

WELCOME TO REDEXIS GAS 2017 ANNUAL REPORT

You will like the future

This Report takes into consideration advanced criteria of transparency and corporate communication, analysing and reviewing the activity of the Redexis Gas Group (“the Group” or “Redexis Gas”) and its results, providing a comprehensive view of the environment, business model and its management, as well as of the strategic approach. It focuses not only on that occurred during the year covered, but also on the projects and goals for 2018, for the purpose of sharing with the stakeholders its future aims and likely evolution. A unified treatment is given to 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 additional information is available.



TABLE OF CONTENTS

8 1. THE GROUP IN 2017

- 11 Operating figures and financial indicators
- 12 Letter from the Executive Chairman
- 15 Letter from the Chief Operating Officer
- 17 Governing Bodies
- 20 Milestones in the year

22 2. GROWTH AND PROFITABILITY MODEL

- 24 Corporate profile
- 26 Strategy
- 28 History

30 3. CURRENT ENVIRONMENT OF THE GAS SECTOR

- 32 Advantages of natural gas
- 34 The value chain of natural gas
- 36 Natural gas in Spain
- 40 Regulatory characteristics of the sector

44 4. GROUP'S BUSINESS LINES

- 49 Transmission
- 53 Distribution
- 56 Liquefied petroleum Gas
- 57 Other non-regulated activities



58 **5. REDEXIS
GAS' NETWORK**

60 Characteristics of
the network

64 **6. ECONOMIC-
FINANCIAL
SITUATION**

72 **7. THE GROUP'S
COMMITMENT**

75 To its Stakeholders

94 To society and its
environment

100 To safety

103 To innovation

110 **8. CORPORATE
GOVERNANCE REPORT**

122 **9. RISK MANAGEMENT
AND CONTROL**

127 **THE FIGURES**

212 **ANNEXES**

212 Scope of the report

213 Contact details





axis
gas



1

THE GROUP
IN 2017



MAIN FIGURES

R

edexis Gas is one of the major companies engaged in the development and operation of natural gas transmission and distribution, as well as in the distribution and commercialisation of liquefied 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.



PEOPLE

319 direct jobs

+ 2,800 indirect jobs



TRANSMISSION

It has a network of **1,643** km

Formed by **51** pipelines



FINANCIAL

It has achieved revenues of

EUR **232** million and a gross operating profit of

EUR **162** million

Investment of more than EUR **1,100** million since 2010, developing a solid expansion and infrastructure development plan



DISTRIBUTION

It operates **649,653** connection points, out of which **570,375** are for natural gas and

79,278 for liquefied petroleum gas, with a network of **8,348** km



GEOGRAPHIC LOCATION

It facilitates access to a safe, convenient and efficient source of energy in

576 municipalities in

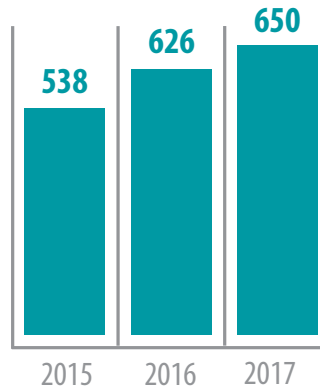
31 provinces of the national territory

through more than **9,900** kilometres of its own networks

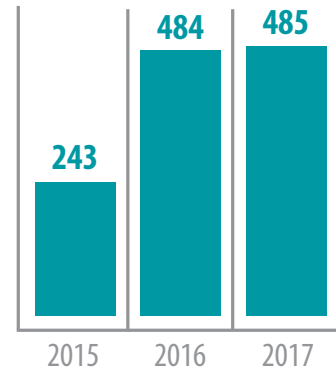
GOAL: CREATE SUSTAINABLE VALUE IN THE COMMUNITIES IN WHICH IT IS PRESENT

Operating figures

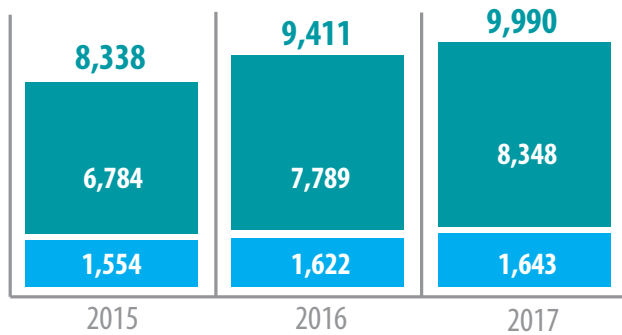
CONNECTION POINTS (THOUSAND)



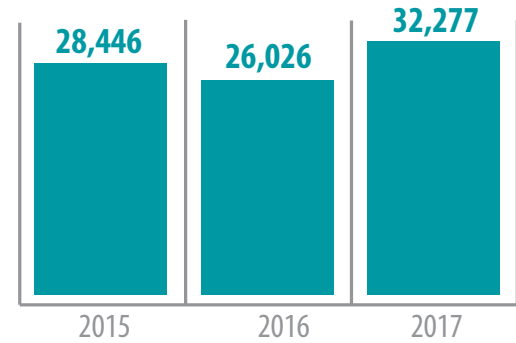
MUNICIPALITIES SERVED



NETWORK LENGTH (KM)



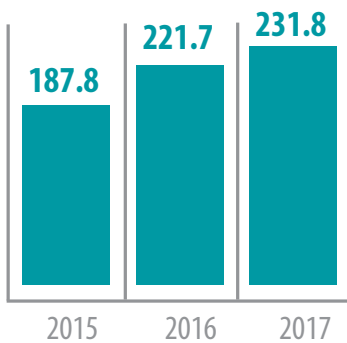
ENERGY DISTRIBUTED (GWh)



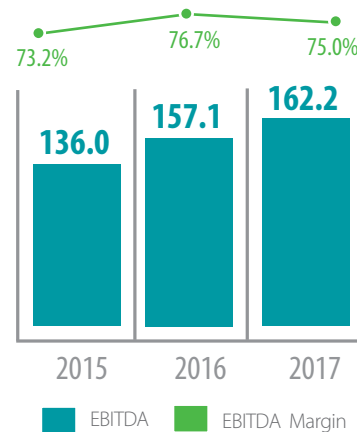
■ Transmission network length ■ Distribution network length

Financial indicators

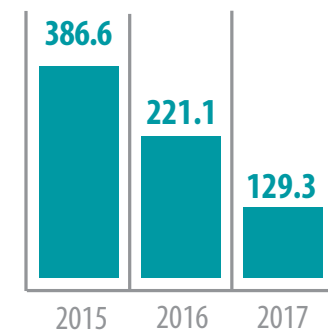
REVENUES (€M)



EBITDA (€M)/MARGIN (%)⁽¹⁾



CAPEX (€M)



¹ The margin does not take into account the dilution effect of the LPG margin



LETTER FROM THE EXECUTIVE CHAIRMAN



Maintaining the level of growth and expansion of gas pipelines and natural gas distribution networks thus becomes a key vector to improve competitiveness, economic progress and environmental care



In 2017, Redexis Gas has continued developing and extending its infrastructures throughout Spain, becoming a key lever to promote growth in our country's gas sector. The group obtained revenues of EUR 231.8 million, 9.5% more than in 2016, a gross operating profit of EUR 162.2 million, 3.2% higher than the previous year, and it has invested EUR 129.3 million, which have been used for the deployment of piped gas transmission and distribution networks and for growth opportunities that are supplementary to its main activity.

Likewise, during 2017, the Company achieved a total of 9,990 kilometres of its own piped gas transmission and distribution infrastructures, in optimum conditions of efficiency, 6.2% more than in 2016, adding two new transmission gas pipelines: the gas pipeline between Yeles and Seseña in Castile-La Mancha and the gas pipeline between Villacarrillo and Villanueva del Arzobispo, in Andalusia. Additionally, it has spread its networks to 14 new municipalities and urban centres, reaching 650,000 points of supply. Redexis Gas increased organic Capex by 36% in 2017 compared to 2016, investing EUR 124 million in the development of new gas networks.

Redexis Gas was capable of laying out more efficient networks in 2017, thanks to the implementation of advanced artificial intelligence tools, which have truly helped us contribute to a greater gasification of the country, reaching a greater number of industries, businesses and households, which translates into job and wealth creation for the community in which it is present. This year, Redexis Gas has increased contracts by 24% and, by using artificial intelligence and new network roll out techniques, it can save 33% in the network investment it makes, optimising the layout to reach users, thus improving its financial and operational results.

During the year 2017, through our activity, we saw strong indications of economic recovery. The industrial and commercial demand of our networks increased by 37% with regard to 2016, the increase being generalised and extending to all sectors. Such acceleration trend shows an obvious increase of trust in the future by families and enterprises. The deployment of gas infrastructures that makes it possible to give an answer to such demand is of special relevance for economic growth,

given that the implementation thereof facilitates access to an energy that promotes the productivity and efficiency of enterprises and industries, and contributes to job creation.

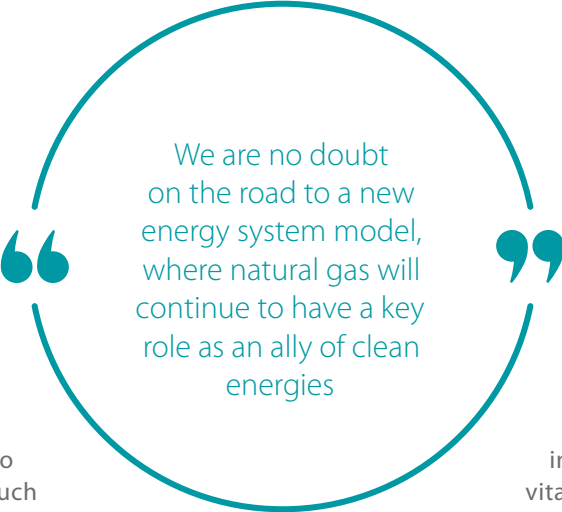
In 2017, the economy grew 3.1% thanks to domestic (more than foreign) demand, both in households and from the Public Administration, and to investment. A consequence of such economic growth has been job creation, which has taken the unemployment rate down to 16.5% -the lowest level since 2008-, which evidences a substantial improvement compared to previous years.

The greater dynamism of entrepreneurial investment has contributed to all of the above. In 2017, the gas sector invested EUR 344 million, according to Sedigas, out of which 36% was invested by Redexis Gas, for the purposes of continuing to roll out a broad gas network in the Spanish territory, help create jobs and provide industries and households with more efficient energy use.

With these resources, during the last year, 1,962 kilometres of network have been built in Spain, exceeding 87 thousand kilometres, which have carried 351 TWh of gas. The municipalities with gas service have increased by 1.4%, and 7.8 million points of supply have been reached, adding more than 100 thousand connection points, out of which 26% originated from Redexis Gas' organic growth, multiplying by four the average growth in the sector.

We are no doubt on the road to a new energy system model, where natural gas will continue to have a key role as an ally of clean energies, thanks to its versatility and low emissions. One of the major challenges of our country is therefore the establishment of political, strategic and environmental objectives, as well as the elaboration of an Act on Climate Change and Energy Transition, which provides stability and allows natural gas to contribute value with a key role in the energy mix.

Maintaining the level of growth and expansion of gas pipelines and natural gas distribution networks thus becomes a key vector to improve competitiveness,



We are no doubt on the road to a new energy system model, where natural gas will continue to have a key role as an ally of clean energies

economic progress and environmental care. Redexis Gas is on a path of expansion and growth, having invested more than EUR 1,100 million since 2010, and making continued and significant investments throughout Spain, to continue its growth trend.

To continue with the heavy investment profile, it is of vital importance to maintain the regulatory stability that will allow making investments with a long maturity period. Such stability allows investments to be planned in a more efficient manner, and the results show that the gas sector enjoys a great ability to adapt, expanding its activity to new markets, making progress in user engagement, and promoting its competitiveness and the one of the economy as a whole. As a particularly notable fact in 2017, the Ministry authorised the gas sector companies to securitise, for the first time, a very relevant part of the sector's deficit, reducing the debt of the companies in the sector at no cost for consumers in their gas bill.

From the point of view of innovation, Redexis Gas continues developing modern technologies in all its scopes, and is advancing in its strategy of committing to, and investing in R&D, with projects based on sustainable energies favouring technological innovation and promoting energy efficiency and environmental sustainability. Along these lines, the company recently signed an agreement with Enagás to promote renewable energy with the creation of 'H2Gas', the purpose of which is technological development and the promotion of infrastructures for the production and transport of hydrogen generated from renewable energies.

Both companies already work together to enhance and implement the introduction of renewable hydrogen into the gas transmission and distribution network. The project contemplates the use of 'Power to Gas' technology, which allows generating hydrogen from water and electricity and injecting the same into the gas pipeline network, whether directly or converted into synthetic natural gas or biomethane. Renewable hydrogen allows new connections between supply and demand of energy, which provide flexibility to the energy system.



On the other hand, in 2017 there was another relevant milestone for our Company; the European Investment Bank renewed its trust in Redexis Gas by signing a new agreement to extend our funding for an amount of EUR 125 million. Such project includes investments for an amount of EUR 257 million for the 2018 – 2019 period, and is part of our strategic plan to expand in the communities in which we are present and in the territories we plan to go into in the future. Also, we concluded a bank financing agreement for a revolving credit facility for EUR 300 million. This way, we significantly improve the maturity profile and the average cost of debt up to the year 2022.

Redexis Gas completed towards the end of 2017 a new bond issue for an amount of EUR 250 million, with maturity in 2027. The success of such transaction shows the support and trust that the investors have in the Company and the resources obtained strengthen Redexis Gas' capacity to create value through the roll out and operation of natural gas networks.

In May 2017 our shareholders, the European pension funds USS and ATP, reached an agreement with the infrastructure funds managed by Goldman Sachs (GSIP) to acquire an interest of 18.8% in Redexis Gas. USS and ATP have been indirect investors in Redexis Gas since 2010. Recently, and for the second time, USS and ATP reiterated their support, by backing our long-term growth strategy and, together with new financial investors, GT Fund and CNIC, they have agreed to acquire the remaining 50.1% of Redexis Gas from Goldman Sachs (GSIP). Therefore, at the closing of this transaction, the shareholding structure in Redexis Gas was the following: ATP 33.3%, USS 33.3% and GT Fund and CNIC, jointly 33.3%.

Redexis Gas meets rigorous standards concerning the promotion of the well-being of the people in the Company, and caring for the environment where it develops its activity. For such reason, within such framework, we are strongly committed to the use of Natural Gas for Vehicles (NGV), since the implementation thereof contributes to improve the environmental quality of cities, reduce CO2 and aim for a future city that is environmentally sustainable.

Natural gas for vehicles is becoming a realistic alternative to petroleum-based fuels, a more efficient and sustainable energy source that reduces emissions, limits noise pollution, eliminates waste in the form of particles and is economically more competitive for the consumer.

So, we have connected gas service stations to our network, an important step to help reduce environmental pollution and improve the quality of air in the cities. Thanks to its composition, it has a minimum impact on its emissions and entails savings of 30% in the cost per kilometre compared to diesel fuel, and 50% compared to petrol.

During 2017, Redexis Gas has conducted more than twenty actions to sponsor and collaborate with different organisations and institutions, showing our commitment to closeness and creating value in the areas in which we operate.

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

I will conclude by expressing my gratitude for the effort and dedication of all those who form part of Redexis Gas and who make possible the provision of a quality service. At Redexis Gas we are optimistic about the future of the Spanish economy and we want our effort to contribute to the future growth and development of the gas sector, which is key for the country's progress.

Fernando Bergasa

EXECUTIVE CHAIRMAN

LETTER FROM THE CHIEF OPERATING OFFICER



Redexis Gas is decidedly committed to extending the benefits of natural gas to the greatest number of enterprises and people, developing the gas transmission and distribution networks, which, in turn, contributes to increase the sustainability of the gas system



The year 2017 has been a year filled with challenges and successes. The evolution of the key figures shows the continuity of our growth strategy. Redexis Gas recorded in 2017 an increase in its revenues exceeding 9.5% compared to the previous year, reaching EUR 231.8 million, and a gross operating profit of EUR 162.2 million, which entails a 3.2% increase compared to the same period in the previous year. Such evolution is the result of the strategy adopted in recent years, which has led us to invest EUR 129.3 million in the year 2017, which were used to expand the natural gas transmission and distribution networks in the 31 Spanish provinces in which we are present, increasing organic Capex by 36.2%, compared to 2016.

Redexis Gas closed the year with 40,000 new users who connected to the networks in 2017, 17% more than in 2016, reaching nearly 650,000 connection points throughout Spain. Our organic growth has been three times faster than the one in the sector, expanding our networks to 14 new municipalities and urban centres. Our investment in such growth accounts for 36% of the aggregate figure invested in the sector; five times greater than the relative weight of Redexis Gas according to its connection points in the whole of the regulated sector. In 2017, we implemented 580 new kilometres of network, reaching a total of 9,990 kilometres of our own infrastructures, 6.2% more than in 2016. Regarding our transmission activity, we have continued to roll out network. Throughout the year 2017, we finished two gas pipelines: the one of 'Yeles-Seseña' in Castile – La Mancha, 9.1 kilometres long, and in Andalusia, the gas pipeline between Villacarrillo and Villanueva del Arzobispo, 11.6 kilometres long. Such network completes the Linares – Baeza – Úbeda – Villacarrillo - Villanueva del Arzobispo – Castellar transmission gas pipeline axis, with a total of 100 kilometres of gas pipeline networks and an investment made of more than EUR 29 million, which allow a total of 150,000 persons and 9,000 businesses to have access to such energy supply.

Likewise, we will continue to add new municipalities connected to our networks throughout this year, since Redexis Gas continues receiving administrative authorisations to continue expanding the natural gas networks throughout Spain. In 2017 we obtained eleven new authorisations in communities such as Castile – La Mancha, Extremadura, Andalusia, Castile and Leon and Aragon, and in these months of 2018 we have obtained three new licences in municipalities of Jaen.

Regarding the industrial sector, Redexis Gas increased by 37.3% industrial and commercial demand from its networks



compared to 2016, reaching 7.052 TWh, the increase being generalised and affecting multiple sectors. We have helped many industrial companies to improve their production processes through access to natural gas, a more economic and efficient energy.

The industrial and business sectors are increasingly demanding the use of natural gas. The replacement of poorly efficient equipment for new HAVC technologies, such as high-efficiency boilers, condensation boilers or gas driven heat pumps, can lead to energy consumption savings of up to 50%.

Redexis Gas is decidedly committed to extending the benefits of natural gas to the greatest number of enterprises and people, developing the gas transmission and distribution networks, which, in turn, contributes to increase the sustainability of the gas system. Likewise, Redexis Gas is promoting initiatives to increase the use of natural gas for vehicles and the use of renewable gas in the gas networks. All of the above contributes in a very relevant manner to improve air quality and reduce emissions of greenhouse gases. In fact, the new Act on Climate Change and Energy Transition should contribute to improve people's quality of life and the competitiveness of our companies. Along this road, natural gas will increase its importance in the energy mix and will decisively contribute to the attainment of the goals set.

Regarding Natural Gas for Vehicles, we value it as an excellent alternative to petroleum products because of the reduction of pollution and CO2 emissions (by 25%), noise reduction (by 40%) and a lower cost (with 25% savings) compared to diesel. From Redexis Gas, we are already taking on projects along this line, thanks to the gas infrastructure rolled out, promoting very relevant initiatives with natural gas, such as the municipal fleet in charge of waste collection and cleaning in Palma de Mallorca. Also in the Balearic Islands, natural gas is being used for the company vehicle fleet, in Ibiza it is being used for the Valoriza Servicios Medioambientales fleet, and it is also being used for buses of the Municipal Transport Company (EMT) of Palma, the taxi cooperative of Zaragoza or the cleaning company of El Puerto de Santa María.

In 2017, Redexis Gas also achieved a milestone regarding job creation, increasing its staff of direct workers by 6.3%, reaching 319 direct jobs and more than 2,800 indirect jobs. In five years, Redexis Gas' staff has increased by 60%, a growth that will continue in the future.

Likewise, Redexis Gas has shown during 2017 that it is a pioneer in the incorporation of advanced, computer-based algorithms into its growth and business processes, which give priority to the commercial action and optimise the roll out and operation of

the infrastructures. Thanks to the implementation of advanced Artificial Intelligence tools into its expansion projects, Redexis Gas has multiplied by two client engagements, increasing its commercial effectiveness by 30% and reaching a greater operating efficiency.

Additionally, this year the company implemented two new models: one to optimise the investment in network planning, and the other one to plan field work. Additionally, the implementation of Artificial Intelligence has brought job creation, since an internal unit has been trained in machine learning, incorporating several data scientists into the company. At present, we are implementing new developments, such as the optimisation of inspection routes, predictive management of network maintenance or risk prevention.

Our commitment to occupational health and safety is the utmost on a day to day basis. Beyond the legal requirements, Redexis Gas preventively develops initiatives to improve its employees' health and well-being. The "zero accident" goal has translated into a reduction of the different accident rates. In this regard, the year 2017 has been characterised by its low rates, "zero" in the case of its own staff, and 2.62 for combined staff. Such figures show that the Company knows how to identify the risks that may affect its professionals, guaranteeing their health and safety at all times.

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

In 2017, Redexis Gas has commenced the project to adapt the Integrated Management System to the new version of the ISO 14001:2015 standard; due to the opportunities for improvement found throughout the process of adapting such standard, the Company has decided to make one further effort and implement the ISO 50001:2011 on energy management, to increase energy efficiency and reduce environmental impacts.

I would like to conclude by expressing my gratitude for the effort, dedication, commitment and enthusiasm of all our professionals, which have allowed us to continue growing and innovating every day. Our goal is to continue working to keep taking natural gas to the maximum number of Spanish households, businesses and industries. Redexis Gas is building a solid foundation that allows us to be very optimistic with regard to the future.

Cristina Ávila
CHIEF OPERATING OFFICER

GOVERNING BODIES

THE SHAREHOLDERS

Redexis Gas, S.A. with its registered office in Madrid, is the holding company of a group of companies engaged mainly in the distribution and transmission of gas, as well as in the distribution and commercialisation of liquefied petroleum gas in Spain, owned by two European pension funds, Universities Superannuation Scheme ("USS") and Arbejdsmarkedets Tillægspension ("ATP"), and the financial investors Guoxin Guotong Fund LLP ("GT Fund") and CNIC Corporation Limited ("CNIC").

In July 2017, the Company's shareholders implemented a corporate restructuring in the same, pursuant to which the funds USS and ATP, previously indirect shareholders of Redexis Gas, went on to hold a direct position in the Company.

Additionally, USS and ATP acquired an additional joint shareholding of 18.8% in the Company through the

acquisition of shares representing such percentage from the funds managed by Goldman Sachs & Co.

As a consequence of such transactions, at the closing of 2017, the shareholder structure in Redexis Gas, S.A. was left as follows: GSIP 50.1%, USS 30.0% and ATP 19.9%.

Additionally, on 4 April 2018, ATP and USS, as well as the financial investors GT Fund and CNIC signed agreements to acquire a 50.1% interest in Redexis Gas, S.A. and Redexis Gas Finance B.V. from the infrastructure funds managed by Goldman Sachs ("GSIP").

The closing of the acquisition took place on 20 June 2018 leaving the shareholding structure of Gas Redexis as follows: ATP 33.3%, USS 33.3% and GT Fund and CNIC jointly 33.3%. The investment of GT Fund and CNIC is implemented through the same company, 51% belonging to GT Fund and 49% to CNIC.

Note: USS and ATP are two European pension funds with significant long-term investments in high quality infrastructure companies. They were both indirect investors in Redexis Gas in partnership with GSIP from the time of their initial investment in 2010, first as indirect investors and later, after the 2017 acquisition, as direct investors with an aggregate 49.9%.

GT Fund and CNIC are long-term Asian financial investors whose mandate includes investing in high quality infrastructure assets around the world.



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 liquefied petroleum gas in Spain.

In recent years, the Group has changed its structure for the purpose of providing greater efficiency to its operations.

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.

Moreover, 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.

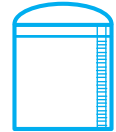
Finally, on 30 November 2017, the companies Redexis Gas, S.A. and Redexis GLP, S.L.U. carried out the spin-off of certain liquefied petroleum gas assets, pursuant to which Redexis Gas, S.A. segregated such assets in favour of Redexis GLP, S.L.U.

Redexis gas

99.98%
Redexis Gas
Murcia, S.A.



100%
Redexis Gas
Servicios, S.L.U.



100%
Redexis
Infraestructuras,
S.L.U.

100%
Redexis
GLP, S.L.U.



Board of Directors

31 DECEMBER 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. Gavin Bruce Merchant	Director
Mr. Ignacio Pereña Pinedo	Secretary non-Director

20 JUNE 2018

MEMBER	POSITION
Mr. Fernando Bergasa Cáceres	Executive Chairman
Ms. Cristina Ávila García	Chief Operating Officer
Mr. Ulrik Dan Weuder	Director
Mr. Michael Dalsgaard	Director
Mr. Gavin Bruce Merchant	Director
Mr. Stephen Alan John Deeley	Director
Mr. Ng Chik Sum Jackson	Director
Mr. Oliver Jan Schubert	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 at Princeton University, and executive training at the universities of Harvard and Chicago.
- Between 2007 and 2011, he was Chief Executive Officer of Naturgas Energia and Director at HC Energia.
- Previously, he held different executive offices in Endesa S.A., and was a consultant at Mckinsey&Co.
- Fernando Bergasa has also been a Director and Vice-chairman of the Executive Board of Sedigas.
- He is a member of the American Chemical Society and a member of the Alumni Advisory Board of the Universidad Autónoma de Madrid.



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 Chief Operating Officer at Naturgas Energia and a Director at Naturgas Energia Transporte and Naturgas Energia Distribución.
- Previously, she held executive roles in Endesa and was a consultant at Arthur D. Little.
- Cristina Ávila is also a member of the Executive Board of Sedigas.



Mr. David Folgado Delgado

Chief Financial Officer

- Chief Financial Officer of Redexis Gas, S.A.
- Graduate in Business Administration and Management from the Universidad Autónoma de Madrid, with a master's 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 Finance, Investor Relations, Cash Management and Planning.
- From 1998 to 2003 he developed his professional activity at Deloitte, in the auditing and consulting areas.
- David Folgado is also a Director in Secuoya Grupo de Comunicación and in Redexis Gas Finance B.V. and a member of the Executive Board of Sedigas.

• **Mr. Ignacio Pereña Pinedo,**
General Counsel and Company Secretary

• **Mr. Javier Crespo Millán,**
Operations Director

• **Mr. Diego Sánchez Muslera,**
Network Execution, Facilities and Transmission Director

• **Mr. Javier Migoya Peláez,**
Commercial Expansion Director

• **Mr. Miguel Mayrata Vicens,**
Business Diversification Director

• **Mr. Borja Polo Baños,**
Strategy and Business Development Director

• **Ms. Mercedes Barreiro Hernández,**
Resources Director

• **Ms. Estefanía Somoza Villar,**
Corporate Communication and Public Affairs Director

• **Ms. Mireya Martínez San Martín,**
Internal Audit Director



MILESTONES IN THE YEAR

An outstanding performance

2018

APRIL

The European pension funds, **ATP** and **USS**, resolve to increase their shareholding in Redexis Gas together with GT Fund and CNIC.

MARCH

Redexis Gas and Enagás create '**H2Gas**' to promote renewable hydrogen.

Redexis Gas signs a collaboration agreement with **Conaif**.

FEBRUARY

Castile-La Mancha: Redexis Gas will supply natural gas in El Casar (Guadalajara).

Castile-La Mancha: Redexis Gas, sponsor of the Yepes Football Academy.

Balearic Islands: Redexis Gas participates in the Energy Advisory Committee of the Balearic Islands.

Canary Islands: Orlando Viera, new regional manager of Redexis Gas in the Canary Islands.

JANUARY

Redexis Gas and the EIB sign a EUR 125 million loan for the development of gas infrastructures.

Balearic Islands: Redexis Gas and the Town Council of Inca provide 9.000 homes with access to natural gas.

Community of Madrid: Redexis Gas participates in the Gas Facility Safety Campaign in the Community of Madrid.

2017

DECEMBER

Redexis Gas successfully completes a **note issue** for an amount of EUR 250 million.

Castile-La Mancha: Yepes starts enjoying all the advantages of natural gas, thanks to Redexis Gas.

Extremadura: Redexis Gas, sponsor of the junior categories of Club Deportivo Mérida.

Balearic Islands: Redexis Gas participates in the conference 'Move with a clean fuel' held in Palma de Mallorca.

NOVEMBER

Redexis Gas signs a **EUR 300 million** syndicated loan.

Redexis Gas sponsors **the Ágora conference of El Economista** by the Minister for Energy, Tourism and Digital Agenda, Álvaro Nadal.



Castile and Leon: '1st Conference on natural gas and air quality in Castile and León' was held with the participation of Redexis Gas.

OCTOBER

Andalusia: Redexis Gas takes natural gas to Atlanterra (Tarifa).

Andalusia: Redexis Gas continues with its growth and investment plan in Churriana de la Vega (Granada).

Balearic Islands: Redexis Gas expands its networks in the municipality of Sant Josep de la Talaia.



SEPTEMBER

Aragon: The Aragon Energy Cluster was set up with the participation of Redexis Gas.

Balearic Islands: Redexis Gas expands the distribution network in Ibiza.

AUGUST

Aragon: Visit of Aragon's president Javier Lambán to our facilities in Zaragoza.

Region of Murcia: Redexis Gas will invest EUR 3 million to take natural gas to Los Alcázares.

JULY

Aragon: Redexis Gas starts supply of natural gas in Magallón (Zaragoza).

Region of Murcia: LPG plant inaugurated in Blanca, with an investment of EUR 1.6 million.

Redexis Gas participates in the **1st Forum on natural gas vehicles**.

Region of Murcia: Redexis Gas sponsors the 57th *Cante de las Minas* International Festival.

JUNE

Andalusia: Redexis Gas inaugurates the arrival of Natural gas to Novo Sancti Petri (Chiclana de la Frontera).

Balearic Islands: Redexis Gas starts supplying natural gas in Peguera (Calvià).

Region of Murcia: Abarán gasification project is submitted, in which Redexis Gas will invest c. EUR 3 million.

Redexis Gas sponsor of the open-air broadcasting of the **opera Madama Butterfly** in more than 200 Spanish municipalities.

MAY

The European pension funds **USS and ATP** increase their participation in Redexis Gas, until reaching 49.9%.

Castile and Leon: Redexis Gas will start in September the supply of natural gas in Cantalejo (Segovia).

Region of Murcia: Redexis Gas invests more than EUR 600,000 to expand natural gas in euros Caravaca de la Cruz.

Andalusia: Redexis Gas participates in the breakfast seminar "Natural gas, an ally for Almeria's industry and agriculture" held in Almeria.

Andalusia: Redexis Gas collaborates with the 2nd National Contest "Earn points with road safety education" held in Linares (Jaén).

Aragon: Visit of University of Zaragoza students to the LNG plant works in Ateca.

Balearic Islands: Redexis Gas participates in the Annual Assembly of the Balearic Transport Business Federation.

APRIL

Redexis Gas experiences **strong growth in operational and financial results** in the first quarter of 2017.

Balearic Islands: Redexis Gas supports again this year the youth football teams of Club Esportiu Constancia de Inca.

MARCH

Andalusia: Redexis Gas inaugurates the arrival of natural gas to Arcos de la Frontera (Cádiz).

Aragon: Redexis Gas supplies natural gas to the Ronal Ibérica plant in Teruel.

Community of Valencia: Redexis Gas starts rolling out distribution networks in Callosa de Segura (Alicante).

Region of Murcia: Redexis Gas will invest more than EUR 1 million to expand natural gas in San Javier.







2

GROWTH AND
PROFITABILITY
MODEL



CORPORATE PROFILE

The management of its resources and its business model allow the Company to position itself as a leading operator at domestic level.



The Company offers 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.

R

edexis 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 liquefied petroleum gas (LPG) in Spain. With 650,000 connection points, the Company provides access to a safe, convenient and efficient source of energy 576 municipalities of 31 provinces through more than 10,000 kilometres of its own gas transmission and distribution networks. It operates in the Autonomous Communities of Aragon, Andalusia, Balearic Islands, Castile-La Mancha, Castile and Leon, Catalonia, Community of Madrid, Community of Valencia, Extremadura and Murcia.

The Company has its headquarters in Madrid and 17 work centres throughout Spain, with a headcount of 319 employees working full time.



THE ESSENCE OF REDEXIS GAS IS TO
ADVANCE AND ADAPT WITHOUT LOSING
THE VALUES THAT SUSTAIN IT

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
Overcome
Care
Inspire



STRATEGY

Redexis Gas' strategy focuses on sustained and balanced growth, working for its customers, guaranteeing sustained profitability throughout time.

The basis of its growth strategy is to increase its presence in the municipalities where it is already present, as well as to expand its activity to new regions and municipalities within the Spanish territory.

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.

Redexis Gas has continued to make progress in the achievement its goal, to make the opportunities and benefits of natural gas accessible for all, ensuring at all times the safety and quality of its supply.

To achieve that, the Company has further delved into each one of its strategic pillars, trying to connect with society's actual needs. It has been able to create new capacities, which allow the design of better sustainable solutions to better, faster and more consistently answer the challenges posed by market developments.

Objective of REDEXIS GAS:

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

Growth

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

This year, once again, the Company has exceeded the goals set and has grown above the average growth in the sector. It has incorporated into its network 21 kilometres from two new gas pipelines in Andalusia and Castile La Mancha and it has taken gas to 14 new municipalities, increasing its national presence. At the closing of 2017, it has 570 thousand natural gas connection points and more than 79 thousand LPG points, consolidating its position as a leading company in the industry.

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.



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.

Commitment

Building a stronger relationship with its stakeholders and the surrounding environment.

Risk management

Continuously improving safety, health quality and environmental standards.



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.

1976

Incorporation of Distribuidora del Gas de Zaragoza.

1985

- Incorporation of Gas Huesca.
- Endesa acquires Eléctricas Reunidas de Zaragoza and its respective affiliates.

1993

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

1997

Incorporation of Endesa Gas comprised of different distributing companies.

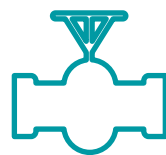
2001

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 intends to be distinguished for the creation of value for society, its customers, its investors, its employees, keeping as priorities the safety and quality of the service, the ability to innovate, the financial soundness and the proximity with the municipalities where it is present.



1989

100,000 connection points.

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.

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.

2017

- The European pension funds, USS and ATP resolved to increase their share in Redexis Gas up to 49.9%
- New issuance of notes (€250 million)
- Bank financing agreement for an amount of €300 million
- Formalisation of new loan with EIB (EUR125 million with 20 year repayment term)
- Milestone in job creation, increasing by 5,6% direct workers staff

+650,000 connection points.
+10,000 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.

2018

- ATP, USS and GT Fund / CNIC complete the acquisition of Redexis Gas
- The ownership of Redexis Gas is: ATP 33.3%, USS 33.3% and GT Fund and CNIC jointly 33.3%.



A large, blue, spoked handwheel for a gas valve, positioned in the upper right background of the image. The wheel is slightly out of focus compared to the foreground equipment.

3

CURRENT
ENVIRONMENT
OF THE **GAS**
SECTOR



ADVANTAGES OF NATURAL GAS

Gas companies have the opportunity of offering an energy that entails a transition to a cleaner energy sector, using fuels with lower CO₂ emissions.

G

iven 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.



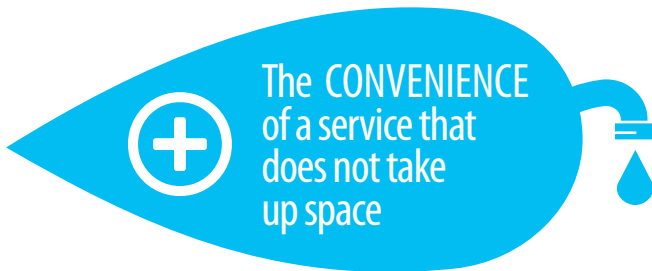
Advantages of NATURAL GAS

SECOND TO NONE.

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.

SO YOU CAN MOVE AS YOU PLEASE.

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



OPEN THE TAP 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.

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.

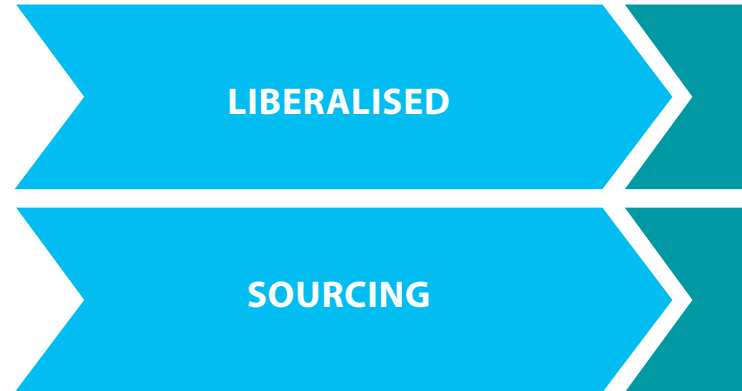


THE VALUE CHAIN OF NATURAL GAS

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

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

After its extraction from the gas wells, or treatment at the regasification plants, the gas can be stored underground or enter directly into the transmission network formed by high pressure gas pipelines, which lead to industries or distribution pipelines of lower pressure to provide service to households and businesses.



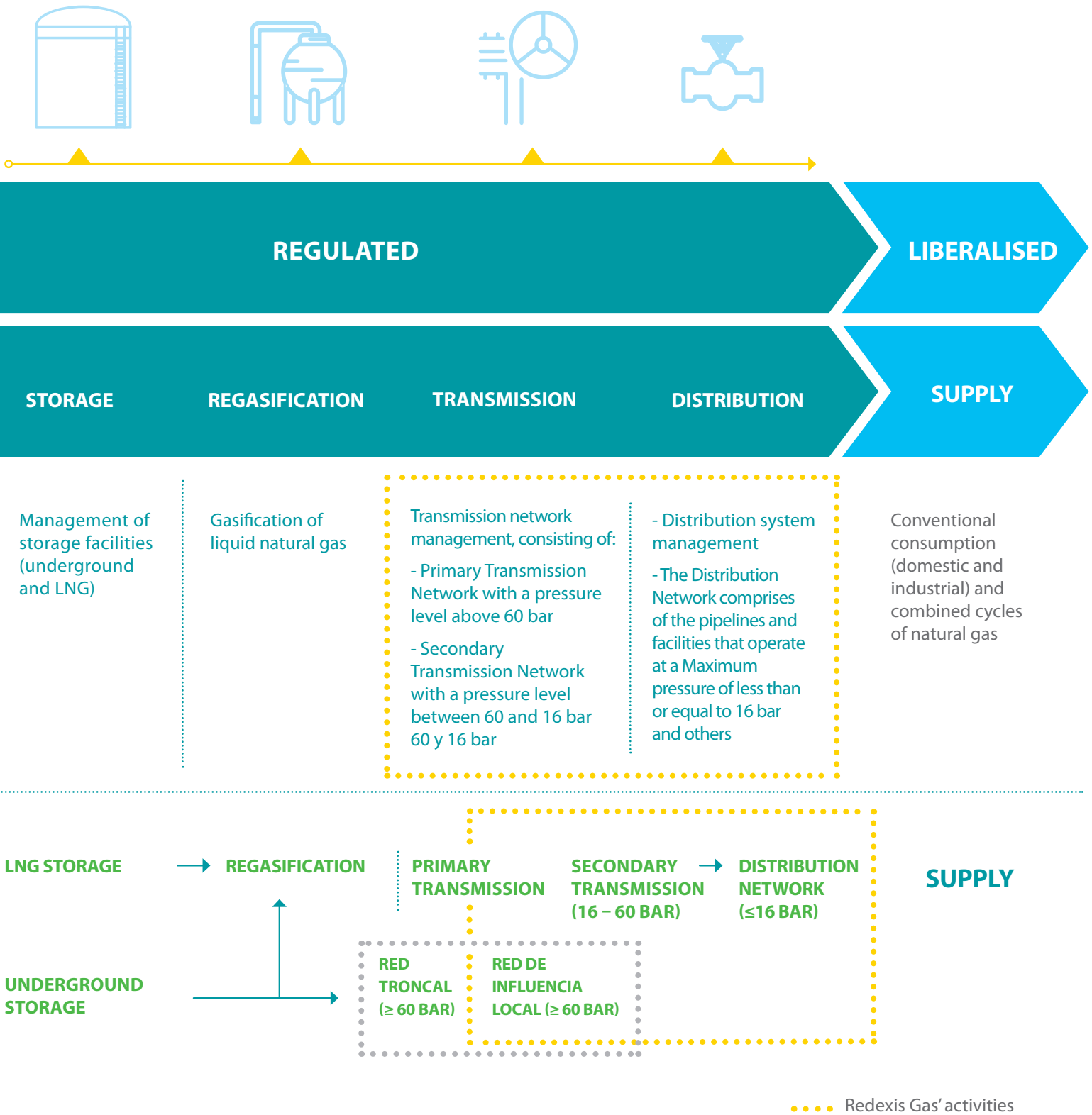
DESCRIPTION

Introduction of natural gas into the national system from different sources

VALUE CHAIN

INTERNATIONAL SOURCES

DOMESTIC PRODUCTION

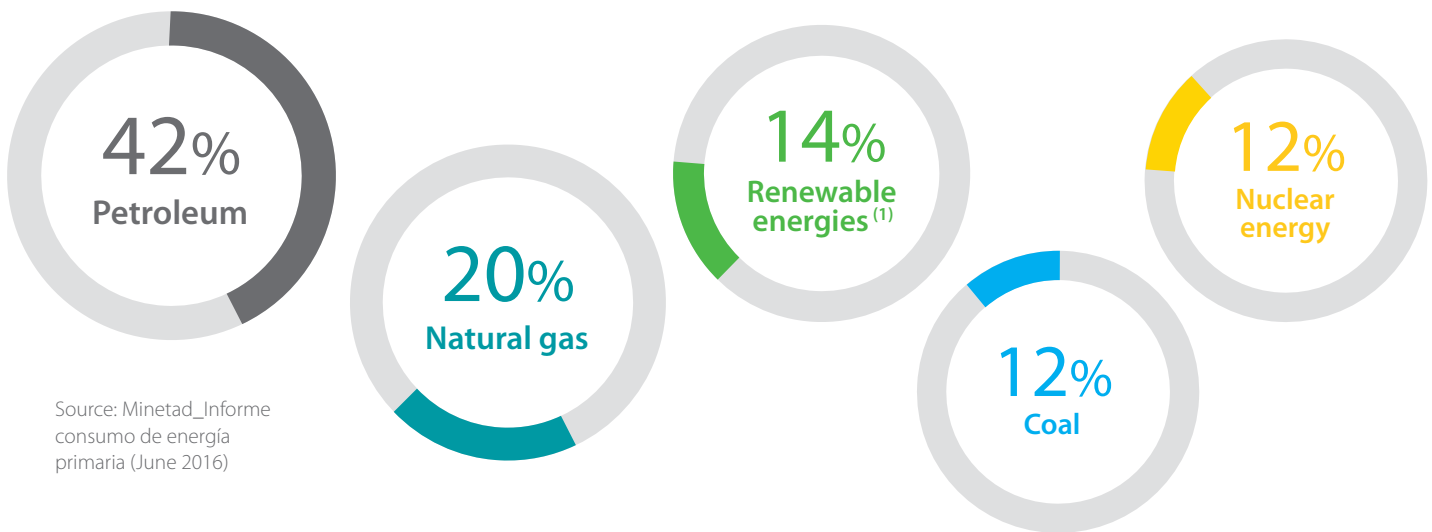




NATURAL GAS IN SPAIN

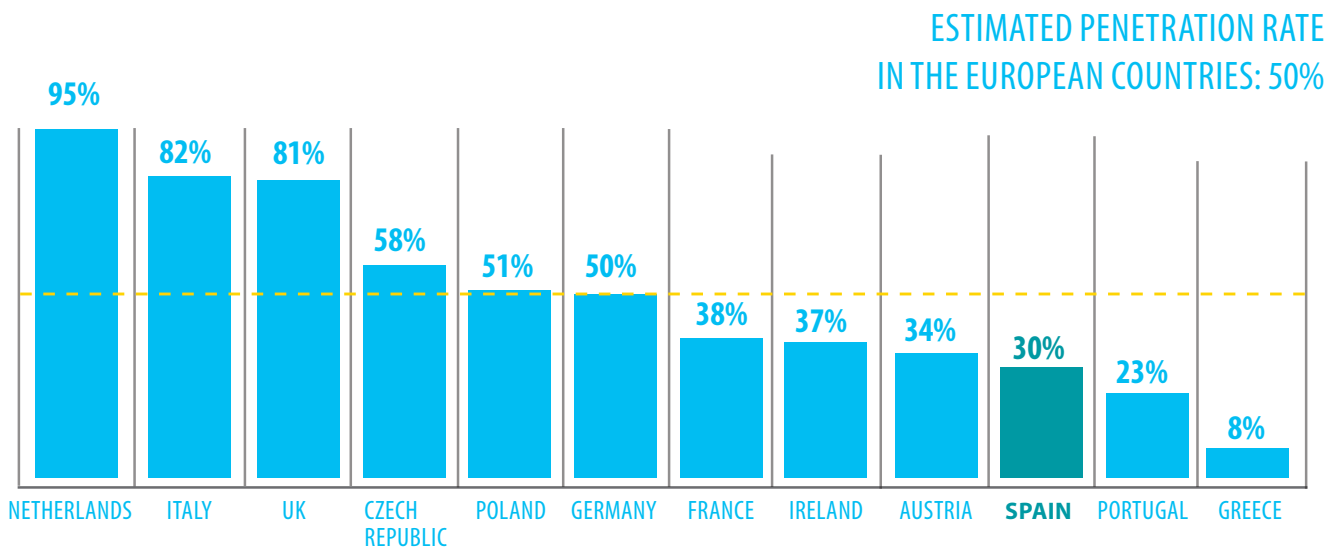
Thanks to the governmental support and its advantages compared to other sources of energy, natural gas plays a relevant role within the energy mix in Spain, since it not only covers society's energy needs, but it guarantees a sustainable environment.

Primary energy consumption in Spain in 2015



Source: Minetad_Informe consumo de energía primaria (June 2016)

Gas penetration in the European households (%)



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 mar-

ket. 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



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

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, it has increased 9.1%, reaching 351 TWh thanks to the good performance in the industrial sector, in line with the economy's positive evolution and increased operation of combined cycles, as a result of a lower hydroelectric generation.

The conventional market demand, which includes the industrial sector (including the consumption of

gas linked to co-generation) and the household and commercial sector, increased 5.1%, the months of August and September being the ones of the greatest increase of conventional demand in history (within such months).

At 2017 closing, the conventional market accounted for 78% of the total demand. The industrial market continued to be the main gas consumer, representing 62% of the total consumed, followed by electric plants, 22%, the household-commercial sector and SMEs, 15%, and non-energetic use. 1%.

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

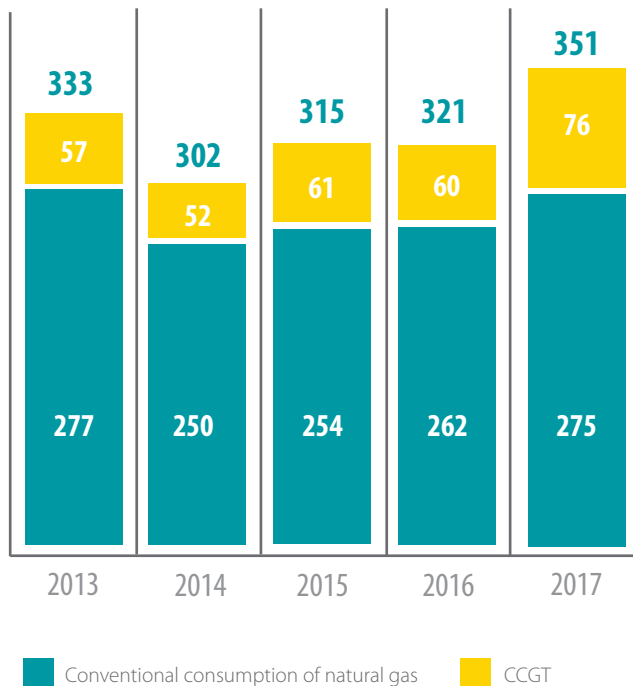


The volume of the investment made reflects the major commitment to the development of the gas system and job creation, causing a greater impact of the sector on the whole of the domestic economy.

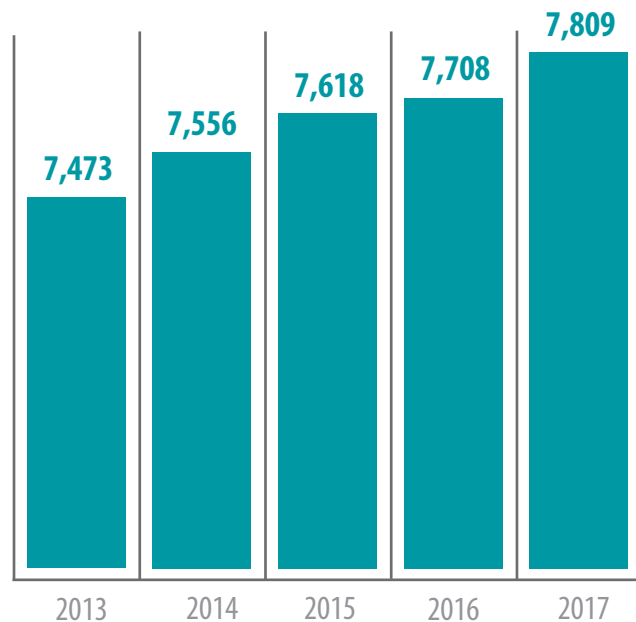
sector is working to expand natural gas and promote new uses.

The country's natural gas infrastructure has increased considerably in recent years. In 2017, the gas sector invested EUR 344 million for the purpose of developing a broad gas network in the Spanish territory. With such resources, during the last year, more than 2,000 kilometres of network have been built, exceeding the figure of 87,000 kilometres, 25 new municipalities with gas service have been added (a 1.4% increase compared to 2016) reaching 1,759 municipalities, and the points of supply have been increased in more than 100 thousand, reaching 7.8 million.

CONSUMPTION OF NATURAL GAS IN SPAIN (TWh)

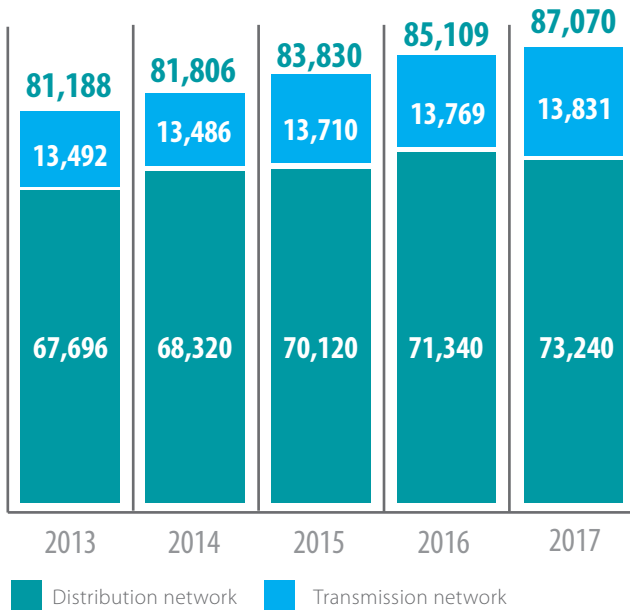


CONNECTION POINT IN SPAIN ('000)

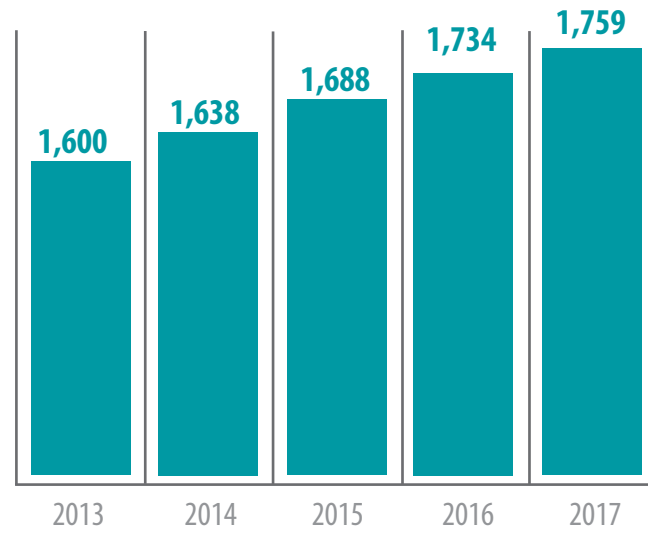


Source: Sedigas, 2017 Annual Report
Note: conventional consumption includes the household-commercial sector, industry and demand for non-energetic uses.

NETWORK LENGTH IN SPAIN (KM)



MUNICIPALITIES SERVED IN SPAIN



Source: Sedigas, 2017 Annual Report
Note: conventional consumption includes the household-commercial sector, industry and demand for non-energetic uses.

Thanks to a broad network of infrastructures, natural gas reaches households and industries, ensuring the incorporation of renewable energies to the new energy model.

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.





REGULATORY CHARACTERISTICS OF THE SECTOR

Since Redexis Gas' business is regulated, its predictability provides a solid basis to grow and innovate.

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.

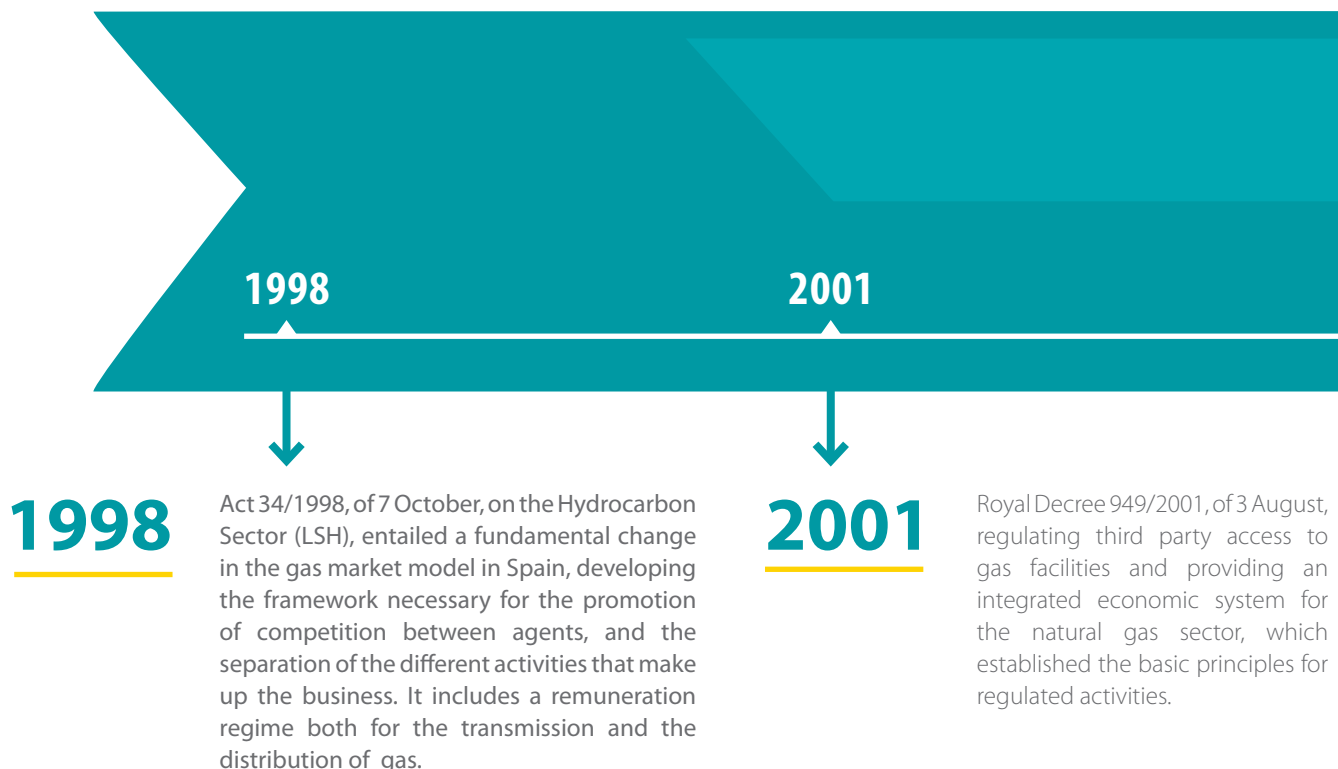
The natural gas industry in Spain has experienced relevant changes in recent years with regard to its structure and operation, caused to a great extent by the adaptation of its regulatory framework to the principles established in the European Directives on common rules for the natural

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



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

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

REMUNERATION STABILITY

2012

2014

2015

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.



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 climatological 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 sustainability.

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 connection 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

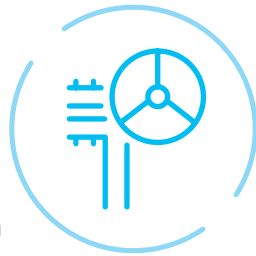
DISTRIBUTION

- The remuneration regime for the natural gas distribution activity is based on a parametric formula linked to the growth in connection 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 (investment and financial retribution) another one to remunerate the operation and maintenance, and a component 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.



LIQUEFIED 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.



Redexis
gas





4

GROUP'S
BUSINESS
LINES



GROUP'S BUSINESS LINES

R

edexis 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 liquefied 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

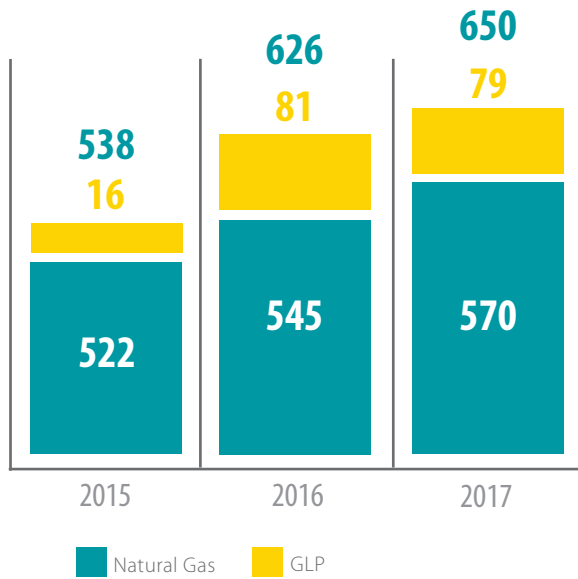
PRODUCER OR IMPORTER	It performs the exploration, research and exploitation of hydrocarbon fields.	NON-REGULATED ACTIVITY
REGASIFICATION	Owner of the regasification plants that transform the liquefied natural gas carried in ships and bring the same into the system.	REGULATED ACTIVITY
UNDERGROUND STORAGE	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.

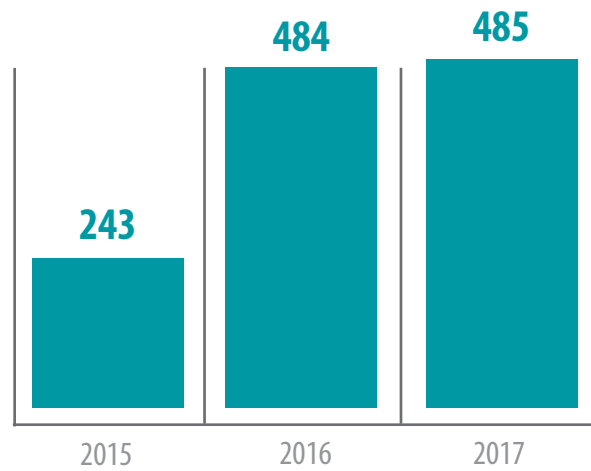
At present, it develops its activity in ten Autonomous Communities (Aragon, Andalusia, Balearic Islands, Castile-

La Mancha, Castile-Leon, Catalonia, Community of Madrid, Community of Valencia, Extremadura and Murcia), where it has more than 650 thousand connection points (571 thousand of natural gas and nearly 79 thousand of liquefied petroleum gas) providing service to 485 municipalities in 27 provinces, through more than 9,900 km of constructed network.

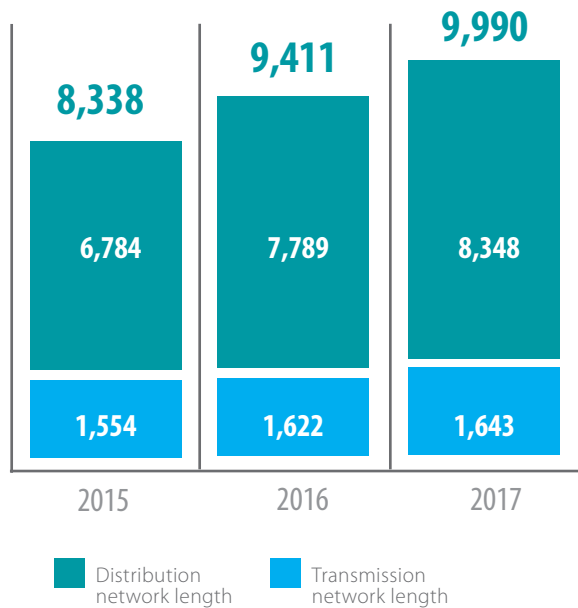
CONNECTION POINTS (THOUSAND)



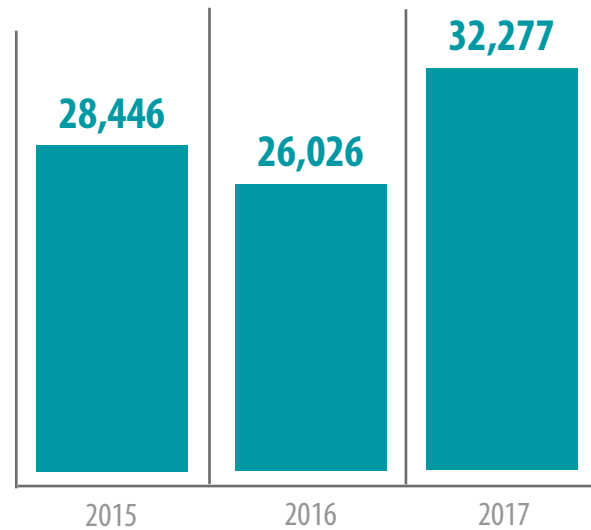
MUNICIPALITIES SERVED



NETWORK LENGTH (KM)



ENERGY DISTRIBUTED (GWh)



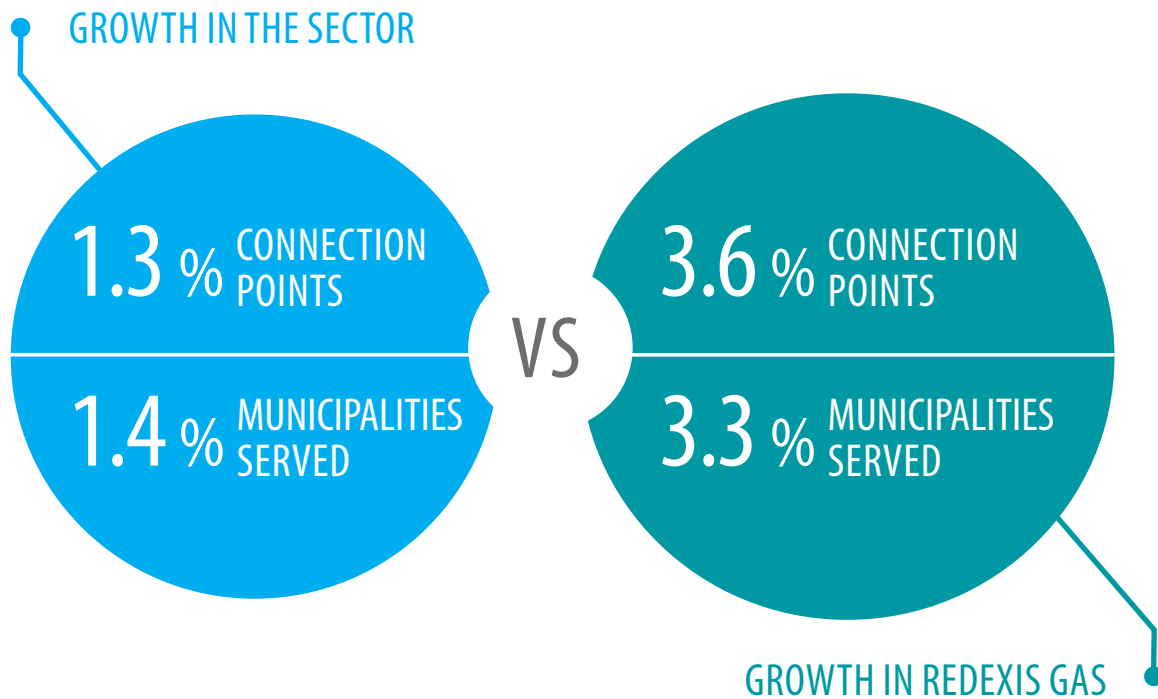


Redexis Gas closed the year 2017 with more than 40 thousand new contracts, adding 24 thousand net connection points to its portfolio, representing a 5.3% increase in new contracts compared to the previous year.

There has been a noteworthy 37% increase in industrial and commercial demand in the Company's networks

compared to the year 2016, such increase applying to multiple sectors and on a general basis.

Once again, Redexis Gas has considerably exceeded the sector's growth. In the year 2017, the Company has grown organically three times faster than the sector regarding connection points and municipalities served.



During the year 2017, Redexis Gas has increased its infrastructures by 6.2%, implementing 579 new kilometres of networks, until reaching a total of 9,990 kilometres, which allow supplying natural gas to millions of households, businesses and industries. Likewise, 14 new municipalities have been provided service, with a portfolio of 650 thousand connection points.

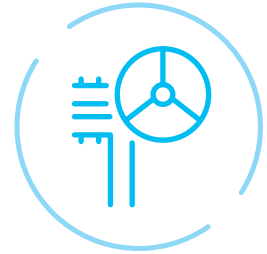
Redexis Gas continues to show that it is a sound, agile and flexible company that knows how to adapt to the

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

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

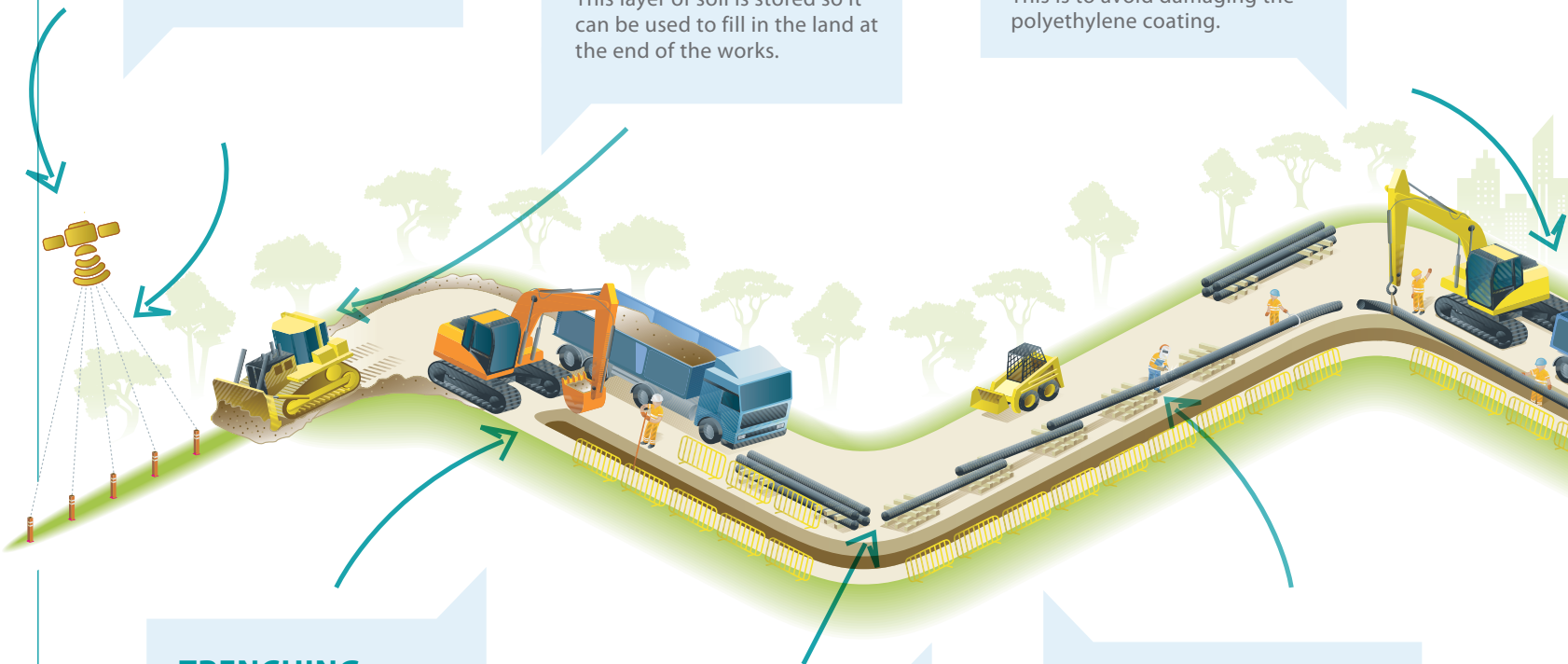
Using excavating machines or trenching machines, if the soil is very hard, a trench of one metre and a half wide and one meter and a half long is opened, where the pipe will be placed.

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 2017, Redexis Gas had a 1,643-kilometre network formed by 51 gas pipelines.

TRANSMISSION NETWORK

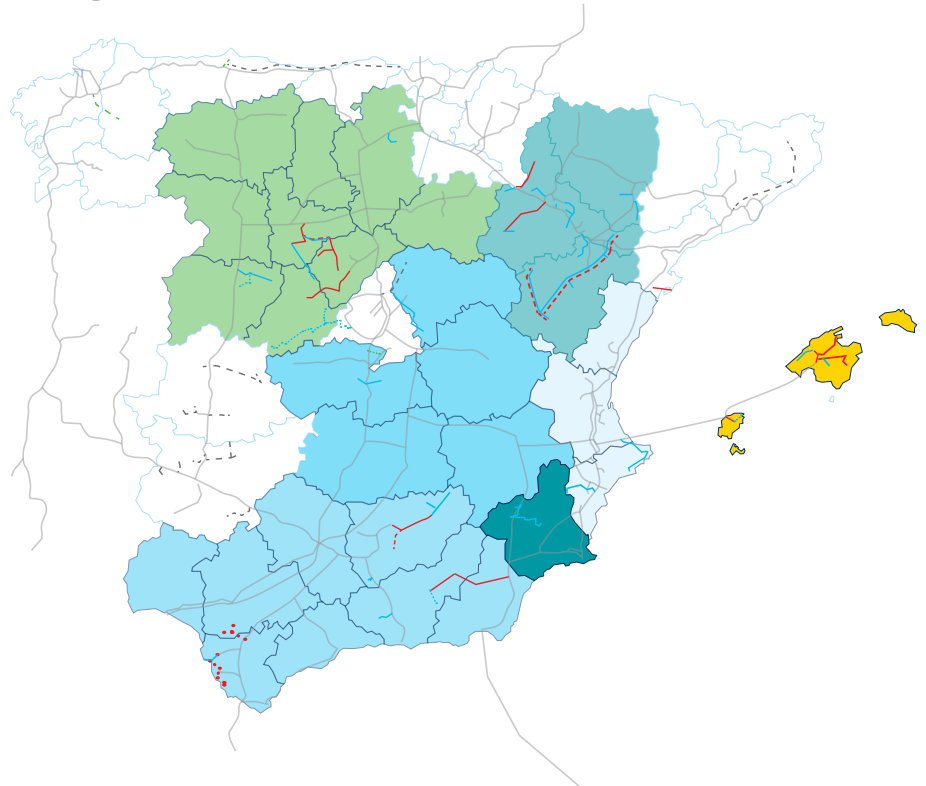
TRANSMISSION PIPELINES EG/TRG

2008-2017 PLANNING

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

EN SERVICIO

- ENAGAS
- Primary transmission network
- Secondary transmission network



REGIONS	TRANSMISSION NETWORK		GAS PIPELINES	
	ASSETS (Km)	PROJECTS	ASSETS (Km)	PROJECTS
Andalusia	294	120	9	5
Aragon	559		15	
Balearic Islands	181	23	5	2
Castile and Leon	358		15	
Castile-La Mancha	83		3	
Community of Valencia	103		3	
Murcia	65		1	
Total	1,643	143	51	7

The company has made steady progress in network roll out. During the year 2017, Redexis Gas obtained the commissioning certificate for two new gas pipelines that have added 21 kilometres to its network.

- In May, it obtained the certificate of commissioning of the “Yeles-Seseña” gas pipeline in Castile-La Mancha, 9.1-kilometre long, which will satisfy the energy needs of a significant market in its area of influence both for households and services business, and for industrial customers.

- In June, it obtained the certificate of commissioning for “Villacarrillo-Villanueva del Arzobispo” in Andalusia, for 11.6 kilometres.

At present, the Company is considering the submission of a bid for the gas pipelines included in the planning and pending award.

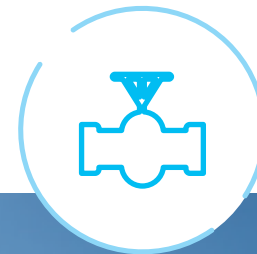
DISTRIBUTION

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:

- Efficiently and effectively manage its regulated distribution assets.
- Distribute gas to the end user and guarantee superior service.



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



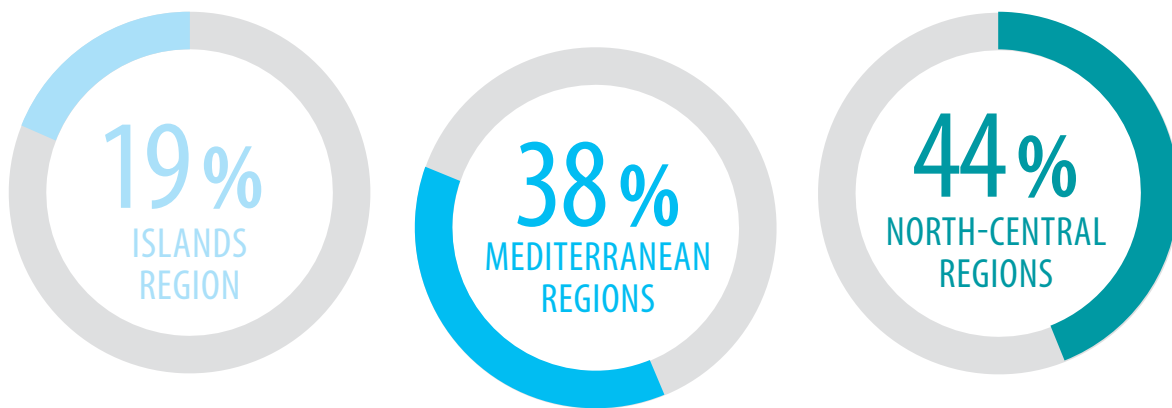
At year 2017 closing 2017, Redexis Gas operates 570,375 natural gas connection points and has added 540 kilometres to its natural gas distribution network, reaching 7,421 kilometres distributed in 233 municipalities of the Spanish territory.

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 14 new

municipalities and has applied for additional 22 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 2017



Since the year 2010, the number of points of supply, municipalities served, and energy distributed have increased substantially, making Redexis Gas as a leader in the sector.

During 2017, the Company has signed several agreements to expand natural gas to transport vehicles; it has entered new industrial areas that did not have gas service, and it has participated in different seminars and conferences.

All of this evidences Redexis Gas' growth strategy, incentivised by the improvement of the country's

economic situation, allowing the same to boost its competitiveness and increase its customer portfolio.

Likewise, during 2017, Redexis Gas has shown that it is a pioneer in incorporating advanced computer-based algorithms into its growth and business processes, which give priority to commercial action and optimize infrastructure rollout and operation. Thanks to the implementation of advanced Artificial Intelligence Tools in its expansion processes, Redexis Gas has doubled customer acquisition, increasing its commercial efficiency by 30% and reaching greater operating efficiency.

Areas in which Redexis Gas performs its distribution activity

REGIONS	CONNECTION POINTS (NG)	DISTRIBUTION NETWORK (KM)	MUNICIPALITIES SERVED
Andalusia	53,643	1,164	46
Aragon	227,653	1,855	68
Balearic Islands	105,933	1,121	17
Castile and Leon	38,665	654	41
Castile-La Mancha	7,715	150	12
Community of Valencia	15,619	333	17
Murcia	97,782	1,827	26
Extremadura	7,329	159	1
Madrid	419	17	1
Catalonia	15,617	142	4
Total	570,375	7,421	233



In February 2017, Redexis Gas obtained exclusive authorizations for gas distribution in 8 municipalities of the region: Las Palmas de Gran Canaria, Telde and Agüimes in Gran Canaria; and San Cristobal de la Laguna, Arona, Granadilla de Abona, Puerto de la Cruz and Santa Cruz de Tenerife in Tenerife. Thanks to this, the Company will be able to supply gas to more than one million residential and industrial customers in the Canary Islands in the future.

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 rents 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.



LIQUEFIED PETROLEUM GAS



Within the framework of its piped gas distribution activity, Redexis Gas is also engaged in the distribution and commercialisation of piped liquefied 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 420 municipalities, it operates a 926-kilometer network and has nearly 79 thousand LPG points.

REGIONS	CONNECTION POINTS	DISTRIBUTION NETWORK (KM)	MUNICIPALITIES SERVED
Andalusia	12,362	132	55
Aragon	16,487	215	183
Balearic Islands	12,777	34	37
Castile and Leon	6,646	94	60
Castile-La Mancha	6,041	78	31
Community of Valencia	6,131	87	18
Murcia	13,136	229	28
Extremadura	2,034	12	2
Madrid	3,328	36	4
Catalonia	336	9	2
Total	79,278	926	420

Some of these gas customers are expected to convert to natural gas in upcoming years, taking into account certain technical, regulatory and profitability characteristics. In 2017, more than 3,000 LPG points converted to natural gas.

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.

Such assets represent leverage for growth and expansion of the natural gas regulated business in upcoming years.



OTHER NON-REGULATED ACTIVITIES

Additionally, Redexis Gas offers a series of non-regulated services under the scheme described in the distribution or transmission activity.





5

REDEXIS GAS'
NETWORK



CHARACTERISTICS OF THE NETWORK

Redexis Gas develops a safe, efficient and sustainable gas transmission and distribution network.



Redexis Gas carries natural gas from the delivery points within Spain's main or primary network to the consumption points, in the best safety and quality conditions. It operates more than 9,900 km of transmission and distribution networks throughout Spain, with 51 regional transmission gas pipelines that provide service to 29 provinces.

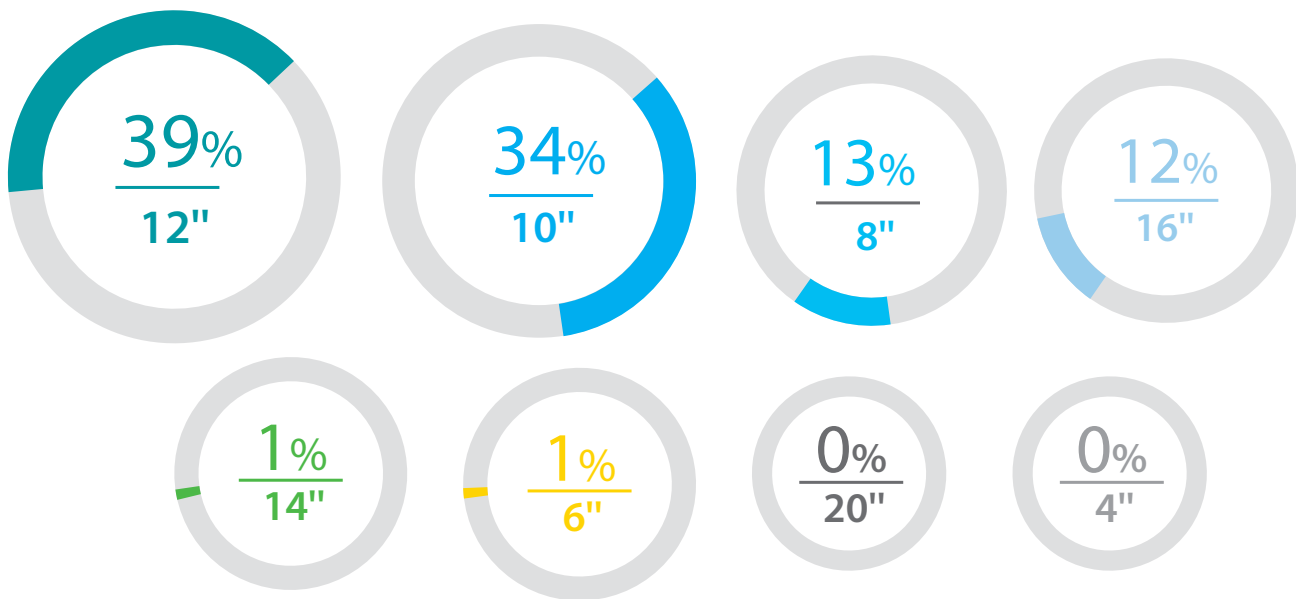
The Company has a very young transmission and distribution network: more than 60% of the transmission network has been built in recent years and a significant proportion of the distribution network has been constructed between 2005 and 2008. That means that the Company only requires a limited investment 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, 73 % 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 (2017)



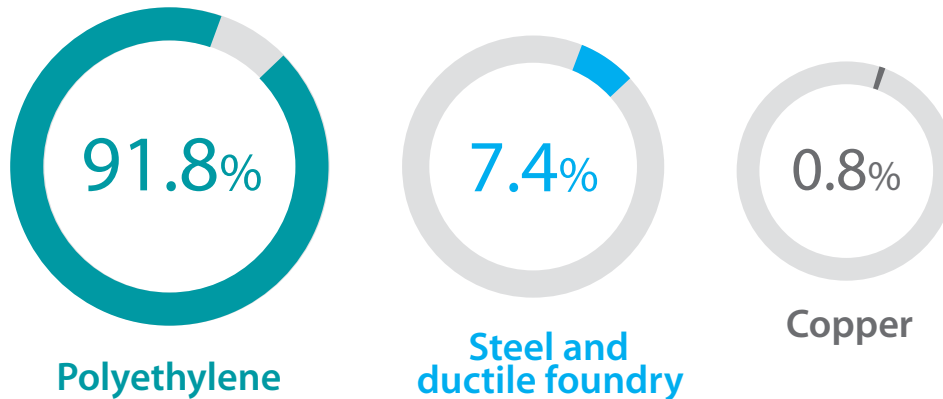
The distribution pipelines that connect the gas pipeline network with the consumption areas are usually built with steel when the pressure in the network exceeds 10 bar and with polyethylene for equivalent or lower operating pressures.

The distribution networks in populated areas are mostly of polyethylene, although there are other materials such as steel and, residually, copper and ductile cast iron.





Distribution network - % km of pipe material (2017)



Redexis Gas applies to all its networks a series of preventive and predictive actions, in an orderly and systematic manner, established in its comprehensive asset management plans, increasing the useful life of the networks and notably reducing the number of interventions in the same. In the case of steel networks, Redexis Gas has active protection systems against corrosion. Additionally, in its transmission networks, Redexis Gas has a cathodic protection remote management system, which allows controlling and adjusting such protection to Dispatching mode, which makes it a pioneer in the application of such techniques in the sector.

The improvement of construction procedures and techniques in distribution networks made by Redexis Gas is bearing its fruits, and the same investment now allows the construction of more meters of network. 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.

The acquisition of assets for LPG distribution has entailed new opportunities for Redexis Gas to increase

its presence in the gas supply market. In addition to the LPG deposits near the consumption points, piped LPG distribution networks have been acquired, which have been successfully integrated into Redexis Gas' management processes.

NETWORK OPERATION

Redexis Gas has a Dispatching or Control Centre from which it monitors 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 of 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 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 Investment Committee that approves the same pursuant to certain investment criteria.





The background of the image shows a close-up of industrial machinery, likely a valve or part of a piping system. A prominent red handwheel is visible on the left side. The machinery is made of metal and has various pipes and fittings. A circular white overlay with a teal border is positioned in the center-right of the image, containing the number '6' and the text 'ECONOMIC-FINANCIAL SITUATION'.

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 disconnection charges.

In 2017, Redexis Gas has obtained excellent results thanks to the experience and the effort of its team, which have strengthened its activity and presence in the national territory.

OPERATING DATA	UNIT	2015	2016	2017
NG (P<4b)	#	522,066	544,348	570,097
NG (P>4b)	#	235	253	278
LPG	#	15,691	81,166	79,278
Connection points	#	537,992	625,767	649,653
Provinces served	#	26	27	27
Municipalities in service	#	243	484	485
Network length (Km)	Km	8,338	9,411	9,990
Distribution network length	Km	6,784	7,789	8,348
Transmission network length	Km	1,554	1,622	1,643
Energy distributed (GWh)	GWh	28,446	26,026	32,277
No. of gas pipelines	#	48	49	51

FINANCIAL DATA Data in € millions, unless otherwise stated	2015	2016	2017
Revenues	187.8	211.7	231.8
Distribution - regulated	92.3	98.0	100.0
Other regulated distribution income	21.5	25.2	28.3
Transmission - regulated	58.6	61.5	63.0
LPG regulated business	2.8	12.9	25.0
Other operating income	3.2	3.9	3.3
Self-constructed non-current assets	9.4	10.2	12.2
Gross operating profit (loss)	136.0	157.1	162.2
<i>Margin</i>	<i>72.4%</i>	<i>74.2%</i>	<i>70.0%</i>
<i>Margin (excluding the dilutive effect of the LPG Margin)</i>	<i>73.2%</i>	<i>76.7%</i>	<i>75.0%</i>
Capex	386.6	221.1	129.3
Profit for the year	34.4	48.7	49.7

REVENUES

The revenues 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 2017, the Company's revenues had increased 9.5% compared to the same period in 2016, reaching EUR 231.8 million, mainly as a result of its regulated activities.

In 2017, more than 93% of the Group's revenues were generated by its regulated activities (increase in connection points in new and existing municipalities, commissioning of 2 new gas pipelines) and the rest by its non-regulated activities.



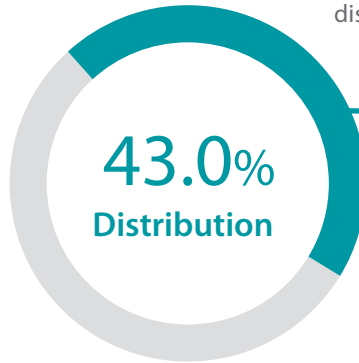


Total Revenue in 2017

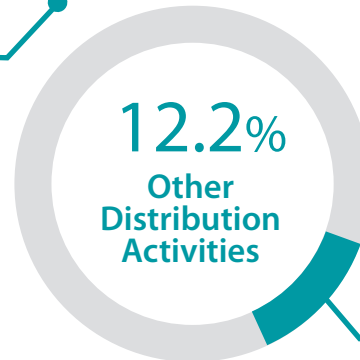
Includes self-constructed non-current assets and others.



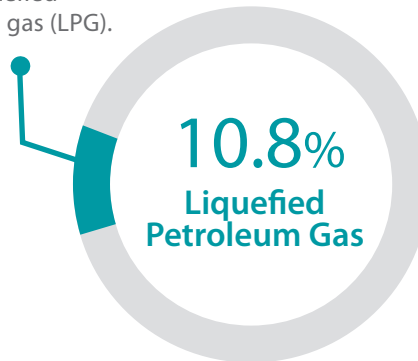
Projects in the distribution business.



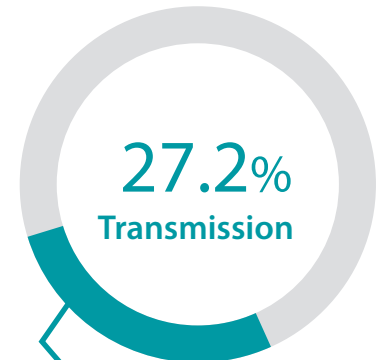
Includes periodified income from industrial clients' activation rights and subsidies, mandatory inspections in the consumers' premises, meter rentals, sign-up connection fees, maintenance, etc.



Include the regulated sale of liquefied petroleum gas (LPG).



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



Projects in the transmission business

**Total Revenue in 2017:
231.8 million of Euros**

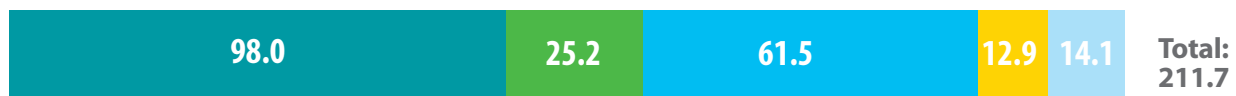
■ Regulated income ■ Non-regulated income

Revenue evolution (€m)

2017



2016



■ Distribution ■ Other distribution income ■ Transmission ■ LPG business ■ Other operating income



Revenues from distribution are the greatest contribution, representing 43% of the total revenues in 2017.

At the closing of 2017, revenue from distribution had increased 2.0%, reaching EUR 100.0 million, mainly due to the increase of connection points in new and existing municipalities.

The growth of other distribution income was 12.3%, reaching EUR 28.3 million, as a result of the increase in the number of activations.

Revenue from transmission increased 2.4%, reaching EUR 63.0 million, due to the commissioning in 2017 of the “Yeles-

Seseña” gas pipeline in Castile-La Mancha and the “Villacarrillo-Villanueva del Arzobispo” gas pipeline in Andalusia.

Revenue from LPG regulated business increased significantly, reaching EUR 25.0 million, due to the progressive incorporation of LPG points acquired from Repsol Butano, S.A..

EBITDA

The EBITDA for the year 2017 increased 3.2% reaching EUR 162.2 million, with a margin of 75.0% excluding the dilutive effect of the LPG Margin.

■ EBITDA ■ Margin (%)

(1) Excluding the dilutive effect of the LPG Margin

EBITDA (€m) / Margin (%) ⁽¹⁾





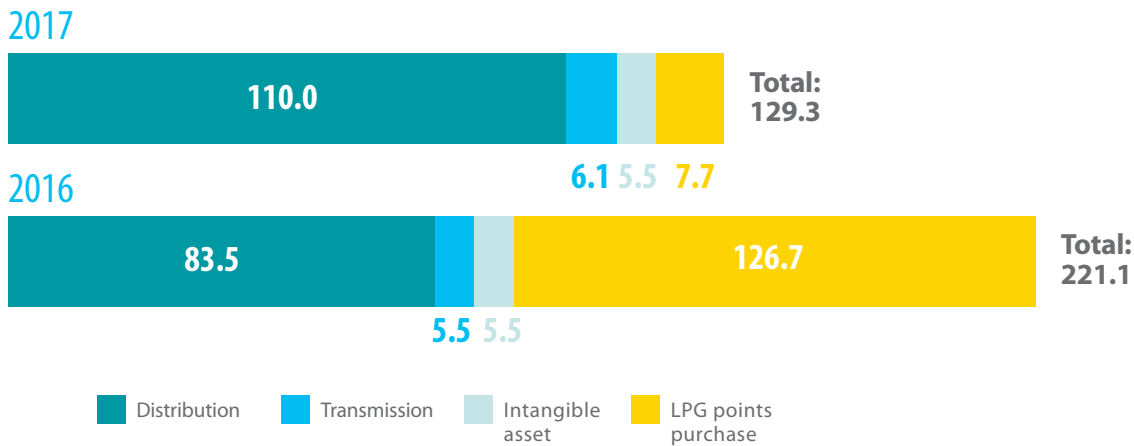
CAPEX

Redexis Gas' investments reached EUR 129.3 million in the year 2017.

- 90% related to investments made in its organic growth, both in the transmission business, with the incorporation of 21 kilometres to its transmission network, and in distribution, with the addition of more than 23,500 new natural gas and LPG connection points, and taking gas to 14 new municipalities.

- The rest were investments made in other assets related to the implementation of new systems to integrate the acquisitions made. The new systems have provided additional flexibility to Redexis Gas, improving its expansion activity and operating growth, including the development of Artificial Intelligence tools to foster growth and efficiency in operations and network deployment.

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.

DEBT STRUCTURE

The objects of Redexis Gas' financial strategy are to maintain the *investment grade rating*, diversify the financing sources, reduce financing costs, increase flexibility and extend the debt maturity profile.

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

In recent years, the Company has demonstrated its ability to access the capital markets.

In November 2017, Redexis Gas successfully concluded a bank facility agreement for its revolving credit, for an amount of EUR 300 million. The facility has a five-year term, up to 2022, extendable for two further years, significantly improving the maturity profile and average cost of its debt. Such facility replaces the previous syndicated loan, improving its economic and operating conditions.

With this credit facility, the Company strengthens its capital structure and acquires additional financial flexibility to undertake its investment plans.

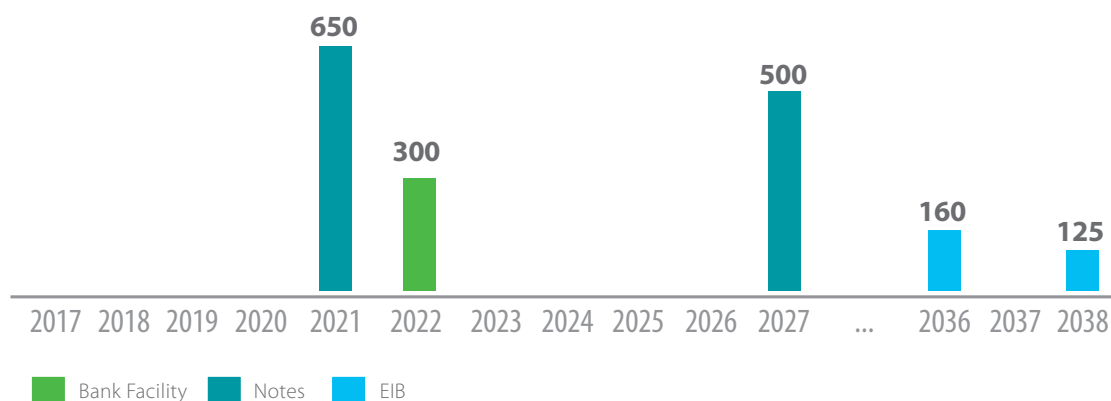
In December 2017, the Company successfully completed a third issue of notes for an amount of EUR 250 million. The transaction was closed with a 10-year maturity term, with an annual coupon of 1.875% and a 2% return. Such transaction was structured as an addition to the bonds with maturity in 2027; the aggregate amount being EUR 500 million.

Likewise, the Company signed with the European Investment Bank (EIB) through the “Juncker Plan”, two loans for an aggregate amount of EUR 125 million, within the framework of the EFSI (European Fund for Strategic Investments), whose funds are used for rolling out distribution networks throughout the national territory.

The success of the transaction reflects the investors’ support and trust in the company and the resources obtained strengthen Redexis Gas’ ability to create value by rolling out and operating the natural gas networks.

Debt structure

TRANCHE	TYPE	AMOUNT	MATURITY
EIB	Fixed	EUR 160 million	2036
	Fixed/Floating	EUR 125 million	20 years from crowdown
Notes	Fixed	EUR 650 million	2021
		EUR 500 million	2027
Bank loan	Floating	EUR 300 million	2022/2024



On the other hand, in December 2017, Redexis Gas, together with two other companies of the Group, signed with Banco Popular, S.A. an agreement for the assignment of a credit right, pursuant to which such companies assigned to Banco Popular, S.A. the outstanding nominal amount of the accumulated deficit in the gas system as of 31 December

2014, amounting to EUR 41.9 million. Such assignment was duly communicated to the CNMC on 1 December 2017.

At present, the Company has a credit rating by Standard & Poor’s, with a BBB- rating for its notes with a Stable perspective, maintaining the investment grade.





7

THE GROUP'S COMMITMENT



THE GROUP'S COMMITMENT

INITIATIVES CONCERNING THE COMMITMENT OF REDEXIS GAS TO ITS STAKEHOLDERS

- It voluntarily adopts Corporate Governance measures. **(See Corporate Governance Report)**
- 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 implemented 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.
- The management system has been audited during 2017, maintaining the ISO 14001:2004 Standard and OHSAS 18001:2007 Standard certifications.
- During the first quarter of 2018, the Integrated Management System (IMS) has been changed to adapt the same to the new requirements of the ISO 14001:2015 environmental management system and for the new implementation of the ISO 50001:2011 energetic management system.
- It has signed an agreement to promote renewable hydrogen by creating 'H2Gas', the object of which will be the technological development and promotion of production and transport infrastructures for hydrogen generated from renewable energies.
- 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 comprised of 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"> • Supplier 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

What the Company does must be in line with what it says.

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.

Creating value for the shareholder is a priority for Redexis Gas.

Redexis Gas' Investor Relations communications policy has been established pursuant to good practice and the good governance recommendations, based on responsibility, diligence, transparency in the disclosure of information, protection of shareholders' and investors' rights, and collaboration among all of them.

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.

Redexis Gas provides its shareholders, investors and other stakeholders with reports and communications about the evolution of the Company and the Spanish gas sector.

This department is in charge of coordinating relations with the rating agencies, which analyse the strategy, businesses, solvency and evolution of Redexis Gas, assigning a certain credit rating thereto. Redexis Gas has maintained investment grade at all times in its rating trajectory.

AGENCY	CORPORATE	NOTES (SENIOR UNSECURED NOTES)	OUTLOOK	LAST REPORT DATE
S&P	BBB-	BBB-	Stable	17 November 2017

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.

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

Through the Investor Relations department, support is given to the management team when taking decisions; it is a matter of increasing the Company's visibility in the financial markets, and the different parties are kept up to date with regard to the Company's and the industry's most relevant information, the competitive dynamics of the markets and the company's operational and financial evolution.

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

2. USERS

At Redexis Gas we seek excellence and the users' satisfaction.

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.

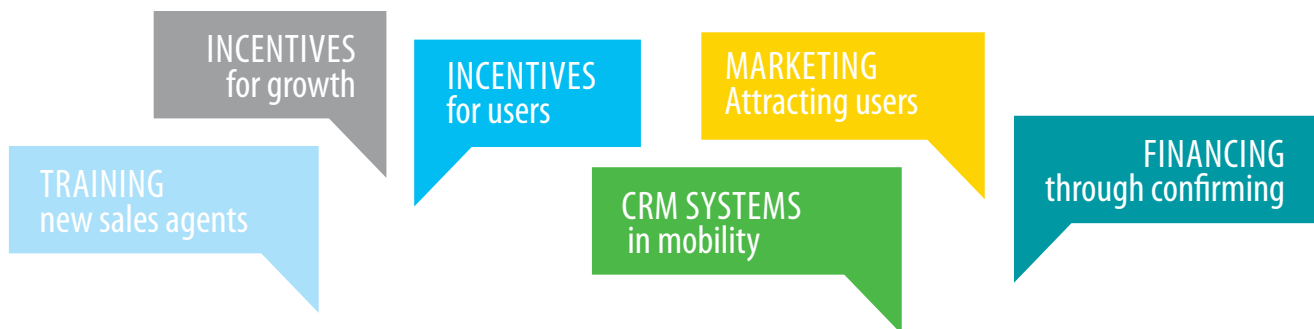
The Company has increased the investment and quality of its service in the different segments of users, and proof of this are the excellent results obtained in the year 2017.

a) Household Segment

Redexis Gas tries to satisfy the customer's needs and transform them into a profitable business opportunity

Throughout the year 2017, more than 40 thousand new supply contracts have been signed, which entails an increase exceeding 40% compared to the year 2016. This has been possible thanks to new uses of artificial intelligence tools, which allow knowing the potential users' propensity to sales.

Offering resources to its collaborators



Likewise, during 2017, 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 connection 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 2017, c. 900 new contracts in these segments place Redexis Gas in a leadership position regarding the attraction of businesses and 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.

'El Limonar de Santomera' incorporates natural gas to its industrial processes, thanks to Redexis Gas

Redexis Gas has closed an agreement with El Limonar de Santomera -food company engaged in the production and sale of citric fruits- to install natural gas at its infrastructures located in the Industrial Park of Santomera.

The Company is committed to the industrial sector, contributing to make the production fabric of the Region of Murcia more competitive through the distribution of natural gas.

Natural gas reaches Novo Sancti Petri thanks to Redexis Gas

In June, Redexis Gas inaugurated the arrival of natural gas to the tourist development Novo Sancti Petri, in Chiclana de la Frontera.

At present, in this area, the Company provides access to 1,600 homes, two shopping centres and one retirement home. With the upcoming works, it will provide gas supply to 14 hotels and tourist apartments.

All such work entails the creation of direct and indirect jobs resulting from the construction, installation and commercialisation works.

The hotel sector is one of the major beneficiaries. Hotel facilities have services such as laundry, HVAC, sanitary hot water generation or kitchens, and other services such as spas, which require an energy source that contributes to offer customers the best stay.

Redexis Gas focuses on the customer and thus uses efforts to make the provision of its services as smooth as possible, offering quality, proximity and transparency. To facilitate the use of natural gas by its customers, Redexis Gas has signed collaboration agreements with different financial institutions 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.



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 2017, the Company had 319 employees distributed in 17 workcentres throughout the national territory, capable of adapting to the Company's daily dynamism.

The Resources department 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

We are guided by
our values

OVERCOME

INSPIRE

CARE

ADVANCE

LIVE



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.

But also, Redexis Gas gives a first job opportunity to all those who participate in the internship program, informing them about the internal vacancies with a very positive result, with 4 interns joining the staff throughout the year 2017.

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.

Only by helping our professionals reach success will we continue to expand and develop as a Company

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.

As every year, in 2017 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:

- **Technical training in LPG**
- **Extinction and control of incidents with natural gas**
- **Training in Fundamentals of Lean**
- **Technical training in Multilayer Systems**
- **Technical training in Gas Measurement**
- **Training in driving**
- **Training in Microsoft Office (Excel and Power Point)**

The attraction, training and development of people, the management of knowledge, the identification and development of talent, are all part of the same process.

LPG technical training

Since November of the year 2016 LPG technical-commercial training has been performed, included within the defined Training Plan, the main object of which is to contribute to the professional growth of people and provide them with qualification for an excellent performance of their job, according to the needs of each department.

Such training has been performed in several offices of Redexis Gas (Madrid, Zaragoza, Granada, Palma de Mallorca) and has been addressed to more than 120 employees.

The object of such training sessions has been to improve and expand the knowledge about operation and maintenance of piped LPG facilities and associated equipment, as well as the installation thereof.

3.2.2. 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.

3.3. LABOUR RELATIONS

Redexis Gas makes an effort to improve the labour 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 the companies Redexis Gas, S.A., Redexis Infraestructuras, S.L., Redexis GLP, S.L. and Redexis Gas Servicios, S.L. which gathers the employment, economic, operating, and social benefit terms and conditions for employees, providing stability, predictability and sustainability to the employees.

During the year 2017, the Company has implemented the 1st Equality Plan and Measures to Reconcile work and family life, promoting the Company's commitment to establish and develop policies that include equal treatment and opportunities for women and men, as well as boosting and

promoting measures to achieve actual equality within the organisation, as a strategic principle of the Corporate and Human Resources Policy. Likewise, new actual and effective measures to reconcile family and professional life have been implemented, recognising the employee's right to actual reconciliation of work and family life as a fundamental element to achieve the goal of equality, promoting the balanced assumption of family responsibilities and avoiding any discrimination based on the exercise thereof.

Redexis Gas is committed to the professional growth of its professionals and gives priority in working environments to diversity, equal opportunities, creativity and teamwork.



3.4. PEOPLE'S PERFORMANCE

Acknowledging and celebrating employees' efforts and achievements helps improve business productivity and increase their satisfaction.

In the year 2017, the Company has implemented a flexible remuneration model with the following advantages:

- It allows the company to increase the salary available for the employee, without increasing the salary bill.
- It increases the role of employees, by allowing them to set up the remuneration according to their personal circumstances.
- It contributes to position the organisation as "benchmark employer" in the market, with the

additional advantages that this entails to attract the best professionals.

- It contributes to cultural change towards modernity
- It boosts the responsibility and commitment of the people in the company.

Additionally, the Company has created the Redexis Gas Savings Club, through which employees have access to special prices and offers with the best discounts for all types of leisure activities and items.

3.5. HEALTH AND SAFETY

Redexis Gas tries to offer the best tools for its professionals to perform their daily work, ensuring at the same time a healthy and safe working environment.

During 2017, Redexis Gas has adapted the management systems required to integrate the new LPG business, which has entailed the study and analysis of different legal requirements regarding the dismantling of LPG plants, waste management, preliminary status reports, emergency plans, certification of personnel from third companies, follow-up of prevention aspects in the development of transformations to natural gas, as well as the definition of actions to improve the safety conditions of plants, which has required placing hand railing, signs, remote management systems, etc.

Likewise, during this year, the management system has been audited, maintaining the certification pursuant to the ISO 14001:2004 Standard and the OHSAS 18001:2007 Standard. Such audits have the object of determining whether the management system is fit for the actions planned for its management, including the standard requirements, and help find deviations and opportunities for improvement within the Company, for the purpose of evaluating the need to establish the

corrective actions considered appropriate in each case.

Notable among the actions of the third-party prevention service and its own prevention service are the updating of the occupational risk assessment at work centres, facilities and jobs, assessments of occupational risks of the activities of Redexis Gas and Redexis Gas Murcia.

Redexis Gas continues to cooperate with the competent authorities, maintaining its adherence to the Bonus system established by RD 231/2017, and the consequent reduction of contributions for professional contingencies, due to the Company's contribution to reduce and prevent workplace accidents.

According to the calendar established, and for the purpose of assessing the appropriateness of the action procedures defined in the emergency or self-protection plans, several emergency drills have been conducted, defining new preventive and corrective measures to be applied in each case and in each reason.

Redexis Gas participates in the safety campaign for gas facilities in the Community of Madrid region

Every year, Redexis Gas participates in the safety campaign for gas facilities in the Community of Madrid. The object of such initiative is to offer users practical advice for the safe use of gas facilities and thus avoid potential accidents.

Other marketers and distributor companies, as well as Sedigas and the Association of Enterprises in the Facilities and Energy Sector (AGREMIA) have participated in the information campaign, promoted by the Community of Madrid, which has been organized for more than ten years now.

Monitoring that the combustion is correct, avoiding the obstruction of ventilation grilles and the gas exhaust duct, and performing a correct maintenance of the boiler every five years are some of the main practical tips to safely use the gas facilities. Additionally, it is important to know that, if it smells like gas, windows must be opened, no electric device or light switch must be turned on, and you must call the emergency service of the supplying company.



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.

It is essential to establish the guidelines and principles that must be followed to identify, evaluate and control occupational risks.

In 2017, the investment made in health and safety training was greater than the one of the previous year, given that training in the prevention field has continued to comply with Royal Decree 840/2015, of 21 September, whereby measures to control the risks inherent in serious accidents involving hazardous substances were approved, conducting a course on Emergency Management, training in courses improve driving skills, training on online management of stress, and basic level of prevention for online technical and/or supervisory personnel.

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.

In matters of business activity coordination, document control of 360 contractor and subcontractor companies is being monitored monthly, as well as the 1,600 workers of the same, with a total volume under supervision exceeding 10,000 documents.

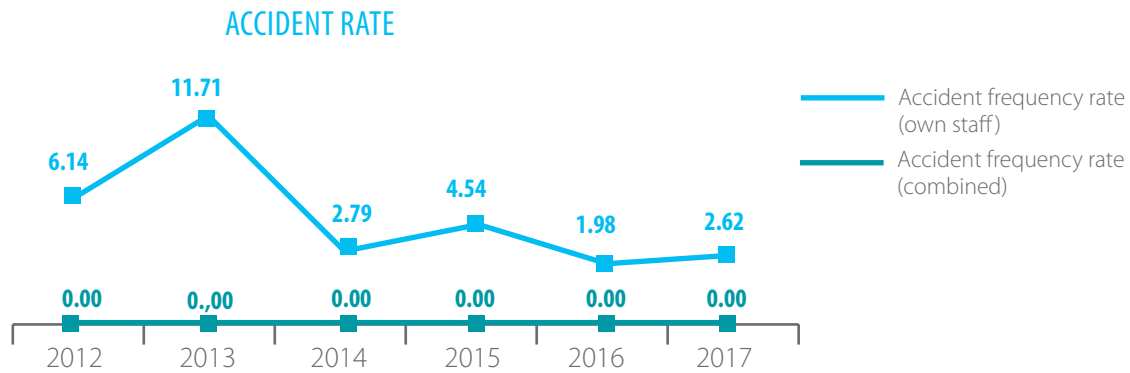
Regarding the oversight of its employees' health, Redexis Gas has continued to establish periodic medical check-ups, focusing on different groups; as well as flu vaccination campaigns, and campaigns to prevent specific pathologies, such as breast, ovarian, cervical, colon, prostate cancer, etc. through specific tests of these pathologies, with a high degree of acceptance among our staff.



The progressive reduction of accidents at the workplace is a priority for Redexis Gas.

In matters of risk prevention, the continued follow-up, by means of inspection programs, of work and activities that involve a greater risk, is key to achieve

the high levels of safety required. In this regard, the year 2017 has been characterised by its low rate of accidents.



The participation and employee consultation functions are implemented through the health and safety committees, which are held quarterly.

Finally, the Company has maintained its participation in the sectoral committees and attends the different safety and sustainability forums of SEDIGAS.

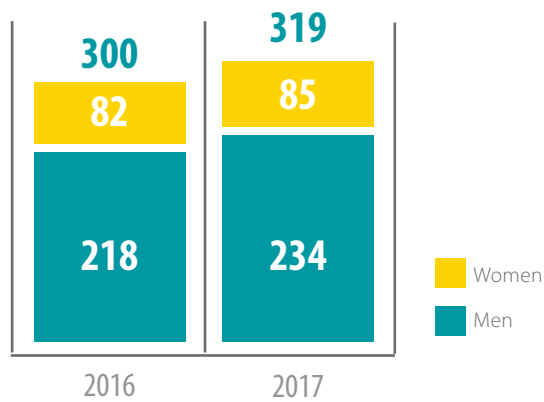
3.6. STAFF

KEY FIGURES	2016	2017
Number of employees (average workforce)	299	309
Number of employees (as at 31 December)	300	319
% male/female	73%/27%	73%/27%
Average age of employees	42	43
Average time in Redexis gas	10.5	10.4
Turnover rate	7.0%	1.3%
Absenteeism rate (average)	1.3%	1.3%

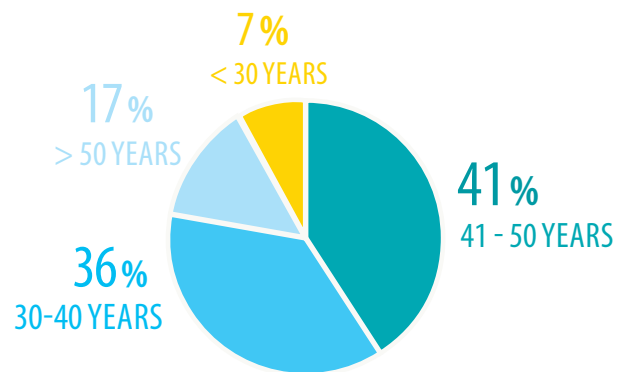
Job creation is an indicator of the Company's growth strategy. As a consequence of such growth, at the closing of 2017, Redexis Gas had a team of 319 persons with an average age of 43 years, which reveals that it

is a young staff, with expertise and great potential, and an average seniority of 10 years, which shows a positive stability in permanence and commitment to employees

BREAKDOWN OF WORKFORCE BY SEX



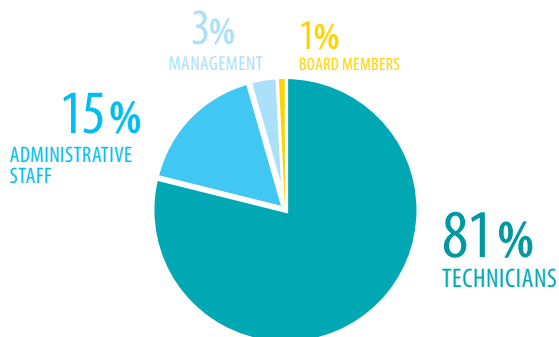
BREAKDOWN OF WORKFORCE BY AGE GROUPS IN 2017



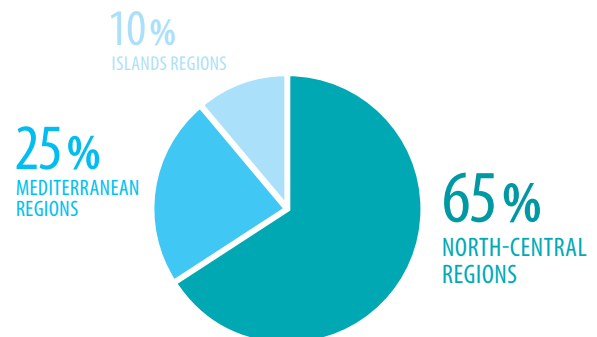
Redexis Gas' commitment to stability in employment is shown by the high percentage of permanent contracts, 99.3%, as well as the encouragement of internal

promotion. During 2017, acknowledgement and internal promotion have continued to be encouraged, making 16 internal promotions to management positions.

BREAKDOWN OF WORKFORCE BY CATEGORY IN 2017



BREAKDOWN OF WORKFORCE BY REGIONAL CLUSTERS IN 2016





Redexis Gas has a highly qualified and prepared team to develop its work and make a leading 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 2018, the Human Resources department plans to carry out the following projects:

- 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.
- Turn the people management model into the lever to promote the Company'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.



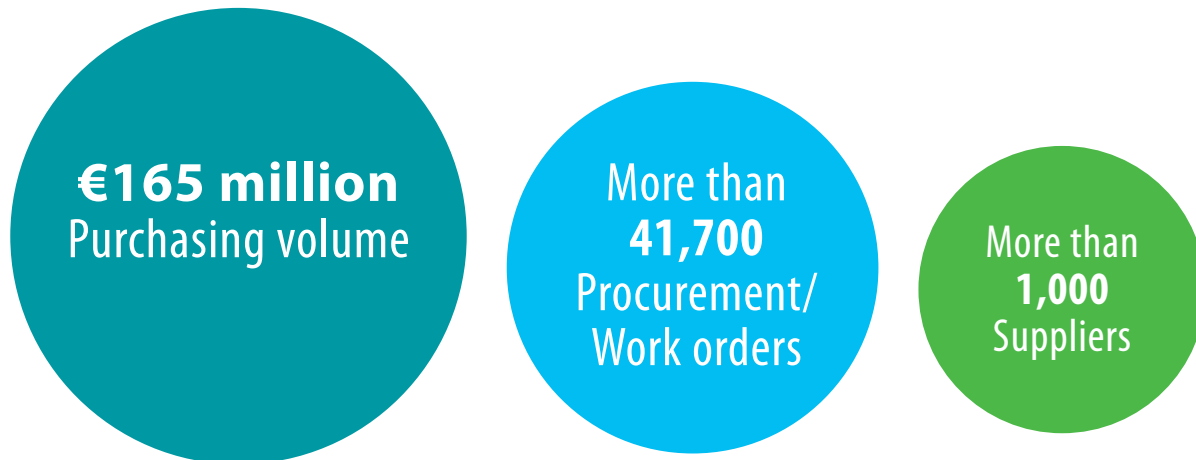
4. SUPPLIERS

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

Working with authorised and certified suppliers is a guarantee of professionalism, quality and sustainability for Redexis Gas.

Redexis Gas works with RePro, a supplier classification system for Spain, in compliance with Act 9/2017 of 9 November, on procurement procedures in the water, energy, transport and postal services sector. 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 2017, Redexis Gas managed, through 1,029 suppliers, a purchasing volume for an amount of EUR 165 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.

14% of the supplier base has had a commercial relationship of more than EUR 100,000 during 2017.

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 2017, 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, supplier audits were conducted for the purpose of verifying compliance of both legal matters 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 2017, approximately 65% of the Company's suppliers used this service.

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 processing 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 (CNMC), which also aims at ensuring the proper operation of the system from a technical and economic standpoint, ensuring competition and consumer protection

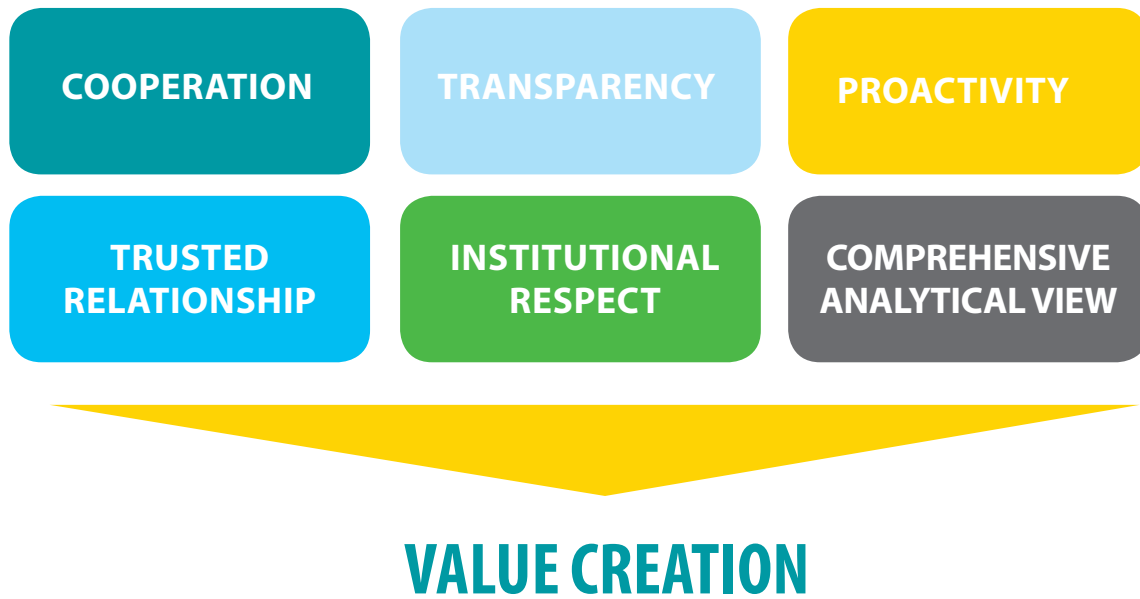


The employees who interact with the Public Authorities and the different regulators on behalf of the Company ensure that all communications made, whether directly or through intermediaries, are accurate and comply with all applicable laws and regulations.

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 that already have natural gas service, 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 connection 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 bar and crossing only one Autonomous Community) or National (for the construction of gas pipelines with a pressure exceeding 60 bar or those crossing more than one Autonomous Community).

Procedure to obtain authorisations for the distribution activity

The main principles are defined in an act of national scope (Act 34/1998, on the Hydrocarbon Sector), although 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

Redexis Gas establishes collaboration relationships with the communities in which it operates to guarantee the creation of value and provide synergic solutions, taking into account the needs of each territory. Such integration with the community is carried out by means of a communication and cooperation strategy, which puts emphasis on the wellbeing of citizens, businesses and industries.

The company maintains continuous dialogue with the local institutions and communities, for the purpose of identifying their needs and interests, and trying to meet the same via sponsorship actions and other actions to collaborate in social, environmental, sports or cultural projects.

During 2017, Redexis Gas has conducted more than a score of sponsorship and collaboration actions with different organisations and institutions, showing its commitment to proximity and creating value in the areas it operates. Within the cultural scope, it became a sponsor of the Teatro Real, thus confirming its intention of supporting the cultural and artistic project of such institution, and becoming part of its Board of Patrons, as well as sponsoring the broadcasting of the Opera on the

streets in more than 200 Spanish municipalities.

Among other actions, Redexis Gas participated in the Gas Facilities Safety Campaign in the Community of Madrid, it also joined the organisation of the Seminar 'Move with a clean fuel', held in Palma de Mallorca, and it collaborated in the National Contest "Earn points with Road Safety education" where more than one thousand students from 36 Spanish provinces participated, and which was held in Linares (Jaén).

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.



7. MEDIA

The relationship Redexis Gas maintains with the media is defined by its proximity, soundness and for keeping direct and continued dialogue and collaboration with the same. Both the national, regional, economic and sectoral media, as well as radios, televisions or online media, are direct recipients of the company's information, through press releases, meetings in person, press conferences or publications on the corporate website. On such corporate website (www.redexisgas.es), the company's information is presented in an easy and didactic manner. There is a section for media where professionals from such sector may find both the press releases made by Redexis Gas, documents of interest, as well as extensive audio-visual

contents with images, videos and graphic resources that can be useful for journalists.

During 2017, Redexis Gas has increased its presence in the media, both at national and regional level, thanks to a Strategic Plan for Communication, carrying out different communication actions focusing on the corporate, business and institutional level.

For Redexis Gas it is essential to build and promote a good relationship with the media and journalists, taking into account at all times the company's commitment to transparency and truthfulness.

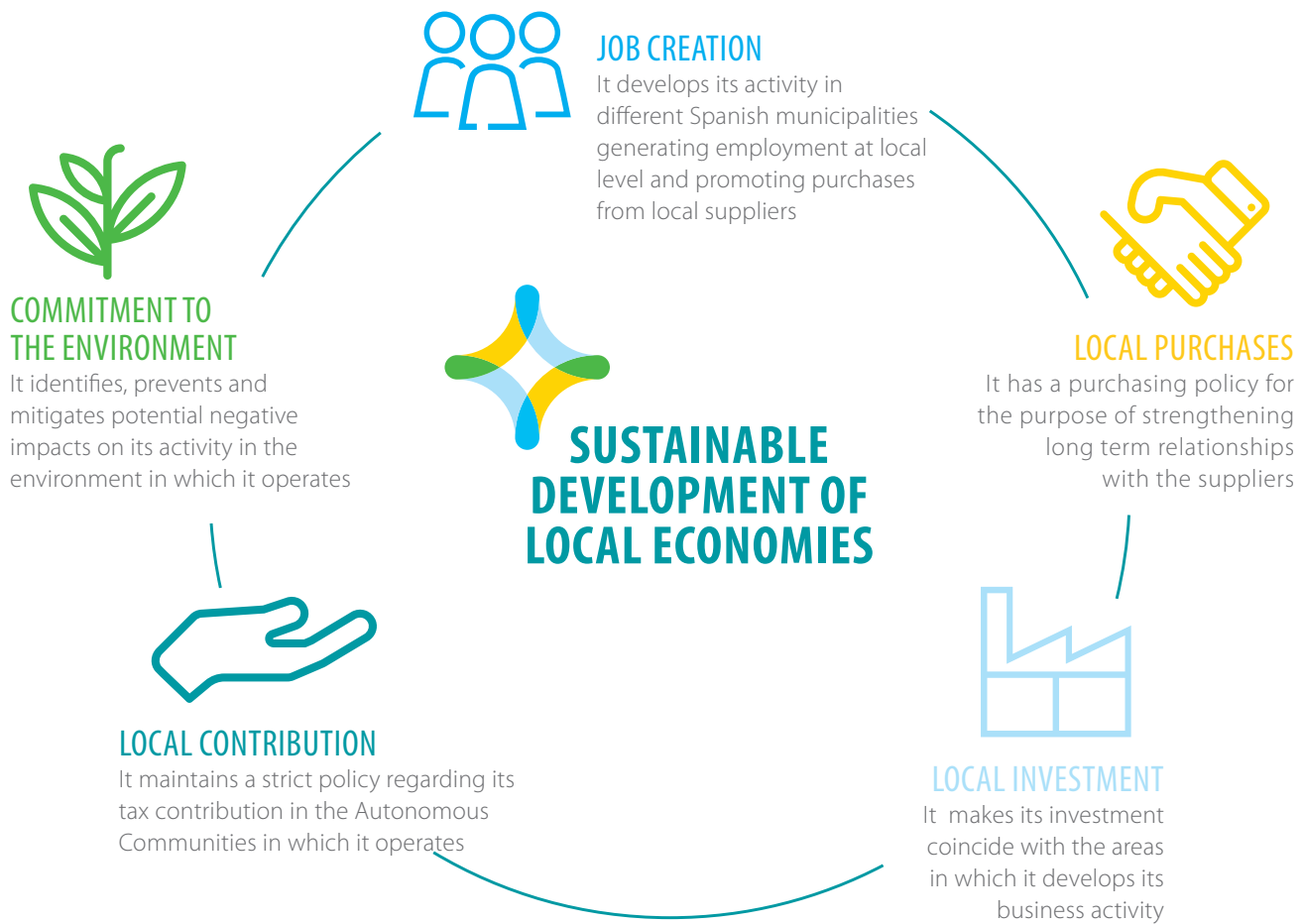


TO SOCIETY AND ITS ENVIRONMENT

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.



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 wellbeing 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 2017, 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.
 - Improve public attention to risk, safety and health, developing and promoting a culture of well-being health and safety. For such purpose, one more year, Redexis Gas has participated in the campaign of the Community of Madrid on safety of facilities, planning how to act in the case of potential accidents and risks that the users may suffer, as well as collaborating with the 2nd National Contest "Earn Points with Road Safety Training" organized by the Town Council of Linares.
 - Support the educational development of university students through visits of the students to its projects, such as the one conducted by the engineering and architecture students of the University of Zaragoza to the LPG plant in Ateca, the purpose of which was to explain the operation and development of the gas sector in Spain, and the role of Redexis Gas in the same.
 - Form part of the Aragon Energy Cluster, which was born to promote innovation and cooperation and add synergies for the purpose of gaining national and international competitiveness.
 - Participate in the 19th Specialised Conference of the Gas Sector, where different subjects were debated, such as the progressive decarbonisation of the world economy that opens new opportunities for the gas sector, and the condition of natural gas as a less polluting energy, which offers the industry a prominent role in the current scenario.
 - Develop sustainable actions in municipalities that involve the citizens themselves through informative and interactive activities that promote sustainable and environmentally friendly behaviours.
 - Environmental support such as the Company's participation and sponsorship in the "1st Forum on vehicle natural gas" organised by the General Directorate for Industry, Energy and Mines of the Community of Madrid, or in the Annual Assembly of the Balearic Transport Business Federation (FEBT) for the purpose of highlighting the benefits of natural gas for vehicles (VNG) for a sustainable development in the future.
- Likewise, Redexis Gas has sponsored the Ágora Conference, organized by the newspaper El Economista. At such conference, the energy scope was dealt with, especially the need to have in our country quality energy at the service of industries and families, and which complies with the environmental and climate change obligations, placing emphasis on the future of our country's energetic policy.
- Support to youth and sports for the purpose of promoting collective effort through the collaboration with different sports academies (such as the Club Esportiu Constancia of Inca, the Club Deportivo Mérida, as well as the Yepes Football Academy) supporting the junior categories.
 - Cultural and artistic support as new sponsor of the Teatro Real, becoming a member of its Board of Patrons. So, in July 2017, the Company collaborated with the work Madama Butterfly organised by the Teatro Real in the Plaza de Oriente of Madrid.



- 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.

Redexis Gas tries to minimise the social costs in environmental matters and the negative effects they may cause, given that protection of the environment is essential for a forward-looking business development, and thus 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 and continued improvement of the working conditions as fundamental values of its corporate culture. For such reason, it dedicates one of its departments exclusively to guarantee 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.

In 2017, Redexis Gas has initiated the project to adapt the Integrated Management System to the new version of the ISO 14001:2015 standard.

The process of adapting to the new philosophy of the rule from an environmental point of view has entailed the modification of the whole system, including the previous policy, for another energy, environment and occupational health and safety management policy, newly defining its objectives and environmental aspects, and elaborating new lists of environmental indicators adapted to the Company.

Due to the opportunities for improvement found during such process of adapting to the new ISO 14001:2015, the company has decided to make a further effort and implement ISO 50001:2011 on energetic management in the Company, to increase the energetic efficiency and reduce environmental impacts.

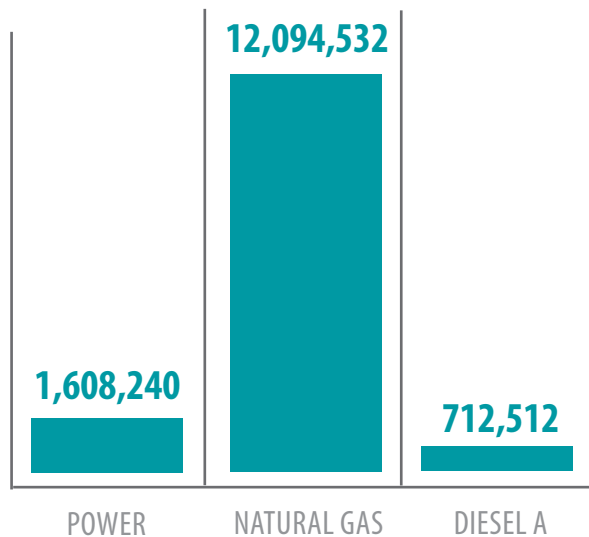
Redexis Gas continues with the strategy of creating value, responding to the expectations of its stakeholders. For such purpose, it elaborates on the tools that allow knowing and measuring its social and environmental impacts.



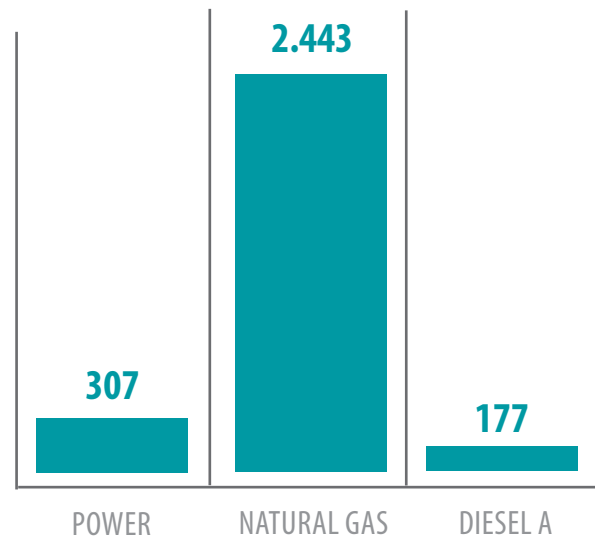
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ENVIRONMENTAL INDICATORS	UNIT	2016	2017
Non-hazardous waste			
Printed paper	#	504,091	417,591
Container-Confidential paper	Kilos	4,159	4,119
Blue container -Cardboard	Kilos	4,159	4,119
Yellow container -Packages, cans, bricks	Kilos	2,625	2,625
Toner	Kilos	300	195
Batteries	Kilos	80	100
Hazardous waste (fluorescents and luminaires)	#	124	39
Instalaciones	m ³	218	198
Offices	m ³	267	279
Total water consumption	m ³	485	477

TOTAL CONSUMPTION (KWh)



CO₂ EMISSIONS (Tn CO₂)





CARBON FOOTPRINT (TN CO ₂)	ALCANCE 1	ALCANCE 2	TOTAL
Offices	-	142	142
LNG Plants	401	95	496
Transport	90,729	327	91,055
Vehicle fleet	231	-	231
LPG Plants and Measurement and Regulation Station (Distribution)	193	17	211
Total	91,553	581	92,134

Redexis Gas' commitment to sustainability materialises through the development of different projects that support the deployment of natural gas stations, which entail a series of environmental, technical and economic advantages in the Spanish regions in which they are implemented.

Likewise, in March 2018, Redexis Gas has signed an agreement to promote renewable energy by creating 'H2Gas', the purpose of which will be the technological development and promotion of production and transport of hydrogen generated from renewable energies.

Renewable hydrogen contributes to achieve the goals of the Paris Agreement.

Under the 'H2Gas' framework, Enagás and Redexis Gas are finalising a first project that will consist of the development of the technology required to produce renewable hydrogen, to be used in the industrial and mobility sectors. Additionally, both companies will work jointly to advance and develop the introduction

of renewable energy into the gas transmission and distribution network.

The project contemplates the use of 'Power to Gas' technology, which allows generating hydrogen from water and electricity and injecting it into the gas pipeline network, whether directly or converted into synthetic natural gas or biomethane.

In a context of energetic transition, renewable hydrogen is positioning itself as a new global energetic vector, with great possibilities for the future, given that it can transform into different forms of energy: electricity, synthetic gas or heat, and it has multiple applications. Renewable hydrogen allows new connections between supply and demand of energy, which provide flexibility to the energy system.

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 2017, the Company has followed-up the different projects related to biodiversity to improve the evaluation 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 2017, the habitat restoration tasks carried out in 2015 in the land affected by the gas pipeline were followed up.

Son Reus-Inca-Alcudia

- In 2017 the habitat restoration tasks carried out in 2015 in the land affected by the gas pipeline were followed up.

Cas Tressorer-Manacor-Felanitx

- In 2017 the habitat restoration tasks carried out in 2016 in the land affected by the gas pipeline were followed up.

Villanueva del Arzobispo-Castellar

- In 2017 the habitat restoration tasks carried out in 2016 in the land affected by the gas pipeline were followed up.

Yeles-Seseña

- During 2017, the habitat restoration tasks were conducted in the area crossed by the gas pipeline, with a reduction of the vegetation affected, eliminating the cutting and pruning of trees.
- Additionally, trees have been planted (*franiux angustifoide*, *opulus alba* *alnus glutinosa*, *hacer campestre*) in collaboration with the Town Council of Esquivias.

Villanueva del Arzobispo-Castellar

- The construction of the gas pipeline ended in 2017, and different plants were planned to be planted in 2018 (*Pistacea lentiscus*, *Quercus rotundifolia*, *Olea europae var. sylvestris*) in an area of more than 2,500m² of natural habitats affected by the gas pipeline works.
- During upcoming years, a follow-up of the efficiency of the restoration measures executed will be conducted.



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.

Making progress, living, caring, inspiring, overcoming, the values of Redexis Gas reflect on safety, the basis for the Company's operation and reason for its control centre, which conducts its task for the purpose of guaranteeing the safety of people, facilities and supply.

the main facilities of Redexis Gas, which is analysed by specialised personnel who work in turns of 24 hours a day and detect any incidence, mobilising the response teams in the field.

With the help of the most advanced technology, the control centre receives information in real time from

The back-up control centre guarantees the continuity of the service in the case of any type of incident in the main facility.

Pillars to guarantee safety



SAFETY OF PEOPLE

Redexis Gas focuses its activity on the safety of all persons involved in the gas chain, whether they belong to its staff, collaborating entities, or they are final users of the fuels distributed by its networks.

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. Redexis Gas' CAT also receives all communications from other emergency bodies (police, firemen, 112) giving immediate notice to the control centre that manages the resolution of any incidence and the safety of the facilities.

The response to any incident is set out in the internal action procedures and protocols. Drills are conducted from time to time, involving all the Company's resources used for this type of actions.

In the past year 2017, the actions of our field personnel

were supervised, which was mobilised to attend 9,000 calls received in the CAT were supervised.

Intimately linked to the safety of its own facilities, all personnel, both internal and belonging to Redexis Gas' collaborating companies, must have appropriate training and knowledge to guarantee both their safety and the one of the facilities.

The control centre conducts a permanent surveillance of all accesses to the Redexis Gas facilities. All personnel, both its own and the one of collaborating companies, have the obligation to contact the control centre, informing of their intention of accessing one of the Company's facilities, checking at that time that, because of their training and experience, they are qualified, denying access otherwise.

In 2017, from the control centre of Redexis Gas, more than 12,000 accesses to the Company's facilities have been supervised.

Redexis Gas participates in the 4th Seminar on Control Centres

Redexis Gas participated in the 4th Seminar on Control Centres, which annually gathers the main Spanish energy operators, and this year was also attended by the main electricity and gas company of Portugal.

The debate this year focused on cyber security, with a round table on the effects and lessons learned from the Wannacry cyber-attack.





SAFETY OF THE FACILITIES

Compilation in real time of field information allows Redexis Gas to supervise the safety of its facilities, reacting and even anticipating any potential anomaly of the same.

Redexis Gas' control centre has a SCADA (Supervisory Control and Data Acquisition) system, which gathers information through different field-mounted sensors, centres and communication equipment in real time, including the values and status of the different parameters that define the operation of the main

facilities of the Company.

Each position and regulation station is represented on the SCADA by its relevant scheme, into which the information from the field-mounted elements is dumped in real time.

Throughout 2017, the system has been improved with the implementation of several improvements that allow personnel from the control centre a more efficient management of the system.

SAFETY OF THE SUPPLY

For the purpose of guaranteeing supply to the end customers, Redexis Gas' control centre keeps constant supervision of the Company's networks. Such networks have three main starting points:

- Delivery points to the basic transmission network or with the networks of other operators.
- Satellite plant of liquefied natural gas (LNG).
- Storages of liquefied petroleum gas (LPG).

The parameters of all delivery points to the primary network for natural gas transmission or with the distribution networks of other operators are monitored from the above-mentioned SCADA systems.

Additionally, thanks to this system, Redexis Gas has information in real time about the levels of the tanks at the plants and most important storages. Such liquefied gas

storages allow supply to the municipalities and consumers that, given their geographic location far from the transmission networks, cannot be fed supplied the same. A key element in this type of supplies is the logistics of the supplies, which is carried out from the control centre and represents a fundamental part of the work of all its personnel.

An important lever to promote the Company's growth throughout this year has been setting the bases to define new routes for LNG distribution. Likewise, a permanent process of improvement in supply management is kept in the LPG tanks, which throughout 2017 has entailed the implementation of:

- Improvement of the estimated prediction of tank levels based on historic consumption.
- Possibility of modifying the simulation of consumption based on the geographic location of the tanks and climate change.

The president of Aragon visits the control centre of Redexis Gas

As part of the visit to the headquarters of Redexis Gas at Expo Zaragoza Empresaria, in August 2017 the president of Aragon, Javier Lambán, together with the Councillor of Economy, Industry and Employment of the Government of Aragon, Marta Gastón, visited the control centre. During the same, they were able to verify first-hand the operations of the control centre and the work developed on a daily basis.

TO INNOVATION

Focus on innovation to adapt to the needs of the environment and the client and increase operating excellence.

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 processes it is undergoing in recent years includes a wide range of activities that take on innovation and development in a purposeful way, including the application of artificial intelligence in different business activities.

Forefront attitude and adaptation to change.

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 to research, development, sustainability and contribution to the quality of life of society.

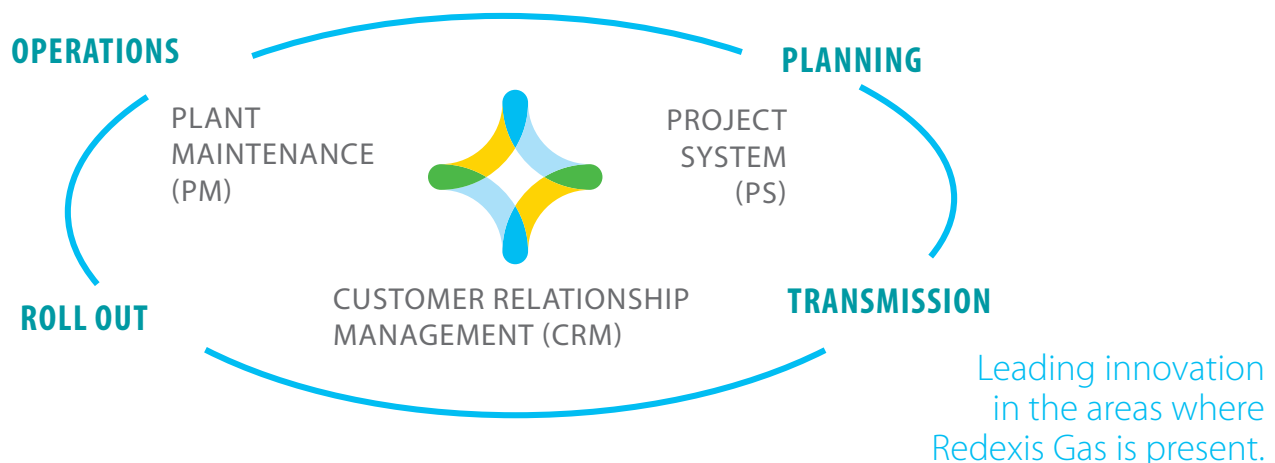
Such effort translates into tangible improvements in productivity, quality, customer satisfaction, occupational safety, obtaining new and better materials and goods and a more efficient design.

Innovation and knowledge of the best technological solutions are essential for an efficient and safe operation of Redexis Gas' 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





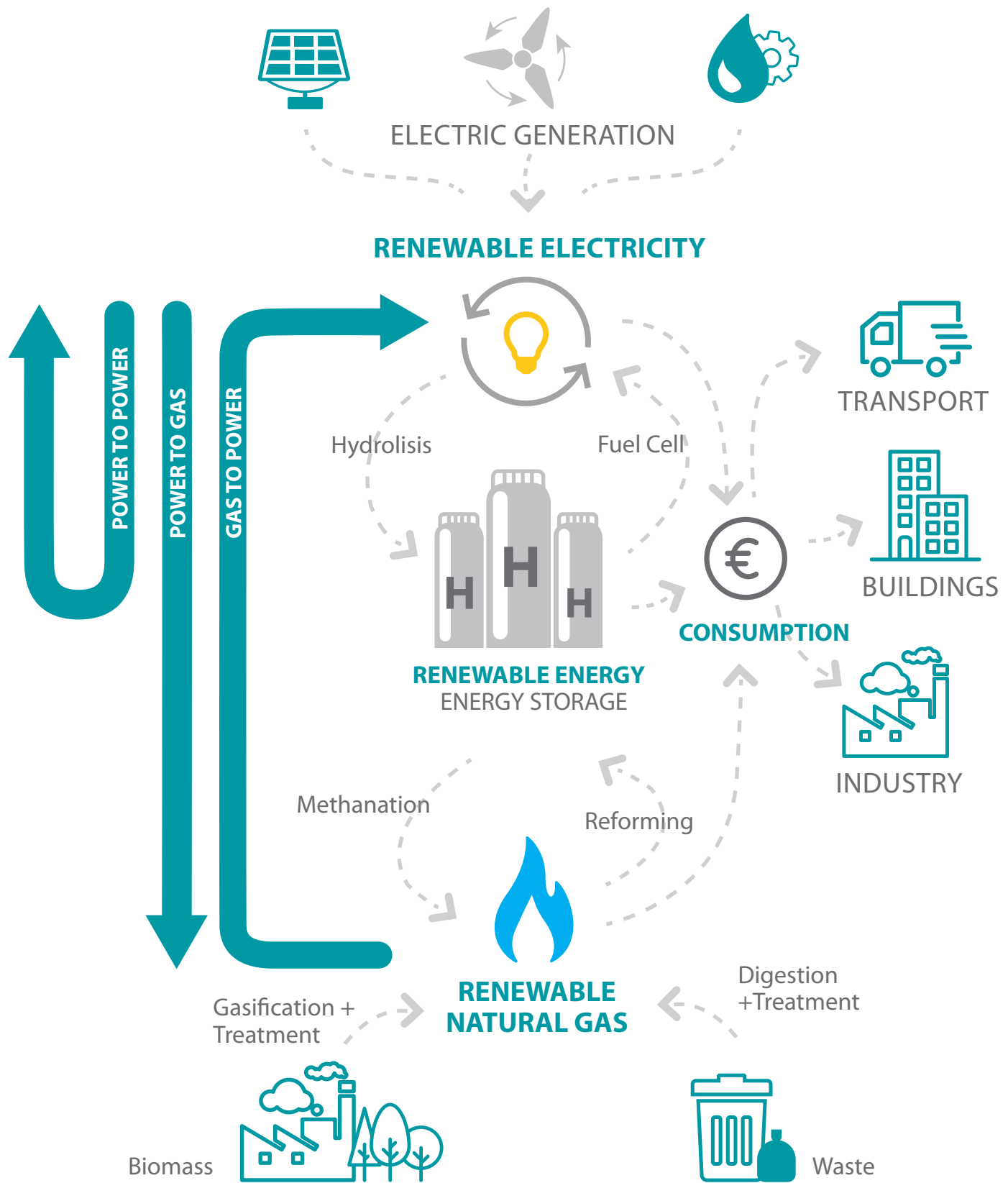
In 2017 it has implemented new systems that increase its planning, control, growth capacity and efficiency, which have made it easier to attain the goals set:

- Segregation of great part of the LPG facilities acquired from Repsol Butano by its natural gas distributing company (Redexis Gas, S.A.) to an LPG company (Redexis GLP, S.L.U.).
- Definition and implementation of a new analytical model that will allow obtaining an analytical Profit and Loss Account under different views (department, area, product, etc.), as well as facilitate the analytical closing processes and obtaining different business indicators.
- Immediate communication of invoices to the Tax Authority, in compliance with the new regulations.
- Minimum parameterisation of the Purchases and Sales logistics modules in Redexis Gas Servicios.
- Implementation of the artificial intelligence machine learning model, which optimises the design of distribution networks, with reductions

of more than 60% in design time and c. 20% improvement of the capex invested under this model.

- Implementation of the new activation process and the figure of the territorial and central activator that manages the end-to-end process, from contracting until commissioning of gas. The main object of this process is to allow the increase and acceleration of activations through a model that allows greater control of the activation process and a reduction of its timescales. Other objects:
 - Increase of activation capacity.
 - Capex efficiency: less capex investment.
 - Reduce the risk in contract activation.
- Implementation and deployment of commercial processes for Industrial and Services in CRM.
- Cyber security. Within the cyber security plan, several actions have been conducted, notably:
 - The implementation of a tool for the management of the Company's digital certificates.

- Implementation of a tool to control the IT assets, the network connections.
- Standardisation of addresses. The standardisation of the addresses is one of the pillars that supports the management of the gas distributor's information. In this area, significant progress has been made, which has achieved greater accuracy and thus a notable improvement in management:
 - Automatic standardisation of addresses compared to the existing manual processes, with the subsequent improvement in response times and quality of data.
 - Standardisation of addresses at portal level, compared to the standardisation at the level of the previously existing means.
 - Standardisation of multipopulation streets.
 - Automatic connection between the CAT telephone system, which collects the meter readings of customers and SAP, avoiding the previous process of manual transfer between both systems, with the subsequent increase in the reliability of the data.
 - Application for massive sending to clients of collection requests (Phone&Sell) which allows the debt collection department to make a massive claim of unpaid debts.
 - Calculation of the return of the distribution network. Automatic connection to send information from the distribution network to the engineering calculation application WINFLOW. This process reduces the work required to prepare the information necessary to make the saturation calculations, use of the network, etc.
 - Implementation of self-invoice by suppliers, with an increase of efficiency in the supplier invoice management department.
 - Logistics management of LPG deposits. New functionalities that have notably improved the efficiency and control in the management of LPG supply orders, receipt and payment of such supplies to third parties.
- So, during 2018, intense work has continued in new projects such as:
- Document management. The implementation of the Company's document manager has commenced. The first area to be digitalised is the one of inspections. An analysis has been made of the document map of the inspections process, filing strategy. Additionally, the Document Manager is being integrated with the new Mobility solution for field work and inspections.
 - Mobility project. Implementation of a mobility solution for all operations in households and maintenance, and integration of the same with the new Document Manager.
 - NOVA project. Analysis of processes and implementation of necessary changes in the systems to provide an answer to New Added Value Operations in the company Redexis Gas Servicios.
 - New territorial structure. Changes in the systems for the creation of new territorial centres in Extremadura, Catalonia, Castile-La Mancha and Canary Islands.
- The agreement that Redexis Gas has signed with Enagás to promote renewable hydrogen through a joint interest in the company 'H2Gas' must be noted, the purpose of which will be the technological development and promotion of infrastructures to produce and carry hydrogen generated from renewable energies.
- Under the 'H2Gas' framework, Enagás and Redexis Gas are finalising a first project that will consist of the development of the technology required to produce renewable hydrogen to be used in the industrial and mobility sectors. Additionally, both companies will work together to advance and develop the introduction of renewable hydrogen into the gas transmission and distribution network.
- The project contemplates the use of the 'Power to Gas' technology, which allows generating hydrogen from water and electricity and inject it into the gas pipeline network, whether directly or converted into synthetic natural gas or biomethane.



Within the context of an energetic transition, renewable energy is positioning itself as a new global energetic vector, with great possibilities for the future, since it can transform into different forms of energy: electricity, synthetic gas or heat, and it has numerous uses. Renewable hydrogen allows new connections between supply and demand of energy, which provide flexibility to the energy system.

Redexis Gas, through the project 'H2Gas', is making progress in its strategy of committing to, and investing in R&D projects based on sustainable energies, which favour technologic innovation and promote energetic and environmental sustainability. This way, it will be able to accommodate the development of new technologies related to renewable hydrogen as a new energetic vector. Redexis Gas is firmly committed to promoting hydrogen for the future, and has been, since 2015, a member of the board of patrons of the Foundation for the Development of New Technologies with Hydrogen in Aragon.

Regarding its more operational dimension, Redexis Gas focuses its innovation efforts on developing optimisation and asset management activities that improve the quality and reliability of gas supply continuously; on providing more efficient services and goods that satisfy consumers' needs in a sustainable manner; and ensuring an adequate level of knowledge in the Company for an optimal use of the technological environment.

During 2017, Redexis Gas has continued developing and using innovative technologies to carry out its projects, providing added value to its activity and distinguishing itself in the sector. Among the most significant initiatives:

- The use of new multi-layer systems and accessories in the construction of Gas Reception Facilities.

Upon the approval of UNE 53008-2 Standard in September 2016, which establishes the conditions of the design, installation and maintenance of the Piping systems for Multilayer pipes for Gas Reception Facilities (IRG), Redexis Gas has carried out the Implementation Project, conducting test trials, elaborating the technical specifications,

developing information actions, applying a new system effectively in the execution of IRG throughout the territorial scope of Redexis Gas.

- The development of new design standards for Positions and Regulating Stations and Transmission Measurement.

The designs for new Transmission facilities have been defined and developed under criteria of technical optimisation and maintaining functionality. The standards have been applied in New Transmission facilities Projects.

- The use of highly efficient alternative systems for electric supply to gas facilities.

A micro-cogeneration system has been installed in a newly constructed transmission position (position YESE-01 in Seseña), allowing an optimisation of the investment, an increase in the facility's efficiency and eliminating the environmental impact associated to the construction of the electric connection line.

- The improvement in the document management of the Distribution works.

From the review of the applicable Technical Regulations, through the optimisation and digitalisation of documents, and the creation of common digital spaces, achieving a reduction in the volume of documents concerning the works, and reducing the costs associated to the generation and treatment of such documentation, increasing the efficiency of the process.

Such innovation 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.

EXAMPLES OF ACTIONS CONDUCTED IN 2017

CONSTRUCTION OF GAS RECEPTION FACILITIES WITH GAS MULTILAYER SYSTEMS



Gas Reception Facility built with Multilayer Systems in Ibiza (Balearic Islands)

EXAMPLES OF ACTIONS CONDUCTED IN 2017

HIGH-EFFICIENCY FACILITY FOR ELECTRIC SUPPLY TO GAS FACILITIES



Micro cogeneration installed in the Position YESE-01 (Seseña).





8

CORPORATE
GOVERNANCE
REPORT

Redexis gas



ANNUAL CORPORATE GOVERNANCE REPORT FOR THE COMPANY REDEXIS GAS, S.A. FOR THE YEAR 2017

The adoption of corporate governance best practices will enable Redexis Gas to improve its business and promote transparency



1. INTRODUCTION

The rules on corporate governance have evolved considerably during recent years, both at the EU level and domestically. Their relevance and usefulness to ensure proper publicly market operation have led the public authorities to increase and refine the existing obligations in the matter, aimed mainly at listed public limited companies. So, the implementation of corporate governance rules in companies, even when they 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.

In this regard, 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 interest of transparency and diligence, decided to issue this Annual Corporate Governance Report (the "**Report**").

The 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 cumulative, having a face value of ten euros (€10) each, correlatively numbered from 1 to 10,000,000, both inclusive. The share capital is fully subscribed and paid up.

In July 2017, the Company's shareholders carried out a corporate restructuring of their ownerships, whereby the investment funds Universities Superannuation Scheme ("USS") and Arbejdsmarkedets Tillægspension ("ATP"), former indirect shareholders in Redexis, went on to have a direct holding in the Company, through the companies Chase Gas Investments Limited ("Chase"); and ATP Infrastructure II APS ("APS").

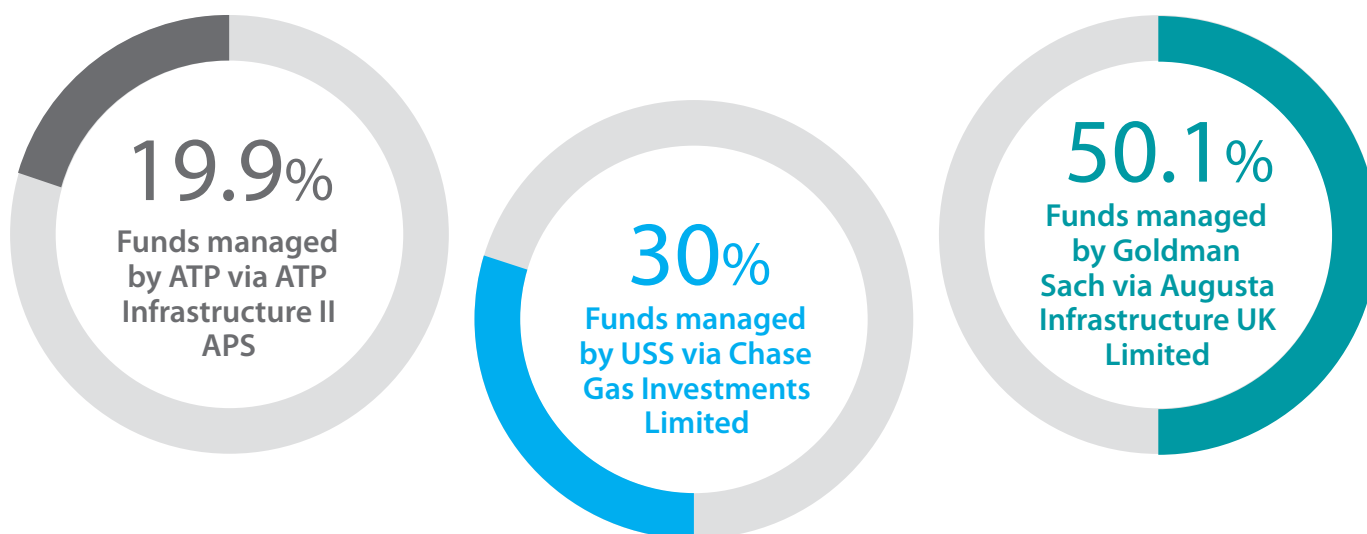
Additionally, USS and ATP acquired a joint incremental 18.8% shareholding in the Company by purchasing

the shares representing such a percentage from funds managed by Goldman Sachs. As a result of the transaction, USS now holds 30% of the shares in the Company, and ATP, 19.90%.

On 5 December 2017, funds managed by Goldman Sachs carried out a corporate restructuring of their shareholding in the Company, transferring the shares in the Company that were held by Zaragoza International Coöperatieve, U.A. and Augusta Global Coöperatieve, U.A. to the Augusta Infrastructure UK Limited ("Augusta"), a company that is also a subsidiary of the same funds managed by Goldman Sachs. Consequently, Augusta currently owns 50.1% of the shares in the Company.

Post the above restructuring, on 31 December 2017, the Company's share capital was distributed among the shareholders on the terms set out below:

Share capital





3. BOARD OF DIRECTORS STRUCTURE

3.1. COMPOSITION

The administration of the Company is run by a Board of Directors composed of a minimum of three and a maximum of eleven 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

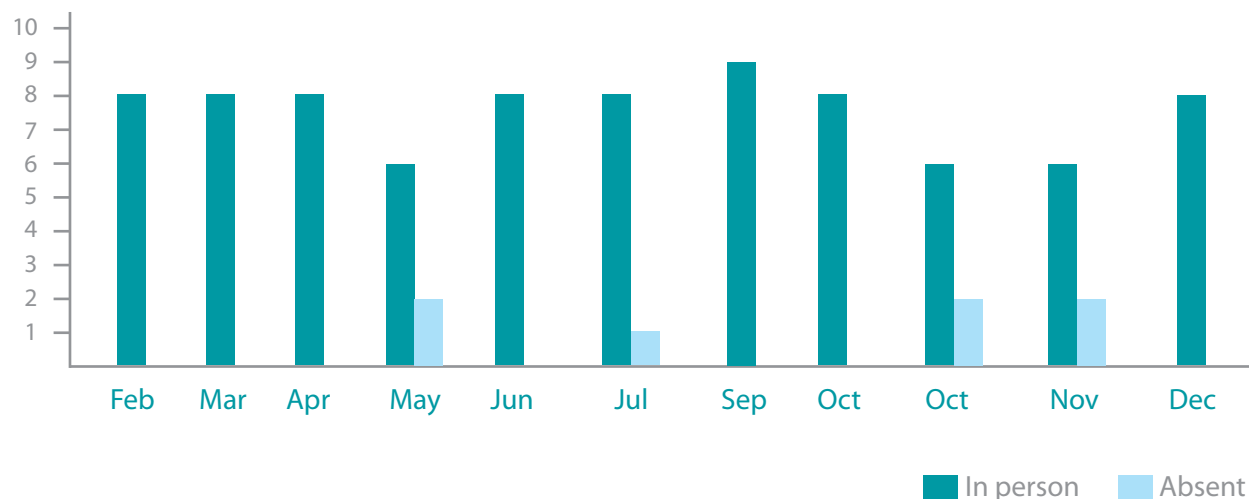
As at 31 December 2017, the Board of Directors was composed of the following members:

NAME	DATE OF APPOINTMENT OR LAST RE-ELECTION	CATEGORY OF DIRECTOR	OFFICE
Mr Fernando Bergasa Cáceres	19 May 2016	Executive	Chairman of the Board of Directors
Ms Cristina Ávila García	19 September 2014	Executive	Director and General Manager
Mr Philippe Louis Hubert Camu	19 May 2016	Nominee (proposed by Augusta)	Director
Mr Matteo Botto Poala	19 May 2016	Nominee (proposed by Augusta)	Director
Mr Claudio Aguirre Pemán	19 May 2016	Nominee (proposed by Augusta)	Director
Mr Ulrik Dan Weuder	10 December 2013	Nominee (proposed by ATP)	Director
Mr Stephen Alan John Deeley	10 December 2013	Nominee (proposed by Chase)	Consejero
Mr Gavin Bruce Merchant	24 July 2017	Nominee (proposed by Chase)	Consejero
Mr Ignacio Pereña Pinedo	19 March 2013	Not applicable	Non-director Secretary

During the 2017 financial year, Mr Marcus Hubertus Gertrudis Vennekens ceased to be a member of the Board of Directors, after he voluntarily resigned from his office on the Company's Board of Directors on 26 September 2017, for personal reasons. Likewise, during the year 2017, Mr Gavin Bruce Merchant has been appointed new member of the Company's Board of Directors.

The Board of Directors has held eleven sessions during the 2017 financial year. The Board members' commitment in the exercise of their functions should be noted, highlighting the high participation and attendance at in the sessions, which attendance being 93.26% during the 2017 financial year.

Attendance at the meetings of the Company's Board Directors



3.3. PROFESSIONAL BACKGROUND OF THE CHIEF EXECUTIVE OFFICER

Mr Fernando Bergasa obtained his PhD in Chemistry from Princeton University, and has had executive training at the universities of Harvard and Chicago. Between 2007 and 2011 he held the office of Managing Director at Naturgas Energía and Director at HC Energía.

Additionally, Mr Fernando Bergasa has previously held

different executive offices in Endesa, S.A. and was a consultant at McKinsey&Co. Mr Fernando Bergasa has also been a Director and Vice-President of the Permanent Committee in Sedigas and is a member of the American Chemical Society and of the Alumni Advisory Board of the Universidad Autónoma de Madrid.

3.4. PROFESSIONAL BACKGROUND OF THE GENERAL MANAGER

Ms Cristina Ávila is an Industrial Engineering Graduate from ICAI, with an MBA from the IESE. Between the years 2007 and 2011 she was General Manager of Operations for Naturgas Energía and Director at Naturgas Energía Transporte and Naturgas Energía Distribución.

Previously, Ms Cristina Ávila held executive offices at Endesa Internacional and was a consultant at Arthur D. Little; at present, she is also a Director of Sedigas.



3.5. TERM OF OFFICE OF DIRECTOR

The term of office of Directors is six years. Directors may be re-elected for equal periods, without prejudice to their

removal at their own request, or at the request of the shareholders acting at the General Shareholders Meeting.

3.6. BOARD OF DIRECTORS COMMITTEES

No committees of the Board of Directors were set up during the 2017 financial year.

3.7. CONFLICTS 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.

In the 2017 financial year, no Director has reported the existence of any conflict of interest with the Company.

It shall also be considered that a Director has a personal interest when the issue affects a person related to the same, or a Company with which the Director has an employment or professional relationship, or when such Director performs a management role or has a significant holding in such Company.

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

3.8. 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 its role.

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

For these purposes, during the 2017 financial year, none of the members of the Board of Directors have received any remuneration for attending the meetings of the Board of Directors.

3.9. 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 one of the items included on the agenda.

3.10. INFORMATION TO THE DIRECTORS

Before holding each one of the meetings of the Board of Directors, the company's management provides to each one 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 2017 financial year, in addition to the Annual General Meeting, two Extraordinary General Meetings were held, on the dates and with the agenda set out below:

GENERAL MEETING OF SHAREHOLDERS OF 20 APRIL 2017

AGENDA

1. Approval of the Annual Accounts and Management Report of Redexis Gas S.A., and the consolidated Annual Accounts and Management Report of Redexis Gas S.A. and its subsidiaries for the 2016 financial year.
2. Approval of the allocation of profits or losses for the 2016 financial year.
3. Approval of the management of the Board of Directors for the year 2016.
4. Appointment of auditors.
5. Approval of the LPG asset segregation in favour of Redexis GLP, S.L.
6. Approval of the minutes of the session.

In the session, the ordinary and consolidated accounts and the management by the Board of Directors were approved, and the allocation of profits was resolved.

Also, the appointment of the Company's auditors, KPMG Auditores, S.L. and the segregation of LPG assets in favour of Redexis GLP, S.L. were approved.

EXTRAORDINARY MEETING OF SHAREHOLDERS OF 12 JULY 2017

AGENDA

1. Amendment of articles 3, 11, 12, 13, 18, 20, 21, 23 and 24, and suppression of article 19 of the Articles of Association.
2. Consolidation and approval of the new consolidated text of the Articles of Association.
3. Approval of the minutes of the session.



In the session, the amendment of some articles of the Articles of Association and the suppression of article 19 were resolved, as well as the consolidation and approval of the new consolidated text of the Articles of Association.

For these purposes, the amendments of the Articles

of Association included the change of the Company's registered office and certain aspects related to the company's governance (notice and quorum for the General Meeting, majorities for the adoption of resolutions, members of the board of directors and term of office, etc.)

EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS OF 20 JULY 2017

AGENDA

1. Establishment of the number of members of the Board of Directors
2. Appointment of a new director in the Company.
3. Approval of the minutes of the session.

In this session, it was resolved to set the number of members of the Board of Directors, as well as the appointment of a new director in the Company.

The new director was Mr Gavin Bruce Merchant, who accepted his appointment by means of a separate letter, for the statutory term provided for in the Articles of Association.

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. COMPANY'S FINANCING

On 2 November 2017, the Company entered into a "Facility Agreement" with financial institutions and Caixabank, S.A. being the facility agent. The amount of the facility was EUR three hundred million (€300,000,000), in the form of a revolving credit. On 14 November 2017, the Company proceeded to cancel the "Facility Agreement" entered into on 20 March 2014.

On 1 December 2017, Redexis has secured a third issuance of notes for an amount of EUR 250 million and 10-year maturity. The issuance was made under the existing EMTN programme (Euro Medium Term

Note Programme), with the issuer being Redexis Gas Finance B.V. The issue price was 98.757% and the annual interest rate was 1.875% payable annually on 27 April. The success of the placement supports the Company's sound financial standing and diversifies its sources of funding.

The Company also has entered into an additional facility agreement with the European Investment Bank, within the framework of the European Funds for Strategic Investments, for an amount of EUR 125 million. The facility has been formalised in two

tranches, an EUR 50 million facility entered into on 22 December 2017 and an EUR 75 million facility entered into on 22 January 2018.

Regarding the facility of EUR 50 million entered into on 22 December 2017, the availability period ends on 22 December 2020, and the maximum term for repayment

is 20 years from the last drawdown, the deadline for repayment being 22 December 2040. The facility will allow the Company to strengthen and extend its natural gas transmission and distribution network in different Spanish regions, as well as the entry and share capture of the Company and natural gas in the Canary Islands.

6. SEGREGATION OF CERTAIN LPG ASSETS

On 16 February 2017, the Company's Board of Directors and the Sole Director of Redexis GLP, S.L.U. approved the Common Project for the Segregation of the business unit consisting of the liquid petroleum gas ("LPG") related assets owned by the Company in favour of Redexis GLP, S.L.U. For accounting purposes, the date of the segregation has been considered to be 1 January 2017, and it benefits from the special regime provided for in Chapter VIII of Title VII, Art. 76 to 89, of Act 27/2014, of 27 November, on the Corporate Income Tax.

The Company's shareholders at the General Meeting

approved, subject to obtaining the relevant authorisations from the competent authorities, on 20 April 2017, the segregation of the LPG assets held by the Company in favour of Redexis GLP, S.L.U. on the terms proposed by the Board of Directors. On 29 May 2017 the announcement of segregation was published in the Official Gazette of the Commercial Registry and in the newspaper La Razón.

On 30 November 2017, the public deed of segregation was executed, and was duly registered with the Commercial Registry.

7. ASSIGNMENT OF THE CREDIT RIGHT RESULTING FROM THE DEFICIT

On 1 December 2017, the Company, together with two other Group companies, entered into an agreement with Banco Popular, S.A. for the assignment of a credit right under which the companies assigned to Banco Popular, S.A. the outstanding nominal amount (together with

the relevant interest calculated in accordance with the interim interest rate) of the accumulated deficit in the gas system as at 31 December 2014, which amounted to €41,884,301.36. The assignment was duly communicated to the CNMC on 1 December 2017.

8. INTRA-GROUP TRANSACTIONS

As part of its activities, the Company entered into different agreements with companies belonging to its Group, detailed below:

- A credit agreement entered into between the Company and Redexis Gas Murcia, S.A. under which the former grants the latter a loan for an amount of EUR sixty five



million (€65,000,000). The loan agreement initially expired on 31 December 2016, however, it has been automatically renewed by the parties for one-year periods.

- A framework agreement for the provision of services between the Company and the rest of the companies in the Redexis Group, dated 30 June 2016, under which Redexis provides the rest of the companies in its Group, among others, services regarding systems and communications, human resources, general services and corporate support.
- A twin tube assignment agreement, dated 23

December 2016, under which the Company, together with Redexis Murcia, S.A. and Redexis Infraestructuras, S.L.U., assigns to Redexis Gas Servicios, S.L.U. the physical infrastructures attached to the transmission and distribution networks held by the same, so that Redexis Gas Servicios, S.L.U. may carry out the provision of the telecommunications services.

- Agreement for the sale and purchase of LPG facilities entered into by the Company and Redexis GLP, S.L., dated 30 November 2017, for the purposes of adequately locating the situation of the LPG assets within the Redexis Gas Group.

9. 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 2017.

As a result, in addition to the work already performed in previous years, different actions have been followed in the year 2017, among which the following stand out.

9.1. INTERNAL RULES

During the year 2017, 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 for collaboration agreements with public sector bodies: this rule describes the process for elaborating and entering into collaboration agreements between the Redexis Group and legal entities in the public sector.
- b) Rule for entering into sponsorship agreements and collaboration agreements regarding activities of general interest: this rule describes the process for the planning, elaboration and formalisation of the promotion of activities by the Redexis Gas Group, through collaboration actions with third parties aimed at publicising the Group's business activities.

c) Rule for the use of digital certificates: this rule defines the use patterns for the electronic signature systems enabled for the Redexis Gas Group professionals, so that they may interact electronically with the Public Administration authorities on behalf of the Group.

d) Rule for the verification of compliance with tax and social security obligations within the framework of public offerings: the purpose of this rule is to describe the process to be followed regarding the signing off and management of documents in Public Offerings made by the Redexis Gas Group, for the purposes of ensuring that the companies collaborating with the Redexis Gas Group under such Public Offerings comply with the current legislation and the applicable internal regulations.



9.2. HEALTH AND SAFETY

Occupational Health and Safety conditions are a matter that the Company considers particularly relevant. Therefore, during 2017, in addition to the regular work on matters of health and safety (i) a review and update of procedures in

matters of work permits and access to confined areas was conducted; and (ii) the certificates for the management systems ISO 14001 and OHSAS 18001 were renewed, upon passing the audits required in this regard.

9.3. INTERNAL AUDIT

Continuing with the work carried out during 2016, and for the purpose of improving the efficiency of the risk management and control processes, during 2017 the Internal Audit department conducted, among

other actions, the identification, risk assessment and subsequent preparation of the Risks Map of certain areas in Redexis for the purpose of providing greater control over the company's activities and procedures.

9.4. ENVIRONMENT

Redexis is aware of its responsibility regarding environmental protection and for that purpose it has taken several initiatives within its scope of influence. The set of activities developed by the Company and its Group fully conforms with the current environmental legislation, and it has obtained the ISO 14001 certification.

Redexis provides its customers important energy advice services, most clearly articulated through the Company's and its Group's active participation in the

campaigns to replace other energy sources with natural gas, supporting and facilitating installation renewals, with the resulting improvement in energy efficiency and inherent reduction of contaminant emissions.

Likewise, a mandatory report was requested from an independent environmental consultancy firm for every new network expansion project, whenever required by the law and regulations because of the characteristics of such project, the cost of which is recorded as a greater value of the investment.



A photograph of an industrial facility, likely a water treatment plant, featuring large black pipes and white valves. The scene is set outdoors on a gravel surface under a clear blue sky. A large white circular graphic is overlaid on the right side of the image, containing the number 9 and the title text.

9

**RISK
MANAGEMENT
AND CONTROL**



RISK MANAGEMENT AND CONTROL



T

he 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 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.

IMPLEMENTATION OF THE RIKS MANAGEMENT SYSTEM

The Group is developing several stages to establish the management of 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 risk management system that the Group is implementing incorporates elements from the ISO 31000 "Risk management- Principles and guidelines" and is based on the model COSO III (2013), the Internal Control Integrated Framework which has been accepted

worldwide and has become the leading framework for design, implementation and conduction of internal control and assessment of its effectiveness.

Such integrated framework extends to all areas of the Company and includes five interrelated components:

1. in control environment,
2. risk assessment,
3. information and communication system,
4. control activities and
5. the supervision of the control system.

As well as 17 principles that the administration of any organisation should implement.

At present, the Group is in the process of understanding the focus points of each principle and interiorising the main characteristics of the same, to subsequently evaluate whether the principles are present and operating in the implemented internal control system.

Likewise, the framework facilitates a comprehensive approach and supports the administration, the management, the shareholders and other parties that interact with the Company, offering an understanding of what constitutes an effective internal control system, to reduce to an acceptable level the risk of not achieving one of the Group's objectives.

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 Executive Chairman and Chief Operating Officer 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 prepare the risks map, and it 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 department in the group may report about its risk assessment to the offices of the Executive Chairman and Chief Operating Officer.

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.

Additionally, from the Secretary General's Department, the following actions continue to be 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 cases of criminal liability of the Company, actively contributing to preventing and stopping criminal behaviours.
- Promotion of a clear organisational culture, 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 2017

**REDEXIS GAS, S.A.
AND SUBSIDIARIES**
CONSOLIDATED ANNUAL ACCOUNTS
AND CONSOLIDATED DIRECTORS' REPORT
31 December 2017
prepared in accordance with International
Financial Reporting Standards as adopted
by the European Union (With Independent
Auditors' Report Thereon)





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.

Opinion

We have audited the consolidated annual accounts of Redexis Gas, S.A. (the "Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position at 31 December 2017, 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.

In our opinion, the accompanying consolidated annual accounts give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of the Group at 31 December 2017 and of its 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 (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for Opinion

We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Annual Accounts* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those regarding independence, that are relevant to our audit of the consolidated annual accounts in Spain pursuant to the legislation regulating the audit of accounts. We have not provided any non-audit services, nor have any situations or circumstances arisen which, under the aforementioned regulations, have affected the required independence such that this has been compromised.

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



Most Relevant Aspects of the Audit

The most relevant aspects of the audit are those that, in our professional judgement, have been considered as the most significant risks of material misstatement in the audit of the consolidated annual accounts of the current period. These risks were addressed in the context of our audit of the consolidated annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these risks.

Measurement of goodwill and intangible assets with indefinite useful lives arising from business combinations executed in prior years

The Group's consolidated statement of financial position includes goodwill and intangible assets with indefinite useful lives arising from business combinations executed in prior years that are administrative permits or licences for the transmission and distribution of gas, as mentioned in note 8 to the consolidated annual accounts, amounting to Euros 219,175 thousand and Euros 542,914 thousand, respectively. Goodwill and intangible assets with indefinite useful lives are not amortised, but are instead tested for impairment at least on an annual basis, to assess whether the carrying amount of the assets exceeds the recoverable amount. Determining the recoverable amount entails the use of valuation techniques that require the Directors to exercise a high degree of judgement and make assumptions and estimates. Due to the uncertainty associated with these estimates, particularly with respect to the cash flow projections and the projected discount rate and perpetual growth rate, we have considered this to be a relevant aspect of the audit, given that any inadequate estimates could result in goodwill and intangible assets with indefinite useful lives being overstated.

Our audit procedures comprised, among others, assessing and testing the design and implementation of key controls relating to the measurement of intangible assets with indefinite useful lives, including goodwill, evaluating the reasonableness of the grouping levels used to place assets in cash-generating units for the purpose of analysing impairment, obtaining the pricing model used by the Group to calculate the recoverable amount, contrasting the information contained in the model with the Group's financial budgets, analysing the Group's ability to estimate cash flows accurately by comparing estimates from prior periods with the Group's historical financial information, involving our valuation specialists in assessing the reasonableness of the model and its main assumptions, particularly the discount rate and the perpetual growth rate, and analysing the sensitivity to changes in the aforementioned rates. We also verified that information disclosed in the consolidated annual accounts meets the requirements of the International Financial Reporting Standards as adopted by the European Union (IFRS-EU), and other provisions of the financial reporting framework applicable in Spain.



Other Information: Consolidated Directors' Report

Other information solely comprises the 2017 Consolidated Directors' Report, the preparation of which is the responsibility of the Company's Directors and which does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not encompass the consolidated directors' report. Our responsibility for the consolidated directors' report, in accordance with the requirements of prevailing legislation regulating the audit of accounts, consists of assessing and reporting on the consistency of the consolidated directors' report with the consolidated annual accounts, based on knowledge of the Group obtained during the audit of the aforementioned consolidated accounts and without including any information other than that obtained as evidence during the audit. It is also our responsibility to assess and report on whether the content and presentation of the consolidated directors' report are in accordance with applicable legislation. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report them.

Based on the work carried out, as described in the preceding paragraph, the information contained in the consolidated directors' report is consistent with that disclosed in the consolidated annual accounts for 2017 and the content and presentation of the report are in accordance with applicable legislation.

Directors' Responsibility for the Consolidated Annual Accounts

The Parent's Directors are responsible for the preparation of the accompanying consolidated annual accounts in such a way that they give a true and fair view of the consolidated equity, consolidated financial position and consolidated financial performance of the Group in accordance with 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.

In preparing the consolidated annual accounts, the Parent's Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Standards as adopted by the European Union (IFRS-EU), and other provisions of the financial reporting framework applicable in Spain.



4

Auditor's Responsibilities for the Audit of the Consolidated Annual Accounts...

Our objectives are to obtain reasonable assurance about whether the consolidated annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing legislation regulating the audit of accounts in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence economic decisions of users taken on the basis of these consolidated annual accounts.

As part of an audit in accordance with prevailing legislation regulating the audit of accounts in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's Directors.
- Conclude on the appropriateness of the Company's Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.



We communicate with the Directors of the Parent regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the significant risks communicated to the Directors of Redexis Gas, S.A., we determine those that were of most significance in the audit of the consolidated annual accounts of the current period and which are therefore the most significant risks.

We describe these risks in our auditor's report unless law or regulation precludes public disclosure about the matter.

KPMG Auditores, S.L.
On the Spanish Official Register of
Auditors ("ROAC") with No. S0702

Ana Fernández Poderós
On the Spanish Official Register of Auditors ("ROAC") with number 15547
23 February 2018



CONSOLIDATED ANNUAL ACCOUNTS

1. Nature, Activities and Composition of the Group	138	16. Other Current Assets	176
2. Basis of Presentation	139	17. Cash and Cash Equivalents	177
(a) Basis of preparation of the annual accounts	140	18. Equity	177
(b) Comparative information	140	(a) Capital	177
(c) Functional and presentation currency	140	(b) Share premium	177
(d) Relevant accounting estimates, assumptions and judgements used when applying accounting principles	140	(c) Reserves	177
(e) Standards and interpretations adopted early or other changes in accounting policies	140	(d) Dividends	178
		(e) Profit/loss for the year	178
3. Accounting Principles	142	19. Financial Liabilities by Category	179
(a) Subsidiaries	142	(a) Classification of financial liabilities by category	179
(b) Segment reporting	142	(b) Net losses and gains by financial liability category	180
(c) Non-controlling interests	142	(c) Changes in Liabilities arising from Financing Activities	181
(d) Property, plant and equipment	143		
(e) Rights for use of assets	144	20. Financial Liabilities from Issuing Bonds and Other Marketable Securities	181
(f) Intangible assets	145	21. Loans and Borrowings	182
(g) Impairment of non-financial assets subject to amortisation or depreciation	146	22. Trade and Other Payables	184
(h) Leases	146	23. Late Payments to Suppliers. "Reporting Requirement", Third Additional Provision of Law 15/2010 of 5 July 2010	184
(i) Financial instruments	146	24. Risk Management Policy	185
(j) Distributions to shareholders	147	25. Provisions for Employee Benefits	188
(k) Inventories	147	26. Other Provisions	191
(l) Cash and cash equivalents	147	27. Environmental Information	192
(m) Government grants	147	28. Government grants	192
(n) Employee benefits	147	29. Other Liabilities	193
(o) Provisions	148	30. Revenue from Regulated Activities	193
(p) Recognition of revenue from customer contracts	149	31. Other Income	195
(q) Income tax	153	32. Other Operating Expenses	195
(r) Classification of assets and liabilities as current and non-current	154	33. Employee Benefits Expense	196
(s) Environment	154	34. Finance Income and Costs	197
4. Sector Regulation	155	35. Related Party Balances and Transactions	197
5. Segment Reporting	156	36. Information on the Members of the Parent's Board of Directors and the Group's Senior Management Personnel	198
6. Subsidiaries	158	37. Audit Fees	199
(a) Composition of the Group	158	38. Events after the Reporting Period	200
(b) Non-controlling interests	158		
(c) Consolidated structured entities	158	Consolidated Directors' report	203
7. Property, Plant and Equipment	159		
8. Intangible Assets	161		
9. Rights for use of assets and lease liabilities	164		
10. Impairment and Allocation of Goodwill and Intangible Assets with Indefinite Useful Lives to CGUs	166		
11. Financial Assets by Category	166		
12. Current and Non-Current Financial Assets	167		
13. Income tax	168		
14. Inventories	175		
15. Trade and Other Receivables	175		



Assets	Note	2017	2016
Property, plant and equipment	7	1,190,561	1,145,177
Goodwill	8	219,175	219,175
Other intangible assets	8	557,064	556,393
Rights for use of assets	9	3,344	-
Deferred tax assets	13	52,446	57,821
Non-current financial assets	12	7,218	7,254
Trade and Other Receivables	15	11,112	11,481
Total non-current assets		2,040,921	1,997,301
Inventories	14	5,514	4,817
Trade and Other Receivables	15	66,177	58,319
Other current financial assets	12	594	44,952
Other current assets	16	17,830	4,621
Cash and cash equivalents	17	289,416	39,009
Total current assets		379,531	151,718
Total assets		2,420,452	2,149,019
Equity and Liabilities	Note	2017	2016
Capital		100,000	100,000
Share premium		105,433	105,433
Other reserves		589,173	541,185
Other comprehensive income		49,705	48,717
Equity attributable to equity holders of the Parent		844,311	795,335
Non-controlling interests		24	24
Total equity	18	844,336	795,359
Financial liabilities from issuing bonds and other marketable securities	20	1,137,048	888,312
Loans and borrowings	21	158,073	189,796
Other financial liabilities	19	4,899	4,683
Lease liabilities	9	2,151	-
Deferred tax liabilities	13	105,101	119,980
Provisions for employee benefits	25	3,951	3,425
Other provisions	26	655	645
Government grants	28	22,883	18,828
Total non-current liabilities		1,434,761	1,225,671
Interest payable on bonds and other marketable securities issued	20	19,428	16,506
Loans and borrowings	21	989	1,284
Trade and other payables	22	116,655	104,227
Current income tax liabilities	13	318	3,424
Provisions for employee benefits	25	84	141
Other current liabilities	29	2,656	2,407
Lease liabilities	9	1,226	-
Total current liabilities		141,355	127,990
Total equity and liabilities		2,420,452	2,149,019

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

	Note	2017	2016
Revenue	30	216,293	197,221
Other income	31	3,282	3,873
Self-constructed non-current assets		12,156	10,211
Consumption of merchandise, raw materials and consumables		(16,822)	(8,130)
Salaries and wages		(20,633)	(18,413)
Other employee benefits		(5,115)	(4,296)
Non-recurrent workforce restructuring		(1,780)	(2,039)
Employee benefits expense	33	(27,528)	(24,748)
Depreciation and amortisation	7, 8 y 9	(79,050)	(69,829)
Impairment losses on non-current assets		(713)	(876)
Other recurrent operating expenses		(27,055)	(23,764)
Other non-recurrent operating expenses		(15)	(1,151)
Other operating expenses	32	(27,070)	(24,915)
Results from operating activities		80,548	82,807
Finance income		486	348
Finance costs		(30,726)	(28,871)
Net finance income/(cost)	34	(30,240)	(28,523)
Profit before income tax		50,308	54,284
Income tax expense	13	(603)	(5,567)
Profit for the year		49,705	48,718
Profit for the year attributable to equity holders of the Parent		49,705	48,717
Profit for the year attributable to non-controlling interests		-	1

Consolidated Income Statements for the Years Ended 31 December 2017 and 2016
(Expressed in thousands of Euros)

	Note	2017	2016
Profit for the year		49,705	48,718
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Actuarial gains/(losses) on defined benefit plans		(438)	(667)
Tax effect	13	110	167
		(329)	(500)
Other comprehensive income for the year net of taxes		(329)	(500)
Total comprehensive income for the year		49,376	48,218
Total comprehensive income attributable to:			
Equity holders of the Parent		49,376	48,217
Non-controlling interests		-	1
		49,376	48,218

Consolidated Statements of Comprehensive Income for the Years Ended 31 December 2017 and 2016 (Expressed in thousands of Euros)

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

**Equity attributable to equity holders of the Parent**Consolidated Statement of Changes in Equity for the Year
Ended 31 December 2017 (Expressed in thousands of Euros)

	Capital	Share premium	Legal reserve	Other reserves	Profit/loss for the year	Total	Non-controlling interests	Total equity
Balance at 31 December 2016	100,000	105,433	20,000	521,185	48,717	795,335	24	795,359
Profit/loss for 2017	-	-	-	-	49,705	49,705	-	49,705
Actuarial gains/(losses) on defined benefit plans	-	-	-	(329)	-	(329)	-	(329)
Dividends	-	-	-	(400)	-	(400)	-	(400)
Distribution of profit/loss for 2016	-	-	-	48,717	(48,717)	-	-	-
Balance at 31 December 2017	100,000	105,433	20,000	569,173	49,705	844,311	24	844,335

Equity attributable to equity holders of the ParentConsolidated Statement of Changes in Equity for the Year
Ended 31 December 2016 (Expressed in thousands of Euros)

	Capital	Share premium	Legal reserve	Other reserves	Profit/loss 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/loss 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/loss 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

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

	Note	2017	2016
Cash flows from operating activities			
Profit for the year before tax		50,308	54,284
Adjustments for:			
Amortisations	7, 8 y 9	79,050	69,829
Impairment losses on non-current assets		713	876
Change in provisions		(117)	(1,480)
Government grants taken to income		(738)	(1,490)
Finance income	31	(486)	(348)
Finance costs		30,726	28,871
		159,456	150,542
Changes in working capital		36,312	(20,320)
Inventories		(698)	(3,545)
Trade and Other Receivables		(7,461)	(17,908)
Other current assets		41,859	2,799
Trade and other payables		2,291	(5,664)
Other current liabilities		249	164
Other non-current assets and liabilities		72	3,833
Cash generated from operations		195,768	130,222
Interest and commissions paid		(28,697)	(25,945)
Interest received		486	312
Income tax paid		(8,408)	(3,336)
Net cash from operating activities		159,149	101,252
Cash flows from investing activities			
Payments for purchases of distribution and LPG assets in use		(721)	(124,473)
Payments for acquisition of property, plant and equipment and intangible assets		(126,147)	(101,837)
Net cash used in investing activities		(126,868)	(226,310)
Cash flows from financing activities			
Payments for acquisition of financial assets		36	(16,226)
Payments of loans and borrowings		(30,000)	-
Proceeds from loans and borrowings		-	190,000
Proceeds from the issue of bonds and other marketable securities		249,692	-
Payments of lease liabilities		(1,202)	-
Dividends paid		(400)	(70,300)
Net cash from financing activities		218,126	103,474
Net increase (decrease) in cash and cash equivalents		250,407	(21,584)
Cash and cash equivalents at 1 January		39,009	60,593
Cash and cash equivalents at 31 December		289,416	39,009

Consolidated Statement of Cash Flows for the Years Ended 31 December 2017 and 2016 (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. Its registered office is located at Mahonia nº 2, 28043 Madrid and its tax residence is at Avda. Ranillas, nº 1, bloque D, planta 2º. C.P. 50018, Zaragoza (Spain).

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 entered in the Mercantile Registry.

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

In addition, on 26 March 2015 the Company's board of directors and the sole director of Redexis Infraestructuras, S.L.U. approved the project to 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 01 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.

Lastly, on 16 February 2017 the Company's Board of Directors and the Sole Director of Redexis GLP, S.L.U. approved the project to spin off the assets comprising the economic unit engaged in liquefied petroleum gas (LPG) from the Company to Redexis GLP, S.L.U. The effective date of the spin-off for accounting purposes is 01 January 2017. 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.

On 20 April 2017 the Company's shareholders and the sole shareholder of Redexis GLP, S.L.U. approved the spin-off of the assets comprising the LPG activity from the former to the latter.

On 29 May 2017 the spin-off was announced in the Official Gazette of the Mercantile Registry.

On 30 November 2017 Redexis Gas, S.A. and Redexis GLP, S.L.U. executed the spin-off in a public deed, which was duly filed at the Mercantile Registry.

At 31 December 2016 Redexis Gas, S.A. was 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.

In July 2017, the shareholders of Redexis Gas, S.A. executed a corporate restructuring in the Company, by virtue of which the investment funds Universities Superannuation Scheme ("USS"); and Arbejdsmarkedets Tillægspension ("ATP"), formerly indirect shareholders of the Group, came to hold a direct position in the Company, through the companies Chase Gas Investments Limited (16.66%); and ATP Infrastructure II APS (14.45%).

Furthermore, USS and ATP acquired an additional interest of 18.80% in the shareholders of Redexis Gas, S.A. by the acquisition of shares representing such percentage from Goldman Sachs & Co. As a result of this transaction, USS holds 30% of the shares of Redexis Gas, S.A. and ATP holds 19.90%.

In December 2017, Goldman Sachs & Co executed a corporate restructuring, transferring the shares in Redexis Gas, S.A. owned by Zaragoza International Coöperatieve, U.A. and Augusta Global Coöperatieve, U.A. to August Infrastructure UK Limited, a subsidiary of private equity funds also managed by Goldman Sachs & Co. As a result, this company holds 50.1% of the shares of Redexis Gas, S.A.

Therefore, at 31 December 2017, Redexis Gas, S.A. is (i) 50.10% owned by Augusta Infrastructure UK Limited, a subsidiary of private equity funds managed by Goldman Sachs & Co; (ii) 30% owned by Chase Gas Investments Limited, a subsidiary of the USS private equity fund; and (iii) 19.90% owned by ATP Infrastructure II APS, a subsidiary of the ATP private equity fund.

(2) Basis of Presentation

The consolidated annual accounts for 2017 have been prepared on the basis of the accounting records of Redexis Gas, S.A. and of the consolidated companies and 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 2017 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 2017, authorised for issue on 15 February 2018, will be approved with no changes by the shareholders at their annual general meeting.



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 in the consolidated annual accounts. In 2017 the Group has early applied IFRS 15 and 16, whose content and impact are the subject of commentary in paragraph e) below of this Basis of Presentation.

(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 Consolidated Annual Report, in addition to the figures of the year 2017, include comparative figures for the previous year, contained in the Consolidated Annual Accounts of the year 2016, approved by the shareholders at the General Meeting held on 20 April 2017.

(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 2017, 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.

e) Standards and interpretations adopted early or other changes in accounting policies

The following standards have been published:

- ✓ IFRS 15 Revenue from customer contracts - applicable as of 1 January 2018
- ✓ IFRS 16 Leases - applicable as of 1 January 2019.
- ✓ IFRS 9 Financial Instruments - applicable as of 1 January 2018.

The Group has adopted in advance the IFRS 15 Revenue from customer contracts and the IFRS 16 Leases. Below we describe the effect of both standards on these Consolidated Annual Accounts.

A. IFRS 15 Revenue from customer contracts.

In May 2014 the IASB (International Accounting Standards Board) published the International Financial Reporting Standard that set the criteria for the recognition of revenue known as IFRS 15 - Revenue from customer contracts (hereinafter IFRS 15) and this IFRS 15 was adopted by the European Union, becoming mandatory for application to annual years commencing at 1 January 2018, and likewise allowing its early application.

The Redexis Gas Group decided on the early application of IFRS 15, using 1 January 2017 as the initial date of application.

The nature of the change in the accounting policy of the Redexis Gas Group as a result of the application of this standard is that the 5-step model included in it should be followed for the recognition of revenue, with the possibility of differences arising over the amount as well as over the moment of revenue recognition with respect to the current criterion.

The transition option adopted by the Group for the IFRS 15 is the "Cumulative Effect" which records the adjustment for first-time application in consolidated equity on 1 January 2017.

Following the 5-step model established in IFRS 15, the Group analysed each of the revenue types obtained by the Group (Regulated income from the business of distributing natural gas, Regulated income from the business of transmission of natural gas, Revenue from registration fees, from Hiring metering equipment and hiring and maintaining communal gas tanks, from IRI Inspections, from LPG sales and connection charges of the contracting party and the applicant).

On the basis of this analysis it was concluded that there would be no significant differences with respect to the current revenue recognition criteria. Therefore, no impact has been recognised in consolidated equity at 1 January 2017 by the application of this standard.

B. IFRS 16 Leases.

In May 2016 the IASB (International Accounting Standards Board) published the International Financial Reporting Standard that set the criteria for the recognition of leases known as "IFRS 16 - Leases" (hereinafter IFRS 16) and this IFRS 16 was adopted by the European Union, becoming mandatory for application to annual years commencing at 1 January 2019, and likewise allowing its early application in those entities applying the IFRS 15.

The Redexis Gas Group decided on the early application of IFRS 16, together with IFRS 15, using 1 January 2017 as the date of initial application.

The nature of the change in the accounting policy of the Redexis Gas Group as a result of the application of this standard is that operating lease contracts will give rise in the consolidated financial position statement to a lease liability and assets for right of use. Therefore, the lease expenditure that previously appeared in the consolidated income statement for the year will be replaced by a financial

expense deriving from the adjustment of the lease liability and an expense due to the right of use depreciation.

The lease liability is calculated as the current value of the payments for future leases, and the assets for right of use are calculated as the lease liability plus the initial direct costs, early lease payments, estimated costs of decommissioning and deducting any lease incentives received.

The transition option adopted by the Group for the IFRS 16 is the "Modified Retrospective" which records the adjustment for first-time application in consolidated equity on 1 January 2017. Furthermore, it has been decided to apply the following practical exceptions:

- (1) Non-application of the new definition of lease to contracts in existence at the date of first application, whereby the new standard will be applied to those existing contracts that were already considered as a lease at such date.
- (2) The amount of the asset for right of use will be the same amount of the lease liability,
- (3) Information known *a posteriori* will be used,
- (4) A single discount rate will be applied to a portfolio of leases with reasonably similar features.

For the purposes of assessing the effects of applying IFRS 16, the Group has reviewed the different contracts held in the Group and has grouped them into the following categories of assets leased with similar characteristics: Head Office, Offices and warehouses, Garage spaces, Vehicles and Printers.

The components of each contract have been analysed for each one of the lease contracts maintained by the Group, in order to evaluate whether a contract includes one or several assets or any ancillary service.

Furthermore, the lease period, the lease payments and the incremental interest rate applicable have been determined for each category of leased assets.

The Redexis Gas Group has opted to use the rate of 2.02% as the incremental interest rate.

The effect of the application of IFRS 16 on the consolidated statement of financial position at 1 January 2017 consisted



of recording right-of-use assets for the amount of 4,579 thousand Euros and lease liability for the same amount.

C. IFRS 9 Financial instruments

The IFRS 9 Financial Instruments will be applicable for annual periods beginning on or after 1 January 2018. The Directors of

the Group do not expect it to have any relevant effect on the financial statements of the Group although it may lead to greater itemisation in the Consolidated Annual Accounts.

(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. The subsidiary entities are excluded from the consolidation as of the date on which the control is lost.

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

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

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

(b) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group's 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.

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) Rights for use of assets

This accounting standard is applicable as from 1 January 2017 (see note 2 e)).

The accounting principle applicable to leases up to 31 December 2016 is that included in sub-section h) of this note.

(i) Identification of a lease

At the start of a contract, the Group evaluates whether it contains a lease. A contract is or contains a lease, if it grants the right to control the use of the asset identified for a period of time in exchange for a consideration. The period of time during which the Group uses the asset, includes consecutive and non-consecutive periods of time. The Group only re-evaluates the conditions when an amendment of the contract occurs.

(ii) Lessee reporting

In contracts with one or more lease and various lease components, the Group assigns the consideration of the contract to each component of the lease in accordance with the individual sale price of the lease component and the aggregate individual price of the various components of the lease.

Any payments made by the Group that do not entail the transfer of goods or services to it by the lessor do not comprise a separate component of the lease, but instead form part of the total consideration of the contract.

In contracts with one or more lease and various lease components, the Group deems all components as one sole lease component.

At the start of the lease, the Group recognises one asset for right of use of asset and one liability for lease. The asset for right of use is comprised of the amount of the liability for lease, any payment for the lease made on or prior to the starting date, less any incentives received, the initial direct costs incurred and an estimate of the costs for decommissioning or restoration to be incurred, as indicated in the accounting policy provisions.

The Group measures the lease liability by the present value of the lease payments pending on the starting date. The Group discounts lease payments at the appropriate incremental interest rate, unless the implicit interest rate of the lessor may be determined reliably.

The pending lease payments are comprised of fixed payments, less any incentive to be collected, the variable payments that depend on an index or rate, initially appraised by the index or rate applicable on the starting date, the amounts expected to be paid for residual value guarantees, the price of exercising the purchase option whose exercise is reasonably certain and any compensation payments for contract termination, providing the term of the lease reflects the termination option.

The Group measures the assets for right of use at cost, less depreciation and accrued impairment losses, adjusted by any re-estimate of the lease liability.

If the contract transfers the ownership of the asset to the Group at the end of the lease term or the asset for right of use includes a purchase option, the criteria for depreciation indicated in the section on property, plant and equipment are applied from the starting date of the lease through the end of the useful life of the asset. Otherwise, the Group depreciates the asset for right of use from the starting date through the earlier date between the useful life of the right or the end of the lease.

The Group applies the non-current asset impairment criteria indicated in section (g) to the asset for right of use.

The Group measures the lease liability increasing it by the financial expense accrued, decreasing it by any payments made and re-estimating the carrying amount by amendments of the lease or to reflect any updates of in-substance fixed payments.

If the amendment does not result in a separate lease, on the amendment date, the Group assigns the consideration to the amended contract as indicated above, re-determines the term of the lease and re-estimates the value of the liability deducting any revised payments at the revised interest rate. The Group decreases the carrying amount of the asset for right of use to reflect the partial or total termination of the lease, in those amendments that decrease the scope of the lease and records the profit or loss in the results. For all other amendments, the Group adjusts the carrying amount of the asset for right of use.

(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

Accounting principle applicable up to 31 December 2016 (see note 2 e)).

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.

The cost of inventories is written down in those cases in which its cost exceeds its net realisable value. For these purposes, net realisable value is understood as its replacement price.

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.

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 from customer contracts

The revenue is evaluated on the basis of the consideration to be received in a contract with a customer and excludes any amounts collected on behalf of third parties. The Group recognises the revenue when it transfers the control of a product or service to the customer.

In comparative periods, revenue is calculated at the fair value of the consideration to be received, net of discounts and taxes.

Revenues from the rendering of services were only recognised when the amount, degree of completion, costs incurred and the costs pending to complete the transaction could be estimated reliably and it was probable that the financial profits deriving from the service would be received. These revenues were recognised based on the stage of completion of the service at the reporting date.

The following is a summary of the recognition criteria applicable for each one of the activities that generates income in the Group.

Distribution activity

The regulatory framework identifies the following tasks within the distribution activity: Build, operate and maintain networks and facilities for the distribution of natural gas intended for situating the gas at the points of consumption.

This set of tasks constitutes a commitment to the customers and the tasks cannot be performed independently from each other; therefore they are considered to be a single performance obligation which is fulfilled, indefinitely, in accordance with the administrative authorisation granted by the competent Institution on the basis of which it carries out its business, generating the right to receive remuneration or revenue. In this respect, consumers of gas simultaneously receive and consume the benefits of the service at the same time as the Group provides it.

The Group recognises revenue following the percentage of completion method.

The method to be used to measure the percentage of completion is the output method, since the service rendered is similar throughout the period, recognising the revenue on a straight-line basis.

Regulated revenues received 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.

This remuneration is comprised of a fixed component and two variable components in keeping with the increase (or decrease) in the volume of gas supplied and the number of customers connected to the network. For variable components, unit tariffs are set on the basis of the pressure of the gas supplied and customer type.

For this variable remuneration, the Group performs an estimate at the beginning of each year which, together with the fixed portion, comprises the annual regulated revenue.

Order ETU/1977/2016 of 23 December 2016 regulated the remuneration figures for 2016 and 2015 in keeping with the most up-to-date sales and consumer figures, and establishes an initial forecast of the remuneration for 2017 through application of the parameters established by Law 18/2014 of 15 October 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.

On the other hand, Order ETU/1283/2017, published on 22 December, regulates the remuneration figures for 2017 and 2016, in keeping with the most up-to-date sales and consumer figures, and establishes an initial forecast of the remuneration for 2018.

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.



The orders establishing tolls and user charges for access by third parties to gas facilities and the remuneration of the regulated activities include, in addition, the price review of certain regulated concepts, such as connection charges, or the fees for meter rental. To this regard, Order ETU/1283/2017, published on 22 December, adjusted the fees for meter rental, following the study published by the National Commission on Financial Markets and Competition (CNMC) on 16 March 2017 "Agreement for the issue of a study on the price applicable to the rental of gas meters of 3.1 and 3.2 toll groups and the median age of rental meters". The new prices, that will be applicable as of January 2018, correspond to proposals of the CNMC and entail a discount of the current price of between 16.3% and 76.7% (depending on the meter).

During 2017 the Group received the final settlement for regulated activities in the gas sector for 2016, which had an immaterial impact on the consolidated income statement. Furthermore, the final settlements for 2014 and 2015, received during 2016, had an immaterial impact on the Consolidated Income Statement.

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 2017 and 2016 in the amount of Euros 1,543 thousand and Euros 1,563 thousand, respectively (see note 29). In 2017 the measurement differences for 2016 were settled and those for 2015 were settled in 2016.

Transmission activity

The regulatory framework identifies the following tasks within the transmission activity: Build, operate and maintain its own network of pipelines, supplying natural gas to the areas in which consumption is most concentrated.

As already indicated for the case of distribution, this set of tasks constitutes a single performance obligation which is fulfilled, indefinitely, in accordance with the administrative authorisation granted by the competent Institution on the basis of which it carries out its business on a straight-line basis.

Just like the distribution activity, the gas transmission business is regulated, and the remuneration is set annually on a provisional basis by Ministry Order, in December of the previous year.

This remuneration is fixed for the annual period and is based on the start-up investment. If in the course of the year new facilities are put into use, the remuneration would be amended in keeping with the increase in facilities, which would be recognised prospectively as of that time.

The remuneration for transmission activity in 2017, including the correction of the remuneration for uninterrupted supply from previous years and the remuneration to be awarded for pipelines brought into service in 2016, was established in 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.

On the other hand, Order ETU/1283/2017 determines the remuneration for transmission activity for 2018, and includes the correction of the remuneration for uninterrupted supply from previous years and the remuneration to be awarded for pipelines brought into service in 2017.

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/1283/2017 published on 22 December 2016 adjusted the remuneration for uninterrupted supply for 2017, 2016 and 2015 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 for which a Resolution on definitive remuneration is still pending, until the Spanish Ministry of Energy, Tourism and the Digital Agenda has the necessary information to dictate a Resolution to this respect, it has calculated the provisional remuneration on account, on the basis of the unit value indicated and the technical characteristics of each facility, in accordance with the Appendices to the corresponding Orders.

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 as regulated transmission revenue in the Consolidated Income Statements for 2017 and 2016 at the amount of Euros 745 thousand and Euros 407 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.

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, Order ETU/1977/2016 proposed a provisional rate of 1.104% in accordance with the proposal of the CNMC. This interest rate was revised in Order ETU/1283/2017 to 1.173%, although it continues to be provisional. 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, Order ETU/1977/2016 proposes a provisional interest rate of 0.836% according to the CNMC proposal; the interest rate was also revised in Order ETU/1283/2017 to 0.08%. The 2016 deficit in the gas sector closed the year at Euros 90 million, which regulated entities will be able to recover in five annual payments (from 01 December 2017 to 30 November 2022) at a market interest rate that has also yet to be determined. However, Ministry of Energy, Tourism and the Digital Agenda Order ETU/1283/2017 proposes a provisional rate of 0.503%.

Registration fees

The registration fee of a new supply consists of the operation to connect the gas reception facility to the network of the distribution company, and the review and verification that these adapt to the regulatory technical and safety conditions. This operation usually takes place one sole time and the activities are inseparable, whereby this activity is considered as constituting a single performance obligation.

The amounts for registration fees are regulated by each Autonomous Region, at a set price.

The Group recognises the revenue for the registration fees at the moment at which the connection is made and verified, since it is at that moment when the customer obtains the benefits of the service rendered and there is no future obligation associated with it.



Hiring of Natural Gas and LPG (Liquefied Petroleum Gas) Metering Equipment

Metering equipment (meter) is installed in the facilities of the end-customer, the service of hiring the meter constitutes a performance obligation.

The payment for hiring natural gas metering equipment is regulated by the regulatory framework of the sector, at a set price.

The Group recognises the revenue throughout the provision of the service, since the customer simultaneously receives and consumes the benefits of the service at the same time the Group provides it.

The method to be used to measure the percentage of completion is the output method, since the service rendered is similar throughout the period, recognising the revenue on a straight-line basis over time.

Hiring of Communal Gas Tanks (CGT)

The Group collects a rental payment for the communal gas tank from the owners association without any other type of consideration, therefore the Communal Gas Tank comprises a single performance obligation.

The payment for hiring the communal gas tank is the price established in the contract signed with the owners association, which sets a fixed monthly price.

The Group recognises the revenue throughout the term of the contract, since the customer simultaneously receives and consumes the benefits of the service at the same time the Group provides it.

The method to be used to measure the percentage of completion is the output method, since the service rendered is similar throughout the period, recognising the revenue on a straight-line basis over time.

Inspections of individual gas tanks (IRI)

In this case the service consists of the inspection of the individual gas tank (IRI), involving a one-time action, considered as a single performance obligation.

The authority to set inspection prices is transferred to the Autonomous Regions and, therefore, the price may vary from one area to another.

The revenue is recognised at the moment of the inspection, since it is at that time when the customer obtains the benefits of the service rendered.

Sale of Liquefied Petroleum Gas (LPG)

The contracts for the sale of LPG identify two separate performance obligations, which are those corresponding to the supply of LPG and the hiring of the meter since, as mentioned above, they comply with the definition for consideration as different in of themselves. For LPG, the company supplies as well as distributes the product, and therefore there is a contractual relationship with the customer.

In the case of LPG consumption, the transaction price will be established applying the established official tariff, with a fixed portion (standard monthly rate) and a variable element associated to consumption (Euro cents per Kg.).

The Group recognises the revenue throughout the period of time in which the customer receives and consumes the benefits of the service rendered at the same time the service takes place. Therefore the revenue deriving from this service will be measured by percentage of completion.

For the purpose of measuring this completion, we consider that the output method is the one that best reflects the completion of the rendering of the service, whereby the revenue will be recognised as the service is rendered, by unit of LPG (kg) consumed by the customer.

Contracting party connection charges

The connection charge of the contracting party consists of the financial consideration for connecting the communal gas tank to the network and the commissioning of the tank. This operation usually takes place at one sole time, whereby it is considered as a single performance obligation. The connection charges are regulated by the regulatory framework of the sector, at a set price.

The revenue is recognised at the moment of connection of the communal gas tank and the commissioning of gas, since this is the time at which control of the services rendered is transferred to the customer.

Applicant connection charges

The Group is authorised to receive a financial consideration for performing the set of installations and operations

necessary to cover a new gas supply point or increase the capacity of one already in existence.

In this case a contract is executed with the customer to establish the characteristics of the installation to be built and the quantity to be received for each service. Furthermore, it is established that the asset built by virtue of the contract will be the property of the Group and a remuneration for building the connection is established. This consideration is a determined fixed quantity.

The Group recognises the revenue deriving from the construction throughout the term of the contract, since the customer simultaneously receives and consumes the benefits of the service at the same time the Entity provides it.

The method to be used to measure the percentage of completion is the output method, since the service rendered is similar throughout the period, recognising the revenue on a straight-line basis over time.

(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.

(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.

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 (amended by Law 8/2015, of 21 May), 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) 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 activities envisaged by the regulatory information by which the company distributes its activity among the following segments are: 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:

31.12.17

	Thousands of Euros			
	Distribution	Transmission	LPG and Other activities	Consolidated
Goodwill	54,432	164,440	303	219,175
Non-current assets	1,069,102	608,897	143,746	1,821,745
Current assets	226,988	91,447	61,097	379,531
Total assets	1,350,521	864,784	205,145	2,420,451
Non-current liabilities	895,959	425,304	114,724	1,435,987
Current liabilities	103,969	23,053	13,107	140,129
Total liabilities	999,928	448,357	127,832	1,576,116

31.12.16

	Thousands of Euros			
	Distribution	Transmission	LPG and 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

31.12.17

	Thousands of Euros			
	Distribution	Transmission	Other activities	Consolidated
Revenue	125,010	62,941	28,342	216,293
Other income	2,531	516	234	3,282
Self-constructed non-current assets	9,728	1,243	1,185	12,156
Supplies	(1,165)	-	(15,656)	(16,822)
Employee benefits expense	(20,154)	(5,297)	(2,077)	(27,528)
Depreciation and amortisation	(58,380)	(13,594)	(7,789)	(79,763)
Other operating expenses	(17,664)	(6,534)	(2,872)	(27,070)
Net finance income/(cost)	(21,113)	(5,618)	(3,509)	(30,240)
Profit/(loss) before tax	18,793	33,657	(2,142)	50,308



31.12.16

	Thousands of Euros			
	Distribution	Transmission	Other activities	Consolidated
Revenue	121,103	61,065	15,053	197,221
Other 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

(6) Subsidiaries

(a) Composition of the Group

Information on the subsidiaries included in the consolidated Group is presented in Appendix I.

(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 at 31 December 2017 is an investee of Augusta Infrastructure UK Limited, Chase Gas Investments Limited and ATP Infrastructure II APS (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); and (iii) in December 2017, an additional bond issue amounting to Euros 250,000 thousand, guaranteed by the Parent, as part of 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 2017 the Parent has issued guarantees amounting to Euros 1,150,000 thousand (900 thousand in 2016) 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 2017 and 2016 are as follows:

Thousands of Euros

	Land and buildings	Technical installations and other items	Under construction and advances	TOTAL
Cost at 31 December 2016	11,259	1,634,579	55,804	1,701,642
Additions	-	299	118,881	119,181
Transfers	1,262	136,171	(137,433)	-
Derecognitions	-	(1,774)	(497)	(2,271)
Cost at 31 December 2017	12,522	1,769,275	36,756	1,818,552
Accumulated depreciation at 31 December 2016	(460)	(556,005)	-	(556,465)
Depreciations	(213)	(72,824)	-	(73,037)
Derecognitions	-	1,511	-	1,511
Accumulated depreciation at 31 December 2017	(673)	(627,318)	-	(627,991)
Carrying amount at 31 December 2017	11,849	1,141,957	36,756	1,190,561

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)	-
Derecognitions	-	(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)
Amortisations	(156)	(65,679)	-	(65,835)
Derecognitions	-	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



The most significant additions in 2017 are the following:

- extension of distribution networks in new municipalities and in locations already served by the Group;
- construction of transmission pipelines.

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.

In 2017 construction of the following pipelines was completed:

- "Villacarrillo-Villanueva del Arzobispo" secondary transmission pipeline
- "Yeles-Seseña" secondary transmission pipeline

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

At 31 December 2017, property, plant and equipment under construction reflect investments in gas transmission and distribution networks that the Group expects to complete in the coming months.

The individual values of the buildings and land are Euros 6,422 thousand and Euros 5,427 thousand, respectively, at the 2017 year end (Euros 5,773 thousand and Euros 5,026 thousand, respectively, at the 2016 year end).

In June, September and December 2015, Repsol Butano, S.A. and the Parent Redexis Gas, S.A. entered into framework agreements for the purchase and conveyance of LPG 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.

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.

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 2017, the Group has recognised gas plant decommissioning costs of Euros 377 thousand under property, plant and equipment (Euros 388 thousand at 31 December 2016). 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 2017 and 2016 is as follows:

	Thousands of Euros	
	2017	2016
Buildings	96	96
Technical installations and machinery	127,907	110,836
Other installations, equipment and furniture	1,263	1,335
Other property, plant and equipment	452	325
	129,718	112,592

(8) Intangible Assets

Details of intangible assets and movement during the years ended 31 December 2017 and 2016 are as follows:

	Thousands of Euros				
	Licences	Goodwill	Computer software	Other intangible assets	TOTAL
Cost at 31 December 2016	542,914	219,175	27,376	4,040	793,505
Additions	-	-	4,763	757	5,521
Derecognitions	-	-	-	(73)	(73)
Cost at 31 December 2017	542,914	219,175	32,139	4,724	789,952
Accumulated amortisation at 31 December 2016	-	-	(17,155)	(752)	(17,908)
Amortisations	-	-	(4,708)	(69)	(4,777)
Derecognitions	-	-	-	1	1
Accumulated amortisation at 31 December 2017	-	-	(21,863)	(821)	(22,684)
Accumulated impairment at 31 December 2016	-	-	-	(29)	(29)
Accumulated impairment at 31 December 2017	-	-	-	(29)	(29)
Carrying amount at 31 December 2017	542,914	219,175	10,276	3,874	776,239



Miles de euros

	Licences	Goodwill	Computer software	Other intangible assets	TOTAL
Cost at 31 December 2015	542,914	219,175	22,518	4,038	788,644
Additions	-	-	4,857	648	5,506
Derecognitions	-	-	-	(645)	(645)
Cost at 31 December 2016	542,914	219,175	27,376	4,040	793,505
Accumulated amortisation at 31 December 2015	-	-	(13,274)	(640)	(13,914)
Amortisations	-	-	(3,882)	(112)	(3,994)
Accumulated amortisation at 31 December 2016	-	-	(17,155)	(752)	(17,908)
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

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 1) amounting to Euros 7,706 thousand, essentially comprises the future economic benefits from the ordinary activities of the Parent and the companies Redexis Infraestructuras, S.L.U. and

Redexis Gas Murcia, S.A., which did not qualify for recognition as a separate asset.

Details of the allocation of goodwill at 31 December 2017 and 2016, by cash-generating unit (CGU), are as follows:

Thousands of Euros

	2017	2016
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 2017 and 2016 is as follows:

Thousands of Euros		
	2017	2016
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 2017 and 2016 is as follows:

Thousands of Euros		
	2017	2016
Computer software	11,289	11,057
Other intangible assets	212	210
	11,502	11,267



(9) Rights for use of assets and lease liabilities

Details and movement in the accounts included in the Rights for use of assets during the year ended at 31 December 2017 are as follows:

Thousands of Euros

	Construction rights assigned in use	Other property, plant and equipment rights assigned in use	Information Processing Equipment rights assigned in use	TOTAL
Cost at 31 December 2016	-	-	-	-
Additions 1st application IFRS 16	3,217	1,212	151	4,579
Cost at 31 December 2017	3,217	1,212	151	4,579
Accumulated depreciation at 31 December 2016	-	-	-	-
Depreciations	(895)	(303)	(38)	(1,235)
Accumulated depreciation at 31 December 2017	(895)	(303)	(38)	(1,235)
Carrying amount at 31 December 2017	2,322	909	113	3,344

The Group performs a large part of its activities in properties and facilities leased from third parties. The lease contracts for properties expose the Group to a certain variability due to the fact that the annual increase in most of the contracts is CPI-linked.

The property lease contracts also have several options for

renewal and cancellation. The renewal options are granted to enable the exploitation of the area in those cases in which the business responds appropriately.

In addition, the Group has short-term lease contracts, for which it has recorded an expense in the amount of Euros 581 thousand (note 32).

The details and relevant amounts of lease contracts by asset type are as follows:

Thousands of Euros

	Buildings	IT Equipment	Transmission equipment	TOTAL
31 December 2017				
Amounts				
Fixed lease payments	937	40	318	976
Financial expenses for lease liabilities	65	3	24	68
Long term lease liabilities	1,456	77	618	2,151
Short term lease liabilities	895	31	300	1,226
Conditions				
Lease term	3 to 4 years	4 years	4 years	

The analysis of the contractual maturity date of the lease liabilities, including future interests to be paid, is as follows:

Thousands of Euros

	2017	2016
Up to six months	647	N/A
From six months to one year	647	N/A
From one to two years	1,295	N/A
From two to three years	918	N/A
From three to four years	-	N/A
From four to five years	-	N/A
Over five years	-	N/A
	3,507	N/A

There are no commitments deriving from short-term lease contracts.



(10) 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 2018-2032 period. The recoverable amount includes a terminal value calculated from 2032 onwards using an average perpetual growth rate of 2% and a discount rate of 6%, both in 2017 and 2016.

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 2017.

Following a sensitivity analysis entailing different scenarios, impairment of the recoverable amount would only occur if the discount rate were increased by 55.3%, or if the discount rate were increased by 41.3% while the growth rate (g) were simultaneously brought down to zero, over a period of 15 years.

(11) 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	
	2017	2016	2017	2016
Loans and receivables				
Loans	2,216	2,150	156	74
Security and other deposits	4,940	5,047	-	133
Other financial assets	62	57	438	44,744
Trade and Other Receivables				
Trade receivables	-	-	43,130	39,351
Other receivables	11,112	11,481	23,047	18,968
Total financial assets	18,330	18,735	66,771	103,271

The amount of net profits and losses, corresponding to the category of loans and receivables in 2017 was Euros 301 thousand; there were no results in this category in 2016 (see Note 15).

Details of these items are provided in notes 12 and 15.

(12) Current and Non-Current Financial Assets

Details of current and non-current financial assets at 31 December 2017 and 2016 are as follows:

	Thousands of Euros			
	2017		2016	
	Non-current	Current	No Non-current	Current
Security deposits paid	4,940	-	5,047	133
Loans to related parties	2,216	-	2,142	-
Loans to employees and other	-	156	8	74
Other financial assets	62	438	57	44,745
Total	7,218	594	7,254	44,952

At 31 December of 2016 Other current financial assets essentially reflected the deficit recognised by the gas system up to 2014, with a provisional remuneration of 1.10% and that the Group settled in its entirety in 2017. At 1 December 2017 the Group proceeded to assign the credit right it held with respect to the deficit accumulated to the year 2014; the transaction took place at par value for Euros 41,656 thousand and was collected in its entirety.

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.



(13) Income tax

At the annual general meeting held on 17 December 2010 the Company's shareholders agreed that, with effect as of 1 January 2011, the Company would apply the consolidated 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.

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

2017

	Thousands of Euros		
	Assets	Liabilities	Net
Property, plant and equipment	1,617	(39,493)	(37,877)
Goodwill	-	(2,175)	(2,175)
Deferred income	-	(3,671)	(3,671)
Intangible assets	-	(59,762)	(59,762)
Provisions	1,023	-	1,023
Amortisation and depreciation	5,139	-	5,139
Personnel remuneration	1,885	-	1,885
Finance costs	26,071	-	26,071
	35,735	(105,101)	(69,366)
Tax loss carryforwards	16,712	-	16,712
Net assets and liabilities	52,446	(105,101)	(52,655)

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
Amortisation and depreciation	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)

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. Tax impact of the merger take effect since the date of its public registration in 27 February of 2015.

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.

The tax value of intangible assets and goodwill in 2017 increased by Euros 43,031 thousand and Euros 75,253 thousand respectively. The Company obtained a tax certificate corresponding to the former Company shareholder, which reveals the capital gain included in the Seller's tax base, the resulting double taxation of the transferring shareholder Endesa Gas, and of the purchasing company Redexis Gas. The aforementioned capital gain could be eliminated by application of paragraph 5 of Transitory Provision 23 of Corporate Income Tax Law 27/2014.

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 5,139 thousand at 31 December 2017 (Euros 5,410 thousand at 31 December 2016). 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; this limitation is also included in art. 16 of the CIT Law. 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. At 31 December 2017

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 26,071 thousand (Euros 29,977 thousand at 31 December 2016), 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 2016 and 2017 tax periods up to a maximum of 25% of taxable income before the offset. In its provisional calculation of income tax for 2017, the tax group has offset tax losses of Euros 8,242 thousand (Euros 8,929 thousand in the definitive income tax return for 2016).

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.

For tax periods starting in 2015 tax credit was 2%.

Details of total current and deferred income tax in relation to items recognised directly in other comprehensive income and in equity during 2017 and 2016 are as follows:

Thousands of Euros

	2017		2016	
	Current	Deferred	Current	Deferred
Actuarial gains and losses	-	(110)	-	(167)
	-	(110)	-	(167)

Details of the income tax expense are as follows:

Thousands of Euros

	2017	2016
Current tax		
Present year	8,161	9,023
Adjustment of prior years	(1,061)	(513)
Deferred tax		
Origination and reversal of temporary differences	(555)	1,558
Finance costs	4,109	4,366
Accelerated depreciation and amortisation	(1,524)	(1,525)
Depreciation and amortisation	265	675
Salaries payable	(561)	(236)
Goodwill	(2,486)	(1,725)
Provisions	(358)	3
Income due to reduction of deferred tax liability arising from merger	(10,758)	(7,441)
Income tax expense for the year (companies)	(4,212)	2,627
Adjustments and eliminations on consolidation	4,816	2,940
Income tax expense for the year (Group)	603	5,567



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

	Thousands of Euros	
	2017	2016
Current tax	8,161	9,023
Tax loss carryforwards offset and recognised in prior years	(2,061)	(2,232)
Income tax payable for the year (Group)	6,100	6,791
Payments on account during the year	(5,782)	(3,365)
Withholdings	-	(1)
Current income tax liabilities	318	3,424

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

	Thousands of Euros	
	2017	2016
Profit for the year before tax	50,308	54,284
Tax at 25%	12,577	13,571
Adjustment of prior years	(1,061)	(513)
Income due to reduction of deferred tax liability arising from merger	(10,758)	(7,441)
Other net movements	(155)	(50)
Income tax expense for the year (Group)	603	5,567

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 2017

Company / Year	THOUSANDS OF EUROS
Redexis Gas, S.A. Group / 2011	66,846
Total	66,846

At 31 December 2016

Company / Year	THOUSANDS OF EUROS
Redexis Gas, S.A. Group / 2011	75,088
Total	75,088

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.

At the same time, using the same criteria, the Tax Authorities have settled a reduction of the net financial expenses to

be deducted generated in 2013 and 2014, carried forward for the amount of 35,295 and 9,379 thousand Euros by considering the mentioned participating loans granted to the Company as capital contributions made by the shareholders of the group and, consequently, denies the possibility of deducting for tax purposes accrued financing costs associated to the mentioned loans in 2013 and 2014. The Company deems the proposed adjustment unlawful and has therefore filed an administrative appeal against the settlement at the Central Economic-Administrative Tribunal on 7 July 2017. The legal basis for upholding the criteria applied by the Group is the same as that used for the for the statements of acceptance for the years 2010 to 2012.

During 2015 the Tax Authorities conducted an inspection for Corporate Income Tax (for the years 2010, 2011 and 2012). The Tax 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 non-deducted net finance costs arising in 2012 and available for application in future years by Euros 35,391 thousand. 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 (TEAC). On 2 February

the TEAC confirmed the decision of the inspection, which is why the company filed a claim in the National High Court, submitting it on 9 October 2017. The Company also considers that there are sufficient legal grounds to support the criteria applied by the Group.

On 27 March 2017 notice was given of the commencement of a Corporate Income Tax audit of Redexis Gas Murcia, for the 2012-2015 period.

The Group is pending an audit of the following years by the taxation authorities for the main taxes applicable to it:

Tax	YEARS OPEN
Corporate Income Tax (*) (**) (***)	2013 – 2016
Value Added Tax	2014 - 2017
Personal Income Tax	2014 - 2017
All other applicable Taxes	2014 - 2017

(*) Filing of CIT is done by the following 25 days after the six month period of the FY closing, so the CIT tax for FY 2017 will not be open until 25 of July of 2018.

(**) During 2016 Redexis Gas S.A. had a tax audit for CIT and VAT of FY 2013, 2014, so FY open to audit are 2015 and 2016.

(***) Except Redexis Gas Murcia, S.A., which has open to tax audit FY 2012.

Nevertheless, the right of the Administration to audit or investigate negative tax bases that have been offset or are pending offset, and the deductions to promote the undertaking of given activities applied or pending application

have a 10-year statute of limitations as of the day after the end of the period for filing the tax return or self-assessment corresponding to the tax period in which the right to its offset or application was generated. Following that period, the Group should credit any negative tax bases or deductions by means of the disclosure of the settlement or self-assessment and annual accounts, with proof that they were filed in the Mercantile Registry within the above period.

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

(14) Inventories

Inventories amounting to Euros 5,514 thousand at 31 December 2017 (Euros 4,817 thousand at 31 December 2016) are primarily LPG inventories, as in 2016.

At 31 December 2017 and 2016, the Group had no commitments to purchase or sell gas.

(15) Trade and Other Receivables

Details of trade and other receivables are as follows:

	Thousands of Euros			
	2017		2016	
	Non-current	Current	Non-current	Current
Trade receivables	-	43,869	-	39,821
Receivables, settlements pending	11,112	21,695	11,481	17,708
Other receivables	-	1,599	-	1,542
Advances to personnel	-	-	-	-
Less impairment due to uncollectibility	-	(986)	-	(752)
Total	11,112	66,177	11,481	58,319

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

At 31 December 2017 receivables, settlements pending under non-current primarily reflect the cumulative deficit in the gas system attributable to the Group for 2015 (pending), 2016 and 2017. The amount corresponding to 2015 and 2016 was determined in the final 2015 and 2016 settlements published on November 2016 and December 2017 respectively, and the 2017 deficit is an estimate pending publication of the definitive 2017 settlement.

The cumulative deficit through 2014 was determined with the final settlement in 2014 published in November 2016,

and its amount was reclassified to Other Current Financial Assets since the settlement was expected, and did take place, in 2017; on 1 December 2017 the Group proceeded to assign the credit right it held with respect to this cumulative deficit through 2014; the transaction took place at par value for Euros 41,656 thousand and was collected in its entirety.

As provided in Law 18/2014 of 15 October 2014, parties subject to the settlement system will be entitled to recover the annual amounts corresponding to cumulative deficits from 2015 and subsequent years, in the settlements for the next 5 years, with an 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	
	2017	2016
Balance at 1 January	(752)	(1,111)
Endowments for impairment	(468)	-
Reversals for impairment	168	-
Cancellations	66	360
Balance at 31 December	(986)	(752)

Past-due unimpaired trade receivables amounting to Euros 77 thousand at 31 December 2017 (Euros 80 thousand at 31 December 2016) reflect balances receivable from local corporations for which no credit risk is foreseen.

(16) Other Current Assets

Details of other current assets are as follows:

	Thousands of Euros	
	2017	2016
Public entities		
Taxation authorities, Recoverable VAT	17,482	4,255
Taxation authorities, withholdings	29	38
Other	30	28
Prepayments	288	301
Total	17,830	4,621

(17) Cash and Cash Equivalents

Details of cash and cash equivalents are as follows:

	Thousands of Euros	
	2017	2016
Cash in hand and at banks	284,416	39,009
Short-term deposits in credit institutions	5,000	-
	289,416	39,009

(18) Equity

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

(a) Capital

At 31 December 2017 and 2016 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 2017, Redexis Gas, S.A. is (i) 50.10% owned by Augusta Infrastructure UK Limited, a subsidiary of private equity funds managed by Goldman Sachs & Co; (ii) 30% owned by Chase Gas Investments Limited, a subsidiary of the USS private equity fund; and (iii) 19.90% owned by ATP Infrastructure II APS, a subsidiary of the ATP private equity fund.

At 31 December 2016 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, amounting to Euros 105,433 at 31 December 2017, 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	
	2017	2016
Legal reserve	20,000	20,000
Other shareholder contributions	410,135	410,135
Other reserves	159,038	111,050
	589,173	541,185

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 2017 and 2016, 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 Redexis Gas Murcia, S.A. (Formerly Gas Energía Distribución de Murcia S.A.), which have been written down due to dividends paid in the amount of Euros 70,000 thousand in 2016, 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 2017 other reserves include goodwill reserves amounting to Euros 21,226 thousand (Euros 21,226 thousand at 31 December 2016), 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 2017 and 2016 are as follows:

Thousands of Euros

	2017	2016
Redexis Gas, S.A.	562,911	522,467
Redexis Gas Finance, B.V.	2,384	2,297
Redexis Gas Murcia, S.A.	1,441	531
Redexis Gas Servicios, S.L.U.	(11)	(6)
Redexis GLP, S.L.U.	(125)	(6)
Redexis Infraestructuras, S.L.U.	22,574	15,902
	589,173	541,185

(d) Dividends

The Parent Company did not distribute dividends in 2017.

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 400 thousand in April 2017 with a charge to reserves (Euros 300 thousand in 2016)

(e) Profit/loss for the year

Details of profit/loss for the year contributed by each Group company at 31 December 2017 and 2016 are as follows:

Thousands of Euros

	2017	2016
Redexis Gas, S.A.	37,271	29,896
Redexis Gas Finance, B.V.	434	488
Redexis Gas Servicios, S.L.U.	28	(5)
Redexis GLP, S.L.U.	484	(119)
Redexis Gas Murcia, S.A.	2,303	911
Redexis Infraestructuras, S.L.U.	9,185	17,548
	49,705	48,718

(19) Financial Liabilities by Category

(a) Classification of financial liabilities by category

A classification of financial liabilities by category and class, as well as their carrying amounts, is as follows:

Thousands of Euros

	2017	
	Carrying amount Non-current	Carrying amount Current
Debts and payables		
Bonds and other listed marketable securities	1,137,048	19,428
Loans and borrowings		
Variable rate	-	59
Fixed rate	158,073	930
Security and other deposits received	4,671	-
Other financial liabilities	228	-
Lease liabilities	2,151	1,226
Trade and other payables		
Suppliers and payables	-	15,447
Suppliers of fixed assets	-	74,451
Other payables	-	26,757
Total financial liabilities	1,302,171	138,297



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

At 31 December 2017 the fair value of loans and borrowings is Euros 153,375 thousand (Euros 193,560 thousand at 31 December 2016) and the fair value of liabilities from issuing bonds and other listed marketable securities at 31 December 2017 is Euros 1,189,464 thousand (Euros 952,942 thousand at 31 December 2016). 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 2017 comprise finance costs at amortised cost totalling Euros 30.101 thousand (Euros 28,198 thousand in 2016).

(c) Changes in Liabilities arising from Financing Activities

The reconciliation of amounts of liabilities classified as financing activities is as follows:

	Financial liabilities from issuing bonds and other marketable securities	Loans and borrowings	Lease liabilities	TOTAL
Carrying amount at 01 January 2017	888,312	189,796	4,579	1,082,688
Cash flows	249,692	(30,000)	(1,202)	218,490
Other changes	(957)	(1,723)	-	(2,680)
Balance at 31 December 2017	1,137,048	158,073	3,377	1,298,498

(20) Financial Liabilities from Issuing Bonds and Other Marketable Securities

In April 2014 the Group issued bonds amounting to Euros 650,000 thousand, guaranteed by the Parent, as part of the Euro Medium Term Note (EMTN) programme. The bonds mature on 08 April 2021. The issue price was 99.373% and the annual interest rate is 2.75%, which is payable on 8 April each year. The ranking of this issue is pari passu with the credit facility described in note 21.

In April 2015 the Group issued additional bonds amounting to Euros 250,000 thousand, guaranteed by the Parent, as part of the Euro Medium Term Note (EMTN) programme. The bonds mature on 27 April 2027. The issue price was 98.920% and the annual interest rate is 1.875%, which is payable on 27 April each year.

In December 2017 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 mature on 27 April 2027. The issue price was 98.757% and the annual interest rate is 1.875%, which is payable on 27 April each year.

Accrued interest not yet due at 31 December 2017 and 2016 is reflected under "Interest payable on bonds and other marketable securities issued" in the consolidated statement of financial position.

The average interest rate accrued on this debt in 2017 was 2.44% (2.51% in 2016).

(21) Loans and Borrowings

The terms and conditions of loans and borrowings at 31 December 2017 and at 31 December 2016 are as follows:

2017

Thousands of Euros

Type	Currency	Nominal rate	Maturity	Maximum available	CARRYING AMOUNT	
					Current	Non-current
Loans and borrowings:						
Facility Agreement	Euro	(1)	2024	300,000	59 (2)	-
EIB loan 2015	Euro	(3)	2038	160,000	930	158,073
EIB loan 2017	Euro		(4)	50,000	-	-
				510,000	989	158,073

(1) Euribor. Commitment fee of 35% of the spread applied (0.8%).

(2) Commitment fee.

(3) Fixed nominal rate of 1.294%.

(4) 20 years from the drawdown

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 2015	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%.

Details of the nominal amount of loans and borrowings, the maturity tranche and annualised cost at 31 December 2017 and at 31 December 2016 are as follows:

2017

Type of borrowing	Extended at arrangement date	Drawn down at 31/12/2017	Maturity	Total debt	Available
(Thousands of Euros)					
Facility	300,000	-	2024	-	300,000
EIB 2015	160,000	160,000	2038	160,000	-
EIB 2017	50,000	-	(1)	-	50,000
Total	510,000	160,000		160,000	350,000

(1) 20 years from the drawdown

2016

Type of borrowing	Extended at arrangement date	Drawn down at 31/12/2016	Maturity	Total debt	Available
(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

On 2 November 2017 the Parent executed a "Facility Agreement" with several financial institutions, for which Caixabank, S.A. is the agent. The amount of the subscribed credit is Euros 300,000 thousand, in the form of a revolving credit.

On the other hand, on 14 November 2017 the Company proceeded to cancel the "Facility Agreement" executed on 20 March 2014 between the Parent and several financial institutions.

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:

	2018	2019	2020	2021	2022 and thereafter
EIB	-	-	9,412	9,412	141,176



On 22 December 2017, the Group arranged a Euros 50,000 thousand credit facility with the European Investment Bank within the framework of the European Fund for Strategic Investments.

(22) Trade and Other Payables

Details of trade and other payables are as follows:

	Thousands of Euros	
	2017	2016
Suppliers	5,189	4,751
Trade payables	10,258	8,332
Payables, settlements pending	19,559	20,147
Salaries payable	7,198	4,971
Suppliers of fixed assets	74,451	66,027
	116,655	104,227

Payables, settlements pending at 31 December 2017 primarily include the provisional settlements received from the gas companies for 2015, 2016 and 2017, which are pending final settlement by the regulatory body.

Suppliers of fixed assets at 31 December 2017 and 2016 mainly reflect payables for acquisitions of property, plant and equipment, primarily for transmission pipelines and the extension of the distribution networks.

(23) 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:

	2017	2016
	Days	
Average supplier payment period	49	43
Transactions paid ratio	55	44
Transactions payable ratio	24	29
	Amount (thousands of Euros)	
Total payments made	180,586	288,046
Total payments outstanding	42,195	26,397

(24) Risk Management Policy

Financial risk factors

The Group's activities are exposed to various financial risks: market risk (including fair value interest rate risk and price risk), credit risk, liquidity risk, and cash flow interest rate risk. The Group's global risk management programme focuses on uncertainty in the financial markets and aims to minimise potential adverse effects on the Group's profits.

Risks are managed by the Group's 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 2017 and 2016:

2017

	Thousands of Euros				
	Less than 3 months	3-6 months	6 months - 1 year	More than 1 year	TOTAL
Trade and other receivables, fixed rate	47,069	-	19,108	11,112	77,290
Other financial assets	-	-	594	7,218	7,811
Total assets	47,069	-	19,702	18,330	85,101

2016

	Thousands of 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

**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 300,000 thousand at 31 December 2017 (Euros 270,000 thousand at 31 December 2016, see note 21), which together with cash

and cash equivalents, totalling Euros 289,416 thousand at 31 December 2017 (Euros 39,009 thousand at 31 December 2016), are sufficient to settle current liabilities.

Details of the Group's exposure to liquidity risk at 31 December 2017 and 2016 are shown below. The tables reflect the analysis of financial liabilities by contractual maturity date.

2017

	Thousands of Euros				
	Less than 3 months	3-6 months	6 months - 1 year	More than 1 year	TOTAL
Loans and borrowings	989	-	-	4,671	5,660
Variable rate	59	-	-	-	59
Principal	-	-	-	-	-
Interest	59	-	-	-	59
Fixed rate	930	-	-	4,671	5,601
Principal	-	-	-	4,671	4,671
Interest	930	-	-	-	930
Trade and other payables	116,655	-	-	-	116,655
Variable rate	116,655	-	-	-	116,655
Principal	116,655	-	-	-	116,655
Interest	-	-	-	-	-
Bonds and other financial liabilities	-	19,428	-	1,298,726	1,318,154
Principal	-	-	-	1,298,726	1,298,726
Interest	-	19,428	-	-	19,428
Total liabilities	117,643	19,428	-	1,303,397	1,440,468

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

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 at 31 December 2017 has not drawn down any financing exposed to interest rate fluctuations (at 31 December 2016 the figure was 30,000 thousand Euros). Consequently, there would be no significant impact on the Group's profit or loss or its financial liabilities.



(25) Provisions for Employee Benefits

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

	Thousands of Euros			
	31.12.17		31.12.16	
	Non-current	Current	Non-current	Current
Benefit obligations	3,951	59	3,401	56
Provisions for early retirement benefits	-	25	25	86
Total	3,951	84	3,425	141

(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 2017 and 2016 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 3,847 thousand and Euros 3,302 thousand, respectively.
- Long-service bonuses for serving personnel, totalling Euros 105 thousand and Euros 125 thousand, respectively.
- Health insurance policies for retired personnel, totalling Euros 33 thousand and Euros 32 thousand, respectively.

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

Other long-term employee benefits		
	2017	2016
Balance at 1 January	3,401	2,731
Personnel expenses	108	71
Finance costs	65	74
Applications recognised in profit or loss	-	(50)
Transfers	(1)	(16)
Actuarial gains and losses	378	590
Saldo al 31 de diciembre	3.951	3.401

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	0.87% - 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 514 thousand in the year ended 31 December 2017 and are included under personnel

expenses in the consolidated income statement (Euros 507 thousand in the year ended 31 December 2016, see note 32).

At 31 December 2017 and at 31 December 2016, no accrued contributions were pending.

**(b) Provisions for early retirement benefits and restructuring**

The liability recognised at 31 December 2017 and 2016 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 1 employee who has taken early retirement (1 employee in 2016).

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

Technical interest rate	0.04%
Expected salary increase rate	2%
Mortality tables	PERM/F 2000
Age for inclusion in the ERE	60

Movement in this non-current provision during 2017 and 2016 was as follows:

	Thousands of Euros	
	2017	2016
Balance at 1 January	25	211
Charges recognised in profit or loss		
Finance costs	-	5
Applications		
Transfers and other	(26)	(211)
Actuarial gains and losses	1	20
Balance at 31 December	-	25

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

Thousands of Euros

	2017	2016	
	Early retirements	Early retirements	Restructuring
Balance at 1 January	86	444	292
Charges recognised in profit or loss	-	92	-
Applications	-	-	(208)
Payments	(85)	(738)	(84)
Transfers and other	24	288	-
Balance at 31 December	25	86	-

(26) Other Provisions

El movimiento de otras provisiones durante los ejercicios 2017 y 2016 es como sigue:

Thousands of Euros

	2017	2016
Balance at 1 January	645	2.648
Charges	35	-
Payments	(6)	-
Applications	(19)	(2,002)
At 31 December	655	645

Guarantees

The Group has extended guarantees to various government bodies totalling Euros 40,578 thousand at 31 December 2017 (Euros 32,520 thousand at 31 December 2016) 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.



(27) Environmental Information

The Group is aware of its responsibility to protect the environment and has undertaken a number of initiatives with this purpose within its area of influence. The Group 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.

(28) Government grants

Movement in non-refundable government grants is as follows:

2017

Body/Item	Miles de euros				
	Scope ⁽¹⁾	Balance at 1 January	Additions	Amounts transferred to the income statement	Balances at 31 December
Public entities	PE	15,395	2,445	(788)	17,052
Connection charges	Private	3,433	3,013	(614)	5,831
		18,828	5,457	(1,403)	22,883

2016

Body/Item	Miles de euros					
	Scope ⁽¹⁾	Balance at 1 January	Additions	Derecognitions	Amounts transferred to the income statement	Balances at 31 December
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

PE: Public entities

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

(29) Other Liabilities

Details of current other liabilities are as follows:

	Thousands of Euros	
	2017	2016
Public entities, other		
Taxation authorities, personal income tax	303	272
Social Security payables	321	275
Public utility rates, taxes and local council payables	2,032	1,860
Total	2,656	2,407

(30) Revenue from Regulated Activities

Details of revenue are as follows:

	Thousands of Euros	
	2017	2016
Remuneration for distribution activities	99,982	98,047
Remuneration for transmission activities	63,000	61,511
One-off adjustment to prior years' transmission revenue	(59)	(444)
Remuneration for transmission and distribution activities	162,922	159,114
Regulated LPG sales	25,048	12,946
Other regulated distribution revenue (connection charges, equipment rental, other services)	28,323	25,162
	216,293	197,221

In 2017 revenue includes the effect on transmission remuneration of the reversal of the provision for expropriation of the Son Reus Andratx gas pipeline following the favourable ruling in the proceedings to set fair compensation for that pipeline.

- The adjustment to revenue accrued in 2017, in the form of a Euros 30 thousand reduction in revenue, is included under remuneration for transmission activities for 2017.

- The adjustment to revenue accrued from 2015 to 2016 is reflected under one-off adjustment to prior years' transmission revenue, entailing a total reduction of Euros 59 thousand in the revenue accrued over the mentioned period.

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.

(i) Breakdown of revenue from ordinary activities:

The following provides a breakdown by type of activity and/or service rendered and the time at which the revenue is recognised:

	Thousand of euros	
	2017	2016
Service rendered and/or asset transferred over time		
Gas distribution	99,982	98,047
Gas transmission	62,941	61,067
Sale of LPG	25,048	12,946
Applicant connection charge	614	914
Hiring of metering equipment	10,447	9,725
Hiring of IRC	4,986	4,075
Service rendered and/or asset transferred at a specific time		
Registration fees	3,236	2,835
IRI Inspections	4,978	4,868
Contracting party connection charges	3,582	3,078

(ii) Contract balances

The following provides information on receivables, assets and liabilities of customer contracts:

	Thousand of euros	
	2017	2016
Contract liabilities	5,831	4,578

Significant changes in contract assets and liabilities during the period are as follows:

	Thousand of euros	
	2017	
	Contract assets	Contract liabilities
Increases owing to cash received, excluding any amounts recognised as revenue during the period	1,254	1,254

(31) Other Income

Details of other income are as follows:

	Thousand of euros	
	2017	2016
Government grants taken to income (note 28)	1,403	1,490
Other income	1,879	2,383
Total	3,282	3,873

(32) Other Operating Expenses

Details of other expenses are as follows:

	Thousand of euros	
	2017	2016
Operating lease expenses (Note 9)	581	1,551
Repairs and maintenance	8,584	6,916
Independent professional services	2,038	1,866
Advertising and publicity	917	1,069
Utilities	415	391
Insurance premiums	546	561
Taxes	3,384	3,155
Other expenses	10,289	8,789
Impairment losses and uncollectibility of trade and other receivables (note 9)	301	(535)
Other non-recurrent expenses	15	1,151
Total	27,070	24,915

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



(33) Employee Benefits Expense

Details of the employee benefits expense for 2017 and 2016 are as follows:

Thousands of Euros

	2017	2016
Salaries and wages	20,633	18,718
Social Security payable by the Company	3,857	3,568
Contributions to defined benefit plans (note 24(a))	514	507
Provisions	-	(534)
Other employee benefits	744	450
Restructuring	-	2,039
Total	27,528	24,748

The average headcount of the Group in 2017 and 2016, distributed by category, is as follows.

Number

	2017	2016
Management	12	13
Technicians	249	238
Administrative staff	48	48
Total	309	299

At the 2017 and 2016 year ends the distribution by gender of Group personnel and the members of the board of directors is as follows:

	2017			2016		
	Male	Female	TOTAL	Male	Female	TOTAL
Board members	7	1	8	7	1	8
Management	7	3	10	7	4	11
Technicians	208	50	258	194	43	237
Administrative staff	18	31	49	16	34	50
Total	240	85	325	224	82	306

(34) Finance Income and Costs

Details of finance income and costs are as follows:

	Thousands of Euros	
	2017	2016
Finance income	486	348
Interest on loans and borrowings	(3,512)	(2,830)
Interest on bond issues	(26,589)	(24,679)
Other finance costs	(462)	(1,281)
Finance costs arising from provision adjustments (note 24)	(164)	(80)
Net finance cost	(30,240)	(28,523)

(35) Related Party Balances and Transactions

Details of balances receivable from related parties at 31 December 2017 and 2016 by category, and their main characteristics, are disclosed in note 12. At 31 December 2017 and 2016 there are no balances payable to related parties.

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

2017		Thousands of Euros	
	Shareholders	Key management personnel	TOTAL
Revenue			
Finance income	75	-	75
	75	-	75
Expenses			
Employee benefits expense	-	(7.850)	(7.850)
Other expenses	(73)	-	(73)
	(73)	(7,850)	(7,923)



2016

Thousands of Euros

	Shareholders	Key management personnel	TOTAL
Revenue			
Finance income	73	-	73
	73	-	73
Expenses			
Employee benefits expense	-	(4,358)	(4,358)
Other expenses	(62)	-	(62)
	(62)	(4,980)	(5,042)

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

At 31 December 2017 the Parent's board of directors comprises eight members – one woman and seven men (eight members – one woman and seven men at 31 December 2016).

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 2017 or 2016. However, remuneration is paid to board members who perform executive duties in the Company.

In 2017, the executive board members and other directors who report directly to the board members, a total of 12 recipients, received remuneration of Euros 5,501 thousand (12 recipients received Euros 3,331 thousand in 2016).

A new three-year bonus plan was implemented in 2015 for the 2015 to 2017 period. In addition, in 2017 a bonus plan was implemented on a three-year basis for the period between 2018 and 2020, both inclusive, and a five-year plan which expires in 2022. 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 110 thousand for 12 recipients in 2017 (Euros 105 thousand for 12 recipients in 2016).

No advances or loans were granted in 2017 or 2016 to executive board members or other directors who report directly to the board members, nor were any guarantees extended on their behalf.

In 2017 and 2016 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.

(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 2017 and 2016:

	Thousands of Euros	
	2017	2016
Audit services	235	205
Other audit-related services	33	80
Other services	69	-
Total	337	285

The amounts detailed in the above table include the total fees for services rendered in 2017 and 2016, irrespective of the date of invoice.

Other KPMG International subsidiaries invoiced the Group the following fees and expenses for professional services during the years ended 31 December 2017 and 2016:

	Thousands of Euros	
	2017	2016
Other audit-related services	37	140
Other services	48	-
Total	85	140

Other auditors invoiced the Group the following fees and expenses for professional services during the years ended

31 December 2017 and 2016:

	Thousands of Euros	
	2017	2016
Other services	104	78
Total	104	78



(38) Events after the Reporting Period

A new loan was signed in January 2018 for up to Euros 75 million for the development of natural gas networks of Redexis Gas in Spain. The loan, with a maximum term of 20 years from the drawdown and a grace period for principal payments for the first three years, is part of the support offered by the EIB within the

scope of the European Fund for Strategic Investments (EFSI). The loan has an availability period of three years and will be used to finance investments in gas distribution assets to provide access to natural gas to homes and industries, including the development of networks in the Canary Islands.

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.	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	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.	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

2017

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.	Augusta Infrastructure UK Limited, Chase Gas Investments Limited ATP e Infrastructure II APS	-	-

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. y Augusta Global Coöperatieve, U.A.	-	-

CONSOLIDATED DIRECTORS' REPORT

CONTENTS

(1) Relevant data and milestones for the Redexis Gas Group in 2017	204
Activities	206
(a) Distribution	206
(b) Transmission	206
(c) Liquefied Petroleum Gas (LPG)	206
(2) Analysis of results	207
(3) Events after the reporting period	208
(4) Outlook	209
(5) Main risks associated with Redexis Gas activities	209
(6) Human resources	209
(7) Own shares	209
(8) Financial instruments	209
(9) Environmental protection	210
(10) Research, development and innovation	210



(1) Relevant data and milestones for the Redexis Gas Group in 2017

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 2017, the Group had almost 570 thousand natural gas supply points and more than 79 thousand LPG points (having transformed 3,062 LPG points to NG in 2017), serving over six million people, industries and businesses in 485 municipalities spread over 27 provinces, by more than 9,990 km of its own gas transmission and distribution networks. 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.

At the close of 2017, the number of authorised municipalities is 576, including 8 prior government authorisations in both provinces of the Canary Islands, Santa Cruz de Tenerife and Las Palmas.

Operating data	2017	2016	% var. (2017-2016)
Connection points	649,653	625,767	3.82%
Natural gas (NG) P<4bar	570,097	544,348	4.73%
LPG ⁽¹⁾	79,278	81,166	(2,33%)
Natural gas (NG) P>4 bar	278	253	9.88%
Provinces served	27	26	3.85%
Municipalities served	485	484	0.21%
Length of the network (km)	9,990	9,411	6.15%
Distribution network (km)	8,348	7,789	7.18%
Transmission network (km)	1,643	1,622	1.29%
Power distributed (NG + LPG) (GWh) ⁽²⁾	13,044	10,912	19.54%

Note 1: Data includes 3,062 points of LPG transformed to NG in 2017, whereby the variation of LPG points in 2017 would be 1,174 LPG more points than in 2016, meaning an increase of 1.45% with respect to that year.

Note 2: The figure shown for power distributed does not include

From a financial standpoint, the Redexis Gas Group closed 2017 with revenue growth of 9.1% to Euros 216 million, as a result of the increase in its regulated activities, which represent 93% of its activity.

Consolidated EBITDA for 2017 amounted to Euros 162.2 million,

up 3.2% on the prior year. The EBITDA margin ex-LPG (using the net regulated gross margin) was 75.0%.

Group investments totalled Euros 124.7 million in 2017, of which 97.5% was channelled into organic growth and the rest into the acquisition of LPG supply points from Repsol.

Financial information	2017	2016	% var.
Figures in millions of Euros, except where indicated			
Revenue	231.8	211.7	9.5%
Distribution - regulated	100.0	98.0	2.0%
Other distribution revenues - regulated	28.3	25.2	12.3%
Transmission - regulated	63.0	61.5	2.4%
Regulated LPG business	25.0	12.9	93.8%
Other operating income	3.3	3.9	(15,4%)
Self-constructed non-current assets	12.2	10.2	19.6%
EBITDA	162.2	157.1	3.2%
<i>EBITDA margin</i>	<i>70.0%</i>	<i>74.2%</i>	<i>-4.2 p.p.</i>
<i>EBITDA margin ex-LPG</i>	<i>75.0%</i>	<i>76.7%</i>	<i>-1.7 p.p.</i>
Total CAPEX	129.3	221.1	(41,5%)
Distribution	112.1	83.5	34.3%
Transmission	6.1	5.5	10.9%
Addition of assets for rights of use and others	4.9	0.0	N/A
Other purchases (LPG)	0.7	126.7	-99.4%
Intangible Assets	5.5	5.5	0.0%

Key milestones in 2017:

- Attractive growth in the Group's distribution of NG and LPG and transmission businesses.
- Improvement in operating efficiency due to economies of scale and to process and technological innovation.
- Transformation of 3,062 connection points from LPG to NG, mainly in Castilla y León (Ciudad Rodrigo and Cantalejo).
- Award of 8 prior government authorisations in the 2 provinces of the Canary Islands; Santa Cruz de Tenerife and Las Palmas.

- New 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". This new loan, of up to Euros 125 million (Euros 50 million signed in December 2017 and Euros 75 million signed in January 2018), is granted for the development of Redexis Gas natural gas networks in Spain as part of the support programme offered by the EIB within the scope of the European Fund for Strategic Investments (EFSI).

The loan has a maximum term of 20 years and a grace period for principal payments for the first three years. It has an availability period of three years and will be used to finance investments in gas distribution assets to provide access to natural gas to homes and industries, including the development of networks in the Canary Islands.



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 2017 year end, the Group has circa 570 thousand natural gas supply points and a distribution network spanning 7,421 km conveying 12,629 GWh of power (excluding industrial supply) to 233 municipalities in Spain.

The Group has installed natural gas in 14 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 2017, Redexis Gas had a network of 1,643 km, comprising 52 gas pipelines and transmitting gas at pressures exceeding four bars to industrial hubs and connections with distribution networks.

In 2017, a total of 21 km was added to its network, originating from two new gas pipelines:

- “Yeles-Seseña” in Castilla La Mancha, spanning 9.1 km. This gas pipeline will cover the energy needs of the sizeable domestic, tertiary and industrial markets that make up its catchment area.
- “Villacarrillo - Villanueva del Arzobispo” spanning 11.6 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.

The Group now has over circa 80 thousand LPG supply points, most of them acquired from Repsol in 2015 and 2016 and from Cepsa in 2017.

At the end of 2016, the Group acquired almost 4.7 thousand supply points from Cepsa and will integrate them completely in 2018.

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.

(2) Analysis of results

Key indicators:

Key financial indicators	2017	2016	Var	%
Figures in millions of Euros				
Revenue	216.4	197.7	18.7	9.5%
Regulated distribution revenue	100.0	98.0	1.9	1.9%
Other regulated distribution revenue	28.3	25.2	3.2	12.7%
Regulated transmission revenue	63.0	61.5	1.5	2.4%
Regulated LPG business	25.0	12.9	12.1	93.8%
Other operating income	3.3	3.9	(0.6)	(15.4%)
Self-constructed property, plant and equipment and intangible assets	12.2	10.2	1.9	18.6%
Supplies	(16.8)	(8.1)	(8.7)	107.4%
Employee benefits expense	(25.7)	(22.7)	(3.0)	13.2%
Other recurrent operating expenses	(27.1)	(23.8)	(3.3)	13.9%
EBITDA	162.2	157.1	5.0	3.2%
Non-recurring revenue adjustment for Transmission from prior years	(0.1)	(0.4)	0.4	(100.0%)
Other non-recurrent operating expenses	(0.0)	(1.2)	1.1	N/A
Non-recurrent workforce restructuring	(1.8)	(2.0)	0.3	(15.0%)
Impairment losses on non-current assets	(0.7)	(0.9)	0.2	N/A
Depreciation and amortisation	(79.0)	(69.8)	(9.2)	13.2%
Results from operating activities	80.5	82.8	(2.3)	(2.8%)
Net finance income/(cost)	(30.2)	(28.5)	(1.7)	6.0%
Earnings before tax (EBT)	50.3	54.3	(4.0)	(7.4%)
Income tax expense/(tax income)	(0.6)	(5.6)	5.0	(89.3%)
Profit/loss for the year	49.7	48.7	1.0	2.1%

Note 1: 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.

Note 2: The non-recurrent restructuring expenses appear in 2016 as non-recurrent workforce restructuring and in 2017 as shareholder interest reorganisation expenses.



At the end of 2017, Redexis Gas recorded revenues of Euros 231.8 million, an increase of 9.5% on 2016, primarily due to its regulated activities.

Distribution revenues continue to improve with respect to last year, by 2%, to Euros 100 million, essentially as a result of a higher number of connection points in existing and newly added municipalities.

Transmission revenues increased by 2.4%, to Euros 63.0 million, as a result to the start-up in 2017 of the "Yeles-Seseña" gas pipeline, and of the "Villacarrillo-Villanueva del Arzobispo" gas pipeline.

Revenues from the regulated LPG business grew as a result of the gradual inclusion of the LPG points acquired from Repsol Butano, S.A.

Operating expenses amounted to Euros 69.6 million (Euros 54.6 million in 2016).

The improvement in operating income has led to 2017 year-end EBITDA of Euros 162.2 million, up Euros 5 million or 3.2% 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, as well as the application of IFRS 16 Lease Activation.

In 2017 "One-off adjustment to prior years' transmission revenue" includes the effect on transmission remuneration of the reversal of the provisions of the Son Reus - Andraitx gas pipeline in an amount of Euros 59 thousand, and in 2016 the effect on transmission remuneration of the reversal of the provision in expropriation of the Moratalla – Mula and Huerca-Overa – Baza – Guadix gas pipelines following the favourable rulings in the proceedings to set fair compensation for those pipelines in 2014 and 2015.

In 2017 the net finance cost amounted to Euros 30.2 thousand (Euros 28.5 thousand in 2016).

The Group made a net profit of Euros 49.7 million in 2017 (net profit of Euros 48.7 million in 2016). Earnings for 2017, apart from increasing the operating profit of the Group, went up by 10.8 million Euros due to the lower corporate income tax expense for the reversal of deferred tax liabilities.

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, as well as new business lines and value-added services relating to natural gas.

(3) Events after the reporting period

Events after the reporting period are described in note 38 to the consolidated annual accounts.

(4) 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.

(5) 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.

(6) Human resources

At the end of December 2017, Redexis Gas had a total of 325 employees while the average headcount for the year was 309.

(7) Own shares

Redexis Gas did not hold any own shares at 31 December 2017, nor did it perform any transactions with own shares during 2017.

(8) Financial instruments

The risk management policy is explained in note 23 to the consolidated annual accounts.



(9) 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 NO_x and SO_x 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.

(10) 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 2017 include:

- Implementation of Machine Learning projects:

- NCAM: we have developed the algorithm using Redexis internal resources.
 - New project: DaVinci. Optimum design of distribution networks.
 - Routes Project.
- Integration of the corporate systems for sales and operations to ensure data integrity.
 - Project for defining and implementing a new analytical model which will make it possible to obtain a Profitability Analysis from different perspectives (department, area, product, etc.), and also to facilitate the processes for analytical closure and for obtaining different business KPI's. (CRONO Project).
 - Implementation of systems and applications for business development in Redexis GLP, S.L.U.
 - Project for separating part of the facilities situated in that Autonomous Region from the distributor Redexis Gas Murcia, S.A.
- Project for changing the protocol and communication formats with suppliers (Implantation V10_SCTD).
 - Improvement of the Address Standardisation Interface, which includes the automatic standardisation of addresses, and the standardisation of streets in multiple towns.
 - Automatic interface between the telephone system responsible for taking customer readings and SAP, avoiding the previously used manual system.
 - Implementation of self-billing with suppliers.

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:** 2017.
- **ACTIVITY:** natural gas transmission and distribution, as well as the services linked to natural gas distribution and liquefied petroleum gas (LPG) commercialisation and distribution.
- **FREQUENCY OF THE ISSUE OF THIS REPORT:** annual.

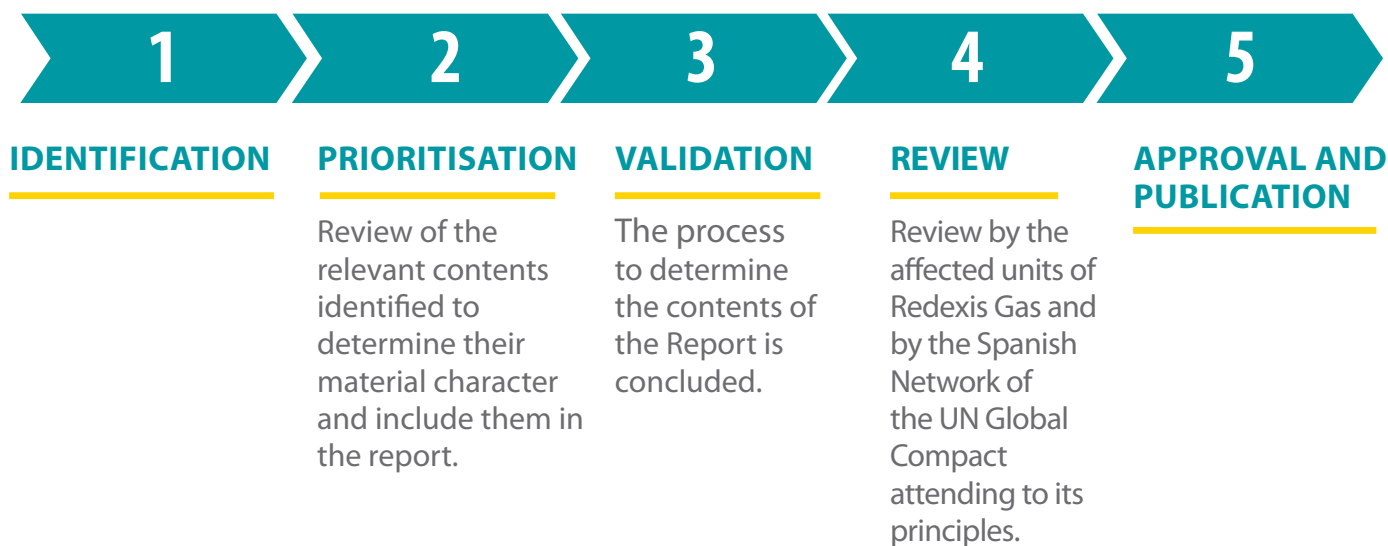
The information perimeter of this report coincides with the financial consolidation perimeter of Redexis Gas, and it includes its activities during the year 2017. It is prepared on an annual basis and it reviews the evolu-

tion 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 hour 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

Emergencies: 900 924 622

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