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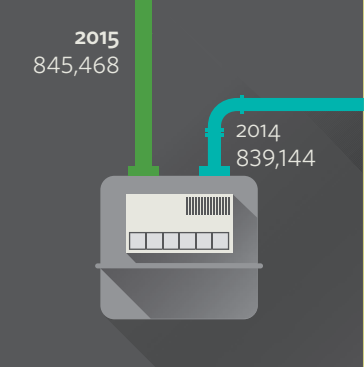
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# KEY FIGURES

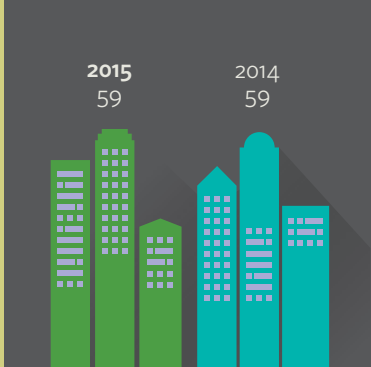
CONSUMERS (thousands)



## Consumers

Consolidation of growth model. During financial year 2015, more than 6,300 new consumers joined Madrileña Red de Gas (MRG). At the close of the financial year, the total number of supply points was 845,468.

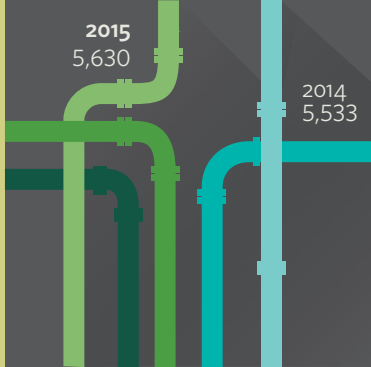
MUNICIPALITIES



## Expansion

The total number of active municipalities at the close of the financial year was 59, including the municipality of Madrid, where the distribution activity is carried out in five districts.

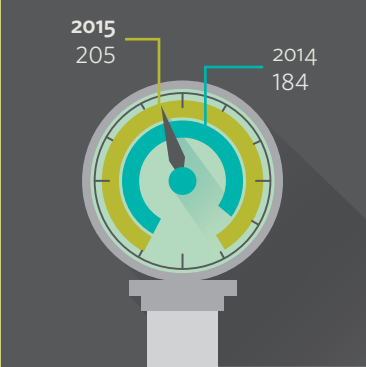
LENGTH OF NETWORK (km)



## Network

The consolidation and expansion of the group during this financial year is also reflected in the length of the supply network, which has grown by more than 100 kilometres.

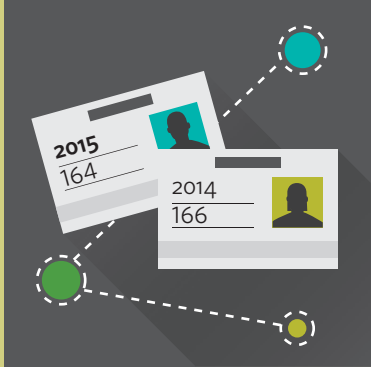
REGULATION AND METERING STATION (RMS)



## RMS

During this year, the number of regulation and metering stations (RMS) has also increased by more than 10% with the commissioning of 21 new stations. The implementation of the control plan, begun during the previous financial year, has also been consolidated.

EMPLOYEES



## Employees

The staff at Madrileña Red de Gas are characterised by their professionalism and motivation. Two notable milestones during the 2015 financial year have been seven new appointments provided through substitution contracts and efforts dedicated to training: 77% of the workforce have undertaken specific training courses.

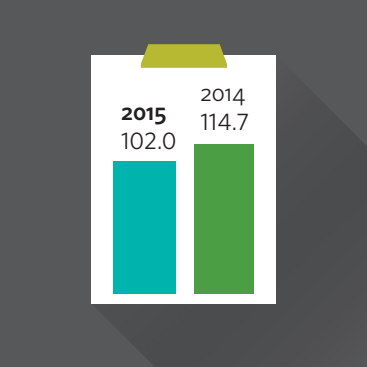
INCOME (M€)



## Income

Total revenue for the 2015 financial year was 166.1 million euros. 84% of which comes from the regulated remunerations for distribution activities.

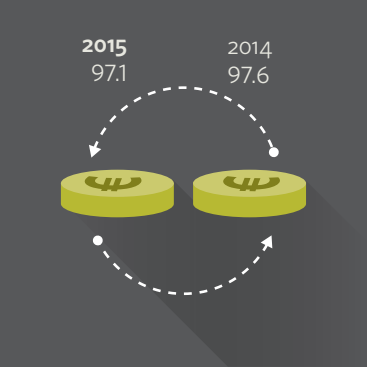
EBIT (M€)



## EBIT

The company's operations contributed towards growth of 1.9% with respect to the preceding financial year, achieving earnings before interest and taxes (EBIT) of 102 million euros.

FREE CASH FLOW (M€)



## Cash flow

The cash flow generated by operations during the 2015 financial year was 97.1 million euros, in line with the stability of the past financial year.

## INTRODUCTION

# LETTER FROM THE CHAIRMAN

***Madrileña Red de Gas is five years old and has strengthened its position as the first independent gas distribution company. During this financial year of 2015, there has been a change of shareholders, thus ensuring the continuity of MRG's strategy***

Madrileña Red de Gas is now five years old. During this time, the company has undergone profound changes, steadily improving all of its relevant activity indicators, without any of the draw-backs that all too frequently accompany these transformation processes. We have confirmed our position as the first independent gas distribution company, and the most efficient.

Moreover, during the past financial year, a unique event of particular significance has occurred which is expected to be of great relevance for the future development of the company. This is the change of shareholders, with a complete change in the shareholding panorama.

With all of this, a key stage in the life of MRG is coming to an end, and another, no less important is being opened that is full of opportunities for the future.

Madrileña Red de Gas continues to be the very thing which defined it in the first place: a company with a regulated activity; the management of a natural gas distribution network; an independent company, unrelated to any vertically integrated business group; a company in pursuit of excellence.

Companies which undertake regulated activities, particularly energy management companies, are subject to three differing demands, each of which determine their fields of activity, their direction and the limits of the latter.

The first is compliance with the legal obligations regulating its activities. On this front, we have set our main priorities as safety and excellence in the management of the network, which are expressed in three areas: the quality of the maintenance, the decision to invest in expansion and, consequently, high levels of availability with minimum disruptions.

The second is customer service. From the beginning, Madrileña has also set the focus of its attention on quality of service, both in terms of measured objective quality and perceived quality. Indicators such as emergency response times, reductions of intervention times in installation operations and resolution of breakdowns, or the reduction of supply loss, give some idea of the levels of service we have achieved. Moreover, they confirm the opinions of our customers.

Of no less importance, the third demand is to give satisfaction to the legitimate expectations of our shareholders. Improved efficiency across the board has allowed us to satisfactorily reward our shareholders year after year.

During these five years, we have shown that these three demands are not only compatible with each other, but are also mutually reinforcing. The improvements in efficiency have enabled us to allocate increasing resources to quality and to the remuneration of the shareholders, while at the same time ensuring new levels of investment without prejudice to the financial ratios. The key lies in sustained efforts for internal improvement. Improvement of the processes, organisation and costs, in all items and without exception. Alignment of the management team and the company's entire staff with these objectives has been the driving force that has brought Madrileña Red de Gas to the standard of excellence it boasts today.

In fact, our approach to the fulfilment of these three demands and to understanding the relationships between them are at the very heart of Madrileña's business model: a modern energy (Utility) company; agile, efficient and customer-oriented, anticipating your needs and in a constant process of improvement in order to give the right response to all of this.

Our future vision is based on four pillars: the consideration of gas as a clean and versatile energy and of the resultant role that we should play in the energy mix in Spain and the rest of the world; our commitment to our customers in terms of the excellent quality of our services, and our commitment to the territory in which we operate with respect to expanding the network; and finally, to constant internal improvement, which is the foundation of all the aforementioned.

Natural gas has been called upon to play a key role in changing the energy mix over the coming decades. Its advantages over other fossil fuels (abundance of supply sources, reduced emissions, versatility in basic applications) will ensure its tenure as a benchmark solution to the energy question in various sectors. For this reason, we actively encourage the penetration of gas into geographical regions and areas where it is still unavailable or limited, where it can advantageously replace other more polluting or expensive fuels. Additionally, we are working with the Regional Government of Madrid on a variety of initiatives to promote the efficient use of gas.

This policy is supported by the recovery of the Spanish economy, already evident in the improvement of the activity and in household incomes, which translates, among other things, into improving trends in the demand for energy, which had fallen considerably during the years of economic crisis and are now showing signs of recovery.

Although a large amount of the potential has already been developed regarding the internal improvement, there are still opportunities being incorporated into our internal objectives which will begin to bear fruit in the coming years, along with growth, which we are implementing by various means.

I would also like to mention the regulatory reform completed in 2014. Reference is made to this in the letter accompanying the annual report for the preceding financial year. Once this reform has been completed, the stability achieved will provide support

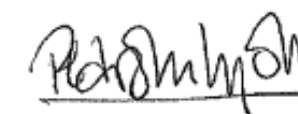
of the utmost importance for development of our activity as well as for our perception of the markets. A consequence of this reform has been the positive evolution of the gas system deficit, which we trust will continue in the years to come, combined with our solid credit rating, recently improved, which will be more of a boost to the quality of the management and the strength of the company. We hope that this regulatory stability is maintained over the medium and long term as an essential basis for developing the activities of the energy sectors.

Once again, I would like to make a special acknowledgement of the personal commitment, level of professionalism and motivation of our staff. Without them, it would not have been possible to achieve the results of this year and previous years and they therefore deserve explicit recognition, along with the desire and expectation to continue along this path in future years.

The change in ownership of the Company, mentioned at the beginning, has been implemented fully in line with the logic of the industrial investments and profiles of our previous and current shareholders. The change ensures the continuity of the company in its strategy and long-term vision, supporting the growth and improvement of a stable company in a regulatory, institutional environment that is also stable.

Summarising our strategic vision of the future, we continue to believe that gas is a competitive energy, with an important future role, given the growth potential of the activity, mainly due to the low penetration of gas in Spain when compared with the countries surrounding us. Similarly, we guarantee our commitment to our customers with regard to the safety and quality of service.

Finally, with a medium and long term outlook of regulatory stability, we expect our activity to continue developing to the full satisfaction of our customers, our shareholders and the institutions.



Pedro Mielgo  
Chairman



# MRG IN 2015

*Madrileña Red de Gas consolidates its growth model, which has risen above 1% in the residential and by 26% in the high consumption market. The creation of new infrastructures and forces aimed towards achieving effective dialogue with the group of collaborating companies and institutions*

## STRENGTH

The Standard & Poor's (S&P) agency has raised Madrileña Red de Gas's credit rating

Standard & Poor's has raised Madrileña Red de Gas's credit rating to "BBB/A-2" from "BBB-/A-3", highlighting the strength of the company's business risk profile, supported by improved prospects for S&P regarding on country risk and the regulatory stability brought by the recent reform to the gas sector regulatory framework.

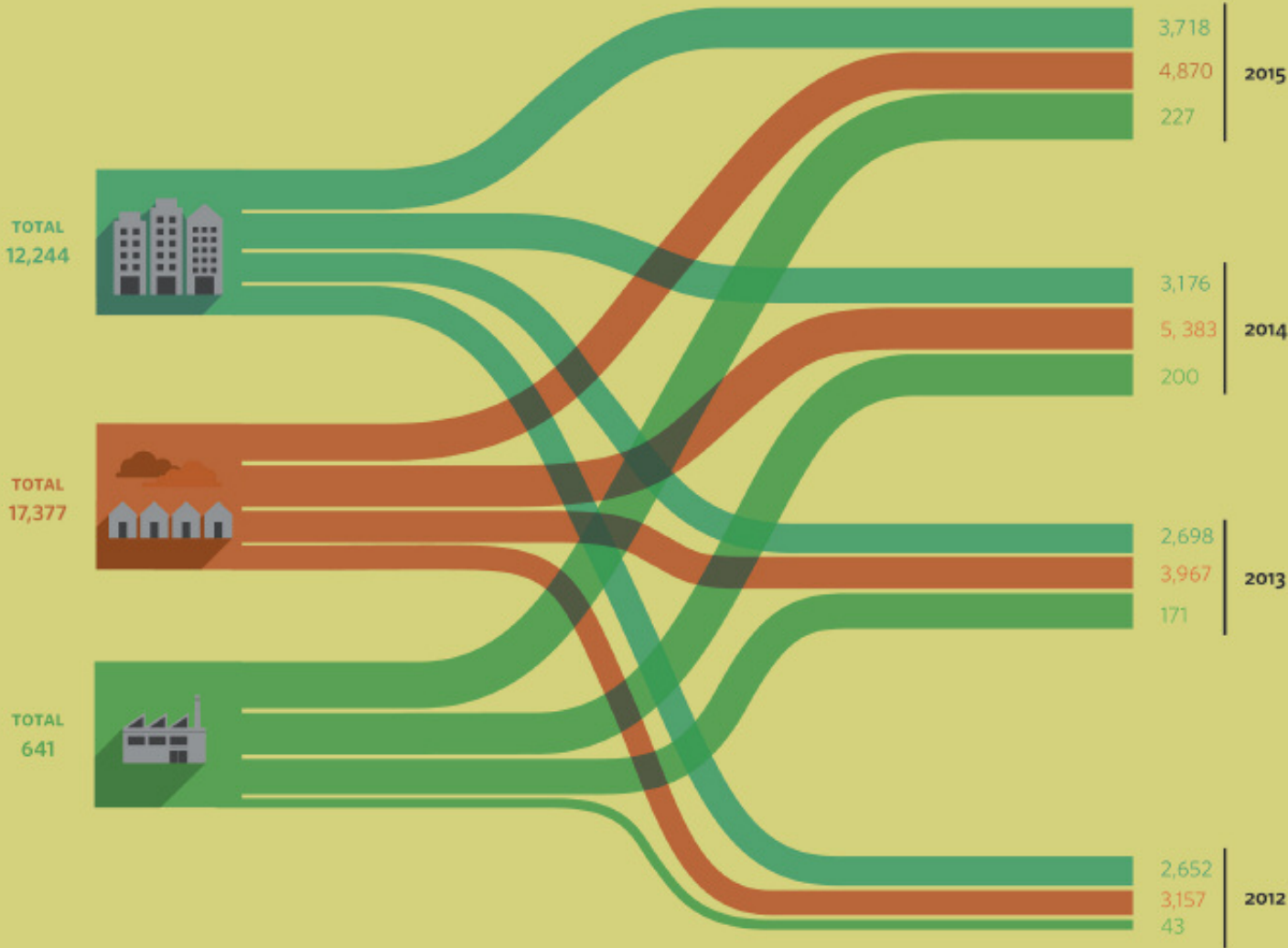
## CONSOLIDATION

The growth model is consolidated in the residential and high consumption markets

Madrileña Red de Gas has consolidated its growth model with an increase of more than 1 % regarding supply points in the residential market, and above 26 % in GWh/year in the high consumption market, compensating the decrease in new construction with the remaining markets.

### MARKET CONSOLIDATION MRG/RESIDENTIAL AND MASS CONSUMPTION

- Vertical saturation (No. of supply points)
- Horizontal saturation (No. of supply points)
- Mass consumption (Gwh/day)





## DEVELOPMENT

The installation of three LNG plants and the creation of the new infrastructures boost MRG's development

### *Liquefied natural gas plants*

Throughout this year we have commissioned three liquefied natural gas plants (LNG) in order to supply the distribution networks in the municipalities of Guadalix de la Sierra, Torrelaguna and Talamanca del Jarama; with a capacity of 30 m³ destined for both Guadalix and Torrelaguna, and 20 m³ in the case of Talamanca. These plants are designed to operate continuously. Their operation is controlled using a local Programmable Logic Controller (PLC) and telesupervised from our Control Centre in order to guarantee safety at all times, both for the people and material assets. To do this, strict safety measures have been incorporated into the design and construction of the plants:

- Fire protection and extinguishing installations.
- Perimeter security of the plant against intrusion.
- Automatic gas detection and shut-off system in the boiler room.
- Safe distances according to capacity (20 m³ o 30 m³), in accordance with UNE 60210/2011.
- Arrangement of safety vales in order to prevent overpressure in the inner vessel of the storage tank.

- Collection basins to safeguard against spillages for absorption of possible leaks of dimensions according to the capacity of the tanks.
- Earthing network for electrical installation.
- Own service teams available 24 hours per day, 365 days a year, for taking any action in the event of emergency.
- All external resources set out in the emergency plan within the Special Civil Protection Plan to be applied in each case.

All of the above means that only our operators need to be present for service tasks, such as: the regular filling of the tank by tanker trucks from the Sagunto regasification plant; scheduled maintenance tasks and/or resolution of alarms that may be triggered, etc.

### *New infrastructures*

This year, Madrileña Red de Gas has addressed the infrastructure needed to supply the town of Quijorna, establishing the connection from Enagás in Villanueva de la Cañada, with a length of 3,000 m, and the construction of a new Regulation and Metering Station (RMS), of 2,500 m³.

Moreover, we have established connections to the Felipe II and La Pizarra residential developments, both in the town of San Lorenzo de El Escorial.

Another important milestone during this period has been the establishment of the connection and internal infrastructure for providing service to the Alcorcón partial industrial development plan. The latter will have the companies IKEA and BRICOMART as its reference customers.

This connection included the crossroads of the Carretera Nacional V motorway, by the directional drilling of more than 130 m, the longest in the Community of Madrid.

Elsewhere, development has begun of several partial plans for residential, tertiary or industrial use, which has meant a 6,490 m increase in the pipeline.

All the infrastructures form part of the completion. In 2015, of the internationalisation process of network analysis and dimensioning.

## COMMITMENT

The natural gas vehicle (NGV) and the new high consumption business plans, the two greatest challenges of this financial year

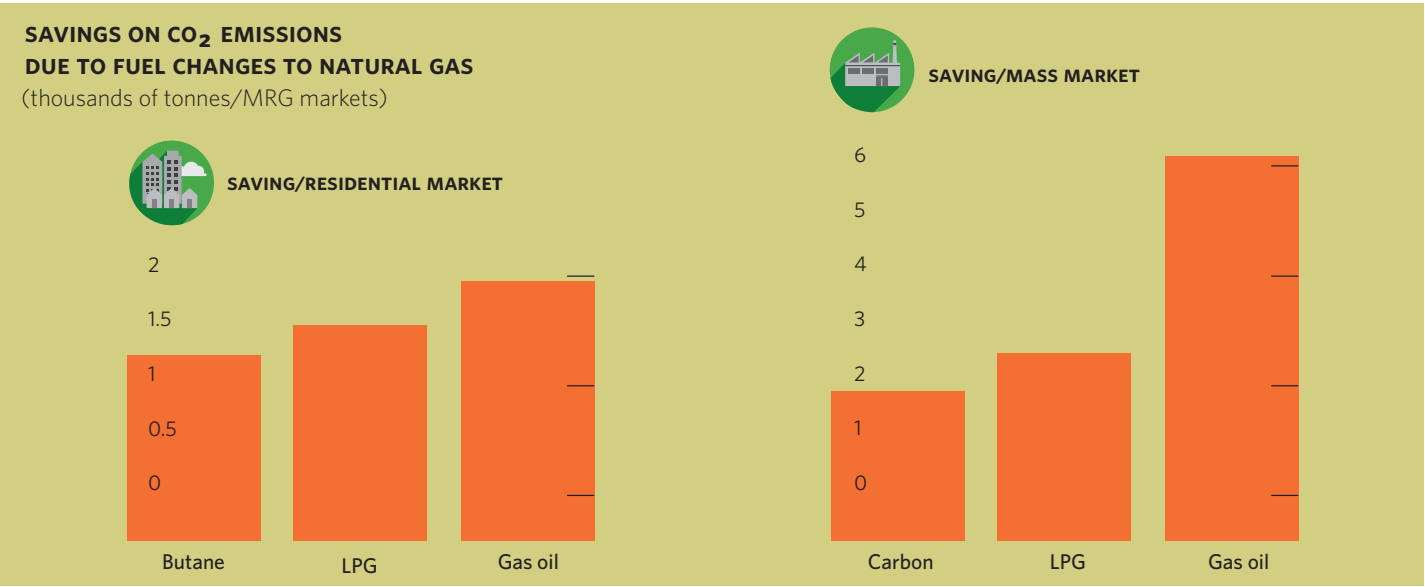
### *Towards high consumption*

The high consumption business plans have been implemented, along with more than 15 collaborating companies, which has led to a 26% increase with respect to 2014.

Accordingly, this year it was necessary to put in place the network of the Julio Palacios local area in the Fuencarral district, where there has been an increase in high consumption installations (residential boiler rooms) for supplying the power associated to that area.

As milestones relevant to this financial year, an important element is the signing of agreements with the Soto del Real prison and with the AMDA (Madrid Automobile Dealers Association), for the transformation of paint booths to natural gas.

MRG IN 2015





# GOVERNMENT

***Following the change in ownership of Madrileña Red de Gas, the consortium formed by Gingko Tree Investment Ltd., the Dutch pension fund manager PGGM, and EDF Invest, the investing arm of the French group EDF, is the sole shareholder of the company***

On 21 April 2015, Morgan Stanley Infrastructure, along with other co-investors, agreed to divest 100 % of the shares of Madrileña Red de Gas to a consortium formed by Gingko Tree Investment Ltd., the Dutch pension fund manager PGGM, and EDF Invest, the investing arm of the French group EDF. Completion of the transaction took place on 7 May.

Madrileña Red de Gas' new shareholders, all of them investors with long term commitments, given the nature of the funds they manage, have expressed their appreciation of the MRG commitment with the development of natural gas in the Community of Madrid and the efficient and prudent management of the company's operations in compliance with their obligations, maintaining confidence in the company's management team, led by Pedro Mielgo, as chairman.

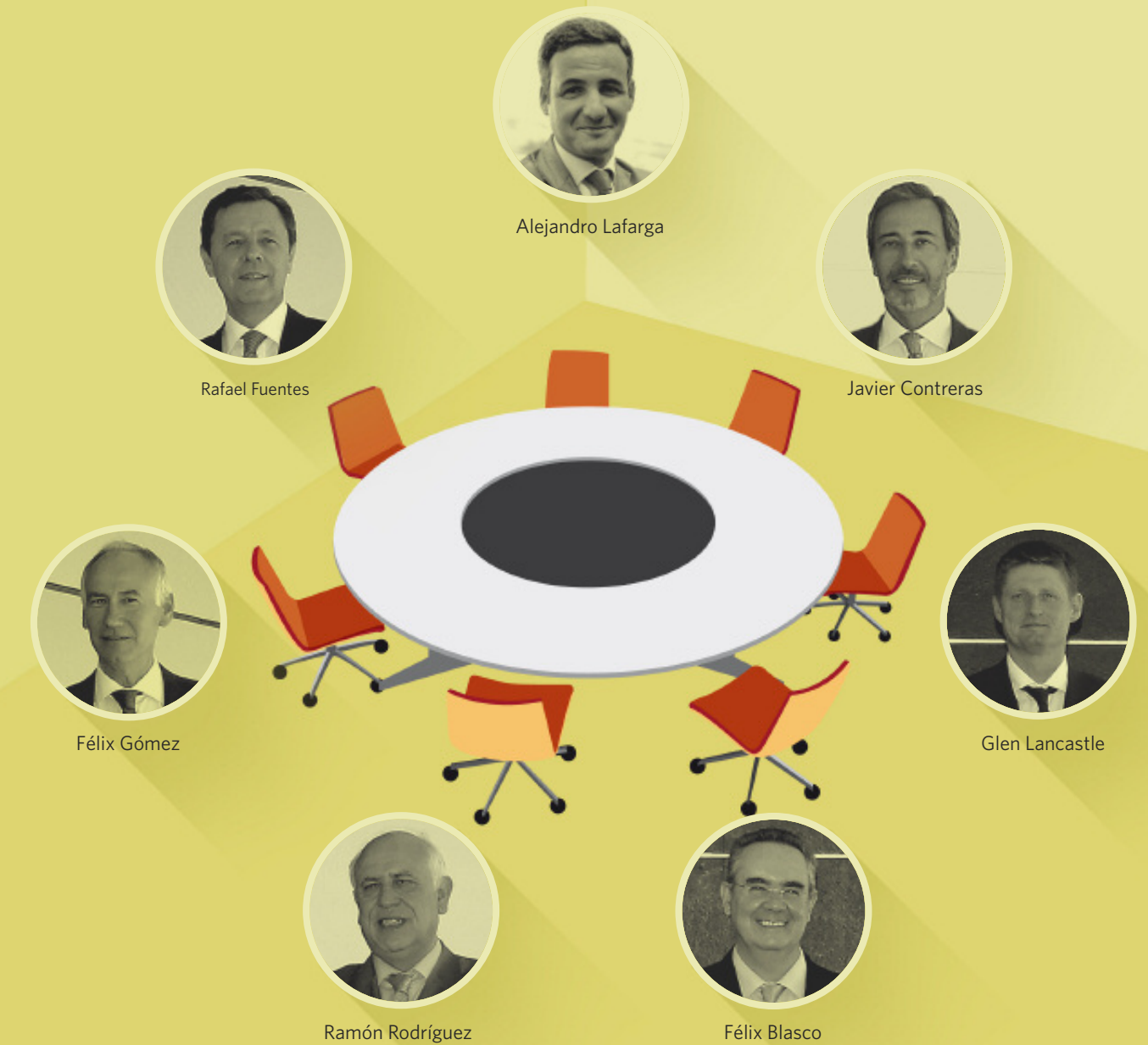
## ***Board of Directors***

- Pedro Mielgo, Chairman
- Dennis van Alphen, Director
- Michael Andrew Bryan, Director
- Martijn Verwoest, Director
- Guozhuo Sun, Director
- Jiahua Liu, Director
- Jérôme Sousselier, Director
- Guillaume d'Engremont, Director

## ***Management Committee***

- Alejandro Lafarga, Chief Executive Officer
- Rafael Fuentes, Head of Legal Affairs
- Javier Contreras, Chief Financial Officer
- Félix Gómez, Business Development Director
- Glen Lancaster, Head of Systems and Operations
- Ramón Rodríguez, Head of Human Resources
- Félix Blasco, Head of Network Operations

## MANAGEMENT COMMITTEE





# THE MANAGEMENT OF MRG

*The management of MRG during the 2015 financial year is supported by the high overall level of customer satisfaction, which is above 75%. One fact which is the result of the company’s efforts to upgrade and improve all of its activities, and to its commitment to its employees and customers*

## FULFILMENT

MRG fulfils its commitment to preserve the protection of personal data, as well as the protocols outlined by law

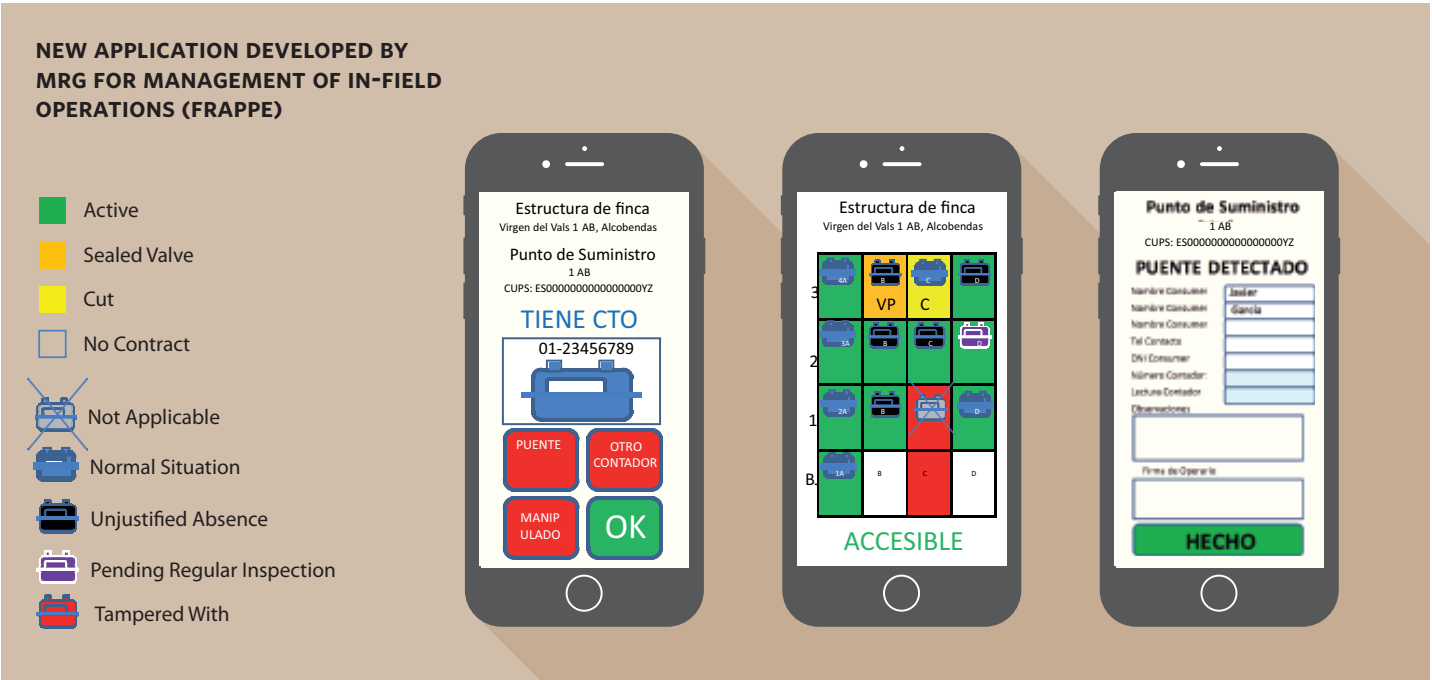
### Data protection

Concerning personal data protection policy, Madrileña establishes and maintains highly committed to the protection of information and the implementation of actions aimed at the preservation of its confidentiality, integrity and availability. The management model of MRG personal data complies with the requirements established in current legislation, with the aim of safeguarding the rights of the individuals concerned at all times.

### Gas distribution and balance

Order IET/2355/2014 published on 12 December amending Order ITC/3128/2011 of 17 November, and entering into force on 1 March 2015, has led Madrileña Red de Gas to verify the correct adaptation of its IT tools and ensure that it is prepared to take ownership of the distribution processes N+1 and arrangements for the whole of the network at the time of sectorisation. Since its entry there has been 100% compliance with the daily protocol in the networks acquired from Iberdrola at the time and, therefore, no penalties.

MRG has carried out the adaptation of the new version of the communications system with the Technical System Manager SL-ATR 2.0 correctly and on time.



## ADVANCEMENT

MRG updates its methodology in order to continue providing its customers with a reliable service, based on rigour, quality, transparency, accessibility and security

### Security and fraud

This year, a methodology for proactive detection of fraud has been implemented, based on the analysis of consumption in geographically similar areas. A protocol of action in the field has also been established and a software application developed for managing fraud.

All of this allows us, in turn, to draw on the knowledge and experience of our technicians, who carry out field work on a daily basis in order to track domestic and industrial fraud, as they are the eyes

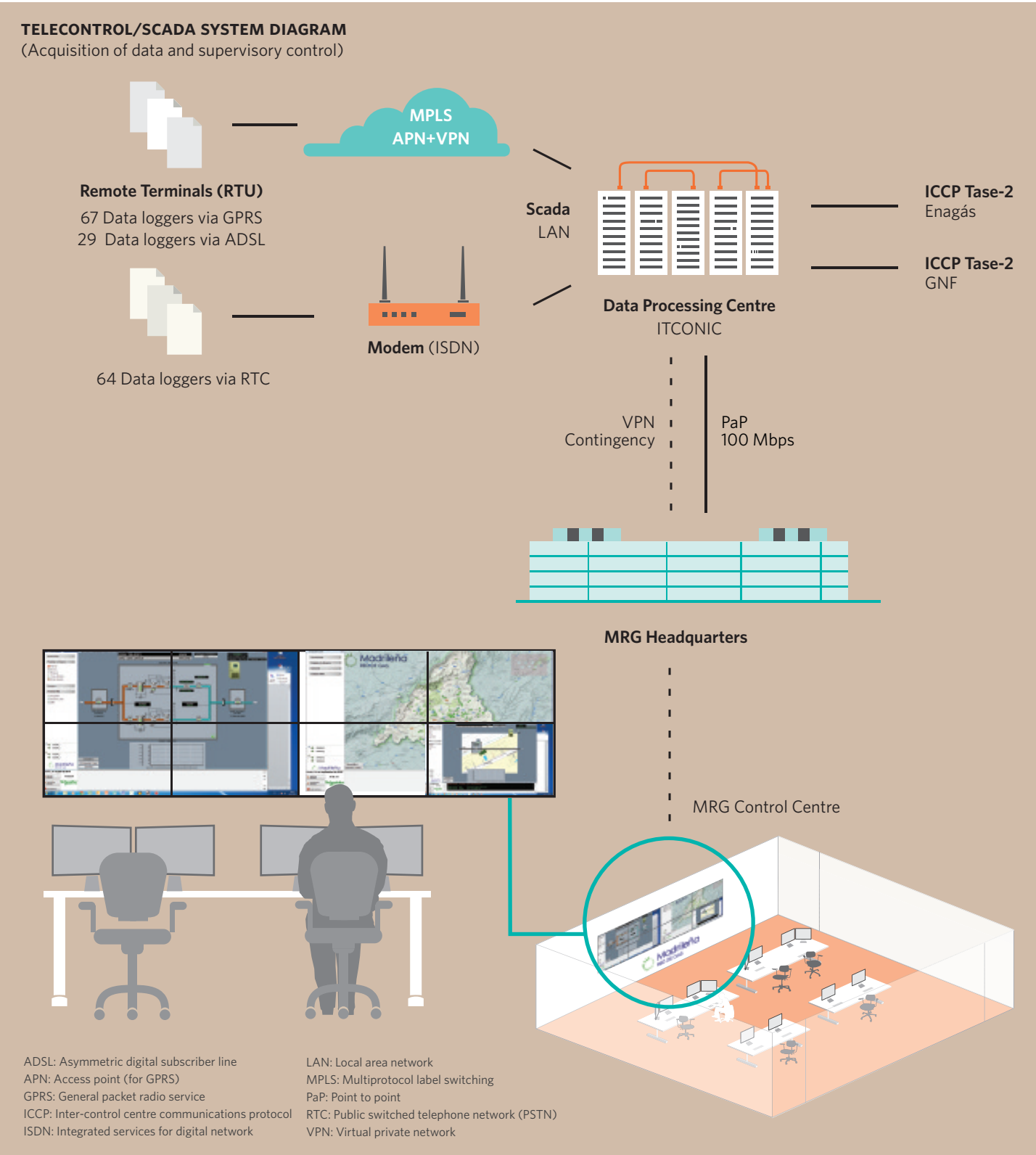
of the company. For that reason, it is important for the technicians to have all the relevant information available on the supply situation (installation of meter, termination, shut-down etc.) so that they will be able to find out, quickly and easily, if the installations on the premises they visit are coherent with the records on our information systems. If not, this tool will be able to record an operation in which the type of anomaly identified is reported (tampering with the meter, drill holes etc.) and the action taken at the time by the inspector.

Thanks to this new technology, more than 13,000 operations have been identified and carried out in the field over different campaigns (industrial estates, specific locations, restaurants, energy management, etc.). Furthermore, very useful information has been collected in order to improving fraud detection processes in the future.

Meanwhile, Madrileña encourages reactive fraud detection by its contractors or by its own customers. To do this we created a space in our website for civil complaints concerning cases of manipulation of installations that put safety at risk. We also developed our own app, called FRAPPE, for the online reporting of manipulated installations and possible fraud. Currently, all MRG contractors use it.

Both initiatives have enabled more than 1,100 contrasted frauds and recovered 27 GWh in settlements by consumption not measured by a meter that was tampered with. We have also ensured the security of detected installations that have been tampered with, and we have changed all meters that have broken down or been tampered with and which could put users and the installations themselves at risk.

THE MANAGEMENT OF MRG



### Remote control systems

Following the installation of the new telecontrol and remote control system, we have begun to migrate the signals from the regulation and metering stations (RMS), distributed on the Madrileña gas network, to our SCADA system. During this initial phase, all signals associated with network areas totally independent of those of Gas Natural Fenosa (GNF) have already been migrated. At the close of our financial year we took telecontrol of five installations (four RMS and a network access point), reception via the ICCP of signals from the Enagas delivery points and 80% of those from GNF. Similarly, in coordination with all the agents involved, we are making the necessary adjustments in order to take control of 165 remote installations provided in the Sectorisation Project which provides for the technical separation of the Madrileña Red de Gas distribution networks from those of GNF, and their connection to the primary transport networks. The provision for migration of the rest of the signals associated with our RMS and which now operate GNF through a service contract, is the completion of the sectorisation works on the gas network, which is scheduled for next year.

From the new Control Centre we can monitor the operations of the whole network and exploit the data received using the SCADA system. In the operating positions in the aforementioned room, data is received 24 hours a day relating to pressures, flow rates, consumption from all the monitoring points of the network. Using the standard ICC/Tase 2 protocol, this system is able to receive, from GNF, the flow rate and energy values from

the Distributor-Distributor Connection Points (DDCPs), and the flow rate and energy values, from Enagás, of the connection points between Transport-Distributor (TDCPs). Any anomaly or incident that could occur within the operating parameters defined is received and processed by the MRG operators 24 hours per day.

Similarly, we have a crisis centre within the Control Centre where we can view the data sent in real time by videowall, television channels and/or data shared from any mobile device.

### Telecommunications

MRG has begun a cost review within the company's IT and telecommunications infrastructure. Along these lines, this year we have made changes to the corporate communications management contracts. Madrileña has increased the installed communications services base with the SCADA system, which can obtain information from more than 160 measuring devices — Remote Terminal Unit and Datalogger —, distributed throughout the whole of the Madrid Community territory.

This work has resulted in the reorganisation and improvement of the corporate information systems communications map — servers and equipment in the field — as well as the telecontrol and remote control system. This has enabled us to reduce our costs by approximately 20 %. This reduction has been exceeded considerably in the field of mobile communications.

### Readings and measurements

Madrileña Red de Gas has taken one step further towards the efficient management of the network, the aim of

which is to have the most accurate possible consumption data on our customers. This policy has enabled us to align the tariffs invoiced for the actual consumption of our customers. At the same time, this has allowed the supplier to have the best information for invoicing the final customer.

One part of the company's activity has been focused on optimising the execution of management activities of the gas network and those associated with the needs of the customers, thereby streamlining the human resources and materials used.

The activities referred to in the previous paragraph are a basis for preventing technical losses on the network, although non-technical losses are not mitigated.

In order to combat the latter, we have worked on the definition and development of data analysis tools which have allowed us to contrast customer consumption data from different perspectives: consumption comparisons of different years, compared with maximum, compared with the average consumption of the building, etc. Not only has the transactional data held by MRG been included, but also the historical data on our previous customers at the beginning of our operations, in addition to the relevant facts that could alter the data sets: additions, deletions and removals, etc.

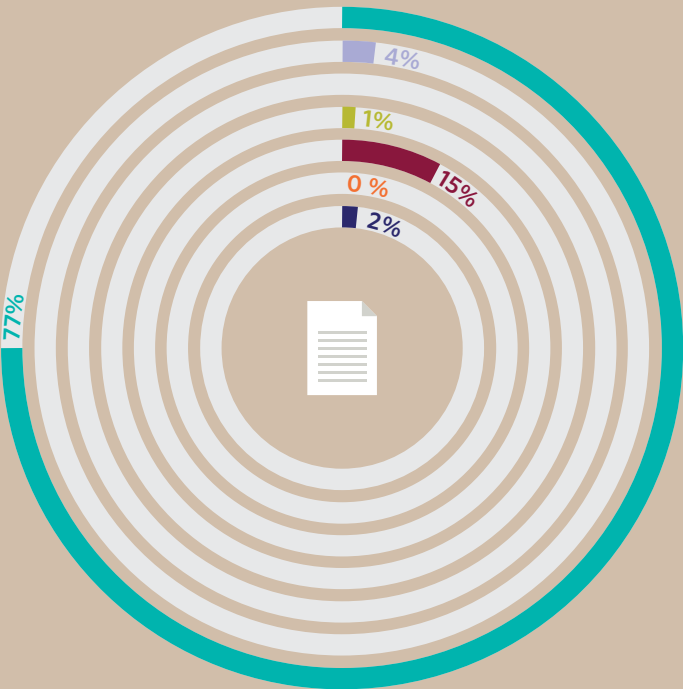
Throughout this process, different actions have been taken:

- Greater collaboration with the meter reading companies on the monitoring of readings and their success at actual meter readings. More meter

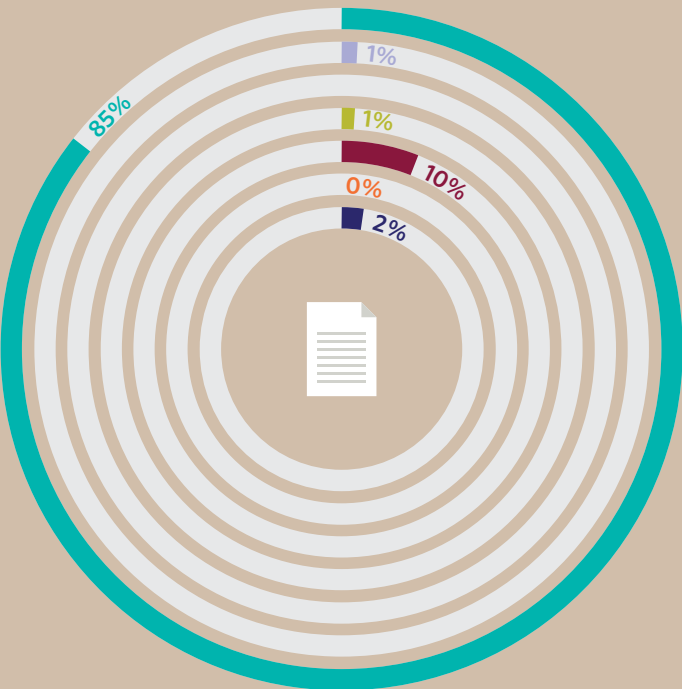
THE MANAGEMENT OF MRG

NUMBER OF REQUESTS TRANSMITTED PER CHANNEL

- Telephone platform
- Photo reader
- Webpage - Virtual Office
- Written records
- Mailbox
- On-site
- Third-party access to the network (TPAN)



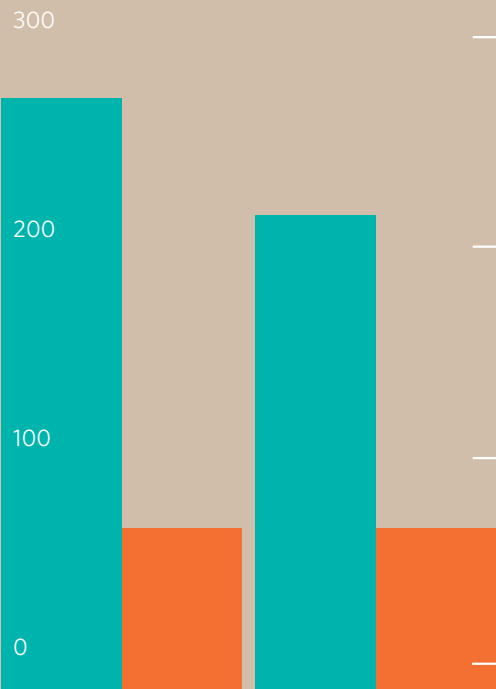
2015



2014

VOLUME OF CALLS ATTENDED TO (thousands)

- No. of emergency calls attended to
- No. of customer care calls attended to

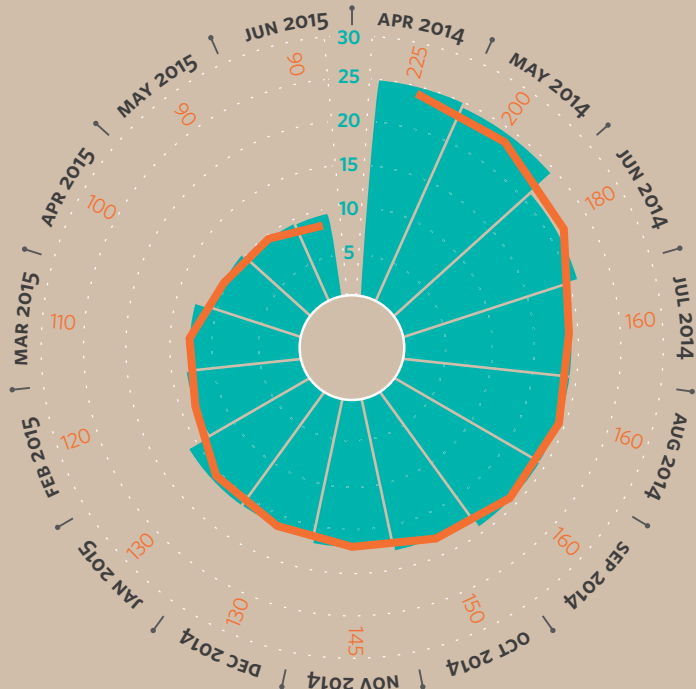


2015

2014

DECREASE IN NO. OF CUSTOMERS WITHOUT ACTUAL READING, 2015

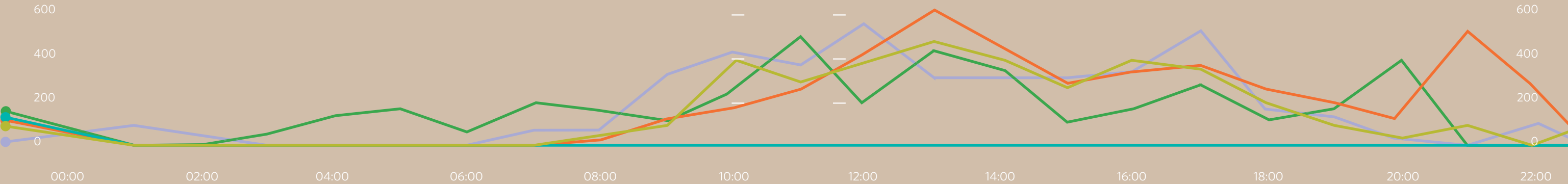
- %
- Thousands of customers



NUMBER OF READINGS TAKEN BY TIME SLOTS

(Data on readings taken by the Tradivel company and reported in the MRG system)

- Reading A
- Reading B
- Reading C
- Reading D
- Reading E





THE MANAGEMENT OF MRG

control measures have been incorporated via geolocation of online operators, as well as the reading rates available on the reading web application. For twelve months, prior identification was made for sharing of the work to the reader of customers without an actual reading, and improvements have been made to the reader terminals. Specifically, these types of customers have been visually identified at the actual time of the reading.

- The customer’s option to report the reading by e-mail with a photo attached of the reader, or using the customer services platform, where the IVR (Interactive Voice Response, interactive voice answering facility) has been installed. This system allows the customer to insert their DNI or ID number using their telephone keypad and may make their meter reading easier without the need to interact with a platform agent, unless an incident occurs during the registration process. This reading is analysed by the computer system and is considered acceptable whenever it goes through the filters established during the reading process. With this initiative, we have managed to provide timely user management and also ease call volumes, freeing up more call centre agents to provide direct assistance. As

a result, we have been able to attend to a higher number of calls relating to other processes pertaining to natural gas distribution activity.

- A policy for raising user awareness, which has influenced the requirement to allow personnel authorised by the distribution company to enter premises or houses to take meter readings.
- A change to meter reading schedules in order to adapt them to customer lifestyles.

These actions mean that, during the last twelve months, the number of actual readings has increased by 6%, and a 14% reduction in the number of customers without an actual reading. There has also been a 2% increase in the total number of readings taken by the readers. This has all occurred without making any difference to the annual budget for readings.

Billing

For Madrileña Red de Gas, analysis of the climatology is key, given that it is a crucial factor in consumption. Identifying the causes of the fluctuations in consumption when compared with the sector, taking into account the singular typology of MRG customers, is a basic requirement for controlling billed consumption and its short and medium term outlook.

This exhaustive analysis has provided appropriate evolution of adjustments to billed consumption, in a downward trend. An overall improvement has been seen in the distribution of gas

consumption during the different months of the year. There is also better understanding of the percentage of consumption billed due to actual meter readings.

Comparisons made between conventional demand in the sector and MRG’s own history allow us to forecast consumption and its influence on the remunerations assigned.

Customer requests

Madrileña Red de Gas has made improvements to the SAP software system for registration of requests. Now we can associate the request to the creation of the work order required for providing the optimal solution. In this way, it is possible to close the request automatically, provided that the work order is finalised with the correct result, which ensures that every request requiring implementation in the field is closed whenever said execution is complete.

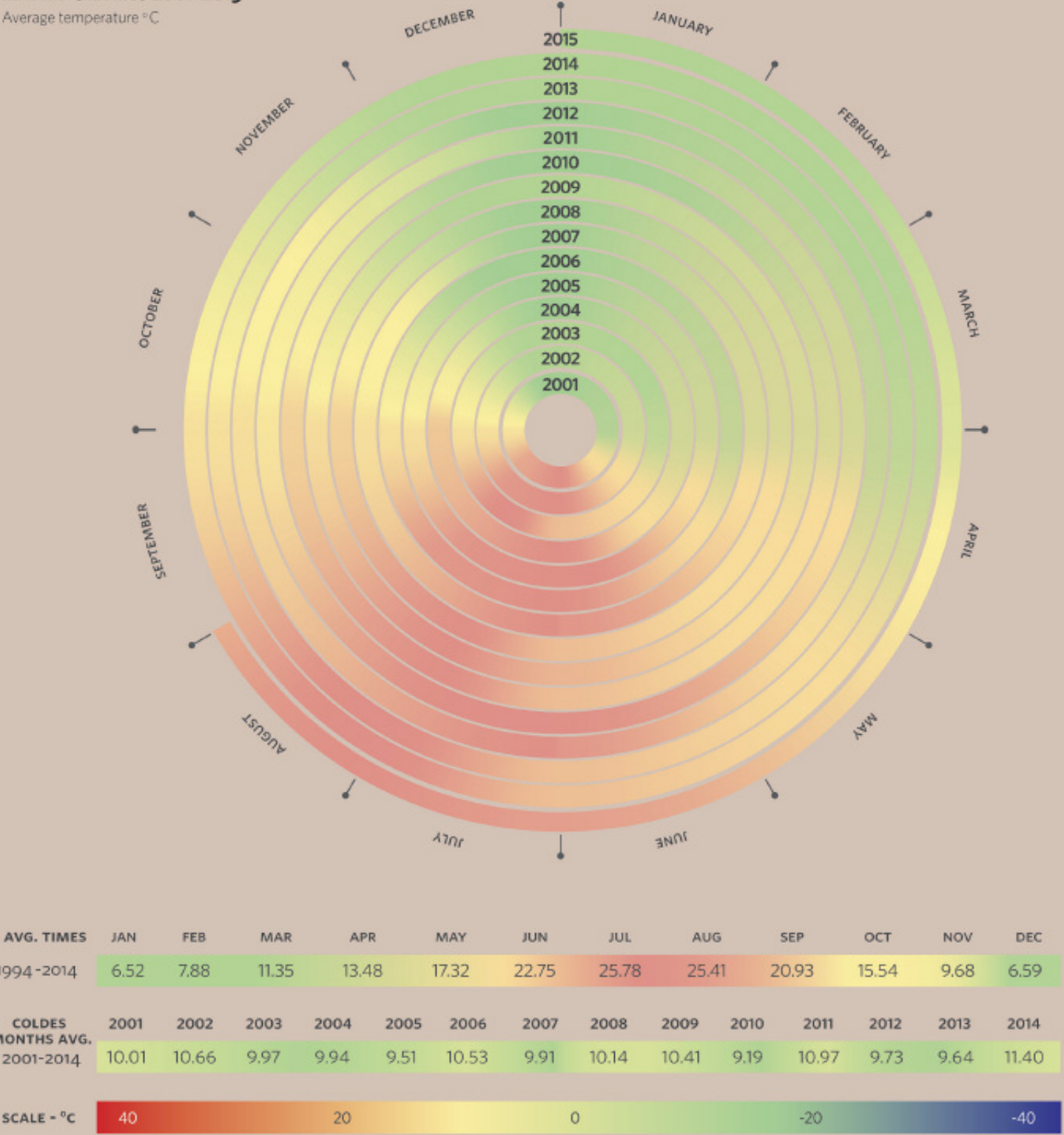
Regular inspection

One of the obligations of a natural gas distributor is to ensure the safety of the customers’ installations through regular inspections of each supply point every five years.

Despite the fact that the regular inspections (RIs) carried out during this financial year are associated with the year in which our regular inspection cycle has been changed from every four years to every five, MRG has successfully managed to carry out 136,509 regular inspections, which has led to the 92% success rate in the fiscal year.

The actions taken to achieve this result were the following:

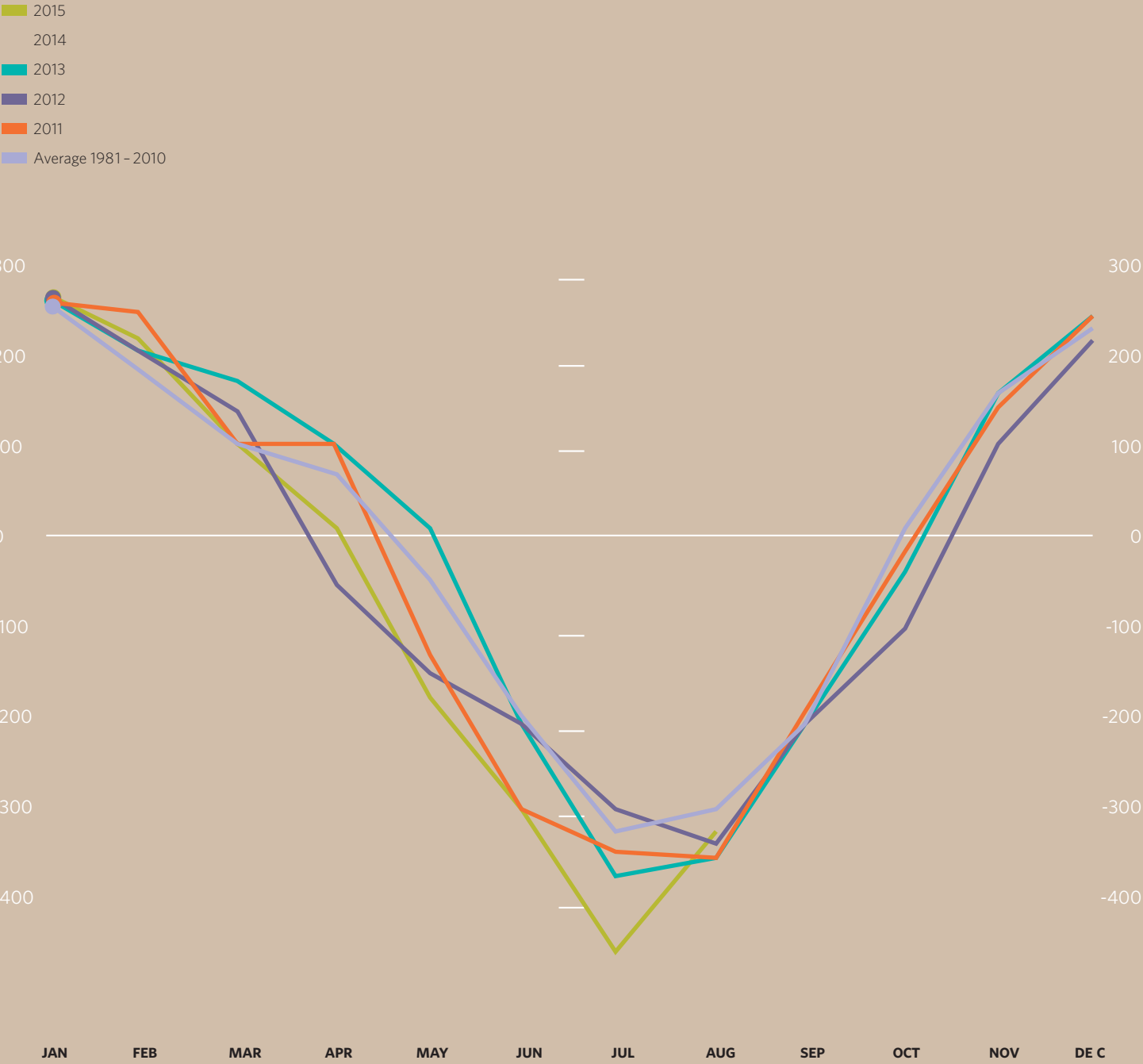
CLIMATE VALUES  
MADRID (RETIRO) 2001-2015  
Average temperature °C



Source: Agencia Estatal de Meteorología

THE MANAGEMENT OF MRG

LEVELS - DAY/MONTH, DURING THE MONTHS USING HEATING (measurement day-degrees)<sup>1</sup>

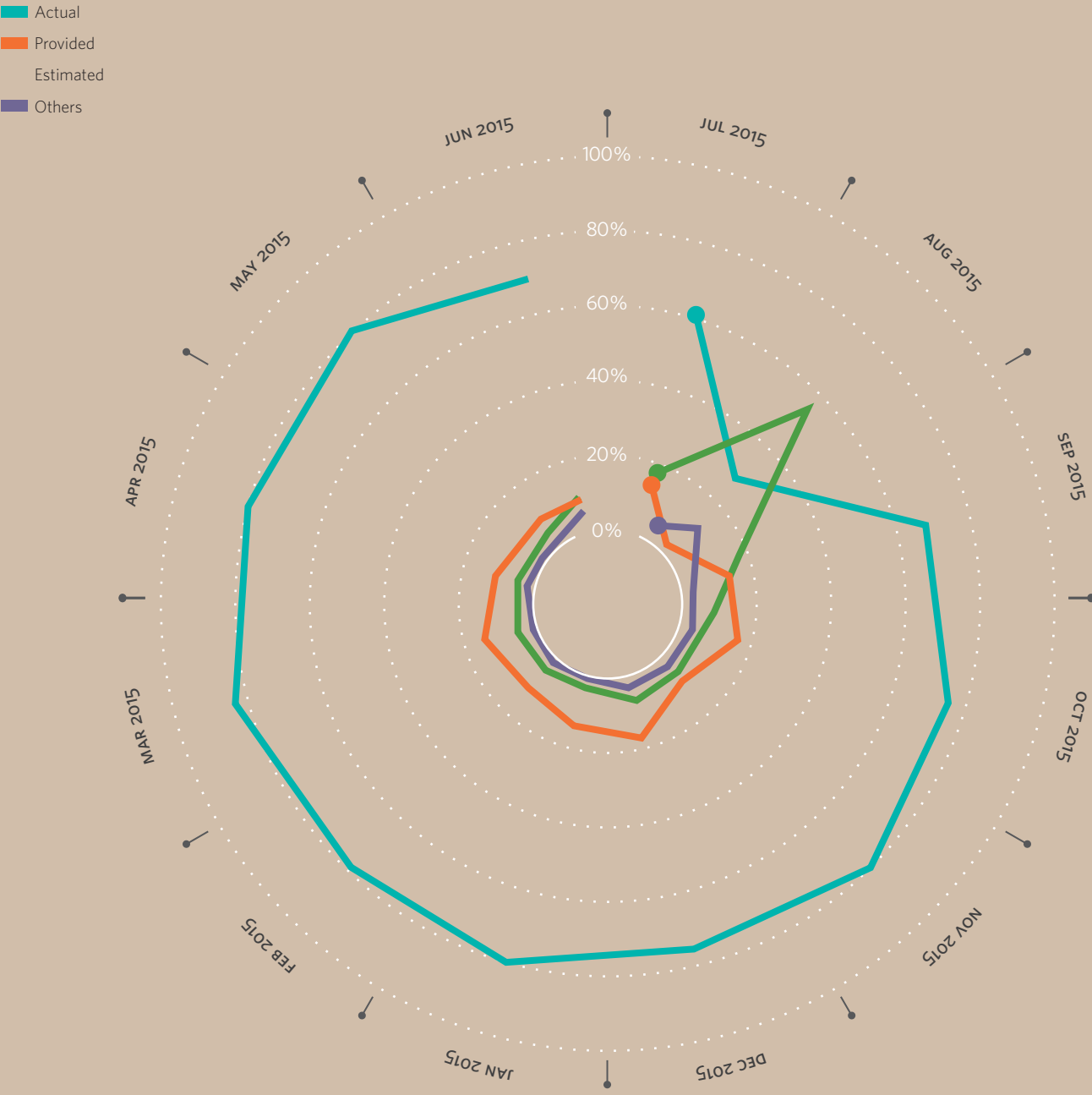


<sup>1</sup>Values obtained using the formula

$$GD_{cal} = \left( T_{Bc} - \frac{T_{max} + T_{min}}{2} \right) \cdot n$$

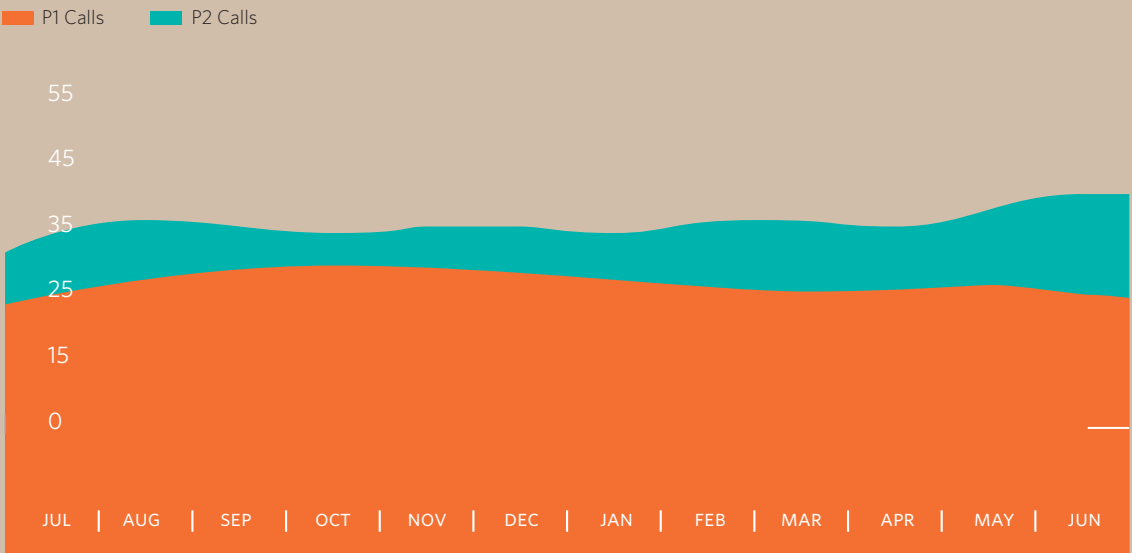
$$T_{Bc} = 15^{\circ}$$

TYPE OF READINGS  
ON BILLED CONSUMPTION/MONTH, 2015

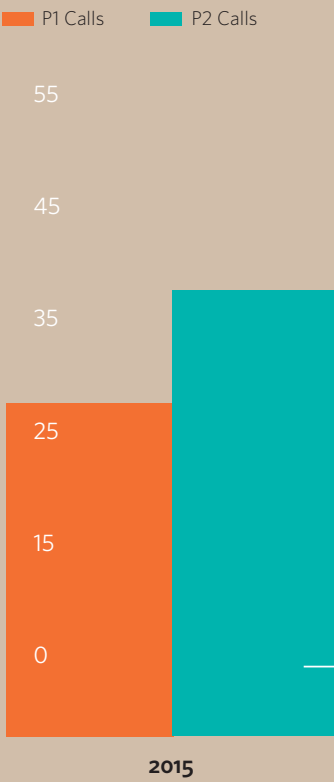


THE MANAGEMENT OF MRG

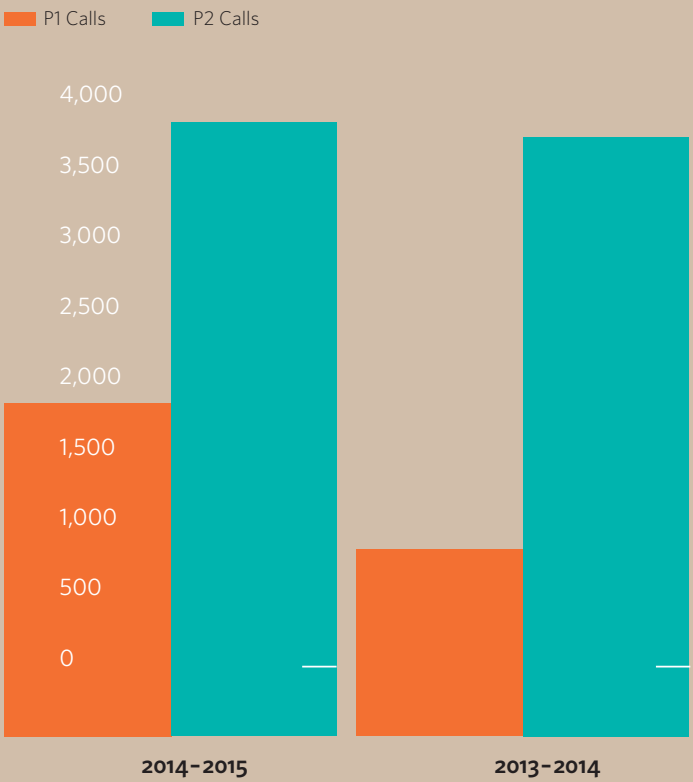
TIMES OF MAXIMUM PRIORITY CALLS ATTENDED TO, 2015 (minutes)



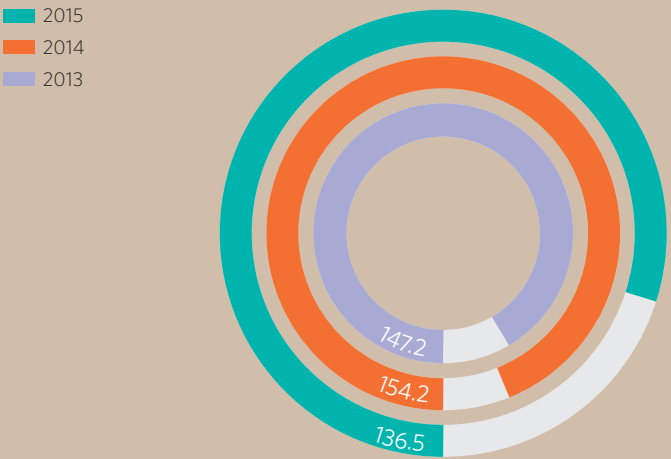
AVERAGE CALL TIME (minutes)



TOTAL CALLS ANNUALLY (no. of calls attended to)



REGULAR INSPECTIONS CARRIED OUT BY MRG (thousands)



- Installations with no regular inspection: 15,000 RIs have been carried out, leading to an overall success rate of 53%. The safety of the users themselves has also been guaranteed, as this has enabled us to detect anomalies in their gas installations: 5% with primary anomalies and 10% with secondary anomalies.

- Regular inspections carried out by other areas of the company: contractors in other areas have been trained to carry out regular inspections. This has led to increased agility when providing this service. In addition, we have been able to carry out the regular

inspection concurrently with other operations, such as fraud inspections or reopening after a supply cut due to non-payment, always leaving the supply point secure.

Emergencies

This year we have seen an increase in the number of emergency calls of 30.3% compared to the previous year. Even so, Madrileña Red de Gas has once again managed to set an average response time of just 28 minutes for priority 1 calls. This was possible thanks to management improvements, new applications and the geolocation system, which has enabled us to assign each call to the teams closest to the incident location, both for user's houses and in our natural gas distribution system.

Network maintenance

We have carried out 100% of our maintenance plan on preventive and corrective activity, provided in the regulations and in accordance with MRG's quality standards, reducing the expenses budget associated to such activities by 6.75%.

Household operations

During the current year, MRG has improved its success rates on shut-off, closure and reopening services, which has enabled us to allocate more, improved resources to other internal units of the company such as the fraud unit or the department of regular inspections.

- Closures requested by traders: 61%
- Closures requested by the customer: 94%
- Shut-offs: 82%
- Reopenings: 92%

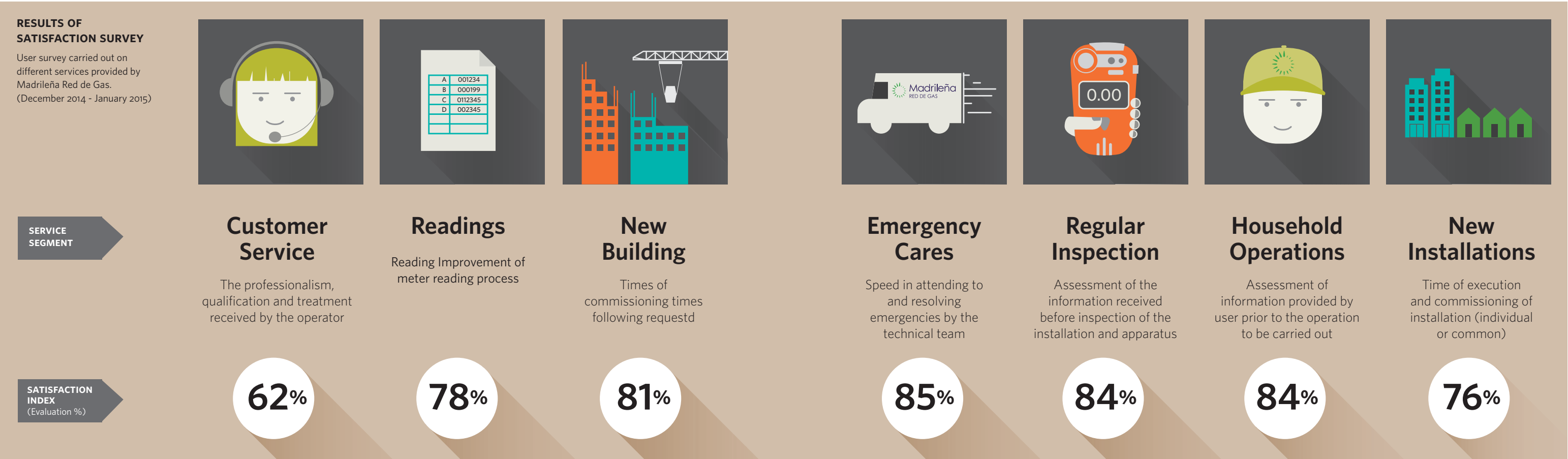
Document management

As part of the gas distribution network's management tasks, Madrileña takes more than 4,500,000 readings from its customers, which are used to process the billing data sent to the traders. As well as the data sent via GPRS to the corporate transactional system, these operations generate a large number of photographs — more than 500,000 per year on average — which serve to validate the data collection and/or provide evidence of its execution.

On the other hand, different operations are carried out in the field which also generate a large volume of documentation:



THE MANAGEMENT OF MRG



1. Commissioning of gas: every year we carry out more than 10,000 operations. With the incorporation of the mobility system into the commissioning service, we have reduced the deadlines by 1.5 days, which means a 35% improvement in installation start-up times.
2. Household operations: we have carried out an average of 50,000 household operations (closures, shut-offs, reopenings, meter checks, etc.)
3. Regular inspections: our legislation requires natural gas

distributors to carry out regular inspections every five years of the individual receptor instalation (IRI) and the common receiving facilities (CRF) of our customers. Therefore, we carry out an average of 175,000 regular inspections annually to customers.

Associated with these operations, a certificate is issued with the details of the operation signatures of the customer and field technician. Furthermore, it is possible to annex photographs which complement data collected on the mobility application of field operations.

Madrileña Red de Gas generates a large amount of information and documentation every day. This is stored in a document management system which allows access according to different criteria (customer, Universal Supply Point Code CUPS, date of execution etc.) and in the shortest possible time.

The development of this application has made substantial improvements with respect to the time spent in the activity of our managers. It has also allowed operators from the call centre to access information and documentation more rapidly, providing a better service to MRG's customers.

SATISFACTION

Madrileña Red de Gas overall customer satisfaction index reaches 78.5%

Between December 2014 and January 2015 a survey was carried out of 473 users, the first satisfaction poll concerning the different services provided by Madrileña Red de Gas, distributed over seven service segments.

Similarly, between November 2014 and February 2015, the first trader satisfaction survey was carried out on the different services provided by

Madrileña Red de Gas: more than 90 traders were interviewed relating to eight types of activity.

The user satisfaction survey revealed, among other things:

- An overall satisfaction index of 78.5%.
- 46.7% of MRG users surveyed recommended family members and friends to us.
- A level of loyalty (also called the NPS or Net Promoter Score) among users surveyed of 23.2%.

For their part, the trader satisfaction surveys showed the most significant results:

- An overall satisfaction index of 77.4%.
- An average overall recommendation of 7.5 out of 10

## THE MANAGEMENT OF MRG

# ORGANISATION

**The organisational model of the network operations management was designed and implemented in 2015**

Based on the assumption that organisations must obtain results, and that their structures are a contributory factor in achieving them, this year we designed and implemented the organisational model of the network operations management. This model has pursued the following objectives:

1. To optimise the efficiency of the assets under the management's responsibility.
2. To optimise the efficiency of the processes developed with regard to the quality of service and safety.
3. To concentrate on own human resources in the most critical and profitable business processes, outsourcing remaining activities of lesser impact and added value.

One of the greatest successes of our new organisational model has enabled us to amalgamate the chief of intervention's post and the control centre operator's post. We have thereby created a unique position called "emergency control centre coordinator". This position is made up of 14 workers and combines the different synergies of the two previous posts, whilst maintaining a multifunctional work profile, geared towards coordination and the resolution of any kind of

incident, something that is unparalleled in other gas distribution companies at national level.

The implementation of this model has been directed at a group of 65 people, accounting for 42% of Madrileña Red de Gas staff.

## TRAINING

**More than 7,000 learning hours and 49 specific training courses have been aimed at 77% of staff**

People are a priority for Madrileña, and that is why we continue to rely on ongoing training. In fact, this has been a banner year in that regard. In total, MRG employees have attended 49 courses, exceeding 7,000 learning hours.

The training courses respond to changes in the organisational model of the network operations management and the company's commitment to middle management.

With respect to changes in the organisational model of the network operations management, 14 emergency control centre coordinator positions have been created. This has led to the design and implementation of a three month training plan. This plan has required the organisation, coordination and execution of 24 training actions representing the four business specialisations, skills, IT and occupational risk prevention (ORP). More than 2,000 learning hours have been delivered, with a financial investment of more than 47,000 euros.

Regarding our commitment to nurture the middle managers, this has led us to implement the development of a training activity focussed on

leadership. The course comprises three phases: the first one in which we received 12 training "pills" which enable us to consolidate the theoretical foundations needed to make good use of the coaching and monitoring processes, then the second and third phases, respectively. The course was carried out over 969 hours, has been earmarked for 20 employees and has had more than 40,000 euros of investment.

All this translates into 77% of our staff having received specific training over this year. Likewise, the training hours have been increased by 63% compared with the previous year.

## EMPLOY

**The staff, to which seven new recruits have been added, is rejuvenated**

During this financial year, MRG has had seven new recruits, of which six were through substitution contracts. With this type of contracting we had a threefold aim: ease the progressive transition of workers over 61 years old from working life to retired life; create employment and rejuvenate the workforce.

## PREVENT

**12 consecutive months without any accidents at work, and a new training channel for prevention**

In October 2014, the first three year cycle came to an end as a certified company with the seal of business excellence in prevention OHSAS 18001.

### FONGOING TRAINING DELIVERED TO MRG EMPLOYEES

2014 - 2015  
2013 - 2014  
2012 - 2013



THE MANAGEMENT OF MRG



During this same month, and for the first time in MRG’s history, 12 consecutive months went by with no occupational accidents or time off work taken by our own staff, thanks to close collaboration between the different areas of the company, exhaustive training in the field of prevention and the good practices of all staff.

On the other hand, during the first half of 2015, Madrileña delivered the first prevention courses on third-party violence, aimed at all workers who deal directly with the users.

We have put in place a new service for managing and monitoring occupational risk prevention documentation of contracting and subcontracting companies. Currently, there are 67 contracting and subcontracting companies registered, as well as 688 workers. From this platform there are more than 7,500 documents to manage.

Furthermore, the programme of prevention monitoring visits of the activity itself, executed by contractors, has continued over this financial year. During this period, about a hundred visits were made, which allowed us to resolve the incidents detected.

We have also unveiled the new prevention information channel, based on available technologies such as “the cloud”. Among other advantages, this channel provides an environment that is friendly, intuitive, approachable and structured, where you can “dive into” the information on prevention which is always available and which can be directly accessed via the Internet, which will allow access to the information “from the field”, as well as the chance to voluntarily subscribe to the topics and/or updates of documents of interest and be constantly up-to-date.

COMPARISON. NATURAL GAS FOR VEHICLES (NGV) - OTHER FUELS  
EMISSION SAVINGS OF CO<sub>2</sub> AND NO<sub>x</sub>

	GHG <sup>1</sup>		POLLUTANTS			
	CO <sub>2</sub> (g/km)	CO (g/km)	NO <sub>x</sub> (g/km)	NMHCs (g/km)	Particles (g/km)	SO <sub>x</sub> (g/km)
<b>Heavy Vehicles</b>						
Natural Gas	1,074	2.105	3.459	0.353	0.053	0
Diesel	1,291	2.819	12.874	0.950	0.536	1.457
<b>Light Vehicles</b>						
Natural Gas	148	0.602	0.248	0.031	0.010	0
Diesel	157	0.799	0.770	0.560	0.107	0.230
Petrol	217	1.939	0.240	0.580	0.013	0.140

<sup>1</sup> Greenhouse gases.

Source: ICAEN / FENERCOM

CARE

Madrid Respira is the new platform for promoting NGV, the most environmentally friendly and economical alternative

We have inspired the creation of Madrid Respira, a public awareness platform which pursues the following objectives:

- Promotes the advantages of natural gas for vehicles to every citizen.
- Encourages social debate on this question.
- Seeks support from the Administration.

With this initiative, we try to make citizens aware of the importance of reducing emissions caused by road traffic and promote the use of NGV as an economical and ecological alternative.

INNOVATION

A second generation valve lock which facilitates installation and enhances safety

During the fiscal year, and continuing in line with previous years, a second generation locking device has been created which can be installed to nearly all shut-off valves in households in territory where MRG operates.

A thorough analysis has been made of all shut-off valves installed in the last 40 years. This study has enabled a single shut-off device to provide a universal solution to a wide variety of valves. This new model, more robust than its predecessor, reduces company costs by preventing users from reopening the supply by themselves and/or putting their safety at risk.



# ECONOMIC ANALYSIS

*Two milestones mark the 2015 financial year: the change to the company shareholding structure and the confirmation of the legal framework of the gas system*

## SUMMARY OF RESULTS

PROFIT AND LOSSES

€M	2014	2015
Remuneration	153.4	140
Other revenues	27.4	26.1
EBITDA	149.2	135.7
EBIT	114.7	102
Net profit	10.3	47.6

Two events stand out in this financial year: on the one hand, the entry into force of Royal Decree 8/2014, of 4 July, subsequently validated with some modifications by Law 18/2014, of 15 October, which ratifies the regulatory framework applied to the natural gas distribution activity, while establishing certain measures aimed at reducing and controlling the emerging tariff deficit of the gas system; and on the other, the change to Madrileña Red de Gas shareholders following the purchase of 100 % of the company's capital by a consortium formed by Gingko Tree Investment, PGGM and EDF Invest.

During the 2015 financial year, MRG obtained a net profit of 47.6 million euros, an increase of 64.4% with respect to the profit figure of the previous financial year. In this financial year, unlike reported in the previous year due to the refinancing of the company's bank debt, no significant non-recurring expenses have been incurred.

The expansion of the distribution network in order to increase the penetration of natural gas as a source of energy, continues to be a basic pillar of the company's strategy. During the 2015 financial year, the connection of new customers to the distribution network and the construction of three liquefied natural gas plants has consolidated the growth pattern developed over the last few years.

In this regard, and with the aim of providing service to new municipalities in the Community of Madrid, MRG has commissioned three satellite liquefied natural gas plants, in Guadalix de la Sierra, Torrelaguna and Talamanca del Jarama, which will allow to efficiently develop the distribution network.

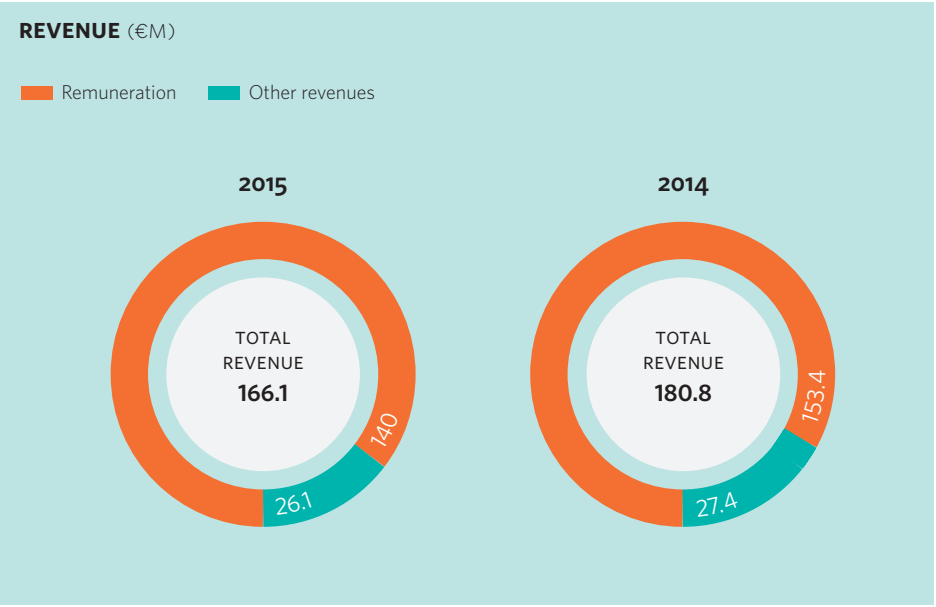
The total number of active municipalities at the close of the financial year is 59, including the municipality of Madrid, where the distribution activity continues in five districts. The total number of supply points to which Madrileña Red de Gas provides a service are 845,468.

## OPERATING RESULTS

Deceleration of the company's operating growth

The gross operating profit (EBITDA) has decreased by 9 % with respect to the previous financial year.

The adjustment to the company's remuneration derived from the measures in Royal Decree 8/2014, the decrease in the volume of the regular inspection operations, the increase in the execution of household operations aimed at improving the distribution network's efficiency, along with the decrease in demand for natural gas, owing to the high temperatures recorded with respect to the previous year, constitute the main factors that have influenced the evolution of EBITDA.



## INCOME

The total income for 2015 comes from remuneration recognised as distribution activity (84%) and provision of other regulated and unregulated services (16%)

The net business turnover for the 2015 financial year was 166.1 million euros. Of the total income, 84% comes from remuneration recognised as distribution activity, set pursuant to Orders issued by the Ministry of Industry, Tourism and Trade 2446/2013, published in the Spanish Official Gazette No. 312 of 30 December 2013, 2355/2014 published in the Spanish Official Gazette No. 303 of 16 December 2014, and 2445/2014 published in the Spanish Official Gazette No. 312 of 26 December 2014. The remaining 16% corresponds to provisions of other regulated and unregulated services.

Dated 5 July 2014, the Royal Decree-Law 8/2014 of 4 July was published in the Spanish Official Gazette No. 163, in which a set of urgent measures was approved for guaranteeing the sustainability and accessibility in the hydrocarbon markets, as well as to establish an efficient energy system in line with the European directives.

As a result of this Royal Decree, later ratified by virtue of Law 18/2014, the aforementioned Order of the Ministry of Industry, Tourism and Trade 2355/2014 was published, in which an adjustment was made to the remuneration of the distribution companies of 110.7 million euros. The revision of the company's remuneration corresponding to the year 2014 resulted in an adjustment, on an annual basis, of 10.9 million euros, applied as from 5 July 2014.

ECONOMIC ANALYSIS

# FINANCIAL POSITION AND BALANCE SHEET

There have been no significant fluctuations in the structure of the company’s balance sheet subsequent to the refinancing of the group’s bank debt in the last fiscal year, through the issue of long-term obligations for an aggregate amount of 775 million euros

BALANCE		
€M	2014	2015
Gas distribution licences	713.4	713.4
Net tangible fixed assets	374.3	369.8
Total Network Fixed Assets	1,087.7	1,083.2
Goodwill	57.4	57.4
Deferred tax asset	32.3	9.6
Other non-current assets	3.4	27.7
Current assets	41	18.5
Cash	55.4	56.1
Total Assets	1,277.2	1.252.4
Equity	436.7	422.1
Subordinated shareholders loan	–	–
Long term debt	769	769.9
Deferred tax liability	27.8	7.4
Other non-current liabilities	2	1.8
Current liabilities	41.7	51.2
Total Liabilities & Shareholders equity	1,277.2	1,252.4

# CASH FLOW OF THE OPERATIONS

The temporary increase in investment and changes to the legal framework of natural gas have had the biggest impact on generating cash this year

FREE CASH FLOW		
€M	2014	2015
EBITDA	149.2	135.7
Income tax paid	(14.7)	(18.3)
Working capital	(19.8)	0.8
Capex	(17.1)	(21)
Free cash flow	97.6	97.1

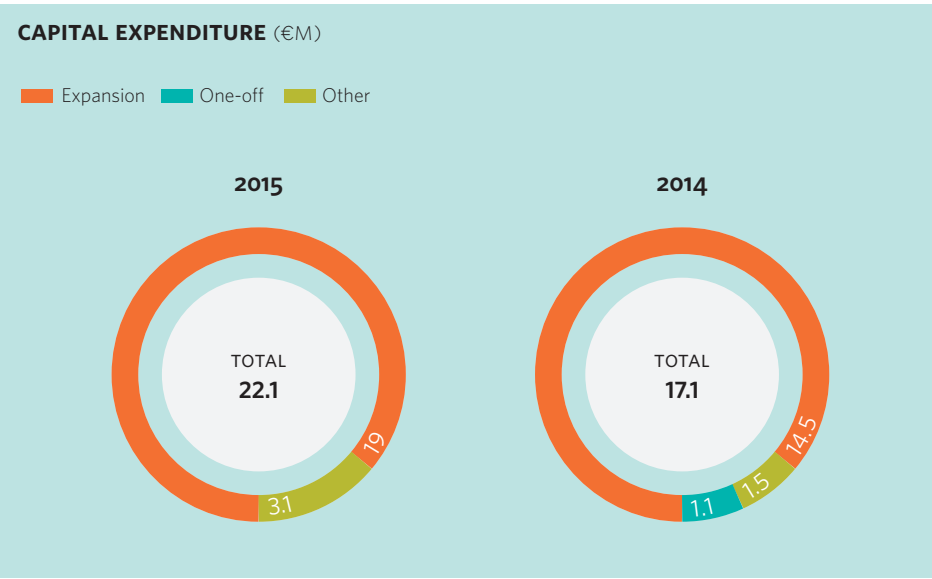
The cash flow generated by operations during the 2015 financial year was 97.1 million euros, in line with the stability of the past financial year.

The main factors which have influenced the cash flow generated this financial year are the following:

- Decrease in the remuneration assigned by the gas system following the change to the regulation, and an increase in the operations for controlling the efficiency of the distribution network has led to a fall of 9% in the company’s EBITDA.

- Increased investment. During this financial year, investment projects have been carried out on the new telematic tracking system, which has resulted in an increase in investment of 18% with respect to the previous financial year.

ECONOMIC ANALYSIS



# CAPITAL EXPENDITURE

The expansion of the distribution network into the municipalities adjacent to the company's territory represents the main vector of the growth strategy

The group's investment in fixed assets, through different projects carried out during the financial year, has reached a figure of 22.1 million euros.

Regarding the key characteristics, the group's investments in 2015 can be grouped into two large areas:

## Expansion

The company's strategy is focused on the expansion of its distribution network, through the connection to the latter of new customers within its territory and the expansion of its territory to new adjoining municipalities.

Following this strategic vector, MRG has invested a total of 19 million euros in the expansion of its distribution networks, an increase of 23% with respect to the previous financial year.

As well as the steady expansion into the group's consolidated territory, an investment has been made for the gasification of new municipalities, such as Guadalix de la Sierra, Talamanca del Jarama and Torrelaguna, through the construction of liquefied natural gas plants.

## Other projects

This section highlights the investments made into the development of information systems and technical improvements in the group's other areas, and the telematic tracking of all automatic systems of the distribution network.

The company's strategy for the next few years will continue to focus on strengthening the growth of its current

distribution network to adjoining municipalities, within the territory in which MRG operates, which do not currently have a natural gas supply, as well as the acquisition of new supply points in the MRG area of operations.

# CHANGES TO THE REGULATION AND IMPACT

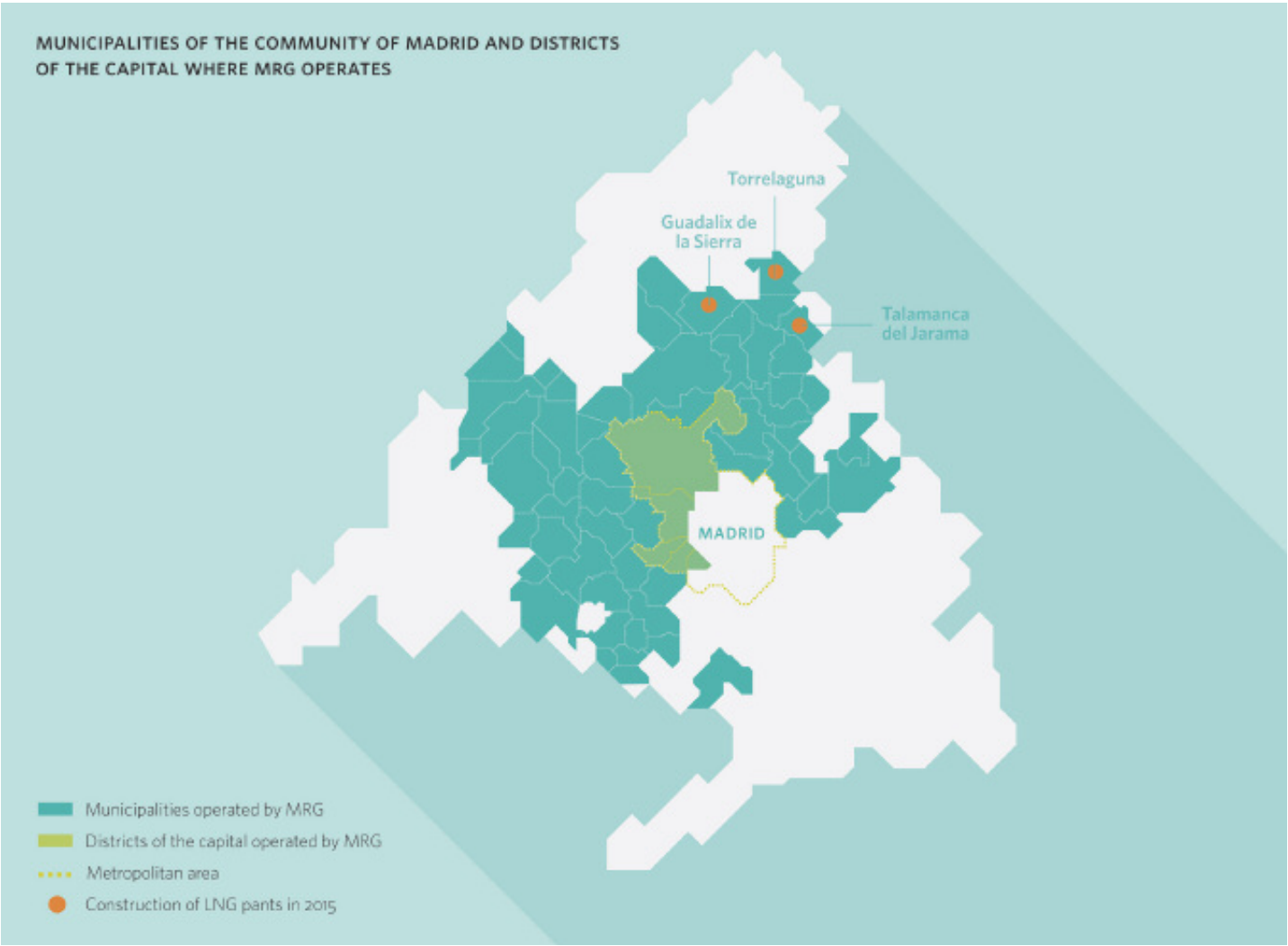
The July 2014 reform boosted the penetration of natural gas in Spain

After the electric sector reform of 2013, the Ministry of Industry, Tourism and Trade carried out a review of the legal framework applicable to regulated activities in the natural gas sector. The main vehicles of the reform were focussed on eliminating the incipient tariff deficit which existed in the sector, ensuring the financial viability of the gas system in the coming years, as well as incentivising the penetration of natural gas into the Spanish energy mix (currently placed at 28% compared with 54% recorded in the European Union).

In this regard, Royal Decree 8/2014 established, among other things, the following measures, aimed at achieving the previously mentioned objectives:

- Adjustments to the regulated costs totalling 238 million euros, of which 110.7 correspond to the distribution companies.
- Elimination of the HPI (hydrocarbon price index) as an inflation-like factor for updating the remunerations.

MUNICIPALITIES OF THE COMMUNITY OF MADRID AND DISTRICTS OF THE CAPITAL WHERE MRG OPERATES



- Alignment of the remunerations to all the regulated activities of the gas system (and not just in the case of distribution, as was occurring until then) with the evolution of the demand for natural gas.
- Increase in remuneration to distribution for supply points in areas of recent gasification, as well as a higher remuneration associated to the incremental demand for gas.

- Recognition of the tariff deficit of 2014, which will be amortised within a maximum 15 year period.
- Establishment of the tariff deficits which could eventually be generated, with a requirement for increasing tolls in order to balance the gas system accounts on the assumption that they are excessive.
- Establishment of regulatory periods of six years.

Madrileña Red de Gas welcomes the measures adopted in the legal framework review, as they guarantee the economic viability of the gas system, boosting the penetration of natural gas into Spain considerably — essential tasks of the distribution companies — and brings the required regulatory stability and legal security under which the different actors in the gas system carry out their activities.





**This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.**

#### INDEPENDENT AUDIT REPORT ON THE ANNUAL ACCOUNTS

To the Sole Shareholder of Madrileña Red de Gas, S.A. (Sociedad Unipersonal):

##### Report on the Annual Accounts

We have audited the accompanying annual accounts of Madrileña Red de Gas, S.A. (Sociedad Unipersonal) company, which comprise the balance sheet at 30 June 2015, the income statement, the statement of changes in equity, the statement of cash flows and related notes for the year then ended.

##### Directors' Responsibility for the Annual Accounts

The Directors are responsible for the preparation of the accompanying annual accounts such that they present fairly the equity, the financial position of Madrileña Red de Gas, S.A. (Sociedad Unipersonal), and the results of its operations in accordance with the financial reporting framework applicable to the entity in Spain, which is identified in note 3 to the accompanying annual accounts and the internal control considered necessary to permit the preparation of annual accounts which are free from material misstatement, due to fraud or error.

##### Auditor's responsibility

Our responsibility is to express an opinion on the accompanying annual accounts based on our audit. We conducted our audit in accordance with legislation governing the audit practice in Spain, which requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the annual accounts are free from material misstatement.

An audit requires the application of procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. When carrying out those risk assessments, the auditor considers the internal control relevant to the entity's preparation of the annual accounts 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 entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the presentation of the annual accounts taken as a whole.

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

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##### Basis for qualified opinion

As stated in the Spanish Companies Act and in the Spanish Accounting Standards, the Company must disclose in the accompanying notes to the accounts the salaries, per diems and remuneration of any type as well as any advances, loans or guarantees given or obligations made in the area of pensions and life insurance policies to the Senior Management of the Company during the year. Given the small number of persons receiving these benefits and the confidential nature of the latter, the Company has not disclosed this information in the accompanying notes to the annual accounts. Also, our audit opinion on the 2014 annual accounts contained a qualification for this matter.

##### Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying annual accounts present fairly, in all material respects, the financial position of Madrileña Red de Gas, S.A. (Sociedad Unipersonal) company as at 30 June 2015 and its financial performance and its cash flows for the year then ended in accordance with the applicable financial reporting framework, and in particular, with the accounting principles and criteria included therein.

##### Report on Other Legal and Regulatory Requirements

The accompanying Directors' Report for 2015 contains the information that the Company's Directors consider relevant to the Company's position, the development of its business and other matters and does not form an integral part of the annual accounts. We have verified that the accounting information contained in the directors' report is in agreement with that of the annual accounts for 2015 of Madrileña Red de Gas, S.A. (Sociedad Unipersonal). Our work as auditors is limited to checking the directors' report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from the company's accounting records.

PricewaterhouseCoopers Auditores, S.L.

Juan Manuel Anguita Amate

29 September 2015

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