



2017 ANNUAL REPORT



WE WANT TO TAKE OUR ENERGY TO THE FUTURE

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1.



Message from the Chairman

Dear Ladies and Gentlemen,

The year 2017 has been very special for this Company due to various important events that have taken place during this period, and I would like to reflect upon them here.

The first was the acquisition of 100% of the Company by the consortium comprising the following institutional investors: Infrastructure Investments Fund, advised by JP Morgan, Gulf Cooperation Council Sovereign Wealth Fund, Swiss Life Asset Management and Covalis Capital. In April 2017, an agreement was reached with the previous shareholder and on 27 July the purchase of the former Naturgas, now Nortegas, was completed.

At that point, Nortegas began a new era as an independent Company, with the goal of setting itself relevant investment and customer growth targets for the coming years.

Our new shareholders are committed to working with us and supporting us through their long-term investment approach. This gives us the stability we need so that the 240 professionals who comprise the Nortegas workforce, can continue to focus on quality and our excellent service, but now with an approach that looks to the future.

This future will see us greatly exceed our current figure of one million customers, which has led to us becoming the main gas distribution Company in the north of Spain and the second ranked nationwide.

The second important event that took place during 2017 was the issuing of bonds for the value of 1,300 million euros on 28 September, representing the largest inaugural bond issue carried out by a Spanish Company since 1999.

The success of this operation is a true reflection of the quality of the Company, as well as the stability of its business. We used the income from this emission to refinance our existing bank debt to create a solid, long-term financial structure. Standard & Poor's granted both Nortegas and the bonds issued a BBB- rating (stable outlook).

As the third notable event, I would like to highlight the decision taken by the Board of Directors towards the end of last year to approve the change to the financial year, which as of 2018 will begin on 1 January and end on 31 December. To better understand the results from 2017, the pro forma results for the Company for this full financial year are shown.

The merger between Nortegas and its sole shareholder, which took place during the second half of 2017, has allowed for a significant strengthening of the Company's own funds. I should also mention the Company's new corporate identity. When we announced shareholding changes, we said that we were going to create a new brand that would give us our own, relevant personality within the gas distribution market.

This process was completed recently with the creation of the Nortegas brand. This name clearly conveys both the main activity of the Company and its current geographical area of operation: The Basque Country, Asturias and Cantabria.

The Company is therefore ready to face a new exciting period, which starts now in terms of choosing the final energy model that will be implemented in the future.

We are sure that this model will include natural gas, at least for several decades, as it is clean and competitive energy, which will also serve as a support for renewable energies to guarantee the necessary supply to the population in any moment, situation and location.

In fact, the market has been providing support for this assumption with the constant growth of gas in recent years, not only within our country but all over the world. Furthermore, this trend is in line with the environmental and energy targets set by both the UN and the European Commission in their respective agendas for Sustainable Development until 2030.

And in that sense, during 2017 Nortegas has continued contributing to the growth in the use of gas across the north of Spain, where we operate. First, through greater investment in our gas pipeline networks, expanding in those areas where we have already deployed them. In addition, we have also constructed liquefied natural gas (LNG) plants in rural areas away from these networks, to ensure that we can offer the people who live there identical services to those available in any large city.

These are high quality, safe services with an environmental commitment. They make homes more comfortable and also contribute towards the economic and industrial development of population centres that do not have easy access to any other options when it comes to obtaining the energy they need.

Road, sea and rail transport are other sectors where gas is slowly penetrating as a cleaner and more competitive energy alternative, and in which Nortegas, as distributor, will continue advancing together with the appropriate technology.

Lastly, we are convinced that the contribution of our sector to the future of the energy model will not be limited to natural gas. Biogas and biomethane are starting to form part of what is known as renewable energy. Flowing through our networks, these will gradually complement conventional gas and will undoubtedly play an increasingly important role in this area.

In short, Nortegas is facing the future as an independent Company with the long-term backing of our new shareholders, with a financial solidity which provides great stability for the business, and with professionals dedicated to providing a service. With ever greater quality and respect for the environment. Thank you all for contributing to our future.

Alejandro Legarda

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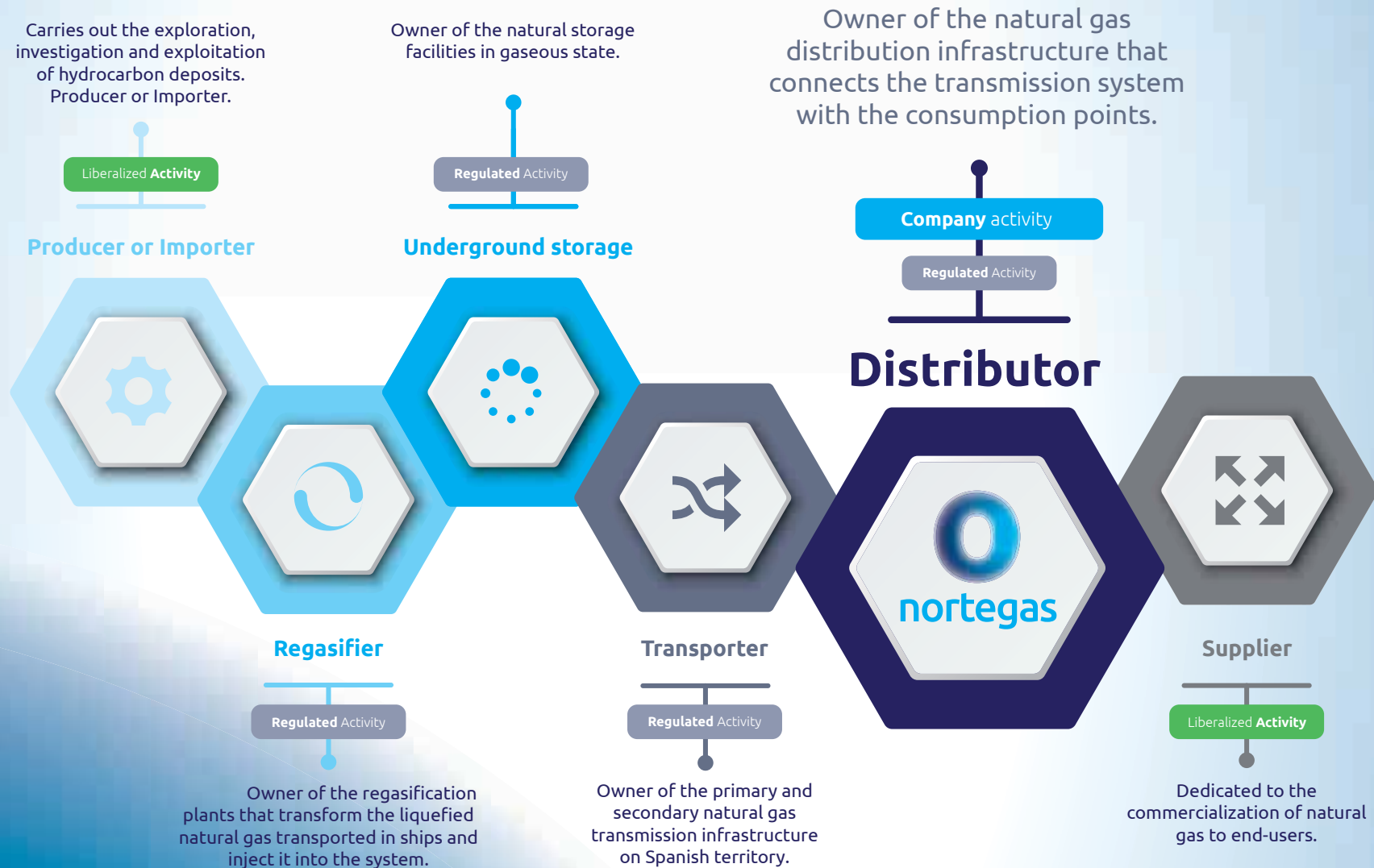
Value chain and prospects for the gas sector

2.1. Value Chain

Natural gas is the least polluting fossil fuel, making it a clean, safe and efficient source of energy, which is why it plays an important role in the Spanish energy mix, contributing to the recovery of the country's economic growth.

Natural gas has a privileged position in the current energy mix and ensures great growth potential for the coming years as it facilitates the diversification of energy sources helps to ensure demand is met and complies with efficiency criteria and a respect for the environment.





2.2. Prospects of the gas sector



Natural gas has a leading role in the current energy mix and forecasts suggest that it will play a key part of the journey towards an economically sustainable energy model that will help to respond to the major environmental prospects we face: reducing global warming and reducing pollution of the air that we breathe in cities.

In the same way, gas is a major player in the energy field, maintaining the competitiveness of our society, and therefore, the sustainability of our territories.

Natural gas against climate change

The year 2017 has been marked by the drafting of the future Spanish Law on Climate Change and Energy Transition and the creation of a commission of experts on this Law.

The new Spanish energy model focuses its attention on the objectives established by the European Union for the year 2030:

- ✓ **At least a 40% reduction in greenhouse gas emissions, compared to 1990 levels.**
- ✓ **At least a 27% share of renewable energy.**
- ✓ **At least a 27% improvement in energy efficiency.**

In addition, in the autonomous communities, as is the case of the Basque Country, Cantabria and the Principality of Asturias, the areas in which Nortegas is present, they are defining or developing strategies and measures aimed at increasing sustainability. The Energy Sustainability Law of the Basque Public Administrations is an example of this.

All these measures point to a low carbon economy for which we need to have a clean, economic and balanced energy mix.

The role of natural gas in the decarbonization of the economy

In the Winter-Package: Clean Energy for all Europeans, the European Commission places natural gas as the main support for renewable energies, as these energies, without the right weather conditions, are not available to supply electric consumption. The European Commission considers natural gas to be a constant guarantee of electricity supply and intrinsically a clean fuel.

In this sense, in 2017, thanks to the generation of electricity with natural gas based technologies, almost 5,000 kilotons of equivalent CO₂ were avoided.





The role of natural gas in the circular economy: Renewable natural gas

The United Nations (UN) estimates that in the year 2050 the global population will reach 9,100 million people. The main growth will be recorded in Asia, Africa and Latin America, while in North America it will stagnate and in Europe it will decrease.

For that increase in population we would need the resources of almost three planet Earths to maintain the current standard of living. This more than justifies the adoption of new methods of sustainable production and consumption as soon as possible.

In this sense, on 2 December 2015, the European Commission approved an Action Plan to establish a circular economy in its geographical area. This plan establishes 54 areas of action for an initial period of five years.

Renewable natural gas will undoubtedly play an important role in the circular economy process. Supplying gas to households generated by the waste produced by the people who inhabit them is already feasible, as it is technologically viable and there is a great wealth of raw material, it is only a matter of making progress in its development. The use of renewable natural gas generated from local organic

waste provides major environmental benefits, promotes a circular economy and reduces CO₂ emissions equivalent to up to 16 million tons per bcm injected into the grid.

Proof of the expansion of renewable natural gas is that Europe already has over 500 biomethane plants, and subsequently the increase has been considerable.

With this evolution, we can seriously contemplate that natural gas and all the new technologies being developed around it can play an important role in the European energy transition. For this, it is necessary to set strategic and environmental objectives for the development of this gas.





Sustainable mobility natural gas in transmission

Combining the projections indicated by the European Commission regarding the increase over the next few years in the transport of people and goods with its imposition to reduce greenhouse gas emissions by 2030 will be difficult if we do not move quickly in the latter. Gas for vehicular use is the most efficient, clean and sustainable fuel due to its environmental advantages. It allows for a reduction of more than 85% in nitrogen oxide emissions and almost 100% of suspended particles, the most harmful elements for human health. In addition to reducing emissions of the main greenhouse gas, CO₂, by 20%, natural gas engines produce up to 50% less noise emissions than diesel engines.

There are other quantifiable benefits, such as economic benefits, as gas is between 25% and 50% cheaper than diesel or petrol. Likewise, the most optimistic estimates predict that, to date, there are identified gas reserves to last over a century, while oil reserves are estimated at around 50 years.

With these perspectives, and whilst electric vehicle autonomy is not fully resolved, gas is already used as a fuel in cars, public transport buses, vans and commercial trucks, ships, industrial machinery and railways in several countries.

It is true that the number of vehicles using vehicular natural gas represents only about 25 million worldwide, while conventional vehicles come to more than 1,000 million, however, the evolution of the former is important, with an annual growth of 20%.

In Spain, the number of these vehicles at the end of 2017 was around 7,000 units, most of which are heavy transport and commercial vehicles.

However, some city councils are proposing strict environmental measures to eliminate diesel vehicles (taxis and vans, as a priority), which will be replaced by electric-powered or gas-fueled cars.

2.2. Prospects of the gas sector



Maritime transport using gas is also a reality in those areas of northern Europe and the United States that control their emissions. In addition, in October 2016, the International Maritime Organization (IMO) established the year 2020 as the deadline for vessels to meet the low sulphur requirements in marine fuels to a maximum of 0.5%. However, in 2018 the European regulation requiring the notification and verification of carbon dioxide emissions of ships comes into force. These measures will be vital to decarbonize maritime transport, as well as activity in ports.

Finally, the International Union of Railways has also established the so-called "Low Carbon Rail Challenge" in order to contribute to the reduction of emissions caused by petrol-driven locomotives.

On 16 June 2005, the Peruvian Company Ferrocarril Central Andino was the pioneer in launching the first train powered by natural gas. It was later followed by Canada, India and Russia, whilst, at the end of 2017, Spain finalized the first European train powered by liquefied natural gas (LNG) scheduled to begin testing in early 2018.

In short, natural gas will play a relevant role in the area of transport to contribute to the reduction of harmful emissions for human health as well as the conservation of the environment.



3.

nortegas

3.1. Where we are



Asturias

Natural Gas supply points: 218,749
LPG supply points: 17,329

Cantabria

Natural Gas supply points: 178,431
LPG supply points: 30,706

Basque Country

Natural Gas supply points: 536,083
LPG supply points: 35,232



On 27 July 2017, the international consortium formed by Infrastructure Investments Fund advised by JP Morgan, Gulf Cooperation Council Sovereign Wealth Fund, Swiss Life Asset Management and Covalis Capital, formalized the purchase of Nortegas Energía Distribución SAU, formerly Naturgas, from the EDP group, acquiring 100 % of its gas distribution business in Spain.

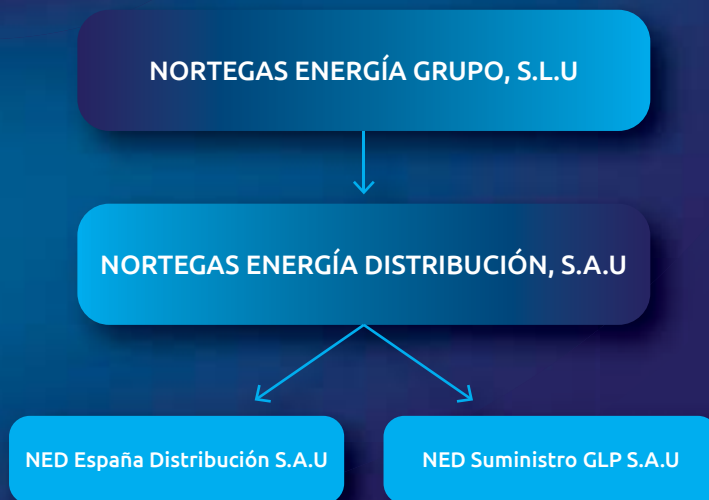
The Nortegas group is devoted to the development and operation of natural gas distribution infrastructures, as well as the distribution and commercialization of liquefied petroleum gas in Spain, through the direct ownership of tangible assets or the ownership of shares and/or holdings in companies that perform those activities.

As of the issuance date of this report, in 2018, the group formalized its corporate structure with the aim of providing greater efficiency to its operations.

3.2. Governing bodies

The administration of the group of companies has been entrusted to a Board of Directors composed of six members and a non-board member as secretary of the Board:

Chairman:	Alejandro Legarda Zaragüeta
Board Member:	John Edmund Lynch
Board Member:	Emmanuel Lejay
Board Member:	Michael Marcel Vareika
Board Member:	Mark William Mathieson
Board Member:	Francisco Javier Contreras García
Board Secretary:	Lara Hemzaoui



3.2. Governing bodies

In order to assist in the correct preparation of the work of the Board of Directors as well as in making key decisions by the Board, the following Committees have been set up:

- **Audit Committee**

The main function is to assist the Board of Directors in supervising the process of preparing and controlling the Company's financial information, as well as in supervising the effectiveness of internal control and risk management systems. Including all tax aspects.

- **Committee on health and safety and the environment**

The main function is to assist the Company's Board of Directors in the preparation and monitoring of strategies, policies, objectives and resources in terms of health and safety and the environment.

3.3. Mission, vision, values



✓ Mission

WE are a gas distributor which, complying with its legal obligations, distributes gas in an efficient and uninterrupted way to our customers and promotes its general use as a clean and sustainable fuel, providing well-being, competitiveness, security and environmental quality to all of society, rewarding investors in a sustainable and reasonable manner, and promoting the professional and personal development of its employees.

✓ Vision

WE want to be known as a modern, ethical, intelligent and open organisation, a catalyst for socio-economic development and digitally united with our communities and their members to confront the global challenges we face, and as a leading Company that decisively contributes to the sustainable development and progress of society as a whole.

✓ Values

INTEGRITY: understood as professional behaviour for all regulations and legislation in decision-making at all levels, to contribute positively to the growth of the Company with complete transparency whilst always protecting information.

EQUALITY: understood as the fair, equal and respectful treatment of all stakeholders that interact with the business, not tolerating any type of abusive behaviour.

RESPONSIBILITY: understood as a professional form of behaviour, respecting occupational health and safety regulations, objectively making decisions and being efficient with the use of available resources, managing risks and informing the organisation in a timely manner about deviations to attain continued improvement, and avoiding harming the company's image in external actions.

INTELLIGENCE: understood as the way in which the Company is organised and how decisions are made, being swift, decisive, open to talent and ideas, and trusting people.

INNOVATION: understood as the search for new ways of acting and thinking, open to change to take advantage of opportunities, promoting creativity and entrepreneurship - key elements for competitiveness -, training workers to create value, and promoting collaboration, cooperation and trust, for knowledge sharing and self-learning.

CONNECTIVITY: understood as the resolute implementation of the technologies that allow us to interact online, with no distance or time restrictions, with our stakeholders so that we understand their concerns and needs and are capable of responding to them.

3.4. Ethics



Ethics is not something that is just there and boasted about. Instead, it is the basis of our conduct, it underlies the values that guide us when we make decisions, when we interact with our surroundings: ethical behaviour is what brings us closer to achieving our highest ambitions, as an organisation and as individuals. Ethics are a vital part of our heritage and we must demonstrate it every day, in each and every one of our decisions. There is no other option; the decisions we make, our ethical behaviour, create a desire to be ethical in others.

At Nortegas, we are not only open about ethics and business inevitably going hand in hand, but we make ethics the key element of our culture. We all have the duty to ensure that everything we do is based on the values of integrity, equality and responsibility. Ethics must always be taken into consideration and our behaviour must always be ethical.

Our code of ethics shows our shared commitment to acting in accordance with the strictest ethical requirements. Everyone at Nortegas is responsible for following the letter and the spirit of the code and the policies that implement it, and we must challenge those who jeopardise our integrity. It is a matter of being consistent.

✓ Code of ethics

We uphold the values of integrity, equality and responsibility in everything we do because we believe it is our responsibility to successfully do this. The code of conduct is our shared commitment to acting ethically with the highest level of integrity.

(More information on the Nortegas code of ethics: www.nortegas.es)

4.

Activities



The year 2017 has been a period of great challenges for Nortegas. A year marked undoubtedly by leaving a multinational group to continue its journey as an independent Company. A challenge that has significantly affected the development of all its operations and in which the Company has devoted all its efforts to ensure compliance with the customer's requirements and legal and regulatory requirements, through the adoption of a management system that contributes to improving the Company's overall performance.

The management of transitional service provision agreements with EDP and the establishment of an action plan that guarantees both the continuity of the business independently and the of value creation have been key.

Nortegas has paid special attention to the integration of its workforce and the definition of a new organizational model, both fundamental pillars to achieve the Company's objectives.

However, despite being a particularly complex year, the Company has not overlooked its growth objectives. In this sense, in 2017, Nortegas continued to expand its distribution networks and focused its strategies on making it possible for the supply of natural gas to reach small and remote towns through liquefied natural gas (LNG) plants.

On the other hand, it carried out an in-depth analysis of the efficiency of all its operations to ensure 2018 is projected as a year for the implementation of improvements, which have a positive impact on the upward trend of its customers' satisfaction, with the Company and with the advantages that its energy offers them. Likewise, the needs and expectations of the different interest groups have been integrated into the organization's processes to maintain a continuous dialogue that can help Nortegas improve and innovate its processes and services.

Finally, Nortegas has continued to work in a potential market in which it firmly believes; the natural gas market as a solution to transport. The Company is concerned about the environment and, above all, air quality in cities. For this reason, it sees a great opportunity for the future of natural gas in transportation, as a substitute for polluting fossil fuels that currently dominate this market.

Nortegas will continue with its future project, taking natural gas further and further so that more users can enjoy the advantages of a clean energy, which is environmentally friendly, competitive and convenient.

4.1. Regulatory management



Nortegas' regulatory management seeks to ensure that the regulatory framework is clear, stable and predictable in a way that favours:

- ✓ **A suitable environment for the development of the activity.**
- ✓ **Efficient investment.**
- ✓ **Sufficient profitability.**
- ✓ **Expansion of the use of natural gas.**
- ✓ **Technological neutrality.**
- ✓ **Taking advantage of the enormous potential of natural gas as a transformation vector.**

After the publication and entry into force of the new framework derived from law 18/2014 that laid the foundations of the new remuneration system and increased the economic-financial balance of the gas system, the sector is experiencing a period of regulatory stability that has allowed companies to focus their efforts on tackling the present and future challenges facing the gas system. A significant contribution to this is the establishment of a clear and predictable

timeframe for the review of the economic framework, through the definition of regulatory periods of 6 years, the current period ends on 31 December 2020. During this period, the methodology for calculating the compensation cannot be altered, unless approval of a new law repeals the current one.

In the case of distribution, Law 18/2014 establishes remuneration according to the **customers connected to the distributor's grid and the gas supplied**. Therefore, it is an activity-based remuneration that determines the basic or initial remuneration as well as in the annual update, differing from other activities in the gas sector, as well as the electricity sector, which has asset-based remuneration.

This way of calculating the distributor's remuneration has been demonstrated over the last few years to be beneficial for the sector as a whole, insofar as it guides the distributor's activity towards efficient growth and contributes to the sustainability of the system. The distributor's investments are only remunerated to the extent that they bring in revenue to the system, thus linking the evolution of the remuneration or distribution costs with the system's revenues.




Regarding the gas sectorial economic-financial situation in 2017, according to provisional settlement 14, it closed the year with the system balanced between costs and revenues. For the coming years, the forecasts of the Ministry of Energy, Tourism and Digital Agenda and the State Commission on Markets and Competition (CNMC) endorse this situation and they foresee a positive path for surplus, thus achieving the goal of sustainability in the 2014 reform. This sustainability is reflected in the Report of 20 December 2016, on the "Proposed Order, which approves the forecast of the evolution of the different items of Revenue and Costs of the Natural Gas System for the 2017-2022 Period". This sustainability is achieved even without incorporating the positive impact for the system of reducing the sectorial costs by 96 million euros per year, as a result of the Constitutional Court's judgement regarding Castor underground gas storage.

Prospects for Nortegas

For a Company like Nortegas, performing a regulated activity, the remuneration or financial compensation it receives for the operation and expansion of the natural gas distribution grid becomes a key management element. Therefore, it is essential that the regulatory framework is stable, thus ensuring the legal security of the business decisions that have derived from it. Nortegas is also working on the definition of the remuneration framework for the regulatory period beginning in 2021, in order for the Company to achieve optimal positioning in light of potential changes.

On the other hand, our Company is no stranger to our current situation. Thus, Nortegas, as a benchmark agent in the gas system, is committed to the challenge of climate change and the energy transition that must lead to a model that, besides enabling it to meet environmental and air quality objectives, is economically sustainable, increases competitiveness and contributes to increasing security of supply and creating new opportunities for growth and employment.



Hence Nortegas' clear commitment to the expansion of natural gas as a transformation vector, both in traditional uses and in the new uses associated with transport or the integration of renewable gas in distribution grids. In this sense, to set a positive example, 100% of the Nortegas vehicle fleet uses compressed natural gas (CNG), representing a clear reduction in the polluting emissions derived from its fleet. It also works in the collaborative framework of Smart Green Gas backed by the CDTI in the technological improvement that facilitates the injection of renewable gas-biomethane derived from waste management, creating a virtuous circle of reinforcement of the circular economy and the reduction of emissions.

FORUMS

Nortegas is an active agent in the interrelation with the regulatory bodies, Ministry, Autonomous Communities and CNMC with the purpose of accompanying and participating in a proactive and collaborative way in the regulatory developments with an impact on the gas system and, in particular, on the Company's activity. Thus, it is a representative of natural gas' distribution activity in regulated bodies for analysis, discussion and preparation of regulatory proposals. For instance, it is

part of the working group for the Update, Revision and Modification of the Operating Rules of the Gas System, the Working Group of the CNMC to change the supplier or the Working Group of MINETAD for the development of the injection of biomethane in the natural gas grid.

This interaction is articulated directly through the main sector associations of which Nortegas is a benchmark member. Thus, it is part of the sectoral association Sedigas, which aims to promote the use of natural gas, in which, besides being part of the governing bodies, it participates in the Committee of Distributors and the other associated cross-cutting committees (e.g. expansion, environment, fiscal, legal). On the other hand, it is a member of Gasnam, an association that brings together the different sector interests around vehicular natural gas and in which all the stakeholders present in the chain participate, from the manufacture of the vehicles, to the development of the filling points and the supply of Natural Gas.

At an European level, it is a member of the Eurogas distribution committee representing Sedigas.

4.2. Growth

Growth in the number of supply points.

Nortegas is the gas distributor for the Basque Country, Asturias and Cantabria, where it supplies gas to over one million supply points across a total 383 municipalities (including natural gas and liquefied petroleum gas).

In the first quarter of the year we completed the transfer of Repsol's LPG customers. A supply agreement was signed with this Company for new LPG deposits, maintaining the same conditions that apply to current deposits while market conditions allow for this.

In 2017, an LNG plant was put into operation for the gasification of the municipality of Colunga, a project which received a 113,000 euro subsidy from the Principality of Asturias.

Nortegas has a growth potential of over 600,000 homes in its distribution area, including the markets with vertical and horizontal saturation and urban centres that are still not gasified. This is in addition to the potential for changing the fuel used in the industrial and service sectors.

In this context, we are considering defining and launching a new expansion plan that enables us to secure and accelerate the capture of the potential market which includes a revision of the sales plan, as well as the need to develop the operating model to ensure the success of the expansion. The main work areas will be the following:

- ✓ Market analysis and estimate of the growth potential of owners' associations and residential and industrial consumption.
- ✓ Choosing priority segments and determining the value proposal for each one of these.
- ✓ Aligning the operating model with the requirements associated with the new expansion plan.
- ✓ Launching the new sales plan and its associated governance model.



Use of natural gas in fleets of public vehicles.

During the year 2017, the effort to explain the environmental, economic and strategic benefits of gas natural vehicles has continued. This was especially fruitful with the public administration and we are hoping for tangible results in the coming years.

We still believe the fleet will use compressed natural gas, already having supplied in all the installations where it is located.

Analysis of the benefits of using smart meters.

In 2017 we began a series of pilot studies for the use of smart meters. Here, Nortegas has two clear objectives: first, to improve the service provided to our customers with the issuing of bills with actual consumption, real-time incident warnings and the addition of new efficiency, security and automation services, and second, to improve the functioning of the distribution network.

In order to accomplish this, we need to undertake several technological developments that guarantee the proper functioning of the system.

4.3. Excellence in operations



The focus on process management, the interaction between processes, the establishment of indicators, their monitoring and control in the network extension and exploitation activities, attention to supply and managing emergencies, are vital for:

- ✓ ensuring the quality and continuity of supply,
- ✓ safety in the use of the installations,
- ✓ and the satisfaction of customers and other stakeholders, under strict legal compliance, in the Nortegas operating area.

Nortegas uses the quality targets and indicator monitoring programme to measure the performance of the processes and then plans ways to improve them, under the supervision and approval of the quality and environment committee.

Through the network expansion process, we promote and develop the infrastructures, up to the final supply of gas, that make it possible to meet new gas demands and the annual network expansion plans, analysing the profitability of the business opportunities.

Two unique high-pressure projects for the supply of industrial areas stand out here: the one in Eskuzaitzeta in San Sebastián and the one in Aboño, Asturias.

The projects for the expansion of the existing network required a 9.5 million euro investment in Asturias, Cantabria and the Basque Country.

Connected to the design of infrastructures, technical standardisation is a very important management factor as it ensures that the installations, in all geographical areas, meet the same technical criteria and requirements, which must be consistent with the legislation and operational needs. The acquisition of LPG assets in the distribution areas has created a new design standardisation challenge, requiring us to take into account not only legislation but also the operation, maintenance, security, quality and environment issues, which always guide the operations of Nortegas.

During 2017, the gasification of the urban centres of Corvera de Toranzo, in Cantabria, and Colunga, in Asturias, took place through LNG plants. The gasification of the urban centre of Arenas de Iguña is currently in progress and will be put into operation in 2018.

4.3. Excellence in operations

All projects are established on the basis of the new standards through atmospheric gasification, which is environmentally friendly.

Projects to gasify new population areas have required a 2.1 million euro investment.

Nortegas divides the operating infrastructure process, due to the complexity of the activities that comprise this, into sub-processes which are inter-related and managed with a global vision.

The part related to the maintenance, modification and improvement of the infrastructure in the year 2017, after completing the operating plans for each of the distribution areas, consisted of revising and updating the operating plans for Álava and Gipuzkoa, evaluating the effects of the improvements implemented since the last revision and giving priority to carrying out pending improvements, striving to obtain the highest efficacy and efficiency from the investment required in these.

As area of the plan to improve the installations and supply quality, we continued with the plan for the replacement of cast-iron networks for polyethylene, and managed to replace 5.4 kilometres in the

municipalities of Santander, Gijón, Oviedo and San Sebastián. Constant contact with the local governments to coordinate the various infrastructure projects is key when it comes to minimising the effects of any renovation project on the public.

Six new regulation and measuring stations have been added, meeting the needs detected in the operating plans. Overall, 5.7 million euros have been invested in projects of this nature.

Similarly, LPG plants have been incorporated to the Company's mobility services, training the partner companies in their use.

Emergency management means maintaining an operating system that ensures the permanent monitoring and resolving of any incidents/emergencies that may arise, both in the infrastructure and in the user reception facilities connected to these. In the year 2017, we created a system to monitor emergencies on the move, connecting several computer programs to a single device by means of the emergency management tool, with the objective of improving response times and support for our customers.



4.3. Excellence in operations



To guarantee the appropriate monitoring of supply, Nortegas carries out tests beforehand in the case of new installations or modifications or extensions to existing ones, and also performs routine inspections of user reception facilities, all in compliance with the current legislation.

The key elements of the service to our customers are: managing contracts, issuing bills resulting from readings, meter renting, registration or resumption rights, routine inspections and, in the case of LPG, the emergency assistance service. Not to forget, of course, managing collection and monitoring debt.

In all these operations, the customer has the opportunity to evaluate both the quality of the Nortegas service and their level of satisfaction with the Company.

Communication with the System Technical Manager and with the gas transportation companies is key for the enforcement of charges and fees, as well as balancing the network.

In coordination with the Measurement, Balance and Remote Control Department, we have devised a procedure to analyse sub-balances in networks with a negative balance, to help detect fraud and improve telemetry.

Nortegas demonstrates its commitment to excellence with a quality policy, approved by the Board of Directors, through management that takes into account the requirements and expectations of our customers and other stakeholders, to meet their needs. This has been confirmed by an accredited body to be in keeping with the ISO 9001 standard ([more information at www.nortegas.es](http://www.nortegas.es)).

4.3.1. Safety of people and infrastructures



The safety of people, customers and infrastructures is key in Nortegas' business. In this sense, different indicators are measured providing information about the activity developed in the operation and maintenance area in charge of for monitoring the gas distribution grids as ordinary tasks.

From the point of view of people's safety, we must emphasize that Nortegas has been certified in OHSAS 18001 since 2006. This certification is also accompanied by commitments and guidelines for action set out in the prevention policy approved by the Board of Directors in December 2017, the scope of which covers all the Company's activities, as well as all its direct and indirect employees.

(More information about the Nortegas prevention policy: www.nortegas.es)

Prevention is integrated into all Company activities based on the guidelines of the Board of Directors and the Health and Safety Committee that meets periodically, as well as the meetings of the Occupational Risk Prevention Committee, which address the issue from the internal worker's perspective, as well as from the perspective of the collaborators of Nortegas' contractors.

In addition, specific periodic occupational risk prevention meetings are held to exclusively address these issues and in which the aim is to raise awareness among the team and listen to their opinions and suggestions. This work to raise awareness has led Nortegas' workers to increasingly see occupational risk prevention as an inseparable part of their work and not as an addition, ensuring that health and safety is always present in their daily work.

4.3.1. Safety of people and infrastructures

In addition, the Company continually reviews strict compliance with regulations for occupational risk prevention and industrial hygiene, and maintains a regular information service on regulatory changes. The regulatory changes are analysed and disseminated in the organization in order to adjust the installations' work operations or conditions to changes in legislation. This continuous control allows us to detect areas for improvement within the management system and evaluate their implementation.

To achieve the best health and safety conditions for employees of the Company and collaborating companies, exclusive occupational risk prevention analyses are performed at each work centre, project or maintenance work. All the directors affected by the planning of the preventive activity participate in its periodic monitoring, which has enabled the completion of 100% of the 105 actions planned for 2017, as well as achieving improvements in the work centres, installations or in performing different tasks.

The following were the main issues covered in 2017:

- ✓ Updating risk assessments.
- ✓ Raising awareness among collaborating companies.
- ✓ Improving actions in case of emergency.
- ✓ Collaboration between departments.
- ✓ Documenting all actions related to employees' health and safety.
- ✓ Periodic safety inspections.
- ✓ Operational control through preventive safety observations.
- ✓ Improving the identification of legal requirements and greater control of the evaluation of their compliance.
- ✓ Confined enclosures. Work permits.
- ✓ Work in potentially explosive atmospheres.
- ✓ Collaborating with society.
- ✓ Adapting the prevention management system to Nortegas' organisational changes and new business reality.



4.3.2 Control of environmental impacts



The protection of surrounding areas and caring for the environment are inseparable from Nortegas' activity. As a Company in the energy sector, it bases its commitment to the environment on optimization of the consumption of natural resources, respect for the places and biodiversity crossed by their gas distribution grids, as well as those occupied by the LNG and LPG plants and raising awareness among its customers about the need to preserve the environment.

This is demonstrated by the certifications Nortegas holds, which endorse this respectful attitude towards the environment, as well as the environmental policy approved by the Board of Directors in December 2017.

We strictly comply with environmental regulations, through continuous assessment, and we are promptly informed about regulatory changes, analysing their impact and measures in sector forums and benchmarking activities.

(More information about the Nortegas environmental policy: www.nortegas.es)

To control fuel consumption, Nortegas monitors the consumption derived from the activities and relates it to the kilometres of gas grids controlled in the maintenance activity.

The emissions generated by Nortegas' activity include those derived from leaks that are the result of breaks in the grid caused by works carried out by other unrelated companies. Through INKOLAN, the on-line platform accessed by construction contractors in order to download the cartography of the different underground services, the aim is to avoid damage to the gas pipeline, with the resulting methane gas emissions.

Nortegas involves its customers, employees and contractors in respecting the environment through awareness-raising and measures that promote commitment to the environment.

In relation to contractors, in order to ensure the conservation of biodiversity and the habitats affected by its activity, Nortegas has a technical specification in which it describes the work that must be performed in terms of environmental coordination. This specification

4.3.2 Control of environmental impacts

is applied in the construction of gas distribution infrastructure works; Regulation and Measurement Stations (ERM), liquefied natural gas (LNG) satellite plants and liquefied petroleum gas (LPG) deposits. Depending on the type of work, control measures are established, which include aspects such as analysis of the environmental impacts in the project phase of each construction work, preparation of previous reports with the environmental conditions corresponding to the construction work, control of the contractors' documentation, etc.

During the execution of the work, it may be paralysed in the event of serious non-compliance with the environment.

In this sense, in 2017 environmental improvements were introduced in the management, of which the following should be highlighted:

- ✓ Standardization of the design of the LNG plants incorporating, in all cases, an atmospheric vaporization system, as opposed to forced vaporization by boilers. In 2017, two facilities designed according to the new standards (Colunga and Arenas de Iguña) were put into operation.
- ✓ Transfer of the Gibaja plant to its final location in the Alto Asón industrial estate, according to the indications of the Northern Hydrographic Confederation and its adaptation to the new design standards, eliminating forced vaporization.
- ✓ Incorporation of a rain protection system, in the existing tank to avoid spills of odorant (THT), in the plants of Arenas de Iguña and Gibaja.

4.3.2 Control of environmental impacts

Certification	Last audit	Next renewal
Health and Safety 	2018	2021
Environment 	2017	2018 In accordance with rule 2015 2020 Renewal
Quality 	2017	2018 In accordance with rule 2015 2020 Renewal

After renewing its quality and environmental certifications, the Nortegas group is working on adapting the management systems to the new 2015 standards. ISO 9001:2015 and ISO 14001:2015 are based on planning that covers the analysis of the organization's context taking into account the external and internal issues, as well as the needs and expectations of the interested parties, identifying and implementing the actions needed to address the risks and opportunities resulting from this analysis.

4.4. People



The Nortegas group is immersed in the development of a human resources policy in line with its business strategy. For this purpose, the first step was to define the Company's new organizational structure, which is essential to promote interaction and communication between departments, efficiency of processes and internal equity.

Nortegas annually assesses the performance of its entire staff, with the aim of encouraging a moment of reflection on the workers' level of performance and their ability to generate results, in line with Nortegas' strategic business objectives.

The aim is to stimulate behaviour that maximizes productivity, responsibility, participation and development of all workers.

Nortegas assigns each collaborator an indispensable role in achieving corporate and individual goals, assessing their contribution.

Likewise, training is an essential tool for all Nortegas workers to develop and update their individual knowledge and skills, encouraging their professional fulfilment and allowing the group to be a responsible business organization that achieves the desired level of excellence in performance.

The training implies the commitment and effort of all the people that make up Nortegas via principles based on:

- ✓ Individual development of all collaborators.
- ✓ The organization's responsibility to provide training.
- ✓ Aligning the training with the needs of the businesses.
- ✓ Creation, maintenance and dissemination of knowledge in the heart of the group.

These commitments materialize annually in the preparation and execution of the training plan, which includes all the training needs detected and approved in the organization.

The whole organization actively participates in this plan. Each worker proposes and analyses their training needs together with their manager.

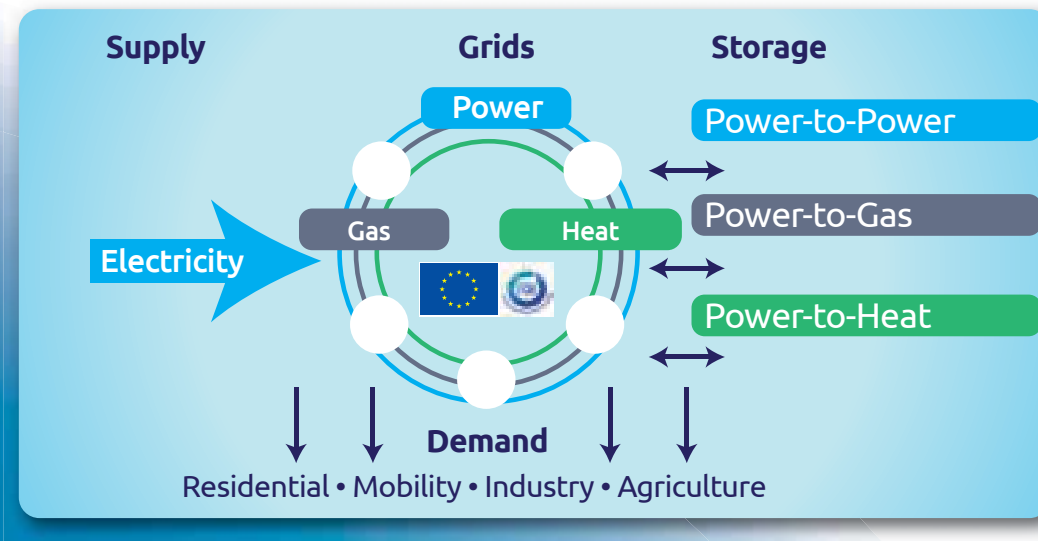
The following aspects were highlighted in the 2017 annual training plan:

- ✓ The continuous investment effort was allocated to training actions related to occupational risk prevention (more than 1,300 hours) and technical training (more than 1,500 hours).
- ✓ 195 training activities were provided, attended by 88% of the workforce.
- ✓ The satisfaction index of the training actions was 8 out of 10.

The human resources department, which is responsible for the control, monitoring and assessment of the performance management model and the training plan, presents the proposal to the Board of Directors for final approval.

The training and performance management processes are performed using the **be talent** tool.

4.5. R&D&i



Nortegas' commitment to innovation has always been present through its continuous effort in the search and development of R&D&i projects that can provide new solutions in the light of the challenge to progress towards a new, more efficient and environmentally more sustainable European energy setting. To achieve this, Nortegas participates in the most important regional, state and international forums in the energy world, such as the GERG, the IGU and the CIC EnergiGune.

In the area of R&D&i, regarding energy, the EU strategy prioritises achieving a more integrated and competitive energy system, including the natural gas grids, with a target for the year 2050 of the almost complete decarbonization of energy.

To move towards this new setting, which will be mandatory, there are four priority research and development lines in which Nortegas is currently working on several projects and which are backed by the European gas industry.

1.- KEEP IT RUNNING

To build, operate and maintain the optimal functioning of natural gas grids to guarantee the supply of gas.

For this, it is necessary to develop projects focusing on obtaining better and more economic operation and maintenance activities on integrity and safety and service guarantee in gas infrastructures.

In 2017, the compressed natural gas vehicle developed in the LIFE BIOGRID European R&D&i project was regularly used as a virtual gas pipeline, achieving significant economic savings in special operations, guaranteeing the gas supply to the final customer.



2.- ENVIRONMENTAL PERFORMANCE

Improvement of energy and environmental efficiency.

Projects based on the gas activity's impact on the environment and the impact that the actual environmental regulations will have on the gas business.

Within this strategic line, in 2017 we can highlight a project called "Study of the viability of the conversion of a Combined Cycle Power Plant to a Power to Gas Power Plant", developed in the Nortegas classroom.

This work received first prize in the European Gas Research Group (GERG) young researchers' annual competition.

The Nortegas classroom has helped to attract university talent to the gas industry since 2010, through the development of technical projects and research with students of Bilbao Engineering College, attached to the University of the Basque Country (UPV/EHU). In its seven years of work it has developed 43 projects. This university-enterprise collaboration model was internationally recognized as innovative at the World Gas Congress held in Kuala Lumpur (Malaysia) in 2012.



3.- MARKET DEVELOPMENT SUPPORT

Support for natural gas grids to transport more energy.

Projects based on both mobile and stationary new gas applications that increase natural gas consumption as new end uses of CNG or LNG to achieve new business models. In this area, we can highlight the Nortegas classroom project, which began in 2017: "Feasibility study on a modular natural gas liquefaction grid station for use in heavy vehicles operating with LNG". In this project the existing technologies will be analysed to produce liquefied natural gas from natural gas.

4.- FUTURE ENERGY SYSTEMS

Guaranteeing that natural gas grids continue to be used in the future.

Projects based on the circulation of renewable gases (biomethane) and new gases (hydrogen) through natural gas grids that guarantee future activity. In 2017, work continued on the following two projects:

SMART GREEN GAS - energy recovery from waste and effluents

The main objective of this project focuses on the development of a new generation of breakthrough technologies and systems for energetic recovery from urban and agroindustrial waste. It is about obtaining, with maximum efficiency, high purity and low cost biomethane for its smart injection into the distribution grid.

- ✓ Collaborative R&D&i project funded by CDTI - Ministry of Economy and Competitiveness.
- ✓ Consortium constituted by Nortegas, FCC Aqualia, Gas Natural Fenosa, Biogas Fuel Cell, Diagnostica and Dimasa



In November 2017 the IGU-International Gas Union officially informed Nortegas that its activity in the project, corresponding to a hybrid system for purification and injection in the gas network had been awarded the "Innovation Award" in the category of "Gas and Renewables" at the World Gas Congress in Washington.

HYGRID - Flexible Hybrid separation system for H2 recovery from Natural Gas Grids

The main objective of the HyGrid project is the design, scaling and demonstration in an industrial environment, of novel membrane-based hybrid technology, for the direct separation of hydrogen from high purity natural gas grids.

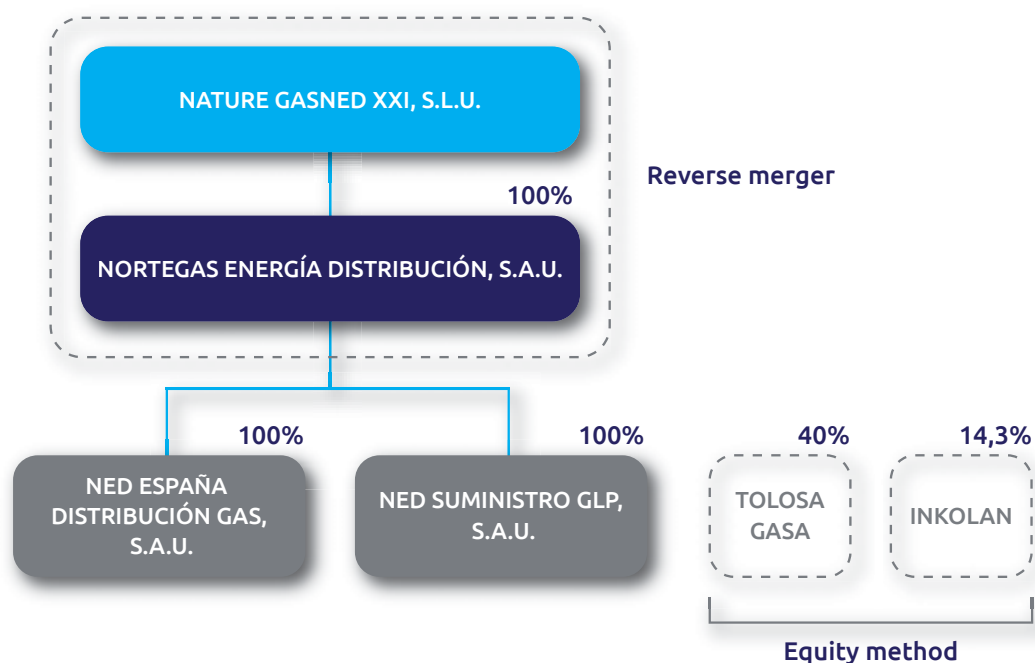
- ✓ Collaborative R&D&i project funded by the European Union H2020 programme.
- ✓ Consortium composed of: Nortegas and Tecnalia (ES); Eindhoven University, HyGear and HyET (NL); SAES (IT) and Quantis (CH).

5.

Year in figures



5.1. Economic indicators



With the aim of facilitating the comprehension of the 2017 results, the Company has drawn up proforma financial information related to the twelve month period finalising on 31 December 2017.

The previous shareholder had modified the financial year to the period May-April. After the acquisition, the Company again modified the financial year back to January - December. For this reason, in 2017 there are two financial periods with their corresponding audited accounts ([Financial information available at: www.nortegas.es/investors](http://www.nortegas.es/investors)):

- ✓ January-April 2017
- ✓ May-December 2017

Due to the reverse merger with the takeover of Nature Gasned XXI, S.L.U., parent Company of Nortegas, effective from 27 July 2017, the consolidated annual accounts and the explanatory notes for the period May-December include exclusively the results of Nortegas, as from 27 July.

Finally, the consolidated annual accounts of May-December have been drawn up in accordance with the IFRS, while the previous accounts of April-December have been drawn up in accordance with Spanish GAAP. Hereinafter the Company will draw up its accounts in accordance with IFRS.

Regarding the transaction:

The reverse merger has improved the equity position of the Company, reflecting the fair value of the assets and the injection of equity of shareholders.

On 27 July 2017, Nature Gasned XXI, S.L.U. acquired the shares of Nortegas. Therefore, the assets and the liabilities of Nortegas are included in the consolidated annual accounts at the fair value on the date of agreeing the transaction.

On 1 December the reverse merger was registered, with Nortegas taking over its parent Company Nature Gasned XXI, S.L.U. having accounting effects as from 27 July 2017.

From the accounting perspective, the merger is considered a reverse takeover through which Nature Gasned XXI, S.L.U. is the “acquirer of the merger” (from a legal perspective, the “acquiree of the merger”) and Nortegas Energía Distribución, S.A.U. the “acquiree of the merger” (from a legal perspective, the “acquirer of the merger”).

On September 28, 2017, Nortegas concluded an inaugural bond issue valued at 1,300 million euros (5 year tranche of 550 million euros and 10 year tranche of 750 million euros), making it the largest inaugural emission made by a Spanish Company since 1999. The necessary procedures were undertaken to guarantee the establishment of a streamlined financial structure in the long-term based on bonds with a credit rating that entails a degree of investment, issued with distinct maturities. The current structure reduces the risk of refinancing by lengthening the maturities. The Company and the bonds have a credit rating of BBB-/Stable from Standard & Poor’s.

5.1. Economic indicators

Proforma income statement for the 12 months of the period that finalises 31 December 2017

(€m)	Consolidated FY 2017 proforma (IFRS)
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
Net Financial Expenses ⁽³⁾	7.803
Profit before income tax	52.1
Income Tax ⁽²⁾	(14.3)
Profit for the year	37.9

(1) Calculated as if the allocation of the price paid for the acquisition of Nortegas and the merger had taken place 1 January 2017

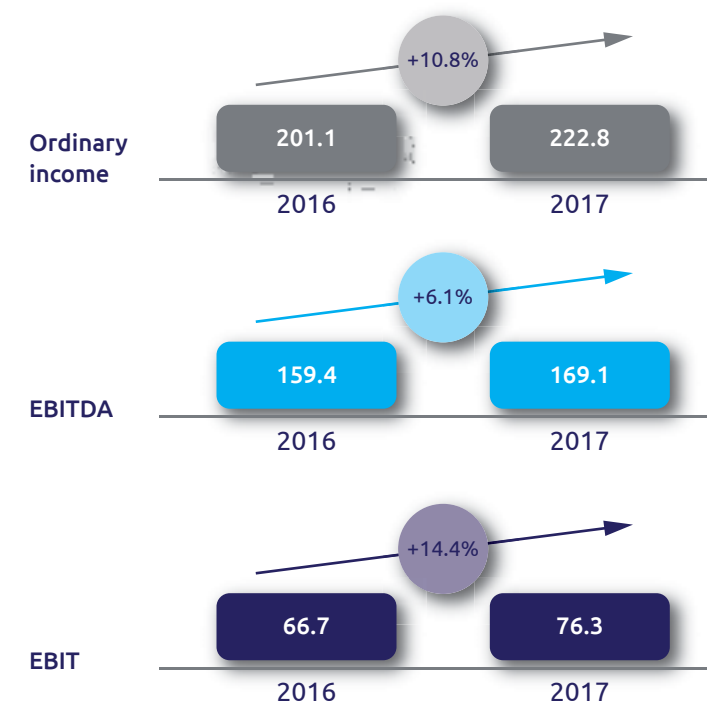
(2) Calculated applying the corresponding tax rate, depending on the territory, to Results Before Tax.

(3) Includes financial income above €0.6m and results of the equity method above €0.2m

(4) Proforma 12 months 2017.

Main comparable figures

The figures for 2016 are presented in accordance with GAAP of Spain, The figures for 2017 are proforma(4) and in accordance with IFRS



- ✓ 2017 Ordinary income higher than 2016, mainly due to LPG incorporation (impact primarily on ordinary income and supplies)
- ✓ EBITDA figure for 2017 does not include the impact of extraordinary results and shows a recurrent base for the future

5.1. Economic indicators

Balance as at 31 December 2017

(€m)	As of 31 Dec 2017
Property, plant and equipment	1,065.8
Goodwill	45.9
Other intangible assets	1,527.3
Other non-current financial assets	7.2
Deferred tax assets	24.7
Total non-current assets	2,670.9
Other current assets	103.0
Cash and cash equivalents	130.5
Total current assets	233.5
Total assets	2,904.4
Total equity	1,031.3
Financial liabilities from issuing bonds	1,291.9
Debt with group companies	127.3
Other non current financial liabilities	2.3
Other non current liabilities	9.8
Deferred tax liabilities	348.6
Total non-current liabilities	1,779.9
Current financial liabilities	5.6
Debt with group companies and associates	3.2
Other current liabilities	84.4
Total current liabilities	93.2
Total equity and liabilities	2,904.4

- ✓ The allocation of purchase price has been done following IFRS accounting standards
- ✓ Consequently, the assets and liabilities of Nortegas are recorded at fair value
- ✓ Total value of equity at year end is €1,031m
- ✓ In calculating net debt, the shareholders' loan and its interest is not included given its subordinated nature and is treated for the calculation of rates as net equity
- ✓ Total net debt amounts to €1,169.6m
- ✓ At the end of the financial year 2017, Nortegas shows a netdebt/EBITDA relation⁽¹⁾ of 6.9x
- ✓ Financial policy promoted given the commitment by shareholders to maintaining strong credit relations to sustain the credit rating which entails a investment grade.

(1) The amount pending payment at 31 December 2017 of the subordinated loan extended by Nature Investments SARL as well as any accrued interest, is not considered for the calculation of the net financial debt, which amounts to 127,303 euros (item "debt with group companies" in non-current liabilities) and 2,794 euros (part of the item "debt with group companies" in current liabilities).

5.1. Economic indicators

Financing structure Existing obligations

Tranches	Drawn amount (€m)	Tenor	Coupon
5 years	550	5 years Sept 2022	0.918%
10 years	750	10 years Sept 2027	2.065%
Total drawn debt	1,300		
Revolving Credit Facility: available amount €100m	0	5 years April 2022	

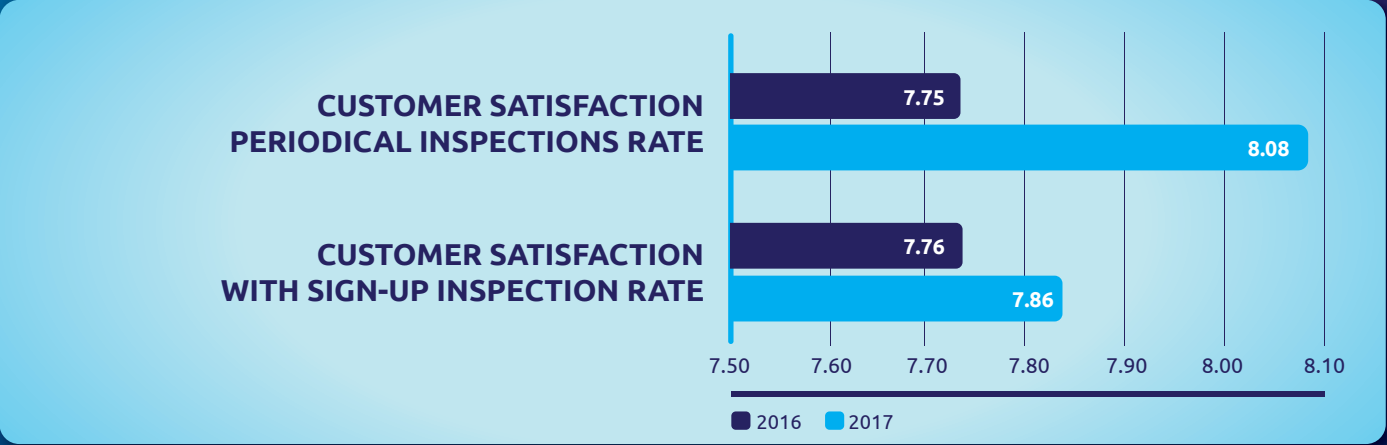
Investments (In millions of euros)	2017	2016
NG Distribution	24.9	22.9
LPG distribution	0.5	116.3 ⁽¹⁾
Total investments	25.4	139.2

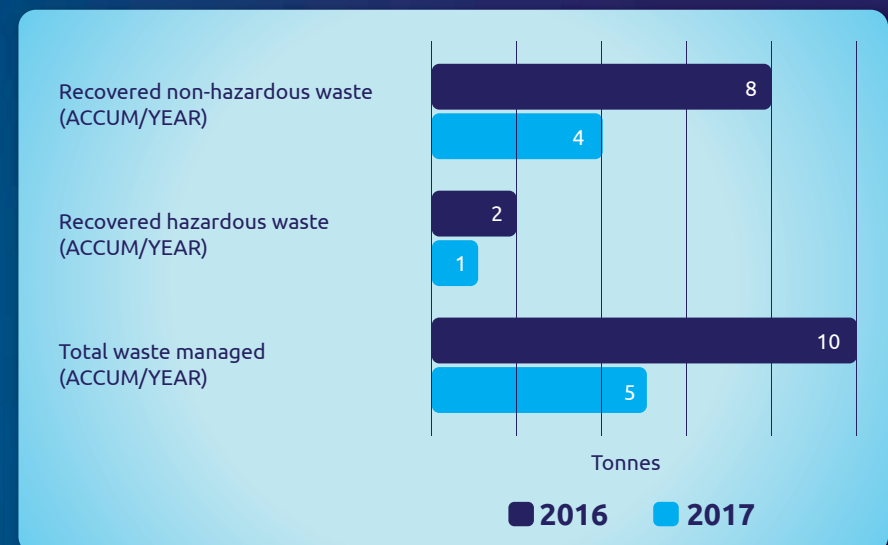
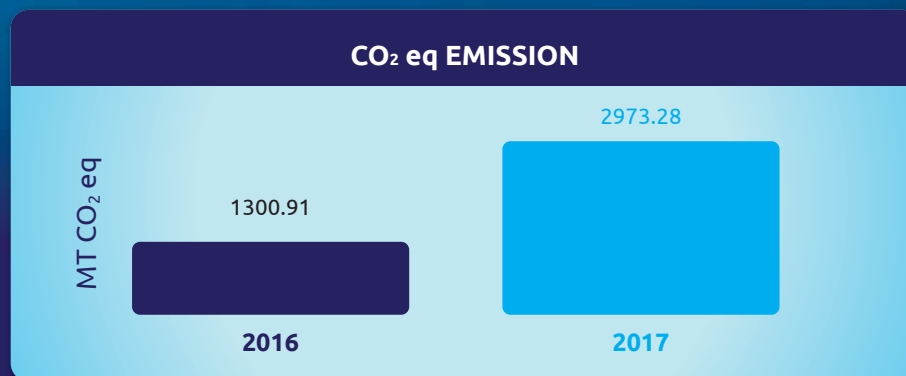
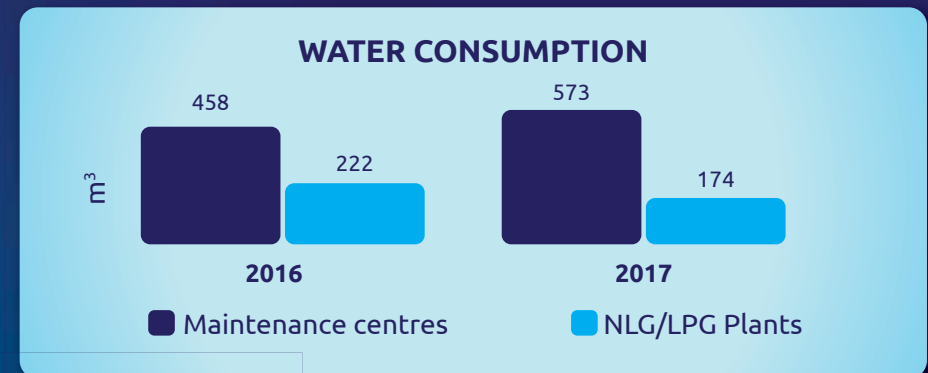
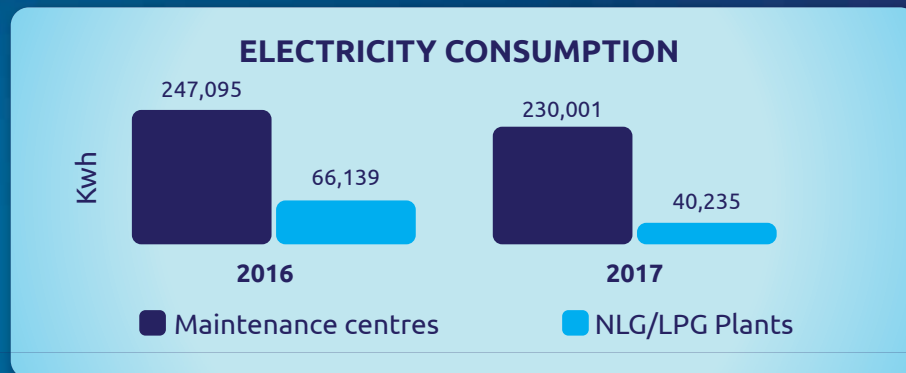
(1) At the end of 2016, approximately 80,000 LPG connection points were acquired.

5.2. Operational indicators

Operating data	2017	2016	2015	CAGR (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)P	29,339	27,037	26,476	
Distributed Energy (LPG) (GWh)	389	72	0	
Network length (NG+LPG) (Km)	8,194	8,101	7,715	3 %
Km NG	7,803	7,747	7,715	
Km LPGG	391	354	-	

Note 1: Compound growth rate accumulated from year 2015 to 2017



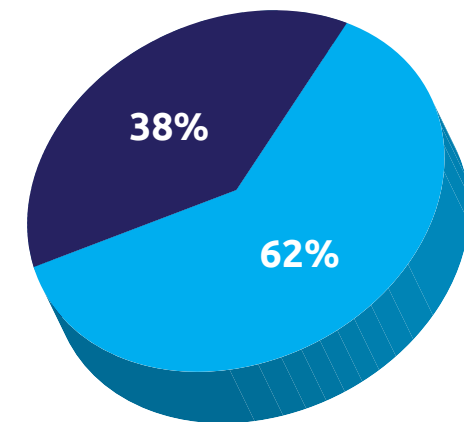
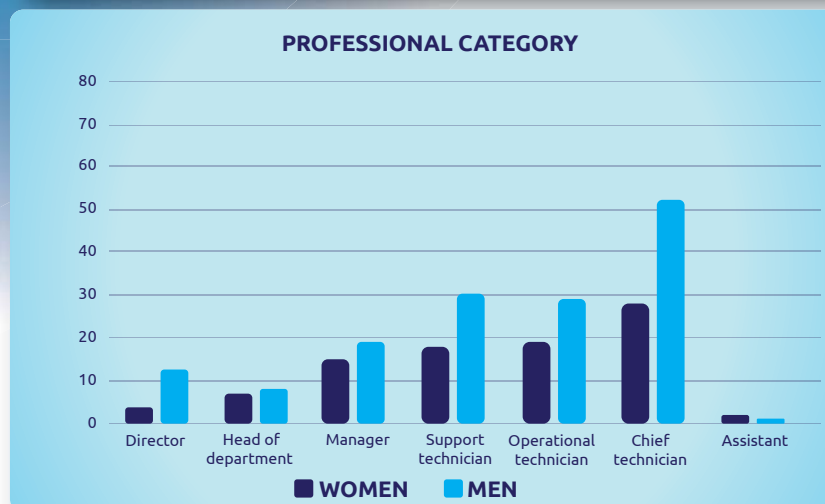
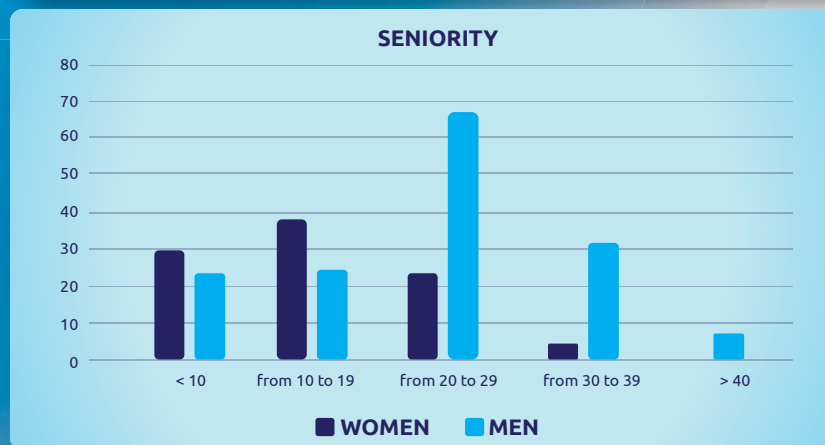
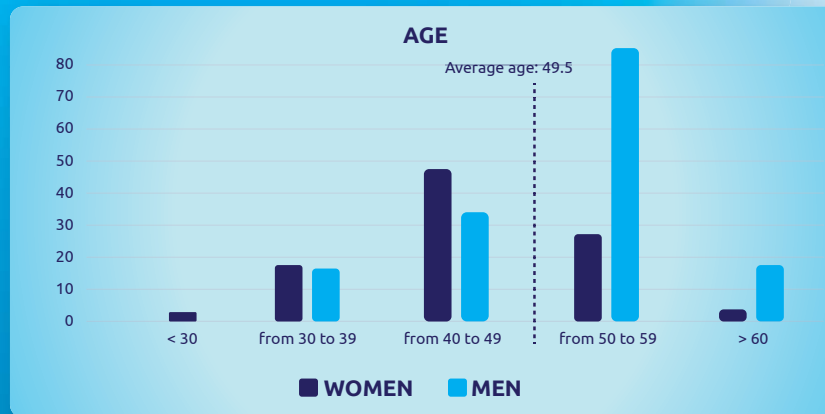


No environmental case files are open nor have any environmental claims been received throughout 2017.

Furthermore, a noise measurement campaign was carried out in 9% of Nortegas facilities

5.3. Social indicators

At the end of 2017 there were 244 staff members, all of whom were on permanent contract and distributed in the following manner:



■ WOMEN 93 ■ MEN 151

TRAINING

No. training actions undertaken	195
Attendees not repeating	216
Total no. hours	3,718
% staff attending courses	88%

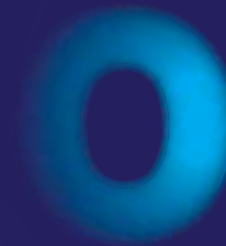
During 2017 the number of accidents recorded evolved as follows:

	2014	2015	2016	2017
OWN STAFF				
Accidents WITH DOWNTIME	0	1	0	1
Accidents WITH DOWNTIME "In itinere"	0	1	0	0
Accidents WITHOUT DOWNTIME	2	1	1	1
Accidents WITHOUT DOWNTIME "In Itinere"	0	0	0	2
CONTRACTORS				
Accidents WITH DOWNTIME	2	2	0	5
Accidents WITH DOWNTIME "In itinere"	0	0	0	1
Accidents WITHOUT DOWNTIME	1	0	0	1
Accidents WITHOUT DOWNTIME "In Itinere"	0	0	0	0

As a consequence of these accidents, the sick leave time of own workforce was 45 days.

Rate of absenteeism year 2017: 3.19%

All the accidents and incidents that occurred have been investigated and documented, corrective measures have been set up with the aim of reducing accident rates as well as the seriousness of accidents and incidents.



nortegas