distribution business, enabling the Group to make the most of growth opportunities in areas where it is not feasible to extend its distribution network.
- New growth opportunities that will enable it to expand its business.
- Improvement in operating efficiency due to economies of scale and to process and technological innovation, which increase output.
- Development of increasingly demanding health and safety and environmental standards.

(6) Main risks associated with Redexis Gas activities

At the date of this report, the directors do not know of any risks or uncertainties that could have significant effects for the

Group. Nevertheless, the Group follows a risk hedging policy that is suitable for its activity.

(7) Human resources

At the end of December 2016, Redexis Gas had a total of 306 employees while the average headcount for the year was 299.

(8) Own shares

Redexis Gas did not hold any own shares at 31 December 2016, nor did it perform any transactions with own shares during 2016.

(9) Financial instruments

The risk management policy is explained in note 23 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 a clean energy source (no particle emissions and very low NOx and SOx content) that is 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 Company combines its business objectives with protection of the environment and the adequate management of stakeholder expectations regarding environmental issues.

Redexis Gas has completed the roll-out of an integrated management system involving the entire organisation in its commitment to health, safety and environmental protection by applying different procedures, operating regulations and formats to carry out its activities. In 2016 this system was modified in order to comply with the provisions of RD 840/2015 on serious accidents, enabling the Group to successfully complete the follow-up audit and thus retain its ISO 14.001:2.004 and OHSAS 18.001:2007 certifications.

An integrated policy is at the heart of the Group's integrated management system, establishing the basic principles that underpin its environmental protection and occupational health and safety policies.

The directors of the Group consider that at year end no expenses are likely to be incurred in connection with environmental risks for which provision should be made.

Information regarding the Group's environmental activities is presented in note 26 to the consolidated annual accounts.

(11) Research, development and innovation

Redexis Gas is an organisation that is constantly evolving and adapting to the requirements of its users and the demands of society. Research, development and innovation (R&D&i) are three of the key drivers of progress and growth for the Group, as they enable 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 resource management department has implemented business process solutions that facilitate the fulfilment of goals.

With regard to its most operational facet, the Group focuses its ongoing innovation 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 on ensuring an appropriate level of knowledge within the Group to optimise use of technology.

The main initiatives undertaken in 2016 include:

- Migration of the main and back-up infrastructure of the Zaragoza Control Centre.
 - Commencement of business development in Redexis GLP, S.L.U.
 - Establishment of the new LPG Group company (Redexis GLP, S.L.U.)
 - Implementation of a new collections process that integrates a web platform, electronic communications and systems for POS terminals, enabling online monitoring of ongoing operations, while also reducing operating and finance costs.
 - Implementation of the new logistics process for managing and balancing the LPG network.
 - Implementation of the CRM for the commercial premises, industrial and tertiary lines of business.
 - Development of two machine learning models, one for predicting propensity to switch to gas at supply points (Project NCAM – New Customer Acquisition Model) and the other to optimise planning of periodic regulatory inspections and home visits (Project Routes).
 - Undertaking of Project Genesis Murcia to develop the databases for the addresses of rural estates and update in-house systems.
 - Alignment of systems to the new regulations on periodic regulatory inspections and creation of a new website for gas users to enter their meter readings.
 - Adaptation of the systems to the new regulation on submitting claims.
 - Implementation of a solution involving an electronic case file to achieve integration among the operating departments (Project eFolder).
 - Electronic invoicing of energy suppliers through the SCTD communication system.
 - Integration of the corporate systems for sales and operations to ensure data integrity.
 - Roll-out of the lean methodology for the analysis and design of processes and to achieve continuous improvement.
- Through these actions, Redexis Gas ratifies its commitment to adapt innovative products with a high technological component and certified quality in order to reduce their environmental impact, processes and costs.

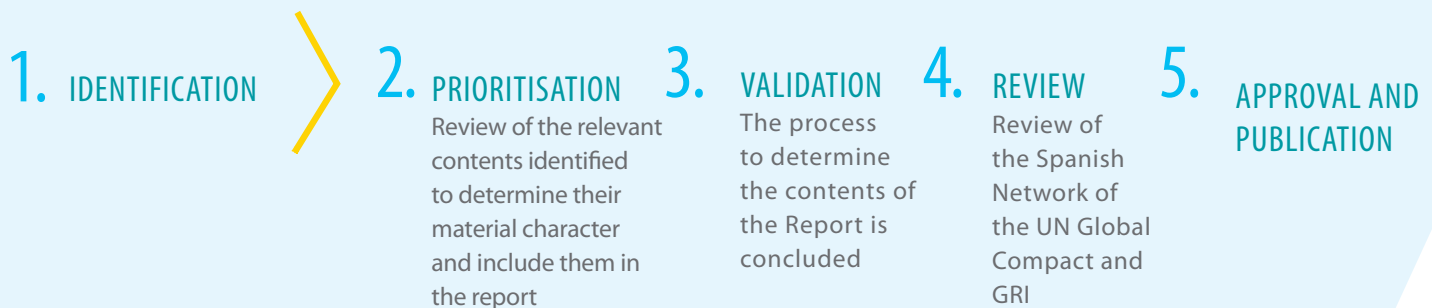
SCOPE OF THE REPORT

- **COMPANY:** Redexis Gas, S.A.
- **GEOGRAPHIC:** Spain
- **TIME FRAME:** 2016
- **ACTIVITY:**
Natural gas transmission and distribution, as well as the services linked to natural gas distribution and liquid petroleum gas (LPG) commercialisation and distribution
- **PERIODICITY OF THE ISSUANCE OF THIS REPORT:** Annual

The information perimeter of this report coincides with the financial consolidation perimeter of Redexis Gas, and it includes its activities during the year 2016. It is prepared on an annual basis and it reviews the evolution of its business, 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 Sound Corporate Governance.

DRAWING-UP OF THE REPORT

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, determining the material aspects and their coverage.



Despite this report not being subject to verification by an independent third party, the objective has been to report on the greatest possible number of indicators available, for the purposes of being clear, concise and transparent.

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.



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

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