Nortegas Energía Distribución, S.A.U. and subsidiaries

Consolidated Annual Accounts
Eight-month period ended 31 December 2017

Consolidated Directors' Report
Eight-month period ended 31 December 2017

(With Independent Auditor's Report Thereon)

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

Independent Auditor's Report on the Consolidated Annual Accounts

To the Sole Shareholder of Nortegas Energía Distribución, S.A.U.

Opinion

We have audited the consolidated annual accounts of Nortegas Energía Distribución, S.A.U. (the "Company") and its subsidiaries (together the "Group"), which comprise the consolidated balance sheet at 31 December 2017, and the consolidated profit and lost and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the eight month period then ended, and consolidated notes.

In our opinion, the accompanying consolidated annual accounts give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of the Group at 31 December 2017 and of its consolidated financial performance and consolidated cash flows for the eight month period 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.

Reverse merger – Business combination (see notes 1, 3.b. and 4 to the consolidated annual accounts)

On 27 July 2017, the Group was acquired by Nature Gasned, XXI S.L.U. through the contribution of Euros 1,005 Million. This led to the recognition of goodwill amounting to Euros 46 Million. As a consequence of the reverse merger detailed in the note 1 to the consolidated annual accounts and In accordance with IFRS 3 "Business Combinations", the acquirer must measure the identifiable assets acquired and liabilities assumed at their fair value at the date of acquisition, with the exceptions permitted under this standard.

The measurements referred to in the previous paragraph require the use of complex valuation techniques, assumptions and estimates.

Our audit procedures comprised, among others, the understanding and analysis of the valuation techniques used by the experts employed by the Group and comparison with generally accepted practices, the evaluation of the reasonableness of the main assumptions used, including discount rates, the evaluation of the reasonableness of the measurements made, including those applied for the purposes of determining acquisition cost, the verification of the calculations used in the different models, the evaluation of the independence and professional competence of the external experts employed by the Group and the analysis of compliance with the disclosure requirements established in IFRS-EU.

Impairment of non-current assets (see notes 2.c, 3.h. and 8 to the consolidated annual accounts)

The principal activities of the different businesses included in the consolidated annual accounts of the Group are related to the distribution of natural gas and the distribution and sale of liquefied petroleum gas, and therefore the balances recognized under intangible assets and property, plant and equipment are highly significant. Furthermore, the consolidated annual accounts include goodwill amounting to Euros 46 million and other non-current assets, assigned to the Cash Generating Units (CGUs) in accordance with IFRS-EU, of equally significant amounts.

IFRS-EU determine the need to carry out an analysis of the recoverable amounts of the assets referred to in the previous paragraph in those cases in which indications of impairment were identified. Goodwill and intangible assets with indefinite useful lives are not amortized, but are instead tested for impairment at least on an annual basis. The calculation of the recoverable amount of noncurrent assets indicated in the preceding paragraphs is determined through the use of methodologies based on discounted cash flows, the estimation of which is subject to uncertainty and which therefore

Our audit procedures comprised, among others, the identification of the reasonableness of the grouping levels used to place assets in CGUs for the purpose of analyzing impairment, the evaluation of the existence of indications of impairment that would have required an analysis of the recoverability of the assets, the analysis and understanding of the models used by the Company in the calculation of the recoverable amounts of CGUs for which impairment analysis was required, the evaluation of the reasonableness of the main assumptions used in determining the recoverable amounts of these CGUs through the involvement of our specialists, the analysis of the reasonableness of the use of projection periods used by the Company in order to comply with the requirements of IFRS-EU and the analysis of compliance with the disclosure requirements established in IFRS-EU.

Other Information: Consolidated Directors' Report

Other information solely comprises the eight month period ended December 31, 2017 Consolidated Directors' Report, the preparation of which is the responsibility of the Company's Directors and which does not form an integral part of the consolidated annual accounts.

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

Based on the work carried out, as described in the preceding paragraph, the information contained in the consolidated directors' report is consistent with that disclosed in the consolidated annual accounts for eight month period ended December 31, 2017 and the content and presentation of the report are in accordance with applicable legislation.

Directors' Responsibility for the Consolidated Annual Accounts

The Parent's Directors are responsible for the preparation of the accompanying consolidated annual accounts in such a way that they give a true and fair view of the consolidated equity, consolidated financial position and consolidated financial performance of the Group in accordance with IFRS-EU and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

From the significant risks communicated to the Directors of Nortegas Energía Distribución, S.A.U., 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

(Signed on original in Spanish)

Estibaliz Bilbao Belda
On the Spanish Official Register of Auditors ("ROAC") with No. 16109
April 4, 2018

Nortegas Energía Distribución, S.A.U.

and Subsidiaries

Consolidated Annual Accounts
Eight-month period ended 31 December 2017
Consolidated Directors´ Report
Eight-month period ended 31 December 2017

NORTEGAS ENERGÍA DISTRIBUCIÓN, S.A.U. AND SUBSIDIARIES

Consolidated Balance Sheet
for the eight-month period ended 31 December 2017 and one-month period ended 30 April 2017
(Expressed in thousands of Euros)

Translation of consolidated annual accounts originally issued in Spanish and prepared in accordance with IFRS as adopted by the European Union (see Note 38). In the event of a discrepancy, the Spanish-language version prevails.

Assets	**Note**	**31 December 2017**	**30 April 2017 (unaudited)**
Property, plant and equipment	7	1,065,843	-
Goodwill	4 & 8	45,910	-
Other intangible assets	8	1,527,279	-
Equity-accounted investees	9	666	-
Other non-current financial assets	11 & 12	6,535	-
Deferred tax assets	14	24,690	-
Total non-current assets		**2,670,923**	**-**
Inventories	3 (l)	5,298	-
Trade and other receivables	11, 12 & 15	93,330	-
Other current financial assets	11 & 12	212	-
Other current assets	16	4,139	-
Cash and cash equivalents	17	130,534	3
Total current assets		**233,513**	**3**
Total assets		**2,904,436**	**3**

Equity and Liabilities	**Note**	**31 December 2017**	**30 April 2017 (unaudited)**
Capital	18	100,000	100,000
Share premium	18	814,183	-
Reserves	18	(91,773)	(99,997)
Other contributions from business partners	18	196,941	-
Profit for the period	18	11,988	-
Total equity		**1,031,339**	**3**
Deferred income	28	1,242	-
Provisions for risks and expenses	26	3,929	-
Financial liabilities from issuing bonds and other marketable securities	19, 20 & 22	1,291,899	-
Other financial liabilities	19, 20 & 21	129,584	-
Other liabilities	-	4,633	-
Deferred tax liabilities	14	348,646	-
Total non-current liabilities		**1,779,933**	**-**
Financial liabilities from issuing bonds and other marketable securities	19, 20 & 22	5,419	-
Financial liabilities with credit institutions	19 & 20	50	-
Other financial liabilities	19, 20 & 21	3,299	-
Trade payables and other payables	19, 20 & 23	59,867	-
Tax liabilities on current earnings	14	6,728	-
Other current liabilities	29	17,801	-
Total current liabilities		**93,164**	**-**
Total equity and liabilities		**2,904,436**	**3**

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

NORTEGAS ENERGÍA DISTRIBUCIÓN, S.A.U. AND SUBSIDIARIES

Consolidated Profit and Loss and other Comprehensive Income
for the eight-month period ended 31 December 2017 and one-month period ended 30 April 2017
(Expressed in thousands of Euros)

Translation of consolidated annual accounts originally issued in Spanish and prepared in accordance with IFRS as adopted by the European Union (see Note 38). In the event of a discrepancy, the Spanish-language version prevails.

	Note	31 December 2017	30 April 2017 (unaudited)
Revenue	30	91,317	-
Other income		5,947	-
Capitalized staff costs		3,126	-
Supplies	30	(7,432)	-
Personnel expenses	32	(12,807)	-
Other expenses	31	(12,486)	-
Operating profit before depreciation		**67,665**	**-**
Depreciation expense	7 & 8	(38,858)	-
Operating profit		**28,807**	**-**
Financial income	33	230	-
Financial expense	33	(12,691)	-
Share in profits / (losses) of equity-accounted investees	9	57	-
Profit / (Loss) before taxes from continuing activities		**16,403**	**-**
Income tax (expense) / income	14	(4,415)	-
Profit / (Loss) for the period from continuing activities		**11,988**	**-**
Profit / (Loss) for the period		**11,988**	**-**
Total compressive income for the period		**11,988**	**-**

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

NORTEGAS ENERGÍA DISTRIBUCIÓN, S.A.U. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity
for the eight-month period ended 31 December 2017 and one-month period ended 30 April 2017
(Expressed in thousands of Euros)

Translation of consolidated annual accounts originally issued in Spanish and prepared in accordance with IFRS as adopted by the European Union (see Note 38).
In the event of a discrepancy, the Spanish-language version prevails.

	Equity attributed to holders of equity instruments of the parent					
	Capital	**Share premium**	**Merger reserve**	**Profit for the period**	**Other contributions from business partners**	**Total equity**
Incorporation of the company (Notes 1,4,18)	100,000	-	(99,997)	-	-	3
Balance at April 30, 2017 (unaudited)	**100,000**	**-**	**(99,997)**	**-**	**-**	**3**
Total compressive income for the period	-		-	11,988	-	11,988
Business combination (Notes 4, 18)	-	814,183	8,224	-	-	822,407
Contributions from business partners	-	-	-	-	196,941	196,941
Balance at December 31, 2017	**100,000**	**814,183**	**(91,773)**	**11,988**	**196,941**	**1,031,339**

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

NORTEGAS ENERGÍA DISTRIBUCIÓN, S.A.U. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
for the eight-month period ended 31 December 2017 and one-month period ended 30 April 2017
(Expressed in thousands of Euros)

	Note	31.12.2017	30.04.2017 (unaudited)
Cash flows from operating activities:			
Profit for the period before tax		**16,403**	**-**
Adjustments for:		**55,051**	**-**
Amortisation and depreciation	**Notes 7 & 8**	38,858	-
Impairment		210	-
Change in provisions		3,591	-
Grants recognised in the income statement	**Note 28**	(15)	-
Proceeds from disposal of fixed assets		3	-
Finance income		(230)	-
Finance costs		12,691	-
Share of profit of equity-accounted investees		(57)	-
Changes in operating assets and liabilities		**(37,307)**	**-**
Inventories		(963)	-
Trade and other receivables		225,582	-
Other current assets		(2,114)	-
Other current liabilities		9,036	-
Trade and other payables		(264,520)	-
Other cash flows from operating activities		**(10,436)**	**-**
Interest paid		(1,717)	-
Interest received		230	-
Income tax paid		(8,949)	-
Cash flows from operating activities		**23,711**	**-**
Cash flows from investing activities			
Payments for investments		**(774,175)**	**-**
Change in cash due to modification of the consolidation perimeter	**Note 4**	(764,305)	-
Intangible assets	**Note 8**	(4,032)	-
Property, plant and equipment	**Note 7**	(5,838)	-
Proceeds from sale of investments		**51,739**	**-**
Property, plant and equipment		29	-
Other financial assets		51,710	-
Cash flows from investing activities		**(722,436)**	**-**
Cash flows from financing activities			
Proceeds from and payments for equity instruments		**826774**	**3**
Capital Increase		822,407	3
Other contributions from business partners		4,367	-
			-
Proceeds from and payments for financial liability instruments		**2,482**	**-**
Issue		1,428,610	-
Group companies and associates	**Note 21**	127,303	-
Issues and dispositions of financial debt		1,300,000	-
Grants, donations and bequests received		1,175	
Other		1,307	-
Redemption and repayment of		(1,427,303)	-
Financial debt redemption		(1,427,303)	-
Cash flows from financing activities		**829,256**	**3**
Net increase/decrease in cash and cash equivalents		130,531	3
Cash and cash equivalents at beginning of period		3	-
Cash and cash equivalents at period end		**130,534**	**3**

1. Nature, Activities and Composition of the Group

Nortegas Energía Distribución, S.A.U. (formerly Naturgas Energía Distribución, S.LU.) (hereinafter the Company or the Parent) was incorporated with limited liability under Spanish law on 31 December 2003 under the name of Naturcorp Redes, S.A.U. In 2005 it changed its name to Naturgas Energía Distribución, S.A.U.

On 27 July 2017 the sole shareholder approved, among other things, a change in the Company's name from Naturgas Energía Distribución, S.A.U. to Nortegas Energía Distribución S.A.U.

Nortegas Energía Distribución, S.A.U. is the Parent of a group of companies, the principal activities of which are as follows:

a) The distribution of natural gas, including the construction, operation and maintenance of distribution facilities used to transmit natural gas from the transmission networks to consumption points.

b) The construction, maintenance and operation of secondary transmission network facilities for natural gas, in order to facilitate the transmission of natural gas to distribution networks or to end consumers, where appropriate.

c) The provision of services considered to be ancillary to supplies, to natural gas suppliers and end users.

d) The activity of acquisition, import, storage, bottling, all manner of industrial handling, transport, distribution and supply of liquefied petroleum gas, and the acquisition, manufacture, distribution and supply of all machinery and equipment required to conduct this activity, and the provision of technical assistance.

e) The production, acquisition, intra-community import and export exchange of liquefied petroleum gases and light hydrocarbons obtained from petroleum, natural gas or biogas, as well as the storage, mixing, packaging of liquefied petroleum gases and light hydrocarbons obtained from petroleum, of natural gas or biogas, and its transportation.

f) Wholesale commercialisation and retail sale of liquefied petroleum gases, natural gas or biogases, and their supply, in the form of packaging and bulk and including the activity of supply to vehicle, as well as the promotion, installation, maintenance and review of facilities necessary for the development of the above activities, including the construction, modification, operation and closure of LPG storage and distribution facilities in bulk, and the channelling necessary for the supply from the previous storage facilities to the end consumer.

The Company conducts its statutory activity under the terms and within the scope provided for in the Hydrocarbon Industry Law and related implementing legislation and pursuant to the legislation issued by the autonomous regional governments in accordance with their powers. In cases where the Company must obtain prior authorisation, meet another requirement or legal, technical or economic-financial condition or procure special training in order to carry out its statutory activity, such prerequisites are met prior to conducting the related activities.

At December 31, 2017, Nortegas Energía Distribución, S.A.U. is the Parent Company of a Group formed by the subsidiaries NED España Distribución Gas, S.A.U. and NED Suministro GLP, S.A.U. The Group also has investments in associated companies Tolosa Gasa, S.A. and Inkolan A.I.E. The information regarding the composition of the group is presented in Appendix I.

In accordance with art. 13.1 of the Revised Spanish Companies Act, the Parent is registered in the Mercantile Registry as a solely-owned entity.

Naturbidco S.L. was incorporated on 31 March 2017, through the contribution of 3 thousand euros, and entered in the Spanish mercantile registry on 6 April 2017. On 19 April 2017 the sole shareholder decided to change its name to Nature Gasned XXI, S.L.U.

On July 27, 2017, the shares of the Parent Company were acquired by Nature Gasned XXI S.L.U.

Lastly, the sole shareholder of the Parent Company approved on December 27, 2017, the modification of the fiscal year so that it begins on January 1 and ends on December 31 of each year.

Merger of Nature Gasned XXI S.L.U and Nortegas Energía Distribución, S.A.U.

On 27 September 2017, the boards of directors of both companies formulated the merger project with a view to generating synergies and ensuring a more effective structure. The effective accounting date for the purposes of the merger project is 27 July 2017, the date of acquisition of the Company by Nature Gasned XXI, S.L.U. The merger is covered by the special tax treatment for mergers.

On 30 October 2017, the merger was published in the Official Gazette of the Mercantile Registry. The merger agreement establishes the merger of Nature Gasned XXI, S.L.U. (as absorbed entity) and the Company (as absorbing entity) through the dissolution without liquidation of the former and transfer en bloc of all its assets and liabilities to the latter, which acquired all of the rights and obligations of Nature Gasned XXI, S.L.U. by universal succession.

Having received the pertinent authorisations from the corresponding authorities, by virtue of the merger deed issued on 1 December 2017, Nature Gasned XXI S.L.U. and Nortegas Energía Distribución, S.A.U. were merged. The merger (hereinafter the Merger) was duly entered into the Spanish Mercantile Registry.

Reverse acquisition

For accounting purposes, the Merger is considered a reverse acquisition, through which Nature Gasned XXI, S.L.U will be the acquirer for accounting purposes (the legal acquiree) and Nortegas Energía Distribución, S.A.U will be acquiree for accounting purposes (legal acquirer). The reason is that Nature Gased XXI, S.L.U. is the legal acquirer of the Company after the transaction made on July 27, 2017. Therefore, the assets and liabilities of Nortegas Energía Distribución, S.A.U. are included in the consolidated annual accounts at their fair value at the date of acquisition. The assets and liabilities of Nature Gasned XXI, S.L.U. they are indicated by the amounts recorded historically in their annual accounts (See note 2).

Regulatory frame work

Details of the basic regulatory framework applicable to the Group are as follows:

Hydrocarbon Industry Law 34/1998 of 7 October 1998, amended by Law 12/2007 and by Royal Decree-Law 13/2012, by law 18/2014 and by Law 8/2015, introducing mechanisms to foster competition within the sector and defining a new natural gas market model. This law implements the main system definitions as regards the parties that participate therein and organises the gas system, distinguishing between regulated activities (regasification, transmission, storage and distribution) and unregulated activities (supply and other services). Lastly, this law defines the rights and obligations of the parties that operate in the natural gas market and it regulates liquefied petroleum gas distribution activities.

1. Natural Gas

The aforementioned Hydrocarbon Industry Law 34/1998, which repealed all other conflicting laws, and subsequent implementing legislation set out, inter alia, the following principles:

a) Gradual liberalisation of the natural gas system:

This law provides for the liberalisation of gas supply activities, gradually enabling different types of customers to select their supplier. Since 1 January 2003, different types of customers have been able to freely select their supplier. The schedule for implementing the last resort supply commenced on 1 July 2008, leading to the elimination of the previous tariff-based supplies from gas distributors.

Royal Decree 949/2001 of 3 August 2001 regulates third-party access to gas facilities and sets out an integrated economic system for the natural gas sector. This Royal Decree also sets out the model for calculating natural gas tariffs and the payments and fees charged for third-party use of the gas network. Subsequently, Royal Decree 984/2015 of 30 October 2015, in addition to creating the organised gas market, introduces modifications to the access regime, establishes a centralised system of guarantees and modifies the regime associated with periodic inspections.

Following approval by the Delegate Commission on Economic Affairs, the Ministry of Energy, Tourism and the Digital Agenda set the new prices for last resort tariffs and the tolls and charges for basic third-party access services. The entitlement of direct market consumers and suppliers to use the basic grid and transmission and distribution facilities was also established, and a single nationwide toll was set for the use of these networks. Ministry of Industry, Energy and Tourism Order ETU/1977/2016, stipulating the tolls and charges for third-party access to gas facilities, was published on 23 December 2016.

Royal Decree 1434/2002 of 27 December 2002, implementing the Hydrocarbon Industry Law, regulates transmission, distribution, sale and supply activities and the authorisation procedures for gas facilities.

With respect to distributors, Ministry of Economy Order ECO/301/2002 set out the remuneration for distribution activities for the first time, to be determined as of that date on the basis of an annual revision, taking into account increases in the points of supply, the volume of gas transmitted and price fluctuations. Publication of Royal Decree-Law 8/2014 and Law 18/2014 brought about changes to the remuneration model applicable to distributors from the second half of 2014 onwards, although the annual revision of remuneration will continue to be determined by reference to the variation in demand.

In addition to tolls and changes, the aforementioned Ministry of Economy Order ETU/1977/2016 also sets the remuneration for regulated activities in 2017.

Similarly, Ministry of Economy Order ECO/2692/2002 of 28 October 2002 defines the settlement procedures for the payment obligations and rights to receivables necessary to remunerate natural gas regasification, transmission, storage and distribution activities and the pertinent specifically allocated payments and charges, and defines a system for reporting on natural gas billings and consumption.

b) Settlements of regulated activities – gas sector:

Basically, as a result of the entry into force of the Spanish Gas Industry Law 34/1998 and the corresponding implementing provisions, intercompany settlements have arisen since 2002. These settlements are performed by the Spanish National Markets and Competition Commission (which includes the defunct National Energy Commission) and give rise to receipts and payments between companies in the sector in order to redistribute the proceeds obtained from access tolls and charges so that each company receives the remuneration effectively allocated to it for regulated activities. Settlement functions, at present performed temporarily by the Commission, in accordance with Law 3/2013 on the creation of the Spanish National Markets and Competition Commission and Royal Decree 903/2017 governing the basic organic structure of the Ministry of Industry, Energy and Tourism, will be assumed by the Ministry of Energy, Tourism and the Digital Agenda. The effective date for this transfer will be determined by Order of the Minister of the Presidency.

c) Financing of the accumulative deficit at December 31, 2016:

Law 18/2014 defines the treatment to be given to the tariff deficit affecting the gas sector, i.e. the financing of the negative imbalances between revenues and costs of the gas system for each year.

As such, the Law stipulates that the amount of the cumulative deficit at December 31, 2014 will be determined in the final settlement for 2014 (settlement 15), and that regulated parties will be entitled to recover the annual amounts of this cumulative deficit in the settlements for the next 15 years and accrue interest at market rates. Deficits incurred subsequent to 2014 will be paid in the next five annual amounts and will accrue interest at market rates. The amount of the deficit recognised, the corresponding annual amount and the interest rate applied are subject to approval by Order of the Ministry of Energy, Tourism and the Digital Agenda.

In accordance with Ministry of Energy, Tourism and the Digital Agenda Order ETU/1977/2016, the cumulative deficit of the sector at 31 December 2014 amounted to Euros 1,025 million, whilst the cumulative deficit for 2015 totalled Euros 27 million. Euros 55.9 million and Euros 1.7 million of the deficits for 2014 and 2015, respectively, corresponded to Nortegas Energía Distribución, S.A.U. These amounts have been recognised and began to be repaid, together with the corresponding interest, on 25 November 2016.

Furthermore, based on provisional settlement 15 for 2016 drawn up by the Spanish National Markets and Competition Commission (CNMC), the 2016 deficit amounts to Euros 90.01 million, of which Euros 5.32 million pertains to Nortegas Energía Distribución, S.A.U.

On 1 December 2017, the Company, as the subject of the settlement system with the right to recover the annuities corresponding to the 2014 deficit, assigned the amount and interest receivable to a financial institution. This operation, for an amount of Euros 53,036 thousand, implies that the payments for the aforementioned items that, in accordance with the periodic settlements issued by the CNMC, were to be made to the Company should now be made in favour of the new beneficiary.

d) Correct functioning of the system guaranteed through the following measures:

Enagás GTS, S.A.U. carries out system technical manager activities, as the entity responsible for the technical management of the basic grid and secondary transmission networks, must guarantee the continuity and security of supply of natural gas and the correct coordination between access points, storage facilities and transmission facilities under criteria of non-discrimination, for which it receives remuneration.

e) Unbounding of activities

Activities pertaining to the supply of natural gas by pipeline are conducted by transmission agents, distributors and suppliers. Regasification, strategic storage, transmission and distribution are regulated activities, whilst supply activities are carried out freely and the corresponding economic regime is determined on the basis of the terms and conditions agreed between the parties.

In this regard, trading companies that carry out any of the regulated activities described in the preceding paragraph should have this activity as their sole statutory activity and may not, therefore, carry out any supply activities. Similarly, companies engaged in the supply of natural gas should have this activity as their sole statutory activity and may not carry out any regulated activities.

Natural gas companies that conduct more than one of the regulated activities described above must maintain separate accounts for each of these activities in their internal accounting records, exactly as would be required if these activities were conducted by different companies. Furthermore, the Law defines a number of mandatory unbundling requirements applicable to companies that carry out regulatory activities and belong to a corporate group that also includes companies that carry out supply activities.

2. LPG – Liquefied Petroleum Gas

The Hydrocarbon Industry Law implements the main system definitions as regards the parties that participate therein and organises activities relating to the supply of liquefied petroleum gas (hereinafter LPG), distinguishing between wholesale and retail supplies.

Subsequently, Law 8/2015 of 21 May 2015, amending Hydrocarbon Industry Law 34/1998 of 7 October 1998 and regulating certain tax and non-tax measures relating to the exploration, investigation and exploitation of hydrocarbons, introduces profound changes to the general framework for these activities. This law explicitly defines this supply, classified within bulk supply, and stipulates that the regulations governing the supply of combustible gases through pipelines will be applicable to the piped supply of bulk LPG, to the extent that there is no implementing legislation in this regard.

Conversely, Royal Decree 1085/1992 of 11 September 1992, approving the regulation on liquefied petroleum gas distribution activities, in implementation of Law 15/1992 of 5 June 1992, adopting urgent measures for the progressive adaptation of the oil industry to the Community framework, sets out the main details for the exercise of retail LPG supply activities, i.e. sales to consumers or end users. In this regard, the Royal Decree implements, inter alia, the requirements that must be met by entities in order to conduct these activities, matters relating to facilities, details of supplies, contractual arrangements and the tariff regime. This Royal Decree was subsequently updated by Royal Decree 197/2010 of 26 February 2010, adapting certain provisions relating to the hydrocarbons industry in accordance with Law 25/2009 of 22 December 2009, amending and adapting various laws to the Law on free access to and the exercise of service activities, in order to bring it into line with Law 34/1998

a) Features of the LPG supply sector:

Liquefied petroleum gas is understood as the fractions of light hydrocarbons, mainly propane and butane, derived from crude oil extraction or natural gas, or during the refining of crude oil.

The activities encompassed within the supply of LPG are as follows: production, acquisition, intra-EU exchange, import and export; storage, mixture, bottling; transport; wholesale supply; retail supply; installation, maintenance and revision of facilities relating to the supply of LPG.

Amongst other means, LPG may be supplied in bulk. This in turn encompasses the distribution and/or supply of piped LPG, which is understood as referring to the distribution and supply of LPG through a pipeline from one or more tanks that supply to users with an LPG supply contract channelled through a distribution company.

"Wholesale supply" is understood as referring to supplies that are not made to one consumer or end user.

"Retail supply" is taken to mean sales to consumers or end users.

b) Requirements and conditions for conducting retail LPG distribution activities

Article 46 of Hydrocarbon Industry Law 34/1998 defines the concept of a retail distributor of bulk LPG. This article stipulates that, in order to be authorised to conduct this activity, an entity must have the required legal, technical and economic and financial capacity, and its facilities must meet the technical and safety conditions set forth in legislation.

In the absence of any regulations implementing article 46, transitional provision two of Law 34/1998 has been applied, which upholds the validity of the regulations governing the matters covered in Law 34/1998, until new regulation is issued. In this case, the prevailing legislation is the aforementioned regulation on LPG distribution activities (Royal Decree 1085/1992, Official State Gazette of 9 October 1992). Although this regulation does not consider the same figures, it is understood that retail distributors of bulk LPG must nevertheless meet the same requirements as those applicable to LPG suppliers.

This legislation stipulates that, in order to conduct these activities, retail distributors must have the following:

1. Financial capacity.
2. Technical capacity
3. Contractually assured supplies.
4. Storage facilities.
5. Minimum level of inventories to ensure security of supply, equivalent to 30 days' of total sales, or the option of purchasing the LPG through a wholesale operator.

c) Economic regime

With respect to the economic framework for piped LPG, the current wording of article 94 of Law 34/1998 stipulates that the Ministry will issue the provisions necessary for establishing the sale tariffs for piped LPG supplied to end consumers, as well as the corresponding assignment prices for distributors of piped combustible gases. The difference between the two prices gives rise to the margin obtained by suppliers in the exercise of their activities to supply gas to end customers, comprising a fixed component for each consumer, and a variable, consumption-based component.

The current economic framework stems from the Order of 31 July 1997, which defines the system of maximum pre-tax selling prices of liquefied petroleum gas (Official State Gazette of 1 August 1997). This Order has been subject to successive reviews and updates:

- Order of 16 July 1998, updating the supply costs for the system for automatically determining maximum pre-tax selling prices of liquefied petroleum gas, and liberalising certain supplies.
- Order ITC/3292/2008 of 14 November 2008 amending the system for automatically determining pre-tax selling prices of piped liquefied petroleum gas.
- Order IET/389/2015 of 5 March 2015, updating the system for automatically determining maximum pre-tax selling prices of bottled liquefied petroleum gas and amending the system for automatically determining pre-tax selling prices of piped liquefied petroleum gas.

The maximum price of piped liquefied petroleum gas (LPG) is established in the Resolution issued by the Director General for Energy Policy and Mining in accordance with the aforementioned legislation. These resolutions, which may be monthly, notably include a revision in July each year to determine the supply margin for these activities, for instance, in 2017, the Resolution of 6 July 2017 issued by Directorate-General for Energy Policy and Mining, which determined the new pre-tax selling prices of piped liquefied petroleum gas.

2. Basis of presentation

The consolidated annual accounts have been prepared based on the accounting records of Nortegas Energía Distribución, S.A.U. and of the dependent companies. The consolidated annual accounts for the eight-month period ended on December 31, 2017 were prepared in accordance with International financial reporting standards (hereinafter, IFRS), as adopted by the European Union, in conformity with Regulation (EC) number 1606/2002 of the European Parliament and of the European Council. The directors of the Parent expect the sole shareholder to approve these consolidated annual accounts without any modification.

These consolidated annual accounts are the first prepared in accordance with IFRS-EU and, therefore, IFRS 1 "Adoption for the first time of the International Financial Reporting Standards" is applicable, being the date of first application March 31, 2017 (date of incorporation of Nature Gasned XXI S.L.U.), see Note 1. These consolidated annual accounts have been prepared by applying the regulations in effect at December 31, 2017.

(a) Basis of preparation of the consolidated annual accounts

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

(b) Comparative information

As detailed in Note 1, the company Nature Gasned XXI, S.L.U. was created on March 31, 2017. Additionally, as indicated in that note with accounting effects on July 27, 2017, an reverse merger occurred with Nortegas Energía Distribución, SAU, liquidating the company Nature Gasned XXI, S.L.U.

As Nature Gasned XXI, S.L.U. was considered the acquirer for accounting purposes, and this company was incorporated in March 2017, the comparative figures for the previous period of these consolidated annual accounts only includes the following:

- The activities of Nature Gasned XXI, S.L.U. for the period of one month ending at April 30, 2017
- The assets and liabilities of Nature Gasned XXI, S.L.U. at April 30, 2017.

Similarly, the consolidated income statement for the eight-month period ended 31 December 2017 only includes the operations of Nortegas Energía Distribución, S.A.U. and its subsidiaries from 27 July 2017, the date of acquisition, and the operations of Nature Gasned XXI, S.L.U. for the eight-month period ended 31 December 2017.

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

Relevant accounting estimates and judgements and other estimates and assumptions have to be made when applying the Group's accounting principles to prepare the consolidated annual accounts 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.

- *Impairment of non-current assets (see notes 4 and 8)*

As described in Notes 4.i and 8, the Group, in accordance with accounting regulations applicable to it, performs the impairment test of those cash generating units that require it annually. Likewise, it carries out specific tests in the event of detecting indications of impairment. These impairment tests involve estimating the future evolution of the businesses and the most appropriate discount rate in each case. The Group believes that its estimates in this regard are adequate and consistent with the current economic situation and that they reflect its investment plans and the best estimate available of its future expenses and revenues, and considers that its discount rates adequately reflect the corresponding risks each cash generating unit.

- *Useful lives of property, plant and equipment and intangibles assets (see notes 7 and 8)*

The Parent's management determines the estimated useful lives and the corresponding amortisation charges for its assets included in property, plant, and equipment and intangible assets. This estimate is based on the expected duration of each of the Group's property, plant and equipment and intangible assets and the projected life cycles of the products it manufactures and markets. The Parent's management will increase the amortisation charge when the useful lives are less than the lives estimated previously or amortise or eliminate technically obsolete or non-strategic assets that have been abandoned or sold.

- *Tax on profits and recovery of tax credits (see note14)*

The legal situation of the tax regulations applicable to Group companies implies that there are estimated calculations and a final quantification of uncertain tax. The calculation of tax is made based on management's best estimates in accordance with current fiscal regulations and taking into account the foreseeable evolution of the same.

When the final fiscal result is different from the amounts that were initially recognised, such differences will have an effect on the income tax in the year in which such determination is made.

- *Provisions for risks and expenses (see note 26)*

Although these estimates have been made based on the best information available at the end of 2017, it is possible that events that may take place in the future will force them to be modified (upwards or downwards) in the coming years, what would be done, if applicable, prospectively.

- *Settlement of regulated activities (see note 1 b)*

At the end of each year, the Group estimates the final settlement of the regulated activities carried out in Spain in that year, determining, where appropriate, the corresponding revenue deficit, as well as the amount that will be subject to future recovery in accordance with the pronouncements of the authorities in this regard and the periods in which said recovery will take place (note 1).

The estimates include the provisional settlements published up to the date of preparation of the consolidated annual accounts, as well as all available sector information.

- *Assets held for disposal and discontinued operations:*

The Group periodically reviews whether there are specific assets or cash generating units that must be classified as assets held for sale or discontinued operations. Although these estimates have been made based on the best information available at the date of formulation of these consolidated annual accounts, it is possible that future events may require that they be modified (upwards or downwards) in coming periods, which would be done prospectively, recognising the effects of the change in estimate in future periods.

(d) Standards and interpretations effective from January 1, 2018

The consolidated annual accounts for the eight-month period ended 31 December 2017 have been prepared applying the accounting principles and regulations and modifications adopted by the European Union and mandatory as of 1 January 2017.

On the other hand, at the date these consolidated annual accounts were authorised for issuance, the following standards, amendments and interpretations had been issued, all of which are effective subsequent to 1 January 2017:

		Mandatory application	
Regulation		**IASB**	**European Union**
IFRS 15	Revenues from contracts with customers	01.01.2018	01.01.2018
Modifications to IFRS 15	Clarifications to the standard	01.01.2018	01.01.2018
IFRS 9	Financial instruments	01.01.2018	01.01.2018
Modifications to IFRS 4	Application of IFRS 9 Financial instruments with IFRS 4 Insurance	01.01.2018	01.01.2018
Modifications to IFRS 2	Classification and measurement of share-based payment transactions	01.01.2018	(*)
IFRIC 22	Foreign Currency Transactions and Advance Consideration	01.01.2018	(*)
Modifications to IAS 40	Transfer of Investment Property	01.01.2018	(*)
Cycle 2014-2016	Annual improvements several standards	01.01.2017/01.01.2018	(*)
IFRS 16	Leases	01.01.2019	01.01.2019
IFRS 17	Insurance policies	01.01.2021	(*)
IFRIC 23	Uncertainties over income tax treatments	01.01.2019	(*)
Modifications to IFRS 9	Prepayment Features with Negative Compensation	01.01.2019	(*)
Modifications to IAS 28	Long-term interests in subsidiaries and joint business	01.01.2019	(*)
Cycle 2015-2017	Annual improvements several standards	01.01.2019	(*)

(*) Pending approval by the European Union.

The Group has not applied in advance of the formulation of these consolidated annual accounts any published standard, interpretation or amendment that has not yet come into force.

The Group will apply on the consolidated annual accounts starting from 1 January 2018 the IFRS 9: “Financial instruments” and IFRS 15: “Revenue from Contracts with Customers”, whereas IFRS 16: “Leases” will be applied on the consolidated annual accounts from 1 January 2019.

IFRS 15: “*Revenues from contracts with customers*”

According to the new standard, revenues are recognised in such a way that they represent the transfer of goods and services committed to customers for an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods and services. Revenue is recognised when the customer obtains control of the goods or services. IFRS 15 also includes guidance on the presentation of contract balances, that is, assets and liabilities derived from contracts with customers, based on the relationship between the performance of the entity and the customer's payment. IFRS 15 replaces IAS 11, Construction Contracts, and IAS 18, Revenues, and related interpretations.

The Group estimates that the application of IFRS 15 would have not implied any significant changes to these consolidated annual accounts.

IFRS 9: "*Financial instruments"*:

With regard to application of IFRS 9, the Group believes that:

- The new classification and measurement criteria do not imply a significant change in the Group's equity as of 1 January 2018 since most financial assets will continue being valued at amortised cost with the sole exception of equity instruments, valued at fair value.

- It will apply the general model for calculation of expected loss on financial assets. Under the general model, credit losses expected in the next twelve months are recorded unless the credit risk of financial instruments has significantly increased from the initial recording. In such case, they will qualify as expected credit losses over the life of the asset.

  In view of the considerable creditworthiness of the financial assets, it is felt that the defaults applicable will be inmaterial.

IFRS 16: "*Leases*"

In relation to IFRS 16, applicable in annual accounts from 1 January 2019, the analysis of its application will proceed on in 2018. The Group expects an increase in the amount in assets due to right of use and in liabilities due to the present value of the obligation to receive lease payments in relation to lease agreements for certain assets where the Group acts as the lessor.

The Group's main leases comprise buildings and vehicles. Under the current version of IAS 17, most of these leases are considered operating leases.

The Group has temporarily adopted the following alternatives based on the possibilities offered by IFRS 16:

- Short-term leases (less than 12 months) will be excluded from the scope of the standard, and

- In the case of leases of intangible assets and assets which, considered individually, are of little value, the Group will decide upon their inclusion within the scope of the standard by type of asset

The Group is quantifying the impact of the first application of the standard based on the different transition alternatives as of the date of its first application.

As to the rest of standards, the Group believes that their application would not have had a material impact on these consolidated annual accounts, and, furthermore, would not have a material impact when they are applied.

The Group will not opt for early application of any of the above standards.

3. Accounting Policies

(a) Subsidiaries

The subsidiaries over which the Group exercises control are fully consolidated, from the date on which it has been obtained.

The Group considers that it maintains control of a company when it is exposed, or has the right to variable yields from its involvement in the company, and has the capability to influence in these yields through its power thereon. For the purpose of drawing up these consolidated annual accounts, control is deemed to be exercised in companies in which the Group holds over 50% of the share capital and can prove the existence of this control.

Results of subsidiaries acquired or sold in the year are included in the consolidated income statement as from the effective date of acquisition or up to the effective date of sale. All accounts and transactions between fully consolidated companies have been eliminated in consolidation.

On the acquisition date, assets, liabilities and contingent liabilities of a subsidiary are recognised at fair value. Any excess of the subsidiary´s acquisition cost over the market value of its assets and liabilities is recognised as goodwill, as it corresponds to assets that cannot be identified and measured separately. If the difference is negative, it is recognised as a credit to income in the consolidated profit and loss statement.

Holdings of minority shareholders are recognised at the initial moment at an amount equivalent to their proportional interest in the net assets of the acquired company on the takeover date. The interest of minority shareholders in equity and the results of the fully consolidated subsidiaries is presented under the "Equity – Of non-controlling interests" heading on the Consolidated statement and under the "Non-controlling interests" heading in the Consolidated income statement, respectively.

When there is a loss of control of a company of the Group, its assets, liabilities and any minority shareholder are written off. The resulting gains or losses are recognised in the consolidated profit and loss account. Holdings maintained in the subsidiaries whose control has been lost will be measured by their fair value on the date when this loss of control occurred. The income obtained in stock purchase transactions with minority shareholders in controlled companies and the sale of stock without loss of control will be recognised as charged or credited to reserves

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

The annual accounts 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.

Appendix I includes the information on the subsidiaries included in the consolidation scope of the Group.

(b) Business combination

The Group has applied the exception provided in IFRS 1 "First-time Adoption of International Financial Reporting Standards" so that only business combinations made as of April 1, 2017, date of transition to IFRS-EU have been registered by the acquisition method.

The Group has applied IFRS 3 "Business Combinations" revised in 2008 in transactions made as of April 1, 2017.

In business combinations, the Group applies the acquisition method.

The acquisition date is the one in which the Group obtains control of the acquired business.

The cost of the business combination is calculated as the sum of the acquisition-date fair values of the assets transferred, the liabilities incurred or assumed, the equity instruments issued and any consideration contingent on future events or compliance with certain conditions in exchange for control of the acquiree.

The cost of the business combination excludes any payment that is not part of the exchange for the acquired business. The costs related to the acquisition are recognised as an expense as they are incurred.

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

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

Any excess of the cost of the business combination over the assets acquired net of the liabilities assumed is recognised as goodwill.

(c) Reverse Acquisition.

The reverse acquisition has been accounted for following the criteria described in the section on business combinations, considering that the legal acquirer is the acquiree for accounting purposes. The cost of the business combination has been determined as the fair value of the number of equity instruments of the legal acquiree which it would have been necessary to issue to give the shareholders of the legal acquirer the same percentage of equity instruments of the combined entity.

(d) Associates

Associated entities are considered to be those over which the Company, directly or indirectly through subsidiaries, exercises significant influence. Significant influence is the power to intervene in the decisions of financial policy and exploitation of an entity, without implying the existence of control or joint control over it.

The existence of potential voting rights that are exercisable or convertible at the end of each reporting period, including potential voting rights held by the Group or third parties, are considered when assessing whether an entity has significant influence.

Investments in associates are recorded using the equity method from the date on which significant influence is exercised until the date on which the Company can no longer justify the existence of the same. However, if at the date of acquisition, all or part of the investment meets the conditions to be classified as non-current assets or disposable groups of items held for sale, it is recorded at fair value, less the costs of disposition or disposal by another way.

Investments in associates are initially recognised at their acquisition cost, including, additionally, any cost directly attributable to the acquisition and any active or passive contingent consideration that depends on future events or compliance with certain conditions.

The excess between the cost of the investment and the percentage corresponding to the Group in the fair values of the identifiable net assets is recorded as goodwill, which is included in the book value of the investment. The defect, once the investment cost amounts and the identification and valuation of the net assets of the associate have been evaluated, is recorded as income in the determination of the investor's participation in the results of the associate in the year in which it is acquired.

If the investment results from the loss of control of a subsidiary that was not part of a business, the cost of the investment is the fair value, net of the eliminations of the results derived from the loss of control.

The Group’s share of the profit or loss of an associate from the date of acquisition is recognised as an increase or decrease in the value of the investment, with a credit or debit to share in profit/loss of equity-accounted investees in the consolidated income statement. The Group’s share of the total recognised income and expense of associates from the date of acquisition is recognised as an increase or decrease in investments in associates with a balancing entry in consolidated equity accounts. The distribution of dividends is recognised as a decrease in the value of the investment. The Group’s share of profit or loss, including impairment losses recognised by the associates, is calculated based on income and expenses arising from application of the acquisition method.

The Group's participation in the profits or losses of associates and changes in equity is determined based on the ownership interest at the end of the year, without considering the possible exercise or conversion of potential voting rights. However, the Group's participation is determined considering the eventual exercise of potential voting rights and other derivative financial instruments that, in substance, currently grant access to the economic benefits associated with ownership interests, is the right to participate in future dividends and changes in the value of associated entities.

The Group's participation in the profits or losses of associates is recorded once the effect of the dividends, agreed or not, corresponding to the preferred shares with cumulative rights that have been classified in equity accounts is considered.

Losses of an associate attributable to the Group are limited to the extent of its net investment, except where the Group has legal or constructive obligations or when payments have been made on behalf of the associate. For the purpose of recognising losses in associates, net investments are considered as the carrying amount of the investment after applying the equity method plus any other item which in substance forms part of the investment in the associate. The excess of the losses over the equity investment is applied to the remaining items in reverse order of settlement. Subsequent profits obtained by associates for which impairment losses are limited to the value of the investment are recognised to the extent that they exceed previously unrecognised losses.

Unrealised gains and losses on transactions carried out between the Group and associates are only recognised to the extent that they are interests held by other unrelated investors. This criterion is not applied to the recognition of unrealised losses which constitute evidence of the impairment of the asset transferred.

However, the profits and losses derived from transactions between the Group and the associates of net assets constituting a business, are recognised in their entirety.

The detail of investments accounted for using the equity method is included in Appendix I.

Impairment

The Group applies the impairment criteria developed in IAS 39 "Financial Instruments: Recognition and Valuation" in order to determine whether it is necessary to record additional impairment losses to those already recorded in the net investment in the associate or in any other financial asset held therein as a result of the application of the equity method.

The calculation of impairment is determined as a result of the comparison of the accounting value associated with the net investment in the associate with its recoverable value, the recoverable value being the greater of the value in use or fair value less costs of disposal or disposition by other means. In this regard, the value in use is calculated based on the Group's participation in the present value of the estimated cash flows from ordinary activities and the amounts that may result from the final transfer of the associate.

The recoverable amount of the investment in an associate is evaluated in relation to an associated entity, unless there is no cash-generating unit (CGU).

The impairment loss is not allocated to goodwill or other assets implicit in the investment in the associates derived from the application of the acquisition method. In subsequent years, reversals of the value of investments are recognised against results, insofar as there is an increase in recoverable value. The impairment loss is presented separately from the Group's participation in the associates' results.

(e) Functional and presentation currency

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

(f) Property, plant and equipment

Initial recognition

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

Capitalised production costs are recognised under "self-constructed assets in the income statement". Property, plant and equipment are carried at cost less any accumulated depreciation and impairment.

Subsequent costs

Subsequent to initial recognition of the asset, only the costs incurred which increase capacity or productivity or which lengthen the useful life of the asset are capitalised. The carrying amount of parts that are replaced is derecognised. Costs of day-to-day servicing are recognised in profit and loss as incurred.

Depreciation

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.

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 (gas distribution network)	Straight-line	30 – 35
Technical installations and machinery (regulation and metering stations)	Straight-line	15 - 20
Technical installations and machinery (LNG plants)	Straight-line	12
Other installations, equipment and furniture	Straight-line	5 - 10
Technical installations and machinery (LPG installations)	Straight-line	12.5 - 25
Other property, plant and equipment	Straight-line	4 - 10

The Company 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.

Increases in value resulting from revaluations permitted by law are depreciated over the remaining useful life of the revalued assets.

Impairment

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

(g) Intangibles assets

Goodwill

Goodwill is the excess between the consideration given, plus the value assigned to the non-controlling interests, plus the fair value of the prior participation in the acquired business, and the net amount of the assets acquired and the liabilities assumed.

The consideration given for the business combination is determined at the date of acquisition by the sum of the fair values of the assets delivered, incurred or assumed liabilities, the equity instruments issued and any contingent consideration that depends on future events or compliance with certain conditions in exchange for control of the acquired business

The consideration given excludes any payment that is not part of the exchange for the acquired business. The costs related to the acquisition are recognised as an expense as they are incurred.

Goodwill, from the merger made by the Company in this fiscal period (see note 4), reflects the excess of the cost of the business combination over the acquisition-date fair value of the assets acquired and liabilities and contingent liabilities assumed from the acquired business.

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.

Patents, licences, trademarks and similar rights

This heading corresponds to the cost of the identifiable intangible assets acquired in the business combination, and reflects their fair value, except for the exceptions provided in the business combinations section.

The separable and identifiable intangible assets correspond to the value assigned to customers / connection points, by an independent expert in the process of identifying and assigning the cost of acquiring businesses. As a result, they have been recognised separately from goodwill.

Computer software

Licenses for software purchased from third parties are capitalised on the basis of the costs incurred in acquiring them and preparing them for use in the specific application.

Expenses related to the maintenance of computer applications are recognised as an expense when incurred. The costs directly related to the production of unique and identifiable computer applications controlled by the Group, and that are likely to generate economic benefits higher than costs for more than one year, are recognised as intangible assets. The direct costs include the expenses of the personnel that develop the computer applications and an adequate percentage of general expenses.

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 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.

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
Patents, licences, trademarks and similar rights	Straight-line	40-60

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

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

Impairment

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

(h) 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.

Likewise, and regardless of the existence of any indication of impairment, the Group verifies, at least annually, the potential impairment that could affect goodwill as well as intangible assets that are not yet available for its use.

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 except in those cases in which the non-current asset is recorded at its revalued value. However, the increased carrying amount of an asset attributable to a reversal of an impairment loss may not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised.

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

(i) Leases

Leases classification

The Group classifies as financial leases any contracts that at the outset substantially transfer the risks and rewards inherent in the ownership of the assets to the lessee. Otherwise, they are classified as operating leases.

Lessor accounting

The Group has conveyed the right to use certain assets (mainly gas meters) through lease contracts.

Finance leases are those in which the Group transfers to third parties the significant risks and rewards of ownership of the asset. All other leases are classified as operating leases. The Company has no finance leases at 31 December 2017.

Assets leased to third parties under operating lease contracts are presented according to their nature, applying the accounting policies set out in the section on property, plant and equipment.

Income from operating leases, net of incentives granted, is taken to the income statement on a straight-line basis over the lease term.

Lessee accounting

The Group also has rights to use certain assets through lease contracts. Lease payments under an operating lease, net of incentives received, are recognised as an expense on a straight-line basis over the lease term except when another systematic basis of distribution is more representative because it more adequately reflects the time pattern of the benefits of the lease.

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

Contingent lease payments are recognised as an expense when it is probable that they will be incurred. All of the Group's leases are operating leases.

(j) Financial instruments

Classification of financial instruments

Financial instruments are classified on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the economic substance of the contractual arrangement and the definitions of a financial asset, a financial liability and an equity instrument developed 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 valuation purposes, the Group's financial instruments are classified in the categories of financial assets and liabilities at fair value through profit or loss, separating those originally designated from those held for trading, loans and receivables and financial liabilities at amortised cost. The classification in the previous categories is carried out according to the characteristics of the instrument and the intentions of the Group at the time of initial recognition.

Offsetting principles

A financial asset and a financial liability are offset only when the Group currently has the legally enforceable right to offset the recognised amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Loans and receivables

Loans and accounts receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those classified in other financial asset categories. These assets are initially recognised at fair value, including transaction costs, and are subsequently measured at amortised cost using the effective interest method. Notwithstanding the foregoing, loans for commercial transactions with maturity not exceeding one year are valued, both at the time of initial recognition and subsequently, at their nominal value, provided that the effect of not updating the flows is not significant.

Financial assets and financial liabilities valued at cost

Investments in equity instruments for which the fair value cannot be reliably estimated and the derivative instruments that are linked to them and that must be settled by delivery of such unquoted equity instruments, are valued at cost. Nonetheless, if the financial assets or liabilities can subsequently be reliably measured on an ongoing basis, they are accounted for at fair value and any gain or loss is recognised in accordance with their classification.

Dividends are recognised in accordance with section (o).

Impairment of financial assets

- *Impairment of financial assets carried at amortised cost*

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

  The Group recognises the impairment loss and the uncollectibility of loans and other accounts receivable and debt instruments by recognising a corrective account for financial assets. At the moment in which it is considered that the impairment and uncollectibility are irreversible, the book value is eliminated against the amount of the corrective account.

  The impairment loss is recognised in profit and loss and may be reversed in subsequent periods if the decrease can be objectively related to an event occurring after the impairment has been recognised. The loss can only be reversed to the limit of the amortised cost of the assets had the impairment loss not been recognised. The reversal of the loss is recognised against the amount of the corrective account.

- *Recognition of financial income related to impaired financial assets*

  The financial income of financial assets for which is has been recognised an impairment loss, is recognised based on the discount rate used to discount the estimated future cash flows.

Derecognition of financial assets

The Group applies the criteria for derecognising financial assets to a part of a financial asset or to a part of a group of similar financial assets.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Financial Liabilities

Financial liabilities, including trade and other payables, are initially recognised at fair value less any transaction costs that are directly attributable to the issue of the financial liability. After initial recognition, liabilities classified under this category are measured at amortised cost using the effective interest method.

Nevertheless, financial liabilities which have no established interest rate, which mature or are expected to be settled in the short term, and for which the effect of discounting is immaterial, are measured at their nominal amount.

Derecognition of financial liabilities

The Group derecognises all or part of a financial liability when it either discharges the liability by paying the creditor, or is legally released from primary responsibility for the liability either by process of law or by the creditor.

Security deposits

Security deposits received in relation to gas supply contracts are measured using the same criteria as for financial liabilities.

Security deposits paid in relation to lease contracts are measured using the same criteria as for financial assets.

(k) Distributions to Shareholders

Dividends, whether in cash or in kind, are recognised as a reduction in equity at the moment that the approval by Sole Shareholder takes place.

(l) Inventories

The Group's inventories comprise the LPG stored in tanks measured at cost of acquisition, which is calculated as the lower of weighted average price and market value.

When the cost of inventories exceeds net realizable value, materials are written down to net realizable value.

(m) Cash and cash equivalents

Cash and cash equivalents include cash in hand and in bank. Also included under this heading are other short-term highly liquid investments provided they are easily convertible into certain amounts of cash and that are subject to an insignificant risk of changes in value. For this purpose, investments with maturities of less than three months from the acquisition date are included.

For the purposes of the consolidated statement of cash flows, bank overdrafts that are callable in the short term and are part of the Group’s treasury management are included as cash and cash equivalents. Bank overdrafts are recognised in the consolidated statement of financial position as financial liabilities from loans and borrowings from financial institutions.

(n) Deferred income

Grants

Public Administrations official grants are recognised when there is a reasonable assurance of compliance with the conditions associated with their concessions and the collection of them.

Connection and extension charges

Amounts received from customers as connection charges in respect of the installation works required to enable new supplies or extend existing supplies are recognised under deferred income and taken to profit and loss over the useful life of the extension facilities financed or, where appropriate, on disposal of the asset or on the recognition of an impairment loss.

(o) Remuneration to employees

Defined contributions

The Group records contributions to be made to defined contribution plans as employees provide their services. The amount of accrued contributions is recorded as an expense for employee compensation.

Short-term remuneration to employees

Short-term employee benefits comprise employee remuneration, other than termination benefits, that are expected to be settled in full before 12 months after the end of the reporting period in which the employees render the related services.

The Company recognises the expected cost of profit-sharing and bonus plans when it has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made.

Redundancy indemnities

In accordance with the applicable labour regulation, the Company is obligated to the payment of indemnities to the employees with whom, under certain circumstances, terminates their contractual relationship.

(p) Provisions

General criteria

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

The amounts recognised in the consolidated statement of financial position 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 determined before taxes, considering money temporary value, as well as the specific risks that have not been considered in the future flows related to the provision at each closing date.

Isolated obligations are valued by the individual outcome that is most probable.

The financial effect of provisions is recognised as a financial expense in the income statement.

The tax effect and gains on the expected disposal of assets are not taken into account in measuring a provision.

If it is not probable that an outflow of resources will be required to settle an obligation, the provision is reversed. The reversal is made against the income statement items in which the corresponding expense was recorded and the excess, if any, is recognised under other income.

Contingent liabilities are considered those possible obligations arising because of past events, the materialisation of which is conditional upon the occurrence or non-occurrence of one or more future events independent of the Group's will. Said contingent liabilities are not accounted for and details are presented in the notes to the corresponding accounts.

(q) Revenue from the sale of goods and rendering of services

Revenue from the sale of goods or services is measured at the fair value of the consideration received or receivable.

The Group evaluates whether there are different components in a transaction, in order to apply the income recognition criteria to each one of them.

Revenue from sales

The new regulatory framework for the gas sector in Spain entered into force in February 2002 regulated a settlement procedures for the redistribution between the sector companies of revenues from tolls, charges and tariffs, net of payments for specific purposes, so that each company receives the revenues allocated for its regulated activities .

The Group estimates these settlements accrued at 31 December 2017 and pending settlement by the Spanish National Markets and Competition Commission (CNMC). The final settlement for 2017 had not been published at the date these annual accounts were authorised for issue. However, it is not expected to differ significantly from the estimates, including the deficit estimate.

Royal Decree-Law 8/2014 approving urgent measures for growth, competitiveness and efficiency, validated by Law 18/2014, establishes the principle of economic and financial sustainability of the gas system. Thus, any measure that could entail an increase in costs or a reduction in revenue should incorporate an equivalent reduction in other cost items or an equivalent increase in revenue to ensures a balance in the system. It also limits the annual imbalances between revenues and costs in the system in such a way that their amount cannot exceed 10 percent of revenue that can be settled for the year and the sum of the annual imbalances and annuities recognised and pending amortisation may not exceed 15 percent of revenue. Revenues received as remuneration for distribution activity each year are set ex ante. The Ministerial Orders published at the end of each year establish the remuneration for the coming year based on expected sales and new customers for that year. As a result, the remuneration amount is subject to change for up to two years, until the definitive data on demand and new customers are available for the year analysed. Order ETU/1977/2016, published on 23 December 2016, adjusted the remuneration for 2016 and 2015 based on the most up-to-date figures on sales and consumers.

Order ETU/1977/2016, published on 23 December 2016, established the remuneration for distribution activity for 2017 through application of the parameters established by Law 18/2014 of 15 October 2014 approving urgent measures for growth, competitiveness and efficiency. This law reformed the remuneration for gas activities with a view to eliminating deficits in the settlement system.

This remuneration for distribution activities will be adjusted once the final amounts of this remuneration have been set by the Spanish Ministry of Energy, Tourism and the Digital Agenda based on the actual figures for the average increase in consumers and kWh distributed. The Company 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 income statement when they arise.

During 2016 the Company received the final settlement for its regulated activities in the gas sector for 2014 and 2015. The 2014 deficit in the gas sector, which includes the deficits accumulated in prior years, closed the year at Euros 1,025 million, which regulated entities will be able to recover in 15 consecutive annual payments from 25 November 2016 until 24 November 2031 at market interest rates. This interest rate has yet to be determined (article 66.a of Law 18/2014). However, Ministry of Energy, Tourism and the Digital Agenda Order ETU/1977/2016 proposes a provisional rate of 1.104% in accordance with the proposal of the CNMC. The amount corresponding to the Company of this deficit amounts to Euros 55,921 thousand and was securitised before December 31, 2017 (see note 13). The 2015 deficit in the gas sector closed the year at Euros 27 million, which regulated entities will be able to recover in five annual payments (from 25 November 2016 to 24 November 2021) at a market interest rate that has also yet to be determined. However, Ministry of Energy, Tourism and the Digital Agenda Order ETU/1977/2016 proposes a provisional rate of 0.836% in accordance with the proposal of the CNMC. The amount corresponding to the Company of this deficit amounts to Euros 1,737 thousand.

Furthermore, based on provisional settlement 15 for 2016 drawn up by the Spanish National Markets and Competition Commission (CNMC), the 2016 deficit amounts to Euros 90.01 million, of which Euros 5.32 million corresponds to Nortegas Energía Distribución, S.A.U. (formerly Naturgas Energía Distribución, S.A.U.). This represents a decrease of Euros 5 million with respect to the forecast at 31 December 2016, which has been adjusted in the balance sheet at 31 December 2017.

Services rendered

Revenues associated with the rendering of services, rental of meters and others, are recognised at the moment the services are rendered.

The Group periodically evaluates whether any service contract is onerous and recognises, where appropriate, the corresponding provisions.

Interests and dividends

Interest is recognised using the effective interest method, which is the discount rate that equates the book value of a financial instrument with the estimated cash flows over the expected life of the instrument, based on its conditions and without considering future credit risk losses.

Dividends from investments in equity instruments are recognised when the Group is entitled to receive them.

(r) Income tax

The income tax expense or tax income for the year comprises current tax and deferred tax.

The current tax is the amount to be paid or recovered for the income tax related to the consolidated fiscal profit or loss for the year. 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 payable in the future as income tax related to taxable temporary differences while deferred tax assets are the amounts to be recovered as income tax due to the existence of deductible temporary differences, taxable negative tax bases or deductions pending application. For these purposes, a temporary difference is understood as the difference between the book value of assets and liabilities and their 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.

The Group recognises deductions for investment by applying the recognition and measurement criteria of the assets for current or deferred tax, unless they have the nature of a grant. If the deductions have the nature of a grant, they are recognised, presented and valued by applying the corresponding accounting policy. For these purposes, the Group considers that the deductions whose application is independent of the existence of a positive integral fee and that have substantive operational conditions additional to the realisation or maintenance of the investment are subsidised.

Recognition of deferred tax liabilities

The Group recognises deferred tax liabilities in all cases except if:

- 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;
- they correspond to differences related to investments in subsidiaries, associates and joint ventures over which the Group has the ability to control the moment of its reversal and it is not probable that its reversal will occur in the foreseeable future.

Recognition of deferred tax assets

The Group recognises deferred tax assets as long as:

- it is probable that sufficient taxable income 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. However, the assets arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and at the date of the transaction does not affect either the accounting result or the taxable income, are not recognised;
- they correspond to temporary differences related to investments in subsidiaries, associates and joint ventures insofar as the temporary differences will revert in the foreseeable future and positive future fiscal gains are expected to offset the differences.

It is considered probable that the Group has sufficient tax profits to recover deferred tax assets, provided there are temporary differences taxable in sufficient amount, related to the same tax authority and refer to the same taxpayer, the reversal of which is expected in the same fiscal year in which the deductible temporary differences are expected to reverse or in years in which a tax loss, arising from a deductible temporary difference, can be offset by previous or subsequent earnings.

In order to determine future tax profits, the Group takes into account tax planning opportunities, provided that it intends to adopt them or is likely to adopt them.

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 years when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantially enacted and once considered the tax consequences that will arise from the way in which the Group expects to recover the assets or settle the liabilities

The Group reviews the book value of deferred tax assets at the end of the year, in order to reduce that value to the extent that it is not probable that there will be sufficient future positive tax bases to offset them.

Deferred tax assets that do not meet the above conditions are not recognised in the consolidated statement of financial position. The Group reconsiders at the end of the year, if the conditions for recognizing deferred tax assets that had previously not been recognised are met.

Compensation and classification

The Group only compensates assets and liabilities for current income tax if there is a legal right against the tax authorities and intends to settle the resulting debts for their net amount or to realize the assets and settle the debts simultaneously.

Fiscal consolidation

In 2017 the Parent filed a consolidated tax return in the province of Biscay together with NED Suministro GLP, S.A.U. (subsidiary).

NED España Distribución Gas, S.A.U. a subsidiary files taxes individually.

The income tax expense of companies in the consolidated tax regime is determined taking into account, in addition to the parameters to be considered in the case of individual taxation, the following:

- Temporary and permanent differences arising as a result of the elimination of results from transactions between Group companies, derived from the process of determining the consolidated tax base.

- The deductions and credits that correspond to each company of the tax group in the consolidated tax regime; for these purposes, deductions and credits will be allocated to the company that performed the activity or obtained the necessary income to obtain the right to the deduction or tax credit.

The temporary differences derived from the eliminations of results between the companies of the tax group are recognised in the company that generated the result and are valued at the tax rate applicable to it.

From the negative tax results from some of the companies of the tax group that have been offset by the remaining companies of the tax group, a reciprocal credit and debit arises between the companies to which they correspond and the companies that offset them. If there is a negative tax result that cannot be offset by the remaining companies of the tax group, these tax credits for offsetable losses are recognised as deferred tax assets following the established criteria for recognition, considering the tax group as taxpayer.

(s) Financial information by segments

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

The Group has two operating segments, as described below, which are the strategic business units.

The Group includes the following operating segments:

- Natural Gas
- LPG - Liquefied Petroleum Gas

The accounting policies of the segments are those described in Note 5.

The method for obtaining this segment information is based on allocating each consolidated company to an activity, as there is an unambiguous relationship between the companies and the segments.

The consolidation process has been carried out following strictly the principles and rules that regulate legal consolidation.

The results of the associated companies are incorporated into the segment that they develop, which is the distribution of natural gas.

(t) Classification of assets and liabilities between current and non-current

The Group presents the consolidated statement of financial position classifying assets and liabilities between current and non-current. For these purposes, current assets or liabilities are those that meet the following criteria:

- Assets are classified as current when they are expected to be realised or there is an intention to sell or consume them during the normal operating cycle of the Group, they are kept mainly for negotiation purposes, they are expected to be carried out within a period of twelve months after the closing date or it is cash or cash equivalents, except in those cases where they cannot be exchanged or used to settle a liability, at least within twelve months after the reporting date.
- Liabilities are classified as current when they are expected to be settled in the normal operating cycle of the Group, they are kept mainly for trading, they have to be settled within a period of twelve months from the reporting date or the Group does not have the unconditional right to postpone the cancellation of the liabilities during the twelve months following the reporting date.
- Financial liabilities are classified as current when they must be settled within twelve months after the reporting date, even if the original term is for a period of more than twelve months and there is a refinancing or restructuring agreement for long-term payments that has concluded after the reporting date and before the consolidated annual accounts are authorised for issue.

(u) Environmental issues

Property, plant and equipment acquired by the Company for long-term use to minimize 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, are recognised as assets applying the measurement, presentation and disclosure criteria described in section (d) Property, plant and equipment.

The result that the activities of the Group can produce on the environment is not significant. Expenses derived from environmental activities are recognised as other operating expenses in the period in which they are incurred.

(v) Transactions between Group companies

Transactions between Group companies, except those related to business combinations and mergers mentioned in the previous sections, are recognised at the fair value of the consideration given or received. The difference between this value and the amount agreed is recognised in line with the underlying economic substance of the transaction.

(w) Foreign currency transactions

Transactions in foreign currency are initially recorded at the exchange rate prevailing at the transaction date.

Monetary assets and liabilities denominated in foreign currency are converted at the exchange rate prevailing at the reporting date. Exchange gains and losses that arise in the conversion process, including those arising from the settlement of balance sheet items, are recognised in the income statement.

4. Business combination

As explained in Note 3.b), as a result of the Merger, Nortegas Energía Distribución, S.A.U. operations have been incorporated from the date of acquisition of this by Nature Gasned XXI S.L.U.

Details of the consideration paid, the fair value of net assets acquired and goodwill are as follows:

	Thousands of Euros
Consideration paid	
Cash paid	807,407
Contingent consideration (1)	192,574
Deferred payments	4,632
Total consideration paid	1,004,613
Fair value of net assets acquired	958,703
Goodwill (note 8)	45,910

(1) Corresponds to the fair value of the contingent payment to former shareholder agreed based on the dividends to be paid by the Company over the next 15 years, up to a maximum amount of Euros 203 million. The Directors have estimated, based on the Group's projections, that this amount will be paid over the next five years. The fair value has been calculated by discounting the estimated amounts paid each year at a rate of 1.50%.

The assets and liabilities of Nortegas Energía Distribución, S.A.U and its subsidiaries as acquired for accounting purposes, are included in the Consolidated Annual Accounts at their fair value at the acquisition date.

The amounts recognised by significant classes at the acquisition date of the assets and liabilities are as follows:

	Fair value (thousands of euros)
Intangible assets	1,534,457
Property, plant and equipment	1,083,481
Investments accounted by using the equity method	609
Other non-current financial assets	58,245
Deferred tax assets	31,347
Inventories	4,335
Trade receivables and other receivables	318,912
Other current financial assets	4,155
Prepayments	2,025
Cash and cash equivalents	43,102
Total assets	3,080,668
Long and short term debts	1,430,066
Other non-current liabilities	420
Deferred tax liabilities	355,148
Trade payables and other Payables	327,566
Other current liabilities	8,765
Total liabilities.	2,121,965
Total net assets acquired	958,703

The goodwill amounts to EUR 46 million and includes non-separable intangible assets and the expected effects of synergies. The provisional assignment of Goodwill is detailed in note 8.

The contribution of the net assets incorporated in the transaction to the net result of the eight-month period ended on December 31, 2017 of the Group since July 27, 2017 has amounted to a benefit of approximately 11,985 thousand of euros. If this acquisition had taken place on January 1, 2017, the increase in ordinary income for the year 2017 would have amounted to 131,497 thousand of euros, the increase in operating profit before amortisations would be 101,473 thousand of euros and the increase in the net result for the year would be 25,862 thousand of euros.

The costs incurred in the acquisition have not been significant.

The accounting for this business combination has been provisionally determined at the date of preparation of these consolidated annual accounts, since the valuation of the assets and liabilities acquired has not yet been finalised and that twelve months have not passed since the acquisition of Nortegas Enegia Distribución, S.A.U, as established in IFRS 3 "Business Combinations".

5. Financial Information by Segments

Segment reporting December 31, 2017 for each of the segments operated within the Group, obtained applying the criteria described in note 3 (s), is as follows:

	Thousands of euros		
	Segments		
31.12.2017	**Natural Gas**	**LPG**	**Total**
Revenues	81,287	10,029	**91,317**
Capitalized Staff costs	3,126	-	**3,126**
Supplies	(2,061)	(5,371)	**(7,432)**
Personnel expenses	(12,807)	-	**(12,807)**
Amortisation of fixed assets	(35,205)	(3,653)	**(38,858)**
Other operating expenses	(11,144)	(1,341)	**(12,485)**
Other income	167	5,780	**5,947**
Results from operating activities	**23,363**	**5,444**	**28,807**
Financial income (unassigned)	-	-	**230**
Financial expense (unassigned)	-	-	**(12,691)**
Income tax (unassigned)			**(4,415)**
Share in profits of investments accounted for using the equity method (unassigned)	-	-	**57**
Profit before taxes			**11,988**
Segment assets	2,759,766	144,670	**2,904,436**
Segment liabilities	1,740,610	132,487	**1,873,097**

6. Subsidiaries

In Appendix I is includes all the information about dependent entities included in the Group consolidation.

During the eight-month period ended on December 31, 2017, (except for the comments in note 4 and 3.b) there have not been changes in consolidated entities.

7. Property, plant and equipment

The composition and movements in the accounts included in the property, plant and equipment during the eight-month period ended on December 31, 2017, were as follows:.

	Thousands of Euros						
31.12.2017	**Land**	**Buildings**	**Technical installations and machinery**	**Other installations, equipment and furniture**	**Under construction and advances**	**Other property, plant and equipment**	**Total**
Cost at March 31 and April 30, 2017	-	-	-	-	-	-	**-**
Additions	-	-	777	609	8,504	150	**10,040**
Additions from business combination (note 4)	656	5,999	1,692,893	87,904	10,243	7,411	**1,805,106**
Disposals	-	-	-	-	(31)	-	**(31)**
Transfers	-	-	5,978	1,052	(7,030)	-	**-**
Balance at December 31, 2017	656	5,999	1,699,648	89,565	11,686	7,561	**1,815,115**
Accumulated depreciation at March 31 and April 30, 2017	-	-	-	-	-	-	**-**
Depreciation	-	(47)	(24,459)	(2,980)	-	(162)	**(27,648)**
Additions for business combination (note 4)	-	(3,348)	(648,545)	(63,856)	-	(5,875)	**(721,624)**
Disposals	-	-	-	-	-	-	**-**
Transfers	-	-	-	-	-	-	**-**
Accumulated depreciation at December 31, 2017	-	(3,395)	(673,004)	(66,836)	-	(6,037)	**(749,272)**
Carrying amount at December 31, 2017	**656**	**2,604**	**1,026,644**	**22,729**	**11,686**	**1,524**	**1,065,843**

The additions recorded in the heading of under construction and advances for an amount of 8,504 thousand euros correspond mainly to additions due to investment in its own network, network extensions and to development of networks in new municipalities in Basque Country, Asturias and Cantabria.

Insurance

The Group has taken out insurance policies to cover the risk of damage to its property, plant and equipment. The coverage of these policies is considered sufficient. The value of the insured assets for networks and gas pipelines, industrial facilities, office buildings and electronic equipment amounts to Euros 1,794,068 thousand. Additionally, there is an automatic coverage for damages of Euros 538,220 thousand.

Fully depreciated assets

Details of the cost of fully depreciated property, plant and equipment in use at December 31, 2017 are as follows:

	Thousands of Euros
	31.12.2017
Buildings	1,964
Technical installations and machinery	149,396
Other installations, equipment and furniture	37,252
Other property, plant and equipment	4,205
	192,817

Property, plant and equipment subject to guarantees

At December 31, 2017, the Group does not have elements of property, plant and equipment as guarantees of bank debts.

Commitments

At December 31, 2017, the Group has no commitments to acquire significant items of property, plant and equipment.

8. Intangible assets

The composition and movements in the accounts included in the intangible assets during the eight-month period ended on December 31, 2017, were as follows:

	Thousands of euros			
31.12.2017	**Patents, licenses, trademarks and similar**	**Goodwill**	**Computer software**	**Total**
Cost March 31 and April 30, 2017	-	-	-	**-**
Additions from business combinations (note 4)	1,531,498	45,910	15,517	**1,592,925**
Additions	-	-	4,032	**4,032**
Disposals	-	-	-	**-**
Cost at December 31, 2017	1,531,498	45,910	19,549	**1,596,957**
Accumulated amortisation at March 31 and April 30, 2017	-	-	-	**-**
Additions for business combinations (note 4)	-	-	(12,558)	**(12,558)**
Amortisation	(10,775)	-	(435)	**(11,210)**
Disposals	-	-	-	**-**
Accumulated amortisation at December 31, 2017	(10,775)	-	(12,993)	**(23,768)**
Carrying amount at December 31, 2017	**1,520,723**	**45,910**	**6,556**	**1,573,189**

At December 31, 2017, the Company has no commitments to acquire intangible assets.

Goodwill

Goodwill resulting from business combinations carried out in the eight-month period ended 31 December 2017 (see note 4) amounting to Euros 46 millions mainly comprises the future economic benefits derived from the own activity of the Parent and subsidiaries listed in Appendix I, which do not meet the conditions established for recognition as a separate asset.

The allocation of Goodwill as of December 31, 2017 by the Cash Generating Unit (CGU) is as follows:

	Thousands of euros
	2017
Gas Natural distribution in Basque Country	15,302
Gas Natural distribution in Asturias and Cantabria	30,052
Liquefied Petroleum Gas distribution and supply	556
	45,910

Fully amortised assets

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

	Thousands of euros
	31.12.2017
Computer software	11,634
	11,634

Impairment

The publication on 27 December 2017 of Order ETU/1283/2017 of 22 December 2017 establishing the tolls and charges associated with third-party access to gas facilities and the remuneration of regulated activities for 2018, which has led to a significant reduction in the revenue to be received by the Company for meter rental, is considered to be an indication of impairment of the Distribución de Gas Natural País Vasco CGU.

As a result of mentioned above, the Group has carried out an impairment test, being the main hypothesis are as follows:

- Regulated remuneration: the approved remuneration has been used for the years in which it is available, and for subsequent years the mechanisms for updating said remuneration established in the different legislations, which have been applied in a manner consistent with the estimated costs of the cash generating unit.

- Investment: investment plans have been considered that are consistent with the expected growth in demand of the cash generating unit.

- Operation and maintenance costs: the best available estimate of changes in these costs based on historical Company information.

- 15-year projections with a growth rate from year 15 of between 0.25% and 0.75%.

- Discount rate before taxes between 5.65% and 6.39%. The discount rate applied to calculate the present values of free cash flows has been determined according to the weighted average cost of capital (WACC). WACC is a type of discount based on the required rates of return of each component of the capital invested (equity and financial debt) and is calculated by weighting the required returns of these components in proportion to the weight of each of these sources of financing in an expected capital structure. In this regard, the following has been taken into account in this calculation:

    - Cost of capital or own resources (Ke):

        - Risk-free rate (Rf): calculated based on the profitability of the Spanish State Bond.

        - Market risk premium (Rm-Rf): this has been defined according to the analysis carried out based on empirical studies in long series that analyse the difference between the average historical profitability of the stock exchange and long-term state debt.

        - Unleveraged beta coefficient: represents the risk differential of each business with respect to the average market risk (Rm), referenced using certain listed companies with businesses comparable to the business under analysis.

    - Cost of debt (Kd): the cost to which a company could be financed.

    - Nominal tax rate applicable in each jurisdiction.

The recoverable amount calculated in the aforementioned impairment test is a value higher than the carrying amount of the cash generating unit, so no impairment losses have been recognised for property, plant and equipment or intangible assets in the eight-month period ended 31 December 2017.

Sensitivity analysis

The Group has carried out a sensitivity analysis of the results of impairment tests to variations in the following assumptions in each cash generating unit:

- An increase in the discount rate of 0.5%.
- A smaller growth of supply points of 0.5%.
- A smaller growth in demand per supply point of 0.5%.
- A decrease in the distribution remuneration of a 10%.

In these sensitivity analysis carried out for each hypothesis individually considered, impairment has been detected in the following cases:

- For Natural Gas Distribution in Asturias and Cantabria: under the hypothesis of an increase in the discount rate of 20 basis points, lower growth of the supply points of 0.5% or a decrease in the remuneration distribution of 4.5%, the value in use will be lower than the net book value of the CGU.

- For Natural Gas Distribution in Basque Country, within the sensitivity analyses carried out no impairment was detected in any case.

9. Investments in Associates accounted for using the Equity Method

Information on investments in associates accounted for using the equity method is as follows:

Name	Registered office	Activity	Auditor	Holding entity	% ownership	Carrying amount of investment
Tolosa Gasa, S.A.	Tolosa (Guipuzkoa)	Distribution of natural gas	KPMG Auditores, S.L.	Nortegas Energía Distribución, S.A.U.	40,00	260
Inkolan, A.I.E.	Bilbao (Biscay)	Compilation and management of all information related to the networks installed by each of its partners in the Basque Autonomous Community (BAC).	Moore Stephens AMS, S.L.	Nortegas Energía Distribución, S.A.U.	14,29	69
						329

Details of investments in Group companies and associates are as follows:

Company	Additions from business combination (Note 4)	Share in profits for the period	Balance at December 31, 2017
Inkolan, A.I.E.	129	28	157
Tolosa Gasa, S.A.	480	29	509
	609	57	666

Associates entities have not incurred any contingent liabilities.

10. Operating leases

The Group leases, comprises mainly, the offices in which it carries out its activity.

The amount of the lease payments recognised as expenses for the period amounts to 850 thousands euros (see note 31).

The minimum future payments for non-cancellable operating leases are as follows:

	Thousands of euros 31.12.2017
Less than one year	1,276
Between one and five years	156
More than five years	715
	2,147

11. Financial Assets by Category

Classification of financial assets by category

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

	Thousands of euros	
	Non-current	Current
	At amortised cost or cost	At amortised cost or cost
31.12.2017	Carrying amount	Carrying amount
Loans and receivables		
Loans		
Variable rate	5,320	13
Security and other deposits	1,215	198
Trade receivables for sales and service rendered	-	25,749
Trade receivables	-	67,931
Other receivables	-	191
Total	6,535	93,542
Total financial assets	**6,535**	**93,542**

The carrying amount of financial assets recognised in the balance sheet at amortised cost does not differ significantly from their fair value.

Net losses and gains by category of financial assets at 31 December 2017 amount to Euros 2,633 thousand in expenses corresponding to the settlement of a financial derivative made in September 2017 (see note 33) and Euros 230 thousand in income corresponding to accrued interest (see note 33).

12. Current and non-current financial assets

Detail of current and non-current financial assets at December 31, 2017, is as follows:

	Thousands of euros	
	2017	
	Non-current	Current
Guarantees extended	328	198
Credits to related parties	-	13
Credits to third parties	5,320	-
Constituted deposits	887	-
Trade and Other Receivables (note 15)	-	93,331
Total	6,535	93,542

Non-current credits to unrelated parties at December 31, 2017, includes the long-term deficit of gas sector pending collection (see note 1.c and 3.q).

The fair value of loans and other receivables do not differ significantly from their book value.

13. Asset write-offs and securitisations

On 1 December 2017, the Parent, as the subject of the settlement system with the right to recover the annuities corresponding to the 2014 deficit (see note 3.q), assigned the amount and interest receivable to a financial institution. This operation, for an amount of Euros 53,036 thousand, implies that the payments for the aforementioned items that, in accordance with the periodic settlements issued by the CNMC, were to be made to the Company should now be made in favour of the new beneficiary. The directors of the Company consider that the contractual rights to receive the cash flows of this financial asset have been transferred to the financial entity, so that the financial asset has been derecognised at 31 December 2017. The difference between the securitisation value received and the amount for which they were registered is immaterial.

14. Income Tax

The Parent, Nortegas Energía Distribución, S.A.U. and Group company NED Suministro GLP, S.A.U. files taxes from this year under the special tax consolidation regime, in application of the tax consolidation regime foreseen in the Provincial Income Tax Law 11/2013 of 5 December 2013, of which the parent of the tax group is Nortegas Energía Distribución, S.A.U.

Without prejudice to this special tax regime, the subsidiary NED España Distribución Gas presents its tax returns on an individual basis in accordance with Income Tax Law 27/2014 of 27 November 2014.

Detail of deferred tax assets and liabilities by types of assets and liabilities is as follows:

	Thousands of euros	
	31.12.2017	
	Assets	**Liabilities**
Property, plant and equipment and intangible assets	22,733	340,543
Deferred Income	-	8,103
Provisions for compensation	1,004	-
Activation of tax credits	755	-
Other	198	-
Total assets/liabilities	**24,690**	**348,646**

Details of the variation in deferred taxes by type of assets or liabilities that has been recognised against (expense)/income for deferred income tax are as follows:

	Thousands of euros	
	Period ended 31.12.2017	
	Assets	Liabilities
Property, plant and equipment	(3,274)	4,810
Deferred income	-	31
Provisions	1,004	-
Other	158	-
Total assets/liabilities	**(2,112)**	**4,841**

Provincial Income Tax Law 11/2013 of 5 December 2013, effective for periods beginning on or after 1 January 2014, establishes that income tax deductions and losses declared may be carried forward to be offset against profits for the fifteen subsequent accounting periods.

Detail of income tax expense is as follows

	Thousands of euros
	31.12.2017
Current tax	
Present period	(6,312)
Prior period adjustments	(35)
Previously unrecognised tax deductions applied	-
	(6,347)
Deferred taxes	
Source and reversal of temporary differences	
Property, plant and equipment	1,536
Provisions	1,004
Deferred income	31
Other	(828)
Activation of tax credits	189
Total deferred taxes	1,932
	(4,415)

The reconciliation between current tax and current income tax liabilities is as follows:

	Thousands of euros
	2017
Current tax	6,312
Assumed in business combination	1,847
Payments on account made during the period	(1,431)
Current income tax liabilities	6,728

The relationship between the (expense)/income for income tax and the profit / (loss) from continuing activities is as follows:

	Thousands of euros	
31.12.2017	**Profit and loss**	**Total**
Income and expenses for the period before tax	16,403	16,403
Tax at 28%	(4,593)	(4,593)
Effect of differences in tax rates	292	292
Adjustments from previous years	(35)	(35)
Other	(79)	(79)
Income tax expense/(income from Continuing operations	**(4,415)**	**(4,415)**

The Parent has open to inspection by the taxation authorities all main applicable taxes for periods that have not elapsed.

The remaining Group companies have open to inspection the applicable taxes for the periods stipulated in accordance with prevailing local legislation.

15. Trade and Other Receivables

Details of trade and other receivables are as follows:

	Thousands of euros
	31.12.2017
Associates(note 34)	
Other receivables	26
Third parties	
Trade receivables	26,498
Other receivables	67,365
Personnel	190
Impairment	(749)
Total	**93,330**

Trade receivables with unrelated parties mainly include outstanding balances from natural gas suppliers for the invoicing of tolls and for the billing of liquefied gas to end customers.

Other receivables with unrelated parties at 31 December 2017 include Euros 41 million for the balance pending collection for 2017 remuneration by NED España Distribución de Gas, S.A.U.

Additionally, receivables from unrelated parties include an amount of Euros 8 million corresponding to measurement differences generated due to the way the system was operated in 2012, 2013, 2016 and 2017 between the estimates made by the Company and the amounts recognised for the Company in said periods. The directors of the Company consider that these amounts will be received when the final settlements for these periods are made.

(a) Valuation adjustments

Movement in valuation adjustments for uncollectibility of trade and other receivables is as follows:

	Thousands of euros
	2017
Balance at 31 March and 30 April	-
Additions from business combination	(539)
Charges	(210)
Balance at 31 December	(749)

16. Other current assets

Detail of other current assets is as follows:

	Thousands of euros
	2017
Public entities	
Taxation authorities, VAT	1,900
Prepayments	2,239
Total	4,139

Prepayments

Prepayments include Euros 1,800 thousand corresponding to two insurance policies that Nortegas Energía Distribución, S.A. and NED Suministro GLP, S.A.U. have taken out with EDP Iberia, S.L.U.

On 20 April 2017, an agreement was entered into whereby EDP Iberia, S.L.U. guaranteed to NED Suministro GLP, S.A.U. a minimum gross margin for each point of supply acquired from Repsol Butano, S.A. prior to 31 December 2016, which would be at least the margin budgeted by the EDP Group in the valuation of the purchase operation. If the minimum gross margin is not met, EDP Iberia, S.L.U will have to pay an effective amount equal to the difference between the amount estimated in the valuation of the supply points for the purchase from Repsol and the actual margin.

This contract will be effective until the expiration date, which will take place on 1 January 2021.

A contract was signed on 20 April 2017 whereby EDP Iberia, S.L.U. ensures that Nortegas Energía Distribución, S.A.U. will be compensated for any changes in regulations affecting the remuneration from gas meter rentals with respect to the regulations approved for 2017. This guarantee only covers the impact on the 2018 to 2021 period of such regulatory changes.

17. Cash and cash equivalents

Details of cash and cash equivalents are as follows:

	Thousands of euros	
	31.12.2017	30.04.2017
Cash on hand	7	-
Cash in banks	130,527	3
	130,534	3

18. Equity

Details of equity and movement during the period are shown in the statement of changes in equity:

Capital

Prevailing accounting principles establish that share capital will be that of the accounting acquiree, recognising any difference with the share capital of the accounting acquirer as a share premium or reserves. As a result, the Nature Gasned XXI S.L.U.'s share capital was increased by Euros 99,997 thousand with a charge to reserves.

At 31 December 2017 the Company's share capital is represented by 1,000,000 registered shares of Euros 100 par value each, subscribed and fully paid. All shares have the same voting and profit sharing rights.

These shares are freely transferable.

The sole shareholder of Nature Gasned XXI, S.L.U. carried out, on July 26, 2017, before the date of acquisition of the Company, a capital increase amounting to 822,407 thousand euros, which as a result of the reverse merger was recorded in the captions Share premium and Reserves amounting to Euros 814,183 and 8,224 thousand, respectively. In addition, the sole shareholder made a shareholder contributions amounting to Euros 196,941 thousand.

At 31 December 2017, the sole shareholder of the Company is Naturned Gas S.L.U, (see note 1), The Company is therefore a solely-owned entity and is entered as such in the Spanish mercantile registry.

Transactions with the sole shareholder are detailed in note 34.

The Group's objectives in capital management are to safeguard the ability to continue as a going concern, so that it can continue to perform its core activities of natural gas distribution as a regulated company, maintaining a solvent, reasonable and optimal capital structure, reducing the cost of capital and also ensuring the sustainability of its activities in the long term, all this providing returns to shareholders and benefiting the remaining interest groups with which the Group interacts.

In order to maintain and adjust the capital structure, the Group can adjust the amount of dividends payable to shareholders, it can return capital, issue shares or can sell assets to reduce indebtedness.

The Group controls the capital structure mainly through the Net Financial Debt / EBITDA ratio. Given that it is one of the fundamental variables to ensure the credit quality granted by the international rating agency Standard & Poor's (S & P) with the rating of BBB- (Note 22). EBITDA is determined as operating income plus depreciation for the period. The Net Financial Debt is determined by the sum of the financial debts less Cash and cash equivalents.

In this regard, it is important to highlight that, given its subordinated nature, the amount pending payment at 31 December 2017 of the loan extended by the ultimate parent company Nature Investments S.à.r.l. as well as any accrued interest, is not considered for the calculation of net financial debt, which amount to Euros 127,303 thousand and Euros 2,794 thousand, respectively.

Given the singularity of the 2017 period (see note 2) for the purpose of calculating the ratio, proforma EBITDA has been considered from 1 January 2017 to 31 December 2017, as detailed in the directors' report. The Net Financial Debt / EBITDA ratio for 2017 was determined as follows:

	Thousands of euros
Bonds and other marketable securities (current and non-current) (note 19)	1,297,318
Security deposit (current and non-current) (note 19)	1,207
Other non-current financial liabilities (note 19)	1,193
Debts with associates (note 19)	386
Debts with credit institutions (note 19)	50
Total financial indebtedness	1,300,154
Less: Cash and cash equivalents	(130,534)
Net Financial Debt	1,169,620
EBITDA Proforma (1 January 2017 to 31 December 2017)	169,139
Net Financial Debt/EBITDA Ratio	6.92

Share premium

Under the Revised Spanish Companies Act, the balance of the share premium reserve may be used to increase share capital, and there are no specific restrictions on the availability of this reserve. This share premium arises from the capital increase carried out by Nature Gasned XXI, S.L.U. on 26 July 2017.

However, an amount of 25,297 thousand euros is included, which is not distributable due to the legal revaluations of the Group's assets.

This balance will be unavailable until it is verified and accepted by the taxation authorities. This verification must be carried out within three years following the date of presentation of the declaration of the revaluation. For these purposes, it will not be understood that the balance of the account has been used in the following cases:

a) When the partner or shareholder exercises his right to separate from the company.

b) When the balance of the account is eliminated, totally or partially, as a consequence of operations that fall under the special regime for mergers, spin-offs, contributions of assets, exchanges of securities and changes in the registered address of a European company or cooperative, from one member state to another in the European Union, as provided for in Chapter X of Title VIII of Provincial Income Tax Law 3/1996 of 26 June 1996.

c) When the entity must apply the balance of the account under a legal obligation.

Once the verification has been completed or the term has elapsed, the balance of the account may be used to eliminate accounting losses, increase share capital or, after ten years from the closing date of the balance sheet reflecting the revaluation operations, to freely distributable reserves. However, the aforementioned balance may only be distributed, directly or indirectly, when the revalued equity items are fully depreciated, have been transferred or written off the balance sheet.

Other reserves

This caption includes an amount of Euros (91,773) thousand arising from the reverse merger mentioned in note 1, between the share capital of the legal acquirer (accounting acquiree) Nortegas Energía Distribución, S.A.U. and the share capital of the legal acquiree (accounting acquirer) Nature Gasned XXI, S.L.U.

Profit / (Loss) for the period

The contribution of each company included in the consolidation perimeter to the consolidated results, with the indication of the share corresponding to external partners, is as follows:

	Thousands of euros
	Consolidated profit/(loss)
Company	**31.12.2017**
Fully consolidated companies	
Nortegas Energía Distribución, S.A.U.	1,385
NED España Distribución Gas, S.A.U.	7,290
NED Suministro GLP, S.A.U.	3,255
	11,930
Equity-accounted investees	
Inkolan, A.I.E.	28
Tolosa Gasa, S.A.	30
Total	**11,988**

Distribution of the profit/losses of the Parent

The proposed distribution of the Parent's profit for the eight-month period ended 31 December to be presented to the sole shareholder is as follows:

	Euros
Basis of distribution	
Profit for the eight-month period ended 31 December 2017	747,654.05
Distribution	
Legal reserve	74,765.41
Voluntary reserves	672,888.64
	747,654.05

Dividends

On 6 December 2017 the board of directors proposed to the sole shareholder that an extraordinary dividend be distributed with a charge to freely distributable reserves. On 22 January 2018 the sole shareholder agreed to distribute the aforementioned dividend for an amount of Euros 112,892,799.78.

19. Financial Liabilities by Category

Classification of financial liabilities by category

Classification of financial liabilities by category and class is as follows:

	Thousands of euros				
	Non-current			Current	
	At amortised cost or cost			At amortised cost or cost	Total
31.12.2017	Carrying amount	Fair value	Total	Carrying amount	Total
Debts and payables					
Bonds and other marketable securities (note 22)					
Fixed rate	1,291,899	1,317,887	1,291,899	5,419	5,419
Debts with credit institutions	-	-	-	50	50
Debts with Group companies (note 34)	127,303	127,303	127,303	2,794	2,794
Debts with affiliates (note 34)	-	-	-	386	386
Security deposits	1,088	1,088	1,088	119	119
Other financial liabilities	1,193	1,193	1,193	-	-
Trade and other payables					
Suppliers	-	-	-	3,845	3,845
Trade payables	-	-	-	46,900	46,900
Supplier of fixed assets	-	-	-	7,414	7,414
Other payables	-	-	-	1,706	1,706
Total financial liabilities	**1,421,483**	**1,447,471**	**1,421,483**	**68,634**	**68,634**

Net gains and losses by financial liability categories

The amount of net losses and gains by categories of financial liabilities is as follows:

	Thousands of euros	
	2017	
	Debts and payables	Total
Finance expenses at amortised cost. (note 33)	9,709	9,709
Other (note 33)	349	349
Net (gains)/losses in profit and loss	**10,058**	**10,058**
Total	**10,058**	**10,058**

20. Non-current and current financial liabilities

Details of non-current and current financial liabilities is as follows:

	Thousands of euros	
	31 December 2017	
	Non-current	Current
Bonds and other marketable securities (note 22)	1,291,899	5,419
Debts with credit institutions	-	50
Debts with related companies (note 21)	127,303	3,180
Guarantees issued (note 21)	1,088	119
Other financial liabilities (note 21)	1,193	-
Payables and Trade Payables (note 23)	-	59,866
Total	**1,421,483**	**68,634**

21. Loans and Borrowings

The detail of debt financial liabilities is as follows:

	Thousands of euros	
	31.12.2017	
	Non-current	Current
Related parties		
Debts	127,303	3,180
Unrelated parties		
Other liabilities	1,193	-
Guarantees and deposits received	1,088	119
Total	**129,584**	**3,299**

Non-current liabilities at December 31, 2017, corresponds entirely to a subordinated loan granted on July 27, 2017 by Nature Investments S.à.r.l. to Nortegas Energía Distribución, S.A.U. amounting to 127 million euros, with maturity of December 31, 2024 or one month after the maturity of the bonds (Note 22) accruing interest at a fixed rate of 5% (See note 34).

At 31 December 2017, current payables to Group companies and associates includes mainly the unpaid interest of the loan mentioned above.

Lenders entities have not demanded any type of guarantees for the loans mentioned above.

Credit policies and other financing lines

The Group has at its disposal a credit line with a financial institution with a limit of 100 million euros. At December 31, 2017, the Group has not drawn any amount.

22. Financial Liabilities for the Issuance of Bonds and Other Marketable Securities

On 13 September 2017, Nortegas Energía Distribución S.A.U. obtained from the international rating agency Standard & Poor's (S&P) a BBB- credit rating, which is an investment grade, both for the Company and for the medium-term bond issuance program (Euro Medium Term Note Program (EMTN Program)).

On September 28, 2017, the Group made two bond issues under the Euro Medium Term Note Program (EMTN Program), which also obtained the credit rating of BBB- by S & P. The first is an issue of 550 million euros, maturing on September 28, 2022. The issue price was 100% and the annual interest rate is 0.918% payable annually on September 28.

The second is a bond issue amounting to 750 million euros. The maturity date is September 28, 2027. The issue price was 100% and the annual interest rate is 2.065% payable annually on September 28.

The average interest rate of this debt in fiscal period 2017 was 1.58%.

At December 31, 2017, unpaid interest amounts to 5,419 thousand euros and are classified under the heading of financial liabilities from issuing bonds and other marketable securities of the consolidated balance sheet.

22.1 Statement of Cash Flows

The movement of the eight-month period ended December 31, 2017 of liabilities classified as financial activities in the Statement of Cash Flows excluding equity items is as follows:

		Cash Flows						
Thousands of Euros	**30.04.17**	**Assumed in business combinations**	**Issues**	**Redemption**	**Interest payment**	**Interest accrual**	**Amortized cost and others**	**31.12.17**
Obligations and bonds	-	-	1,300,000	-	-	349	(8,450)	1,291,899
Debts with credit institutions	-	1,427,303	-	(1,427,303)	-	-	-	-
Debts with group companies	-	321	127,303	-	-	-	65	127,689
Rest of financing operations	-	2,171	-	-	-	-	229	2,400
Accrued interest not paid	-	271	-	-	(1,717)	9,709	-	8,263
Dervative financial instrument		(3,940)	1,307	-	-	2,633	-	-
Total Financial debt-loans and other	**-**	**1,426,126**	**1,428,610**	**(1,427,303)**	**(1,717)**	**12,691**	**(8,156)**	**1,430,251**

23. Payables and Trade Payables

Details of trade and other payables are as follows:

	Thousands of euros
	Current
	31.12.2017
Third parties	
Suppliers	3,845
Trade payables	47,277
Suppliers of fixed assets	7,414
Personnel	1,329
Total	**59,866**

The fair values of the payables and other accounts payable do not differ significantly from their book values.

Payables to unrelated parties include Euros 37,415 thousand payable for gas sector intercompany settlements, reflecting the estimate at 31 December 2017, which, based on authorised costs for the distribution activity, are allocated to the Group in the corresponding settlement period to adjust the settlement to the remuneration calculated by the Ministry of Energy, Tourism and the Digital Agenda, pursuant to the legislation applicable to the gas sector

The Group has estimated its settlements for 2017 based on a comparison between the sales made in each year, less other related costs, and the accrued balance at 31 December 2017 of the Group 's authorised costs, calculated based on the distribution of total allocated fixed remuneration for 2017, distributed proportionally.

24. Information on late payments to suppliers. “Reporting Requirement”, Third Additional Provision of Law 15/2010 of 5 July 2010

Details of the average supplier payment period are as follows:

	Days
	31.12.2017
Average supplier payment period	24.18
Transactions paid ratio	35.86
Transactions payable ratio	2.03

	Amount in Euros
	31.12.2017
Total payments made	17,643,281
Total payments outstanding	9,303,173

25. Risk Management Policy

Financial risk factors

The Group's activity consists of gas distribution in Spain, thus it is not subject to currency risk, country risk, exchange rate insurance. Furthermore, the Company does not have any financial derivatives of any kind. The Group has not carried out transactions with end customers, only with gas suppliers and other agents in the gas system.

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

Adaptation of the systems to the Group’s risk profile is managed individually by specifically analysing each of the risks and their conditioning factors and taking into consideration their nature, origin, possibility and probability of occurrence and the significance of their impact. Management measures (hedges, mitigation, opportunity, etc.) that are viable for each risk are also considered.

Controls are based on the approval of management policies and include mechanisms to set and control operational limits, as well as authorisation and supervision processes, together with operational procedures.

(i) Interest risk

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

(ii) Credit risk

The Group is not exposed to significant credit risk due to the regulated nature of its main activities.

The tables below show the ageing analysis of financial assets at December 31, 2017:

	31.12.2017				
	Thousands of euros				
	Less than 3 months	**More than 3 months and less than 6 months**	**Between 6 months and less than 1 year**	**More than 1 year**	**Total**
Trade and other receivables, fixed rate	84,714	-	128	8,488	93,330
Other financial assets	13	-	199	-	212
Total assets	84,727	-	327	8,488	93,542

The amount collected for more than one year corresponds to an amount of 7 million euros related to measurement differences receivable from the system and an amount of 1.4 million euros related to the short-term deficit.

(iii) Liquidity risk

At December 31, 2017, the Group presents a positive working capital of 140,349 thousands of euros. The Group has a sufficient annual cash generation to meet its needs.

The liquidity policy adopted ensures that payment obligations are met through the arrangement of sufficient credit facilities.

The Group's exposure to liquidity risk at December 31, 2017 is detailed below. The tables reflect the analysis of financial liabilities by contractual maturity date.

	31.12.2017				
	Thousands of euros				
	Less than 3 months	More than 3 months and less than 6 months	More than 6 months and less than 1 year	More than 1 year	Total
Financial liabilities with credit institutions					
Variable rate					
Interest	50	-	-	-	50
Fixed rate					
Interest	-	-	-	-	-
Trade and other payables	8,433	14,109	37,325	-	59,866
Bonds and other financial liabilities					
Principal	-	-	-	1,291,899	1,291,899
Interest	-	-	5,419	-	5,419
Total liabilities	8,483	14,109	42,744	1,291,899	1,357,235

26. Provisions

The detail of other provisions and their classification between current and non-current is as follows:

	Thousands of euros
	31.12.2017
	Non-current
Provision for voluntary redundancies	3,587
Other provisions with personnel	330
Other responsibilities	12
Total	**3,929**

Movement of provisions during the period of eight months ended 31 December 2017 is as follows:

	Thousands of euros			
	Provision for voluntary redundancies (note 32)	**Other provisions with personnel**	**Other responsibilities**	**Total**
Balance at March 31 and April 30	-	-	-	-
Acquired in business combination (note 4)	-	330	8	338
Charges	3,587	-	12	3,599
Reversals	-	-	(8)	(8)
Balance at December, 31	**3,587**	**330**	**12**	**3,929**

Provision for voluntary redundancies

The balance of the provision mainly corresponds to the liability recognised by the Company to cover the voluntary redundancies agreed with various employees at 31 December 2017 for a total amount of Euros 3.6 million. Based on this commitment, a voluntary retirement plan has been agreed with the employees that will be implemented in 2018.

Other responsibilities

The provision for other liabilities includes the estimated amounts required to cover probable liabilities arising from claims or other obligations deriving from the Company's activity. In accordance with the opinion of the Administrators, after legal advice, is not expected to differ significantly from the amounts provisioned at December 31 2017.

Commitments

Guarantees provided to third parties (local councils and other public entities) at December 31, 2017, amounts to 6,356 thousands of euros, whereas guarantees received from suppliers amount to 3,189 thousands of euros.

Guarantees provided to local councils and other public entities are for the use and replacement of public assets affected by construction work for gas pipelines and distribution networks. No losses are expected in respect of these guarantees.

27. Environmental information

The very nature of the Group's activity, the distribution of natural gas as a substitute for oil and coal by-products, which are more polluting due to the effects of combustion, helps to improve the environment and provides greater thermal efficiency, which promotes energy efficiency and therefore savings.

Natural gas contributes to improving the environment as it reduces the emission of greenhouse gases and causes less air pollution since its composition (90% methane) generates less CO_2 during combustion. Furthermore, natural gas contains practically no sulphur.

Throughout the eight-month period ended December 31, 2017 the Group has continued its efforts to coordinate environmental safety in gas distribution works, having expanded this action to network maintenance work, including periodic visits. In accordance with the environmental procedures of the integrated management system, noise levels are measured at the distribution regulation and metering stations, the location of which makes them susceptible to exceeding the permitted limits.

The Company has received no environmental grants or income from activities related to the environment in the eight-month period ended December 31, 2017.

As a result of the aforementioned actions undertaken by the Group, the Directors consider that any contingencies that could arise from environmental issues, which are very unlikely, are sufficiently covered by their civil liability insurance policies.

28. Deferred income

The movement of deferred income is as follows:

	Thousands of euros
	31.12.2017
Balance at March 31 and April 30	-
Additions	1,175
Amounts transferred to the income statement	(15)
Other movements	82
Balance at December, 31	**1,242**

Deferred income includes the connection and extension rights, and other income to be distributed.

The detail of the amounts recognised in the profit and loss statement is as follows:

	Thousands of euros
Connection and extension rights	8
Other incomes to be distributed in various years	7
	15

29. Other current liabilities

Details of other current liabilities are as follows:

	Thousands of euros
	31.12.2017
Other liabilities	12,465
Current tax liabilities	
VAT	238
Personal income tax	1,549
Social Security	348
Public prices, rates and municipalities	3,201
Total	17,801

Other liabilities mainly comprise an amount of Euros 10,710 thousand payable to EDP Iberia, as head of the VAT group in previous periods, for VAT pending collection from Redexis Gas, S.A. for the same amount, which is recognised under other receivables in the attached balance sheet for the sale of gas networks carried out in 2015, and which once collected from Redexis Gas, S.A. will be paid to EDP Iberia.

The amount corresponding to the fees for the occupation of the subsoil is included under the heading Public prices, rates and municipalities.

30. Ordinary Income

Details of revenues by category of activity are as follows:

	Thousands of euros
	Spain
Revenue from the sale of propane gas	9,148
Revenue from regulated activities	69,431
Revenue from the rendering of services	12,738
	91,317

Revenue from regulated activities comprises the amount accrued for regulated remuneration for gas distribution companies.

Details of procurements, raw materials and other supplies used are as follows:

	Thousands of euros
Merchandise used	
Purchases	6,335
Change in inventories	(964)
	5,371
Raw materials and other supplies used	
Subcontracted work	1,788
Other	273
	2,061
	7,432

At 31 December 2017, subcontracted work comprises periodic inspections subcontracted to third parties.

31. Other Expenses

Details of other expenses are as follows:

	Thousands of Euro
Operating leases expenses (note 10)	850
Repairs and maintenance	2,371
Independent professional services	2,471
Insurance premiums	184
Utilities	88
Other services	4,323
Taxes	1,835
Impairment losses and uncollectibility of trade and other receivables (see note 15)	210
Other expenses	154
	12,486

32. Personnel expenses

Details of employee benefits expense are as follows:

	Thousands of euros
Wages and salaries	7,265
Other social charges and taxes	1,666
Annual contributions (Note 26)	3,587
Pension plan contributions	289
	12,807

33. Financial Income and Expenses

Details of financial incomes and losses are as follows:

	Thousands of euros
Financial income (see note 11)	230
Interest due to debts with group companies (note 19)	(2,695)
Interest due to debts with credit institutions (note 19)	(1,596)
Interest due from bond issue (Note 19)	(5,419)
Other financial expenses (note 19)	(348)
Realized losses form derivative value changes (Note 11)	(2,633)
Net financial result	(12,461)

34. Related Party Balances and Transactions

Balances receivable from and payable to Group companies, associates and related parties, and the main details of these balances, are disclosed in notes 9 and 21 mainly.

Details of balances by category are as follows:

	Thousands of euros			
31.12.2017	**Sole Shareholder**	**Group Companies**	**Associates**	**Total**
Non-current investments in Group companies and associates				
Equity instruments (note 9)	-	-	666	**666**
Total non-current assets	-	-	666	**666**
Current investments in Group companies and associates				
Loans to companies	13	-	-	**13**
Trade and other receivables				
Other receivables (note 15)			26	**26**
Total current assets	13	-	26	**39**
Total assets	13	-	692	**705**
Debts with group companies and associates, non-current (note 21)	-	127,303	-	**127,303**
Total non-current liabilities	-	127,303	-	**127,303**
Current payables				
Other financial liabilities	-	-	386	**386**
Debts with group companies and associates, current (note 21)	-	2,794	-	**2,794**
Total current liabilities	-	2,794	386	**3,180**
Total liabilities		130,097	386	**130,483**

Related party transactions

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

	Thousands of euros			
31.12.2017	**Sole Shareholder**	**Group Companies**	**Associates**	**Total**
Income				
Other services rendered	-	-	123	**123**
Total revenues	-	-	123	**123**
Expenses				
Financial instruments				
Finance costs	-	2,695	-	**2,695**
Total expenses	-	2,695	-	**2,695**

The financial expenses correspond to the interest accrued of the loan signed during the eight-month period ended December 31, 2017 with the related party Nature Investments S.à.r.l. (see note 21)

Information on the Company's directors and senior management personnel

In the eight-month period ended December 31, 2017, the Company's Directors and the two members of the Company's senior management have received a remuneration of 301 thousands of euros and 176 thousands of euros respectively. Likewise, the members of the senior management maintain an outstanding balance of 17.59 thousand euros, in concept of loans outstanding capital. The Company has no pension or life insurance obligations with its former or current directors.

The collective civil liability insurance premium related to the exercising of the position of director amounted to Euros 24 thousand in 2017.

Transactions other than ordinary business or under terms differing from market conditions carried out by the directors of the Company

In the eight-month period ended December 31, 2017 the directors of the Company have not carried out any transactions other than ordinary business or applying terms that differ from market conditions with the Company or any other Group company.

Conflicts of interest concerning the directors

The 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. Employee Information

The average headcount of the Company for the eight-month period ended at December 31, 2017, distributed by category, is as follows:

	Number
	31.12.2017
Directors	15
Managers	15
Other	213
	243

At 31 December 2017, the Group has two employees with a disability rating of 33% or higher (or equivalent local rating).

Royal Legislative Decree 1/2013 of 29 November 2013, which approves the revised general law governing the rights of persons with disabilities and their social inclusion, requires public and private companies that employ 50 or more workers to maintain a reserve quota of jobs for people with disabilities of at least 2% of their workforce.

The Company, insofar as it does not fulfil the aforementioned reserve quota, adopts a series of alternative measures established by Royal Decree 364/2005 of 8 April, which regulates the alternative compliance of the quota on an exceptional basis in favour of workers with disabilities. The alternative measures applicable by companies to comply with the obligation in favour of persons with disabilities mainly consisted of holding contracts for the provision of services from at least two suppliers considered to be special centres in possession of the corresponding certificate of exceptionality.

At 2017 period end the distribution by gender of Company personnel and the members of the board of directors is as follows:

	Number	
	31.12.2017	
	Female	Male
Board members	1	12
Directors	4	11
Managers	6	9
Other	83	130
	94	**162**

36. Audit Fees

KPMG Auditores, S.L., the auditor of the annual accounts of the Group, and other entities affiliated with KPMG International have invoiced the following net fees for professional services during the eight-month period ended December 31, 2017:

	Thousands of Euros
	31.12.2017
Audit services, consolidated annual accounts	74
Audit services, individual annual accounts of the Company	57
Audit services, annual accounts of subsidiaries	78
Other services	159
	368

Other companies affiliated with KPMG International have invoiced the Company net fees of Euros 15 thousand for other professional services during the eight-month period ended 31 December 2017

37. Events after the Reporting Period

On March 27, 2018, there was published the Foral Regulation 2/2018, of March 21, 2017, introducing, among other measures, modifications of the corporate tax, as well as in the General Statutory Tax Norm of the historical territory of Bizkaia

Among other measures, it is established that the general corporate tax rate will be reduced from the current 28% to 26% in the 2018 fiscal year and 24% from 2019 onwards.

If the change in the rate had been approved or about to be approved on December 31, 2017, a fact that has not occurred, would have resulted in a reduction of deferred taxes for 49 million euros credited to the consolidated profit and loss account.

No significant event of note, additional to the previous one, that could have an effect on the accompanying consolidated annual accounts and which is not disclosed herein, has taken place after the reporting period.

38. Explanation added for translation to English

These Consolidated annual accounts are presented on the basis of IFRS, as adopted by the European Union. Certain accounting practices applied by the Group that conform to IFRS may not conform to other generally accepted accounting principles in other countries.

Appendix I

NORTEGAS ENERGÍA DISTRIBUCIÓN, S.A.U. AND SUBSIDIARIES

Details of Investments in Subsidiaries and Associates
31 December 2017

Name	Registered office	Activity	Auditor	Group company holding the investment	% ownership	Effective % ownership of the Company	Consolidation basis
NED España Distribución Gas, S.A.U.	Oviedo (Asturias)	Distribution of natural gas	KPMG Auditores, S.L.	Nortegas Energía Distribución, S.A.U	100%	100%	Full
NED Suministro GLP, S.A.U	Bilbao (Vizcaya)	Distribution and sale of liquified petroleum gas	KPMG Auditores, S.L.	Nortegas Energía Distribución, S.A.U	100%	100%	Full
Tolosa Gasa, S.A.	Tolosa (Guipuzcóa)	Distribution of natural gas	KPMG Auditores, S.L.	Nortegas Energía Distribución, S.A.U	40.00%	40.00%	Equity Method
Inkolan, A.I.E.	Bilbao (Vizcaya)	Compilation and management of all information related to the networks installed by each of its partners in the Basque Autonomous Community (BAC)	Moore Stephens AMS, S.L.	Nortegas Energía Distribución, S.A.U	14.29%	14.29%	Equity Method

This Appendix forms an integral part of note 6 to the consolidated annual accounts.

NORTEGAS ENERGÍA DISTRIBUCIÓN, S.A.U. AND SUBSIDIARIES

Directors' Report for the eight-month period
ended 31 December 2017

1. Origin of the Group and most significant events of 2017

On July 27, 2017, an international consortium of infrastructure investors with a vocation for long-term permanence, formalised the purchase of Nortegas Energía Distribución, S.A.U. ("Nortegas"), formerly Naturgas, to the EDP group, acquiring 100% of its distribution business of natural gas and liquefied petroleum gas (LPG) in Spain.

As detailed in note 1 to the audited annual accounts, Nature Gasned XXI, S.L.U. was incorporated on 31 March 2017. Additionally, as indicated in note 1, with accounting effect on 27 July 2017, a reverse merger was carried out with Nortegas Energía Distribución, S.A.U., with the liquidation of Nature Gasned XXI, S.L.U.

As Nature Gasned XXI, S.L.U. was considered the acquirer for accounting purposes, and this company was incorporated in March 2017, the comparative figures for the previous period of these consolidated annual accounts only includes the following:

- The activities of Nature Gasned XXI, S.L.U. for the period of one month ending at April 30, 2017
- The assets and liabilities of Nature Gasned XXI, S.L.U. at April 30, 2017.

Similarly, the consolidated income statement for the eight-month period ended 31 December 2017 only includes the operations of Nortegas Energía Distribución, S.A.U. from 27 July 2017, the date of acquisition, and the operations of Nature Gasned XXI, S.L.U. for the eight-month period ended 31 December 2017.

Nortegas is the second gas distributor in Spain and the main one in the north zone. It has more than one million connection points and 8,194 km. of gas pipelines distributed between the Basque Country, Asturias and Cantabria. It has a staff of approximately 250 professionals and its corporate headquarters is in Bilbao.

A new stage begins with development and growth objectives in all areas of activity. This line of growth is marked, among others, by the integration in the usual operations of the Company of some 83,000 LPG customers acquired from Repsol Butano, S.A. at the end of 2016.

Likewise, the Group has addressed the creation of a new corporate identity, which will give its own and relevant personality in the gas distribution market.

In the third quarter of the year, Nortegas Energía Distribución closed an inaugural bond issue worth 1,300 million euros, becoming the largest operation of its kind carried out by a Spanish company since 1999.

The success of this issue highlights the quality of the company, as well as the maturity of the business that provides predictable cash flows in a stable regulatory environment.

The issue was structured in two sections. The first one, of 550 million euros, with a term of five years, while the second one rose to 750 million euros, with a term of ten years.

The funds obtained were used to refinance the existing debt in the Company before its acquisition by the new shareholders, enabling the establishment of a healthy long-term financial structure.

In this regard, Standard & Poor's has awarded a BBB- rating (stable outlook) to both the company and the bonds issued.

Lastly, it is worth mentioning in December the sale of the credit right over the nominal amount and interest, corresponding to the accumulated deficit of the gas system at 31 December 2014 amounting to €53m.

2. Data and operational milestones

The activity of Nortegas is mostly regulated, and at the end of 2017, it has almost one million natural gas and LPG points of supply, with presence in 384 municipalities, of which 224 are supplied by natural gas and the rest by LPG, reaching an average penetration rate in Asturias, Cantabria and the Basque Country of 67%.

Operating data	2017	2016	2015	TACC (2015-2017)(1)
Connection points	**1,016,530**	**1,008,181**	**917,846**	**5%**
Natural Gas (NG)<4 bar	932,578	925,659	917,095	
Natural Gas (NG)>4 bar	685	687	683	
GLP	83,267	81,835	68	
Distributed Energy NG+LPG (GWh)	**29,728**	**27,109**	**26,476**	**6%**
Distributed Energy (NG) (GWh)	29,339	27,037	26,476	
Distributed Energy (LPG) (GWh)	389	72	**0**	
Length of the network (NG+LPG) (Km)	**8,194**	**8,101**	**7,715**	**3%**
Km NG	7,803	7,747	7,715	
Km LPG	391	354	-	

Note 1: Accumulated rate of growth composed from the year 2015 to the year 2017.

3. Analysis of the pro forma Results 2017 (January-December)

With the aim of facilitating the comprehension of the results of the Company in the year 2017, there appears the financial pro forma information of the 12 months previous to December 31, 2017.

Due to the reverse merger through the absorption of Nature Gasned XXI S.L.U., parent of Nortegas, with effects from 27 July 2017, the consolidated annual accounts and explicative notes incorporate Nortegas's results exclusively from that date.

In 2017, the benefits of the group reached to the amount of 222.8M €, comparing to the 201.1M € of 2016. The increase compared to 2016 has been 10.8%, due to the growth of natural gas and especially since the incorporation of GLP to the business at the end of 2016.

The EBITDA Pro-Forma consolidated of Nortegas in 2017 raised to 169.1M€ compared to the 159.4M€ of 2016, what supposes an increase of 6.1% with respect to the previous year.

This EBITDA shows an improvement in the management introduced already in 2017, despite the fact that it is affected by expenses not recurrent tied to the acquisition of the company.

Finally, the pro forma net profit of Nortegas and his dependent companies in 2017 has been of 38M €. This amount is not comparable with the previous exercise fundamentally due to the differences in the item of amortisations as consequence of the assignment of paid price. Additionally, the corporation tax expense is affected in the previous exercise by extraordinary elements derived from the restructuring realised by the previous owner of the Group.

Key financial indicators (in millions of euros)	Consolidated 2017 pro-forma IFRS completed year
Ordinary Income	222.8
Supplies	-18.8
Self-constructed assets	5.9
Other income	12.4
Personnel expenses	-22.9
Other Expenses	-30.3
EBITDA	**169.1**
Amortisation Expenses (1)	-92.9
Results from operating activities	**76.3**
Financial Income	0.6
Financial Expenses	-24.9
Results of the participation method	0.2
Profit before income tax	**52.1**
Income tax (2)	-14.3
Profit for the year	**37.9**

Note 1: Calculated as if the price assignment paid in the acquisition of NorteGas and the merger, would have taken place on January 1, 2017.

Note 2: Calculated by applying to the result before taxes contributed to the consolidated the corresponding tax rate according to the territory.

Hereafter, the detail is removed by segment of activity of Nortegas's investments, where a substantial increase is observed at the close 2017 in the segment of the natural gas and in the exercise 2016 a strong investment tied to the LPG.

Investment (in millions of euros)	Jan-Dec 2017	Jan-Dec 2016	Jan-Dec 2015
Distribution	24.9	22.9	18.7
LPG (1)	0.5	116.3	0.0
TOTAL	**25.4**	**139.2**	**18.7**

Note 1: in September de 2016 were acquired by contract approx. 83,000 PS LPG to Repsol

4. Most significant events of the eight months period-ended December, 31 2017

In this fiscal period, the usual activity continued as companies that develop their management within the regulated market of the natural gas and LPG sector. That is, the management of regulated distribution assets, including the promotion of new infrastructures, their development and construction; as well as operation, maintenance and optimisation services.

The Group has continued with its activity of network expansion in the influence areas. During this period, the following initiatives can be highlighted:

- ✓ Restarting of work in Laguardia, to connect a part of the historic town centre.
- ✓ Execution of the network section that will allow the Arzabaleta R.S.U Plant, the new prison and the Eskuzaitzeta Business Park, in the municipality of San Sebastian, to be supplied with natural gas.
- ✓ Completion of the main initiatives included in the Operation Plans of Vizcaya, Alava and Guipuzcoa.
- ✓ The plan to replace foundry networks in the municipalities of Santander, Gijón, Oviedo and San Sebastian was continued, having replaced 5.4 kilometres of networks.
- ✓ Start-up of a new high-pressure network in Asturias that connects the Aboño Industrial Zone.
- ✓ Commencement of supply in the new population centres of Colunga (Asturias) and Corvera de Toranzo (Cantabria).
- ✓ Completed and put into gas the network that has allowed to gasify the centre of Carandía in Piélagos (Cantabria).
- ✓ Completed the construction of the LNG Plant of Arenas de Iguña that will allow to start the supply of natural gas to Arenas and La Serna.
- ✓ Gas installation of the LNG plant in Gibaja (Cantabria).
- ✓ Executed and put into gas the LPG network channelled in Villacarriedo (Cantabria).
- ✓ Restarted the project for the gasification of the El Vallegon Norte industrial estate (Cantabria).
- ✓ Renewal of ISO 14001 and 9001 accreditation, following an external audit by AENOR.
- ✓ Investments in natural gas distribution network extension, reaching a total of 7,803 kilometres at 31 December 2017, representing a 9% share of the sector in Spain.
- ✓ Investments in new natural gas networks and the increase in the saturation of supply points in existing natural gas networks have enabled us to increase the 1,555 supply points to 933,263. The energy distributed by the networks totalled 11,921 GWhd.
- ✓ LPG activity at December 31, 2017 has reached 83,267 supply points and 391 km of LPG.

The operating profit obtained amounted to Euros 28.8 million, after provisions for depreciation of Euros 38.9 million. Financial results and other results, together with corporate income tax, finally place net profit at Euros 12 million.

For fiscal year 2018 and following years, Nortegas has changed its fiscal year to re-adopt as reference the calendar year from January 1 to December 31.

At regulatory level, Order ETU/1977/2016 of 23 December, which stipulated the tolls and fees associated with access by third parties to gas facilities and the remuneration of regulated activities for 2017, should be highlighted.

In addition, in the period between 1 August and 31 December 2017, the following stand out:

- ✓ Approval of Royal Decree 903/2017 of 13 October, which implements the basic organisational structure of the Ministry of Energy, Tourism and Digital Agenda (MINETAD), and sets out those functions that are currently carried out by the National Commission of Markets and Competition and which would be assumed by MINETAD (e.g. settlements and inspections).

- ✓ Receipt on 4 December of the final settlement corresponding to the 2016 financial year that shows a system deficit of Euros 90.01 million. In this regard, the deficit passed on to Nortegas Energía Distribución, S.A.U. amounts to Euros 5.34 million.

- ✓ On 27 December Order ETU / 1283/2017 of 22 December was published, stipulating the tolls and fees associated with third party access to gas facilities and the remuneration of regulated activities, correcting the estimate of remuneration for the 2017 and establishing that of 2018.

The Company's policy of payment to suppliers sets out a payment period within the legally established limits.

5. Own Shares

At 31 December 2017 does not hold any own shares, nor did it acquire any during the period then ended.

6. Financial Instruments

At 31 December 2017, the Group has not contracted any type of financial instrument.

7. Risks

The Group has analysed the risks and uncertainties of its activity, and the board of directors deems that the internal procedures established sufficiently cover the risks identified.

The Policies and Risk Management is describes in the note 25 of the attached consolidated report.

8. Research and development activities

During the period, the Group has continued with its efforts to develop cutting-edge research projects and to be present in leading innovation forums. An active presence has been maintained in the following bodies in terms of R & D & I:

- ✓ Research & Development + innovation Committee of the INTERNATIONAL GAS UNION (IGU). Meeting of the Committee in St. Petersburg (Russia).

- ✓ European Group of Gas Investigations (GERG): Board & Plenary meeting in Warwick (England). Nortegas handed over the 1st Vice-Presidency after 5 years of holding it.

✓ Alternative Energies Cooperative Research Center Foundation "CIC energiGUNE": Member of its Board of Trustees.

✓ Active participation in the field of SEDIGAS in the meetings of the BIOGAS Working Group on biomethane injection in gas networks within the Technology and Training Committee and in the PROGAS Committee.

✓ AULA DE NORTEGAS: Final presentation of the four projects developed in the School of Engineering of Bilbao in the 2016-2017 academic year and promotion of five new projects for the 2017-2018 academic year.

✓ Participation in the Official University Master's Degree in Sustainable Energy Engineering at the School of Engineering of Bilbao in the 2017/18 academic year. Teaching in the subject of Natural Gas Markets.

✓ REUNIÓN ANUAL DE EUROGAS/MARCOGAZ: student of the AULA DE NORTEGAS received the First Prize of the GERG 8th Annual Young Researchers' Competition

✓ WORLD GAS CONFERENCE 2018: Official communication that Nortegas has been the winner of the "IGU Innovation Award" in the Gas & Renewables category.

During the last four months of 2017, the following live R & D & i projects of Nortegas Energía Distribución, S.A.U. can be highlighted.

✓ European HyGRID Project: Research Project with the TECNALIA Foundation and five other European companies "FLEXIBLE HYBRID SEPARATION SYSTEM FOR HYDROGEN RECOVERY FROM NATURAL GAS GRIDS". With a duration of three years and financed by the H0RIZONT 2020 program in Fuel Cells and Hydrogen of the European Union.

✓ CIEN SMART GREEN GAS Project: Research Project with the Foundation TECNALIA and with six other companies "Energy valuation of waste and effluents (SMART GREEN GAS)". Strategic Program of Consortiums of National Business Research CIEN of the CDTI of the Ministry of Economy and Competitiveness (2014-2018).

9. Outlook

The Company's outlook is based on the following:

✓ Continue investing in the construction of new distribution networks and extension of the current distribution networks to saturate the areas of concern.

✓ Continue the ongoing improvement of supply quality and security. Achieve a very efficient and highly responsible operations system, with excellence in operation, inspection and maintenance.

✓ Anticipate risks and perform an efficient regulatory management, which is essential given the nature of the results.

✓ The increasingly demanding development of its safety, health and environmental standards.

✓ Continue to develop the LPG activity in its entirety, maximizing the value of assets and customer relationships.

✓ Continue with the continuous improvement of quality and security of supply. Achieve a highly efficient and highly responsible operations system, with excellence in operation and maintenance.

10. Events after the reporting period

No significant events have occurred since the 2017 reporting date that would require disclosure in these annual accounts, in addition to the ones disclosed in the Note 37.

EIGHT MONTH PERIOD ENDED DECEMBER 31, 2017

AUTHORISATION FOR ISSUE THE CONSOLIDATED ANNUAL ACCOUNTS

CONSOLIDATED DIRECTORS´REPORT

Signed on original in Spanish	*Signed on original in Spanish*	*Signed on original in Spanish*
D. Alejandro Legarda Zaragüeta (Presidente)	D. John Edmund Lynch	Dña. Sara Murtadha Jaffar Sulaiman
Signed on original in Spanish	*Signed on original in Spanish*	*Signed on original in Spanish*
D. Mark William Mathieson	D. Patrick Rene Georges Meunier	D. Michel Marcel Vareika
Signed on original in Spanish	*Signed on original in Spanish*	*Signed on original in Spanish*
D. Ahmed Ateeq Mohamed Khalaf Almazrouei	D. Arnold Louis Spruit	D. Emmanuel Lejay
Signed on original in Spanish	*Signed on original in Spanish*	*Signed on original in Spanish*
D. Toby James Mitchell	D. Massimo Adelmo Lucio Rossini	D. Francisco Javier Contreras García
Signed on original in Spanish		
D. Conrado Navarro Navarro		