



Redexis Gas, S.A. and Subsidiaries

Consolidated Annual Accounts
31 December 2018

Consolidated Directors' Report
2018

(With Independent Auditor's Report Thereon)



KPMG Auditores, S.L.
Centro Empresarial de Aragón
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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 "Parent") and subsidiaries (together the "Group"), which comprise the consolidated statement of financial position at 31 December 2018, 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 2018 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 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 2018 Consolidated Directors' Report, the preparation of which is the responsibility of the Parent'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 2018 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.

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 Parent'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
25 February 2019



REDEXIS GAS, S.A. AND SUBSIDIARIES

Consolidated Annual Accounts and Consolidated Directors' Report

31 December 2018

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

(With Independent Auditors' Report Thereon)

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REDEXIS GAS, S.A. AND SUBSIDIARIES

Consolidated Statement of Financial Position for the Year Ended 31 December 2018
(Expressed in thousands of Euros)

<u>Assets</u>	<u>Note</u>	2018	2017
Property, plant and equipment	7	1,243,196	1,190,561
Goodwill	8	219,175	219,175
Other intangible assets	8	557,462	557,064
Rights for use of assets	9	2,180	3,344
Deferred tax assets	13	46,629	52,446
Non-current financial assets	12	7,673	7,218
Trade and Other Receivables	15	5,208	11,112
Total non-current assets		2,081,523	2,040,921
Inventories	14	5,933	5,514
Trade and Other Receivables	15	55,350	66,177
Other current financial assets	12	166	594
Other current assets	15	5,649	17,830
Cash and cash equivalents	16	49,741	289,416
Total current assets		116,838	379,531
Total assets		2,198,361	2,420,452
<u>Equity and Liabilities</u>	<u>Note</u>	2018	2017
Capital		100,000	100,000
Share premium		105,433	105,433
Other reserves		418,677	589,173
Other comprehensive income		29,864	49,705
Equity attributable to equity holders of the Parent		653,975	844,311
Non-controlling interests		24	24
Total equity	17	653,999	844,336
Financial liabilities from issuing bonds and other marketable securities	19	1,139,476	1,137,048
Loans and borrowings	20	158,343	158,073
Other financial liabilities	18	2,255	4,899
Lease liabilities	9	881	2,151
Deferred tax liabilities	13	105,875	105,101
Provisions for employee benefits	24	4,018	3,951
Other provisions	25	624	655
Government grants and other liabilities	27	21,348	22,883
Total non-current liabilities		1,432,820	1,434,761
Interest payable on bonds and other marketable securities issued	19	19,446	19,428
Loans and borrowings	20	1,765	989
Trade and other payables	21	84,829	116,655
Current income tax liabilities	13	800	318
Provisions for employee benefits	24	72	84
Other current liabilities	21	3,325	2,656
Lease liabilities	9	1,306	1,226
Total current liabilities		111,542	141,355
Total equity and liabilities		2,198,361	2,420,452

The accompanying notes 1 to 36 form an integral part of the consolidated annual accounts.

REDEXIS GAS, S.A. AND SUBSIDIARIES

Consolidated Income Statement for 2018
(Expressed in thousands of Euros)

	Note	2018	2017
Revenue	28	221,402	216,293
Other income	29	8,932	3,282
Self-constructed non-current assets		15,982	12,156
Consumption of raw materials and consumables		(21,617)	(16,822)
Employee benefits expense	31	(37,580)	(27,528)
Depreciation and amortisation	7, 8 and 9	(83,518)	(79,050)
Impairment losses on non-current assets		(2,417)	(713)
Other operating expenses	30	(27,824)	(27,070)
Results from operating activities		73,358	80,548
Finance income		273	486
Finance costs		(33,297)	(30,726)
Net finance income/(cost)	32	(33,024)	(30,240)
Profit before income tax		40,334	50,308
Income tax expense	13	(10,469)	(603)
Profit for the year		29,864	49,705
Profit for the year attributable to equity holders of the Parent		29,864	49,705
Profit for the year attributable to non-controlling interests		-	-

The accompanying notes 1 to 36 form an integral part of the consolidated annual accounts.

REDEXIS GAS, S.A. AND SUBSIDIARIES

Consolidated Statement of Comprehensive Income
for the Year Ended
31 December 2018
(Expressed in thousands of Euros)

	Note	2018	2017
Profit for the year		<u>29,864</u>	<u>49,705</u>
Other comprehensive income:			
Items that will not be reclassified to profit or loss		-	-
Other comprehensive income for the year net of taxes		<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u>29,864</u>	<u>49,705</u>
Total comprehensive income attributable to:			
Equity holders of the Parent		29,864	49,705
Non-controlling interests		-	-
		<u>29,864</u>	<u>49,705</u>

The accompanying notes 1 to 36 form an integral part of the consolidated annual accounts.

REDEXIS GAS, S.A. AND SUBSIDIARIES

Consolidated Statement of Changes in Equity for
the Year Ended 31 December 2018
(Expressed in thousands of Euros)

	Equity attributable to equity holders of the Parent						
Capital	Share premium	Legal reserve	Other reserves	Profit/(loss) for the year	Total	Non-controlling interests	Total equity
Balance at 31 December 2017	105,433	20,000	569,173	49,705	844,311	24	844,335
1st application IFRS 9	-	-	(116)	-	(116)	-	(116)
Balance at 01 January 2018	105,433	20,000	569,057	49,705	844,195	24	844,219
Profit/(loss) for 2018	-	-	-	29,864	29,864	-	29,864
Actuarial gains/(losses) on defined benefit plans	-	-	(2)	-	(2)	-	(2)
Dividends	-	-	(220,000)	-	(220,000)	-	(220,000)
Other movements	-	-	(83)	-	(83)	-	(83)
Application of profit/(loss) for 2017	-	-	49,705	(49,705)	-	-	-
Balance at 31 December 2018	105,433	20,000	398,677	29,864	653,975	24	653,999

The accompanying notes 1 to 36 form an integral part of the consolidated annual accounts

REDEXIS GAS, S.A. AND SUBSIDIARIES

Consolidated Statement of Changes in Equity for
the Year Ended 31 December 2017
(Expressed in thousands of Euros)

	Equity attributable to equity holders of the Parent							
	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

The accompanying notes 1 to 36 form an integral part of the consolidated annual accounts.

REDEXIS GAS, S.A. AND SUBSIDIARIES

Consolidated Statement of Cash Flows for
the Year Ended 31 December 2018
(Expressed in thousands of Euros)

	Note	2018	2017
Cash flows from operating activities			
Profit for the year before tax		40,334	50,308
<i>Adjustments for:</i>			
Depreciations and Amortisations	7, 8 and 9	83,518	79,050
Impairment losses on non-current assets		2,417	713
Change in provisions		(290)	(117)
Government grants taken to income		(905)	(738)
Finance income	32	(273)	(486)
Finance costs		33,297	30,726
		158,099	159,456
Changes in working capital			
		(6,270)	36,312
Inventories		(418)	(698)
Trade and Other Receivables		10,779	(7,461)
Other current assets		2,053	41,859
Trade and other payables		(16,674)	2,291
Other current liabilities		669	249
Other non-current assets and liabilities		(2,679)	72
		151,829	195,768
Cash generated from operations			
Interest and commissions paid		(27,603)	(28,697)
Interest received		273	486
Income tax paid		(3,377)	(8,408)
		121,121	159,149
Net cash from operating activities			
Cash flows from investing activities			
Payments for purchases of distribution and LPG assets in use		(6,961)	(721)
Payments for acquisition of property, plant and equipment and intangible assets		(129,181)	(126,147)
		(136,142)	(126,868)
Net cash used in investing activities			
Cash flows from financing activities			
Proceeds from the disposal of financial assets		-	36
Payments for acquisition of financial assets		(456)	-
Payments of loans and borrowings		-	(30,000)
Proceeds from loans and borrowings		693	-
Proceeds from the issue of bonds and other marketable securities		-	249,692
Payments from the issue of bonds and other marketable securities		(3,550)	-
Payments of lease liabilities		(1,342)	(1,202)
Dividends paid		(220,000)	(400)
		(224,654)	218,126
Net cash from financing activities			
Net increase (decrease) in cash and cash equivalents		(239,675)	250,407
Cash and cash equivalents at 1 January		289,416	39,009
Cash and cash equivalents at 31 December		49,741	289,416

The accompanying notes 1 to 36 form an integral part of the consolidated annual accounts.

REDEXIS GAS, S.A. AND SUBSIDIARIES

Notes to 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.

REDEXIS GAS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

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 was 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 was 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.

REDEXIS GAS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

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 18.80% interest in the shareholders of Redexis Gas, S.A. through the acquisition of shares representing such percentage from Goldman Sachs & Co. As a result of this transaction, USS held 30% of the shares of Redexis Gas, S.A. and ATP held 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 held 50.1% of the shares of Redexis Gas, S.A.

Therefore, at 31 December 2017, Redexis Gas, S.A. was (i) 50.10% owned by August 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 ATP.

On 3 April 2018, August Infrastructure UK Limited, a subsidiary of private equity funds managed by Goldman Sachs & Co. as seller, and the companies Chase Gas Investments Limited, a subsidiary of the USS private equity fund; ATP Infrastructure II APS, a subsidiary of ATP; and Guotong Romeo Holdings Limited, a company owned by the funds Guoxin Guotong Fund LLT and CNIC Corporation Limited, as buyers, executed a sale and purchase agreement for 50.10% of the Company shares. This transaction was executed on 20 June 2018, after obtaining the corresponding authorisations from the competition authorities, with (i) Chase Gas Investments Limited acquiring an additional 3.33% of the share capital of the Company, (ii) ATP Infrastructure II APS an additional 13.43%; and (iii) Guotong Romeo Holdings Limited, 33.33%.

Therefore, at 31 December 2018 Redexis Gas, S.A. is 33.33% owned by each one of the following companies: (i) Chase Gas Investments Limited; (ii) ATP Infrastructure II APS; and (iii) Guotong Romeo Holdings Limited.

Notes to the Consolidated Annual Accounts

(2) Basis of Presentation

The consolidated annual accounts for 2018 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 2018 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 2018, authorised for issue on 14 February 2019, 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.

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 for 2018, include comparative figures for the previous year, contained in the Consolidated Annual Accounts for 2017, approved by the shareholders at the General Meeting held on 22 March 2018.

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:

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- 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 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.p).

Considering that the estimates are calculated by the Company's directors based on the best information available at 31 December 2018, 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 were published:

- ✓ IFRS 15 Revenue from contracts with customers- 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 decided to adopt in advance the IFRS 15 Revenue from contracts with customers and the IFRS 16 Leases. Below we describe the effect of both standards on these Consolidated Annual Accounts.

A. IFRS 15 Revenue from contracts with customers.

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 contract with customers (hereinafter IFRS 15) and this IFRS 15 was adopted by the European Union, becoming mandatory for application to annual reporting periods commencing on or after 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.

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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 rental metering equipment and rental and maintaining community receiving facilities, from IRF 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 revenue recognition criteria prior to 1 January 2017. Therefore, no impact was 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 for annual reporting periods commencing on or after 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 a right of use asset. 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 expenditure for the right of use depreciation.

The lease liability is calculated as the present value of the payments for future leases, and the right of use assets are calculated as the lease liability plus the initial direct costs, early lease payments, estimated costs of dismantling 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:

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- (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 right of use asset will be the same amount as 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 reviewed the different contracts held in the Group and 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 Euros 4,579 thousand and a lease liability for the same amount.

C. IFRS 9 Financial instruments

The IFRS 9 Financial Instruments is applicable for annual periods beginning on or after 1 January 2018. The Directors of the Group have calculated and booked the impact of its application on the financial statements of the Group for 2018 (see note 15) and as well as a greater itemisation in the Consolidated Annual Accounts.

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(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.

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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.

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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
Community receiving facilities	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
Motor vehicles	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 of use assets

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

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If the contract transfers the ownership of the asset to the Group at the end of the lease term or the right of use asset 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 right of use asset from the starting date until 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 right of use assets.

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 right of use asset 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 income statement. For all other amendments, the Group adjusts the carrying amount of the right of use asset.

(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.

- Licences

This item reflects the amounts measured by an independent expert on Government Authorisations, from the merger of the Group, for the distribution and transmission of gas in the various areas in which the Parent and the subsidiaries conduct or will conduct their activities, less any impairment, as appropriate.

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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.

- Other intangible assets

This item reflects the amounts incurred by Prior Government Authorisations, subsequently to the merger of the Group, for the distribution and transmission of gas in the various areas in which the Parent and the subsidiaries conduct or will conduct their activities, less any impairment as appropriate for accumulated amortisation and impairment losses. 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.

(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.

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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.

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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, as if no impairment loss had been occurred.

(h) 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, the Group classifies financial instruments as financial assets and liabilities carried at amortised cost.

The Group classifies a financial asset at amortised cost if it remains within the scope of a business model whose purpose is to maintain financial assets to obtain contractual cash flows and the contractual conditions of the financial asset give rise, on specific dates, to cash flows that are only payments of principal and interest on the amount of principal pending.

(i) Offset principles

A financial asset and a financial liability can only be offset when the Group has a legally enforceable right to offset the recognised amounts or intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. In order for the Group to have a legally enforceable right, it should not be contingent on a future event and should be legally enforceable in the ordinary course of operations, in cases of insolvency or of liquidation declared legally and in the event of non-payment.

(ii) Financial assets and liabilities at amortised cost

Financial assets and liabilities at amortised cost are initially recognised at fair value, plus or minus the transaction costs incurred, and are subsequently measured at amortised cost using the effective interest method.

(iii) Reclassifications of financial instruments

The Group reclassifies financial assets when it changes the business model for its management. The Group does not reclassify financial liabilities.

(iv) Impairment

The Group recognises a valuation adjustment in the income statement for anticipated future credit losses of the financial assets measured at amortised cost.

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On each closing date, the Group measures the valuation adjustment in an amount equal to the credit losses anticipated in the following twelve months, for the financial assets for which the credit risk has not increased significantly from the date of initial recognition or when it considers that the credit risk of a financial asset has no longer increased significantly.

The Group considers that the credit risk has increased significantly from initial recognition when non-payments exist for a period greater than 180 days.

(v) Financial asset de-recognitions, modifications and cancellations

Financial assets are de-recognised when the rights to receive cash flows relating to these have expired or have been transferred and the Group has substantially transferred the risks and benefits deriving from their ownership.

(vi) Interest and dividends

The Group recognises interest by the effective interest method, which is the rate adjustment that equals the carrying value of a financial instrument with the estimate cash flows throughout the expected lifetime of the instrument, starting from its contractual conditions and without considering the anticipated credit losses, except for financial assets acquired or originating with losses incurred.

(vii) Financial liability de-recognitions and modifications

The Group de-recognises a financial liability or part thereof when it has complied with the obligation contained in the liability or if it is legally dispensed from the primary responsibility contained in the liability, whether by virtue of a legal process or by the creditor.

(i) 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.

(j) 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.

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

(k) 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.

(l) Government grants and Other liabilities

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.

Other liabilities 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.

(m) 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.

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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.

(n) 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.

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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 dismantling, 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.

(o) Recognition of revenue from contracts with customers

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.

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.

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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/1283/2017 of 22 December regulated 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 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.

Order ETU/1367/2018 of 20 December, regulates the remuneration figures for 2018 and 2017, in keeping with the most up-to-date sales and consumer figures, and establishes an initial forecast of the remuneration for 2019.

This distribution activity remuneration will be adjusted once the final amounts of this Remuneration have been set by the Spanish Ministry for Ecological Transition, 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.

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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 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 2017 price of between 16.3% and 76.7% (depending on the meter).

Order ETU/1367/2018 of 20 December, defined the final interest rates associated with the cumulative deficit at 31 December 2014 and of the imbalances of revenues and costs for the years 2015, 2016 and 2017.

During 2018 the Group received the final settlement for regulated activities in the gas sector for 2017, which had an immaterial impact on the consolidated income statement. Furthermore, the final settlement for 2016, received during 2017, 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 2018 and 2017 in the amount of Euros 975 thousand and Euros 1,543 thousand, respectively (see note 29). In 2018 the measurement differences for 2017 were settled and those for 2016 were settled in 2017.

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 Ministerial 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.

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The remuneration for transmission activity in 2018, including the correction of the remuneration for uninterrupted supply from previous years, was established in Order ETU/1283/2017 in accordance with the parameters established in Spanish 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.

Order ETU/1367/2018 determines the remuneration for transmission activity for 2019, and includes the correction of the remuneration for uninterrupted supply from previous years.

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/1367/2018 published on 20 December adjusted the remuneration for uninterrupted supply for 2018 and 2017 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 for Ecological Transition 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.

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In accordance with article 5 of Order ITC/3128/2011 of 17 November 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 2018 and 2017 at the amount of Euros 770 thousand and Euros 745 thousand, respectively (see Note 28).

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, was set 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. 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% and finally, Order TEC/1367/2018 set the final rate at 1.104%. On 1 December 2017 the Group assigned the credit right it held with respect to this deficit in the amount of Euros 41,656 thousand collected in its entirety.

The 2015 deficit in the gas sector closed the year at Euros 27 million (Euros 1.4 million correspond to the Group), 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. Order ETU/1977/2016 proposed a provisional rate of 0.836% in accordance with the proposal of the CNMC. The interest rate was also revised in Order ETU/1283/2017 to 0.08%. Finally, Order TEC/1367/2018 set the final rate at 0.836%.

The 2016 deficit in the gas sector was set at Euros 90 million (Euros 4.8 million correspond to the Group), 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. Order ETU/1283/2017 proposed

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a provisional interest rate of 0.503%, which was adjusted to a final rate of 0.716% in Order TEC/1367/2018.

Lastly, with respect to 2017, the deficit figure was set at Euros 25 million (Euros 1.4 million correspond to the Group), which the regulated entities will be able to recover in five annual payments (from 29 November 2018 to 28 November 2023) at a final interest rate of 0.923%.

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.

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.

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

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

The payment for renting 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, and revenue is recognised on a straight-line basis over time.

Rental of Community Receiving Facilities (CRF)

The Group collects a rental payment for the community receiving facilities from the owners association without any other type of consideration, therefore the community receiving facilities comprises a single performance obligation.

The payment for renting the community receiving facilities is the price established in the contract signed with the owners association, which sets a fixed monthly price.

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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, and revenue is recognised on a straight-line basis over time.

Inspections of individual receiving facility (IRF).

In this case the service consists of the inspection of the individual receiving facility (IRF), 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 rental of the meter since, as mentioned above, they comply with the definition for consideration as different from each other. 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 with 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.

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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 arranged with the customer to establish the characteristics of the installation to be built and the quantity to be received for the 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 these connection charges 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 less or, where applicable, when their disposal or impairment occurs, since the customer simultaneously receives and consumes the benefits of the service at the same time the Group provides them. The method to be used to measure the percentage of completion is the output method, since the service rendered is similar throughout the period, and revenue is recognised on a straight-line basis over time.

(p) 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.

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(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.

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(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.

(q) 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.

(r) Environment

The Group takes measures to prevent, reduce or repair the damage caused to the environment by its activities.

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Expenses derived from environmental activities are recognised as other operating expenses in the period in which they are incurred. By its nature, the Group's activity does not have a significant impact on the environment and as such no provisions have been recorded for this contingency.

Property, plant and equipment acquired by the Group for long-term use to minimise the environmental impact of its activity and protect and improve the environment, including the reduction and elimination of future pollution from the Group's activities (e.g. the replacement of road surfaces or land related to the laying of pipelines), are recognised as assets, applying the measurement, presentation and disclosure criteria described in note 3 (d).

(4) Sector Regulation

The regulatory framework for the natural gas sector in Spain is based on Hydrocarbon Law 34/1998, in part enacted by Royal Decrees 949/2001 and 1434/2002. The first of these Royal Decrees regulates third-party access to gas facilities and establishes an integrated economic system for the natural gas sector; the second regulates transmission, distribution, trading and supply activities and the authorisation procedures for natural gas facilities.

Over the years, as the sector was gradually liberalised, the aforementioned Hydrocarbon Law was amended on numerous occasions. The most recent amendment was pursuant to Royal Decree-Law 8/2014 of 4 July 2014, which approved urgent measures for growth, competitiveness and efficiency and was subsequently passed by the Spanish parliament and published as Law 18/2014 of 15 October 2014, approving urgent measures for growth, competitiveness and efficiency. The law introduces certain measures that update the regulatory-economic framework, the most salient of which are as follows:

- A reform of the general scheme of revenues and costs of the gas system was undertaken, which is based on the principle of economic sustainability and long-term economic balance, taking into account fluctuations in demand and the level of development of existing infrastructure, while sustaining the principle of adequate remuneration for investments in regulated assets, and security of supply. It therefore establishes the principle of economic and financial sustainability of the gas system, such that any legislation leading to a rise in costs or reduction in revenues must include a reduction in costs or an increase in revenues.
- Certain mechanisms were introduced to restrict any annual temporary imbalances in the settlement system, through the automatic review of tolls when certain thresholds are exceeded. If these thresholds are not exceeded, the imbalances are financed by the parties subject to the settlement system in proportion to their remuneration, generating rights to receivables in the following five years, with a market interest rate set by Ministerial Order.
- With regard to the remuneration of regulated activities, the reform includes the basic principle of considering the necessary costs for an efficient and well-managed company to perform the activity at the lowest cost for the system.
- In line with electricity sector regulations and the need to ensure regulatory stability, regulatory periods of six years were defined, during which the financial rate cannot

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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 (o)) 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, Distribution of LPG and Other Activities.

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.

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The main segment details are as follows:

	31/12/2018				
	Thousands of Euros				
	Distribution	Transmission	LPG	Other activities	Consolidated
Goodwill	54,432	164,440	304	-	219,176
Non-current assets	1,112,597	600,219	147,647	1,883	1,862,347
Current assets	57,765	17,944	40,589	695	116,993
Total assets	1,224,794	782,603	188,541	2,579	2,198,516
Non-current liabilities	770,530	562,359	99,776	1,461	1,434,126
Current liabilities	80,322	18,196	11,506	213	110,237
Total liabilities	850,852	580,556	111,282	1,673	1,544,363
	31/12/2017				
	Thousands of Euros				
	Distribution	Transmission	LPG	Other activities	Consolidated
Goodwill	54,432	164,440	303	-	219,175
Non-current assets	1,069,102	608,897	141,829	1,917	1,821,745
Current assets	226,988	91,447	59,276	1,821	379,532
Total assets	1,350,522	864,784	201,408	3,738	2,420,452
Non-current liabilities	895,959	425,304	113,063	1,661	1,435,987
Current liabilities	103,969	23,053	11,158	1,949	140,129
Total liabilities	999,928	448,357	124,221	3,610	1,576,116

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	31/12/2018				
	Thousands of Euros				
	Distribution	Transmission	LPG	Other activities	Consolidated
Revenue	128,549	61,537	31,293	23	221,402
Other income	6,076	851	595	1,409	8,931
Self-constructed non-current assets	13,062	1,940	677	303	15,982
Supplies	(1,526)	-	(20,092)	-	(21,617)
Employee benefits expense	(28,478)	(6,740)	(925)	(1,437)	(37,580)
Depreciation and amortisation	(63,524)	(13,389)	(8,914)	(109)	(85,936)
Other operating expenses	(17,084)	(6,447)	(4,193)	(100)	(27,824)
Net finance income/(cost)	(19,727)	(9,875)	(3,391)	(31)	(33,024)
Profit/(loss) before tax	17,348	27,876	(4,950)	59	40,334
	31/12/2017				
	Thousands of Euros				
	Distribution	Transmission	LPG	Other activities	Consolidated
Revenue	125,010	62,941	28,342	-	216,293
Other income	2,531	516	95	139	3,281
Self-constructed non-current assets	9,728	1,243	1,134	51	12,156
Supplies	(1,165)	-	(15,656)	-	(16,821)
Employee benefits expense	(20,154)	(5,297)	(2,070)	(7)	(27,528)
Depreciation and amortisation	(58,380)	(13,594)	(7,789)	-	(79,763)
Other operating expenses	(17,664)	(6,534)	(2,753)	(119)	(27,070)
Net finance income/(cost)	(21,113)	(5,618)	(3,509)	-	(30,240)
Profit/(loss) before tax	18,793	33,657	(2,206)	64	50,308

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(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 2018 is an investee of Guotong Romeo Holdings 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 2018 the Parent has issued guarantees amounting to Euros 1,150,000 thousand (1,150,000 thousand in 2017) 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.

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(7) Property, Plant and Equipment

Details of property, plant and equipment and movement during the years ended 31 December 2018 and 2017 are as follows:

	Thousands of Euros						Total
	Land	Buildings	Technical installations and machinery	Other installations, equipment and furniture	Other property, plant and equipment	Under construction and advances	
Cost at 31 December 2017	6,422	6,099	1,764,757	3,431	1,087	36,756	1,818,552
Additions	-	-	6,992	-	-	125,362	132,354
Transfers	854	27	120,083	25	101	(121,090)	-
Disposals	-	-	(1,906)	-	-	(1,638)	(3,544)
Cost at 31 December 2018	7,276	6,126	1,889,926	3,456	1,188	39,389	1,947,362
Accumulated depreciation at 31 December 2017	-	(673)	(624,184)	(2,394)	(741)	-	(627,991)
Depreciation	-	(266)	(76,135)	(214)	(188)	-	(76,804)
Disposals	-	-	628	-	-	-	628
Accumulated depreciation at 31 December 2018	-	(939)	(699,691)	(2,608)	(929)	-	(704,166)
Carrying amount at 31 December 2018	7,276	5,187	1,190,236	849	259	39,389	1,243,196

	Thousands of Euros						Total
	Land	Buildings	Technical installations and machinery	Other installations, equipment and furniture	Other property, plant and equipment	Under construction and advances	
Cost at 31 December 2016	5,774	5,485	1,630,605	3,310	664	55,804	1,701,642
Additions	-	-	-	-	299	118,881	119,181
Transfers	648	614	118,731	17,317	123	(137,433)	-
Disposals	-	-	(1,774)	-	-	(497)	(2,271)
Cost at 31 December 2017	6,422	6,099	1,747,562	20,626	1,087	36,756	1,818,552
Accumulated depreciation at 31 December 2016	-	(460)	(553,331)	(2,180)	(494)	-	(556,465)
Depreciation	-	(213)	(71,018)	(1,560)	(246)	-	(73,037)
Disposals	-	-	1,511	-	-	-	1,511
Accumulated depreciation at 31 December 2017	-	(673)	(622,837)	(3,740)	(741)	-	(627,991)
Carrying amount at 31 December 2017	6,422	5,427	1,124,725	16,886	346	36,756	1,190,561

The most significant additions in 2018 are the following:

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

The most significant additions in 2017 are the following:

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

In 2017 construction of the following pipelines was completed:

- “Villacarrillo-Villanueva del Arzobispo” secondary transmission pipeline
- “Yeles-Seseña” secondary transmission pipeline

At 31 December 2018, property, plant and equipment under construction reflect investments in gas transmission and distribution networks that the Group expects to complete in the coming months.

On 18 October 2018, Cepsa Comercial Petróleo, S.A.U. and the Group executed a framework agreement for the purchase and conveyance of LPG networks and facilities, for an approximate total of Euros 1,000 thousand. The CNMC was formally notified and this Commission issued its authorisation of the transaction, with no reservations, on 22 November 2018. These assets were received in December 2018.

On 28 December 2018 several companies of the Nedgia group and the Group entered into a framework agreement for the purchase and conveyance of LPG networks and facilities serving around 2.6 thousand supply points, for approximately Euros 4,750 thousand. Formal notice has been filed with the CNMC, whose resolution is pending at 31 December 2018. Once the transaction is approved by the CNMC, the reception of the assets will take place.

At 29 December 2016 Cepsa Comercial Petróleo, S.A.U. and the Group 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 was formally notified and this Commission issued its authorisation of the transaction, with no reservations, on 2 February 2017.

At 31 December 2018, the Group has recognised gas plant dismantling costs of Euros 296 thousand under property, plant and equipment (Euros 377 thousand at 31 December 2017). These expenses were determined based on the Group’s best estimate of the market costs of the various physical units involved in dismantling 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 2018 and 2017 is as follows:

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	Thousands of Euros	
	2018	2017
Buildings	96	96
Technical installations and machinery	150,153	127,907
Other installations, equipment and furniture	1,268	1,263
Other property, plant and equipment	612	452
	<u>152,129</u>	<u>129,718</u>

(8) Intangible Assets

Details of intangible assets and movement during the years ended 31 December 2018 and 2017 are as follows:

	Thousands of Euros				
	Licences	Goodwill	Computer software	Other intangible assets	Total
Cost at 31 December 2017	542,914	219,175	32,139	4,724	798,952
Additions	-	-	4,958	859	5,817
Disposals	-	-	-	(42)	(42)
Cost at 31 December 2018	542,914	219,175	37,097	5,541	804,727
Accumulated amortisation at 31 December 2017	-	-	(21,863)	(821)	(22,684)
Amortisation	-	-	(5,300)	(77)	(5,377)
Accumulated amortisation at 31 December 2018	-	-	(27,164)	(898)	(28,061)
Accumulated impairment at 31 December 2017	-	-	-	(29)	(29)
Accumulated impairment at 31 December 2018	-	-	-	(29)	(29)
Carrying amount at 31 December 2018	542,914	219,175	9,934	4,614	776,637

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	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	798,952
Accumulated amortisation at 31 December 2016	-	-	(17,155)	(752)	(17,908)
Amortisation	-	-	(4,708)	(69)	(4,777)
Disposals	-	-	-	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

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 Gas 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 2018 and 2017, by cash-generating unit (CGU), are as follows:

	Thousands of Euros	
	2018	2017
Gas distribution	52,912	52,912
Gas transmission	166,263	166,263
	<u>219,175</u>	<u>219,175</u>

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 2018 and 2017 is as follows:

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	Thousands of Euros	
	2018	2017
Gas distribution	333,493	333,493
Gas transmission	209,421	209,421
	<u>542,914</u>	<u>542,914</u>

The cost of fully amortised intangible assets in use at 31 December 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Computer software	17,434	11,289
Other intangible assets	251	212
	<u>17,685</u>	<u>11,502</u>

(9) Rights for use of assets and lease liabilities

Details and movement in the accounts included in the Rights for use of assets by classes during the years ended at 31 December 2018 and 2017 are as follows:

	Thousands of Euros			
	Buildings	Motor Vehicles	Information Processing Equipment	Total
Cost at 31 December 2017	3,217	1,212	151	4,579
Additions	156	51	56	262
Derecognitions	(48)	(25)	(34)	(106)
Cost at 31 December 2018	3,325	1,238	173	4,735
Accumulated depreciation at 31 December 2017	(895)	(303)	(38)	(1,235)
Depreciation	(945)	(312)	(82)	(1,338)
Disposals	18	-	-	18
Accumulated depreciation at 31 December 2018	(1,821)	(615)	(120)	(2,556)
Carrying amount at 31 December 2018	1,504	623	53	2,180

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	Thousands of Euros			
	Buildings	Motor Vehicles	Information Processing Equipment	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	-	-	-	-
Depreciation	(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 629 thousand (Euros 581 thousand in the previous year) (note 30).

The details and relevant amounts of lease contracts by asset type at 31 December 2018 and 2017 are as follows:

	Thousands of Euros			
	Buildings	IT Equipment	Motor Vehicles	Total
31 December 2018				
Amounts				
Fixed lease payments	1,001	84	328	1,413
Financial expenses for lease liabilities	48	5	18	71
Long term lease liabilities	533	27	321	881
Short term lease liabilities	964	27	315	1,306
Conditions				
Lease term	3 to 4 years	4 years	4 years	

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	Thousands of Euros			
	Buildings	IT Equipment	Motor Vehicles	Total
31 December 2017				
Amounts				
Fixed lease payments	937	40	318	1,295
Financial expenses for lease liabilities	65	3	24	93
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 maturity date of the lease liabilities, including future interest to be paid, is as follows:

	Thousands of Euros	
	2018	2017
Up to six months	675	647
From six months to one year	675	647
From one to two years	963	1,295
From two to three years	-	918
More than four years	-	-
	2,312	3,507

The 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 2019-2033 period. The recoverable amount includes a terminal value calculated from 2033 onwards using an average perpetual growth rate of 2%, as in 2017. A discount rate of 6% was used, the same as the previous year.

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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 and intangible assets with indefinite useful lives recognised at 31 December 2018.

Following a sensitivity analysis entailing different scenarios, impairment of the recoverable amount would only occur if the discount rate were increased by 36.2%, or if the discount rate were increased by 19.9% while the growth rate (g) were simultaneously brought down to zero, over a period of 15 years.

(11) Financial Assets by Category and Class

The classification of financial assets by category and class, is as follows:

	Thousands of Euros			
	Non-current		Current	
	2018	2017	2018	2017
Financial assets at amortised cost				
Loans	2,291	2,216	166	156
Security and other deposits delivered	5,230	4,940	-	-
Other financial assets	152	62	-	438
Finance lease receivables	-	-	159	-
Trade and other receivables				
Trade receivables	-	-	38,956	43,869
Other receivables	5,208	11,112	17,364	23,294
Impairment			(1,130)	(986)
Cash and cash equivalents	-	-	49,741	289,416
Total financial assets	12,881	18,330	105,257	356,187

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The amount of net profits and losses, corresponding to the category of financial assets at amortised cost in 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Finance income at amortised cost	96	94
Impairment losses	(326)	(301)
	(230)	(206)

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 2018 and 2017 are as follows:

	Thousands of Euros			
	2018		2017	
	Non-current	Current	Non-current	Current
Security deposits paid	5,230	-	4,940	-
Loans to related parties	2,291	-	2,216	-
Loans to employees and other	-	166	-	156
Finance lease receivables	-	159	-	-
Other financial assets	152	-	62	438
Total	7,673	325	7,218	594

Security deposits paid correspond essentially to the balances lodged with the Autonomous Regions, deriving from deposits received from customers when a service is arranged, by virtue of the provisions of applicable legislation in force at any given time. These security deposits are maintained for as long as the Group maintains the supply contract with the customer or if the customer maintains the agreement with its supplier and its distribution company is a Group company.

Loans to related parties reflect the loan extended by Redexis Gas Finance, B.V. to the Group 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.

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Thus, the Company is the parent of a new 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:

	2018		
	Thousands of Euros		
	Assets	Liabilities	Net
Property, plant and equipment	1,622	(37,218)	(35,595)
Goodwill	-	(3,692)	(3,692)
Deferred income	-	(3,321)	(3,321)
Intangible assets	-	(61,644)	(61,644)
Provisions	1,108	-	1,108
Amortisation and depreciation	4,290	-	4,290
Personnel remuneration	1,317	-	1,317
Finance costs	22,741	-	22,741
	<u>31,078</u>	<u>(105,875)</u>	<u>(74,797)</u>
Tax loss carryforwards	15,552	-	15,552
Net assets and liabilities	<u>46,629</u>	<u>(105,875)</u>	<u>(59,246)</u>

	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
	<u>35,735</u>	<u>(105,101)</u>	<u>(69,366)</u>
Tax loss carryforwards	16,712	-	16,712
Net assets and liabilities	<u>52,446</u>	<u>(105,101)</u>	<u>(52,655)</u>

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

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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. The tax effects occur as of when merger was entered in the Mercantile Registry on 27 February 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 4,231

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thousand at 31 December 2018 (Euros 5,139 thousand at 31 December 2017). 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. According to this limit, currently contained in art. 16 of Spanish Law 27/2014, net finance costs are deductible up to a limit of 30% of operating profit for the year, or otherwise to an amount of Euros 1 million. At 31 December 2018 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 22,741 thousand (Euros 26,071 thousand at 31 December 2017), of which Euros 20,512 thousand reflect 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 2017 and 2018 tax periods up to a maximum of 25% of taxable income before the offset. In its provisional calculation of income tax for 2018, the tax group has offset tax losses of Euros 4,733 thousand (Euros 8,242 thousand in the definitive income tax return for 2017).

Based on the best estimate of future consolidated profits, recovery of the deferred tax assets is considered probable and they have therefore been recognised in the consolidated statement of financial position.

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

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Details of total current and deferred income tax in relation to items recognised directly in other comprehensive income and in equity during 2018 and 2017 are as follows:

	Thousands of Euros			
	2018		2017	
	Current	Deferred	Current	Deferred
1st application IFRS 9	-	(39)	-	-
Other changes in equity	-	(28)	-	-
Actuarial gains and losses	-	(1)	-	(110)
	-	(67)	-	(110)

Details of the income tax expense are as follows:

	Thousands of Euros	
	2018	2017
Current tax		
Present year	4,762	8,161
Adjustment of prior years	466	(1,061)
Deferred tax		
Origination and reversal of temporary differences	265	(555)
Finance costs	3,331	4,109
Accelerated depreciation and amortisation	(1,518)	(1,524)
Depreciation and amortisation	709	265
Salaries payable	651	(561)
Goodwill	(2,486)	(2,486)
Provisions	(423)	(358)
Income due to reduction of deferred tax liability arising from merger	-	(10,758)
Income tax expense for the year (companies)	5,493	(4,212)
Adjustments and eliminations on consolidation	4,977	4,816
Income tax expense for the year (Group)	10,469	603

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

	Thousands of Euros	
	2018	2017
Current tax	4,762	8,161
Tax loss carryforwards offset and recognised in prior years	(1,183)	(2,061)
Income tax payable for the year (Group)	3,579	6,100
Payments on account during the year	(2,779)	(5,782)
Withholdings	-	-
Current income tax liabilities	800	318

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

	Thousands of Euros	
	2018	2017
Profit for the year before tax	40,334	50,308
Tax at 25%	10,083	12,577
Adjustment of prior years	466	(1,061)
Income due to reduction of deferred tax liability arising from merger	-	(10,758)
Other net movements	(80)	(155)
Income tax expense for the year (Group)	10,469	603

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 2018	
Company / Year	Thousands of Euros
Redexis Gas, S.A. Group / 2011	62,206
Total	62,206

At 31 December 2017	
Company / Year	Thousands of Euros
Redexis Gas, S.A. Group / 2011	66,846
Total	66,846

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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.

During 2018, the taxation authorities inspected the Corporate Income Tax (years 2012 and 2015 inclusive) of Redexis Gas Murcia, S.A.

The Group has accepted the additional taxes raised in the inspection of corporate income tax, resulting in a Euros 159 thousand increase in corporate income tax payable and Euros 613 thousand for a higher amount of distribution assets, for a total amount of Euros 773 thousand plus late payment interest. These amounts have been settled. No penalty proceedings were instituted as a result of the inspection.

In 2016 the taxation authorities carried out an inspection of Corporate Income Tax (2013 and 2014) and Value Added Tax (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 the Corporate Income Tax, resulting in a Euros 9 thousand increase in income tax payable, plus late payment interest. These amounts have been settled.

Using the same criteria, the taxation authorities have settled a reduction of deductible net finance costs generated in 2013 and 2014, carried forward for amounts of Euros 35,295 thousand and Euros 9,379 thousand, as it considered the participating loans extended to the Company to be capital contributions from the Group's shareholders, and therefore does not consider the finance costs accrued in connection with these loans in 2013 and 2014 as tax deductible. The Company deems the proposed adjustment unlawful and filed an administrative appeal and lodged its submissions 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 2010 to 2012 assessments.

During 2015 the taxation authorities conducted an inspection of Corporate Income Tax (for 2010, 2011 and 2012). The taxation authorities 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 considered certain participating loans extended to the Company to be 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, whereupon the Company filed a claim at the National High Court on 9 October 2017. The Company also considers that there are sufficient legal grounds to support the criteria applied by the Group.

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The Group has open to inspection by the taxation authorities the main taxes applicable for the following years:

<u>Tax</u>	<u>Years open</u>
Corporate Income Tax (*) (**) (***)	2014 - 2017
Value Added Tax	2015 - 2018
Personal Income Tax	2015 - 2018
All other applicable Taxes	2015 - 2018

(*) The period for filing corporate income tax is within 25 calendar days following six months after the end of the year, so the Corporate Income Tax corresponding to 2018 will not be open to inspection until 25 July 2019.

(**) Redexis Gas S.A. was the subject of a tax inspection in 2016 in relation to Corporate Income Tax and Value Added Tax (2013 and 2014).

(***) Except Redexis Gas Murcia, S.A., which only has 2016 and 2017 open to inspection.

Nevertheless, the right of the taxation authorities to inspect or investigate unused or offset tax loss carryforwards, and unused or applied deductions to promote the undertaking of certain activities, 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 offset or application was generated. Following that period, the Group should accredit any tax loss carryforwards or deductions by disclosing the settlement or self-assessment and the accounting records, with proof that they were filed at 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 5,933 thousand at 31 December 2018 (Euros 5,514 thousand at 31 December 2017) are primarily LPG inventories, as in 2017.

At 31 December 2018 and 2017, the Group had no commitments to purchase or sell gas.

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Notes to the Consolidated Annual Accounts

(15) Trade and other receivables and other assets

Details of trade and other receivables and other assets are as follows:

	Thousands of Euros			
	2018		2017	
	Non-current	Current	Non-current	Current
Trade receivables	-	39,115	-	43,869
Receivables, settlements pending	5,208	15,409	11,112	21,695
Other receivables	-	1,955	-	1,599
Advances to personnel	-	-	-	-
Less impairment due to uncollectibility	-	(1,130)	-	(986)
Total trade and other receivables	5,208	55,350	11,112	66,177

	Thousands of Euros	
	2018	2017
Public entities		
Taxation authorities, Recoverable VAT	4,452	17,482
Taxation authorities, withholdings	30	29
Other	76	30
Prepayments	1,092	288
Total other assets	5,649	17,830

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

At 31 December 2018 receivables, settlements pending under non-current primarily reflect the cumulative deficit in the gas system attributable to the Group for 2015, 2016, 2017 and 2018, pending collection. The amount corresponding to 2015, 2016 and 2017 was determined in the final 2015, 2016 and 2017 settlements published in November 2016, December 2017 and November 2018 respectively, and the 2018 deficit is an estimate pending publication of the final 2018 settlement.

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.

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Movement in impairment due to uncollectibility is as follows:

	Thousands of Euros	
	2018	2017
Balance at 1 January	(986)	(752)
Endowments for impairment	(421)	(468)
Reversals for impairment	95	168
1st application IFRS 9	(154)	-
Cancellations	337	66
Balance at 31 December	<u>(1,130)</u>	<u>(986)</u>

Past-due unimpaired trade receivables amounting to Euros 63 thousand at 31 December 2018 (Euros 77 thousand at 31 December 2017) reflect balances receivable from local corporations for which no credit risk is foreseen.

(16) Cash and Cash Equivalents

Details of cash and cash equivalents are as follows:

	Thousands of Euros	
	2018	2017
Cash in hand and at banks	49,741	284,416
Short-term deposits in credit institutions	-	5,000
	<u>49,741</u>	<u>289,416</u>

REDEXIS GAS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(17) Equity

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

(a) Capital

At 31 December 2018 and 2017 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 2018, Redexis Gas, S.A. is owned (i) 33.33% by Chase Gas Investments Limited, a subsidiary of the USS private equity fund; (ii) 33.33% by ATP Infrastructure II APS, a subsidiary of the ATP private equity fund; and (iii) 33.33% by Guotong Romeo Holdings Limited, a company owned by the funds Guoxin Guotong Fund LLT and CNIC Corporation Limited.

At 31 December 2017, Redexis Gas, S.A. was (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.

(b) Share premium

This reserve, amounting to Euros 105,433 thousand at 31 December 2018, 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:

	<u>Thousands of Euros</u>	
	<u>2018</u>	<u>2017</u>
Legal reserve	20,000	20,000
Other shareholder contributions	190,135	410,135
Other reserves	<u>208,638</u>	<u>159,038</u>
	<u>418,773</u>	<u>589,173</u>

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.

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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 2018 and 2017, 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 heading includes the payment of dividends in an amount of Euros 220,000 thousand in 2018, described in section (d) (no movement in 2017).

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 2018 other reserves include goodwill reserves amounting to Euros 21,226 thousand (Euros 21,226 thousand at 31 December 2017), 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 2018 and 2017 are as follows:

	Thousands of Euros	
	2018	2017
Redexis Gas, S.A.	380,000	562,911
Redexis Gas Finance, B.V.	2,806	2,384
Redexis Gas Murcia, S.A.	3,745	1,441
Redexis Gas Servicios, S.L.U.	8	(11)
Redexis GLP, S.L.U.	359	(125)
Redexis Infraestructuras, S.L.U.	31,759	22,574
	<u>418,677</u>	<u>589,173</u>

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(d) Dividends

In April 2018 the Parent Company distributed Euros 220,000 thousand in dividends to shareholders, equivalent to Euros 22 per share, against the Company's freely distributable reserves, to shareholders of the Company at 31 December 2017 as detailed in section (a).

The Parent Company did not distribute dividends in 2017.

Furthermore, Redexis Gas Finance, BV distributed a dividend of Euros 400 thousand in April 2017 with a charge to reserves.

(e) Profit/(loss) for the year

Details of profit/loss for the year contributed by each Group company at 31 December 2018 and 2017 are as follows:

	Thousands of Euros	
	2018	2017
Redexis Gas, S.A.	24,525	37,271
Redexis Gas Finance, B.V.	617	434
Redexis Gas Servicios, S.L.U.	86	28
Redexis GLP, S.L.U.	(1,609)	484
Redexis Gas Murcia, S.A.	448	2,303
Redexis Infraestructuras, S.L.U	5,798	9,185
	<u>29,864</u>	<u>49,705</u>

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(18) Financial Liabilities by Class and Category

(a) Classification of financial liabilities by category

A classification of financial liabilities by category and class is as follows:

	Thousands of Euros	
	2018	
	Non-current	Current
Financial liabilities at amortised cost		
Bonds and other listed marketable securities	1,139,476	19,446
Loans and borrowings		
Variable rate	-	141
Fixed rate	158,343	1,624
Security and other deposits received	2,108	-
Other financial liabilities	146	-
Lease liabilities	881	1,261
Total financial liabilities	1,300,955	22,471

	Thousands of Euros	
	2017	
	Non-current	Current
Financial liabilities at amortised cost		
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
Total financial liabilities	1,302,171	21,643

At 31 December 2018 the fair value of loans and borrowings is Euros 137,862 thousand (Euros 153,375 thousand at 31 December 2017) and the fair value of liabilities from issuing bonds and other listed marketable securities at 31 December 2018 is Euros 1,152,576 thousand (Euros 1,189,464 thousand at 31 December 2017). The fair value of the Group's other liabilities is similar to their carrying amount.

Security deposits received essentially correspond to the deposits received from customers when a service is arranged, by virtue of the provisions of applicable

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legislation in force at any given time. These security deposits are maintained for as long as the Group maintains the supply contract with the customer or if the customer maintains the agreement with its supplier and its distribution company is a Group company.

(b) Net losses and gains by financial liability category

Net losses and gains by financial liability category for 2018 comprise finance costs at amortised cost totalling Euros 32,550 thousand (Euros 30,101 thousand in 2017).

(c) Changes in Liabilities arising from Financing Activities

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

	Thousands of Euros			
	Financial liabilities from issues and other securities	Loans and borrowings	Lease liabilities	Total
Carrying amount at 1 January 2017	888,312	189,796	-	1,078,108
Initial application IFRS 16	-	-	4,579	4,579
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
Cash flows	-	-	(1,342)	(1,342)
Other changes	2,428	270	151	2,849
Balance at 31 December 2018	1,139,476	158,343	2,187	1,300,006

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

In April 2014 the Group issued bonds amounting to Euros 650,000 thousand, guaranteed by the Parent, as part of the Euro Medium Term Note (EMTN) programme. The bonds mature on 8 April 2021. The issue price was 99.373% and the annual interest rate is 2.75%, which is payable on 8 April each year. The ranking of this issue is pari passu with the credit facility described in note 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 2018 and 2017 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 2018 was 2.24% (2.44% in 2017).

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(20) Loans and Borrowings

The terms and conditions of loans and borrowings at 31 December 2018 and at 31 December 2017 are as follows:

Type	Currency	Nominal rate	Maturity	2018		
				Thousands of Euros		
				Maximum available	Carrying amount	
Current	Non-current					
Loans and borrowings:						
- Facility Agreement	Euro	(1)	2024	300,000	141(2)	-
- EIB loan 2015	Euro	(3)	2036	160,000	930	158,343
- EIB loan 2017	Euro		(4)	50,000	-	-
- EIB loan 2018	Euro		(4)	75,000	-	-
- Other	Euro		2019		693(5)	
				<u>585,000</u>	<u>1,765</u>	<u>158,343</u>

(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

(5) Balance refundable to financial institutions for annulment of non-recourse factoring, collected from this and the debtor source (Tax Authorities).

Type	Currency	Nominal rate	Maturity	2017		
				Thousands of Euros		
				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	-	-
				<u>510,000</u>	<u>989</u>	<u>158,073</u>

(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

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Details of the nominal amount of loans and borrowings, the maturity tranche and annualised cost at 31 December 2018 and at 31 December 2017 are as follows:

	2018				
(Thousands of Euros)	Extended at arrangement date	Drawn down at	Maturity	Total debt	Available
Type of borrowing		31/12/2018			
FACILITY	300,000	-	2024	-	300,000
EIB 2015	160,000	160,000	2038	160,000	-
EIB 2017	50,000	-	(1)	-	50,000
EIB 2018	75,000	-	(1)	-	75,000
Total	585,000	160,000		160,000	425,000

(1) 20 years from the drawdown

	2017				
(Thousands of Euros)	Extended at arrangement date	Drawn down at	Maturity	Total debt	Available
Type of borrowing		31/12/2017			
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

On 2 November 2017 the Parent arranged 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 facility.

On the other hand, on 14 November 2017 the Company proceeded to cancel the "Facility Agreement" arranged 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 a 20-year maturity as of drawdown (including the first 4-year grace period) with the following repayment and maturity schedule:

	2019	2020	2021	2022	2023 and thereafter
EIB	-	9,412	9,412	9,412	131,765

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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.

Finally, on 19 January 2018, the Group arranged a Euros 75,000 thousand credit facility with the European Investment Bank within the framework of the European Fund for Strategic Investments.

(21) Trade and Other Payables

Details of trade and other payables are as follows:

	Thousands of Euros	
	2018	2017
Suppliers	2,641	5,189
Trade payables	8,271	10,258
Payables, settlements pending	3,442	19,559
Salaries payable	4,619	7,198
Payables for acquisition of non-current assets	65,858	74,451
Total trade and other payables	84,829	116,655

	Thousands of Euros	
	2018	2017
Public entities, other		
Taxation authorities, personal income tax	386	303
Social Security payables	338	321
Public utility rates, taxes and local council payables	2,601	2,032
Total other liabilities	3,325	2,656

Payables, settlements pending at 31 December 2018 primarily include the balances related to provisional settlements pending final settlement by the regulatory body for 2016, 2017 and 2018 (2015, 2016 and 2017 at 31 December 2017).

Payables for acquisition of non-current assets at 31 December 2018 and 2017 mainly reflect payables for acquisitions of property, plant and equipment, primarily for transmission pipelines and the extension of distribution networks.

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

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

	2018	2017
	Days	
Average supplier payment period	58	49
Transactions paid ratio	62	55
Transactions payable ratio	30	24
	Amount (thousands of Euros)	
Total payments made	205,230	180,586
Total payments outstanding	26,855	42,195

(23) Risk Management Policy

Financial risk factors

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

Risks are managed by the Group's finance department in accordance with policies approved by the board of directors. This department identifies, evaluates and mitigates financial risks in close collaboration with the Group's operational units. The board of directors issues policies on global risk management and on specific issues such as interest rate risk and liquidity risk, and authorises the arrangement of long-term financing facilities where applicable, on an individual basis.

Credit risk

Due to its activities and the particular characteristics of the customers in the sector in which it operates, the Group does not have significant concentrations of credit risk.

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The tables below show the ageing of financial assets at 31 December 2018 and 2017:

	2018					Total
	Thousands of Euros					
	Less than 1 month	1 to 3 months	From 3 months to 1 year	1 to 5 years	More than 5 years	
Trade and other receivables, fixed rate	25,247	26,661	3,442	5,208	-	60,558
Other financial assets	-	-	166	-	7,673	7,839
Total assets	25,247	26,661	3,608	5,208	7,673	68,397

	2017					Total
	Thousands of Euros					
	Less than 1 month	1 to 3 months	From 3 months to 1 year	1 to 5 years	More than 5 years	
Trade and other receivables, fixed rate	19,183	27,886	19,108	11,112	-	77,290
Other financial assets	-	-	594	-	7,218	7,811
Total assets	19,183	27,886	19,701	11,112	7,218	85,101

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 425,000 thousand at 31 December 2018 (Euros 350,000 thousand at 31 December 2017, see note 21), which together with cash and cash equivalents, totalling Euros 49,741 thousand at 31 December 2018 (Euros 289,416 thousand at 31 December 2017), are sufficient to settle current liabilities.

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Details of the Group's exposure to liquidity risk at 31 December 2018 and 2017 are shown below. The tables reflect the analysis of financial liabilities by contractual maturity date.

	2018					Total
	Thousands of Euros					
	Less than 1 month	1 to 3 months	From 3 months to 1 year	1 to 5 years	More than 5 years	
Loans and borrowings	693	141	930	37,647	120,696	160,107
Variable rate	-	141	-	-	-	141
Principal	-	-	-	-	-	-
Interest	-	141	-	-	-	141
Fixed rate	693	-	930	37,647	120,696	159,966
Principal	693	-	-	37,647	120,696	159,036
Interest	-	-	930	-	-	930
Trade and other payables	11,990	53,868	-	-	-	65,858
Financial liabilities from issuing bonds and other marketable securities	-	-	19,428	646,549	533,710	1,199,687
Fixed rate	-	-	19,428	646,549	533,710	1,199,687
Principal	-	-	-	646,549	533,710	1,180,259
Interest	-	-	19,428	-	-	19,428
Total liabilities	12,684	54,009	20,358	684,196	654,406	1,425,652

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	2017					
	Thousands of Euros					
	Less than 1 month	1 to 3 months	From 3 months to 1 year	1 to 5 years	More than 5 years	Total
Loans and borrowings	-	59	930	28,235	129,838	159,062
Variable rate	-	59	-	-	-	59
Principal	-	-	-	-	-	-
Interest	-	59	-	-	-	59
Fixed rate	-	-	930	28,235	129,838	159,003
Principal	-	-	-	28,235	129,838	158,073
Interest	-	-	930	-	-	930
Trade and other payables	15,523	101,132	-	-	-	116,655
Financial liabilities from issuing bonds and other marketable securities	-	-	19,428	645,099	527,234	1,191,761
Fixed rate	-	-	19,428	645,099	527,234	1,191,761
Principal	-	-	-	645,099	527,234	1,172,333
Interest	-	-	19,428	-	-	19,428
Total liabilities	<u>15,523</u>	<u>101,190</u>	<u>20,358</u>	<u>673,334</u>	<u>657,072</u>	<u>1,467,477</u>

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 2018 and 31 December 2017 it has not drawn down any financing exposed to interest rate fluctuations. Consequently, there would be no significant impact on the Group's profit or loss or its financial liabilities.

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(24) Provisions for Employee Benefits

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

	Thousands of Euros			
	31/12/2018		31/12/2017	
	Non-current	Current	Non-current	Current
Benefit obligations	4,018	72	3,951	59
Provisions for early retirement benefits	-	-	-	25
Total	4,018	72	3,951	84

(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 2018 and 2017 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 3,965 thousand and Euros 3,847 thousand, respectively.
- Long-service bonuses for serving personnel, totalling Euros 126 thousand and Euros 105 thousand, respectively.
- Health insurance policies for retired personnel, totalling Euros 0 thousand and Euros 33 thousand, respectively.

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

	Other long-term employee benefits	
	2018	2017
Balance at 1 January	3,951	3,401
Personnel expenses	114	108
Finance costs	71	65
Transfers	(82)	(1)
Actuarial gains and losses	(35)	378
Balance at 31 December	4,018	3,951

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:

	2018	2017
Technical interest rate	1.06% - 2%	0.87% - 2%
Annual pension review rate	2%	2%
Expected salary increase rate	2%	2%
Retirement age	60	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 641 thousand in the year ended 31 December 2018 and are included under personnel expenses in the consolidated income statement (Euros 514 thousand in the year ended 31 December 2017, see note 31).

At 31 December 2018 and at 31 December 2017, no accrued contributions were pending.

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(25) Other Provisions

Movement in other provisions in 2018 and 2017 was as follows:

	Thousands of Euros	
	2018	2017
Balance at 1 January	655	645
Charges	50	35
Payments	-	(6)
Applications	(81)	(19)
	<hr/>	<hr/>
At 31 December	624	655

Guarantees

The Group has extended guarantees to various government bodies totalling Euros 45,606 thousand at 31 December 2018 (Euros 40,578 thousand at 31 December 2017) to ensure compliance with its obligations as a company officially authorised to distribute gas in a number of municipalities and to carry out works on public thoroughfares. The Group does not expect any significant liabilities to arise from these guarantees.

(26) Environmental Information

The Group is aware of its responsibility to protect the environment and has undertaken a number of initiatives with this purpose within its area of influence. The Group conducts its activities in full compliance with prevailing environmental legislation.

The Group renders an important energy advisory service to its customers, including active participation in campaigns to replace other energies with natural gas, as well as supporting and facilitating the renewal of facilities, with consequent improvements in energy efficiency and reductions in pollutant emissions.

When so required by law due to the characteristics of the project in question, the Group commissions mandatory reports by independent environmental consultants when carrying out network extension works, and recognises the related costs as an increase in the value of the investment.

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(27) Government grants and other liabilities

Movement in non-refundable government grants and other liabilities is as follows:

Body/Item	Scope	2018				
		Thousands of Euros				
		Balance at 1 January	Additions	Disposals	Amounts transferred to the income statement	Balances at 31 December
Public entities	PE ⁽¹⁾	17,052	-	(309)	(763)	15,980
Connection charges	Private	5,831	542	(554)	(451)	5,368
		<u>22,883</u>	<u>542</u>	<u>(862)</u>	<u>(1,214)</u>	<u>21,348</u>

Body/Item	Scope	2017			
		Thousands of Euros			
		Balance at 1 January	Additions	Amounts transferred to the income statement	Balances at 31 December
Public entities	PE ⁽¹⁾	15,395	2,445	(788)	17,052
Connection charges	Private ⁽²⁾	3,433	3,013	(614)	5,831
		<u>18,828</u>	<u>5,457</u>	<u>(1,403)</u>	<u>22,883</u>

(1) PE: Public entities. (2) At 1 January 2017, net of Corporate Income Tax.

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

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(28) Revenue from Regulated Activities

Details of revenue are as follows:

	Thousands of Euros	
	2018	2017
Remuneration for distribution activities	105,567	99,982
Remuneration for transmission activities	61,950	63,000
One-off adjustment to prior years' transmission revenue	(413)	(59)
Remuneration for transmission and distribution activities	167,104	162,922
Regulated LPG sales	28,374	25,048
Other regulated distribution revenue (connection charges, equipment rental, other services)	25,923	28,323
	<u>221,402</u>	<u>216,293</u>

(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:

	Thousands of Euros	
	2018	2017
Service rendered and/or asset transferred over time		
Gas distribution	105,567	99,982
Gas transmission	61,537	62,941
Sale of LPG	28,374	25,048
Applicant connection charge	451	614
Rental of metering equipment	6,705	10,447
Rental and maintenance of community receiving facilities (CRF)	6,109	4,986
Service rendered and/or asset transferred at a specific time		
Registration fees	3,102	3,236
IRF Inspections	4,550	4,978
Contracting party connection charges	3,862	3,582

(ii) Contract balances

At 31 December 2018 and 2017, the Group has no accounts receivable, customer contract assets or liabilities.

REDEXIS GAS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(29) Other Income

Details of other income are as follows:

	Thousands of Euros	
	2018	2017
Government grants taken to income (note 27)	1,214	1,403
Income from third-party offsets	951	22
Profits associated with property, plant and equipment	838	10
Lease income	595	77
Other income	5,333	1,770
Total	8,932	3,282

(30) Other Operating Expenses

Details of other expenses are as follows:

	Thousands of Euros	
	2018	2017
Operating lease expenses (Note 9)	629	581
Repairs and maintenance	7,679	8,584
Independent professional services	2,573	2,038
Advertising and publicity	1,054	917
Utilities	441	415
Insurance premiums	526	546
Taxes	3,583	3,384
Other expenses	9,890	10,289
Impairment losses / (profit) and uncollectibility of trade and other receivables (note 9)	326	301
Other non-recurrent expenses	1,123	15
	27,824	27,070

Other non-recurrent expenses mainly include LPG shrinkages and self-consumption of previous years.

REDEXIS GAS, S.A. AND SUBSIDIARIES
Notes to the Consolidated Annual Accounts

(31) Employee Benefits Expense

Details of the employee benefits expense for 2018 and 2017 are as follows:

	Thousands of Euros	
	2018	2017
Salaries and wages	21,105	20,633
Social Security payable by the Company	4,165	3,857
Contributions to defined benefit plans (note 24(a))	641	514
Other employee benefits	648	744
Non-recurrent expenses	11,020	1,780
Total	37,580	27,528

Non-recurrent expenses includes part of the remuneration collected in 2018 by the board members with executive functions, as well as by other executives who report directly to the members of the Board of Directors (in total 13 recipients in 2018 and 12 recipients in 2017), including compensation for shareholder interest reorganisation from the creation of the Group through to its effective materialisation in 2018.

The average headcount of the Group in 2018 and 2017, distributed by category, is as follows.

	Number	
	2018	2017
Management	12	12
Technicians	270	249
Administrative staff	48	48
Total	330	309

At the 2018 and 2017 year ends the distribution by gender of Group personnel and the members of the board of directors is as follows:

	2018			2017		
	Male	Female	Total	Male	Female	Total
Board members	7	1	8	7	1	8
Management	6	3	9	7	3	10
Technicians	218	57	275	208	50	258
Administrative staff	18	32	50	18	31	49
Total	249	93	342	240	85	325

REDEXIS GAS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(32) Finance Income and Costs

Details of finance income and costs are as follows:

	Thousands of Euros	
	2018	2017
Finance income	273	486
Interest on loans and borrowings	(3,213)	(3,512)
Interest on bond issues	(29,337)	(26,589)
Other finance costs	(632)	(462)
Finance costs arising from provision adjustments (note 24)	(115)	(164)
Net finance cost	<u>(33,024)</u>	<u>(30,240)</u>

(33) Related Party Balances and Transactions

Details of balances receivable from related parties at 31 December 2018 and 2017 by category, and their main characteristics, are disclosed in note 12. At 31 December 2018 and 2017 there are no balances payable to related parties.

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

	2018		
	Thousands of Euros		
	Shareholders	Key management personnel	Total
Income			
Finance income	78	-	78
	<u>78</u>	<u>-</u>	<u>78</u>
Expenses			
Expenses for			
employee benefits	-	(15,686)	(15,686)
	<u>-</u>	<u>(15,686)</u>	<u>(15,686)</u>

REDEXIS GAS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

	2017		
	Thousands of Euros		
	Shareholders	Key management personnel	Total
Income			
Finance income	75	-	75
	75	-	75
Expenses			
Expenses for employee benefits	-	(7,850)	(7,850)
	-	(7,850)	(7,850)

(34) Information on the Members of the Parent's board of directors and the Group's Senior Management Personnel

At 31 December 2018 the Parent's board of directors comprises eight members – one woman and seven men (eight members – one woman and seven men at 31 December 2017).

The members of the board of directors receive no remuneration for their role on the board, and no balances in this regard are payable to or receivable from these directors in 2018 or 2017. However, remuneration is paid to board members who perform executive duties in the Company.

In 2018, 13 recipients comprising executive board members and other executives who report directly to the board, received remuneration of Euros 17,989 thousand (12 recipients received Euros 5,501 thousand in 2017) which included the payments of both the bonus accrued in 2017 and the bonus accrued from 2015 and 2017, as well as the compensation for shareholder interest reorganisation from the creation of the Group through to its effective materialisation in 2018.

A new three-year bonus plan was implemented in 2015 for the period 2015 - 2017 period. In addition, in 2017 a three-year bonus plan was implemented for the period between 2018 – 2020 and a five-year plan which expires in 2022. In addition, the Company had an incentive plan for the executive board, 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. In this respect, the Group incurred expenses of Euros 101 thousand for 13 recipients in 2018 (Euros 110 thousand for 12 recipients in 2017).

No advances or loans were granted in 2018 or 2017 to executive board members or other directors who report directly to the board, nor were any guarantees extended on their behalf.

REDEXIS GAS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

In 2018 and 2017 neither the members of the board of directors of the Parent nor other directors who report directly to the board 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.

(35) 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 2018 and 2017:

	Thousands of Euros	
	2018	2017
Audit services	239	235
Other audit-related services	31	33
Other services	13	69
	<u>283</u>	<u>337</u>

The amounts detailed in the above table include the total fees for services rendered in 2018 and 2017, irrespective of the date of invoice.

Other companies affiliated with KPMG International invoiced the Group the following fees and expenses for professional services during the years ended 31 December 2018 and 2017:

	Thousands of Euros	
	2018	2017
Other audit services	-	37
Other services	243	48
	<u>243</u>	<u>85</u>

Other auditors invoiced the Group the following fees and expenses for professional services during the years ended 31 December 2018 and 2017:

	Thousands of Euros	
	2018	2017
Other services	185	104
	<u>185</u>	<u>104</u>

REDEXIS GAS, S.A. AND SUBSIDIARIES
Notes to the Consolidated Annual Accounts

(36) Events after the Reporting Period

No relevant subsequent events have occurred after the reporting date.

REDEXIS GAS, S.A. AND SUBSIDIARIES
 Details of Subsidiaries
 at 31 December 2018

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.	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

REDEXIS GAS, S.A. AND SUBSIDIARIES
 Details of Subsidiaries
 at 31 December 2017

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.	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

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REDEXIS GAS, S.A. AND SUBSIDIARIES
 Details of Subsidiaries
 at 31 December 2018 and 2017

2018

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.	Chase Gas Investments Limited ATP, Infrastructure II APS and Guotong Romeo Holdings Limited	-	-

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 and Infrastructure II APS	-	-

CONSOLIDATED DIRECTORS' REPORT

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(1) **Position of the company**

Redexis Gas, S.A. (hereinafter Redexis or the Group) is a full service energy infrastructure company devoted to the development and operation of natural gas transmission and distribution networks, to the distribution and sale of liquefied petroleum gas (LPG) and to the promotion of renewable applications of natural gas and hydrogen.

Its activity is regulated and it is aimed at providing end customers with an optimised, high-quality service that is safe and efficient, while designing, building, maintaining and improving its transmission and distribution infrastructures to ensure the supply of clean and efficient energy.

Its main objectives include:

- Safety: zero accidents.
- Offering an excellent and quality service by means of modern energy infrastructures.
- Operating efficiency based on the adoption of the most advanced technology.
- A Spanish gas sector reference in energy transition.

Its mission is to lead the development and operation of energy infrastructures, maximising growth and efficiency, and decisively contributing toward sustainable development and to the generation of value for users, employees and shareholders.

With more than 680,500 supply points, it facilitates access to natural gas, a source of clean, safe, convenient and efficient energy in 500 municipalities across 27 provinces through more than 10,400 kilometres of its own energy infrastructures throughout ten Autonomous Regions. At the close of 2018, Redexis obtained a license to operate in 607 municipalities in eleven autonomous regions.

Wherever the supply of natural gas is not yet available, Redexis offers an alternative and complementary solution by means of the development of LPG distribution facilities for the channelled transmission of this fuel to the end customer.

The Group is furthermore promoting vehicle gas through investments in new mobility infrastructures.

Redexis opts for growth and connecting with the real needs of society by anticipating changes and taking advantage of the opportunities of a circular, cleaner and more sustainable economy. It is at the forefront and is capable of responding to gas expansion needs with the development of infrastructures based on big data and Artificial Intelligence parameters.

In addition, the Group is concerned with energy transition, and wants to position itself as a leader in the development of new projects that promote clean and renewable energies such as hydrogen, biomethane or photovoltaic energy.

1.1 Basic indicators

Operating data	2018	2017	% Var.
Connection points	680,512	649,653	4.8%
Natural gas (NG) P<4bar	595,067	570,097	4.4%
LPG	85,159	79,278	7.4%
Natural gas (NG) P>4 bar	286	278	2.9%
Provinces served	27	27	
Municipalities served	500	485	
Length of the network (km)	10,498	9,990	5.1%
Distribution network (km)	8,855	8,348	6.1%
Transmission network (km)	1,643	1,643	-
Power distributed (NG + LPG) (GWh)⁽¹⁾	14,800	13,044	13.5%

Note 1: The figure shown for power distributed does not include industrial power (P>60 bar)

At the close of 2018, the Group has 680,512 supply points, 4.8% more than in 2017, which facilitate access to clean, safe, convenient and efficient energy to 500 municipalities distributed over 27 provinces in ten Autonomous Regions in Spanish territory. At 31 December 2018, the total length of the Group network was 10,498 kilometres conveying 34,064 GWh, including the energy distributed in P>60 bars.

Financial information	2018	2017	% Var.
<i>Figures in millions of Euros, except where indicated</i>			
Revenue	244.3	231.8	5.4%
Distribution - regulated	105.6	100.0	5.6%
Other distribution revenues - regulated	25.9	28.3	(8.5%)
Transmission - regulated	61.9	63.0	(1.7%)
Regulated LPG business	28.4	25.0	13.6%
Other operating income	8.9	3.3	169.7%
Self-constructed non-current assets	13.5	12.2	10.7%
EBITDA	169.4	162.2	4.4%
<i>EBITDA margin</i>	<i>69.3%</i>	<i>70.0%</i>	<i>(0.6 p.p.)</i>
<i>EBITDA Margin (with net LPG margin in revenue)</i>	<i>75.6%</i>	<i>75.0%</i>	<i>0.5 p.p.</i>
Total CAPEX	138.4	129.3	7.0%
Distribution	123.1	112.1	9.8%
Transmission	2.2	6.1	(63.9%)
Other purchases (LPG)	7.0	0.7	100%
Intangible Assets	5.8	5.5	5.5%
Right of use assets and others	0.3	4.9	(93.9%)

From a financial standpoint, the Group closed 2018 with revenue growth of 5.4% to Euros 244.3 million.

The consolidated EBITDA of the Group in 2018 amounted to Euros 169.4 million, up 4.4% on the prior year and an EBITDA margin of 69.3% (75.6% if the net margin of LPG is included in Revenue).

Group investments totalled Euros 138.4 million in 2018, of which 94.9% was channelled into organic growth and the rest into the acquisition of LPG supply points from Cepsa.

1.2. Principal activities

Redexis is the parent of a set of energy infrastructure companies devoted to the development and operation of natural gas transmission and distribution networks, to the distribution and sale of liquefied petroleum gas and to the promotion of renewable applications of natural gas and hydrogen.

During 2018, the Group has focused on its core activities:

(a) Distribution

Redexis builds, operates and maintains the distribution facilities required to supply natural gas to different municipalities in Spain.

At the close of 2018, the Group has 595,353 natural gas supply points and a distribution network spanning 7,908 km conveying 14,424 GWh of power (excluding industrial supply and LPG) to 250 municipalities in Spain.

Redexis continues to expand its network to new municipalities in the regions in which it operates. In this regard, the Group has begun to operate in 17 new municipalities and 3 urban centres in the autonomous regions of Andalusia, Aragon, Balearic Islands, Castilla-La Mancha, Castilla y Leon, Madrid and Murcia, and has applied for 23 prior administrative authorisations.

Taking advantage of its experience, Redexis continues to extend and broaden its activity and services in a wager for growth and connecting with the real needs of society. The Group wagers for the development of a network of vehicular natural gas refuelling stations for the use of natural gas as a fuel for both heavy and light vehicles as an economic and sustainable alternative to traditional fuels.

At the close of 2018, Redexis has connected its 8 gas service stations ("gas refuelling stations"), and has also signed an agreement for collaboration with the Mallorca Transport Consortium for the promotion of compressed natural gas (CNG) for the regular interurban transport of passengers in Mallorca. Within this scope, it has also signed an agreement with the Zaragoza Auto-Taxi Cooperative for the construction, start-up and maintenance of a gas refuelling station in Zaragoza, which will enable the regular supply of compressed natural gas (CNG).

In 2018, the Group developed a plan for the implementation of gas refuelling stations on a national level for the 2019-21 period which envisages the construction of more than 80 facilities.

Redexis continues developing artificial intelligence tools that have given way to new possibilities for the creation of value in an endless number of contexts. By means of algorithms and advanced analytics, artificial intelligence is capable of revealing relevant information, previously concealed in enormous databases. All of this enables the

construction of tools that will make it possible to broaden the network more efficiently, to optimise contracting, improve the levels of safety and quality of the supply.

(b) Transmission

Redexis builds, operates and maintains its own network of gas pipelines, supplying natural gas to the areas in which consumption is most concentrated.

At the end of 2018, Redexis had a network of 1,643 km, comprising 51 gas pipelines and transmitting gas at pressures exceeding sixteen bars to industrial hubs and connections with distribution networks.

(c) Liquefied Petroleum Gas (LPG)

Redexis distributes and sells liquefied petroleum gas (LPG), a regulated activity subject to the regime provided by Title IV of Hydrocarbon Law 34/1998.

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.

The Group now has 85,159 LPG supply points in 437 municipalities at the national level, most of them acquired from Repsol in 2015 and 2016 and from Cepsa in 2017 and 2018.

At the close of 2018, Redexis began supplying LPG in a new municipality in Aragon, to which another 14 municipalities should be added as a result of the purchase of LPG points from Cepsa in the autonomous regions of Aragon, Andalusia, Castilla-La Mancha and Extremadura.

Building on its experience, Redexis converts these LPG supply points into natural gas points. These conversions take place gradually, taking into account certain technical and regulatory criteria.

In 2018, Redexis closed an agreement with Nedgia for the purchase of over 2,800 LPG points in the provinces of Gerona, Alicante, Valencia, Leon, Salamanca and Teruel, commencing its activity in the province of Valencia.

The Group has also closed an agreement with Cepsa by which it acquired more than 500 additional LPG points in Aragon and Castilla y Leon, where it was already operating.

1.3 Corporate and shareholding structure

Redexis, with corporate headquarters in Madrid and 334 employees at the close of 2018, is equally owned by two European pension funds, Universities Superannuation Scheme ("USS") and Arbejdsmarkedets Tillægspension ("ATP"), and by the financial investors Guoxin Guotong Fund LLP ("GT Fund") and CNIC Corporation Limited ("CNIC") that hold a joint stake.

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

The close of the purchase took place on 20 June 2018, resulting in the following Redexis Gas, S.A. shareholding structure: ATP 33.3%, USS 33.3% and GT Fund and CNIC 33.3% jointly.

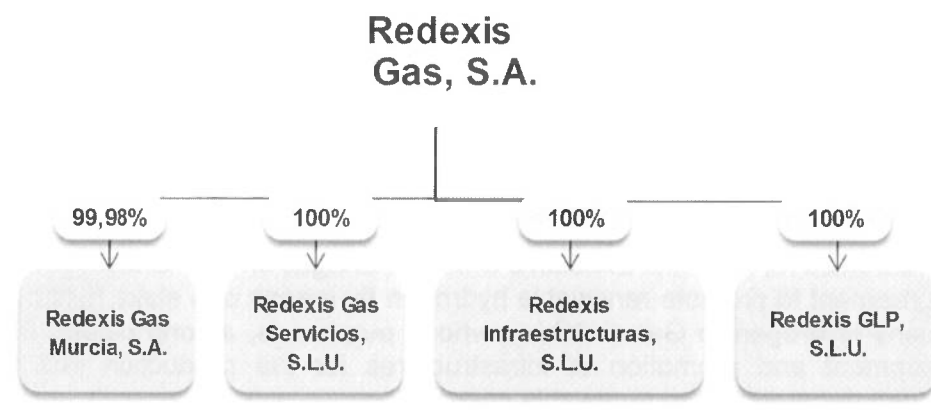
On the other hand, in recent years, the Group has modified its structure for the purpose of rendering its operations with greater efficiency.

On 8 March 2018, the Chief Executive Officer of Enagás and the Chairman of Redexis signed an agreement to promote renewable hydrogen by means of a stake held by Redexis in the company Hydrogen to Gas (H2Gas), whose purpose is, among others, the technological development and promotion of infrastructures for the production and transmission of hydrogen generated from renewable energies.

Under the brand "H2Gas", Enagás, with 60% of the company and Redexis with the remaining 40%, work together, among other activities, on the advancement and development of the introduction of renewable hydrogen in the gas transmission and distribution networks, contemplating the use of "Power to Gas" technologies that enable the generation of hydrogen from water and electricity and its injection into the gas pipeline network, whether directly or converted into synthetic natural gas or biomethane.

At the close of 2018, the corporate structure of Redexis is:

Redexis Group Structure



1.4 Business model and strategy

The purpose of the strategy defined by Redexis is to design, construct, operate and maintain energy infrastructures and to promote renewable applications of natural gas and hydrogen by means of a long-term sustainable project. Under this scenario, the Group focuses its strategy on the following priorities:

- Balanced and sustainable growth.
- Operational excellence.
- Innovation.
- Risk Management.
- Commitment to create value for society and to preserve the environment.

This strategy allows Redexis to adapt to the changes from a circular, cleaner and sustainable economy.

(2) Business evolution and results

2.1. Key milestones in 2018:

- Attractive growth in its distribution and LPG businesses.
- More than 27,000 organic supplies in 2018, attaining an increase of 4.8% in supply points compared to 2017.

- Development of new channels and reinforcement of the recruitment team that assists in accelerating the growth of Group activity and in recruiting new supply points for the networks deployed.
- Significant growth of the industrial sector that opts for gas as an efficient, affordable and clean energy source.
- Improvement in operating efficiency thanks to the innovation of the processes and technology based on advanced artificial intelligence tools.
- New shareholding structure equally distributed among ATP, 33.3%, USS, 33.3% and GT Fund and CNIC, 33.3% jointly, that supports the strategic plan of the Group as well as its financial policy.
- New loan of Euros 125 million with the European Investment Bank (EIB) to finance gas distribution projects in Spain in the 2018-2019 period.
- Driving force of the Spanish gas sector in the energy transition, developing projects in accordance with a cleaner and sustainable circular economy.
- Development of vehicular natural gas (VNG) refuelling stations, promoting its demand as an alternative fuel in transportation.
- Agreement with Enagás to promote hydrogen by means of the creation of “H2Gas”, whose objective is the technological development and the promotion of hydrogen production and transmission infrastructures generated from renewable energies.
- Modification of the Integrated Management System for its adaptation to the new requirements of ISO 14001:2015 environmental management systems and the implementation of ISO 50001:2011 on energy management to increase energy efficiency and reduce environmental impacts.
- Verification of the Group carbon footprint during December 2018.
- Approval of the II Collective Agreement of the Group, whose application will remain in force through 31 December 2021.

2.2. Analysis of results

Key indicators:

Key financial indicators	2018	2017	Var.	%
Figures in millions of Euros				
Revenue	221.8	216.4	5.5	2.5%
Regulated distribution revenue	105.6	100.0	5.6	5.6%
Other regulated distribution revenue	25.9	28.3	(2.4)	(8.5%)
Regulated transmission revenue	61.9	63.0	(1.1)	(1.7%)
Regulated LPG business	28.4	25.0	3.3	13.2%
Other operating income	8.9	3.3	5.6	169.7%
Self-constructed non-current assets	13.5	12.2	1.4	11.5%
Total Income	244.3	231.8	12.5	5.4%
Supplies	(21.6)	(16.8)	(4.8)	28.6%
Employee benefits expense	(26.6)	(25.7)	(0.8)	3.1%
Other recurrent operating expenses	(26.7)	(27.1)	0.4	(1.5%)
EBITDA	169.4	162.2	7.2	4.4%
Non-recurring revenue adjustment for Transmission from prior years	(0.4)	(0.1)	(0.4)	400.0%
Other non-recurrent operating expenses	(1.1)	(0.0)	(1.1)	N/A
Non-recurrent workforce expenses	(8.6)	(1.8)	(6.8)	377.8%
Impairment losses on non-current assets	(2.4)	(0.7)	(1.7)	242.9%
Depreciation and amortisation	(83.5)	(79.0)	(4.5)	5.7%
Earnings before interest and taxes (EBIT)	73.4	80.5	(7.2)	(8.9%)
Net finance income/(cost)	(33.0)	(30.2)	(2.8)	9.3%
Earnings before tax (EBT)	40.3	50.3	(10.0)	(19.9%)
Income tax (expense)/revenue	(10.5)	(0.6)	(9.9)	N/A
Profit/(loss) for the year	29.9	49.7	(19.8)	(39.8%)

Note 1: Redexis Gas 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 2017 income tax expense included income due to reduction of deferred tax liabilities arising from the merger (for increased deductibility of goodwill) as explained in note 13, Income Tax.

At the end of 2018, Redexis Gas recorded revenues of Euros 244.3 million, an increase of 5.4% on 2017, primarily due to its regulated activities.

Distribution revenues continue to improve with respect to last year, by 5.6%, to Euros 105.6 million, essentially as a result of a higher number of connection points in existing and newly added municipalities.

Redexis Gas track record and the results it has achieved to date reflect its excellent capacity to face future challenges, reinforcing its growth strategy and supporting continued investment in rolling out new energy networks in Spain, as well as new business lines and value-added services relating to natural gas.

(3) Liquidity and capital resources

3.1. Debt structure

The objectives of the Redexis financial strategy are to maintain the investment grade, diversify sources of financing, reduce the cost of financing, increase flexibility and extend the maturity profile of the debt.

In these past few years, the Group has proven its ability to access capital markets by means of bank facilities, bond issues and loans with the EIB.

Instrument	Ratio	Issue date	Principal (€m)	Capital drawn at 31 December 2018 (€m)	Maturity	Coupon
EIB	Loan	Fixed	December 2015	160	160	2036
		Fixed / Variable	January 2018	125	-	20 years following drawdown
Financial Market	Bonds	Fixed	April 2014	650	650	2021 2.75%
		Fixed	December 2017	500	500	2027 1.88%
Credit financing	Revolving Capex Facility	Variable	November 2017	300	-	2024
Total			1,735	1,310		
Cash and cash equivalents					50	
Net debt					1,260	

In January 2018, Redexis agreed on a new loan with the EIB in the amount of Euros 125 million within the framework of the European Fund for Strategic Investments (EFSI), allocated toward the development of natural gas distribution networks in Spanish territory.

At the close of 2018, the net debt of the Group amounts to Euros 1,260 million.

Redexis has liquidity and sufficient financial resources to ensure its growth, address its future investments and to be prepared for debt maturities.

3.2. Credit rating

On 20 November 2018 the credit rating agency Standard & Poor's assigned Redexis a rating of BBB- with a stable outlook and investment grade category.

Warning: the above rating may be reviewed, suspended or withdrawn by the rating entity at any time.

(4) **Events after the reporting period**

Events after the reporting period are described in note 36 to the consolidated annual accounts.

(5) **Information on outlook**

Gas is and will continue to be the most competitive and clean source of energy for the financial viability of homes, businesses and industries. It is key to achieving a cleaner and sustainable circular economy. According to the Reports of the Energy Transition Experts Committee, gas will gain prominence in the next decade.

As a benchmark energy infrastructures company, leader in efficiency and firmly committed to its users, employees and shareholders, Redexis wagers for a move toward a more sustainable and efficient business model with the development of a business model whose objective is to address the new challenges facing the energy sector.

Redexis forms part of the energy transition. In coming years, the Spanish gas sector will continue promoting, developing, operating and maintaining gas infrastructures in Spain, and offering alternative and complementary solutions based on an innovation model that seeks to provide a response to the technological changes with advanced artificial intelligence tools.

Furthermore, the Group has a flexible infrastructure that adapts to the development of renewable energies without the need for additional investments, which makes it relatively easy to diversify the supply sources, increasing and improving the security of supply to Spanish homes and industries.

Its activity is regulated and 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.
- Growth of the LPG business, complementary to the distribution of natural gas
- Growth opportunities arising in this phase of energy transition, promoting clean and renewable energies such as vehicular natural gas (VNG), hydrogen, biomethane or photovoltaic energy.
- Improvement in operating efficiency thanks to the innovation of new technologies that make it possible to develop infrastructures more efficiently.
- Development of increasingly demanding health and safety and environmental standards.

(6) **Main risks associated with Redexis activities**

Just like any other company or group of operating companies, the Redexis Group is exposed to several risks inherent to the sector, to the markets in which it operates and to the activities it performs that, were they to materialise, could prevent the attainment of its objectives and the successful execution of its strategies.

Redexis has opted for a control and risk management model that makes it possible to adapt

to the economic context and to the business activity of the Group, in order to be able to respond to any risks that it may face.

Therefore, on 25 October 2018 the Redexis Board of Directors resolved to establish an Audit and Risk Committee composed of three members, all non-executive directors of the Group. The members were appointed by the Board, and accepted the post.

The tasks of this Committee include overseeing activity and risk management, reviewing policies and practices regarding this management, as well as ensuring the ability of the company to identify new risks. This Committee will in turn inform the Board of Directors regarding the reports received, their adequacy and need. In addition, the Committee will monitor the effectiveness of the Group's risk management.

(7) **Human resources**

At the end of December 2018, Redexis had a total of 336 employees while the average headcount for the year was 330.

In 2018, the Group signed a new Collective Agreement with the UGT and CCOO trade unions to improve the working, economic, operational and social benefit conditions of its employees, which will be applicable through 31 December 2021.

(8) **Own shares**

Redexis did not hold any own shares at 31 December 2018, nor did it perform any transactions with own shares during 2018.

(9) **Financial instruments**

The risk management policy is explained in note 23 to the consolidated annual accounts.

(10) **Innovation model**

Redexis opts for innovation, development, sustainability and contribution to the quality of life of society. It designs solutions to improve its service, in keeping with the objective to promote the gas sector in Spain and play a significant role in energy transition.

In response to the new challenges and opportunities posed by the present situation, it has implemented an innovation model that seeks to respond to the technological changes in the sector, encouraging an innovative culture within the Group.

By means of the introduction of new technologies and the development of new business projects, it seeks to become a more effective and efficient Company.

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.

In 2017, Redexis developed artificial intelligence tools that were implemented in the business in 2018, and that have given way to new possibilities for the creation of value in an endless number of contexts. By means of algorithms and advanced analytics, artificial intelligence is capable of revealing relevant information, previously concealed in enormous databases. All of this makes it possible to build tools to optimise worker decision-making time and to improve the results by generating new channels of continuous growth.

It is not just immersed in new artificial intelligence applications in its business processes, but is also working on the hybridisation with other new technologies, such as augmented reality or robots to multiply the capabilities of artificial intelligence in order to generate value.

In addition, the Group supports the development of innovation projects in cooperation with other entities for the purpose of implementing innovative technologies to improve the competitiveness of small and medium-sized enterprises.

Likewise, Redexis adapts to the existing reality and is capable of anticipating changes, taking advantage of opportunities tied to a circular, cleaner and sustainable economy:

- Wager for the development of vehicular natural gas (VNG) refuelling stations, promoting its demand as an alternative fuel in transportation, and providing an integral and comprehensive solution to transport fleet companies or individuals.
- It develops initiatives for the application of hydrogen to its infrastructure network. In March 2018, the Group signed an agreement with Enagás to promote hydrogen by means of the creation of “H2Gas”, whose objective is the technological development and the promotion of hydrogen production and transmission infrastructures generated from renewable energies. The project contemplates the use of “Power to Gas” technology, which enables the generation of hydrogen from water and electricity and its injection into the gas pipeline network, whether directly or converted into synthetic natural gas or biomethane.
- It promotes initiatives for production of biomethane and the injection into its gas pipeline network in collaboration with organic waste processing administrations, technicians and companies.

(11) Environmental protection

As a company devoted to the development and operation of energy infrastructures in Spain, Redexis renders an important service to its customers: it places clean energy at their disposal with a series of functional, financial and environmental advantages vis-à-vis other types of fuel.

In spite of all these advantages, Redexis strives to minimise social costs with regard to environmental aspects and the negative effects that this may cause, undertaking projects that go beyond compliance with legal requirements and other environmental requirements that it voluntarily adopts, involving its suppliers and promoting the responsible use of energy.

The Group strategy maintains its commitment to the protection of the environment. It is one of its pillars and a factor of competitiveness. To be aware of the environmental impact of its operations and to develop a company culture that reduces environmental impact as much as possible is paramount for Redexis.

This commitment is assumed and fostered through the environmental policy of the Group by means of which the principles to be followed are established to advance in the improvement of its environmental management.

During the first half of 2018, Redexis amended its Integrated Management System for its adaptation to the new requirements of ISO 14001:2015 environmental management systems and implemented the ISO 50001:2011 energy management system.

This process involved the amendment of the entire system, including the environmental policy with another for energy management, the environment and occupational health and safety management, the definition of new objectives and environmental aspects and the preparation of new environmental indicators adapted to the Group.

Given the opportunities for improvement revealed during this process, in 2018 Redexis implemented ISO 5001:2011 on energy management to increase energy efficiency and reduce environmental impacts.

In the course of 2018, 10 environmental audits were performed, internal as well as external, to improve the processes.

At the close of 2018, Redexis has the ISO 14001: 2015, environmental management system, the ISO 50001: 2011, energy management system, and the OHSAS 18001: 2007, the occupational health and safety management system.

In addition, in December 2018 the Group obtained the carbon footprint, surpassing the verification with no reservations and with the declaration of a positive opinion by an external and independent entity.

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.